LIBRO BLANCO DE LA MÚSICA EN ESPAÑA 2013

PROMUSICAE
Productores de Música de España

THE PERMANENT REINVENTION

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It is now eight years since Promusicae first delivered this White Book you have in your hands to provide a rigorous and detailed vision of the moment the music production industry is going through in Spain. It has been a lapse of time long enough for any industry to witness essential and deep changes, overall in this global and hectic world we now see. New entrepreneurial, communication and technological developments take place at a dizzying speed in this XXI Century, with no chances to slow down, but I would dare to say that this permanent state of agitation is even sharper among recorded music producers than in any other creative or industrial sectors. The memorable chorus that Bowie gave us four decades ago, *Ch-ch-ch-changes!*, has become the day-to-day original soundtrack for any of us who engage in the high trade of supporting music creation and promotion. And without this artistic expression of the human being, perhaps life would not make much sense… or it would be much more tedious.

It is now eight years since the preceding White Book work and the feeling the last years have left is not that of a more or less rapid evolution, but that of a radical transformation. The figures the reader will find will confirm, from a precise mathematical asepsis, what any employee with a minimal background in the music industry would point out in an informal conversation. It is not that the scenario has evolved during all the period; it is that it is a radically different one. And the way is not only being intricate, but extremely hard. External aids have been little or null; and despite it, we are still here: with the same enthusiasm or even more, offering a wider and wider range of ways to access the recordings of our favourite acts, rescuing invaluable sound materials which are part of our cultural heritage and our own identity, betting for artists with an overwhelming talent that would have otherwise had it much more difficult to express and spread the essence of their art.

All productive sectors have adapted to the sign of the times for the last eight years, but our industry has gone far beyond an adjustment. The experience lived during these almost 3,000 days fits much better with this other definition: a permanent reinvention.

In the Spain of 2005, the then new born Promusicae (more than one must have almost forgotten the former name of Afyve) painted a complex portrait in which the emergent digital piracy set off for a ravaging journey with the apparently straight face of public authorities in front of what could happen to a strategic industry like ours. That was not new: physical piracy, then called *top manta*, was such a quotidian as crude a reality in major Spanish cities since the beginning of our century, before the apathy of the administration and the outraged astonishment of all the foreign artists or producers visiting our country. The sight of the Gran Vía in Madrid, the Ramblas in Barcelona or any other emblematic place was, to any person from abroad, the manifestation of the long-famous cliché *Spain is Different*, reissued. Unfortunately, Spain has remained different in many aspects that affect us directly. We have headed and still lead the European ranks of illegal downloads. We have appeared for three years in a row in the 301 Watch List that the US trade authorities prepare with those countries that do not treat intellectual property with due respect. We have delayed the enactment of laws to protect artistic contents, and, still today, there are more uncertainties than supports in that field. We have rowed come wind or weather since we entered the new millennium, so the economic downturn did not take us by surprise: when the economy started declining at both sides of the Atlantic, we had already been riding out the storm for seven years. And trying to tally our any time more difficult balance sheets; balance sheets that unfortunately have too often translated into close of businesses and destruction of jobs.

Between 2001 and today, the money Spaniards spend annually buying recorded music has reduced by 80 percent. These cuts are simply frightening, but the industry of music production does not want nor will give it up. Among other things, because we producers know that music still is an essential part of our day-to-day life, because nine out of ten Spanish people listen to music every day (at home, in the car, on the radio, on a portable player, on the computer at work...); these are some of the incentives that sweeten our existences. And because this industry, I have to insist, has known how to reinvent and redefine itself to evolve with times and multiply the ways people access music, to let us take our music with us and access to it any time, any place.

The future is digital, this new *White Book* comes to confirm, and it is not the future, but the present: we know it already, it is among us and it is here to stay. In this globalised world which we are living in, the music goes in directions until recently unknown. The phenomenon of *streaming*, for instance, that turns any tablet or mobile device into a jukebox with dozens of million titles at the distance of a click, constitutes a new and fascinating dimension for the high-minded exercise of loving music.
The releases of our artists are launched in dozens of different formats and packaging: standard, deluxe, streaming, video, digital download, the resurrection of vinyl as an extraordinary value format for most devoted fans…

Despite the continuous heartaches, political inaction or the lack of an adequate legal framework to rule Internet activity, music is still among us and we still need it as much as our coffee break, the timely phone call of a loved one or a good chat with a friend. For that very reason, because we work with what beauty and dreams are made of, we move towards a future as intricate as captivating. And we are firmly convinced that the effort is worth it.

But we need accomplices for this project. And the moment is now.
We need political will to lean on a framework that sweeps away the parasites that have settled in this industry. We need the complicity of the media to help us disseminating the good music which is done in Spain and to make a stand against those who destroy it exclusively for their own benefit. And above all we need your complicity. That of the aware citizen who reading this book understands how big this industry is and by loving music helps us with his and her commitment to continue making it possible.

EXECUTIVE SUMMARY

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Music, in any of its manifestations, is the most transversal and direct form of artistic expression. No other creative manifestation enjoys such an acceptance among such a wide age range; neither is capable of making an emotional impact in such a short lapse of time. Its ubiquity, immediacy and unquestionable ability to alter the individual and collective mood give music a transforming power that reverts to the benefit of society. Music as culture acts as a way to express identity and emphasizes the sense of belonging to a group. Music as an entertainment lets consumers and users to experience pleasure and well-being. The indissolubility of such double dimension of music causes that its industry does not act in a single sphere. Thus, even if this update of the White Book on Music focuses on the analysis of the economic dimension of an industry under complete transformation, also takes into consideration that music is also creativity, information, and innovation; and, over all, culture.

When the White Book on Music was presented in 2005, the recorded music industry was fully immersed in a profit crunch, caused vastly by physical and digital piracy, and in a process of restructuring the old business model into a new digital model. In that moment, the believe was that, in a way or another, the digital model would compensate the benefits' losses of the old model and would allow not only to re-establish the turnover but even to initiate a new upturn of the cycle. Recorded music sector pinned its hopes on the online download model represented by iTunes and, especially in Spain, by mobile devices as the media to capitalize the exploitation of new formats.

In Spain, none of forecasts have been completely met. Music producers have witnessed the total market getting reduced year after year, despite an emerging digital market. Since year 2003, recorded music sector has accumulated a 71.5% drop, which means 77.5% if we start comparison in 2001. During that time lapse, companies have encouraged ways of exploitation for their works as alternatives to the traditional distribution model, and this has allowed for the creation of a digital market in Spain that in 2012 amounted for 34% of total sales. But in 2013 the evolution of digital business models is in a standstill and this leaves us ever farther away from main international markets.

Live music has temporarily experienced an inverse process. Last years have seen an expansion phase that had a reflection in a sharp increase of turnover. However, from second half 2008 we started to see a change of cycle that became clear among 2009 and 2012. The same way, from year 2003, the collection of collective rights' management of music works has experienced a 14% drop, mainly due to the fall lived in 2012.

DIRECT AND INDUCED IMPACT RESULTED IN A TOTAL AMOUNT OF 5,058 MILLION EURO BUSINESS TURNOVER IN 2012.

Direct impact, understood as the business turnover generated by the exploitation of music in any of its three primary formats (authors, recordings and live performance's rights) represented a turnover of 907 million euros in 2012. That is an important setback, 21% compared to 2003. In contrast, indirect or induced impact of music, understood as the business turnover generated by those other industries producers of goods and services that need music or include music in their value chain, experienced a significant rise in 2012 compared to 2003. The growth of broadband services and of consumer electronics related to playing digital music have been two key sectors that explain the powerful growth in induced business turnover. The total sum of indirect and induced impact resulted in a business turnover of 5,058 million euros in 2012. A figure that means 0.49% of GDP, lower than that detected in 2003, when the total percentage was estimated in 0.58% of GDP at current prices.

During the last five years, the behaviour pattern of Spanish society regarding the habits of use and consumption of music, especially among the youngest population, has experienced deep changes. More and more individuals interact with music and, more and more often music is present in many aspects of our life, transversally. Internet penetration in all sections of society (in 2011 62% of Spanish households had broadband access, compared to 15% in 2004) and intensively among the youngest layer, redirects listening, search and discovery habits to an environment that, among other things, allows by nature an immediate musical experience.

Music purchase habits online do not follow the same expansive trend. While the habit of buying products and services on the Internet is consolidating in Spain, not the same is happening with the transaction of music and films. It is estimated that only 5.5% of the people buying online in 2011 chose music or audio-visual products. This purchasing relation leaves us in the 6th lower position in the UE27 rank, between Estonia and Bulgaria. This reality is largely explained by the general perception existing in Spain that audio-visual content online should be free of charge. An opinion widely shared with many other European countries, although to a lesser degree.
In fact, free access and download of music is the content that attracts most attention among Spanish Internet users under 16 year-old; ahead of films, computer games and TV programs.

This scenario paints a picture of the recorded music sector in which physical formats, mainly CDs, still amount to 66% of total industry turnover. The traditional model value chain is that of physical sales and lots of agents are involved in it, developing a set of functions that go from discovering new talent to the making available of the final product to the media and the consumers.

THIS SCENARIO PAINTS A PICTURE OF RECORDED MUSIC SECTOR IN WHICH PHYSICAL FORMATS, MAINLY CDS, STILL AMOUNT TO 66% OF TOTAL INDUSTRY TURNOVER.

Among the tasks traditionally performed by the music producer, two of them can be highlighted due to the value they still have: discovering new talent and marketing and distribution.
Creation is the most important link in the value chain and the trigger of a whole process that allows the existence of the music industry as such. And regarding marketing, the value the producer provides is, possibly, higher than ever; spotting audiences, ability to connect with them and make them know their artists' offer, creativity in the development of communication strategies and making available their products to consumers in a wider and wider range of channels; these are some of the capabilities the companies offer to the artists they sign.

THE MUSIC PRODUCTION SECTOR BECAME THE FIRST OF CREATIVE AND CONTENT INDUSTRIES TO UNDERTAKE A REAL RESTRUCTURATION, PROMOTING ITS ADAPTATION TO THE NEW BUSINESS MODELS.

A shift in the way consumers establish relationships with music today has caused a true revolution in the recording music industry (traditionally known as recording or phonographic industry). So much so, that the music production sector became the first of creative and content industries to undertake a real restructuration, promoting its adaptation to the new business models. While in 2004 only 0.3% of income came from operations related to the exploitation of contents in digital media, in 2012 the figure reached 34%. However, this rise has not come to replace the decrease of sales of traditional formats. This situation is directly attributable to the extremely high level of digital piracy in Spain. While in the traditional exploitation model the main and almost unique income stream for music producers was selling media, today the concept has evolved to a complex income portfolio. In the new scenario, it is no only about selling units (in the digital environment without physical carrier), but also about monetising by different means the access to music catalogues and related content. In the short history of digital distribution, the recorded music business has witnessed the rise of three main models that, with variations and combinations, remain valid: on-demand, subscription and add-supported models.

In addition to this complete reconversion process in which the music sector is immerse we see the appearance of a comprehensive business model that, aimed at providing a better response to artists and consumers, assumes the music exploitation in any formats under the same strategic direction. This gives rise therefore to a new agent which goal is not only the exploitation of intellectual property rights, recorded music (physical or digital) or live music, but assuming from a global business model that its goal is monetising music talent, regardless of the format, channel or price. It's the 360º music service company, and in Spain music producers, thus not exclusively, have started to develop the model, in which they include secondary income streams (brand exploitation and image rights) while enhancing the relation with other creative and entertainment industries.

Main reasons explaining the expansion of this model are:

- A growing complexity of the sector that needs a global and unified vision
- The need of higher efficiency in the management of rights
- Greater simplicity in the interaction with other industries

Correspondingly, the role undertaken by the music producer in this new scenario is more meaningful than ever. The possibility of generating wealth through the exploitation of secondary sources involves the need of placing music and artists in their relevant market niche. It is a process that, in most occasions, starts with a recording produced and managed by a music producer, and through its marketing and communication departments it triggers the involved business potential.

BUSINESS GENERATION AND EXPLOITATION OPTIONS ARE GREATER IN 2013 THAN THEY WERE EIGHT YEARS AGO.

International markets' penetration, on the other hand, proves to be an essential requirement in the development of 360º music projects. Since conception to commercialisation, music products must be competitive beyond their original geographic environment. Creating added value in any of the areas developed by the music company, knowing the particularities of potential target markets and managing most suitable resources and strategies for each specific project are some of the challenges that must be taken by the music industry to reach a greater international dimension.

Music industry is, thus, immerse in a process of transformation involving all its players. Business generation and exploitation options are greater in 2013 than they were eight years ago, but to make this reconversion possible and to achieve that it returns benefits to the industry, consumers and users, and the whole society, it is necessary to take a series of steps to guarantee the rights of all players, so that correspondingly attract artistic talent, managerial skills and economic investment allowing for the development of new projects and business models reflecting new music use and consumption habits.

In particular:

AN ADEQUATE LEGISLATIVE FRAMEWORK.

It requires a complete adaption of the Spanish legislation to the digital reality and to the evolution of other neighbour countries. Thus we need a legal framework that, while guaranteeing full respect for the creators' rights, can also facilitate the development of new business models in which the creators, as an essential element of them, can see their efforts rewarded as they should.

IT IS NECESSARY TO TAKE STEPS TOWARDS EQUATE TREATMENT OF MUSIC INDUSTRY AND OTHER CREATIVE INDUSTRIES THAT ENJOY TAX RELIEFS AND GREATER SUPPORT TO PRODUCTION AND DISTRIBUTION.

SUPPORT FROM THE PUBLIC ADMINISTRATIONS.

It is necessary to take steps towards equate treatment of music industry and other creative industries that enjoy tax reliefs and greater support to production and distribution.

INVOLVING INTERNET ACCESS PROVIDERS.

Their real involvement in the value chain is indispensable for the development and consolidation of viable business models that allow the retribution of creators.

The lack of determination that Spanish authorities have shown so far to promote effective action in any of those three fields (legal framework, administrations' support and involvement of access providers) opposes to awareness and resolution revealed by executive and legislative powers of countries such as France, the United Kingdom, Sweden, etc.

In the legal framework, it deserves special attention the efforts to fight internet piracy meant by the approval of the Sustainable Economy Law of 2011 and the draft bill to amend intellectual property law, currently in process. Achieving that this amendment stands up for innovation, promotion and protection of cultural industries will be key to help our country regain its lead, a leadership from which we have long way distanced ourselves in recent times.