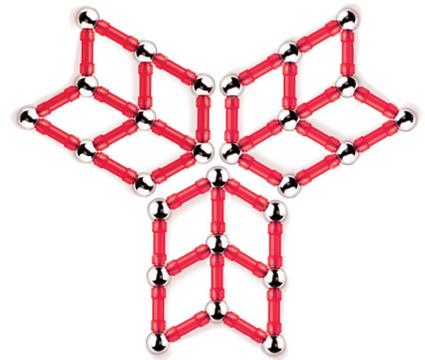


Performance rights lift recorded music revenues



In 2014 Deloitte predicts that revenues from performance rights, a license payable for the right to play music to the public, should exceed one billion dollars for the first time¹⁴⁶. This may seem insignificant relative to other parts of the technology, media and telecommunications sector, but for the \$16 billion recorded music industry, this is material¹⁴⁷. Performance rights, which are collectable from all sizes of company from bars to broadcasters, should continue to grow over the next few years, and are likely to be the fastest growing industry segment¹⁴⁸. Over time performance rights revenues should reach \$2 billion, although the timing for this is uncertain.

Music is everywhere. But its ubiquity is arguably under-monetized. There are few of us who go a day without being exposed to music in some form, be this a song played on the radio, a tune in a shopping mall or an elevator melody. For millions of businesses, music adds value¹⁴⁹. It relaxes passengers when entering a plane, it sets the mood in movies and TV programs and it exhilarates younger shoppers. Collectively we listen to broadcast music trillions of times a year, on the car radio, in the hairdresser and elsewhere: in 2014 the global collective license fee for this is likely to be under \$3 million per day.

Growth in performance rights revenues, both recent and anticipated, has been driven largely by three mechanistic developments.

First, in countries where a license is obligatory, there has been a steady growth in the number of businesses paying a license. Typically collection societies would contact companies currently not paying a license, but in some markets growing awareness of the legal requirement to pay a fee has driven pro-active payment, which has reduced the cost of collection¹⁵⁰.

In other markets, there is plenty of scope for payments to increase, as the current degree of under-collection is notable. For example, the Netherlands currently collects more performance rights revenues than Spain, despite having a third of the population.

Second, the fee paid by larger entities, such as television and radio broadcasters, has been increasing year-on-year on a sustained basis in major markets. Historically, the quantity of some licenses has been agreed on an ability-to-pay basis. So a small radio station may claim that its profits would only permit a modest fee. But increasingly fees are being agreed on the basis of value. Fees paid by small businesses have also increased in some markets¹⁵¹.

Third, a growing number of countries which formerly did not collect revenues on a formalized basis have introduced, or are in discussions to introduce a licensing process. The most significant of these markets is China whose inclusion could add tens of millions of dollars per year¹⁵².

Global performance rights revenues are likely to be affected by the evolution of the US music market, which is the largest recorded music market in the world – generating almost half of all revenues. The US market could generate a significant uplift from the introduction of a performance right on analogue FM radio, which is currently exempt from such payments¹⁵³. Songwriters receive a fee every time a song is played on FM, but the performer currently does not. However songs played-out on digital services, such as satellite radio or online streaming, do generate a performance payment, and usage of these services is growing. At the end of 2013, there were 26 million subscribers of satellite music service in the US, and about four million subscribers of online music services¹⁵⁴.

146 There are two main types of performance right: one for broadcast and one for public performance, that is the use of music in a public space. Performance rights should be distinguished from performing rights. The latter refers to the royalties paid to a songwriter whenever one of their songs is performed. Music played online may be subject to a direct license between the website and the rights owners; music played within streamed television programs from a broadcaster's online site would fall within the broadcast right. This means that the same piece of content made available on different sites may be subject to different rights regimes.

147 The recorded music industry generated \$16.5 billion in 2012, a marginal increase on 2011. This was the first year in which revenues had risen since 1999. See: IFPI publishes Digital Music Report 2013, International Federation of the Phonographic Industry, 26 February, 2013: http://www.ifpi.org/content/section_resources/dmr2013.html

148 In 2012, performance rights revenues increased by 9.4 percent to \$943 million. See: IFPI's Recording Industry in Numbers 2013 – the must-read of global music – published today, International Federation of the Phonographic Industry, 9 April 2013: http://www.ifpi.org/content/section_news/20130408.html. In 2013 the dollar valuation of revenues may decline due to depreciation of the Yen relative to the dollar. Japan is one of the largest recorded music markets, and generates over \$100 million in performance rights revenues annually, but the dollar value is subject to currency fluctuation.

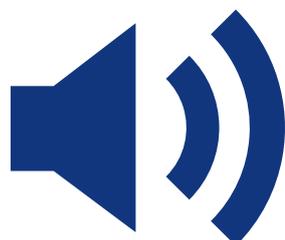
149 According to one study, based on a survey of 400 businesses, 82 percent stated that playing music was beneficial to their business. Among retailers and hairdressers, the figure was 90 percent. See: Independent research: The value of music to business, MusicWorks, 10 November 2010: <http://www.musicworksforyou.com/news-and-charts/news/181-independent-research-the-value-of-music-to-business>

150 For example one collection agency placed an emphasis on a more easily navigable website and increased the level of business to business marketing. For more information, see page 15, Annual Review 2012. Raising the volume, Phonographic Performance Limited, 2012: http://www.ppluk.com/Documents/PPL%20AGM%2013/PPLAR2012_online%20Annual%20Review.pdf. For example, one university in the UK is providing guidance on when a license may be required. See: Policy for playing music on radios, computers, mp3s, phones and other devices on campus, Brunel University. Website as accessed on 13 December 2013: http://www.brunel.ac.uk/_data/assets/pdf_file/0012/178698/Policy-for-the-Use-of-radios,-computers,-mp3s,-phones-and-other-devices-on-campus.pdf

151 For example, the fee paid for music used in exercise classes increased in May 2013 in the UK, and is then set to increase every year until 2018. PPL's tariff for music in exercise classes took effect from 1 May 2013. Phonographic Performance Limited, 1 May 2013. See: <http://www.ppluk.com/Play-Music/Businesses/New-Exercise-for-Music-tariff-for-2013/>

152 CISAC Gains Support of Chinese Copyright Authority on its Mission to Promote Creator's Rights in the Country, International Confederation of Societies of Authors and Composers, 4 July 2013: <http://www.commonworkregistration.com/CisacPortal/consultArticle.do?id=1701>

153 In 2012, the US recorded music market was worth \$7.1 billion, a slight decrease from 2011. See: News and Notes on 2012 RIAA Music Industry Shipment and Revenue Statistics, Recording Industry Association of America: <http://76.74.24.142/4A176523-8B2C-DA09-EA23-B811189D3A21.pdf>. For more background on the background to US music industry rights legislation, see: Recording Industry Association of America, The Center for Technology Innovation at Brookings, August 2012: http://www.brookings.edu/~media/research/files/papers/2012/8/07%20music%20royalties%20technology%20villasenor/cti_19_villasenor.pdf



Bottom line

In every industry, no matter how bruising the environment there is normally a green shoot¹⁵⁵. And for the music recorded industry, the biggest growth engine is performance rights. Performance rights revenues may appear modest, but for the music industry they are significant, as receipts largely flow to the bottom line: collection in most countries is handled by collection societies, whose costs are deducted from fees collected.

To maximize revenues from performance rights – and to deliver growth to the sector – the music industry should consider the following:

- Emphasizing the ability of good quality recorded music to add value to businesses: this should help avoid the perception that license payments are a form of tax. The industry needs to help licensees understand that without quality music, their businesses may be less appealing places;
- Raising awareness of the need to pay a license, and facilitating self-service payment and renewal; and
- Ensuring the collection of license money is performed in the most efficient way both within and potentially across countries. This could include joint collection ventures with the publishing collection societies and related outsource deals.

The music industry needs to price its assets cleverly to allow its licensees to grow whilst maximizing its regulatory right to the revenue¹⁵⁶.

154 Most recent published data suggests about one million subscribers each for Spotify and Rhapsody, and two million for Muve. See: Muve Music Surpasses Two Million Subscribers in U.S., Billboardbiz, 3 October 2013: <http://www.billboard.com/biz/articles/news/digital-and-mobile/5747933/muve-music-surpasses-two-million-subscribers-in-us>

155 There are multiple green shoots in the music industry, including reviving revenues from vinyl. Sales of vinyl reached an 18-year high in 2012, with \$171 million of sales globally, equivalent to one percent of all music revenues, about two percent of all physical music sales, and the forecast value of four hours' worth of smartphone sales in 2014. Vinyl sales at their highest for 12 years, The Telegraph, 17 October 2013: <http://www.telegraph.co.uk/culture/music/music-news/10384703/vinyl-sales-at-their-highest-for-12-years.html>. Deloitte expects global smartphone revenues in 2014 to be \$377 billion. Sales of recorded music cassettes have not fared that well. In 2012, global sales volumes fell to two million from five million the prior year. See: The IFPI's recording industry in numbers report shows vinyl sales' best year since 1997, Fact Magazine, 9 April 2013: <http://www.factmag.com/2013/04/09/the-ifpis-recording-industry-in-numbers-report-shows-vinyl-sales-best-year-since-1997/>

156 In some countries, there are major differences in the proportion of revenue paid out for music rights. For one point of view on this topic: The Broken Model Of Music Streaming Services Will Take Them All Over The Cliff, Business Insider, 6 December 2013: <http://www.businessinsider.com/spotify-pandora-rdio-broken-model-2013-12>

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