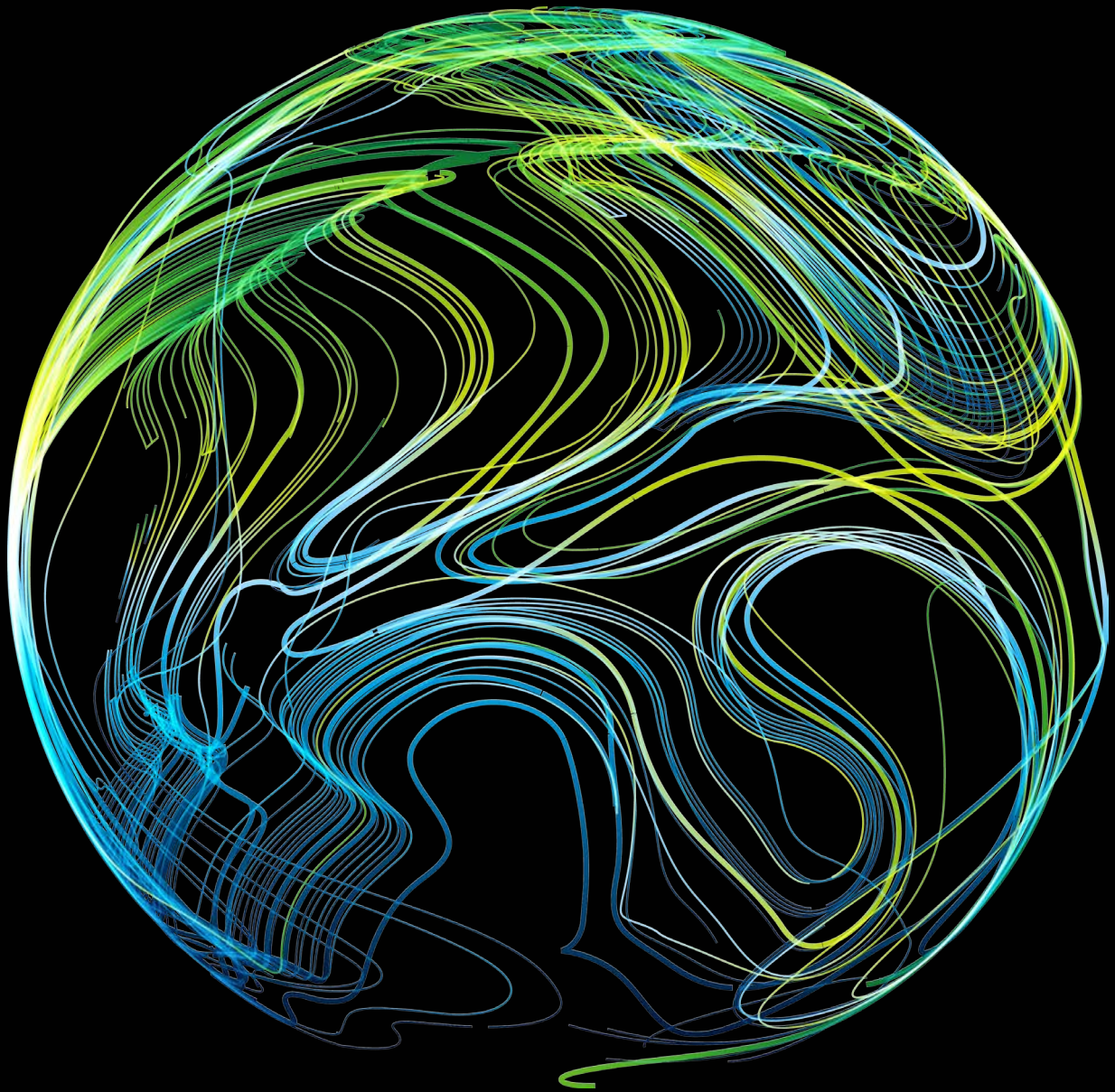


Deloitte.



**2017 Technology, Media and
Telecommunications Predictions**
Middle East edition

Foreword

Welcome to the 2017 edition of Deloitte's Predictions for the technology, media and telecommunications (TMT) sectors.

For the first time in our 5 years of releasing our Middle East edition, we are including predictions for all three sectors together, and not splitting them into different sub-industries. This, by itself, is a reflection of the exciting industry we are in. An industry that continues to blur the boundaries of innovation, and reshape how operators, media players and technology companies collaborate and interact in an increasingly integrated market place.

Across the global and regional predictions, we believe that the distinction between sectors is fast becoming obsolete. The introduction of dedicated machine learning capability to smartphones is relevant across all industry sectors, not just the technology or telecommunications verticals. The transition to 5G and resulting implications on machine to machine communication is a critical enabler to new technology adoption, starting with self-driving cars. IoT itself is the epitome of this borderless ecosystem with operators and technology companies working closely together to shape the cities and lives of tomorrow. Cybersecurity is an evergreen topic in the region raising threats to media companies and Telcos equally, and requiring cross sectorial regulations and safety measures.

With smart cities and nations so high in the agenda of the Middle East countries, our region is at the forefront of this borderless market place, with regional Telcos talking more about AI and IoT than network expansion. In this day and age, breaking borders, albeit at industry level, is a refreshing twist. 2017 promises to be yet another exciting year for the TMT sector. We wish you all the best for this year and trust that you and your colleagues will find this year's predictions a useful stimulant in your strategic thinking. We look forward to discussing them with you.



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Vinyl: the billion-dollar nostalgic niche

Deloitte Global predicts that vinyl will continue its remarkable resurgence²⁸⁸, and that this audio format, whose peak sales in both units and dollars were in the late 1970s, may generate approaching \$1 billion globally in revenues for the first time this millennium²⁸⁹.

Deloitte Global expects that new and used discs will generate over 90 percent of revenues, with the remainder made up by turntables and accessories.

Deloitte Global also expects new vinyl revenues and units are likely to enjoy a seventh consecutive year of double-digit growth in 2017, with about 40 million new discs sold, generating \$800-\$900 million and an average revenue per unit at a little over \$20. Vinyl may generate 15-18 percent of all physical music revenues, which are likely to be \$5-\$5.5 billion²⁹⁰, and about six percent of forecast global music revenues of about \$15 billion in 2017²⁹¹. For some artists, vinyl may be about 10 percent of all units, but a higher share of revenues²⁹².

However, while vinyl's resurgence may appear to indicate a miraculous revival for a format that seemed consigned to oblivion just a decade ago the reality is that vinyl buyers are likely to remain niche. In 2017, an estimated 20 million individuals globally may purchase a small number of records at a high unit price relative to most other music formats. Implicitly, billions of music fans will not purchase vinyl this year, instead consuming music predominantly via a blend of radio, music within television, digital streaming (audio and music video) and downloads, and CDs.

The motivation for purchasing vinyl contrasts with the situation in the late 1970s and early 1980s when the record was the predominant way of listening to pre-recorded music. In that era over half a billion records were sold annually in the US alone²⁹³. In 1977, 534 million vinyl discs were sold in the US, compared to only 164 million 8-track tapes and cassettes, giving vinyl over three-quarters of the recorded music market²⁹⁴. In 1981 global sales of albums were over one billion²⁹⁵.

In 2017, buyers are likely to have a range of reasons for choosing/purchasing vinyl, of which listening to music might for some only be a minor factor. Today, for many buyers, the record has become a collectible, a memento, a proudly physical format and an expression of individuality in an increasingly digital world²⁹⁶.

Indeed as media consumption has become even more intangible across a range of formats – with streaming services usurping digital music downloads, as well as websites and apps replacing newsprint – the record feels yet more physical and, for some, worthy of display.

Records have become heavier, ostensibly due to superior quality. Two-hundred gram discs are now available, at a premium to the more typical 120 gram LP²⁹⁷. Some albums have been recorded to playback at 45 revolutions per minute (RPM), rather than the standard 33 RPM, with the promise of better sound, and a heftier price to match²⁹⁸. Higher RPM requires greater physical space on the disc per track, and the result is that some albums require two to three discs, rather than one.

Those acquiring a record may never play it – but may still value it, for example for its cover art work, or for its shape and colors in the case of picture discs. According to one poll of record buyers, almost half of those who had purchased a record in the last month had yet to play it, and seven percent did not have a turntable to play it on²⁹⁹. In this regard, owning vinyl has some similar properties to owning a paper book: having the physical copy enables it to be displayed, and to project a facet of one's character, and, indeed, a form of allegiance to an artist or author. The digital version seldom has any ability to be displayed.

In the medium term Deloitte Global expects the market for vinyl to stabilize, with growth slowing in 2017, to about 10 percent for the year. Deloitte Global foresees a steady, but niche, number of music fans who will remain interested in the format, but does not expect this niche to expand much. The niche will consist of people of all ages – from millennials enjoying the aesthetics and near-artisan production of a vinyl record, collectors purchasing new premium releases of albums which they already own, to the middle-aged rebuying records that they formerly cast out in favor of now unloved CDs.

As long as demand grows, supply is likely to expand as well. In some markets fashion retailers have become major suppliers of vinyl³⁰⁰; in other markets food retailers, department stores and supermarkets, including Whole Foods, Target, Tesco and Sainsbury's have become an additional, mainstream route to market³⁰¹. Some of these retailers have also become suppliers of record players, which have proved popular during holiday seasons³⁰².

Digital channels have also helped nurture vinyl. There are multiple general and specialist sites that serve as global marketplaces for records. The growing volume of data on prices paid for deleted records (titles that are no longer on an official catalog) enables buyers and vendors to have a better understanding of price. There are also crowdfunding tools, such as Vinylize, which enable fans to crowdfund the creation of a record based on tracks they heard online³⁰³. Ironically there are now online radio stations dedicated to playing tracks from vinyl records.

It's the vinyl countdown

The addressable market for vinyl is likely to be capped, however, by its cost as well as the complexity of its 'user interface'. A box set of vinyl can cost more than a year's subscription to a music service offering tens of millions of premium quality tracks, available at the tap of a button on a range of devices. Creating a record is slow and often significantly manual and costly. Each disc takes 30 seconds to print, and is created from a master pressing that takes hours to create³⁰⁴. There is limited manufacturing supply because so many factories closed down in the 1990s as CDs usurped vinyl. The painstaking process of making a vinyl pressing is in sharp contrast to the current ease of use of digital recording, mastering and online distribution.

The act of playing a record might be considered sophisticated by enthusiasts, but likely too complex for the majority of music fans. Playing a record requires significant care: it is the neediest of music media. The record needs to be carefully extracted from a paper envelope (some aficionados buy special purpose rice paper sleeves to replace the wood fiber paper the vinyl is shipped in) held within a cardboard sleeve. Prior to every play the record may need to be cleared of dust, and the stylus blown free of any fluff. The stylus has to be carefully placed at the right place on the disc and may need to be lifted off the record once played. Portable record players are available, but playing a record while commuting is utterly impractical.

The supply of vinyl via fashion outlets may prove to be a double-edged sword. Being fashionable is transient; it may be that records become last year's color and are removed entirely from some outlets. In 2016, while most markets around the world were continuing to see a surge in vinyl sales – such as 61 percent growth for Q1 2016 in the UK – in the US, the largest market in the world, sales contracted six percent in the first half of 2016, from \$220 million to \$207 million³⁰⁵.

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The bottom line

Vinyl has a future in music, and an attractive one from a financial as well as an aesthetic perspective, but it is not, and is unlikely ever to be, its major growth or profit engine.

Music's future from a revenue and consumption perspective is all about digital, and this is where the brunt of the focus should be.

Music has been one of the most digital of consumer products for decades. It was one of the first formats to be sold as a digital product, in the shape of the CD. It was one of the first forms of media to undergo a digital revolution in distribution.

Yet there are still many core elements of the music industry which are yet to be fully digitized. For example, there is yet to be a single digital database listing the rights holders for musical performance and for publishing. Collection of music rights remains manual in many markets.

The vinyl format will remain important, and as with bands that first started touring in the 70s and 80s, their outputs will continue to be enjoyed for years to come, albeit by an ever diminishing minority of fans.