

INTRODUCTION

Music consumption is exploding – but much more is needed for sustainable revenue growth



Frances Moore photo by Graham Flack

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EXECUTIVE SUMMARY

Today we are at a crucial moment in the evolution of recorded music. After two decades of almost uninterrupted decline, 2015 witnessed key milestones for recorded music: measurable revenue growth globally; consumption of music exploding everywhere; and digital revenues overtaking income from physical formats for the first time.

These are positive metrics of accomplishment. They reflect an industry that has adapted to the digital age and emerged stronger and smarter.

This year's IFPI Global Music Report is not a story of "job done", however. The recovery is encouraging, but it comes after nearly two decades of decline during which recorded music revenues slumped by over a third.

To understand our industry's needs for the longer term requires us to analyse what brought us to the inflection point where we find ourselves today.

First, the music industry's return to growth has not happened by accident. It is the result of tireless work and adaptation. Record companies have quite simply transformed to survive and thrive.

They have embraced all forms of digital distribution, giving consumers ever expanding choice of music offerings.

Record labels have also kept their focus on their core mission – investing in artists, creating value for music talent and bringing music to a global audience. And they are working smarter and more creatively, using the amazing potential of streaming to better understand and engage with consumers.

As the four case studies included in this report demonstrate, the digital world has made labels more, not less, important in generating value for artists.

If licensing proactively, investing and working smarter for artists were the only keys to a secure and thriving future, our industry's turnaround might today be complete. In reality, it is nothing like complete. That is because of the problem that is outlined in this report - the "value gap". The message is clear and it comes not only from a united music community but also from a wider group of creative industries: the value gap is the biggest constraint to revenue growth for artists, investors and all music rights holders.

The value gap is about the gross mismatch between music being enjoyed by consumers and the revenues being returned to the music community. Today, music consumption is exploding, driven by streaming services and in particular by the rapidly-growing use of user upload platforms such as YouTube.

This should be great news for music creators, investors and consumers. But there is good reason why the celebrations are muted: it is simply that the revenues, vital in funding future investment, are not being fairly returned to rights holders.

Take the stark illustration cited in this report: advertising-supported user upload services comprise the biggest on-demand music audience in the world, with over 900 million users. Yet they form part of an advertising-supported revenue sector that makes up only four per cent of global music industry revenues. This is, emphatically, not a fair correlation between the consumption of music and the value that it is generating for artists, creators and investors.

Change is needed - and it is to policy makers that the music sector looks to effect change. The "safe harbour" regime designed for the early days of the internet should no longer be used to exempt user upload services that distribute music online from the normal conditions of music licensing. Labels should be able to operate in a fair functioning market place, not with one hand tied behind their back when they are negotiating licences for music.

In early 2015 our sector first laid out its case for policy makers to address the value gap. Today, it is encouraging to see policy makers responding. The European Commission has identified the problem and acknowledged that a legislative fix is needed. The US Copyright Office has launched a study into safe harbours to determine whether they are fit for purpose. These initiatives will be our industry's priority focus over the next year.

As this report shows, our industry's efforts have brought the music industry closer to sustainable growth than we have been for 20 years. This is good news, but much more is needed to turn one single year into a decade of growth. Exploding music consumption is not enough – value returned to the music community is vital too if we are to fund future innovation and creativity. That is why our sector is united in looking for action on the value gap.