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WHAT KEY ARE WE IN?

MIDAS Initiative Report into the
Music Industry in Ireland

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1.0 Introduction

Like most of the other creative industries, music does not slot easily into a traditional industrial classification. It encompasses composition, publishing, musical instruments (and related equipment), performance, recording and manufacturing, retailing and distribution, and, education.

The music industry is an important contributor to national wealth and employment, with earnings being derived from record sales and live performances, as well as the added value of a vibrant support sector.

It is crucial to appreciate that, of the total income generated by the music industry, 95% is earned by the top 20 selling artists only. The vast majority of participants are sharing only a very tiny piece of the bigger pie. Employment value is therefore particularly difficult to measure because most participants have a peripheral involvement in the commercial success of the industry, only working commercially on an intermittent or seasonal basis.

The music industry is changing, however, and changing fast. Of the 35,000 albums released in 2002, fewer than 5,000 of these sold over 1,000 units. The most popular source of music listening (in hours) is now neither CDs nor radio, but video games.

(Source: Peter Spellman, The Future of Music Careers, 2003)

Any hope of economically sustainable participation in the industry traditionally depended on an artist's ability to be represented and exploited in the market by a particularly small group of major companies, which themselves are under threat from the fragmentation of their traditional markets and competition from new technologies and practises. Even these models are now under threat from the effects of low-cost digital production, promotion and distribution. The artist is increasingly being forced to operate independently.

Quite where the music industry in Ireland is placed and equipped to compete in these issues and changes is the subject for this report, which will examine in greater depth the technological, economic and geographical factors affecting this sector of the digital content industries.

2.0 Markets

2.1 The Global Market

The music industry in Britain, Ireland and across the world is one of the biggest and most significant of the creative industries and lies at the heart of modern popular culture. The impact of technological developments on all areas of musical activity over the past twenty years has been profound and often transforming in nature.

(Source: Federation of Music Collectives)

The global music market was worth \$32 billion in 2003, with total unit sales reaching 2.7 billion. The European music market was worth \$11.8 billion during the same period. (Source: IFPI - 'The Recording Industry in Numbers, 2004'). European markets saw an overall drop in music sales by 5.5% in units and 7.7% in value.

The market is dominated by four major companies (Universal, Warner, EMI and Sony BMG) who between them have 74.7% of the total world market and 80.6% of the European market. However, where once these major companies were an irreplaceable intermediary between talent and the audience, their influence is now being sidestepped by digitally distributed music downloaded directly by the consumer.

(Source: IFPI - 'The Recording Industry in Numbers, 2004')

In the UK, the music industry provided around 130,000 jobs and contributed over £3 billion to the value of the economy in 2001, earning almost half of this in exports. (Source: Dept Culture, Media and Sport, 'Banking on a Hit', 2001) Over 90% of companies involved in the music business are SMEs and will face all of the typical SME-related problems, especially concerning access to finance to fund initial and second stage growth or both.

Globally however the CD music market is in decline and, although the industry likes to talk about the effect of piracy, competition in the market from other, often unrelated, products and services is pushing music aside. At approximately €20, the cost of new CDs, while perhaps less than in previous years, might still be considered excessive when compared to other consumer media products, e.g. games and DVDs.

Last year sales of CD albums fell by 8.9% while music video sales on DVDs grew by 45.6%.

(Source: IFPI - 'The Recording Industry in Numbers, 2004') Also, there has been a colossal increase in the use of free cover-mounted music CDs to sell newspapers with both UK and Irish newspapers, which has contributed to the perceived loss of value of the CD medium.

(Source: Helen Doyle, 'Walking on Solid Eire')

However, after years of difficulty, music industry revenues are showing signs of growth in new key sectors, particularly digital downloads and mobile content. EMI, for instance, has seen digital music revenues quadruple in the first half of the year, and expects the new media to be worth over 25% of all sales within five years.

(Source: Adam Klein, EMI, 2005)

Music downloading is becoming respectable. 2005 will see rapid growth in music downloads over the Internet and, although illegal downloading will still dominate, legal sites will significantly increase their share, fuelled by the growing quality of online music stores, a sharp increase in the installed base of digital music players (both portable and for the home), the inclusion of CD burners as standard features in laptop and desktop computers, and the exceptional quality of legal downloads.

The music industry is finally beginning to recognise and embrace the financial benefits of this new distribution channel for singles and albums, as well as new forms of content, such as ring tones, remixes, live recordings, concert videos, merchandising and concert tickets. By year-end, the growth of illegal downloading may start to slow, with occasional but high-profile litigation scaring off many casual pirates. Nonetheless, illegal downloads will continue to cost the music industry billions of dollars in lost revenue.

(Source: Deloitte, TMT Trends 2005)

Music downloading has quadrupled in a year with more than 230 legal download sites serving over 200 million downloads, a ten-fold increase over the previous year. Sales of music via the Internet grew to 8% of the total market in 2003. (Source: IFPI - 'The Recording Industry in Numbers, 2004') The total value of the download market was \$330m in 2004, up from \$50 in the previous year, representing 1.5% of overall sales. It is expected to reach 25% of total sales within five years.

(Source: Jupiter Research)

2.0 Markets cont.

According to the Organisation for Economic Co-operation and Development (OECD) Report on the Music Industry, (2005) the rise of online music sales will continue to have massive implications for artists, companies and consumers, both as a new social and cultural phenomenon.

The report's findings include:

- Around 33% of Internet users have downloaded digital music files from peer-to-peer (P2P) networks.
- The music industry experienced a 20% drop in overall revenues, perhaps as a direct consequence of digital piracy.
- By the end of 2004 there were 230 sites offering over one million tracks online in the US and Europe.
- Although record labels, as the principal owners of music IP, continue to generate revenues from online sales, most online providers are actually operating at low or zero margins.
- Online sales only account for approximately 1 - 2% of total revenues but are forecast to rise to up to 10% by 2008.
- There are significant ripple effects for consumer electronics manufacturers, the PC and telecom industries and for new industries, e.g. digital rights management (DRM) software producers.
- Too many incompatible standards of audio, DRM etc. might depress the growth of the online market and a diversity of interoperable content standards and hardware is likely to prove most beneficial.

(Source: OECD Report on the Music Industry, 2005)

Of course, alongside the burgeoning success of the digital music market are the problems of serious and ongoing piracy. IFPI, the organisation representing the recording industry, announced 963 new court actions in 11 countries in Europe and Asia. It is said that this brings the total number of cases against illegal filesharers to 11,552. In Europe, 248 people sued by the music industry for illegal downloading have paid average fines of €3,000.

(Source: IFPI)

The Recording Industry of America (RIAA) is particularly active in suing serial file sharers in an attempt to reduce the effects of piracy (most notably in the 2003 case of a 12-year old girl). US copyright law allows for damages of up to \$150,000 per track infringed, although offers of settlement can be negotiated on an individual basis.

(Source: RIAA)

However, it has been claimed that the RIAA has missed the point that consumers are buying the music. If not actually handing over any money, they have bought into the concept of buying music online. Consumers clearly have a burning desire to have control over a lot of music and to have that music portable. All that remains is for the industry to settle on the best way to satisfy that desire and remain mutually beneficial to the consumer and the industry.

(Source: Maurice Brown, 'Saving the Music Industry' 2004)

One contributory factor to the whole downloading issue is that, if anything, the process of downloading music - legally or illegally - is too easy. As bandwidth and mobile accessibility increase, the traditional barriers of file size versus time (perhaps the only true cost) are being removed and, of course, the obvious conclusion is that this will surely become an issue for the film industry too in the relatively near future. The answer will be not to make the process harder, but to make the process less attractive, modern and exciting. The idea is to make the thought of clumsily stealing music too 'old school', boring and annoying compared to the legal alternatives.

(Source: Maurice Brown, 'Saving the Music Industry' 2004)

Distribution is a major barrier to economically sustainable music production. Without distribution to the markets there can be no possibility of financial success and, increasingly, without prior confirmation of distribution there is little chance of obtaining the necessary production finance.

Companies are often unaware of the range of funding opportunities available and possibly lack the necessary business skills to access these funds successfully. By the same token, the established financial community has insufficient understanding of the music business and creative industries in general, which doesn't provide for useful co-operation.

(Source: Dept Culture, Media and Sport, 'Banking on a Hit', 2001)

2.0 Markets cont.

Particular problems affecting the potential flow of finance into the music industry include:

- how to value intangible assets;
- auditing royalty streams;
- perceptions of the quality of industry management skills;
- lack of support; and
- perceptions of high risk (only about 5% of all album releases ever reach any level of profitability and that 95% of all recorded output remains unprofitable, the acts themselves financially unsustainable.

(Source: Ordonez 2002)

In an effort to try to address these issues, research carried out on behalf of the National Music Council has identified that the key skills, required for the further development of the UK music industry, listed in order of preference are:

1. communication skills (client - staff relations, presentation skills etc.)
2. finance
3. administration and organisation
4. technical skills and knowledge
5. flexibility
6. management
7. business skills and awareness
8. industry and sector knowledge
9. marketing
10. performance
11. creativity
12. dedication, motivation, ambition and commitment
13. IT
14. leadership
15. legal skills and knowledge

(Source: National Music Council, 'Sounding out the Future')

The music industry worldwide is clearly being affected by an overall reluctance on the part of distributors and broadcasters to commission new, truly original, work as well as by general economic factors including the recent significant decline in marketing and advertising revenues. Although

digital radio is creating new niche-specific channels, it is having to do so by dividing the existing advertising and licensing revenues between a greater number of operators rather than, in the main, developing entirely new and additional sources of revenue with which to finance production.

Clearly there are too few distributors, publishers or aggregators to be able to satisfy the needs of all of the developers to competitively bring their works to market - a market already saturated with too much product and where only a tiny proportion can ever be sustainable. The local digital content production industries appear to have to either compete for this insufficient and diminishing resource, or hope that a new form of commercial publishing and distribution support mechanism can be created to serve their interests in the market, in competition with the established giants of the industry.

In the absence of an indigenous distribution and publishing sector, US industry domination flourishes. Fragmented local distribution networks have made it easy for US corporate giants to push their own products at the expense of domestic productions. As the biggest global players, such as Sony BMG, Universal, Warner and EMI, increasingly move to dominate the content production and distribution industries, opportunities for new market entry will become increasingly difficult.

Successful self-marketing and publishing of music content is possible but very difficult to achieve. The cost of advertising on UK or Irish television, which may run into many hundreds of thousands of pounds or more for a package of spots in all regions, is usually prohibitive for most products, given their potential returns. Few campaigns use only TV, but rather a range of integrated media solutions, as distributors strive to get their message to as much of the target audience as possible, and as many times as possible. Meaningful and successful self-marketing and publishing on this scale is simply not viable.

The key to successful music, and indeed with any other digital content form, lies with the strength of the idea and the performance. Cultural relevance is especially important to the music industry. Successful acts seem to mirror the mood of a particular time. Without the freedom to develop

2.0 Markets cont.

in the public eye it is difficult to see how talent can mature the professional skills necessary to realise potential.

The 1990s and early 2000s have been a time when 'manufactured' acts and disposable pop have been promoted and eagerly consumed by the consumer. Recent evidence suggests however that the public appetite for this less artistic form of music may be abating.

As has already been said, key to the future success of the music industry will be the methods in which the audience is able to access, pay for and enjoy the content. New distribution channels for music are beginning to appear in response to, or perhaps as a key driver of, the surge in domestic uptake of broadband Internet connectivity and iPod personal music players. iTunes and Napster are successful examples of web-based distribution and exhibition companies.

However, as with both the film and games industries, these digital production and distribution technologies are enabling increased piracy and bootlegging of music content. The protection of the vital IP remains fundamental to the sustainability of the music industry and yet the very technologies that enable independent distribution threaten the existence of the traditional business models that provided economic sustainability.

Currently, one of the most vibrant markets is that of mobile telephony, which is at last beginning to see real consumer interest in 3G broadband capability. As has been the case with the Internet and the iPod, music has the potential to capitalise on this new distribution channel with the development and rollout of the Walkman-style telephone.

How the market will evolve and how revenues will be shared between producers and distributors is as yet unclear but it is likely that an opportunity will exist for greater numbers of producers to access a greater number of smaller 'micro payments' from a more fragmented (but larger overall) global audience. However, it is certain that the current industry cartels will continue to try to maintain and protect their existing market dominance by acquiring and perhaps merging with the new technology providers as required.

2.2 The Market in Ireland

2.2.1 Market Overview

Ireland is the twenty-ninth largest music industry market in the world, generating \$129.2 million in sales. (Source: Helen Doyle, 'Walking on Solid Eire') Sound recording output by Irish artists, per capita of the population, is almost 30 times the worldwide average. As a proportion of GDP, this output worth is eight times the average.

(Source: Music Board of Ireland, 'Shaping the Future', 2002)

The worldwide popularity of Irish music, particularly in Europe, means that it rates fourth after the UK, USA and Canada in terms of record sales. In 2001, 93.6% of the total value of the Irish music market was earned by only the top 20 artists. The earnings of the top five Irish acts, at €192 million, were equivalent to that of the UK's counterparts. However, Irish artists had only a 26% share of the total value of their own domestic market, which is low by international standards.

(Source: Music Board of Ireland, 'Shaping the Future', 2002)

Of the four million people in Ireland, over half of the population is aged 28 or under. This demographic has been reflected in the increasing popularity of the digital download phenomenon. CD sales in Ireland dropped 7.9% to €135.9 million in 2002 and again to €108.5 million the following year.

(Source: Helen Doyle, 'Walking on Solid Eire')

Music piracy is still a problem with sales of bootleg CDs being a significant source of funds for paramilitary groups in Ireland. The Irish Recorded Music Association (IRMA) is, however, spending in excess of €170,000 in the fight against the music pirates.

(Source: Irish Recorded Music Association)

IRMA is to start legal action against 17 Irish people accused of sharing copyrighted music. They cite figures that the music industry in Ireland is losing €3.8 million annually, representing a 19% fall in profits, to 'serial filesharers'. (Source: IRMA) It could be suggested however that this mainly affects the sales in Ireland of international artists and is not stealing from Irish musicians.

2.0 Markets cont.

Major record labels are not particularly helpful in their treatment of Irish talent. Typically any artists identified as having the potential for international success, and therefore profitability, are whisked off to the UK or US to be signed and develop their careers. This hampers the growth of the indigenous infrastructure and the management experience required to launch in the global marketplace. The major labels tend to operate as though they were merely marketing outposts for their international artists into the Irish territory, rather than engaging in any meaningful participation or A&R activity in the domestic industry.

(Source: Helen Doyle, 'Walking on Solid Eire')

In an industry renowned for putting money ahead of the music, IrishUnsigned was established to provide a middle ground between the music makers and the money makers, to encourage a professional business approach to the industry and to support indigenous talent within the domestic market.

In 2001 the Irish music industry provided 8,101 full time jobs nationally *(Source: Music Board of Ireland, 'Shaping the Future', 2002)* and there are said to be around 1,000 young musicians or groups performing in Dublin's music scene at any time. *(Source: Enterprise Ireland)* However, these artists might typically receive only 10% of any money made from sales before paying managers and other expenses.

(Source: Independent Media Centre Ireland)

Indeed, Ireland's music industry venues, concert promotions, independent radio stations and festivals are increasingly dominated by a few powerful business personalities. Following the demise in 2004 of the Music Board of Ireland there is a suspicion that there is insufficient government support for the music industry. *(Source: Helen Doyle, 'Walking on Solid Eire')* Other issues affecting the future of the Industry in Ireland, raised by the board included:

- access to music education is inconsistent;
- there are gaps in pre-professional training;
- there is a difficulty in finding suitably experienced managers and producers with the relevant industry contacts; and

- the cost of recording and marketing an album is prohibitive for those just starting out.

(Source: Music Board of Ireland, 'Shaping the Future', 2002)

But before Irish artists can develop export markets for their music, the music product itself must be desirable for an international market. It is virtually impossible to second-guess what the world may or may not want and so the Irish industry, like that of any other smaller country, must try to create and support the creation of art of the highest possible quality.

To achieve this, an environment must be created where imagination and innovation is championed and where success is encouraged and celebrated. Our indigenous industry must ensure that it has the domestic infrastructure to achieve this.

(Source: NZIMC, 'Issues for Domestic Growth')

Music is not homogenous product; it is genre and territory specific. Potential entry into the overseas territories, necessary for export success, must be supported by effective marketing research and an integrated programme of promotional and distribution support.

Of the two possible distribution strategies, it is likely that greater effort to 'plug in' to the existing network would prove less naïve, less expensive and more likely to succeed than attempting to create a new, indigenous supply chain.

(NZIMC, 'Issues for Domestic Growth')

2.2.2 Capability Analysis

Skills

It is clear from even the limited international successes of the past that the music production workforce in Ireland is sufficiently skilled in the development of content to an acceptable, market ready, standard.

There are already a number of specialised university courses, and basic music skills are being taught widely throughout the whole of Ireland at a further and higher education level. Market entry is relatively inexpensive and the basic interests and early activities within the medium are being widely developed at an individual level.

2.0 Markets cont.

Our own market research has indicated however that there is a relative lack of commercial and work-based experience and it is uncertain how this might be improved, except as an obvious consequence of greater, long-term business exposure. Specific business-related skills too (e.g. project management, finance management and procurement, sales and marketing etc.) are said to be in short supply throughout the creative industries as a whole. The recent Enterprise Strategy Group report, *Ahead of the Curve*, has recommended that the sector needs to recruit over 1,000 additional sales and marketing employees with which to stimulate the required competitive market advantages.

Production

Again, as with the current skills levels, there does not seem to be a particular problem with the availability of industry-class production capacity. Now almost entirely computer-based, the hardware and software required for music production is freely available and readily affordable. In addition, specialist audio recording studios are plentiful.

Finance

Financing music production for commercial release is still generally the remit of the record labels and, in the face of overwhelming competition for a diminishing resource, is in relatively short supply.

Independent production companies and individuals in Ireland traditionally make do with relatively low levels of start-up capital, including their own personal money and informal investment from friends and family. Bank lending is often seen as essential, but difficult to obtain, as the traditional institutions prefer to shy away from the high risks attached to the industry. The venture capital and business angels sectors, while much more established in the Republic of Ireland than in the North, are still relatively immature compared to other competing markets and are not, in general, being fully utilised.

(Source: InterTrade Ireland)

Clearly, a new integrated system of access to both the public purse and, more importantly, private investment markets will be needed with which to prime the development of a sustainable, competitive economic environment.

Distribution and Promotion

As above, the distribution of digital content continues to rest in the hands of a very select group of giant global corporations. Whether it is in respect of the delivery of international content to the Irish market at the expense of indigenous product, or the promotion of Irish-originated content to the international markets, the amount of content available to the world's consumers far outweighs the current market capacity for consumption.

Common to most international, non-US, suppliers is the question of how to improve competitive potential. I.e. should Ireland try to develop an alternative distribution and promotional infrastructure with which to try to win back an appropriate market share, or should we just try harder to compete for the attentions of the current dominating distributors and publishers? Difficult as the second option might be, the first option is more likely to prove prohibitively expensive, a touch naïve and, almost certainly, doomed to failure.

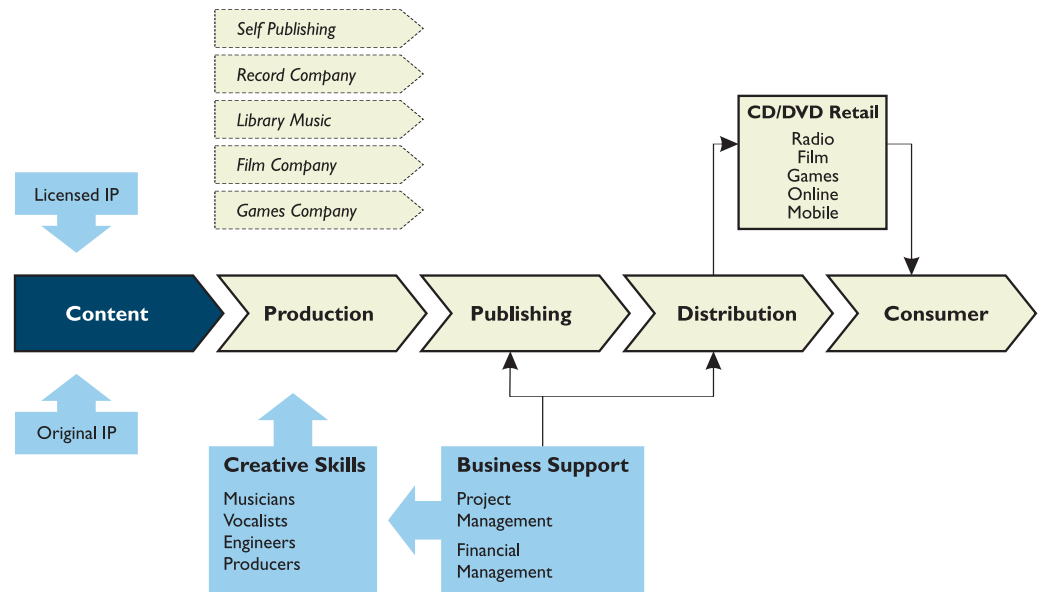
However, new tastes for digital delivery via broadband Internet and 3G telephony etc. might provide an interesting potential for market growth in this area, although these technologies are still relatively immature and the accompanying business models uncertain.

Intellectual Property Rights

We have discussed earlier the importance of original IP publishing as a sustainable source of income and wealth but almost all of this value in the Irish music industry is currently in the hands of the very few successful artists and does not tend to help to develop the industry as a whole.

While it is extremely difficult independently to attract the levels of finance required to develop, promote and distribute new work, this is the one area that, if tackled, will provide potential for long-term market growth and economic wealth for the industry.

3.0 Key Market Dynamics



4.0 Market Analysis

The music industry is currently experiencing an exciting period of growth around the world. The cost of production methods and tools are decreasing annually due to technological innovation and market competition between manufacturers. Music-based products can be easily and inexpensively transported and distributed to potential markets around the world.

However, the domestic and international markets for music content are already experiencing extreme competition from over supply. Domestically, saturated markets, higher quality thresholds and the entrance of new suppliers are reducing the opportunities for our indigenous producers. Traditional markets are fragmenting into smaller, lower value niches that must react to the needs of changing trends, fashions, methods of distribution and business models.

Ireland's labour costs are now significantly higher than those of Eastern Europe, Asia and the Pacific Rim countries. This affects the potential for work-for-hire contracts and, in the absence of cheap labour, there does not seem to be many specific value benefits with which to win new production business. Without the economic growth from increased market share and profitability it will be increasingly difficult to retain our best talent when faced with competition from those overseas employers.

Music producers in Ireland can, however, demonstrate excellent production skills and an enviable record of international success. Education and training is of an excellent standard and access to production tools and facilities is readily available. The industry mostly consists of relatively small, compact, specialised businesses and individuals, reactive to changing market conditions and hungry for success. Ireland still enjoys relatively low human resources costs compared to some countries, such as the US.

However, our music production companies are often too small, young, inexperienced and financially naïve, with insufficient financial resources to be able to compete internationally. The distribution, publishing and promotional infrastructures for indigenous music content are undeveloped and ineffective and there is insufficient development of original IP from within the industry with which to demonstrate any unique and attractive creativity.

Ireland benefits from being a naturally English-speaking nation, the first language of the international music industry. We enjoy a particularly good standard of living and work-life balance, coming top in the Economist Intelligence Unit's 'International Quality of Life' index, 2005. There are excellent communications and transport infrastructures with the rest of the world and a clear national and cultural identity that could be exploited into the development of a strong brand image for the industry.

Ireland's location, on the edge of Europe, is often removed somewhat from the cultural activities of the continent and the rest of the world and there can be a difficulty developing and maintaining service-based relationships with international customers. There may be a culture of historic over-reliance on state sponsored financial aid and private and commercial mechanisms for financial investment in the industry are immature, largely misunderstood and inactive.

Music companies in Ireland do not, in general, have adequate business management, finance or sales and marketing skills. Neither is there currently sufficient training and accreditation in business skills specifically relevant to the music industry. There does not seem to be sufficient awareness of the value of market intelligence-backed strategic planning.

However, other industry sectors and businesses in Ireland have been extremely successful in overcoming these barriers in the past, both domestically and internationally, and there are ready supplies of experience and knowledge in these other sectors. There is ample availability of market intelligence information with which to inform development strategies and excellent administrative and strategic assistance country-wide that can be made available to the music industry.

4.0 Market Analysis cont.

4.1 The Impact of the Internet on the Music Industry

In addition to the effects of digitisation on the music industry we might also be seeing the restructuring of the entire economy, where the meanings of work, career and job are being rewritten. The Internet has allowed artists direct access to a global audience previously controlled by record companies and their rigid corporate imperatives, enabling artist development at the expense of business development. This is no less than the switch from a life that was largely organised for us to one in which we are being forced to be in charge of our own destiny.

Today, there are essentially three competing music industries developing side by side:

1. the mainstream business that exists to promote established stars;
2. the illegal business of pirating and home copying; and
3. the indie, niche, genre music scene.

The first industry is contracting, the second is and always will be present, and the third is poised for quantum development.

In many ways, the latest computer technology, by empowering individual musicians, is setting the music industry back 300 years and creating instead a 'musician business'. The Internet is allowing individual musicians to re-establish the patronage model, whereby 'patrons' can subscribe for total access to the artist rather than having to buy issue-controlled recordings. Notions of security and 'quick fame' are being replaced by a slow and sure model for financial reward.

The market for music consumption is still enormous. However, as choice increases and the consumer is able to select a more individually rewarding product, price will fall and recordings may cease to provide the main source of earnings. Rather, recorded music may simply become a promotional expense designed to provide access to other areas of the overall offering.

The game has changed, perhaps irrevocably, and there are now greater than ever opportunities for

creative fulfilment and self-expression. The other side is that job security is much less likely. It has been replaced by individual dependency on skills and a requirement to match those skills with opportunities that need them.

In order to succeed in this new economy the musician will operate increasingly as a freelance independent contractor and, as such, will have to develop a new range of skills, including the following.

- Research and development - what skills are required, how to learn and develop?
- Marketing planning:
 - what products and services need to be offered?
 - what key assets are available to sell?
 - what niche markets can be exploited?
 - how can these services be promoted and sold?

5.0 Opportunities for Growth

5.1 Target Markets

The music industry in Ireland is usually considered to be one of the nation's success stories although closer scrutiny informs us that this success tends to be enjoyed by a relatively small proportion of the total potential workforce. Most new opportunities are to be found in areas where the control and influence of the established industry are being challenged by the development of new technologies for production, distribution and payment.

One of the most obvious methods of increasing commercial opportunity is to identify the range of skills, services or products currently in demand and to become valuable to those markets. It is almost impossible to do this successfully however unless the music industry becomes sufficiently aware of the issues affecting the market. This is essential in order to inform a successful strategic plan.

Both internationally and domestically supply exceeds demand - even in this high-growth sector. Sustainable advantages will need to be identified and implemented to provide any chance of profitable competition. Music is a labour intensive industry and good people are always in demand. Skills training and experience are valuable assets and any opportunity to improve either should be firmly grasped.

We know that our human resources are generally competitive in terms of production skills and that our educational systems are extremely good. But we know also that there is a lack of the accompanying business management disciplines needed to win and manage the business for our production specialists. An urgent requirement therefore will have to be the recruitment and training of specialist business management, project management and sales professionals. They should undertake the necessary marketing research activity and the resultant strategic planning needed to identify future market opportunities and shape production activities accordingly.

A number of new employment opportunities have arisen following the impact of new technologies on the music industry. Careers are available for those who have an understanding of the new technologies and can apply them creatively, e.g. music and sound design for film, television, radio, interactive media, games etc.

(Source: Federation of Music Collectives)

There is no doubt that Irish music has the potential to be even more attractive to international markets but may benefit from a new marketing focus. According to the 2002 Music Board of Ireland report, 'Shaping the Future', areas to be addressed include:

- increasing the opportunity to gain live performance experience to develop audiences and improve access to the marketplace;
- increased participation at International events, trade fairs and other specific initiatives; and
- increasing the size of the support sector in Ireland with which to secure additional airplay and shelf space, both crucial to showcasing new talent and providing opportunities for consumers to purchase.

While revenues for fixed, mobile and broadcasting markets in September 2004 stood at €3.68 billion per annum, mobile phone penetration in Ireland has reached 89%, surely indicating a healthy opportunity for new, mobile-based content development in the future.

(Source: Helen Doyle, 'Walking on Solid Eire')

Music is becoming increasingly local and niche orientated. Although record labels are keen to find a single act that is popular across many markets, the appeal of global brands is in retreat across a wide range of products, music being no exception.

Opportunities often come from areas of unfulfilled market need and, where previous scarcities existed in distribution and then content, these traditional requirements have been satiated to the point of saturation. The new scarcity is, according to futurist Paul Saffo, one of 'context', i.e. the meaning, from screening, editing and filtering, to allow the consumer to access digestible amounts of content from the vast amount available.

5.0 Opportunities for Growth cont.

Already new opportunities are being seen in the collation and distribution of compilation titles where the compiling companies are acting as 'meaning givers' for the time-poor consumer. The question therefore is: how might one add meaning and context to the market from within the chosen area of expertise?

5.2 New Product Development

The outcome of a formal marketing research project will be that the current activities of the majority of the music industry in Ireland do not quite match the needs of the market and so will be unlikely to be able to take advantage of the various opportunities available. Opportunities will arise from the development of new solutions to address new (or previously un-catered for) market needs and in this case the industry in Ireland will have to become more adept in a formal research and development (R&D) culture.

The R&D process provides clear project methodologies and there are some readily available sources of financial assistance. R&D is surely one of the most important methods by which the music industry can begin to create new products and services that offer potential for sustainable advantage. In existing markets however, the music industry in Ireland will have to devote more energy and attention to the development of original IP. As discussed previously, IP is the only realistic long-term asset that is available to a content producer and is an area that has not been sufficiently developed, supported or exploited by the majority of industry participants.

Financing the development of new IP is, of course, currently difficult but not impossible. Support from a large, but currently dormant, investment and venture capital sector is readily available but will require an element of education from both sides as to each other's needs. Investors will need to feel secure in their participation and the involvement of formal R&D, marketing planning analysis, realistic business projections and proven business acumen are all essential to this. However, all of these seem to be, currently, complete strangers to the music industry!

Traditional business skills are widely understood to be lacking in most creative industries sectors and the music business in no exception. There are undoubted opportunities for finance, marketing and project management professionals and, as the music business in particular embraces digital distribution models, management best practice learned during the dot.com revolution will become an increasingly important part of the music business's strategy.

(Source: Dept Culture, Media and Sport, 'Banking on a Hit', 2001)

It has been proposed that support from the government and industry could be channelled into business incubation units where companies can benefit from access to mentors and investors as well as an entrepreneurial learning environment. Other solutions suggested have included the creation and promotion of alternative financial instruments including:

- micro-credits
- social credit
- organisational credit
- local exchange trading systems (LETS) schemes

(Source: Dept Culture, Media and Sport, 'Banking on a Hit', 2001)

New technologies too will obviously provide opportunities for new products and solutions. Digital music made up about 1% of total industry revenues in 2004. Industry estimates expect it to double in 2005 and reach 25% within five years. *(Source: Reuters)* One of the most important factors that will provide for increased opportunity is the way in which the big four record labels will have to change their practices in response to the new economic models arising from digital downloads and mobile music.

Traditionally from manufacturing backgrounds, the labels have concentrated on maximising profits from economies of scale, relying on fewer artists selling higher and higher numbers of units. Indeed these giant labels cannot remain in business unless they are selling millions of units. *(Source: Matthew S Brown)* With the advent of the digital and mobile downloads markets however this is under threat. Record companies will have to become more flexible and responsive to the

5.0 Opportunities for Growth cont.

whims of consumers, content instead to purchase smaller quantities of a greater variety of music - a response to the desire to personalise their listening and therefore purchasing experiences.

A particular factor affecting the changes in the music industry will be the development of the mobile content sector. Wider consumption of music, directly downloadable onto the next generation of 'Walkman' phones could soon (according to some estimates) account for 50% of all mobile content revenues. (Source: IFPI, 'Digital Music Report', 2005) Japan already had a ringtone and ringtone market worth approximately \$100 million in 2004 and the country's leading content distributor, Label Mobile, expected to have served over one million full-track music downloads in that period. China alone has an unbelievable mobile content market, already with over 290 million subscribers - barely 20% of the total population!

(Source: IFPI, 'Digital Music Report', 2005)

According to EMI's Adam Klein, the mobile entertainment market is expected to reach \$35 billion by 2008, while Jupiter Research believes that music and ringtones will account for \$9.3 billion of this total. Production of new music products for these markets is of course an enormous opportunity for the industry in Ireland.

Convergence will remain a hot topic in 2005 and beyond, but will provide strong returns for only a handful of media companies. Those that succeed will base their offerings on market needs, picking and choosing their opportunities carefully. Collaboration between game developers and movie studios will be one of the most compelling convergence stories of the year - creating value and extending the life-cycle for both products. Music downloading will gain respectability, with rapid growth in legal downloads and online music sites. At the same time, media and entertainment companies will join forces, working with police in a sustained and successful effort to crack down on piracy.

(Source: Deloitte, TMT Trends 2005)

Personalised content too will be an important source of product development. Companies will spend heavily trying to convince consumers to watch television on mobile phones and other

mobile devices, but what consumers really want is simple content such as ringtones, screensavers, and wallpaper that allows them to personalize their phones - a market that is already worth billions of dollars.

(Source: Deloitte, TMT Trends 2005)

The development of industry support services via software or other technologies will be important. An example of this type of new product development is 'Hit Song Science' (HSS) - a software-based service developed by Spanish company Polyphonic HMI that tries to predict a song's potential for financial success based on the analysis of 3.5 million (30 years' worth) of Billboard hits.

The program isolates 20 different aspects of song construction including melody, harmony, chord progression, beat, tempo and pitch and maps recurrent patterns for analysis and comparison with previous chart successes. While not certain by any means, a favourable rating by HSS does seem to provide a rational underpinning for record companies' commercial strategies and decisions.

This is an example of a supporting product adding value to the music industry and, while not in itself artistic or particularly creative is a useful and suitably lucrative market participant.

5.3 Value

Current trends towards the globalisation of economic activity seem likely to prevail. The largest international corporations will continue to minimise the costs of production for as long as there are low-cost labour markets to exploit, in order to maximise the profitability of their sales - for as long as their customers are able to keep buying the product. It is not possible for the music industry in Ireland to compete for market share on the basis of price and new added values will need to be identified and delivered in the hope of creating and maintaining a sustainable business model.

Once again the best possible and most obvious way to achieve this is simply to ask the customers what they want most, and simply try to supply the solution at a price that's acceptable yet

5.0 Opportunities for Growth cont.

sustainably profitable (i.e. adding unique value propositions to the overall offering to provide customer satisfaction). It may be possible however to look at a number of our earlier industry strengths list and, in identifying those that are unique to Ireland, highlight some areas that are more likely to succeed, including:

- Past business success in Ireland - it may sound too obvious but surely music can learn from other industry sectors (software development, pharmaceuticals etc.) why they have been able to remain competitive in the face of low-cost competition. Those lessons should be readily transferable.
- The small, compact, specialised nature of our indigenous music companies, able to be more reactive to changing market conditions, might be able to target short-term solutions research and development work where normal economies of scale do not apply.

Ireland's standard of living and work-life balance, as stated in the Economist Intelligence Unit 'International Quality of Life' index, 2005, is an enormous opportunity for the creative industries and for the country as a whole. The index compares Ireland's status as the best country in the world to live and work with that of our most important potential customer markets; the US (thirteenth place), Japan (seventeenth place) and the UK (twenty-ninth place). The most influential companies and structures are already established and their market domination is assured but there is an undoubted opportunity to attract at least some of the operational bases to Ireland with the attraction of a quality of life that money simply can't buy elsewhere

Another of the reasons that the industry in Ireland has not been more successful is that not enough of our companies have yet been able to create, develop and foster strong long-term relationships with the most influential customers. When seeking a value-added basis for sustainable competition, increasingly companies are accepting that relationships, trust, co-operation and loyalty are far more attractive and mutually valuable than simple price-based transactions.

We have earlier established that historically the music industry in Ireland has not had the same

opportunity to develop these relationships and that our geographical position has perhaps not helped. There is however a natural and traditional warmth towards Ireland internationally and more effort should be made to understand the essential importance of sustainable customer relationships and to try to develop these accordingly.

5.4 Distribution and New Business Models

As with the other digital content sectors (games, film, animation etc.) there is a distinct lack of a successful publishing and distribution infrastructure for the music industry in Ireland. The issue is that, without publishing, distribution, promotion etc., the content produced by the music industry cannot be offered to customers for possible purchase. Without any possibility of purchase there can be no hope of profitability and without profitability there can be no sustainability.

Digital downloads and, increasingly, the mobile digital content markets are going to shape the future of the music industry and will provide many new opportunities with respect to content production and business support mechanisms or both. In the UK, the number of legal downloads now exceeds the singles market. This has resulted in the recent addition of the sector to the calculation of the official chart positions.

(Source: The Irish Independent)

This sector growth is based largely around the importance of the 10-24 year-old 'millennials' consumer group that makes up over 30% of the total market. Millennials are truly digital, are early adopters of all new creative industries' technologies and are dictating the pace of the success of digital and mobile services.

(Source: Adam Klein, EMI, 2005)

5.0 Opportunities for Growth cont.

The IFPI 2005 report into digital music cites the following key highlights:

- In 2004 the available catalogue on the biggest online services doubled from around 500,000 to around one million tracks.
- The number of online services where music has increased four-fold to more than 230 worldwide. Over 150 of these are in Europe.
- Consumer attitudes towards digital music have changed, with services like iTunes and Napster becoming household names, illustrating the rapid maturing of the sector.
- In 2004 downloaded tracks rose more than ten-fold to over 200m in the US, UK and Germany combined.
- Record companies have seen their first year of significant revenues from digital sales, from virtually zero to several million dollars and this is likely to double in 2005

(Jupiter Research).

- Digital sales could rise to as much as 25% of total sales within five years.

The new market in downloadable music provides opportunities for musicians in a number of other, more obvious ways. For instance, if the various record companies produce over 33,000 titles annually, there is massive competition for shelf space in traditional record shops - and this doesn't even take into consideration the space required for the 'golden oldies' or classics, e.g. Beatles, Rolling Stones, Bowie etc.

Digital music requires no such physical space, and so can compete in traditional markets in new ways. Consumers are pursuing their wish for individual choice, expression and personalisation in their music habits, aided by fragmentation in the traditional distribution media and competition from new media.

Mobile Delivery and Micro Payments

One of the most important areas of development will be not 'who pays the piper' but 'how the piper is paid' (Ben Challis, 2005) Opportunities exist in the development and utilisation of new methods of protecting and rewarding IP including:

- micro payments
- subscription services
- traditional 'permanent' purchases
- sponsorship
- licence fees
- subscription fees

Certainly, there is pressure for established record companies to move from the existing hard copy, CD album ownership model towards a single track, rented single download market. This move might be critical to their survival. One of the factors that might help to define the commercial future of online distribution may come, ironically, from the development of the mobile telephony markets and, in particular, how the link between delivery of content to the handset and payment via the telephone billing process matures.

Subscription download services, e.g. Napster, offer unlimited access to an enormous library of music for a monthly fee. The music downloaded to PCs and MP3 players is only available however for the duration of the users' relationship with the subscription service. Once that relationship is terminated the music cannot be played although the DRM security encoding that enables this form of copyright protection is under constant threat from hackers.

This compares with other online stores that sell music by the track, e.g. Apple's iTunes. In this model, the online store acts in a very similar way to a traditional, physical high street retailer where the content becomes the property of the purchaser, albeit subject to usual copyright protection restrictions. Music companies claim that there is room for both commercial models although the subscription model might prove too restrictive for many traditionally-minded ownership-oriented consumers.

(Source: Reuters)

It is clear though that these new business models will provide opportunities to develop new industry practices and solutions or take early and full advantage of them to develop a competitive advantage. Certainly, as the market for ringtones, music, video clips and games starts to take off,

5.0 Opportunities for Growth cont.

customers are becoming used to seeing relatively small payments for the content delivery appearing on their phone bills in addition to the normal line rental and call charges. These 'micro payments', while in themselves tiny compared to the costs of buying traditional media forms, are more available to more of the international market. They provide an opportunity to derive profitability through sheer volume - the amounts charged appearing to be relatively insignificant to consumers' normal budgeting decisions.

This process of telephone-based payment is proving to be so attractive to the markets that examples of ticket sales, grocery shopping and other functional applications are starting to appear in addition to the simple payment for delivery of media content. Although still very much in its infancy, the system is widely expected to become ubiquitous in the near future and will, no doubt, attract the interest of the established financial institutions as well as the traditional mobile network operators.

Mobile and Internet delivery of content does seem to provide an alternative, relatively low-cost, channel for distribution and financial reward for digital music content in the future although, as always, the competition for the customers' attentions will develop and become more intense accordingly. Currently, the existing brand leaders (Nokia etc.) are able to largely dictate which products are best promoted while companies such as Virgin and Sony, who have interests in both the telephony and content development industries would seem to be ideally placed to exploit the opportunities.

Ringtones, including 'real' music downloads, account for the largest share of the download market at 33%. (Source: Mintel) It is almost impossible to ignore the impact of the 'Crazy Frog'-themed ringtones that have become the first mobile download product to enter the mainstream public consciousness. While publisher Jamster will not confirm figures, it is believed that the franchise has made in excess of £10 million for the company.

(Source: BBC Business)

According to market analysts, Mintel, the total number of mobile downloads this year is expected to be in excess of 760 million, creating revenues of £740 million - an 18-fold increase on just three years! A separate report by analysts Informa Telecoms in July of this year suggests that the industry worldwide might be worth around £25 billion by 2010.

(Source: BBC Business)

However, independent competition for the customer will prove to be as difficult and as expensive as ever and will rely, as it always has, on the integrated application of traditional advertising media to drive customers towards the otherwise easily and inexpensively distributable content. It's easy to build it but, if they don't know about it, they still won't come!

Music Industry Cluster

In examining the current strengths, weaknesses, threats and opportunities facing the Irish music industry - and accepting that the actual product quality is at least good enough for international success - many of the issues relate to the small-scale nature of the sector, its present lack of influential relationships with the major international markets and current financial powerlessness to bring about the desired changes. The obvious solution to this state of affairs might be to develop a greater sense of partnership within the industry and an appreciation that collaboration within a music sector cluster could enable the attainment of the common goals.

Clusters can be defined as concentrations of competing, collaborating and interdependent companies and institutions which are connected by a system of market and non-market links. Clustering can bring a wide range of benefits to both business and the wider economy including the following:

- Companies can increase the expertise available to them if they locate amongst a cluster of other firms.
- They can also draw upon others with complementary skills to bid for large pieces of work which each of the individual firms would have been unable to complete.

5.0 Opportunities for Growth cont.

- Advantage can be taken of economies of scale by further specialising production within each firm, by joint purchasing of common raw materials to attract bulk discounts or by joint marketing.
- Social and other informal links are important and can lead to the creation of new ideas and new businesses.
- Reputations spread quickly within the cluster, enabling finance providers to judge who the good entrepreneurs are, and allowing business people to find who provides good support services.
- The cluster enables an infrastructure of professional, legal, financial and other specialist services to develop.

(Source: UK DTI)

Current research suggests that clusters of firms and skilled workers may be one of the key drivers of economic growth in localities, cities and regions. They can increase knowledge and spread best practice, thus improving competitiveness and creating growth. Firms are finding that they can better utilise their knowledge capital, and increase the expertise available to them, if they locate amongst a cluster of other firms

Firms in clusters can gain advantages from increased economies of scale - for example drawing upon companies with complementary skills to bid for large pieces of work which each of the individual firms would have been unable to complete. Collaboration also allows advantages by further specialising production within each firm, by cost reduction from more efficient resource development (e.g. skills training etc.), and - especially important to the digital creative industries in Ireland - a more powerful and effective joint marketing process.

Clusters facilitate other forms of collaboration or networking between firms. In part, this is because co-location and repeated contact helps build up a relationship of trust. Many of these networking arrangements are ways of spreading best practice and the results of research and development. A key requirement for facilitating the growth of a cluster is that firms are encouraged to take

advantage of collaboration. It should be demonstrated that by working together their performance and financial sustainability will improve.

5.5 Opportunities at a Glance

Intellectual Property

The development of new, unique, valuable intellectual property is critical to the future of the industry. A formal R&D process is essential to the development of new, market-ready ideas.

Production Skills

There are always opportunities, even in a saturated market, for musicians and engineers who are the 'best' in their field of expertise.

Increasingly these opportunities are found in niche markets, e.g. a musical form or style, or particular content formats (film soundtracks, games etc.). The importance of networking and marketing planning are as crucial as ever to identify the opportunities and support the production skills.

Business Skills

While perhaps not as evident as in film, television etc., the importance of business skills to the music industries cannot be underestimated.

Budgets for music production for film and games titles are likely to be established prior to the commissioning of the sound track but the market research and sales processes required to identify and win these business opportunities are essential.

Distribution Technologies

Internet and mobile distribution are revolutionising the music industries and there are opportunities for skilled engineering personnel in these areas.

Additional opportunities exist in respect of payments processing and distribution as applied to these distribution technologies.

5.0 Opportunities for Growth cont.

New Markets

Although the markets for music content production have traditionally been sales of recordings and broadcast of these recordings and live performances, the most popular source of music listening (in hours) is now neither CDs nor radio, but video games.

(Source: Peter Spellman, The Future of Music Careers, 2003)

Music production for games, film, television etc. is now crucially important for financial success in the industry and, while there is currently little evidence of sustainable activity in Ireland's indigenous film and games sectors, television in particular is promising to be a valuable source of business opportunities. Internationally though, there is a vibrant console games development industry that requires music content, and which could be a source of export market activity.

Mobile Downloads

The market for downloadable music, including ringtones, is set to become the largest growing industry sector. Distributors and content aggregators will always want to identify new opportunities and content producers. Due to the costs of promotion, it may be increasingly difficult to tap into this market without a major distributor or network partner.

New Business Models

Most of the new online and mobile distribution technologies are still controlled by the traditional record companies, driven by costly promotional communications via press and television advertising, which remains the largest financial beneficiary.

There is evidence, however, that independent music producers can create small yet sustainable revenues by offering content online to specific niche audiences in return for reasonable, perhaps annual 'patronage' payments instead of individual payments per recorded track.

(Source: Peter Spellman, The Future of Music Careers, 2003)

These customers will respond best to product customisation and the development of a long-term relationship in respect of their needs and, if sufficiently aggregated, might replace the traditional 'all at once' record company model.

Micro payments and increased delivery of music content to hybrid music phones may provide additional opportunities for independent producers although these models are not yet mature.

6.0 Conclusion

This report has discussed the issues currently affecting the music content production industry in Ireland, and has examined the issues affecting the potential for long term economic sustainability. It has offered suggestions for the development of sustainable advantage in an increasingly competitive global market.

Traditional distribution outlets are fragmenting, consumer preferences for and willingness to pay for content are changing and Ireland does not have the capability to challenge head-on the domination of the corporate giants that essentially control the market opportunities. Individually, companies do not have the financial resources to be able to seek out collaborative relationships with the main customer groups to develop preferred supplier status or long-term loyalty that might ignite confidence and provide stability.

There is insufficient development and exploitation of original intellectual property and the existing financial structures that might provide the necessary investment in new product development are not sufficiently developed or utilised by the industry.

And finally, our ability to compete for new business opportunities or market share is severely restricted by the lack of a specialised and focussed distribution, publishing and sales mechanism and a lack of suitably qualified personnel within the industry itself.

However, what we have also seen is that by engaging in a formal marketing research exercise and embracing an R&D culture we can begin to develop new products and services to provide solutions to the opportunities arising from new customers, technologies, social preferences etc; and that in collaborating and operating more collectively, the music industry in Ireland can combine to achieve the strength and scale to be an attractive long-term partner and supplier to the global media markets.

7.0 Appendix

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