Digital disruption: Lessons for TV from music

BSAC Council

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Digital disruption impacts consumption of music, much less TV content

Recorded music

- Many listeners, few buyers
- Lots of free music, legal and pirated
- Fans ready to pay artists for the *live* experience
- Buyers cherry-pick tracks from albums, discarding 'filler' tracks
- CD in terminal decline as players vanish
- Looking for bargains on Amazon displaces the retail experience and browsing
- Value to user not in the music but the wrap-around digital eco-system, dominated by Apple
- Ownership model still dominant, subscription services are a hard sell
- Appeal of freemium and music+mobile bundles

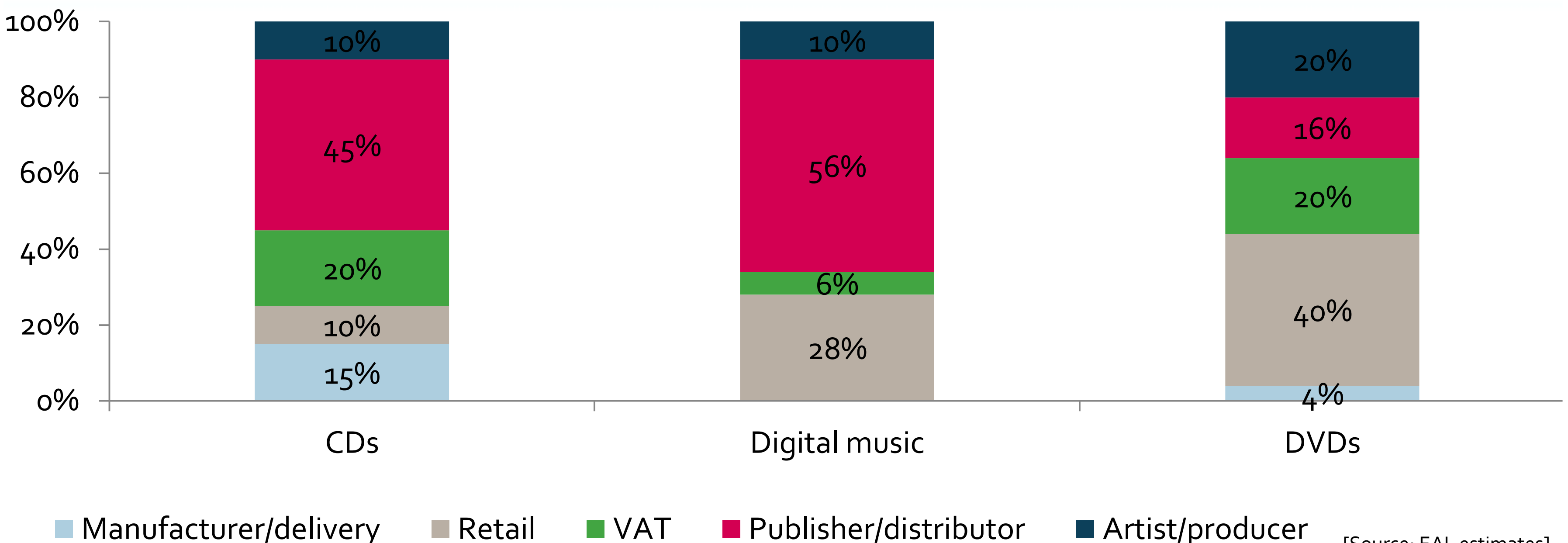
TV in the home

- Low-cost family entertainment hub
- Multichannel delivers vast viewing choice for free
- High TV production values vs low quality of internet content
- Live events cluster audiences: X Factor; Olympics
- Live sport has obvious value to fans
- Far lower risk of dis-intermediating content from TV set due to wide screens, EPG, PVR
- Multi-screening prevalent amongst the young
- Internet usage and pervasive piracy of video content have not impacted usage of live linear
- Limited interest in connecting the TV to the internet

Digital delivery is an opportunity: retailing of recorded music is inefficient

- Big music companies remain relevant as artist-direct sales are limited in scope
- Digital music has better margins than the CD for the publisher, but publishers lose sales from cherry-picking and less browsing at retail
- E-commerce is a small channel to market, but disruptive to the high street
- HMV highlights the perfect storm
- Industry often complains of dependence on Apple for pricing and retailing decisions
- Apple's innovations have served the industry well, in our opinion
- Apple too has profited from music sales, although dwarfed by profits from devices

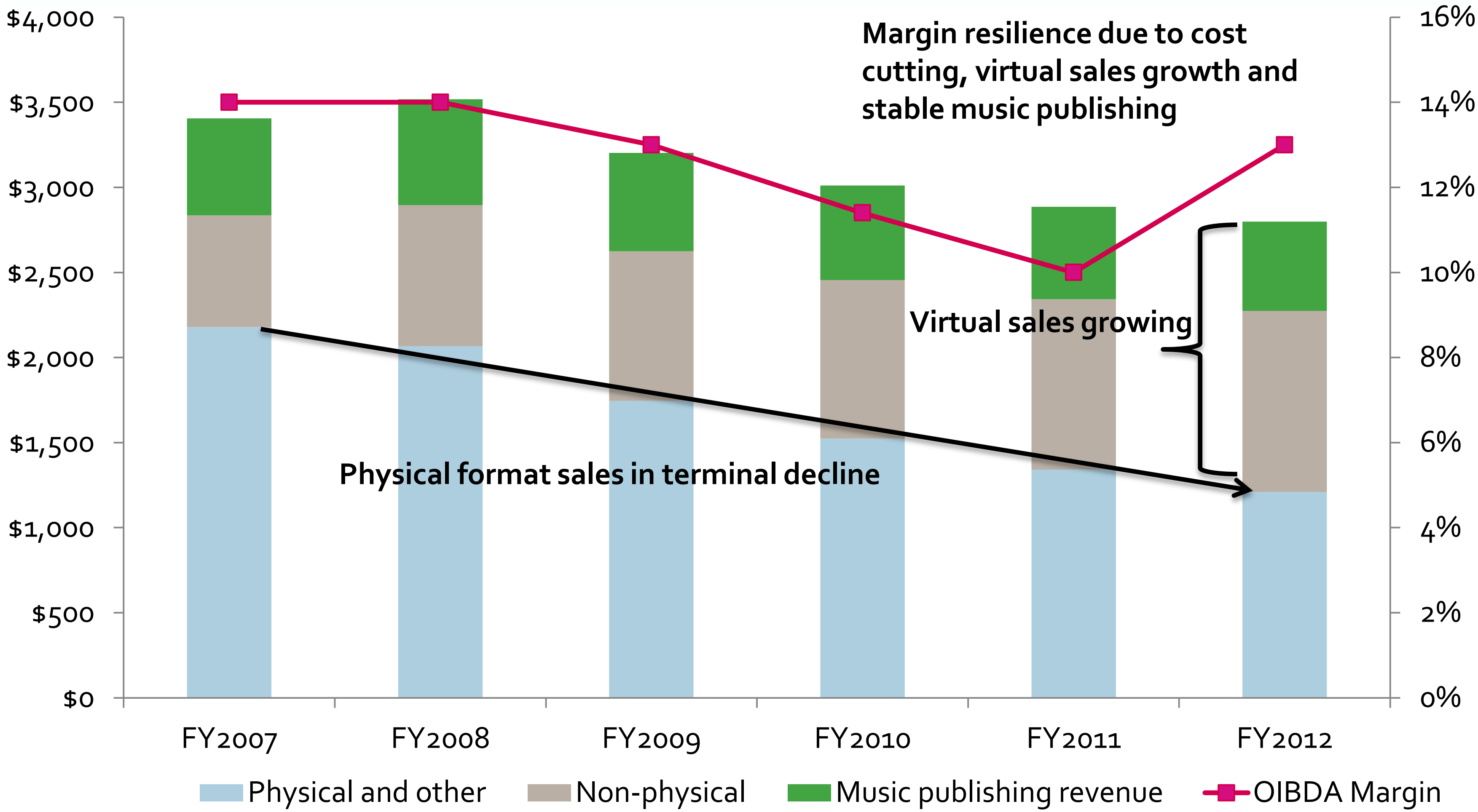
Share of retail revenue



[Source: EAL estimates]

Big music corporations can survive industry disruption

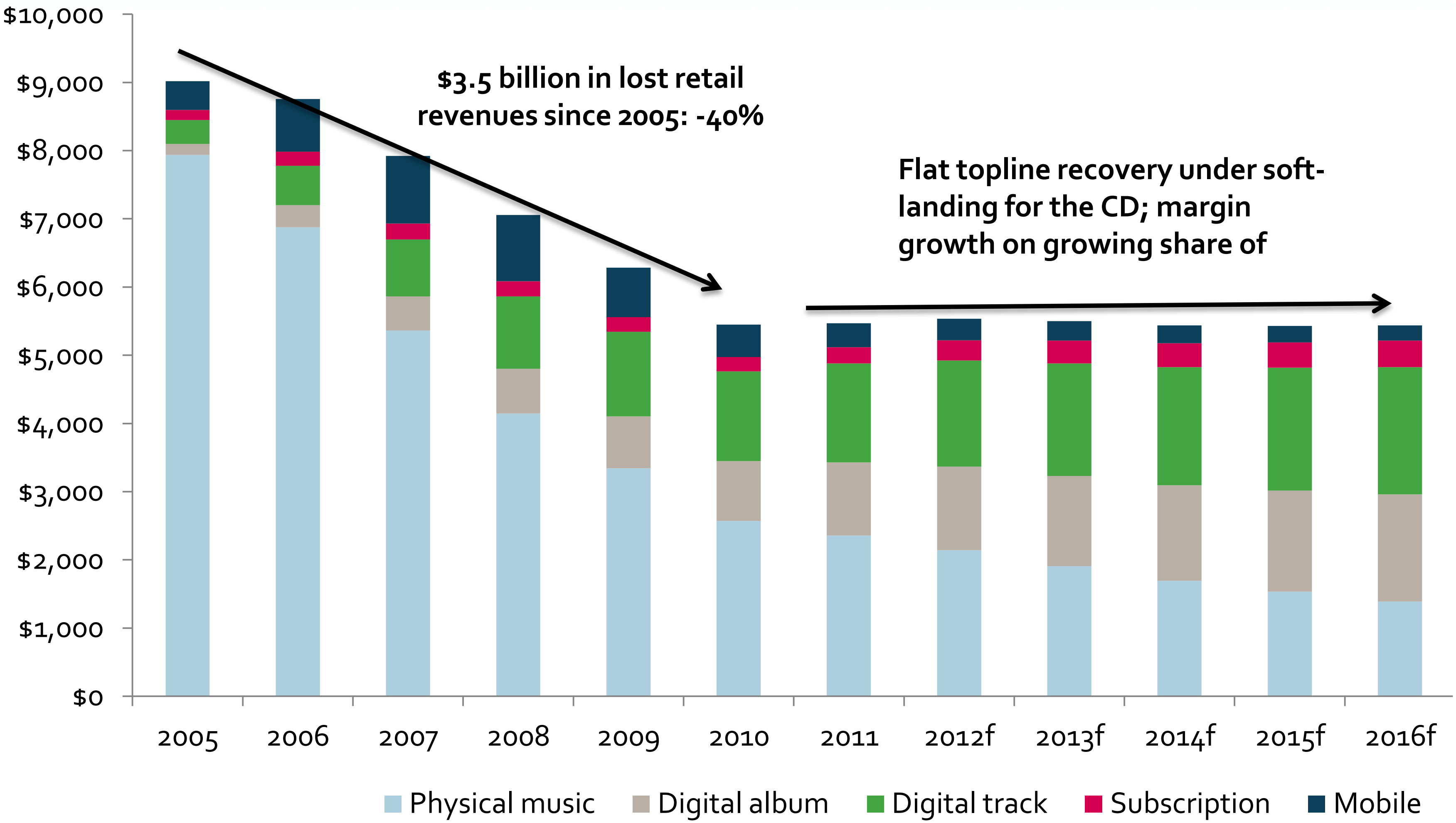
Warner Music Group revenues and profits ($m)



[Source: Enders Analysis from Warner Music]

Decline of the US recorded music market has finally halted

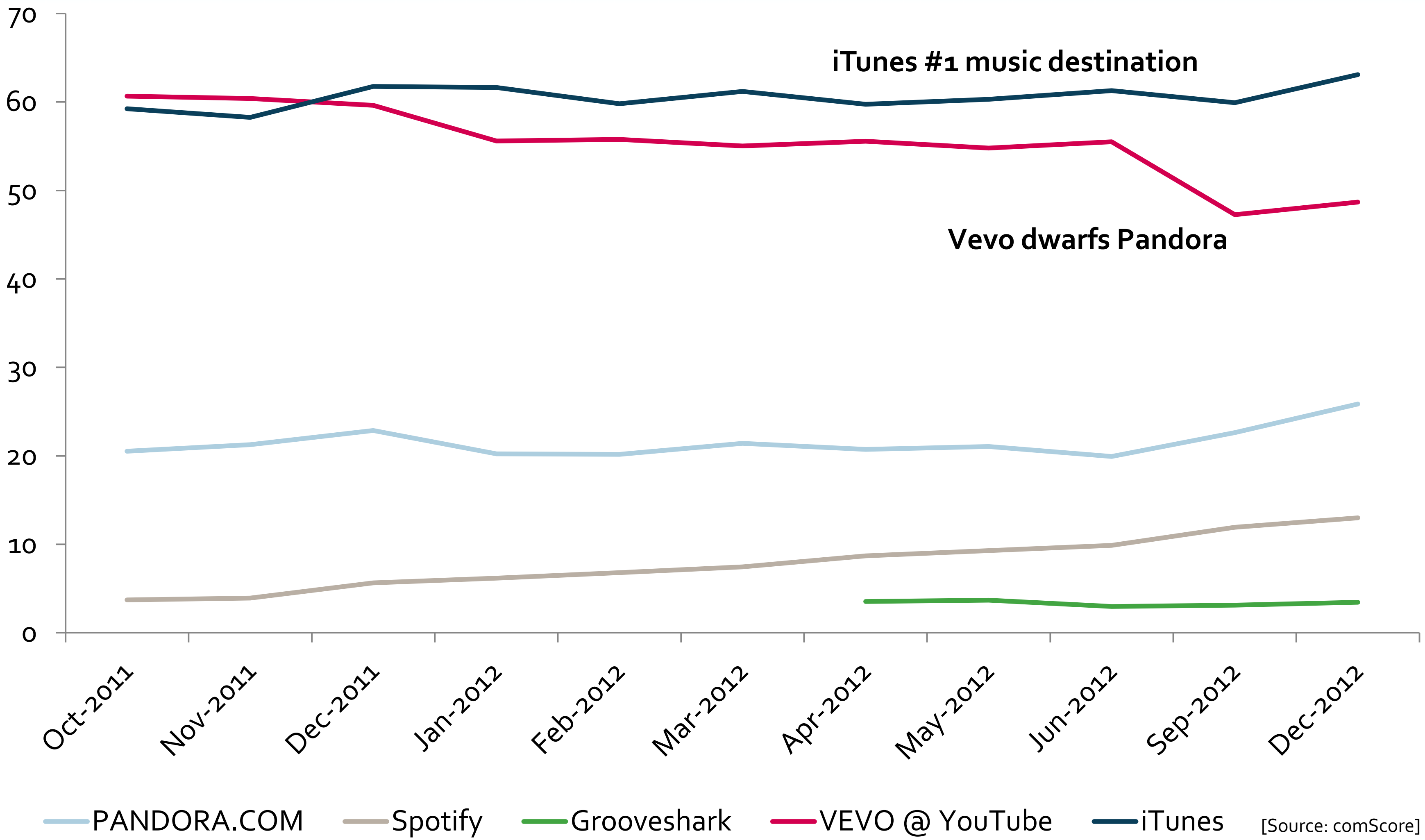
US recorded music retail market (m)



[Source: Enders Analysis]

Industry adaptation: Vevo stopped piracy on YouTube

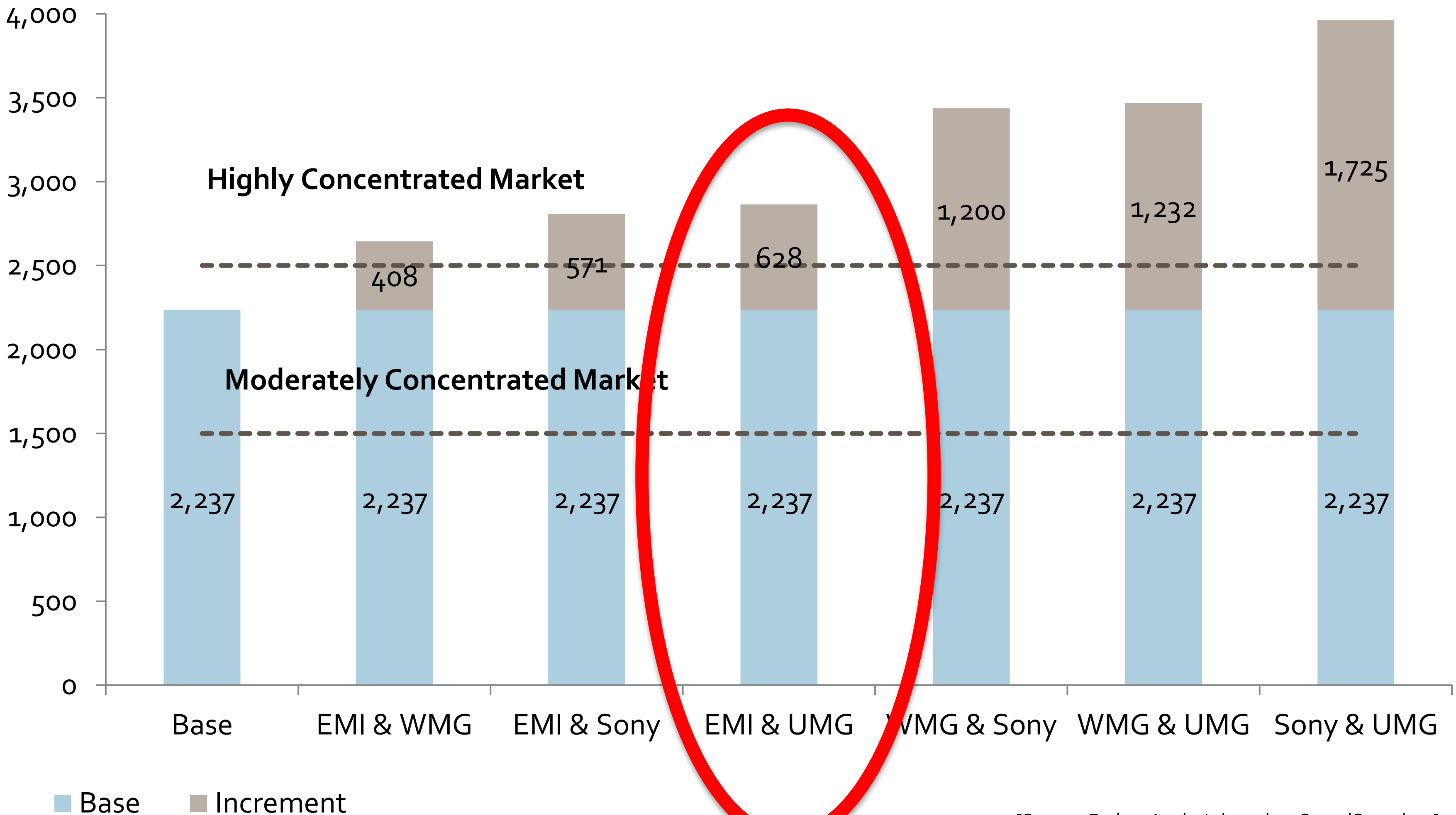
US PC audience for leading music streaming services (millions)



[Source: comScore]

Industry consolidation and regulatory risk

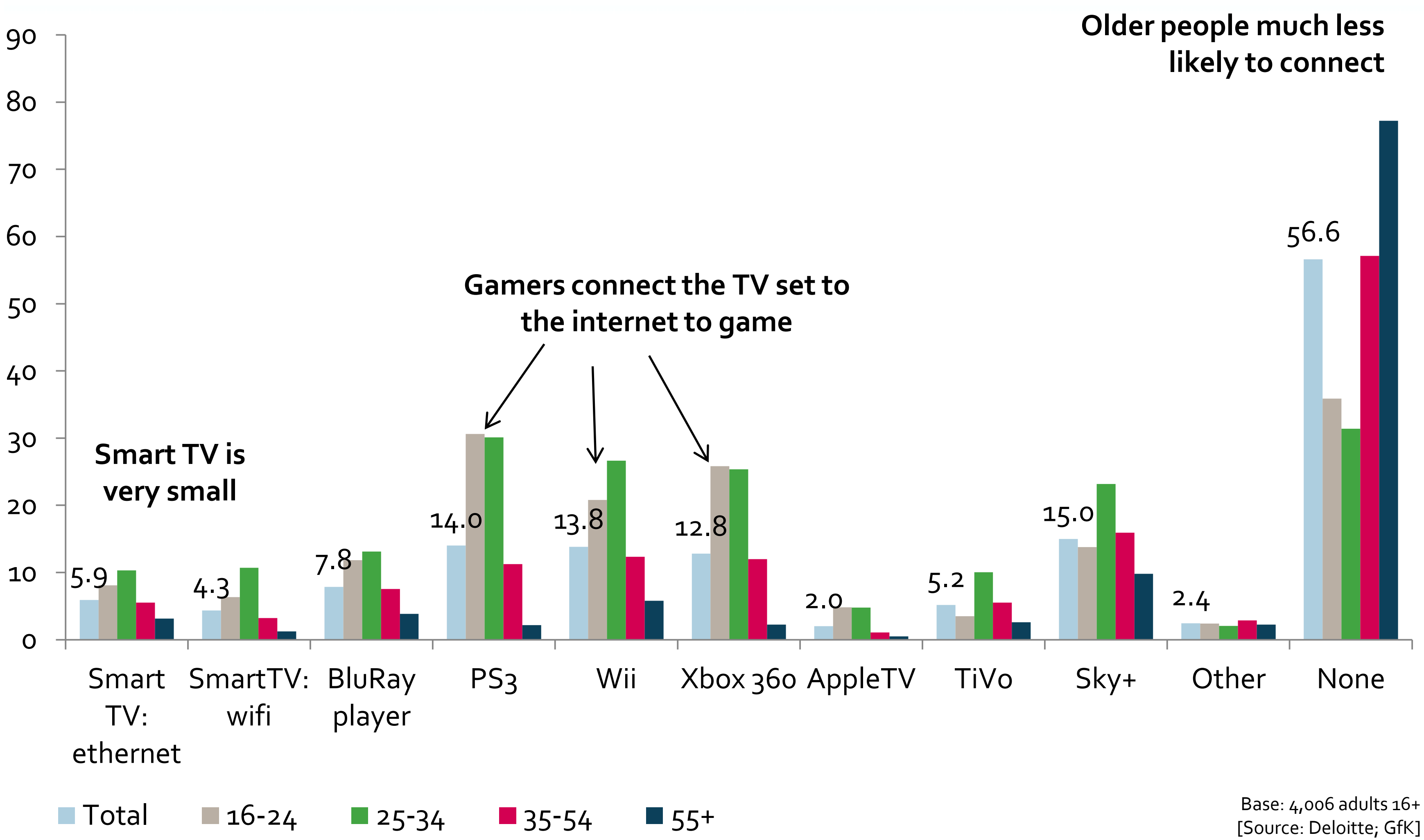
Concentration index for US recorded music mergers



[Source: Enders Analysis based on SoundScan data]

Internet content unlikely to displace TV content on the TV set

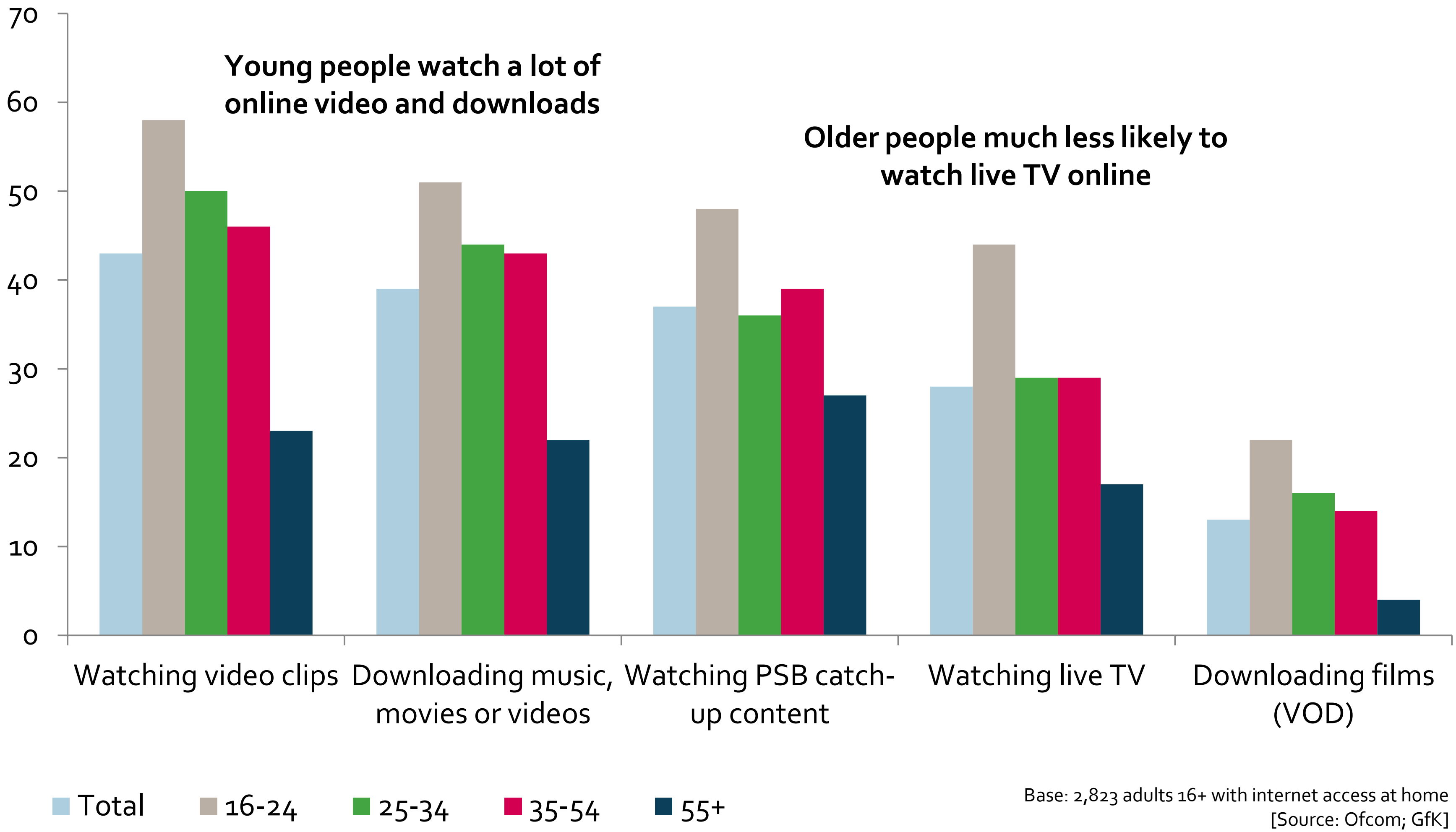
Devices used to connect the TV set to the internet (%)



Base: 4,006 adults 16+
[Source: Deloitte; GfK]

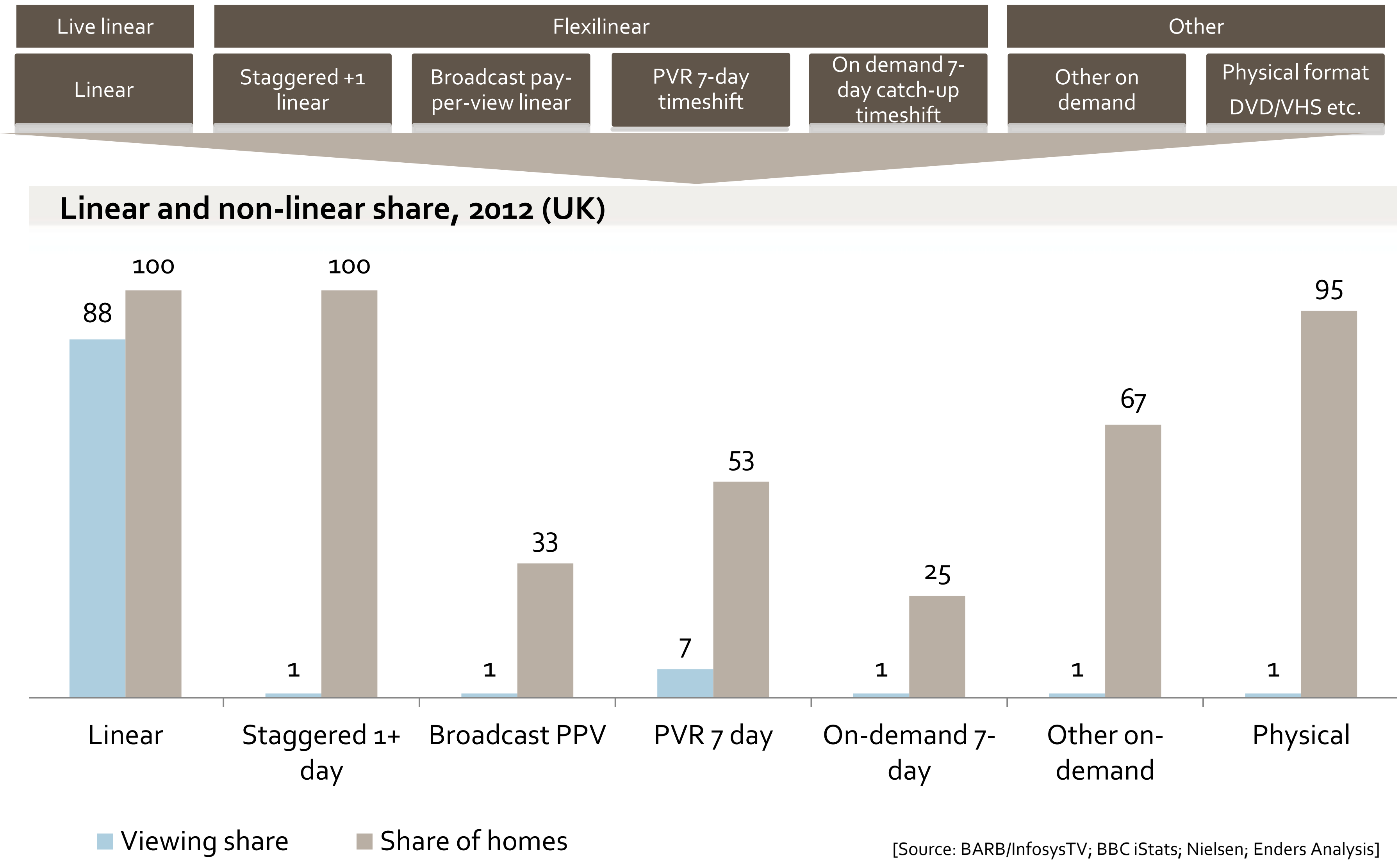
Online is a small channel for viewing TV content and skews young

At home, do you use the internet for… (%)



Base: 2,823 adults 16+ with internet access at home
[Source: Ofcom; GfK]

In a mature internet economy like the UK, TV patterns are likely to remain resilient



[Source: BARB/InfosysTV; BBC iStats; Nielsen; Enders Analysis]

Key conclusions

- Disruption due to digital is a common threat to music, games, books and video sold (in physical format) on the high street
- Music is the hardest hit at this point: games, books (except for textbooks), video cannot be cherry-picked for hits
- TV content continues to enjoy robust audiences and viewing time
- TV content is much harder to disintermediate from the TV set
- TV advertising has been adversely affected by shifting ad budgets to the internet, but not the impact is small and manageable for the industry
- Robust revenues for FTA and pay-TV broadcasters have preserved the health of the UK production sector
- Lean-forward consumption behaviours are dwarfed by live linear
- Digital does not represent a lower-cost distribution channel to PSBs or the BBC that get their spectrum for free: in the long-run, all TV distribution will be over IP Personalisation thanks to data mining is not much of a value for lean-back TV consumption
- However, disruption does lie ahead from cloud-based delivery channels