



BSAC INTERVIEW SERIES

INTERVIEW WITH ANDREW FISHER, SHAZAM

The BSAC Interview Series continued on 19 November 2013
when Andrew Fisher, Executive Chairman, Shazam
was interviewed by Ajay Chowdhury, Deputy Chairman, BSAC
The event was sponsored by RBS. This report is an abridged version of the discussion

Ajay Chowdhury introduced Andrew Fisher, currently Executive Chairman of Shazam. Andrew had been European Managing Director at Infospace, before this Andrew had been founder and MD of TDLI.com, part of Thompson Directories, which InfoSpace had acquired. He had known Andrew for 8 years, and had been responsible for his recruitment into the company whilst serving as Chairman of Shazam.

Ajay Chowdhury Andrew, how did you find the transition from a phone directory company, like Thompson's, to a music start-up like Shazam?

Andrew Fisher A number of challenges emerged shortly after I joined the company, these were not completely anticipated, and included some macro events in the wider world that we could not influence, but which forced us to button down – we even had to sell our patent portfolio to fund our business for a period of 4 years – and to really focus on music. I have to say that Ajay was a visionary in our board meetings, not just because he is sitting next to me, but he had a really strong vision about the potential of using our music identification technology for direct response marketing. He used to ask us when we were going to get around to doing this, but we were a very small company and very cash strapped, and had to focus on music for a long period of time. We first were able to move into this sphere in 2010, when we did our first direct response campaign at the Super Bowl with Dockers and gave 5,000 pairs of chinos to people that Shazammed dyad at the Super Bowl.

A lot of the things that I want to talk about tonight are currently taking place in North America. There has been considerably more interest in the potential for bringing audience interactivity into broadcast TV shows there than from broadcasters based in the UK. This is partly because in the USA only the cable companies have a red button functionality, and partly because the broadcasters have become increasingly aware that they are creating and distributing content in a digitised format, and that this, together with the increasing proliferation of new devices, offers a massive potential for the delivery of an increasingly interactive user experience. Shazam has brought its expertise in delivering increased user interactivity to the American broadcasters, and the broadcasters have helped to highlight to the American population that Shazam is not just a music service, but one that can also be used in the context of TV. Today, it is possible to Shazam 160 channels of live TV and 85% of all adverts that are broadcast in the US.

Before the 2012 Superbowl, a third of the advertisers had engaged Shazam to enable their adverts, and a million viewers interacted via Shazam. As the cost of an advert at the Superbowl was very high – a 60 second slot had cost \$1m in 2012, and would cost \$4m in 2014 – anything that increased audience engagement was very valuable to the advertisers. This continued into the 2012 Olympics, when a million people Shazammed the closing ceremony.

This shift into TV advertising marked a huge transformation for Shazam, away from its initial music focus. This move was made possible by the expansion of the mobile telephone market, especially the widespread adoption of smartphones and unlimited data tariffs, which meant that users could engage with content through Shazam without incurring additional costs. Another factor that had benefitted Shazam had been pricing parity: it had originally been the case that iTunes charged twice as much to buy a song over a mobile device as they did from over a computer, and the equalisation of these prices had removed a huge obstacle to the take-up of these services over these devices.

Today, according to Neilson Yahoo, 80% of viewers use a second device or have a second screen open whilst watching TV. This is not disastrous for the television industry: TV viewing has increased by 5 minutes per individual, year on year, in recent years. However, it means that a transformation is occurring in terms of increased competition for viewer attention, and anybody who works out how to realise this potential and reach hundreds of millions of viewers, instead of just one million, will revolutionise the advertising industry, which is currently valued at over \$300bn for TV advertising alone – recent forecasts for this year estimated \$70bn in the States; \$300bn worldwide; about £3.75bn in the UK. Shazam is seeking to create a new paradigm in this space.

A.C. This might be a good time to introduce some statistics about Shazam:

- about 375 million people around the world have used Shazam, an increase from 100 million in the last two years
- there are 75 million monthly active users
- Shazam drives around 10% of digital music sales worldwide, and over \$300m in revenues, due to people buying songs through Shazam after tagging them
- Shazam is the fourth most downloaded free app on the App store, and is available in 33 languages
- Shazam has provided over 10 billion tags
- the number of people that Shazammed content at the Super Bowl was equal to the number that had engaged with the event through all other social media platforms at the same time.

So, Shazam really has driven a paradigm shift in terms of how audiences can engage with content, and I am very proud that Shazam, a British company, has achieved this.

Let me ask, how do you monetise this, and what revenues do 375 million users provide?

A.F. The first point on the music side of the business is that we recognise that anybody who is reasonably IT proficient and prepared to search for it has the ability find content for free, legally or not. The reason why Shazam has been so successful in the music side is that it enables people to buy the product at the point of integration, and with music there is often an immediate emotional connection, where people hear a new track and decide, almost instantaneously,

whether they like it and want to purchase it. Shazam made it very easy for users to purchase music by clicking a button at the point of inspiration, and, in general, people are prepared to pay for this convenience. This has been incredibly successful and has significantly contributed to the arrest in the decline of the music industry this year. It has been important for all constituents in the value chain, because without the artists and labels to produce new content then there would not be a music industry at all.

On the TV side, Shazam has been through a number of business model iterations. When Shazam launched on the iPhone the plan had been for the app to be distributed freely, and for monetisation to be achieved through distributing display advertising over the platform. Very quickly it had become apparent that, as a market worth £1bn worldwide, with hundreds of thousands of publishers, the revenues generated from this would in no way cover Shazam's running costs. Shazam had then moved to a hybrid 'freemium' model, where free usage was capped at 5 tags per month, with additional searches carrying a charge.

However, Shazam had always had an end goal of increasing audience size and focussing on advertising. After 18 months they had been able to pivot out of freemium and back into providing a free and unlimited service. Whilst this had been successful, it was realised that the size of the mobile advertising market, which in the UK was worth £750m, was tiny compared to the UK's £3.75bn advertising spend. Shazam had approached TV advertisers and offered to provide Shazam functionality to their adverts; this was something that would have had a very limited impact upon Shazam's existing business, but that would have allowed the TV advertisers to access and engage with Shazam's 375 million established users, a base that is currently growing by approximately 3 million users a week. An additional benefit from this, from Shazam's perspective, is that advertisers regard this form of cooperation as enhancing the impact of TV advertising spend, so, instead of coming out of their additional, digital or marketing budgets, Shazam is remunerated from the traditional medium line budget. As the established budgets allocated for TV advertising are much higher than those for social media, Shazam has been able to increase its potential for monetising its work by accessing these.

A.C. Can you share any information on the engagement that you have, or show some examples?

A.F. One example is a 25 second TV advertisement for Red Bull, broadcast in the USA, which showed highlights of a 3 day long snowboarding competition. Shazam allowed viewers to access additional videos of this competition from those used that were incorporated into the broadcast version of the advertisement, including ones from the rider's point of view. 5.9% of viewers had Shazammed the advert, 84% of whom had watched the clips in their entirety. This content was put together by Red Bull's media agency, who won an award for this. It perfectly illustrated the effect that Shazam had hoped to cause: not just a rethinking of the viewing experience, but also a recognition of the different contexts of viewing over different platforms. TV and PC viewing, for example, were differently valued and differentiated to best suit the delivery media. This advert had also been completely synched to a live broadcast feed, meaning that even if the clip was Shazammed over DVR a few days later then it would still be possible for the additional content to be experienced.

Another example is illustrated by this advert, which is currently being broadcast in the UK, for the Jaguar F-Type. Shazamming this advert allowed viewers to access a 3D wire frame model of the car, which could be explored by turning the phone around, something made possible by

utilising the gyroscope on the phone. Effectively this has enabled the advertiser to extend their 15 second advert into three minutes of active engagement with an interested target audience.

Another example of where Shazam is improving the customer experience is through providing links from adverts to insurance comparison sites: by Shazamming an advert a customer would be directly and immediately connected to a comparison provider that would find them the best possible deal – either by linking them directly to a self-assessment form, which is optimised for tablets, or to a telephone call centre – without them having to write down the contact details or otherwise disrupt their viewing experience.

For these sorts of campaigns to be successful it is essential for brands to consider exactly what they want to achieve through adding Shazam to their advertising campaigns: it is not enough to simply link to a website or social media page without adding materials that will engage audiences.

A.C. What have you learned about what works and where? And when you talk to agencies or brands, what do you recommend that they do?

A.F. The most important thing to consider is why a consumer would want to use Shazam, and what they might be able to get out of it. Specifically, content delivered through a tablet needs to be differently designed from that which is delivered over a mobile phone, and in both cases the design of the content needs to be simple to use. The other issue is how a Shazam campaign relates to wider business objectives. For example, one piece of independent research that was delivered to Honda related to the level of audience engagement of a TV advertising campaign: when Shazam was used, the individuals that Shazammed the advert exhibited markedly better engagement rates across all of the company's intended objectives, including social media interest or the booking of test drives, than those from the control group.

In terms of raw data and analytics, the metric Shazam engagement rate is cross referenced with US TV audience figures that Neilson produces. Sony ran an advertising campaign for their new *God of War* video game: 250,000 people Shazammed their advert in the first week after release, which, as their main objective was to encourage viewers to buy the game in direct response to their campaign, was obviously a very attractive outcome for them. However, Shazam also enabled Sony to go beyond this and to identify exactly which channels, programmes and times of day were achieving the greatest levels of audience engagement, and to receive this data both in real time and – as 65% of Shazam users had opted in to allowing their location to be transmitted to Shazam – by geographical area. This data, which was considerably more detailed than that which could be provided by traditional monitoring services, allowed Sony to change their advertising buy to maximize response. This is something that is especially useful within the US, due to the three hour transmission delay between the East and West coasts.

Shazam has also transformed the perception that viewers have towards their relationship with broadcast content as, by incorporating real time feedback into broadcast content, viewers can experience a greater sense of participation and engagement in the televisual experience. This is particularly useful for voting in TV talent shows, where Shazam users are considerably more likely than non-users to vote.

These forms of analytics are tremendously helpful in enabling advertisers to optimise their advertising spend, including that spent on buying advertising slots from broadcast networks.

A.C. So the traditional advertising agencies do not see you as being in competition, but rather as being in a true partnership with them?

A.F. I would say that this is not always clear to them right now, and we need to do more to communicate exactly what we are doing, which is not always properly understood. I am frequently asked if we will impact negatively upon their businesses, and I explain that we will not.

Another question is how the relationship between the broadcasters and the production company will be affected, and my response is that without content there is no experience with which people can engage. Our desire is to create new business models and forms of monetisation; this may well change the ways in which people are compensated for the roles in which they are playing and this will, in some instances, lead to significant shifts in how monies are distributed. For example, at present, airtime is bought by a TV airtime line, and brands say that their commitment to them should begin and end there, and that having bought the airtime, the creative treatment of their advert, which is intended to achieve maximum optimisation, should not be the concern of the broadcaster that carries it. There would be differences for something like the Grammy's or the Academy awards, because in these instances the main stakeholder, who would have oversight for managing the sponsorship arrangements and distribution of revenues, would also be the broadcaster.

A.C. Where do you see this technology going in the future? I know that Shazam is now doing cinema advertising as well as TV advertising.

A.F. The time required for the Shazam app load and identify content has been reduced considerably. This was essential to enable Shazam to move into the advertising space, as otherwise the average advertisement running time would be less than that taken for a user to find their phone and load and run the app. Shazam has responded to this by developing a system where, once downloaded, Shazam can be set to run in the background of a phone or tablet, and to log any piece of music or TV show that the speaker detected; this allows users to go back through their viewing and find items that interested them at their leisure.

This system can be used for non audiovisual content. Shazam has recently trialled a system where users Shazam audio that is broadcast in stores over their PA systems. Stores can play announcements along the lines of, 'if you Shazam this tune then you can have a discount code for a pair of jeans,' and thereby get contact details for, and start personalised relationships with, their customers. Previously the only way by which a store could identify individual customers was at the point of purchase, when they swiped their customer's card through a register. These sorts of promotions have been shown to increase week on week in-store sales in by around 20%.

Shazam is also going further, with the aim of achieving a new paradigm in advertising. Today Shazam can identify exactly where their users are in particular stores, and if, for example, a shopper walks past the 2 for 1 offer, Shazam has the ability to send a personalised notification to their mobile phone saying, 'there is a 2 for 1 offer on this product line.' The challenges here are not technological; rather they are in brand perception. The challenge, both for Shazam and for the wider technological innovation sector, lies in creating a happy marriage with consumers, where they become receptive to the technology and recognise the potential benefits it offers, without feeling it to be intrusive or inappropriate. Shazam will not seek to implement these forms

of technologies for several years until it is confident that there is no risk of damaging its own reputation, and that consumers understand exactly what will be delivered if they opt in to receive direct personally targeted ads in this way.

Another way in which Shazam can benefit traditional retailers is by identifying the impact of television and radio advertising by connecting viewers through to the point of purchase. The total sums spent on advertising are currently in the trillions of dollars, and any company that develops a way to add value or otherwise increase the efficiency of this would be worth billions, and rapidly become indispensable. However, as a personalised item that is carried between the domestic and retail environments, it is certain that mobile phones will play a leading role in this solution. Due to its established user base, Shazam has the capability to compete in this space, but will clearly have to remain flexible and entrepreneurial if it is to continue to operate here, in direct competition with some of the largest and most established corporations in the world.

A.C. So what is the future of Shazam? You have talked about ideas, and also presented the perspectives of an investor and company adversary.

A.F. One important thing to remember is that Shazam currently turns a profit, and so, whilst it is seeking to create a global phenomenon – a process that is by no means complete – in the music space of the business, Shazam is also seeking to seize the wider opportunities that have emerged. Whether in terms of financing events, such as IPO's, these are all about reaching end goals, the two main of which are: firstly, to become part of most people's everyday lives, in the same way that social networks have already become; and secondly, to become a default medium of finding information, so that if a user wants to engage with a TV, radio or retail advertisement, then they will do so through the Shazam platform. Shazam's current success rests upon its offering an ease of engagement.

A.C. Shazam has been a great British based success, and this is something to which all credit should go to Andrew and his team. Now, I think this is a terrific moment to open this up to questions.

Jane Weedon – BBC As a programme maker, how could Shazam demonstrate to me that it can get more people to watch my programmes?

A.F. Great question. For the broadcasters, the main motivation is clearly to drive an audience to their shows, and clearly Shazam and others are seeking to evidence how they are improving audience ratings. At present, this is still very much a developing space, and proof points will be developed over time. However, to take a recent example, the Country Music Awards in America had an audience of 10 million viewers: before broadcast, Shazam had sent targeted adverts to 4 million users that had been identified as fans of country music; during broadcast, 500,000 viewers used Shazam to identify items within the show; and 70,000 products were purchased through the Shazam platform. It is difficult to identify exactly how much the ratings had been improved by Shazam's involvement – due to the nature of the show it was likely that at least some of the recipients of Shazam's campaign would have watched it anyway – but both Shazam and the broadcaster strongly felt that the show had benefitted from this promotional campaign. An understanding of how audiences interact with social media is still developing, and it is clear that viewer propensity to use a second screen is considerably higher for sporting events or reality TV than for costume dramas. However, whilst the exact evidencing of the impact to broadcasters

is still developing, it is also clear that new technology that directly engages with audiences is having an impact.

Nicholas Burgess-Jones – Film Director and Producer I would be very interested to hear your views and ideas about feature films: there are obviously big differences from the TV market, but I would imagine that you have thought about this and that you are making plans and inroads into this, so it would be interesting to hear what you're up to.

A.F. There are a lot of questions about feature films. We do not want to ruin the cinema experience for viewers, but we do currently have large deals in the States where we Shazamate all of the advertising before the films, and one of the bigger customer groups that we have are the Studios' themselves. They have found that Shazam allows them to condense a trailer, which might run for several minutes in a cinema, into a 30 second TV advertising slot; but also that Shazam can offer additional services, such as allowing people to book their tickets in advance. There are also companies that go through films, frame by frame, and index the actors, products, brands and locations – this has already been done for the top 4,000 films – and Shazam allows viewers to sync to broadcast or to identify and buy similar clothes to those that are worn in particular scenes by the lead actors. This adds tremendous value, and I believe that this experience works better in the context of films than for interactions with the actual production itself.

Based on our market research, these are additional services that people see as being really valuable, and are the areas that we would seek to develop the paying experience, and to offer additional support for the original production.

Jonathan Simon – Consultant You have not said very much about the underlying technology, and how you can filter out the background noise while still identifying the music or the adverts. I do have a couple of questions relating to this area: firstly, you say that people smile when they use Shazam, is that a mark of how widely recognised your service is, and are you constantly improving the technology or has this been perfected already for practical purposes? And secondly, a number of other media services are also developing ways of identifying viewer habits and using this to recommend other services, some of the underlying technologies for which sound similar to those used by Shazam. When you partner with other organisations, how vulnerable are you to them trying to encroach upon the space that you are seeking to occupy?

A.F. Great questions. I will not go into too much detail on the specifics of the technology as, from a user perspective, exactly what is happening under the bonnet is not particularly relevant, as long as it makes the service faster and more accurate. However, over the last two years we have been able to reduce our identification time from around 10 seconds to under a second. This has been particularly useful in allowing us to identify radio advertisements, which are difficult to get a match for in 10 seconds as they usually have a 15 second running time. To put these sorts of time improvements into context, when Google reduced the loading speed of a home page by 2 seconds it caused their revenues to increase by 20%. We are continuing to invest in technology and will continue to do significant things in the future.

The competitive landscape is another interesting question. One mechanism that we use to protect ourselves is that we have around 200 patents on our technology; another is that we are continually innovating and moving into new spaces – we currently release updated versions of our app every 4 weeks, adding 5 or 6 additional features each time, and we have a team of 200

people developing additional improvements. If Shazam was just about a music identification programme then eventually someone else might well develop a better system, however, we also have a very large catalogue to power our identification software, and we have moved well beyond this into the retail environment and advertising. Our brand is on TV every night of the week, and we have established relationships with clients across the value chain. These are all things that will help Shazam to stay ahead of the competition, but we need to continue to grow and to become much bigger if we are to move into new categories. However, I would say that our biggest threat comes from slowing down and losing our entrepreneurial spirit.

Will Page, Spotify I would like to share an interesting Shazam related story: Avicii, a recent artist with an unusual style, which I can best describe as dance music meets Tracy Chapman, saw a huge number of pre-release orders over iTunes – in fact, an unprecedented level of demand for a pre-release from a new artist – and he is now the 6th most streamed artist in Spotify’s history. We subsequently learned that 85% of the people that streamed Avicii had streamed him on day one of the release of his album, and to put this into perspective, for an established artist such as Justin Timberlake we would expect around 18-20% to do so. So, there was instant recognition of the song to consumption on legal platforms. The very encouraging twist for content orders is that the levels of piracy for Avicii are very low and have not increased – virtually nobody is stealing his album. This is a great example of how Shazam can benefit the music industry by acting as a signpost to legal content, and perfectly demonstrates something that Adam Singer, Chairman of BSAC, once told me: that the best way to combat piracy is to provide instant gratification through a legal venue.

A.C. Both Shazam and Spotify are some of the best predictors of how music will do. When Shazam was launched it was possible to predict, based on the pattern of songs tagged, what that charts would be that week, and Spotify is now also one of the best predictors of how music will do. This comes back to the whole data argument of really beginning to use what people are really doing as true business intelligence.

An Audience Member One of the things to note about the data side is that privacy is going to be huge: consumers are increasingly educated about this, and the social networks, spurred on by media coverage, have to react to any little blip that they have had. Ultimately, social networks seek to provide barriers to exit, including making it hard to move your profile away from them. However, as companies build profiles that span across multiple sites, if they can, then this will reinforce the position of the social networks, not least because due to the time and effort vested in a particular service provider is going to make you think twice about spending time on rebuilding profiles. When we look at how we allocate our spend we currently spend large sums on legal advice and on trying to be ahead of the curve on data, and we are very sensitive to the potential pitfalls around giving people 2 for 1 offer details as they walk around shops. One question that we constantly come across is how data can be used to help formulate strategic objectives, especially how to understand and influence audience behaviour.

A.C. One important thing to note is that there is a lot of very interesting research being produced about the stickiness of social networks, which seems to show that, especially amongst younger people, there is very little of a lock in effect, and that they will happily move and recreate new profiles and not be especially concerned about the data that they are losing, as long as their friends have also moved.

Stuart St.Paul, Director/Producer Thank you for an insightful lecture. I have two questions: As an independent film maker there are many things that we have to deliver in what are known as our deliverables list, one of which is a music cue sheet, which lists the music used throughout the film. Obviously this is now slightly anachronistic, as Shazam can identify music automatically, but do you believe that in the future I will also have to create a cue sheet for clothes, vehicles or everything else that is seen visually? Any forward thinking software, like Shazam for visuals, will need to have access to a database of this information in order for the viewer to interact with it. I could quite easily have my data wrangler compile such a database at the point of use as all of the details of precisely what was being used onscreen would be close at hand, especially if a standard template for the information required were available. Would there be plans to release details of the information that you would require, to help me to prepare this?

A.F. I believe that in the future you may receive additional streams of revenue as a result of this, however I do not believe that you will have to necessarily do it yourself: there are already companies that are developing technologies that can identify items and calculate when and for how long they are shown on screen for. Many of the broadcasters are also going to be fascinated about the potential of creating new business models by capitalising upon this data. At present, production companies have been able to access revenues through things like premium SMS voting, and there has been a review on whether the broadcasters will even continue to charge for votes on reality TV shows in the future. Obviously this will considerably reduce the revenues that they have been getting from this – currently these stand at around 50% but production companies have been looking with great interest at product placement and whether you can Shazam items of clothing. If you were to provide data that enables these sorts of sales in advance then the broadcaster could attempt to sell this to a sponsor – this would not be product placement per se, rather product association. There will inevitably be tensions between creativity and commerciality, but this dialogue is ongoing.

In answer to your question, I do believe that you will have to create these data sheets, but I doubt whether it will be any time soon: at present, while the digital teams at the broadcasters still understand the concept of metadata and indexing, the production side of these businesses are entirely focussed on producing content within deadlines and budget. These two groups will have to reconcile these differences internally before the wider potentials can become realised. To put this into a wider context, whilst this is directionally where the industry is going, a good comparison can be drawn with the development of the app market: broadcasters originally devoted considerable resources to building mobile apps for their programmes, without appreciating the difficulty in making these apps discoverable on an app store; over time, this approach has evolved, and is now broadly accepted that broadcasters should sensibly focus on their core areas of expertise, around commissioning compelling programming, and pass responsibility for mobile publishing on to a third party with specialist expertise in developing content for second screens. This has been shown to be a more beneficial relationship, in terms of adding value to traditional content and to creating compelling experiences for viewers, than for the broadcasters to seek to manage the entire process in house.

Adam Singer, Chairman, BSAC One area where I would really like to hear your comments on is the importance of patent strategy. I have been doing some basic calculations on the cost of getting 200 patents filed properly in the US, and it comes to quite a large number. My second statement is that there is a famous cliché: that in any of these new internet services the user is in fact the product, so whenever somebody uses Shazam, the real transfer of value is from the user,

providing data about their interests and lifestyle to Shazam. Given that you will know the demographics and viewing habits of your users don't you threaten BARB?

A.F. While Shazam did sell our patent portfolio we subsequently bought it back two years ago – and this is on public record – for £21 million, and quite frankly I got a bargain, especially if you look at the conflicts that have subsequently emerged between various technology companies over smartphone designs. There are differences between the ways in which patent law functions in Europe and in the USA: in the USA, if you are found to have infringed a patent then you have to pay triple damages, which can be incredibly damaging to small companies.

In terms of data, it is true that if someone Shazams TV adverts then it is reasonable to assume that they were also watching the programme around it. However, whilst this data would be of considerable interest to our clients, in terms of enabling them to target their potential customers, we do not provide it to them directly, because it is far more important to us to protect the relationship that we have with our users than it is for us to make a few million dollars by licensing the data set to somebody where we are not entirely sure how or where it may end up being used. We do recognise the opportunity, but we are extremely sensitive to the possible negative implication and cautious about how we will proceed.

A.C. Great, thank you very much for speaking with us this evening, and thank you everyone for coming.

A.F. Thank you so much for spending time in this very busy period of the year to come along and see me.

Fiona Clarke-Hackston, Chief Executive, BSAC, thanked Andrew Fisher and Ajay Chowdhury for their fascinating discussion, and John Dixon and the Royal Bank of Scotland for their sponsorship of this event.