

5 The record industry and the supply of recorded music

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Introduction

5.1. In this chapter we describe the characteristics of the market for recorded music and examine the many different activities involved in supplying it, from the creative work of artists to the manufacture, distribution and promotion of finished records. Retailing is dealt with in the following chapter and the pricing of records in Chapter 7.

Sales of records

The industry world-wide

5.2. The industry comprises the production and sale of pre-recorded compact and vinyl discs and pre-recorded analogue and digital tapes on which music is reproduced without visual image. It is an important international industry and there is a wealth of industry statistics available relating to these products, both world-wide and by country. Table 5.1 shows estimated world retail sales, by retail value and volume, in the years from 1984 to 1992.

TABLE 5.1 **Estimated world retail sales**

	1985	1986	1987	1988	1989	1990	1991	1992
<i>Value (US \$m*)</i>								
Total sales	12,250	14,000	17,000	20,300	21,600	24,050	26,203	28,705
% change	2%	14%	21%	19%	6%	11%	9%	10%
<i>Volume (m)</i>								
Singles	650	490	390	370	357	341	330	332
% change	-13%	-25%	-20%	-5%	-4%	-4%	-3%	-
<i>Albums</i>								
LPs	730	690	590	510	450	339	157	126
% change	-9%	-5%	-14%	-14%	-12%	-25%	-54%	-20%
Cassettes	950	970	1,150	1,390	1,540	1,446	1,599	1,552
% change	19%	2%	19%	21%	11%	-6%	11%	-3%
CDs	61	140	260	400	600	770	978	1,153
% change	205%	130%	86%	54%	50%	28%	27%	18%
Total albums	1,741	1,800	2,000	2,300	2,590	2,555	2,734	2,831
% change		7%	3%	11%	15%	13%	-1%	7%

Source: IFPI.

*Current prices. Exchange rates used are the averages of beginning and end-year values.

5.3. Table 5.1 shows that after modest growth in 1985 the value of world sales accelerated, increasing by 134 per cent between 1985 and 1992, an annual rate of increase of about 13 per cent.

5.4. The sales success of the different record formats has varied over the period. The volume of singles fell by 56 per cent between 1984 and 1992, most of the decline occurring in the period to 1987. Sales of (vinyl) LPs fell by as much as 84 per cent between 1984 and 1992, the decline occurring throughout the period but accelerating in 1990 and, especially, 1991. Sales of cassettes grew strongly to 1989, subsequently remaining fairly flat. CD sales, starting from a negligible level, increased greatly over the whole period, more than compensating for the decline in singles and LPs. Growth in 1992, however, though still strong at 18 per cent, was modest compared with preceding years.

5.5. Table 5.2 breaks down 1992 world retail sales of records by country.

TABLE 5.2 **World retail sales by country, 1992**

	<i>Singles</i> (units m)	<i>LPs</i> (units m)	<i>Cassettes</i> (units m)	<i>CDs</i> (units m)	<i>Retail value</i> (US \$m)*
USA	111.7	2.3	366.4	407.5	8,866.6
Japan	90.3	0.8	31.7	181.8	4,328.5
Germany	26.6	5.0	55.6	123.7	2,636.9
UK	52.9	6.7	56.4	70.5	1,998.2
France	16.8	0.3	35.5	78.5	1,935.4
Canada	2.2	-	29.5	32.9	861.7
Italy	1.1	3.1	21.2	23.6	653.8
Netherlands	4.2	0.6	1.8	33.2	647.4
Spain	1.3	9.6	21.3	20.1	586.7
Mexico	-	2.0	48.7	14.5	571.2
Australia	7.8	-	11.6	22.9	492.4
South Korea	-	25.2	45.6	6.9	471.0
Taiwan	-	-	32.7	10.4	326.3
Switzerland	1.0	0.6	3.8	13.7	321.9
Others	15.7	69.9	790.1	112.7	4,007.0
Total	331.6	126.1	1,551.9	1,152.9	28,705.0

Source: IFPI.

*Exchange rates used are the average of the beginning and end-year values.

5.6. By far the biggest market is the USA. Sales in Japan account for less than half the value of those of the USA, followed some way behind by Germany and then by the UK and France. The sales value of each of these five countries greatly exceeds that of any other country.

5.7. World LP sales are now only a small fraction of total record sales. LP sales are very small in most of the larger record markets (though still quite large in the UK and Germany), and in some markets (ie Canada, Australia and Taiwan) are negligible. However, LP sales are still relatively large (ie compared with total sales) in some smaller markets (notably South Korea).

The UK industry

5.8. The value of UK retail sales (including VAT) in 1992 was £1,199 million and the value of trade deliveries (excluding VAT) was £693 million. The value of retail sales in 1993 is not yet known but trade deliveries had risen to £786 million. The constant price (ie inflation-adjusted) indices in Table 5.3 were calculated by successively deflating the series for trade deliveries (excluding VAT) and retail prices (including VAT) by the retail price index (RPI) and then converting each resulting series into an index.

TABLE 5.3 UK trade deliveries and retail sales of recorded music, at actual and 1992 prices (£m) RPI

	RPI Constant Current prices £m	Trade deliveries*		Retail sales		
		Current price index (1984=100)	Excl VAT £m	Incl VAT £m	price index† (1984=100)	
1984	100.0	329	100.0	478	549	100.0
1985	106.1	375	107.5	578	665	114.1
1986	109.7	425	117.9	646	742	123.2
1987	114.2	528	140.5	795	914	145.8
1988	119.8	612	155.4	963	1,108	168.3
1989	129.2	681	160.2	1,055	1,214	171.0
1990	141.4	678	145.8	1,029	1,183	152.3
1991	149.7	710	144.1	1,050	1,218	148.1
1992	155.3	693	135.6	1,020	1,199	140.6
1993	157.7	786	151.5	N/A	N/A	

Source: MMC, based on BPI data.

*Excluding VAT.

†Including VAT.

Note: VAT was 15 per cent until 31 March 1991, 17.5 per cent thereafter.

5.9. Between 1984 and 1989 trade deliveries and retail sales rose quite strongly in real terms. In 1990 and the two succeeding years, while actual values were broadly maintained, inflation-adjusted totals fell quite sharply. In the period 1989 to 1992 trade deliveries fell by 15 per cent and retail sales by 18 per cent in real terms. 1993 has seen a marked recovery, in both nominal and real terms, though the real value of trade deliveries is still well short of the 1989 figure.

Illegal copying

5.10. The sales described in Tables 5.2 and 5.3 underestimate the consumer purchases of pre-recorded music because there are some sales of illegal (or 'pirate') product (see paragraphs 4.31 to 4.34 for a description of illegal copying). The IFPI has estimated that in 1992 trade deliveries were made world-wide of some 4.1 million pirate albums with a trade value of £8.5 million. This amounts to some 3 per cent of trade deliveries by volume (1.2 per cent by value) in 1992.

5.11. Home taping also has an impact on sales of pre-recorded music. The introduction of the fully recordable cassette in the 1970s provided a simple, reliable and portable method of home taping for the first time. The BPI estimates that between 90 and 95 per cent of blank tapes purchased by consumers are used to tape copyright

material. The British Market Research Bureau which has undertaken several surveys into private copying for the BPI has estimated that one in eight recordings from pre-recorded music are substituted for music sales. It also estimates that an increasing number of home tapings are made from radio broadcasts.

Formats

5.12. Till the end of the 1970s most recorded music was in the form of vinyl records-7" singles or 12" albums-though cassettes were rapidly increasing in popularity. CDs were introduced in 1983, and sales accelerated in the mid and late 1980s, virtually displacing vinyl albums and bringing the growth of cassette sales to an end. The new formats of DCC and MiniDisc were introduced in 1992, but have not yet made a significant impact on the market. Table 5.4 shows the UK retail sales value of singles and of albums by format since 1985.

TABLE 5.4 **Value of UK retail sales by format**
£ million incl VAT

Year	Singles* Vinyl	Albums Cassettes	Album CDs	Total total		
1980	72	267	100	-	367	439
1985	138	251	243	34	528	665
1986	128	240	278	97	615	742
1987	127	257	336	195	788	915
1988	137	287	396	288	971	1,108
1989	132	223	424	435	1,083	1,214
1990	121	142	421	499	1,062	1,183
1991	122	74	404	617	1,095	1,218
1992	128	40	346	685	1,071	1,199

Source: BPI.

*All formats.

Notes:

1. The overall total for 1992 includes £0.2 million for DCC and MiniDisc.
2. Amounts may not total exactly because of rounding.

Table 5.4 shows that the share of retail sales accounted for by singles has declined since 1985. In 1985 singles accounted for 21 per cent of retail sales and albums for 79 per cent-corresponding percentages for 1992 were 11 and 89.

5.13. Figure 5.1 shows the changing volume of trade deliveries for LP, cassette and CD formats over the period 1974 to 1992. It demonstrates the decline in sales of LPs over the period, the increase in sales of cassettes to a peak in 1989, and the increase in sales of CDs from 1983. In 1992 the CD became the most popular format.

Seasonality

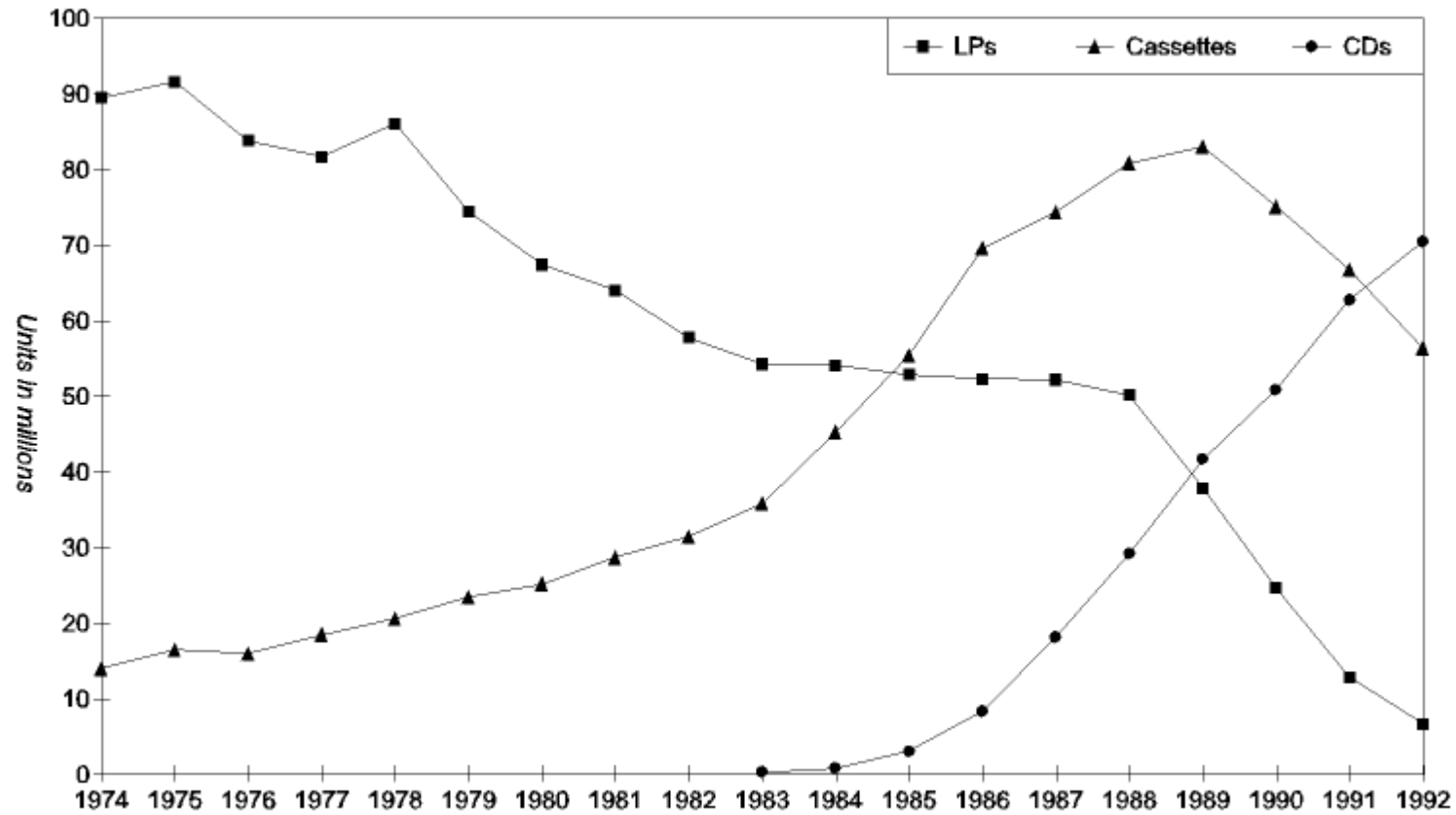
5.14. There is considerable seasonality in trade deliveries. BPI statistics show that, typically, about 40 per cent of albums and 30 per cent of singles are delivered by the trade in the fourth quarter of the year leading up to the Christmas season, with little difference between deliveries in the other quarters. Retail sales follow a similar seasonal pattern.

Artist nationality

5.15. The great majority of artists whose records are sold in the UK are of UK or US origin. Table 5.5 shows the breakdown of UK sales of singles and albums by artist nationality in recent years.

FIGURE 5.1

UK trade deliveries, 1974 to 1992



Source: MMC, based on BPI data.

Note: Trade deliveries are defined as sales of records, cassettes and CDs invoiced to dealers and distributors.

TABLE 5.5 UK sales of records by artist nationality (volume)

	<i>per cent</i>						
	1986	1987	1988	1989	1990	1991	1992
<i>Albums</i>							
UK	57.8	56.0	52.7	49.2	51.5	49.3	48.2
US	31.4	33.7	34.0	32.9	34.1	35.4	38.7
Others	10.8	10.3	13.3	17.9	14.4	15.3	13.1
<i>Singles</i>							
UK	55.0	54.7	54.7	49.9	52.1	59.2	54.4
US	35.0	37.3	31.4	36.0	31.8	27.3	34.6
Others	10.0	8.0	13.9	14.1	16.1	13.5	11.0

Source: BPI.

5.16. Though the percentages fluctuate from year to year, there appears to have been some tendency for the proportion of albums sold which were made by UK artists to decline and the proportion accounted for by US artists to increase. No such trend is apparent in respect of sales of singles.

Singles

Formats

5.17. Table 5.4 showed the decline of singles by value since 1985. Table 5.6 shows singles shipments by format since 1988.

TABLE 5.6 Trade deliveries of singles by format

	<i>million records</i>					
	1988	1989	1990	1991	1992	1993
<i>Vinyl</i>						
7"	40.3	37.5	28.9	21.9	12.9	7.9
12"	17.7	18.8	19.1	14.1	9.9	8.6
Cassettes	0.1	1.1	5.4	10.6	13.8	16.3
CDs	<u>2.1</u>	<u>3.7</u>	<u>5.5</u>	<u>9.7</u>	<u>16.4</u>	<u>23.4</u>
Total singles	60.1	61.1	58.9	56.3	52.9	56.3

Source: BPI.

Note: Columns may not total exactly because of rounding.

5.18. The total number of singles delivered in the UK fell by 13 per cent between 1989 and 1992, then increased by more than 6 per cent in 1993. Up to 1991 vinyl, in the form of 7" or 12" records, was the dominant format used for singles. While it is still important for singles, accounting for 29 per cent of such deliveries in 1993, this was a sharp decline from its 96 per cent share in 1988.

Categories of recorded music

5.19. Table 5.7 breaks down sales of singles by music category. The absence, with a few exceptions (for example, performances by Nigel Kennedy and Luciano Pavarotti), of classical music on singles and the predominance of pop, dance and rock music, are the main features. The table shows year-on-year fluctuations in the incidence of particular music types, reflecting the fashion element in this industry.

TABLE 5.7 **Singles: breakdown of sales by music category**

	<i>per cent</i>						
	1986	1987	1988	1989	1990	1991	1992
Pop	45	40	39	40	42	44	46
Dance	23	28	29	30	33	34	29
Rock	21	19	19	17	21	20	23
Folk	-	1	1	1	1	-	-
MOR*	5	4	4	3	1	-	-
Adult cont†	6	8	8	9	†	†	†
Others	-	-	-	-	2	2	2

Source: BPI based on Gallup data.

*Middle-of-the-road.

†Adult contemporary is no longer used as a classification and sales previously so classified have been reallocated to the most appropriate idiom.

Albums

Formats

5.20. Albums accounted for 89 per cent of retail sales value in 1992 (Table 5.4). Table 5.8 gives a breakdown of album sales by format in the years 1988 to 1993.

TABLE 5.8 **Albums: trade deliveries by format**
million records

	1988	1989	1990	1991	1992	1993
LPs	50.2	37.9	24.7	12.9	6.7	5.0
Cassettes	80.9	83.0	75.1	66.8	56.4	55.7
CDs	<u>29.2</u>	<u>41.7</u>	<u>50.9</u>	<u>62.8</u>	<u>70.5</u>	<u>92.9</u>
Total	160.3	162.7	150.6	142.5	133.6	153.5

Source: BPI.

Note: Columns may not total exactly because of rounding.

5.21. The number of albums sold fell by 18 per cent between 1988 and 1992, but rose by 15 per cent in 1993. As recently as 1988 vinyl accounted for almost one-third of album sales. However, since then vinyl has almost disappeared as a significant album format, accounting in 1993 for only 3 per cent of sales. The decline of vinyl albums reflects the gradual acceptance of the advantages of CDs-especially their improved sound quality and greater durability-and the increased ownership of CD players by households (up from 35 per cent in 1992 to 43 per cent in 1993, according to Gallup).

5.22. The use of vinyl for albums has been sustained to some extent by the continuing preference for this format in a number of niche markets (especially dance music) and the support of some specialist multiples and independent retailers. Cassettes continue to form a significant proportion of both singles and album sales. Their sales have been sustained by the easy portability of the format, especially for use in personal stereos and in-car cassette players.

5.23. Table 5.9 gives a breakdown of new album releases by format.

TABLE 5.9 **Albums: numbers of new releases by format**

	1989	1990	1991	1992
LPs	5,811	4,981	3,128	2,493
Cassettes	5,685	6,055	5,662	5,647
CDs	<u>6,260</u>	<u>8,291</u>	<u>8,975</u>	<u>10,766</u>
Total items (formats)	17,756	19,327	17,765	18,906
Total releases (titles)	8,752	11,021	10,141	11,988
Formats per title	2.0	1.8	1.8	1.6

Source: BPI based on Gallup data.

5.24. In spite of the decline in overall album sales, the number of new releases has grown substantially since 1989 to a weekly average in 1992 of over 200. The total number of items released did not increase correspondingly since the average number of formats on which a title was released declined from 2 to 1.6 over the period.

5.25. While the number of new album releases in vinyl has declined sharply since 1989, the decline has been less steep than that of LP sales because of the continued use of vinyl for dance music, where sales of individual titles tend to be relatively small. Numbers of new releases in cassette form have remained roughly constant while those of CDs have risen steadily.

Categories of recorded music

5.26. Table 5.10 gives a breakdown of album sales by music category, which contrasts with the breakdown of singles sales in Table 5.7. Classical appears as a significant category, with 9 per cent of 1992 sales. So is MOR, but the Dance category is much less important for albums than for singles.

TABLE 5.10 **Albums: sales by music category**

	<i>per cent</i>	
	1990	1992
Pop	45	35
Rock	15	24
Classical	12	9
MOR	10	9
Dance/soul/reggae	9	10
Country/folk	4	4
Jazz	1	1
Other	4	8

Source: BPI based on Gallup data.

Note: The imprecision of the boundary between pop and rock may account for some of the inter-year variation in these categories.

Price categories

5.27. Albums in each format are commonly categorized by the record industry as full-price, mid-price or budget. Each category covers a broad range of dealer prices (ie published trade prices), which may vary by format. Table 5.11 shows the breakdown of UK trade deliveries, using price ranges considered by the BPI to be appropriate for these product categories.

TABLE 5.11 **Albums: trade deliveries by price category**

	<i>Units</i>		<i>Value</i>		1990	1991	1992	1993
	1990	1991	1992	1993				
<i>LP</i>								
Budget	1.7	1.3	7.7	14.9	0.7	0.5	4.6	10.2
Mid-price	18.9	13.1	11.5	6.1	13.2	8.9	8.4	4.2
Full-price	<u>79.4</u>	<u>85.6</u>	<u>80.8</u>	<u>79.0</u>	<u>86.1</u>	<u>90.6</u>	<u>87.0</u>	<u>85.6</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Cassette</i>								
Budget	10.8	9.8	10.7	12.9	5.2	5.2	5.4	6.2
Mid-price	17.7	20.4	20.9	16.4	12.5	14.7	15.2	11.9
Full-price	<u>71.5</u>	<u>69.8</u>	<u>68.4</u>	<u>70.7</u>	<u>82.3</u>	<u>80.1</u>	<u>79.4</u>	<u>81.8</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>CD</i>								
Budget	7.2	8.4	9.9	17.0	3.7	4.6	4.9	9.0
Mid-price	20.0	19.1	18.8	13.6	15.7	15.6	15.3	10.3
Full-price	<u>72.8</u>	<u>72.5</u>	<u>71.3</u>	<u>69.4</u>	<u>80.6</u>	<u>79.8</u>	<u>79.8</u>	<u>80.7</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Total</i>								
Budget	8.1	8.5	10.1	15.5	3.9	4.5	5.1	8.2
Mid-price	18.7	19.2	19.3	14.4	14.1	14.7	15.0	10.6
Full-price	<u>73.2</u>	<u>72.3</u>	<u>70.6</u>	<u>70.1</u>	<u>82.0</u>	<u>80.8</u>	<u>79.9</u>	<u>81.2</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BPI.

Notes:

1. Definitions for 1993 (dealer prices, exclusive of VAT):

	<i>LPs and cassettes</i>	<i>CDs</i>
Budget	£2.69 or less	£4.24 or less
Mid-price	£2.70 to £3.69	£4.25 to £5.99
Full-price	£3.70 or over	£6.00 or over

Price categories are adjusted from time to time to reflect current understanding of price banding.

2. Percentages may not add to 100 because of rounding.

5.28. Table 5.11 shows that by far the largest proportion of trade deliveries across all three formats is in the full-price category. The highest proportion of full-price deliveries is among LPs (especially in value terms). Taking all three formats together, full-price records have accounted for a slightly declining proportion of deliveries in volume terms, and budget for an increasing proportion. These trends are reflected in deliveries of CDs, now the dominant format.

Classical albums

5.29. Table 5.12 shows how the volume and value of classical albums as a proportion of total albums has changed in recent years.

TABLE 5.12 **Classical deliveries as a percentage of all albums**

	1985	1987	1989	1990	1991	1992
Units	7.8	8.2	8.6	11.1	10.9	9.2
Value	9.0	9.6	7.8	11.2	10.1	8.3

Source: BPI.

5.30. Table 5.12 indicates that before 1989 the share of trade deliveries of albums accounted for by classical records, about 8 or 9 per cent, was higher in value terms than in volume terms—ie classical albums were more expensive, on average, than other albums. In subsequent years this has changed, largely as a result of an increase in the proportion of classical albums accounted for by budget and mid-price records (see Table 5.14 and

paragraph 5.32), so that in the most recent years the trade price of classical albums has been cheaper on average than albums in general. The overall share of classical album sales was relatively high, both in volume and value terms, in 1990 and 1991 as a result of a number of particularly successful records (for example, by Nigel Kennedy and the Three Tenors).

5.31. Table 5.13 shows how the breakdown of classical albums by format has changed in recent years.

TABLE 5.13 **Classical albums: breakdown by format**
per cent

	<i>LPs (vinyl)</i>		<i>Cassettes</i>		<i>CDsTotal</i>		<i>Units/value</i>
	<i>Units</i>	<i>Value</i>	<i>Units</i>	<i>Value</i>	<i>Units</i>	<i>Value</i>	
1985	36.0	32.0	47.0	36.0	17.0	32.0	100
1986	28.0	21.0	43.0	27.0	29.0	52.0	100
1987	18.0	12.0	43.0	27.0	39.0	61.0	100
1988	14.6	10.8	41.6	27.0	43.7	62.2	100
1989	8.0	6.6	45.6	31.1	46.4	62.3	100
1990	6.4	5.5	43.2	33.5	50.3	61.0	100
1991	2.6	2.0	36.7	28.0	60.7	70.0	100
1992	0.8	0.6	29.5	19.6	69.7	79.8	100
1993	0.4	0.2	22.6	16.3	77.0	83.5	100

Source: BPI.

Note: Percentages may not add to 100 because of rounding.

5.32. Comparison of Tables 5.13 and 5.8 shows that CDs now make up a much larger proportion of classical album sales than of albums as a whole and that this process of substitution or replacement started much earlier in the case of classical music than in other genres. The decline of vinyl sales as a proportion of total sales has also been much steeper for classical albums than for albums in general.

5.33. Table 5.14 gives a further breakdown of classical sales, by format, into standard product price categories.

TABLE 5.14 **Classical albums: trade deliveries by price category**
per cent

	<i>Units</i>		<i>Value</i>		<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>
	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>				
<i>LP</i>								
Budget	8.4	4.0	2.3	5.8	4.4	1.8	0.3	4.2
Mid-price	6.0	13.6	13.2	46.0	3.5	9.9	8.7	36.9
Full price	<u>85.6</u>	<u>82.4</u>	<u>84.5</u>	<u>48.3</u>	<u>92.1</u>	<u>88.2</u>	<u>91.0</u>	<u>58.8</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Cassette</i>								
Budget	26.7	27.0	33.8	30.1	15.6	16.1	20.5	17.3
Mid-price	21.5	28.8	29.4	28.5	15.8	23.0	28.1	24.8
Full price	<u>51.8</u>	<u>44.2</u>	<u>36.8</u>	<u>41.4</u>	<u>68.6</u>	<u>60.9</u>	<u>51.4</u>	<u>57.9</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>CD</i>								
Budget	16.4	24.0	27.0	29.6	9.5	14.2	15.2	15.6
Mid-price	24.4	29.0	26.2	24.6	20.7	26.2	26.2	24.2
Full price	<u>59.2</u>	<u>47.0</u>	<u>46.9</u>	<u>45.8</u>	<u>69.8</u>	<u>59.6</u>	<u>58.6</u>	<u>60.2</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Total</i>								
Budget	20.3	24.6	28.8	29.6	11.2	14.5	16.2	15.9
Mid-price	21.9	28.5	27.0	25.6	18.1	25.0	26.5	24.3
Full price	<u>57.8</u>	<u>46.9</u>	<u>44.2</u>	<u>44.8</u>	<u>70.7</u>	<u>60.5</u>	<u>57.3</u>	<u>59.8</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BPI.

Notes:

1. Price category definitions are as for Table 5.11.
2. Percentages may not add to 100 because of rounding.

5.34. A comparison with Table 5.11 shows that the proportion of deliveries in the full-price category for classical albums (across all formats) is consistently smaller than for albums in general. The proportion of classical albums in cassette and CD format supplied at full price has declined sharply in recent years, while that of both budget and mid-price categories has increased.

Compilation albums

5.35. Table 5.15 shows the proportion of album sales taken by compilation albums (ie albums comprising tracks from previously issued recordings by various artists—the term does not apply to collections of past recordings by a single artist or group). Compilations have their own album chart and do not appear in the main chart even if they would qualify by volume of sales.

TABLE 5.15 **Compilation albums as a proportion of total album sales (volume)**

	<i>per cent</i>				
	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>
<i>January to July</i>					
Multi-artist compilations	12.6	13.8	15.9	15.4	16.0
Original soundtracks	<u>2.5</u>	<u>2.4</u>	<u>1.7</u>	<u>2.8</u>	<u>1.5</u>
Total	15.1	16.2	17.6	18.2	17.5

Source: BPI based on Gallup data.

Consumer expenditure on records

Relation to overall spending

5.36. Figure 5.2 shows the relationship of UK retail spending on records to overall economic conditions. A simple time trend of gross domestic product (GDP)(at constant prices) was calculated for the period 1975 to 1992, and actual GDP in individual years plotted on the graph as percentage variations from that trend. On the same graph was entered annual data of consumer expenditure on records expressed as a percentage of consumer expenditure as a whole. It is not surprising to find spending on records, like other consumer spending, fluctuating in line with the economy as a whole. However, Figure 5.2 shows that spending on records has also fluctuated as a percentage of consumer expenditure, and that these fluctuations are closely correlated with cyclical movements in GDP. This strongly suggests that retail spending on records is even more sensitive than general consumer expenditure to the state of the economy. It is therefore highly cyclical and likely to have been more affected by the recent recession than other kinds of consumer spending.

Per capita consumer expenditure

5.37. Table 5.16 puts UK consumer expenditure on records into an international context. It shows that per capita expenditure on records in 1992, expressed in dollars, varies widely in a sample of major industrial countries, from \$54 in Norway to \$11 in Italy. UK per capita expenditure was of the same order as that in a number of other countries, namely the USA, Japan, France and Germany. Such comparisons will, of course, be affected by variations in exchange rates and individual countries' different positions on the economic cycle.

FIGURE 5.2

**Expenditure on recorded music as a proportion of consumer expenditure
and GDP deviations from trend—UK**



Source: BPI, and MMC calculations based on Annual Abstract of Statistics, Table 14.8, years 1994, 1990 and 1985.

Note: The deviations of GDP are from the linear equation regressing GDP at constant 1990 prices against time for the period 1975 to 1992.

TABLE 5.16 Retail sales per capita, 1992

	<i>Population m</i>	<i>Retail sales US\$m</i>	<i>Per capita expenditure US\$</i>
UK	57.5	1,998.2	34.75
Norway	4.3	232.5	54.07
Switzerland	6.7	321.9	48.04
Netherlands	15.0	647.4	43.16
Denmark	5.1	192.0	37.65
Austria	7.7	288.6	37.48
USA	252.0	8,866.6	35.18
Japan	124.0	4,328.5	34.91
France	56.7	1,935.4	34.13
Germany	79.6	2,636.9	33.13
Canada	26.8	861.7	32.15
Belgium	10.0	320.5	32.05
Australia	17.3	492.4	28.46
Finland	5.0	135.7	27.14
Sweden	8.6	201.8	23.47
New Zealand	3.4	54.6	16.06
Spain	39.0	586.7	15.04
Italy	57.7	653.8	11.33

Source: BPI based on IFPI data.

Influences on consumption

Taste

5.38. Consumer demand for records is affected by taste, and this can vary among consumer groups and over time. We were told that selling records can be characterized as a fashion industry in which styles come and go. When the repertoire being generated by artists is in line with the tastes of a wide range of consumers, sales are buoyant. Fashions with narrower appeal such as 'punk rock', which to an extent in its day represented a reaction against the prevailing taste, and some current forms of dance music tend to be short-lived and have limited appeal and so will be unlikely to lead to a sustained increase in sales. When consumers have become bored with a genre of music, total sales will tend to fall off until the arrival of the next genre reignites consumer interest. There are, however, some categories of music (for example, classical and main stream rock) for which demand remains relatively constant.

5.39. Social factors are also important. Where youth culture is oriented towards participation in music-making or attending music-related events (as it was to a considerable extent in the 1960s and early 1970s), it is more likely to generate both a stream of popular products and a buoyant demand for them than if there are strong alternative attractions—for instance, playing computer and video games. Peer group pressure will influence the directions in which disposable income is spent as well as on the type of record that is purchased.

Quality

5.40. The notion of 'quality' encompasses not only perceptions (closely related to 'taste') concerning the artists and the music that is being recorded and released but also more objective factors concerning the physical products themselves. The latter will include things like improvements in quality of sound reproduction, product durability and portability. The quality of repertoire is also believed in the industry to be an important determinant of sales, especially to the more discriminating older consumer, though hard evidence is not available.

Income and age

5.41. For most people the purchase of records is a discretionary expenditure out of disposable income. Aggregate demand for records is very sensitive to the economic cycle, there being a relatively high income elasticity of demand. We were told that one of the explanations for the youth bias of consumers, apart from questions of life-style and susceptibility to fashion movements, is the relatively high levels of disposable income in younger age groups.

5.42. With younger consumers facing an increasing choice of alternative leisure activities, the attention of the music industry may focus more in future on the older sections of the population. Demographic forecasts suggest that the middle-aged population is likely to grow significantly by the end of the decade, both in absolute terms and as a proportion of the total.¹ We were told that a real challenge facing the music industry was to continue to provide music attractive to those who constituted the 'rock and roll' generation of the 1950s and 1960s. If they can be persuaded to continue buying recorded music as they grow older, then the music industry may be able to offset, at least partly, the threat posed by the declining number of young consumers.

5.43. Table 5.17 breaks down purchases albums by the age and sex of the purchaser.

TABLE 5.17 Demographics of album purchasers by format

	<i>per cent</i>			
	<i>Population aged 16 or over</i>	<i>Album purchasers</i>		
		<i>LP</i>	<i>Cassette</i>	<i>CD</i>
<i>Sex</i>				
Male	48	58	45	52
Female	52	42	55	48
<i>Age</i>				
16-24	16	39	28	30
25-34	20	25	20	29
35-44	17	17	25	21
45+	47	19	27	20
<i>Social group</i>				
AB	18	19	21	26
C1	24	26	26	30
C2	27	30	26	26
DE	31	24	27	18

Source: BPI based on Gallup data. Population data from OPCS.

Base: All who bought albums in the last six months.

5.44. The table shows the importance of the 16 to 24 age group to the industry. Accounting for only 16 per cent of the adult population, they account for a far higher proportion of album purchases (and even higher proportions of singles purchases). The 25 to 34 age group also accounts for a disproportionate share of purchases (though to a lesser extent). The 45+ age group, on which the industry may have to rely increasingly for sales, accounts for a disproportionately small share of record purchases.

Substitutes

5.45. Spending on records, or on equipment such as CD players that can generate a demand for records, has to compete with spending on other leisure activities, such as sporting events and video or computer games. It also has to compete more generally with ordinary household or home-making expenditure.

¹ According to the 1993 Annual Abstract of Statistics, the UK population is likely to grow, between 1991 and 2001, from 57.6 million to 59.2 million. Over the period the proportion of 15- to 34-year-olds will fall from 22.5 to 18.6 per cent, that of 45- to 59-year-olds will rise from 16.5 to 18.8 per cent, and that of 35- to 59-year-olds from 30.3 to 33.9 per cent.

Formats

5.46. The introduction of a new format which is perceived by consumers as having an advantage over earlier formats in terms of quality (eg the CD) or convenience (eg the cassette for personal stereos) inevitably creates extra demand for records. The new format gives those consumers with sufficient disposable income an incentive to upgrade their existing collections of favourite records. Unlike the purchase of new products, such upgrading is relatively riskless for the purchaser and, from the supplier's side, re-releases on the new format are cheaper to supply, given that they generally do not involve any new A&R costs and require a lower level of promotional expenditure.

Radio airplay

5.47. The broadcasting of records—for instance, the 'Top 40' singles or the airing of new product by popular disc jockeys—has long been an important promotional tool for new record artists and products. We were told, however, that the growing quantity of music broadcast on radio has moved towards becoming a substitute for record sales, with a consequent negative impact on such sales. Consumers who want to hear a particular kind of music are increasingly likely to be able to find a radio station that concentrates on it. This can reduce the incentive to buy records, while the growing facility for high-quality home taping may reduce the necessity for such purchases. We were told that these effects had been reinforced by the removal in 1988 of the restriction on independent radio stations which limited them to nine hours of 'needletime' per day. We have been told that this trend is likely to accelerate when high-quality digital broadcasts are introduced.

Hardware availability

5.48. The development of CD sales is closely associated with the number of CD players in the home or car. Once a CD player has been purchased, there may be a strong incentive to purchase CDs in order to benefit from purchase of the player; and many purchasers have collections of favourite records on vinyl or cassette which they wish to upgrade to the superior sound quality of the CD format. The price of CD players has fallen greatly since their introduction in 1983 as increasing sales have led to mass production and falling costs per unit. This fall in price has been a factor leading to increased sales of CD players which in turn has led to increased sales of CDs.

5.49. Gallup estimates that 43 per cent of UK households possessed a CD player in 1993. Table 5.18 gives the results of the 1994 survey into how CD penetration of households varied with the age, social group and regional location of the respondent.

TABLE 5.18 CD player ownership, 1994

Total: 43% of all households

	%
<i>Age</i>	
16-24	62
25-34	53
35-44	51
45-64	38
65+	15
<i>Social group</i>	
AB	51
C1	51
C2	41
DE	33
<i>Region</i>	
South	47
Midlands/Wales	42
North/Scotland	41

Source: BPI based on Gallup data.

Note: Some households will have more than one CD player.

5.50. Household penetration is highest with the youngest age group, though it remains fairly high even for the 45 to 64 age group. Annual increases in household penetration have been substantial in recent years and there is no indication that household penetration has yet reached a plateau.

Price

5.51. Formal studies of the effect of prices on consumer demand are not generally conducted in the record industry. However, one record company told us of a number of studies which suggested that demand for records was relatively price-inelastic. That is, at a given aggregate level of demand the effect of a general reduction (increase) in prices of records would be a less than proportionate growth (decrease) of sales. Nevertheless, price is believed to affect demand for records in a number of other ways.

5.52. Different line items,¹ whether recordings of the same title on different formats or of different titles, are in competition with one another. Such competition is most common in the field of classical music, with different recordings in the same format of the same work but in a range of prices. It helps to explain the success of record companies such as Naxos, specializing in a wide range of mid-price and budget classical music.

5.53. The phenomenon, however, is not confined to the field of classical music. While for some purchasers there may be no substitute for a particular album by a particular group, a significant proportion of all purchasers is prepared to choose between different records, and price will be one consideration. Record companies will be reluctant to raise prices to a level that will result in a reduction in sales to this group and hence in the volume of their sales. This will be less of a consideration with essentially fan-based albums—the fans will not be discouraged by the full price, and others will not buy the product at any price. However, purchasers of less fashion-driven, steadier-selling line items may well be discouraged by prices that are out of line with competing offerings. The latter are therefore the items most likely to be marketed at a certain stage in their lives as mid-priced or budget items, precisely because it is believed that the lower price will generate a worthwhile volume of sales and that at a higher price fewer or even no sales would be achieved.

5.54. Higher trade discounts (resulting in a lower price to the retailer) will help to persuade the retailer to promote products, whether at a higher retail margin or at the same or lower retail margin combined with a more competitive price to the consumer. This often leads to increased sales of the promoted item.

5.55. At the budget end of the market, price becomes a very important factor. This feature is important among consumers who are indifferent as to the relative quality of different recordings. This is particularly the case for buyers of classical music wanting to possess an acceptable range of classical repertoire without seeking to discriminate between different versions of the same piece. Such customers are catered for by a number of mid-price and budget labels.

5.56. The importance of price for different strata of the market is reflected in the conventional price structure of full-price, mid-price and budget. At successive points in a reasonably successful product's life cycle, that product will appeal to a different section of the market at each successively lower price point. We were told that the perceived value of records is of critical importance. Value is primarily related to music content but also to technical matters such as quality of reproduction, convenience and portability. Where the perceived value of the content of an album is recognized as relatively low, perhaps because it contains material which is not new, then the album may only be acceptable if offered for sale at less than full-price. Such concepts of perceived value are reflected in the industry's framework of retail prices in which records of a certain type (eg new pop CDs) tend to be sold at similar prices even if, for instance, they incorporate very different A&R costs.

5.57. As we shall see when discussing retailing, competitive pricing is a very important aspect of overall inter-retailer competition and there are considerable variations in retail prices. Many retail chains are reluctant to charge prices for fast-selling products that are higher than those of competitors (eg Woolworths' Street Value

¹A line item is a specific recording on a particular format. For example, the same recording on LP, cassette and CD counts as three separate line items.

scheme-paragraph 6.25(a)). Price variations at the retail level are believed to have a direct and important effect on retailer market shares.

Choice of music

5.58. The variety of products, and their relative weight in industry sales, will reflect the heterogeneity of tastes and culture, as well as the demographic composition of the population. The current music scene is extremely diverse and while there are a number of broad categories there are also numerous splinter genres, each with its own fans.¹ Table 5.19 analyses the relative buying preferences of album buyers classified by sex and age group for a number of broad categories of music.

TABLE 5.19 **Choice of music by sex and age of album purchasers**

	<i>per cent</i> Dance, Country, Classical	<i>soul, folk</i>	<i>reggae</i>	<i>Jazz</i>	<i>MOR</i>	<i>Pop</i>	<i>Rock</i>	<i>Other</i>	<i>Total</i>
Total	9	4	10	1	10	35	24	7	100
Sex									
Male	8	4	10	1	8	31	30	8	100
Female	9	3	10	*	11	40	19	8	100
Age									
16-24	2	*	17	*	2	38	35	6	100
25-34	4	1	10	1	3	45	28	8	100
35-44	7	3	8	1	5	39	28	9	100
45+	21	9	4	*	26	22	9	9	100

Source: BPI based on Gallup data.

Base: All album buyers, recall of last album bought.

*Less than 0.5 per cent.

5.59. Overall, pop is by far the most popular music category, followed by rock. While pop and rock are liked best by both male and female buyers, female buyers much prefer pop music to rock while male buyers like both categories about the same. Classical music is only the fifth most popular music category, and is liked to the same degree by male and female buyers.

5.60. Musical preferences vary with age. Older age groups have a distinct preference for classical and MOR music, though they also like pop music. Dance music (not to be confused with music for ballroom dancing) has a strong appeal only for the youngest age group. Pop music retains its appeal for all generations, while rock appeals to all but the oldest age group.

5.61. Music preferences may also be expected to vary by socio-economic group because differences in taste will reflect cultural and educational differences which are reflected to some extent in these groups. Table 5.20 shows the relative preferences of album buyers from different socio-economic groups.

¹ A recent analysis of the dance music scene alone identified 38 specific sub-genres.

TABLE 5.20 **Choice of music by social group of album purchaser**

	<i>per cent</i> Dance, Country, Classical	soul, folk	reggae	Jazz	MOR	Pop	Rock	Other	Total
Total	9	4	10	1	10	35	24	7	100
<i>Social group</i>									
AB	17	1	10	1	8	28	24	11	100
C1	8	3	9	1	10	35	25	9	100
C2	5	5	13	*	11	35	25	6	100
DE	5	5	8	*	9	41	25	7	100

Source: BPI based on Gallup data.

Base: All album buyers, recall of last album bought.

*Less than 0.5 per cent.

5.62. The principal differences between these groups revealed in Table 5.20 are the high relative preference for pop music in the DE social group compared with other groups, and the relatively high preference for classical music in the AB group.

The record companies

5.63. Traditionally record companies in the UK have been categorized into two groups: 'majors' and 'independents'.

The majors

5.64. The majors are the large international record companies, PolyGram, EMI, Sony, Warner and BMG. Each has a network of owned or affiliated companies world-wide with their own local distribution operations through which it can market local repertoire with international potential and from which it sources the bulk of its overseas licences and artists.

5.65. The majors are the local affiliates of international record companies. They are vertically integrated to varying degrees and undertake the following main activities:

- (a) discovering and developing new recording artists and repertoire; developing existing artists and repertoire;
- (b) recording the music—this involves hiring studios, sound engineers, technicians, producers and equipment;
- (c) organizing the manufacture of each record release in the main formats (vinyl, cassette and CD);
- (d) distributing the records to retailers or wholesalers;
- (e) marketing and promoting each record release;
- (f) selling, licensing and promoting the release of UK recordings in overseas markets;
- (g) promoting the licensing of recordings for secondary exploitation (for example, in compilation albums and through record clubs); and
- (h) organizing appropriate royalty payments to artists, producers, publishers and licensors arising out of record sales.

5.66. PolyGram is the UK holding company of the PolyGram International Group which operates in 32 countries world-wide through a network of operating subsidiaries and licensees. The group operates in the field

of classical and popular recorded music as well as ancillary music activities such as music publishing and distribution of records. The ultimate holding company is PolyGram NV Holding Company, in which Philips Electronics NV holds 75 per cent of the shares. Recording activities are undertaken through a series of major international record labels such as Polydor, Phonogram, Island, A&M, Motown, Decca, Deutsche Grammophon, London and Philips. Major artists include Dire Straits, Elton John and U2 on the pop side, and Pavarotti, Kiri Te Kanawa, Bartoli, Solti, von Karajan and Carreras on the classical side.

5.67. EMI and Virgin (EMI) are UK subsidiaries of THORN EMI plc, an international company registered in England. Its main contemporary record labels are EMI, Parlophone, Chrysalis Records and Virgin Records. Classical records are sold under the EMI Classics and Music For Pleasure labels. EMI is also involved in the operation of recording studios (of which the best known is Abbey Road), music publishing (EMI Music Publishing), and the manufacture and distribution of records in the UK. EMI's best-selling artists include Cliff Richard, Paul McCartney and Queen, while Virgin Records' best-selling artists include Janet Jackson and Meatloaf. THORN EMI also owns the record retailer HMV.

5.68. Sony is ultimately owned by the Sony Corporation which purchased the CBS Records world-wide business in 1988. Sony's three principal contemporary music labels are Columbia, Epic, and S2. Classical recordings are sold under the Sony Classical label. Sony is engaged in the operation of a recording studio (The Whitfield Street Studio, formerly known as The Hit Factory), music publishing (Sony Music Publishing), the manufacture of video and audio cassettes, and the distribution of records and videos. Recording artists include Michael Jackson, Bob Dylan, Bruce Springsteen, Billy Joel, Barbra Streisand, Sade, and George Michael.

5.69. Warner is the principal company of the Time Warner Group involved in the production and marketing of records in the UK. The UK presence of the Warner Group dates from 1969. Warner releases its own-product pop music records on two principal record labels, WEA (for more established and mainstream artists) and EastWest (which has a more 'street' or 'indie' image). Its main artists include Simply Red, Enya and Chris Rea. Warner has only recently entered the market for classical records and currently markets only the recordings of its overseas affiliates.

5.70. BMG is the UK subsidiary of the Bertelsmann Music Group, which is based in New York, and whose ultimate holding company is Bertelsmann AG which is based in Germany. The principal record labels of BMG are RCA (Bertelsmann bought the music division of RCA from General Electric in 1986), Arista, and Ariola. BMG International, which is also based in New York, has responsibility for all Bertelsmann's music business outside the USA. It is also responsible for BMG Classics, the repertoire of which is licensed from the USA to affiliates world-wide, including BMG. Affiliates have no A&R function in relation to classical music. Recording artists in the UK include Annie Lennox and Take That.

The independents

5.71. In addition to the majors there are a large number of independent record companies (independents). Independents, which are generally much smaller than the majors, have widely differing characteristics but usually specialize in a certain type or style of music. Independent companies normally maintain their own A&R function and in so far as they subcontract tasks that would normally be undertaken in-house by a major, it is the non-creative rather than the creative tasks that are subcontracted. Thus they do not normally carry out their own distribution to wholesalers and retailers. Overseas exploitation of an independent's records is normally carried out by one of the majors although some independents, particularly those operating in niche areas, may license to other independents or export the finished product.

5.72. There is no agreed estimate of the number of independent companies supplying records in the UK. The BPI, the leading UK trade association for the record industry, has some 150 members of which it estimates some 100 are entirely independent of a major. 'Umbrella', a trade association for some smaller independents, has some 120 members. The BPI estimates that there are some 200 well-established, and some 400 less-established, record companies.

5.73. The independent sector includes a few large independents. These include MCA which, despite being owned by Matsushita, is not regarded as a major because it licenses repertoire to third parties in most other territories and currently does not have the international infrastructure of the majors outside the USA. In the UK, MCA had a small market share until recently and distribution of its records is carried out by BMG. An

independent may grow large by developing a successful roster of artists and achieving international coverage by operating in selected territories or by licensing its recordings to overseas record companies. Companies like Virgin Records, Island, A&M and Chrysalis all started as small independents specializing in particular niche genres of music but were successful in developing into significant businesses with extensive rosters of artists covering a wide range of musical styles. Their major stars included U2 and Bob Marley (Island), Police and Sting (A&M), Boy George, Mike Oldfield and Phil Collins (Virgin) and Sinéad O'Connor (Chrysalis). These companies had records suitable for global sales and achieved a prominent position in the market. They were subsequently sold to the majors. Currently, companies like PWL, Mute (Depeche Mode and Erasure), and Zomba (Billy Ocean and Stone Roses) compete with the majors in the mainstream pop sector.

5.74. Among the smaller independents some are 'fully' independent, while others are affiliated in some way to the majors. Many independents have little or no contact with a major. They use independent recording studios, manufacturers, and distributors. This may be because their current volume of sales and their growth potential are too small to interest the majors. It could be the result of the choice of niche market served or the quality of the artists. Or it might be that company finances are sufficiently stable to avoid relying on an outside agent. Company owners may be ideologically opposed to the idea of affiliating to a major. The emphasis on independent status may be a statement of principle: it may also serve as an aid to marketing its particular character in such a way as to attract artists and consumers. Some artists may prefer to sign with a particular independent even when in receipt of offers from one or more of the majors.

5.75. However, if an artist's career develops successfully, the independent may not have the financial resources to fund the promotion and marketing that the artist then requires. At this stage a major record company might be approached to help further the career of the artist both nationally and internationally. The major record company will also have an interest in signing a successful artist. There is a wide range of financial arrangements which may be entered into at this stage, including that under which the independent continues to derive a financial return from the future recordings of the artist.

5.76. Some independents are 'affiliated' to a particular major through an equity, financial or contractual relationship. Normally the major provides financial resources and marketing and distribution expertise while the independent provides A&R expertise. For example, Warner operates two joint ventures—ZTT Records (set up in 1988), and Anxious Records (1992). Both these joint ventures are with independent individuals who have well-developed A&R skills and the objective of seeking new talent. In 1991 Warner Music Group entered into an arrangement with record producer Pete Waterman, forming a new company called PWL International Limited (PWL I) which is 50 per cent owned by Warner. The world rights outside the UK in PWL I's recordings are licensed to the Warner Music Group and Warner carries out distribution for PWL I product in the UK.

5.77. Independents are often the source of innovation in the market. For instance, 'punk', 'heavy metal' and 'glam-rock' were all developed by the independent sector and then embraced by the majors. In the classical sector companies such as Hyperion, specializing in high-quality recordings, and Naxos, specializing in budget recordings, have entered the market successfully. The majors often move to compete in a new market sector by developing similar artists or products, often under new labels. Alternatively they may seek to acquire an independent and retain it as a separate label to take advantage of its reputation in the market.

UK market shares

5.78. The most reliable and widely regarded measures of the size of the UK market are the trade figures compiled annually by the BPI. Measurement based on value is more appropriate than volume when combining qualitatively different products such as singles and albums, and product available in different price bands such as budget, mid-price, and full-price. In the case of recorded music value information has to be treated with some caution since it is compiled from sales invoices to dealers and distributors, and accordingly may or may not include an amount for distribution, depending on the purchaser.

5.79. The values of the sales of individual record companies are not readily available from a published source. The major record companies were therefore asked to supply trade value figures on the same basis as the aggregate trade figures published by the BPI. Table 5.21 shows the overall market shares (singles and albums) of the majors over the last four years. In 1992, the most recent year for which figures are available to us, PolyGram had the highest share with 24.9 per cent of trade value of sales. The majors together accounted for 68.3 per cent of trade sales in 1992 compared with 57.6 per cent in 1989.

TABLE 5.21 Market shares (singles and albums) of the major record companies, 1989 to 1992

	<i>per cent</i>			
	1989	1990	1991	1992
<i>By trade value*</i>				
PolyGram	20.0	24.4	22.6	24.9
EMI	11.9	15.9	14.8	17.5
Warner	11.7	11.0	10.7	10.7
Sony	9.2	8.6	11.4	9.8
BMG	4.8	4.9	4.6	5.4
Others	<u>42.4</u>	<u>35.2</u>	<u>35.9</u>	<u>31.7</u>
Total	100.0	100.0	100.0	100.0
Total (£'000)	680,726	678,401	709,755	692,528
<i>By trade volume</i>				
PolyGram	18.0	21.6	21.2	23.8
EMI	11.9	16.4	14.6	16.9
Sony	9.2	8.8	11.5	10.7
Warner	11.0	9.6	9.8	9.3
BMG	4.8	5.5	4.8	6.2
Others	<u>45.1</u>	<u>38.1</u>	<u>38.1</u>	<u>33.1</u>
Total	100.0	100.0	100.0	100.0
Total (units '000)	223,777	209,506	198,812	186,519

Source: MMC, from BPI and company information.

*Combined sales of singles and albums from record companies to dealers and distributors after discounts and before VAT.

Note: EMI's market share excludes the 1992 sales of Virgin prior to its acquisition in March.

5.80. While they may be the most accurate measure of market share, the estimates that we have made of market shares based on value do not provide a historical run of data, nor do they extend beyond the five majors. The most widely used source of market share information is that published annually by the BPI, based on Gallup retail survey estimates of the volume of album sales. It is this information which we have used as the basis for the main description of market shares and the changes through time (see Table 5.22). In 1993 EMI had a 23.8 per cent share of the album market, closely followed by PolyGram with 21.3 per cent. These two companies together accounted for 45.1 per cent of album sales in 1993. Warner, with the next largest market share, accounted for 10.3 per cent.

5.81. The market share for EMI differs between Tables 5.21 and 5.22. This is mainly because the figures EMI provided to us for Table 5.21 included the sales of Virgin only for that part of 1992 which followed its acquisition. In Table 5.22 Virgin's sales for the whole of 1992 have been combined with EMI's because that more accurately reflects the combined market power of EMI and Virgin.

TABLE 5.22 Record company market shares (by volume of albums), 1983 to 1993
per cent

Albums	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
EMI	14.0	14.6	13.4	13.8	13.2	12.6	12.7	15.9	15.7	22.2	23.8
PolyGram	14.4	12.5	14.5	14.8	15.2	16.1	16.1	23.2	21.3	23.3	21.3
Warner	6.6	9.2	12.2	13.2	12.8	12.6	14.8	12.1	12.6	11.7	10.3
Sony	16.1	16.2	15.0	11.5	12.9	12.6	11.6	10.4	11.6	10.5	9.6
BMG	8.1	7.9	5.4	9.0	8.7	7.0	5.8	4.7	5.2	5.1	7.0
Telstar	0.8	1.7	2.0	2.1	2.3	2.5	4.3	4.4	4.2	3.5	4.5
MCA	1.2	2.0	2.0	1.4	1.3	1.5	2.9	1.2	3.8	4.1	2.9
Dino	-	-	-	-	-	-	0.1	1.0	1.9	1.6	2.7
Pickwick	1.6	2.6	2.8	2.6	1.9	1.5	1.7	2.0	1.9	2.1	2.5
Castle											
Communications	-	-	0.1	0.3	0.4	0.5	0.6	0.9	0.9	1.0	1.2
Music Collection	-	-	-	-	-	-	-	-	0.2	0.6	0.9
Tring International	-	-	-	-	-	-	-	-	0.1	0.3	0.7
BBC	0.8	0.5	1.3	0.8	0.5	0.4	0.5	0.8	0.7	0.7	0.7
One Little Indian	-	-	-	-	-	-	-	-	0.1	0.5	0.6
Mute	0.9	0.3	0.4	0.3	0.7	1.1	1.4	1.1	0.8	1.0	0.5
Conifer	-	-	-	-	0.1	0.3	0.2	0.2	0.3	0.5	0.5
PWL	-	-	-	-	-	1.7	2.7	0.9	0.4	0.4	0.4
Beggars Banquet	0.6	0.4	0.6	0.5	0.6	0.4	0.4	0.4	0.3	0.4	0.4
Naxos	-	-	-	-	-	-	-	-	0.2	0.3	0.4
China	-	-	-	-	-	-	-	-	-	0.2	0.3
4AD	-	-	-	-	-	-	0.1	0.3	0.2	0.2	0.3
Zomba	0.6	0.3	0.4	0.7	0.4	0.5	0.7	0.6	0.4	0.3	0.2
Arcade	-	-	-	-	-	-	-	-	0.4	0.4	0.2
Quality Productions	-	-	-	-	-	-	-	-	-	0.8	0.2
Music For Nations	-	0.1	0.1	0.2	0.3	0.2	0.2	0.3	0.2	0.2	0.2
First Night	-	-	-	-	-	-	-	-	-	0.2	0.1
Stylus	-	-	0.3	1.4	1.8	3.1	2.4	1.3	0.1	-	-
Island	2.5	5.1	3.0	2.5	4.0	3.5	0.8	-	-	-	-
A&M	3.3	1.7	2.3	3.9	3.2	2.0	1.2	-	-	-	-
Tug	-	-	-	-	-	-	-	-	-	0.7	-
K-Tel	3.7	1.8	2.3	1.6	1.4	1.0	0.8	0.4	-	-	-
Creation	-	-	-	-	-	-	-	-	0.2	0.3	-
Virgin*	7.1	7.0	8.0	7.3	7.1	7.7	8.2	7.4	6.4	-	-
Chrysalis	2.9	2.9	3.3	2.9	2.2	2.8	2.5	2.9	2.0	-	-
Others	<u>14.8</u>	<u>13.2</u>	<u>10.6</u>	<u>9.2</u>	<u>9.0</u>	<u>8.4</u>	<u>7.3</u>	<u>7.6</u>	<u>7.9</u>	<u>6.9</u>	<u>7.6</u>
Total market share	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Majors	59.2	60.4	60.5	62.3	62.8	60.9	61.0	66.3	66.4	72.8	72.0
Independents	40.8	39.6	39.5	37.7	37.2	39.1	39.0	33.7	33.6	27.2	28.0
HHI†	836.0	876.1	898.0	880.7	895.9	877.0	914.8	1,104.4	1,066.1	1,337.6	1,293.9

Source: MMC estimates based on BPI data.

*EMI's market share for 1992 includes the sales of Virgin both before and after its acquisition in March.

†Herfindahl Hirschman Index.

5.82. The five independents that had a share of 1 per cent or greater had a combined market share of 13.8 per cent in 1993, almost half the independents' total share of the market. The remainder of the sector consists of a large number of small companies of varying character.

5.83. An overall measure of the level of concentration is the Herfindahl Hirschman Index (HHI). It is calculated as the sum of the squares of the shares of the companies in the market. The value of HHI ranges from 0 to 10,000; the higher the value, the higher the degree of market concentration. In the case of one firm supplying the whole market HHI takes the maximum value of 10,000 and in the case of many small firms each supplying only a small part of the market the value of HHI approaches zero. Table 5.22 shows that the value for HHI has increased from 836 in 1983 to 1,294 in 1993 indicating increasing concentration in the market, although it declined from the high of 1,338 in 1992. It is difficult to interpret the absolute value of this index. The Merger Guidelines used by the US authorities suggest that a value of HHI that is less than 1,000 indicates an

unconcentrated market; a value of 1,000 to 1,800 indicates a moderate degree of concentration; and a value above 1,800 indicates a highly concentrated market.

International comparison of market shares

5.84. Table 5.23 shows the market shares of the overseas affiliates of the major UK record companies in a number of countries in 1992. The market share held by each company varies considerably between countries. The overall market share held by the majors in the UK is about the same as the share they hold in the USA but lower than their shares in Germany, France, Netherlands and Denmark.

TABLE 5.23 **International market shares of the majors, 1992**
per cent (volume)

<i>Market shares</i>	<i>UK</i>	<i>USA</i>	<i>Germany</i>	<i>France</i>	<i>Denmark</i>	<i>Netherlands</i>	<i>Japan</i>
PolyGram	23.3	11.5	22.0	32.0	24.1	24.1	12.3
EMI/Virgin	22.2	10.7	20.7	19.0	30.1	12.4	13.6
Warner	11.7	22.5	17.6	10.0	11.4	12.6	8.0
Sony	10.5	17.5	11.7	15.0	13.3	15.5	25.9
BMG	<u>5.1</u>	<u>11.0</u>	<u>17.6</u>	<u>11.0</u>	<u>11.8</u>	<u>17.7</u>	<u>0</u>
Majors	72.8	73.2	89.6	87.0	90.7	82.3	59.8
Independents	<u>27.2</u>	<u>26.8</u>	<u>10.4</u>	<u>13.0</u>	<u>9.3</u>	<u>17.7</u>	<u>40.2</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: MMC from estimates provided by one of the majors.

Classical market shares

5.85. The market shares of classical sales show greater concentration than those for pop sales, with PolyGram and EMI together accounting for some 63 per cent of album sales in 1992 (see Table 5.24). Sales at the budget and mid-price levels account for a larger share of sales in the classical market than they do for albums in general (compare Tables 5.11 and 5.14). The market shares for different price categories show that while the majors tend to sell in all categories, a number of independents specialize in one price category. For example, Naxos and Tring specialize in budget product, and Hyperion and Chandos specialize in full-price product.

TABLE 5.24 Market share of classical music albums (by volume), 1992

Company	per cent		
	Mid-price/budget	Full price	Total
Polygram	31.3	47.1	38.3
EMI	24.8	24.3	24.6
Warner	-	6.8	3.0
Pickwick	11.0	0.6	6.4
Conifer	9.8	2.3	6.5
Naxos	6.4	-	3.6
BMG	4.1	2.6	3.4
Sony	3.4	5.4	4.3
Music Collection	1.4	-	0.8
Telstar	1.2	2.2	1.6
Tring International	1.0	-	0.6
Lydian	0.7	-	0.4
Castle Communications	0.7	0.6	0.7
ASV	0.6	0.6	0.6
Mainline	0.5	-	0.3
Chandos	-	1.3	0.6
Hyperion	-	1.3	0.6
Silva Productions	-	1.0	0.4
Quality Productions	-	0.6	0.3
Others	<u>3.1</u>	<u>3.3</u>	<u>3.2</u>
Total	100.0	100.0	100.0

Source: MMC calculations, based on BPI and Gallup data.

Note: Percentages may not add to 100 because of rounding.

Singles market shares

5.86. Market shares of singles sales broadly reflect those for album sales (see Table 5.25) but there is less diversity between the shares of the majors. The gap between the majors and the independents is more pronounced, each major accounting for more than 9 per cent of the market in 1993, and no independent accounting for more than 4 per cent. Sales of singles are more volatile than sales albums. This is reflected in the fluctuations in market share. For example, BMG nearly doubled its market share between 1991 and 1992.

TABLE 5.25 Record company market shares for the singles market (by volume), 1988 to 1993

	per cent					
	1988	1989	1990	1991	1992	1993
PolyGram	14.4	14.0	22.0	23.8	23.6	21.9
EMI	11.2	9.7	13.3	11.2	16.4	18.9
BMG	7.5	6.0	7.3	5.5	10.4	13.5
Sony	11.4	11.6	10.6	12.5	12.0	11.6
Warner	9.3	13.3	10.1	11.3	10.2	9.8
PWL	4.7	5.2	2.1	1.9	3.3	3.3
MCA	4.7	4.5	2.9	3.7	3.3	3.2
Beggars Banquet	0.5	0.7	0.6	1.2	2.0	1.0
One Little Indian	0.1	-	0.1	0.5	1.7	0.7
Mute	3.9	2.5	3.2	1.2	1.7	0.6
Kool Kat	-	-	0.1	0.5	1.7	0.3
Virgin	10.1	9.9	6.8	7.4	-	-
Others	<u>22.2</u>	<u>22.6</u>	<u>20.9</u>	<u>19.3</u>	<u>13.7</u>	<u>15.2</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0
Majors	53.8	54.6	63.3	64.3	72.6	75.7
Independents	46.2	45.4	36.7	35.7	27.4	24.3

Source: MMC based on Gallup data.

Note: EMI's market share includes Virgin figures for the whole of 1992.

Changes in market share over time

5.87. The market share taken by the majors remained broadly constant between 1983 (59.2 per cent) and 1989 (61 per cent) but increased by 11 per cent between 1989 and 1993 to 72 per cent (Table 5.22). The recent increase in concentration in the market has been partly the result of the acquisition of a number of established independents by majors. Four important acquisitions have taken place in the last five years: PolyGram acquired Island Records in 1989, and A&M in 1990; and EMI acquired Chrysalis Records in 1991, and Virgin Records in 1992. (Appendix 5.1 shows the largest acquisitions made by record companies and other parties since 1985.)

5.88. Table 5.22 shows that acquisitions have had a particular impact on the market share held by the top two companies. In 1989 the top two companies (PolyGram and Warner) accounted for 30.9 per cent of album sales. In 1993 the top two companies (EMI and PolyGram) accounted for 45.1 per cent of album sales.

5.89. While the market share held by the majors together has remained fairly constant until recently, the share held by each major has fluctuated. For example, in the last ten years Warner had a low market share of 6.6 per cent in 1983, with a subsequent high of 14.8 per cent in 1989, before dropping back to 10.3 per cent in 1993; PolyGram had a low of 12.5 per cent in 1984 and a high of 23.3 per cent in 1992.

5.90. This fluctuation in market shares also partly reflects the volatility of record sales where large sales of a small number of titles can have a considerable effect. This is emphasized when market shares by label are examined. Each label tends to be associated with a particular type of music from general pop to dance and jazz. The majors and larger independents operate a number of labels. Market shares by label vary substantially year by year (see Appendix 5.2).

5.91. It has been a feature of the market that the share taken by independents has remained relatively constant over time until recently (see Table 5.22). This, however, disguises a number of market entries and exits in the independent sector. Table 5.26 identifies some current record companies which were founded since 1983, together with their major artists.

TABLE 5.26 **New entrants to the recorded music industry: some recording companies founded since 1983**

No	Date Name	founded	Major artists	Music type
1	Big Life Records De La Soul Soup Dragons	1986	Yazz	Pop
2	Castle Communications plc Motorhead Uriah Heap	1983 compilations	The Kinks	Pop, reissues,
3	China Records Ltd The Levellers	1984	Art of Noise	Rock/indie
4	Conifer Records	1986	Conifer Classics	Classical, Jazz
5	The Connoisseur Collection Ltd	1986	Compilations/re-issues	Pop/Rock
6	Cooking Vinyl Ltd Oyster Band	1986 'Roots'	Bhundu Boys	Folk and
7	Creation Records Ltd House of Love Jesus and Mary Chain	1985	Primal Scream	Indie
8	FFRR Records Ltd Utah Saints	1986	Salt 'N' Pepa	Dance
9	Go! Discs Ltd Paul Weller	1983	Beautiful South	Indie
10	Kaz Records Ltd	1983	Dollar Brand	Jazz, African
12	Mute Records Ltd Erasure	1983	Depeche Mode	Pop
13	One Little Indian Ltd The Sugarcubes	1987	The Shamen	Indie
14	Peter Waterman Ltd Jason Donovan	1983	Kylie Minogue	Pop
15	Produce Record Ltd	1989	The Farm	Dance/pop
16	Quietly Confident Records	1984	Jimmy Nellis	Pop/rock
17	Rumour Records Ltd	1989	Nomad	Dance compilations
18	Silvertone Records The Stone Roses	1988	John Lee Hooker	Indie/blues
19	Today Croydon Ltd Magnum Super budget	1983	Frank Zappa	Heavy metal/rock
20	Tring International Plc	1990	Compilations/re-issues	
21	Wisepack Ltd	1988	Compilations	
22	Dino Entertainment	1988	Compilations	TV advertised
23	ZZT Records Ltd 808 State	1988	Seal	Dance/soul/rock
24	Beechwood Music Ltd compilations	1987	Indie/dance	
25	Food Ltd Jesus Jones	1984	Blur	Indie

Source: Media Research Publishing, *The Record Industry, Annual Survey 1993*.

5.92. A number of these independents have become affiliated in some way with a major record company. For example, PolyGram acquired 49 per cent of Go! Discs in 1987 and 49 per cent of Big Life Records in 1989 (and the remainder in 1993); Sony acquired 49 per cent of Creation Records in 1992.

5.93. Table 5.27 shows some of the departures over the same period. Although the independents may have departed, the artists that they may have 'discovered' are likely to have been signed by other record companies.

TABLE 5.27 Companies ceasing to produce in the last ten years

No	Last Name	Date founded	accounts filed	Major successes	Music type
1	Bigwave Records Ltd	1987	1991	Jive Bunny	Pop/dance
2	Brazendown Ltd (Street Sounds)	1982 compilations	1986	Multi-artist dance	
3	Elcotgrange Ltd (Stiff Records)	1976 Elvis Costello	1984	Madness	Punk/rock
4	Factory (Communications) Ltd Happy Mondays	1980	1991	New Order	Indie
5	FM-Revolver Records Ltd	1983	1991	Magnum	Heavy metal
6	K-Tel International (UK) Ltd 'Classics'	1971 compilations	1989	'Hooked on	TV advertised
7	Ronco Teleproducts (UK) Ltd compilations	1972	1983	'Disco Daze'	TV advertised
8	Rough Trade Records Ltd Aztec Camera	1979	1990	The Smiths	Indie
9	Serious Records Ltd compilations	1985	1988	'Best of House'	Dance
10	Starbend Records Ltd marketing- country	1984	1987	'Country Store'	Secondary
11	Streetwave Ltd	1981	1985	Rose Royce	Soul/dance
12	Stylus Music Ltd 'Pavarotti Collection'	1984 Compilations	1989	'Soft Metal'	TV marketed
13	Towerbell Records Plc Chas and Dave Cilla Black	1980	1986	Shirley Bassey	Pop

Source: Media Research Publishing, *The UK Record Industry, Annual Survey 1993*.

Barriers to entry

5.94. The evidence of market entry suggests that barriers to entry in the record industry are low. A number of independents have entered the market successfully over the last ten years. A number of artists signed to independent labels have featured in the singles and album charts. The Top 40 singles charts gained 540 new entrants in the year ending September 1993, 84 of which were from independents. The Top 40 album charts gained 272 new entries over the same period, 42 of which were from independents.

5.95. A small independent record company has few sunk costs since recording, manufacturing, distribution and marketing can all be contracted out to independent third parties. Many costs have come down in recent years. For example, recording equipment of reasonable quality can be purchased for a few hundred pounds, allowing initial recording to be done away from the studio. At the smallest end of the market a recording can be made in a home studio.

5.96. The combination of rapidly changing consumer tastes and a pool of artistic talent in the UK provides opportunities for independents. Independents can compete against the majors in the signing of new artists in a number of ways. An independent may concentrate on a particular type of music and be better placed than a major to spot new talent and make contact with an artist. Artists may be more attracted to an independent that has a good reputation in their type of music than to a major (ie they might be perceived as having more 'street cred').

5.97. There appears to be a pool of people with experience of the record business who are willing to set up record companies, for example ex-artists, producers, artists' managers or ex-employees of the majors. The reputation of these people may be sufficient to attract new artists.

5.98. The independents often develop links with the majors. For example, if a new artist is successful but the independent cannot market the artist overseas, the independent may come to an arrangement with a major under which the artist's recordings are licensed to the major, the artist is signed by the major, or the major takes some financial interest in the independent. Whatever the particular arrangements, there are likely to be benefits for both

parties. The majors are interested in sharing in the A&R successes of the independents, while for their part the independents gain funds for further A&R. The risks to the artist of signing with an independent are reduced if this exit route is available.

5.99. The option of outright sale to a major is also open to an independent. The major may be attracted by the existing artist roster, the back catalogue, the personnel or the name of the label. The possibility of a profitable exit from the market is an incentive for a new entrant.

The artists

Introduction

5.100. Record companies make profits from their ownership of the rights in sound recordings. There are two sources of sound recordings for a record company: recordings made by artists¹ contracted to the company (ie those on its artist roster), and recordings licensed from another record company (the majority of product licensed to the majors is sourced from the companies' overseas affiliates).

5.101. A large proportion of the majors' sales in 1992 was attributable to recordings licensed from their overseas affiliates (see Table 5.28). The proportions for each company ranged from a high of 71 per cent of sales to a low of 21 per cent. UK independents that have their own artist rosters sell records almost exclusively derived from that source.

TABLE 5.28 **Source of repertoire of major record companies, 1992**
percentage of sales

	<i>EMI</i>	<i>PolyGram</i>	<i>Warner</i>	<i>Sony</i>	<i>BMG</i>
Own repertoire	67.0	45.4	37.0	29.0	46.0
Licensed from own overseas affiliate	21.0	47.1	54.5	71.0	53.0
Other	<u>12.0</u>	<u>7.5</u>	<u>8.5</u>	<u>0.0</u>	<u>1.0</u>
Total	100.0	100.0	100.0	100.0	100.0

Source: MMC from company information.

Artist roster

5.102. A company's artist roster comprises artists contracted to the company to produce records. An artist roster can increase with the signing of new talent or the signing of artists previously with other companies. Artists can be lost from the roster by being dropped as recording artists by the company or by leaving to sign with another company. The copyright in the recordings made by the artist while under contract to the company normally remains with the company, and the recordings form part of the company's catalogue.

5.103. At the beginning of 1993 we estimate that 513 artists were contracted to the UK majors (see Table 5.29). PolyGram and EMI, the companies with the largest rosters, both gained artists (and the rights to their existing recordings) during 1989 to 1993 as a result of acquisitions: PolyGram from Island and A&M, and EMI from Virgin. Both companies subsequently reduced their rosters in 1992. The increase of 139 from 374 at the beginning of 1989 is largely accounted for by EMI's acquisition of Virgin.

¹The term 'artist' is taken to include a group, band, or act.

TABLE 5.29 Artists' rosters of major record companies, 1989 to 1993

Record company	Year beginning												Total
	1989	1990	1991	1992	1993		Total	Gain	Loss	Total	Gain	Loss	
	Total	Gain	Loss	Total	Gain	Loss	Total	Gain	Loss	Total	Gain	Loss	Total
Polygram*	191	34	46	179	94	45	228	44	42	230	24	59	195
EMI†	66	14	22	58	19	24	53	22	18	57	168	91	134
Warner	31	22	6	47	29	16	60	42	35	67	45	37	75
Sony	50	4	9	45	23	18	50	15	16	49	18	11	56
BMG	<u>36</u>	<u>43</u>	<u>43</u>	<u>36</u>	<u>64</u>	<u>38</u>	<u>62</u>	<u>37</u>	<u>47</u>	<u>52</u>	<u>16</u>	<u>15</u>	<u>53</u>
Total	374	117	126	365	229	141	453	160	158	455	271	213	513

Source: MMC from information provided by the record companies.

*Polygram gained artists in 1990 with the acquisition of A&M and in 1991 with the acquisition of Island.

†EMI gained artists in 1992 with the acquisition of Virgin.

5.104. The roster sizes of the individual companies fluctuated year by year during the period. Only Warner increased the size of its roster in each of the four years. The turnover of artists on the rosters each year was considerable. Typically the majors gained and dropped between 30 and 50 per cent of their artists each year. For example, PolyGram had some 445 different artists under contract over the period 1989 to 1992 but fewer than half that number at any one time. A major record company said that only 15 artists remained contracted to its pop labels between 1 January 1988 and 30 June 1993. We were told by one of the major record companies that its current artist roster comprised three top stars, eight steady performers, 15 new artists and 23 others who had yet to release a record or were no longer successful.

Dual signings

5.105. Exclusive audio exploitation rights in respect of repertoire recorded by a particular artist may be split between two or more record companies in different territories so that each of those companies controls the rights in its territory on an exclusive basis. This may occur in the case of an unknown artist when the record company offers smaller advances for limited territorial rights and the artist seeks a contract in another territory with a different company, or in the case of a very successful artist who considers that it is in his or her interest to be signed to different record companies in different territories.

Record company's judgment of success or failure of an artist

5.106. In simple terms, an artist's success or failure can be judged by a company according to whether or not the investment the company has made in the artist has been recovered from the sales of that artist's records. Thus the record company will seek to recoup the costs of signing the artist (ie mainly advances), recording costs, half the costs of any videos made in conjunction with recordings, and any tour support expenditure, out of royalties due to the artist and its own margin on record sales. (See also paragraphs 8.21 to 8.32.)

5.107. Success will normally mean that an artist is selling sufficient quantities of records to become an established artist who has a significant fan base, has had chart success with single and album releases, and whose records can be exploited internationally. Since 1985 at least 20 artists a year have been established in the UK market, in the sense of releasing their first 100,000 selling album. Of around 330 artists established between 1981 and 1992 on this criterion, some 38 per cent were signed to independent companies at the time of their success.

5.108. Record companies may not simply look to consistent sales growth or profit in determining the success of an artist. A company may be prepared to support an artist over a long period of time if it believes that ultimately the act will succeed or if it believes that the artist's music has great merit. For example, Island signed U2 in the early 1980s but it was not until 1988 that U2's album *The Joshua Tree* established the group as an international success. Some established artists are unable to repeat the huge success of an album with subsequent releases.

Movement of artists from one record company to another

5.109. The opportunity for an artist to move from one company to another arises in the normal course of events when his or her contract expires. A successful artist will often, however, remain with the same record company for an extended period. Some successful artists have chosen to move to another company, usually when commercial terms could not be agreed for an extension of an existing contract. An example is the move of ZZ Top from Warner to BMG. The relationship between an artist and a record company can break down and, either following litigation or simply as a result of agreement between the artist and the record company, the artist may then be able to move. Examples of this are Level 42 moving from PolyGram to BMG and Spandau Ballet moving from Chrysalis to Columbia (Sony).

5.110. An artist may be released from a contract by his or her record company. Under these circumstances, the terms of the recording agreement come to an end. Another record company may then sign the artist. A

number of artists released by Virgin Records after it was acquired by EMI have subsequently signed contracts with other companies. Artists contracted to small independent record companies may wish to move to a major in order to further their careers-particularly internationally. The terms of the original contract may be terminated by agreement between the artist and the independent and the artist may sign elsewhere. For example, Rick Astley moved from PWL to BMG and Betty Boo moved from Rhythm King to Warner. When movements of this kind take place it is normally the rights in the artist's future recordings which are acquired by the next succeeding record company. Rights in the artist's previous recordings normally remain with the previous record company. However, certain major artists (eg David Bowie and The Rolling Stones) have negotiated ownership of the rights in the 'back catalogue' of their previous recordings.

5.111. Recording artists tend to contract initially with a record company in the country in which they live although at a later stage in their career they may sign with a company in the country in which they are most successful. Since this is normally the USA, there is some movement of artists' world-wide recording rights out of the UK principally to US record companies.

Artist and repertoire

5.112. While the opportunity to sign an established recording artist sometimes arises, record companies compete to discover new recording artists with talent. This aspect of the business is known as artist and repertoire (A&R) and applies to both popular and classical music. The term 'A&R' usually covers the finding of the artist, negotiating with that artist to sign him or her to the record company's label and then working with him or her to find producers and songs, provide artistic and creative guidance and organize the creation of the master recording. The majors have separate A&R departments, usually one for each label. A&R is the main business activity of most independents.

5.113. Record companies employ talent scouts to locate potential new recording artists. Talent scouts travel the country attending live performances or 'gigs' in pubs, clubs and rehearsal rooms and notify the A&R department of any potential talent. An occasional further source of talent is the unsolicited tapes that are sent to record companies. For example, Warner receives anything from 10 to 50 tapes per week. Other potential discoverers of talent are artists' managers, lawyers, disc jockeys and music publishers. An artist may seek a record label that best fits its own image. This may be based on the music type associated with a label, or the artists already signed to the label, or the reputation of the record company and its A&R personnel.

5.114. If an artist discovered in any of these ways appears to possess the necessary talent then an A&R manager will take a closer look. He will evaluate the artist on the basis of quality, originality, and commercial potential-usually after the preparation of 'demo' tapes paid for by the record company-and advise the record company as to whether the artist should be signed. It is likely that a talented artist will attract the interest of more than one record company.

5.115. Small independent record companies tend to specialize in a particular form of music such as heavy metal or dance music. They may well identify, or attract, new talent in their particular area of specialization before it is noticed by a major record company. Some artists may feel they can establish greater artistic and personal rapport with an independent, that it will be more receptive to new and developing types of music or that it will be better able to focus on developing the careers of a relatively limited number of artists.

The role of the music publisher

5.116. Music publishers perform a role for the composer (ie of the music and/or the song) comparable to that which the record companies perform for the recording artist. They seek new composers whose talents they can develop and promote. The composer normally assigns the copyright in the song or musical composition to a music publisher so that it might be commercially exploited. The music publisher is responsible for collecting income attributable to the copyright and distributing the composer's share. Income is derived from the following principal sources:

- the use of compositions in sound recordings (collected via the MCPS);
- from licences of the performing and broadcasting rights in compositions (via the PRS) for play on television, radio and other public performances;
- from licences of the synchronization rights in compositions for use in films and television programmes; and
- from overseas publishers to whom the UK publisher has licensed the overseas copyright in the composition.

5.117. Music publishers are principally concerned with pop music because that sector is the most important in terms of overall music sales. The BPI estimates that less than 1 per cent of income received by music publishers relates to classical music. The role of the music publishers in relation to artists has changed considerably. Prior to the mid-1960s they provided a link with the record companies by suggesting that a recording star should record a cover version of a particular song. This role has changed since the 1960s with the emergence of the composer who is also a recording artist. We have been told that this has been reflected in the increased negotiating power of the composer *vis-à-vis* the music publisher. Traditionally, the music publisher acquired rights in the composition by taking assignment of the copyright from the composer in return for royalty payments. Increasing awareness on the part of the composer's lawyer or manager of the value of the copyright, and the increase in the number of composers performing their own material, have led to a diminished role for publishers and to their being granted only limited duration copyright licences which can be for as little as five years. At one time industry practice was to divide income attributable to the copyright 50:50 between composer and publisher. A division of 75:25 or 80:20 in favour of the composer is now more common.

5.118. The 1993 *Music Week Directory* lists 681 music publishers. The principal music publishers in the UK are listed in Table 5.30 together with approximate market shares based on a survey of the source of the top 100 singles and tracks on the top 50 albums.

TABLE 5.30 Source of Top 100 singles and tracks on Top 50 albums

	%
Warner Chappell Music Limited	20
EMI Music Publishing Limited	20
PolyGram Music Limited	11
MCA Music Limited	9
Carlin Music Corporation)
Sony Music Publishing)
BMG Music)
Zomba Music Publishing	} 20
Chrysalis Music Limited)
All Boys Music Limited)
Others	<u>20</u>
	100

Source: Gallup Survey published in *Music Week*, 7 August 1993.

5.119. All but one of the music publishers (Carlin Music) listed in Table 5.30 are affiliated to record companies. The record companies told us that artists generally treat their arrangements with publishers and record companies as two separate sets of negotiations. When a record company enters into a recording contract with an artist the artist will not necessarily enter into a publishing contract with the record company's music publishing affiliate. For example, a number of Warner's top stars are signed with EMI Music Publishing in their capacity as composers. Only 13 of BMG's 53 current artists are signed with BMG Music Publishing. Of the last 30 contract (re)negotiations carried out by EMI only four of the artists were signed with EMI Music Publishing.

The role of the artist's manager

5.120. The role of the artist's manager is to further the career of the artist. Apart from advising the artist on his career, he would normally represent the artist in contractual and other negotiations with a record company, organize legal and financial representation, and monitor royalty payments and other income to the artist. In the UK a manager will normally manage one main artist, in contrast to the USA where an artist may be represented by a large firm representing a number of artists.

Decision to sign

5.121. The decision to sign a new artist will normally be taken by the top management of the record company or label, taking into account the advice of the A&R manager. It is a subjective judgment as to whether a particular artist possesses the required talent, but the overriding criterion is normally whether the artist has the potential to become commercially successful.

5.122. The majors told us that they also seek to maintain the broad appeal of their rosters. There are two main reasons for this: first, a presence in a wide range of music types reduces the risk from fluctuations in demand for different types of music; secondly, it maintains the major's image as a comprehensive supplier of music to the customer and increases the likelihood that a new artist of whatever musical type will be able to identify with the company and therefore wish to sign with it.

Competition to sign artists

5.123. We have been told that any artist being considered for signing by a major record company will probably be known to other record companies. EMI estimates that at least 50 per cent of new artists it tries to sign receive competing offers from at least one other record company. There are two main reasons for this: first, the music industry is a close-knit community so that word would soon spread if a promising new artist had been found; secondly, the manager or lawyer representing the artist will often inform other record companies so as to initiate a bidding process. The advantage of being first to identify a talented artist is that it gives the A&R executive a chance to develop a rapport with the artist which may influence him to sign with that company rather than another.

5.124. For a talented artist judged to have potential earning power there is likely to be some kind of competitive bidding process between record companies. Such artists are almost invariably represented by an experienced lawyer and manager. Most record companies do not negotiate directly with the artist but with his or her representatives. The competition generally manifests itself in the terms (eg advances and royalties) which an artist is able to secure. Record companies also compete on their reputation and image. This is based on the history of the record company or label, the array of talent on the roster, and the personality and talent of the record company personnel.

5.125. Once a record company has found an artist it wishes to sign, representatives of the record company will negotiate with the artist or with his or her manager and legal representative on the commercial terms of the contract. After an artist is signed to a label, the A&R person is usually closely involved with the development of the artist's career and provides liaison between the artist and the record company.

Artist contracts

5.126. The contracts which form the basis of the arrangements between the record companies and the recording artists contain a number of common features. Individual terms will, however, vary from contract to contract as a result of negotiations with the artist. Top stars will naturally be able to secure more favourable terms than newly contracted artists. Terms also differ according to whether the contract is with a pop or a classical artist.

5.127. A number of key terms, however, commonly appear in the contracts entered into between record companies and artists. The principal common elements appearing in such contracts are as follows.

Copyright

5.128. Provisions dealing with ownership of copyright in recordings made during the term of the contract are crucial to both parties, the issue being whether copyright is to be owned by the record company outright or owned by, or licensed to, the record company for a limited period of time. While record companies generally seek to own the rights in the recordings they acquire for the whole life of the copyright, this is not always achieved and sometimes contracts have been negotiated where the record company holds the copyright only for a period. In such cases the record companies will seek adjustments to the other contract terms so that the payback period is commensurate with the period for which they hold the copyright. Currently, we were told, new artists usually prefer to secure larger advances and royalties rather than to acquire ownership of the copyright; and the same normally applies when contracts are being renegotiated.

Territory

5.129. The issue here is whether the agreement will cover the artist's recording services world-wide or for a lesser territory. It is common for record companies as a general policy to seek to sign artists for the world or for all available territories. However, for the major artists, restricted territory agreements are by no means uncommon, especially where the artist feels that the UK record company's affiliates in another territory are not best placed to exploit the recording successfully. If this is the case, the artist may sign with another record company for the territories concerned.

Term

5.130. The basic issues to be determined here are the duration of the agreement and the number of singles or albums which it is agreed that the artist will record. Typically, the agreement will provide for an initial term, during which the artist will produce a single or an album, and then separate and successive option contract periods, during which he or she will produce four or more albums. At the end of the initial and each option contract period (except for the last), the record company will have an option to elect to extend the term for a further contract period. Normally, the option has to be exercised within a certain period of time after the artist has delivered to the record company the minimum number of recordings required to be delivered during that previous period. Whether these options are taken up will depend on the success of earlier albums and the anticipated success of future work.

Exclusivity

5.131. The record company usually requires the artist to provide his or her services on an exclusive basis for the contract period. This means that the artist is prohibited from entering into recording contracts with other recording companies during the contract period. Such exclusivity is regarded as necessary by the record companies in view of the large investment they make in the artist in terms of advances and of recording, marketing, promotional, video and touring costs.

Advances and recording costs

5.132. Most recording contracts include provisions for non-returnable advances which are recoupable against artists' royalties. The advance is generally regarded by the record company as part of the consideration for the exclusive recording rights granted by the artist. It is expected to cover items such as the artist's living expenses during the contract period, the costs of producing a video in conjunction with the recording and touring costs. The level of advance varies widely from contract to contract; at the top end of the scale, established artists can command sums well in excess of £1 million; while at the bottom end of the scale a new artist may receive in the region of £30,000. In addition, the record company will usually pay the recording costs (eg session musicians' fees, studio hire, travel costs, editing costs, equipment rental, and producers' fees) but these too will be regarded as advances on royalties and therefore recoupable.

Royalties

5.133. The contract will provide for payment of royalties by the record company to the artist in respect of records sold. The royalty rate will vary depending on the bargaining power which the past or anticipated success of the artist gives him or her, and also on the territory where sales are taking place. In the UK, most record companies do not recommend retail prices and so royalties are usually calculated by reference to the Published Price to Dealers (PPD). Royalty rates range from 9 to 14 per cent for a new artist and from 15 to over 20 per cent for a top star.

5.134. However, in determining the actual remuneration due to the artist, the royalty rate is not the only factor. Once established, certain deductions are usually made from the royalty base price before royalties are calculated. These include any VAT or other tax, and a percentage deduction known as a 'packaging deduction' which has historically been taken into account when calculating the price per unit an artist receives. Packaging deductions vary from contract to contract and format to format and do not reflect the actual costs of packaging the individual recording concerned. The packaging deduction is not always insisted on by the record companies, although they find that artists usually prefer its inclusion because it enables them to claim that they receive a higher nominal royalty rate than would otherwise be offered.

5.135. Furthermore, royalties are calculated on actual records sold. This means that certain records shipped out by the record companies do not carry a royalty; these include records distributed free in order to promote sales, those given free in lieu of discounts to dealers and those returned to the record company as faulty or as part of a privileged return scheme. Most recording contracts also contain provisions for reduced royalty rates in respect of records sold through record clubs, by mail order, as compilation albums or as items used to promote the sale of other products. In addition, royalty rates are normally reduced to half rate in respect of records sold at mid- or budget price, since in this case, as in the others mentioned above, the margins to the record company are reduced. Finally, records which are supported by a substantial television advertising campaign usually attract a reduced rate royalty for a period of time. Most record company contracts provide for 'escalations' by virtue of which the royalty rate will either escalate automatically in later contract periods or will increase in respect of a particular record if a certain level of sales of that record has been achieved.

Accounting to the artist

5.136. Recording contracts also set out the mechanism for accounting for royalty payments to the artist. Typically, royalties are accounted for twice yearly (at the end of June and the end of December). All recording contracts contain audit clauses enabling the artist's representatives to inspect the record companies' books to verify the accuracy of the accountings made.

Other terms

5.137. Other common terms appearing in recording contracts cover matters such as the making of audio-visual recordings; the question of who has creative control over recording material; marketing controls which may be exerted by the artist, for example over the manner in which recordings are exploited and priced; and provisions governing the circumstances under which the record company will agree to release a recording, or not to do so.

5.138. It is common for the terms of a contract, in particular the size of the advance and the royalty rate, to be renegotiated in the artist's favour if he becomes successful.

Recent trends in recording contracts

5.139. We have been told of the following trends in contract terms over the last few years:

- (a) Advances and royalty rates have increased. A record company told us that a typical royalty rate for a new act has increased over the last ten years from 9 to 13.5 per cent of the dealer price, and for a superstar from 20 to 24 per cent.
- (b) The period, or number of albums for which artists are signed to record companies on an exclusive basis has fallen.
- (c) Artists have been given greater involvement in approving the recording process and its costs and more control over marketing.
- (d) Contracts place greater obligations on record companies to release and market artists' recordings.
- (e) The outcome of a number of court cases covering restrictive clauses in artists' contracts has led to some changes in contractual terms generally in favour of artists.

5.140. We have been told that the more difficult market conditions, caused partly by the recession, have led to intensified competition to sign or retain successful artists because they can provide a more reliable source of future revenue. The trend towards shortened exclusivity periods and the tendency of artists to seek to renegotiate their terms considerably before the contract is due to expire has increased the frequency of contract negotiations.

5.141. There has also been an increase in the number and sophistication of artists' professional advisers who assist in the negotiation of contracts.

The recording

5.142. The typical events leading to the recording of a first album by a newly-signed pop artist are as follows. The artist spends the initial months writing and developing material or choosing songs written by other composers. The artist will usually make 'demo' tapes of the material to ensure that it will be satisfactory when recording begins. When the artist has written or chosen sufficient songs to make up an album, the artist and the record company's A&R team select a producer and, if required, session musicians for the recording.

5.143. Producers, who are generally self-employed, direct rehearsals and the recording process in the studio. They have different musical styles and acquire reputations for certain types of music. The A&R man and the artist will together select a producer with the appropriate skills to maximize the artistic and commercial potential of the artist. The producer normally has a contract with the record company and receives an advance (typically £20,000 to £50,000 per album) and royalties (typically at a rate of 2 to 4 per cent of the notional retail price used to calculate artists' royalties). The royalties are remuneration for work carried out and are only payable once the

advance has been recouped. The artist, along with the producer and the A&R man, makes the final selection of the material, studio, amount of time to be spent in the studio and the musicians to be used.

5.144. In the recording studio the backing tracks of the rhythm sections, including drum, base, and rhythm guitar (ie those that do not include lead vocals or lead instruments), will be recorded first with the additional help of a sound engineer. The next stage is to record the vocals and add 'over-dubs' such as the lead guitar or keyboards. In the case of new artists, the A&R man will be closely involved. More experienced artists may organize much or all of the recording themselves and indeed may become producers of other artists (eg Dave Stewart of the Eurythmics). The average time spent in a recording studio to record an album is between six and eight weeks and costs may range from £80,000 to £300,000.

5.145. In the final stage all the component tracks are mixed together by a mixing engineer (who might be the producer) to give the final 'sound' and to form a master recording. The recording may be remixed several times before all the parties are satisfied. Sometimes more than one mix of a recording may be produced since, for example, a different mix will be better for the dance version than that for the main release. Up to four re-mixes may be recorded for each single. For an album with five singles this can mean 20 re-mixes.

Costs of releasing an album

5.146. The major record companies told us that the initial costs for releasing an album generally lie in the following ranges depending on the stature of the artist:

- artists' advances: £25,000 to £1,000,000;
- recording costs: £80,000 to £300,000 (including producer's advance against his royalties of £20,000 to £50,000);
- video produced in conjunction with a single: £40,000 to £150,000;
- artwork and photographic costs: £20,000 to £25,000;
- advertising, marketing (excluding losses on singles): £30,000 to £250,000; and
- tour support: £30,000 to £100,000.

The advance, the recording costs, and normally half of the video costs are recoupable from artists' royalties (should there be any) but the remaining costs are not recoupable.

Catalogue of recordings

5.147. The range of record titles available from a record company is known as the catalogue. The larger record companies publish catalogues which give details of album titles and formats. These are available to dealers and sometimes, usually for classical titles and for albums, may be available to the public. The catalogues are often organized by record label each of which usually signifies a broad 'type' of music. Singles are rarely carried in the record companies' printed catalogues because their life cycles are almost always short. *Music Week*, the industry's trade magazine, carries singles release schedules.

5.148. The catalogue consists of recent releases of singles or albums and older titles which continue to sell well enough to remain in the catalogue. These older items are variously termed in the industry 'back catalogue' or just 'catalogue' items. The dividing line between new releases and back catalogue is not a clear one. Typically

a record is deemed to have become back catalogue one year after release. Most singles have been deleted by this time so back catalogue comprises mainly albums.

5.149. Table 5.31 shows shares of album sales in 1993 accounted for by records appearing each week in chart positions 1 to 200. Some 36 per cent of album sales were of records appearing in the Top 40 places in the album chart each week. For the most part the Top 40 comprises new releases.

TABLE 5.31 **Album market share by chart position, 1993 averages**

<i>Album chart position</i>	<i>Average number of albums sold per week %</i>	<i>Average share of total album market %</i>	<i>Cumulative share</i>
1	66,871	3.86	3.86
2	46,286	2.67	6.54
3	37,378	2.16	8.70
4	31,270	1.81	10.50
5	27,722	1.60	12.10
6	25,037	1.45	13.55
7	23,083	1.33	14.88
8	21,385	1.24	16.12
9	20,323	1.17	17.29
10	19,038	1.10	18.39
20	11,315	0.65	26.52
30	8,036	0.46	31.89
40	6,130	0.35	35.91
50	4,732	0.27	38.95
75	2,825	0.16	44.16
100	1,954	0.11	47.50
150	1,256	0.07	51.96
200	910	0.05	55.03

Source: EMI based on Gallup information.

5.150. Record companies hold the rights to many more recordings that are no longer available (or were never released) and which may be termed the 'past' catalogue. The number of titles in the past catalogue is vast. EMI told us that it is unable to give a figure for the number of titles it holds but estimates that it runs to seven figures.

Characteristics of the UK catalogue

5.151. There are a range of estimates of the size of the UK catalogue. The MCPS keeps records of sales by line item for the purposes of collecting publishing royalties. It estimates that there are some 60,000 line items in the catalogues of the UK record companies which are currently available in the UK, including singles. In contrast the BPI estimates that there are nearer 100,000 line items available. The line items range from titles that sell a few hundred and have limited availability in retail outlets to classical titles that are available in dozens of different recordings. The number of line items has been increasing over the last few years, as titles previously available on vinyl or cassette are reissued on CD, and recordings are recycled in compilations. However, the MCPS stressed the approximate nature of any estimate of catalogue size. The true number of line items available in the UK could be double its estimate because of imports.

5.152. We have been told that catalogue size in any territory is a poor indicator of choice of title available to the consumer because a retailer could probably order a copy of any title in the world catalogue of a major record company and receive it in a matter of days. To gain some impression of the 'effective catalogue' of available titles that are demanded by consumers it is useful to examine actual deliveries of records to retailers.

5.153. One major record company provided us with data of actual supplies of its albums in the UK and USA for the 12 weeks between 22 May 1993 and 13 August 1993 for every title for which there was at least one album delivered. These deliveries are shown in Table 5.32.

TABLE 5.32 Major record company: analysis of deliveries, 22 May to 13 August 1993

1. Number of titles delivered

UK	2,222
US	1,832

2. Number of titles for a given share of deliveries

	20%	30%	40%	50%	60%	
UK		5	9	15	25	44
US		2	3	6	11	21

3. Share of deliveries accounted for by a given number of titles (%)

	5	10	20	50	100	
UK	21%	32%	46%	63%	75%	
US	39%	49%	59%	72%	81%	

4. Number of titles with fewer than 12 deliveries (1 per week)

UK	167
US	43

Source: MMC from company information.

5.154. Table 5.32 presents four different ways of measuring and comparing the range of deliveries of records by the company in the two countries. The four measures produce a consistent picture. The UK had 21 per cent more titles delivered than the USA. In the UK 25 titles accounted for 50 per cent of deliveries-in the USA this required only 11 titles. In the UK the Top 10 accounted for 32 per cent of deliveries-in the USA they accounted for 49 per cent. In the UK the company was required to deliver one album per week for 167 titles-in the USA for 43 titles.

5.155. The evidence suggests that UK consumers demand and receive a greater range of titles than US consumers, even though the population of the USA is some five times greater than that of the UK.

5.156. The characteristics of the total catalogue of recordings available in the UK have already been described to some extent in the section on sales (eg in terms of music category, price category and format). Similar figures for numbers of titles are not readily available. Record companies tend to identify catalogue items by title and format (ie a line item) rather than title alone. Hence an album may appear three times if it is available on CD, cassette, and LP. However, one of the major record companies was able to provide figures for its catalogue by line item for the last five years (see Appendix 5.3). This demonstrates the importance of the CD format and the decline of the vinyl format particularly for classical titles. It also illustrates the increase in the number of titles available at mid-price and budget.

5.157. Since each title is likely to be available on CD the number of CD line items may be regarded as a good indicator of the number of titles. On this basis it has been possible to compile estimates of the numbers of titles currently available from four of the major companies (see Table 5.33).

TABLE 5.33 Number of album titles in the current UK catalogues of the major record companies

	<i>Non-classical</i>	<i>Classical</i>
PolyGram	2,077	3,730
EMI	N/A	N/A
Sony*	944	1,128
Warner*	1,190	944
BMG*	812	1,263

Source: MMC estimates from company information.

*Based on numbers of titles offered on CD.

5.158. Typically the record companies do not categorize different types of music by genre apart from classical and non-classical. One company carried out an analysis by music genre of the titles currently in its UK catalogue (Table 5.34). Classical titles represent about half of the total number of titles available but they accounted for less than [†] of its album sales in 1992. The lower sales volumes for classical albums result in a much longer period for the recovery of the initial costs of a successful album. An analysis of the sales of all the albums released in the second half of 1992 by three of the majors showed that by six months after release the classical albums had each sold an average of only 1,125 copies compared with an average of 17,500 for the non-classical albums.

TABLE 5.34 The catalogue of [†] UK by music type

	<i>Number of album titles in current catalogue</i>	<i>% of total catalogue</i>
Pop	[9.6
Rock	15.0	
Classical	54.4	
MOR	5.8	
Dance, soul, reggae	†	5.9
Country, folk	1.9	
Jazz	5.0	
Other		<u>2.3</u>
Total]	100.0

Source: [†]

Note: Percentages do not add to 100 because of rounding.

5.159. Comparisons of catalogues available in different countries is not a simple process. First, demand characteristics vary by country. For example, Japan, Germany, and France tend to have relatively large catalogues because, in addition to the internationally available titles from English-speaking artists from the USA and the UK, there are particular traditional and linguistic features to the markets. Secondly, titles are not always available on all formats. The decline of the vinyl format is widespread and in some countries such as the Netherlands and Japan almost all sales are of CDs. Thirdly, in some countries, the single is no longer a significant feature (France and Germany) while in others it remains significant (UK and Japan). Fourthly, markets with a relatively high interest in a wide range of genres tend to have broader catalogues available (USA, UK, Netherlands and Japan).

5.160. A major record company has provided estimates of the numbers of line items it offers currently in a number of countries (Table 5.35). Apart from Japan, it offers the largest number of line items in the UK. By contrast another estimated that it offered 5,500 titles in the USA (3,472 non-classical, 2,028 classical) compared with 2,128 in the UK (1,000 non-classical, 1,128 classical).

TABLE 5.35 Current catalogue of a major record company

Country	Album line items	Single line items	Total line items
UK	10,135	1,187	11,322
USA	7,811	146	7,957
France	8,158	109	8,267
Netherlands	9,389	389	9,778
Germany	9,650	1,050	10,700
Japan	11,093	427	11,520
Denmark	5,120	182	5,302

Source: A major record company.

New releases

5.161. According to *Music Week* magazine 96 singles releases and 185 album releases were made on average each week in 1992. Singles are normally released as part a strategy for breaking a new artist or promoting an album release (see paragraphs 5.233 to 5.235). Singles rarely make a profit. They are a means to obtain press, radio and television exposure and trial purchases. Sales success brings the potential for increased media exposure and retailer support. There are, however, variations to this pattern. In dance music, singles remain the major format for artists. In other forms of pop music such as heavy metal, consumers are album-oriented, loyal to particular artists and not influenced by fashion. The 'alternative' music market is another example of a segment that does not always require a singles success to stimulate album sales. By contrast, classical repertoire is almost never released on singles because of the length of classical works and the general lack of demand amongst consumers. There are exceptions such as Pavarotti's performance of *Nessun Dorma* which was used as the opening music for a television sports programme.

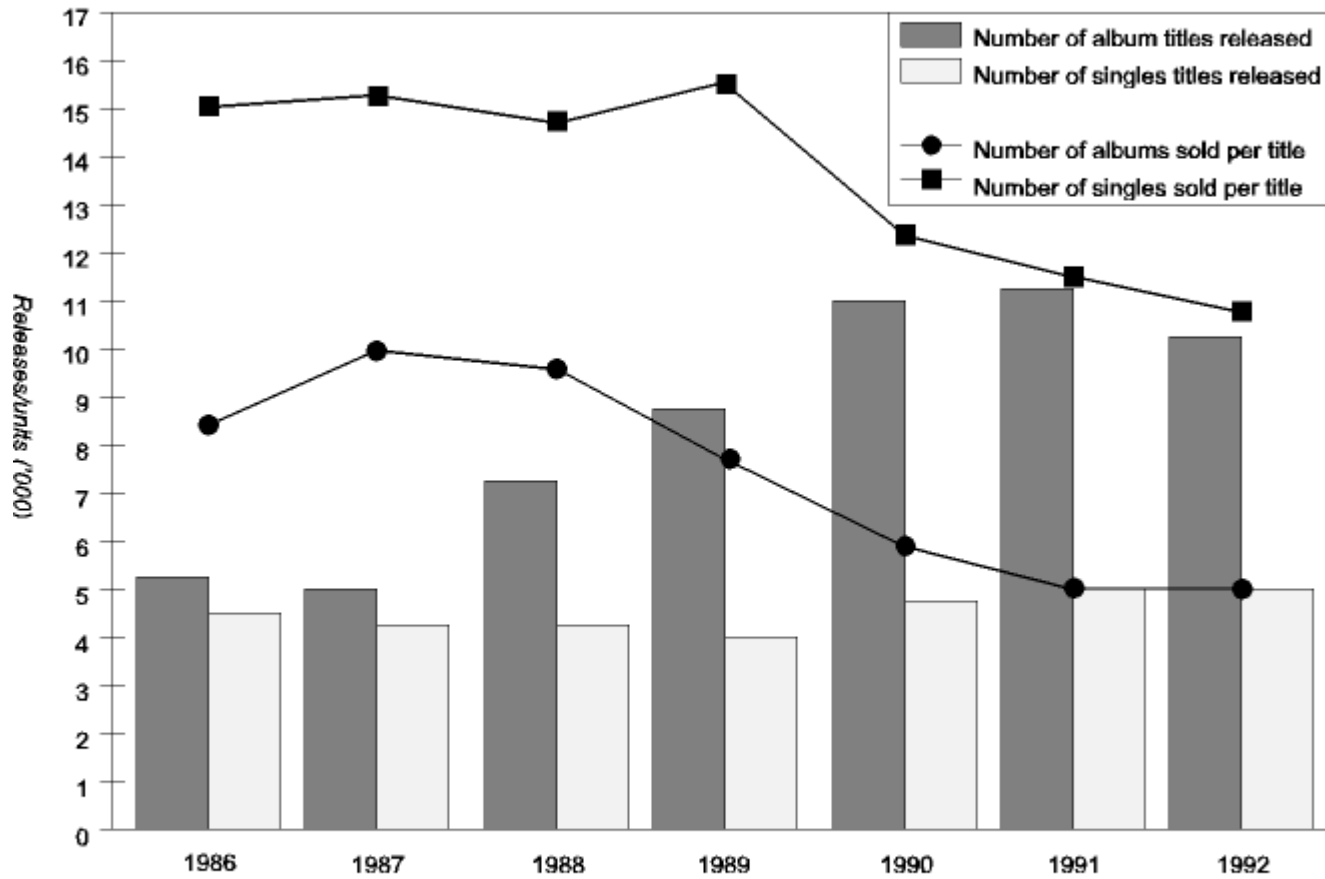
5.162. The timing of album releases is normally driven mainly by the availability of new recordings from the artists on the record company's roster but releases may be timed to take advantage of the Christmas period or some other appropriate event. Each new release will normally be discussed by the management of the company and the artist, bearing in mind contractual commitments and wider issues concerning the marketing and promotional campaign that will accompany the release. With regard to repertoire licensed in from an overseas affiliate the release date is normally determined in conjunction with the repertoire owner. A record that is to be released internationally might have a sequence of release dates in different countries so that the artist is able to make promotional appearances.

5.163. Most releases of new pop recordings are made at full-price. Records from past or back catalogue which are re-released may be priced at mid-price. By contrast, new classical albums may be released at full-price, mid-price or budget depending on factors such as the quality of the recording and the status of the artist. It is common for there to be many versions of popular classical works, with a choice of artist, orchestra and conductor offered in different price categories.

5.164. In recent years the number of titles released has increased. There has been a trend towards a greater variety in the market as record companies issue more titles in an attempt to cover a range of music genres. EMI told us that since 1987, album releases (excluding classical releases) have more than doubled. By contrast, the BPI estimates that the album market in volume terms in 1992 was much the same size as in 1986. Figure 5.3 shows the increase in the number of titles released and the decline in sales per title. The average album sold fewer than 5,000 copies in 1992, across all formats, compared with 10,000 in 1987. Singles releases have risen 10 per cent since 1986 while average sales per release fell from 15,060 in 1986 to 10,750 in 1992.

FIGURE 5.3

Market release volumes and sales per title



Sources: *Music Week*, Gallup, BPI, Music Master, EMI Records analysis.

Notes:

1. Excludes classical releases.
2. One title = one release, regardless of the number of formats.

Back catalogue

5.165. The back catalogue of pop albums consists of recordings which are no longer new releases but continue to be available. Since the initial costs of production and promotion have been recouped or written off, sales of back catalogue are particularly valuable to the record companies. Some records by established artists (such as Bob Dylan, The Beatles or Elvis Presley) have been part of the catalogue for a considerable number of years.

5.166. The record companies continually seek ways of exploiting back catalogue titles. The introduction of the CD has led to the reissue of back catalogue material on the new format, often after the original recording has been digitally remastered to enhance the quality. Consumers who already own a title on another format may wish to purchase the CD version for their collection. Sometimes a reissue can have significant sales and enter the charts (eg EMI's re-release of the Beatles' Red and Blue albums on CD in 1993). Older titles might also be re-released at mid- or budget price. Licensing tracks for use on compilation albums (eg *Greatest Hits*, *Love Songs*, *Dance*) is particularly important and such albums form a significant sector of the record market which has grown in recent years. Some compilation albums are marketed through television advertising by record companies such as Telstar and Dino Entertainment, as well as by the majors. Many old classical recordings have also been digitally remastered and offered on CD either at full price (for collectors' items) or at mid- or budget price in recognition of the lower quality of recording.

5.167. A recent development has been the introduction and success of the commercial classical music station, Classic FM. This has generated interest in classical music and led to promotional spin-offs such as a classical music chart in W H Smith. It also provides an opportunity to advertise classical music but this does not seem to have led to the expected increase in sales of classical music or attendance at live concerts.

Past catalogue

5.168. The majority of recordings in the past catalogue were commercial failures and are therefore unlikely to be released again. A small proportion of the past catalogue, however, may be released if reasonable sales are possible. Examples of circumstances that may lead to the release of past catalogue are:

- the anniversary or death of an artist may lead to the re-release of old albums or the release of new compilations;
- the revival of interest in a particular period of music, eg a 1960s revival prompted by a television series;
- the use of a particular track in a television programme or advertisement may generate demand for other recordings by the same artist; and
- third parties may request licences to re-release certain recordings, typically as part of a compilation.

5.169. Some past catalogue may be released for the first time. For example, interest in a successful artist may lead to the release of works that were recorded some years before but not released at the time. These might be tracks that were not selected for release on an album or different versions of tracks that were included on previous albums. For example, Bob Dylan released an album entitled *The bootleg series (rare & unreleased) 1961-1991*. The title was prompted by the fact that some of the tracks on the album had already found their way on to the market illegally over the years.

UK releases compared with other countries

5.170. The major record companies provided us with details of the releases they made in 1992 in a number of countries (see Appendix 5.4). The estimates suggest that more singles titles were released in the UK than in the other countries featured and more album titles were released in the UK than in the USA or Denmark but fewer than in the other countries. The titles released in the UK comprise many by internationally known artists,

together with those released by local artists. The high number of releases in France and Germany reflects the larger number of local artists with a small following. We have been told that in Japan the same album may often be released twice in the same year.

Deletions

5.171. Singles have only a limited life span and almost all are deleted from a record company's current catalogue if they are not a success or as soon as they drop out of the singles charts, although the record company continues to hold the rights in the recording and it can be re-released. The sales of albums are reviewed regularly. Record companies may establish sales thresholds by which to assess whether a title should be deleted or not [

Details omitted. See note on page iv.]. Each format is reviewed separately and the deletion of one format will not necessarily result in the deletion of other formats. Items might not be deleted if some event (such as the release of another album or a tour) might lead to an increase in demand. In the case of the classical catalogue, titles may be retained if their sales are small because it is recognized that demand is likely to remain steady for a longer period of time than for a pop title.

5.172. The evidence provided by the companies suggests that 15 to 25 per cent of album titles in their catalogues are deleted in any year. The number of titles deleted is broadly matched by the number of releases made in a year.

Manufacture of records

Formats

5.173. When the pop music industry took off in the 1960s, vinyl recordings dominated the market, having taken over from the brittle 78 rpm records in the late 1950s. Reel-to-reel tapes were available for pre-recorded music in the 1950s and 1960s but never became major sellers. In the late 1960s stereo recordings were introduced and for some time recordings were issued in both mono and stereo versions. Once stereo LPs had become established, record companies tried to introduce quadraphonic LPs but this format did not develop the wide public appeal needed to establish it as an alternative format. In addition, four- and then eight-track tape cartridges became available in the mid to late 1960s but the sales peaked at just under 6.2 million units in 1974 and then fell away sharply; the cartridges were eventually removed from the market.

5.174. Cassettes were introduced in 1967 but were slow to become successful. One of the key advantages for the consumer of the cassette format was that for the first time the consumer had the ability to copy recordings, whether from vinyl or from pre-recorded cassette, and build up a music library at a fraction of the price at which recorded music was on sale. This was, and remains, illegal in most circumstances (see paragraph 4.34). There was steady growth in the sales of this format until 1984 followed by a rapid expansion in sales arising from improvements in the sound quality of tapes and the growing importance of portability in consumers' choice of formats, as a result of the growing number of in-car players and the fashion for personal stereos. The sales peak for cassettes occurred in 1989 and there has since been a decline in the format.

5.175. The introduction of the CD in 1983 was followed by massive investment by the industry in promoting this format which offers improved sound quality, durability and convenience to the consumer. Cassettes and CDs have to a considerable extent displaced vinyl although a few listeners still prefer the latter's sound reproduction quality.

The manufacturing process

CDs

5.176. A digital master tape, containing the recording of a particular title and encoded at the studio with additional data such as track identification, timing and location, is delivered to the CD manufacturing plant. The audio signals are transferred at the plant to a glass master from which stampers are made via a galvanic process. The stampers are then used to press the CDs.

5.177. The process is broadly as follows. The CD to be used as the master disc is an optically-ground, spotlessly clean, polished glass disc which is evenly coated with a light-sensitive coating. The master tape is used to produce the CD master disc by controlling a high-powered recording laser which etches the pit-structure into the coating. The matrix process then produces the 'stamper'-the moulding tool that will be used to manufacture the disc. A layer of silver is vacuum-evaporated on to the disc's surface and the silvered glass master is electroplated to produce a nickel master (a metal negative) which is in turn used to produce a positive. This disc then becomes the original from which duplicates can be made. Another coating process produces the stampers, or positives for the pressing of CDs. Several stampers may be required to complete an order.

5.178. The stamper is mounted into an injection-moulding press and polycarbonate is injected into the cavity created on the press between the stamper and a blank placed opposite it. The output from this process is an unmetallized disc known as a substrate. The side with the pit structure is then thinly coated with aluminium (which provides the CD's reflective surface) and a protective film coating applied to prevent oxidization of the metal. The disc is then precision-centred and the centre hole punched out. Each CD which passes the factory's final quality control is a totally accurate reproduction of the original master tape. The final stages of the process are printing the face of the CD by a silk screen printing process; and putting it in its package, together with any artwork inserts, ready for despatch.

Music cassettes

5.179. The studio master tape is usually transferred to a Digital Audio Tape (DAT), which is sent to the factory. There the music is transferred on to a 1" wide 'duplication master tape', or 'running master', which contains Side One (forward play) and Side Two (reverse play).

5.180. The master tape is loaded into a master loop bin, with the ends of the master spliced together to form a continuous loop. In addition, a small section of reflective film is fixed next to the splicing tape. The loop bin machine plays the 1" running master at high speed in a continuous loop, using two replay heads. The reproduced signal from the master loop bin is transmitted to a bank of duplication machines (the number depending on the size of the order) which record the music on to 1/4" cassette tape which is mounted on the machines in 'pancakes', reels of tape up to 5,500 metres long. The recording heads have capstan motors either side to ensure consistent tension during tape handling. After duplication the recorded pancake contains a number of cassette programmes, the actual quantity varying with the play-length of the original recording.

5.181. After duplication, the pancake is transferred to a winding machine which puts the programme into empty cassette shells. The machines are able to detect the beginning and end of each programme by a cue tone generated by the reflective film earlier fixed on to the duplication master tape. The complete cassette is then transferred to a finishing process where either a label or 'on-body' print is applied. Finally the cassette is put into its plastic case with a paper inlay.

Vinyl

5.182. The manufacture of vinyl discs starts with either a lacquer disc or a DMM (Direct Metal Master) made of copper, which is cut at the studio and delivered to the factory.

5.183. If a lacquer disc is used it is first made electro-conductive by chemically coating silver on to the surface. The silvered lacquer is then placed in an electroforming bath and plated with nickel to produce a master (negative). This is separated from the lacquer, cleaned and chemically treated and then returned to the electroforming bath and plated with nickel to produce a positive. The positive is separated from the master and is cleaned and sound tested. It is now used to produce nickel moulding tools (stampers) for record moulding. The music faces of the stampers are protected with a plastic coating until used, and the reverse side is polished. Next the stamper is optically centred and a hole accurately punched in the centre. It is then mechanically formed to fit the record press mould blocks.

5.184. DMM copper processing was introduced some ten years ago and is much simpler than lacquer processing. Since the DMM is metallic it needs no silvering before producing a master. The DMM is itself the positive for producing stampers; the master is only used in future to grow another positive if the DMM becomes damaged.

5.185. The stampers (one for the A side and one for the B side) are mounted on to the moulding press. A piece of hot, soft vinyl is squeezed between the stampers and a vinyl positive copy of the original lacquer (or copper) is formed. This is the record. It is now transferred to the trimming and bagging station. The complete cycle takes approximately 20 seconds. Numerous sets of stampers can be grown from each 'positive', and several 'positives' from each 'master'. When the 'master' eventually wears out a re-cut becomes necessary.

5.186. Seven inch records are made on a modified injection moulding press. The A side and B side stampers are inserted into the press, and the plastic injected into the gap between them. Once moulded the label area of the disc is inked, highlighting information pre-etched into the stamper, and then bagged. The bagged record is then boxed for despatch if it is a single; albums are hand packed into the outer sleeve.

Economies of scale

5.187. Economies of scale can result either from the size of the plant and the technology employed or from the length of the production run, or from both.

(a) Plant size

- (i) EMI told us that its own very slimmed down vinyl operations in the UK show that a very small operation can be just as efficient as a larger one. We were informed, nevertheless, that benefits of size do accrue as plant size increases, since management and other overheads can be spread across a larger number of units. The example we were given was that a freehold plant with a 100 million unit capacity has broadly the same fixed overhead as a 40 million unit capacity plant. The ability to spread these fixed costs over a higher number of units provides scale economies.
- (ii) A further benefit of larger-scale plants relates to service quality. With more production lines, it is easier to juggle volatile order profiles. As priorities change quickly in accordance with chart activity, it is easier for a large plant to respond to that success without jeopardizing service levels for the rest of their customers. This is even more important in the UK than in the rest of Europe because of the continuing importance of singles which are 'perishable' products, with tight turnround times (24 to 48 hours). In a facility with only two or three CD lines, all other orders might have to be delayed (or outsourced, at potentially higher cost) for the sake of supplying one or two very fast-moving lines. If all demands are to be met in a highly seasonal business, the plant may be under-utilized during the slower-selling months.

(b) Run length

There are considerable potential economies from increasing run length in CD production (for example) because of fixed costs in the areas of set-up time, process yield and paper parts. In the UK market the system of distribution allows retailers to order daily, so that manufacturing is typically against customer order than for stock. This makes for smaller production runs in the UK than are typical either in the rest of Europe,

where demand is less volatile, or in the USA, where overall demand is so much greater and retailers order less frequently. We were told that the prevalence of small manufacturing runs in the UK is an important explanation for the number of small manufacturing operations which are able to remain competitive, in spite of the potential economies of larger-scale production.

- (i) Set-up time: Changing the mould (stamper) on the press takes anything from 5 to 20 minutes so that with longer runs more productive use is made of the equipment. Changing the screens on a label printer takes on average 15 to 20 minutes. For a series of orders of 500 units each, it takes approximately twice as long to set up the screens for the next order as to complete the order itself. Finally, every time a new order is placed on the finishing equipment, the printed material, and sometimes the type of jewel boxes, must be changed over. This takes about 20 minutes.
- (ii) Process yield is the ratio of good product obtained at the end of the production line to the number of discs pressed. When discs are pressed the moulding machine must be at a constant high temperature for good results. This is much more easily achieved with long runs than with short ones, since the temperature drops when the presses are stopped for stamper changes.
- (iii) The unit cost of paper parts (CD book and inlay) drops significantly with the size of the print run.

Location

5.188. The progressive replacement of vinyl by cassettes and, later, by CDs will have greatly reduced the importance of transport costs in the economics of record supply. Cassettes and CDs are much less fragile than vinyl and have a higher value:weight ratio, both of which tend to reduce the relative unit cost of transport. Many of the larger record companies employ manufacturing facilities which are located a considerable distance away from the market being served.

5.189. Nevertheless, some companies clearly believe that for certain time-sensitive product, especially singles, it is important that the location of manufacturing should not be very far from the market to be served, in order to facilitate rapid response to perceived changes in demand for particular records. EMI, for instance, has a policy of sourcing chart product, whether singles or albums, as close to the source of demand as possible, while back catalogue may be sourced from more remote plants.

The relationship of manufacturing and record companies

5.190. Most major record companies have closed their manufacturing plants in the UK. The exceptions are EMI, which continues to produce all formats, and Sony, which manufactures music cassettes only. Apart from manufacturing their own products, EMI and Sony manufacture cassettes for third parties, and EMI does the same with vinyl. There is a flourishing and competitive independent manufacturing sector, with individual companies usually specializing in a particular format, although some (eg Damont Audio Ltd in Hayes, Middlesex and Mayking in London) manufacture multiple formats. Manufacturers compete on the basis of service (fast, consistent turnround), product quality and price.

5.191. Most of the majors obtain the bulk of their manufacturing requirements from sister companies. Apart from EMI, which manufactures CDs at Swindon and cassettes and vinyl records at Hayes, Middlesex, and to a lesser extent Sony, which manufactures cassettes at Aylesbury, these sister companies are located abroad.

5.192. The record company identifies the product and the market for it. It is responsible for producing the initial master recording and for subsequent record distribution, marketing and promotion. It decides the format in which the product will be produced and the size of the order needed to meet initial customer demand. The larger the order the better the deal obtainable from the record manufacturer but the greater the risk of having product left unsold. The lower the order the less attractive it will be to the manufacturer, who wants to spread fixed costs over longer production runs.

5.193. The independent manufacturers principally supply the requirements of independent record companies. However, a number of the major record companies regularly obtain a proportion of their requirements from the independent manufacturers. This is mainly (though not exclusively) for the supply of singles, where the flexibility and rapidity of response of local companies gives them an edge in a market where these factors are specially important. The majors may also utilize the independent manufacturers when their regular suppliers are overloaded.

5.194. We were told that supply arrangements in the independent sector tend to be governed by exchanges of letters, rather than by firm contracts. Failure to perform leads to rapid switching of custom. Record companies will sometimes confine their subcontracting to a single supplier, but some will double- and triple-source. Where record company and manufacturer are part of the same organization, as is the case with most of the majors, this does not arise to the same extent.

Prices charged by manufacturers

5.195. The price charged for record manufacture is made up of several components, some of which will be consistent across manufacturers and some of which will vary. The cost of record manufacture will include that of the plastic, vinyl or tape used for the singles or albums and the outer case. The sound carrier and its case are standard and their cost tends to be consistent across manufacturers. Singles vinyl product is cheaper than that of LPs (ie single albums). Music cassettes have a variable price structure depending on the playing time of the tape. CD singles are usually cheaper than CD albums because of the smaller amount of printed material and differences in the finish. Some manufacturers charge separately for mastering costs while others include an element of mastering in the unit price. Similarly, delivery may be included in a unit price or charged separately.

5.196. Paper parts (sleeves, booklets, etc) may be included in the unit cost or sourced from a different manufacturer. The use of extra colours, more pages, special folding, etc will increase the unit cost. Where a manufacturer is responsible for paper parts, it may agree to bear the inventory risk on these parts and this will be reflected in the price charged.

5.197. There is often a minimum order quantity (especially on initial orders) and small orders will have a higher unit price than larger orders to reflect higher unit costs. Negotiations between large record companies and manufacturers will usually be on a standard price, irrespective of order quantity, which takes account of a mix of order sizes. One-off purchases of capacity to handle one or several orders will be made at the 'spot' competitive supply price prevailing in the market at the time. Longer arrangements will be specially negotiated.

5.198. Price will reflect the time of year, especially in such a seasonal industry. Manufacturing prices will be relatively high in the peak pre-Christmas period. At other times of the year, when there is spare capacity, very keen prices, based on marginal cost, may be obtainable. We were told that record companies tend to prefer annual arrangements with manufacturers in order to preserve guaranteed access to manufacturing capacity at peak times. Negotiated prices will reflect product specifications, average order size and overall volumes, with retroactive discounts sometimes payable when target volumes are exceeded. Service specifications are very important to record companies, since they will often require many small orders to be made up at very short notice. Such requirements could not be met by relying on the spot market. Bearing in mind the variety of factors that can affect the unit manufacturing price, we were told by the record companies that unit prices charged for CDs can vary between 70p and £1.60, exclusive of inlays.

Sourcing of product by record companies

5.199. Supply arrangements for a number of the larger record companies are as follows:

- (a) *EMI*: The company manufactures all the principal formats in the UK, but imports product that is not time-sensitive from its sister plant in Uden (Netherlands). Its UK vinyl manufacturing facility is used to meet EMI's European requirements. Declining demand for the vinyl format means that EMI's capacity has been enough to cover its own requirements and also those of third parties, the latter accounting for 54

per cent of EMI's vinyl output in 1992/93. While it has been building up its CD capacity, EMI has been sourcing a significant proportion of such product from third parties. By 1992/93 the in-house manufacturing percentage of such product was 74 per cent. EMI is likely to continue to source a small proportion of its requirements for cassettes from third parties.

- (b) *PolyGram*: Record supply is from a variety of sources. Most CDs are obtained on a long-term contract, from the Philips factory at Blackburn which is not regarded as an in-house source. CDs are also produced by the PolyGram factories at Louviers and Hanover and are sourced through its International Supply Centre, PolyGram's central European warehousing complex at Hanover. All classical CDs are supplied from that centre. Until recently a number of independent UK sources had been used to supply cassettes. Though these sources are still used, most cassettes (including singles) are now sourced from PolyGram's factory at Amersfoort. Vinyl records are sourced from France through an agent.
- (c) *Warner*: The great majority of the product sold by Warner is manufactured by the affiliated company Warner Music Manufacturing Europe (WMME) which carries out manufacturing for all the European Warner companies. However, 29 per cent of the total volume of Warner records in 1991 were supplied either by a variety of UK independents or (to a minor extent) by other UK record companies (Sony and EMI). Supply by independents was mostly of singles.
- (d) *Sony*: Sony manufactures cassettes at Aylesbury, both for itself and for a number of third party customers. Supplies of CDs are obtained from a sister company in Austria and of vinyl from a sister company in the Netherlands. CD singles needed urgently are air freighted from Austria.
- (e) *BMG*: All CD and cassette albums are obtained from BMG's Central Manufacturing Group, in Germany. This is a logistics organization which organizes supply for all BMG companies, mainly through Sonopress (a division of Bertelsmann), but also to some extent through UK independents (eg Nimbus and Disctronics). Vinyl albums are normally UK-sourced. All BMG's singles are sourced in the UK because of the need for a quick, flexible response. In 1992, 42 per cent of BMG's sales of CDs (by volume) were supplied by UK independent manufacturers, and 31 per cent of cassettes.

Artwork and packaging

Artwork

5.200. Major record companies may have in-house art departments to design sleeves and other display materials, though they may also employ external designers. Other record companies rely on contracting with third parties who specialize in such design and will oversee the process from photo-session to print organization. Such agencies will work to standard specifications set by the record company—eg incorporating the required size, catalogue number and product bar code. EMI told us that it uses any of about 20 different third party agencies, depending on the type of design required.

5.201. The budget for artwork will often be higher for the more established and popular recording artists. Where product is originated in the UK, artwork will also be prepared in the UK, even if actual production takes place overseas. Where product is not originated in the UK, the original artwork may be used subject to any necessary language or other changes—eg incorporation of catalogue and bar code numbers—to make it suitable for the UK market.

Packaging

5.202. Packaging refers to the cost of any booklet, jewel box, tray or shrink-wrap and excludes the cost of any incorporated artwork. It is a minor part of the total cost of an album—according to EMI, 5 to 6 per cent of the average realized dealer price of a CD. The major part of the packaging cost is the booklet containing information about the record. For a CD this is usually at least four pages long, but it can be longer, especially for classical albums.

Distribution

5.203. In the record industry the term distribution refers to the ways in which records are delivered from the record companies to the retailer (or mail order companies/record clubs). The BPI estimates that some 60 per cent of recorded music in the UK is distributed to retailers directly by the record companies' distributors, 28 per cent goes via a wholesaler and the remaining 12 per cent is supplied to mail order and record club operators. Figure 5.4 summarizes the main channels of distribution. Distributors and wholesalers are considered below. Retailers are considered in Chapter 6.

Distributors

5.204. A distributor normally acts on an exclusive basis for a record company. This means that all the finished product of a record company is bulk-shipped from the manufacturer or a central warehouse to the exclusive distributor where it is broken, picked and packed for onward distribution. Any dealer (ie wholesaler or retailer) wishing to obtain the record company's products must contact the distributor. The supply by the distributor to a dealer is deemed to be a sale by the record company. The record companies therefore bear the cost of delivery to retail outlets.

5.205. Distributors need to carry full catalogue ranges, and to hold sufficient stocks to satisfy anticipated demand. Because of frequent fluctuations in demand for individual titles and the unpredictability of sales, the distribution system has to ensure that records are delivered as quickly as possible, usually within 24 hours of receipt of an order from the retailer. Most of the major retail chains do not have central warehouses and require delivery direct to each of their stores.

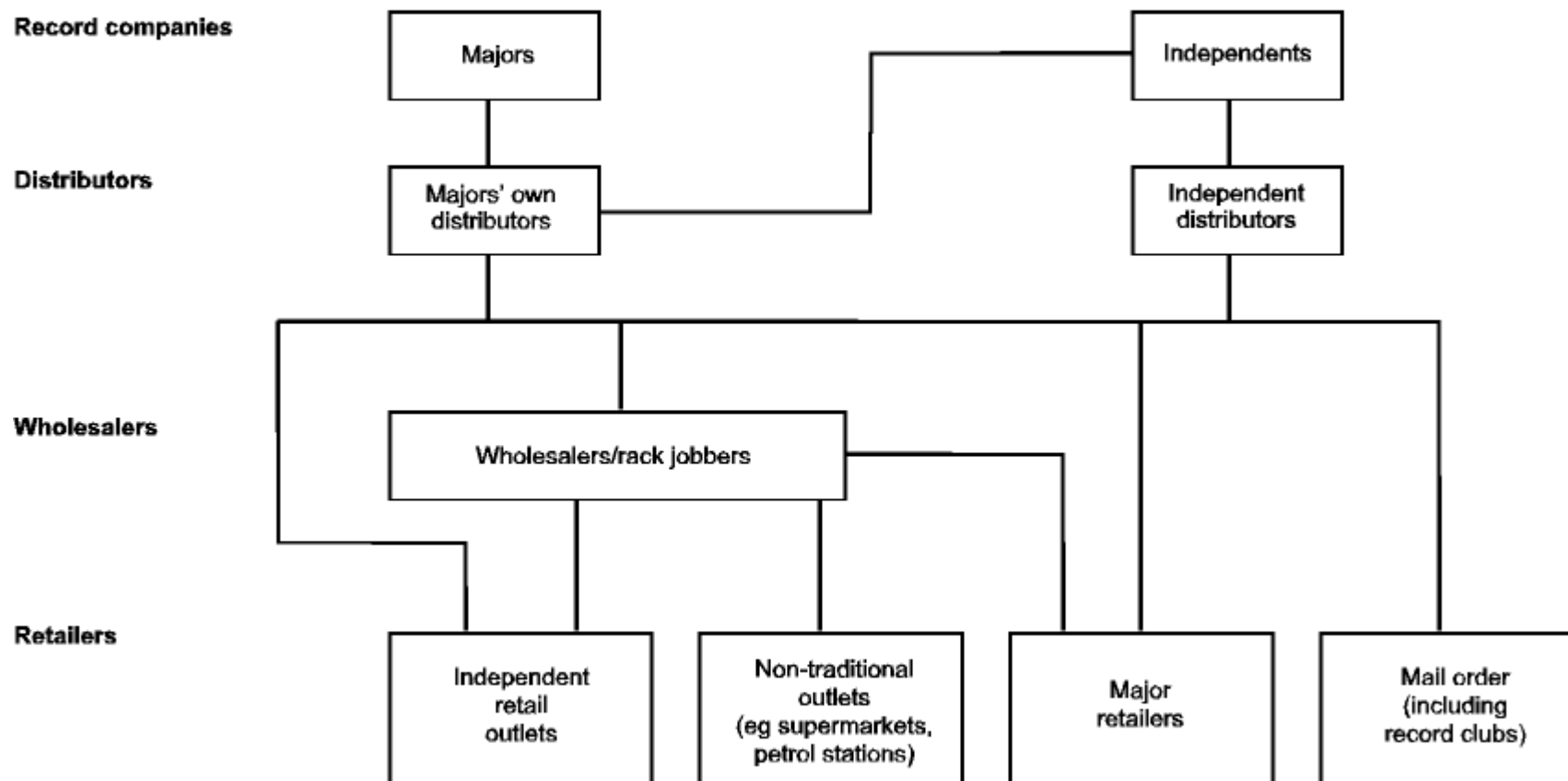
5.206. Final delivery to retail outlets is carried out for distributors by contract couriers such as Securicor. Securicor picks up packages from distribution depots and transports them to its own depot where they can be sorted according to their final destination. It is therefore usual for the products of different record companies to arrive at a retail outlet in the same van.

5.207. Each of the five major record companies has its own centralized distribution operation (eg EMI at Leamington Spa, Sony at Aylesbury). A major might also act as a distributor for an independent record company; for example, Warner distributes for Beggars Banquet Records Ltd (Beggars Banquet). There are also a number of independent distributors. Pinnacle Records (Pinnacle), a division of Lambourne Productions Ltd, is the main independent distributor and acts in an exclusive capacity for many independent record companies. Pinnacle warehouses, physically distributes to, and invoices the retail trade for the product that it carries for a record company under an exclusive UK distribution contract. At the point of sale from Pinnacle to its customers the product is deemed to be purchased from the record company. Independents therefore have a choice of distributor and there is evidence that switching takes place. For example, MCA switched from PolyGram to BMG in 1990.

5.208. Table 5.36 shows the shares of distribution held by the nine leading distributors. Table 5.37 shows the record companies for which they act as distributor. The shares of the majors generally reflect their parent company's sales. The exception is BMG which has a larger share of the distribution market since it acts as distributor for a number of independents. Pinnacle had an 8 per cent market share (by value) in 1992.

FIGURE 5.4

Distribution of records in the UK



Source: MMC.

TABLE 5.36 Market shares of distributors (by value of album sales), 1992

<i>Distributor</i>	<i>Market share</i> %
PolyGram	23.9
EMI*	23.1
BMG	15.8
Warner	13.1
Sony	11.0
Pinnacle	7.9
Pickwick	1.0
TBD	0.4
Conifer	0.4
Others	<u>3.4</u>
	100.0

Source: MMC based on information supplied by Gallup.

*Virgin product was distributed by PolyGram in 1992 and moved to EMI only in 1993 after the acquisition of Virgin Music by EMI. However, Virgin's market share has been included with EMI's in this table to reflect the current situation.

Wholesalers

5.209. Wholesalers purchase catalogue from distributors and offer a range of product, sometimes on a 'sale-or-return' basis, to accounts too small to deal directly with individual distributors. They do not stock every line item offered by the distributors but typically restrict their stock to the 'mainstream' artists. They also provide 'top-up' stocks for next day delivery for many of the multiples and independent retailers which otherwise deal directly with the main distributors. This role has diminished recently as the main distributors have reduced order response times (see paragraph 5.212). A wholesaler may also act as exclusive distributor for a small record company. The major wholesaler in the UK is TBD which is owned by John Menzies. It supplies numerous independent specialist and non-specialist accounts. Rack-jobbing is a form of wholesaling that has grown in importance in recent years. It comprises a more extensive range of services. Records are generally supplied to non-traditional music outlets such as garage forecourts, motorway service stations or supermarkets. Rack-jobbers will negotiate with the owners of such outlets to acquire display or shelf space for records. The rack-jobber will then be responsible for all aspects of stock ordering, display and maintenance for that outlet. In some cases the rack-jobber will supply the retailer on a sale-or-return basis. It is therefore normal for there to be only one rack-jobber supplying a particular retailer. The retailer will receive the sales revenue for sales of such music and pay a percentage to the rack-jobber.

5.210. The main rack-jobbers that supply non-traditional outlets in the UK are EUK, part of the Kingfisher Group, through its 'Chart Stop' offering, TBD and Pic-A-Tape, through 'Entertainment Stop'. EUK is solely responsible for the supply of records to Woolworths, which is also part of the Kingfisher Group, as well as acting for third party non-specialist customers such as Tesco and Asda. TBD is the exclusive supplier of records to John Menzies and Boots.

Recent developments in distribution

5.211. Over the last five years there has been increased concentration at both the retail and wholesale levels. This has resulted in a higher percentage of business going through fewer accounts and an increase in the bargaining power of some dealers. However, increased retail and wholesale concentration has not had any great impact on the number of delivery points the record companies have to service because most retailers do not carry out their own wholesaling.

TABLE 5.37 Distributors' market shares by company's records distributed (by value of album sales), 1992

<i>Distributor</i>	<i>Source of records distributed %</i>	<i>Share of records distributed in UK</i>
PolyGram	PolyGram	23.7
	Others	<u>0.2</u>
EMI	23.9	
	EMI	14.4
	Virgin*	7.8
	Others	<u>0.9</u>
BMG	23.1	
	BMG	5.1
	MCA	4.3
	Telstar	4.0
	TUG	0.7
	Castle Communications	0.7
	Sony	0.2
	Beechwood	0.1
	Zomba	0.1
	Others	<u>0.4</u>
	15.8	
Warner	Warner	12.4
	Beggars Banquet	0.2
	PWL	0.4
	Others	<u>0.1</u>
Sony	13.1	
	Sony	10.5
	Arcade	0.4
	Others	<u>0.1</u>
Pinnacle	11.0	
	BBC	0.6
	China	0.2
	Connoisseur Collection	0.2
	Creation	0.3
	Dino	1.8
	Factory	0.1
	First Night	0.2
	Music for Nations	0.2
	Mute	1.0
	One Little Indian	0.6
	Quality Productions	0.9
	Ritz	0.2
	Zompa	0.2
	4AD	0.1
	Others	<u>1.6</u>
7.9		
Pickwick	Pickwick	0.9
	Others	<u>0.1</u>
TBD	1.0	
	Music Collection	0.1
	Others	<u>0.3</u>
Conifer	0.4	
	Conifer	0.2
	Others	<u>0.1</u>
Others	0.4	
	3.4	
Total	100.0	

Source: MMC based on information supplied by Gallup.

*Virgin product was distributed by PolyGram in 1992 and moved to EMI only in 1993 after the acquisition of Virgin Music by EMI. However, Virgin's market share has been included with EMI's in this table to reflect the current situation.

Note: Percentages may not add to the totals because of rounding.

5.212. The nature of distribution in the record industry is influenced by the service required by retailers. Recently, retailers have sought to decrease the level of stock that they keep at their stores. For example, the Our Price chain has a stockholding sufficient to service an average of 70 to 75 days' sales. This policy is partly the result of the recession, partly to enable more store space to be freed for product display, and partly in response to the unpredictability of demand for individual titles. This has led to increased demands on distributors to provide a 'just-in-time' delivery service to each store. The record companies told us that it is now common for retail outlets such as Our Price, HMV and Virgin to place orders twice a week (and even every day during the Christmas peak period). In the case of Virgin's larger stores, orders for best-selling product and chart product may be placed every day. This change has been facilitated by the introduction of computer ordering of product by some stores. EMI, with PolyGram and BMG, have recently invested in an electronic ordering system known as EROS Music Systems, which enables any dealer to key orders directly into the relevant distribution centre at any time.

5.213. The effect of the 'just-in-time' service has been to increase the number of deliveries made by distributors. A major record company estimated that, between 1988 and 1992, whilst there was a decrease in the number of lines it shipped of 24 per cent and of units shipped of 24 per cent, the number of orders it processed increased by 42 per cent. But the average number of records per order fell by some 47 per cent.

5.214. The increase in the number of orders and a decrease in the number of records per order puts an upward pressure on distribution costs. Primary distributors, notably Sony and EMI, have responded by increasing automation at central distribution centres. Also, reductions in delivery times from manufacturers have enabled distributors, wholesalers and rack-jobbers to reduce stock for normal expected supply.

International trade in recorded music

Visible trade

5.215. Visible (ie physical) imports and exports of finished product are limited because most product is distributed locally by the rightsholder in a particular territory. The main categories of imports of finished product into the UK are:

- (a) imports under the MCPS/BPI Import Licensing Scheme;
- (b) imports from the EC; and
- (c) imports of pirate product.

Imports under the MCPS/BPI licensing scheme

5.216. Under the MCPS/BPI Joint Licensing Scheme (see paragraphs 4.69 to 4.72) an importer can import finished product from outside the EC with the permission of the UK rightsholders. From the MCPS's records of royalty stamps 'sold' it can be estimated that imports under the Scheme amounted to some £6 million in 1992, representing about 0.5 per cent of retail sales. Income from sales of royalty stamps in 1992 was £566,000.

5.217. The MCPS sent 95 letters to importers in 1992 informing them that particular records could not be imported under the Scheme. Table 5.43 shows who had requested these withdrawals from the Scheme. Nearly half the letters were sent on behalf of independent record companies.

TABLE 5.38 MCPS letters withdrawing records from the import licensing Scheme, 1992

	<i>7"/12"/CD and MC singles</i>	<i>CD/LP/MC albums</i>	<i>Multi- formats</i>	<i>Total</i>
Multinational record company	8	31	6	45
Independent record company	13	19	8	40
Music publisher	3	3	2	8
BPI (Anti-Piracy Unit)	-	1	1	<u>2</u>
	95			

Source: Record companies from MCPS information.

Imports from the EC

5.218. Finished product produced legally anywhere in the EC, or produced legally elsewhere and in free circulation in the EC with the consent of the copyright holders, can be imported without further permission since there is freedom of parallel trade within the EC. There are no data available for the levels of imports originating from within the EC.

Imports of pirate product

5.219. Piracy consists of illegal copying for commercial gain. It includes counterfeiting (the unauthorized duplication of a sound recording, designed to sound and look as much like the original as possible), and bootlegging (the unauthorized recording or duplication of a live performance or concert). The BPI estimated that the value of total UK retail sales of pirate product in 1992 was some £17 million. The estimated retail value of imports of pirate product was £2.75 million for the same year. Current unpublished BPI estimates suggest that sales of pirate product increased markedly in 1993. The BPI operates an Anti-Piracy Unit which, among its other activities, issues notices to UK importers and distributors of product, alerting them to the likelihood of a particular counterfeit or bootleg product being offered to them. For example, in March 1992 it issued a notice in relation to substantial quantities of counterfeit CD albums of recordings by some top stars (including REM and Simply Red) manufactured in Singapore and Taiwan and shipped to Europe for distribution.

Invisible trade

5.220. Invisible exports consist of royalty and other earnings by UK owners of the rights in recordings which are licensed to overseas record companies. Records in respect of which invisible earnings accrue are manufactured, distributed and marketed by the overseas company.

Trade statistics

5.221. Official figures for UK imports and exports collected by Customs and Excise and reported in the BPI Handbook 1993 give a value of £140 million for total visible imports and £211.6 million for visible exports in 1992. However, the figures may be an overestimate of the trade in finished product because they include intra-industry transfers of unfinished product.

5.222. The BPI estimates that the value of invisible exports from the UK was some £500 million in 1991. This takes into account all sales and other royalties directly associated with the exploitation of sound recordings. We have been unable to obtain any estimates of invisible imports. The BPI provides no estimate of invisible imports and the CSO does not collect separate information on invisible trade in music.¹ However, our

¹The CSO, the BPI and British Invisibles have recently set up a working party to examine ways of improving the collection of information on invisible imports and exports.

examination of the financial data of the five major record companies, which is discussed in Chapter 8, shows that the amount of the licence fees they receive greatly exceeds the amount that they pay out.

Marketing and promotion

5.223. Record companies use marketing and promotion to help ensure that an individual artist is established in the consumer's mind and that there is the maximum exposure of each record release. The ultimate aim is to ensure the sales of albums. The returns from marketing and promotion may take time to accrue. For example, a campaign to raise the profile of an artist may not only boost sales of the current album but all future albums.

5.224. The sales success of a new release is dependent on consumers being able to hear the recording. The record companies estimate that fewer than 10 per cent of albums are bought by consumers who have not heard the music before. However, in order to achieve playing time in the first place and in order to exploit any playing time that is achieved, it is also necessary to promote the recording. It must be promoted to retailers, to persuade them to stock it, to the media, to draw the recording to the public's attention, and directly to consumers. The process is complex and mixes various elements in different degrees depending on the characteristics of each artist and recording. These elements include: media exposure in the form of airplay and comment on radio, television and in the press; live performances and touring; personal appearances in dance clubs; advertising in the press, on radio and television, and on posters; in-store promotion and retail co-operative advertising; and direct mail.

Media exposure

5.225. Radio airplay is a very important medium for record promotion. BBC Radio One, Capital, Virgin 1215, and some 50 independent local radio stations are usually supplied with free samples of records prior to release. Deregulation of radio in the UK has led to an increasing number of new radio stations (both regional and national), some of which target a particular musical taste (eg Kiss FM, Jazz FM, Classic FM). About 200 albums and 100 singles releases are made each week in the UK. Pop radio stations add some 20 titles to their playlists each week. The inclusion of a record on a playlist can make the difference between success or failure.

5.226. The record company devotes considerable effort to securing mention of a recording in the general press and specialist music press, and on radio and television, and to ensuring that the record is played on the radio and in clubs and discos. Television exposure is also a significant factor. This may involve the artist's live performance, or the showing of video clips on BBC's *Top of the Pops* and ITV's *The Chart Show*, on more general shows such as Des O'Connor, or on breakfast television. The record company usually books and delivers artists and videos for the available slots. Pop acts are generally promoted in this way. Record companies often make a video of an artist performing the single that has just been released. If the single is a success and the video is considered good quality it can receive extensive airplay in television programmes that are devoted to pop music or otherwise (eg children's programmes), thereby generating performance income for the record company. In a typical record deal, 50 per cent of the cost of a video will be expressed as recoupable from the artist's record royalties. Videos may also be made to accompany albums (both pop and classical) and sold to the consumer.

5.227. Press coverage divides into two areas: specialist and general. The UK has a tradition of specialist music papers such as *New Musical Express* and *Melody Maker*. New magazines such as *Q* and *Vox* also feature music. This area of the press reviews new releases of singles and albums, and carries news, features and interviews on artists and on the music scene generally. The releases of the independent record companies in particular are featured in the specialist music press. The general press is also important for music coverage.

Live performances

5.228. Tours and performances are normally arranged by the artist's manager. They will be co-ordinated with new releases and record companies are usually expected to contribute towards the costs. Most tours make a loss on ticket sales although some major artists make a profit. Promotional appearances in clubs may also be important particularly when co-ordinated with the release of a single. New artists may build up a fan base by performing at a number of small venues in a region.

Advertising

5.229. All forms of advertising media are used, ranging from radio and television to outdoor posters. Advertising is normally funded by the record company, although co-operative activity with retailers and concert promoters is common.

Retailers

5.230. Retailers are notified in advance of new releases and in the period leading up to the release date the record company will seek advance orders from the retailer to ensure that the records are in stock in stores on that date. Some form of co-operative marketing may be agreed between the record company and the retailer to accompany the release.

5.231. Campaigns in conjunction with retailers can take various forms. Television and press advertising, posters and other material advertising the retailer may feature particular recordings. Depending on the status of the recording artist, such a campaign may be initiated by the retailer. The costs of such 'co-operative' advertising are normally borne by the record company. The record companies also pay for in-store advertising material in the form of posters, carrier bags, etc, bearing the image of the artist or reproducing the cover of the record, and for space in the window display of the store. Retailers and record companies may co-operate to mount back catalogue campaigns whereby the retailer offers a reduced price to the consumer and receives a discounted price from the record company for stocks to be included in those campaigns.

5.232. As part of the promotional strategy for a particular recording a record company may offer retailers additional discounts to have stocks on display on the release date. Further discounts may be available to a retailer that stocks a record as part of an in-store campaign or to tie in with a tour by the artist.

The role of singles and charts

5.233. Release of singles is the most common and most effective means of promoting a pop album. It is success in the singles chart which is particularly important because the Top 40 is the basis for playlists on radio and for pop programmes on television, and which generates demand from consumers and retailers (see paragraphs 6.55 to 6.60).

5.234. Singles are usually not a profitable format for the record companies in themselves; they usually have a catalogue life of less than six months from release to deletion and most do not generate enough sales to cover all the costs of the promotional activity and manufacturing. However, they play an important role in establishing an artist and improving or maintaining his or her popularity. For a new artist the release of the first single generally precedes the release of the album. The main function of the single is to attract media attention to the artist by focusing on a specific song. If the single is successful and enters the charts this will generate more media interest which in turn increases the amount of exposure the record receives.

5.235. The album may be released after the first or second single and there is a definite correlation, although not a hard and fast one, between the chart position attained by the single and the sales of the album. For example, the sales of Tasmin Archer's album *Great Expectations* reflected the impact of the success of singles drawn from it. The debut single (*Sleeping Satellite*) reached No 1 in the singles chart in the week prior to the release of the album. The debut album was an immediate hit, reaching No 8 in the album charts. To revive falling sales, subsequent singles were released; each time the high point of that single in the singles chart coincided with, or just preceded, a 'peak' in the album chart (see Appendix 5.5).

Free records

5.236. The singles charts in the UK are based on sales of records through a range of retail outlets. In general only the specialist multiples and the independent retailers are willing to stock a wide range of singles. The generalist chains and multiples are generally only willing to stock singles which are already in the Top 40 or 60 of the singles charts. However, given the volatility of singles sales and competition for display and storage space, the specialist multiples and the independents require some incentive to stock a particular singles title. The supply of free singles constitutes such an incentive. By supplying free copies to retailers, record companies seek to raise the public's awareness of an artist's music and to achieve retail sales sufficient to secure a place in the singles chart (which is based on retail sales). If a retailer has the single in stock at a higher margin than average there is an incentive to try to sell the recording.

Classical music

5.237. Most of the features of marketing and promotion discussed so far apply particularly to non-classical records. Marketing and promotion of classical records has many of the same features: promoting and developing the artist, advertising new releases, in-store promotions. Popular works performed by well-known artists (such as Nigel Kennedy, Luciano Pavarotti or Kiri Te Kanawa) may be advertised on television, in the press and on radio (such as Classic FM).

5.238. An important part of the promotion of classical records which is different from that of pop recordings and partly reflects the longer life of classical catalogue items is development of the 'brand' image of the label. The label may be associated with works of critical acclaim (eg EMI Classics, Deutsche Grammophon, Hyperion) or with budget product (Naxos, Music For Pleasure). Record companies may seek to associate themselves with classical events or institutions (eg Glyndebourne, the Royal Opera House and the South Bank Centre).

Expenditure on marketing and promotion

5.239. According to the BPI, total advertising expenditure by record companies and retailers increased from £42.1 million in 1991 to £47.7 million in the following year. Marketing expenditure by the majors increased from 14.7 per cent of gross sales (17.8 per cent of net sales) in 1989 to 17.7 per cent of gross sales (22.3 per cent of net sales) in 1992 (see Table 8.6). This was partly in response to the decline in sales over this period. The estimate for 1993 shows a decline to 15.9 per cent of gross sales (19.9 per cent of net sales). The majors told us that over 80 per cent of their marketing and promotion expenditure is on new releases.

Future developments

5.240. The record companies told us that the main developments likely to affect the industry in the next ten years are related to technological developments in the supply of home entertainment.

5.241. In the shorter term it is likely that the record industry in the UK will follow the developments that have already been taking place in countries such as Japan and the USA. The CD is becoming, and may continue to be, the principal carrier, not only for music, but also for video, games and information. The introduction of two new audio-only digital carriers-Philips' DCC and Sony's MiniDisc system-represents the attempts by these companies to introduce alternative digital carriers to consumers. One of these may succeed as there appears to be a requirement for a portable digital format to replace the analogue cassette.

5.242. The traditional core business of the record companies, the production and sale of copies of recordings, may begin to be replaced by other means of distributing music. For example, digital broadcasting by satellite or cable is currently under development. The ability to 'compress' multiple signals to be carried by fibre optic cables will mean that households will be able to receive a wide range of specialist radio and television stations, catering for a variety of musical tastes. For example, a service called Digital Cable Audio Services which can deliver more than 30 channels of digital audio transmissions of original sound recordings through the consumer's

hi-fi system is already operating in the USA and Time Warner Entertainment is developing a 'Super Highway' project in the USA where fibre optic cables carry 500 channels of digital home entertainment services. Consumers may even be able to select the specific recordings they wish to hear. They may substitute listening to radio broadcasts for the purchase of records or make home recordings of broadcasts. There are implications for the flow of income to rightsholders, the incidence of piracy, and the role of the retail sector.

5.243. New technologies are likely to allow delivery of music as part of multimedia (ie film, video, music, information, communication) in a physical format such as the CD or via broadcast media. There are currently in various stages of development at least 12 multimedia 'platforms', including CD-I and CD-ROM, for which music programming will be an integral part of the software offering.

5.244. The ownership structure of the major record companies means that links are growing between the music, entertainment, media, communications, information technology and consumer electronics industries. Apart from EMI all the large companies in the music industry are parts of international corporations with extensive interests in one or more of these sectors.

5.245. The record companies told us that it is extremely unlikely that in the next ten years the physical distribution of product will disappear completely, given the perceived consumer benefits associated with the packaging and tactile qualities of the object (portability, durability, and convenience). Nevertheless it seems likely that the balance between physical and non-physical distribution will change and that direct access via satellite and cable systems will assume a much greater importance.