

Is live the future of music?

One question on everyone's mind throughout 2007, but never formally asked or answered, is whether the value being made out of the apparently booming 'live' sector will overtake the value created by the 'recorded' music industry (if it hasn't already). As the industry enters an increasingly uncertain 2008, Will Page, Chief Economist at the MCPS-PRS Alliance, offers an economic view on how best to approach this question, and whether an answer can be constructed.

The recent explosion in the live sector has been well publicised, perhaps most notably by Robert Sandall's article in respected UK politics mag Prospect. To the casual observer, the combination of three-figure ticket prices and 'roadies wanted' adverts suggest that demand is outstripping supply. Add to that the growth in the secondary ticketing, and it appears that there is some way to go before the market starts to level off.

Equally, the troubles of the recorded sector are well known. The UK retail value of recorded music was down 10 percent year-on-year in 2006, and exhibiting signs of an accelerating decline in the top

line for 2007. On the supply side, the shrinking of shelf space devoted to music presents a worrying trend. Similarly, my recent 'wallet share' article (Music Ally 18th October 2007) showed the consumer is demanding 'less' recorded music, despite being 'more' well-off.

It is clear that the sands are shifting within the music industry. A colleague once coined the term a 'Battle for Relevance' to conceptualise the problems facing the middle men who stand between creator and consumer during this period of disintermediation, be they labels, publishers, collecting societies or the live music sector. The question is who stands to benefit and who stands to lose?

With incentives often asymmetric to each other, (and cross-subsidisation prevalent in all), the idea of a battle for relevance is an interesting way to view a fragmented business. For instance, in the off-line world, music publishers sit behind the record label in the supply chain, but the structure of the online supply chain has the retailer paying both directly. Think Radiohead, and you can see how this changes the relationship and the relevance that results.

What the live sector constitutes and how it might view this battle presents some interesting horse-and-cart questions that each of the intermediaries would ask, and answer, differently. For example, in the past, touring might have been a means to drive revenues of physical product. Now in some camps giving away physical and digital product is viewed as a means to drive touring revenues. As the cross-subsidisation which sustained the old model breaks down, natural tensions rise up - thus record labels might seek to do the job of the promoter (360 degree artist deals), and vice versa (Live Nation and Madonna).

Let's go back to the original question - is there a changing of the guard on the horizon? Can the growth of the live music sector overtake that of the recorded music industry, in terms of capturing consumer disposable income? Given that insufficient data makes it near-impossible to try to put a financial value on the live sector, attempts at answering this question could be rendered worthless. Nevertheless, we can use our economics to look at how the question might be asked.

For example, by 'grossing up' the value generated by the PRS Popular Concert and Classical Concerts Tariffs, we can posit the UK live sector to be worth somewhere in the region of £546 million (of which PRS collects a small percentage). But this omits clubs, pubs and variety performances to name a few, where the tariff structure makes this 'grossing up' exercise unworkable. Furthermore, this method suffers from other leakages such as 'Grand Rights' and classical works that are in the public domain.

No surprise, then, that research company Mintel offers a significantly higher estimate of £743 million for UK major concert venues. The validity of this estimate is open to question, as the evidence base used for its construction seems to encompass a fair amount of 'guesstimation'. Furthermore, this value refers to ticket sales only, and excludes the real cash cows: namely booking fees, merchandise, car parking and - of course - the bar.

Then there's the secondary ticketing market. This has been growing massively of late, driven by new technology and consumer behaviour. TixDaq, a consultancy which specialises in this field, view this secondary sector as being worth between £200m and £250m in 2007, based on evidential data on ticket sales across a range of secondary exchange platforms.

October UK secondary ticketing value (GBP)

Spice Girls
£3,549,753

Take That
£1,362,533

Foo Fighters
£690,355

The Police
£350,079

Sex Pistols
£347,243

Arctic Monkeys
£301,377

The Verve
£271,743

Bruce Springsteen
£250,136

Led Zeppelin
£242,743

Amy Winehouse
£229,909

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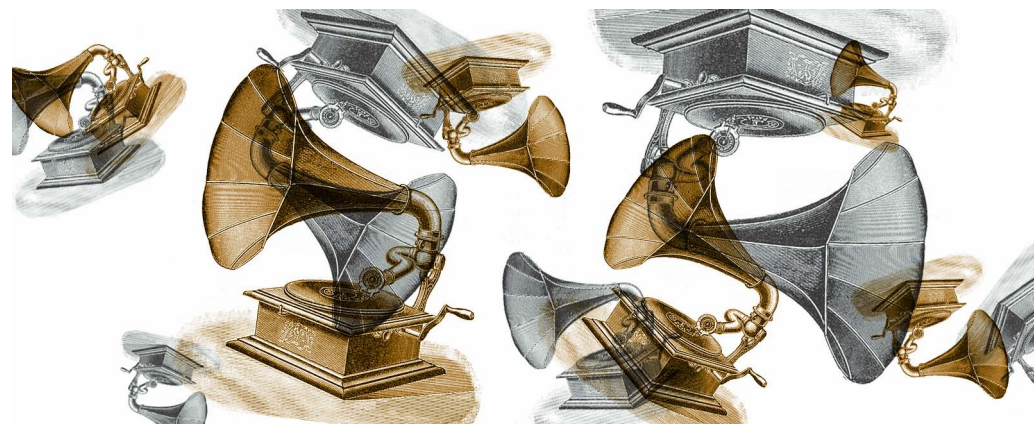
Based on these numbers, in terms of consumer expenditure, the live music sector value approaches £1 billion – and growing! How does that compare with the troubled recorded sector?

Between 2004 and 2006, the retail value of the UK recorded sector has seen almost £300 million shaved off, and now sits at £1.7 billion. At the wholesale level, (i.e. what goes back to the record labels, not what is spent at the till), the value just edges above the £1 billion threshold – and falling!

The chart below highlights both sectors from 2004 to 2006 and then projects forward to 2013, using historical trends and least-squared regressions (ie; forecasts based on existing trends). Put simply, this projects one sector to go down, whilst the other goes up. More interestingly, it captures exponential properties, or what is meant by an 'accelerating rate'

of decline. Wholesale (dark pink) and retail (light pink) values of recorded music are stacked up as bar charts, whilst primary (dark blue) and secondary (light blue) values of live music are plotted behind, in stacked area charts.

Now, as has already been stressed, this is not intended to be the definitive answer, but more of a way to help the reader conceptualise the question. In 2006, recorded music got a lot more of consumers' disposable income than live music, but what's interesting is that if these current trends were to continue (and that's a big 'IF'), then it becomes more immediate as the tipping point is set to take place within the next three years. And if the question focused purely on trade value (which is how the IFPI now measures the recorded music business), then the tipping point might have already happened.



Of course, there are many mitigating factors which could affect this picture. Firstly, the ability of the recorded sector to secure, monitor and track digital revenues will improve over time and, as this is one area that's growing, the decline in the top line may be reversed through statistics alone. Secondly, the current pace of growth in the live sector might be a 'blip' driven by a temporary resurgence of heritage acts, and once their time has passed, the inflation-beating growth may taper off, sharply.

Of all the 'known unknown' variables that have been illustrated here, the secondary market is, unsurprisingly, the most intriguing. The projection simply takes the estimates for 2004-07 and then grows it in line with the primary market trend. But online secondary trading has grown exponentially since the launch of Viagogo, Seatwave and numerous other trading sites in the first half of 2006. As a general observation, might increases in trading activity lead to increases in overall trading value?

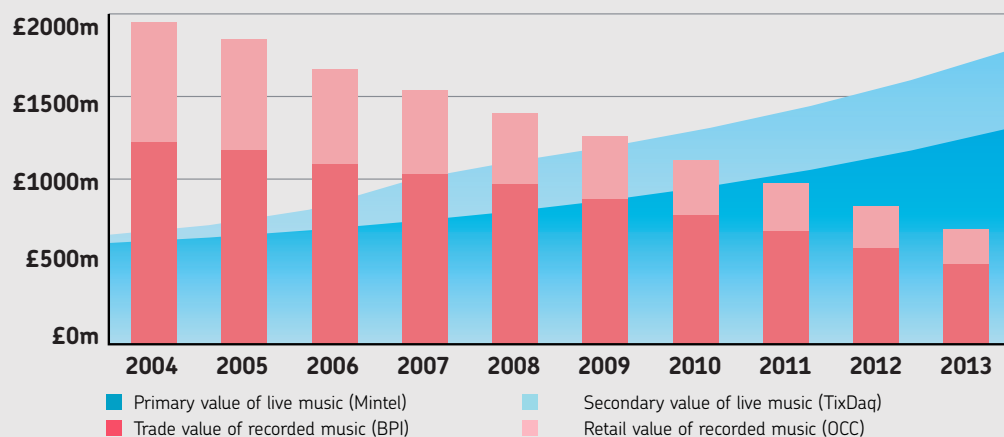
Charlie Marshall of TixDaq offers an insightful interpretation about the economics of this sector:

"The striking growth in the secondary ticket market will flatten off as the market becomes more transparent – i.e. the prices at which secondary trades take place will be naturally regulated by the economic effects of competition. However, the big question in the future will be where the primary market ends and the secondary market begins. Rights holders need to think carefully about how their inventory is priced and sold in order to maximise their own returns, rather than creating a market for others to exploit."

What's clear is that economic factors driving value within the music business are changing. Prince & Madonna realised this; as have labels seeking 360 degree artist deals. But ultimately live and recorded music have a symbiotic rather than competitive relationship which means they should continue to be able to derive value from, rather than take value away from one another. And if both are able to tap into the growing secondary market then this relationship can only improve.

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Can 'Live' overtake 'Recorded' for Capturing Consumer Disposable Income ?



(Source: BPI, OCC, Mintel, TixDaq, PRS and authors own calculations and projections)