

Digital Music

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Challenging future for specialist music streaming services



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G2Mi Research provides research and advisory services covering the global TMT industries, including the entertainment industry.

2015 performance

The latest data from the world's largest music market - the United States – indicates annual growth of approximately 25% in streaming revenues and 4% decline in download sales. Downloads account for 67% of the digital market (H1 2015), down from 92% in 2010. Global digital revenues grew by 7% in both 2013 and 2014.

2015 may be seen as a 'game changing year for the music industry, with the launch of Apple's music streaming service. Whilst this may help drive growth in the overall streaming market, it creates a more challenging market for the specialist players. Available financial data shows that the specialist players (such as Spotify, Deezer and Rhapsody) continue to make substantial losses as they fund subscriber growth and geographic expansion. Profitability is not yet in sight and the industry faces continuing demands from artists to increase royalties. This uncertainty about the future is likely to have contributed to Deezer pulling its planned IPO in October.

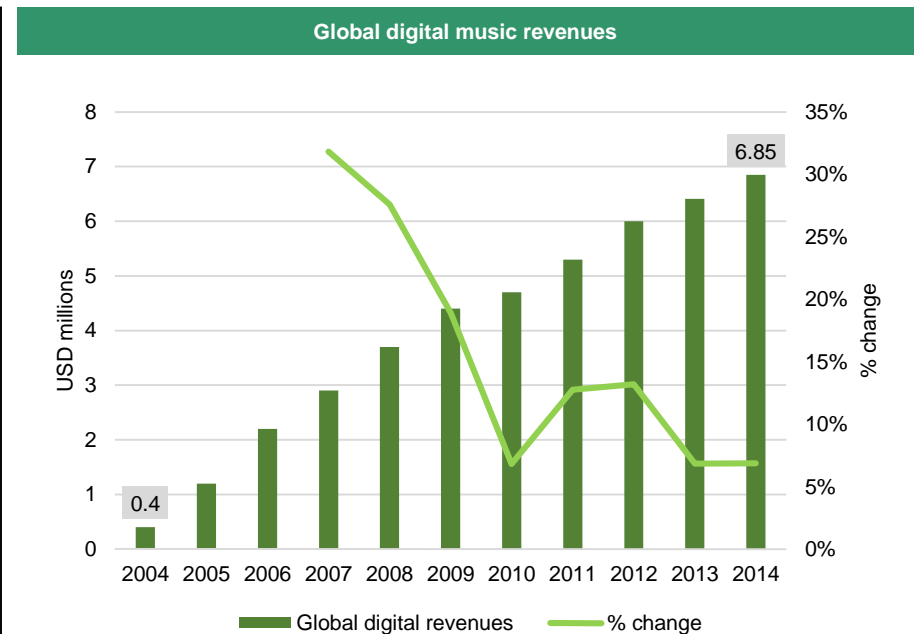
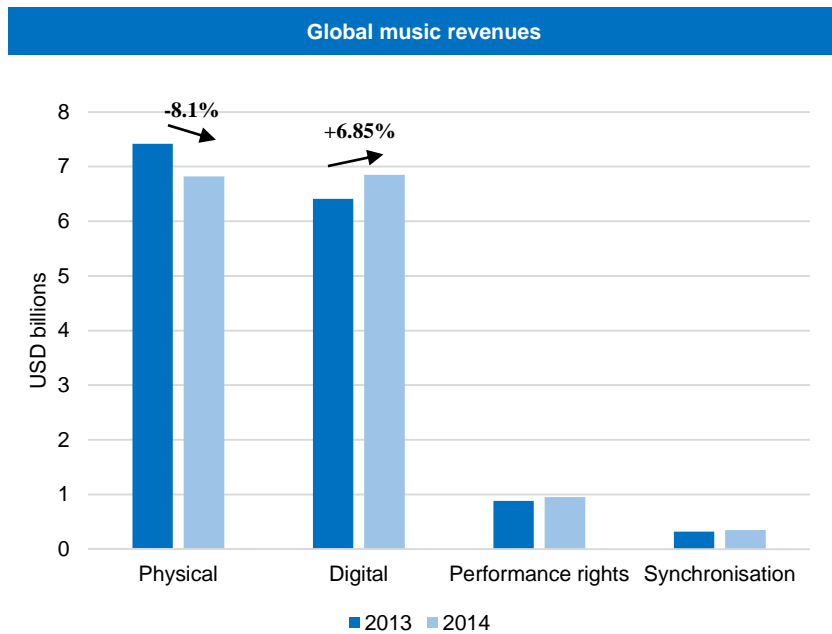
Long term outlook

It is likely that the paid subscription model will eventually hit a growth ceiling, given the relatively high cost of music subscriptions; most consumers will continue to use the ad-funded services or continue to download. The specialist players such as Spotify and Deezer face a difficult future given the competition they face from digital platforms such as Apple and Google (Facebook are also rumoured to be launching music services).

Markets where music tastes are more local (e.g. China, Japan, India) may prove more difficult for the likes of Apple Music. Existing players such as QQ Music (China), Saavn (India) and Line Music (Japan) could benefit, but need to convince many of their users to pay for music streaming.

7% growth in global digital revenues

Annual growth in global digital revenues may accelerate as Apple Music grows and new music services become available from other digital platforms (such as Facebook)



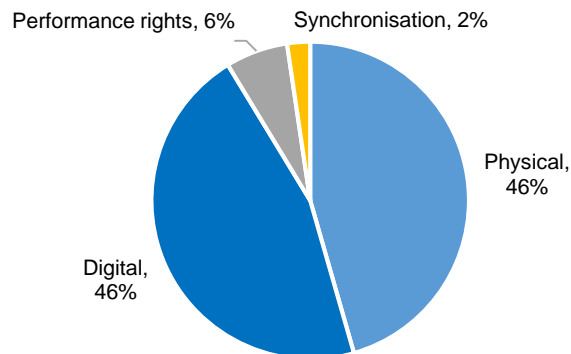
Whilst being a minor category, Vinyl/LP sales have grown in many developed territories

Digital CAGR of 9% (2009/14)

Digital now accounts for almost half the global music market

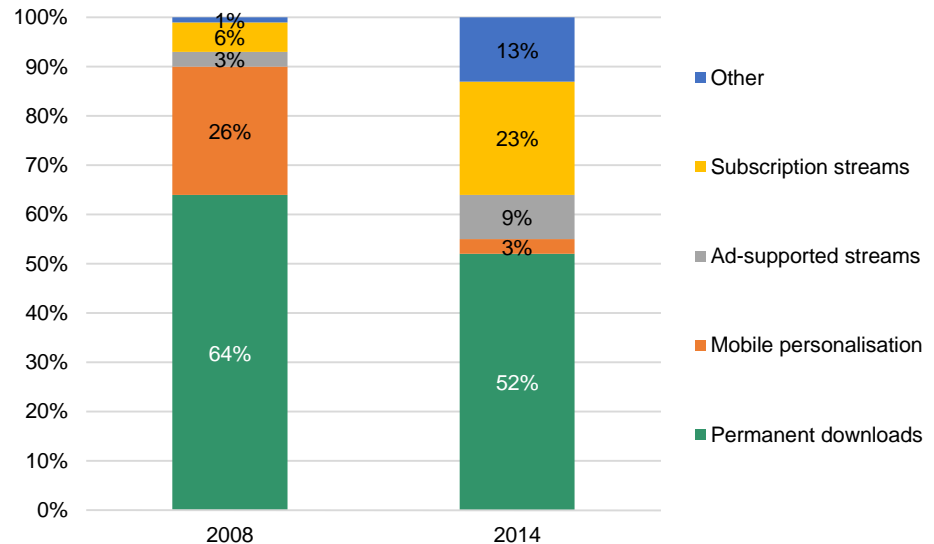
Subscription revenues have grown to account for a quarter of digital music revenues whilst the market for ringtones has declined to just 3% in 2014

% global revenues by type



The digital and physical segments account for 46% each of the global music market

% global digital revenues by type

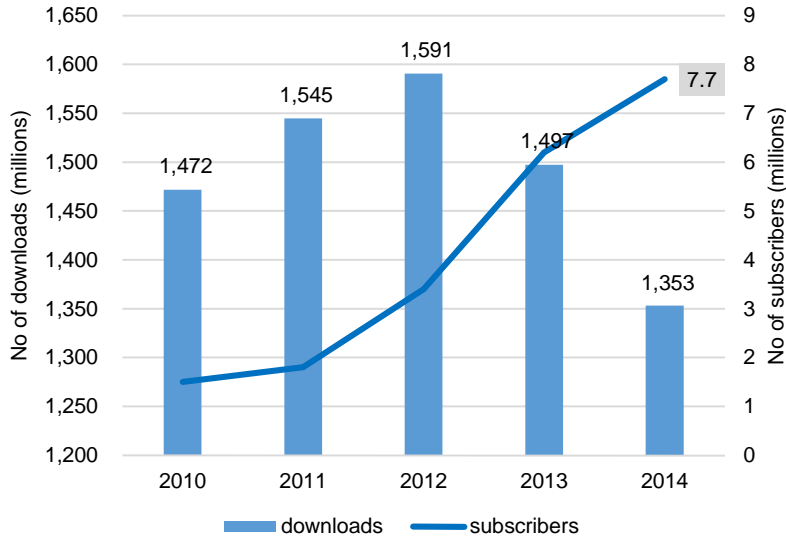


The decline in download sales is largely due to music enthusiasts switching to subscription services – both free and ad-funded, which offer a better consumer experience

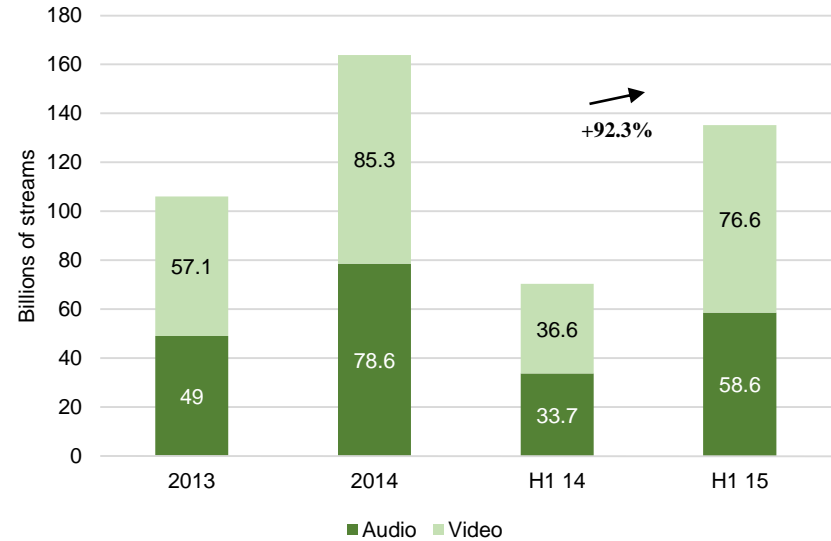
US market sees 92% growth in streaming volumes (H1 2015)

The growth in subscribers (8.1 million in H1 2015) is now leading to a significant decline in downloading

Trends in music downloads and streaming subscribers



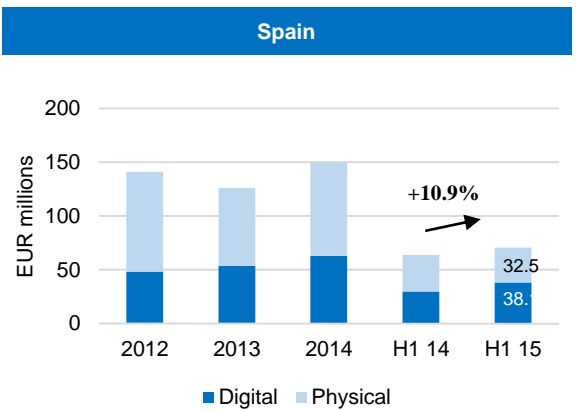
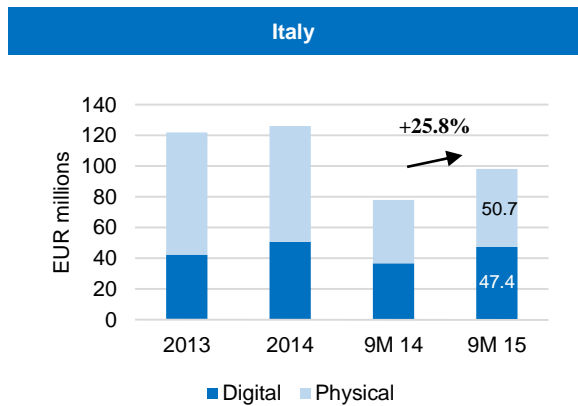
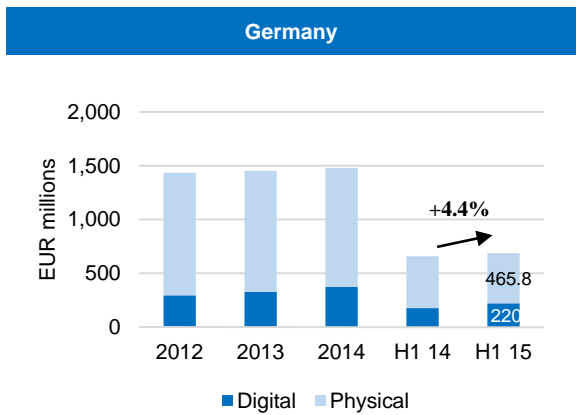
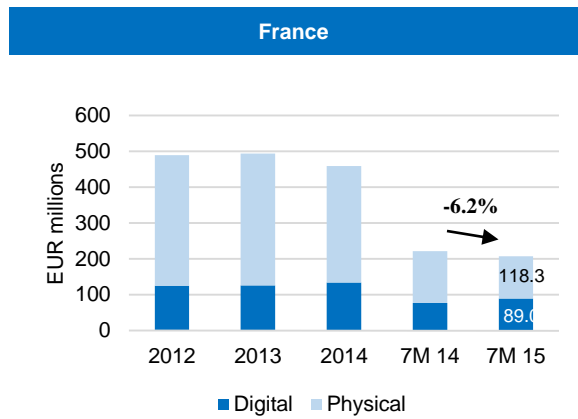
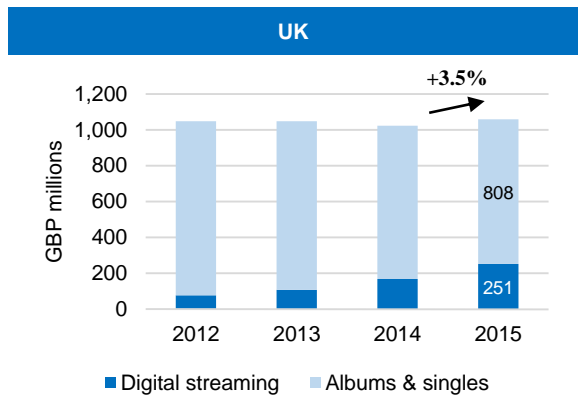
Streaming volumes



Notes Company data; G2Mi Analysis










European countries have distinct characteristics in terms of physical/digital mix and content preferences

The UK has the largest music streaming markets, but the German market grew strongly in H1 2015 (with streaming sales now accounting for 12.8% of total music revenues). Preferences for local language content in continental European markets is likely to provide some protection to local digital streaming players.



Notes Data from various music industry associations; G2Mi Analysis

Market is led by Spotify, Deezer and Apple Music

Company	Ownership	No of subscribers	LFY Revenues	% Revenue growth	Description
 DEEZER	Access Industries (36.7%); Orange (14.56%); Idinvest; DC Music	2.99 million (H1 2015)* £9.99 / month	EUR 141.9 mn (+4%)	+41% (H1 2015)	Founded in 2007 as Blogmusik. Catalogue of over 35 million tracks and 40,000 shows and podcasts. Available in 32 languages though France accounts 47% of revenues.
 Spotify	VC investors, Daniel Ek, Martin Lorentzon	20 million (Jun-15) 75 million users	EUR 1,081 bn (-7.1%)	+44% (2014)	Founded in 2008 in Sweden and launched in US in 2011. Has free and paid subscription models.
 MUSIC	Apple	10 million (Jan 2016)	N.A.	N.A.	Launched in June 2015 in 100 countries. Integrates Beats music and Apple's Connect platform.
	Google	N.A.	N.A.	N.A.	Launched in May 2011 and now available in 63 countries. Free and subscription models.
 amazon music	Amazon	N.A.	N.A.	N.A.	Launched in June 2014 as part of the Amazon Prime subscription.
 Rhapsody	VC investors, RealNetworks (43%)	3.5 million (Dec 2015)	USD 173.4 mn (+23%)	+16% (9M 2015)	Launched in 2001 and acquired Napster in 2011. Active in 32 countries. Also offers a radio service called UnRadio.
 TIDAL	Project Panther (Jay Z)	1 million (late 2015)	N.A.	N.A.	Launched in 2014 and acquired by Jay Z in 2015; 16 additional artists became shareholders. Aims to pay higher royalties to artists. Only offers a paid subscription model
 PANDORA	Listed	3.9 million (Sept 2015) 74.7 million users	USD 920.8 mn (+115%)	+26% (9M 2015)	Internet radio service with both an ad-funded and premium subscription model. Acquired assets of Rdio – a music streaming service – in September 2015
	Naver Corp	N.A.	N.A.	N.A.	Launched in June 2015 by Line Corp. Integrates with Line messaging app to allow music streaming and sharing. Market leader in Japan

Notes Company data; G2Mi Analysis; *Active subscribers

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ABOUT THE AUTHOR

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