BPI
The British Recorded Music Industry

digital music nation 2010

The UK's legal and illegal digital music landscape

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BPI Chief Executive

Britain is a digital music nation. Wherever you look, people are listening to music on their mp3 players; millions of us every day are watching music videos on YouTube or checking out the latest releases on Spotify. The internet is an incredible technology for communication, and one of the things we use it for most is to listen to, share and talk about music.

But where is all this digital music coming from? For the first time, this report provides a comprehensive picture of the digital music nation at play.

Over the last five years, the legal digital music market has been an online innovation success story. Digital now represents a quarter of record label revenues, driven by partnerships with new retailers, existing key brands and major internet players alike. There are now 67 legal digital music services operating in the UK, offering a vast choice of new songs and catalogue that can be browsed, streamed or bought online.

Many music fans have enthusiastically embraced these services. Since 2004, more than 500 million single tracks have been bought legally from digital retailers in the UK. Digital albums have also proved themselves a hugely successful format, passing the 50 million sales mark much faster than the CD and now accounting for almost 20% of all albums sold.

These achievements are dwarfed, however, by the continued widespread availability and use of illegal services and the ongoing challenge of digital piracy on a huge scale. During 2010, three quarters of all music tracks digitally acquired in the UK were downloaded illegally – that's two full albums for every man, woman and child in the country. Despite the high awareness achieved by legal services like Spotify, last.fm and we7, more people continue to use illegal P2P.

Unfortunately, the enormous scale of the piracy problem shows no signs of abating. Almost eight million people in the UK continue to download music illegally according to research presented in this report. Although P2P use has remained stable, the number of people using hosting sites and other illegal sources continues to rise dramatically.

Despite the widespread availability of legal services, they're having a negligible impact on overall levels of illegal downloading.

The internet plays an enormous role in our society. It has become central to how we work and shop, learn and entertain ourselves, as well as creating a new social space connecting us together. But we should pause to think about whether the frenetic pace of technological innovation online is in danger of trampling on basic ethical values we rightly cherish elsewhere – that stealing is wrong; that creativity is positive and deserves to be rewarded; that our culture defines who we are, and should be protected.

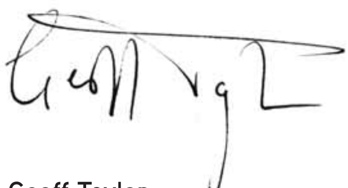
This challenge is playing out right across the creative industries. Newspapers are introducing conditional access or 'paywalls', having recognised that not all information can be free of charge if investment in quality journalism is to be maintained.

Online book piracy is already damaging the fledgling market in e-publishing. And the illegal streaming of movies/TV and sports online harms the funding of new productions and reduces the value of sports rights.

The economic stakes are high. The creative industries employ nearly two million people in the UK, and are recognised as a key engine of growth in the new economy. But digital piracy is putting many thousands of jobs under threat and is holding back innovation and investment in the new sector of digital content services. Unless decisive action is taken quickly to create a properly functioning marketplace for digital entertainment, the UK cannot expect to remain a major global creative hub.

This wouldn't be good news for British consumers. They have every right to expect that the internet should be a place where, if they are browsing for music or other content, they generally encounter legal content which is high quality, virus-free and is what it purports to be. As our report shows, this is far from the case now. Consumers paying to access entertainment also have a right to expect that this will help to pay for new content for them to enjoy.

If we work now towards that internet – through proportionate, education-led measures such as those passed by Parliament in the Digital Economy Act – not only do we give our music the chance to flourish, but we will spur on digital innovation and investment. If we falter and lack the courage to act, we risk creating a serious cultural deficit in the UK. The voices of a generation of new bands and artists simply won't get signed and won't be heard. We will have abandoned values that matter. As a country, and as human beings, we will be the poorer for it.



Geoff Taylor
Chief Executive, BPI

UK digital music
> at a glance

152,700,000 – sales of singles in 2009, 98% of which were digital*

500,000,000 – digital singles sold to date in the UK by Sept 2010*

50,000,000 – digital albums sold to date in UK by Sept 2010*

1,200,000,000 – single music tracks illegally downloaded in 2010 from unauthorised sources**

£280.5m – retail value of digital music market in 2009, 20% of overall £1.4bn recorded music market***

£984,000,000 – retail value of single tracks downloaded in 2010 from unauthorised sources***††

67 – legal digital services in the UK, more than any other country***

82p – average retail price of single digital track*

13,000,000 – individual tracks available for licence to legal digital services***

17 (out of 20) – average number of links to illegal sites in first two pages of Google results, when searching for UK Top 20 singles***

94% – awareness amongst internet users of legal music download stores**

28.8% – proportion of UK online population (age 16-54) involved in illegal downloading**

23% – proportion of UK online population (age 16-54) using P2P sites and software to obtain unauthorised music**

13% – proportion of UK online population (age 16-54) using cyberlocker links via blogs to obtain unauthorised music**

7,700,000 – UK internet users engaged in illegal downloading across all sources**

55% – proportion of internet users who believe the Government should take action against persistent downloaders who had been previously warned**†

54% – proportion of internet users who believe that websites offering music illegally should be banned or blocked from the internet**†

76% – illegal proportion of all music tracks obtained during 2010***

6,100,000 – people using sources of illegal content in September 2010 alone****

+7% – net increase in P2P use during last 6 months**

+15% – net increase in cyberlocker use during last 6 months**

79% – users who had encountered problems as a result of acquiring music from a P2P network**

Sources:

* OCC

** Harris Interactive

*** BPI

**** UKOM/Nielsen

† Excludes 'Not sure' responses

†† Recording industry losses from foregone spend are estimated by Jupiter Research at £219m for 2010

> The digital music market

Online Music Comes of Age

Digital has transformed the UK's music landscape, growing rapidly from the margins of the internet to become a mainstream format for the masses. The Official Charts Company (OCC) began measuring its impact at the start of 2004, when MyCokeMusic launched in the UK. By the end of the year – during which time the iconic iTunes store had opened – almost 5.8m songs had been legally downloaded, around 18% of all singles sold.

Skip forward to the present day and the singles market has been revitalised, with record sales achieved (152.7m in 2009) and more than half a billion digital singles bought since 2004. Digital now completely dominates the singles market. By the end of this year, sales of single track downloads may for the first time top 5m in a single week as people unwrap and look to use new music services on their Christmas iPods, digital music players, iPads, mobile devices or laptops. The digital album is also making impressive headway, passing 50m sales in September 2010 and looking set to account for around a fifth of all sales by the end of the year.

Annual Download Sales

	2004	2005	2006	2007	2008	2009	2010*
Singles	5.8	26.4	53.1	77.9	110.3	149.7	160.0
Albums**	na	na	2.8	6.2	10.3	16.1	21.0
TOTAL***	**5.8**	**26.4**	**81.1**	**139.9**	**213.3**	**310.7**	**370.0**

Source: OCC * estimate **sales tracked from April 2006 onwards ***assumes 1 album = 10 tracks

This year saw the first single track download pass the million sales mark (Black Eyed Peas' *I Gotta Feeling*) and to date 19 albums have sold over 100,000 digital copies, including two (Kings Of Leon's *Only By The Night* and Lady Gaga's *The Fame*) that have surpassed the quarter-million mark.

Lady Gaga

Kings of Leon

Top 5 Digital Singles 2004 – Q3 2010

1	I Gotta Feeling	Black Eyed Peas	1,056,812
2	Sex On Fire	Kings Of Leon	1,010,679
3	Poker Face	Lady Gaga	983,108
4	Fight For This Love	Cheryl Cole	841,428
5	Just Dance	Lady Gaga	833,048

Top 5 Digital Albums 2006 – Q3 2010

1	Only By The Night	Kings Of Leon	276,662
2	The Fame	Lady Gaga	262,417
3	Lungs	Florence & The Machine	228,636
4	It's Not Me It's You	Lily Allen	168,415
5	Sigh No More	Mumford & Sons	168,266

This extraordinary growth has been reflected in the amount spent by consumers. In 2004 the nascent market was worth around £5m – in 2009, the retail value of the digital music market grew by 43% to reach £280.5m, accounting for more than 20% of the £1.4bn recorded music market.

The reality is that downloadable music has now cemented its place in the mainstream, accounting for over 99% of sales in the singles market. According to consumer research from Kantar, 20% of the UK population aged 12+ (almost 10m individuals) bought some digital music in the past year with expenditure skewed towards men who account for two thirds of every pound spent.

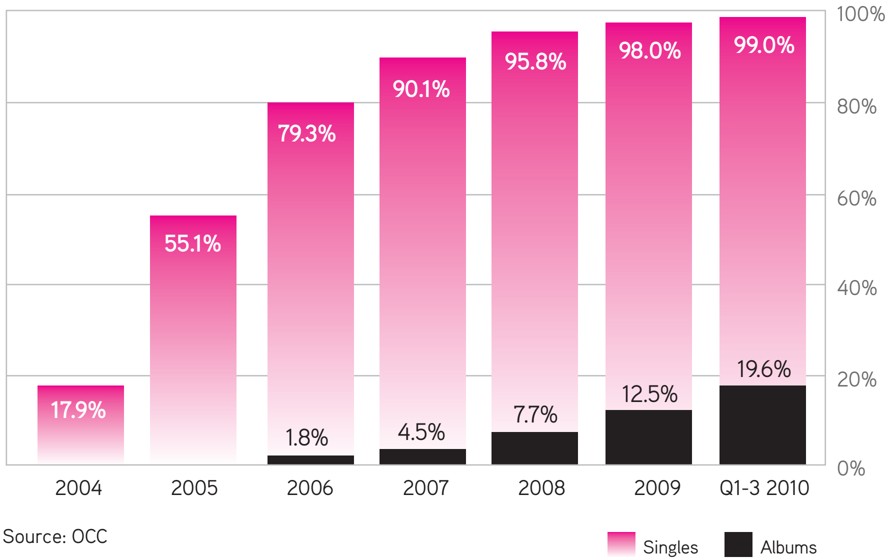
Building New Relationships

Compared with just five years ago, the marketplace is unrecognisable: while the early success of digital was solidly founded on 'a la carte' stores (as typified by iTunes), now the models are manifold, from streaming and subscription to freemium and 'The Cloud'. There are now nearly 70 services legally offering music from every genre and suited to every pocket, with several free at the point of access. The music industry's Music Matters initiative shows consumers how to find a wide range of legal digital music services.

This ubiquity has only been achieved because music companies have invested heavily in forging new business relationships with a wide range of new partners. These partnerships, with some of the most iconic and forward-thinking brands of the day, have ensured that music is legally accessible in more ways and places than ever thought imaginable.

Apple have, of course, helped popularise the concept of legally purchasing digital music online, with other partners such as Amazon helping further acclimatise and introduce music fans to the process. Forward-thinking Internet Service Providers have worked extensively with record companies and artists to try and work out new ways to bring music to their customer base, while brand leaders such as Nokia and Sony Ericsson have been instrumental in bringing digital music to mobile audiences.

DIGITAL'S SHARE OF SALES



Source: OCC

While these connections have helped break important new commercial ground, there is a lot of scope for new commercial partnerships to leverage the power of music to attract and retain an audience. In particular, there remains great – and very lucrative – potential for ISPs and search engines to deliver music as an added-value service to their users. Indeed, any business with a large consumer base – such as supermarkets, online retailers, sports/leisure brands, broadcasters **and newspapers – could offer their** customers digital services and benefit from both music's enduring popularity and credibility.

Music companies have shown themselves to be willing and ready to go far beyond their traditional models and circle of partners to bring about credible and accessible legal music offers in the digital age. The following section looks at some of the different services currently in operation in the UK.

HMV Digital

Legal Sites and Services Explained

A La Carte

Apple's **iTunes** is probably the brand most associated with this model, which allows 'cherry picking' of isolated tracks as well as purchasing albums in their entirety: over 10 billion tracks have been downloaded around the world from the store since its launch. Competition has grown considerably over the years, however, with major retailers such as **Amazon**, **Play.com**, **Tesco** and **HMV** all operating in the UK.

The average price of a track is currently 82p (data from OCC), but in practice the music download market is highly competitive as consumers benefit from large numbers of promotions. Many legal sites are offering tracks by new artists for free and popular singles can be on sale for as little as 29p. Likewise, albums can be promoted at very appealing prices – Take That's *Progress* was available, for example, for £3.99 in its week of release, as were all the shortlisted albums for the Mercury Music Prize in the week of their nomination. What's more, this information is all readily to hand – customers can easily find the best deals by using online comparison tools such as Tunechecker and Compare Download.

Streaming

Services such as **Spotify** and **we7** are never far from the headlines. Both allow users to 'stream' (i.e. listen to but not download) music for free, with labels and artists' income deriving from the advertisements that play in between tracks. Despite only launching officially in February 2009, Spotify now claims to have 7m users globally, while we7 has around 3m unique users every month. The growth of both the user base and volume of music now being accessed on these dedicated legal services is little short of phenomenal – well over 50m audio tracks are streamed in the UK alone each week (2.6 billion per year in the UK at current usage rates).

Both Spotify and we7 have latterly introduced a paying tier allowing users to access the service without advertisements (thus earning them the 'freemium' tag) and via their mobile devices.

Pricing Tiers – Spotify

Tier	*Features*	*Cost per month*
Open	20 hours of streaming music; advertisements	Free
Unlimited	Unlimited streaming music; no advertisements	£4.99
Premium	Unlimited streaming music; no advertisements; mobile access; playlists available offline	£9.99

Spotify

we7

Many other sites allow visitors to legally stream music in either audio or video formats. **MySpace**, **MSN Music** and **mflow** have all either launched or re-launched in the past year, while **YouTube** and **Muzu** both house all manner of authorised music video content. Console gamers can even access the latter now with the advent of the **Vidzone** service on the Sony PlayStation 3 – over 200m music videos have been streamed since its launch in 2009.

Subscription

Although we7 and Spotify both now have subscription tiers, two major services predate them. **Napster** was originally an infamous filesharing service but was relaunched as a legal brand in 2003, allowing users (who subscribed for a monthly fee) to listen to unlimited advertisement-free music and purchase it on an a la carte basis. Its library now boasts more than 10m tracks, with music from 800,000 artists. Independent music specialist **eMusic** originally launched in the UK with an 'all you can eat' subscription model, but now lets users download varying numbers of tracks according to which plan they sign up for (their entry-level tier is priced at £9.99 per month and allows 24 downloads).

Other subscription services include Carphone Warehouse's **Music Anywhere** service, launched in August, which allows subscribers to remotely access their music.

Accessing personal media collections via 'the cloud' – i.e. free of the traditional personal hard drive or physical formats – is touted by many as the next 'great leap forward' (see page 14 for a more in-depth look).

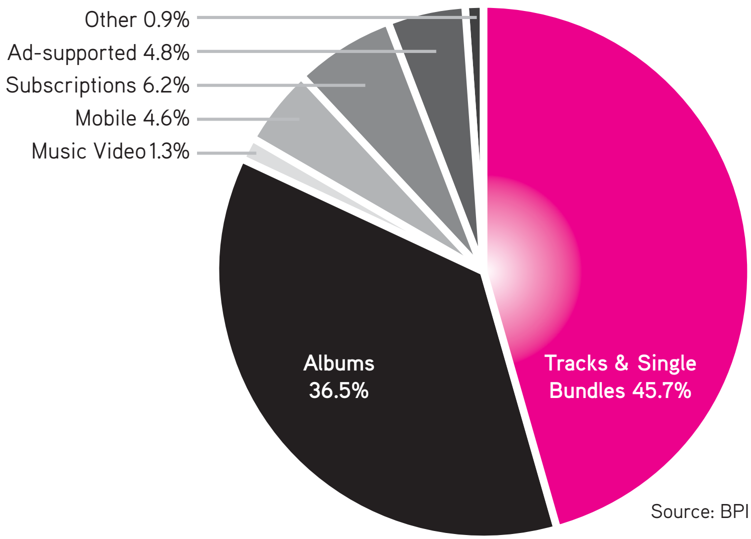
This is just one of many new models that music companies are beginning to license; new partnerships are constantly being forged, all with a view to serving the evolving needs and desires of the UK's music lovers.

Music Anywhere

Digital Revenues

Record companies have invested significant amounts of time and money in digitising their catalogues of recordings and negotiating licensing deals with legitimate online music services. This investment is now beginning to reap meaningful results. Although rising levels of income from digital music have not yet offset the decline in revenues from falling CD sales, BPI figures for the 12 months ending in September 2010 show that digital now accounts for a big slice of industry revenue – 24.5% (up from 19.2% a year earlier). This impressive share of the overall market has been driven by innovation above and beyond the standard a la carte model. Almost a fifth of digital income now comes from a mixture of subscription services (Napster, eMusic etc), ad-supported (Spotify, we7, etc), music video downloads and 'other', which includes ringtones, ringback tunes and other one-off or ad-hoc payments.

BREAKDOWN OF DIGITAL REVENUES
12m ended September 2010



Source: BPI

Expanding Consumer Choice

Channel & Repertoire

The growth of the legal digital music market has only been made possible by providing music fans with an ever-growing choice of catalogue, through a comprehensive range of access points. The services on offer are evolving constantly too, with many mixing and matching features to better meet customer demand. Music on mobile, for instance, is now not only served by pure a la carte and streaming models, it also houses services such as Nokia's **Ovi Music Unlimited**, which bundles in unlimited downloading into the price of a handset.

Services such as Napster are offering a new spin on the streaming model, with credits for downloads (to keep) included in the monthly subscription fee, while the **Nectar Music Store** allows members to purchase music from credits accrued from their supermarket shopping. Many other online stores are also experimenting with new features, with some – such as **Bleep.com** – giving immediately redeemable download codes when customers order a CD online.

Legal services:
> Case Studies

There are almost 70 services in the UK that provide streaming or downloadable multi-label content legally in the UK. Here we focus on two of them:

Fairsharemusic

Fairsharemusic.com offers a unique take on the concept of the music download store. Users can browse over 11 million tracks – including new release and exclusive content – and download high quality MP3s straight into their existing iTunes or Windows library. The difference is that for every track they download, the site guarantees to donate half the profit from the sale to charity.

The site's philosophy is evidently appealing to greater and greater numbers of music fans, with customer numbers doubling month on month since its launch in June 2010. It has since had over 50,000 visitors from more than 140 countries and over half of those who register with the site make a purchase on their first visit. According to the site's founders, customers are spending almost double the estimated industry average on each visit and more than a third of customers are returning visitors coming back more than once.

Fairsharemusic currently has eleven registered charities it donates to, including the NSPCC, WWF, Centrepoint, Amnesty International, Oxfam, British Heart Foundation, British Red Cross, Friends of the Earth, Great Ormond Street Hospital, Sue Ryder Care and the Teenage Cancer Trust with five more charities to be announced by the end of the year.

Spotify

Spotify launched in the UK in October 2008 with the aim of offering a powerful music experience within a 100% legal framework. We’ve built up a catalogue of more than 10 million tracks from both major and independent labels, and combined this library with a service that makes it easier than ever before to search for and share music.

The success of Spotify in the UK has been driven by the 'freemium' business model. Users can register either for free accounts supported by adverts, or upgrade to paid subscriptions without ads and with a range of extra features such as portability, higher quality streams and offline music access. Our users tell us the biggest reason they subscribe to Spotify is to take their music with them, which is possible on a range of mobile devices.

It's fantastic to see so many people in the UK enjoying Spotify. As we continue to establish the service, we're also proving to be a major source of digital revenues for artists and labels.

Piracy continues to be the music industry's biggest challenge. Look at it this way – in the physical world, an enormous supermarket giving entertainment away illegally and for free would be a serious deterrent to setting up and running a shop where you charge for the same products.

Online, we continue to face a comparable challenge where our ability to convert people to paying for music subscriptions, or attract advertising for our service, will be challenged by the continued availability of that same music on illegal services.

Spotify has invested in and developed a service that people are moving to in their millions, and is playing an increasingly important role in attracting people away from filesharing and illegal streaming. As ever, a level, legal playing field remains vital for any business looking to flourish in the digital age.

Daniel Ek
Spotify co-founder and CEO

The range of music available on legal services has expanded in tandem as they have flourished. Figures from OCC show that the number of different tracks downloaded each week in the UK has grown by almost four times in just five years while Spotify now offers users a choice of over 10 million tracks and adds around 10,000 every day.

The announcement in mid-November that The Beatles' catalogue was to be made available on iTunes has meant that one of the last few pieces of the digital repertoire jigsaw has fallen into place. Very few artists are still inaccessible via legal download services, with the catalogues of major artists such as Metallica, Led Zeppelin and Pink Floyd all present after some periods of unavailability.

The UK has moved particularly fast in making a wide choice of legal sources of music available, as the comparison table above illustrates. Across streaming, a la carte, subscription, bundled and mobile channels there are currently almost 70 recognised services providing multi-label content legally, more than in all the other leading European territories. By comparison, for the USA – the biggest per capita consumer of digital music – IFPI's Pro-Music website lists 20 services.

Number of Legal Music Services by Territory
(multi-label content, September 2010)

UK	67
Germany	42
Spain	29
France	27
Italy	27

Source: BPI/IFPI

Innovative deals have helped to grow the legal digital offer, but the effect of piracy is without doubt undermining the potential for expansion in this sector. All of these legal businesses are working hard to compete against services that have little or no regard for the concept of copyright and do not remunerate anyone in the creative chain.

Sound Quality

As well as vast consumer choice in terms of catalogue and a growing retail base, today's music downloader can also often choose to buy music which arrives with premium sound quality.

Kbps (kilobit per second) is a measure of bit rate, or the speed at which data is transferred. In the early days of legitimate music downloading 128kbps was the norm; internet connection speeds were slower and computer hard drives and the capacity of digital music players were much smaller. Whilst the sound quality of files delivered at this speed was acceptable to most listeners, today bit rates of 256kbps or 320kbps are commonplace (for downloads and streaming services such as **Spotify Premium**), resulting in much improved audio quality. Faster broadband speeds, cheaper hard drives and digital music players with larger capacities have all combined to greatly enhance the digital music experience for fans.

For most consumers, a 256 or 320kbps MP3 file provides a completely satisfactory listening experience via streaming and will also download in a relatively short time. However, as in-home technology becomes increasingly sophisticated and ever more affordable, music lovers are beginning to discover and appreciate the benefits of even higher quality downloads.

Sites such as **Bleep.com**, **Linn Records** and **Theclassicalshop.net** are meeting the growing demand from the 'audiophile' market who want the very best in sound quality. In addition to 320kbps MP3 downloads, other high quality lossless formats are also available.

Although considerably larger than standard MP3s, these enable the file to be compressed without losing any sound quality – i.e. the same as CD, but without taking up the same amount of disk space as a straight transfer. There are several types of lossless formats, such as Microsoft's WMA (Windows Media Audio) and FLAC (Free Lossless Audio Codec), all of which give the listener outstanding levels of audio reproduction. At the very top end of the scale are studio master quality downloads which offer the same listening experience as Super Audio CD (SACD), a high resolution CD format which offers the highest quality available.

Linn Records

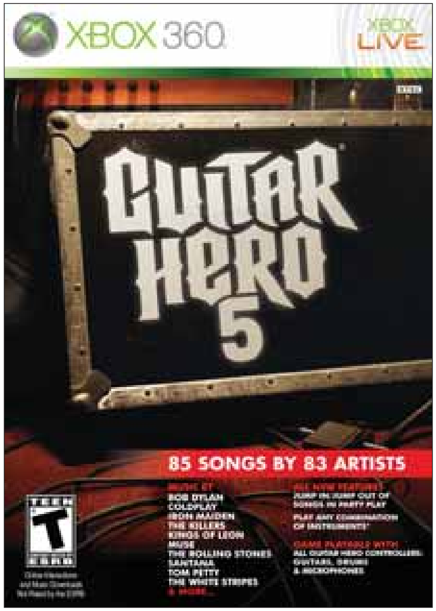
Music – At the Heart of Digital Media

The popularity of music has never been higher and this is reflected in the number of emerging services and technologies that place musical content at their heart. Many of the biggest selling games of recent years, such as *Singstar*, *Rock Band* and *Guitar Hero*, are based around interaction with officially licensed songs, with stores accessible through the gamer's own console meaning that new content is constantly made available.

Music is also central to some of the best selling apps on mobile. Games such as *Tap Tap Revenge* (now downloaded over 25m times globally) are underpinned by the music of superstar acts such as Coldplay, Lady Gaga and Metallica, while other artists have created innovative, officially-endorsed apps with a twist like the autotune-replicating *I Am T-Pain* and the remixing tools from Little Boots and Deadmau5. Song recognition app **Shazam** has also had an impressive take-up, with the company stating in early 2010 that it facilitates over a quarter of a million track purchases a day globally.

Labels are making sure that they are represented on a variety of digital platforms. As well as the requisite website, app and Twitter presence, many are reaching out to thousands of fans with dedicated YouTube channels and podcasts (such as Drum & Bass pioneers **Hospital Records**, who recently reached the 100th episode of their award-winning podcast). Artists and labels are also looking at the possibilities offered by webcasting performances, such as U2's gig at the Pasadena Rose Bowl in California in October 2009, which was watched live by 10m people on **YouTube**.

Indeed, a 2010 report by analytics firm Sysomos demonstrated that music is very much at the centre of YouTube's success, accounting over 30% of its traffic in the period surveyed.



Guitar Hero 5

Shazam


Twitter

Creating Online Conversations Around Music

For many fans, the thriving communities built online around music are almost as important as the music itself. Digital services have evolved and adapted to cater for social networking, allowing like-minded fans to talk about music, recommending and sharing links to it with friends online.

Some long-standing music services, such as YouTube and MySpace, sought to grow communities of fans from the outset. Others focused on recommendation, including **Last.fm** where users ‘scrobble’ – keeping a record of what they listen to on media players – then suggest more songs and even concerts based on their existing tastes. Users of the service also connect with musical ‘neighbours’ who are fans of similar music genres.

Most new services now recognise that many customers want to conduct conversations around the music they’re buying and listening to. But at the same time, they take a pragmatic view that the established networks like **Facebook** and **Twitter** are where most people already congregate, and have built functions that interface with these services.

Streaming service **Spotify**, in particular, has benefitted from developing features that allow users to share music and playlists with friends on social networking sites. The innovative service launched in 2010 by **mFlow** allows users to follow friends, artists and even entire labels, getting a constant feed of the music they’re sharing – and, in turn, share this music with their own followers. Users also get 20% of the price of a track credited to their accounts when others buy music based on their recommendations.

Facebook

In September 2010, Apple unveiled **Ping** – a major evolution of iTunes that added a raft of social networking functions to the market-leading digital music service. With an installed global user base of more than 160 million people, Ping allows customers to add personal profiles to their accounts, follow artists and keep track of the comments and reviews of other iTunes users.

last.fm

mFlow

Ping

Marketing in the digital age:
> Case Studies

The internet has offered a multitude of challenges and opportunities to artists and labels alike looking to connect with potential audiences. While the opportunity aspect is fairly straightforward – that digital media enables fans on the other side of the world to access content at the click of a mouse – the challenges are slightly more complex. Not only do labels have to make sure their music is available on the particular sites and services each potential fan is using, they also have to find ways to make their content stand out.

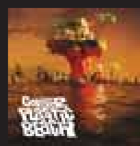
As a result, those making and promoting music have to use ever more ingenious and creative methods to attract attention in an increasingly crowded marketplace, a fact acknowledged in the UK by the creation of an awards ceremony (BT's Digital Music Awards) solely to recognise excellence in this field.

Gorillaz

One of the most ingenious campaigns of the year was created around the release of Gorillaz' 2010 album *Plastic Beach*. A double winner at the Digital Music Awards, it offered fans a wealth of engrossing content, with the band's website acting as the central hub. Prior to the album's release a number of short video clips featuring excerpts of music were posted, followed by an eight-minute 'minimix' of the album which was available to download for free. As well as constantly updated news across the projected 18-month duration of the campaign, the site houses reams of interactive content, including mini-games (and also a larger *Escape To Plastic Beach* game with different stages released over time), broadcasts and videos along with some features and offers that are only accessible via subscription or the purchase of the 'Experience Edition' of the album itself.

The campaign also extends into the mobile and retail arenas. The *Plastic Beach* app features an innovative 'augmented reality' layer (that enables the user to open up a virtual Gorillaz world) and also plays host to a regularly updated news feed. Fans can also follow band member Murdoc on his travels thanks to a GPS tracking map.

Content for fans was also provided via the iTunes LP version of the album, which included two extra tracks, a gallery, lyrics and exclusive videos as well as features such as an interactive game and a storybook.



Tinie Tempah

Tinie Tempah has been one of the UK's breakthrough artists of 2010, selling well over a million singles and seeing his debut album certified platinum. Having already built a strong presence via media such as Twitter, YouTube (nearly 40m views to date) and his blog Milk and 2 Sugars, his is a young audience who have grown accustomed to interacting with – and getting information about – their favourite artists online.

The campaign around his debut album *Disc-Overy* was centred on this interactivity. One key innovation was the launch of a new format – a unique lanyard featuring a code enabling fans to download the album and access exclusive content including videos, behind the scenes footage, wallpapers and messages from Tinie himself. The marketing activity included a campaign across Facebook, the official site, Ping and Twitter to make fans aware of the iTunes Complete My Album feature, which ensures that those who have bought the singles do not have to re-purchase them as part of a download album bundle. This gave *Disc-Overy* a very strong digital share in its first week (31%), with impressive take-up of the Complete My Album feature.

There was also a considerable amount of online activity surrounding concerts. On each night of the Disc-Overy tour Tinie streamed footage live from the dressing room, interacting directly with fans and exclusive content was delivered directly to audience mobiles via Bluetooth at certain gigs. All this digital innovation was recognised in this year's Digital Music Awards where Tinie was voted Best Newcomer.

While projects such as these are hugely impressive, they have only been achieved with considerable investment both in terms of time, expertise and capital. While the cost of distribution may have been driven down in the digital age, the shop window is more packed than ever and artists, labels and all those working with them will have to continually innovate to be noticed.

Future Developments – The Cloud

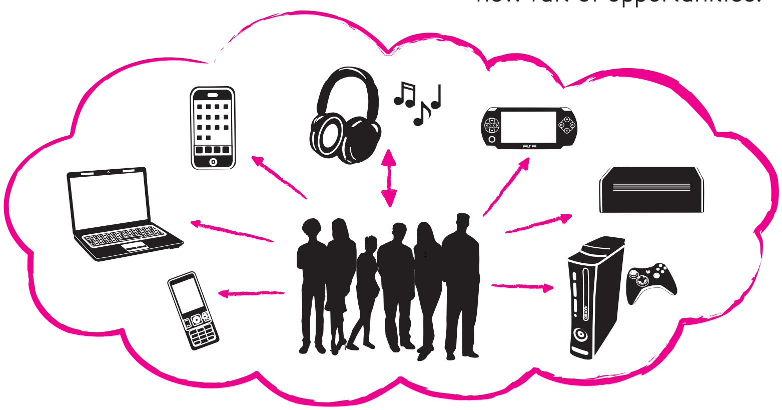
Seen by some as the next potential 'game changer' for digital music, the concept of 'the cloud' is relatively simple. Instead of having music – or indeed any digital media, such as films and TV shows – stored as individual files on computer hard drives or other personal devices, customers will have their content stored on a central locker and be able to access it remotely on the move. Consumers would have fewer worries about the 'interoperability' of files with the cloud service providers making sure the content is universally playable. The spectre of losing personal digital content following a hard drive failure would be removed, and storage capacity of PCs and portable devices would cease to be an issue. In addition, the vast improvement in the sound quality of remotely delivered music is making such services a real alternative to 'tethered' listening.

Sites such as Lala have already laid the groundwork, but it will take a launch backed by a major brand to propel the cloud concept into the mainstream. Rumours persist of imminent services from **Apple** (who have already made a move into streaming TV shows and movies with Apple TV) and **Google** but several companies have already announced their intentions for this area. **Tesco** have made public some details of their proposed Clubcard-linked scheme, which would make digital copies of all music or film content purchased by customers at their stores available for remote access.

Meanwhile, Sony have unveiled their **Music Unlimited** service, which will stream music to various forms of branded hardware in the first instance. Carphone Warehouse's **Music Anywhere** is also an important step forward, allowing users to legally replicate and access their own music collections from any suitable PC/laptop or mobile device.

It is the 'personalised' aspect that is perhaps key here: technically, many streaming services already operate 'in the cloud'. The main differentiator of the new services is that consumers would be accessing music from their own libraries, making the selection of tracks more convenient. Spotify, for example, now includes functionality that scans a user's hard drive music collection and automatically generates playlists that users can access from their site.

There are also benefits beyond the realm of the customer experience – already some services are allowing labels to publicly preview their new releases and collect digital demo submissions from unsigned artists. As sites such as MySpace and Facebook gave bands and labels new platforms to reach music fans, these new cloud services may well present a whole new raft of opportunities.



> The challenge of illegal free

iTunes, Spotify and other legal services have been taken up by millions of UK music fans. The good news is that they are generating meaningful revenues for labels and artists alike. The bad news is that they have not solved the problem of endemic illegal downloading of music. Illegal websites and "peer-to-peer" networks don't just deprive artists, songwriters and music companies of vital revenue – they also affect the development of the legal digital music sector.

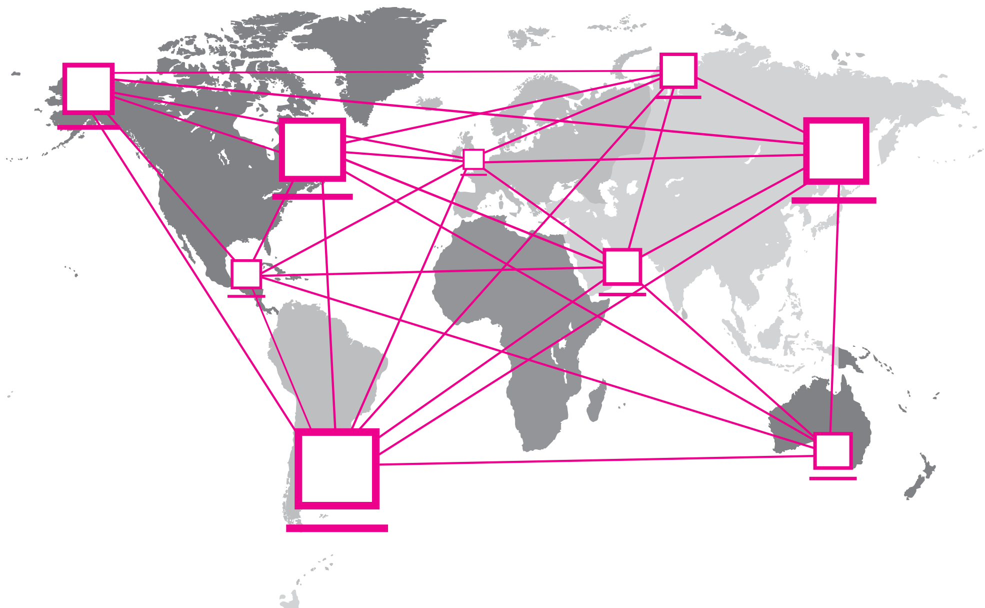
While in some cases there is a small level of technological know-how necessary to acquire music illegally from the internet, in most instances it is worryingly straightforward and can be as simple as typing the name of the track or artist into a search engine. Consumer research from Harris Interactive (explored later in the report) amongst illegal downloaders revealed that 58% of them used Google to direct them to free music, for example.

Mass unauthorised music downloading became prevalent with the creation of the original Napster. This was a peer-to-peer (P2P) network that surfaced in 1999, connecting individual internet users around the world and enabling them to share digital files quickly and easily.

Since those early days, the methods used to unlawfully acquire copyrighted content like music and film have evolved and diversified. Currently, the main forms of illegal downloading of music can be divided broadly into P2P, where users host the content on their computers, and a variety of other methods which rely on content held on a central server.

Peer-To-Peer (P2P) Methods

BitTorrent is currently the most popular of all the P2P networks. Its design makes it very efficient in the distribution of large volumes of data. Like all P2P methods, this efficiency comes from splitting a file into lots of pieces thus maximising the available bandwidth and circumventing the need for anything to be centrally hosted. Though this method is also useful for distributing large files legally, it is overwhelmingly used for sharing copyrighted content without permission. P2P generally requires a piece of such software to be installed on the user's computer rather than being accessed via a web browser. Gnutella, eDonkey and Direct Connect are other examples of P2P networks, relying on the use of software applications like Limewire and DC++.



Non-P2P Methods

Outside of the P2P environment, there are a number of other ways that music is unlawfully distributed and acquired. **Newsgroups** are one of the oldest internet communications technologies around. By allowing users to post messages (similar to emails with attachments) to a server, other users are able to download these posts complete with music files or other content.

Forums are examples of more community-based websites that allow members to link to content for others to download, often with a common interest or theme. **Blogs** are similarly focused and usually specialise on a particular genre or artist, with links to content hosted elsewhere, posted by the author or its readers.

Aggregators and **search engines** collate links to tracks or full albums to give users a convenient, single location to search for content.

Hosting sites, or 'cyberlockers', can be used to store and transfer files legally, but in reality a huge volume of infringing content is held on locker services at any one time, with links to this content provided from websites, newsgroups, forums and other sources.

Some of the better known examples – Rapidshare and Megaupload amongst them – regularly feature in the Top 50 of the most-visited websites in the world, attracting almost as many unique users as mainstream sites such as the BBC's.

Unlicensed pay sites often resemble legitimate retailers, listing albums and tracks for download at a very low price. They are commonly hosted in Russia/Eastern Europe and often make false claims that they are fully licensed and pay the appropriate remuneration to copyright holders.

Unauthorised streaming sites allow users to start listening to tracks or albums at the click of a button without having to download the whole file first. As we have seen, there are good legal streaming services available but there are also many unlicensed ones. Given the increase in streamed content, stream ripping sites and software are becoming increasingly popular, enabling users to capture the source audio from a legitimate streaming service (such as YouTube or Spotify) and convert it into downloadable MP3 files.

Examples of sites/services from the above categories

BitTorrent Tracker/Indexer	Piratebay.org; Isohunt.com
Newsgroups	Newzbin.com
Forums/Blogs	Warez-bb.org; Rlslog.net
Aggregators	Filestube.com; Beemp3.com
Hosting sites	Rapidshare.com; Mediafire.com
Pay sites	Mp3fiesta.com; Legalsounds.com
Streaming/Stream ripping	Skreemr.com; Fetchmp3.com

The role of search engines

Search engines are as popular as P2P applications as a source of illegal downloads. It's not hard to see why. Key in the name of any popular artist, add search terms like "mp3" or "download" – both neutral terms – and typically the large majority of results that appear are blatant links to illegal downloads.

In a single week in November, BPI test searches were made on Google for the UK's top 20 singles or albums, followed by "mp3". On average 17 of the first 20 Google results for singles and 14 of 20 search results for albums were links to known illegal sites.

The predictive search tools offered by some search engines go further by actively directing users towards free illegal downloads by auto-completing artist searches with additional phrases like "torrent", or providing specific references to unlicensed sources like Mediafire or mp3raid.

The music industry continues to press search engines to help consumers stay on the right side of the law and has suggested concrete solutions such as prioritising music search results in favour of legal online services such as those highlighted by the Music Matters campaign.

> Investment in music: Case Studies

A failure to act on illegal downloading continues to undermine the potential for the digital music sector to expand, eroding value for investors, entrepreneurs and innovation in general. Two companies here explain the challenge of investing in music in a market distorted by unchecked competition from digital piracy.

Ingenious Media

Ingenious has been heavily involved in media investment and, more particularly, investment into the music space since the late 1990's, ranging from advisory to direct investment into traditional music companies. In 2005-6, Ingenious raised in excess of £40m for two funds aimed at direct investment in recorded music artists with a view to generating significant commercial success from financially supporting both new and existing performers.

As we began investing, it was apparent that the recorded music market was rapidly becoming more and more difficult as the landscape was becoming dominated by illegal downloading. One of our early releases by a very successful band sold roughly 150,000 units in the UK (the band had sold in excess of 3 million units in the UK with previous albums) and further investigation showed that, from one major bit torrent site alone, a further 150,000 copies had been illegally downloaded! We estimated that in excess of 1 million units of the album were 'stolen' in this way.

In 2009, our second music fund invested in helping to resurrect the career of The Prodigy, resulting in the biggest selling independent album in Europe that year. The problem was that the album only sold around 600,000 copies in the UK and 1.5 million across Europe, whereas in the 'pre-piracy' era sales would have been two to three times this number.

The success of that album certainly helped the record label, Cooking Vinyl, to double in size, thereby creating significant employment. However investment in music content is a 'hits driven' play where the hits must pay for the misses, which are inevitably far more numerous. Our experience across the music investment portfolio is that the successes, as eroded by piracy, are no longer big enough to compensate for the misses in what remains an incredibly risky investment space.

The music industry is going through massive structural change, which has destroyed traditional business models, while new models are emerging driven by scores of new entrants to the market. Sadly, few, if any, of them are driving significant revenues, let alone making a profit. Against that background it seems clear to us that further positive action to combat piracy is crucial if the industry is to survive in a recognisable form.

Paul Bedford, Investment Director

Grant Thornton UK LLP

Grant Thornton recently published a report – *'Where is the smart money going in Media?'* – looking at investor activity in the media sector.

It analysed the opinions of 40 private equity practitioners with experience of investing in the UK media sector. Music, alongside consumer publishing and TV/film, was found to be one of the least attractive sectors for private equity investment. One of the key reasons that the music industry is not seen as a key sector for investment is the impact that piracy has had in removing value and margins from the market.

This result was not a surprise to us. Investors have always needed to understand how they make a return on their investment and, post-recession, investors are increasingly looking for proven, robust and profitable revenue streams to underpin their investment. In the face of continued piracy the retail music sector, with the exception of iTunes, has struggled to present a digital model that delivers this certainty.

It is clear that there is a mismatch between the perceived value of music in the marketplace because consumers can obtain content at little or no cost, or recourse from illegal sources.

The music industry is responding to this new value paradigm in a number of ways, including increasing pressure on illegal content sources and their gatekeepers, but also by continuing to explore e-commerce and m-commerce models where micropayment is built into already established subscriptions or payment mechanisms.

Furthermore, the industry is starting to create innovative experiences that are more compelling than the illegal services and for which the consumer is prepared to pay – for example by making content easy to access, engaging and available without penalty across the variety of devices that consumers now own.

Nick Page
Partner
Grant Thornton UK LLP

Digital music and > the consumer

As we have seen, despite the unfair competition that licensed digital services face from illegal sources of music on the internet, legal services have obtained a strong foothold among internet music fans. But what share of overall music downloading and streaming do they represent in the UK, and how can this share be increased?

To answer this, in September 2010 BPI commissioned Harris Interactive to conduct some in-depth research via an online survey into the awareness, usage and attitudes towards both legal and illegal acquisition of digital music. Respondents were aged between 16 and 54 and of the 5,000+ surveyed 29% were engaged in some form of unauthorised music downloading.

Awareness – Legal Services

	Aware Of
Legal download stores	94%
Music videos from YouTube	92%
Radio station website	85%
Music via social networks	83%
Spotify	65%
Last.fm	54%

Awareness – Sources of Unauthorised Music Downloads

	Aware Of
P2P	74%
Cyberlockers	66%
MP3 search engine	51%
Overseas pay sites	45%

Source: Harris Interactive/BPI Digital Music Survey
Base: all respondents

Awareness of many of the legal channels – from download stores to streaming sites and radio/video services – is very high. Over 90% of all respondents were aware of YouTube, while eight out of ten were familiar with the availability of music via social networking sites and online radio. Two thirds (65%) were aware of the legal streaming service Spotify and only 6% were unaware of any of the legal download services currently available. Clearly the internet population is well informed about the legal access points for music in the online environment. At the same time, knowledge of unauthorised online sources is high – three quarters of all respondents were aware of P2P as a source for illegal downloads and two thirds were aware that storage sites such as Rapidshare and Hotfile are also prevalent sources.

It's clear that legal services face a difficult battle to compete while knowledge of unlicensed services is so commonplace.

Usage of Music Services

The survey also asked respondents whether they were users (regular or occasional) of both legal and illegal sources of music. This does not, in itself, reflect the actual volume of music being acquired from any one source and the high level of incidence reported by Harris' respondents suggests that for many sites there may well be a significant number of infrequent users.

While services such as YouTube enjoy relatively high levels of usage among respondents, the survey also showed that the popularity of both P2P and non-P2P is high. Around a quarter (23%) of all respondents stated that they use P2P services and over one in 10 (13%) were using either blogs or boards and forums to find links for music content on hosting sites. It is also worth noting that the level of acquiring music unlawfully via cyberlockers, for example, is almost as high as the legal (and much-publicised) streaming service Spotify.

Reported Usage of Music Sites and Services (% using, any frequency)

Legal Services

	TOTAL
Music videos from YouTube	54%
Legal download services	41%
Radio station websites	34%
Music via social networks	27%
Spotify	18%
Last.fm	15%
we7	8%

Sources of Unauthorised Music Downloads

	TOTAL
P2P sites and software	23%
Cyberlocker links via blogs	13%
Cyberlocker links via boards/forums	13%
MP3 search engine	12%

Source: Harris Interactive/BPI Digital Music Survey
Base: all respondents

Among illegal downloaders, P2P is still clearly the main channel for acquisition of music. Four in every five stated that they use such sites and software, although there are also high levels of usage for methods such as blog and board links to cyberlockers (47% and 44% respectively) and MP3 search engines (42%). Well over half (58%) of these respondents had used the search engine Google to lead them to free music downloads.

Profile of Users

Well over a quarter (28.8%) of respondents in the Harris Interactive survey were involved in illegal music downloading. Men account for 60% of those acquiring music unlawfully and the profile is biased towards younger people, with 62% aged under 35 and the 25 to 34 age group accounting for the biggest single share (38%). The youngest (aged 16 to 24) comprised almost a quarter (24%) of illegal downloaders, compared to just under a fifth (19%) of those who downloaded music legally. The Harris data also showed that this age group were proportionally the heaviest users of illegal services, although not the largest group numerically.

Demographic Breakdown of Legal and Illegal Downloaders (% down)

	Legal	Illegal
Male	53%	60%
Female	47%	40%
16-24	19%	24%
25-34	35%	38%
35-44	29%	23%
45-54	17%	15%

Source: Harris Interactive/BPI Digital Music Survey

What is being downloaded?

The survey shows that usage of P2P is of course not limited to music downloading, but that music is the most popular type of content accessed:

% of Respondents Downloading Entertainment Content from P2P

Music	23%
Films	20%
TV programmes	19%
Software (non-gaming)	18%
Video games	15%

Source: Harris Interactive/BPI Digital Music Survey
Base: all respondents

Almost one in four (23%) of respondents said they used P2P services to acquire music, with one in 10 (9%) doing so at least fortnightly. Film and TV programmes were the next most widely downloaded, with one in five (20%) stating that they use P2P sources for the former.

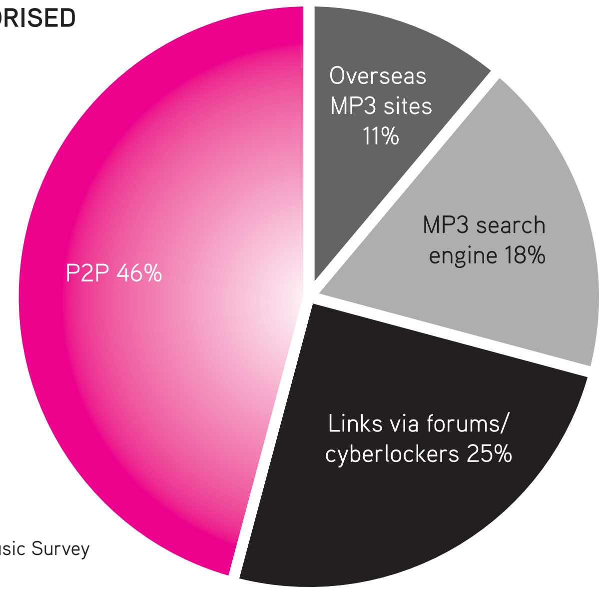
The Scale of the Problem of Illegal Downloading

P2P remains the biggest single source, accounting for 46% of all tracks acquired from services in the chart below, with each P2P user acquiring an average of eight tracks per month via this method alone. Users of these sources do so on a fairly frequent basis too – well over half (57%) of those downloading tracks via overseas pay sites claim to do so weekly or more often. Over four in every 10 that professed to using P2P, MP3 search engines and cyberlockers stated that they too visit these sources at least weekly. In total, users of these four key methods downloaded an average of 6.3 tracks per month.

Harris Interactive estimate that the total number of users across each of these four main categories of unauthorised downloading (P2P, links via forums/ cyberlockers, MP3 search engines and overseas MP3 pay sites) is 7.7m.

Scaling up self-reported levels of unauthorised track downloading from the Harris survey suggests that some 80m tracks are acquired from these sources every month. Across a whole year this amounts to almost a billion songs unlawfully acquired.

SOURCE OF UNAUTHORISED DOWNLOADS (% Vol)



Source:
Harris Interactive/BPI Digital Music Survey

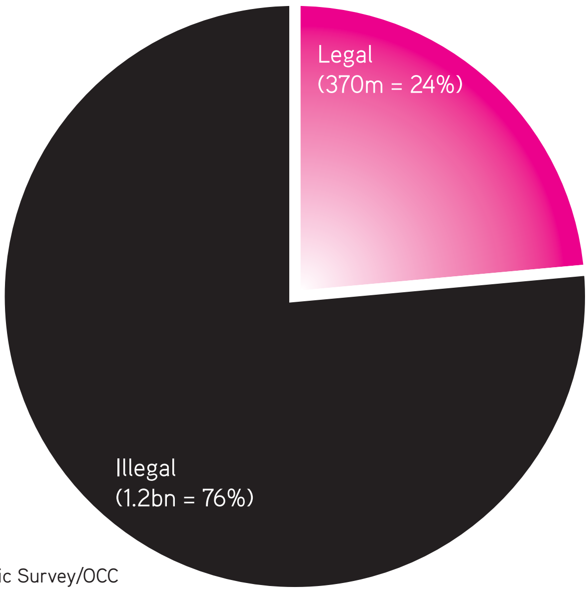
The Scale of the Problem

Harris Interactive estimate that in 2010 more than 1.2 billion music tracks will be illegally downloaded.

"An equivalent stack of 120 million physical CDs, each containing 10 of the illegal tracks, would reach well into space."

This figure, however, will be even larger considering the other methods by which music can be illegally obtained, such as email, IM and newsgroups. A conservative estimate of all illegal tracks may therefore be in the region of 1.2bn in 2010. This figure dwarfs the legal music market downloads figure: BPI forecasts that some 370m tracks across singles and albums releases will be purchased in 2010. If that were to be the case then legally obtained tracks would only constitute about a quarter of all those downloaded in the UK.

TRACKS ACQUIRED BY SOURCE (UK) 2010
(Volume and %)



Source:
Harris Interactive/BPI Digital Music Survey/OCC

Illegal Downloading Trends – Monthly Usage

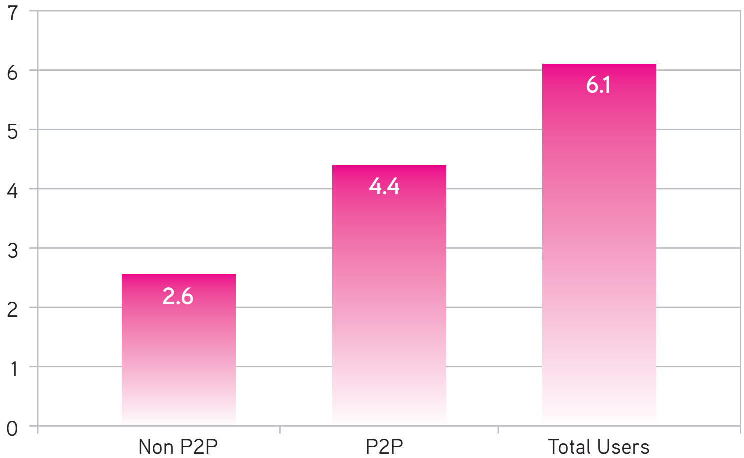
Measuring illegal downloading is by its very nature difficult. Respondents to consumer surveys are often unwilling to admit to behaviour that they know to be of dubious legality. Similarly, methodologies that measure actual online behaviour are also likely to under-represent some activities at the fringes of social acceptance.

Nevertheless, data from UKOM/Nielsen – which monitors actual website and application usage (for the UK Online Measurement company on behalf of the UK online advertising industry) – provides valuable information to assess the changing patterns of usage of different types of sites and services. UKOM/Nielsen's minimum panel size is 35,000 individuals in the UK, is representative of the online population and tracks actual online behaviour both at home and at work. As their survey is 'opt-in', i.e. participants choose to join and install software on their PC knowing that they are being actively monitored online, it is reasonable to assume that a significant number of heavier users of illegal sites and services are not represented on their panel.

The figures presented in this report may well therefore understate the problems the music industry faces. Of course, it cannot be said that all of this activity on the sites and services is based around illegal music – other types of content are available from some of these sites and some of it is legitimate, but it is fair to say that this is indicative of changing patterns of acquisition and illustrates the widespread use of such services.

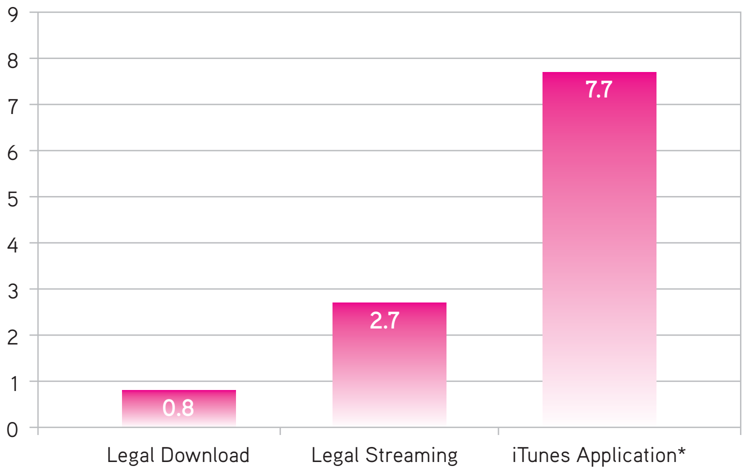
MONTHLY USAGE OF SOURCES OF ILLEGAL CONTENT

Unique Users (m)



MONTHLY USAGE OF SOURCES OF LEGAL CONTENT

Unique Users (m)



* see text for explanation. Source: UKOM/Nielsen

In September 2010 4.4m individuals used at least one of the P2P sites or applications tracked on the UKOM/Nielsen survey and 2.6m had used at least one non-P2P site. In total there were 6.1m unique users of any such type of services. A list of the sites and applications tracked is presented on page 34. It should be noted that these are monthly rather than the 'all frequency' users presented in the Harris findings and therefore the two data sets are not directly comparable.

Comparisons between consumer numbers in the legal and illegal markets are somewhat difficult using the Nielsen data. The figure for iTunes measures only those who use the application on a monthly basis, as opposed to those who actually make purchases from the iTunes store. A significant number of users may well be simply using the application to manage their collection of ripped CDs and/or illegally acquired music. Similarly, the user data for YouTube (17.5m) captures all usage, not just music. For the sites monitored outside of these two major services, however, legal music download sites (including HMV, Napster, Amazon and eMusic) attracted just under 1m unique users in September, with legal streaming services (such as Spotify and we7) visited by just under 3m.

P2P Trends

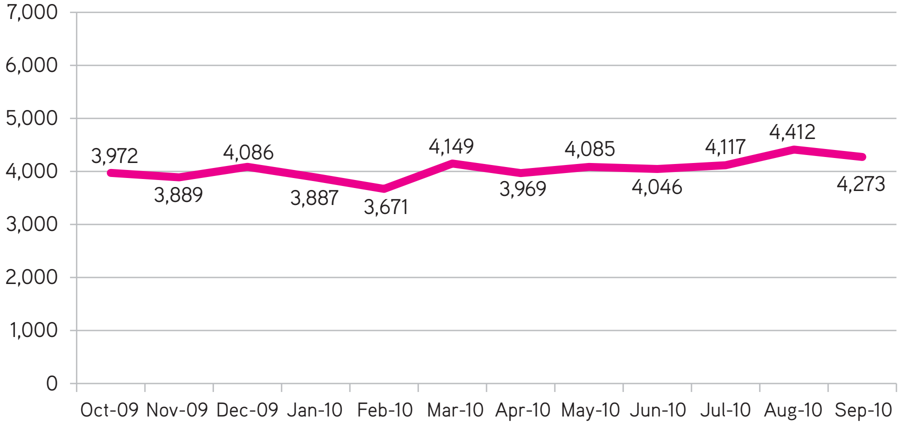
The widely held belief that illegal downloading from non-P2P sources is accounting for a growing proportion of online infringement is borne out by UKOM/Nielsen's data as well as BPI's consumer research from Harris Interactive. However, it shouldn't be concluded that the threat of P2P is diminishing. Far from it, levels of use have been fairly consistent since the beginning of 2009.

This graph (above right) shows the usage of the eight P2P applications BPI track via UKOM/Nielsen's panel over the past year. In September of 2010 the user numbers of these totalled 4.3m; across the whole year, the average was around 4m.

The graph (right) illustrates the usage of Limewire (one of the most popular P2P applications) in relation to Spotify, the most successful legitimate streaming service available. Although monthly usage of Limewire has declined since March 2009 and the number of people using Spotify has risen impressively, the number of people using Limewire on a monthly basis has been 45% higher than for Spotify during the course of 2010.

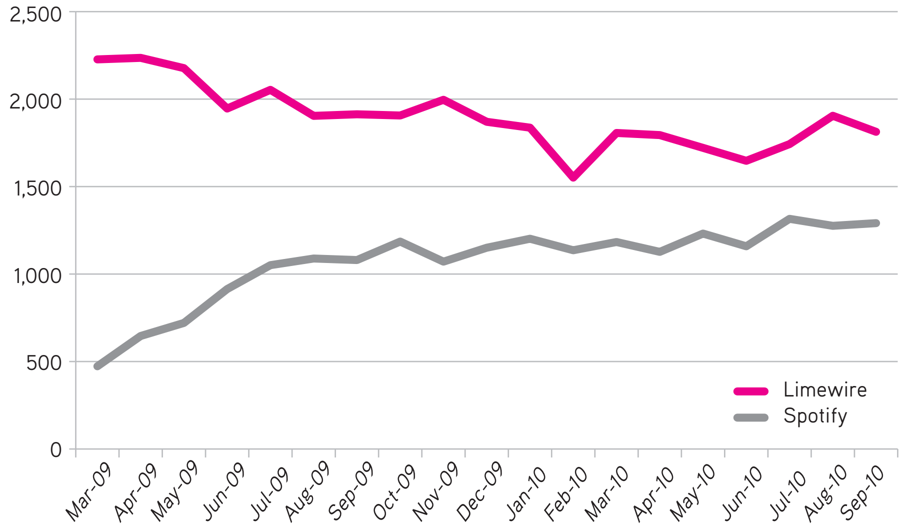
Although this is significant growth, the graph shows how the use of illegal services continues to eclipse that of legal alternatives.

SUM OF P2P APPLICATION USERS (Thousands)



Note: This graph excludes usage of websites such as The Pirate Bay and Torrentz – it represents the total number of UK users of the Ares, BitTorrent, eMule, Frostwire, Limewire, Soulseek, uTorrent and Vuze applications each month.

LIMEWIRE V SPOTIFY USAGE – MONTHLY USERS (Thousands)



Source: UKOM/Nielsen

The Rise of Non-P2P

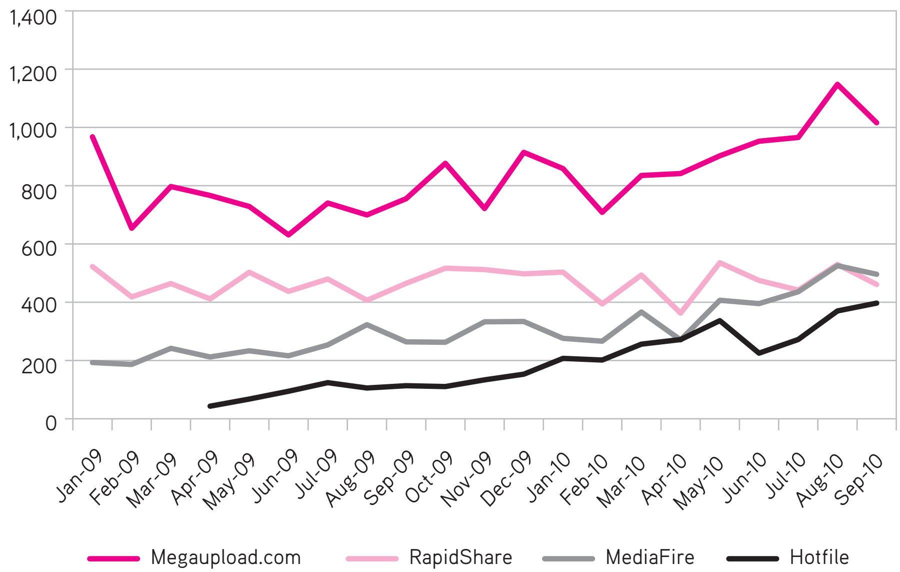
Usage of hosting sites is becoming much more commonplace. UKOM/Nielsen data shows there were 1.3m unique users in September 2010 and the chart below shows how usage of specific sites has been generally increasing since the beginning of 2009.

While services such as Spotify and we7 are attracting growing numbers of users, so too are unauthorised applications such as uTorrent and hosting sites such as Megaupload and Hotfile, which are popular sources of infringing content. The net effect over the 12 months ending in September is that while total usage of P2P applications has remained relatively flat in the UK, usage of hosting sites and other non-P2P sites and applications has risen significantly.

The combined effect is that overall levels of illegal music downloading in the UK continue to rise.

The impact this behaviour is having on the music industry is far-reaching. Many consumers have become accustomed to acquiring music for free and licensed services have to try to compete with illegal alternatives which are mainly free to the consumer.

THE INCREASED USAGE OF HOSTING SITES (Audiences, thousands)



Source: UKOM/Nielsen

> Changing consumer behaviour

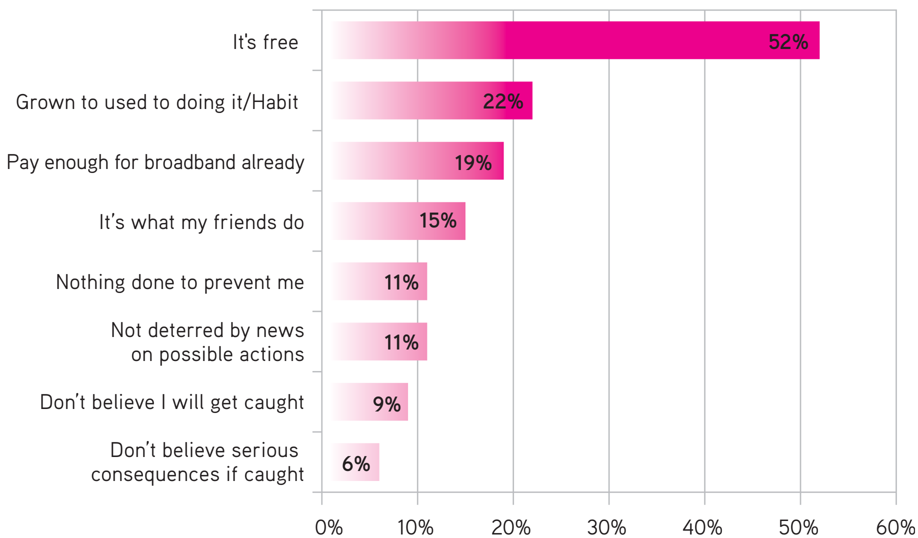
Competing with 'Free'

The Harris survey also looked at the reasons given by some respondents for their decision to download music unlawfully. As might be expected, the most popular reasons cited were cost ('It's free' was the most common reason given) and convenience. Many of those surveyed seem to have simply become accustomed to getting their music this way ('Grown used to doing it' (22%) ranked highly) without being challenged, with several citing that they are unconcerned about the prospect of possible action being taken against them. All seem to point towards the fact that the absence of any effective action to prevent unauthorised downloading has led to this behaviour becoming ingrained as part of everyday leisure activity.

Many of those surveyed were well aware of the legal context in which illegal downloading is framed, and were keen to see action taken to address the issue. When questioned about their attitudes towards different aspects of illegal downloading, a considerable number of respondents engaged in unauthorised music acquisition agreed that more needs to be done to tackle the problem. A significant proportion (41%) believed the Government should take action against persistent downloaders who had been previously warned, while over a third (36%) believed that websites offering music illegally should be blocked or banned from the internet. Many were also aware of some of the ethical issues at stake – 56% stated that downloading illegally is not fair to artists and songwriters. Levels of agreement were unsurprisingly higher among all respondents and significantly higher among those who only purchase music legally.

Tackling illegal downloading has been the biggest challenge the music industry has ever faced. There is no silver bullet that will solve the problem. The industry recognises that a multi-faceted strategy is needed involving licensing our music to all kinds of new digital services that meet the needs of different consumers. This includes educating fans about how to get music legally and about the risks of illegal downloading, driving consumer

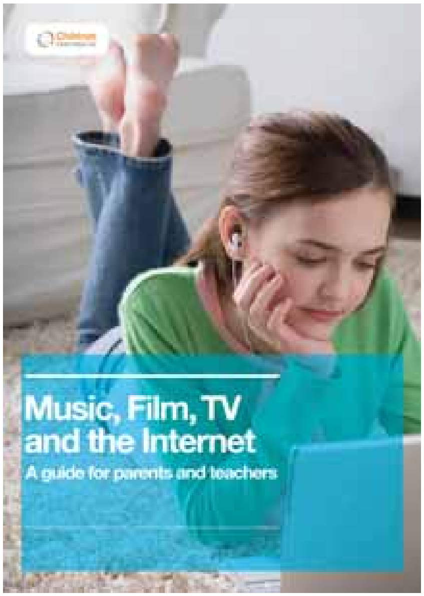
REASONS FOR DOWNLOADING FROM UNAUTHORISED SOURCES



Source: Harris Interactive/BPI Digital Music Survey
Base: all qualified respondents

education programmes such as those with Childnet and the Music Matters campaign, and persuading Governments that proportionate measures need to be put in place to discourage illegal filesharing and to remove access to blatantly illegal sites.

It is clear from the research that there is a continuing need for education about accessing music and other entertainment online. It is also apparent that illegal downloading has become ingrained and that some deterrent measures, such as those contained in the Digital Economy Act, will be essential to effect a meaningful shift in behaviour.



Music Matters

Music, Film, TV and the Internet – A Guide for Parents and Teachers

This guide saw the music and movie industries join forces to provide a comprehensive overview of the most commonly asked questions about accessing entertainment content online. It offers information on how young people can get the best out of downloading, streaming and sharing music, film and TV programmes in a safe and legal way.

Supported by a major media campaign and set to continue during 2011, the guide is helping to educate consumers about legal services, copyright laws and the risks of using illegal file-sharing services. Leaflets are being distributed to secondary schools across the UK and it is hoped that retailers and ISPs will come on board, offering the Guide to their own customers. The Guide can be downloaded here: www.childnet.com/downloading.

Music Matters

The Music Matters campaign – www.whymusicmatters.org – is a collective effort by artists and all those who work in and around music to remind listeners of its enduring value. It highlights the profound impact of music and educates consumers on how to identify and obtain music from legitimate sources.

Allowing the music to speak for itself, the campaign comprises a growing collection of short animated films about inspirational artists who have dedicated their lives to music and helped shape our cultural landscape.

To help consumers make the ethical choice when looking for music online, a Music Matters trust mark has been developed to certify legitimate digital music services and leading music retailers.

Migrating Users from the Illegal Market

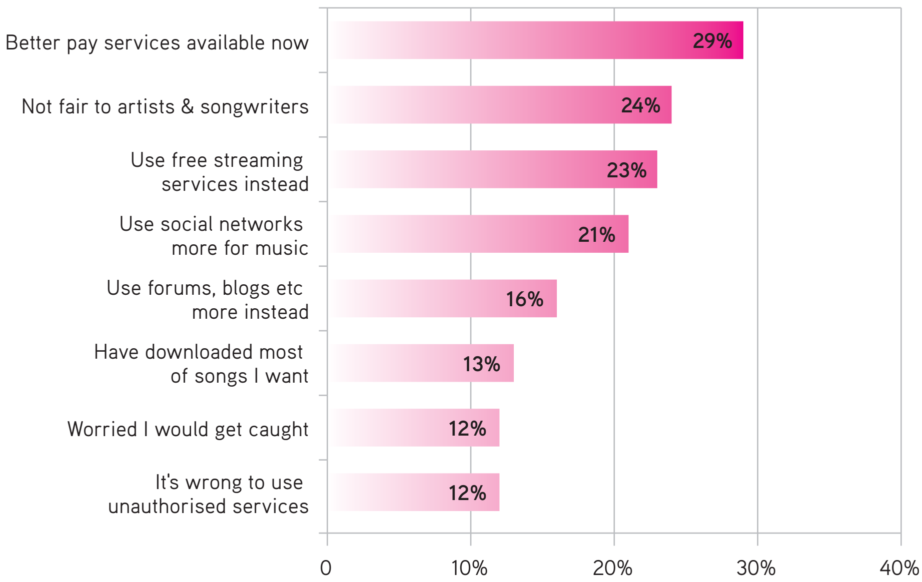
The data from Nielsen shows that P2P usage is not falling and the use of non-P2P sites and services is on the increase. At the same time, consumer research from Harris Interactive does reveal that there are a number of people who are moving away from P2P downloading towards legal alternatives – 13% of respondents said they no longer use P2P services. This can be explained by churn – some users are ceasing to be active, replaced by new users.

When ex-P2P users were asked why they had stopped, their answers showed that there were positive reasons for their shift in behaviour. The most popular responses included those which indicate a greater uptake of legal streaming and download services and a belief that artists and songwriters deserve to be paid for their works. Whilst it is heartening to see the effectiveness of legal services in driving some people away from P2P, deterrents are not yet anywhere near having the same impact. Proposed measures under the DEA need to make an equal – if not more significant – contribution to influencing P2P users.

All this must be, however, viewed against the background of an overall rise in net usage. When users of each group of unauthorised sources were asked about their activity in the last six months, a net increase was recorded against each source. Among P2P users, there was over a third (35%) who reported greater usage, compared to only 28% who stated their activity had decreased. This increase was especially notable among younger P2P respondents with 46% of 16 to 24 year olds reporting that their usage had increased, compared with 26% who stated that it had decreased. This is despite media coverage of measures proposed under the Digital Economy Act and also a great deal of online discussion instigated by the artist community, along with music industry initiatives to promote legal services.

There is also evidence that piracy is transferring to other online sources. Recalled usage of non-P2P methods would appear to be increasing at an even faster rate – half of the customers of illegal MP3 pay sites stated their usage had increased over the past six months.

WHY HAVE YOU STOPPED USING P2P?



Source: Harris Interactive/BPI Digital Music Survey
Base: all lapsed P2P users

Usage Trend Over Last 6 Months (user recall)

Source	Use More (%)	Use Less (%)	Net
Overseas MP3 pay sites	49%	13%	+36
MP3 search engine	45%	17%	+28
Cyberlockers	38%	23%	+15
P2P	35%	28%	+7

Source: Harris Interactive/BPI Digital Music Survey
Base: all qualified respondents

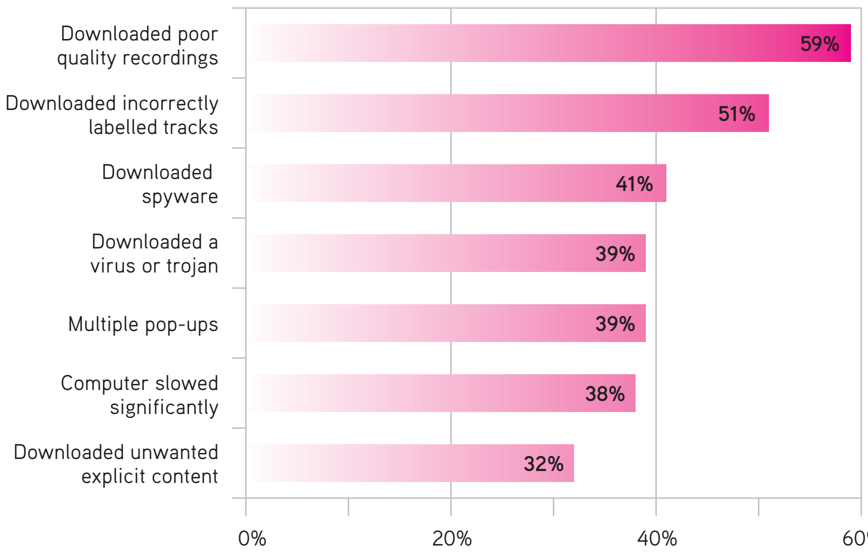
Worryingly, a substantial proportion of those who continue to use unauthorised services do not – or claim not to – realise that their actions are unlawful. Nearly half (44%) of all P2P users stated that they believed their actions to be lawful and this proportion rose among users of other services such as overseas pay sites (69%) and using cyberlockers via board/forums (56%).

The Dangers of Filesharing

A common occurrence for users of unauthorised services has been the frequency of unwanted problems that arise as a result. BPI's survey of illegal downloading behaviour now quantifies this. Out of 746 P2P users four in five (79%) had encountered some sort of problem when acquiring music illegally from a P2P network.

These ranged from downloading incorrectly labelled or poor quality tracks to the more serious issues of encountering spyware, viruses or trojans. When questioned further about the consequences of the problems they had encountered, 12% said that they had to have their PC or laptop repaired and 17% said that their PC or laptop crashed and was unusable for a period of time.

PROBLEMS FROM FILESHARING



Source: Harris Interactive/BPI Digital Music Survey
Base: all P2P users

Combining messages about the risks of filesharing, the availability of legitimate online music services and broader communications strategies about the economic and cultural importance of music can go some way to changing consumer behaviour.

But this will only go so far. It must be backed by graduated but robust measures against persistent illegal filesharers and unlicensed websites. These should not only send a clear message that illegal music downloading is wrong but also steer consumers back towards services that reward artists and all the backroom people who help to create great music.

Not only will this ensure that Britain continues to punch well above its weight as a music nation, it will spur on investment and innovation in the legal content sector, creating new jobs and a better online music experience for everyone.

P2P sites and applications tracked (see page 22)

Ares, BitTorrent, eMule, FrostWire, LimeWire, Soulseek, The Pirate Bay, Torrentz, uTorrent, Vuze

Non-P2P sites and applications tracked

BeeMP3, bomb-MP3, Elbo.ws, Emp3World, Filestube, Giganews, hypem, MOG, Mp3Fiesta, Mp3va, Newzbin, RLSLOG, Katz Forums, WarezBB, Hotfile, Mediafire, Megaupload, Rapidshare, Wrzuta, Free To YouTube MP3 Converter, Grooveshark, Soundcloud

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