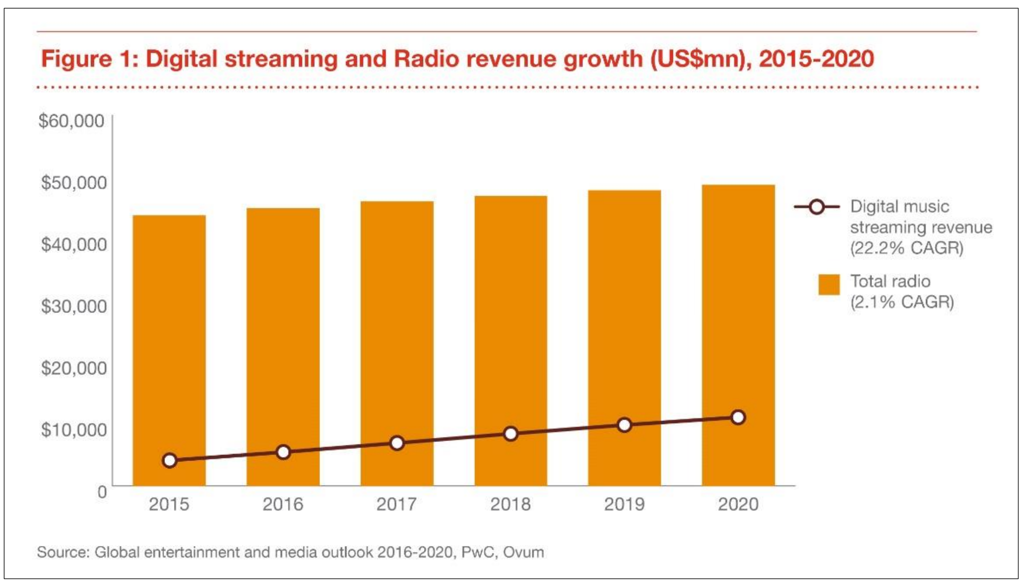
Music & Radio

Separate segments in the analogue era – now forging their own distinct paths to growth in a more blurred digital world

Just a few years ago, in the era of physical recorded music formats, music and radio were completely separate segments of Entertainment & Media (E&M). Radio plays of the latest sounds would attract audiences and advertising. But if those listeners wanted to have their favourite tracks available to listen to on demand, they would have to buy them in a physical format to play at home – generating revenues for the record companies. It was a symbiotic relationship in which the role of each segment was clearly delineated.

Digital has blurred that clear dividing line, with rapidly-expanding online and mobile music streaming services now challenging for at least some of radio's core customer base – and the overlap being at its greatest between Internet radio and digital streaming. The momentum is with streaming: as Figure 1 shows, digital music streaming revenue is set to rise at a CAGR (compound annual growth rate) of 22.2% over the five years to 2020, against a CAGR of just 2.1% for total radio revenue. However, while the two sectors have converged in some respects and do overlap to an extent, this doesn't mean that digital music and radio are competing with one another aggressively. In fact, both have their own unique strengths, and a long-term future as viable components of the E&M landscape.



Differing experiences and cultural associations

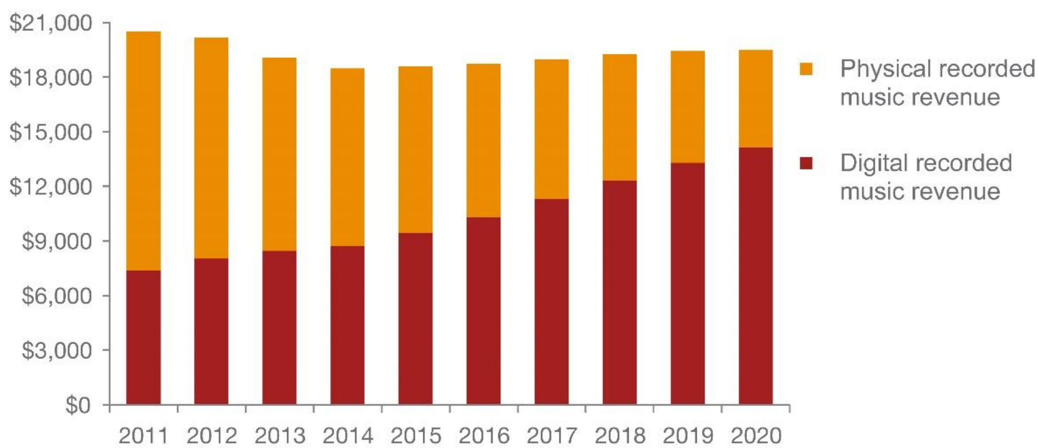
At the heart of the continued co-existence of music and radio is the difference between the experiences they provide. While both compete – alongside other media – for consumers' attention, streaming music tends to be a more lean-back experience that consumers might undertake while doing something else, be it working out or reading. In contrast, radio goes beyond music into other content areas like news and live sport, and tends to be a more lean-forward and active activity. So each offers something unique.

A further important driver shaping the relative growth and consumption of music and radio is local conditions in each market, ranging from the broadband infrastructure to local tastes and cultural associations. While streaming is surging in markets with well-developed communications networks, radio is also holding up well in many territories – often led by local radio carrying local content and information. Meanwhile, looking forward, perhaps the biggest area of uncertainty in either segment is the future path to profitability of the music streaming services, possibly via consolidation.

Music goes streaming – and social

These contrasts between the music and radio segments are reflected in different dynamics shaping their growth over the coming five years. Of all areas of E&M, music was the first to encounter the full force of digital disruption through the rise of unauthorised music download sites in the early years of the 21st century. As legitimate alternatives emerged, digital downloading services made the early running, but these are now rapidly being supplanted by music streaming (see Figure 2). With streaming rising and downloading falling away, overall recorded music revenue will likely be largely flat over the five years to 2020, as the ongoing decline in physical sales will only just be offset by the digital growth. Looking across music as a whole, growth will likely be driven by the live music sector, rising at a CAGR of 3.0%.

Figure 2: Global total digital streaming vs digital download music revenue (US$mn), 2011-2020



Source: Global entertainment and media outlook 2016-2020, PwC, Ovum

Music streaming globally had a landmark year in 2015. The launch of Apple Music in June 2015 boosted its already strong momentum, with other players – the likes of Spotify, Pandora and Rhapsody, to name but a few — benefiting from the enhanced awareness of streaming that Apple Music created among consumers[1]. Partly as a result, global music streaming spending rose by a staggering 41.8% in 2015 to $4.07 billion, and is forecast to keep growing at a CAGR of 22.2% to US$11.06bn in 2020. The shift to streaming is already showing up clearly in the accounts of the leading record companies, with 2015 seeing Universal Music Group become the first to generate over US$1bn in streamed music revenue, surging from US$375mn the previous year[2].

More generally, the take-off in streaming subscriptions means the major music labels are more optimistic about the outlook for revenues now than at any point in the past decade: having restructured and retrenched for a digital world, they're now seeing the very real prospect of a steady and rising flow of revenues going forward. A key aspect of the music industry's new digital business model is strong use of social media to build engagement and revenues. The ability – for example – for consumers to engage with artists and each other, access additional content, create playlists to share with friends, toggle between label sites and personal playlists, and recommend tracks they've just discovered are transforming the experience of finding and consuming music.

[1] Source: http://www.latimes.com/entertainment/envelope/cotown/la-et-ct-streaming-spotify-apple-music-tidal-20150629-story.html
[2] Source: http://www.billboard.com/articles/business/6760655/universal-music-group-half-digital-revenue-streaming

Radio: drawing on inherent strengths

Meanwhile, radio – having encountered digital disruption later than music – is seeing its revenues hold up relatively well at a global level, despite facing digitally-driven competitive challenges on multiple fronts. These threats include not just digital streaming services, but also new interactive dashboard technologies that are cutting into traditional in-car listening. There's also the potential that as autonomous vehicles become the norm, they could reduce in-car radio listening still further by freeing people up to consume video content on the move. The explosion in smartphone uptake is further changing the way listeners consume radio: according to US company iHeartMedia, over 60% of its listening hours are already consumed out of the home[3]. Traditional radio broadcasters have responded to all these threats by strengthening their main differentiators — on-air personalities, news, sports, interviews, phone-ins and other spoken-word content — and launching their own online radio platforms.

Alongside their inherent content strengths, radio also benefits from a strong social and cultural position in many markets across the world, not least in emerging regions such as Africa. While radio consumption in developed markets such as the US is largely associated with in-car listening, in developing markets it's often the main source of information, news and even entertainment across society as a whole. In Kenya, for example, 51% of people reported radio as their main source of entertainment in 2015 – a status reflected by radio's leadership of the advertising market in the country, supported by a healthy landscape of more than 370 radio broadcasters. One of radio's key advantages in emerging markets is that it is a low-bandwidth medium: many smartphones in Africa are sold with FM receivers because the wireless broadband infrastructure is not yet at a level where streaming is feasible.

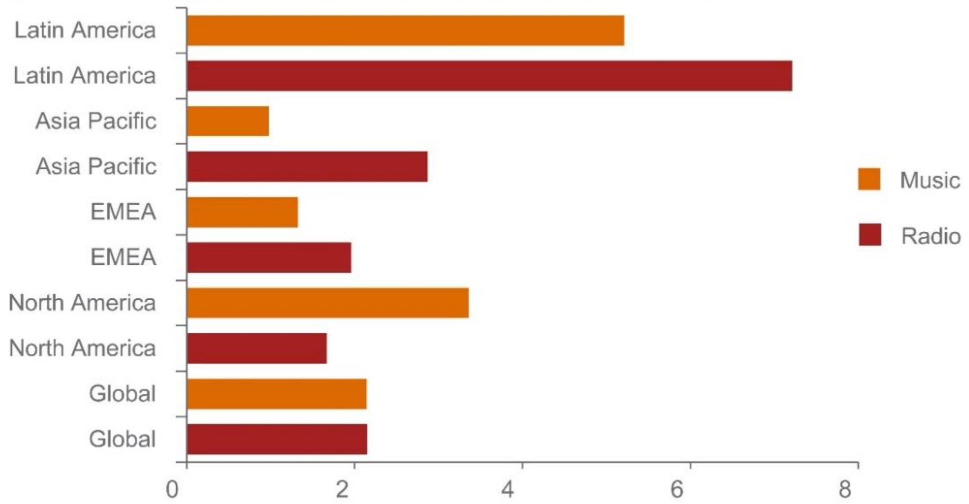
Securing their positions in a "world of differences"…

As well as underlining the contrasts between the music and radio markets, the differences between the two segments' respective strengths and appeal to consumers also highlight something else: the shifting, diverse and fast-evolving nature of today's global media landscape. The core theme of PwC's Global Entertainment & Media Outlook 2016-2020 is that the global E&M market is now a "world of differences", a market experiencing ongoing change and disruption whose nature and impacts vary between segments and geographies, and where clear global trends are overlaid and even offset by powerful cultural, economic and infrastructural factors at the local level.

The result is drastic slowdowns in some areas and stagnation in others, coexisting with spectacular expansion in "hot" sectors, countries and regions. And the music and radio segments epitomise this kaleidoscope of change and diversity. A comparison of their growth rates in different regions (see Figure 3) shows that while overall global revenue growth in radio and music is expected to run neck-and-neck over the five years to 2020, this will result from stronger growth in music in North America balanced by stronger growth in radio in all other regions. Latin America is expected to see higher growth in both segments than anywhere else, underlining that both sectors can grow strongly at the same time – with Brazilian consumers proving to be especially enthusiastic adopters of digital music streaming, and Latin American radio revenues buoyed up by Mexico's forecasted 7.1% CAGR between 2015 and 2020.

[3] Source: http://www.usatoday.com/story/money/business/2014/09/16/clear-channel-name-change/15717507/

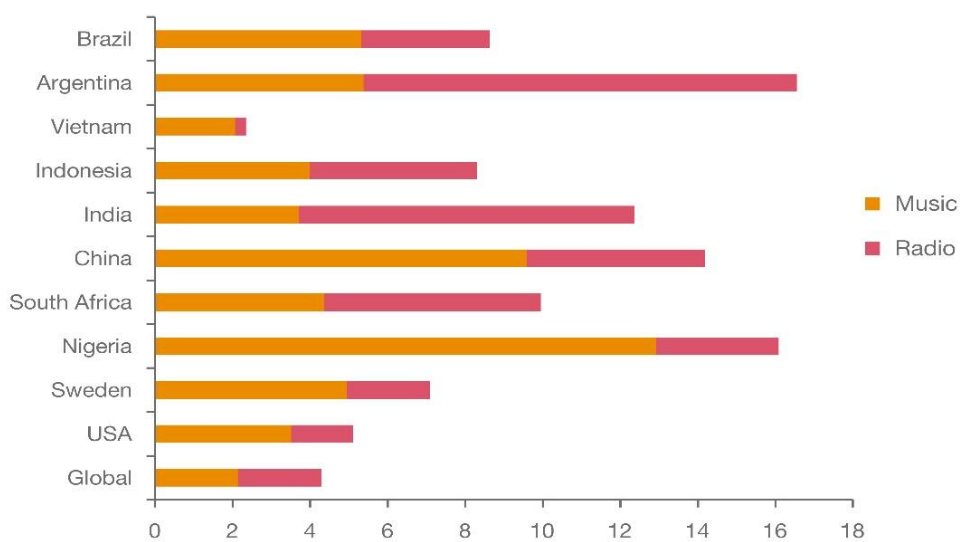
Figure 3: Projected CAGR of Music and Radio revenues by region (%), 2015-2020



Source: Global entertainment and media outlook 2016-2020, PwC, Ovum

As Figure 4 illustrates, a similar fragmented and diverse pattern emerges at the country level across the world. Even markets that are often bracketed together will see stark differences. For example, music revenue will likely outpace radio in China as authorised streaming services take off, but the reverse will be true in India, with radio growing at a CAGR more than twice that of music. Similarly, radio will take the lead in Argentina, but music will outperform radio in Brazil. And music revenue will grow faster than radio in Nigeria, but radio will be the better performer of the two in South Africa.

Figure 4: Projected CAGR of Music and Radio revenues in selected countries (%), 2015-2020

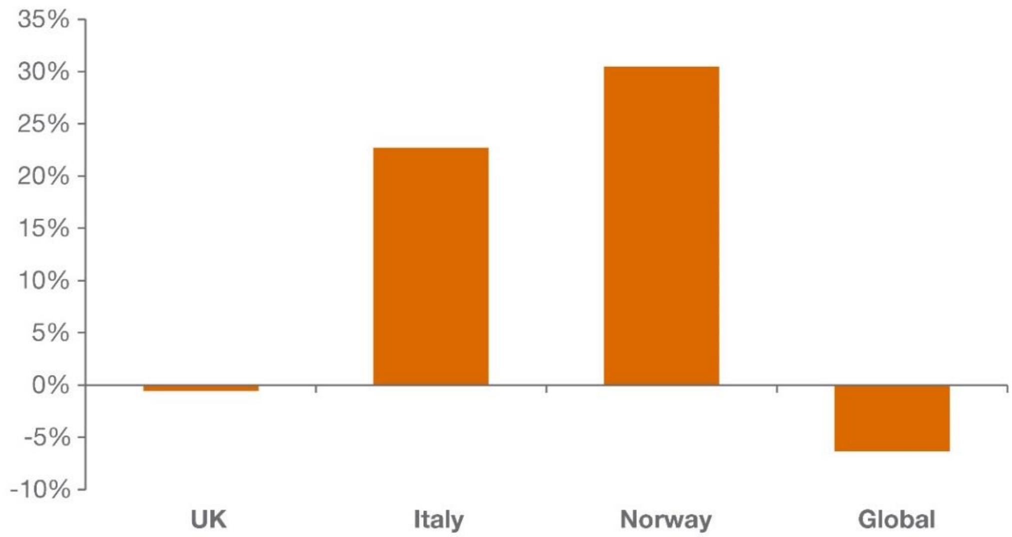


Source: Global entertainment and media outlook 2016-2020, PwC, Ovum

…as local factors come to the fore in music…

Such differences come down to the specific local factors shaping consumption and spending in each market. And while some of these factors – such as the cultural and social importance of radio in emerging markets – can be seen worldwide, many others are unique to the territory in question, and even counterintuitive in the context of global trends. For example, in recorded music, global spending on physical formats — mainly CDs and vinyl — fell in 2015 by 6.3 percent, continuing many years of decline. Yet spending on physical music formats in the UK was almost flat, while in Italy and Norway, the growth in physical music spending was remarkable: 22.7% and 30.5%, respectively (see Figure 5).

Figure 5: Change in Spending on Physical Recorded Music, 2015



Source: Global entertainment and media outlook 2016-2020, PwC, Ovum

So, what happened? In each market, the global impact of music streaming was offset by local tastes. In the UK, Adele's blockbuster album, 25, which was not made available for streaming, was almost single-handedly responsible for the strength of physical music. In Italy, a strong domestic repertoire, led by the 13th studio album of singer/songwriter Jovanotti, Lorenzo 2015 CC, drove the rebound in physical music. And in Norway, where the popular electronic dance music scene promotes record-spinning DJs as rock stars, vinyl sales accounted for 24% of all physical music revenue, a sky-high proportion compared with vinyl's 2% share of music revenue globally.

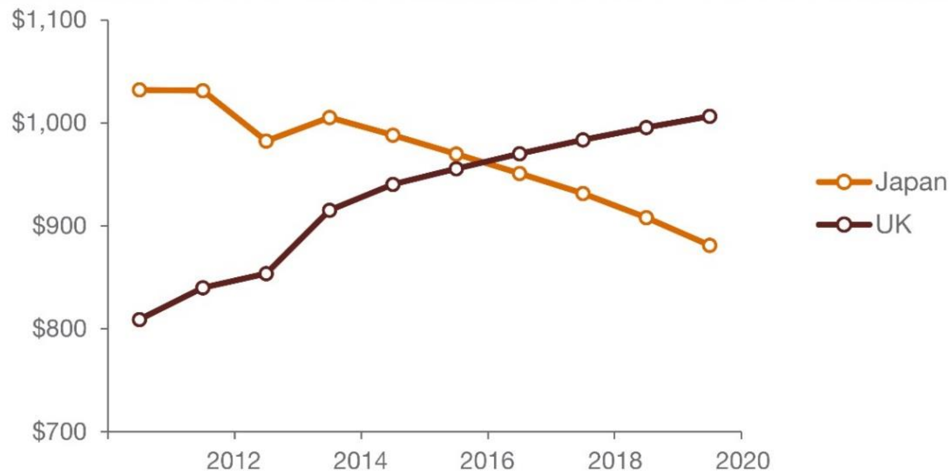
A further illustration of the "world of differences" theme in music is that Norway's close Nordic neighbour Sweden is dominated by streaming – which accounted for 96% of that country's total digital recorded music revenue in 2015. Meanwhile, Japan – which ranks second globally behind the US for music revenues – has one of the world's fastest-declining music markets, with total music revenue projected to decline at a -3.4% CAGR to US$3.89bn in 2020. In contrast, the Netherlands enjoyed the strongest growth in recorded music revenue in more than 15 years in 2015, as revenue increased by 7.9% driven by the popularity of paid-for streaming services. And overall music revenues in Russia are projected to increase by 11% between 2015 and 2020, following a tipping-point in 2015 when revenue from digital recorded music overtook physical formats for the first time.

…and diversity reigns in radio

In radio, further stark variations emerge, again underlining the "world of differences". At a global level, despite the availability of digital music alternatives and the successful roll-out of digital radio services in some countries, the continued large listener base of analogue radio will ensure that traditional radio advertising remains the largest part of the market. Indeed, traditional radio advertising delivered through an analogue platform accounted for around three-quarters of total radio revenue in 2015, and will likely continue to do so through to 2020. And while analogue radio will continue to face challenges from digital competitors, its extensive penetration, high-quality measurement metrics, and wide in-vehicle availability will ensure that the platform remains a consistent lure for advertisers seeking a media outlet.

However, as in music, these global dynamics are playing out differently in different territories. In Switzerland, for example, radio is maintaining its position through a distinctive mix of "hyper-local" news, information and music. A comparison between the radio markets of two other developed countries – Japan and the UK – provides a further illustration. Radio advertising growth in Japan has been hit by poor economic conditions, at a time when the country's radio market is struggling with a small and declining radio listenership predominantly consisting of listeners aged 50 and above, partly reflecting the limited programme and music choice offered by Japanese radio stations. This in turn encourages younger consumers to look elsewhere for entertainment – mainly online.

Figure 6: Japan and UK, radio advertising revenue (US$mn), 2011-2020



Source: Global entertainment and media outlook 2016-2020, PwC, Ovum

In the UK, by contrast, music radio is thriving and reaching a young and enthusiastic listenership – with audience reach by radio in the UK standing at almost 90% in 2015, compared to around 37% in Japan. And this difference is feeding through clearly to radio broadcasters' bottom line in each territory. As Figure 6 shows, Japan's total radio advertising revenue is forecast to decline from US$988mn in 2015 to US$881mn in 2020, a CAGR of -2.1%. The UK radio advertising sector, on the other hand, is expected to post solid compound annual growth of 1.4%, seeing its revenues rise from US$941mn to US$1.01bn over the same period. This will enable the UK to surpass Japan as the world's fourth-largest radio advertising market in 2017.

Looking elsewhere across the world, other striking differences include the way the United States is set apart by having a vibrant satellite radio market, with SiriusXM as the sole provider at its helm. Total satellite revenue in the US derives almost entirely from subscriptions, and is forecast to increase at a 4.1% CAGR over the next five years to reach US$4.80bn by 2020. Meanwhile, neighbouring Canada – despite its relatively small population – has the third-largest traditional radio advertising revenue in the world after US and China, with its terrestrial radio broadcast advertising reaching US$1.311bn in 2015.

Looking across the landscape of music and radio, what's clear in every case is that – faced with an expanding array of choices and an attachment to particular content, stations, artists, music formats and more – consumers decide at a local and indeed personal level what to consume and how. And these decisions lead to wildly differing outcomes, even in markets that might appear superficially similar. This is the E&M world of differences in action.

Contacts

For additional information about this topic and how PwC can help, please contact:

Deborah Bothun

Global Entertainment and Media Leader
+1 (646) 471 9048
deborah.k.bothun@pwc.com

Gregory Boyer

Partner, Advisory, PwC US
+1 (347) 501-2493
gregory.a.boyer@pwc.com

Vicky Myburgh

Partner, Assurance, PwC South Africa
+27 (11) 797 4305
vicky.myburgh@za.pwc.com

Huw Thomas

Partner, Advisory, PwC UK
+44 (0207) 213-3758
huw.a.thomas@pwc.com

Global entertainment and media outlook

PwC's Global entertainment and media outlook 2016-2020 provides a single comparable source of five-year forecast and five-year historic consumer and advertiser spending data and analysis, for 13 entertainment and media segments, across 54 countries. It's a powerful online tool that provides deep knowledge and actionable insights about the trends that are shaping the E&M industry. Subscribe to the Global entertainment and media outlook at www.pwc.com/outlook

For additional information about the Outlook please email pauline.orchard@uk.pwc.com or gary.rosen@us.pwc.com.