INVESTING IN MUSIC
THE VALUE OF RECORD COMPANIES
Making music is about passion, inspiration, emotion and creative talent. However, it is not just a gift of human nature: it also requires an extraordinary amount of hard work, time, effort and sustained investment.

An enormous supporting cast of skilled, dedicated and passionate people are devoted to helping make the artist and their music a success. This behind-the-scenes community works in hundreds of different ways, in countless different roles, to support the artist and to take their work to a large audience of fans, often spanning the globe. It is no less important in today’s music landscape than in the past – in fact it is more important. In a world of digital diversity and complexity, this help is needed more than ever before.

“Investing in Music” tells the story of the immense effort and skill of the team surrounding today’s recording artists. It also shows how much financial investment is needed to help an artist pursue the career to which they aspire.

This is a truly impressive story, giving insight into the work of today’s global music sector. As an artist who has witnessed their vital role over my long career, I salute the investors in music.

PLÁCIDO DOMINGO
CHAIRMAN, IFPI

1. Music is about hard work and substantial investment
2. Record labels are the primary investors in music
3. Breaking down labels’ US$4.5 billion annual investment
4. Developing the digital market
5. Unlocking new revenue streams

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Music does not just happen. Taking a song from a concept to a recording and then distributing it around the world takes a huge amount of work, time and effort, and an array of people. There are the writers and recording artists, the creators and performers. There are those who discover and nurture artists, those who produce the recordings and the videos, and those who market and promote them. And there is the distribution, in physical and digital formats, to thousands of retail partners and digital services.

All this can demand substantial up-front investment, well before a single stream plays or an album goes on sale.

Success often also requires a long-term vision. The vast majority of albums do not break even financially, and those that do take time to do so. Nor is the true value of every artist or album immediately recognised and appreciated.

Record companies remain the largest investor in music, ploughing in more than US$4.5 billion in 2015, or about 27 per cent of their revenues, into A&R and marketing. They have sustained this investment through recent years, even as the industry weathered two decades of revenue decline.

The partnership between artists and labels goes far beyond the financial. Record companies nurture artists, allowing them to develop their sound, their craft and their careers. Labels’ marketing expertise and resources enable them to create and deliver cutting-edge campaigns that engage fans around the world. They help manage thousands of partners spanning the globe, requiring local expertise in each market with networks of relationships and marketing and promotional resources. They help develop local artists in diverse languages across genres from classical to hip hop.

The investment from the record industry has also been essential in driving music’s digital transition. Record companies build out the systems and infrastructure that enable the licensing of some 360 digital music services with more than 40 million tracks. As a result, today’s music industry helps connect artists and their music with fans in multiple new formats — from buying downloads to subscription streaming and more.

This report is about record companies’ enduring value to music. In the digital world, the nature of their work has evolved, but their core mission remains the same. It is the mission of discovering and breaking new artists, building their careers and bringing the best new music to fans. These are the defining qualities of record companies’ investment in music.
The value of record companies

US$ 4.5 billion

Global investment in A&R and marketing in 2015

27%

Share of record company revenues invested in A&R and marketing

US$ 0.5 – $2 million

The typical cost of breaking a worldwide-signed artist in a major market such as US and UK

360+

Music sites serviced by record labels worldwide
Music is about hard work and substantial investment

Music is being crafted, created, produced and enjoyed in more ways than ever before in history.

Virtually every artist who reaches the charts has partnered with a record company. They do so by choice, in a landscape that offers artists more ways to release their music than ever before. They choose this route for good reason: to gain the experience, expertise and significant investment that a record deal brings.

A record company works with a constellation of different teams, all centred around the artist. There are songwriters and producers, A&R (artist and repertoire) professionals, marketing, publicity, promotion and video production teams, as well as those in merchandising, accounting and distribution.

Those working in A&R discover artists and help them refine their music. Other teams see that albums are produced and recorded to meet the highest audio standards and converted into the hundreds of digital formats used by the digital music services. They also ensure that CDs and vinyl are manufactured and shipped to record stores and retail partners.

**RECORD COMPANIES PROVIDE SUPPORT IN THREE KEY WAYS:**

1. **DISCOVERING & NURTURING ARTISTS**
   enabling them to develop their sound and their craft.

2. **PRODUCING THE WORK OF ARTISTS**
   producing their music and other forms of creative output (such as visual media or merchandise) so they can enjoy the greatest success creatively and commercially.

3. **PROMOTING ARTISTS**
   Connecting them with fans in new and innovative ways.
Creative teams produce high-quality videos whilst promotional experts publicise and market artists and their music. Other teams manage essential backroom jobs: accounting for sales and consumption and delivering artists their royalty payments.

This work requires substantial investment. At the top end, a major international signing will cost between US$0.5 million and US$2 million to break in a major market such as the US or UK. That is the upfront investment only: it may or may not ever be recouped by the label on a specific album, which is why artist contracts often span several albums.

A MAJOR INTERNATIONAL SIGNING WILL COST BETWEEN US$0.5 MILLION AND US$2 MILLION TO BREAK IN A MAJOR MARKET

Labels’ typical investment in a major new signing

| **ADVANCES** | **US$50,000 – 350,000** |
| **RECORDING COSTS** | **US$150,000 – 500,000** |
| **VIDEO PRODUCTION** | **US$25,000 – 300,000** |
| **TOUR SUPPORT** | **US$50,000 – 150,000** |
| **MARKETING AND PROMOTION** | **US$200,000 – 700,000** |
| **TOTAL** | **US $475,000 – 2,000,000** |

**ADVANCES**
Advances are commonly paid to artists to allow them to concentrate on writing, rehearsing and recording. These advances are non-returnable, but recoupable against future royalties. Record companies are therefore taking the risk in this highly competitive market.

**RECORDING COSTS**
These can vary widely between different artists and can reach as high as US$500,000 for projects with the most sought-after producers and session musicians.

**VIDEO PRODUCTION**
Virtually all new releases involve the production of a video. Costs vary widely from US$1,500 for a very small-scale production to US$500,000 for superstar projects.

**TOUR SUPPORT**
Labels in many cases provide tour support for their artists. The longer duration of campaigns in the streaming world means that artists can be on the road for a longer period, promoting their material through live performances. They need funding to sustain this and it is often the record company that provides it.

**MARKETING AND PROMOTION**
This is the biggest item of spending, where labels have a key impact. As consumers increasingly access music digitally, marketing efforts have shifted substantially online, where labels create campaigns that directly link fans to artists and services where they can access their music.
Record labels are the primary investors in music

**MUSIC COMPANIES INVEST
US$4.5 BILLION ANNUALLY**

*IN DISCOVERING, NURTURING AND PROMOTING ARTISTS*

No other segment of the music sector invests in artists on anything like this scale. No other third parties or music distributors invest any comparable sums in artists’ careers.

27%

**THE GLOBAL RECORDED MUSIC INDUSTRY IN 2016 IS HIGHLY INVESTMENT-INTENSIVE, PLOUGHING 27% OF ITS REVENUE BACK INTO DEVELOPING AND MARKETING ARTISTS.**

The companies have maintained this share over many years, even as they have weathered downturns in the market.
**FOCUS ON:**
**Investment in local repertoire**

Music has a unique power to unite people around the world. It can also serve as a celebration of a culture or community. Record companies invest heavily in local music, helped by a streaming world that has transformed the opportunities for local acts to reach fans. The recovery of streaming-dominated markets such as Norway and The Netherlands has increased investment in local artists. In major non-English language markets such as France and Germany, national repertoire has grown in importance in recent years.

**Local artists emerging through streaming**

Streaming can help local artists cut through more effectively to their fan base. Dutch independent record company, Cloud 9, has been at the forefront of developing the urban music scene in The Netherlands — stepping up its spending on local acts by more than 300% in the last two years and signing pioneering local artists such as Sevn Alias.

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**Share of local acts in the national top 10 album chart, 2015:**

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITALY</td>
<td>90%</td>
</tr>
<tr>
<td>FRANCE</td>
<td>90%</td>
</tr>
<tr>
<td>GERMANY</td>
<td>80%</td>
</tr>
<tr>
<td>UK</td>
<td>78%</td>
</tr>
<tr>
<td>NETHERLANDS</td>
<td>55%</td>
</tr>
</tbody>
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Breaking down labels’ US$4.5 billion annual investment

Record companies’ annual US$4.5 billion investment (or about 27 per cent of their annual revenues) breaks down into two primary areas:

**A&R (or Artists & Repertoire), the discovery and development of artists** – representing more than US$2.8 billion every year.

**Marketing**, the campaigns that promote artists and their music, bringing them to fans’ attention around the world – which totals over US$1.7 billion annually.

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**US$4.5 BILLION INVESTMENT**

**MARKETING & PROMOTIONAL CAMPAIGNS**

US$1.7 BILLION

**ARTISTS & REPERTOIRE (A&R)**

US$2.8 BILLION

THIS INVESTMENT IN A&R HAS INCREASED FROM US$2.5 BILLION IN 2013
FOCUS ON:
A&R (Artists and Repertoire) – nurturing talent

The ability to discover, nurture and break a recording artist is a defining skill and asset of the record companies. They invest US$2.8 billion (or about 17 per cent of revenues) a year in discovering and developing artists, with a view to achieving commercial success with their acts. This investment in A&R has increased from US$2.5 billion in 2013.

It is an activity full of risk. Some labels estimate the ratio of commercial success to failure as 1 in 4; others consider the chances to be much lower – less than 1 in 10. It is the record companies alone that shoulder this considerable risk.

There are tens of thousands of artists on label rosters worldwide. Newly-signed artists are the lifeblood of a record company’s business and around one-fifth of all roster artists are new signings from the previous 12 months.

In addition to financial support, a record company provides artists with access to a wealth of experience, expertise and a network of connections. They collaborate creatively with developing artists, helping them to realise their vision for how they want their music to sound and how they want to express this visually to their fans.

The early backing of a record label also acts as a signal to other players in the industry – from songwriters to record producers – that this artist has strong potential.

How music’s global 16.9% A&R investment compares with other sectors’ R&D investment

Recorded music is an exceptionally investment intensive business. The proportion of revenue invested in A&R remains higher than the equivalent spent on research and development (or R&D) by any other sector. This is highlighted by the European Union’s Industrial R&D Investment Scoreboard 2015.

A&R INVESTMENT (OR R&D EQUIVALENT) BY INDUSTRY

<table>
<thead>
<tr>
<th>Industry</th>
<th>R&amp;D Intensity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceuticals &amp; Biotechnology</td>
<td>14.4%</td>
</tr>
<tr>
<td>Software &amp; Computer Services</td>
<td>10.1%</td>
</tr>
<tr>
<td>Technology Hardware &amp; Equipment</td>
<td>8.0%</td>
</tr>
<tr>
<td>Leisure Goods</td>
<td>5.8%</td>
</tr>
<tr>
<td>Aerospace &amp; Defence</td>
<td>4.5%</td>
</tr>
<tr>
<td>Electronic &amp; Electrical Equipment</td>
<td>4.5%</td>
</tr>
<tr>
<td>Automobile &amp; Parts</td>
<td>4.4%</td>
</tr>
<tr>
<td>Healthcare Equipment &amp; Services</td>
<td>3.8%</td>
</tr>
<tr>
<td>Industrial Engineering</td>
<td>2.9%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

Source: 2015 EU Industrial R&D Investment Scoreboard. R&D intensity is the ratio between R&D investment and the net sales of a company or group of companies.

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FOCUS ON:  
Marketing – smarter, wider, better

Record companies invest more than US$1.7 billion annually in marketing artists. They also assign expert teams to create and deliver the campaigns that break their music worldwide.

These teams will work with an artist to develop a bespoke campaign. They create content that tells a compelling story about the artist and their music and find the right channels to appeal to their future fan base.

A global marketing team at a major record company can coordinate as many as 1,500 marketing people worldwide. They will use their local connections and expertise to promote an act in individual markets around the world.

A streaming world

The streaming world has dramatically changed the economics of marketing new releases, creating new opportunities and risks. Streaming services can sustain the popularity of new releases over a long period of time, but they also require a longer period of marketing investment.

On streaming services, where revenue is generated by the number of times a track is listened to, it can take about a third longer, compared to physical and download formats, for a company to recoup its investment in an artist. Consequently, record companies are now funding and supporting sustained marketing campaigns for a longer period of time with the aim of achieving commercial success with their act.
The 1975

The 1975 have found huge success with their recent album, topping both the UK and US charts and earning a Mercury Prize nomination in the UK. They have created a strong visual identity to distinguish their music and live performances.

Christine and the Queens

Indie pop star, Christine and the Queens, is a French artist who has launched out of her native market to achieve huge success internationally since releasing her first EP in 2012. Developed in France by her record company, Because Music, and singing in two languages, she has now broken into the US, UK, other European markets and Australia in recent years.

Justin Bieber

With Justin Bieber’s album, Purpose, his record company harnessed its global reach in coordination with local teams around the world. In total around 1,500 marketing experts were involved in launching it to his fans, helping to make it a huge global success.
Developing the digital market

In addition to investing directly in artists, music companies also invest, along with distributors, in the fast-developing infrastructure of the digital market.

Servicing a supply chain with around 360 licensed digital services worldwide brings significant costs. Substantial investment goes into systems to manage the large and complex task of efficiently and securely distributing more than 40 million recordings, videos and images across multiple platforms. This ensures the right music is made available around the world in the right format.

These systems also ensure the revenue generated can be tracked and distributed accurately whilst also providing huge amounts of data about where the music is being listened to in order to inform their approach to marketing and promoting artists.

This investment remains constant as record companies adapt to keep pace with the needs of each individual digital service as well as those of the fans, artists and managers.

Record companies have also invested heavily in the development of “portals” that show artists and their managers how and where their music is being consumed and the revenues being generated. These are designed to be easily accessible and can provide up to date information that can be filtered in different ways to show an artist how their music is being listened to on digital services and around the world.

Li Ronghao

Singer songwriter Li Ronghao has developed from a breakthrough artist in China to one of the biggest regional superstars, built up by Warner Music, enjoying success in Taiwan, Hong Kong, Singapore and Malaysia.

360+ music sites serviced by record labels worldwide

Systems to manage more than 40 million recordings
Unlocking new revenue streams

The record company’s investment is the seed that can build a career generating an array of other revenue streams. Once a record company has helped an artist to break through to an audience with their music, further revenue opportunities can be developed.

These can directly relate to their music – such as licensing a track for use in a movie, TV programme or video game – or draw on the wider ‘brand’ of the artist – where they may endorse a product or even develop products of their own. Individual artists commonly earn up to 90 per cent of the revenues earned from a branding partnership, and music has been the catalyst for this.

A record company may have as many as 200 long-term brand partnerships active on behalf of their artists at any point in time. In careful collaboration with their artists, record companies actively seek out, develop and secure these opportunities.

ANITTA

Brazilian recording artist Anitta is working with her record company to take her enormous success in Latin America to Europe and the US. She participates in partnerships with a number of leading brands including Danio-Nestlé, Fiat, Pepsi and Samsung.

A RECORD COMPANY MAY HAVE

200 ACTIVE BRAND PARTNERSHIPS

INDIVIDUAL ARTISTS COMMONLY EARN UP TO 90% OF THE REVENUES FROM A BRAND PARTNERSHIP