

ENTERTAINMENT 5.0

DELIVERING THE FUTURE OF ENTERTAINMENT



ENTERTAINMENT RETAILERS ASSOCIATION



Introduction

The story of the entertainment industry is inevitably dominated by the glitz and glamour of the product itself. And in many ways that's as it should be – music, video and games are businesses which trade in drama and dreams and the utterly extraordinary. The job of curating and delivering to the public all of those millions of tracks and albums and movies and TV shows and games in multiple formats is in its own way equally extraordinary.

It is that business of digital services and retailers which is the subject of this report, the follow-up to 2015's first ERA Manifesto, *Shaping the Future of Entertainment*.

Just three years ago many of the ideas in that publication seemed strange and unfamiliar. Retailers had historically been seen as mere "outlets" for the entertainment business rather than a progressive force which shapes the entertainment experience.

In 2018 that once novel notion is now undeniable. The surging revenues of the music, video and games sectors which reached a new all-time-high of £7.24bn in 2017 are primarily attributable to the new forms of consumption devised by digital services alongside the continuing innovation of more traditional retailers.

From a consumer perspective it is arguably the most diverse and healthy entertainment retail landscape the UK has ever seen.

Three years on from our first report, the entertainment market has changed dramatically. Nearly three quarters of entertainment market revenues are now accounted for by digital services,

and more than half of revenues are accounted for by 'access' models like streaming rather than by selling a physical disc or a download.

In 2018, as ERA celebrates its 30th anniversary representing the UK's entertainment retailers and digital services, it is time for an update of our thinking as we approach the next stage of entertainment's evolution, a stage we call Entertainment 5.0.

This report outlines five challenges the entertainment industry has to meet if it is to successfully manage that transition.

Because it is an evolutionary process, those five challenges are broadly similar to those we identified three years ago. Our key priority remains collaboration with our content partners. It was after all the focus on collaboration which more than anything proved the worth of the first ERA Manifesto.

I am delighted to report that the music, video and games sectors have all responded magnificently to our call to work ever more closely together. More than anything else it has been the increasing closeness of our relationships with them which has been the greatest legacy of our first Manifesto.

It is our warm hope that the same will prove true on this occasion.

Miri Bayley.

2009 – 2018: Entertainment 4.0

THE PRESENT – TODAY'S MULTI CHANNEL MULTI FORMAT WORLD 2009 – 2018

Entertainment 4.0 is the multichannel, multiformat world we live in now.

It ranges from the big data technology of streaming through to newly reborn formats such as vinyl and even the audiocassette.

In video it ranges from DVD and Blu-ray to downloads and streams and in gaming it ranges from mobile bite-size games to triple-A console gaming.

It is co-existence at its best. Digital services and retailers targeting different groups by offering very distinctive benefits.

Entertainment how you want it, where you want it, when you want it.

Your High Street entertainment expert

HMV

All the music in the world available 24/7 on multiple devices

Spotify
Deezer
YouTube Music

A weekend treat for the family along with the weekly shop

Asda
Morrisons

Entertainment in any format you'd like it

Amazon

Instant access to the films you love by download with a copy on DVD

Virgin
Sky

That last minute chart CD or DVD when you need a gift in a hurry

Tesco Express
Sainsburys Local

Your High Street gaming expert

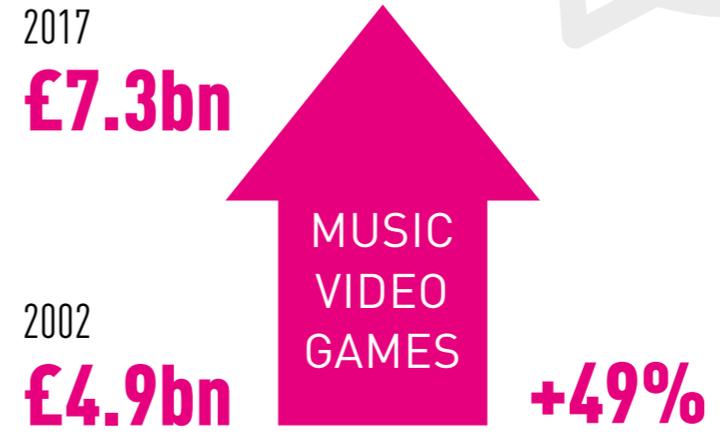
GAME

Deep music knowledge and a great selection of vinyl

Indies

RETAIL INNOVATION AND INVESTMENT HAS TRANSFORMED AND EXPANDED THE ENTERTAINMENT INDUSTRY

Over 70% of today's entertainment revenues come from retailers and models that did not even exist 15 years ago



INNOVATION AND INVESTMENT



1

Less than two years after the launch of the Amazon Echo smart speaker in the UK, ERA's Consumer Tracking Study revealed that more than 18% of UK consumers are using smart speakers.

2

Virtual reality specialist Melody VR is pioneering new forms of entertainment putting music fans in the middle of live music shows using virtual reality technology.

3

Sky Store has created an entirely new hybrid video market with its Buy & Keep offering giving the instant gratification of a digital download and satisfying the desire for physical ownership with a disc delivered through the post.

4

As sales of physical discs have peaked, retailers have added more and more convenience and non-traditional outlets to maximise their reach into the remaining physical market.

5

Retail investment in new digital services is having a dramatic impact on the efficiency of the entire sector: Revenue per retail employee increased from £255,000 to £458,000 between 2014 and 2017.

6

Digital services are broadening cultural experience, transcending the limits of physical shelf space and offering literally tens of millions of pieces of content – not just benefiting consumers, but also making available the work of countless thousands of musicians, filmmakers and games producers.

7

Platforms like Twitch have created entirely new revenue streams for gamers by capitalising on social media and the fan's desire to passively partake in gaming.



RETAIL EXPERTISE THE PERFECT COMPLEMENT TO CONTENT CREATORS

Digital services and retailers occupy a central role in entertainment's supply chain. While labels and studios find and invest in talent, retailers bring the fruits of their endeavours to the ultimate consumer – the video or games or music fan.

Just as labels and studios are rightly proud of their record in attracting and marketing creative talent, so too digital services and physical retailers add their own value to the equation, aggregating and curating music, video and games to attract and inspire consumers.



THE EXPANDING REACH OF ENTERTAINMENT RETAIL

Physical entertainment formats like the CD and DVD may be well off their peak and some notable High Street names may be no more, but physical retail has not thrown in the towel.

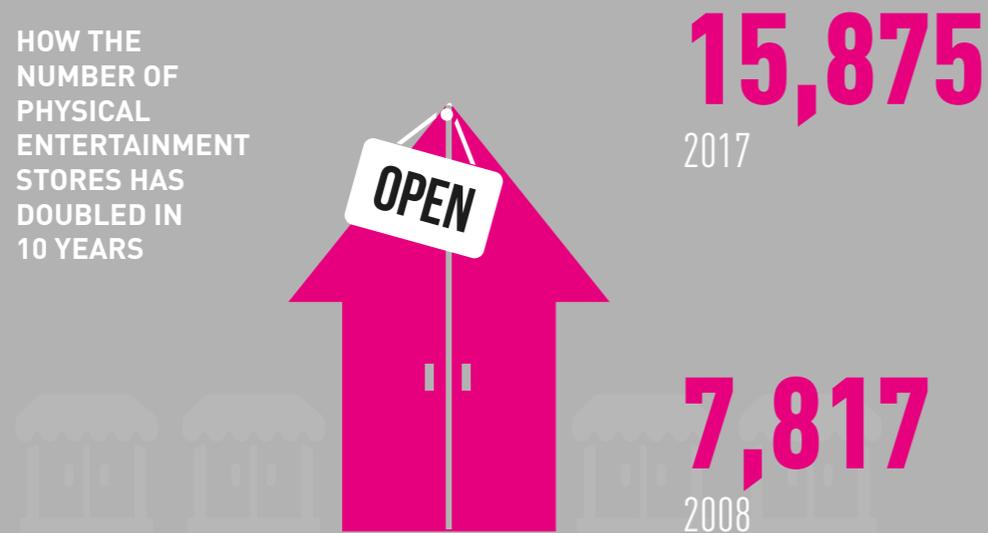
Far from it. Instead physical retailers have invested in extending their reach, thus maximising the remaining physical market.

Retailers have more than doubled the number of physical outlets selling entertainment since 2008.

Much of the increase has been accounted for by non-traditional and convenience outlets offering a heavily-edited range of impulse and gift titles. But just as notable has been the striking revival in the number of independent record shops – up from just 299 in 2009 to 406 less than a decade later.

Retail investment is proving the UK public's continuing appetite for physical formats – a striking example of how retailers do not simply satisfy demand. They help create it.

HOW THE NUMBER OF PHYSICAL ENTERTAINMENT STORES HAS DOUBLED IN 10 YEARS



Unique outlets selling entertainment

FROM OWNERSHIP TO ACCESS TO EXPERIENCE

Historically, entertainment retailing was about selling “stuff”, either discs or tapes, for customers to take home and play.

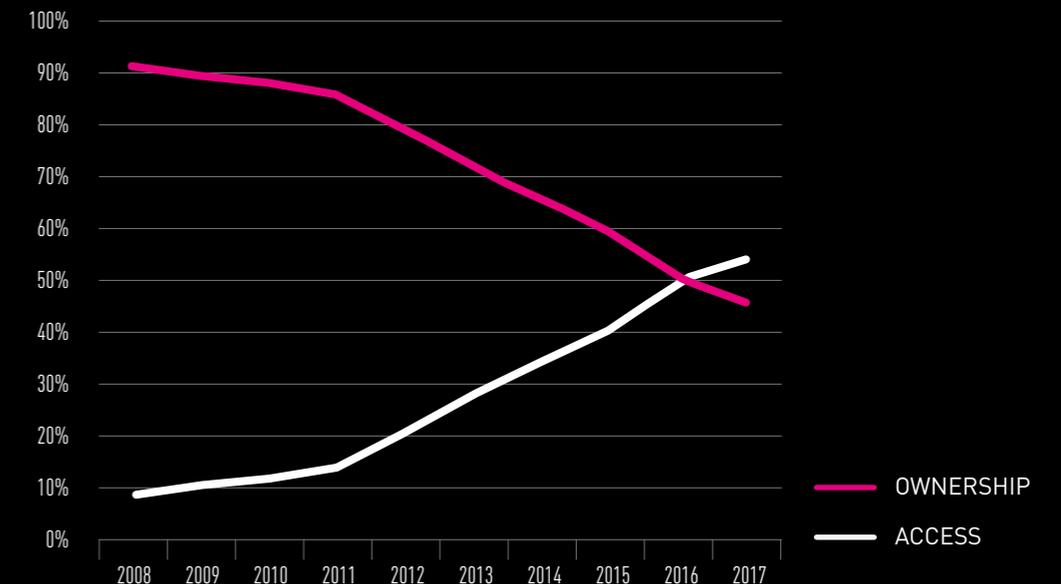
Propelled by the launch of new digital discs like the CD, DVD and console games for the Playstation and Xbox this traditional business reached its peak in 2004.

Over the past decade entertainment on disc has been joined by digital downloads and, most radically of all, new subscription-based digital services which allow access typically for a monthly fee.

Streaming services add another option for entertainment fans in a similar way that Uber has created new mobility options and Airbnb has created new accommodation options for travellers.

The addition of access models to the entertainment industry creates new ongoing customer relationships with fans and the potential to generate useful data which optimises the consumer experience and deepens the relationship between content creators and their followers.

OWNERSHIP V ACCESS
2008 - 2017



Source: ERA Yearbook, Official Charts, IHS

1999 - 2008 Entertainment 3.0

THE PAST - DIGITAL DESTRUCTION

Proof positive of what happens when there is no legal alternative to piracy came in the initial disruptive period of the internet beginning in 1999.

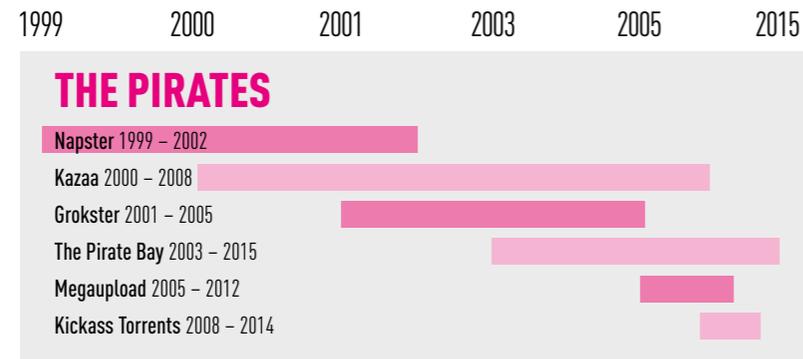
Thanks to the relatively small file size of individual songs, music was the first sector to be affected with the launch of the original unlicensed Napster which gave music fans unlimited access to illegal downloads.

Napster was soon followed by a host of imitators offering music but also films and TV series too. While the content industries tried to sue them out of existence, the real problem was there was no legal digital alternative.

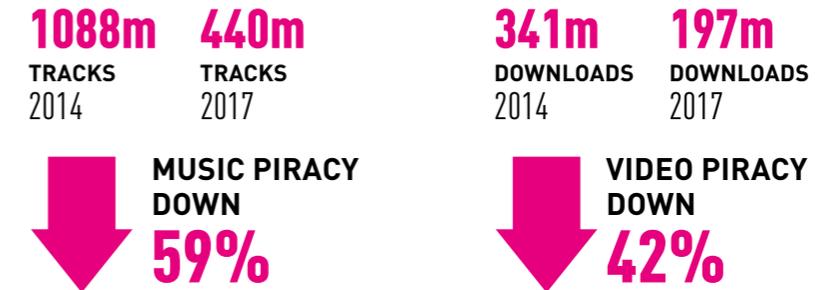
The impact was massive: between 2000 and 2009 the number of independent record stores fell by two-thirds and number of entertainment outlets by nearly 20%.

Addressing piracy only became a reality with the launch step-by-step of new digital services such as OD2 (1999), Wippit (2001), the iTunes Store (2003), Steam (2004), Amazon Video (2006) and Spotify (2008).

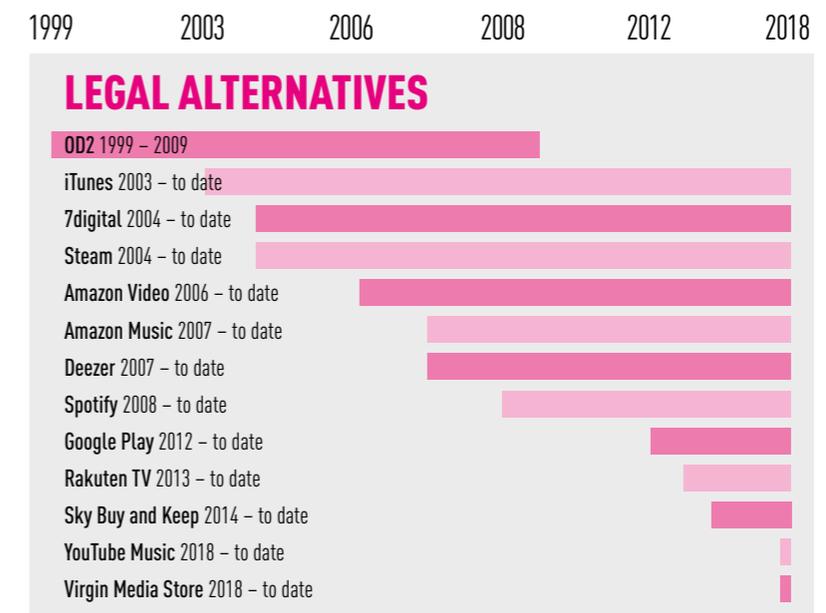
They proved that the best antidote to piracy is legal services offering a better experience than the pirate alternative.



THE BEST ANTIDOTE TO PIRACY IS LEGAL SERVICES OFFERING A BETTER EXPERIENCE THAN THE PIRATE ALTERNATIVE



Source: Ofcom, Official Charts, IHS, ERA estimates.



1977 – 1999 Entertainment 2.0

THE PAST – ENTERTAINMENT GOES DIGITAL



The launch of the Atari Video Computer System in 1977, the compact disc in 1983 and the DVD in 1998 were the most significant events in the history of the modern entertainment retailing business, and laid the foundations of the new digital entertainment business.

While Atari was a shortlived success, it paved the way for the Gameboy (1989), the Sega Mega Drive (1990), Super Nintendo (1992) and ultimately the Sony Playstation (1995) and Microsoft Xbox (2002).

The CD and DVD remain respectively the most successful music and video formats in entertainment history.

By providing compact, convenient, robust and high quality ways to enjoy entertainment, they enabled the rapid growth of High Street entertainment retailing. Because they were physically smaller and commanded a higher price than their predecessor formats, retailers were able to offer a much wider range, offering deep catalogue as well as current chart hits.

The biggest stores became like huge libraries of every imaginable music, video or games title, reaching their ultimate expression in huge London “megastores” such as the 25,000 sqft Tower Records outlet in Piccadilly Circus (1985-2003) and HMV’s 150 Oxford Street at 60,000 sqft, the biggest entertainment store in the world (1986-2014).

As the specialists offered even deeper ranges, supermarkets entered the sector, further growing the market as an album, video or game became just another addition to the weekly shop.



1921 – 1977 Entertainment 1.0

THE PAST – ANALOGUE: WHERE IT ALL BEGAN

Modern entertainment retailing in the UK began with the opening in 1921 of the original HMV store in London’s Oxford Street.

The dominant entertainment format at that time was the 78rpm record, and light classical music from the likes of Eric Coates – best known these days for the theme music to Desert Island Discs – was all the rage.

By today’s standards, 78rpm technology looks prehistoric.

But it established the point that technology has consistently proven to be a friend of the entertainment industry.

The 78 paved the way for the launch of the vinyl 33rpm album in 1948 and the 45rpm single a year later which were together the engine of the new rock ‘n’ roll era of the 1950s.

Vinyl ruled the roost for more than 30 years, with a fragmented retail scene divided between independent and family-owned companies (like NEMS the Liverpool-based chain owned by the family of Beatles manager Brian Epstein), electrical stores (such as Rumbelows) and multiples (such as Woolworths, Boots and WH Smith).

Vinyl was joined by two tape-based formats in 1963, the compact cassette and 8 track. Tape failed to achieve real mass market appeal until Sony launched its Walkman player in 1979, giving the compact cassette a new lease of life.

The broadening of what had been a home entertainment business dominated by music came with the then-revolutionary launch of the VHS videocassette in 1977.

For the first time consumers could rent or buy feature films to watch at home – and its launch led to dramatic growth in the sector.

Even in its analogue era, entertainment was driven by technology.



2018 – Entertainment 5.0

THE FUTURE – IT'S OURS TO SHAPE

- 1** Maintaining diversity – the key to maximising access and choice
- 2** Sustainability – fairly rewarding retailers and digital services
- 3** Enabling licensing – the route to innovation
- 4** Modernising the supply chain
- 5** Putting consumers and creators front and centre

1 MAINTAINING DIVERSITY – THE KEY TO MAXIMISING ACCESS AND CHOICE

Today's entertainment landscape is more diverse than it has ever been.

The British public enjoys a greater number of digital and physical entertainment outlets, a greater variety of business models, of technologies, of content, of price-points and of workforce than ever before in history.

Such diversity is not just a buzzword.

Diversity in entertainment retailing

...benefits consumers by giving them access to the content they want when, where and how they want it

...benefits content creators, enabling them to reach an audience

...benefits British culture by promoting as wide a variety of content as possible

...benefits the entire entertainment business ecosystem by maximising the reach and revenues of the industry.

ERA BELIEVES THAT MAINTAINING THE DIVERSITY OF ENTERTAINMENT RETAILING IS KEY TO MAXIMISING ACCESS AND CHOICE – AND TO DRIVING REVENUE.

2 SUSTAINABILITY – FAIRLY REWARDING RETAILERS AND DIGITAL SERVICES

Digital services and retailers have done the heavy lifting of transforming the entertainment industry for the digital age.

While film and games and music companies essentially do the same incredibly valuable job they have always done – finding and investing in and marketing new entertainment – retailers and digital services have invested heavily in an entire new ecosystem for entertainment.

Much of that investment has been justified by business models which do not rely simply on selling content but on selling advertising around it or devices to play it.

This is not in itself new. Supermarkets, for instance, historically sold entertainment as a way of increasing “basket value” and of adding a bit of ‘glamour’ to the weekly shop rather than as a profit generator.

These alternative business models tend to disguise the fact that selling entertainment or access to it is often a low- or no-margin business.

The growth of global entertainment services is not just a reflection of the huge investments required to bring such services to market, but also a reflection of the huge scale required to generate a profit.

ERA BELIEVES THAT FAIRLY REWARDING RETAILERS AND DIGITAL SERVICES IS KEY TO CREATING A SUSTAINABLE ENTERTAINMENT ECOSYSTEM.

3 ENABLING LICENSING – THE ROUTE TO INNOVATION

An increasingly digital entertainment business is a business defined by licensing.

Licences from entertainment companies define the business models digital services are allowed to operate - from content to territory to availability to pricing itself.

There has been significant progress in easing digital services’ concerns about the difficulties of licensing new and innovative business models.

In music the clustering of virtually the entire digital streaming sector around a single business model – the all-you-can-eat £9.99 monthly subscription plan – raises concerns that there is still work to be done.

In video and games the evidence of the market is that licensing is open to a wide variety of different business models although licensing continues to shape industry practices such as windowing and pricing.

ERA BELIEVES THAT ENABLING LICENSING IS THE ROUTE TO INNOVATION AND PROSPERITY FOR THE ENTERTAINMENT BUSINESS.

4 MODERNISING THE SUPPLY CHAIN

In order for digital services and retailers to take entertainment content to the public, the content has first to get to them.

The processes and systems which enable this to happen are what's known as the supply chain.

An inefficient supply chain can reduce revenues (for instance when product is out-of-stock) thus hurting both retailers and suppliers and increasing costs (for instance when digital metadata is inaccurate or inconsistent), reducing the profitability of retailers and the flow of income to content owners and potentially increasing prices to consumers.

Inefficiency in the supply chain benefits no one.

The entertainment business faces significant challenges in both its physical and digital supply chains.

In the physical world, suppliers are increasingly reluctant to invest in a market they believe has a limited future but are running the risk of making entertainment an even less attractive prospect for some major retailers.

Meanwhile digital services have to deal with content often delivered in entirely different formats by different suppliers, metadata which is regularly inaccurate or incomplete and a fragmented rights landscape requiring a dozen or more parties to be paid for a single stream.

ERA BELIEVES THAT MODERNISING ENTERTAINMENT'S SUPPLY CHAIN OFFERS THE POSSIBILITY OF UNLOCKING GROWTH AND REDUCING COSTS FOR DIGITAL SERVICES, RETAILERS AND SUPPLIERS ALIKE.

5 PUTTING CONSUMERS AND CREATORS FRONT AND CENTRE

Digital services and retailers recognise they are intermediaries.

They justify their existence by the value they add to consumers – and to creators.

Far from “disintermediating” retailers, digital technology has made them even more important, but the key to success is delivering what consumers and creators want.

Currently, this is not always the case. Release schedules which load blockbusters in video, games and music into the fourth quarter of the year or restricting consumer choice through which channels products are available, for instance, may make short-term commercial sense at the expense of irritating consumers.

New business models need to be assessed in the context of how they affect the ability of creators to make a living.

ERA BELIEVES THAT THE INTERESTS AND PREFERENCES OF CONSUMERS AND CREATORS SHOULD INFORM THE DEBATE ABOUT THE FUTURE OF THE ENTERTAINMENT INDUSTRY.

COLLABORATION IN ACTION

A commitment to working together with suppliers and partner organisations formed the centrepiece of ERA's 2015 manifesto "Shaping The Future of Entertainment".

Our rallying cry caught the imagination of the entire sector and in recent years we have seen a flowering of collaborative projects in music, video and games.



Record Store Day (2008)

One of the most outstanding examples of industry collaboration in action, Record Store Day has not only become the focus of a revival in the fortunes of indie record shops and sparked the vinyl revival, it has become the most successful new music promotion of the past 20 years. Core to its success – an organic spirit of collaboration not only between indie stores themselves, but also between the shops and record labels.



Must See Movies (2017)

Building on the success of Record Store Day and ERA's growing expertise in creating entertainment sales promotions, Must See Movies is a pan industry promotion of catalogue video based on close cooperation, between ERA, its members, video companies and their trade association BASE.



Let's Play May (2018)

Let's Play May took the lessons learned from Record Store Day and Must See Movies and applied them for the first time to the games business – a collaborative sales promotion designed to drive games sales.



National Album Day (2018)

National Album Day is designed as a pan music industry initiative to celebrate the album with a week-long series of events and activities.



Official Charts Company (1997)

Charts based on retail sales data provides a common currency of success for the entertainment industry. ERA works with its partner organisations in music, video and games to licence, collate and market that data – most notably through the Official Charts Company, a 50/50 joint venture with record companies' trade association the BPI.



Copyright Protection (1998)

While retail's biggest contribution to the fight against piracy is creating the legal alternatives which render it redundant (see p9), ERA also liaises closely with key industry allies such as The Industry Trust for IP Awareness, The Alliance for IP and the 'Get It Right From A Genuine Site' campaign supported by the UK Government.



Insight Days (2016)

The provision of research and insight is among ERA's most important services to members but when insight promises to benefit the whole sector, there is little benefit in keeping it a secret. That's the thinking behind a series of joint insight days ERA has organised with its partner organisations in entertainment – on everything from smart speakers to data analytics to video.

ERA is the trade association representing the vast majority of UK retailers and digital services offering music, video and games. Its members range from independent record shops (Reflex, Sister Ray) to digital services (Spotify, Google, Sky, Deezer, 7digital) to internet retailers (Amazon) to specialist High Street operators (HMV, Game) and supermarkets (Tesco, Sainsbury's, Asda, Morrisons).

ERA members supply the sales data which powers the Official Charts Company (music and video charts) and GfK Chart-Track and GSD (videogames). Together with record companies' trade association the BPI, it owns the Official Charts Company.

ERA works closely with its sister organisations in music, video and games and is a strong proponent of open markets, open standards and consumer choice.

HISTORY OF ERA

ERA began life as the British Association of Record Dealers in 1988, driven by the passion of a handful of individuals who believed the retail perspective was too often disregarded.

Thirty years on, some of its early concerns – establishing a common industry standard for barcodes, securing replacement CD inlay cards to replace those which had been shoplifted - seem incredibly basic, but without a collective voice retailers had never previously managed to make progress on these points.

The first key achievement was retailers taking an ownership stake in the UK's music charts by creating a new joint venture with the BPI, now the successful Official Charts Company.

The evolution of BARD into a truly multi-sector organisation active in games and video as well as music came with the renaming of the

organisation as the Entertainment Retailers Association in 2005 a few years after the arrival in 2002 of Kim Bayley, CEO.

ERA's history and agenda has naturally been informed by the fortunes of the sector it represents.

The last 15 years have been dominated by the changing balance of what was a 100% physical business to one which at the time of writing is three quarters digital.

ERA's first digital member was 7digital who joined in 2005, although entertainment did not become a majority digital business until 2014.

Our key philosophy, first outlined in the original ERA manifesto in 2015, is that this is best achieved in a true spirit of collaboration both among members and with suppliers and partner organisations.

THANK YOU

ERA would like to thank all those who make the business of entertainment possible.

From games developers to chief executives and A&R executives; from musicians and songwriters to area sales managers and screenwriters; from product managers to PAs: it is your collective efforts which make the business of digital services and retailers possible.

Most of all, we thank you for your art.

Whether in music, film or game you inspire us to continue the work of delighting, thrilling and entertaining Britain and the world.



ENTERTAINMENT RETAILERS ASSOCIATION

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