

ENTERTAINMENT RETAILERS: MORE DIVERSE AND MORE NUMEROUS THAN EVER

Summarising the State of the Nation in entertainment retailing in 2011 is a constant battle to decide whether the glass is half-full – or half-empty.

Half-empty – our three core markets of video, games and music all suffered declines in 2010, the growth of digital is relatively slow and reducing margins and piracy threaten the rich diversity of UK entertainment retailing.

Half-full – entertainment is more popular than ever, Blu-ray, PS3, Xbox 360 and music downloads are showing real growth and the internet is enabling new business models and new entrepreneurs to reinvigorate the retail landscape.

The fact is that all of this is true and more. The challenge for entertainment retailers is to exploit the positives and to mitigate the worst impact of the negatives.

I am glad to report that 2010 saw real progress on both of these fronts. ERA – like its members – continued to re-engineer itself to best exploit our changing environment and there are some significant grounds for optimism.

Our members

UK entertainment retail outlets are in 2011 both more diverse and more numerous than ever before. That diversity embraces physical, digital, store-based, home delivery, mobile and streaming business models.

As outlined on page 21, the number of stores selling music and video product is now greater than for at least a decade.

However, there has been a sharp shift in the profile of those outlets – away from specialists and towards more generalist

and non-traditional retailers. Even the independent music sector, whilst showing some modest signs of recovery, now includes a number of stores whose primary focus is not music.

The ERA Board includes representatives from all of these retail sectors, with the streaming service We7 the newest addition to our ranks.

Financial benefits to retailers

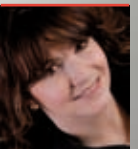
Core to the ERA service is our 50% ownership of the Official Charts Company (“OCC”), which allows entertainment retailers to better exploit the value of their sales data. The result is that in contrast to many trade associations, rather than being a cost, membership of ERA is a revenue generator for the vast majority of our members.

Through our data supply contracts with the OCC for music and video and with GfK Chart-Track for games, we are able to return significant revenues to our members. Through effective stewardship of the OCC we have also ensured that ERA can fund additional services for its members.

A renegotiation of OCC’s data supply contract with Millward Brown and a recent restructuring of the way retailers are billed for data analysis will allow us to add new member services in 2011.

This is all in addition to the other financial benefits of ERA membership such as discounted PPL and PRS licence fees, discounted access to industry events, reduced banking and credit card fees and access to specialist insurance services.

We will continue to work to ensure that ERA remains one of the best value trade associations in British retailing.



KIM BAYLEY
DIRECTOR GENERAL ERA

The battle against piracy

One of the most significant developments of the past year was the passage into law of the Digital Economy Act, which within its many clauses included the first concrete acknowledgement by Government of the real damage done to the entertainment industry by digital piracy and outlined measures to deal with it.

There is undoubted frustration across the creative industries at the slow pace of implementation of the DEA's measures against piracy.

At the time of writing, a judicial review into the way the law was introduced threatens its very implementation.

But ERA remains convinced that effective action against piracy is an important pre-condition if new digital business models are really to flourish.

ERA and its members are closely involved in the lobbying around the DEA and will continue to maintain pressure on Government to take effective action against piracy.

The other significant output from the DEA for our members was confirmation that the international PEGI system for rating video games will be adopted for the UK. ERA has been consistent in arguing for simplicity and clarity in ratings and is an enthusiastic supporter of the new regime. We will be working closely with our colleagues at suppliers' organisation UKIE as well as with the Video Standards Council to ensure successful implementation of PEGI during 2011.

Copyright law

Fighting piracy may be a precondition for a healthy entertainment retail sector, but as eloquently outlined by the EU's Digital Commissioner Neelie Kroes recently, fighting piracy cannot be an end in itself. The ultimate objective must be to develop a thriving and open market in entertainment products.

While the entertainment industry is founded on copyright, ERA believes that the specifics – rather than the concept – of copyright law must be reviewed in the light of new technologies.

ERA has therefore welcomed the current Hargreaves Review of copyright law.

While we fundamentally disagree with the view of some digital evangelists that copyright per se is a barrier to new business, we believe there may be specific instances where business practices implementing copyright could be better fit for purpose.

Current legislation, which makes it an infringement for a consumer to rip a CD to an MP3 player needs to be reviewed. Such laws in theory effectively prevent entertainment retailers from offering many potential new services which take advantage of the new technologies like cloud computing.

In a world in which retailers will increasingly sell not just the ownership of entertainment products, but access to entertainment services, we must ensure that copyright law enables as well as prohibits. Licensing models in the entertainment industry may need to be reviewed and simplified to enable some new services to flourish.

Likewise we will urge legislators to keep a close eye on the potential barriers to international and in particular European trade caused by the fragmentation of licensing regimes, and laws regulating the import of products.

Communicating with consumers

As the last link in the chain between content companies and the consumer, retailers have a key role to play both in informing the debate about the future of copyright, but also in helping educate consumers about their rights and responsibilities.

To this end we believe that, when it comes to piracy, enforcement needs to be accompanied by a strong commitment to consumer education. This is why we are committed to working with partner organisations such as the Industry Trust (on its new Moments Worth Paying For campaign) and the British Recorded Music Industry ("BPI") (on Music Matters).

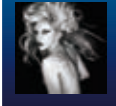
Driving sales

A retailer's offer to the consumer is by definition directly dependent on the product they are delivered by their suppliers.

ERA continues to believe that the key to sales is new and engaging product delivered in exciting ways.

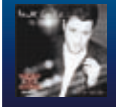
All three of our entertainment markets are becoming more and more focused on a limited number of front line releases during the year. A healthy entertainment market needs a foundation of creativity and innovation in order to engage consumers. And a diverse and healthy ▶

Up 30%



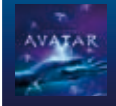
Album downloads

Up 9%



Singles sales

Up 54%



Blu ray

Up 12%



PS3 games

Up 8%



Xbox360 games

retail environment can only be maintained if suppliers continue to invest in new talent to create compelling content for its customers.

So, when it comes to the programming itself, constant innovation seems to be the key to sales. It is notable that in the music market, for instance, which suffered a far worse 2010 than 2009, 2010 was a very poor year in particular for new British talent.

We are also concerned at the lack of innovation in some physical markets. While digital models offer novelty, they are often not yet appealing to a mass market.

It is worth remembering that across the entertainment market, products delivered on physical formats still account for over 80% of sales, while in the debate about the future of entertainment it is digital which seems to take up most of the airtime.

We need to ensure that physical product remains top-of-mind for suppliers and is kept as attractive as possible for as long as possible for consumers. ERA will continue to highlight these issues to suppliers in 2011.

Record Store Day

A prime example of how retailers and suppliers can work together to build consumer interest in entertainment is the now-annual Record Store Day which has provided a real focus for independent music shops to demonstrate their unique virtues.

The results have been spectacular with significant media coverage, long queues outside shops, increased sales and an important boost to the confidence of an often long-suffering sector of our business.

During 2010 ERA launched a dedicated UK Record Store Day site, www.recordstoreday.co.uk which now sits alongside its www.indierecordshop.org website in highlighting the vital contribution of independent music shops to the music landscape.



2011 – Going forward

In a further recognition of the the importance of the independent sector, ERA's members have decided to change our Articles of our Association to allow independent members to elect their own Independent Board members. Coupled with this ERA will also create a wider grouping of independent retailers to drive forward the specialist retail agenda in 2011.

One of the key areas for ERA in 2011 will be better quality data and research. Whilst the OCC will continue to develop its data offering to encompass new revenue streams such as streaming and digital video, ERA will focus on tailored analysis of this data for its members as well as investing in some consumer based analysis to better understand what the statistics illustrate.

Alongside member research, ERA will also ensure that it delivers training and information to members to keep them abreast of the rapid changes in our marketplace.

While our members concentrate on delivering compelling new services to their customers, ERA will continue to lobby in 2011 to ensure that the legislative and licensing environment supports these services going forward.

ERA Boards and Secretariat

ERA was once again chaired by Paul Quirk and Ben Drury in 2010. I would like to thank Paul and Ben and all my other Board members for their continued guidance and input during the year. Active and involved Board members are vital to ensuring our effectiveness going forwards.

Beth and Sarah provide an exceptional service in our Bournemouth office and Steve Redmond, our special adviser continues to provide unparalleled communications and strategic advice to both me and the ERA Boards. Our work load continues to grow and I would like to thank all of them for their continued enthusiasm for our agenda.

It is always difficult to predict the future, but we can be certain that the pace of change will continue unabated in our markets. I am confident that the team at ERA will rise to the challenge.

Kevin Bayley