

THINK RETAIL THINK VERDICT



UK Music & Video Retailers 2008

Differentiate, Diversify, Download

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About Verdict Research

Authorative analysis...

Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

Rigorous research methodology...

Our in-house retail expertise and rigorous research methodology ensure our reports provide complete and accurate analysis of the major players, issues and trends together with a detailed examination of the strategic implications for the retail market.

For key players in the retail industry, our reports are the first source of information on sector forecasts, retailer performance, store and product portfolio developments and trading strategy.

Global, European and UK analysis across nine core sectors...

Verdict Research reports covers nine core sectors, five year forecasts, strategic issues, key locations, How Britain Shops consumer surveys and the main European retail markets. Also available are a daily news service, weekly newsletter and tailored consultancy portfolios to suit individual business information needs.

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Verdict Research is the UK's leading authority on retailing and publishes unrivalled independent analysis of the retail industry. With over 20 years' experience, Verdict has close relationships with major UK retailers and access, at the highest level, to key executives working in the top 300 retailers to hear their first hand views. Verdict reports provide clients with a complete picture of the retail sector and unique forecasts to help UK retailers, manufacturers, service suppliers, city analysts, consultants and the media with strategic planning.

A key source for independent analysis and comment...

Verdict Research is regarded as a key source by the BBC, ITV, Sky News and the UK's leading broadsheets including the FT, Times, The Independent and Daily Telegraph. Leading trade publications often refer to Verdict's opinion and research including Retail Week, Drapers, DIY Week, Cabinet Maker and The Grocer.

In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.



"Verdict are the company of choice for any research analysis and insight into retailing"

Sir Stuart Rose
Executive Chairman
Marks & Spencer

UK Music & Video Retailers 2008

Differentiate, Diversify, Download...

Though the music and video sector has enjoyed a boost from the rapidly growing digital download market, general trading conditions remain challenging. Music retail is continuing to struggle with the onslaught of price deflation and greater levels of competition. The gains made from increased digital sales are not outweighing the continued decline in physical CD album sales. Competition is intensifying with the high street consolidating and online becoming increasingly fragmented.

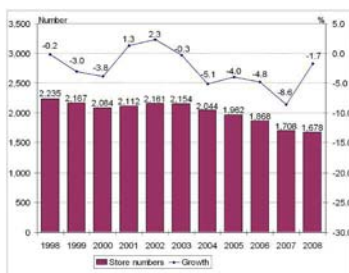
This new report published by Verdict Research examines the dynamics of the UK music and video sector. It provides market shares, market sizes, space, distribution, advertising and forecast market values and volumes to 2012. It also profiles the leading retailer's key operating statistics including margins, profits, stores, space and sales densities.

11 Key Retailers profiled

| | |
|--------------|------------|
| Amazon | Play.com |
| Apple/iTunes | Sainsburys |
| Asda | Tesco |
| CD WOW | Woolworths |
| HMV | Zavvi |
| Morrisons | |

Benchmark the performance of the UK music & video market and understand the key issues and drivers of growth, while gaining insight into the strategies needed to succeed with this new report...

Music & video specialists store numbers 1998-2008e



Source: UK Music & Video Retailers 2008

"Though the multiple specialists will expand, they will take a far more measured approach to new store openings. While, HMV and Zavvi are intending to open outlets, they will only do so in underrepresented areas, premium locations or new developments. At the same time, both retailers will be reviewing their store portfolios, closing underperforming stores..."

- **Quantify key retail trends and future opportunities** using this report's company profiles detailing retail proposition, marketing and operations analysis and market outlook and five year trends in market share, sales, profits, sales densities, space allocation, space growth and store portfolios.
- **Benchmark your competitive strategies using the company profiles contained in this report** for key retailers including Amazon, Apple/iTunes, Asda, CD WOW, HMV, Morrisons, Play.com, Sainsburys, Tesco, Woolworths and Zavvi.
- **Assess the growth potential and the challenges facing the key music and video retailers** with this reports in-depth analysis of market drivers, key issues and outlook.
- **Enhance strategies to capitalise on market opportunities** with analysis of technological developments, market trends, operators' development plans, trading performance and Verdict's outlook and recommendations for each retailer.

UK Music & Video Retailers 2008

This report answers key questions including...

- What are the key issues affecting UK music and video retailing at present?
- Which retailers will be driving UK music and video growth over the next 5 years?
- How important are downloads to the UK music and video market and how can retailers drive traffic to their online stores?
- What measures are UK music and video retailers taking to cut their costs and protect their margins?
- Which factors are inhibiting growth in the UK music and video market?

Key Retail Data

- Sales
- Profit margins
- Market shares
- Space
- Store numbers
- Sales densities

Key issues examined in this report...

Factors Impacting Physical Stores

Source: UK Music & Video Retailers 2008

"Those stores which do remain will have to adapt and update in order to justify their places on the high street. HMV's 'Next Generation' store is perhaps the best example of how stores will need to evolve to continue attracting shoppers tempted by the more convenient, price-led propositions of the online players and non-specialists such as the grocers..."

- **The Internet.** The most significant development in the spread of music and video sales is the continuing growth in the share of physical sales being taken by Internet retailers, not just pureplay Internet retailers, such as Play.com, but the Internet operations of existing high street specialists such as HMV. In 2008, Internet sales will account for an estimated 26% of music sales, and 25% of DVD sales.
- **Consolidation.** The past five years have seen the store numbers of music and video retailers in continuous decline as a number of fascias, such as MVC, The V shop, Music Zone, Our Price, Silverscreen, Tower and Andy's Records have exited the market. On top of this smaller independents have also struggled and left the market and even many of those players who have remained have seen their store numbers reduced by varying degrees.
- **Lack of New Entrants.** With the market having shown either decline or small growth in the years since 2004 there has been little to entice retailers, especially as the number of casualties has provided a clear signal that the market is already overly crowded.

UK Music & Video Retailers 2008

Pages 147

Figures 29

Tables 26

Chapter 2: Market Analysis - Channels of Distribution

- The music and video market has undergone massive change in recent years. The manner in which consumers interact with the entertainment media and buy music and video is evolving. The market has become increasingly fragmented. The number of market participants has risen dramatically in recent years, driven by the increase in the number of non-specialists entering the market or increasing their exposure to it. In addition, the Internet continues to play a vital role as a channel of distribution, with a surplus of specialist and non-specialists now offering music and video online.
- Perhaps the biggest change will be the digital download market which is currently redefining the way in which consumers buy music. The availability of music & video has increased dramatically as the channels of distribution have changed in recent years. Consumers now have a greater choice of retailers than ever before to buy from, and a wide choice of how to buy.
- Retailers have had to respond to the changing demands of the consumer and the way in which music is purchased. Between 2003 and 2008, though music and video specialists remain the dominant force in the market, grocers and online specialists have significantly grown their share.
- Though the number of multiple specialists decreased in 2007, there has been no change in 2008, with the market now made up of market leader HMV and Zavvi. These retailers continue to lose out to grocers. In addition, despite having online offers, and in HMV's case a download facility, the intense level of competition and sheer market saturation of the digital and online arena means that increasing or simply maintaining market share is extremely challenging.
- The number of multiple retailers selling entertainment products has remained relatively static over the last few years. Specialist multiples continue to increase share in all categories, especially in the CD album market. The specialists in the mid price bracket performed particularly well in 2007, with the multiple specialists selling the greatest amount of budget products.
- High street specialist multiples have reorganised and changed product mix, diversifying into other markets. Supermarkets and non-specialist multiples have increased their share of the market, but have focused the offer, concentrating on chart titles and, in many cases, encouraging consumers to use the online and digital download offer.

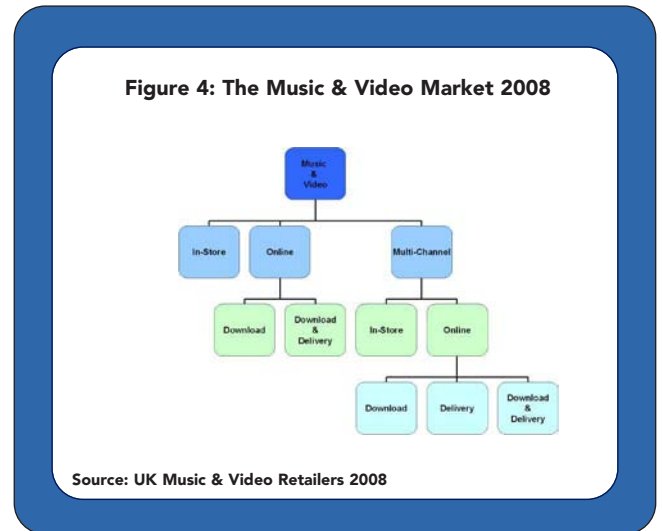


Table of contents

UK Music & Video Retailers 2008: Differentiate, Diversify, Download

CHAPTER 1: EXECUTIVE SUMMARY

- Key Findings
- Main Conclusions

CHAPTER 2: MARKET ANALYSIS

- Overview
- Music
- Video
- Music & Video Specialists Sales
- Specialists Stores
- Specialists Space
- Specialists Density
- Channels of Distribution

CHAPTER 3: COMPANY DATA ANALYSIS

- Operating Statistics
- Music & Video Market Shares
- Music Market Shares
- Video Market Shares
- Space Productivity
- Advertising

CHAPTER 4: KEY ISSUES

- The Future of Physical Music & Video Stores
 - Internet
 - Consolidation
 - Lack of new entrants
 - Evolving the store format
- The Survival of the Independent Specialists
 - Opportunities
 - Threats
- The Download Market
 - Music Downloading
 - Movie Downloads
 - Mobile Downloading
 - Illegal file-sharing
 - Digital Right Management (DRM)
 - Interoperability
 - Social Networking sites
- Technology
 - High Definition Television (HD-TV)
 - Blu-ray
 - Mobile Broadband
 - Wireless Environment
 - Video on Demand – VOD
- Possible new entrants to sector

- Diversification is key
 - Games
 - Merchandise
 - Books
 - Tickets
 - Clothing
 - Box sets and promotions
- EUK

CHAPTER 5: OUTLOOK

- Overview
- Music Forecast
- Video Forecast
- Channels of Distribution Forecast

CHAPTER 6: THE GROCERS

- Company Overviews
- Market Shares
 - Asda
 - Morrison
 - Sainsbury
 - Tesco
- Outlooks
 - Asda
 - Morrison
 - Sainsbury
 - Tesco

CHAPTER 7: HMV

- Company Overview
- Market Shares
- Trading Performance
- Store Portfolio
- Online operation
- Outlook

CHAPTER 8: ONLINE MUSIC & VIDEO RETAILERS

- Company Overviews
- Market Shares & Outlook
 - Amazon
 - Apple/iTunes
 - CD WOW
 - Play.com

Table of contents

UK Music & Video Retailers 2008: Differentiate, Diversify, Download

CHAPTER 9: WH SMITH

- Company Overview
- Market Shares
- Trading Performance
- Store Portfolio
- Outlook

CHAPTER 10: WOOLWORTHS

- Company Overview
- Market Shares
- Trading Performance
- Store Portfolio
- Outlook

CHAPTER 11: ZAVVI

- Company Overview
- Market Shares
- Trading Performance
- Store Portfolio
- Outlook

CHAPTER 12: GLOSSARY

- Financial Statistics – VAT
- Trading Profile
- Physical Development
- Abbreviations

TABLES

- Market Size 1998-2008e
 - Total music & video
 - Music
 - Video
- Market Size 2003-08e
 - Total music & video
 - Music
 - Video
- Music & video specialists sales 1998-2008e
- Average store size for music & video specialists 1998-2008e
- Music & video channels of distribution 2003/08e
- Market Share 2003-08e
 - Total music & video
 - Music
 - Video

- Leading companies key operating statistics 2007/08
- Music & video channel shares 2003, 2008e & 2013e
- Grocer overviews 2008
- Grocers estimated share of music & video 2008
- HMV UK & Ireland key operating statistics 2003-08e
- Online specialists estimated share of music & video 2008
- WH Smith key operating statistics 2002-08
- Woolworths key operating statistics 2003-08
- Zavvi key operating statistics 2003-08

FIGURES

- Music & video specialists store numbers 1998-2008e
- Space growth for music & video specialists 1998-2008e
- Music & video specialists sales densities at current prices 1998-2008e
- The Music & Video Market
- Music & Video channels of distribution
- Value of the Music & Video Download Market 2007-12
- Estimates of companies sales per sq ft 2007/08
- Advertising spend 2007
- Advertising spend 2006 % of sales 2007/08
- Factors impacting physical stores
- Survival of Independent Specialists
- The Digital Marketplace 2009
 - Illegal file-sharing
 - Technology
 - Diversification
- Music & video shares of the market 2003-13
- Music & video channels market share change 2003-13
- Music & video shares 1999-2008e
 - Asda
 - Morrison
 - Sainsbury
 - Tesco
 - HMV
 - Amazon
 - Apple
 - CD Wow
 - Play.com
 - WH Smith
 - Woolworths
 - Zavvi

