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Enabling the Music Industry to Stay Tuned to Market Changes

Establishing a Royalty Management CoE Framework

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Like a stray discordant note that upsets a melody, change has continually disrupted the music industry in its mellifluous journey. Disruptive change is visible in every aspect of the music ecosystem – from the format in which music is produced, accessed and consumed, the opportunities for the consumer, producer and artist to engage and interact with one another, and the revenue streams available for a music company. From good old cassettes to shiny compact discs to downloads to streaming music, change is the only constant beat in the music industry.

These global shifts are compelling music companies to embrace new business strategies and operating models, and sharpen their capabilities. Survival lies in a music company's ability to adapt quickly.

At the root of continued disruptive changes is the convergence of digital technology, and the growing and improving access to the Internet and mobile devices, that allow users to listen to music on-the-go.

The latest report by the International Federation of the Phonographic Industry (IFPI) shows that in spite of large scale disruptions, the overall revenues in 2014 were down just 0.4 percent, which is a sign of stabilization. It is, in fact, a mark of the turnaround phase in the industry – where

Signs of the Changing Times*:

- 6.9 percent growth in digital revenues in 2014
- 46 percent of total industry global revenues come from digital
- 39 percent of digital revenues come from subscription and ad-supported streaming services
- 46.4 percent growth in the number of paid users of subscription services, reaching 41 million paid subscribers
- 35 percent plus loss in the value of traditional music companies between 2003 and 2012
- 0.4 percent drop in global revenue
- 0.8 percent overall growth for recorded music revenues, with poor growth in Europe and Latin America, and stabilization in the US
- 8 percent drop in sales from music downloads

(*As per the Digital Music Report 2015 by the International Federation of the Phonographic Industry's (IFPI))

previous sources of revenue such as physical stores and downloads are drying up and new sources of revenue such as streaming services are on the rise.

Music companies further need to address two key imperatives for survival in this increasingly complex and diverse ecosystem:

- An innovative approach that constantly re-imagines its offerings and service delivery
- Operational efficiency that keeps costs down and facilitates the seamless flow of content and revenue

Trends that Define the Music Industry

1. Changing Frontiers

There has been a fundamental shift in the music business. Music as a portfolio business has grown, with revenues being generated from a diverse range of channels, including music subscription services, downloads, compact discs (CD) and performance rights licensing. An estimated 37 million tracks around the world are now available in digital formats.

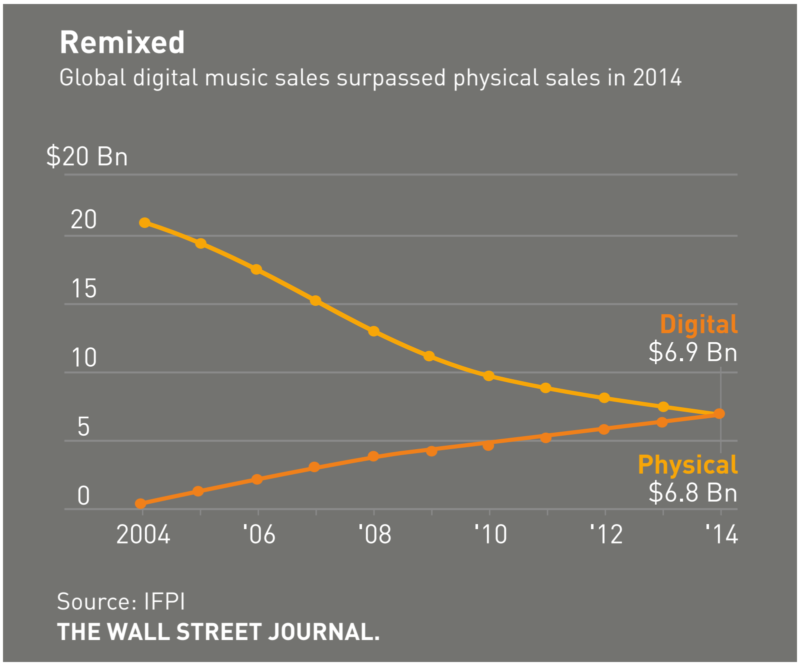
Another reflection of the changing times is the new IFPI Global Recording Artists Chart. IFPI's popularity ratings chart now captures data from physical sales, downloads and multiple streaming avenues, which paint a more accurate picture of total sales.

A closer look at these charts suggests that a more diverse portfolio, with revenues from physical sales and downloads are on a decline whereas revenues from streaming services are on the rise.

- Decline of Physical and Download Revenue

Revenues from digital music downloads and subscriptions narrowly beat those from CDs for the first time in 2014, holding overall sales steady at about USD 15 Billion, globally. Sales of CDs and other physical formats declined 8 percent, to USD 6.82 Billion, while revenue from digital sources grew nearly 7 percent, to USD 6.85 Billion, said the IFPI said in its 2015 report.

As per IFPI, combined ad-supported and subscription streaming revenues grew a combined 39 percent from 2013, and now account for 32 percent of global digital revenues, up from 25 percent in 2013. This sector is fast catching up on downloads as the industry's main digital revenue source.



- Rise of Streaming Services

Streaming services such as Spotify, Pandora, Rdio, Apple Play Music and so on are growing in prominence.

In as many as 37 geographies, including different markets such as South Korea, Sweden and Mexico, streaming revenues have surpassed revenues from downloads. The low cost streaming option may finally be the industry's answer to the relentless battle against piracy.

2. Technology Shifts

Music lovers are no longer passive users who enjoy music in the format that is given to them. They no longer look for ownership of their music, but control over access to their favorite music.

In this scenario, a music company should focus more on providing users with a multi-channel access across different formats. Music companies need to develop a robust digital toolkit to build a premium inventory, either in targeted and tagged site areas or interest-specific e-newsletters or registration-driven applications. New strategies combining content and applications offer significant value across traditional and digital media.

In keeping with this need, music business is increasingly becoming a business of building relationships. Music companies are now leveraging the social media network to engage with consumers who are discovering new music, deploying loyalty marketing strategies to drive consumers to stores, movie theaters and other screens, and providing multiple online platforms to facilitate the interaction between artistes and music lovers.

3. New Growth Platforms

With social media and mobile technology driving music traffic, companies need to devise new strategies around portfolio and business development, and software and technology application. Creating a successful culture of innovation will also be a key element. It calls for a more streamlined 'test and learn' approach that allows a company to try out new formats and 'scrap or adopt' in accordance with the outcome.

4. Evolving Cost Structures

The most dominant concern that every music company needs to address is the monetization of consumer engagement in digital media.

This will be possible only through a fundamental cost restructuring of content. Some of the key levers of effective cost restructuring are:

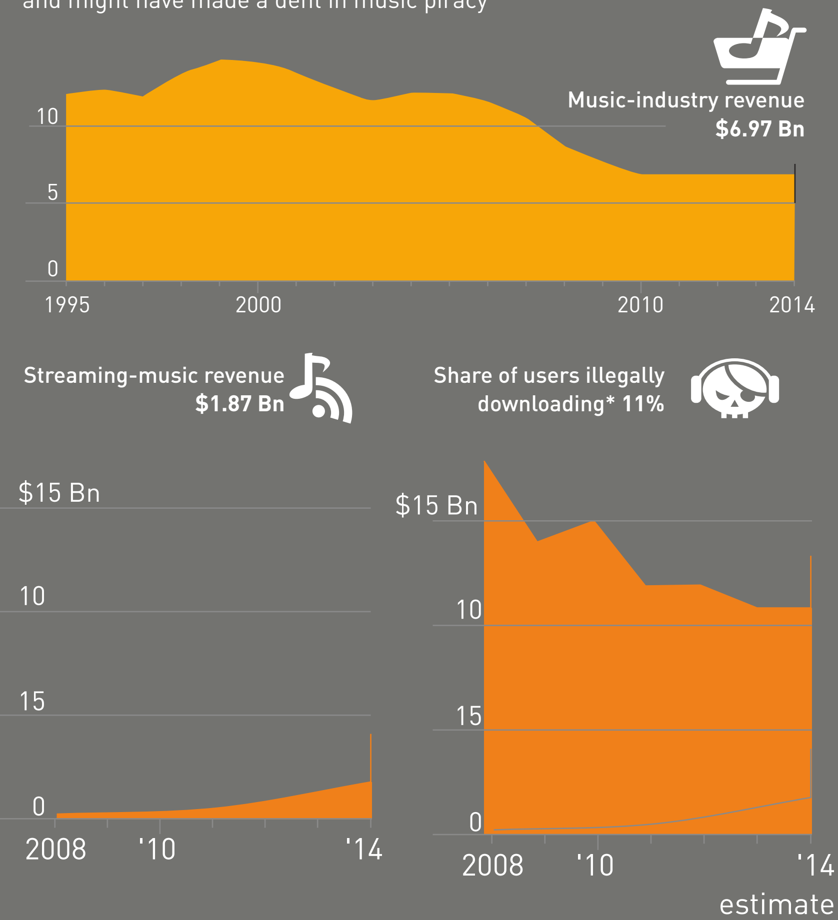
- Limiting variable costs by reducing the number of in-house editors and content producers; instead, managing a network of external contributors;
- Ensuring greater scale and consistency in approaches to content production and technology; and
- Stabilizing fixed costs through centralization, outsourcing, offshoring and portfolio rationalization

5. Rising Complexities

As companies diversify into broader entertainment areas such as concerts, music publishing, artiste management, sponsorships to sustain growth, sales and revenue management will become more complex. Music companies will have to manage unique platforms, deal constructs and global outreach. Newer business models will be needed to manage such complexities, while maintaining low costs per transaction and high service levels.

Spin Doctor

The rise of streaming music has begun to help the flagging music industry and might have made a dent in music piracy



*U.S. Internet users who downloaded at least one unlicensed song
Sources: Recording Industry Association of America (revenue);
MusicWatch (unlicensed downloads)

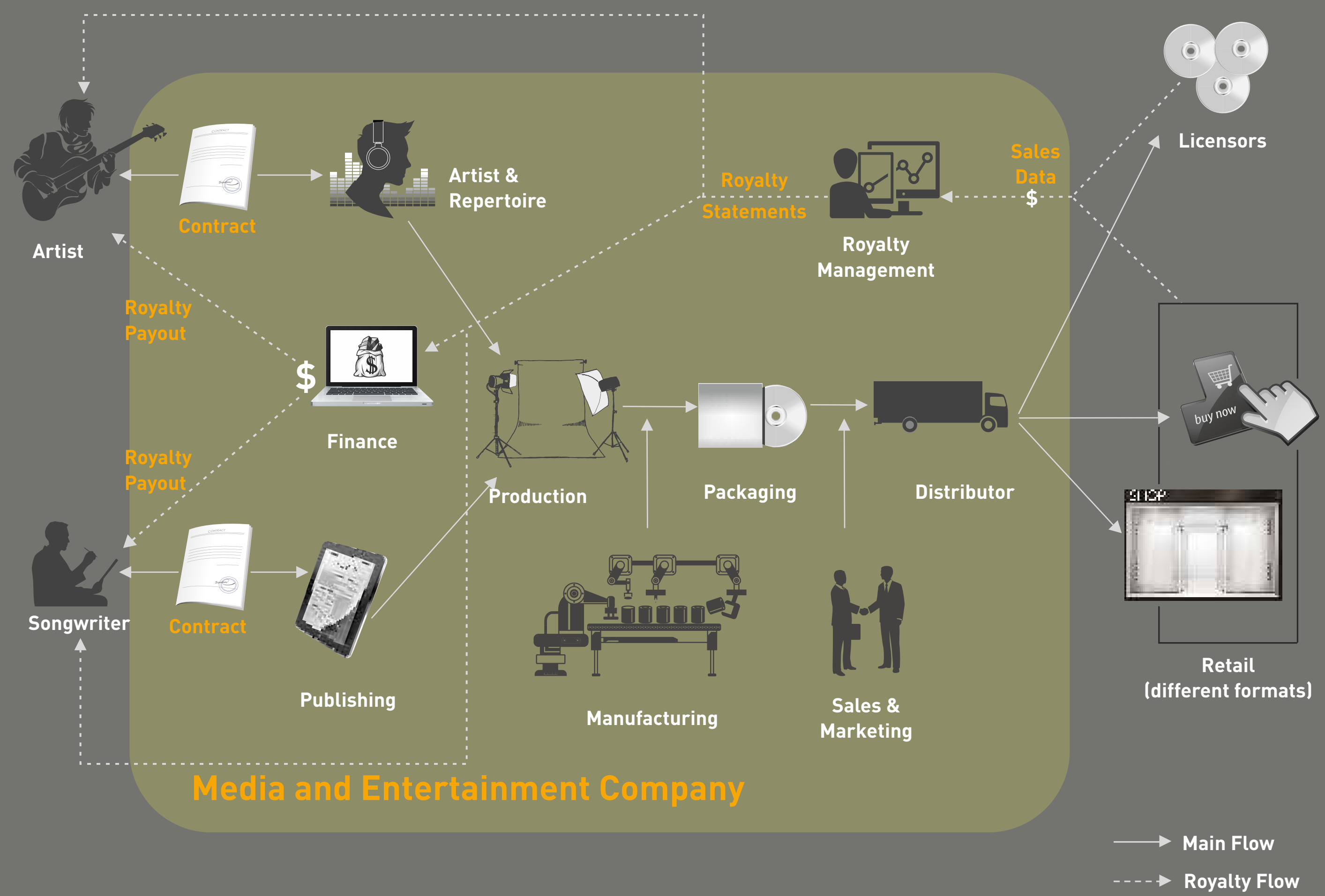
The Need for a New Approach

Given the dynamics of the industry, players need to up their game in order to remain relevant. Until recently, the recipe for success was a mix of multiple revenue streams, scarce distribution outlets and distinct exploitation windows where content could be made available for a very short period so as to attract maximum traffic, and then changed or withdrawn. The needs of the hour are new approaches to content development, distribution, operations, technology and monetization. And all these changes call for alignment of a music company's strategies, capabilities and operating models to the new market forces.

The Way Forward: Royalty Management Center of Excellence

The way forward in this business environment is to build Centers of Excellence (CoE) to reduce costs and build better efficiencies.

At a high level, this is the world of royalty management in a music company



At the core of this practice are:

- **Flow of content**

  1. Musicians collaborate under the aegis of a production company to create content

  2. The production company mass manufactures, packages and promotes this content

  3. Distributors, sometimes a subsidiary of the production company, manage the sales and distribution pipelines of content, through multiple channels. Licensors also play an important role in distributing content to the outlets on which distributors and production companies have no control

  4. Consumers buy music in the form of a CD from a physical store, download it from an online store or listen to it through paid or ad-supported free subscriptions

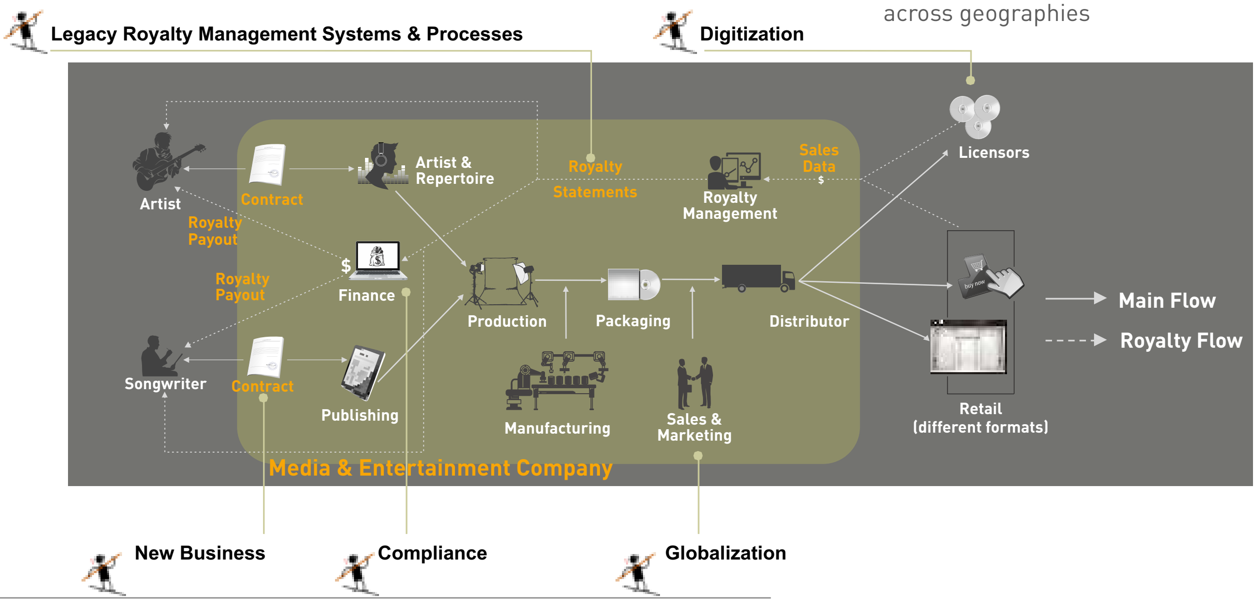
- **Flow of Money**

  The flow of money takes place in reverse order – from the consumer's pockets, to the retailer, distribution company, production company, and finally, the artiste, who is paid in the form of royalties.

Key Challenges in Legacy Royalty Management Systems and Processes

What looks like a straightforward royalty management system becomes highly complex once we take into account today's diverse music formats and revenue channels.

- Old frameworks and processes for royalty processing result in revenue leakage, inaccuracy and operational silos
- Digitization of content results in an increase in transaction volumes and introduction of channels, that legacy systems cannot support
- Introduction of innovative business models results in challenges related to increased complexity of contracts and licenses, induction of new partners, tracking assets and inbound royalties
- Regulatory requirements give rise to challenges around internal / external audit, demand for increased transparency in financial matters, and strict timelines for transaction processing
- Global operations bring about to multiple processes and systems across geographies



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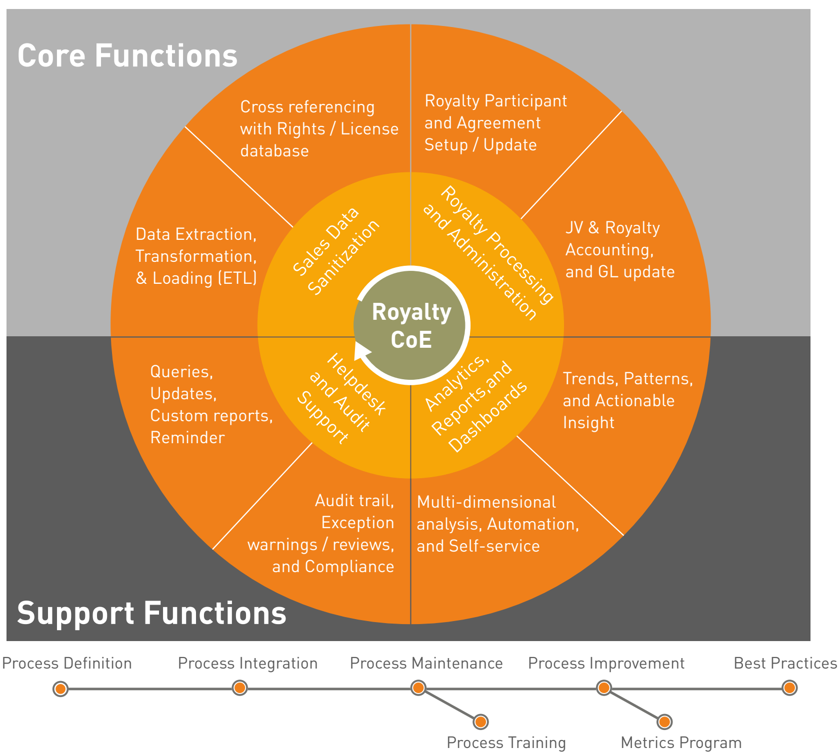
Key Attributes of a Robust Royalty Management CoE

A Royalty Management CoE combines the key strength of a music company (deep understanding of intellectual property management) and that of a process company (technology infrastructure with industry recognized platforms).

An effective Royalty Management CoE has a service component and a platform that is end-to-end, easy to implement, and easy to use. The objectives must be to enable music companies to issue royalty statements to artistes, receive online invoices from third-party licensors, amend or renew or terminate contracts with ease, track advances and guarantees, handle collaborations through joint ventures, manage expenses and monetize 'long tail' content (content with low demand that does not merit shelf space in physical stores but has a chance in the digital world).

A successful Royalty Management CoE addresses the challenges posed by legacy royalty management systems and processes as its foundation rests on the following four pillars:

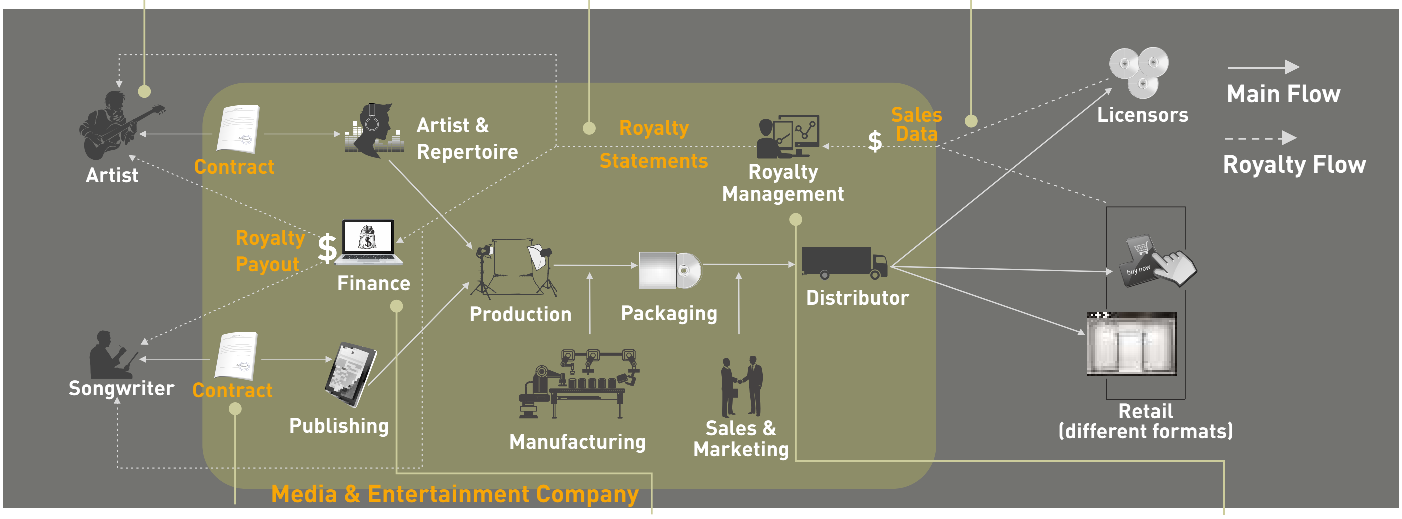
1. **Sales data sanitization:** An ideal CoE supports the data conformity needs of the customer. This means, the data from various sales channels is treated for quality issues such as missing values, invalid values and pattern exceptions. This data is then cross-referenced against the rights database to ensure that royalty is paid to the right recipient.
2. **Royalty processing and administration:** The CoE should have a team of specialists to process and administer royalty payouts on time, every time – irrespective of the music company's business model, channel strategy or content format.
3. **Analytics, reports and dashboards:** An efficient CoE facilitates creation of a single version of truth, resulting in better decision support. Unified tools and technology platforms ensure common data structures to help the music company improve productivity, reduce duplication effort and cost of operations, and increase strategic and business focus.
4. **Helpdesk and audit support:** The CoE provides both technical and non-technical support to all the stakeholders. It helps music companies to not only gain total control over royalty and rights accounting but also to perform audits to maintain compliance.



Benefits of a Royalty Management CoE

The graphic below shows process-level benefits of a Royalty Management CoE.

- Improved artist / third party satisfaction
- Tight integration with financial systems
- Accurate statements
- Ability to process large transaction volumes captured from multiple channels
- Zero / reduced revenue leakage



- Increased transparency in earnings / license fees
- Timely payment of royalties and profit-shares
- Improved compliance with contracts and internal / external audit requirements
- Standardized processes across geographies
- Reduced royalty management costs
- Reduced time taken for royalty processing / calculation

Some of the business benefits that a music company can expect include:

- **Reduced cost of service delivery** associated with the processing of domestic and / or international royalties
- **Higher efficiencies** through a royalty management solution that utilizes a common technology platform with standard processes across geographies, thus retaining the quality of services and performance measures
- **Freeing up resources** from the day-to-day processing of royalties to perform more strategic activities
- **Skills and knowledge retention** of specialized skills, thereby helping to manage the music company's employee turnover better
- **Flexibility to move processes** to a different location while retaining quality of services and effectively executing performance measures, as a result of standardized processes and tools

- **Flexibility on pricing model** (Full-time equivalent-based and / or other transactional or resource-unit-based pricing) to enable quick scale-up of operations to meet seasonal demands
- **Access best-in-class technology** through provider's commitment towards continuous technology upgrades without having to bear the cost of such upgrades

Conclusion

The recorded music business has always led the way for creative industries in the digital world. That leadership continues even today as the music industry's digital revolution enters a new phase, driven by the consumer's desire for access to music rather than ownership of music. These fundamental shifts in consumer trends, coupled with the way technology is providing new ways to engage consumers and connect artistes with audiences, are bringing to the fore new business challenges and opportunities.

As the business models of music companies evolve across the stages of content creation, sustenance and consumption, mature Business Process Management (BPM) service providers, with proven expertise in servicing media and entertainment conglomerates, can ensure stability and sustainable growth.

Leading music and entertainment companies have relied on WNS' Royalty Management CoE to establish an end-to-end royalty management system to support their global businesses. Standardized and automated processes, a team with domain experts and a global delivery footprint, have helped WNS' clients plug revenue leakage, improve cost savings, make timely royalty pay-outs to artistes, reduce royalty processing time and improve the accuracy of statements, thereby improving artiste satisfaction

WNS (Holdings) Limited (NYSE: WNS) is a leading global Business Process Management (BPM) company. WNS offers business value to 200+ global clients by combining operational excellence with deep domain expertise in key industry verticals, including banking and financial services, consulting and professional services, healthcare, insurance, manufacturing, media and entertainment, retail and consumer packaged goods, telecommunications and diversified businesses, shipping and logistics, travel and leisure, and utilities and energy. WNS delivers an entire spectrum of business process management services such as customer care, finance and accounting, human resource solutions, research and analytics, technology solutions, and industry-specific back-office and front-office processes. WNS has delivery centers world-wide, including China, Costa Rica, India, the Philippines, Poland, Romania, South Africa, Sri Lanka, UK and US.

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