

PORTABLE DEVICES AND DESIRE FOR INDIVIDUAL SONGS CONTINUE TO DRIVE GROWTH IN FEE-BASED MUSIC DOWNLOADING

While over half of American teen and adult music downloaders have paid, can profits thrive?

Following the strongest holiday season sales of portable MP3 players on record, heightened awareness of fee-based online music services and recent high-profile satellite radio content deals, American consumers are increasingly experimenting with emerging fee-based digital music services. And while this sounds like great news, the digital music market is not without its naysayers – simply ask anyone who benefitted from the golden era of the CD – the 90's.

Over Half of U.S. Downloaders Have Paid – One Quarter in the Past 30 Days

...continued increase in fee-based downloading activity over the past year, and a six-fold jump since December 2002...

Over the past year, digital music has evolved into a formidable distribution channel marked by steady growth. Our latest findings from TEMPO, the Ipsos Insight quarterly study of digital music behaviors, reveal that in December of 2005, over half (52%) of American downloaders aged 12 and older report having paid a fee to download music or MP3 files from the Internet, and 24% had done so in the past 30 days. These figures represent a continued increase in fee-based downloading activity over the past year (47% reported having paid a fee to download music or MP3 files from the Internet in December 2004), and a six-fold jump since December 2002. Based on the current US Census figures, approximately 25 million people have paid a fee to download music or MP3 files from the Internet - 11 million Americans in the past 30 days.

Sizable figures indeed, with our recent TEMPO research also revealing some interesting trends surrounding the growth of fee-based digital music:

- Adult downloaders aged 25 to 54 continue to drive the growth in fee-based downloading (67% have ever paid to download among 25 to 34 year olds, 59% among 35 to 54 year olds). However, younger downloaders are less likely than older downloaders to have done so in the past 30 days. Furthermore, only 13% of college aged downloaders have paid for digital music in the past 30 days.

- Nearly equal proportions of male and female downloaders have paid to download digital music files off of the Internet: However, female downloaders are less likely to have paid to download in the past 30 days, however, with only 18% compared to 29% of males). This compares to December 2004 tracking data in which past 30 day fee-based downloading was 18% and 15%, respectively, and suggests that males are now driving repetitive fee-based download activity.
- U.S. fee-based downloaders in this evolving digital marketplace are nearly three times as likely to have used a la carte download (or 'pay-as-you-go') services compared to fee-based subscriptions, (77% vs. 27%), and when they do, they download an average of eight songs each month.
- Despite the current popularity of online a la carte services, when asked whether online fee-based a la carte, subscription, or satellite radio was the most appealing digital music service, U.S. downloaders were most likely to say Satellite Radio (32% vs. 28% for a la carte and 8% for subscriptions services).
- One-fifth of Americans aged 12 and older now own a Portable MP3 Player, up from 12% in December of 2004, and 8% in December 2003.

Desire For A La Carte Songs And Recent Portable Device Purchases Fuel Growth

Americans experimenting with current fee-based acquisition options, but can this translate into a viable business model? Many are increasingly arguing no, as the profit producer for the CD business model was the bundled package – forcing consumers to buy the whole product for the one or two songs they may have actually heard and enjoyed.

...desire to purchase an individual song instead of the entire album fueled [consumers'] foray into fee-based digital music...

Ironically, the same model that padded pocketbooks in the 1990's may have fueled demand for 'pay-as-you-go' song acquisition. Our recent TEMPO research also found that for many frequent fee-based downloaders, the desire to purchase an individual song instead of the entire album fueled their foray into fee-based digital music, with a recent MP3 player purchase and the perceived convenience of an online purchase also being key drivers. This is reinforced by the findings that 30% of US fee-based downloaders first paid to download within in the past 6 months, and corresponds with record growth over the past year in Portable MP3 Player ownership.

Nurturing
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This suggests that many consumers may act impulsively when entering this market, with the moment of truth in fee-based digital music coming via the desire for an individual song, convenience and as a means of acquiring content for their new MP3 player or mobile device. This is significant given the growing popularity and prominence of portable/mobile devices and increasing availability of advanced digital music content options, and suggests the key for continued overall industry growth may be to encourage consumers who are sampling fee-based services for the first time to become more consistent in a variety of fee-based content acquisition behaviors (and not just one). Nurturing habitual interaction with a wide variety of music acquisition options, particularly a la carte downloads, mobile ringtones, online subscription services, music videos and satellite radio, will be critical in expanding and sustaining these still developing music markets, and could well lead to broader ramifications in music production, recording, publishing and other associated industries.

By Matt Kleinschmit

Matt is a Vice President with Ipsos Insight, one of the fastest growing full service research firms in North America, and a part of the global Ipsos Group of research companies. Mr. Kleinschmit specializes in managing custom consultative research partnerships with leaders in the Digital Music and Entertainment sectors, including the methodological design, execution, and analysis of quantitative primary consumer research initiatives. Over the course of his research career, Matt has gained a reputation for designing and implementing unique hybrid methodological approaches that best meet the market research objectives of his clients, as well as employing cutting edge advanced statistical techniques to better understand the data collected. In addition, Mr. Kleinschmit has the unique perspective of having designed and developed the groundbreaking quantitative research initiative *"TEMPO: Keeping Pace with Digital Music Behaviors"*, which has measured and tracked global consumer digital music behavior since 1999, with sponsors from the retail, consumer electronics, computer hardware and music recording industries. A frequent writer and commentator on developments involving digital music and youth behaviors, Matt is able to speak about both consumer and industry trends from the perspective of the primary data he has collected and analyzed throughout his research career.

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