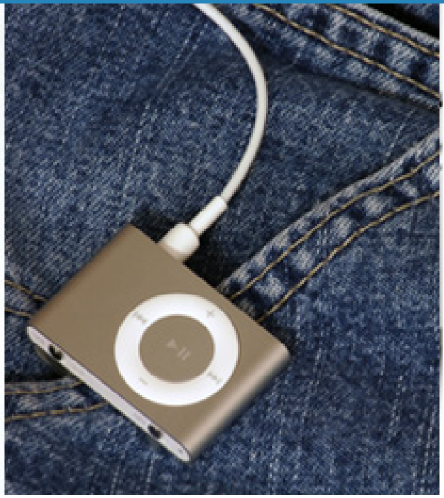

NARM/AARP/NPD
Boometrics: Baby Boomers & The Music Marketplace

Report to Membership

August 2007

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Behind Every Business Decision

NARM
Advancing the Business of Music

AARP
The power to make it better.

Evolution

- NPD and NARM have been calling attention to the revenue contribution from Baby Boomers
- NARM initiated a research project to better understand the potential of the Boomer population
- NARM also partnered with AARP, who has interest in promoting music to its members
- NPD now has a significant knowledge base surrounding the purchase and shopping habits, attitudes, motivations and interests of Boomer music customers. This report is a summary of key findings - please contact NARM for additional content.

Primary Objectives

- Understand the importance of Baby Boomers to the industry
- Identify opportunities to improve revenue among Boomers, and any barriers to achieving full potential
- Profile the customers, especially the highest potential segments

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Key Findings: The Importance of Baby Boomers

- Boomers represent considerable buying power
  - 76 million consumers
  - 70% buy music - mostly CDs
  - Digital is growing in importance
- Now account for 1/3 of CD sales - and rising
- Music has significant relevance and value for most
- Conservatively, there is $700M in potential incremental revenue among Boomer music buyers.

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- Boomers can become the “other” lost generation, but for very different reasons than younger consumers
- Unit sales are declining rapidly among Boomers
- An environment of complacency:
  - They are satisfied with music that surrounds them, or with collections they own
  - There is an insufficient pipeline of product targeted at them, or they are not entirely aware of what is available

Key Findings: Opportunities

- Boomers may hold the key to supporting the CD during the current period of industry transition.
- Many Boomers are shopping the category on a regular basis.
- There is a continued interest in buying content from preferred artists, and some explore new music and artists.
- The Internet has begun to attract Boomers, who use it for both commerce and discovery. There are potential piracy issues, but probably more upside than risk.
- Retail can play a much more aggressive role in promoting and merchandising to nearly all Boomers who have an interest in music.
- The complacency can be overcome.

Key Findings: Targets

- There are a large number of “average” consumers who should be buying more. If the industry does not act, they are at risk of buying fewer CDs.
- These “Mainstream” consumers account for an estimated $1.2B in CD revenue.
- They are regular music shoppers, but not particularly motivated to buy more.
- One additional CD purchase annually equals $330M incremental revenue (est. asp=$13).

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Key Findings: Targets

- There are also a large number of heavy buyers - the most passionate music buyers from the 60s/70s/80s are still with us.
- However they also have become satisfied with what is on the radio, or their collections.
- Many report that the artists they favor have not released anything recently, or at least they are not aware of releases.
- Raising heavy buyer CD purchasing by 1 unit, and their digital spend by 10% would yield $362M in incremental revenue.

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1. **The partnership with AARP targets a large audience:**
   - More than half of the key buying segments are 50+ and potential AARP members.
   - There is a music buyer segmentation that could be applied to the AARP membership through surveys. This would allow us to pinpoint the appropriate programs based on music buying habits and individualize the outreach.
   - The AARP music program can be expanded to:
     - Generate awareness for current and upcoming releases
     - Foster event marketing
     - Offer links at AARP.com for purchase, discovery, subscription offers, etc.

2. **Evaluate the product pipeline to ensure that potential buyers have adequate selection — and this should span the age and gender demographics**

3. **Take adequate advantage of anniversaries and related events to release compilations, gift sets and remasters, which Boomers are interested in owning? Forty percent of NOW listeners are over 35. Compilations spell opportunity and the press soaks up anniversary news (see Sgt. Pepper, Elvis death).**

4. **Close the discovery gap. Aside from shopping, the Internet is not yet an important discovery point for Boomers, yet they shop the category at retail. There needs to be focus on improving the discovery process at retail; creating greater awareness of the available product. This can be accomplished through reasonably basic merchandising and promotion, though heavy buyers will respond to events, kiosks, and more unique events.**

5. **Improve the news flow. Next week @ …; continuous news about upcoming releases or promotions specifically targeted to Boomers.**

Recommendations

6. **Create related Boomer-centric merchandising programs. Boomers, especially heavy buyers, are keenly interested in information about available product – this needs to be leveraged in everything from rack cards to circulars.**

7. **Boomers are value oriented and the depth of available catalog permits creative promotions…e.g., "Wednesday" is Value Day - BOGO, two-fers on same artist.**

8. **In a time where space for music is under pressure, is it appropriate to shift facings towards the Boomer customer, especially as younger consumers acquire more through digital and unpaid means?**

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9. **Though a minority, Boomers who are digitally oriented show interest in buying the entire album. This represents an opportunity to improve digital revenue and potentially create more bundles**

10. **The industry cannot afford to lose the music-as-a-gift relationship. A significant portion of Boomer purchasing is related to gifts. This is at risk as younger consumers move to digital or unpaid and gift cards become more prevalent.**
    - Should gift/digital cards be in the section, not an end cap, to stimulate browsing and encourage marketbasket spending?
    - Learn from home video, which is increasingly targeting product to non 4Q holidays, such as Valentines Day.
    - Encourage non-children and special event gifting …music for moving, music for promotion, music for travel, music for Mondays.

Boomers Methodology

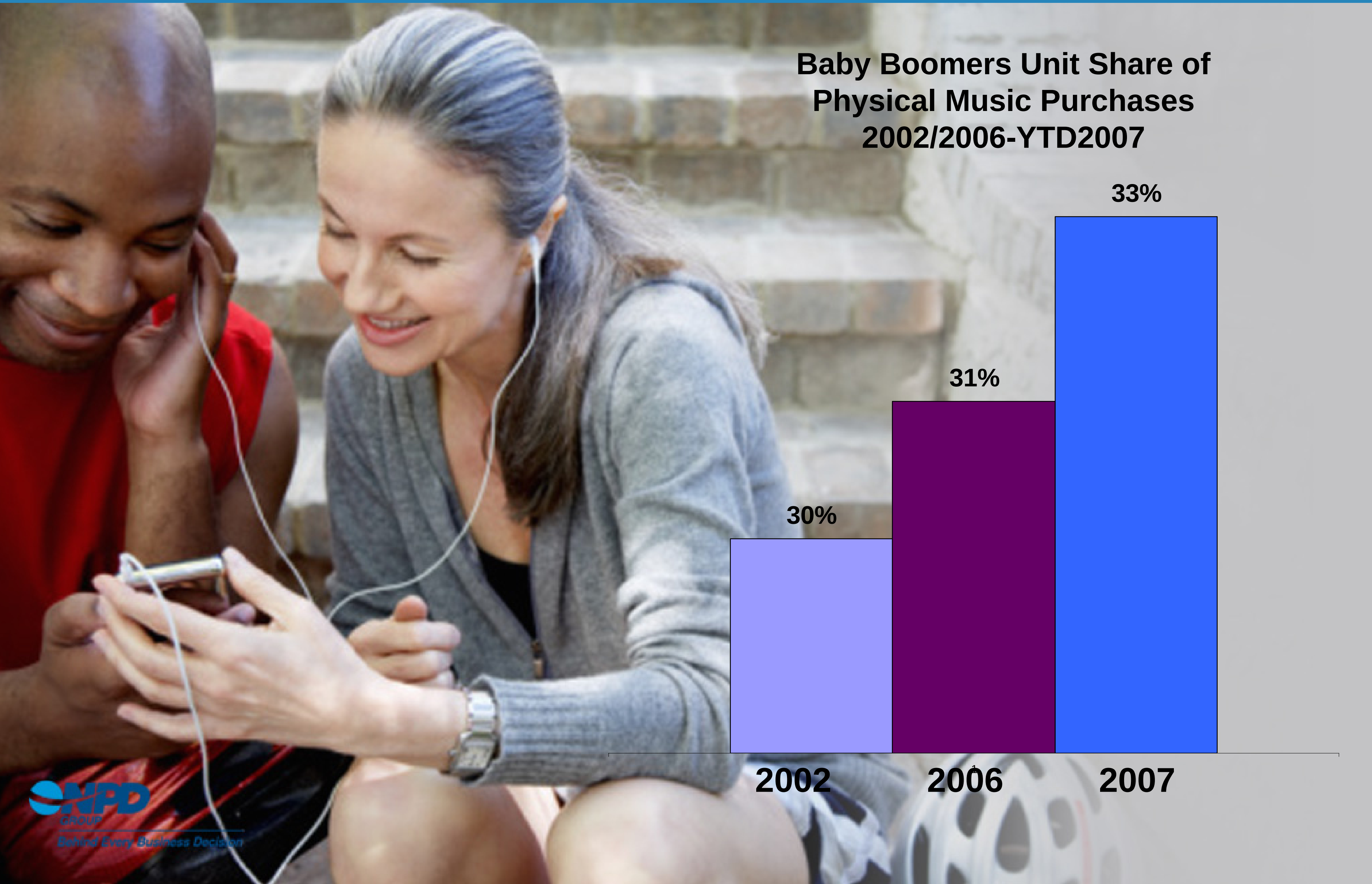
- Focus groups February 2007 (Paramus NJ & Tulsa OK)
- Online survey May 30 - June 7, 2007
  - 10-12 minutes
- Sample size of 4,154
- Representative of US population 43-61 years of age (1946-1963)
- Structure:
  - Activities & Ownership
  - Purchasing- digital and physical
    - Volumes, More or Less
  - Listening
  - Discovery and action
  - Purchase interest - packaging & artists
  - Shopping profiles
  - Attitudes towards music – yesterday & today
  - Life Perspective

How important are Baby Boomers?

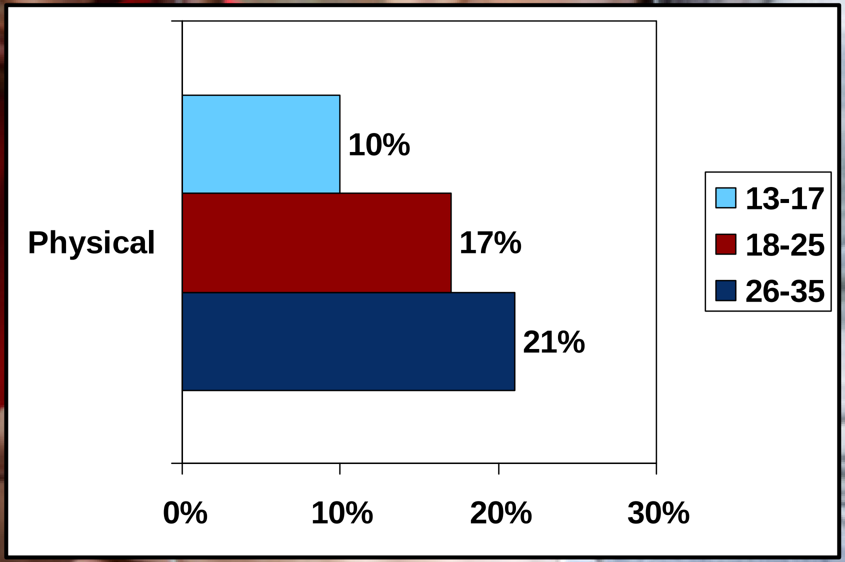
- Approximate number of Boomers: 76,381,680
- 25.5% of US population
- Reduced by one every 53 seconds*
- 93% are still with us*

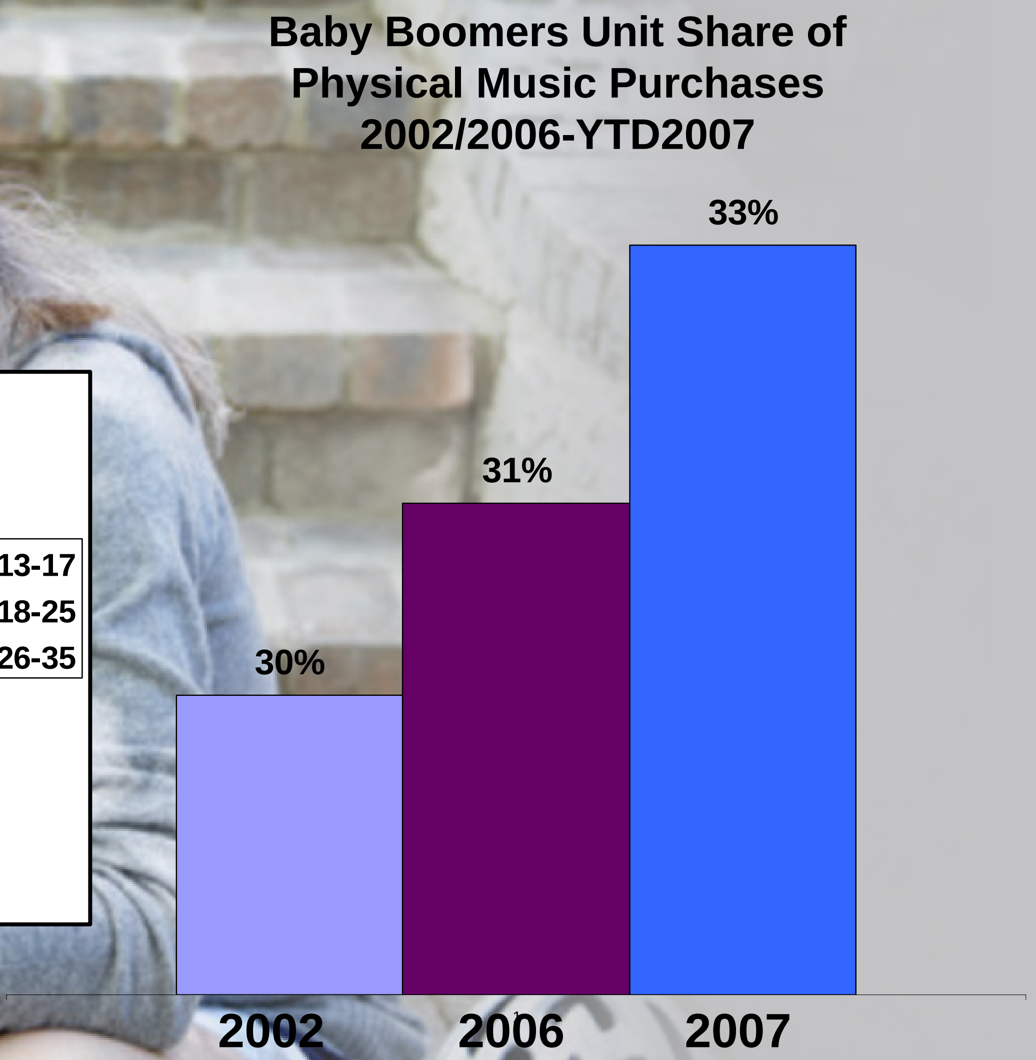
*Boomer Death Counter
http://www.boomerdeathcounter.com/

Boomers account for one-third of physical unit sales; up 3 pps. since 2002

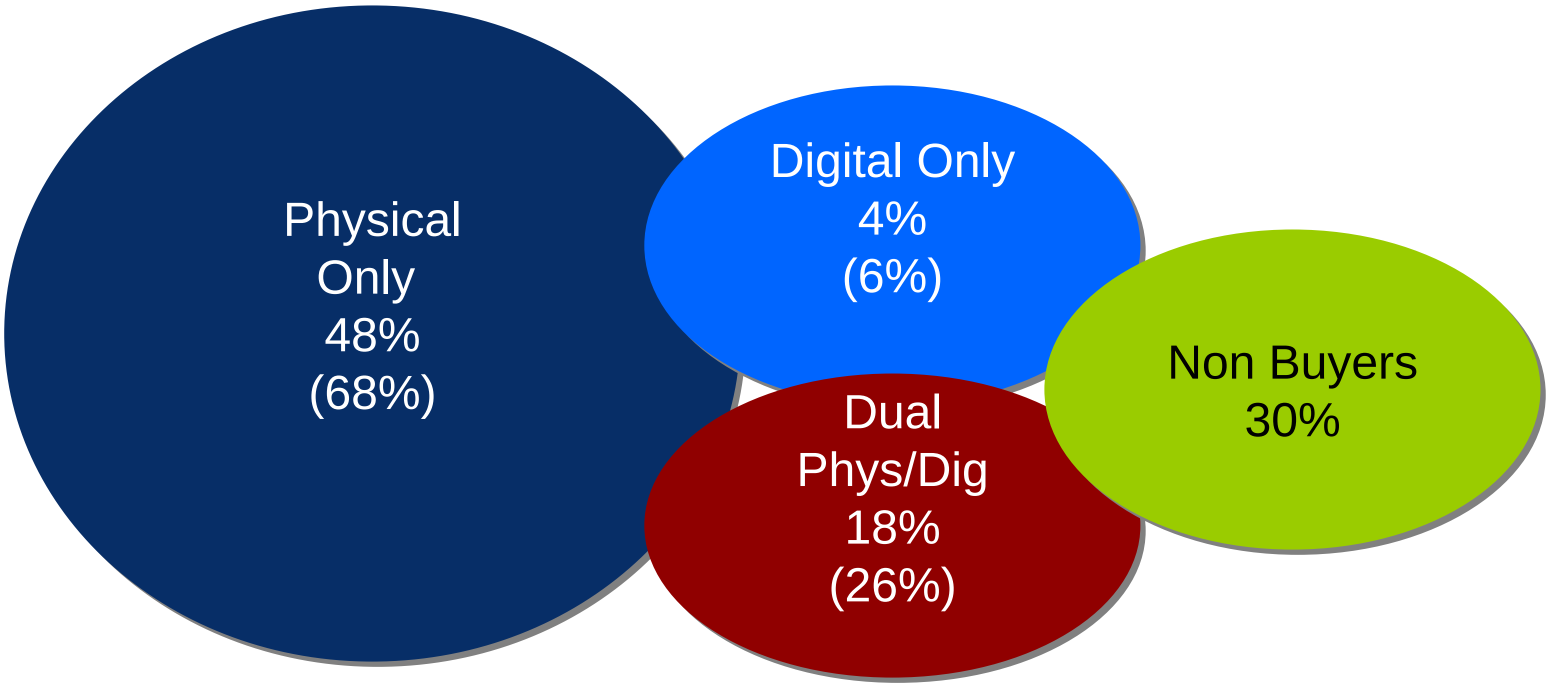


Boomers account for one-third of physical unit sales; up 3 pps. since 2002 *and now more than 13-25 yr. demo*





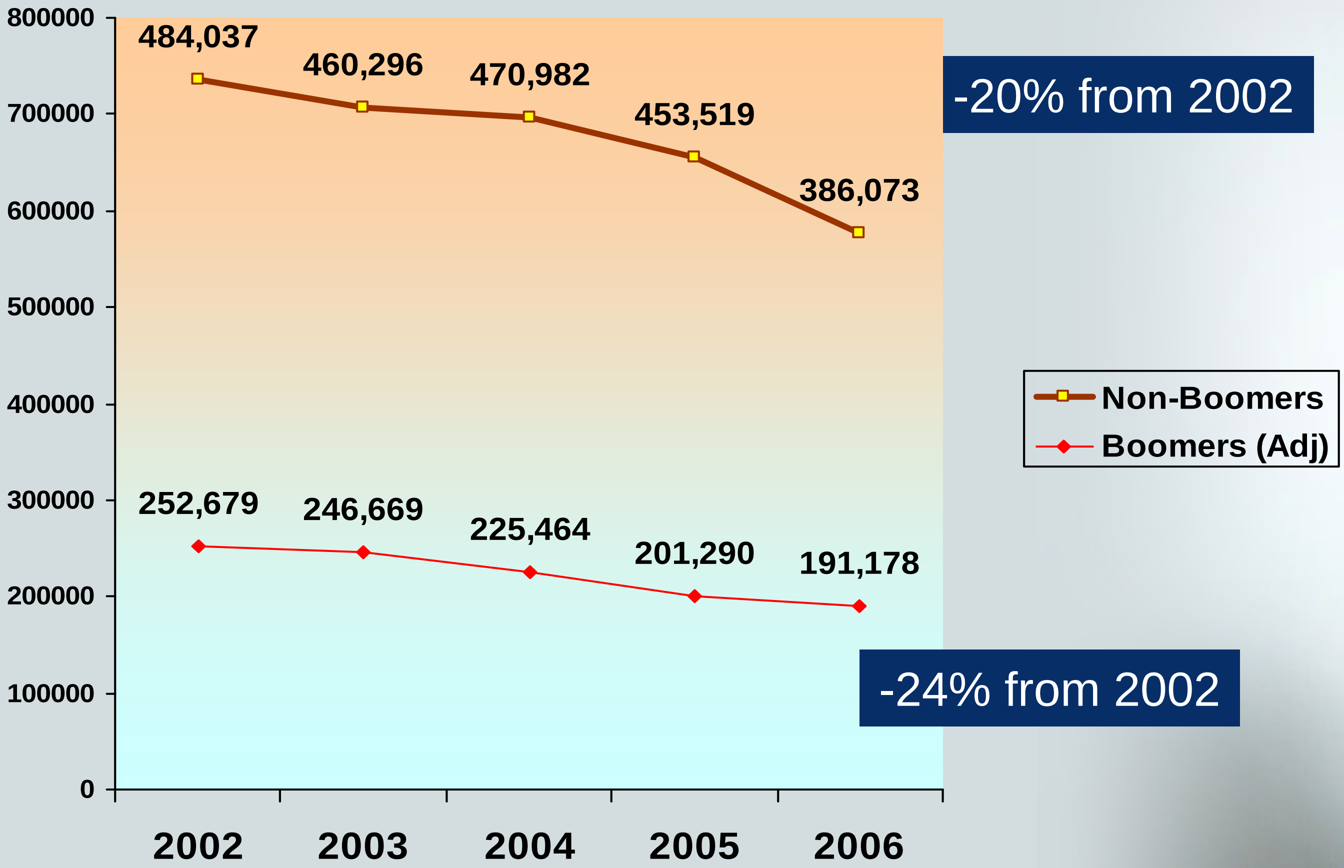
70% buy music



( ) = % of Total Music Buyers
Base; claimed past year spending

Baby Boomer purchasing is declining over time; at same rate as others- **though 2006 was worse among younger segments**

Physical Music Unit Purchases (000) 2002-2006



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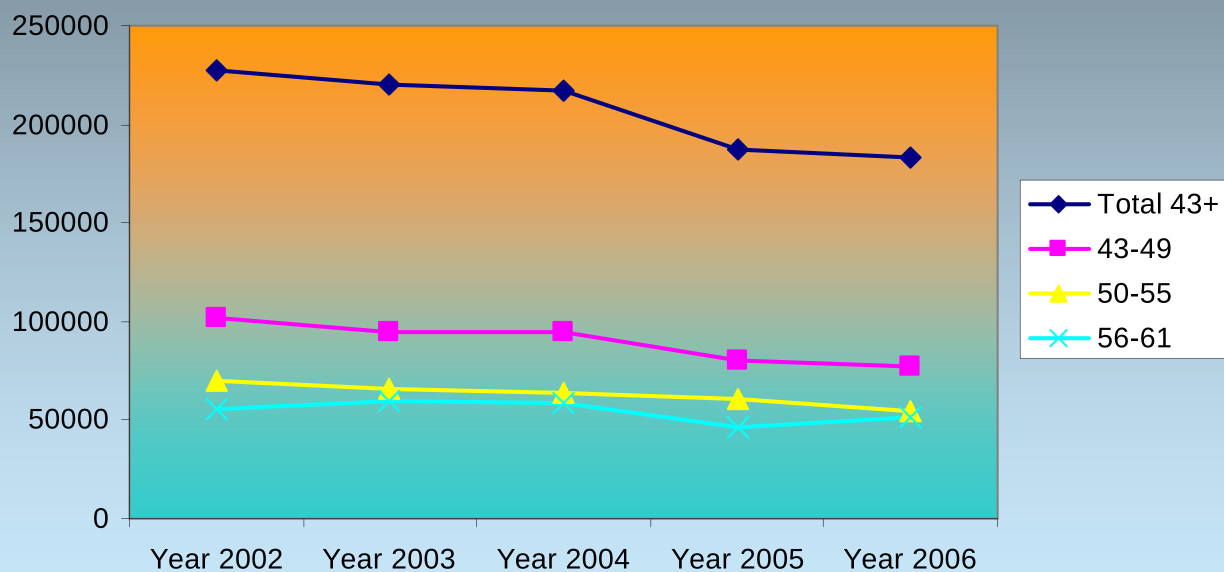
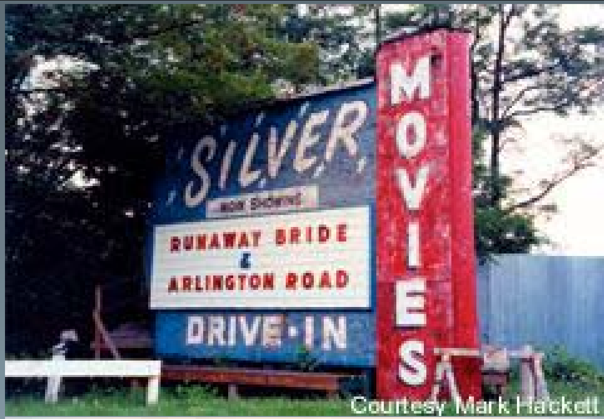
Data is adjusted to account for changing ages of boomer segment over time

Is it the age or is it Boomers?
The 43-49 segment fell markedly in 2005 and hasn't recovered

These trends are for the age segment - not adjusted to account for aging. Overall unit volume is off 19% comparing 2006 to 2002; -24% for 43-49, and -22% for 50-55. The 56-61 segment is down only 8% and actually rebounded in 2006.

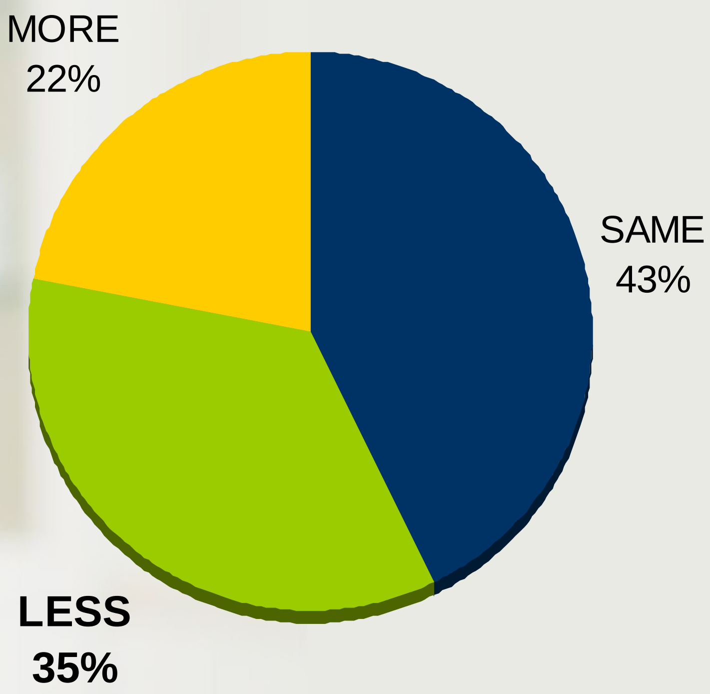


Source: NPD MusicWatch



A third of current Boomer music purchasers are buying less,

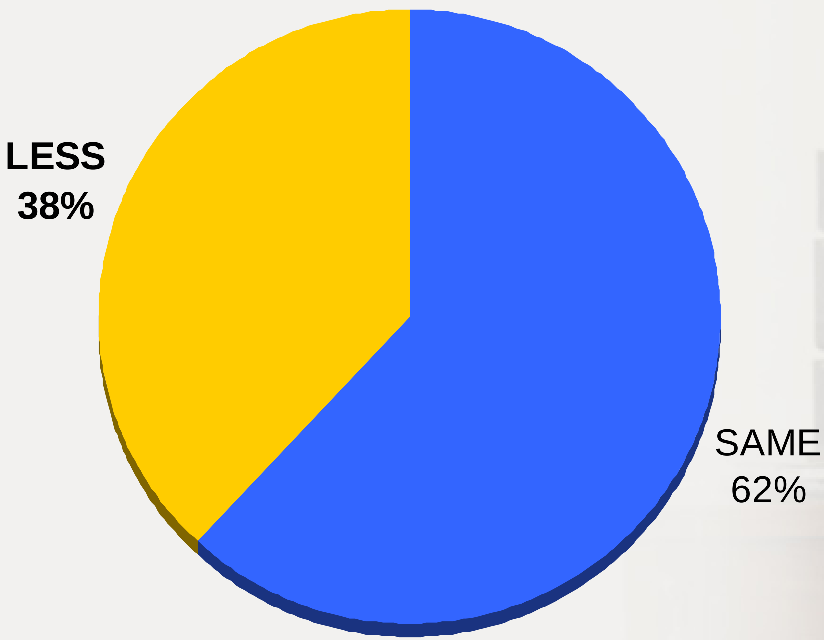
Compared with two years ago, are you buying?…



*overall, physical or digital

…and nearly 40% of today’s non-buyers claim they used to purchase - 9 million “lost” buyers!

Compared with two years ago, are you buying?…



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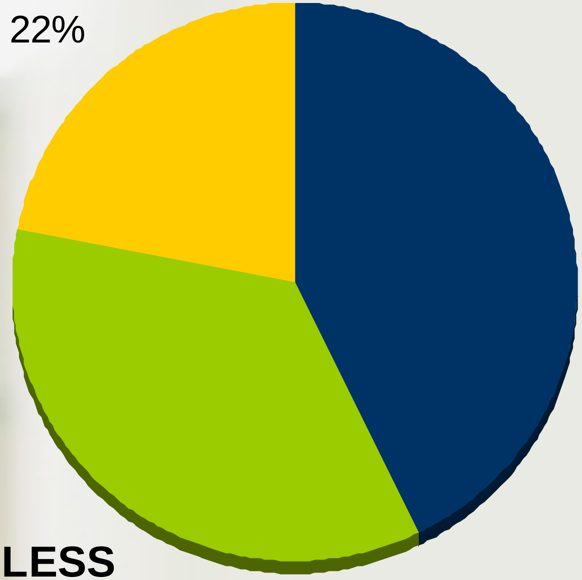
Base: current non-buyers

Those buying less are somewhat lighter buyers, but not terribly so - those cutting back are valuable customers, not marginal one-time purchasers. Note also how Boomers who buy more are heavier for both CDs and digital.

Compared with two years ago, are you buying?…

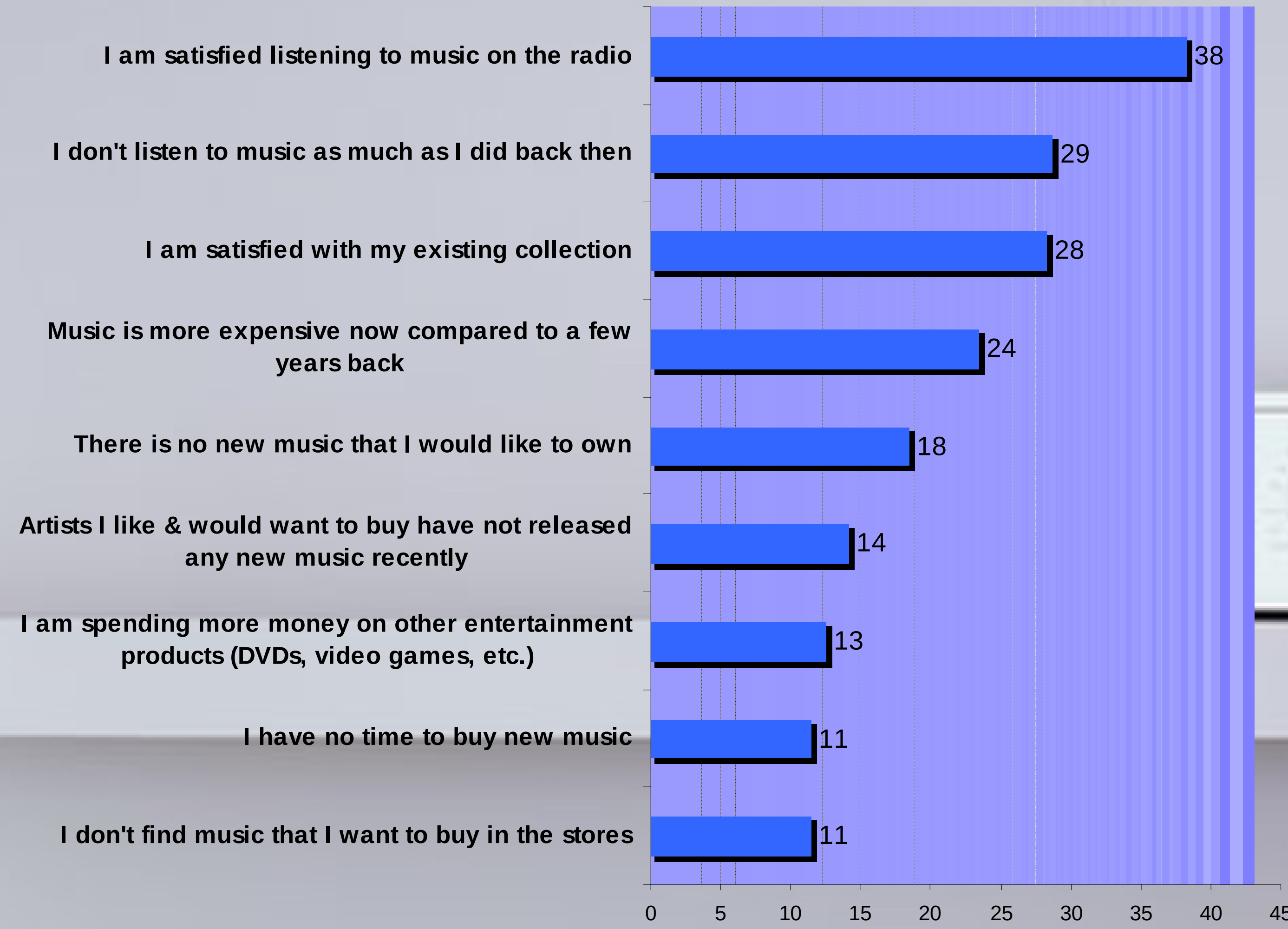


Claimed Buy Rates (annual):

	Total	More	Less	Same
Physical	**6.3**	**8.7**	**5.2**	**6.0**
Digital	**20.4**	**27.7**	**15.6**	**17.8**

***overall, physical or digital**

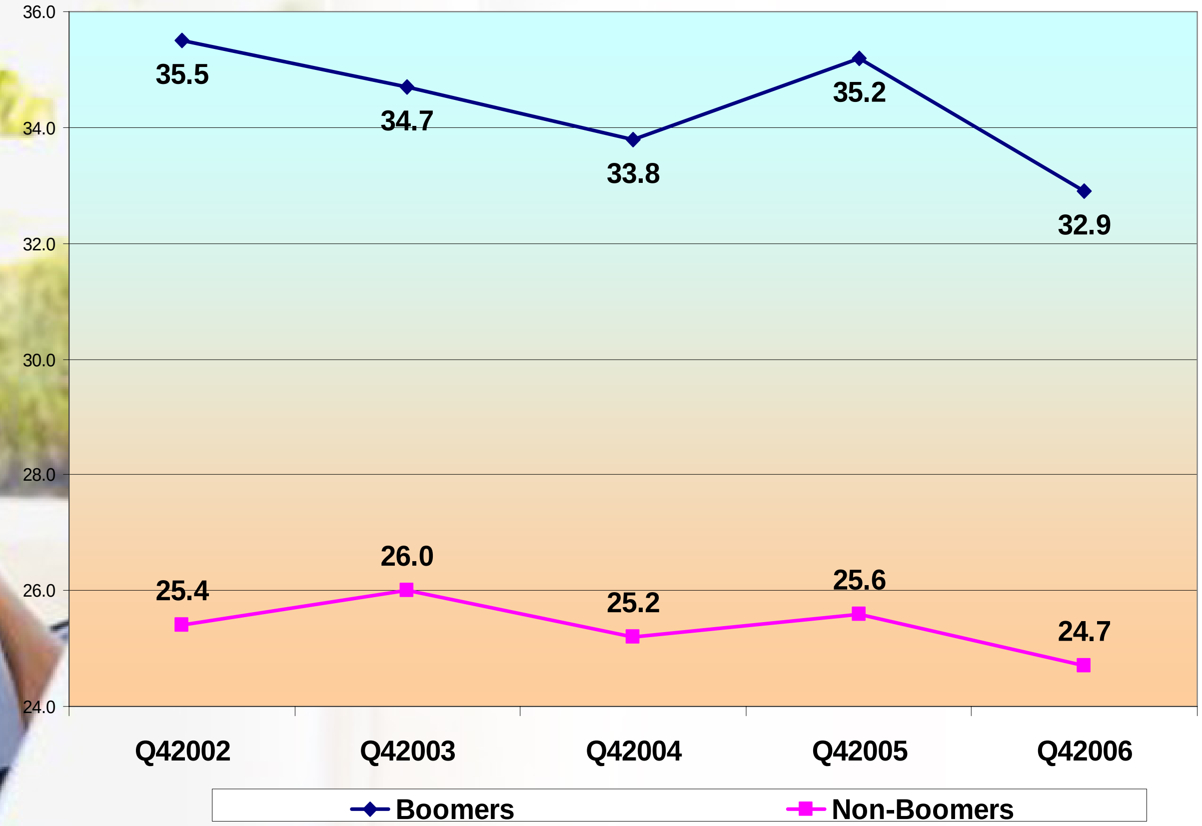
Why less…complacency, comfort, status quo



Includes buying but less/stopped altogether. Results similar for both though current buyers are more satisfied with their collection, which could indicate potential for less demand in the future

The 4Q "Problem"- music losing its weight as a gift item (less demand from youth, and challenges vs. other gift options?)

4th Quarter Trend of CD Units Purchased for Someone Else, Boomers and Non-Boomers



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Exploring Boomers Interaction with Music

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Fundamental Attitudes

Your feelings about music you listen to and/or purchase

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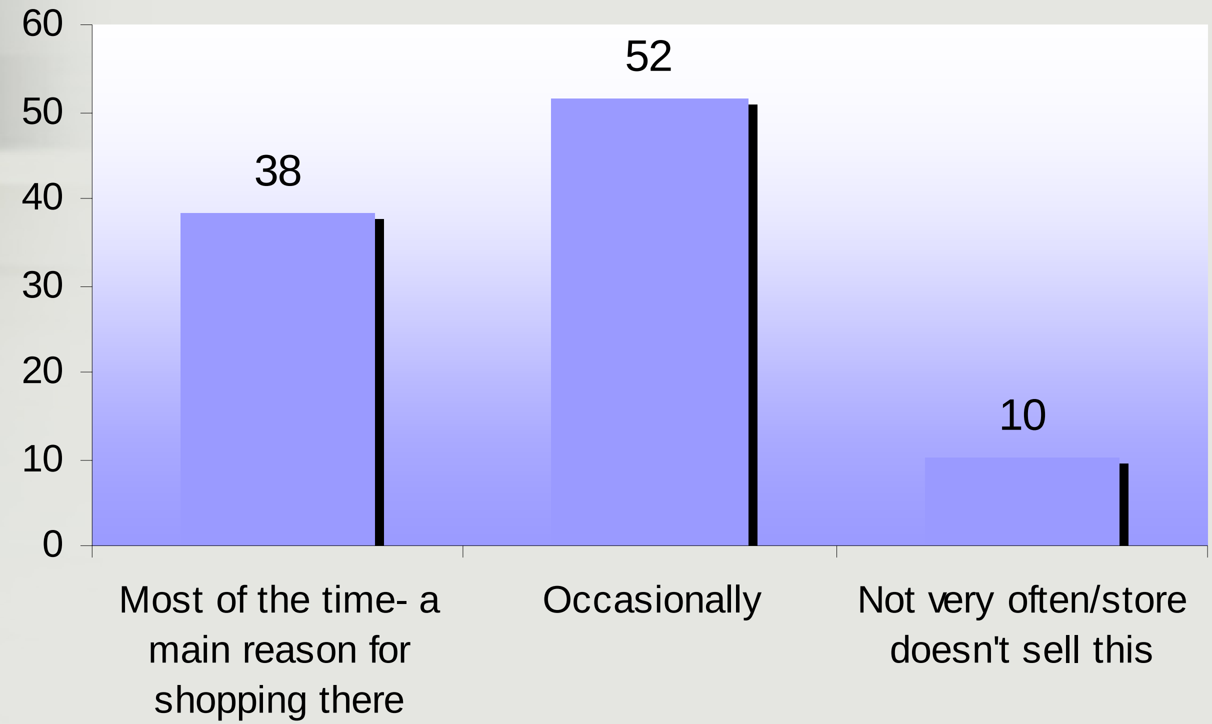
Music in the basket

How often do you visit sections that offer…music?



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How do you shop for music?

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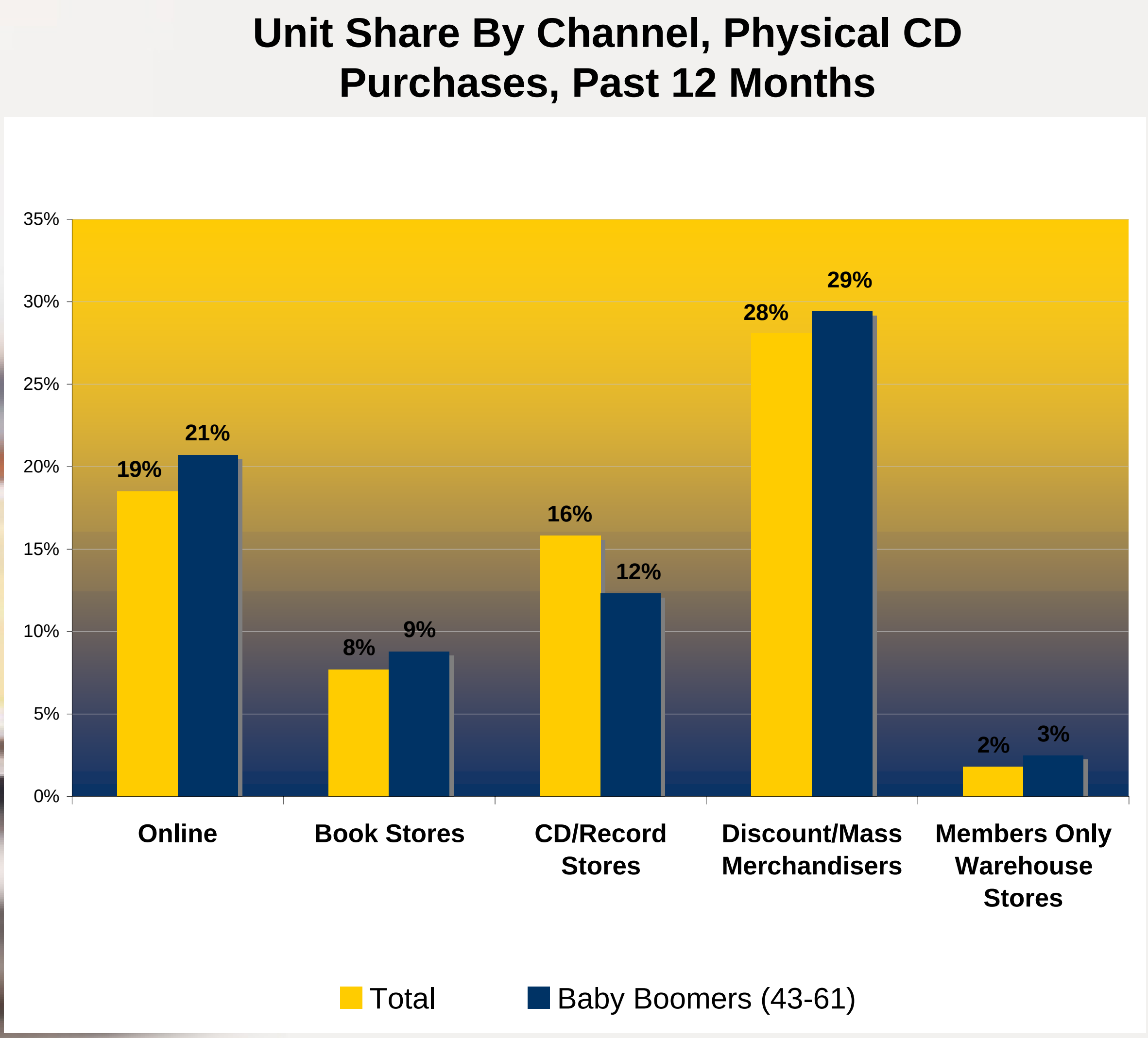
Boomers more likely to shop online for CDs; bookstores also stronger. They are the drivers of Mass Merch CD sales.



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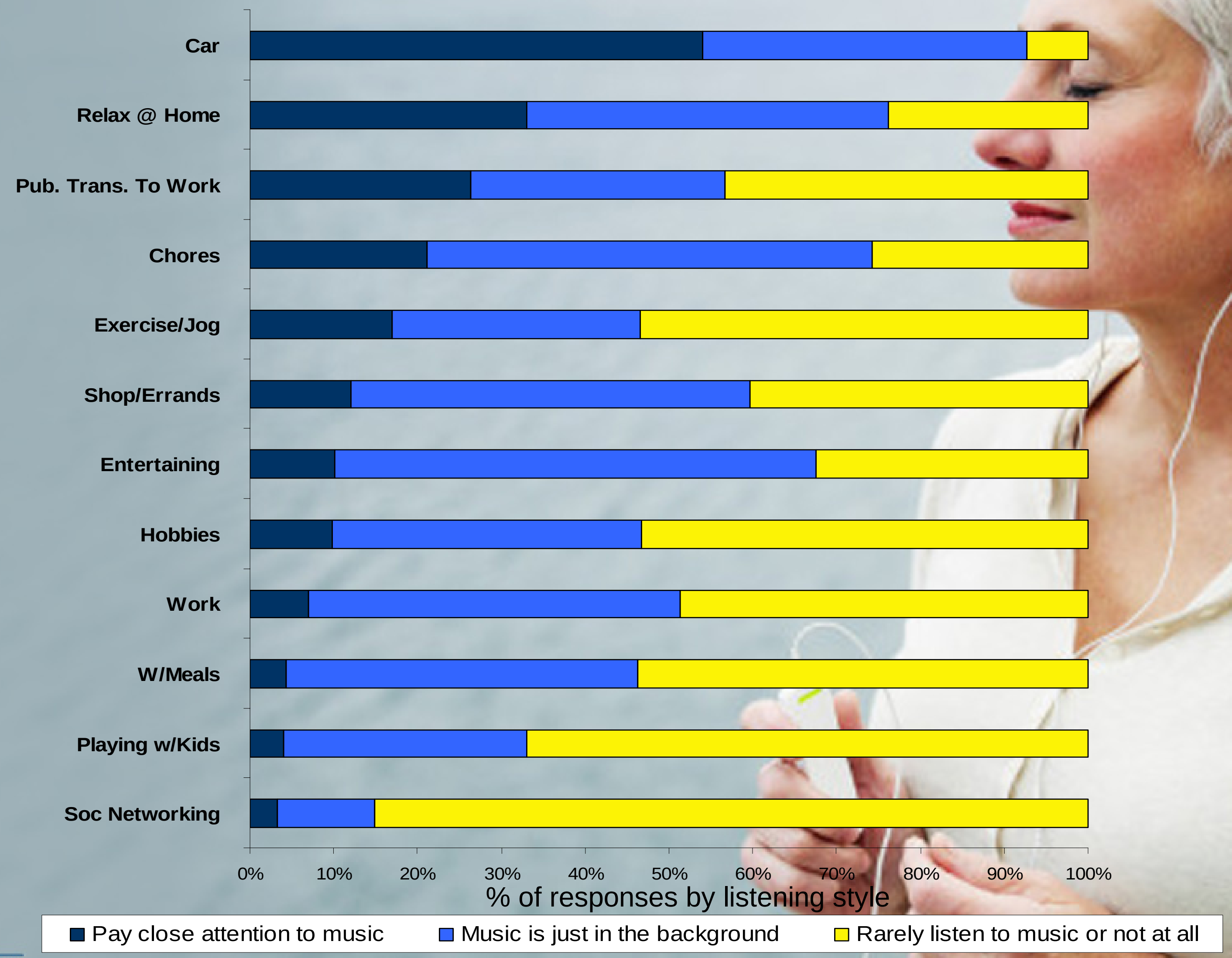
Music touchpoints-
Where do they really pay attention?



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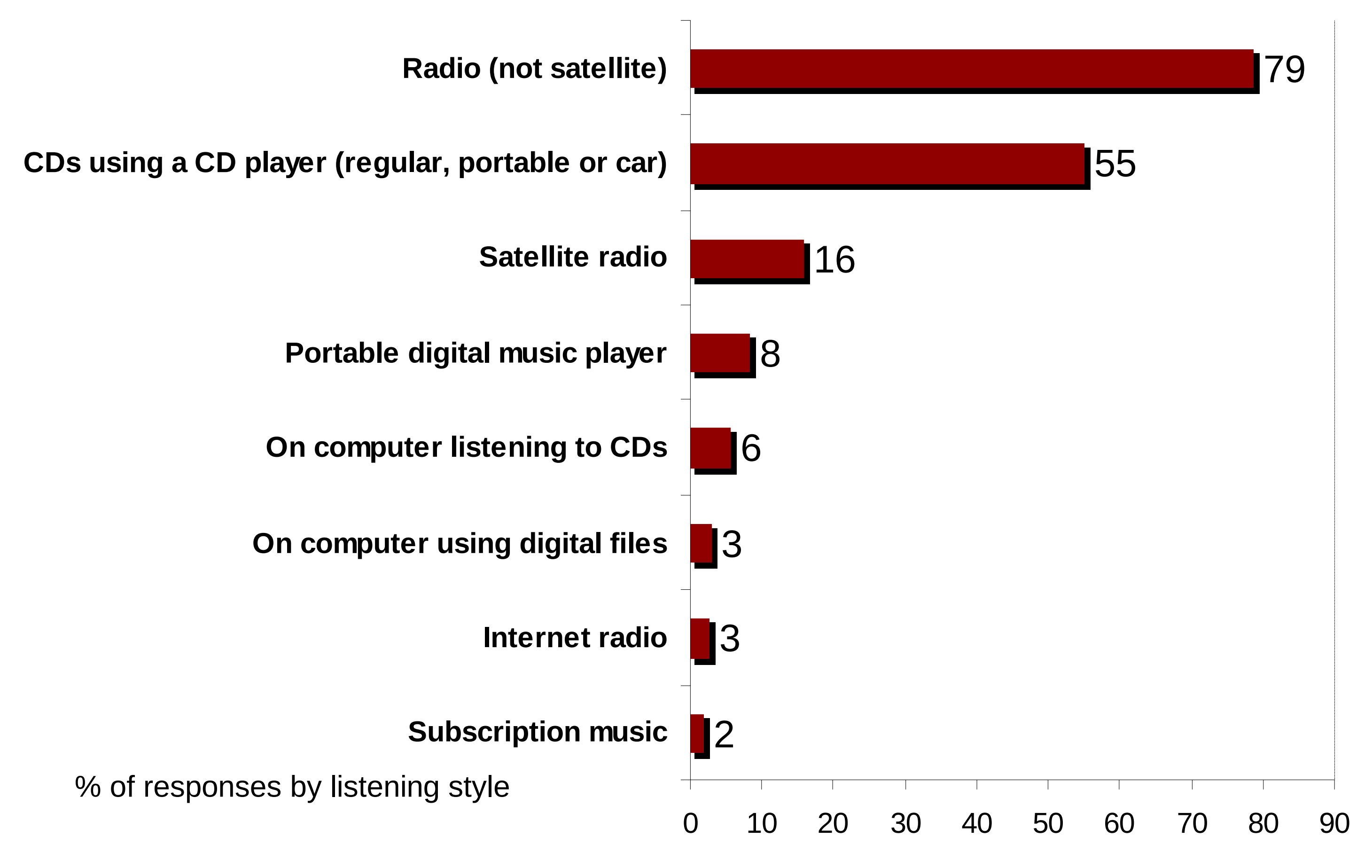
Music touchpoints-
Car-listening options when I'm really paying attention?



Learning at retail is notably weak for favorite artists among 43-49 yr olds; better for new artists
TV, Radio strong for 50-61 and favorite artists

How did you first learn about the music you bought?*

(% indicating they learned through…)

Note: small samples for certain activities- use directionally

	Total	13-25	26-42	43-49	50-61
Bought Music of A Favorite Artist/Band					
Base: Total Answering	779	245	211	122	171
On radio	32	31	36	23	39
From friends/ family members/ co-workers	21	28	20	13	18
Through computer-related activity	20	33	20	10	3
On TV	19	20	16	16	27
In an advertisement	16	21	9	15	15
In a retail store	16	19	15	9	19
Review in a magazine/newspaper	12	14	11	6	9
Bought Music of a New Artist/Band					
Base: Total Answering	447	162	120	95	59
On radio	37	34	45	43	26
On TV	32	21	43	36	25
From friends/ family members/ co-workers	25	39	15	11	27
In a retail store	13	16	5	21	8
Through computer-related activity	11	22	7	6	0
Concert(s)/show(s)	8	7	12	3	8
In public places	7	4	9	15	3

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*Source: NARM Discovery Database: base is respondents who bought music

Leveraging market potential

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Some Boomers are buying more music - Why?
(answer - ongoing discovery, digital…but shopping frequency tops)

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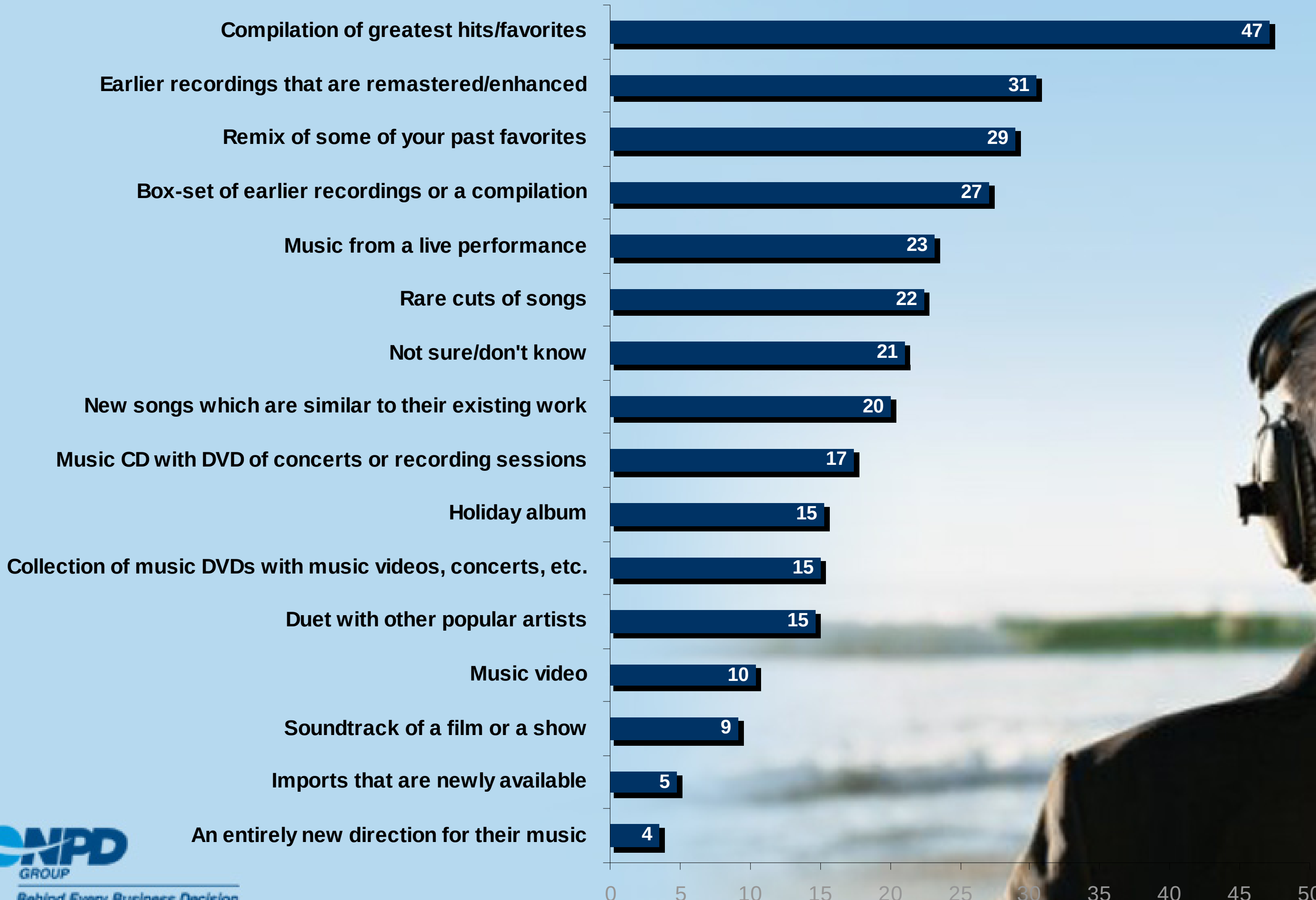
My artists should…
(breed familiarity & recognition rather than move in new directions)

Specific kinds of music you want to buy from Favorite Artist?



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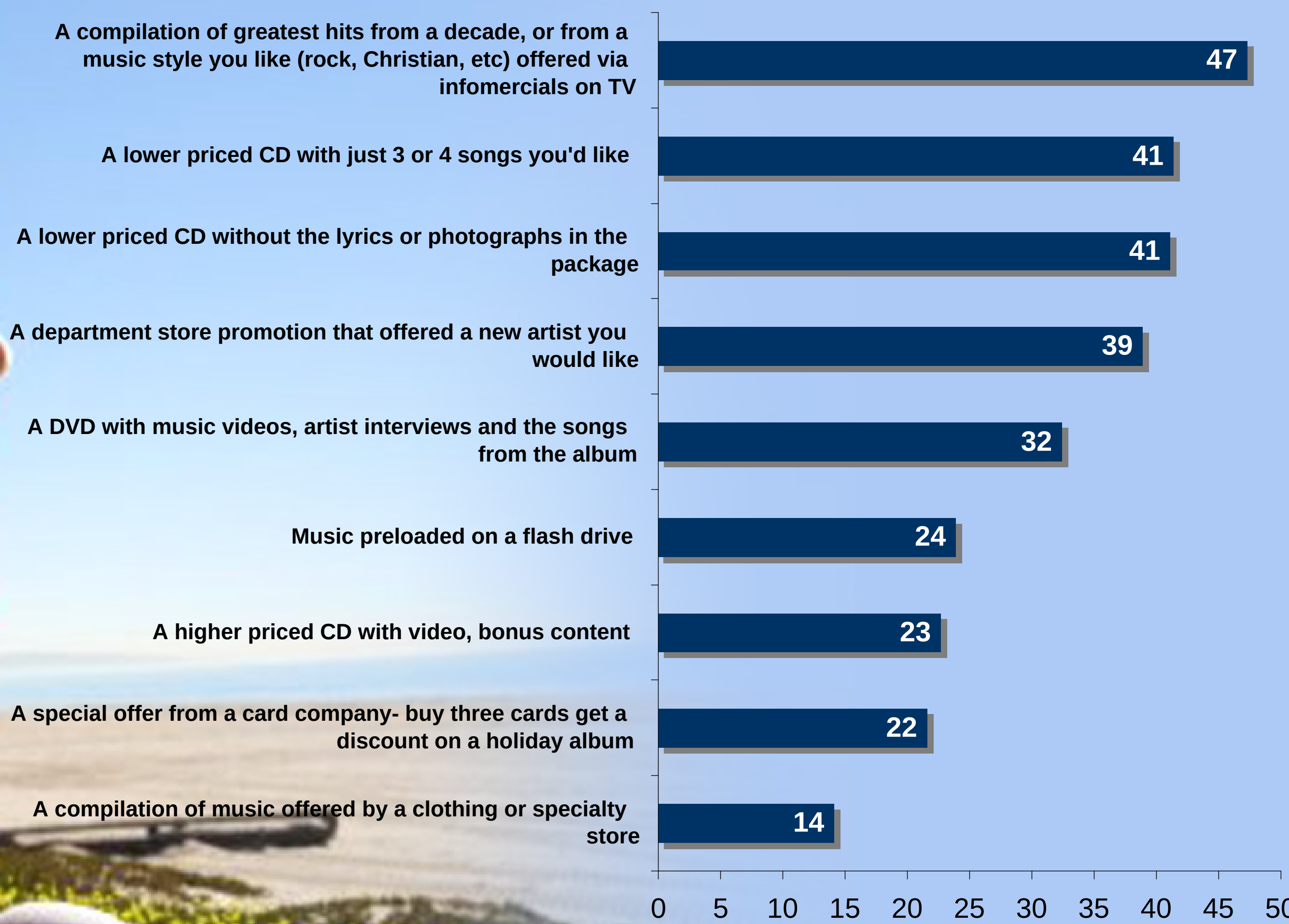
What presentations interest Boomers?
(% top two box score - very or somewhat interested)



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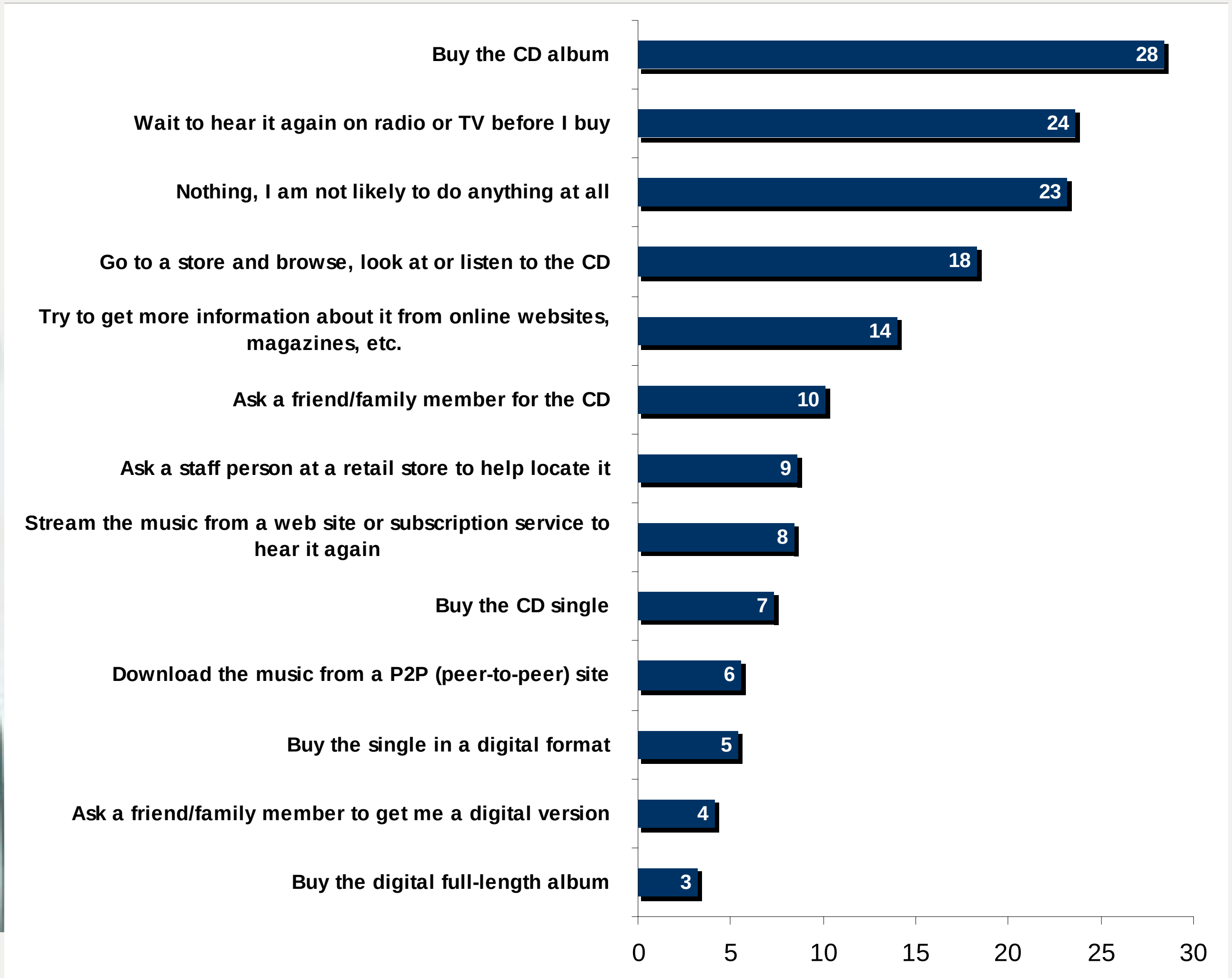
What would you do?
(opportunity if we could convert more to buying)

…hear a song/track you like but don't own…



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Fragmentation

__How to look at Baby Boomers__

- Age…boomers, trailing edge, shadow boomers, generation jones, sandwich gen
- Lifestage…retired, empty nesters, age
- Consumption…heavy vs. light, mass shoppers
- Something entirely different…

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NARM “Boometrics”

23 Distinct Variables:

- Degree of activity - hobbies, music, sports, etc.
- Extent of technology ownership
- Music connection at age 20s/30s
- Music Listening Places
- How you take action upon hearing music
- Volumetrics
- Fan intensity
- General music attitudes
- Outlook
- Concerns

Leads to 4 Unique Segments and a way to think about your customers and their needs:

1. Ne’ers- ne’er did, ne’er will. Not into music as youth, and not now
2. Mainstream- average with untapped potential
3. iMusic- fans as youth and adults, and moving more into the digital sphere
4. Old School- also big music fans, but it’s still about physical

	Ne'ers	Mainstream	iMusic	Old School
% Of Boomers:	33.2%	33.4%	15.2%	18.3%
% Buying:				
Any Music	39%	78%	97%	96%
Physical	35%	74%	89%	95%
Digital	7%	16%	66%	25%
Per Capita Spend:				
Total	$14.89	$49.68	$117.77	$111.58
Physical	$14.30	$48.10	$94.90	$109.20
Digital	$0.59	$1.58	$22.87	$2.38
% with Subscription	1.4%	3.1%	17.5%	7.4%

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Per capita spend is an estimate for the segment in total- buyers and non-buyers:
$13 ASP used for CD, $.99 for digital track

How do you reach the pre-AARP segment?

	Ne'ers	Mainstream	iMusic	Old School
% Of Boomers:	**33.2%**	**33.4%**	**15.2%**	**18.3%**
Mean Income ($,000's)	67.7	73.6	78.5	75.3
Size of Household:				
1 - 2 Members (Net)	57	49	48	47
3 - 4 Members (Net)	34	39	38	41
Five Members Or More (Net)	9	13	14	12
% With Children At Home:	34	44	48	47
% In Age Group…				
43-49 (NET)	36	39	49	51
50-55 (NET)	30	36	30	32
56-61 (NET)	34	26	22	17
Mean Age	52	52	51	50
%Male	52	47	56	41
%Female	49	53	44	59
Occupation (% who are…)				
White Collar	56	58	64	64
Blue Collar/Miltary	23	22	16	19
Housewife/Househusband	7	7	6	5
Retired	7	6	6	4

Mainstream Profile

- Average activity profile
- Average concerns/worries
- Mainstream tastes (Classic Rock)
- Reasonably value music, their CDs
- I thought Jethro Tull was a neat guy and still do!
- Most satisfied just listening to radio, and with current collection
- Somewhat less likely - attend concert, buy videos, fan activities
- 13.5% own PDMP (81 index)
- Index 100 on having satellite radio, but 56 on music subscription

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Mainstream Potential

- Most likely to report buying less vs. two years ago: 42%
- No particular motivation for buying more
- Hesitation Blues - hear something you like, don’t own
  - 39% Wait to hear it again
  - 28% Buy the CD
- 40% Often Browse Music Section, 38% Sometimes
- Conservative (top two box scores)
  - Compilation of greatest hits/favorites…55%
  - Remasters……………………………….34%
  - Remix…………………………………….33%
  - New Direction…………………………..2%
- Core signage and display
- One additional CD buy adds $330M in revenue

iMusic Profile

- Entertainment Active (music, movies, video, web)
- Somewhat more positive life outlook
- Made Tull mix tapes and hung out at music stores
- Tech Savvy
  - 43% own PDMP (index 257)
  - 3 X Likely to Have Music Subscription, +51% Satellite Radio
- Attend concerts, watch music video, buy DVD, file share
- Classic Rock, but Alt, Pop, EL too
- Highly value and utilize music/collection - many digitize it
- Fixate on old, but open to new music, new releases

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iMusic Potential

- Equilibrium - 33% buy more, 33% less, 34% same
  - Best vs. others - is digital putting in a floor?
- Barriers - Satisfied with collection, somewhat price sensitive, artists haven’t released content
- Digital is a motivator to discovery
- Internet is a discovery tool
  - Still “MyTube” - Only 12% frequently use social networking
- Online shopping offers comfort, learning, recommendations
- Browse, but liable to make a special trip if warranted

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iMusic Potential

- Open to product concepts and package options
- Top two box scores…
  - Compilation of greatest hits/favorites……56%
  - Remasters……………………………………44%
  - Rare cuts……………………………………41%
  - Box sets………………………………………33%
  - New direction for artists……………………8%
- Infomercial compilations, low price EPs, low price CD only, DVD content, dept. store promo
- Utilize all in-store vehicles more aggressively
  - Basics have to be there (signage, display)
  - Also artist event, email, kiosks

Old School Profile

- Most Entertainment Active
- Somewhat more anxious about economy, college costs, and domestic/world issues
- “OK” on health, relationships, spiritual status
- This is Jethro Tull!!!
- Tech Acceptors
  - 23% Own PDMP (135 index)
  - Subscriptions, Satellite, DVR all index ~30% above norm
- Interactive: highest for concerts, music video, buy DVD, fan website/emails
- Diverse genre preferences, though Classic Rock rules
- Highly value and utilize music and their collection
- Most likely to accept new artists, “today’s” music

Old School Potential

- Leaky Bucket: 25% buying more, 32% less, 44% same
- Barriers - satisfied with collection, somewhat price sensitive, artist’s haven’t released content, entertainment alternatives
- Awareness of new artists and more frequent shopping helps drive more CD buying
- Internet offers discovery, but primarily a SELECTION alternative
  - Only 10% frequently use social networking
- Online shopping offers comfort, selection, value
- 45% regularly browse section; also make special trips

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Old School Potential

- VERY open to product concepts and package options
- Top two box scores…
  - Compilation of greatest hits/favorites……56%
  - Remasters……………………………………42%
  - Rare cuts……………………………………41%
  - Live performances…………………………41%
  - Box sets……………………………………40%
  - New direction for artists……………………7%
- Infomercial compilations, low price EPs, low price CD only, higher priced value add CD, DVD content, dept. store promo
- Utilize all in-store vehicles more aggressively
  - Basics have to be there (signage, display, circulars, flyers)
  - Also artist event, email, kiosks

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Hear a song/track you like…likely to?

	Ne'ers	Mainstream	iMusic	Old School
Base: Total Answering	**1356**	**1366**	**616**	**748**
Buy the CD album	10	28	42	53
Wait to hear it again on radio or TV before I buy	5	39	24	30
Nothing, I am not likely to do anything at all	56	9	3	6
Go to a store and browse, look at or listen to the CD	5	19	29	34
Try to get more information about it from online websites, magazines, etc.	3	13	29	24
Ask a friend/family member for the CD	2	12	21	12
Ask a staff person at a retail store to help locate it	2	8	18	15
Stream the music from a web site or subscription service to hear it again	1	6	26	11
Not sure/don't know	15	6	1	3
Buy the CD single	4	8	17	5
Download the music from a P2P (peer-to-peer) site	2	5	16	5
Buy the single in a digital format	1	0	35	0
Ask a friend/family member to get me a digital version	1	5	10	4
Buy the digital full-length album	0	0	20	0

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Assuming price was right, how interested are you in purchasing (% top two box score…very/somewhat)

	Ne'ers	Mainstream	iMusic	Old School
A compilation of greatest hits from a decade, or from a music style you like via infomercial	30	54	58	58
A lower priced CD with just 3 or 4 songs you'd like	24	46	55	53
A lower priced CD without the lyrics or photographs in the package	23	45	54	55
A department store promotion that offered a new artist you would like	16	39	57	65
A DVD with music videos, artist interviews and the songs from the album	13	32	49	55
Music preloaded on a flash drive	10	23	42	34
A higher priced CD with video, bonus content	6	20	36	44
A special offer from a card company- buy three cards get a discount	10	22	30	34
A compilation of music offered by a clothing or specialty store	5	12	23	26

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Like son, like father

Influence of Children Residing in the Household (% indicating…)

	Ne'ers	Mainstream	iMusic	OldSchool
My kids often get me to listen to music they like	51	65	74	74
My kids wind up liking the music I grew up with- and sometimes buy it	46	66	73	76
I discover songs/tracks from new artists through my kids/grandkids	44	57	65	70
Lots of people in my family have iPods or other portable music players	45	52	70	66
Most of my music purchasing is gifts for my family	57	57	45	49
My kids buy very little music but get it from friends or the computer	41	45	49	43
If I want just one or a few songs I'll often ask my children to get me a copy	22	32	43	40
My kids ask for gift cards so they can buy music on the computer	25	27	40	33
Buy gift cards b/c don't know what to buy for family	22	26	35	30

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How helpful are the following in your decision to buy music in (store you regularly buy music)?

% saying very, somewhat…

	Total	Ne'ers	Mainstream	iMusic	Old School
On sale signs	70	51	69	73	81
In-store display	62	43	62	69	73
Listening stations	62	42	61	73	72
New release walls	57	37	52	68	71
Music playing in stores	55	30	53	67	67
Cards in CD racks with artist info on them	46	28	44	57	55
Store flyers	46	32	42	53	57
Circulars	44	31	40	52	53
Talking to the store clerk	42	28	40	54	48
Artist promotional material/posters	41	19	36	53	55
Music recommendations	38	18	33	51	50
Get emails about upcoming events	34	18	28	46	47
Artist event in the store	31	15	23	44	45
Frequent shopper program	30	14	26	44	38
Special order/pre-order music	26	12	21	39	34
Kiosks (In-store machine that is capable o	20	9	17	31	26

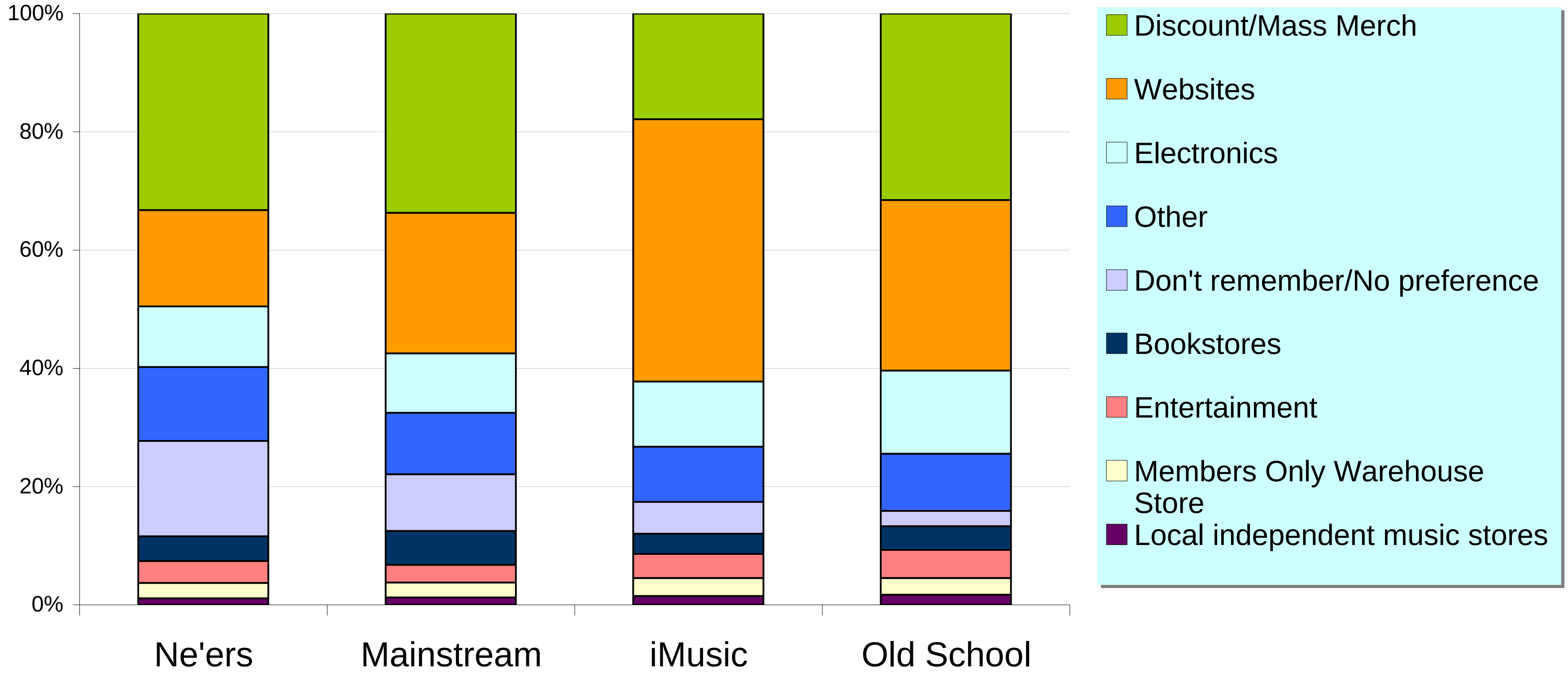
Responses for Brick & Mortar

If you shop online, what are the primary reasons why, compared to a traditional brick and mortar store?
(% choosing response)

	Total	Ne'ers	Mainstream	iMusic	Old School
Can do it in the comfort of my home	71	57	68	75	75
Easier to find what I want	57	49	51	62	63
I like online shopping in general	43	32	38	49	46
Better value for the money	42	31	40	42	51
Don't mind waiting for the product to be delivered	39	27	42	32	52
Broader selection than a regular store	37	26	30	39	48
Have older music that I prefer	32	22	32	35	33
Do most of my shopping online	28	19	22	32	32
Learn about music primarily on internet, easier to purchase online	21	5	15	35	19
Get emails about upcoming events (new music, sales, etc.)	15	5	12	16	22
Can order products while at work	14	4	10	17	18
Recommendations I like	11	5	8	16	12
Takes too long to checkout at regular store	8	5	5	11	9
Frequent shopping program	8	4	6	6	15

GROUP
Behind Every Business Decision

Pick one store where you regularly bought music*



This is consumer feedback intended to understand preferences.
It is not a measure of market unit or dollar share.