NARM Consumer Research Initiative Phase One: Consumer Profiles & Retail Experience

Prepared for:
National Association of Recording Merchandisers
March 2006

NARM
the voice of music retailing

Background

A key goal, as set out by the Board, is for NARM is to "encourage the sustained health and vitality of the industry--and especially our core retail/wholesale constituency--primarily via preserving the value, highlighting the benefits, and promoting the sale of physical music and entertainment products" This includes an agenda to

1) improve the understanding of music and entertainment consumer behaviors,

2) understand opportunities for in-store product and service delivery, and

3) represent the industry to consumers and legislators with regard to piracy and fair use.

This program will require market research related to consumer purchasing of music, digital activity, shopping habits, and consumer insights. NARM has defined four initial research topics:

- **Understanding General Music Consumption**
- **Profile Digital Users**
- **Boomer Media Consumption**
- **Retail Shopping Behavior**

Methodology: Primary Resources

- NPD MusicWatch
  - **tracking of physical music purchases 2002-2005**
- Consumer Research
  - **January 2006**
  - **3700 Respondents/2600 Physical Music Buyers (13+)**
  - **Total US; online; weighted to US population targets**
- NPD Digital Music Study
  - **December 2005**
  - **profiles & behaviors of US digital music users**

Agenda

- Facts of Life: important music trends
- Profiling: who is today's music buyer
- Shopping Behavior: who, where, when, how much

Capitalize on these behaviors to economically build demand for physical product, increase shopping, and improve customer value

Key Learning: Very Macro Level

- Music remains a robust category. For many buyers music remains an important part of their lifestyle; they collect, listen and shop with zeal.
- However, important physical segments are aggressively acquiring music through digital sources at the expense of physical product.
- The "Value Problem" is overrated.
- Other factors are not; i.e. fundamental shifts in shopping behavior, listening habits, and demands on entertainment time and money.
- We are losing older consumers at an alarming rate

Key Learning

- It starts at home
- Can retail be digital compatible?
- Control the customer

It starts at home not in the store

- We must predispose consumers to buy music when they are sitting on the couch:
  - **Our best customers *intend* to buy music**
  - **Lowest value customers are pure impulse shoppers**
  - **Latent demand for spending on physical music is tapped**
  - **Reduces need for subsidies, loss leader mentality**
  - **Break through clutter of shopping and entertainment distractions**
- This will take creative investment in traditional advertising and promotion, sponsorships, NASCAR, Oprah's music club, MTV, satellite & digital partnerships.

Don't be a digital alternative

- Digital (today) is about home and friends, and not about brick and mortar retail:
  - **Many unaccustomed to paying (the P2P and share/rip/burn challenge)**
  - **There is some interest in concepts such as in-store burning kiosks**
    - **Won't get consumers to visit the music section**
    - **May get some consumers to spend more**
    - **Ideally there would be more positive intensity to a PC alternative**
- Borrowing/Ripping/Burning is a huge problem. NARM and the retail music community must support rational copy protection initiatives that revolve around technology and education solutions.
- Brick & Mortar is about core retailing values- discovery, merchandising, selection & in-stocks, convenience.

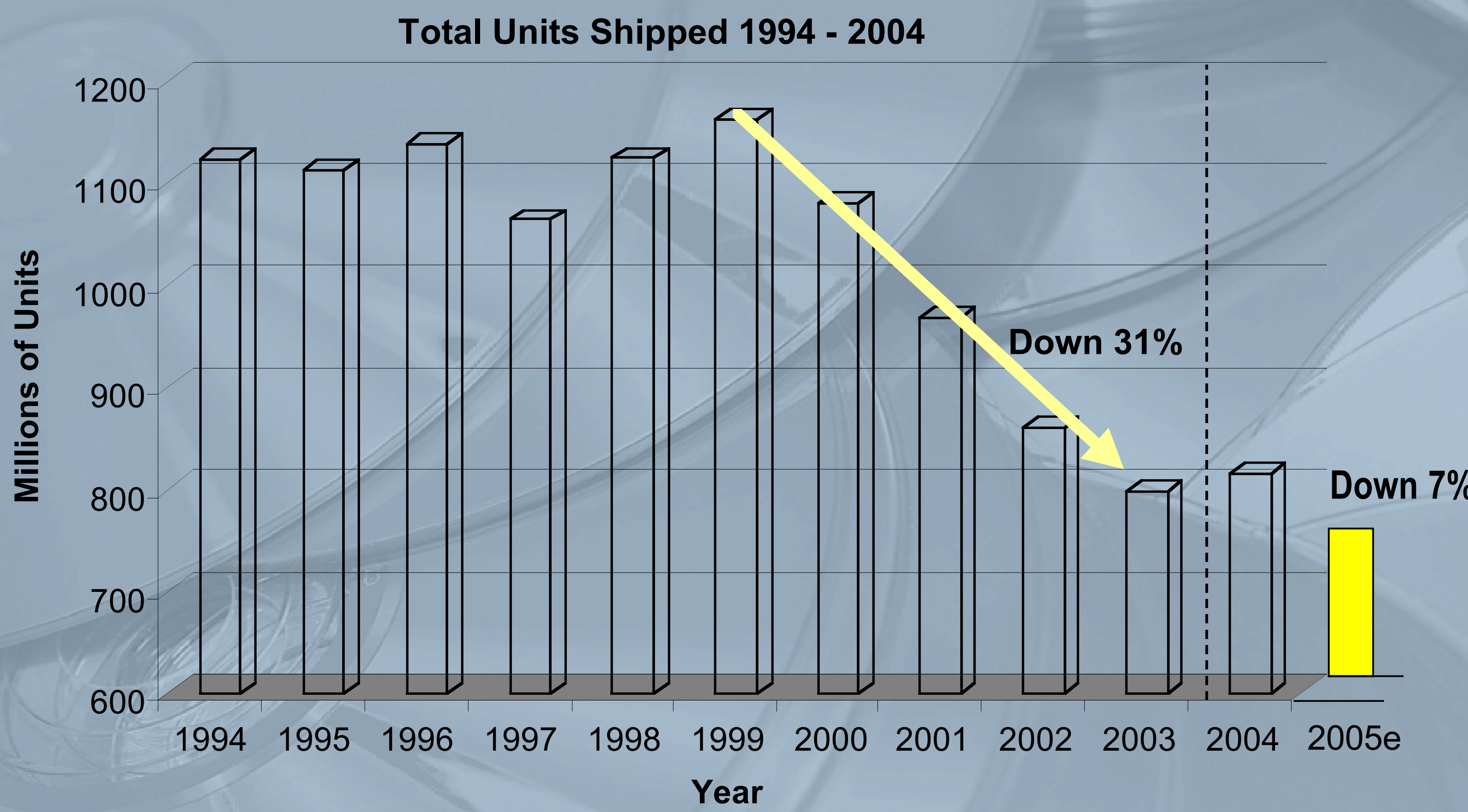
If you can't control content, control the customer

- *In the car…*
  - Music retailing alternatives are blurring for everyone
  - Premium on customer retention and loyalty. Threat from the store next door as much as the threat from iTunes or Limewire.
- *In the store…*
  - It's very difficult to motivate someone who doesn't plan to visit the section
- *In the section…*
  - America loves a sale- why can't everyday be Black Friday!
    - Consumers will be responsive to buying more with classic promotional incentives
  - Heavier buyers are less inclined to spend more on music, yet we have levers to drive spending:
    - A large segment only buys one item
    - DualDisc, combo's, bundling, two-fers
    - Shopping across genres
    - Intrinsic joy of music shopping, discovery, community

If you can't control content, control the customer

There are conservative scenarios where we could grow physical sales by 6-8%

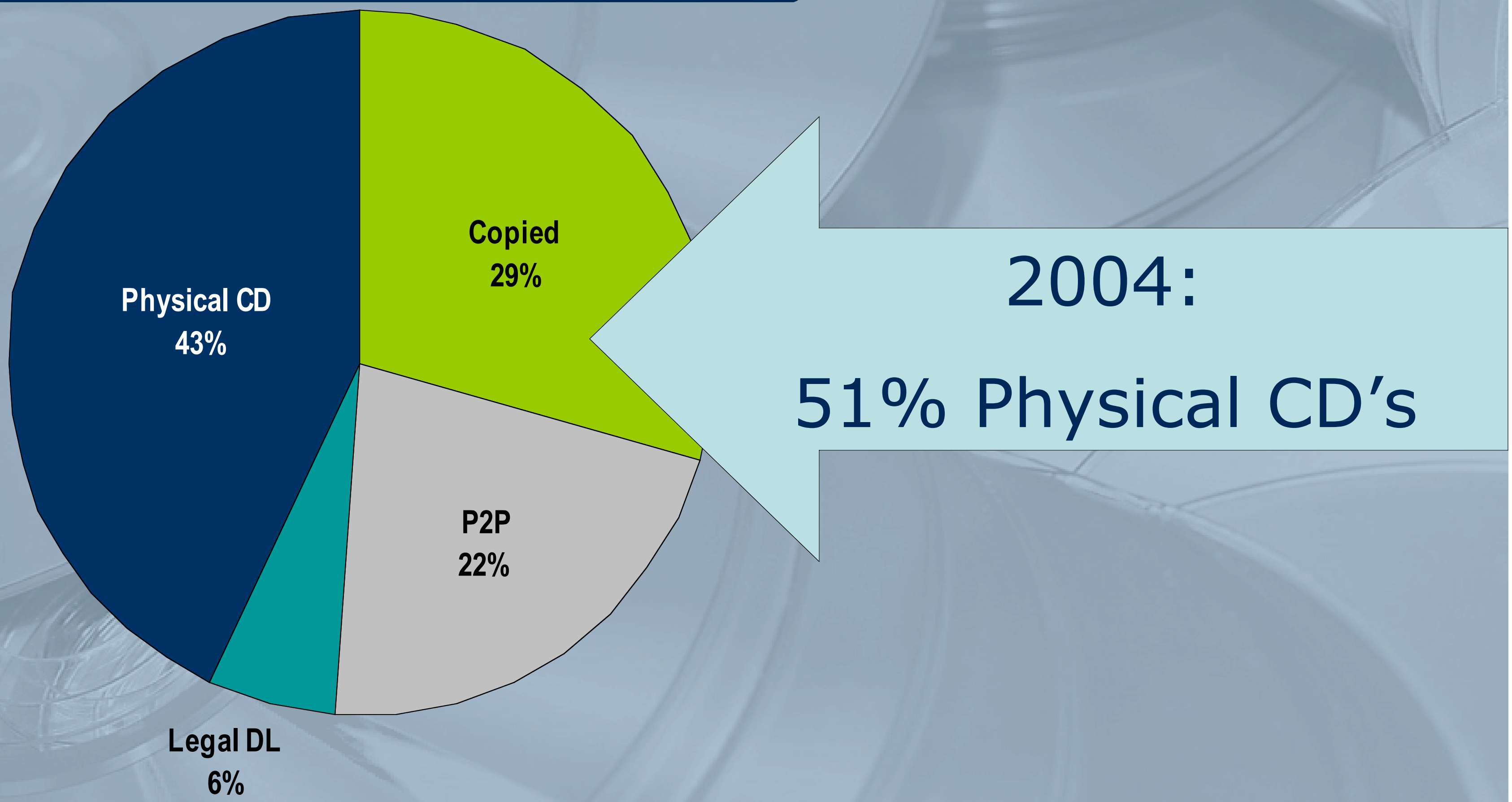
The 00's Have Been Unkind.
Shipments Are off by One-Third Since Peak Year of 1999
Expect ~7-8% Drop for 2005



Source: RIAA

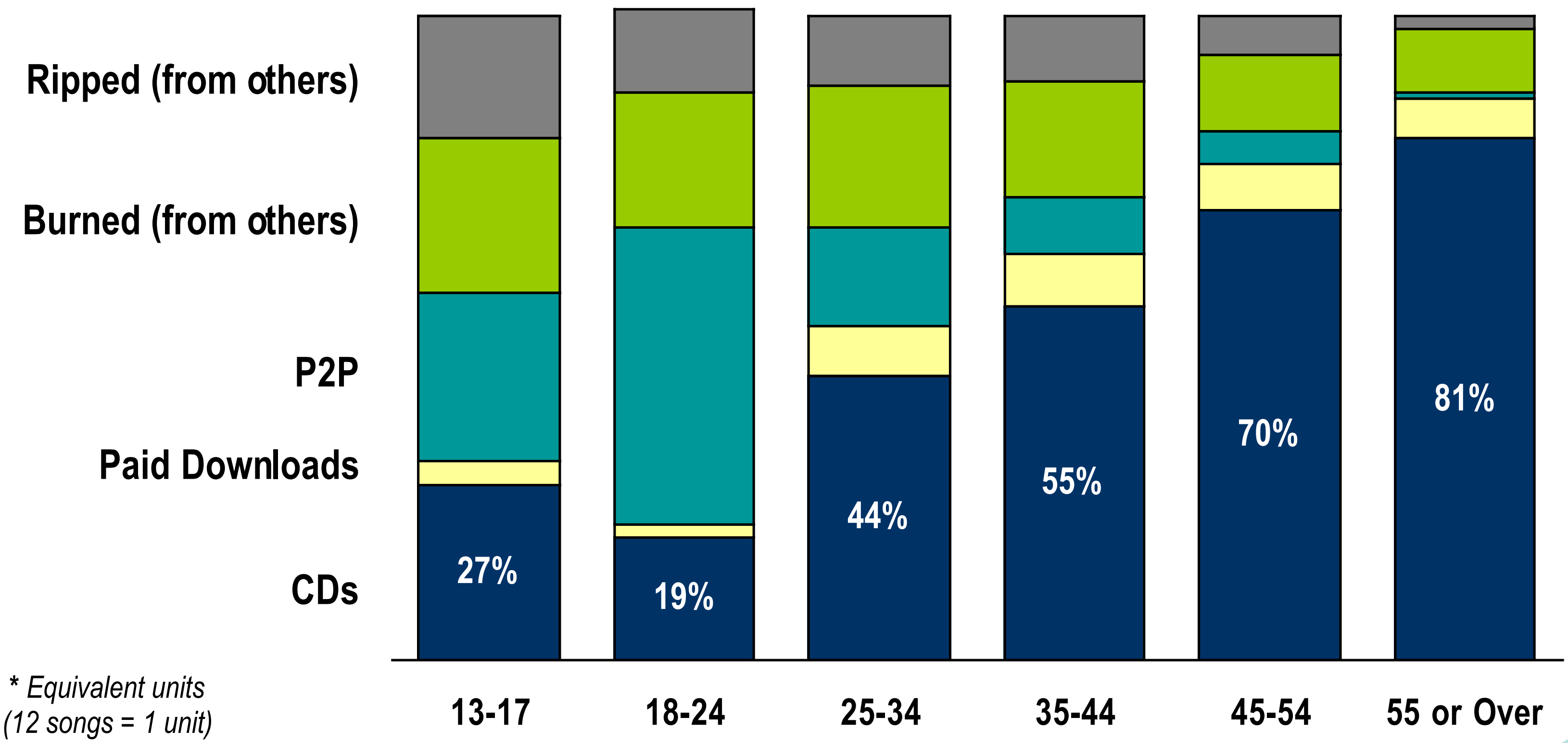
Technology and Attitudes Radically Changing the Music Landscape

How Music Was Acquired In The Past 12 Months (Dec 2005)



Physical Sales Off But Music Consumption Is Up 12%- mostly through unpaid means of acquisition

% Of Music Acquired* *(among the US internet population age 13+)*



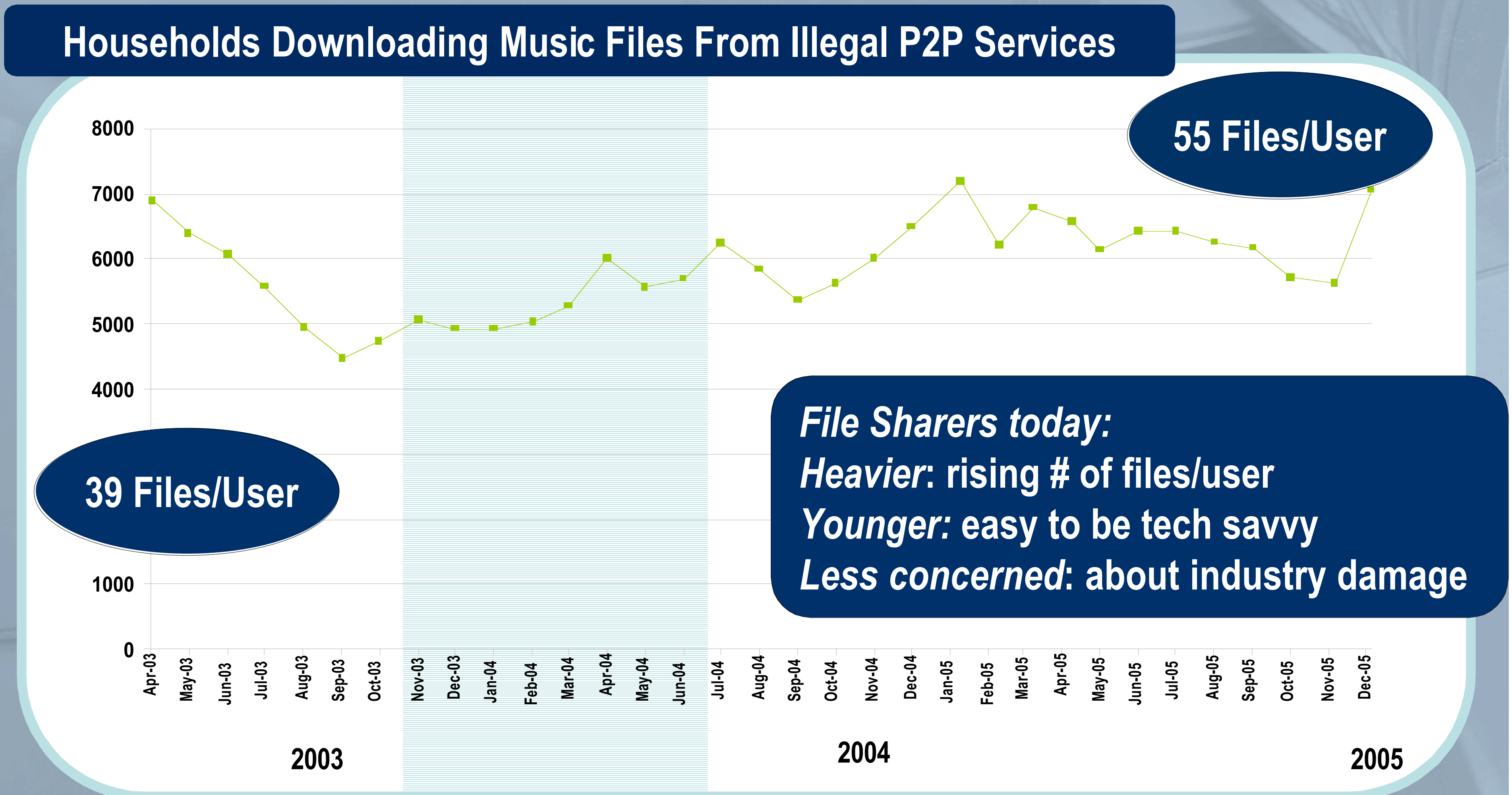
* *Equivalent units*
(12 songs = 1 unit)

Q3. How many CD's/paid downloads/free downloads/borrowed CD's did you buy/download/burn/rip for yourself in the past 12 months?

BEHIND EVERY BUSINESS DECISION

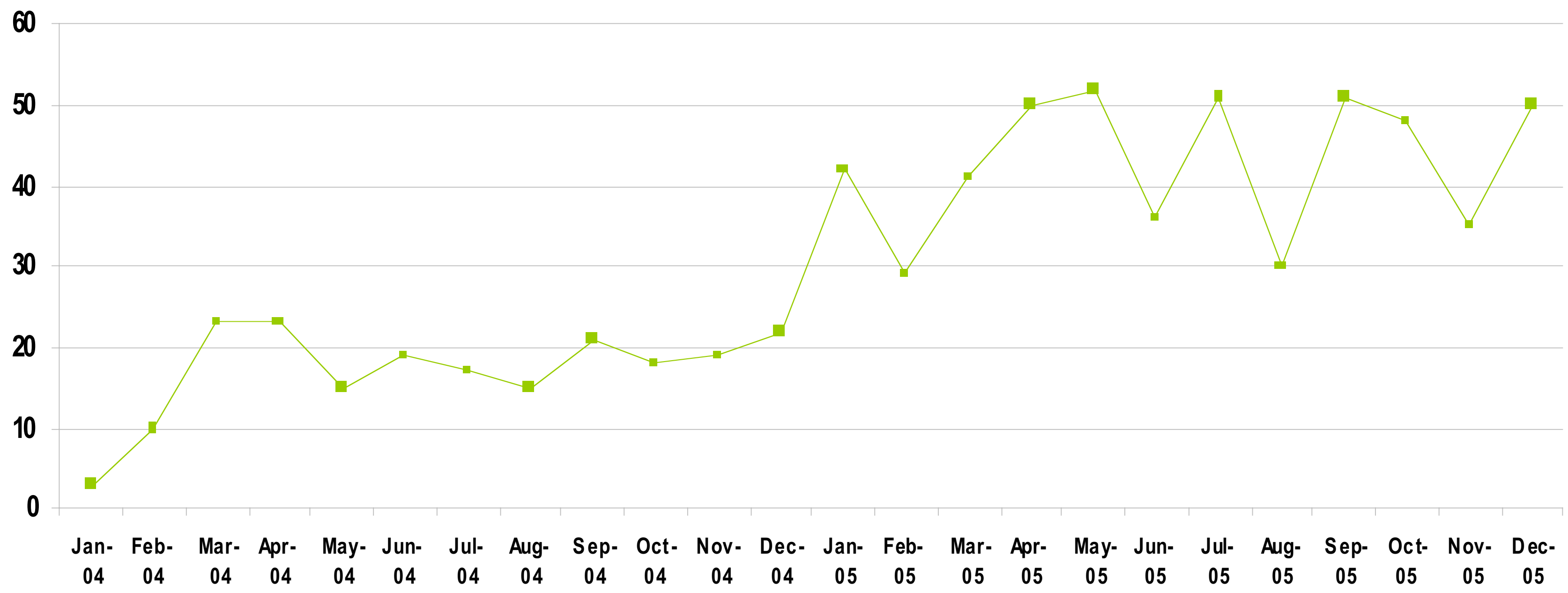
Source: NPD Digital Music Study December 2005 (US Internet Pop. Age 13+)

P2P Users Are Becoming More Hard Core, and Hard Boiled

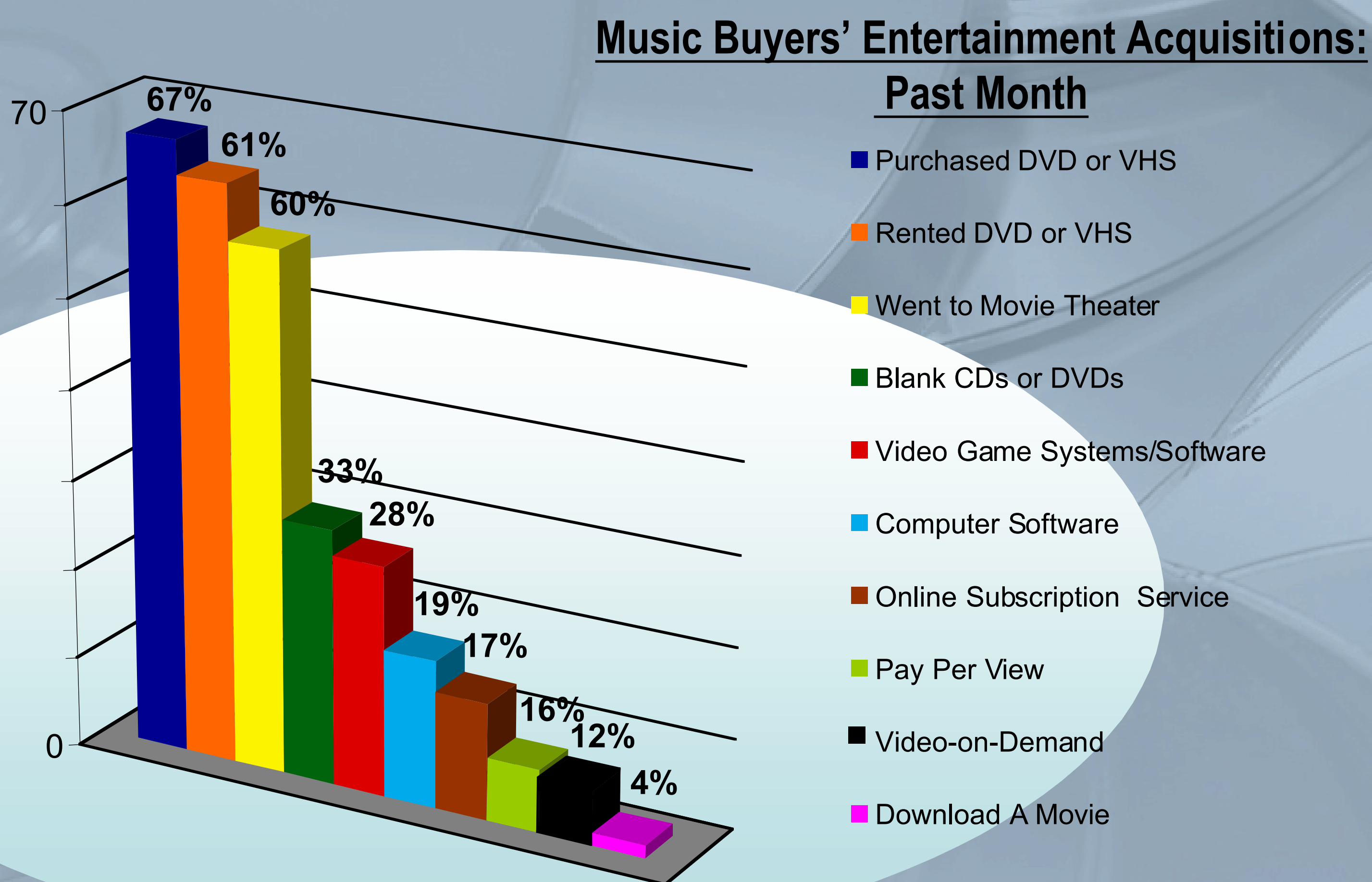


Velocity of Legal Ala Carte Downloading Rising — Sideways

Legal Digital Ala Carte Sales Per 100 Internet Households



There Is Tremendous Competition for Music Buyers' Time and Money



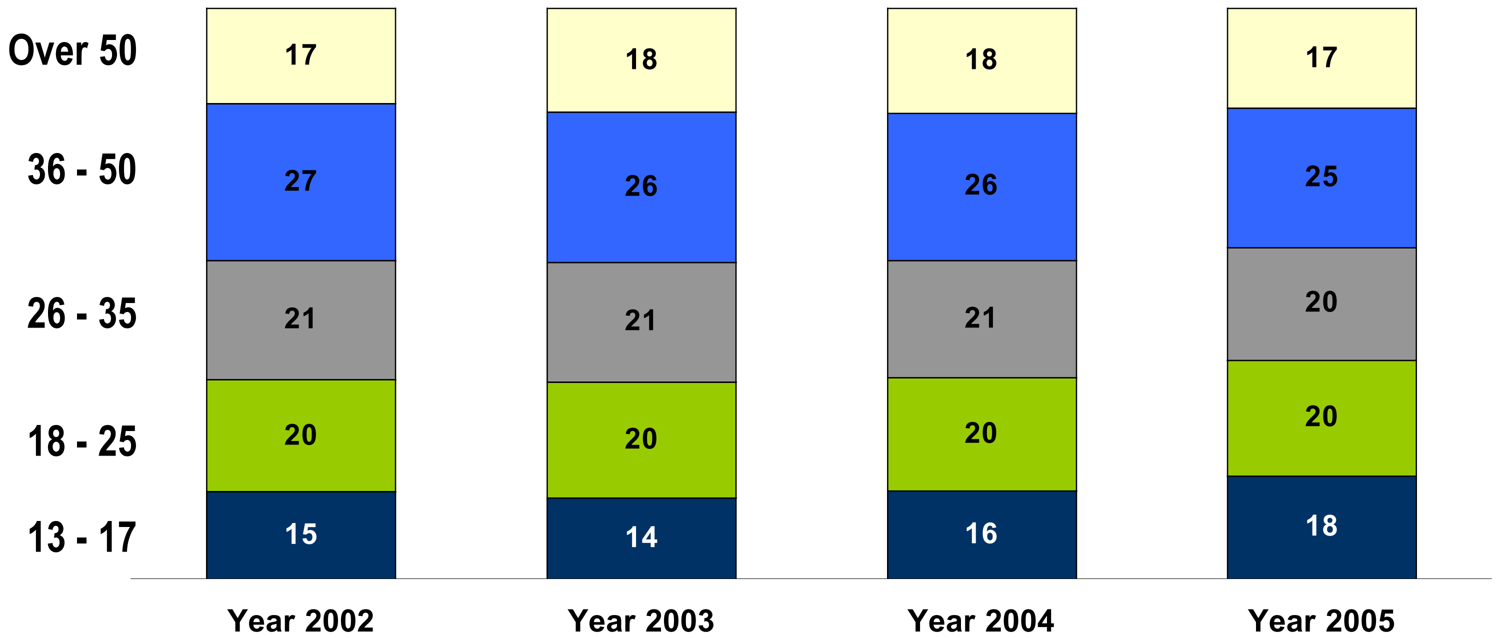
Source: NPD VideoWatch

The Physical Music Profile

- Who is buying physical music
- How can we increase consumption

Teen Share Rebounding…

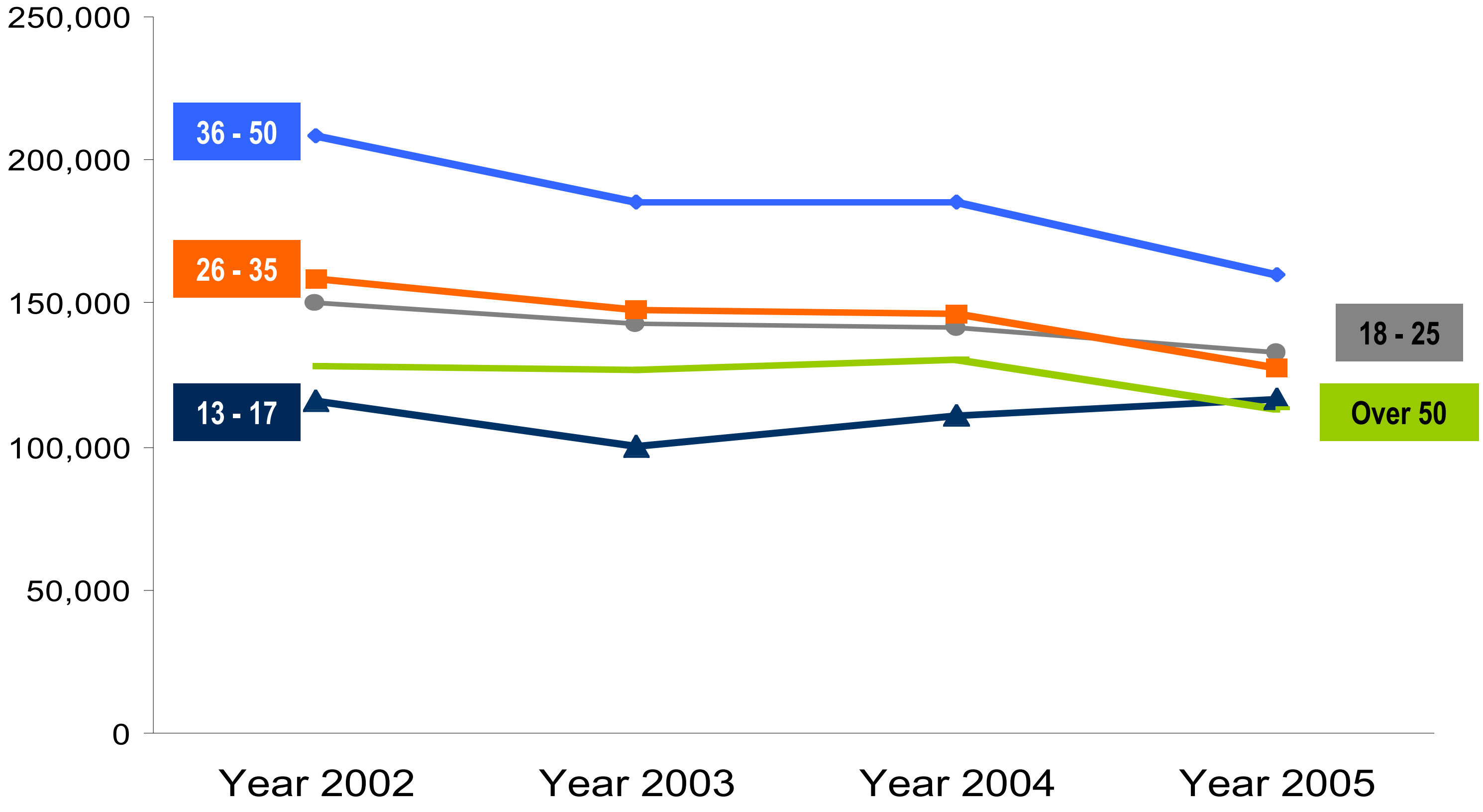
Unit Share by Age Segment (Full Length)



Median Age (Based on Weighted Units)	34	35	35	34
% Female	51%	53%	53%	53%

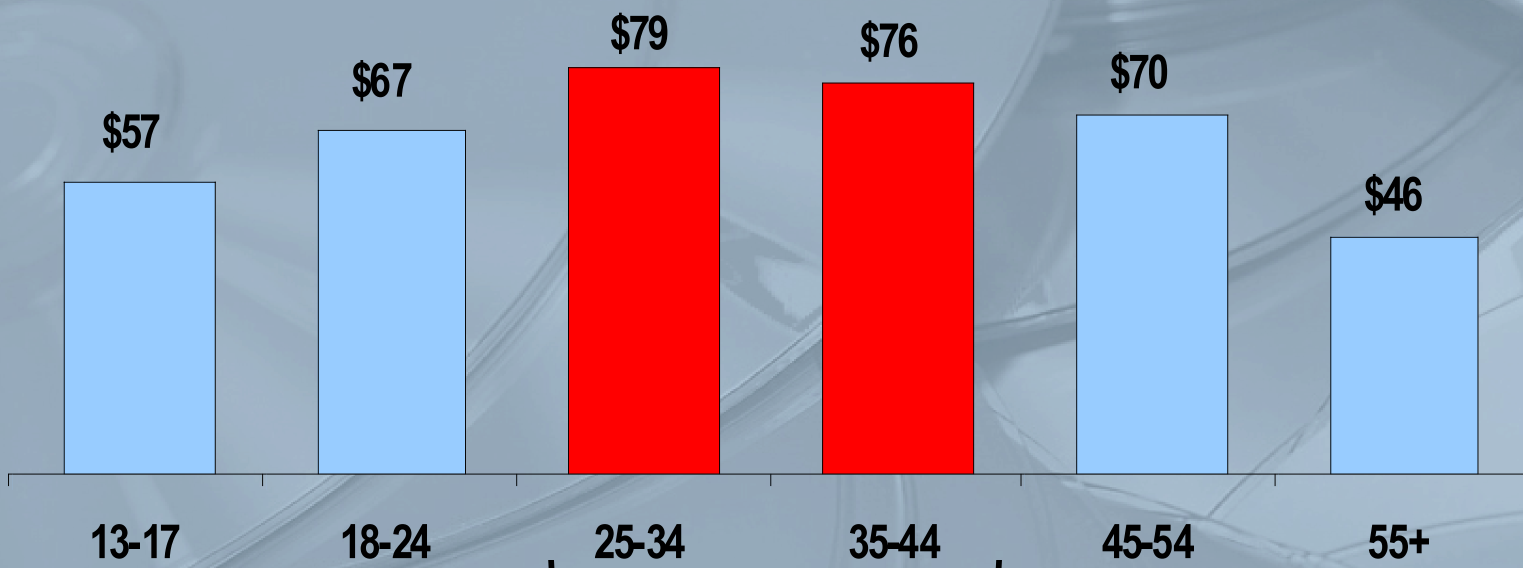
Yet A Chilling Decline in the Trend for 26-35, 36-50 Year Cohorts

Unit Sales Trend by Age Segment



…25-44 Year Segments Shifting Spending From Physical to Digital

Per Capita Music Spending in 2005 *(inc. CD's, downloads, subscription)*

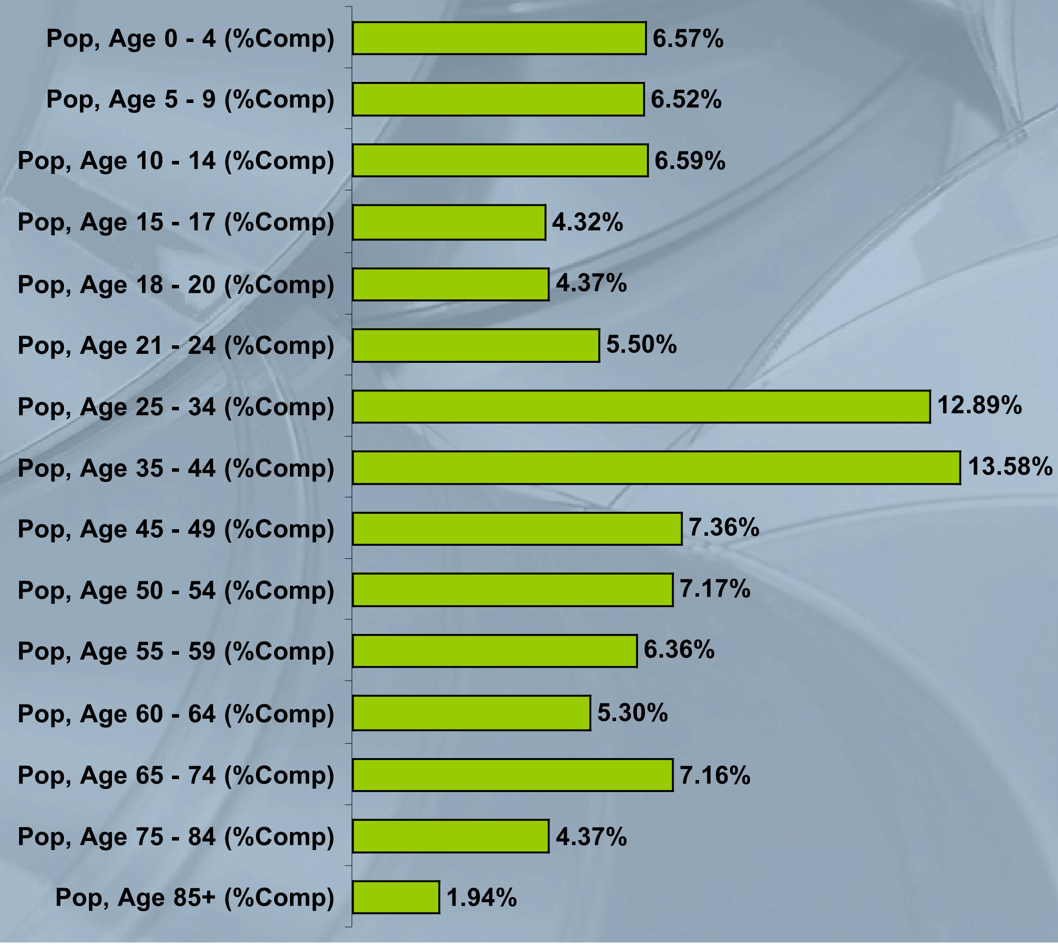


37 Million Fewer CD's vs. '04
+ $13 Spend on Digital Downloads
+ $10 Spend on Subscriptions

** See appendix for assumptions used to estimate dollar value

They're Not Making Music Buyers Like They Used To: Aging of Gen X, and the Boomers

US Pop Growth Trends : Projected to 2010



Over the next 5 years the largest % population growth will be in the 25-44 segment, where the industry is seeing challenges

Listening Habits Are Changing Almost Universally

How did you listen to music last week?

Increasing in popularity:

- Portable music player (esp 13-25)
- Online/Online Radio (18-25)
- Burned CD (35 and under)
- Satellite Radio (50 and under)

Declining in popularity:

- Terrestrial radio- though still very important
- On CD/cassette/record

New Listening Habits May be Having Halo Influence on Physical Sales Among Younger Buyers

What influenced you to buy the CD (13-25)?

Becoming more Influential:

- Heard on TV show (*ex.*OC)
- Sampled a clip / song online
- In-store listening

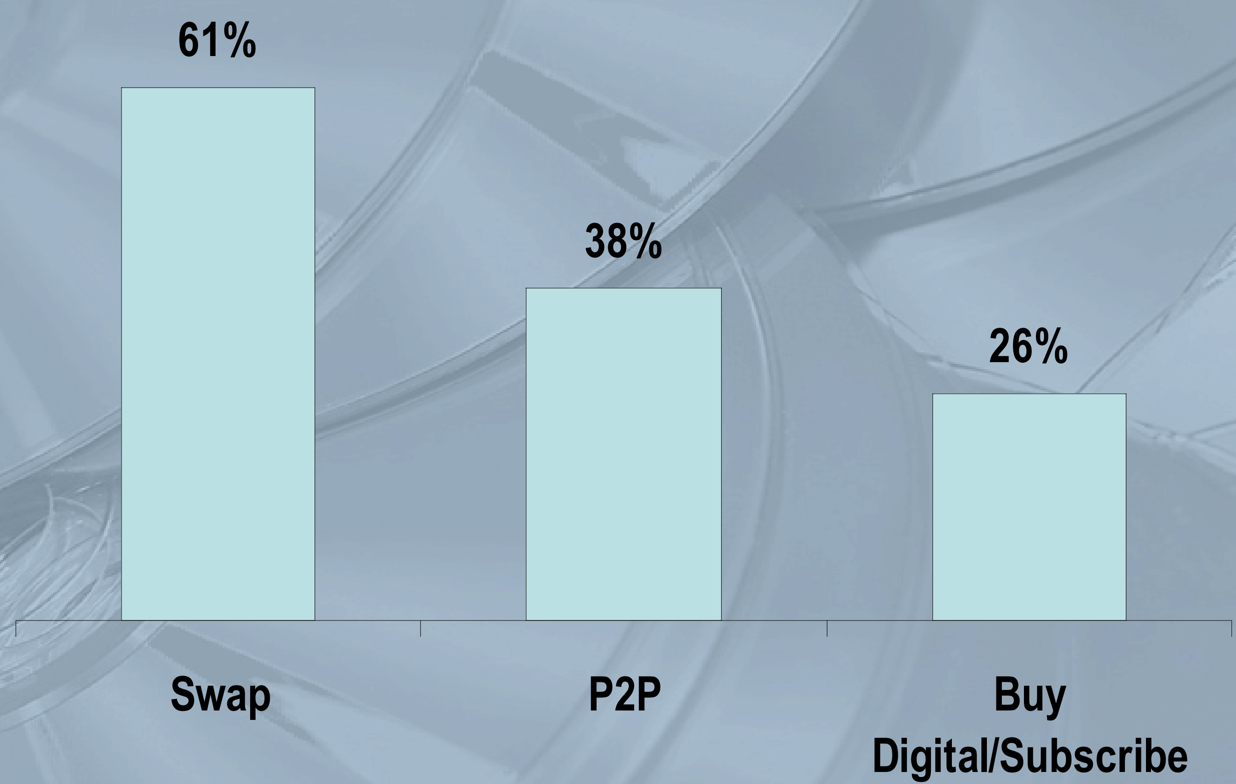
Becoming less Influential:

- Hearing on radio

Other Factors: Video Games, Movie Soundtracks

Compared to paid digital, younger consumers twice as likely to blame swapping as a reason for buying less

13-24: Why would you be buying less physical music?



Other Important Elements of the Physical Buyer Profile

17% African American

15% Hispanic

18% Gifts

December:

- 39% gifts
- Demo gets slightly older
- More females

Teens: 13-17

17% of Unit Sales

Up 5% V ’04, Flat V ‘02

More	Less
Burned CD’s	Terrestrial radio
Portable music player	CD’s, records, cassettes
Satellite radio	

College & Starting Out: 18-25

24% of Unit Sales

Down 11% v '02

More	Less
Burned CD's	Terrestrial Radio
Portable Music Player	CD's, Records, Cassettes
Satellite Radio	TV (MTV, Disney, Etc.)

Prime Time: 26-35

20% of Unit Sales

Down 19% v ‘02

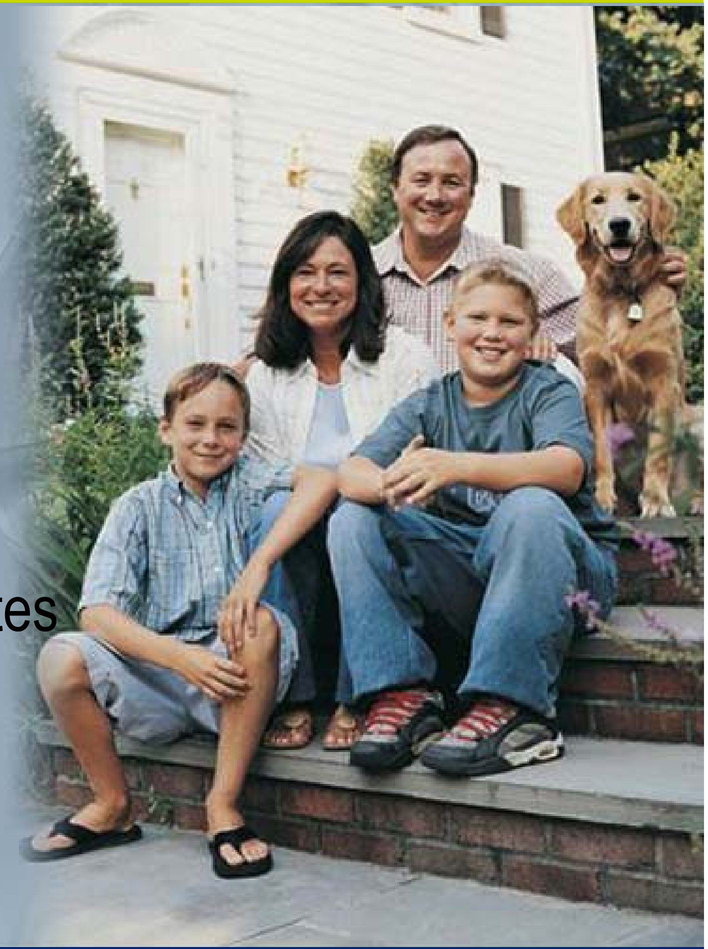
More	Less
Burned CD’s	Terrestrial Radio
Portable Music Player	CD’s, Records, Cassettes
Satellite Radio	TV (MTV, Disney, Etc.)

Families & Growing Up: 36-50

21% of Unit Sales

Down 22% v '02

More	Less
Satellite Radio	Terrestrial Radio
	CD's, Records, Cassettes
	TV (MTV, Disney, Etc.)



Boomin': Over 50

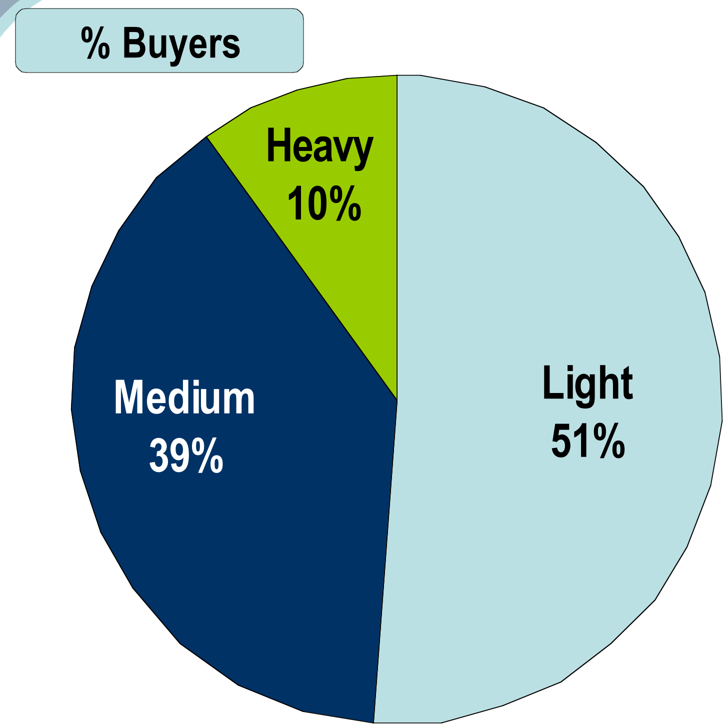
19% of Unit Sales

Down 11% v '02

More	Less
	Terrestrial Radio CD's, Records, Cassettes

If we know how consumers behave today we can determine what will drive them in the future?

- Habits and preferences
- Where they learn
- Influences
- Shop more
- Visit section
- Buy more



Bypass the Content, Pricing, Guessing Issues

The Light Music Buyer

- Averages $18.45 annual spend
- Buys twice a year (2.4 occasions)
- Purchases one item (1.3)
- Skews older, somewhat female, lower than average income
- Spend 14 minutes in the music section
- Mostly buys Regular CD's
- Favorite channel: Mass Merchandiser,
- Also shops Electronic Specialty, Online and other channels

The Light Music Buyer: Fundamental Needs

Music is something I buy when I'm out shopping.

I'm a bit less involved with music, though I still listen to the radio, and hearing something might influence me to buy.

I want the basics — a good shopping experience, make it easy.

I'm not much of a browser but a sale might get me to stop in the section; or a two-fer, a DVD bundle or a discount bin.

Don't go adding those kiosks or listening stations just for me.

Make my gift cards good everywhere in the store, not just music or entertainment.

Medium Buyers: The Average

- Spend $62.77 on physical music
- Buy music five times/year (4.6 occasions)
- Pick up nearly two units (1.8)
- Spend 19 minutes in the section
- No age skew, but more female and higher Income than light buyers. More African Americans
- Modest digital engagement
- Buy mostly CD's but ECD, CD/DVD, DVD too
- Mass dominant music shoppers
- Also Electronics, Online and occasionally elsewhere

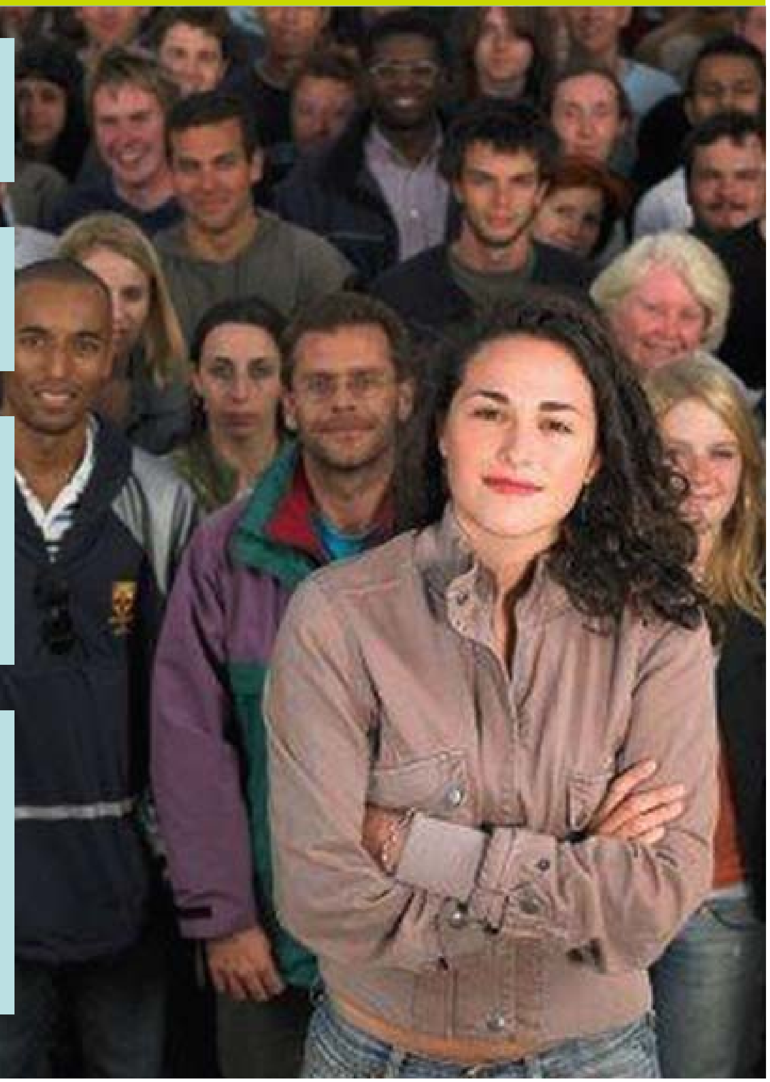
Medium Buyers: Fundamental Needs

I'm your average shopper but my music tastes are similar to the light buyer.

I may be new to digital music, or I'm just less interested than those heavy buyers. It hasn't hit me-yet.

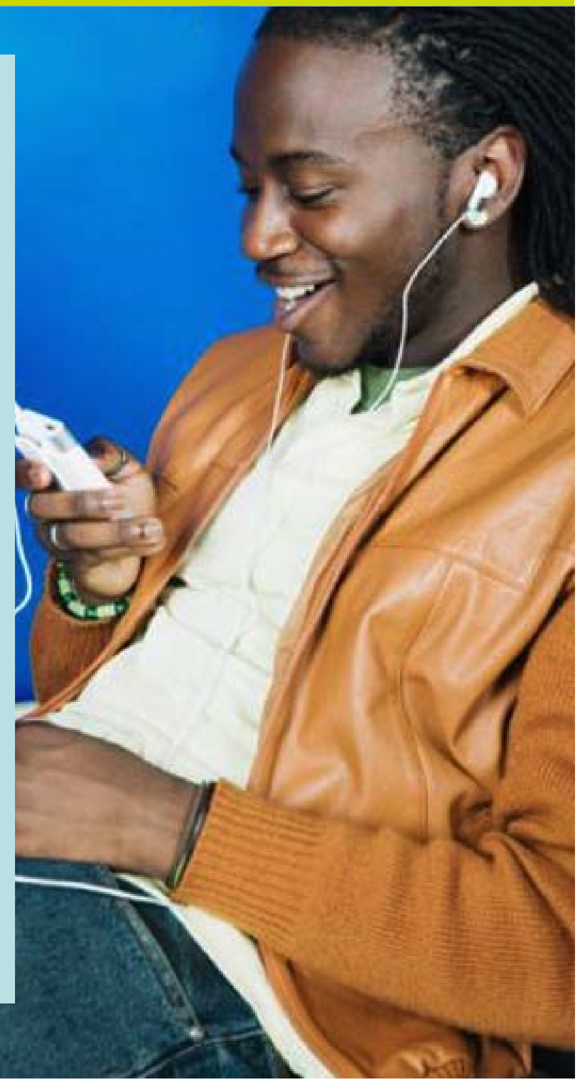
I also want to shop for other items. When I shop for music, it's about finding what I want in a section that's well organized with a great selection- and please get me out of the store quickly when I'm done!

I'm here to shop, so the coffee bar and CD burning kiosk may not be that appealing. I do like a promotion as much as the other fellows, so sales, promotional bundling and bins would get my attention.



The Heavy Buyer: Music Hedonists!

- Averages $234 annual spend
- Buys seven times per year
- Purchases three items (2.6) each occasion
- Skews 18-34, more male, above average income income- higher % African American
- Spend 22 minutes in the music section
- Buys across segments – CD's, DualDisc, ECD, CD/DVD, used; DVD too
- Favorite channel: Electronic Specialty…
- …but they buy everywhere, especially supporting local independents
- Digitally engaged



The Heavy Buyer: Fundamental Needs

If it's about music I want it — in all shapes, sizes & forms.

I shop to buy music. Sometimes I know what I want, sometimes not.

I'm about the fundamentals too. I want it in stock, easy to find, well organized and a really good selection.

I "do" digital: downloading, burning, sharing. But that's a home thing! Maybe I don't get it today but the kiosks, and burning in-store, well I'm not there yet. Listening stations and recommendations would help me discover more music, and thanks for the frequent shopper bucks.

Increasing Consumption

- Barriers
  - Value (?)
  - Content
  - Digital (paid and unpaid)
- Prescriptions
  - Core retailing values
  - Retail concepts (kiosks)
  - Promotional concepts (bundling)

Reality Check

Consumers consistently cite price as a buying barrier, yet music value is strong and the same as DVD

Consumers persistently complain about the content, i.e. there are only a few good songs, and it's never as good as it was in the (60's, 70's, 80's, 90's). Yet they value and shop for favorite artists and prize collectibility of physical product.

So, we need to evaluate behavior, and not only attitudes!

Why physical? Value, quality content

DRIVERS

Physical CD
- More appealing music available
- Price/ more affordable
- More than 1 or 2 good songs on a CD

Paid Download
- Buy specific songs
- Instantaneous purchase
- For portable player

Subscription
- Unlimited songs
- Instantaneous
- Special promotions

INHIBITORS

Physical CD
- Satisfied with current collection
- Expensive
- Only 1 or 2 good songs on CD

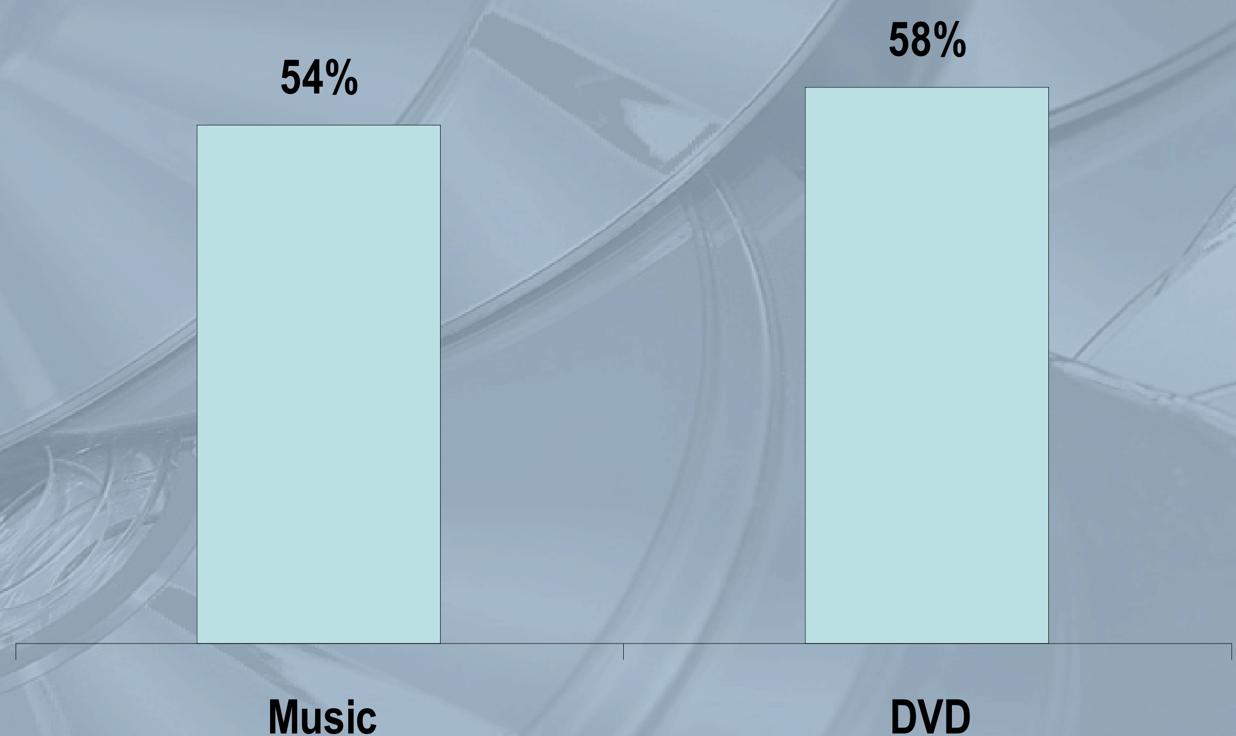
Paid Download
- Expensive
- Too many restrictions (esp. burn limit)
- Satisfied with current collection

Subscription
- Expensive
- Use P2P instead
- Too many restrictions (esp. burn limit)

Source: NPD Digital Music Study December 2005 (US Internet Pop. Age 13+)

Truth Is, Consumers Believe That Music Is Every Bit As Good a Value As DVD's- a Category That Has Enjoyed Vigorous Growth

Percent Saying Content is An "Excellent/Very Good" Value
(2005)



What Is Important When Buying Music

Not So Important | Very Important

Heavy Buyer

Location
Shop Other Items

Optional

Digital Gift Cards
CD Burning Station
Digital DL station
Sample Online
Used
Staff Faves

Nice to Have's

Listening Stations
Freq. Shopper Prog

Mom, Pop, Apple Pie

Music I want in stock
Broad Selection
Well Organized
Easy Check-out

Light Buyer

In-store gift cards

Location
Shop Other Items

…and how well do we deliver?

Underdeliver: Important and Consumers are not entirely satisfied:

Music I Want Is in Stock
Broad Selection of Music
Music Is Well Organized
Easy to Check Out
Staff Is Helpful

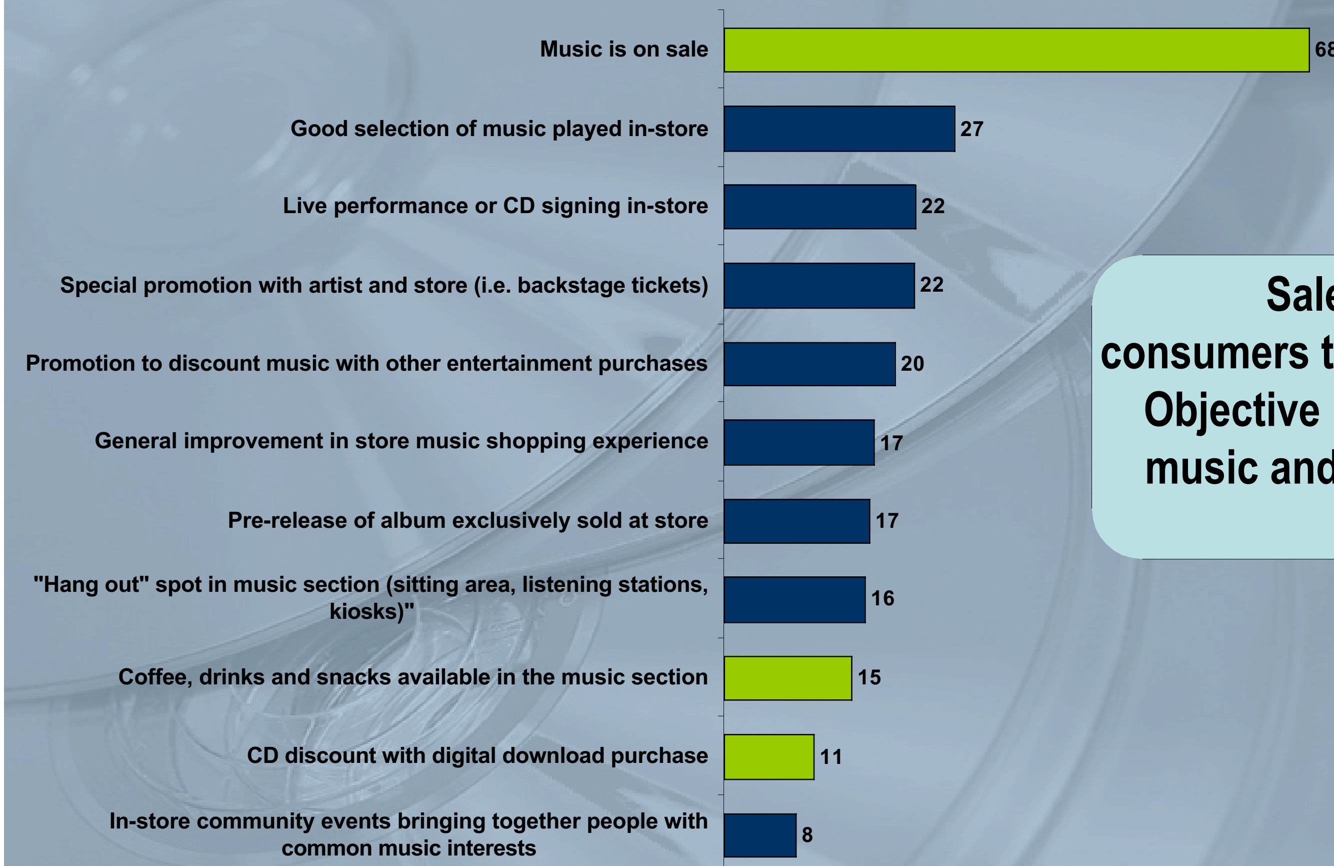
<u>Heavy Buyers:</u>
Location /
Can Shop
Other Items

Doin' Fine: Less Important And Customers Are Happy

Digital Gift Cards
Gift Cards for In-store Products
Ability to Sample Online
Recommendations/staff Faves

Sales, employee pricing, Black Friday- America is about a deal
Heavy buyers desire community, discovery, co-promotion

Which would encourage you to go to the store specifically to buy music?

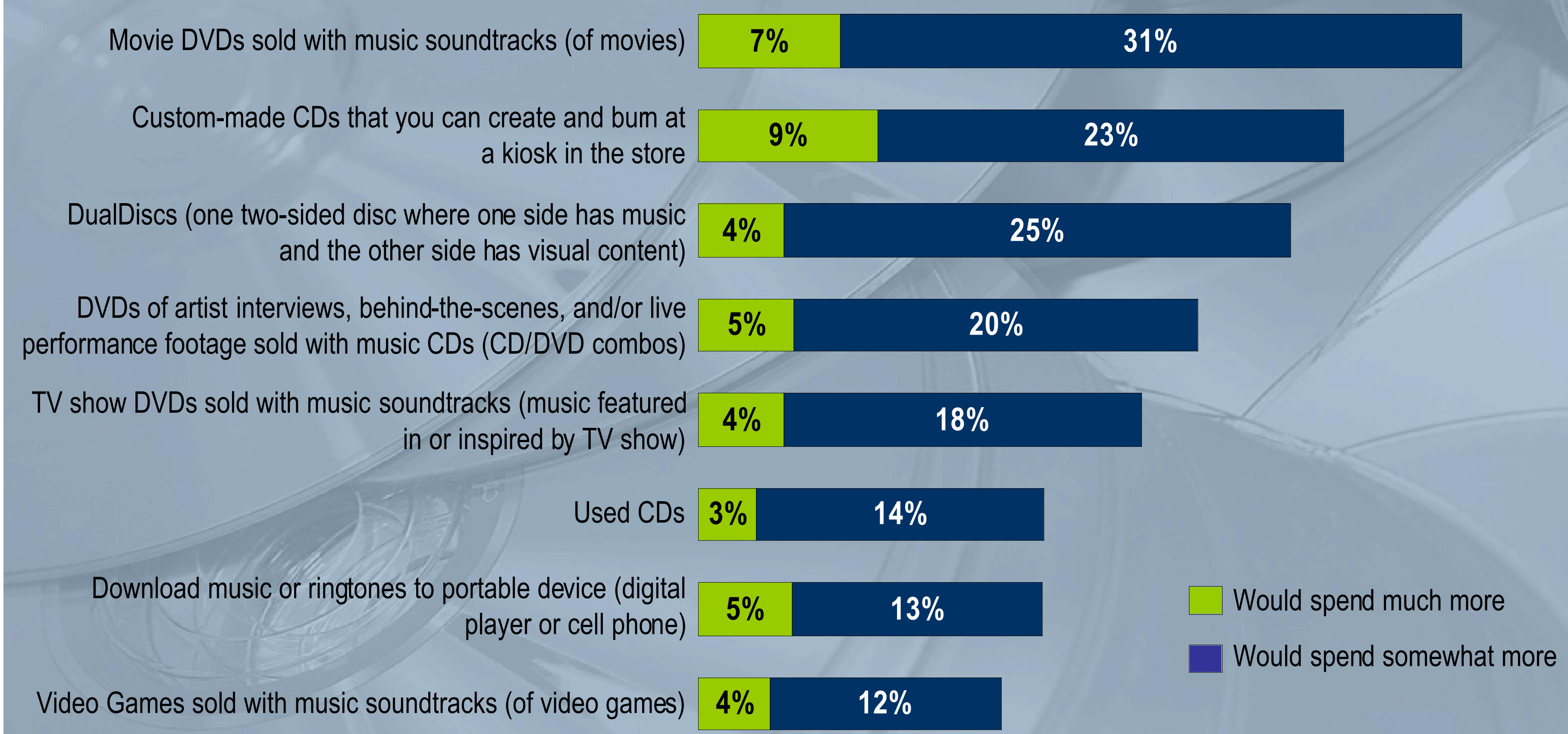


Sales will always get consumers to claim purchase interest. Objective is to create demand for music and thus avoid subsidizing the category

Indicates Strong Appeal for Heavy Buyers

Ideally, There Would Be More Intense Commitment to Concepts that Encourage More Spending

Q: Which of the following would encourage you to spend more than $ (Past Year Expenditure) on music in the next 12 months?



Base: 2,162 respondents who have purchased physical music from a store in the past year

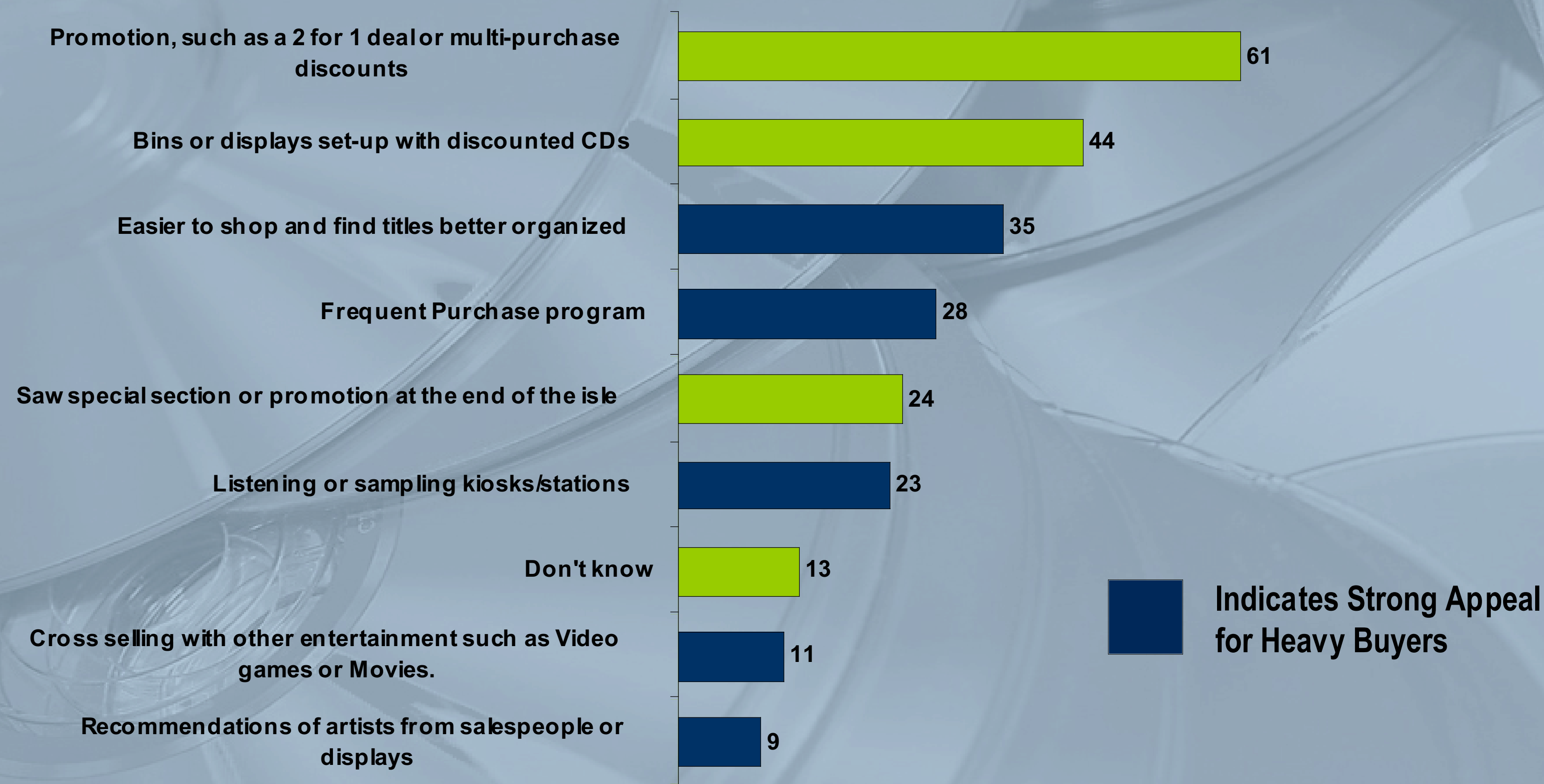
Half Full- some buyers claimed interest in kiosks, DualDisc, bundles Half Empty- no concept was over 50% top two box score and heavy buyers were only slightly more interested than light

Heavy Medium Light Buyers: Spending Triggers

	Light	Medium	Heavy
	Up to $30	$31-$100	$101+
Which would encourage you to spend more on music in the next 12 months?			
(top 2 box %)			
Movie DVD/Music Soundtrack Bundle	36%	41%	40%
DualDisc	27%	32%	34%
Custom CD's from kiosk	29%	36%	34%
CD/DVD Combo	23%	27%	28%
Used CD's	16%	18%	22%
DL Music/Ringtones to device	15%	20%	20%
TVDVD/Music Bundle	20%	26%	19%
Videogame/Music Bundle	15%	16%	13%

Once in the Section, Consumers Are Receptive to "Packaged Goods" Looking Promotion Geared to Drive Take Rate

What would encourage you to buy more music than you originally intended?



The DualDisc buyer…
(are we doing enough to get more?)

- Claim higher store loyalty
- Extol music's value
- Less critical of today's music quality
- Nearly twice as likely to make special music trips
- But also shops other items (higher customer value?)
- Prizes their collection

The NPD GROUP

Apparel
Appliances
Automotive
Beauty
Consumer Electronics
Food and Beverage
Foodservice
Footwear
Housewares
Information Technology
Music
Software
Toys
Video Games

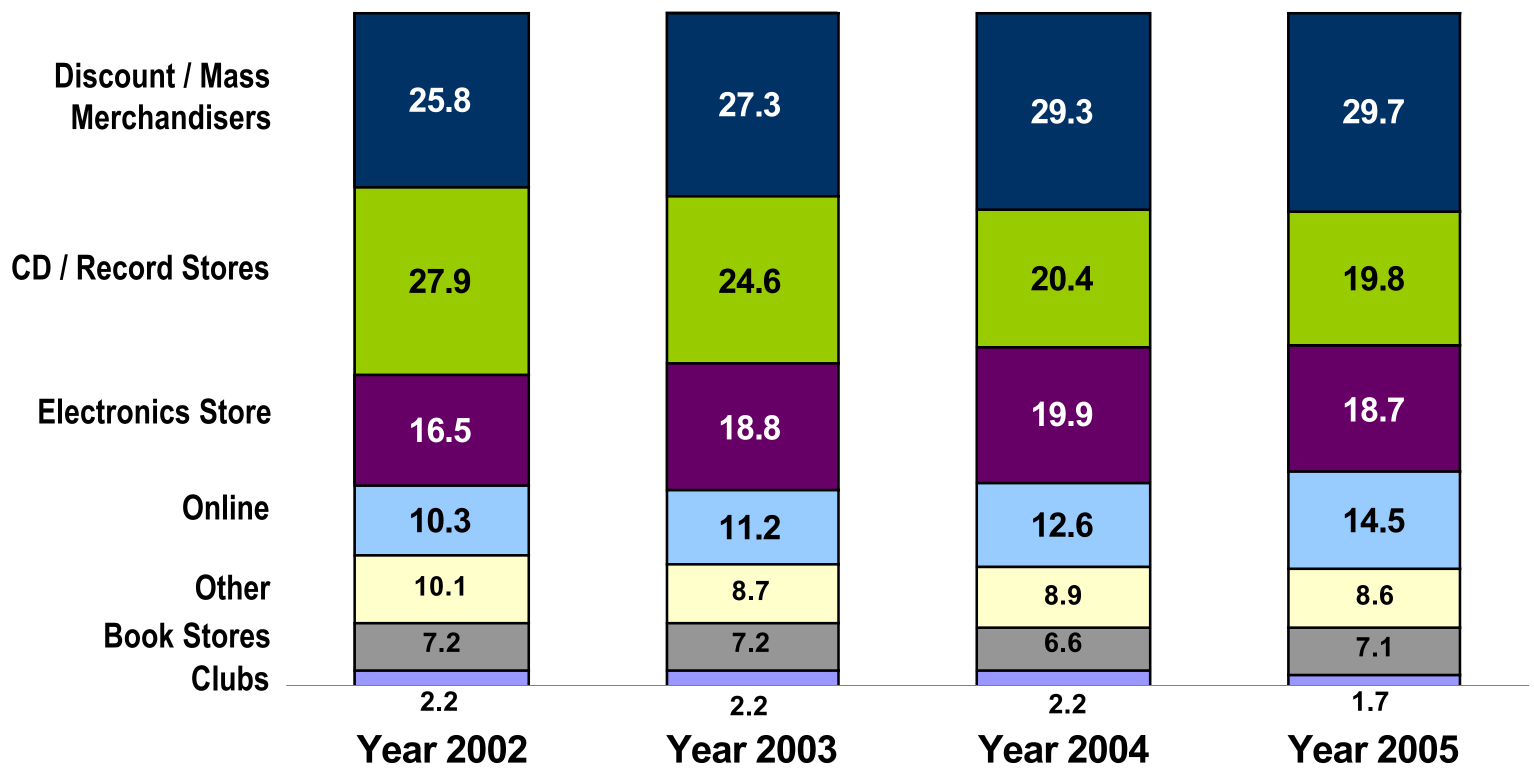
The Retail Shopping Experience

Retail Shopping Experience

- Music Buyers
  - Committed
  - Distracted (entertainment, digital)
  - Seeking Core Retail Values
- Retail Environment
  - Blurring
  - Hunter, Gatherer, Shopper

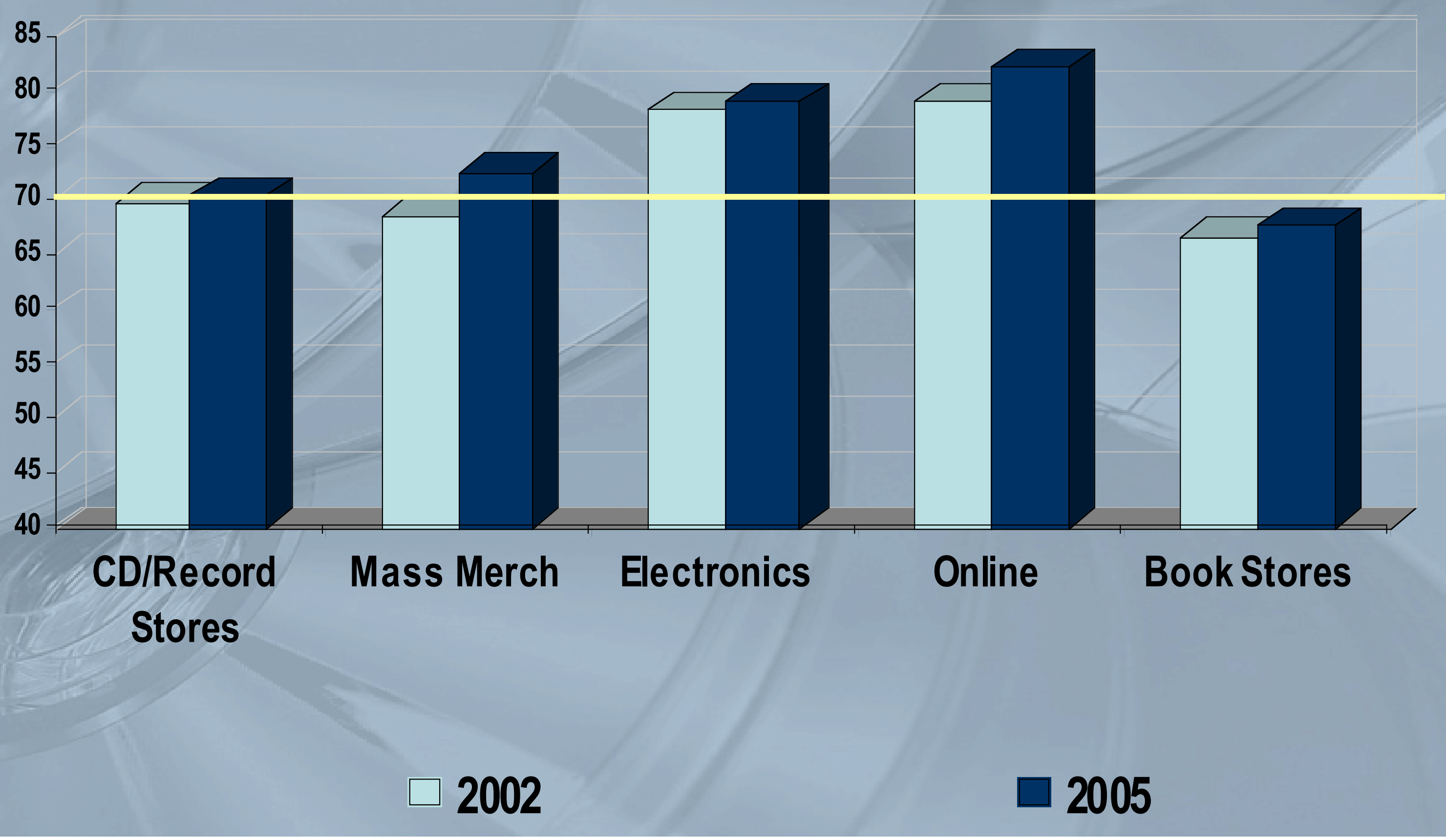
CD/Record stores off 9 share pts. since 2002

Share of Units by Channel



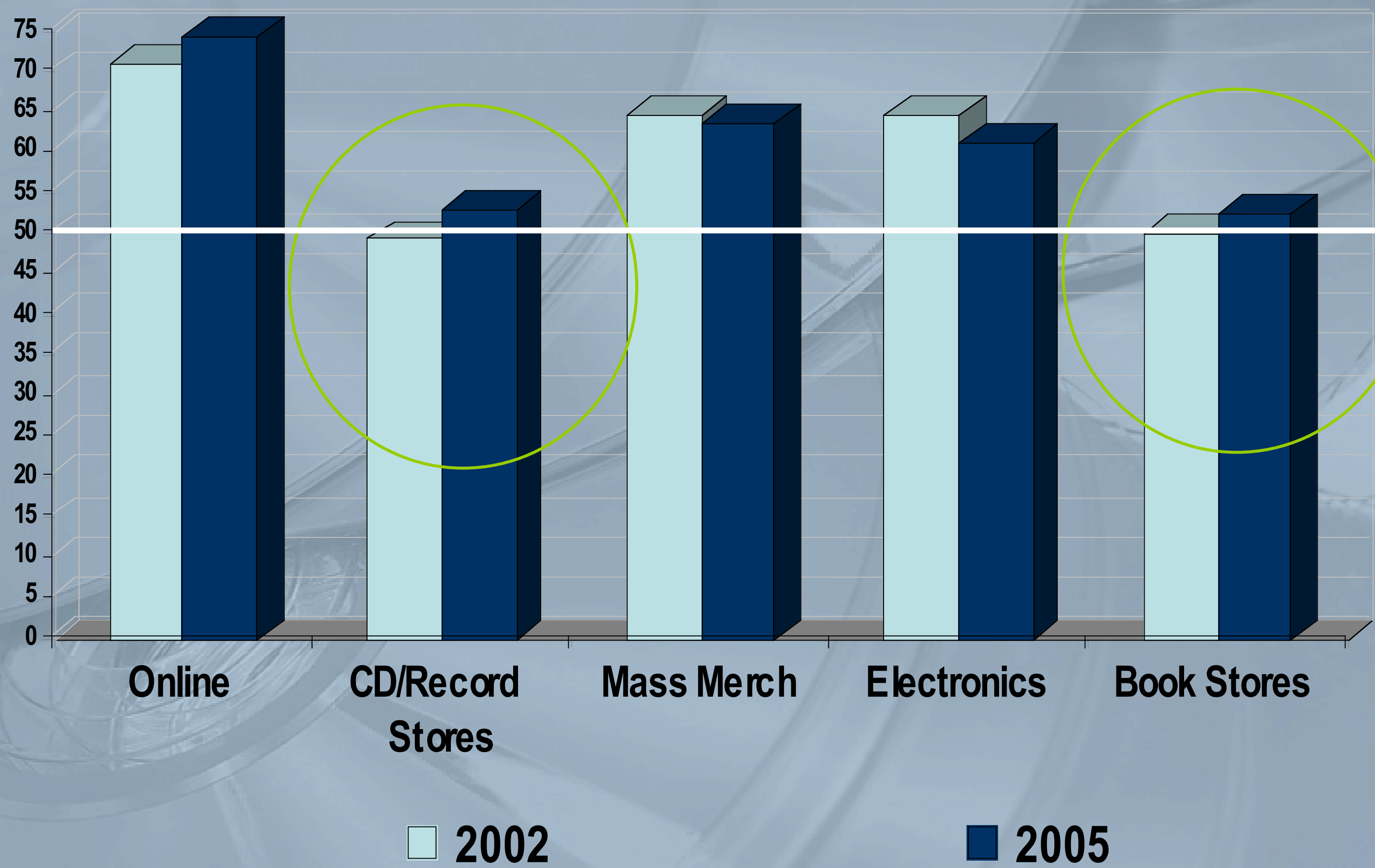
Willingness to repeat shop is strong, at least 70% at the channel level

Likelihood Of Returning To Retailer, 2002 & 2005, Definitely/Likely Will Return



"Value For Price Paid" Is Over 50% in All Channels

Value For Price Paid, 2002 & 2005, Excellent/Very Good



Channel Blurrrrrrrrrrrrrr

If you buy music here *Most Often*, where else did you buy music?

Mass Most Often:
43% Best Buy
14% Borders
18% Sams Club

Electronic Most Often:
49% Target
32% Amazon
30% Barnes & Noble

Entertainment Most Often:
34% Circuit City
17% Costco
12% Starbucks

Incidence of Cross-outlet Shopping Is Rising

Where did you buy music in the past year?

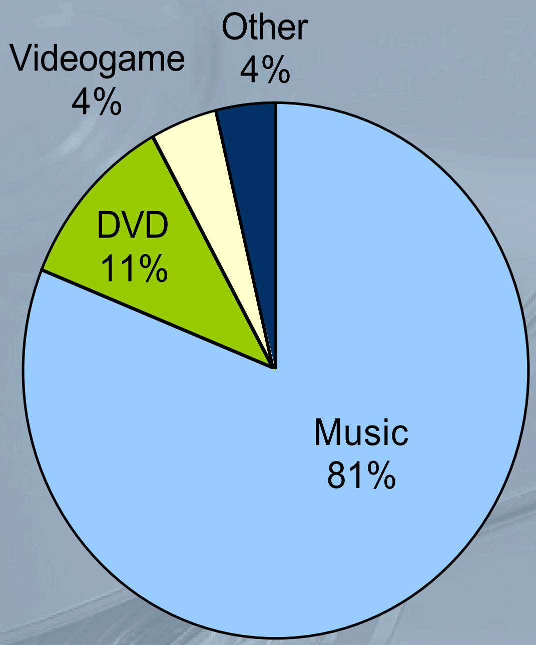
	Buyers at Independent Chain	
	2002	2005
amazon.com	23	29
Barnes & Noble	12	13
Best Buy	33	53
Borders	8	22
Circuit City	9	17
fye	13	17
Sam Goody	14	18
Target	14	34
Tower Records	17	11
Virgin Megastores	3	13
WalMart	23	19

	Big Box Buyers	
	2002	2005
amazon.com	12	20
Barnes & Noble	9	9
Best Buy	51	58
Borders	10	11
Retailer X	100	100
fye	7	9
Sam Goody	19	10
Target	33	39
Tower Records	12	8
Virgin Megastores	5	4
WalMart	45	44

Read: 20% of “Bix Box” retailer buyers also bought at amazon, versus 12% in 2002

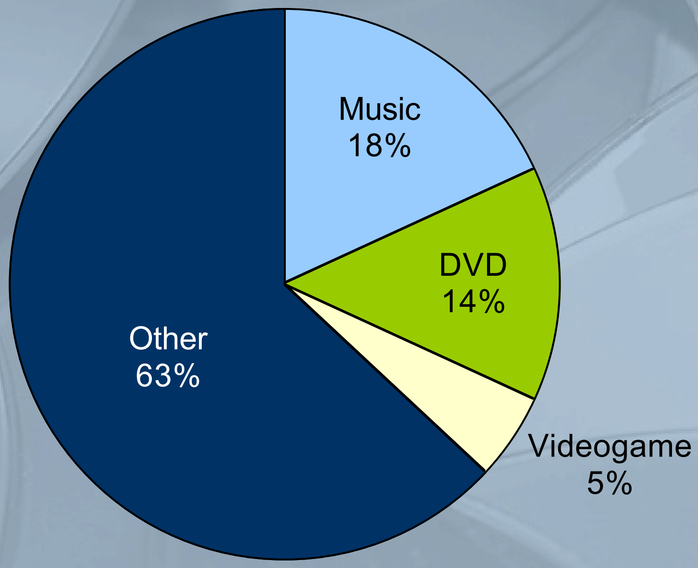
Why Do Consumers Leave the House? (What Were You Going to the Store For)

Local / Indie



Patronizing a local/indy retailer is about music…

Mass



…whereas music is often incidental on a mass shopping trip (important but incidental)

Consumers Have Specific Expectations From Particular Outlets

% Indicating Top Box Importance

	Online	Book Store	Entertainment	Mass Merch.	Electronic	Local/Indie
Listening Stations		x				
Knowledgeable Staff			x			
Selection	x		x		x	x
Shop Other Items				x		
Sampling	x					
Used						x

Notably absent: Burning kiosks, Frequent Shopper program, Recommendations

DVD Buyers: What else do they shop during a mass merch trip?

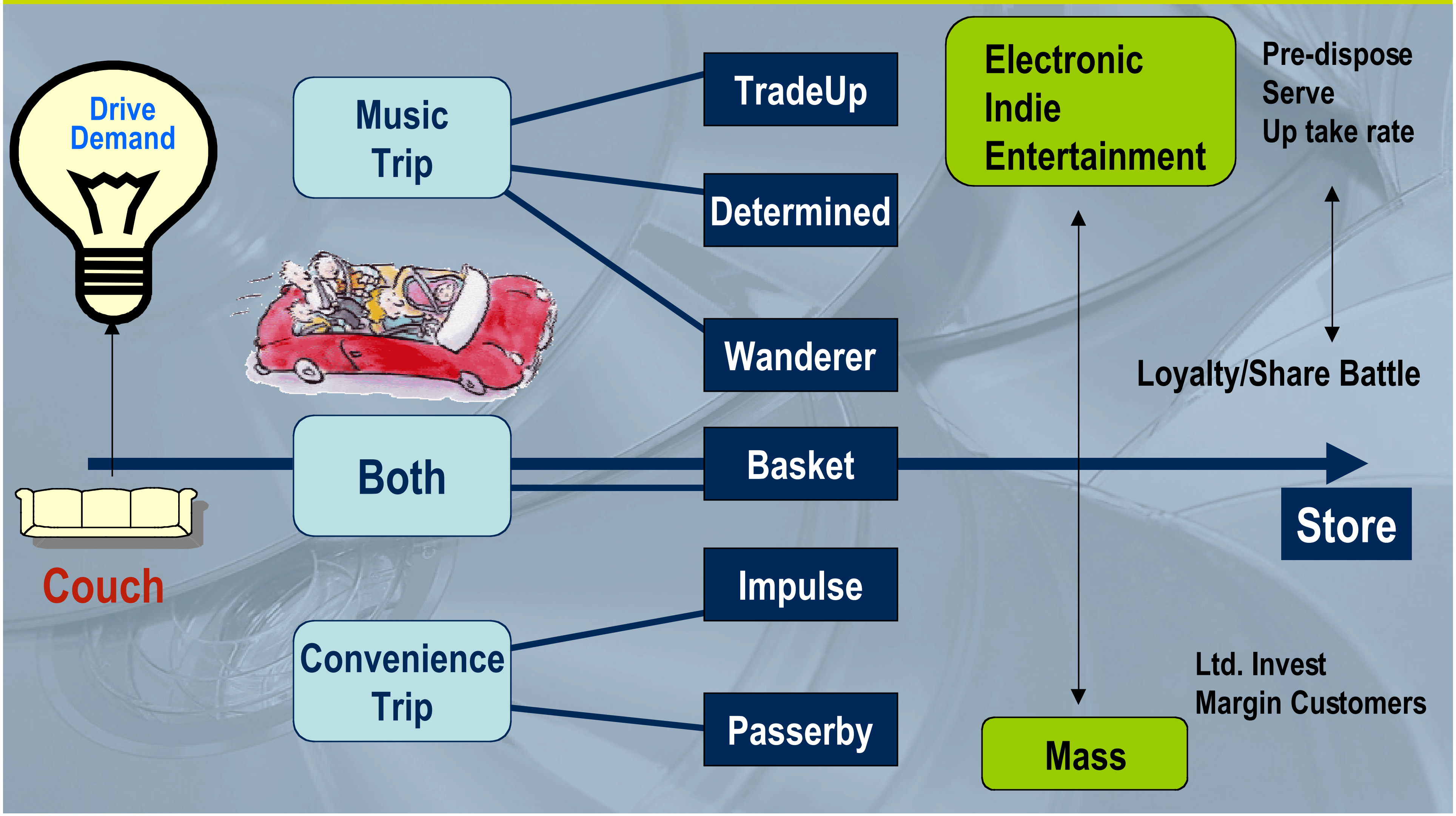
Food	40%
HBA	28%
Apparel/Footwear	19%
Toys	12%
Music	9%
Books	8%
Videogame	5%

Shopper Segments

- Determine if there are unique groups of music shoppers
- Who are these segments
- How do we merchandise most effectively
  - **Grow music shopping occasions**
  - **Trigger more browsing/impulse shopping**
  - **More time in section**

Six Segments

Determined	On a mission to get an album, and buys only that album
TradeUp	Also on a mission but shops other music too
Basket	Wants the album but waits for other shopping needs
Wanderer	Goes to buy music w/ no album in mind and spends time browsing music sections
Passerby	Shopping for other items buy browses music section
Impulse	An end cap or display reels me in, but shopping for other items



Drive Demand
Music Trip
TradeUp
Determined
Wanderer
Electronic Indie Entertainment
Pre-dispose
Serve
Up take rate
Loyalty/Share Battle
Couch
Both
Basket
Store
Impulse
Convenience Trip
Passerby
Ltd. Invest
Margin Customers
Mass

Though Tradeup's Spend the Most, Other Segments Make Large Overall Contributions to Revenue- Low Propensity Scores for Heavy Buying Groups Are Concerning

	Buyers (M)	Spend Per Buyer	Revenue $ (B)	Propensity Index
Total Market	**152.5**	**$58**	**$8.85**	**100**
Determined	**29.0**	**$51**	**$1.479**	**93**
TradeUp	**18.3**	**$92**	**$1.684**	**96**
Basket	**25.9**	**$55**	**$1.425**	**105**
Wanderer	**30.5**	**$74**	**$2.257**	**93**
Passerby	**38.1**	**$43**	**$1.638**	**106**
Impulse	**10.7**	**$36**	**$.385**	**89**

The propensity index reflects a group's outlook on future spending; 100 equals average therefore the "Determined" segment is expecting to spend less than average, "Baskets" more.

Market revenue sourced from NPD MusicWatch- Spend per buyer from survey data

Determined: 19% of Music Buyers
I left the house for that album, and only that album

18-34

Slightly higher income

Major metros

Prof / White Collar / Students

Lighter buyers:

Less frequent

Lower take rate

Fewer minutes

Spend $51

Less DVD too

Above Average Digital

Mass, Electronic or Specialty

TradeUp: 12% of Music Buyers
While I'm here, I'll check out…

18-34
Higher income
Very metro
Students/Sales
African American

Heaviest buyers:
Most frequent
Highest take rate
Most minutes
Spend $92 per cap
& $106 on DVD

Heaviest Digital

Prefer Electronic Specialty but shop Mass, Indies & Entertainment stores

Basket: 17% of Music Buyers
Came for music, and snacks, and Nikes, and "Incredibles", and and and

13-54
Female
House"manager"
Ave. Income

Medium Buyer:
Ave. frequency
Ave. take rate
Spend more time in section
Spend $56 music/ $80 on DVD

Average Digital

40% say Mass is favorite channel

Wanderer: 20% of Music Buyers
If I won Powerball, I'd shop all day, everyday, and everywhere!

Teens
Under 55 too
Male
Higher Income

Heavy Buyer:
Shop 4X year
Buy 2 CD's per
Most time
in section
Spend $74 music/
$92 on DVD

Average Digital

Shop EVERYWHERE

Passerby: 25% of Music Buyers
Nice Barry Manilow CD!

35+ esp. 55+
Female
Average Income
Smaller Metro /
Non-MSA
Caucasian

Light Buyer:
Spend less
Shop less often
But - average
DVD spender

Low Digital

Most prefer Mass- 52%

Impulse: 7% of Music Buyers

What's American Idol? Simon who? Burning- from indigestion maybe!

25+ esp. 55+
Female
Most married!
Average Income
Caucasian

Light Buyer:
Spend the least
Shop less often
Light on DVD

Very Low Digital

Mass strong: 47%

The heavier buyers are more receptive to merchandising mechanisms intended to stock them up- impulse buyers might be drawn by a promotion but you have to make them aware that it's available

What would encourage you to buy more music than intended?

	Determined	TradeUp	Basket	Wanderer	Passerby	Impulse
Promo; 2for1, multi purchase discount			x		x	
Bins/Display with discount CD's		x		x	x	
Easier to shop/Better Organized		x				
Frequent Purchase Program		x		x		
End aisle promo/display		x				x
Listening or sampling stations		x		x		
Cross sell w/ other entertainment		x		x		
Recommendations		x				

x signifies above average relative to total/other segments

Impulse buyers pay attention to ads, are deal buyers and browsers; options exist for creating demand among lighter consumers, esp. for releases targeted to their demographics

Where do you learn about music?

	Determined	TradeUp	Basket	Wanderer	Passerby	Impulse
Radio DJ		x				
Friends/Family		x		x		
Found While Browsing		x		x	x	
Music Television station		x				
Onlne Article/Review						
Radio Ad						x
Artist Website	x	x		x		
In-store Display/Promo		x				x
Mag/Newspaper Article		x				
TV Ad for CD		x				x
Heard on other TV Show		x			x	
Magazine Ad		x		x		x
Online Community Website		x		x		
Sales Circular		x				x

x signifies above average relative to total/other segments

Scenario To Grow Physical Sales By 6%; Geared at Heavy buyers and shoppers who buy only one CD/trip

	Buyers (M)	Spend Per Buyer	Revenue $ (B)	Proj. Rev $ (B)	Change
Total Market	152.5	$58	$8.85	$9.364	+6% Revenue Impact
Determined	29.0	$51	$1.479	$1.856	Buy 1 more unit on one occasion
TradeUp	18.3	$92	$1.684	$1.735	3% More Per Trip
Basket	25.9	$55	$1.425	$1.425	Nothing
Wanderer	30.5	$74	$2.257	$2.325	3% More Per Trip
Passerby	38.1	$43	$1.638	$1.638	Nothing
Impulse	10.7	$36	$0.385	$0.385	Nothing

Scenario To Grow Physical Sales By 8%; Geared at consumers who are shopping other categories/impulse buyers

	Buyers (M)	Spend Per Buyer	Revenue $ (B)	Proj. Rev $ (B)	Change
Total Market	152.5	$58	$8.85	$9.535	+8% Revenue Impact
Determined	29.0	$51	$1.479	$1.479	Nothing
TradeUp	18.3	$92	$1.684	$1.684	Nothing
Basket	25.9	$55	$1.425	$1.666	One more trip/yr
Wanderer	30.5	$74	$2.257	$2.257	Nothing
Passerby	38.1	$43	$1.638	$1.991	One more trip/yr
Impulse	10.7	$36	$0.385	$0.458	One more trip/yr

The NPD GROUP

Apparel

Appliances

Automotive

Beauty

Consumer Electronics

Food and Beverage

Foodservice

Footwear

Housewares

Information Technology

Music

Software

Toys

Video Games

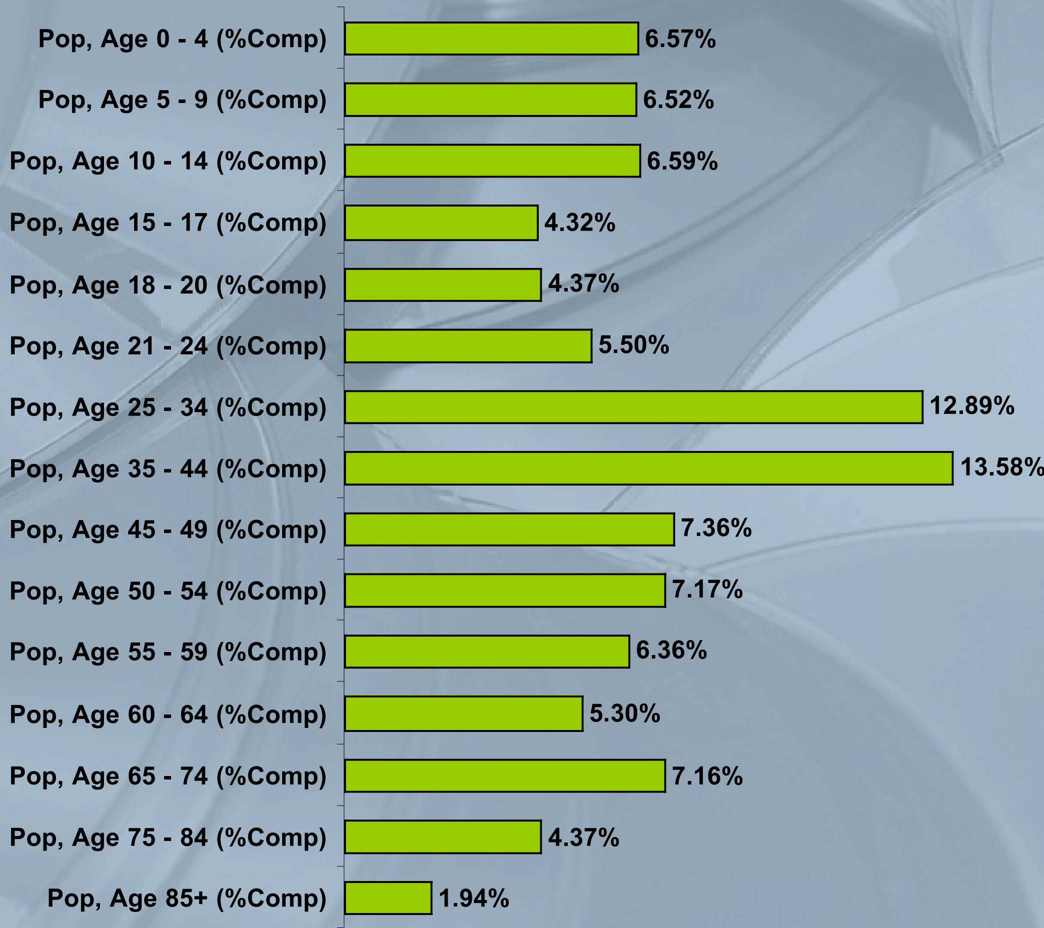
Appendix

Appendix: Buyer Profile

Detailed Demographic Growth Trends: 2000-2005/2005-2010

US Pop Trends : 5 Yr Intervals

	2005	2010
Total Pop	281,421,906	309,574,407
Pop, Age 0 - 4	7.07%	6.57%
Pop, Age 5 - 9	7.06%	6.52%
Pop, Age 10 - 14	7.44%	6.59%
Pop, Age 15 - 17	4.53%	4.32%
Pop, Age 18 - 20	4.58%	4.37%
Pop, Age 21 - 24	5.80%	5.50%
Pop, Age 25 - 34	14.12%	12.89%
Pop, Age 35 - 44	15.58%	13.58%
Pop, Age 45 - 49	7.88%	7.36%
Pop, Age 50 - 54	7.05%	7.17%
Pop, Age 55 - 59	5.93%	6.36%
Pop, Age 60 - 64	4.66%	5.30%
Pop, Age 65 - 74	6.76%	7.16%
Pop, Age 75 - 84	4.62%	4.37%
Pop, Age 85+	1.78%	1.94%



How to read: 5-9 year group estimated to grow at 6.52% between 2005 and 2010

* Demographic trends courtesy Claritas Corp.

Heavy Medium Light Buyers: Favorite Channel to Buy Music

	Light	Medium	Heavy
	Up to $30	$31-$100	$101+
Your favorite place to buy physical music?			
Discount / Mass Merchandiser	38%	34%	18%
Electronic Specialty Store	19%	20%	26%
Online (i.e. Amazon, not iTMS)	14%	15%	13%
Book Store	7%	8%	7%
Entertainment Store (i.e. FYE, Sam Goody)	7%	9%	11%
Local Specialty Store/Independent	7%	9%	18%
Warehouse Club	5%	3%	2%
Other	3%	2%	5%

Heavy Medium Light Buyers: Format Bought

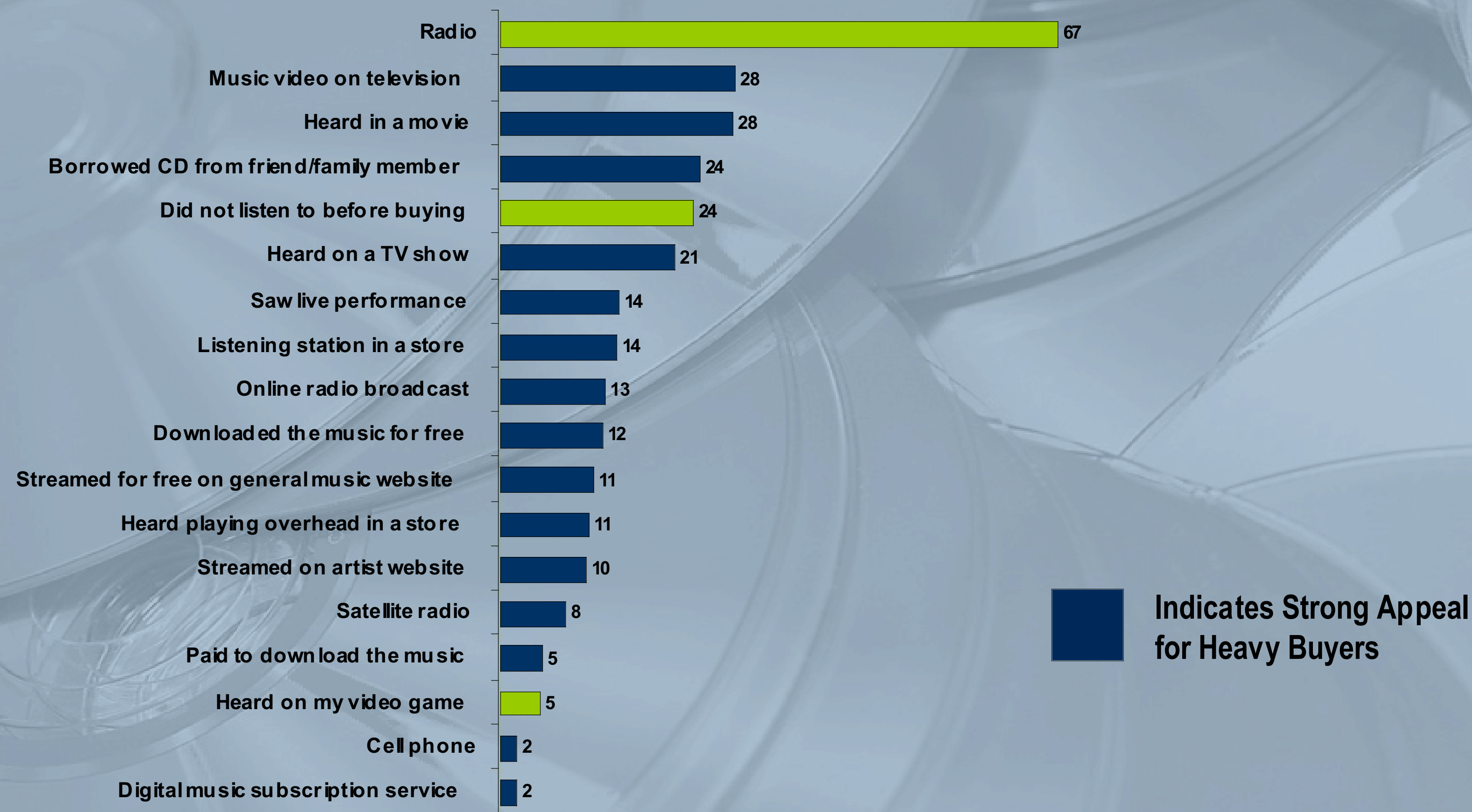
	Light	Medium	Heavy
	Up to $30	$31-$100	$101+
What Did You Actually Buy?			
(% indicating purchase)			
Regular CD	65%	80%	92%
ECD	14%	32%	58%
CD/DVD Combo	12%	25%	42%
Music DVD	14%	18%	41%
DualDisc	7%	14%	27%
will add over 100% due to purchasing of multiple categories			

NPD GROUP

BEHIND EVERY BUSINESS DECISION

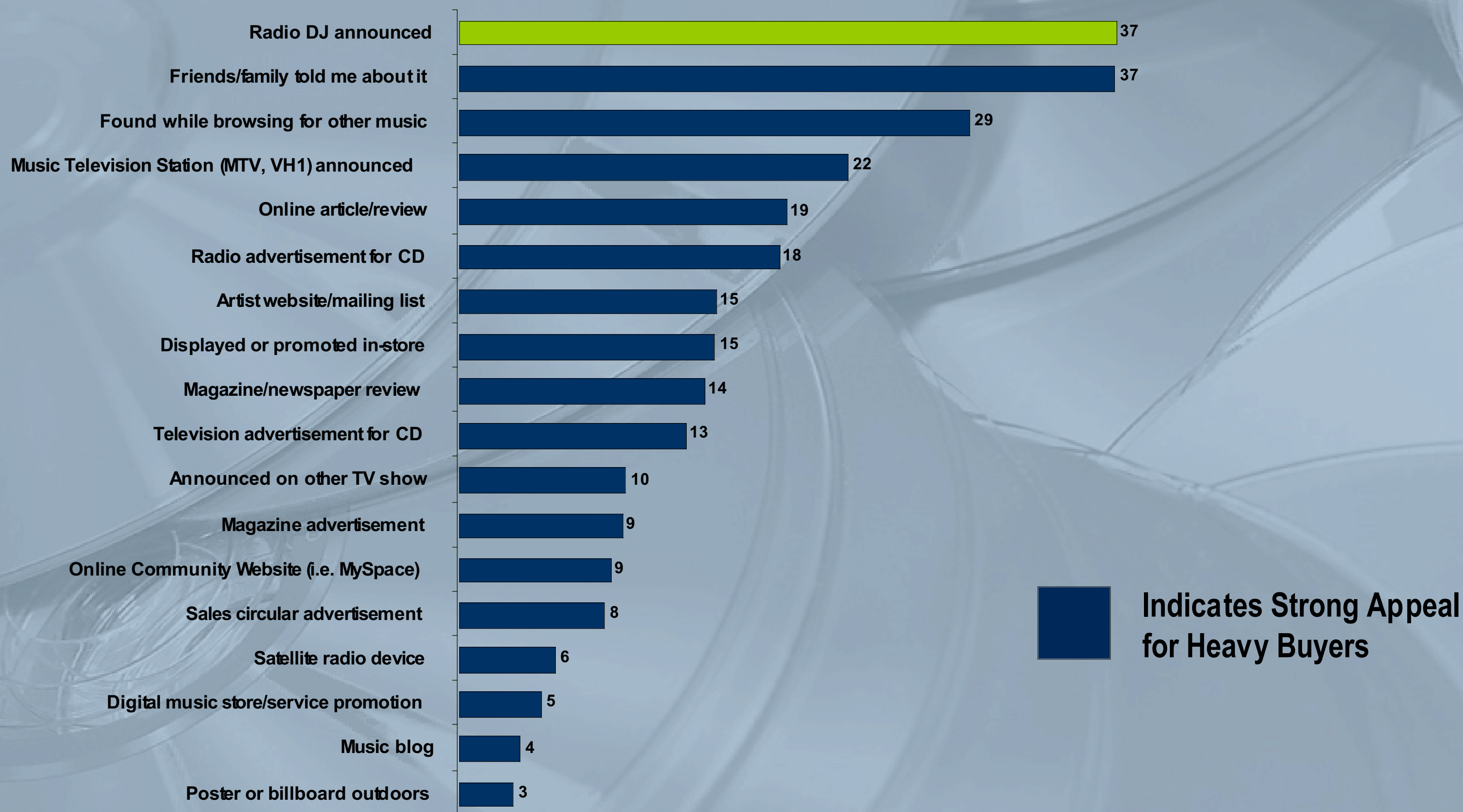
Radio Remains the Primary Listening Method, But Heavy Buyers Are Actively Using Streaming, Satellite, and Downloading

Where do you listen to music before you buy?



Consumers Learn About Music In The Traditional Ways, Though Heavy Buyers Are Getting Information Through A Wider Set Of Sources

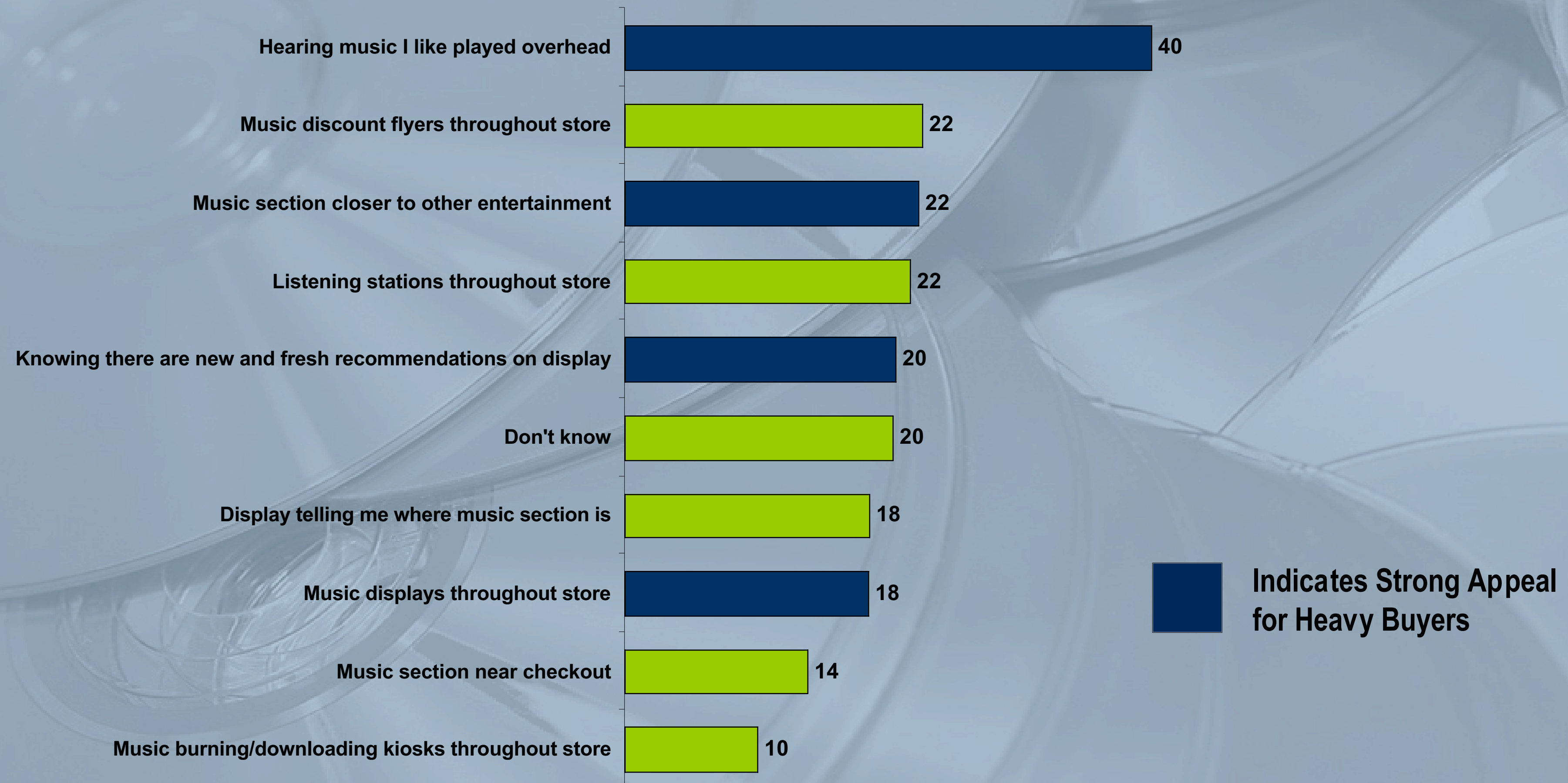
How did you learn about the music you bought?



Index: % Heavy Buyers/% All Buyers

Being Pre-disposed to Visiting the Section Is Important; If Not, Most Mechanisms to Get You There May Not Be Effective

What would encourage you to visit the music section?



Heavy Medium Light Buyers: Key Demos and Usage Habits

	Light	Medium	Heavy
	Up to $30	$31-$100	$101+
% Physical Music Buyers	51%	39%	10%
Demographic Skews			
Age	55+	No Skew	18-34
% Female	53%	55%	43%
% African American	11%	15%	16%
Estimated Median HHLD Income	$62K	$67K	$77K
Music Usage Habits (Past 4 Weeks)			
Listen to Portable Music Player	22%	26%	35%
Listen to Satellite Radio	13	17	28
Burn Digital Music to CD	12	16	21
Download For Free	12	12	20
Paid to Download	9	12	18
Subscribe	2	2	3

Heavy Medium Light Buyers: Spending and Shopping Dynamics

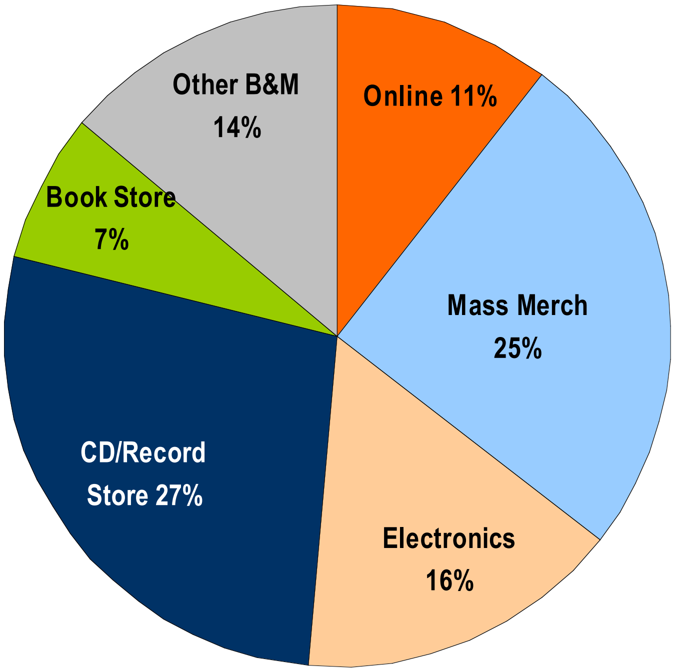
	Light	Medium	Heavy
	Up to $30	$31-$100	$101+
Occasions/Buyer	2.4	4.6	7.0
Items Per Occasion	1.3	1.8	2.6
Estimated Spend	$18.45	$62.77	$234.24
Minutes in Music Section	14	19	22
Category Preferences (would buy more of)		DVD	DVD
		Digital Music	DualDisc
			Used CD's
			Digital Music

Appendix: Retail Experience

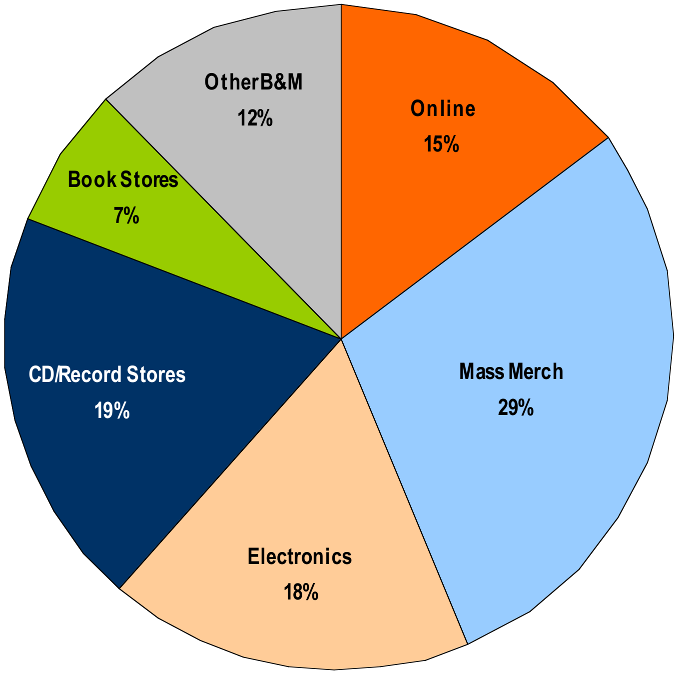
The Pie's Being Shared Differently

In 2002, the record store was #1
Mass merch and online chipping away at shares

Music Purchases By Channel, 2002
Unit Share



Music Purchases By Channel, 2005
Unit Share



Over Time, Electronic Specialty Looking More Like Record Store Buyer

Key Demographics: 2005 (% Unit Sales)

	Online (Total)	Book Stores	CD/Record Stores	Discount/Mass Merchandisers	Electronics Stores
13-17	9.6	17.3	21.1	20.1	17
18-25	17.5	17.1	26	16.7	25.8
26-35	19.7	16.6	20	18.3	22.8
36-50	29.7	24.5	21	26.3	22.9
Over 50	23.6	24.5	11.9	18.6	11.5
Male	49.2	48	54.7	34.3	53.6
Female	50.8	52	45.3	65.7	46.4
White/Caucasian	77.2	79.8	67.7	74	65.3
Black/African American	13.2	8.4	18.4	15.8	22.6
Hispanic	14.2	14.3	17.5	14	17.6

Record Stores Hold the 18-25 Year Base but Mass & Electronic Channels Growing Against This Group—and Younger Women, African Americans

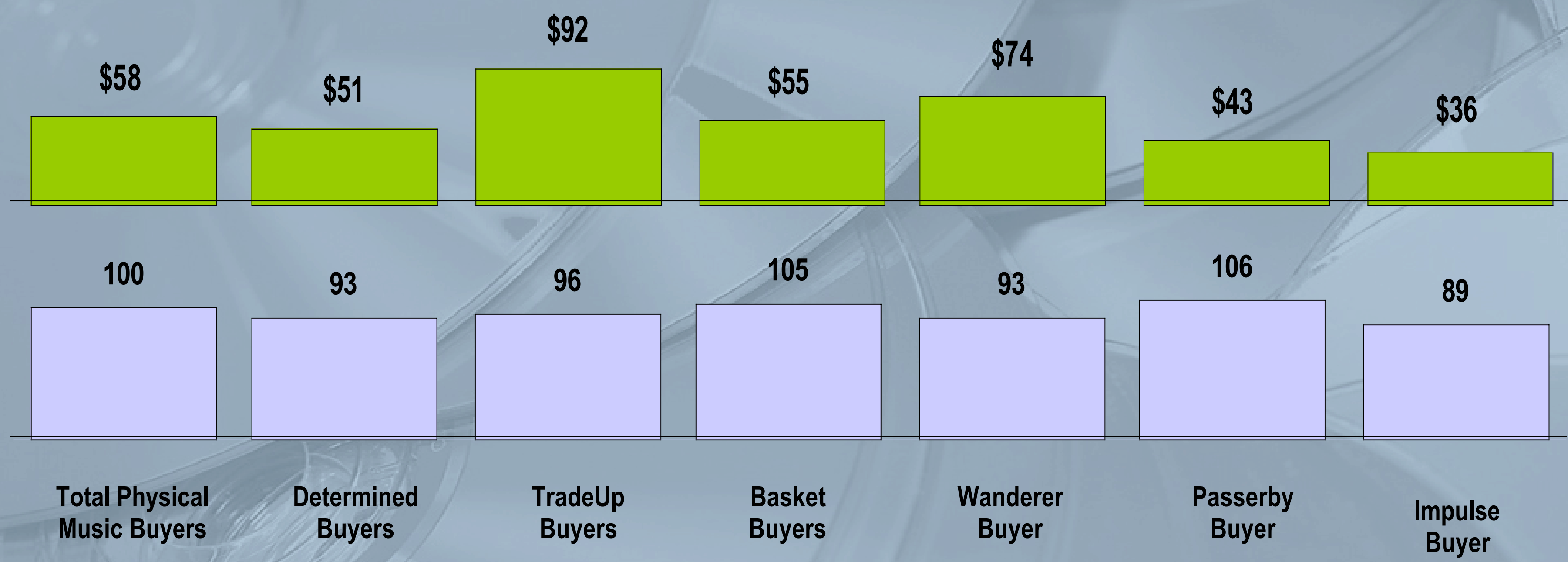
Demographics Driving Channel Share: 2002 vs 2005

Online Retailers	CD/Record Stores	Mass Merch/ Discount	Electronics Stores	Book Stores
13-17 Year Olds 18-25 Year Olds Females 26-35 Hispanics $25-44K	Males 18-25 Females 13-17 $25-44K HH 5+ Members	18-25 year olds Females 13-17 African Americans $100K +	Males 18-25 Females 13-17 Females 26-35 African-Americans Hispanics	Females 13-17 Males 13-17 $45-74K Mountain region HH 4+ Members

The Heaviest Buying Segments Are Less Inclined to Spend More on Physical Music in the Coming Year

Q: In total, about how much money did you spend on the following item(s) in the past 12 months?

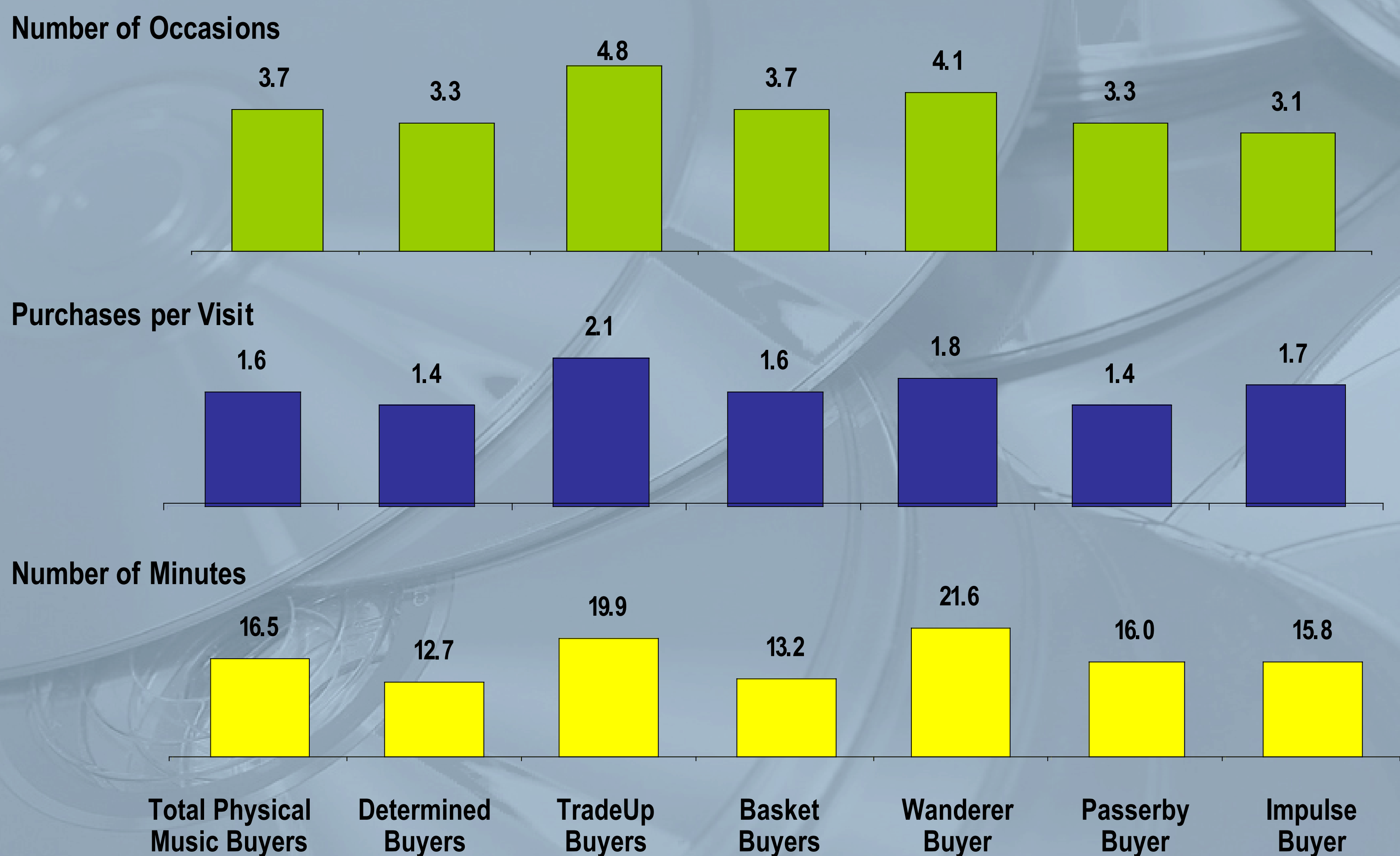
Physical Music Products



Propensity to Spend More: 100 Index = Average

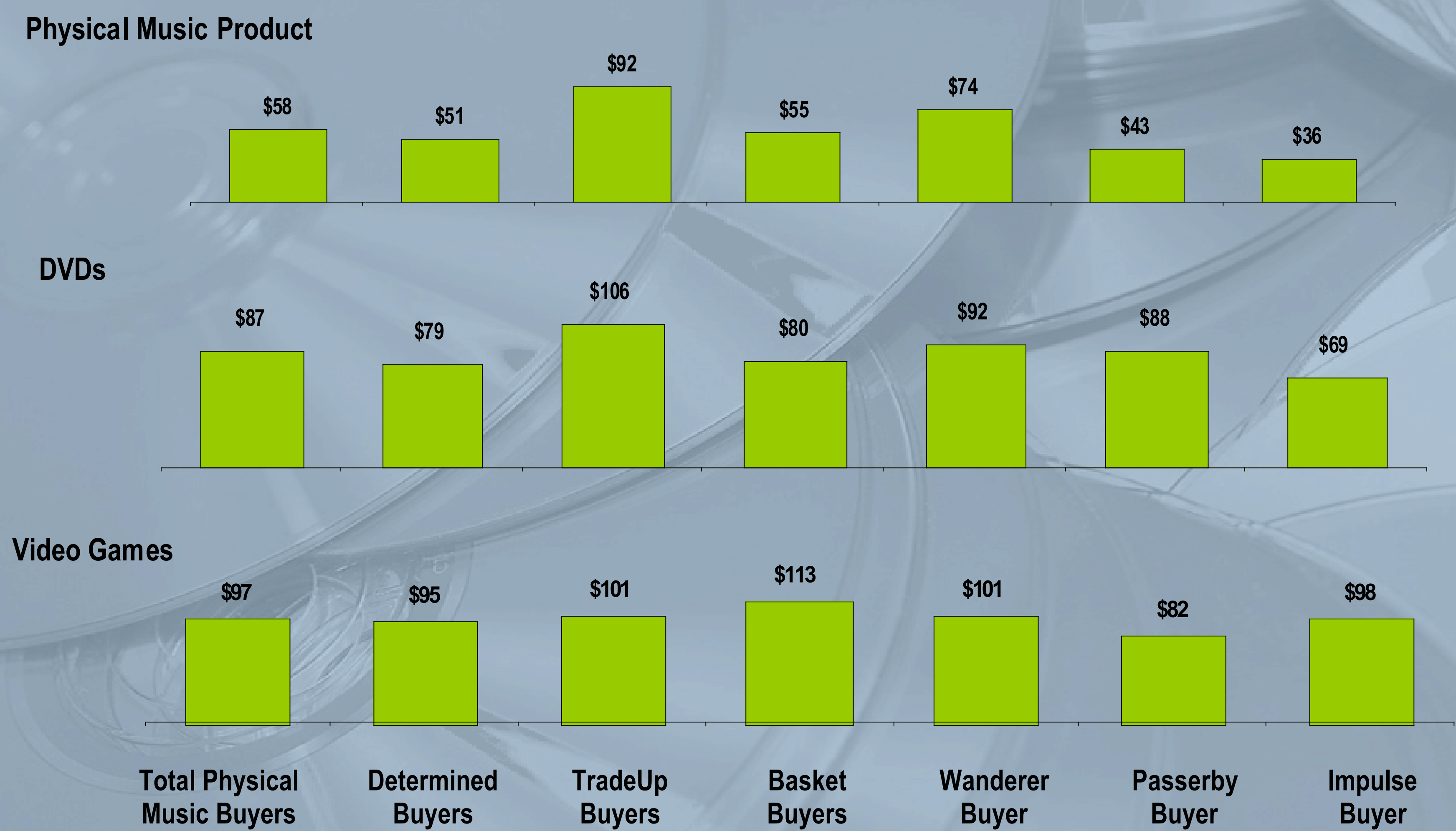
Bases represent those that have purchased at least one of the items at a store in the past year

Music Purchasing Behaviors



Bases represent those that have purchased at least one of the items at a store in the past year

Spending by Music Buyer Segment: Consumer Estimated



Bases represent those that have purchased at least one of the items at a store in the past year

Channel Share Among Shopper Segments (% saying favorite for shopping music)

	Determined	TradeUp	Basket	Wanderer	Passerby	Impulse
Discount/Mass Merch	23	19	40	24	52	47
Electronic Specialty	28	32	18	21	11	11
Online	17	15	14	14	12	16
Local Specialty/Indy	9	15	6	13	5	5
Entertainment Store	13	9	7	11	3	3
Book Store	6	6	6	11	8	8
Warehouse Club	2	3	5	3	5	3
Other	2	1	4	3	4	7

Heavy buyers are listening to music via the most varied set of media, which offers opportunities to target via non-traditional methods with lower CPM

How do you listen to music?

	Determined	TradeUp	Basket	Wanderer	Passerby	Impulse
Radio						
Music Video		x				
Movie		x				
Borrow CD		x		x		
TV Show		x				
Live Performance		x				
Listening Station				x		
Online Radio		x				
Download for Free				x		
Streamed for Free		x		x		
Overhead in Store		x				
Streamed from Artist Site		x				
Satellite Radio		x		x		
Paid Download		x				
Video Game		x				
Cell Phone						
Digital Subscription Service						

x signifies above average relative to total/other segments

It starts with demand – perhaps a new artist or a favorite artist; but we can offer heavy buyers other reasons to make shopping trips

What would get you to go shopping specifically for music?

	Determined	TradeUp	Basket	Wanderer	Passerby	Impulse
Music on sale						
Good selection played in store				x		
Live performance/signing		x				
Special promo (tix, passes)		x				
Cross promote entertainment				x		
Exclusive pre-releases		x				
Hang out spot (sitting, kiosks)		x		x		
Coffee/drinks/snacks				x		
CD discount/digital dl combo		x		x		
Community music events		x		x		

x signifies above average relative to total/other segments

The shopper who is not predisposed to visit the section will be difficult to capture

What would encourage you to visit the music section?

	Determined	TradeUp	Basket	Wanderer	Passerby	Impulse
Hearing music I like		x		x		
Discount flyers in store		x		x		
Music closer to other entertain.		x		x	x	
Listening stations throughout		x		x		
New/fresh recommendations						
Display pointing to music section		x				
Music displays throughout store		x				
Music near checkout						
Burning/DL kiosks throughout						

x signifies above average relative to total/other segments

The fact that certain key segments believe music is a good value, and they will pay more for favorite artists, is encouraging. Even impulse buyers feel music is a good value!

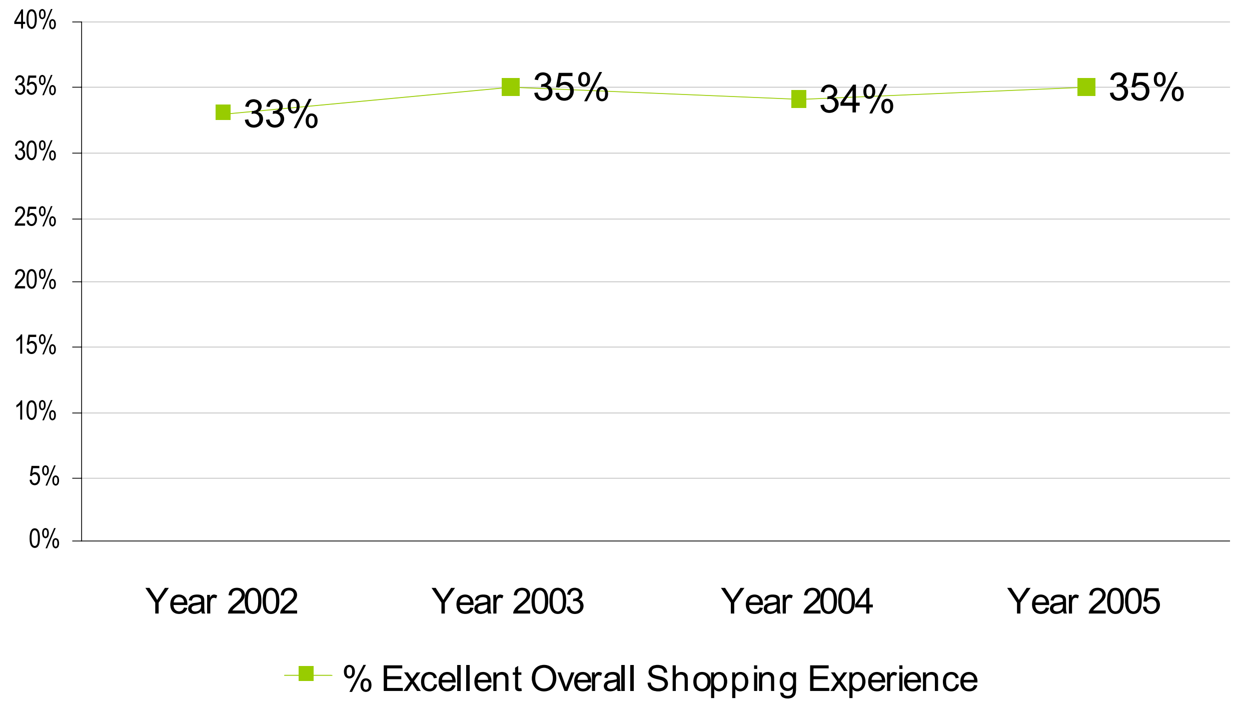
Attitudes/Behaviors/Beliefs

	Determined	TradeUp	Basket	Wanderer	Passerby	Impulse
Doesn't matter where I buy music					x	x
Music is a good value		x	x		x	x
Pay more for favorite artists	x	x				
Enough music variety on radio						x
Music isn't as good as it used to be						
Albums have a lot of good songs						
Music important to my personality		x				
Make special trips for music	x	x				
Buy most music w/ other items			x		x	x
Important to maintain collection		x		x		
Less time to spend on music						
More likely to buy music on sale						
Listen to music when doing other things						x
Only buy if I can sample						

x signifies above average relative to total/other segments

Contentment With the Shopping Experience Is Stable

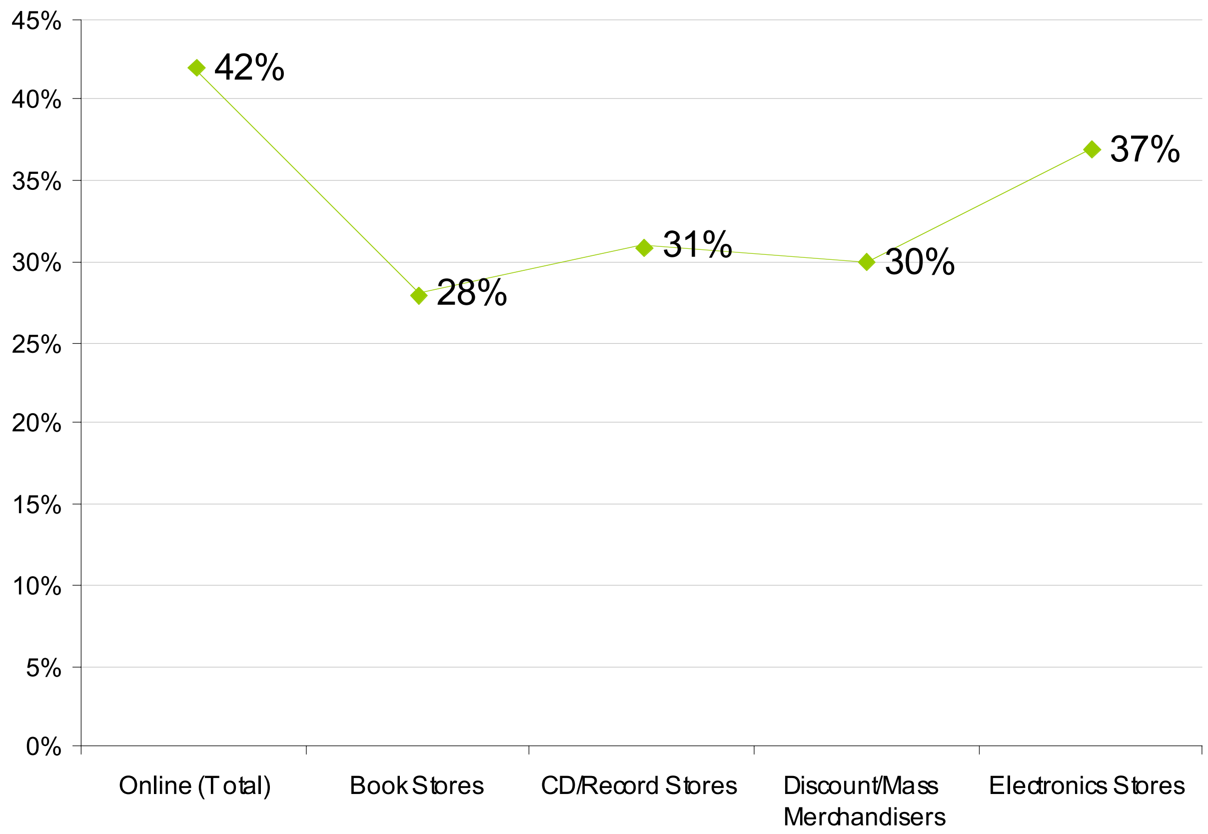
% Excellent Overall Shopping Experience



…and this is true across the major channels

Repeat Commitment is Higher Online and at Electronics Specialty

Definitely Will Repurchase At this Channel



Demographic Profiles by Channel

Online

% of Unit Sales by Demographic Segment

	Year 2002	Year 2003	Year 2004	Year 2005
13-17	7.6	7.8	9.5	9.6
18-25	15.5	16.6	16.3	17.5
26-35	20.4	20.3	21.6	19.7
36-50	32.5	30.1	28.8	29.7
Over 50	24	25.2	23.8	23.6
Male	54.4	52.4	50.4	49.2
Female	45.6	47.6	49.6	50.8
White/Caucasian	78.1	76.2	74.4	77.2
Black/African American	13.4	13.8	15.3	13.2
Hispanic	12.1	12.9	13	14.2

Book Stores

% of Unit Sales by Demographic Segment

	Year 2002	Year 2003	Year 2004	Year 2005
13-17	10.7	11.6	13	17.3
18-25	17.9	17.5	18.2	17.1
26-35	18.6	18	17.7	16.6
36-50	29.4	27.8	27.4	24.5
Over 50	23.5	25	23.7	24.5
Male	51.2	48.9	48.4	48
Female	48.8	51.1	51.6	52
White/Caucasian	78.7	76.5	79.2	79.8
Black/African American	10.9	13	10.1	8.4
Hispanic	13.2	13.3	14	14.3

CD / Record Stores

% of Unit Sales by Demographic Segment

	Year 2002	Year 2003	Year 2004	Year 2005
13-17	19.1	16.4	18.2	21.1
18-25	24	24.5	24.3	26
26-35	21.3	23.2	20.4	20
36-50	23.8	23.2	23.8	21
Over 50	11.8	12.7	13.2	11.9
Male	53.4	53.6	52.9	54.7
Female	46.6	46.4	47.1	45.3
White/Caucasian	66.8	66.8	66.1	67.7
Black/African American	19.7	19	20.4	18.4
Hispanic	17.1	18.6	18.2	17.5

Discount / Mass Merchandiser

% of Unit Sales by Demographic Segment

	Year 2002	Year 2003	Year 2004	Year 2005
13-17	15.3	15.5	17.3	20.1
18-25	15.4	16.7	16.2	16.7
26-35	21.1	19.8	20	18.3
36-50	30.1	28.5	27.3	26.3
Over 50	18	19.5	19.1	18.6
Male	37.8	35.2	35.6	34.3
Female	62.2	64.8	64.4	65.7
White/Caucasian	79.2	77.3	74.4	74
Black/African American	12.1	12.8	15.6	15.8
Hispanic	12.6	14.2	14.1	14

Electronic Specialty

% of Unit Sales by Demographic Segment

	Year 2002	Year 2003	Year 2004	Year 2005
13-17	15.2	14.1	15.4	17
18-25	23.1	25.4	24.9	25.8
26-35	23	21.8	23.5	22.8
36-50	25.6	25.1	23	22.9
Over 50	13.1	13.6	13.1	11.5
Male	55.6	53.4	53.4	53.6
Female	44.4	46.6	46.6	46.4
White/Caucasian	68.3	65.8	65.3	65.3
Black/African American	20.5	22	22.6	22.6
Hispanic	14.8	16.7	16.6	17.6

Store Traffic

Store Drivers

Q: Which of the following factors would encourage you to go to a store specifically to buy music?

1.	Music is on sale	68.2%
2.	Good selection of music played in-store	26.9%
3.	Live performance or CD signing in-store	22.3%
4.	Special promotion with artist and store (backstage tickets)	22.2%
5.	Promotion to discount music with other entertainment purchases	19.9%
6.	General improvement in store music shopping experience	17.4%
7.	Pre-release of album exclusively sold at store	16.9%
9.	"Hang out" spot in music section (sitting area, listening stations, kiosks)	16.3%
10.	Coffee, drinks and snacks available in the music section	14.8%
11.	CD discount with digital download purchase	10.5%
12.	In-store community events bringing together people with common music interests	8.4%

Music Section Drivers

Q: Consider the times you have been in a store shopping for items other than music. What factors would encourage you to visit the music section of the store?

1.	Hearing music I like played overhead	39.6%
2.	Music discount flyers throughout store	22.4%
3.	Music section closer to other entertainment	22.1%
4.	Listening stations throughout store	21.5%
5.	Knowing there are new and fresh recommendations on display	20.4%
6.	Display telling me where music section is	18.4%
7.	Music displays throughout store	18.3%
8.	Music section near checkout	13.7%
9.	Music burning/downloading kiosks throughout store	10.0%

Base: 2,162 respondents who have purchased physical music from a store in the past year