

NARM/RIAA



GETTING CLOSER TO THE TRUTH



insights and implications

an ethnographic study

10.20.03

sterling group



contents



- objectives + research details
- executive summary
- consumer profiles
- today's realities
- recommendations

1 WHY AREN'T CONSUMERS BUYING AS MUCH
PRE-RECORDED MUSIC AS THEY ONCE DID?

2 WHAT CAN BE DONE TO GET THEM TO BUY
MORE IN THE FUTURE?

50 IDIs and 10 friendship groups conducted aug-sept 2003:

- approximately 180 hours of interviews
 - New York (10 IDIs and 2 friendship groups)
 - Memphis (10 IDIs and 2 friendship groups)
 - Lincoln, Omaha, Wahoo (10 IDIs and 2 friendship groups)
 - Chicago (10 IDIs and 2 friendship groups)
 - Seattle (10 IDIs and 2 friendship groups)

in-home interviewees

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NYC

CHICAGO

MEMPHIS

NEBRASKA

SEATTLE

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98 unplugged interviews conducted aug-sept 2003:

■ some highlights

- consumers and employees at record stores
- students at University of Nebraska, Loyola University, University of Memphis and University of Washington
- concert goers at Tom Petty show
- conversation with veteran roadie on Tom Petty tour bus
- conversations with Elvis fans at Graceland
- consumers at music bars/clubs
- DJs at University of Nebraska's radio station
- session with a band at a chicago recording studio
- conversation with blues legend Buddy Guy
- afternoon spent with a record collector and his family
- employees and visitors of Seattle's Experience Music Project

unplugged

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real people street record stores shopping clubs sterling group



EXECUTIVE summary





executive summary



before summarizing our key findings, there are two points that need to be highlighted as context in which to view this study:

–a big part of the value of this report lies in its currency: it is up to date now but its stock will likely devalue daily as further events unfold and as the industry grapples to resolve a series of complex and visible challenges.

–file-sharing [with everything that it involves], was the single biggest public issue that we had to deal with throughout this study and we worked hard throughout to keep a balance between this topic and our specific mandate – namely to find ways of selling more pre-recorded music.

- the input stage of this project involved speaking to 200 consumers, some in more structured in-home interviews as well as some ‘unplugged’ interviews in airports, bars, stores as we traveled the country.
- The consumers we talked to covered a wide range of ages, ethnicities, incomes and music tastes but the topic was the same throughout...music in their lives.

executive summary

- the encouraging news is that music continues to be critical to everyone we talked to. It is connected to their hopes, their fears, their friendships, their tears. It is a part of their daily lives and is very much alive and kicking.
- what has changed is the context in which consumers consume music. In our time-pressed, multi-tasking world, and with the recent explosion of 'entertainment' options, music is less of an entertainment focal point than it used to be...it has become simply one of the ingredients.
- context is also pivotal to another aspect of consumer dissatisfaction and this concerns the subject of relative 'value' of music
 - when a video recorder can now be bought for \$50
 - when each new video game so visibly raises the 'excitement' bar
 - when the 'blurring' of entertainment continues apace
 - where the DVD has stolen so many of the headlines...the pre-recorded CD increasingly looks unexciting and poor value
- we also drilled deep into topics such as musicians as business moguls, the "quick buck" mentality, the feeling that success is 'manufactured' and the difficulty that consumers have staying connected to music and all of these are covered in our findings

executive summary

- by viewing the industry through the consumer lens, we found four factors that were driving the devaluation of the music industry
 - consumer cynicism on the rise
 - a disconnected relationship
 - format and usage restrictions
 - an overall impression of apathy
- one of the major consumer disappointments involved the area of CD purchasing which over time has become something of a functional and mundane transaction. our recommendation – **to transform the music purchasing EXPERIENCE** – is not only essential to stem decline but also represents a huge opportunity for the industry's long-term success
- in order to create this “experience”, we have developed over 30 ideas encompassing product, place and promotion that will require coordinated launch efforts from the industry, the record labels and the retailers alike
- there are clearly many more issues to solve but consumers in every aspect of their lives are looking for “experiences” and the music purchase platform provides a perfect first opportunity to re-engage the consumer
....so, on with the detail



CONSUMER profiles





consumer profiles – our approach



we met with **MUSIC FANS** across the country, in big cities and small towns

they invited us into their **LIVES** and **HOMES**

we met their **FAMILIES, FRIENDS** and **NEIGHBORS**

we chatted in **LIVING ROOMS, KITCHENS** and on **BEDROOM FLOORS**

we understood them as **PEOPLE**, not just **MUSIC FANS**

we understood their **LIVES, WHAT MATTERS** and **WHAT DOESN'T**

they shared with us their **PERSPECTIVE OF** and **RELATIONSHIP
TOWARD MUSIC IN THE CONTEXT OF OVERALL LIFE**



profiles



- early teens (12-15 yrs)
- older teens (16-20 yrs)
- young adults (21-30 yrs)
- older adults (31-40 yrs)
- empty nesters (41-55 yrs)

early teens (12-15yrs)

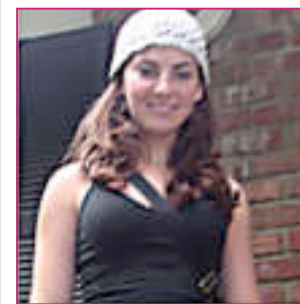
personal stories

Loves playing video games. Owns Nintendo, PlayStation, PlayStation2 and Xbox and likes to download music onto his Xbox to make the games more exciting and less unnerving. Has never bought CDs, instead his father downloads music from KaZaa and burns it onto disk for him. He thinks it's a waste of money buying CDs because his sisters would just scratch and ruin them.



MICHAEL
age 12

Enjoys dancing, studies ballet and hip hop. Has a computer, stereo and TV in her bedroom, all of which are constantly on when hanging out. Buys and likes CDs but prefers to listen to music downloads on her computer so she can make her own play list. Loves shopping at Virgin Megastore in Time Square because it is so huge it has everything and the staff picks are helpful.



EMILY
age 15

Twelve, but yearns to be older. Outwardly, shows all the signs and desires of a 16 year old: talks about girls, fashion (having the "in" sneaker brand is his highest priority), downloads the newest videos from Yahoo Launch and loves to hang out at the mall. But, when he's not among his friends and can safely let his social defenses down, he relishes the chance to just act his age and be a kid. During our mall visit, he sheepishly asked if we could visit the toy store.



ADRIAN
age 12

early teens (12-15yrs)

lost generation...almost

role of music

- a constant background to other activity
 - fits their multi-tasking way of life
- music (and its lifestyle) is topic among friends, form of social acceptance
- depth of knowledge on favorite artist is used competitively to impress peers

road to discovery

- music just now becoming bigger part of life
- friends/word of mouth play huge role
- look to older siblings/friends to find out what's cool
- parents actively passing music down to kids
 - teens know and appreciate the Beatles, Rolling Stones and Nirvana
- radio and music TV (MTV2, BET, MTV, VH1) are big discovery sources
- internet is used to search for more information on favorite artists
- generally follow exposed top 40



early teens (12-15yrs)

lost generation...almost

music acquisition

- CD is not their format
 - many have never bought a CD
 - CD collections are limited
- music file-sharing is big
 - influenced by lack of money, desire for the latest music and interest in songs versus albums

attitudes to music file-sharing and law suits

- unaware of illegality despite lawsuits
- low guilt levels
 - exposed artists are rich
 - perception that revenues aren't purely linked to CD sales

life/entertainment/spending priorities

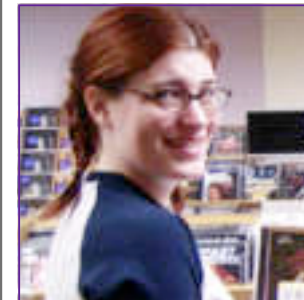
- spending time with friends
- watching TV
- girls
 - fashion
 - make up
 - music
- boys
 - video games
 - sports
 - music

older teens (16-20yrs)

personal stories

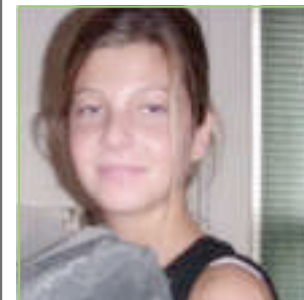


Used to sing, had done so from an early age and was a previously a theatre major studying music theory but switched to political science. Teaches gymnastics in spare time. Her roommate is a theatre graduate and they both are heavily into musicals. Stacy finds CDs too expensive and stopped buying them when they hit \$15. Instead, she would rather spend the \$20 on DVD.



STACY
age 20

About to start college and works 2 part-time jobs. Listens to the radio constantly and likes going to lounges that play hip hop music. File shares but doesn't buy music now because she is obsessed with clothes.



YVES
age 19

High school sports, his car, loud beats and of course, girls...these are the ingredients to success for this teenager. Yes, each is important on its own, but the power lies in their collective sum as they work together to create his image to the world. Football puts him in the elite clique and his car isn't simply transportation, it's an attention getter as he drives around town with windows down and hip-hop beats blasting (any song will do as long as its loud).



JAMESON
age 16

older teens (16-20yrs)

driven by discovery

role of music

- experimenting with music styles and genres
- seeking meaning and relevance
- music is constant in their lives

road to discovery/news sources

- most have friend/influencer who is fountain of music knowledge
- radio and TV are key discovery sources
- listen to recommendations of trusted music store staff

music acquisition

- some are pure music file-sharers, some also buy from artists that resonate
- sharing with friends and compiling is the norm
- the web is a natural destination for music





older teens (16-20yrs)



driven by discovery

attitudes to music file-sharing and law suits

- most unaware music file-sharing is illegal (more aware post-lawsuits)
- regular music file-sharers feel justified in their actions
 - CDs are unaffordable
 - only interested in few tracks on the CD
 - artists are making more than enough money
 - drop in ocean phenomenon: believe plenty of people still purchase
 - slim chance of being prosecuted
- music file-sharing conscience appears around age 19-20

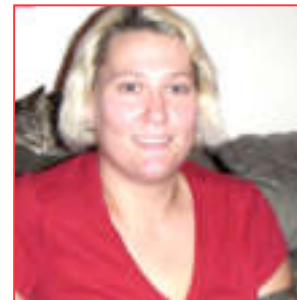
life/entertainment/spending priorities

- hanging out with friends
- clothes
- accessories
- TV
- movies
- cars
- dining
- music

young adults (21-30yrs)

personal stories

Heavily involved in scooter rallies, traveling to different cities every other week for various scooter meets. Obsessed with punk rock bands, posters adorn the walls of every room in her apartment. Used to DJ at her college, currently works in admin but aspires to eventually work in the music industry in someday. Has an enormous CD collection from DJ days. Buys CDs from specialty punk rock music stores but refuses to pay more than \$10 for a CD.



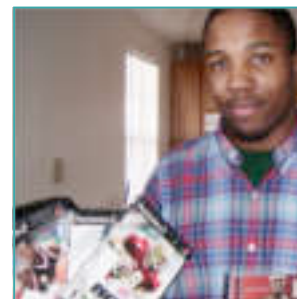
KATHY
age 26

Models and works part-time doing Admin. Has a substantial CD collection, primarily hip hop and R&B. Tends not to buy CDs if they are played too much on the radio. Buys various music magazines – Vibe, The Source and One World. Although she'd save money by subscribing, Nicole prefers to buy each issue from the newsstand so they don't get bent in the mail. Avid music TV viewer, with a huge collection of music videos recorded from TV onto VHS tapes dating back to when she was a kid.



NICOLE
age 27

Ahh, finally he feels like an adult with his own apartment, full time job and a serious girlfriend. Life is great. Well, on second thought, life in the real world isn't as easy as he imagined with household expenses and pesky bills arriving every month. Prioritizing his finances are proving to be his biggest dilemma: Madden 2003, 50 Cent's CD, or saving for a house? It's a tough decision.



TORI
age 22

young adults (21-30yrs)

within reach

role of music

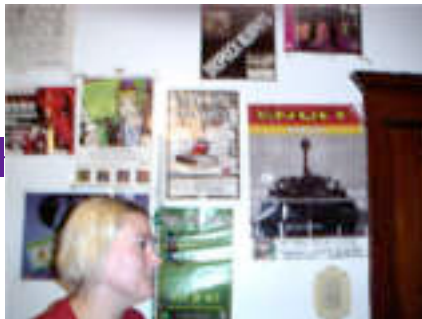
- mood enhancer
- music is discussed, collected and appreciated for its greater meaning
- music is constant in car, at work and in background at home

road to discovery/news sources

- radio, friends, word of mouth, TV, local “what’s on” publications, magazines (e.g. the Source, Vibe, One World)

music acquisition

- varying degrees of music file-sharing from not at all to excessive
- file-share to test drive, obtain obscure tracks and singles
- still like to buy the physical CD and have the original case
- satisfaction in owning enduring artist’s collection and classic albums



attitudes to music file-sharing and lawsuits

- fully aware of illegality post lawsuit news
- lawsuits have prompted a change in behavior
- KaZaa subscription fee gives the illusion of legality
- perception that music file-sharing is not hurting industry
- some appreciation regarding unfairness of music file-sharing to artists
- music file-sharing can be drag: viruses, slow, poor quality, memory restrictions
- paid music downloading has limited appeal due to limited understanding of offer
 - once educated, consumers show excitement
 - want on-line offer to include cover art, pictures and the lyrics

life/entertainment/spending priorities

- rent and living costs
- clothes
- bars/clubs
- dating
- cars
- dining out
- music

older adults (31-40yrs)

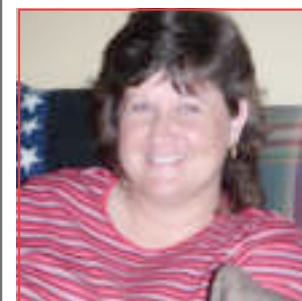
personal stories

Works as a full-time pediatric nurse, married with a daughter. Discovers a lot of new music through her daughter. Once spent a week tracking down a B2K CD for her daughter, which had several versions released with different band members on the front. Ended up scouring stores in Manhattan and Jersey to find a copy with her daughter's favorite band member on the cover.



MARCIA
age 34

Works in Real Estate and her son and husband are the primary focus in her life. Buys her CDs from Wal-mart and Target when she's buying other household items because of the convenience. Tends to buy more music for her son than for herself.



JONNA
age 39

At first glance, a tough as nails night manager at Buddy Guy's Legends Club. Chat with him and you'll quickly realize he's a teddy bear who's ready and willing to share his passion for the "dying art" of blues. Performed various odd jobs for years until finally finding his dream job. Lately his money goes toward keeping his car running, but would happily spend more on music if life didn't get in the way.



KEVIN
age 36

older adults (31-40yrs)

higher priorities

role of music

- music is nostalgic, emotional
- mood elevator around house, driving, at work

road to discovery/news sources

- limited discovery sources, mainly radio and via children
- lack of confidence and intimidation factor
- difficult to develop connections with new music
 - “American Idol” an exception
- fall back on classics due to lack of time for discovery

music acquisition

- music typically bought for children vs. themselves
- find great value in compilations
- purchase as treat or for mood pick-me-up
- Wal-mart and Target when they're buying household items/general shopping
- Best Buy is adult toy store
- indie shops for hard to find, but intimidation factor exists



older adults (31-40yrs)

higher priorities

attitudes to music file-sharing and lawsuits

- high awareness after news
 - anxious to ensure their children do not file-share music
- not heavy music file-sharers: less tech savvy or don't have time
- understand lawsuits
 - artists deserve to be paid and industry needs to be protected
 - yet view penalties to be too stiff
 - believe industry should be attacking sharing sites, not tweens and elderly

life/entertainment/spending priorities

- household costs
- children's wants/needs/activities
- home improvements
- clothing
- dining
- DVDs
- reading
- music

empty nesters (41-55)

personal stories

Freelance photographer and former model who swims and bikes regularly, is heavily involved in charity work and has 3 teenage sons. Music has always been part of her household and life. Plays flute and the piano – has a white baby grand in the living room and once played the piano for a beauty pageant she entered. Likes all types of music but interested in Rap for its beat and through its lyrics she can understand how the younger generation is feeling and thinking.



JENNIFER
age 49

Recently retired and enjoys spending time with her grandkids and girlfriends, playing Bucko, going to the casino, shopping and just having fun. Finally able to buy the things and do the things she held back on over the years. Would like to buy more music but not sure what to get apart from old favorites.



SHIRLEY
age 54

Dale is an institution in his rural Nebraska town. He's not the mayor, not the police chief, but performs an equally important function: he's the UPS delivery guy. Everyone in town waves as he drives past in the signature brown truck. A confessed music nut, his vinyl collection numbers 3,000. After family expenses, extra money goes toward increasing that number. His wife doesn't necessarily understand his behavior, but acknowledges that without music, he'd be a real pain in her butt.



DALE
age 46

empty nesters (41-55)

time to re-engage

role of music

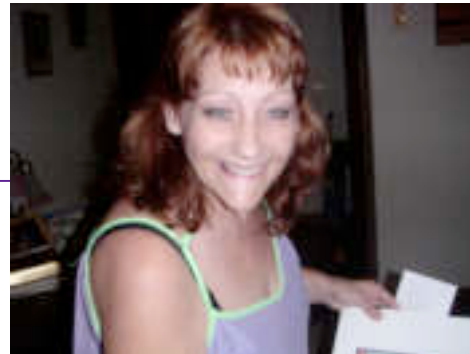
- music is memories, emotions, connections, and stories

road to discovery/news sources

- radio, friends, children

music acquisition

- CD collections that consist of generation classics, and vinyl replacements
- compilations are a hit
 - e.g. Time Life series, country compilations
- greatest hits albums well-liked
- empty nest means money available to purchase





empty nesters (41-55)



time to re-engage

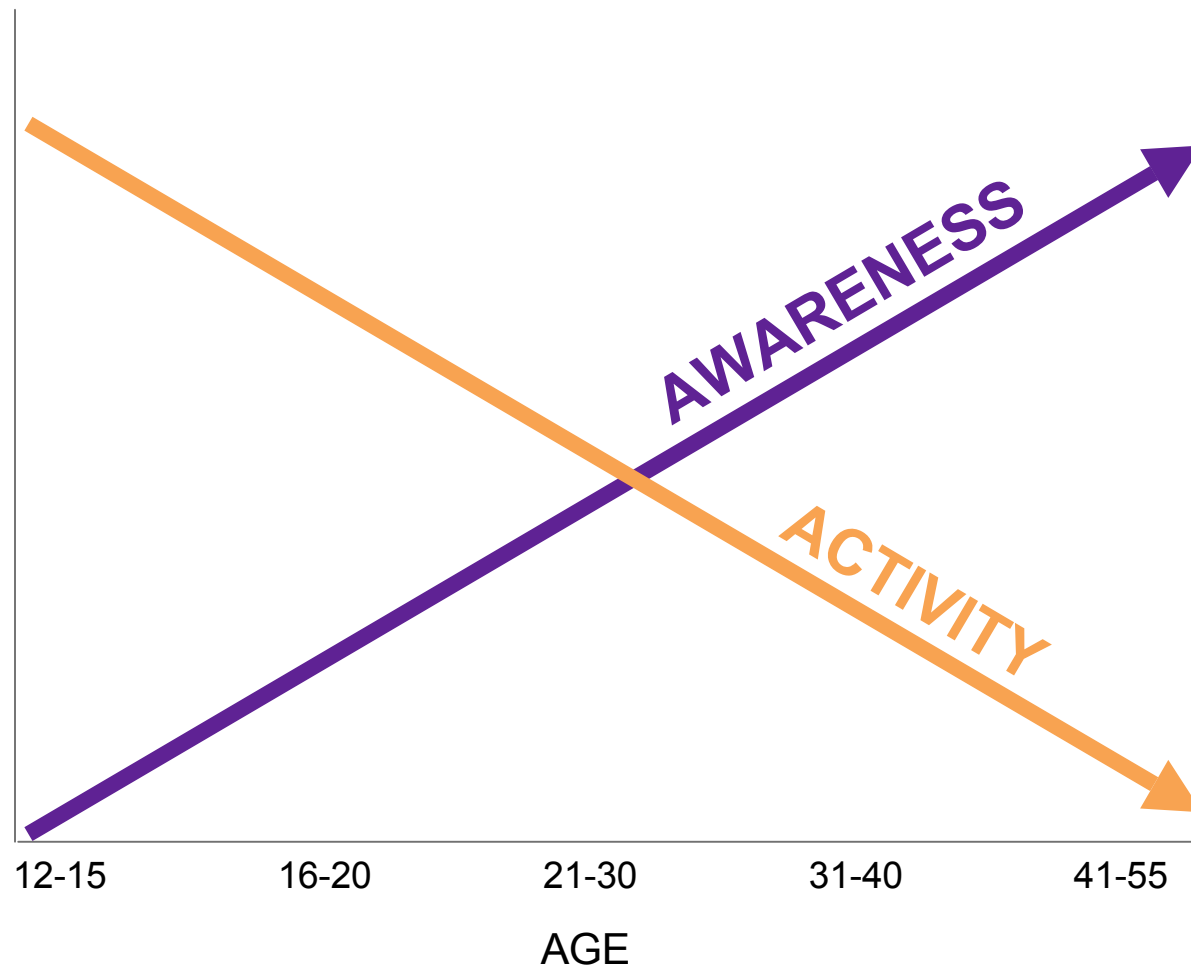
attitudes to music file-sharing and law suits

- extremely limited music file-sharing activity
- believe in supporting the artist

life/entertainment/spending priorities

- more disposable income to spend on
 - entertainment
 - vacations
 - dining
 - music

the music file-sharing phenomenon





TODAY'S realities



music

today's realities





cynicism



MUSIC FANS ARE CYNICAL REGARDING
THE STATE OF MUSIC TODAY. THEY FEEL
THE ART HAS BEEN PUSHED ASIDE IN
FAVOR OF MANUFACTURED SUCCESS
AND THE ALMIGHTY DOLLAR.





cynicism



“How about some s-u-b-s-t-a-n-c-e...is it just me or isn't everyone tired of hearing songs about hoes and twenty inch rims?” (F:26)

“Whatever happened to the ugly bands...you know, the ones that could crack camera lenses, but they played kick-ass music. The bands that looked like hell, but possessed an unbelievable passion and were all about the music. I miss the days when musicians just played and didn't have a fashion line.” (M:36)

“Hilary Duff's album is number one on Billboard and Britney was just awarded a star on the Hollywood Walk of Fame. The apocalypse is upon us.” (F:31)

“Why do I never feel like I'm getting a break or a deal when I shop for music? Other industries bend over backwards to get me to buy their product by offering deals...cell phones, long distance, cable/satellite, car companies...but not music.” (M:36)

“An industry sues its customers instead of listening to them...mind-blowing.” (M:52)



perception that artistry has overshadowed the art

- today's biggest stars are entertainers, not musicians
- today's biggest stars are bigger than the art
 - one element within an entertainment/business portfolio
 - music, fashion, modeling, producing, acting
 - witness J.Lo, P Diddy, H. Duff, Britney, etc.
 - a cynical point of view that music is often a stepping stone to broader stardom

perception that success is manufactured

- style, looks and marketability are keys to success, not musical talent
 - a sense that one does not need to know how to actually sing or play an instrument
 - sense that anyone popular can suddenly become a music act
 - witness Shaq's rap album
- success today often seems unearned
- artists who write and perform their own work are extremely respected, yet seem few and far between

perception that the industry over exposes for “the quick buck”

- mega-stars are seemingly everywhere
- if one act is a hit, industry gives immediate birth to sound-alikes
- radio promotes only the mega-stars, not up-and-comers
 - top ten hits are overplayed to death



perceived poor value at retail

- sense the industry doesn't want to give customers a break
- "why have prices remained the same for 20 years?"
 - CDR educated consumer perceives CD to cost cents on the dollar
 - low awareness or witnessing of Universal price cut
 - feeling that consumers aren't getting a bang for the buck

consumers view industry as waging hard-ball legal war

- including kids and elderly in the lawsuits
- perceive an us vs. them attitude from record companies
- feel stated objective is to protect artists, but actual objective to protect label coffers
- perception that industry focusing on dollars over consumer needs
 - against customers instead of working with them
 - taking something away vs providing an alternative
 - piracy is seen as "just" for the industry's lack of innovation

FANS FEEL THEY HAVE LOST TOUCH WITH ARTISTS. THE GAP BETWEEN THE REGULAR FAN AND THE STAR IS SEEMINGLY WIDENING AND DEEPENING. THEY YEARN FOR A HUMAN CONNECTION WITH CURRENT FAVORITES AND EMERGING UNKNOWNNS.





relationship



“Instead of showing bling-bling bullshit, show me the real person behind it. Show me what went into the making of the album...in fact, show me the out-takes, the mistakes. I try to play guitar and it would be great to know that even the pros sometimes make mistakes. That would give me hope (laughter). I want the human, not just the big house, the parties and the other garbage.” (M:42)

“I miss the days when an album cover meant something...it was tied to the music and you spent time looking at it, trying to understand its significance. It was part of the music.” (M:48)

“Keeping up with new music is tough. Why does everyone know the release date of the Spider Man DVD, but no one knows about album releases?” (record store employee)

“People see the clothes, hats, and sneakers we wear...no one sees the 50 Cent or Jay-Z CD. If I want to own the block, then the clothes matter more.” (M:15)

a widening gap between superstars and regular consumers

- stardom over-exposure fuels perception that all musicians are mega-rich
 - fostered a “why do they care if I download?” mentality

increasing lack of human connection

- consumers crave human exposure
 - fans want to know more about the real lives and motivations behind the music
 - the everyday fan connects with and supports acts who struggled on the way to superstardom: the underdog effect
 - fans have limited understanding of the work that goes into making music
 - fans desire authenticity...desire tangible “realness”
 - music news promotes fall from grace stories not rise to grace
- country fans expressed greatest human connection with stars
 - the county fair effect
 - many acts credited for not forgetting their roots

connecting with music lifestyle, not necessarily the music

- the lifestyle, especially within the hip-hop genre, has overshadowed the music
- social currency lies within owning an outward appearance, not owning the music
 - hip-hop style over music substance
 - owning the right sneakers, jerseys and hats are crucial
 - peers see the fashion, not the latest CD



relationship



difficult to discover/keep up with and learn about new music

- takes considerable time and effort
- lack of easy way to broaden tastes and discover new genres
 - no Music 101 or Music For Dummies available
- perceived lack of marketing and promotion for up and coming stars
- consumers turning to local music scene
 - approachable, real musicians in it for the music
 - shows are cheap
 - music often given away for free



restriction



WITH LIMITED FORMAT OPTIONS AND ALMOST NO
CUSTOMIZATION OPPORTUNITIES, LISTENERS
PERCEIVE THEIR HANDS TO BE TIED.
FURTHERMORE, THE OPTIONS THAT PROVIDED A
SOLUTION ARE NOW ILLEGAL.





restriction



“CD’s are the only thing the stores offer, but my days of carrying around a discman and 30 CD’s are over. CD’s haven’t improved. I improve it by transferring it to my iPod.” (M:22)

“Radio plays the same stuff over and over. It tires out the hits before I can even think about going to the store. (F:27)

“OK, so it’s now illegal and I shouldn’t be doing it. But I have to ask, did the industry listen, did they pay attention? We download not only because it was free, but because we see no value in spending \$18 for two good songs, two half-assers, and eleven shitters.” (M:23)

“If I only like one song, why do I have to buy an entire CD?” (F:39)



CD format is restrictive

- relevance is waning
 - particularly for younger consumers, the truly digital generation
 - evidenced by fact that consumers are taking CD's and making them digital
- hasn't kept up with consumer needs/desires
 - less portable
 - carrying around stacks of CD's for a discman is a drag
 - less transferable
 - sharing digital files (music and documents) has become a way of life
 - less durable
 - can't scratch an MP3
 - less customizable
 - digital playlists can be created in no time flat
- consumers complain about lack of retail digital offering
 - low awareness of iTunes and AOL offerings

traditional album format restricts choice

- some feel forced to buy all songs when they only want a few
- a la carte, customization driven society prefers choice vs. buying entire album
- album format increasingly losing importance
 - no longer seen as purposeful, storied collection, now simply bunch of individual songs



restriction



lawsuits have restricted ability to obtain music

- right or wrong, music file sharing became a fact of life
- consumers have heard the message and are changing behavior
 - file sharing moratorium, but doesn't mean they are running to music store
- similar to reactions/emotions following a death
 - denial
 - anger ← we are here
 - acceptance

IN GENERAL, LISTENERS SENSE A LACK OF PASSION FROM THE INDUSTRY, ARTISTS, RADIO AND RETAILERS: A PERCEPTION THAT EVERYONE IS TAKING THE EASY PATH. IT IS NO SURPRISE THAT CONSUMERS HAVE FOLLOWED SUIT AS APATHY BEGETS APATHY.



apathy



"It's just shelves of CD's. It's a bit boring, not alive like music is." (M:17)

"Buying music shouldn't be like buying gas or groceries...you know, in-out as fast as possible. That kind of shopping is chore shopping. Buying music shouldn't be that way." (F:29)

"At least with video games, I know quality increases every year. I know Madden 2004 will be better than 2003. But music has gone in the opposite direction. I walk into Sam Goody or FYE and it seems like nothing's changed: CD's for \$18." (M:30)

"Korn's last album was disappointing, but I read that they learned their lesson and have been spending more quality time in the studio on the next album. I'm looking forward to hearing it. I wish all bands realized this." (M:17)

"Walk down the hip hop aisle and tell me if anything jumps out at you. It won't because it all looks the same: a photograph of the artist probably taken by someone in his posse. Where did the creativity go?" (music store salesperson)

recording industry has lost its passion

- sense the industry cares more about itself than consumer desires
 - no sense of dialogue with music fans
 - taking us to court vs. listening
- perceived to be driven by the quick buck
 - creating and promoting only stars with short term appeal
 - sense that industry is creating and fostering disposable, devalued music
 - “popular today, unpopular tomorrow”

competitive entertainment industries, however, have consistently created desire resulting in loyalty

- continued quality improvements provide concrete consumer value
 - movie production values and effects
 - video game graphics
 - evolving television and publishing content

apathy

perceived artist apathy

- quantity over quality
 - perception that successful acts are forced to quickly pump out albums resulting in reduced quality
 - often perceived to be bowing to industry and leaving their roots
 - artists perceived to lack passion for their product
 - albums with fewer good songs

retail commoditization

- physical act of visiting store not entertaining, exciting or emotional experience
 - not engaging, often boring
 - akin to buying groceries
 - not an entertainment destination to hang out, discover and celebrate music, simply shelves of CD's
 - perceived lack of passion and knowledge of store employees
 - collecting paychecks, not promoting music goodwill
 - doesn't satisfy impulse needs that on-line does (iTunes)



apathy



accessibility has devalued music and made it a commodity

- radio is the free music store that fosters buyer apathy
 - emphasis on hits limits exposure to new music
 - plays hits so often...there's no reason to buy
 - why would I buy when radio tires out the song before I think about going to a store?" (F:14)
 - "people complain about Microsoft, but the real monopoly in our lives is Clear Channel." (M:27)

comfort with the status quo

- sense that industry has not advanced or innovated the physical product
 - CD has been the retail format for 20 years
 - low awareness/appeal of CD sound improvements
 - SACD virtually unknown among consumers and salespeople
 - DVD Audio perceived to be concert DVD
 - "the package" has not evolved
 - the stuff: cover art, liner notes, pictures, etc., have seemingly lost value over the years
 - yet fans desire these elements...make it more valuable and tangible asset



summary – the good news



Despite all that has been said, however, we didn't just hear gloom and doom. On the contrary, we witnessed a **STRONG PASSION FOR MUSIC THAT IS ALIVE AND KICKING**. Everyone we met was **EXCITED** to talk, think and share stories about music. **MEMORIES** were rekindled and personal stories were **SHARED**.

We **DANCED**, **LAUGHED** and in one case, even **CRIED** while sharing **INTIMATE, HEARTFELT STORIES RELATING TO MUSIC**.

So, within and between consumers **MUSIC IS ALIVE AND WELL**. It is **BETWEEN CONSUMERS AND THE INDUSTRY** where the **DISCONNECTION** has occurred.

In the previous pages, we have articulated the **DETAILS AND THE DEGREE OF DISCONNECTION BETWEEN THE INDUSTRY AND THE CONSUMER**. It is tempting at this point to start launching into a whole raft of mega-strategies to address the central issues, but our brief was quite specific and quite clear....

1 WHY AREN'T CONSUMERS BUYING AS MUCH PRE-RECORDED MUSIC AS THEY ONCE DID?

2 WHAT CAN BE DONE TO GET THEM TO BUY MORE IN THE FUTURE

The remainder of this report addresses this second question.



RECOMMENDATIONS





CREATING AN ENHANCED EXPERIENCE

Our recommendation is to **TRANSFORM** the current music purchase **EXPERIENCE**. This is not only about buying, but also about consumer's discovery, trial and interaction with music and the artists. Our recommendations involve the **INDUSTRY**, the **LABELS** and the **RETAILERS** — and they cover both the **SHORT-TERM** as well as the **LONG-TERM**.

our central recommendation

TRANSFORMING PRE-RECORDED MUSIC PURCHASE



FROM

A MUNDANE
TRANSACTION



TO

A VALUED
EXPERIENCE

TRANSFORMING PRE-RECORDED MUSIC PURCHASE



FROM
a valued experience

- PASSION
- INVOLVEMENT
- INDIVIDUALITY



TO
a valued customer

- INCREASED LOYALTY
- INCREASED PURCHASE



reconnecting with the consumer



There is **NO SINGLE QUICK FIX SOLUTION** regarding encouraging consumers to purchase more pre-recorded music. Breaking new acts is no longer the sole solution and we believe that it will require a wide menu of solutions to jumpstart this reconnection

The industry must **ADDRESS THE CURRENT NEGATIVE CONSUMER PERCEPTIONS AND REALITIES**. It must also **RE-THINK THE WAY MUSIC IS MARKETING**. The consumer needs to be **RE-CONNECTED WITH PRE-RECORDED MUSIC**.

In today's world, consumers don't simply buy artists – they certainly don't buy "genres". They buy **EXPERIENCES**.

The following presents our recommended approach grounded in an established marketing framework: **PRODUCT, PLACE, PROMOTION**



Some of our recommendations may be **NEW** to you; some of the may not be new. However, these recommendations all come **DIRECTLY FROM THE CONSUMERS** and importantly, are all **NEW TO THEM**.

promotion

1

idea

establish an industry wide portal as the place to turn for anything music (i.e. the WebMD of music) which could include:

- new release announcements
- sampling
- “music for dummies”

relationship
cynicism
apathy
restriction

RI	A
C	Rs

result

provide a single source for news and discovery that is an alternative to illegitimate music file-sharing sites, foster a consumer-industry relationship through direct dialogue

2

idea

maximize value of release date

- promote New Release Tuesday as a weekly event, something to look forward to
- build anticipation with seasonal blockbuster albums during Christmas or summer season like the movie industry
- use a Sweeps Week approach for generating buzz

relationship
apathy

RI	A
C	Rs

result

generates excitement and anticipation, and prompts discovery

promotion

3

idea

create the equivalent of the Oprah Book Club for music maybe with Simon Cowell

result

provides what appears to be a trusted/unbiased source of recommendation, encourages discovery and fosters a sense that music is a subject to be discussed and analyzed with friends

relationship
apathy

R	A
C	Rs

4

idea

give artists a more human face by highlighting their involvement in the community vs. flashy bling-bling lifestyle (e.g. Dave Matthews Concert for Schools) and closer interaction with fans such as small venue concerts and after concert signing sessions (e.g. Alabama signing autographs after a Coliseum concert until 2am)

result

better connection with listeners

relationship

R	A
C	Rs

promotion

5

idea

provide a much wider opportunity for consumers to sample music beyond radio:

- coming attractions on CDs
- give-aways (i.e. Elvis 2 and Jet Blue)
- interactive outdoor signage with digital music downloading
- utilize and maximize airline radio as an exposure vehicle vs. purely licensing source
- soundtracks for video games
- in store soundtracks at retail outlets like Gap
- sync/master use licensing to commercials as an exposure vehicle vs. a revenue source (i.e. Moby, Dirty Vegas)

relationship



result

aids consumer discovery and broadens an artist's potential audience

6

idea

emphasize the art over the industry

- highlight the skills of the singer/songwriter (i.e. Cold Play, Dave Matthews); existing publicity like VH-1 Behind the Music focuses on the glamour and salaciousness of fame vs. the artistry
- make a point of being more selective with releases and afford more time in studio to increase perceptions of quality and pride (i.e. Beastie Boys, Korn)
- tell the story behind the music – give listeners an idea of what goes into the making of the album (e.g. promos for Lord of the Rings focused on the gargantuan effort involved in making that film)

cynicism



result

better connection with listeners

7 idea

alpha consumer seeding – take street team approach to the next level

- identify the most influential local music fans in youth targets (age 12-20) and allow them to be the local link to the music industry by providing them with early releases, free samples, artist information, and regular dialogue (e.g. Hasbro uses “alpha pups”, who are boys 8-13 who were identified by their peers as trendsetters to promote or “infect” an urban center with a new toy; this then sets the stage for national promotions)

cynicism
relationship
restriction



result

a more direct and influential link to the listener base and a new channel of sampling

8 idea

create and promote new labels that stand for a particular “sound” (i.e. Blue Note, Verve, Death Row Records) and become a de facto genre/category; treat record labels as sub-brands which can be then managed in a brand portfolio strategy

relationship



result

aid discovery and encourage cross label sampling while reducing purchase risk

promotion

9

idea

in store guerilla marketing/proactive referrals

- approach consumers who are shopping a particular section and casually mention/recommend they listen to artist X (i.e. the “unplugged” approach)

relationship
cynicism



result

prompts curiosity and aids discovery, re-injects passion into retail

10

idea

promote how piracy hurts not just the industry/artists, but the little man (i.e. the mom & pop shop owner, the record technician, the background singer)

relationship
cynicism



result

reduce the perception that piracy only affects those that are already rich and humanizes the issue



place



1 1 idea

digital music purchase availability in non-traditional environments/outlets such as train stations, subway platforms, gym, on the plane, hair salons (where consumers are listening, waiting, etc)

restriction



result

availability in the exact moment/need of use – increased impulse purchasing

1 2 idea

exploit non-traditional music retail venues to target specific segments (i.e. supermarkets/drug stores for adults; clothing, accessory and lifestyle outlets for teens (Claire's, Zumie's, Urban Outfitters) (e.g. Boost, a division of Nextel, targets its teen consumers by selling its cell phone packages in skate shops)

relationship
restriction



result

increased impulse purchase, broader availability, targeted exposure



place



1 3 idea

in-store referral on info boards (“if you like this, you’ll love this” a la amazon.com)

result

relationship

RI	A
C	Rs

encourages effortless discovery

1 4 idea

make retail an event destination by adding karaoke, recording studio booths, hang out rooms, dance areas, live music/concerts, open mic nights, guest DJ’s, current event music forums, guest speakers (similar to book stores), and education sessions (similar to Home Depot), etc

result

apathy

RI	A
C	Rs

draw customers into store by making retail a fun, emotional, entertaining experience

place



15 idea

retail loyalty programs

cynicism
apathy



result

fosters sense of customer appreciation

16 idea

create a more exciting hangout atmosphere (e.g. comfortable, home-style, art gallery, lounge-y, etc.)

relationship
apathy



result

a more relaxed or exciting purchase experience that will shift current shopping mindset from in/out to browsing, discovery and exploration



place



17 idea

in-aisle LCD displays linked to “now playing” selections

result

relationship



message announcing band, song/album title, and placement will encourage impulse purchase

18 idea

comprehensive in-store sampling: ability to listen to every song on every CD a store carries; full songs, not 30 second clips – FNAC and Virgin Megastore in Paris have been doing this for years

result

relationship
restriction



alleviates risk of purchase, enables broader discovery

place



19 idea

create additional categorization driven by experience/emotion, not just genre (breakup, dinner party, workout, getting ready to go out/pumping up, driving, etc); take the lead from the popularity of chillout/lounge CDs

result

consumer end-benefit categorization approach encourages shopping across a broader spectrum of artists and aligns the selling process with the way music is used

cynicism
relationship
restriction



20 idea

increased staff recommendations sections in the stores and introduction of artist picks

result

encourages discovery and artist picks showcase an artist's personality in a new way

relationship
apathy





place



2 1

idea

employ a music rental business model (similar to DVD rental's in airports, can't be copied, limited play life, discount toward purchase)

result

restriction

RI	A
C	Rs

allows test drive in real life, out of retail environment, reduces risk perception

2 2

idea

passionate, friendly and knowledgeable in-store sales help (e.g. employees at Homer's in Omaha must pass music knowledge test)

result

relationship
apathy

RI	A
C	Rs

reduces intimidation factor, encourages discovery



place



2 3 idea

at mass and discount outlets, merchandise music in aisles most typically visited and associated with store (health & beauty, auto, clothing and food)

restriction

RI	A
C	Rs

result

increases impulse purchase during routine shopping trips

2 4 idea

customized in-store compilations available for music from all record labels to counter the illicit ways consumers currently compile music from online

restriction

RI	A
C	Rs

result

product appropriate solution in today's a la carte focused mindset



place

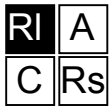


25 idea

quintessential “must have” album/artist list for each genre prominently displayed in aisles

result

relationship



reduces intimidation factor, encourages discovery

26 idea

providing digital product with faster music downloading, improved quality, increased variety, virus protection; also include value adds including lyrics, cover artwork, exclusive tracks and music news

result

relationship
cynicism
apathy
restriction



makes paid-for digital music downloading more valuable than free alternatives



product

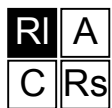


27 idea

new format options for CD: singles, compilations, extended play etc.

result

relationship



maximum choice for consumers

28 idea

interactive CDs/DVDs with music videos, behind the scenes, studio sessions, live clips, video games (e.g. POD disc); an \$18 CD should have as much added value content as an \$18 movie DVD

result

relationship
apathy



makes CDs multi-dimensional, fun and brings consumer closer to the artist



product



29 idea

make CD's packaging content more involving and informative e.g. posters, stickers, lyrics, bios; right now consumers feel lucky to get lyrics and a thank you message from the artist to a bunch of people they never heard of

result

brings consumer closer to the artist, makes CDs a bigger package and fun

relationship
apathy

RI	A
C	Rs

30 idea

make CDs more collectable e.g. limited edition, early mix releases, unplugged versions

result

increases value through exclusivity, provides social cache and desire to collect music

relationship
apathy

RI	A
C	Rs



product



3 1 idea

make CDs come alive and as valued form of art e.g. tactile and stylized cases/covers

result

relationship

RI	A
C	Rs

CDs become a total concept, work of art, collectable and more desirable

3 2 idea

allow the ability to create customized CDs in store

result

restriction

RI	A
C	Rs

gives consumers a personalized and more desirable final product

idea priorities



IDEA	SHORT TERM <6 MTHS	LONG TERM >6 MTHS	INDUSTRY	LABEL	RETAIL
1	X		X		
2	X			X	
3	X		X		
4		X		X	
5		X	X		
6		X		X	
7	X			X	
8		X		X	
9	X				X
10	X		X		
11		X	X		
12		X	X		
13	X				X
14		X			X
15		X			X
16		X			X

continued on next page

idea priorities (cont'd)

IDEA	SHORT TERM <6 MTHS	LONG TERM >6 MTHS	INDUSTRY	LABEL	RETAIL
17	X				X
18		X			X
19	X				X
20	X				X
21		X			X
22		X			X
23		X		X	
24		X	X		
25	X				X
26		X	X		
27		X	X		
28		X		X	
29		X		X	
30		X		X	
31		X		X	
32		X			X

EMPTY NESTERS (age 41-55)



WHY

- disposable income
- freedom
- comfortable with CD format

HOW

- reconnect
- reeducate

EARLY TEENS (age 12-15)



WHY

- they are the future
- some disposable cash
- almost lost to piracy

HOW

- embrace digital
- pricing
- format options

target opportunities

open for business

YOUNG ADULTS (age 21-30)



WHY

- embrace all formats
- disposable income with fewer responsibilities
- most concerned about music file-sharing

HOW

- format options
- pricing
- new discovery

OLDER TEENS (age 16-20)



WHY

- more interested in more-outward displays of status
- spending on socialization and fashion
- less threatened by piracy issues

HOW

- make music social currency
- through alpha kid influencers

OLDER ADULTS (age 31-40)



WHY

- limited time
- limited disposable income
- other priorities

HOW

- through their kids



thank you



sterling group www.sterlingbrands.com
350 fifth avenue new york ny 10118 v 212 329 4600 f 212 329 4700
41 grant avenue san francisco ca 94108 v 415 248 7900 f 415 248 7979