The NPD GROUP

Hitting the Mark

Spotlight on Consumers

NPD Music & Movies for NARM

NARM the voice of music retailing

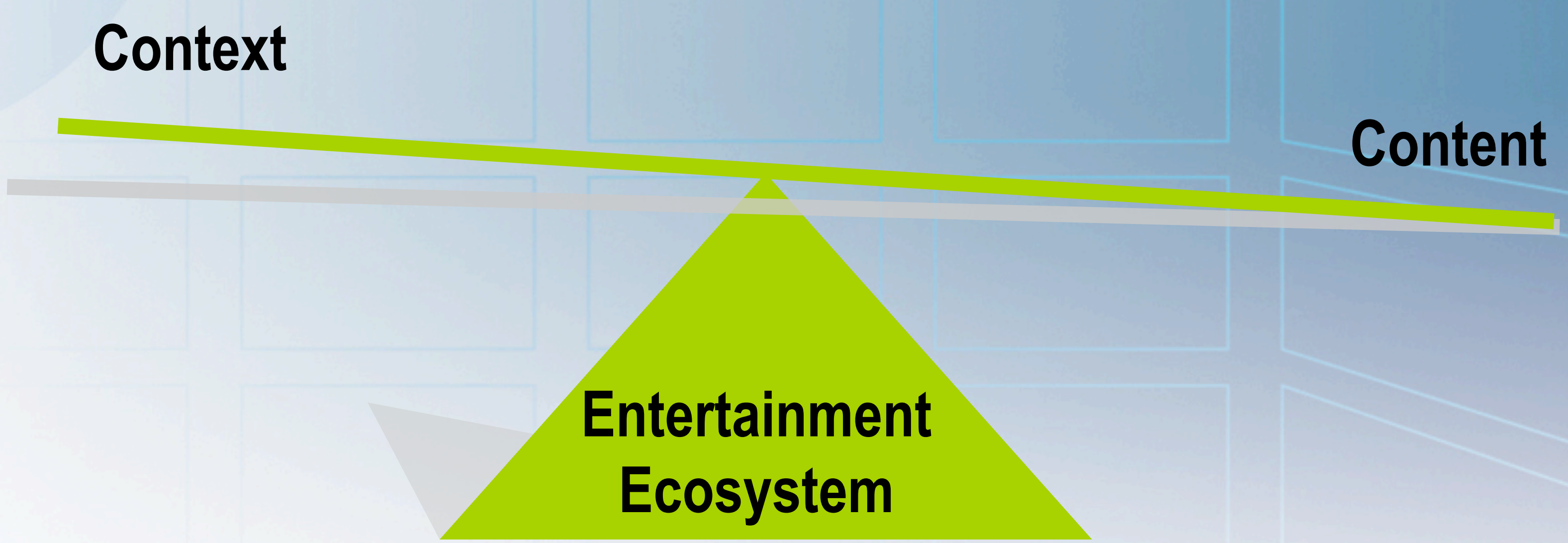
Apparel
Appliances
Automotive
Beauty
Consumer Electronics
Food and Beverage
Foodservice
Footwear
Housewares
Information Technology
Music
Movies
Software
Toys
Travel
Video Games

NARM Retrospective

- The Value Question
- Demographic Challenges
- Falling Category Equity
- Declining Shopper Loyalty
- Channel Shifts
- Impact of P2P
- Threat of Convergence

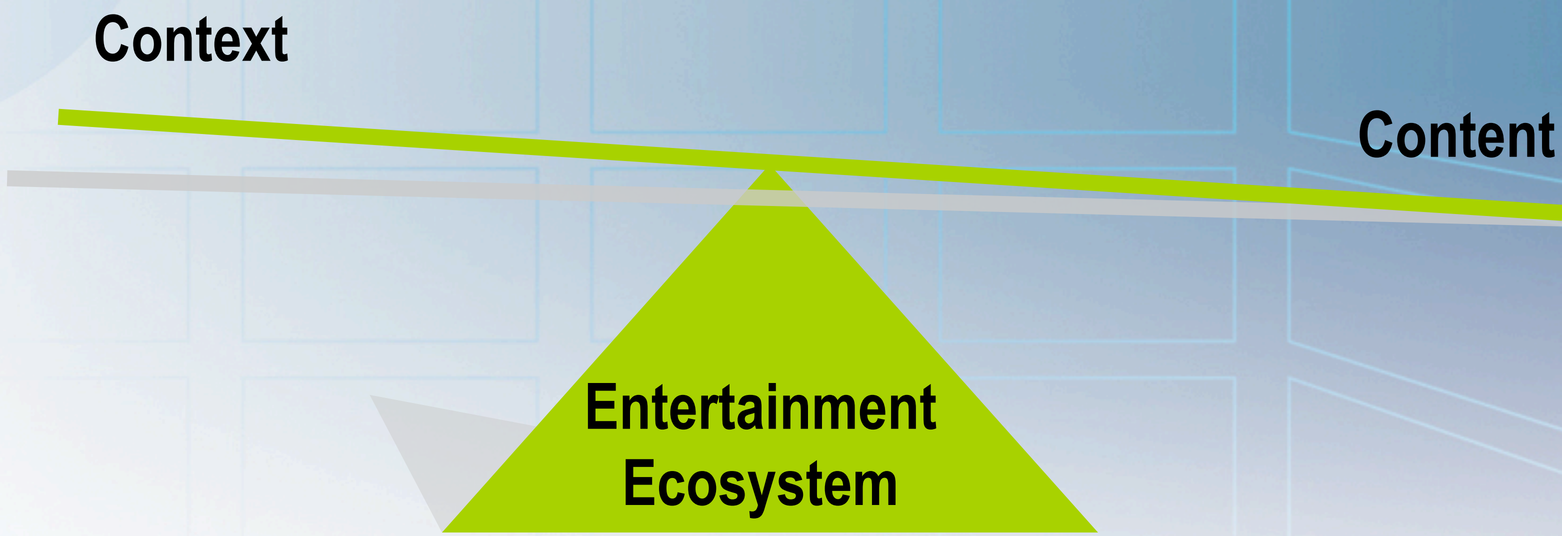
Music Buyers Aren't Lost- We Just Have To Look Harder

Technology is Changing Consumer Behavior.
That change is clearly threatening.



There Is Opportunity

**Technology is Changing Consumer Behavior.
Physical Retailers Have A Unique Opportunity to
Take Advantage**



A Prospective

- Let’s Examine Some Trends
- Environment
  - How effect:
    - Content
    - Context

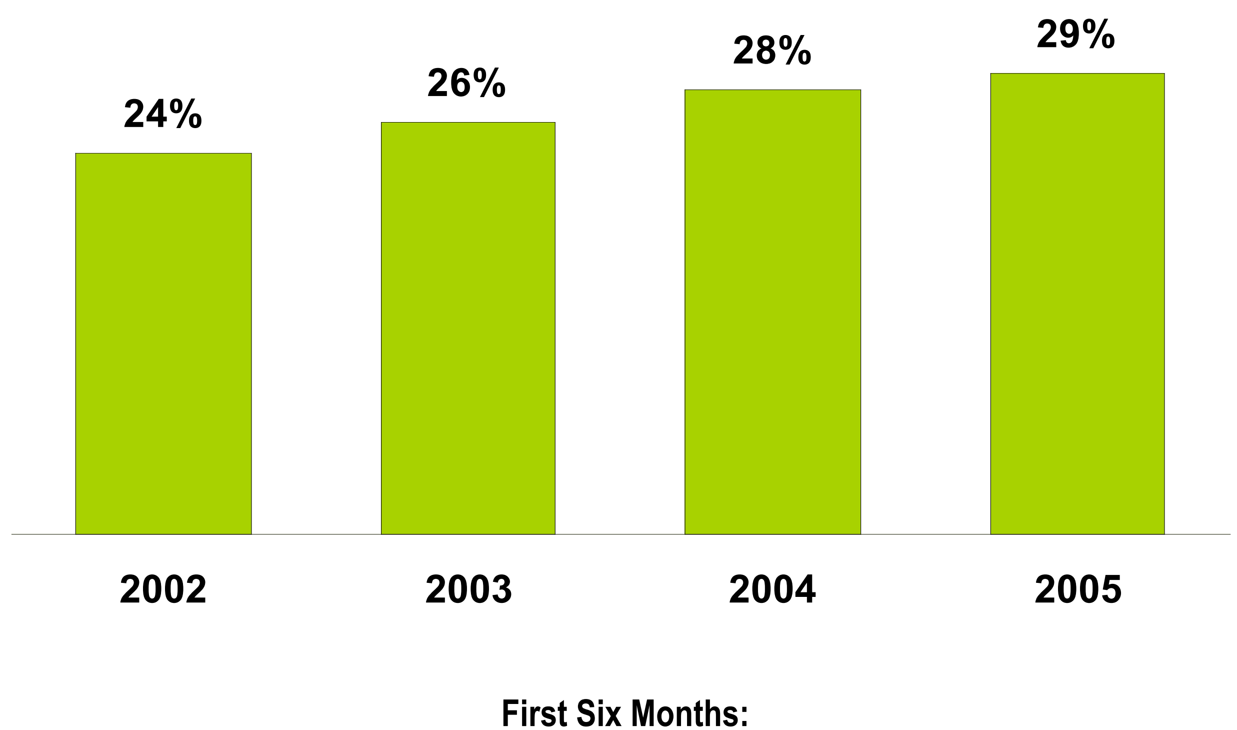
A Prospective

- 1st Half ’05
  - CD Sales off 6.4%
  - Sales in Mass rising
  - Music acquisition increasing
  - Digital Buyers more than double

CD sales data sourced from Billboard

Mass Merches On- Unit Sales +2%

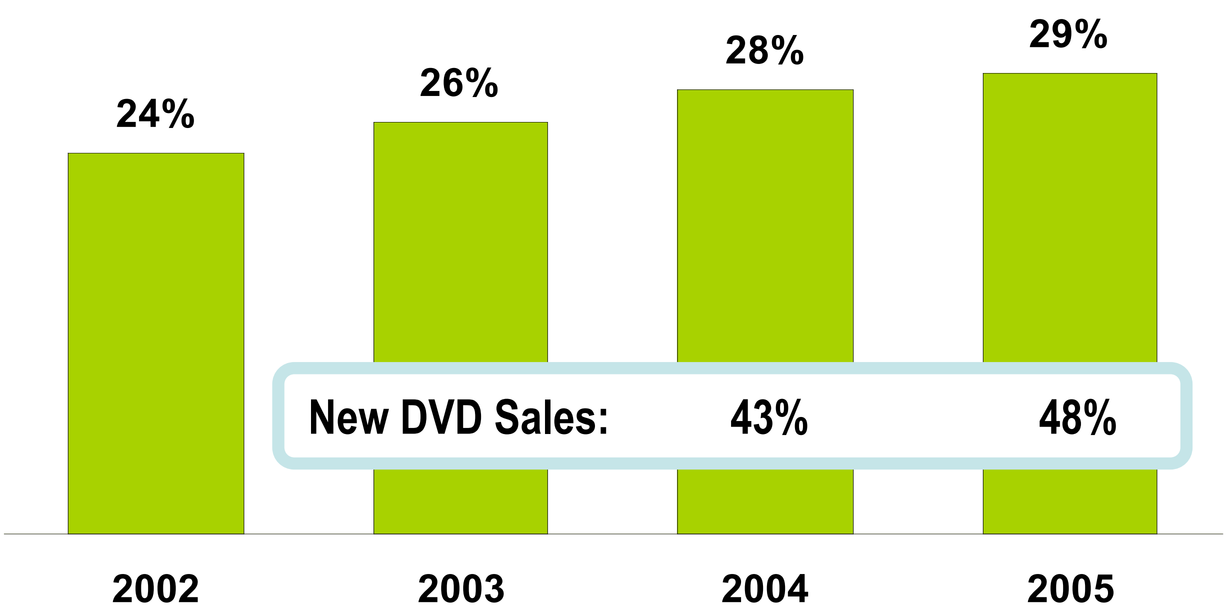
Share of Units Sold in Mass Channel:



Source: NPD MusicWatch

Mass Merches On- Unit Sales +2%

Share of Units Sold in Mass Channel:

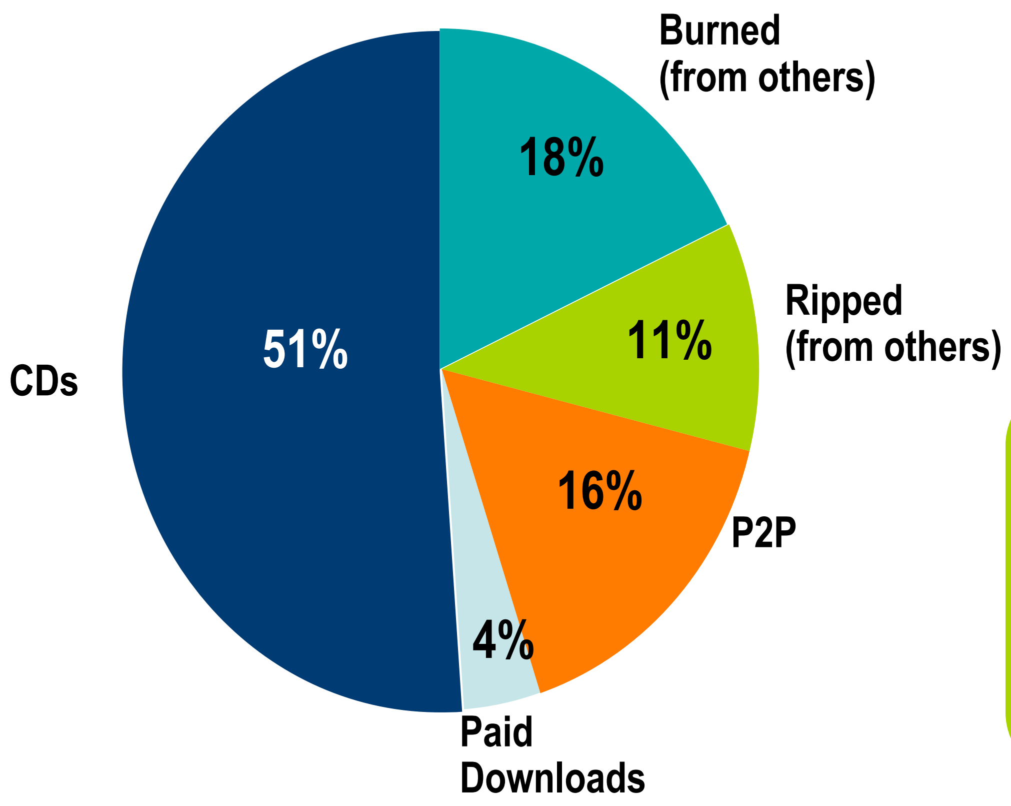


First Six Months:

Source: NPD MusicWatch/NPD VideoWatch

Overall Music Acquisition Was up 3% in 2004

How Music Was Acquired Over the Past Year?



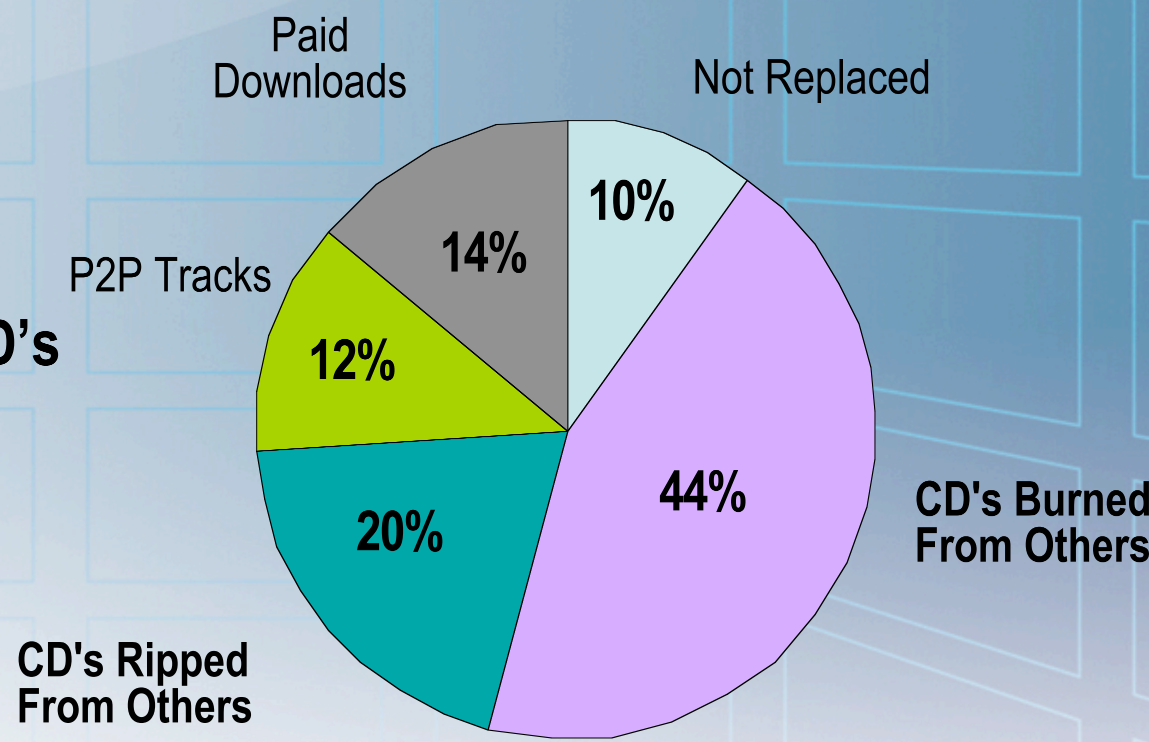
Growth came from burning, ripping and paid downloads

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

Source: NPD Digital Music Study December 2004 (US Internet Pop. Age 13+)

Where did your sale go?

9 out of 10
Lost Physical Sales
Were Replaced-
Mostly with Borrowed CD's



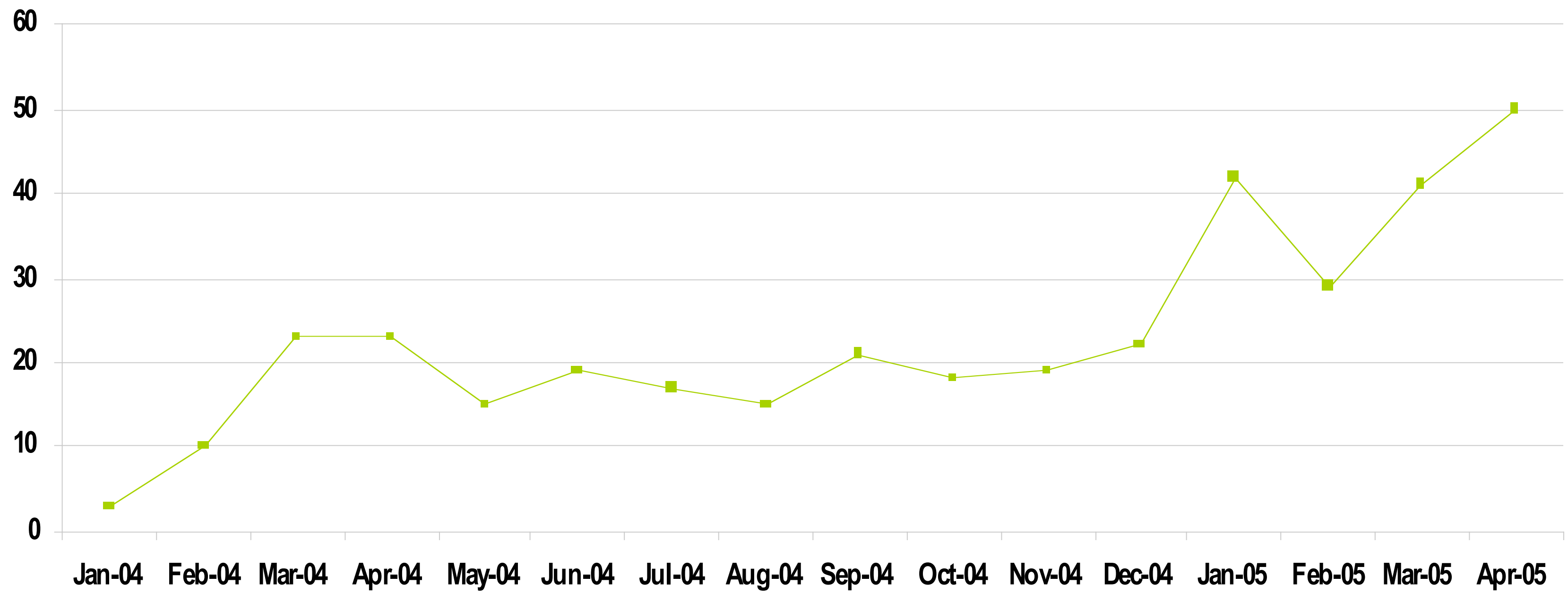
** Equivalent units (12 songs = 1 unit)*

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?

Source: NPD Digital Music Study December 2004 (US Internet Pop. Age 13+)

Velocity of Legal Ala Carte Downloading Zooms

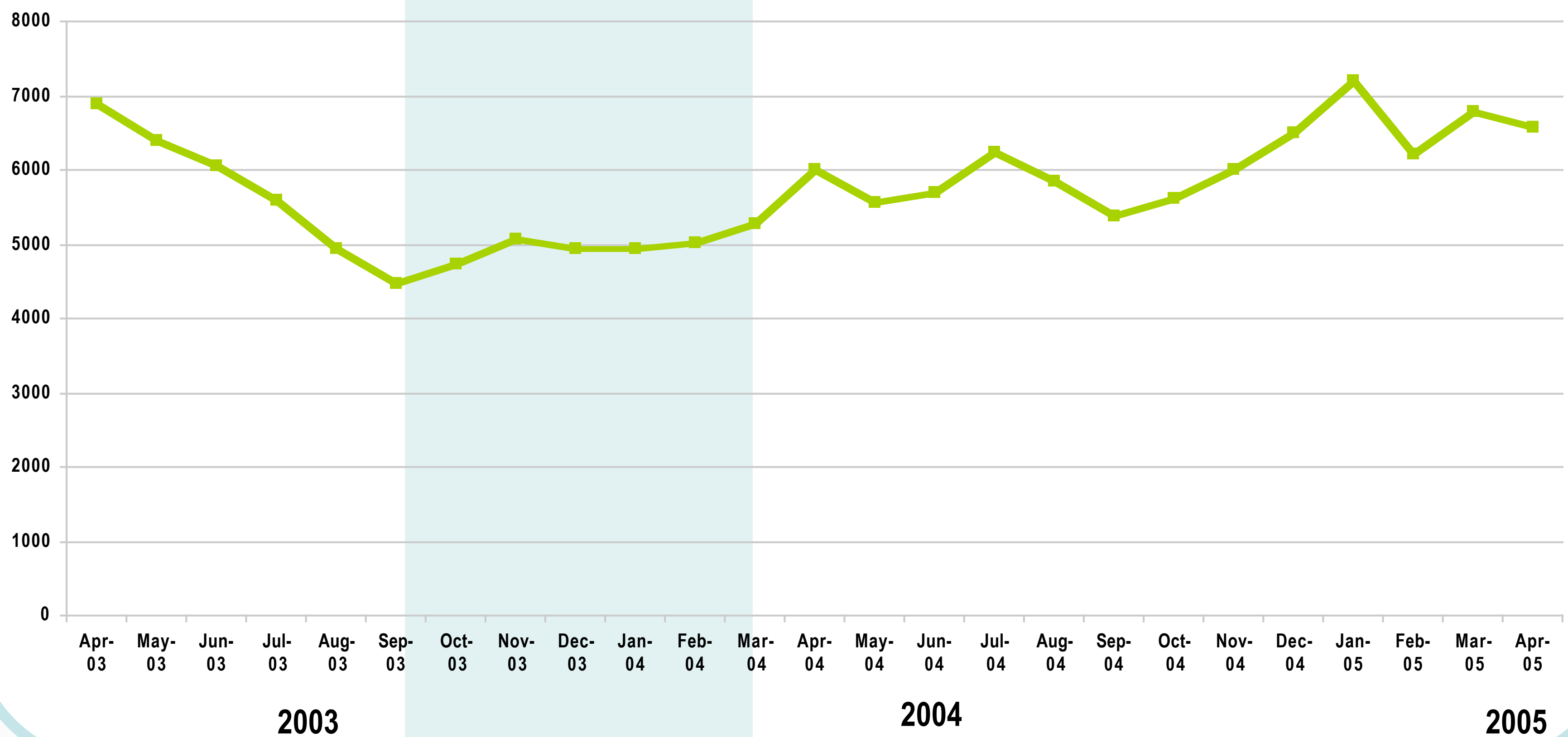
Legal Digital Ala Carte Sales Per 100 Internet Households



Source: NPD MusicWatch Digital

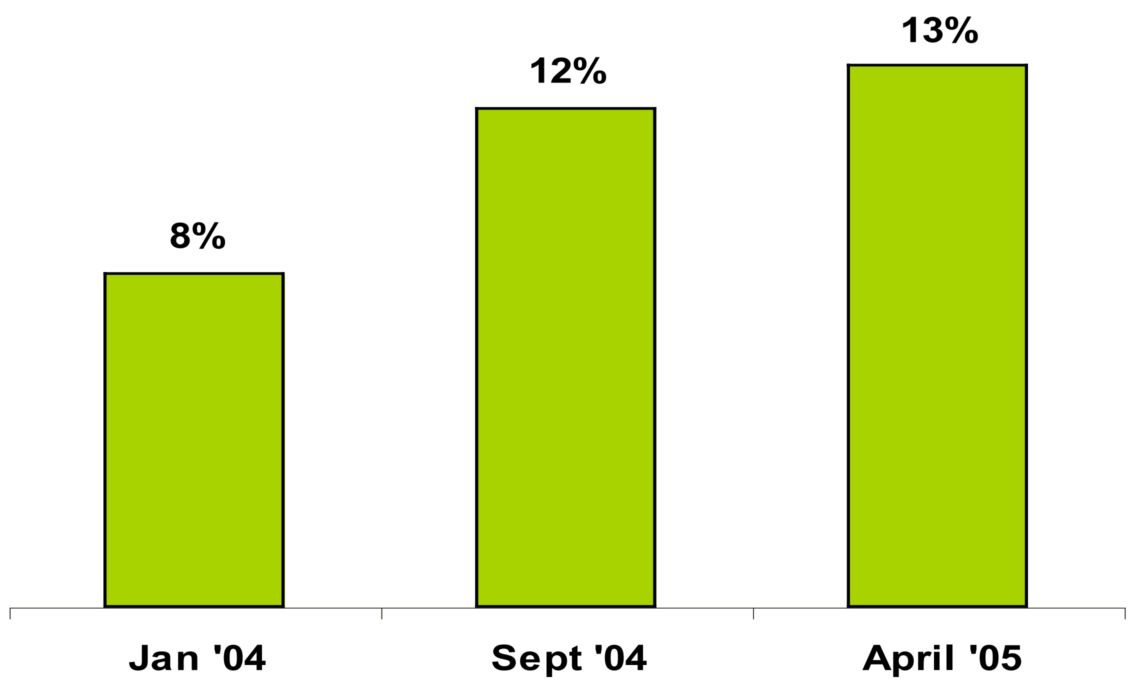
Number of Illegal Music Downloaders in US from P2P Rises Slowly

Households Downloading Music Files From Illegal P2P Services



Source: NPD MusicWatchDigital

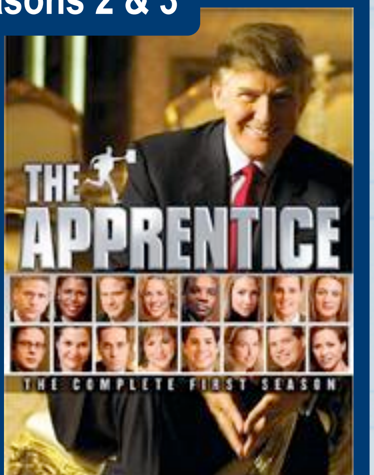
One in Eight Internet Households Have A Video File On Their PC's At least the size of a Half Hour TV Show



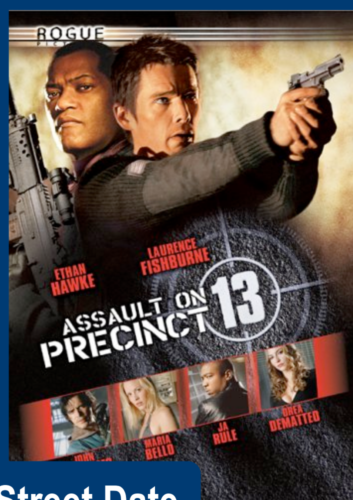
Source: NPD VideoDigital

In Inventory — Just Not Yours: April 05

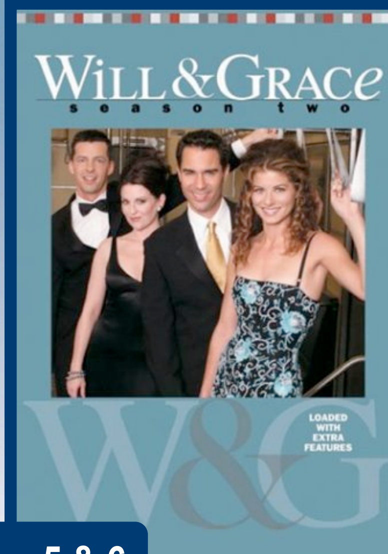
Seasons 2 & 3



Season 1



May 10 Street Date



Seasons 5 & 6

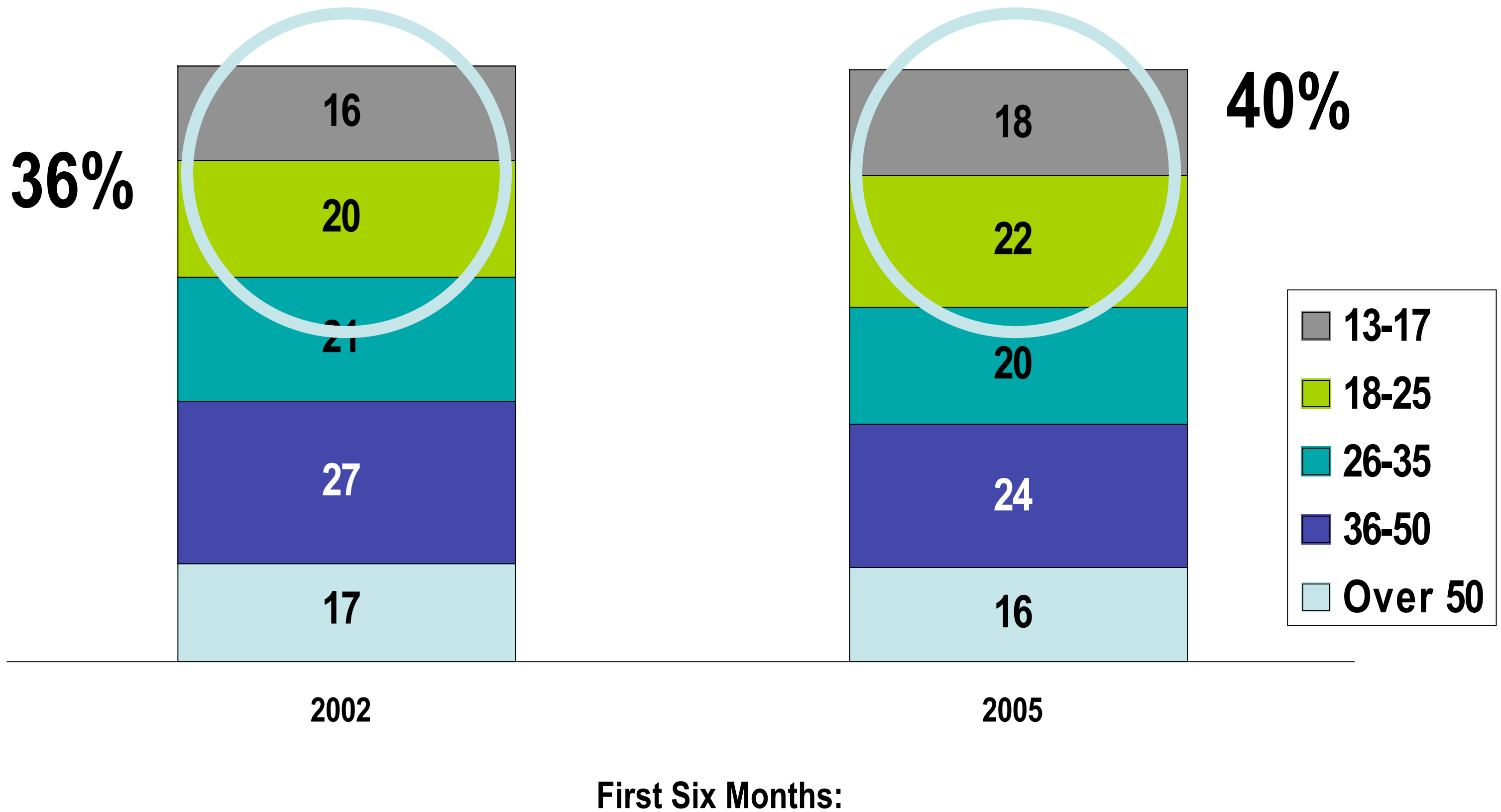
- Mass merchandisers getting better at 3rd "P"
- Fair use, not abuse
- Learn from youth

Learning From Youth

- Younger consumers most digitally involved
- Younger consumers the most deterred…
- Younger consumers still active in P2P
- Younger consumers are back
- The real revolution?

We Found The Lost Generation!

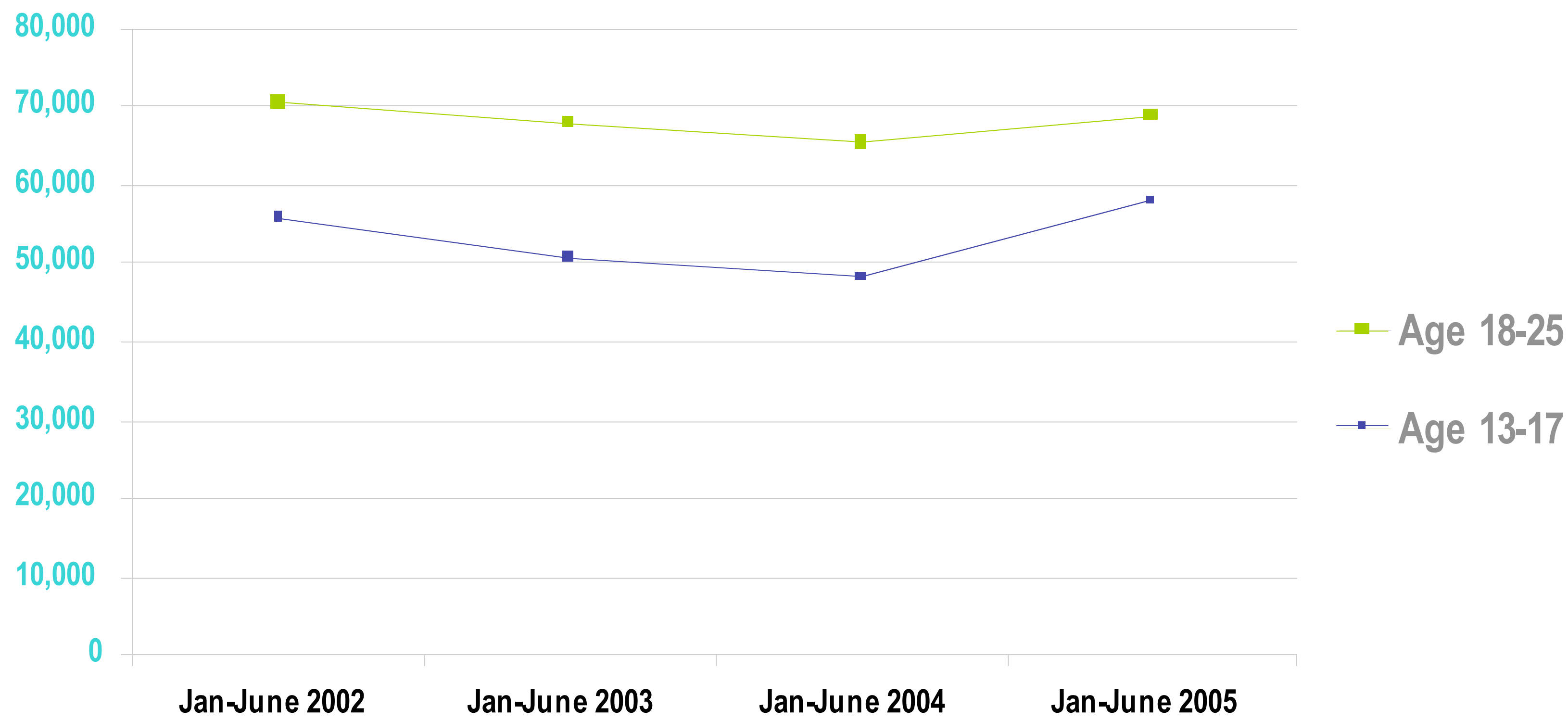
% of Full-Length Unit Sales by Age Segment:



Source: NPDMusicWatch

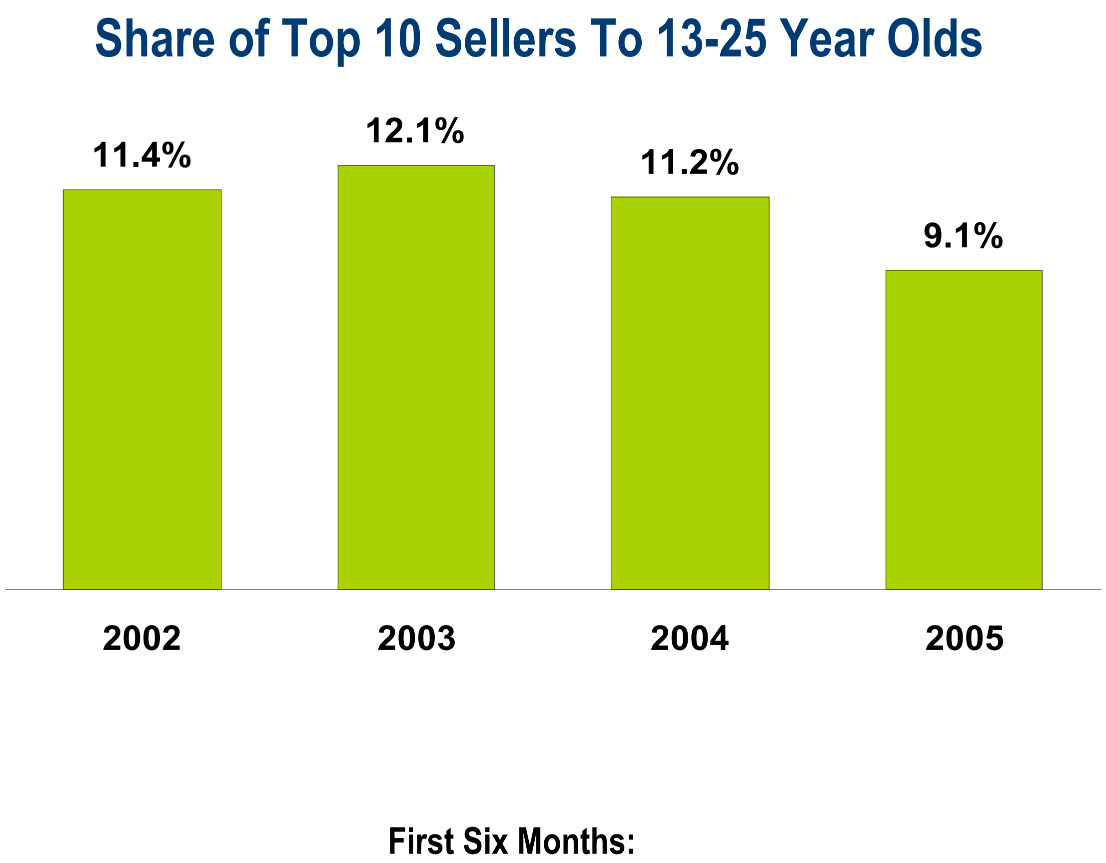
Teens Return (Esp. Girls) and Sales Slide Reversed Among 18-25 Yr Olds

Unit Sales: Physical FL CD's



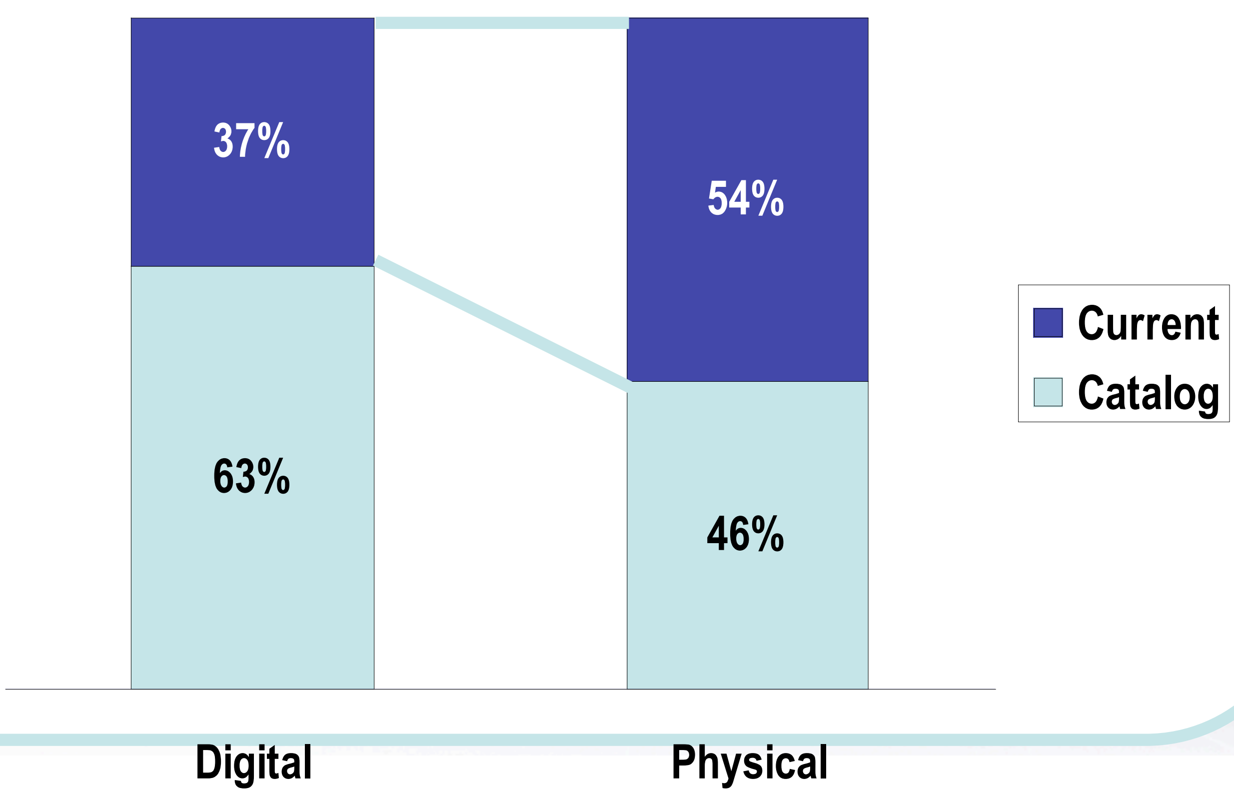
Content Is King (???)

Importance of Top 10 Sellers



Digital Is More About Catalog

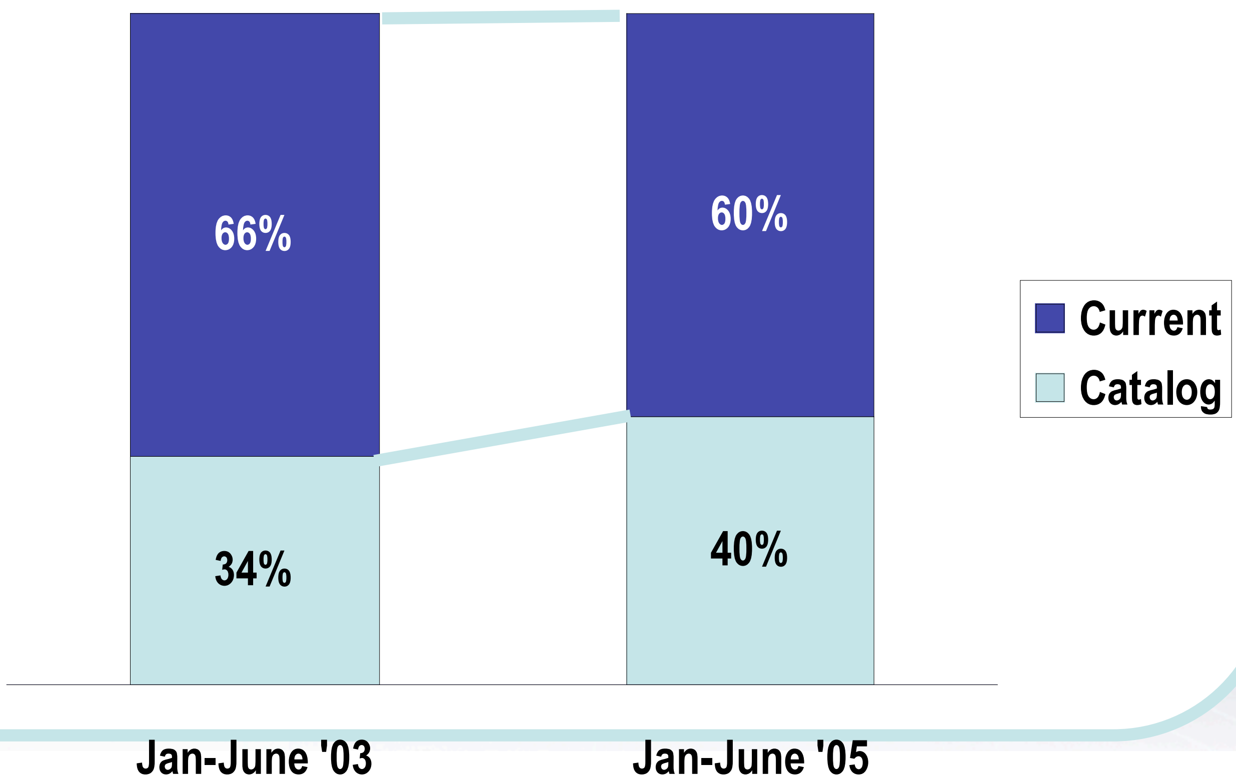
Share of Sales



Physical: YTD 2005 thru June, Digital six months ending April '05: NPD MusicWatch/NPD MusicWatch Digital

Is digital content retraining physical buyers?

Share of Physical Sales among 13-25 yr olds



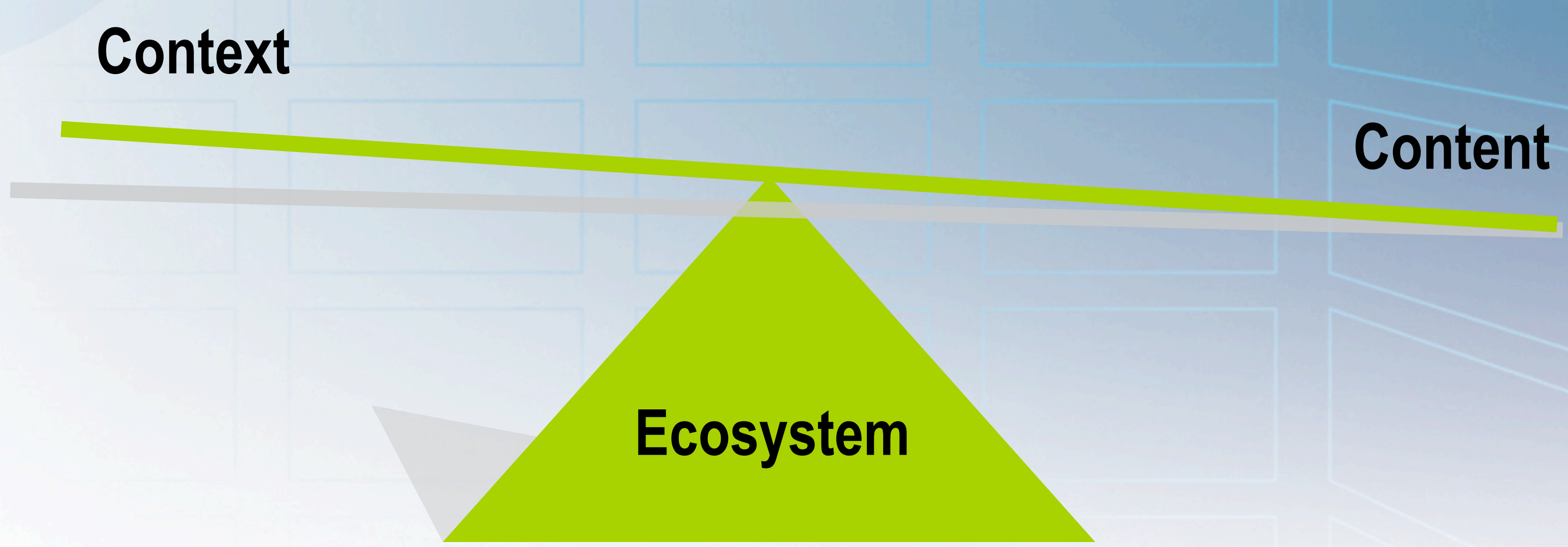
Can Ringtone Influences Be Far Behind?

Top 10 Genre Preferences Among Ringtone Downloaders

Alternative / Modern Rock	30%
TV / Movie Theme Songs	24%
Rap / Hip-Hop	24%
Classic Rock ('60s - '80s)	23%
Pop / Top 40 / Current Hits	21%
R & B	18%
'80s - '90s Hits	18%
Country	16%
Movie Soundtracks	15%
Hard Rock / Metal	14%

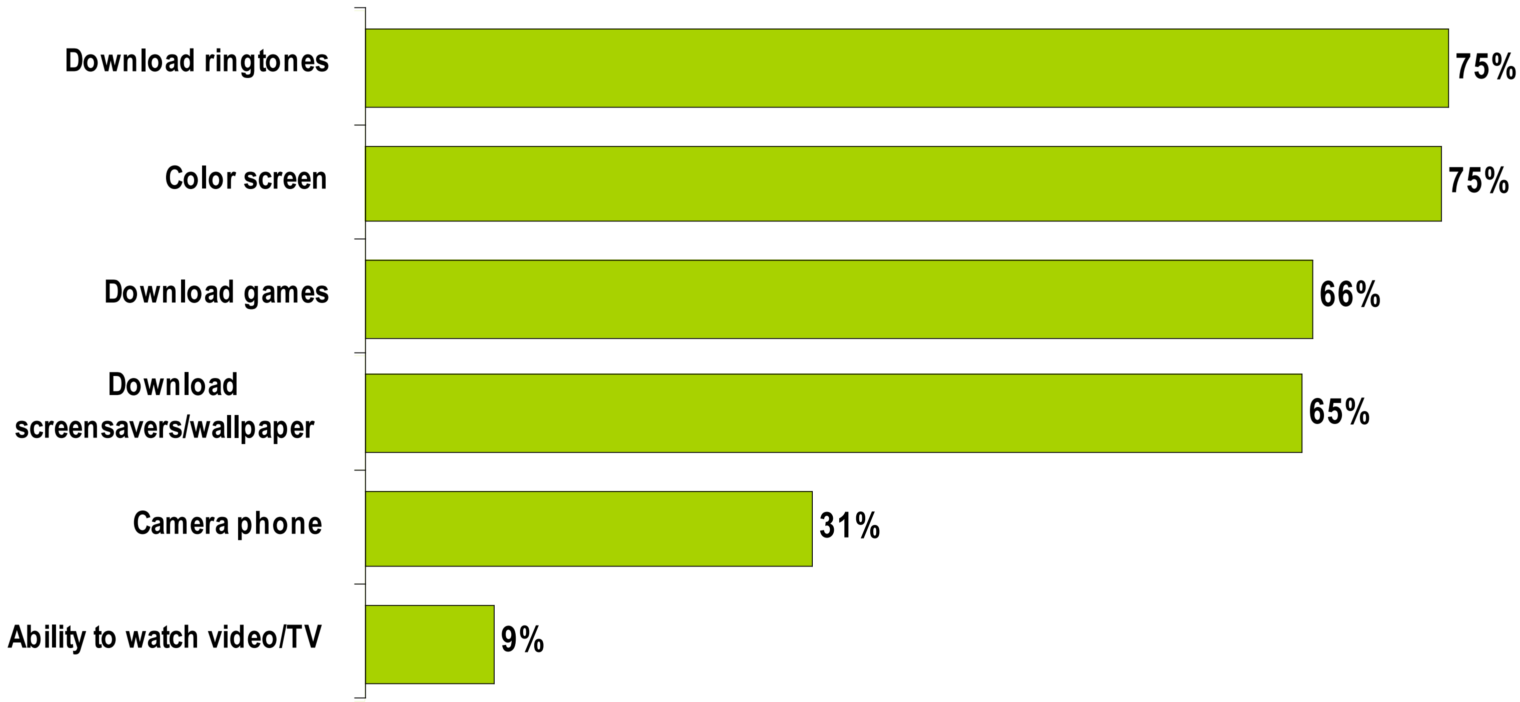
Source: The NPD Group 8/05

Digital/Wireless Plays Large Part In Shifting Physical Content Preferences



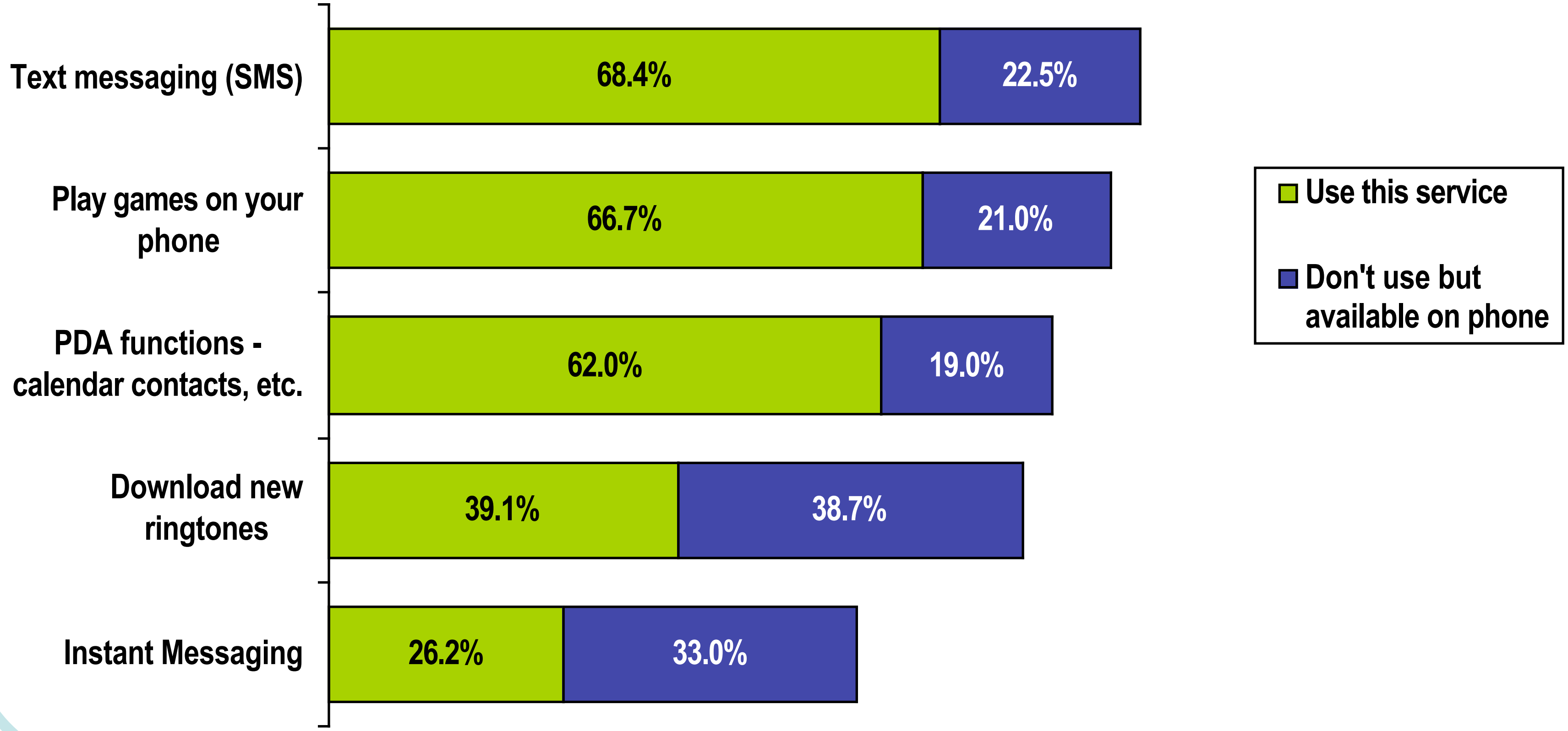
Ringtone download capabilities are widespread on phones that teens own

75% of teen-owned phones have ringtone capabilities



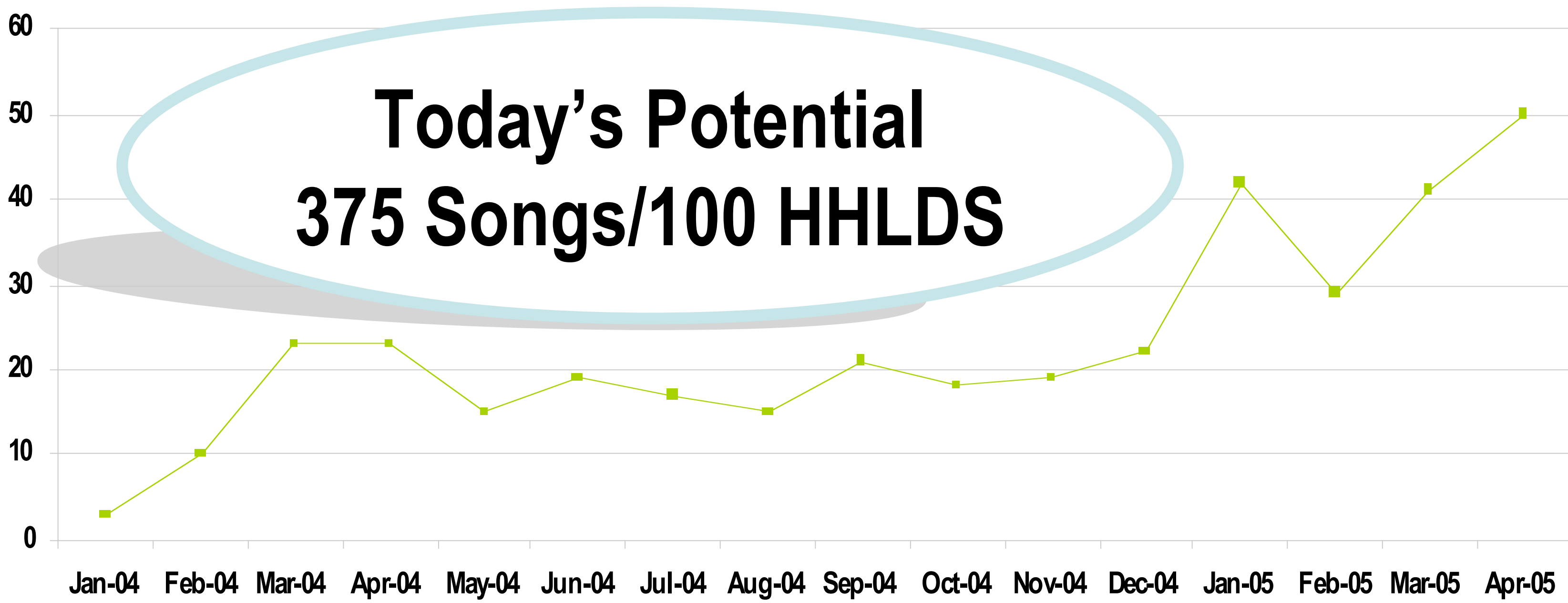
Half Use Ringtone Capabilities- Many More Will

Top 5 Mobile Applications for Teens



We've only scratched the surface of digital

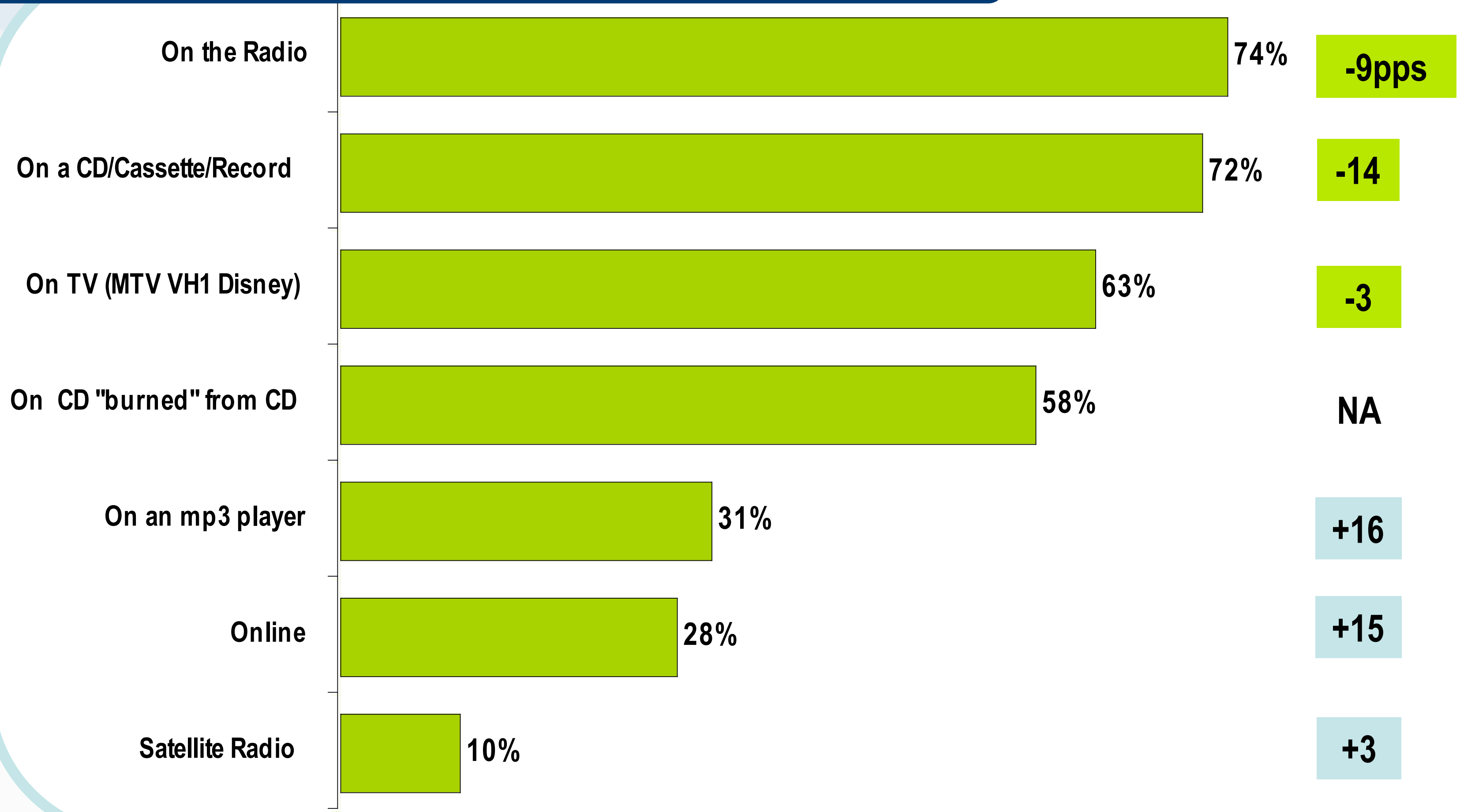
Legal Digital Ala Carte Sales Per 100 Internet Households



Source: NPD MusicWatch Digital- estimate from NPD proprietary modeling

Teens- From Passive to Active, from Push to Pull

% Teen Music Buyers Listening to Music in Past Week On…



1st Six Months '05 vs '02

Listening Habits Have Direct Impact On Buying Influences

What influenced you to buy the CD?

Becoming more Influential:

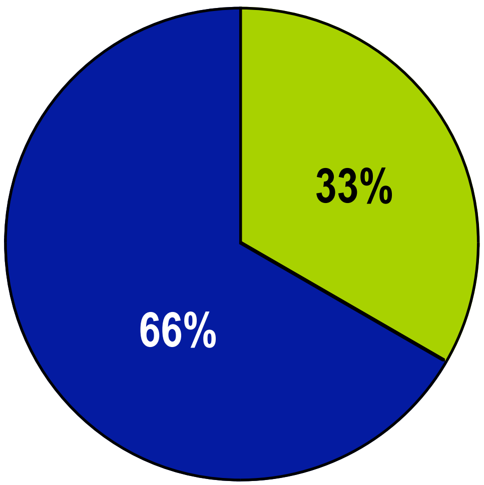
- Heard on TV show (*ex.*OC)
- Sampled a clip / song online
- In-store listening

Becoming less Influential:

- Hearing on radio

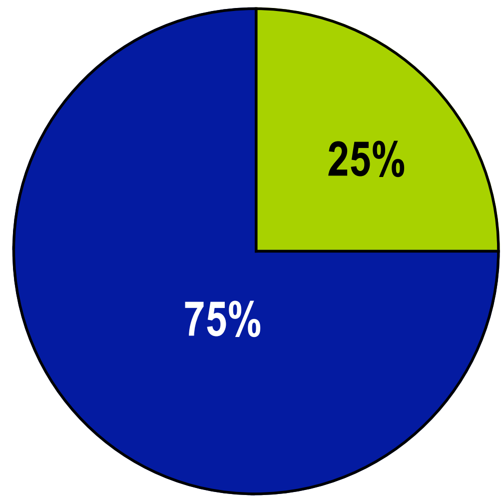
Other Important Contexts For Engaging Music

One in three music buyers aged 13-24 bought the music heard in videogame



Music from Video Games Purchased

3 out of 4 13-24 movie goers have bought a soundtrack



Soundtracks from Movies Purchased

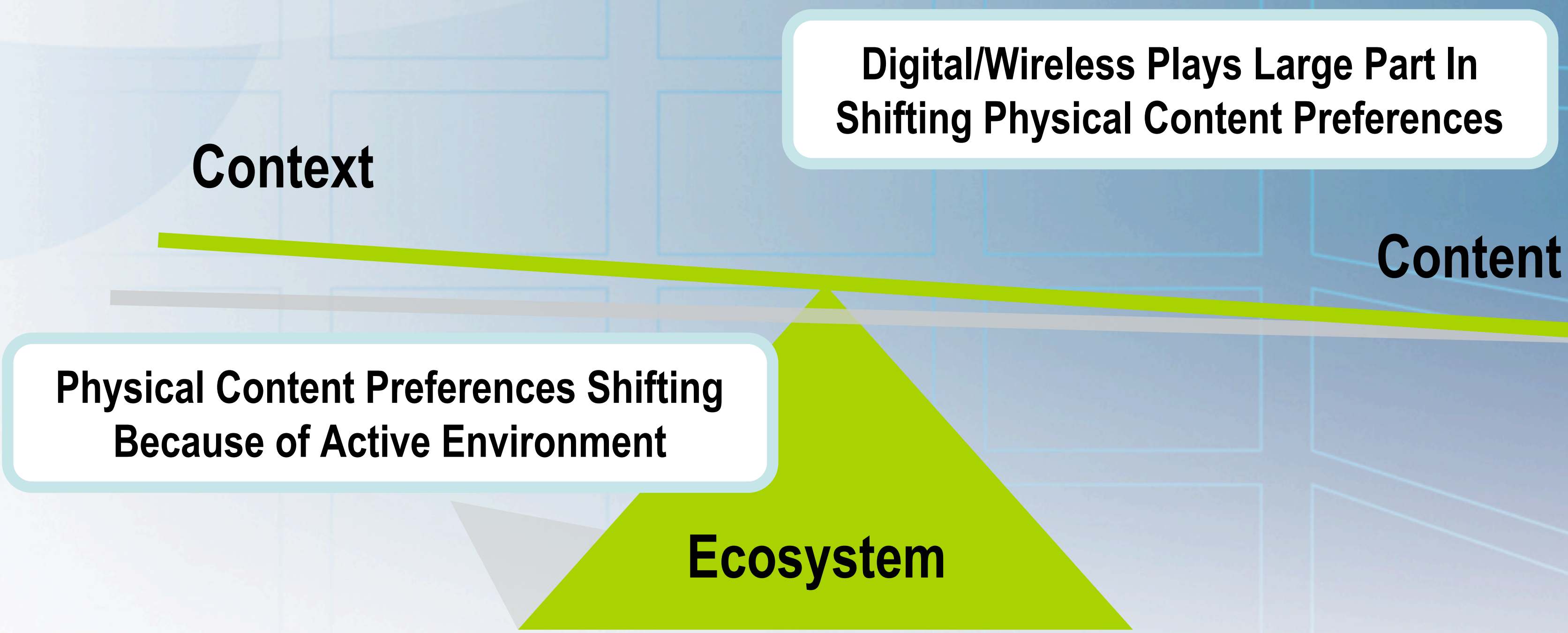
iTunes, Rhapsody, Shuffles, Tivo

Unit Sales of:

Portable DVD Players……………………………+50%
Flash Digital Music Players……………………+104%
Hard Drive Digital Music Players………………+402%
Video Hard Drive Recorders……………………+57%

NPD Techworld 12 Mos End June 05 vs Same period YAG- *Video Hard Drive excludes cable co sales*

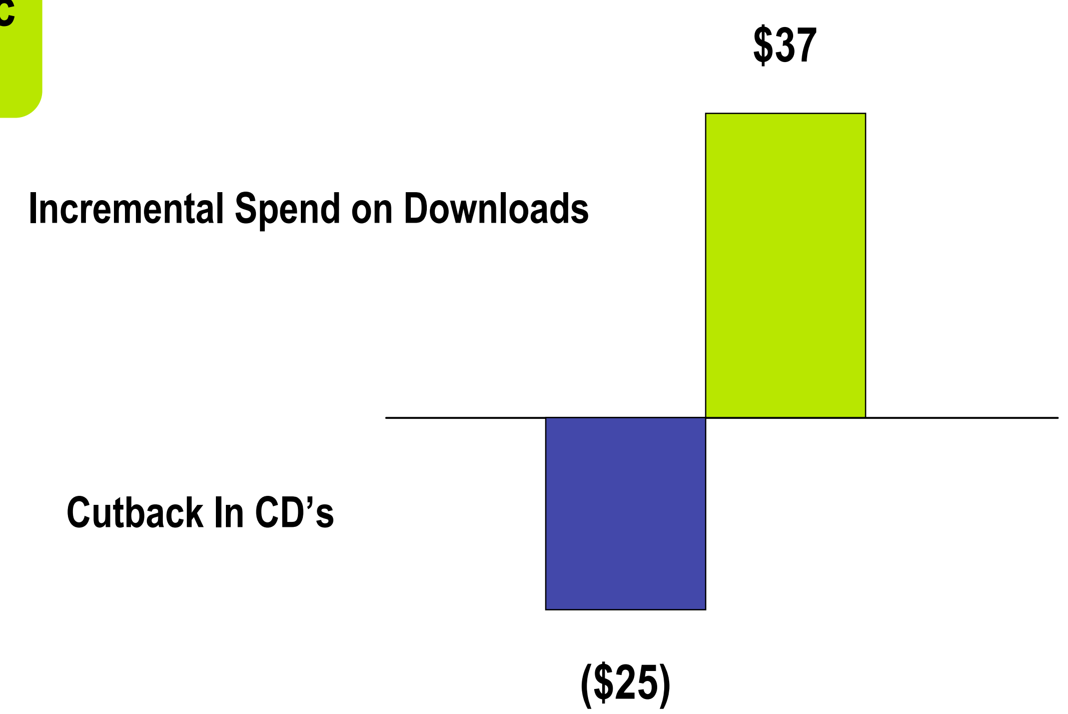
Technology is training consumers to become more active participants



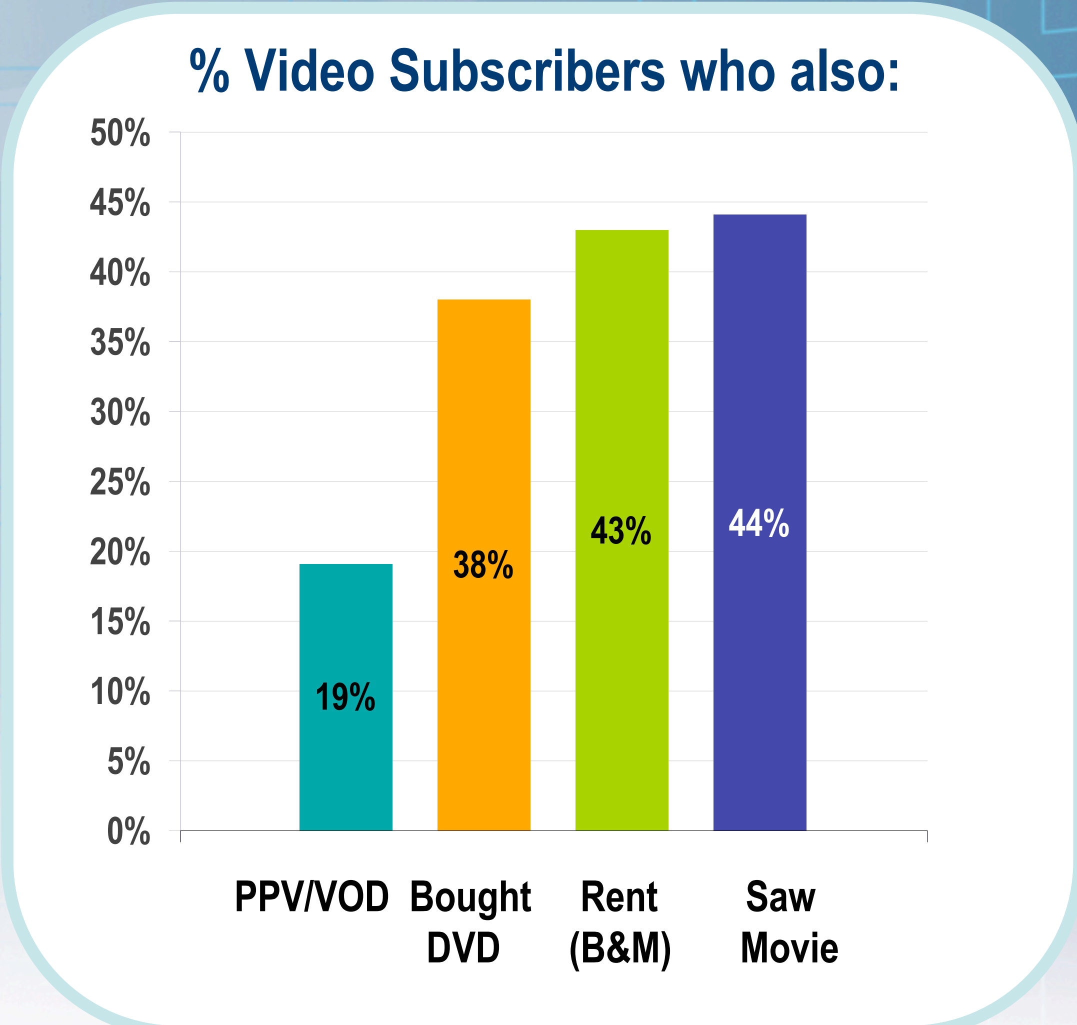
Digital Increases The Appetite For Content

Legal Downloaders Spending More On Music . . .

Spend On Music
+ $12

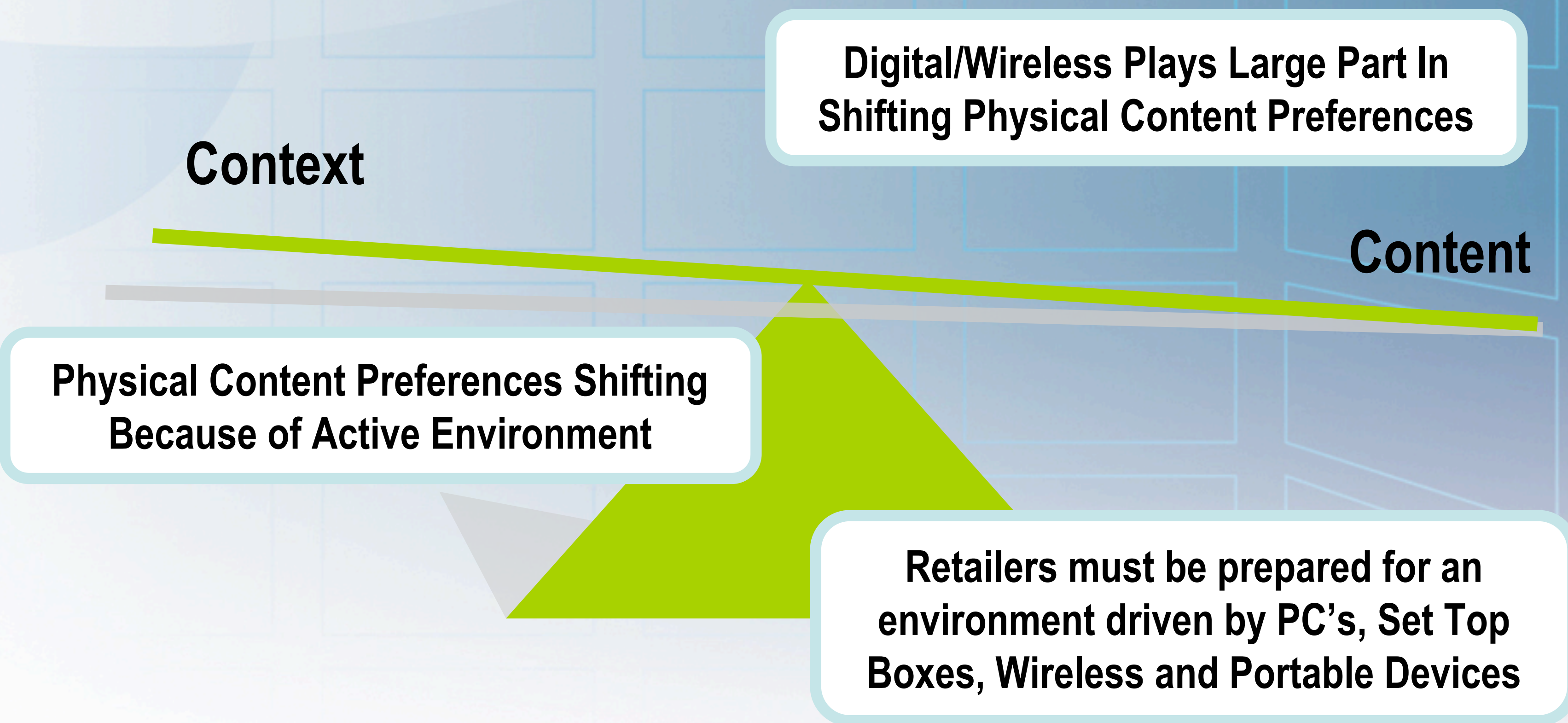


Video Subscribers Still Buying, Renting and going to Theatre



Past 30 days- '05 through June: NPD VideoWatch

There will be an increasing appetite for content



What can retailers do?- the store side

Context

Staff Expertise & Service
Website if you can, alliance otherwise Affordable In-store listening/Kiosks
Promote & Value Price Catalog
DualDisc
Trinity- Music/Videogames/Movies
Music related TV-on-DVD
Gift Cards

Ecosystem

What can retailers do?- the customer side

CRM programs
Viral marketing
Micro-marketing
Niche marketing
Pull marketing
Permission marketing
(Don't be Radio)

Music buyers aren't lost- we just have to look harder

Content

Ecosystem

The NPD GROUP

Thank you for your time
Thank you NARM, for the podium

For more information:

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Housewares
Information Technology
Music
Movies
Software
Toys
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Video Games