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# Putting Facts To Issues

A Closer Look at File-Sharing, the Economy,  
Changing Buyer Demographics,  
the Retail Landscape, and Pricing

Prepared for:

**NARM**

by: **NPD Music**

**October, 2003**

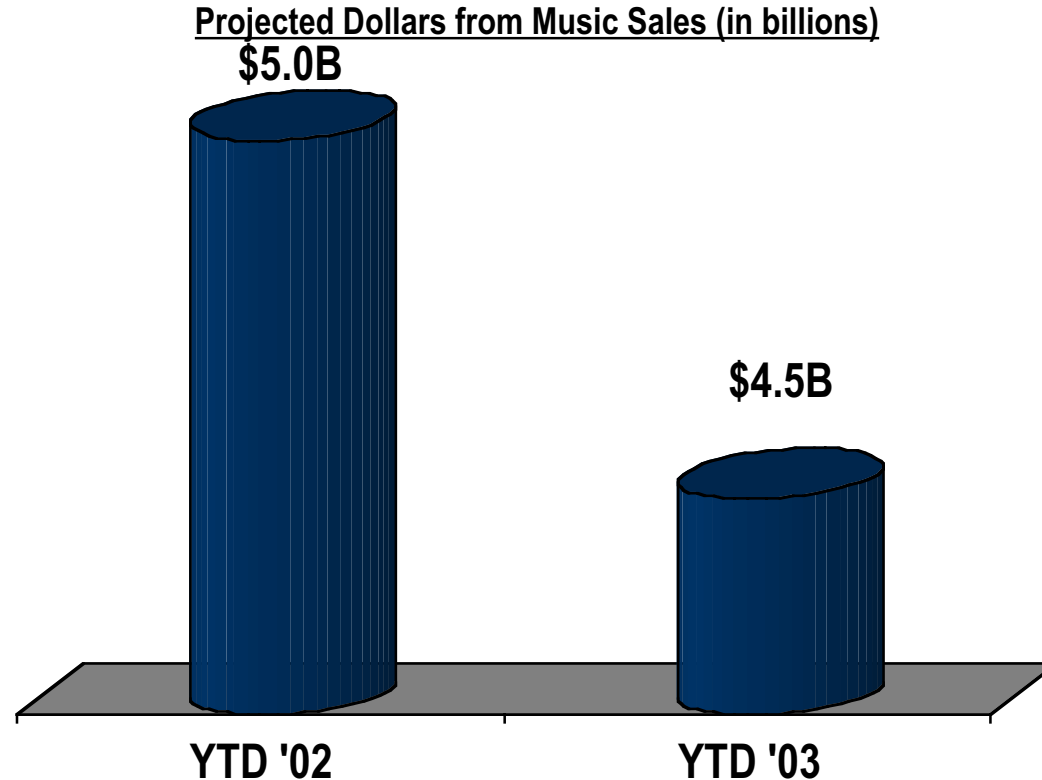
# Facts to Fuel Recovery

The music industry's third consecutive year of decline is being attributed to a variety of issues. With information gathered over the past years through weekly tracking and custom studies, NPD MusicWatch provides facts surrounding several of these critical issues:

- File-Sharing
- The Economy
- Changing Buyer Demographics
- Retail Landscape
- Pricing

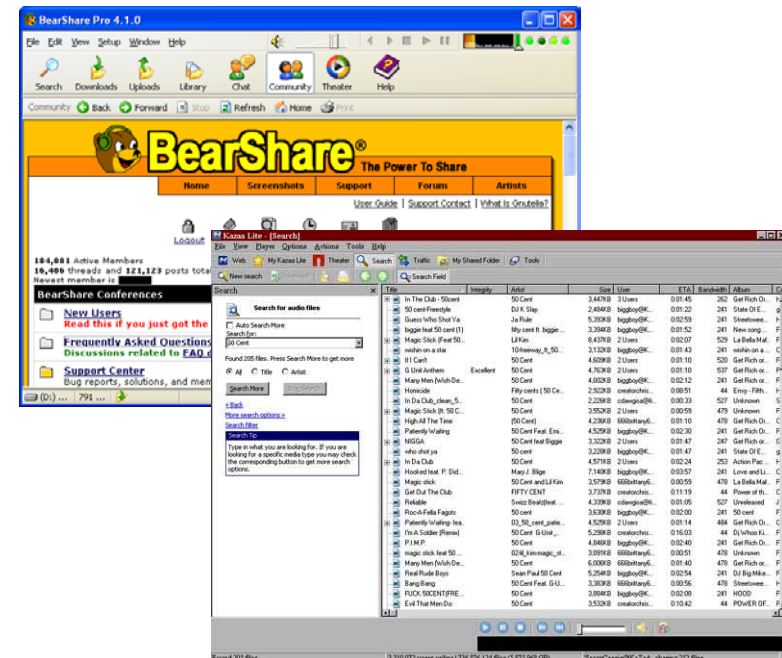
# First, What's the Trend?

Unit sales declined 8.3% for the seven months ending in July, compared to the same time period in 2002. Average price fell from \$13.65 to \$13.44 for the same timeframe. The unit sales decline combined with the decrease in prices resulted in a decrease of 9% in revenues, from \$5B to \$4.5B.



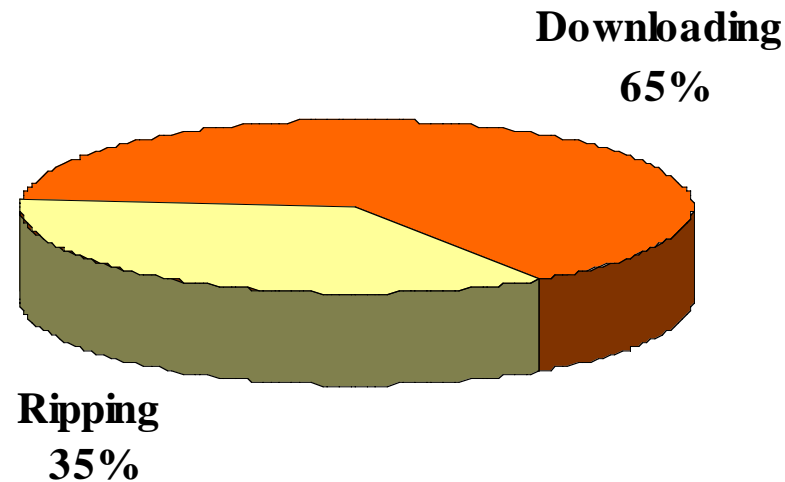
# File-Sharing...

- How widespread?
- Who are the biggest offenders?
- How are the legal alternatives faring?



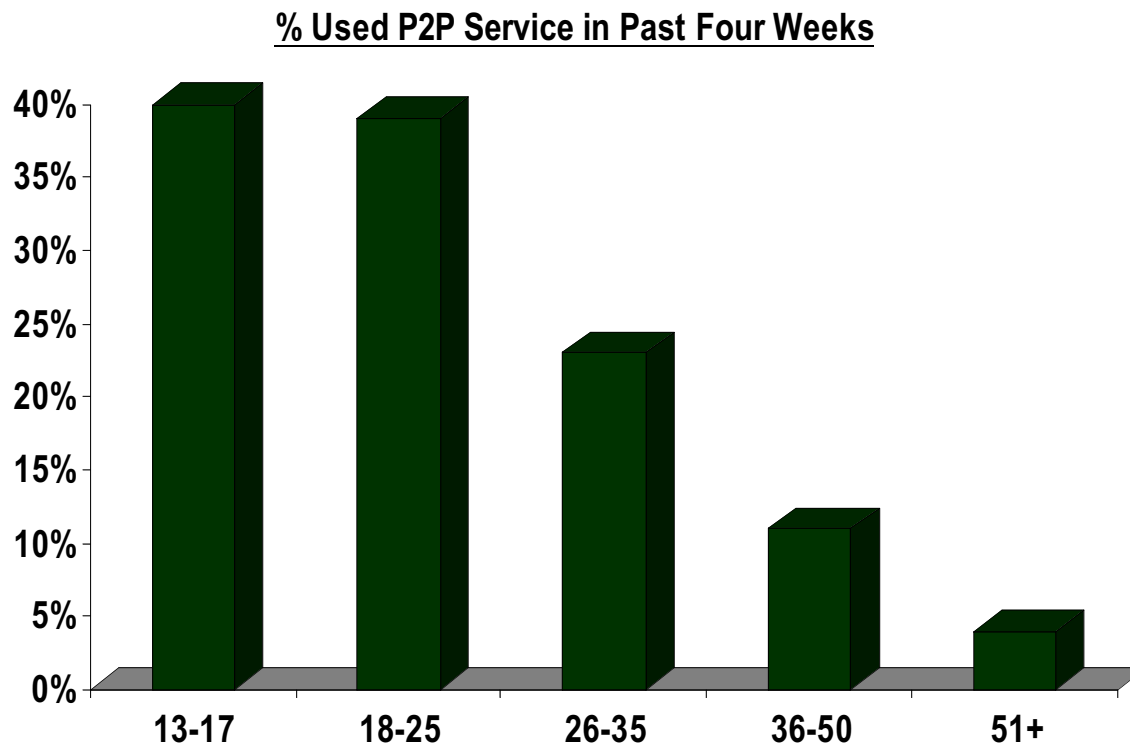
# Downloaded Digital Files — What's Really Happening

According to NPD's MusicWatch Digital tracking, over **40 million households** have at least one digital music file in their PC inventory. Two-thirds of those files are sourced from downloading.



# Downloading Activity by Age Group

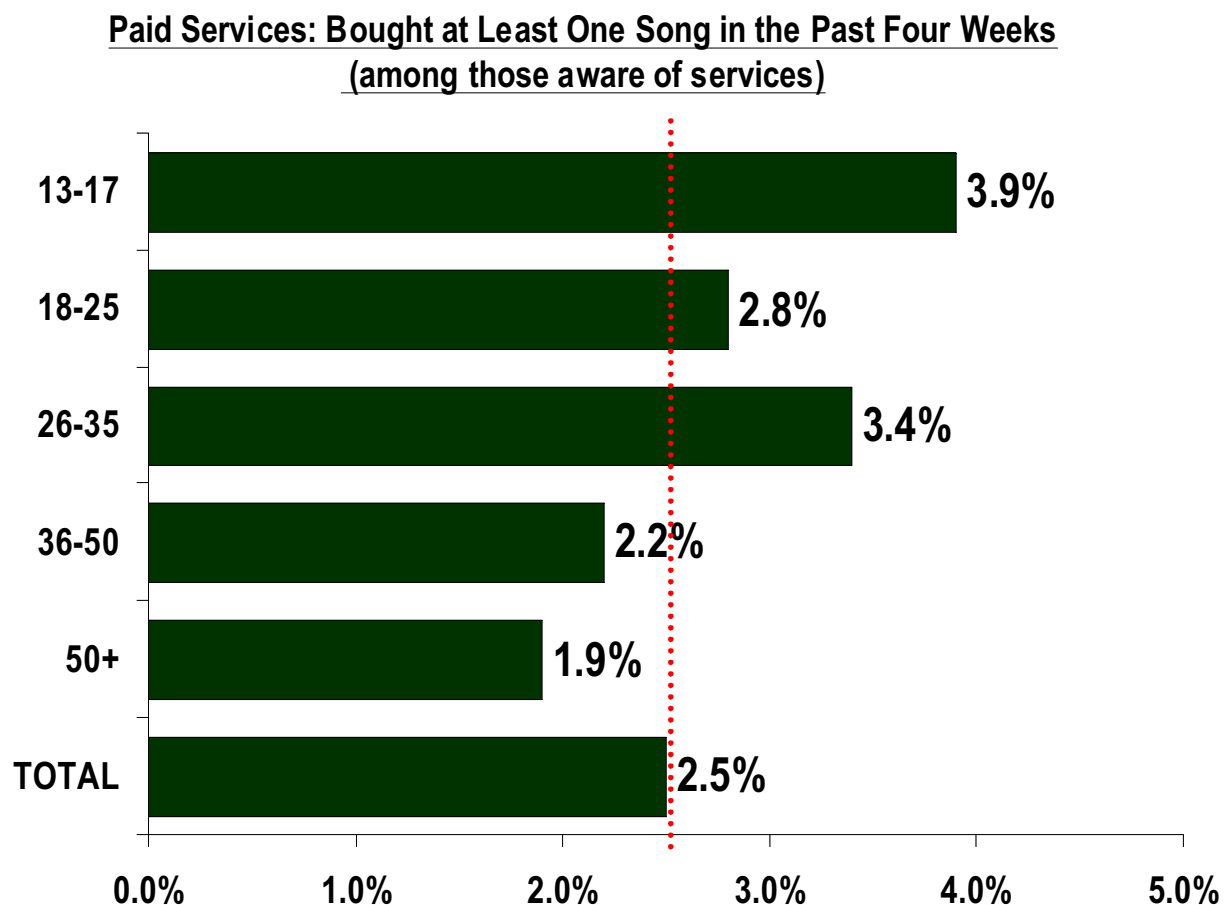
Not surprisingly, 13- to 25-year-olds reported using a P2P service more than three times as much as respondents over the age of 25. Additionally, MusicWatch tracking data (not shown) confirms the belief that the 13-25 demographic is increasingly using P2P services.



Source: NPD MusicLab - August, 2003

# Who is Trying the Legal Services?

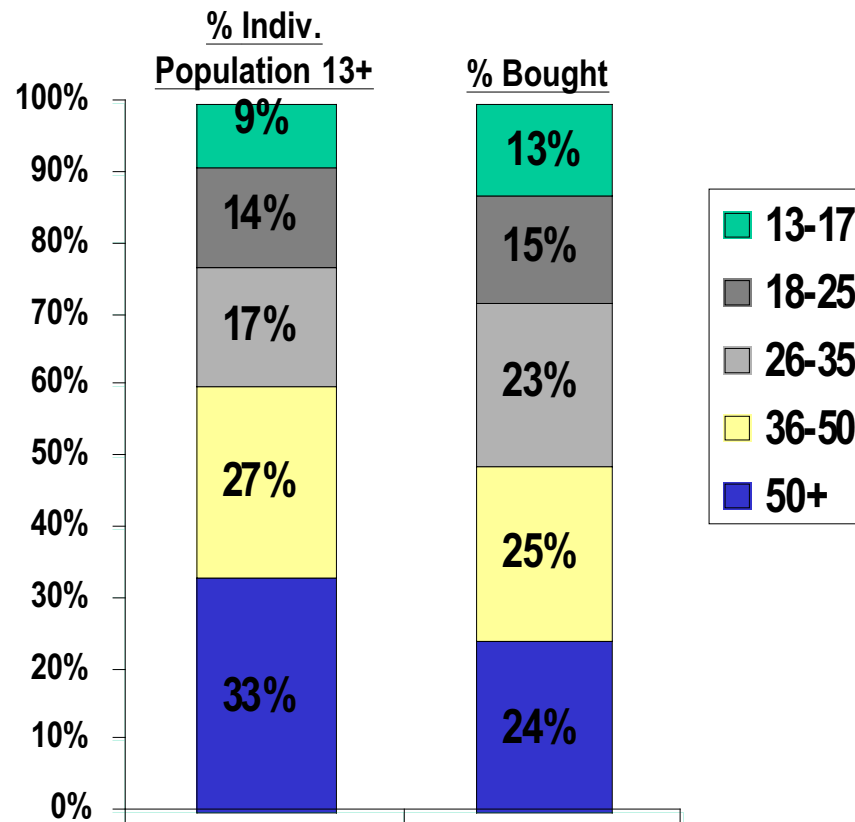
Legal services are getting the highest trial rates from the younger age groups, but...



Source: NPD MusicLab - August, 2003

# Who is Trying the Legal Services (Part II)?

...The 36+ demographic accounts for the largest share of paid digital music service users, because they make up a much higher percentage of the population.



**Total Share: Bought at Least One Song from a Paid Service in Past Four Weeks**

Source: NPD MusicLab - August, 2003



## Legal Services — What do consumers want?



**13-25**

Burn My Files.....	40%
Keep My Files.....	37%
Get the Exact Song.....	36%
On Drive, Not Stream...	26%

Burn My Files.....	26%
Keep My Files.....	21%
Get the Exact Song.....	28%
On Drive, Not Stream...	14%



**35+**

“It’s The Economy, Stupid!”

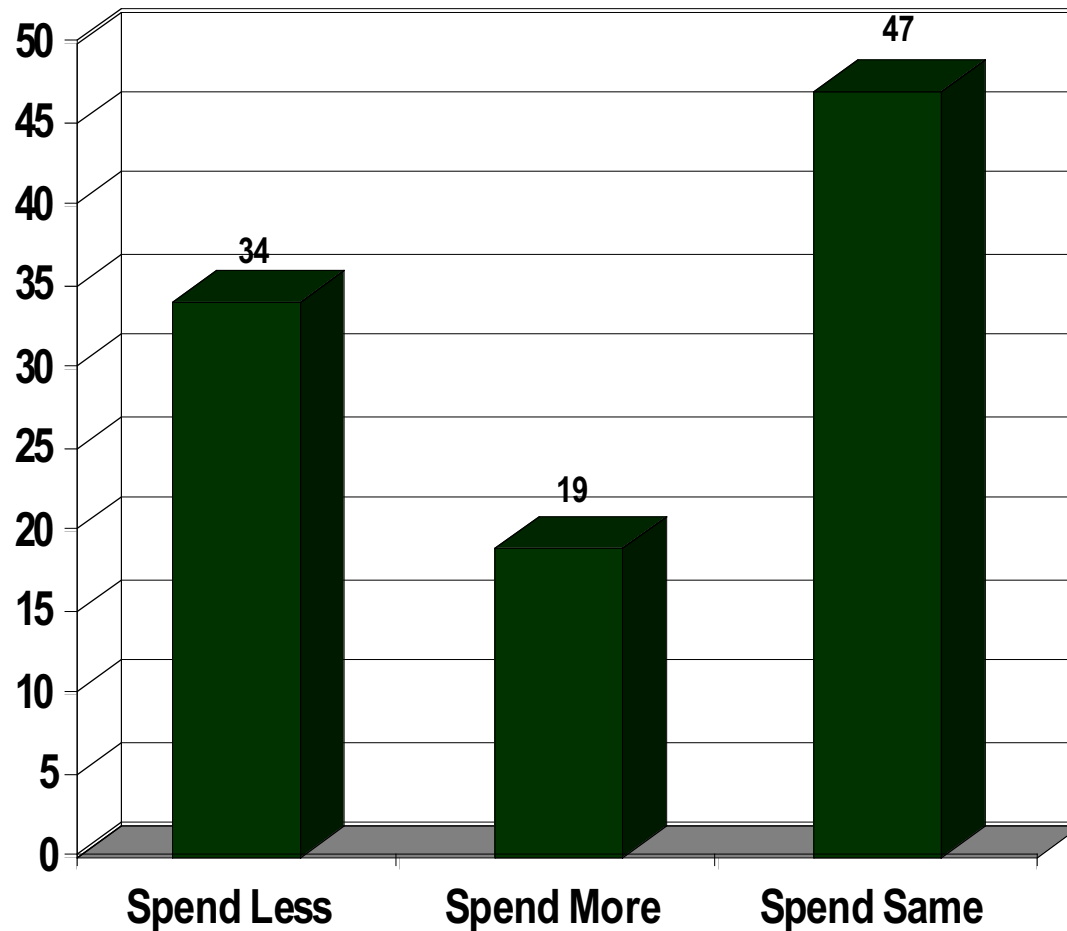
- James Carville, 1992

“It’s The Economy, Stupid!”

- Consumers, 2003

# Consumer Sentiment Toward Discretionary Purchasing

% Planning to Spend on Discretionary Products in the Next 3 Months

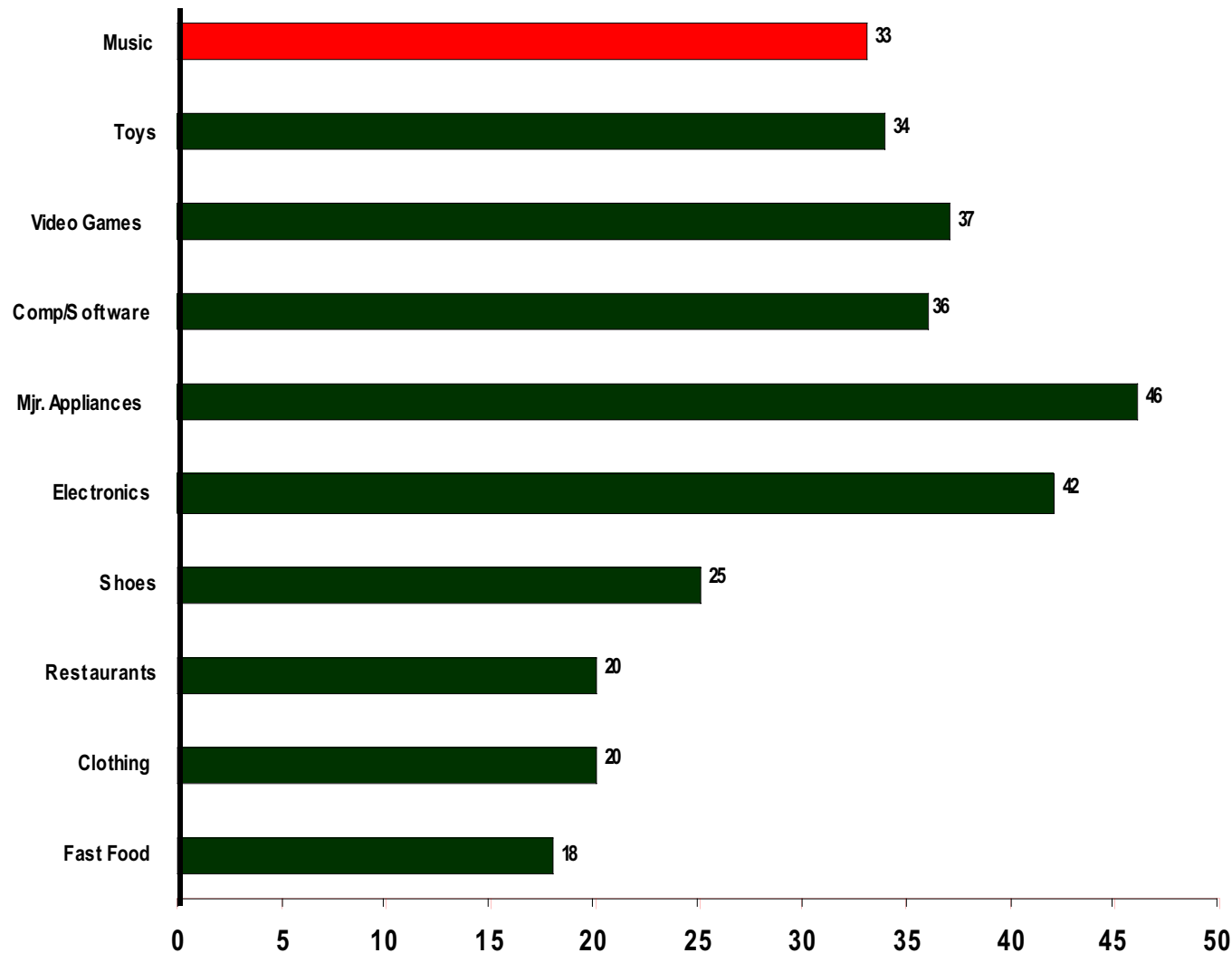


Consumer sentiment towards discretionary spending is neutral to negative.

Source: NPD Consumer Sentiment Study - May, 2003

# One-third Plan to Spend Less on Music!

% Intending To Spend Much Less Than Usual on Discretionary Products/Services in Next 3 Months



**One-third claim that they intend to spend much less on music — about the same cutback levels seen for video games, toys, and software. Entertainment suffers more than discretionary spending on food and clothing.**

# Demographics — Who is Driving the Decline?



# Who Spent Less? The 36-50 Demo by a Landslide!

Share of Revenue Loss from Aug '01-Jul '02 to Aug '02-Jul '03

<u>Demographic</u>	<u>Share of Revenue Loss</u>
13-17 Female	6.3%
13-17 Male	6.2%
18-25 Female	6.5%
18-25 Male	10.8%
26-35 Female	10.7%
26-35 Male	10.4%
<b>36-50 Female</b>	<b>17.1%</b>
<b>36-50 Male</b>	<b>18.3%</b>
51+ Female	4.6%
51+ Male	9.1%

**36-50  
is 27% of  
population  
13 yrs. +**

# As Big a Problem as File-Sharing?

NPD's research, and others, estimate that between one-third and one-half of the sales decline is due to file-sharing.

The 36-50 drop-outs are nearly as big a problem as the P2P users.

## A rough estimate to put this in perspective:

- 33% of sales decline is due to file-sharing.
- 35.4% lost in 36-50 Market.
- 11.4% of 36-50 Market downloads for free (past four weeks).
- 35.4% less the 11.4% who download for free = 31.4%

Decline in unit sales due to file-sharing: **33%**

Decline in 36-50 Market NOT due to file-sharing: **31.4%**

# Why are 36- to 50-Year-Olds Buying Less?

Prices are still the No. 1 stated reason for purchasing less, although that's partially a function of the economy, as the 36-50 age group is the hardest hit by the economic downturn. "Less music I want to buy" is a strong third on this list.



Source: MusicLab - May, 2003



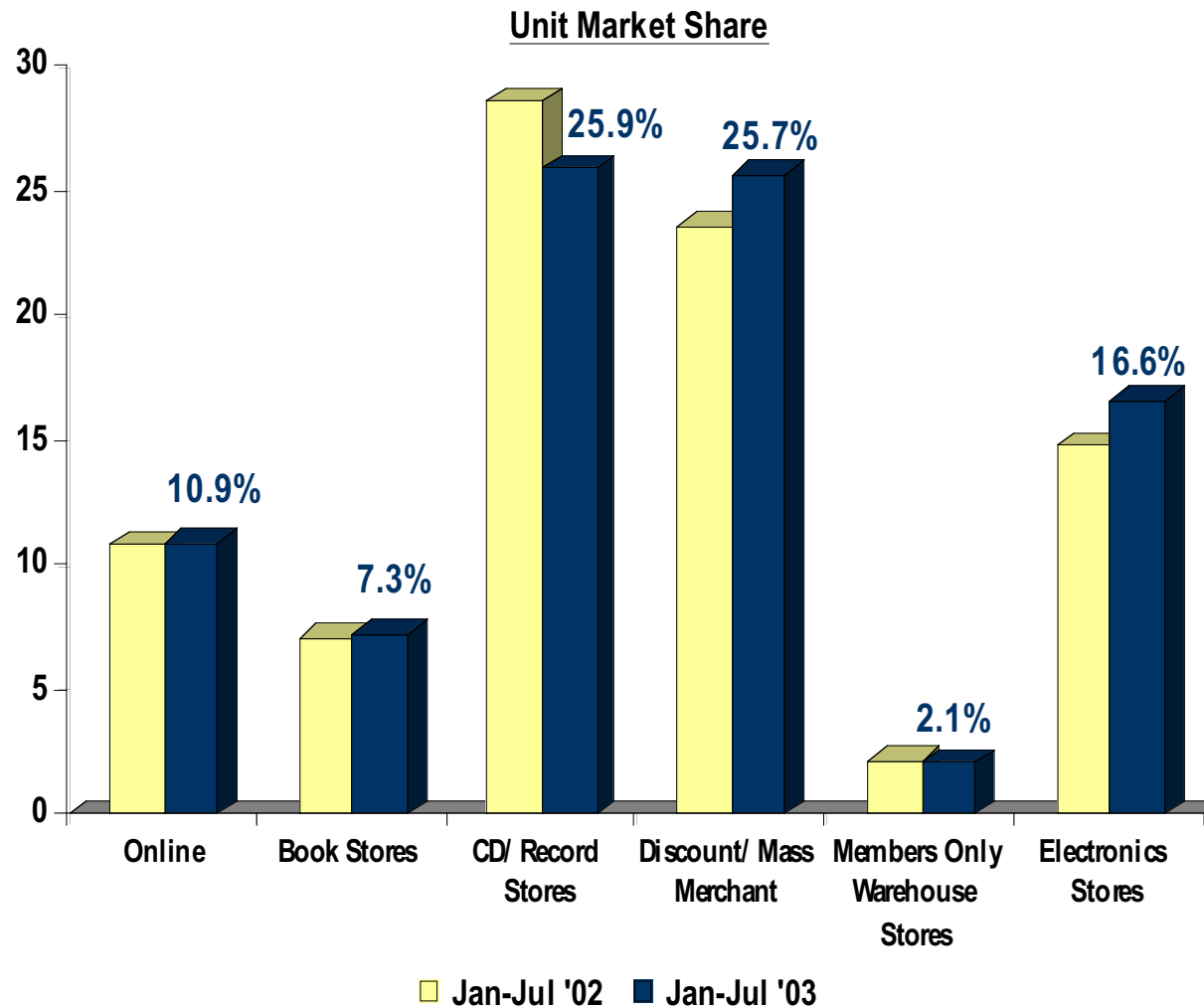
# Changing Retail Landscape



700-161632 © Raoul Minsart / Masterfile [www.masterfile.com](http://www.masterfile.com)

# Channel Shares are Shifting...

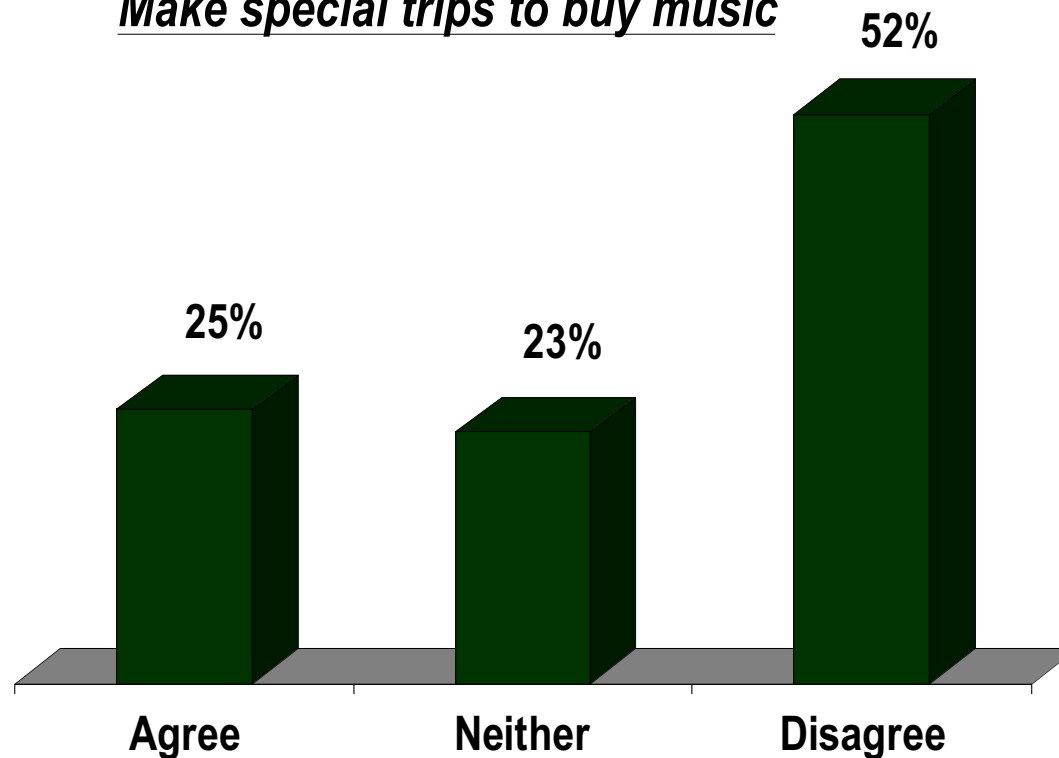
CD/Record Stores are losing share to Discount/Mass Merch and Electronic Chains.



# Risks in Channel Shift...

Music is losing cachet as destination category, which for some results in more emphasis on price and less on selection and service.

*Make special trips to buy music*

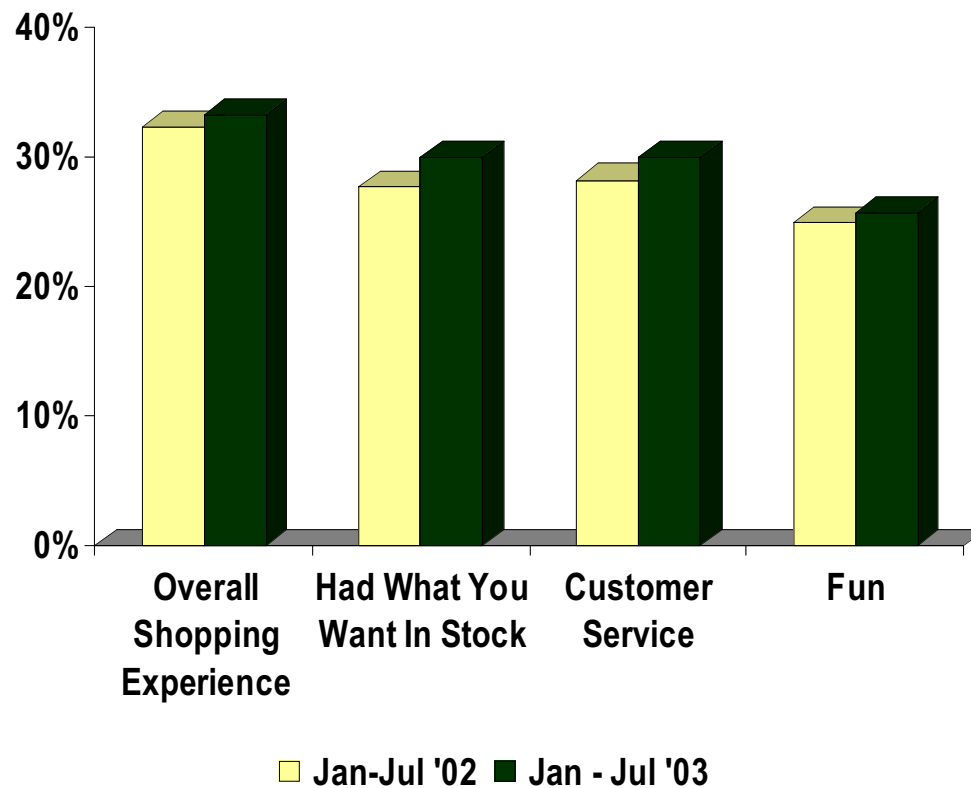


NPD Incidence Study: July 2003

## ...Beyond Market Factors for CD/Record Stores.

But, the consumers who do shop at CD/Record Stores still place emphasis on key customer satisfaction attributes. Attention should continue to be given in these areas, or this retail channel risks further erosion.

CD/Record Store Customer-Satisfaction Response (answered "Excellent/Very Good")



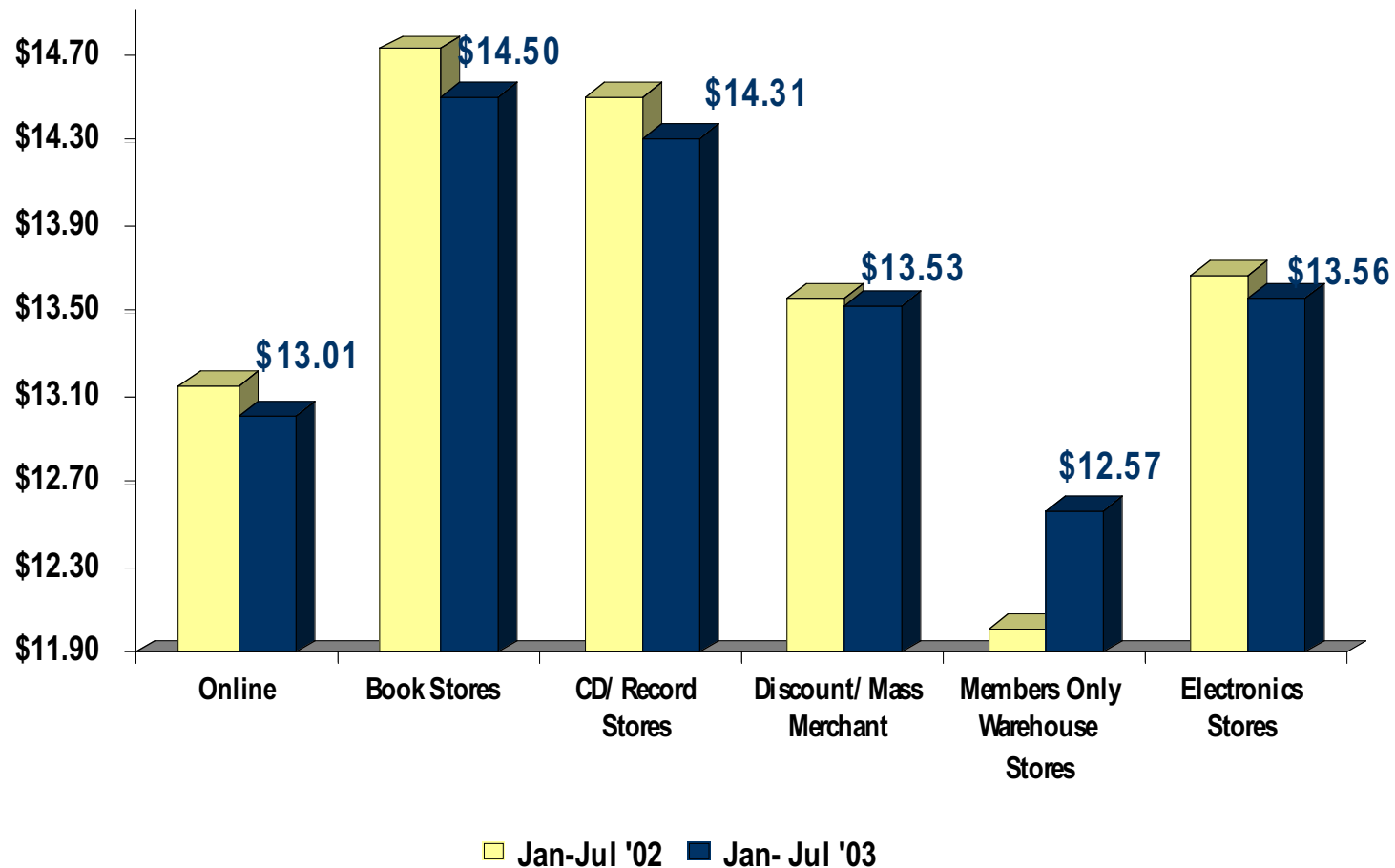
Source: NPD MusicWatch

**A little bit of pricing history and  
consumer takes...**



# Average Price for Full-Length CD by Channel

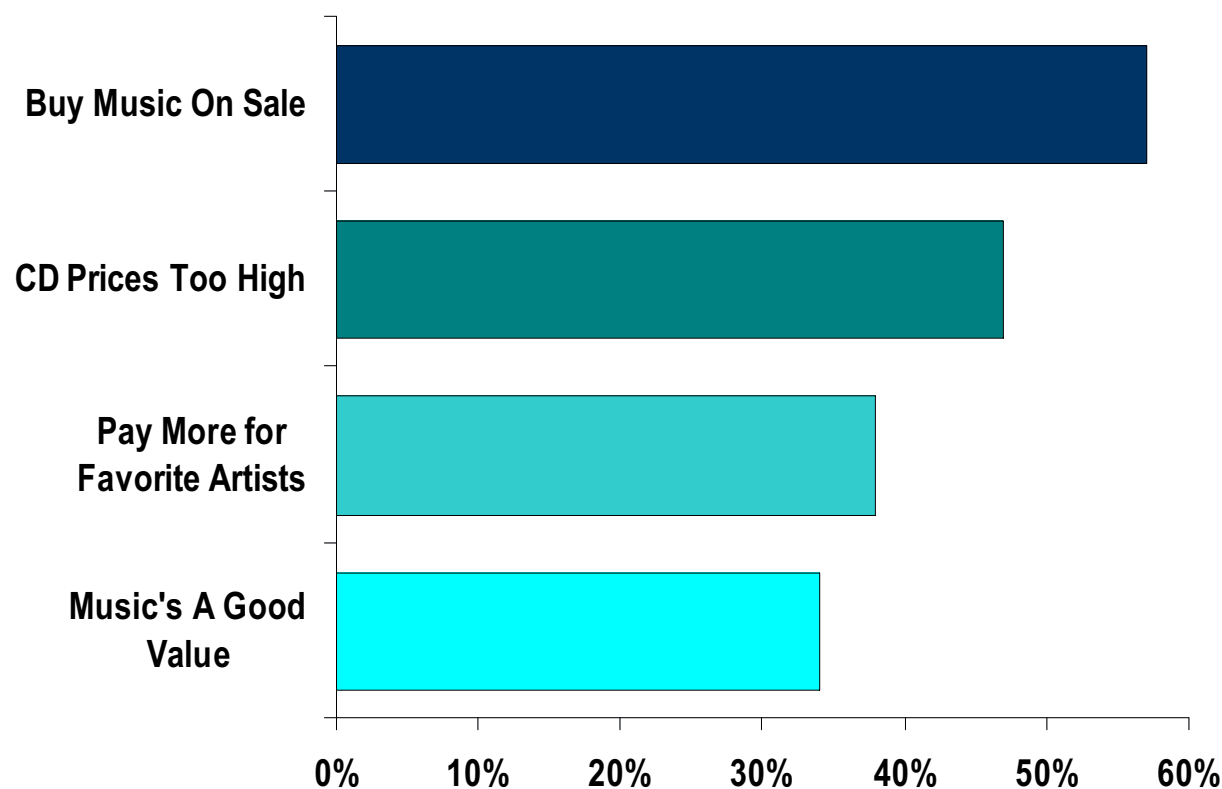
The average price for a *full-length* CD dropped from \$13.78 to \$13.60, with only the Members Only/Warehouse channel showing an increase (YTD through July 2002 vs. 2003).



Source: NPD MusicWatch

## Price and Purchasing...

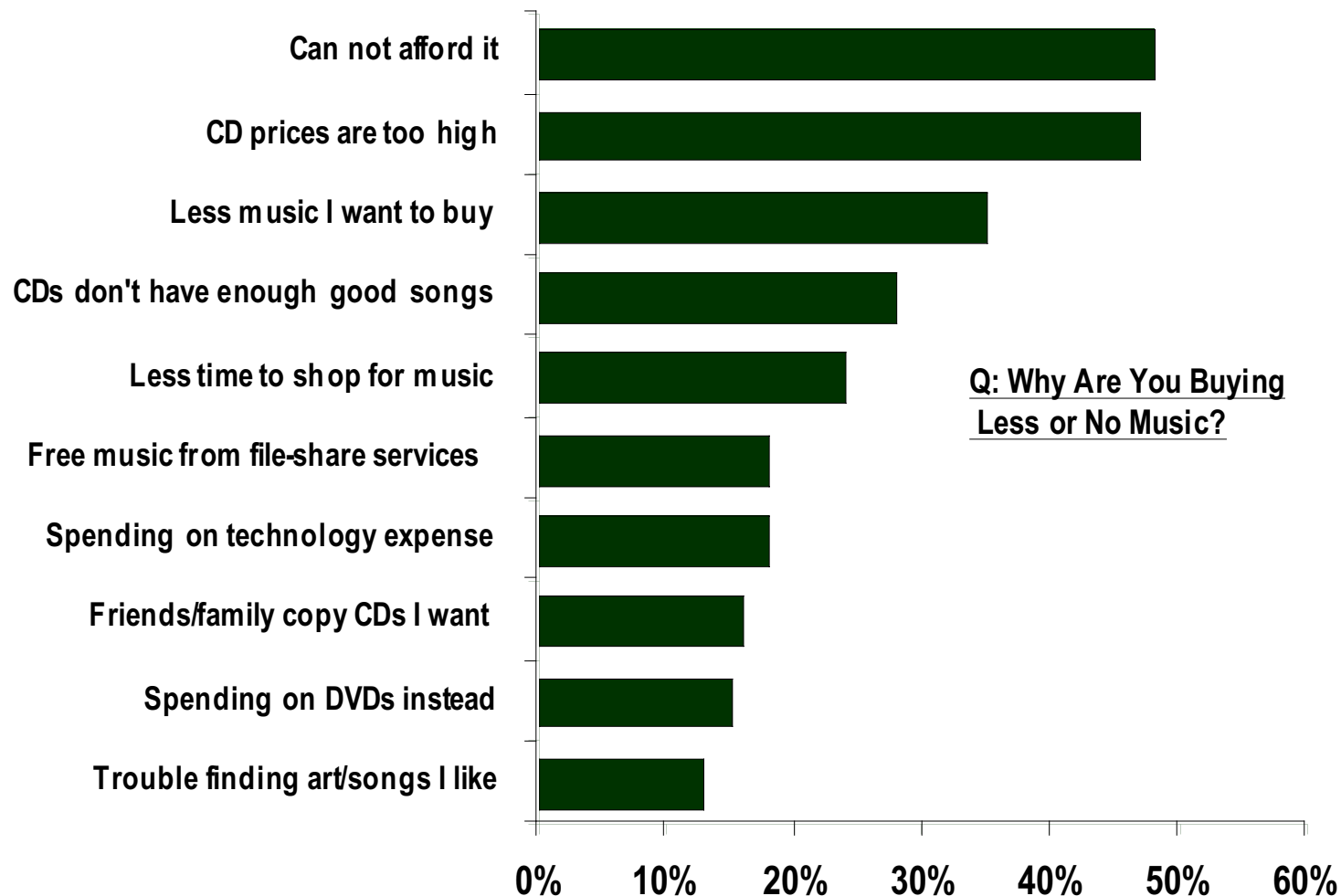
Despite the price cuts, consumers are still shopping for sales to counter perceived high prices. But, some do put a premium on their favorite artists.



Source: NPD MusicWatch Incidence Study - July, 2003

# Finally...

Pricing, P2P are issues for consumers. But other issues — like communication with consumers and perceived value of content — can't be ignored.





# A Summary Without Surprises

**The findings aren't surprising. The decline poses technological, demographic and economic challenges — all of which need to be addressed:**

- File-sharing is responsible for a large portion of the sales decline, but not all.
- Music and other entertainment categories suffer when consumer sentiment about the economy turns downward.
- There are demographic shifts in purchasing that deserve as much attention as trends in digital music usage.
- Share is consolidating within fewer channels, which will affect how consumers can buy physical music.
- Prices have fallen, but consumers want more.



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