



Proportion Of Americans Who Have Purchased A CD In The Past 6 Months Falls 15% Since 2002

Ipsos TEMPO Study Reveals Impact Of Increasing Digital Acquisition Methods On Physical Purchase

Preference For Purchasing CDs By Favorite Artists Remains Strong

New York, NY, May 2, 2007 — Amidst continued declines in the global music industry that amount to a nearly 25% reduction since 2000, recent research from Ipsos' *TEMPO: Keeping Pace with Digital Music Behavior* reveal for the first time that the proportion of Americans who have purchased CDs in the past six months has dropped approximately 15% since 2002. The study also shows that while this decrease is largely attributable to shifting consumer behaviors toward digital music acquisition methods, a majority of American Music Downloaders continue to purchase CDs by their favorite artists, and instead frequently rely on music downloading for sampling new and unfamiliar music.

Half of Americans Aged 12 and Older Purchased a CD in the Past 6 Months

The most recent wave of the Ipsos quarterly digital music tracking program, *TEMPO: Keeping Pace with Digital Music Behavior*, includes an in-depth examination of fee-based music consumption across physical, online, mobile and satellite channels. Key findings from this recent study include:

- Half (51%) of U.S. consumers aged 12 and older purchased a physical CD in the past six months. This represents a decline of roughly 15% since 2002, when approximately 60% of consumers reported doing so.
 - Although overall CD purchasing has declined in recent years, the proportion of Americans purchasing physical CDs off of the Internet has increased, perhaps reflecting both the gradual reduction of retail music outlets in America coupled with increased consumer comfortability with e-commerce.
 - The average number of CDs purchased in the past six months is just fewer than three (2.8), and the average total number owned is 78. Teens own the fewest CDs (average of 32), while those consumers aged 18 to 54 own considerably more (upwards of 100).
- For new releases from a favorite artist, physical CDs remain the primary method of acquisition among US Music Downloaders aged 12 or older.
 - 62% of US Downloaders purchased a physical CD of their favorite artist's last release versus just 28% who paid to download one or more individual tracks.
 - Among those who acquired music from this release via more than one channel of acquisition (8% of U.S. Downloaders aged 12 and older), a la carte downloads were most likely purchased first by 45% of these consumers, while only 27% purchased the CD first.
 - When examining purchases of new music by unfamiliar artists, *TEMPO* found that 23% of US Downloaders purchase a la carte digital tracks from unknown artists, but just 17% purchased the full-length CD.

"Given the persistence of physical CDs as a means of music acquisition among current Music Downloaders, one might ask how music sales can be down over 20% since 2000" comments Matt Kleinschmit, Vice President of Ipsos Insight and author of the TEMPO program. "Data suggest that the answer lies in what could be referred to as the 'impulse gap'. Namely – that the increase in the number of digital music acquisition options, including on-demand downloading and easy unfettered copying, have slowly eaten away at consumer impulse music purchases – thus creating a gap in revenue. Where in the past someone may have purchased a CD from a new or unfamiliar artist on a whim, they are increasingly more likely to digitally sample the music before deciding to make a full physical CD purchase."



Differences in Spending Drive Concern Over Shift From Physical To Digital Acquisition Methods

As has been seen in past waves of TEMPO research, experimentation and use of digital acquisition is not the primary concern. Rather, it is total spending that is driving decreased revenue for recorded music.

- Use of digital channels is high. Fully half (51%) of US Downloaders aged 12+ pay for digital tracks a la carte, 35% pay to download ringtones, 13% pay to subscribe to satellite radio and another 13% pay for online music subscriptions.
- However, spending on each of these methods of acquisition pales in comparison to what is spent on physical CDs. Thinking again of the last new release by their favorite artist, Downloaders spent an average of \$14.00 on CDs, but among those purchasing other SKUs, just \$3.60 was spent on digital tracks, \$4.80 on over-the-air mobile track downloads, \$4.90 on ringtones and \$5.30 on ringbacks. Digital copies of the full-length album averaged \$10.00, still considerably lower than physical CD spending. Moreover, only a handful of consumers bought music from the album using more than one channel (8%), and average total spending was just \$10.90.
- As consumers continue to utilize additional avenues of digital music acquisition, spending on physical CDs is likely to continue to decrease. When asked how other channels of acquisition impacted their spending on physical CD purchases, 40% of subscribers to online music services, 38% of a la carte downloaders, 25% of satellite radio subscribers and 17% of mobile music consumers indicated that their spending on physical CDs has decreased.

"Downloading alone cannot fill the dollars lost by the 'Impulse Gap' in CD sales," continued Kleinschmit. "Other new and innovative music products must also help to fill this void. Most notably, mobile offerings – ringtones, ringbacks and full-song over the air (OTA) downloads – have shown particular promise among youth, a market segment who rapidly embraced filesharing, but is also highly impulsive in their music purchase habits. The mobile channel is particularly well-positioned given the presence of an established billing relationship and an often captive, commuting consumer base that is perfectly poised for instant gratification and impulse purchasing. In addition, online music services have been shown to boost spending on a la carte music downloading, and could further leverage this behavior by helping consumers to discover new music, creating impulse buying opportunities and making it easy for people to purchase what they want, when they want it."

Methodology

Data on music downloading behaviors was gathered from *TEMPO: Keeping Pace with Digital Music Behavior*, a quarterly shared-cost research study by Ipsos Insight examining the ongoing influence and effects of digital music in the US.

Data for this release were collected in two stages. The first stage, a survey of those 12 and older among a representative sample of the general US population, took place between December 14 and 21, 2006 via telephone-interview and included n=1,110 consumers. The second stage, an involved web-based survey of 1,550 US Downloaders aged 12 and older, took place between February 9 and 20, 2007. With total sample sizes of 1,110 and 1,550, one can say with 95% certainty that the results are accurate to within +/- 2.94% and +/- 2.49%, respectively. To learn more about the methodology of TEMPO, please visit <http://www.ipsosinsight.com/knowledge/techcomm/products/Tempo.aspx>

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