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Amazon and Rhapsody Show Strong Gains in Digital Music Market While iTunes Remains Dominant

5th Annual *TEMPO Digital Music Brandscape* Study From Ipsos Reveals Emerging Changes Within The Category

Shifts Come at Expense of Lesser-Known Brands, Further Market Consolidation Likely in the Near Future

New York, NY, October 7, 2008 - Excerpts from Ipsos' *TEMPO Digital Music Brandscape* study show that one year following its launch, Amazon.com Music has made a phenomenal first showing. Meanwhile, Rhapsody's increased focus on advertising and partnership appears to be paying off. But neither development has slowed iTunes' step, with the site continuing to gain dedicated users who perceive it as the best fee-based digital music destination.

iTunes Continues to Expands Lead Despite Increased Competitive Pressure

The fifth annual *TEMPO Digital Music Brandscape* study is an in-depth examination of fee-based online music brands, and is part of *TEMPO*, an Ipsos quarterly study of digital music behaviors.

Awareness and use were steady among most dominant brands this year, but did increase for three top competitors while declining among many lesser-known players.

- iTunes continued to grow in terms of awareness, usage, familiarity, and 'best brand' mentions.
- Amazon had a strong first year, with initial awareness, usage, favorability and 'best brand' ratings comparable to any of the top brands after iTunes. Moreover, Amazon actually matched iTunes in user satisfaction.
- In perhaps the most significant development this year, however, Rhapsody gained in both aided and unaided awareness, usage and favorability. Although some of this growth may have been trickle-down from growth of digital music, overall, only iTunes and Rhapsody increased in these measures. This suggests that Rhapsody's growth was not merely a reflection of market-level changes, but a direct result of its redoubled advertising efforts, its commitment to broad partnerships such as those with MTV Networks and Verizon Wireless and the fact that the streaming service competes in a niche alongside rather than in direct competition with iTunes.

"iTunes dominates this market," says Karl Joyce, lead author of the *TEMPO* study, "but that by no means suggests that there isn't room for innovative competitors with differentiated offerings. This is precisely who, according to our research, consumers are paying attention to and rewarding with their patronage. Amazon – unique for offering DRM-free downloads from the catalogues of not one, but all four majors – has done quite well in its first year, easily establishing a place for itself among the other top brands operating in iTunes' shadow. And then there is the story of Rhapsody. Rhapsody is a

success story in how to build a brand's power through increased awareness. Yet despite this strengthening among key competitors, iTunes' dominance remains unchecked."

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Lesser-Known Services Suffer, Consolidation Likely Future Outcome

"The reason iTunes' brand strength has not weakened in light of increasing competitive pressure is that, during this same time frame, consumers became more demanding of the digital music services they use," explains Joyce. "Table stakes such as good sound quality, variety, and being a reputable brand grew significantly in importance versus both of the past two years. As a result of this, lesser-known brands who fail to add unique value and whose offerings are limited are beginning to lose out in favor of larger, more robust services able to meet all of these consumer demands."

Top brands cement power while others decline.

- Many service attributes increased in importance in 2008 versus both of the past two years.
- Amazon's 9% share and iTunes' and Rhapsody's 7% and 3% respective increases as 'best brand' came predominantly at the expensive of lesser-known brands, though other top brands did share some of the burden.
- For many secondary brands, total awareness, familiarity, and favorability decreased as well.

"Consolidation of brand power among a handful of larger, better-known digital music services will continue. In this space, halo effects have had a real impact on consumer awareness and usage; if not always on brand perceptions," continues Joyce. "We have seen this with iTunes, Yahoo!, Wal-Mart, MySpace and, now, Amazon. And, just days ago BestBuy acquired Napster, a brand that has ridden a different kind of halo – residual awareness from its stint as the first filesharing service – for years. This acquisition is exactly the type of move we should anticipate as this sector continues to evolve. A dedicated or small digital music brand trying to break into this space will not be able to sustain market share unless its offering is truly unique. To-date, Rhapsody is the only top-tier digital music brand without strong, pre-existing brand strength in some other arena.

"New innovations are sure to change this market. New models, especially those based upon ad-supported streaming, are sure to bring new brands into the space. At the end of the day, though, the digital music market is maturing. Consolidation or closure among many of the smaller players seems inevitable at this point."

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

Data for this release were collected between July 15 and July 28, 2008, via a web-based representative sample of 1,249 US Downloaders aged 12 and over. With a total sample size of 1,249, one can say with 95% certainty that the results are accurate to within +/- 2.77%. To learn more about the methodology of TEMPO, please visit www.ipsosinsight.com/knowledge/techcomm/products/Tempo.aspx.

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