Ipsos MediaCT
The Media, Content and Technology Research Specialists

Bite Sized Thought Piece
2010

The rise and rise of digital music

The digital music market - 10 years in the making

The music industry has been working on how to monetise digital music for over ten years. Consumer demand was first created and exploited not by the industry but by unauthorised sites with digital tracks originally made available through peer to peer file sharing sites like Napster. The music industry has been playing catch-up ever since.

From its beginnings in 2004, when the first official online digital music services were launched, the balance now looks to be shifting from pirate sites to legal alternatives. Official digital music has grown at a phenomenal rate with over 98% of the singles bought now being downloads [BPI*], and nearly twice as many online GB adults aged 15-50 using official online services to access tracks (48%) than via unofficial digital means (25%) [Ipsos MediaCT**].

This Thought Piece explores how the music industry brought about this change, whether it spells an end to piracy and its impact on the physical retailer. Furthermore what, if any, lessons can other providers of digital content learn from the experience of the music sector?

* British Phonographic Industry, October 2009. www.bpi.co.uk

** Ipsos MediaCT, June 2010 - Base: Online adults 15-50 (502)

Experimentation equals choice

It's all about choice. The success of download services like iTunes and Amazon, and now 7digital and Bleep, is just the starting point. Music companies have now diversified, offering new ways for consumers to buy and access music.

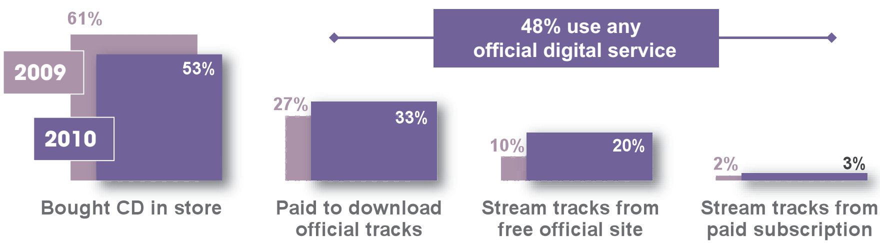
In the last year, music companies have partnered with ad-supported services such as Spotify, and We7, ISPs such as Sky, mobile operators such as Vodafone, handset manufacturers such as Nokia and Sony Ericsson and online video services such as Hulu and VEVO. There is now an incredibly rich digital marketplace that isn't afraid to experiment and push forward.

The twin forces of iTunes and Spotify

Based on research from Ipsos MediaCT, downloading tracks from official services remains the main method of accessing digital music, with 33% of online GB adults aged 15-50 having done so in the past 12 months. iTunes now has near universal awareness at 97%, with 54% having used any of its available services.

An even bigger growth has occurred in the popularity of free legal streaming services, with usage up from 10% in 2009 to 20% in 2010. Specifically, Spotify has seen its profile take off with awareness doubling in a year to 52%. These services have clearly tapped into unmet demand, but what is the cost of offering a free legal service?

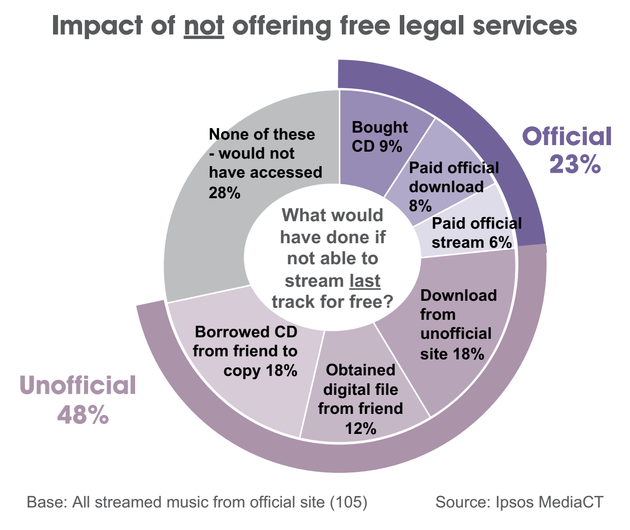
Official Music Consumption: 1+ last 12 months



Base: Online adults 15-50 (502)

Source: Ipsos MediaCT

Amongst users of free legal streaming services, when asked what they would have done, had this service not been available, one in four state they would have bought the track from an official service. Twice as many would have accessed the track from an unofficial pirate source - clearly highlighting that these services, whilst potentially taking some people out of the paid-for market, to a much greater extent are providing a legal alternative for pirates to use.



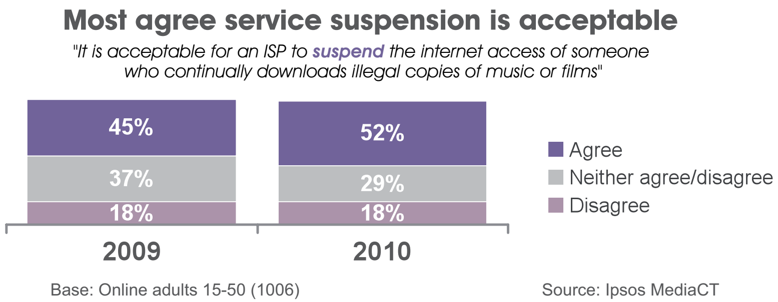
Is digital music piracy now under control?

With all these developments of official services, does this spell the end for digital music piracy, an issue that has plagued the market for years? The latest research from Ipsos MediaCT suggests that 1 in 4 online adults are still pirating digital music, and the BPI states that online copyright infringement costed an estimated £200m in 2009, so clearly digital piracy remains an activity that a sizable group of consumers still participate in.

From the same research, when digital music/film pirates were asked whether the availability of unofficial sources makes them less likely to pay for official services, over half agreed, highlighting that there is a hardcore group where as long as there are unofficial services to access, they will continue to use them. This is the issue the market has to deal with - that for some, the availability of unofficial alternatives will always act as a disincentive to using official services.

What about the stick?

How might the introduction of the Digital Economy Act (DEA) impact the market? The types of measures being put forward in the DEA do not appear to be likely to cause a public backlash. 52% of online GB consumers agreed that it is acceptable to suspend the internet access of someone who continually downloads illegal copies of music or films, and only 18% disagree. Agreement has actually increased in the past year from 45% in 2009.



No doubt there will always be ways for individuals to go undetected and continue to participate in piracy, and as such the role of the DEA will be to act as a deterrent to contain the level of piracy to a minimum, by discouraging the less hardcore pirates.

Preference for digital reaches parity with physical

Despite the growth of digital music, our research indicates that buying music in physical retail stores remains the main channel used in the past 12 months, with 53% of online GB adults aged 15-50 having bought a CD in a store - ahead of any official digital channels at 48%.

An interesting dynamic however, can be observed over the past year in that physical in-store disc buying has seen a fall of 8% points from 61% in 2009. This is even more evident when adults are asked what their preferred way to access official music is, with preference at near parity between digital online at 42% versus preference for CDs at 45%.

And there is still room to grow

68% of online GB consumers aged 15-50 are interested in using at least one of the main official digital music services in the future. This is led by downloading tracks at 49%, followed by legal free streaming at 41% and subscription at 29%. To maximise this market from its current 48% usage to its potential of 68%, the key factors stated to drive uptake included: offering the right range of products and models at the right price, enabling access across devices and offering exclusive content (such as new releases being made available online first).

Moving forward, other content sectors (such as movies and videogames) should look to the music industry in how they have developed and adapted their offer, and take on board the lessons learned to help build their digital marketplace. This comes back to choice, offering a credible alternative to piracy, getting the pricing right and offering something more than the physical alternative - something that will differentiate and give digital an edge. Get this right and the digital market will continue to grow, offering a diverse and exciting future across sectors.

About Ipsos MediaCT

At Ipsos MediaCT, our experience in the digital content field brings together our market understanding and practical know-how to take your research challenges and translate them into actionable results. We would be happy to discuss these capabilities with you. Please feel free to contact us for a free copy of our June 2010 study 'Monetising Digital Content' on which this Thought Piece is based.

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