

What Price a Song?

Exploiting the Potential of Freeloaders

Bite Sized Thought Piece

2009



Over the past decade, the digital format has revolutionised how we consume music. A quarter of the British population are now downloading music (Source: Ipsos MORI, 2008). Of these, substantial numbers choose not to pay for the music they download and have been labelled as "freeloaders" by the music industry. As industry power-brokers attempt to revise out-dated business models, understanding the behaviours and attitudes of these consumers has never been more important.

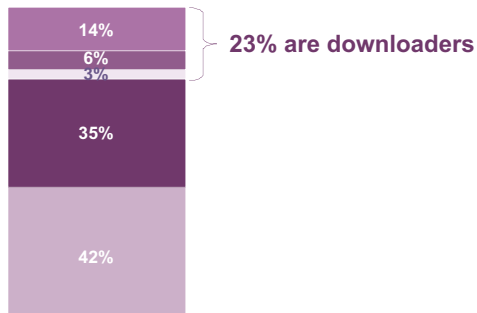
It is nearly a decade since Napster introduced illegal file-sharing of music to the masses, but the music industry is still struggling to get to grips with how to engage those who continue to download for free. Of course, Napster is now a legitimate source of paid-for digital music, but a plethora of other illegal sources followed in its wake and digital content is more freely available than ever before.

Increasing the number of legitimate download sites available to these consumers is one way of addressing the issue, but is it more important to understand freeloader behaviour in order to exploit potential opportunities?

The majority of music downloaders are "Freeloaders"




23% have ever downloaded music

- Freeloaders:**
never paid to download music
- Lapsed:**
have paid in the past but not past month
- Active:**
paid to download in past month
- Buy physical formats only**
- Don't buy any music formats**



Opportunity to leverage revenue generation among freeloaders into other channels

% of Industry spend within music category: Paying vs. Freeloaders

ue s	Downloading profile:	Active paying (past month)	Lapsed paying (not past month)	Freeloaders (never paid)
				
	%	%	%	%
Recorded music	45	43	44	
Other category spend	55	57	56	
Digital music	15	10	0	
Physical music	19	25	34	
Music DVDs/videos	11	8	10	
Concert tickets	20	23	20	
Merchandise	5	3	3	
Listening equipment	30	30	33	

Freeloaders share of spend on recorded music the same as lapsed or active and paying

Base: GB consumers aged 12 to 64 who have ever downloaded music (793), Source: Ipsos MORI, 2008

Freeloaders are still spending in the music category

While it is true that freeloaders aren't paying for their digital music, this doesn't mean that they aren't spending money elsewhere in the music category. Indeed, recent results from Ipsos MORI's tracking surveys reveal that freeloaders are spending the same proportion of their total music spend on recorded music as those who regularly pay to download music. The chart above shows that British freeloaders, like active downloaders, spend just under half of their total category spend on recorded music (44% vs. 45% respectively).

The fact that freeloaders are still choosing to buy physical CDs and DVDs, even though the same content is readily available to them for free online, highlights an important use of the internet that is lost when the debate is framed too simplistically as a matter of illegal piracy. For freeloaders, downloading music for free is as much about the ability to trial music as it is about avoiding having to pay for it. Today's generation of young and cash-strapped music lovers no longer need to record their favourite tracks from the radio onto audio-cassette or constantly purchase, copy, and return CDs in order to discover new music. If the music industry is to successfully engage with today's generation of freeloaders, the importance of free trial and discovery will be at the heart of any new business models.

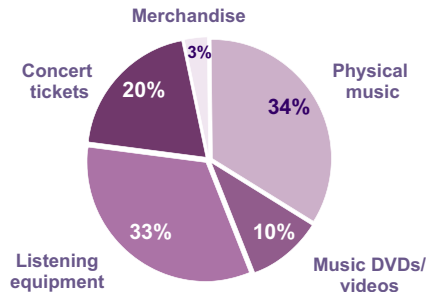
Cannibalisation could be offset by spend elsewhere

From the perspective of the music industry, the ability to trial music for free may also avoid the cannibalisation of paid-for physical music by digital music. In recent years, as the industry has moved to provide legal paid-for sources of digital music, there has been cannibalisation between consumer spend on physical and digital formats. For example, a significant chunk of the £15 a month that may once have been allocated to buying a CD is now being spent on downloading similar content from iTunes. Whilst data from the table on the previous page indicates a degree of cannibalisation (i.e. paying downloaders spending similar amounts on physical and digital music), the chart below demonstrates the additional spend by freeloaders that is often not accounted for. Freeloaders are spending just as much on concert tickets, merchandise and listening equipment as paying downloaders, equivalent to more than £330 million per year.

This research shows that the music industry needs to look beyond sales figures and think creatively about new business models leveraging value from across the music category, and not just the 'cash-cow' of recorded music. Understanding the behavioural patterns and attitudes of these consumers will prove vital to the development of successful strategies.

Freeloaders still spend on physical formats

Freeloaders: total music category spend per year estimate £600 million
56% on other category spend.....44% on recorded music



What is the future?

There is evidence that players in this space are starting to adapt their strategies accordingly. Offering customers the chance to trial music prior to purchase has been adopted by larger providers such as HMV and Virgin, who both offer “video jukebox” services. These allow users unlimited access to streamed tracks for a fixed fee per month (£5-£6), and are pitched as an ideal way of sampling music prior to purchase.

Elsewhere, mobile handset manufacturers, including Nokia and Sony Ericsson, are moving aggressively into this space with unlimited download offers. Nokia's Comes with Music service, which is installed on a range of handsets, allows users to download as many MP3 tracks as they wish and keep these as long as they wish. Sony Ericsson's Play Plus Now service was launched in Sweden at the end of 2008, and, similarly to Nokia's offer, provides unlimited downloads (albeit via subscriptions with mobile operators). A large number (but not all) tracks can be retained by the user when their subscription ends.

Both these models suggest that service providers have come some way in addressing the market's preference for unlimited access to music, whether for sampling new music or for building up music collections, in the hope that they can win a large share of overall spend in this category.





Pushing beyond conventional analysis

The findings demonstrate the importance of understanding consumer behaviour, beyond the superficial level often used as the basis for decision-making. In addition to tailoring services more accurately to meet consumer needs, by reaching and profiling consumers previously thought of as freeloaders, service providers have an opportunity to generate valuable customer data that can be used as the basis for cross-selling and branding activities. Ipsos MediaCT is ideally placed to assist companies willing to go beyond conventional analysis and meet such objectives.

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