

Jupiter Research: Study on online music piracy and purchasing habits

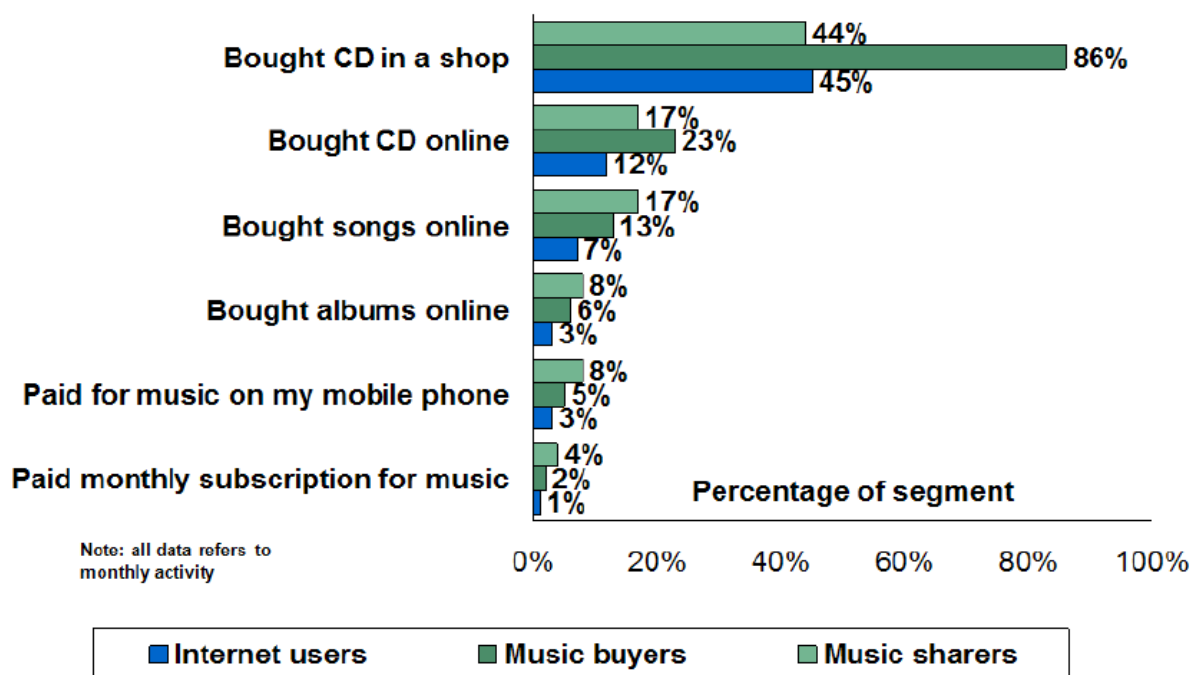
13th November 2009

There has been high-profile debate in the media about whether file-sharing has a positive or negative impact on music sales. The study below, which is original text from Jupiter Research, analyses in more detail the different spend of file-sharers, digital and physical music purchasers.

Analysis Of The European Online Music Market Development And Assessment of Future Opportunities

Music Sharers Are Less Likely To Buy Music

Figure 16: Music Purchasing Activity By Internet Users, Music Buyers, And Music Sharers, 2009, UK, Germany, France, Spain, Italy



Source: Analysis of the European Online Music Market Development & Assessment of Future Opportunities”, A commissioned study conducted by JupiterResearch on behalf of IFPI, BPI, IFPI Germany, FIMI, Promusicae, London Connected/AIM, IMPALA, MPAA

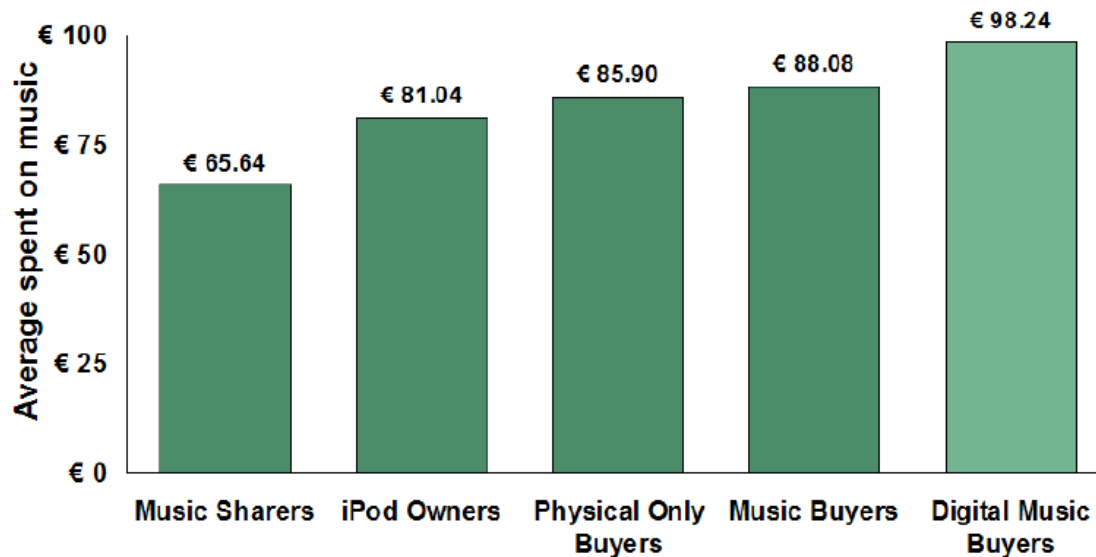
Because CDs still dominate music buying behavior, music buyers are far more likely to buy CDs than they are any form of digital music product. Converting these physical-format buyers into digital buyers rather than just losing them as paying customers will be key.

The majority of music sharers do not buy music, and they are nearly half as likely as music buyers to buy CDs in a high-street shop or from an online store. Indeed, the majority of music sharers are “freeloaders” who show little willingness or ability to pay for music. These will be key targets for ad-supported free music services and subsidized “feels like free” offerings. However, a third of digital music buyers also share music files, twice the rate for all Internet users. Because of this factor, music sharers are more likely to buy digital music than Internet users. Although it is possible that file-sharing functions as some sort of discovery tool for those digital music buyers that also file-share, it is reasonable to assume that their spend would be higher if they were not file-sharing. The overall impact of file sharing on music spending is negative.

Analysis Of The European Online Music Market Development And Assessment of Future Opportunities

Digital Music Buyers Are Europe's Most Valuable Music Consumers

Figure 17: Average Annual Music Spend By Segment, 2009, UK, Germany, France, Spain, Italy



Note: Total self-reported spending per year. Segments are not mutually exclusive.

Source: Analysis of the European Online Music Market Development & Assessment of Future Opportunities⁹, A commissioned study conducted by JupiterResearch on behalf of IFPI, BPI, IFPI Germany, FIMI, Promusicae, London Connected/AIM, IMPALA, MPAA

Although some music P-to-P users are also music buyers, the overall value of the segment is counterbalanced by the significantly larger share of other, less valuable P-to-P users. Thus music sharers are the lowest-spending, least valuable consumer segment, with an average spend of just €65.64. At the other end of the spectrum, digital music buyers are the most valuable, with an average spend of €98.24. The fact that digital music buyers have a significantly higher average spend than overall music buyers illustrates that European digital music has converted many of the region's most valuable music customers into the vanguard of digital music adoption. However, physical only buyers, which represent 44% of European consumers, are strong spenders and represent an as yet untapped market for digital music services.

iPod owners have a lower average spend than both music buyers and digital music buyers. This emphasizes an important dynamic — that the majority of iPod owners are not regular digital music buyers. Just 31% regularly buy digital singles. Although this is much higher than for all Internet users (7%), it is lower than the share of iPod owners that are P-to-P music users (33%). So even with the strongly integrated iPod/iTMS model, digital music still struggles to compete with music piracy. Somewhat counterintuitively, iPod owners also have their feet firmly in the physical world: 51% buy CDs monthly in high-street shops, and 25% buy CDs monthly from online stores. This highlights the core value of the iPod as a music playback device, but it also illustrates the crucial importance to online CD stores with digital services of being able to sell in MP3 format, as so many of its customers are iPod owners.

Methodology

The data used in this report is from Jupiter Research's and Forrester Research's syndicated research and knowledge base. Two custom surveys have been executed to complete the analysis:

- A consumer survey of 5,000 European consumers (15 years or older); 1,000 respondents in the UK, France, Germany, Spain, and Italy. The interviews were performed in face-to-face in March 2009.
- A survey of executives from across the European digital music value chain, representing major and independent record labels, collection societies, traditional music retailers, and online digital music services providers.

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