

# The hyper-fragmented world of music:

Marketing considerations and revenue maximisation

**nielsen**  
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## 1. INTRODUCTION

This paper by Nielsen Music is the last in a series of four insights published in collaboration with MIDEM 2011. Referencing the same survey of 26,644 online consumers in 53 markets across the globe conducted during September 2010, and building upon the previous insights into digital music consumption, music apps and streaming, and consumer willingness to pay, this paper addresses some of the most fundamental issue facing the industry today: how to optimize marketing and how to maximize revenue generation.

In its recently published “Digital Music Report 2011 - Music at the touch of a button”, the IFPI estimate the proportion of record companies’ global revenues from digital channels at 29%. Despite growth in the share of digital music of total record company revenue (+6% on the previous year), more than two thirds of revenues are coming from other sources, mainly physical sales.

The challenge faced by the industry lies in the complexity of the marketing and distribution model: with the one-size-fits-all model of promotion and consumption in the CD era gone, the industry now faces a complex ecosystem.

This ecosystem is characterised by a myriad of online consumption channels, and despite illegal use of music, the opportunities for revenue generation seem broad. However, efficient capitalisation upon these opportunities is contingent upon identifying where the demand is, and can be improved through a better understanding of what consumers deem to constitute significant added value. To these ends, in this paper Nielsen Music provides an unprecedented global overview of contemporary consumption through monetisable online channels. Considering the differences in how, where, and by whom the legal download, audio-only streaming, audio-visual streaming, and smartphone app channels are utilised, as well as how consumers’ willingness to pay is positioned.



## 2. KEY TAKEAWAYS

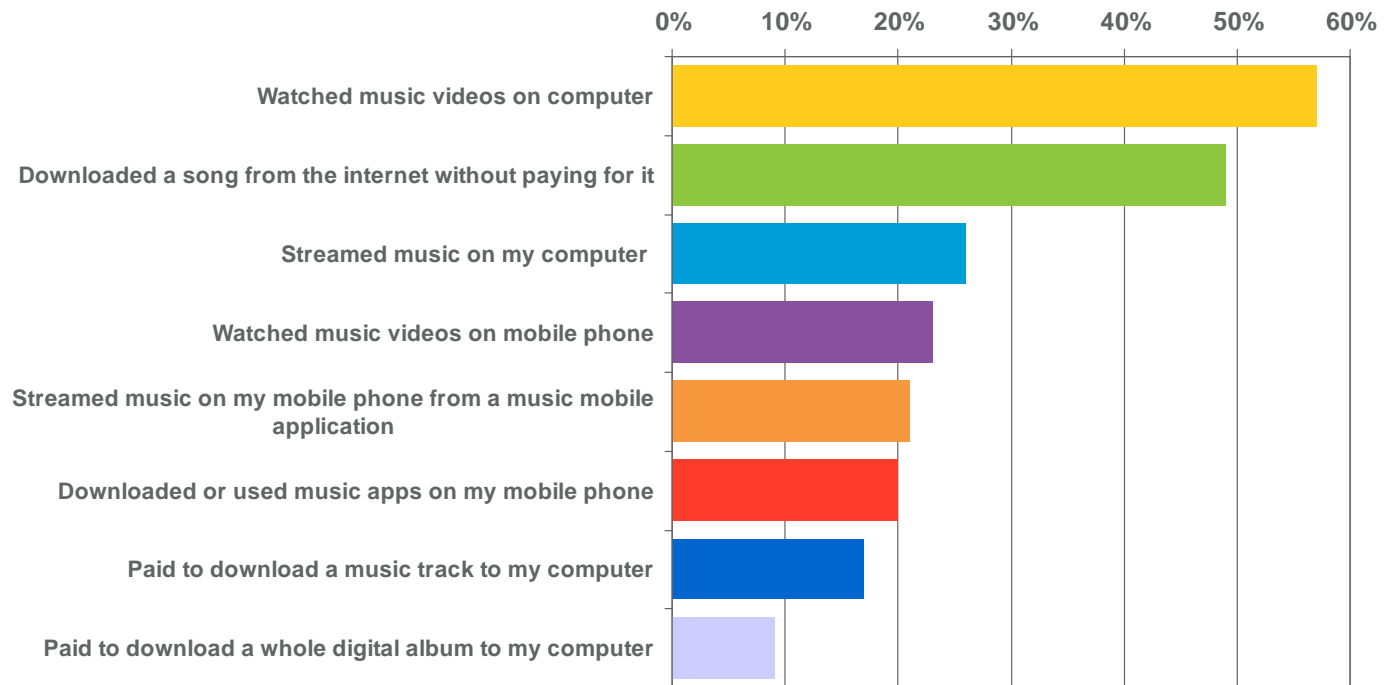
- Popularity and reach of networks and sites that can facilitate illegally obtaining music for free remain strong, particularly in the Asia-Pacific region, as well as in Spain within Europe.
- The four monetisable online consumption channels discussed in this paper – legal track downloads, audio-only streaming, audio-visual streaming, and mobile apps – are nevertheless seeing significant demand from global online consumers.
- Legal digital downloads remain prevalent globally, popular with 17% of global online consumers and exhibiting double-digit growth in Europe.
- Audio-only streaming is proving more popular than legal digital downloads, capturing 26% of global online consumers when accessed via a computer – a figure which may increase as dedicated services become more available. Unfortunately, subscription models have yet to gain popularity with users, although opportunities may be found by offering extra features.
- Music video is the most popular consumption medium discussed in this paper, with audio-visual streaming websites visited regularly by around half of the global Internet population. Three times as consumed by audio-visual stream than by digital download. Possibilities of more explicit monetisation may exist for this channel, as this paper explains, although American and European consumers may need more persuasion.
- In addition to forming a common device of access for the aforementioned channels, particularly in the Asia-Pacific region, smartphones offer an additional monetisable online consumption channel in the form of music apps, this research shows that demand for certain types of music apps is markedly varied.
- Across all of the above monetisable online consumption channels, a primary global consumer can be identified: a 20-24 year-old man. This consumer will do more of everything than the average with respect to legal downloading of music tracks, streaming of music and music videos, and downloading of mobile music apps.
- What global music consumers are currently most willing to pay for currently resides in what they cannot get for free, and perhaps more significantly, the attributes associated with music products in a bygone era. A reintegration of attributes associated with CDs may prove effective.



### 3. THE NEW ECOSYSTEM IS HYPERFRAGMENTED: MUSIC IS UBIQUITOUS (ANYWHERE, ANYTIME, ON ANY DEVICE).

There is significant demand among global consumers in a variety of the online consumption channels that characterise the new ecosystem. In fact, more popular than illegal practices (see later), and forming the most popular method of consumption polled by Nielsen Music in this paper, is the “watch” habit: 57% of online respondents watched music videos on computers in the three months prior to questioning. Whilst this figure could potentially encompass viewership of DVDs and illegally downloaded music videos, it corresponds closely with the global unique audience reach of monetisable websites such as YouTube and Vevo, as will be discussed in more detail below. Moreover, whilst less popular than both piracy and the “watch” habit, global consumers are utilising the three other monetisable online channels discussed in this paper – legal track downloads, audio-only streaming, and mobile apps.

Which of the following have you done in the last 3 months?



If considering the computer as the primary device for access, streaming services are popular with 26% of global online correspondents, and with slightly lower popularity are legal digital downloads, whether for individual tracks or albums. Popularity levels of music access via mobile phone are similar to those for the computer across all channels with the notable exceptions of piracy, (which has received little interest on mobile phones) and watching music videos, which is half as popular as watching via a computer.

### **Hyper-fragmented consumption**

No single monetisable online consumption channel is being used by over 60% of the global online audience. Consumption habits are diverse. This hyper-fragmentation poses a significant challenge for identifying where demand is, which is essential for best capitalising upon the broad opportunities presented by the new ecosystem. For marketers to find their way, the complex consumption patterns need to be more comprehensively understood. This paper will proceed by identifying in which regions and amongst which age ranges the monetisable online consumption channels are of greatest appeal.



#### 4. THE “WATCH” HABIT: AUDIO-VISUAL STREAMING

Significantly more popular than audio-only streaming, and forming the most popular method of consumption polled by Nielsen in this paper, is the “watch” habit: 57% of global online respondents had watched music videos on computers the three months prior to questioning. Whilst this figure could potentially encompass viewing illegally downloaded videos and DVDs, it corresponds closely with the unique global audience of audio-visual streaming websites such as YouTube and Vevo. With recourse to Nielsen *NetView*, which monitors Internet usage of subjects across the world both at home and work, it can be seen that the unique audience reach of YouTube alone is above 50% in the USA, Spain, Italy, and Brazil.

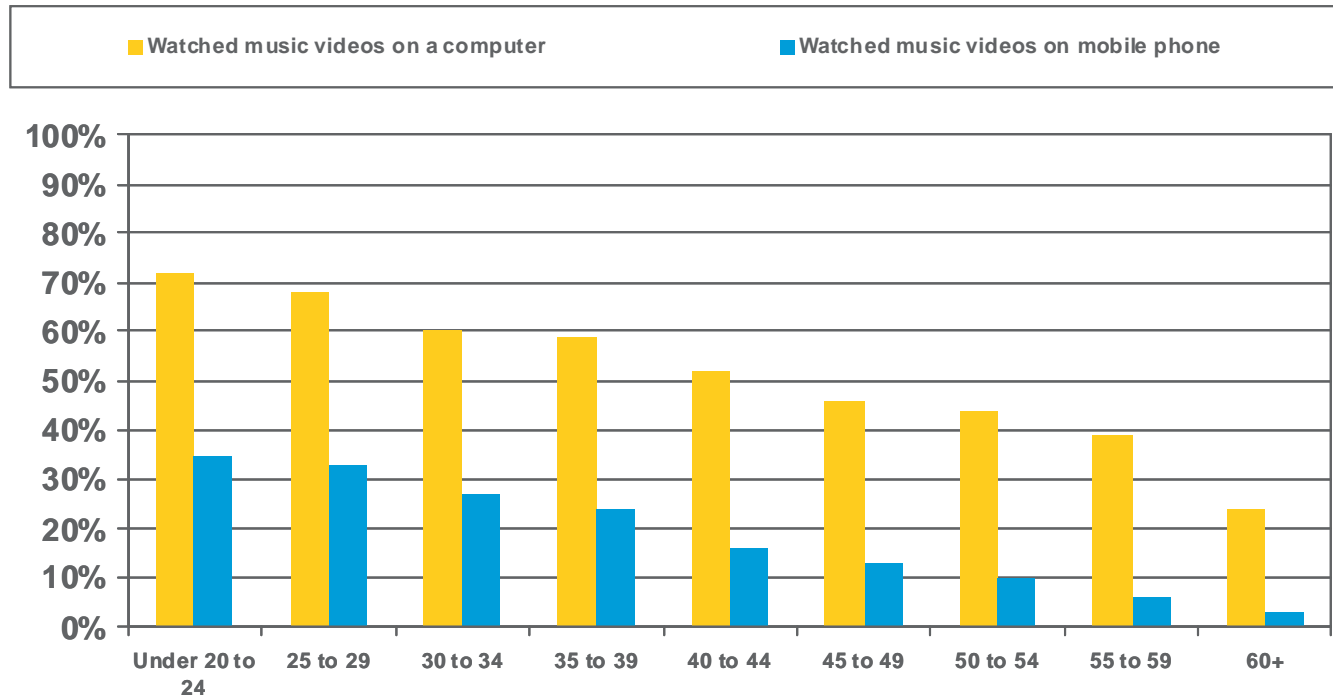
Fewer, but still over 20% of online global consumers had watched a music video on a mobile phone. This may be attributable to a number of device manufacturers pre-loading their mobile phones with music videos to demonstrate the music video capabilities of the device. But it demonstrates that there is demand for video on mobile phones, and with Smartphone penetration increasing and mobile phone networks improving, the phone may be a growth area for audio-visual streaming. Globally 22% of online respondents own a Smartphone (one in four consumers in Asia Pacific and one in five of consumers in Europe) and another 22% said they planned to definitely or probably purchase a Smartphone in the next 12 months.



### Profile of “Watch” Users

The under 20-24 year-old age group can once again be identified as the primary consumer, although other age segments are not far behind. The younger the consumer, the more likely they are to have consumed music videos on either a computer or a mobile phone. Consumption via computer is more popular than watching on a mobile phone across all age groups. But as age rises, the disparity between watching on a computer and on a mobile phone also rises.

### Which of the following have you done in the last 3 months?



In a potentially interesting development for the future of the music industry, global online consumers are indicating a potential to pay for this channel. 24% of those aged between 20 and 24 indicate a prospective payment, this declines with age as fewer than 15% aged 45 upwards do. Europeans and North Americans may need more persuasion, however...

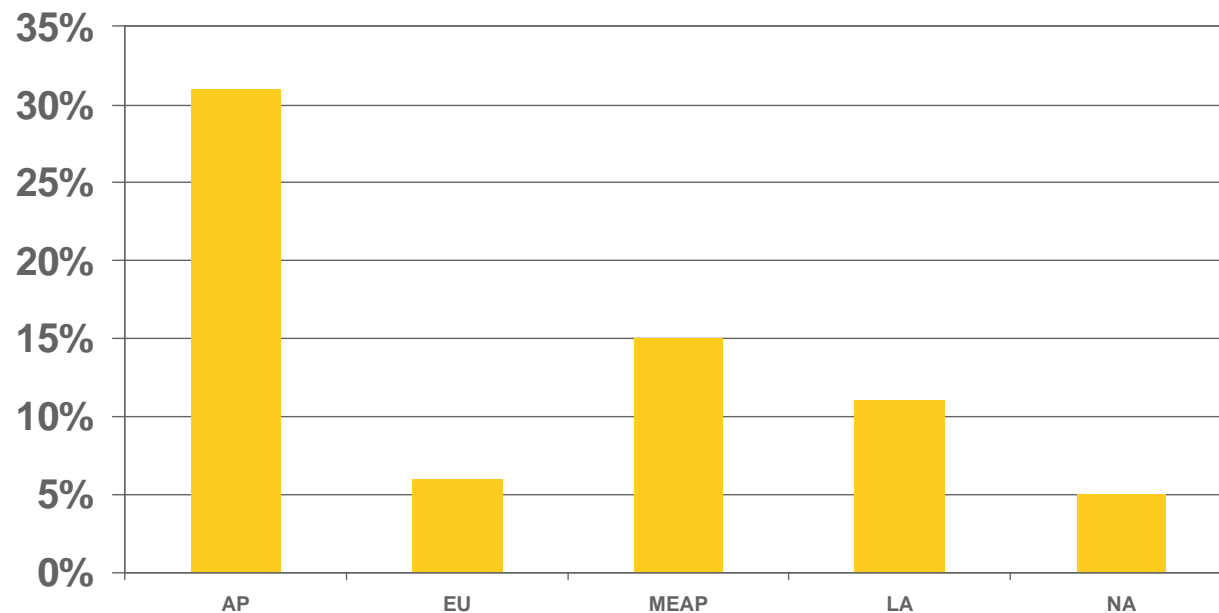


## 5. LEGAL MUSIC DOWNLOADS – STILL PREVALENT, STILL GROWING

Over the past decade, music consumption within the legal download channel has been led by the à la carte download of individual tracks on computers. Though currently one of the least popular monetisable online consumption channels with online global consumers, this model remains prevalent and is still growing.

The use of mobile phones as a method of legally downloading tracks is also doing well, with 18% of global online respondents in the Nielsen Global Survey having downloaded a full-track in this manner in the three-month period prior to questioning. Notably, this popularity is not evenly distributed across regions, being significantly more popular in the Asia Pacific region than in Europe or North America. This can be explained by the fact that Asia Pacific consumers are more accustomed to purchasing products via their mobiles (with Asia Pacific respondents to Nielsen Global Survey Q3 2010 are more likely to make purchases, sales, or payments using mobile phones than Europeans or North Americans, at 11% vs. 3%).

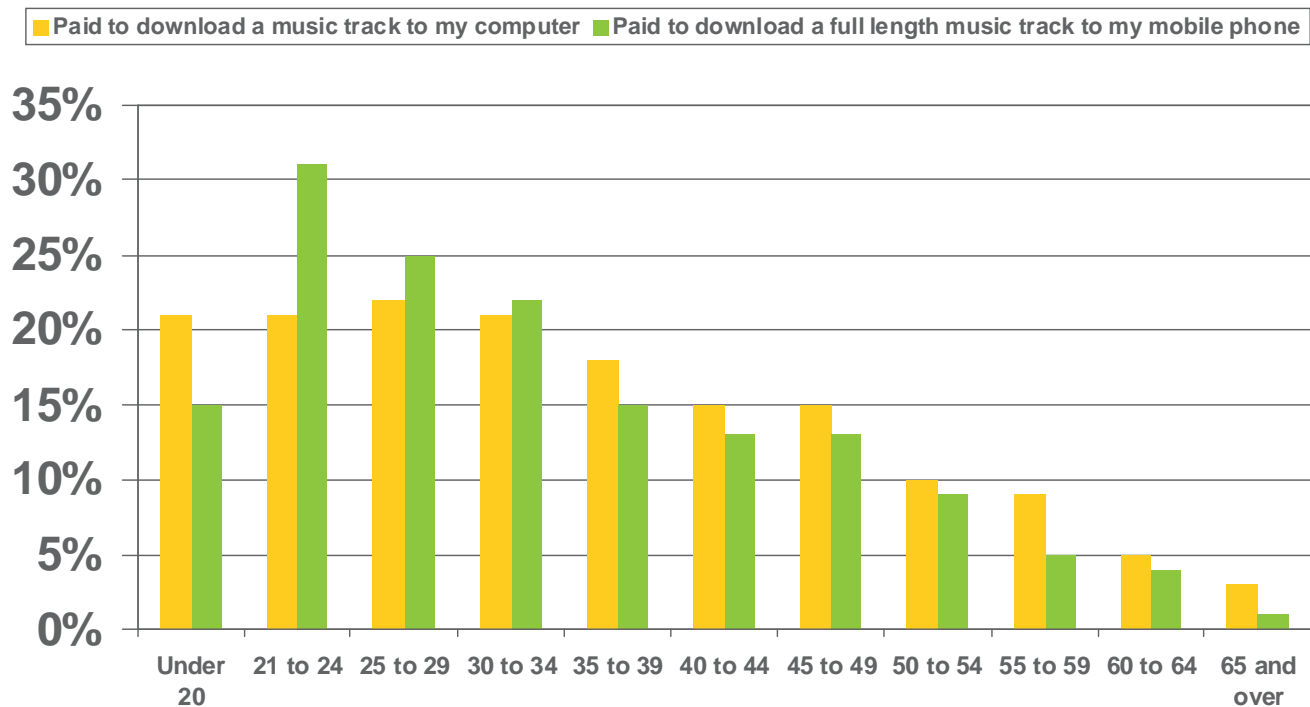
Which of the following have you done in the last three months?  
Paid to download music to my mobile phone (not a ringtone)



### Profile of “legal music downloads” consumers

Despite regional differences in popularity and consumption methods, the profile of a “primary” consumer of legal digital music tracks can be identified as a man in his early 20s. More than 20% of global respondents aged 25-29 paid to download a music track to their computer in the three months prior to questioning – a figure which rises to 30% for the 21-24 sample where mobile phones are concerned. From age 30 onwards, both computer and mobile legal downloader percentages drop regularly and significantly, with a more negative trend for mobile access.

### Which of the following have you done in the last three months?

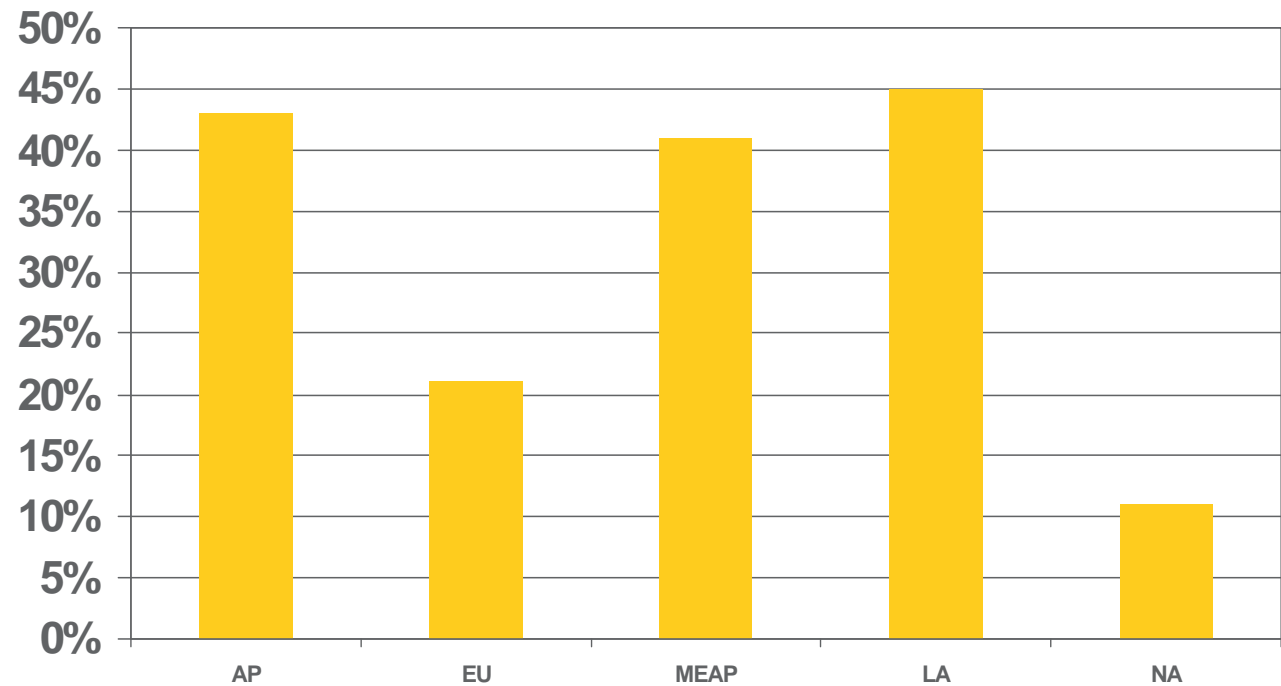


## 6. ACCESS TO MUSIC VIA NON-LEGAL SITES: A PROBLEM TO TACKLE

The music industry is indeed right to be worried about the fact that music consumers can acquire music for free. From the Nielsen Global Survey, it is apparent that the usage of file-sharing programmes to download music for free (and potentially illegally) remains extremely popular, with 35% of global online consumers admitting to having undertaken this activity in the three-month period prior to questioning. Notably, however, popularity varies significantly by region, being comparatively lower in Europe and North America.

### Mobile phones,

Which of the following have you done in the last three months?  
Used a filesharing programme to share music with others or to  
download music for free from others



### **From Sloppy to HADOPI**

A hot topic of discussion within the music industry in recent years has been the extent to which legislation can successfully militate against pirate activity. This issue can be more closely explored with recourse to Nielsen internet consumer panels (*NetView*) data. Whilst this data cannot in itself illustrate the volumes of illegally downloaded music, it can provide a stark indication of intention by capturing the number of unique users of networks and websites that can facilitate piracy – which in this takeout are taken to be the peer-to-peer (P2P) networks in which users host music files on their computers, and the hosting sites that require users to host content on a remote server.

In Spain, a country which does not currently have laws in place to prevent illegal downloads, piracy would appear to be high: nearly 40% of the country's Internet population visited a monitored file-sharing or hosting site in November 2010, compared with just 10% who visited a legal download site in the same month.

In France, a country that has introduced the much-discussed HADOPI law, relevant indicators imply the monitored peer-to-peer and file-sharing sites have seen slight decreases in unique traffic to their websites in over the year to December 2010, although their unique traffic still remains stubbornly over 22% of the country's Internet population.

Whilst it is both too difficult and too early ascribe causality on this data alone, the music industry can nevertheless be offered assurance that governmental policy changes can monitor awareness of pirate behavior.

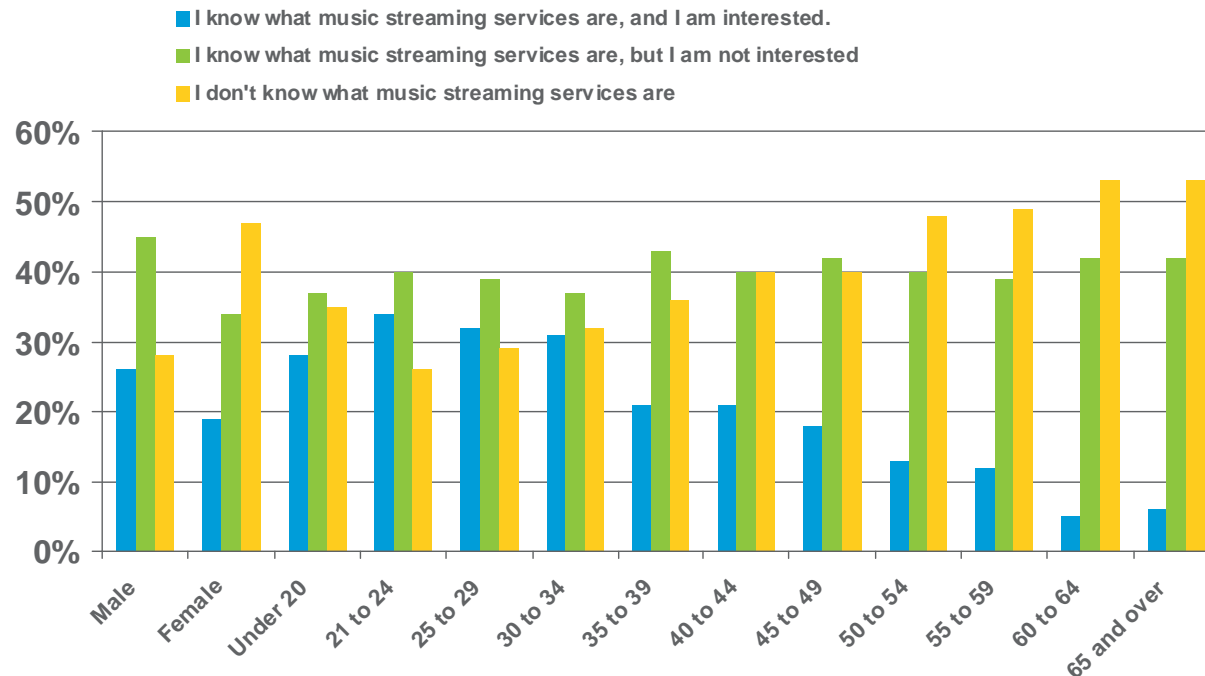


## 7. HOT OR NOT? AUDIO STREAMING

Much industry attention has been given to audio-only streaming services, which enable users to listen to tracks or albums without having to download to own the whole track beforehand. These services were originally typified by websites such as MySpace, but more recently prominent are dedicated applications such as Spotify, We7, Deezer, Simfy, etc. Access primarily comes in two forms – free to use, ad-funded models and daily/monthly subscription models – and music can be accessed by both computers and mobile phones, amongst other devices.

Are consumers aware of streaming services... or not? Whilst the usage of streaming is more popular with global online consumers than paying to download individual tracks, to consider the potential for this relatively new channel, it is important to consider user awareness.

Which of the following applies to your understanding of streaming services?



On the whole, it is clear that the majority (63%) of global consumers understand the capabilities of streaming, although this understanding varies broadly by age, sex, and region. In terms of age and sex, awareness is much higher in men, with two thirds of Nielsen's global online panel understanding what these services are compared with only half of women (53%); and awareness decreases with age, with 21-24 year-olds being the most aware.

Regionally, Latin American consumers are the least aware (54% do not know what streaming is) and Asia-Pacific consumers are the most (only 30% are not aware). Significantly, it appears that awareness again correlates with usage. Consumers in the Asia-Pacific region were most likely to have used a music streaming service in the past three months on both a computer and a mobile (around 32%), whilst Latin Americans were least likely to have used them on a computer (at just 16%).

Whilst the correlation between awareness and usage may be encouraging, it appears that global consumers need significantly more persuasion to adopt the more profitable subscription models. When asked about the ways in which they would listen to streaming services, only 22% of global online respondents who had streamed music in the three months prior to questioning said they would definitely or probably pay for a monthly subscription. This compares with 57% who would listen for free in exchange for viewing or listening to advertising, and 37% who would listen for free in exchange for providing personal information. Offering additional features may improve upon the 22% figure. 27% of respondents said they would definitely or probably pay if they had free access to stream unreleased MP3s (tracks or albums) and 25% said would definitely or probably pay if they were given priority access to booking tour/concert tickets of artists whom they stream. The latter would be particularly effective with Asia Pacific consumers, as 30% said they would pay for such a feature.





### **Profile of “audio streaming” consumers**

For the audio streaming channel, the 21-24 age group may once again be considered as the primary global consumer. Firstly, it is with this age group that streaming services are most popular, with 37% of sampled 21-24 year-olds having used streaming services on a computer in the three months prior to questioning, and 34% on a mobile. This compares with respective percentages of 26% and 21% for the total global sample. Revenues are most likely to be derived from this age group for both the ad funded and subscription models. With the ad-funded models, it is probable that this age group will click on the most adverts because they listen to streamed music with the greatest frequency. 33% of the sample listen on a computer at a minimum of once a day and 18% on their mobile phones. This compares with 19% of the total global sample on a computer, and 11% on a mobile phone. With respect to the subscription model, out of those already using streaming services, the 21-24 age group is the most likely (at around 22%) to pay for listening via streaming services on either computers or mobiles in the three months subsequent to questioning. Notably, however, across both models, the 25-29 year-old consumers are not far behind, with the greatest difference being in the frequency of usage on a computer, with only 28% of this age segment listening at least once a day.

## 8. ARE MOBILE APPS THE NEXT BIG THING?

In addition to being used as a common device to access the aforementioned channels, mobiles may be considered as a monetisable online consumption channel in their own right with apps – software designed to run on smartphones. Given that this channel is in relatively early stages of development, it is of particular importance to understand the consumer of this channel; their awareness, their preferences, how regions, countries and age groups differ, and their purchase habits.

Globally, it's a good start in terms of awareness: 83% of our online respondents knew what a mobile app was. Crucially, 35% of consumers understand and are interested in mobile apps, and whilst a significant proportion of those who know what apps are aren't interested, this may be because they don't (yet) own a Smartphone. Though interest is strong throughout the globe, from a regional standpoint, Asia-Pacific and Middle-East Africa Pakistan are extremely keen on mobile apps. In China, the world's largest consumer marketplace, for instance, 59% of the online population are interested in apps. This is no doubt linked to Smartphone ownership as nearly one-in-three (29%) of Chinese already own one (with an additional 31% expecting to purchase a phone in the next 12 months).

However, music apps have been downloaded for free in 81% of the cases. Two thirds of the respondents have a very limited budget for music apps, which range from no budget at all to a maximum of 5USD (with the exception of the US consumers who are more keen on paying for music apps). Are music apps considered as a “nice to have” by consumers, or are they a great marketing tool for the industry, or even a new source of significant revenue?

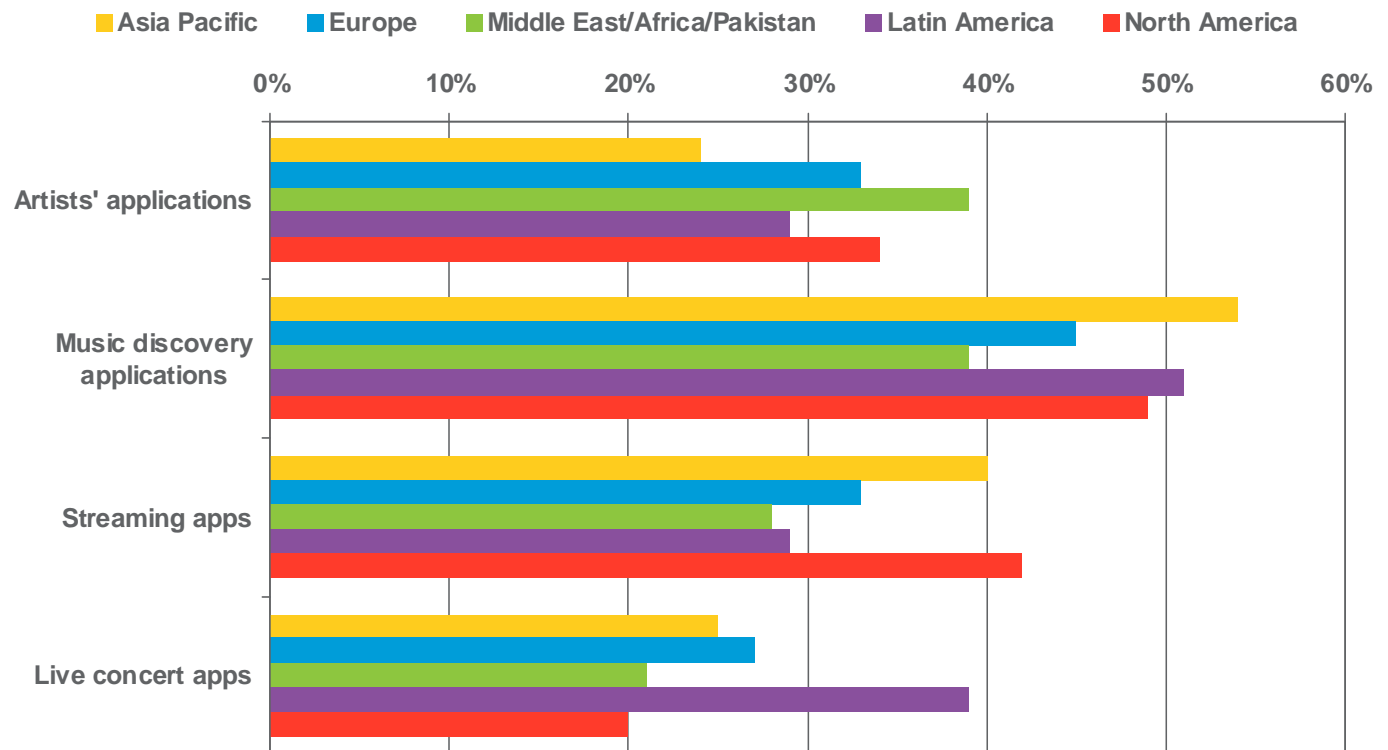
The growth prospects the apps channel provides fertile ground for music apps more particularly. On the whole, they are already extremely popular. In the USA, for instance, they were the second most popular app genre (games came first) used by consumers [Nielsen Wire - [http://blog.nielsen.com/nielsenwire/online\\_mobile/the-state-of-mobile-apps/](http://blog.nielsen.com/nielsenwire/online_mobile/the-state-of-mobile-apps/)]. Within the music app category, globally, music discovery (those such as Shazam, Rhapsody, Napster, and Pandora), artist, and streaming types are the most popular. Less popular are live concert apps or music instrument apps.

But regional variances are important. Artist apps are doing best in Europe; the success of the “Take That” app, geared towards music fans, was reportedly downloaded over 100,000 times in its first week of release.



Music discovery apps do better in North America and Asia Pacific than in the other regions. Looking into potential opportunities, consumers from Middle East/Africa indicate they would be most interested in music discovery apps, North Americans are more interested in music streaming apps, and Latin Americans are more interested in live concert apps.

### Which type of music apps would be of greater interest to you if you could get them on your mobile phone?



#### Profile of consumers

Perhaps unsurprisingly, it's the younger consumers, those aged 21-24 who are most interested in mobile music apps in general and also the premier consumers of music apps: 33% of global online respondents in this age segment answered positively to having used or downloaded music apps in the three months prior to questioning. Notably, however, they don't necessarily have the highest budget, and formed the age group who had the greatest proportion (71%) allocating only USD0-5 for monthly expenditure.



## 9. WHERE IS THE DEMAND?

The diverging intentions among prospective consumers with respect to musical app consumption epitomises the complexity of identifying demand amidst the hyper-fragmented consumption habits exhibited in this paper. Significant regional differences are apparent across all channels. Where age-based demographics are considered, however, it is possible to find an element of solace: 21-24 year olds are the premier consumers across every monetisable consumption channel. We really must embrace, rather than write off, this generation of consumers who have been most exposed to the possibilities of not paying for music. And if we are to follow the advice that David Guetta (quoting Jimmy Iovine at MIDEMNet) was given about only listening only to under 25s for musical inspiration, we may even consider them as the nucleus of the music industry.

## 10. WHAT DO MUSIC CONSUMERS VALUE?

To efficiently capitalise upon the opportunities afforded by the new ecosystem and in addition to identify where the consumers are across each of the monetisable online consumption channels, marketers also need to obtain and embrace an improved understanding of what consumers deem to constitute significant added value. It is undeniable that consumer payment willingness is linked with the act of consumption and to attributes they cannot get for free. This may be found in characteristics such as the immediacy of music streaming, the engagement afforded by apps, or the convenience of mobile access.

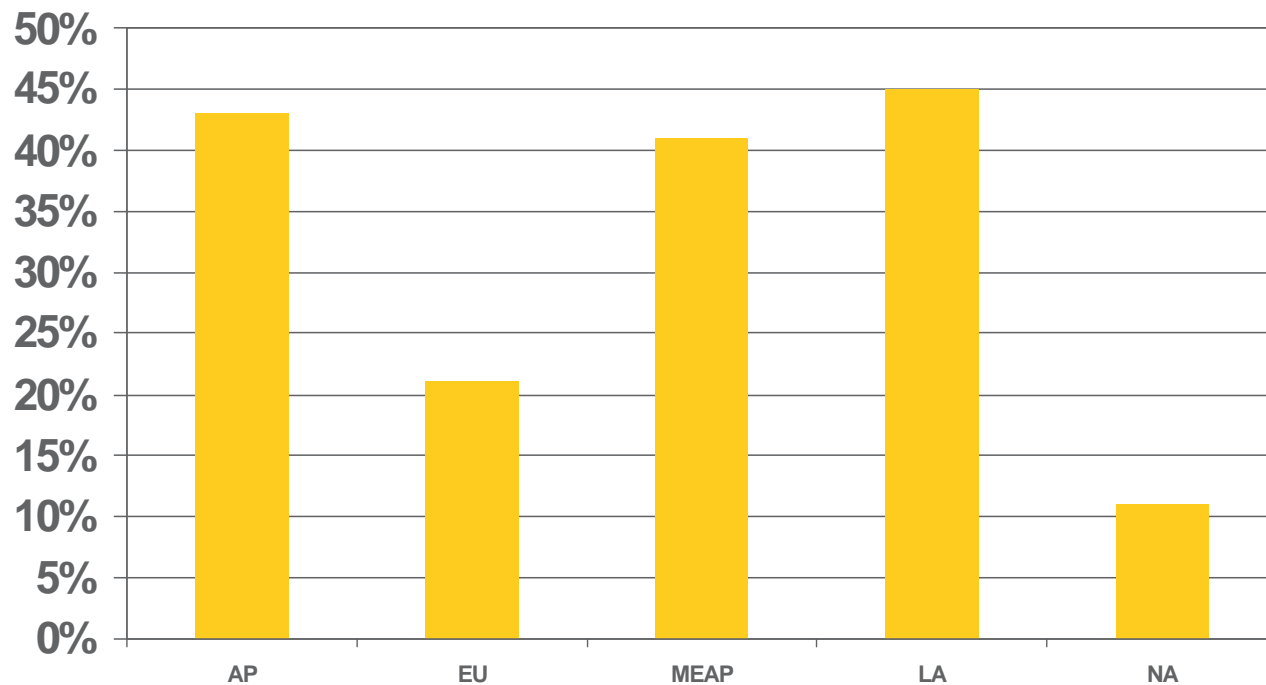
To attempt to work out what consumers most value, Nielsen can consider consumer willingness to pay across each of the consumption channels in relation to each other.

Just as the sources of music consumption are widespread, so is the willingness to pay. With no ubiquitous channel many thrive with a reach of between 18 to 25% of the music audience. And because awareness is not endemic we cannot expect more users to be willing to pay for sources they have not experienced yet.



Notably it would seem that consumers are not as willing to pay for services in which they do not obtain a product, or a semblance of permanence. In contrast to the high popularity of consumption, the online channel in which consumers are most willing to pay via computers is the digital download, with 22% of global online correspondents indicating that they either definitely or probably would pay for this channel in the three months subsequent to questioning. The next most popular online channel with 20% of global online correspondents indicating that they will either definitely or probably pay in the coming months for internet video services. Notwithstanding the opinions of many that the CD is about to die, and despite also the very real struggle for retailers and the physical chain to make a profit, the IFPI global numbers show that there is still a significant share of revenue to be made of physical products. In the Nielsen survey, music consumers show they are most willing to pay for CDs and DVDs.

Which of the following have you done in the last three months?  
Used a filesharing programme to share music with others or to  
download music for free from others



## 11. CONCLUSION – GOING FORWARD

With 13 million tracks licensed by record companies to 400+ licensed digital music services globally (source: IFPI), and consumption across a myriad of channels, there seems to be as much potential as there are challenges.

No longer are consumers being exposed to music via a limited number of media (radio stations), and revenue is not generated via a dominant physical support (the CD).

But the diversity of behaviour is the element of complexity: how to deal, from a marketing and revenue standpoint, with a fragmentation of usage and hyper-segmentation of consumers across the whole market? Nielsen is constantly monitoring the music market and provide insights about consumers: where they are willing to pay, how they are being exposed to music both online and in traditional methods and how this relates to sales.

There is not a single model anymore, and the idea to build the one and only service which offers the perfect consumer experience does not exist yet, and may not work (although a big brand with a powerful product and value proposition proves it can establish a dominant model).

Consumers are certainly willing to pay for something... as long as they cannot get it for free. The tangibility and permanence of the old formats is still valued by many. The access to personal (or broader) media collections in the cloud – what is widely regarded as being the next step for the music industry – will rekindle ideas of permanence. But it is just as plausible that getting used to the intangibility of music will initiate a shift in consumer conceptions of ownership. If that is to be the case, the industry will find that in terms of the monetisable consumption channels available, it is very much in the right place already.

The real issue to solve is that the channel or source of music is often regarded as much as a marketing tool (audio-video sites, apps) than as a revenue generation channel. It is somewhat confusing for the consumer, who does not make a distinction between being exposed to music via marketing and promotion and looking proactively in the “free” digital jukebox for what they want to listen to. In a future where this previously held consumer distinction between conventional marketing, purchase and consumer-led listening is blurred, how should the industry market and generate revenue effectively?

Gradually, it may well be that the B2B part of music industry revenue will be as important as the revenue generated directly with consumers.



## About the author

Nielsen Music is the measurement reference of the music industry, and the market data and research partner of choice for the music sector. Our local and international teams of research and music experts bring the best set of comprehensive, robust and quality insights to our music clients. With Nielsen Music, access, understand and interrogate:

- What music is played on radio and music television (airplay monitoring); we are the only respected and official brand for charts and provide detailed analysis with both local and international coverage.
- What is sold (sales tracking); tracking of digital sales globally and physical sales in selected countries.
- What is said and by whom; measurement of internet behaviour and consumer generated media (buzz).
- What is advertised and where; complete advertising information.
- Who your customers are: significant global consumer and ad-hoc research capabilities.

Nielsen Music is successfully working with more than 500 clients representing all elements of the music chain: record companies/music labels (majors and independents), radio and TV stations, music publishers, performing rights organisations, artists and their management, digital media and services, mobile phone companies, retailers, the video game/gaming industry, consultancy firms, and the media. Nielsen Music ([www.nielsen-music.com](http://www.nielsen-music.com)) is a division of Nielsen ([www.nielsen.com](http://www.nielsen.com)), the leading global market research company.

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## This report is brought to you by MIDEM

MIDEM is the most important event for the world's music community, providing valuable knowledge and connections to source business and find solutions.

MIDEM takes place from January 22<sup>nd</sup> to 26<sup>th</sup> 2011 and brings together 7,200 professionals from more than 3,200 different companies and 78 countries, and 400 international journalists.

MidemNet, the definitive event for monetising music in the digital age, takes place on Saturday January 22<sup>nd</sup> 2011 at MIDEM.

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