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New IFPI research into consumer behaviour

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IFPI European Digital Music Survey - Summary

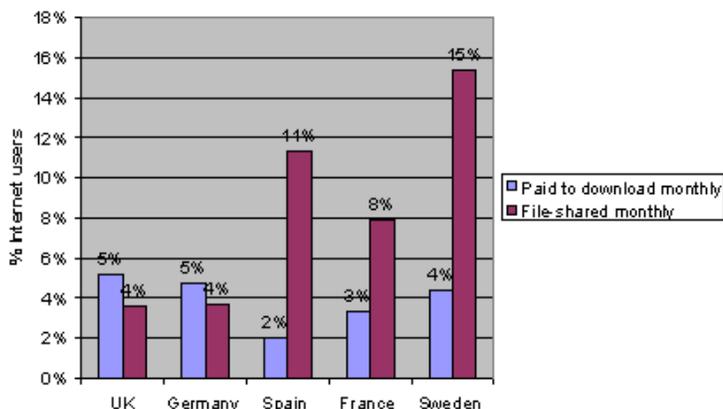
A new consumer survey by IFPI1 shows that for the large majority of people in Europe, digital music - be it legitimate or illegal - is a new concept. Only 11% of European internet users swap files on P2P networks. Fewer, around 6%, regularly (i.e. on a monthly basis) download from P2P networks.

Legal downloading is clearly at an early stage in Europe. Only 6% of internet users have bought from an online music store, while 4% - less than one in twenty - does so regularly. Some 14% of internet users overall have downloaded music from either a legal service or P2P network.

LEGAL ONLINE BUYING IS CATCHING UP ON ILLEGAL FILE-SHARING

Legal buying is now as popular as P2P use in the two major European digital markets, the UK and Germany. Here the number of regular legal buyers exceeds regular illegal file-sharers (5% compared to 4% in both countries). File sharing penetration (again based on monthly activity) is highest in Sweden at 15%. Spain and France are in the next tier at 11% and 8% respectively of all internet users (France has the largest absolute number of file sharers). So in France, Spain, Sweden, more users go to P2P networks, but legal online buying is growing.

Digital activity in Europe



TURNING ILLEGAL FILE-SWAPPERS INTO LEGAL ONLINE BUYERS IS A LONG-TERM CHALLENGE

Only 22% of online music buyers are also file-sharers. While this shows that the industry is successfully attracting new users straight to legal services, it also shows that migrating consumers from unauthorised to legal services will take more time. Just 15% of file-sharers have paid for music downloads.

A further barrier to migration is that 50% of P2P users would not pay to download music. However, 25% say they would pay to download - a target segment of some 3.5 million people across the five markets researched.

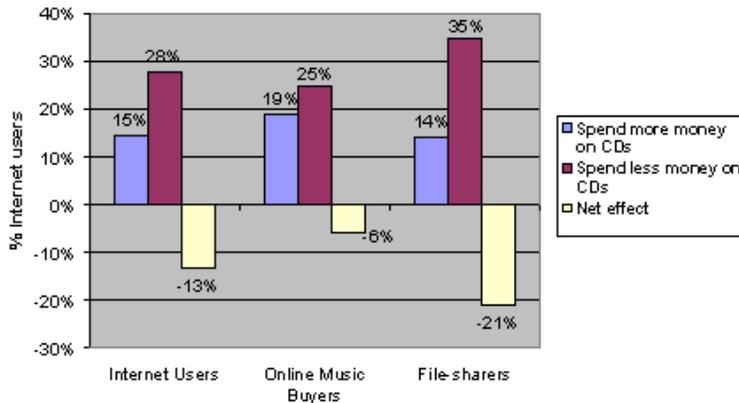
PORTABILITY IS THE KEY DRIVER OF DIGITAL MUSIC

Nearly half of all file-sharers (45%) transfer music to portable players on a monthly basis. Legal downloaders are rapidly catching up - 29% transfer to portable players. One in ten European internet users bought a Digital Audio Player in 2005 (equating to approximately 23 million people) and a further 6% intend to during 2006 which will take the installed base in Europe to just over 20% of internet users.

DIGITAL CONSUMPTION SUBSTITUTES CD BUYING BUT DOWNLOADERS STILL VALUE THE CD

Over one third (35%) of illegal file-sharers are buying fewer CDs as a result of their downloading, with 25% of online music buyers saying the same. However, digital consumption will not replace CD buying for a long time yet - those consuming digital music still highly value the CD. Both file sharers (34%) and online music buyers (37%) value CDs more than digital music.

Impact of Digital Consumption on CD Sales



MOBILE MUSIC HAS HUGE MASS MARKET POTENTIAL

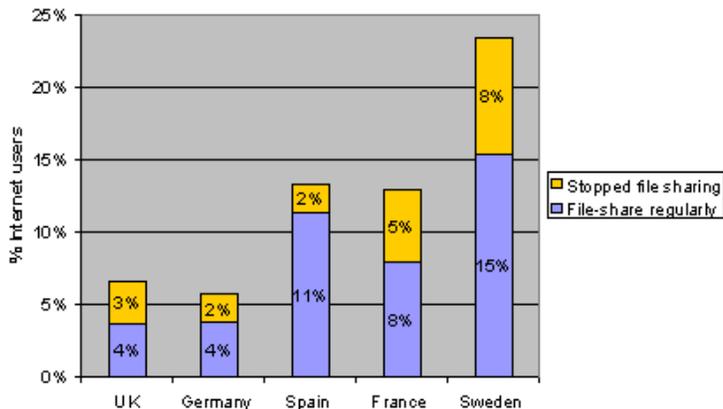
Ringtones are the most popular digital music format, with 19% of internet users having downloaded a ringtone - three times the number that have bought a track online. Almost half of file sharers (43%) bought a ringtone, compared to 26% of online music buyers and 19% on average (this is correlated to age with younger consumers more likely to have both shared files using P2P networks and purchased a ringtone).

Already 3% of European internet users are frequently using their phones for music downloads.

INDUSTRY CAMPAIGN EFFECTIVENESS

Based on consumers self-perceptions 35% of file-sharers cut back or stopped file sharing versus 14% who increased file sharing. Extrapolated, roughly 5 million people decreased or stopped using P2P, but 2 million people increased use of P2P. In short, about 3 million internet users in Europe were deterred. A further 3 million (24%) consumers said they plan to reduce or stop file sharing in the next 12 months, but this is more a signal of attitude than behaviour.

Impact of industry campaigns on file-sharing



50% of file-sharers cut back because of fear of legal consequences, 35% due to virus fear and 15% because they could not find the required song on P2P.

In Spain, where there have been no lawsuits, file sharing has seen a net increase - fewer file-sharers have cut back, with legal consequences of least concern. Spain also has the highest proportion of internet users who say they would not pay for downloads (30% versus 25% overall).

Note: These findings may not translate directly to a corresponding reduction in file sharing numbers as a) new users will be attracted to P2P use as broadband becomes available to them and b) these results are based on self-perceptions - in the current climate these will have been affected to some degree by a general increased awareness of issues over legality of file sharing.

However, the findings are a positive indication that attitudes are changing - if these translate to behaviour it is reasonable to expect a reduction in numbers of file-sharers over the next 12 months and increasingly as growth in overall online penetration slows down.

ABOUT THE SURVEY

IFPI's survey was conducted by Jupiter/IPSOS from a sample of 3,929 randomly selected adult internet users in five European countries: Germany, UK, Spain, France, and Sweden. The survey consisted of face-to-face interviews (telephone interviews in Sweden) in November 2005.