

Assessing The Impact Of Streaming Music Behaviour

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The 20,000 Foot View

Streaming has arrived and is here to stay, that much is clear. What is not is how it will impact existing music revenue streams. Though neither a business model nor a product, streaming is the lens through which the irresistible force of the shift from ownership to access is best understood. The first shift to digital was as disruptive as it was transformative. The shift to access based models though represents a more dramatic shift that challenges existing business models to the core. The first wave of subscribers was harvested directly from the most valuable download buyers, denting music sales in the process. The next wave must both better compete with free streaming and draw from a more mainstream customer base.

Key Findings

- Free streaming is where the heat is: global subscribers will total 37 million by the end of 2014 but ad supported users will reach 210 million
- But free is not yet effectively monetized: ad supported average revenue per user will be \$4 by the end of 2014, compared to \$44 for paid subscriptions
- 30 % of consumers are music streamers, with a fifth of them paying to stream
- 25 to 34 years olds have the highest paid-to-free ratio while 18 to 24 year olds have the highest overall streaming penetration at 52%
- 92% of music streamers stream audio for free and 71% stream music videos
- Free is impacting willingness to pay: 34% of music streamers won't pay for music because they get all they need for free from YouTube
- Streaming is denting music buying: 23% of music streamers have stopped buying more than one album a month
- Download sales will continue to feel the pinch with 45% of all music downloaders also music streamers
- Significant opportunity however remains untapped: only 15% of streamers have tried a subscription trial while 22% would pay for one
- Streaming has dented the impact of piracy by creating a hierarchy of free in which consumers have multiple free alternatives

The Streaming Effect



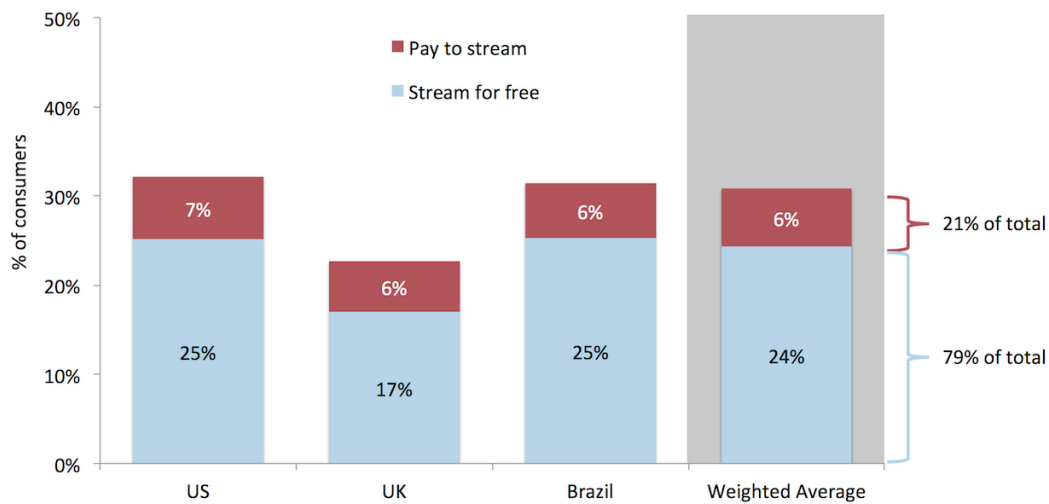
The Second Digital Transition

Streaming is neither a product nor a business model, instead it is simply a means of getting music onto consumers' devices. Yet it gives the impression of transforming the music industry at an unprecedented rate, principally because it is the lens through which the transition from music ownership to music access is being viewed. The process nonetheless has seismic impact. When the download transition started in earnest in 2003 with the launch of Apple's iTunes Music Store, artists and labels were concerned that CD sales would suffer and that albums would be sidestepped in favour of single tracks. Both fears proved to be well founded but there are few labels or artists now who would consider their iTunes revenue as anything other than crucial.

Today's anxieties revolve around streaming cents replacing download dollars. As was the case with the download transition there will be collateral damage and some fears will come to pass. But just as the first shift to digital revenue was a case of the music industry running to catch up with consumer behaviour, so the move to streaming is an inevitable paradigm shift that can be no more resisted than an incoming tide. The challenges instead are to build sustainable business models around emerging behaviour and to understand how that behaviour will impact existing revenues. That second priority is the focus of this report.

Figure 1: Music Streaming Is Already Firmly Established Though Free Dominates Across All Markets

Penetration Of Music Streaming Activity By Country



Question asks: Thinking about how you discover, consume and interact with music which of the following do you do at least once every few months?

Source: MIDiA Research Consumer Survey 06/14 (UK, US, Brazil) n = 3,000

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30 percent of consumers are music streamers. Streaming has arrived and is here to stay, that much is clear. Streaming and subscription revenue and consumer activity are shaping the digital music landscape, but the right balance between free and paid is not yet struck:

- Streaming has a revenue foothold:** After a decade of warm up, streaming revenue is beginning to become meaningful. Global streaming and subscription revenue totaled \$2.4 billion in 2013, up 39% from 2012. By 2019 streaming and subscriptions will grow 238% on 2013 levels to reach \$8 billion. Meanwhile, download revenue will decline by 39% - only 5% less than the rate at which CD revenues will fall - leaving streaming and subscriptions representing 70% of all digital revenue.ⁱ
- But streaming under-delivers in revenue terms:** In 2013 streaming represented 28% of digital revenue but consumer streaming behaviour represented more than half of all current consumer digital activity.ⁱⁱ At the end of 2014 there will be 37 million paid subscribers globally, compared to 210 million ad supported streaming users. Pandora has 73 million monthly users – including c 3.5 million Pandora One subscribers - Soundcloud 180 million, while YouTube has more than one billion. Ad supported streaming revenue per user will be \$4 by the end of 2014, compared to \$44 per user for paid subscriptions. Free streaming is

where the heat is but not the revenue.

- **Paid conversion is solid but not yet enough:** Although paid streaming penetration is just 6% this represents just over a fifth of all streaming music users. Spotify meanwhile reported 10 million paying subscribers out of a total base of 40 million active users in May 2014. These are commendable paid-to-free rates but they are not yet enough, what's more much of the addressable market for \$9.99 subscriptions has already been reached. Only 25% of consumers spend more than \$10 every three months, let alone every single month.

Notes

ⁱ MIDiA Research Global Music Forecasts 07/14. For more, see the MIDiA Research report 'Global Music Forecasts 2014 to 2019: The Shift To The Consumption Era'.

ⁱⁱ Calculation is based upon the gross total of the individual penetration rates of all streaming activity divided by the gross total of all individual penetration rates of all digital music activity. Source: MIDiA Research Consumer Survey 06/14.