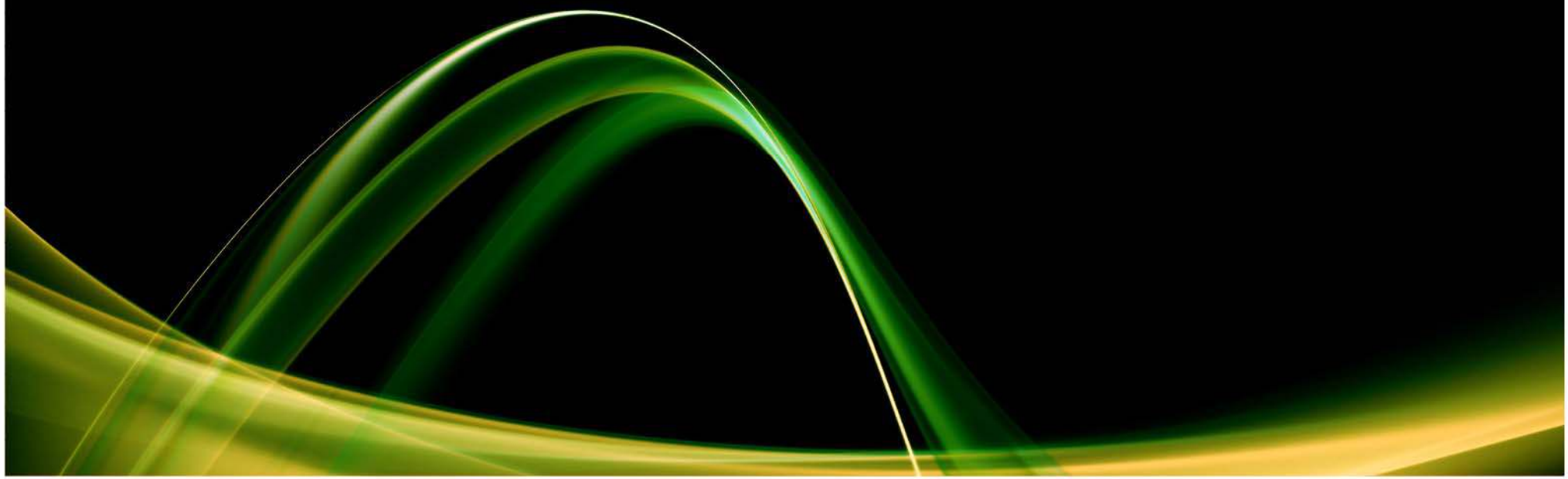
The UK Music Consumer

A presentation for UK Music prepared by Oliver & Ohlbaum Associates

Copyright research
2012



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Executive summary

This presentation outlines our approach to the research, and summarises our findings

Our analysis has provided us with insight into music usage and trends, as well as isolating the value of the ability to play music copied from CD on MP3 players, phones and tablets, and the value ascribed to locker-based cloud storage of music

Summary

Two distinct surveys were commissioned – an initial study, to gain insight into music usage and trends, and a set of conjoint analyses isolating the value of the ability to play music copied from CD on devices.

More than half of respondents to the initial study claimed that more than 20% of their library is 'ripped' from physical format CD's.

The conjoint analysis provided a range of responses for the value of the ability to play music copied from CD for each device:

- Between 32% and 53% of the value of MP3 devices
- Between 0.28% and 4.13% of the value of phones
- Approximately 6.7% of the value of tablets

- 72% of respondents consider music their most valuable commercial data to back-up in the cloud

Research process

Our approach was built on a two-step research process, with an online study followed by conjoint analysis.

An online study among a nationally representative sample of UK consumers to measure current/future market insight/sizing exercise was conducted w/c 16th January and initial results have been summarily analysed.

The results of this initial study helped inform decision making with regards to the conjoint exercise. Presentation of the market sizing exercise determined what level of further analysis was required (how many market conjoint simulators were required to collect a full picture).

A conjoint exercise among people already identified as being interested in various MP3 devices, phones and tablets in initial research began in w/c 13th February. Separate conjoint analyses were conducted sequentially for MP3 devices, phones and tablets, with additional top-up analysis regarding the value of cloud locker storage.

Our approach to conjoint was peer reviewed by Professor Ken Willis (Professor of Environmental Economics) at the University of Newcastle. He confirmed the robustness and validity of our assumptions and approach.

The final set of conjoint analysis results were received w/c 12th March. Having analysed the data and calculated the results, this report comprehensively summarises and presents our findings for UK Music. Additional data to that provided here has been made available to UK Music to support their submissions regarding copyright.

Initial research findings

- Digital libraries are larger than physical format libraries, but CD ownership is both higher and more widespread

- More than half of respondents claim that more than 20% of their library is 'ripped' from physical format CD's

- The value to devices of playing copied CD's was: 14% for feature and 9% for smartphones; 11% for tablets;, 20% for multi-function and 41% for simple MP3 players

Conjoint analysis findings

The value of the ability to copy from a CD to **MP3 player**:

- 44% (**£21.00**) for a basic player (costing £47.45)
- 53% (**£65.17**) for a mid-range player (costing £122.95)
- 32% (**£80.00**) for a top-end player (costing £247.14)

The value of the ability to copy from a CD to a **phone**:

- 0.28% (**£0.25**) for a feature phone (costing £88.37)
- 2.59% (**£6.67**) for a basic smartphone (costing £257.46)
- 4.13% (**£23.60**) for a top smartphone (costing £571.33)

The value of the ability to copy from a CD to a **tablet**:

- 6.7% (**£33.50**) for a tablet (costing £499.79)

Music comes in third place as the most important type of data to back-up in the cloud. However, it is the most valuable commercial data when compared to films, eBooks or video games

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Initial research – Process

The study provided insight on music use and habits, and informed the conjoint analysis

The purpose of the study was to gain a clear understanding of UK consumers current and future music use and demand

Summary of our approach

We split the research into two steps, the first of which provided a clear picture of consumer preferences relating to music use and habits, and device preferences.

In conjunction with our research partners, we conducted an online study among a nationally representative sample of UK consumers to measure current/future market insight/sizing. This research took place in w/c 16th January 2012 and findings are contained within this pack.

The survey was compiled from a sample size of 2,283 respondents, and the results informed our next steps and choices for the conjoint analysis, which sought to isolate the utility and value of copying CD's to a variety of music-playing device types.

Our research focused on understanding consumer behaviour, in order to inform decision making by the UK Music team.

Initial online study

We worked with our specialist research partners and the key stakeholders in the UK Music team to create, revise and finalise a questionnaire to put to a significant and nationally representative sample of UK consumers.

The goal of this initial study was to build up a clear and comprehensive picture of music usage, purchasing, storage, format choice and copying behaviour in the UK.

The initial survey collected data across several areas:

- **Demographics** – standard data such as age, sex etc.
- **Musicographics** - how consumers view and consume music – frequency of listening , size/value of their library, source of purchase and format choice, location of music library/ storage, if they copy onto/ buy/ download/music onto an MP3 player, to what extent does the actual device influence their activity
- **Technology audit** - which devices they own/use the most and for which purposes, how long they have had each, how much they paid for it and when they think they might replace/ upgrade/ buy other device
- **Importance of MP3 device features** - likelihood of buying device types in the near future and select the features that they would expect that device to offer. Which devices they might consider purchasing and how much they would be willing to pay for such a device from that manufacturer (all prices/detail will be fed through to subsequent questions)
- **Value of MP3 device features** - for each device, allocating a proportion they are prepared to pay for each of the features they require the device to offer. Ability to copy music from their own library is included (they could set the amount to zero £ if copying music from a non digital format was not important to them)
- **Other IP -** as per UK Music's request, we also tested the attractiveness (for more advanced devices) of copying other IP – particularly DVDs or games
- **Value of the library** - for existing users, we asked how much the CD collection on their MP3 player is worth – by asking how much they would pay to retrieve the collection if a fault erased it overnight

Key features of the research

This research provided insight specifically into:

Demos (age, sex, income etc.)

Music (formats, types etc.)

Volume (size etc.)

Library (composition , age etc.)

Devices (portable, non-portable etc.)

Features (of players, musical devices etc.)

Copying (from CD, from digital etc.)

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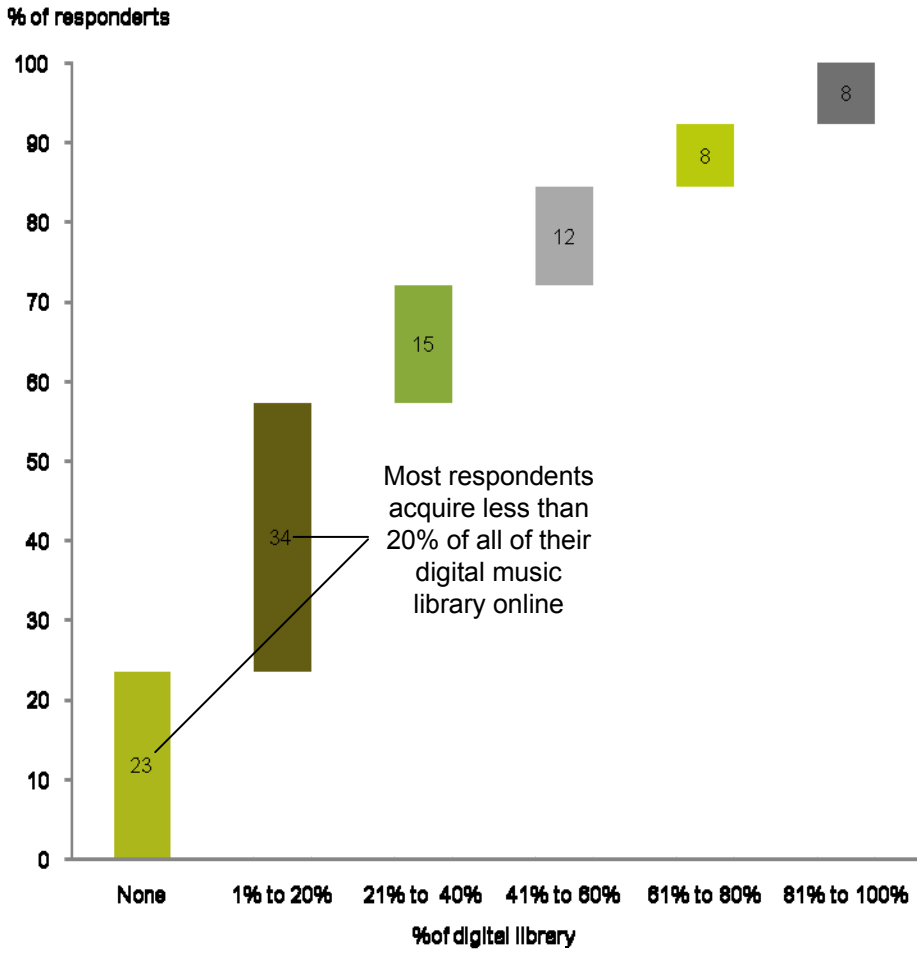
Initial research – Findings

Where does their digital music come from?

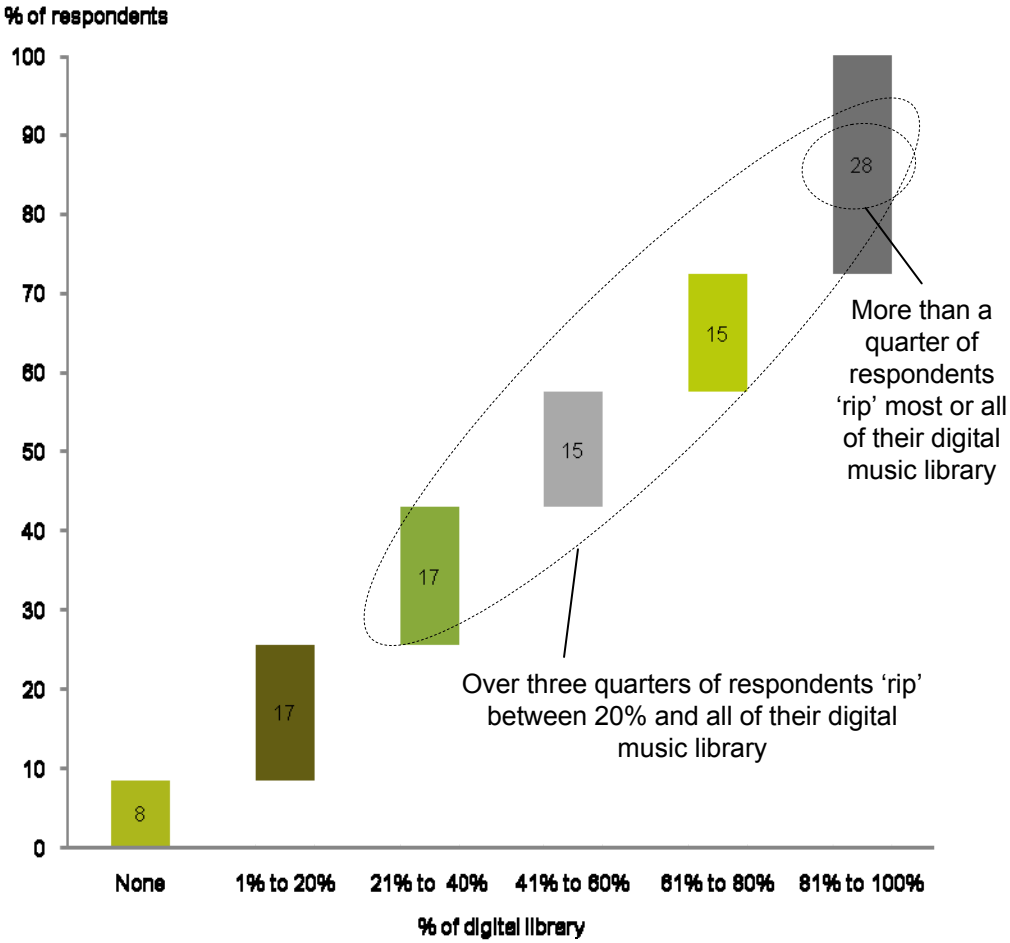
Three quarters of MP3 format owners claim that more than 20% of their digital libraries come from 'ripped' CDs.

Online purchases in comparison remain marginal

Acquisition sources of digital music libraries: online purchase



Acquisition sources of digital music libraries: CDs



Source: Oliver & Ohlbaum analysis, Fly Research, n=1,630

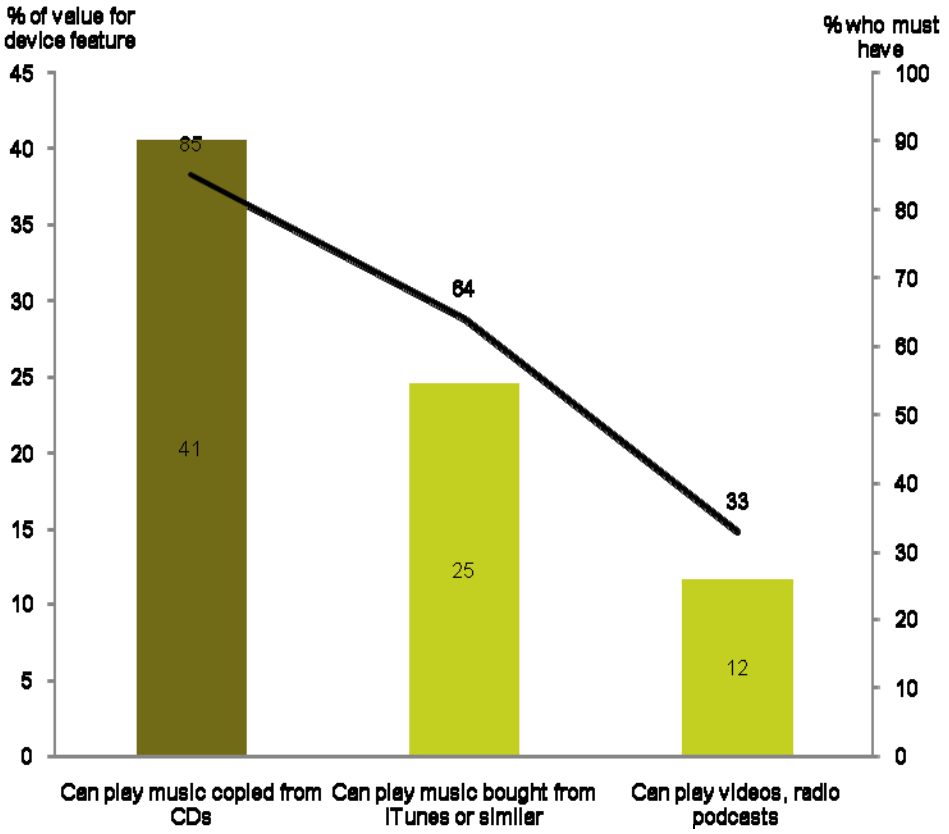
Note: respondents estimations are not expected to equal 100%

Initial research – Findings

What features and functions do MP3 device users demand most of all?

The value to the device of playing copied CD's was – unsurprisingly – the most valued feature for both simple MP3 (41%) and multi-function MP3 (20%) players, with 85% and 68% of respondents respectively naming this as a 'must have' feature.

Value and importance of features: Simple MP3 player



Value and importance of features: Multifunction MP3 player

Source: Oliver & Ohlbaum analysis, Fly Research (Simple MP3 n=823, Multifunction MP3 n= 602)

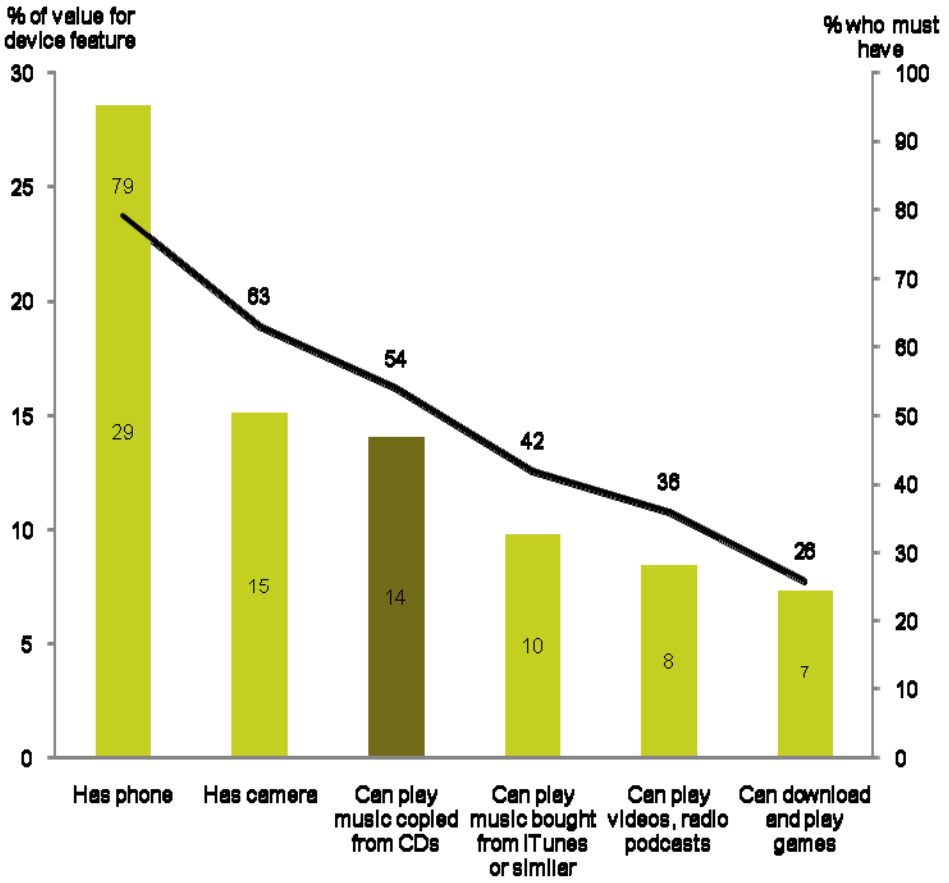
Note: selected results only – these charts do not show the full range of responses equating to 100%

Initial research – Findings

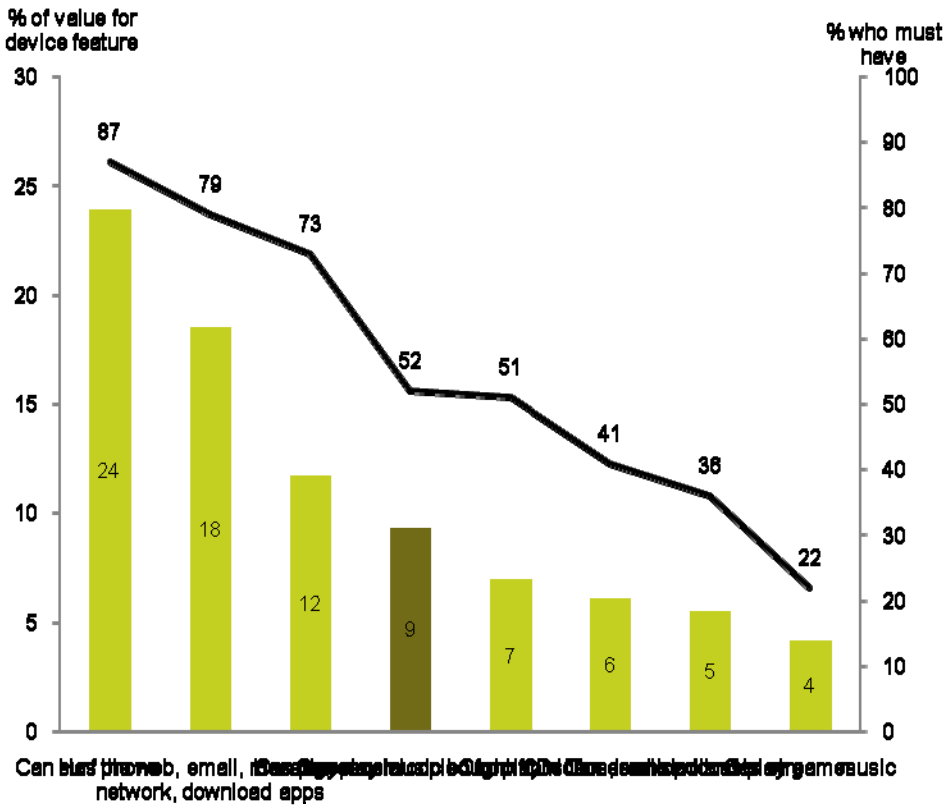
What features and functions do phone users demand most of all?

For Featurephones, the value of playing copied CD's was (14%), half as valuable as the actual telephone functionality itself – for Smartphones the utility was lower (9%) but still comparable to a camera.

Value and importance of features: Featurephone



Value and importance of features: Smartphone



Source: Oliver & Ohlbaum analysis, Fly Research (Featurephone n=337, Smartphone n=921)

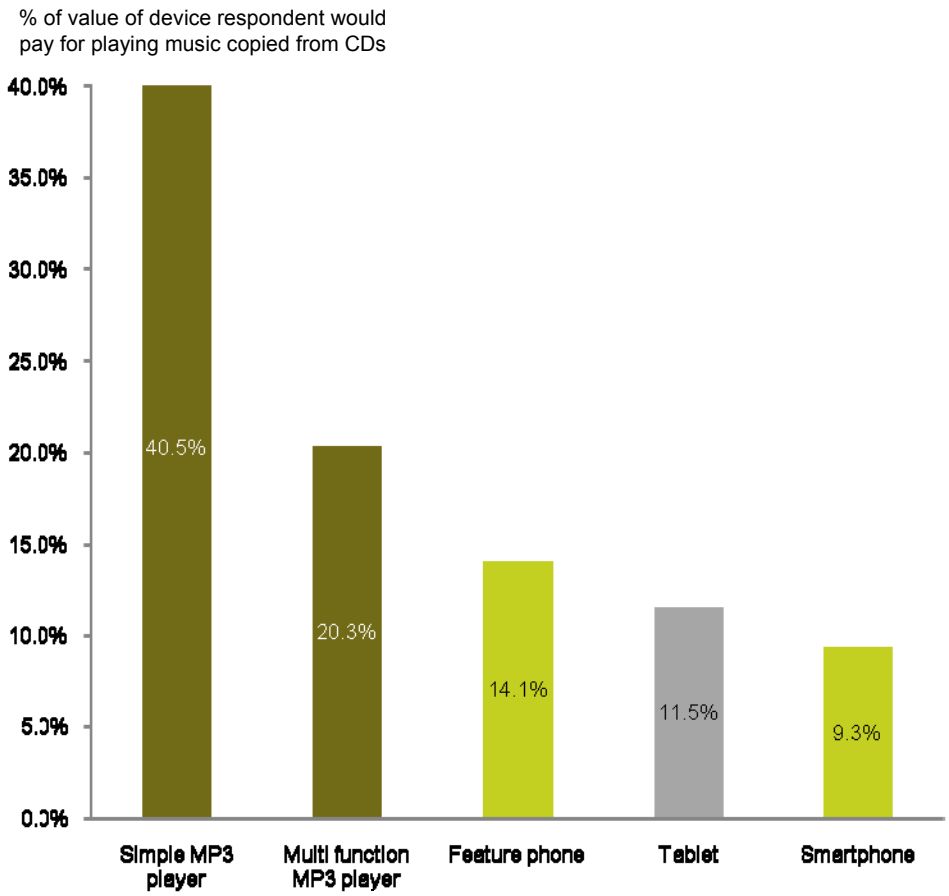
Note: selected results only – these charts do not show the full range of responses equating to 100%

Initial research – Findings

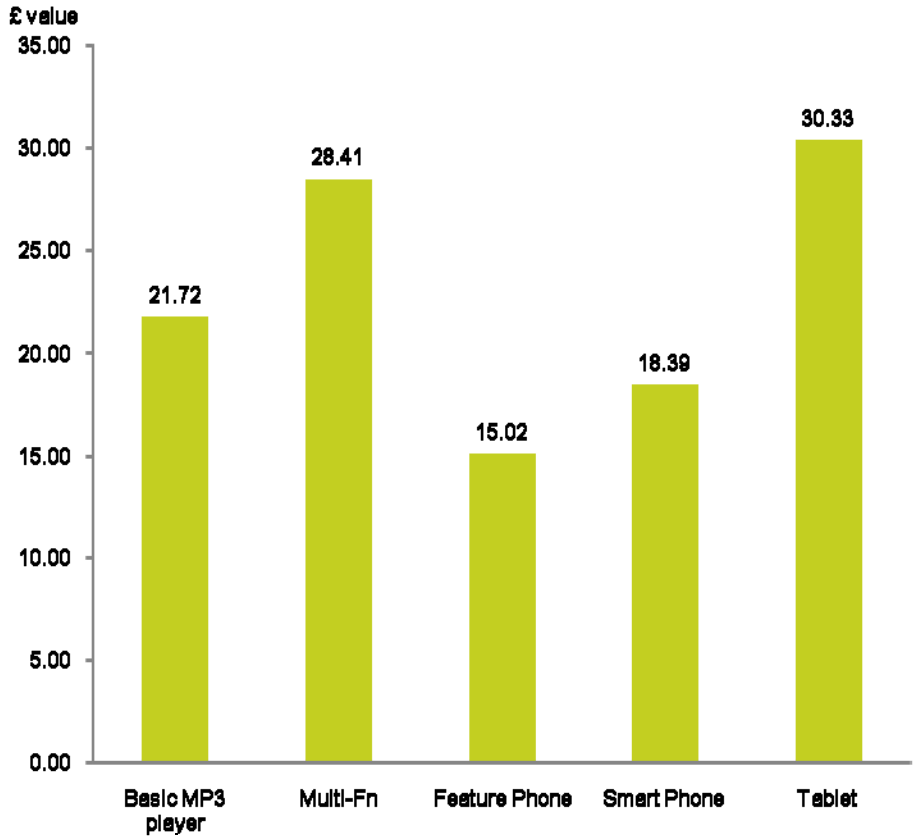
What is the implied value of playing music copied from a CD on each device type?

As expected, the simple MP3 player – the cheapest device – had the highest proportional value from playing music copied from CD. In absolute terms, the range of values was relatively narrow

Relative value of playing music copied from CDs for our set of five devices



Value of the ability to copy music from CD for a range of devices



Source: Oliver & Ohlbaum analysis, Fly Research, n=2,283

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Conjoint analysis – Process

Overview of our approach to conjoint

In conjunction with our expert research partners, we decided to use menu based conjoint (MBC) – and this decision was ratified by peer review provided by Professor Ken Willis of the University of Newcastle (asked by UK Music to review)

Summary of our approach

The initial analysis highlighted that for all devices tested a substantial number of consumers saw digital music (and within that, music copied from CDs) as an important, valuable feature. The conjoint research had to cover all of these devices.

We used the findings of the initial research to ensure that we covered all the features and values – thus avoiding any outliers that may impair findings of the conjoint analysis.

The approach taken was menu based conjoint – this was the most appropriate in terms of configuring an "ideal" device and isolating the values of individual features.

Menu based conjoint allows for features to be added and deleted until the consumer has the device they want, is flexible in terms of the number of features permitted yet still allows a simple and short interview process – which is more accurate.

Variations and value ranges

The initial research highlighted that the ability to copy music from CDs is an important attribute for the majority of portable MP3 enabled devices, so the conjoint methodology design we adopted had to be sophisticated enough to cope with these variations.

The distribution of prices used in the conjoint studies were calculated by selecting the amounts people said they would pay for each device function, removing unrealistic prices, before sorting and calculating the percentage of the amount people were prepared to pay for the device.

Value ranges used correspond to those given by 20% - 80% of respondents for each function.

Peer review

In line with newly issued guidelines for consultation submissions, the research approach was peer reviewed before it went into the field. UK Music asked Professor Ken Willis, Professor of Environmental Economics at the University of Newcastle, to conduct the peer review.

Professor Willis reviewed the proposed methodology, questionnaires upon which the survey was to be based, and provided a critique of the assumptions underpinning our approach, in order to ensure it was fit for purpose.

All of the questions raised by Professor Willis were dealt with and responded to in a timely manner, and further to detailed discussions our approach was fully ratified.

Advantages of MBC approach

The choice of specific conjoint approach was carefully selected based on the specific requirements of this study.

The menu based conjoint (MBC) approach has a number of advantages over other approaches:

- **Mimics the purchase process** – consumer builds the optimum product
- **No need to reduce the attributes** or features list before the conjoint
- **Dominant features are no real problem** as they can be freely chosen
- Allows for both **adding features as well as removing them**
- Allows more **for integrating complex scenarios** into the conjoint
- Can be used for **compensatory and non compensatory approaches**
- Still a **fairly simple exercise** with a **short interview** process
- Allows for i**dentifying individual feature take-up** and **best feature combinations**

Conjoint analysis – Process

MP3 devices

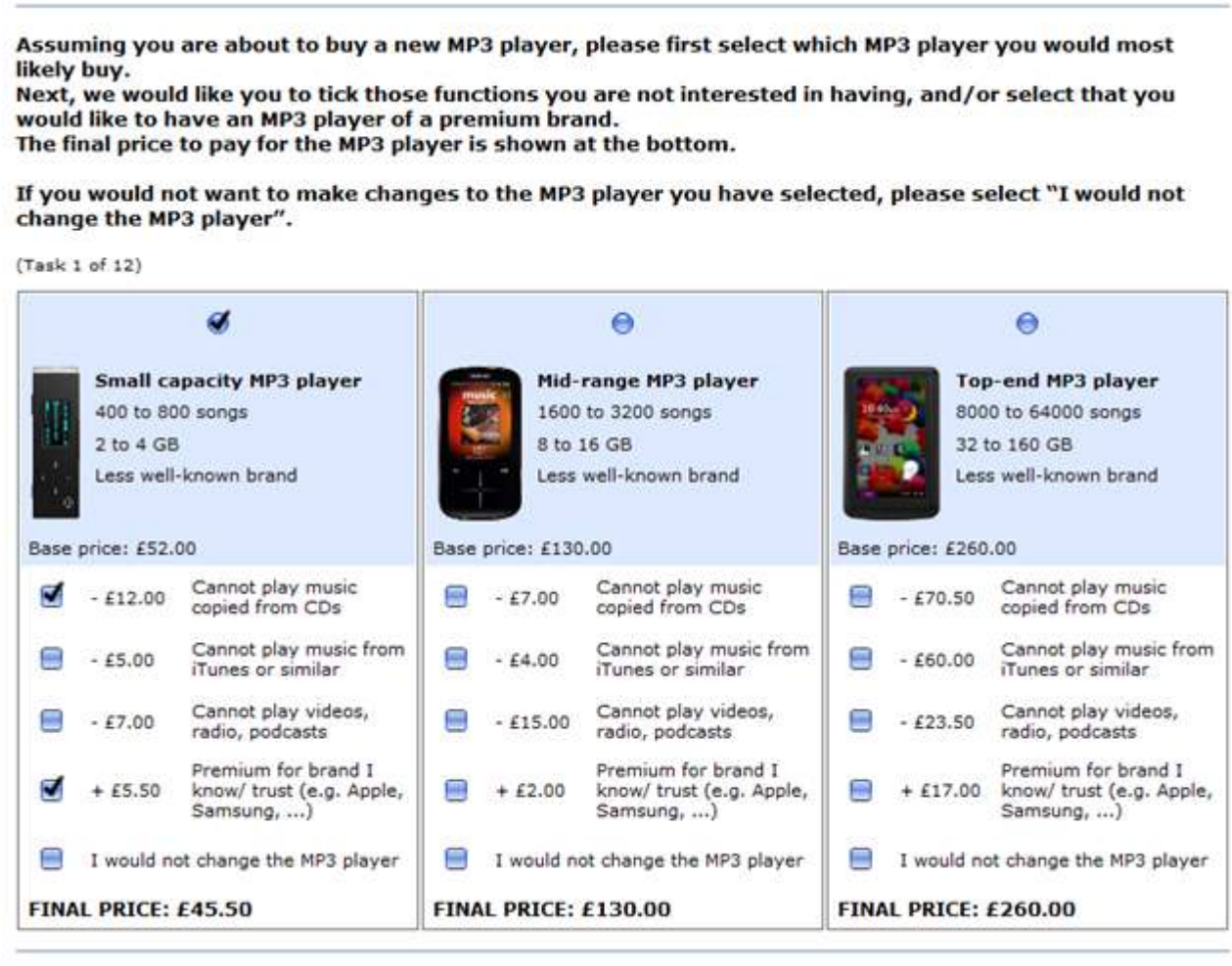
The purpose of the conjoint analysis is to isolate the value to three devices – basic MP3 player, phone and tablet – of playing music copied from CD. Our approach was to use a technique known as 'adaptive menu based conjoint'

Willingness-to-accept (WTA) framework

The study adopts a willingness-to-accept (WTA) framework for three of the key attributes (copy music from CDs; play music from iTunes; play videos, radio, and podcasts) and a willingness-to-pay (WTP) approach for the MP3 brand (premium brand instead of less well known brand).

By running several iterations of this question, with different price points for each identified attribute, the specific value of each attribute can ultimately be revealed for each individual respondent.

When all of the results are taken into consideration, a mean value can be derived for each of the attributes.



Conjoint analysis – Process

Phones

The phone conjoint provided a range of features for respondents to select from and value

	Inexpensive Feature Phone MP3 enabled Less well-known brand	Lower-end Smart Phone MP3 enabled Less well-known brand	Higher-end Smart Phone MP3 enabled Less well-known brand
			
Actual base price:	£106.00	£280.00	£600.00
Cannot play music copied from CDs	- £7.50	- £30.00	- £4.00
Cannot play music from iTunes or similar	- £4.25	- £30.00	- £32.00
Cannot play videos, radio, podcasts	- £7.00	- £6.50	- £4.00
Cannot stream music (e.g. Spotify or similar)	- £3.00	- £11.00	- £4.00
No camera	- £5.00	- £17.50	- £20.00
No access to games/ ebooks	- £1.00	- £6.50	- £31.00
No mobile internet (apps, email, web surfing, social networking, ...)	- £17.50	- £14.00	- £52.00
Premium for brand I know/ trust (e.g. Apple, Samsung, ...)	+ £9.50	+ £30.50	+ £4.00
I would not change the mobile phone			
FINAL ACTUAL PRICE:	**£106.00**	**£259.50**	**£600.00**

Conjoint analysis – Process

Tablets

As with the MP3 player and phone conjoint analyses, the tablet analysis isolated the value of features of the device

Please assume you are about to buy a new tablet on which you want to listen to music.
From the list below, please tick those functions you are not interested in having at the indicated price, and/or select that you would like to pay more for a premium branded tablet.
The final price to pay for the tablet is shown at the bottom.

If you would not want to make changes to the tablet, please select "I would not change the tablet".

(Task 1 of 12)

Tablet
Basic computer
32 GB
MP3 enabled
Less well-known brand

Base price: £536.00

Cannot play music copied from CDs	- £18.25
Cannot play music from iTunes or similar	- £14.25
Cannot play videos, radio, podcasts	- £14.25
Cannot stream music (e.g. Spotify or similar)	- £17.50
No camera	- £25.50
No access to games/ ebooks	- £25.50
No mobile internet (apps, email, web surfing, social networking, ...)	- £104.00
Premium for brand I know/ trust (e.g. Apple, Sony, Samsung, ...)	+ £25.50
I would not change the tablet	

FINAL PRICE: £536.00

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Conjoint analysis – Findings

Headlines from the MP3 player conjoint analysis

Our research showed that there was minimal variation in terms of desired features across the range of MP3 devices, and that 'playing music copied from CDs' was far and away the feature least often removed by respondents (14% only)

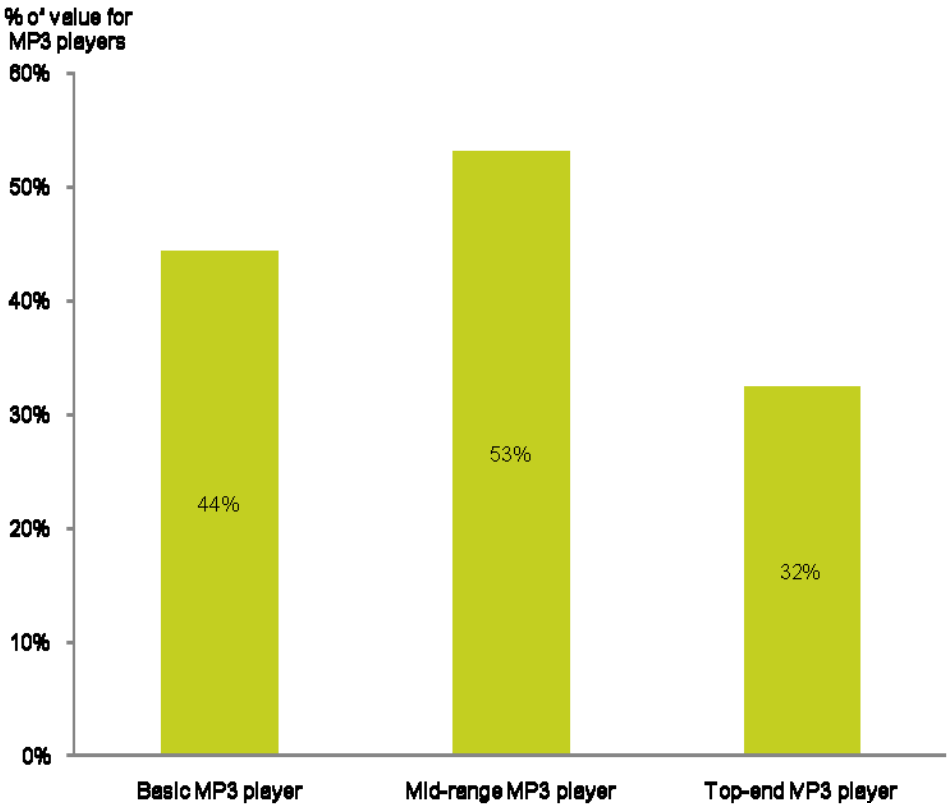
- Basic and mid-range MP3 players were the most popular devices selected by survey respondents (39.1% and 41.8% respectively compared with 19.1% for the Top-end, high capacity MP3 player)
- There was little or no difference between the three types of MP3 players in terms of features added or removed – the utility or value of a feature was broadly similar across all three devices
- No changes were made to the standard device offered for approximately a third of the devices shown
- "Playing music copied from CDs" was the feature least often removed by respondents
- This feature was only removed from 14% of the MP3 scenarios shown (i.e. for 86% of the devices this feature was kept). For the more basic device, significantly more people would remove the facility to play music downloaded from iTunes, than being able to play music copied from CDs
- The most removed feature was the ability to play videos and podcasts (33% of responses)
- The majority of people don't want a premium brand - this was added as a feature in approximately 40% of responses, and added fewer times than any of the other features removed (and this was especially the case for the lower-end, more basic MP3 devices)

Conjoint analysis – Findings

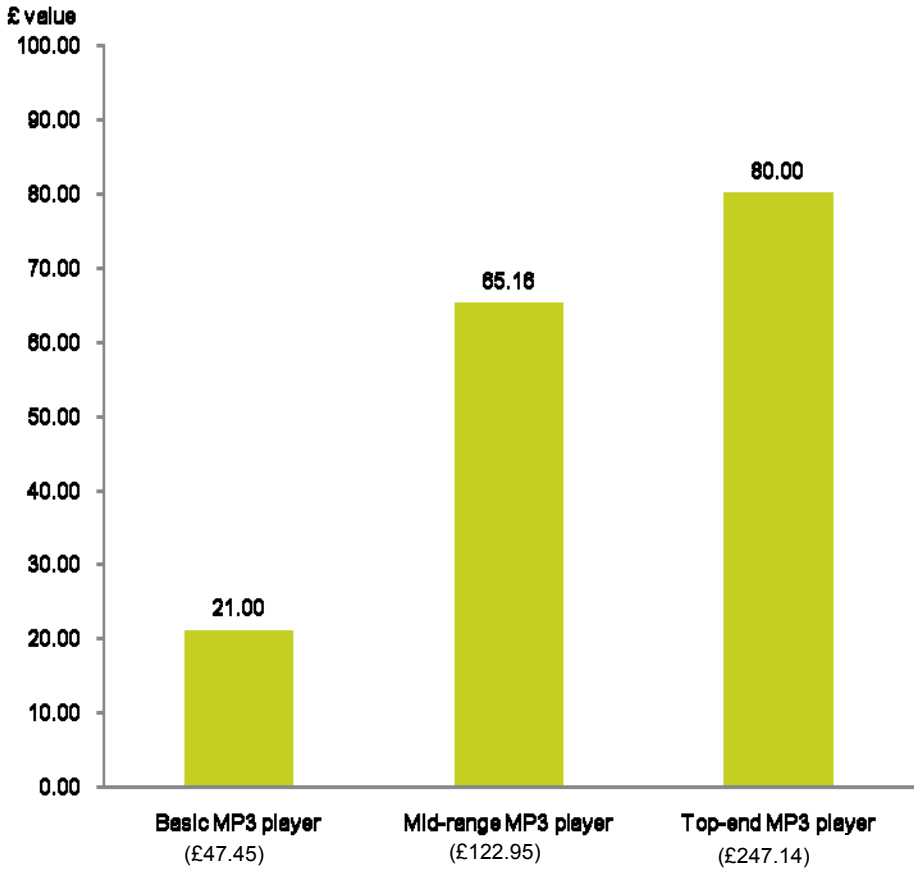
Value of the ability to copy music from CD for a range of MP3 players

The value to each type of device for the ability to copy music from CD ranges from 44% for basic, to 32% for top-end, and 53% for mid-range MP3 players. This provides a range based on device value from £21.00 for basic to £80.00 for top-end

Proportion of MP3 player value of the ability to copy music from CD for a range of MP3 players



Actual value of the ability to copy music from CD for a range of MP3 players



Source: Oliver & Ohlbaum analysis, Fly Research, n=501

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Conjoint analysis – Findings

Headlines from the phones conjoint analysis

Our research showed that there was strong variation in terms of desired features across the range of phones with feature phone buyers seeking a chap basic device and smartphone users a feature rich phone

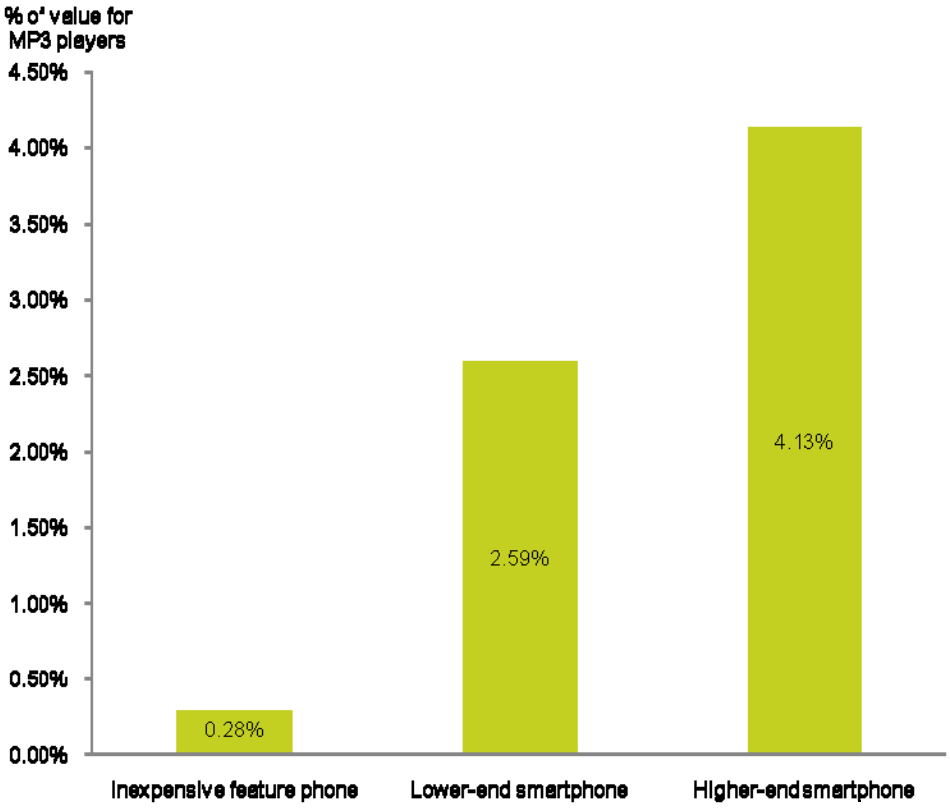
- The lower-end smart phone is selected most often (39.3% versus 28.7% for the cheaper feature phone – and 32.0% for the expensive, high-end phone)
- The cheaper the phone, the more often features are removed. Consumers choosing the least expensive phone, want to make it even cheaper by removing more features (81.9% of respondents) because they want a basic phone that makes/receives calls/texts
- Conversely, buyers of high end smart-phones are less likely to remove features, or in other words attach more value to the features of the phone, even if the base price is already high
- Like tablets, mobile internet was the most important feature for high-end phones and music ranks in the middle-ground. However the feature was removed more on phones than any type of MP3 player or tablet
- The more expensive and sophisticated a phone becomes, the more important the facility of using the device to listen to any music it becomes. Playing music from CDs is most removed for the cheap smart phones (32%) and least removed for the most expensive smart phones (21%)

Conjoint analysis – Findings

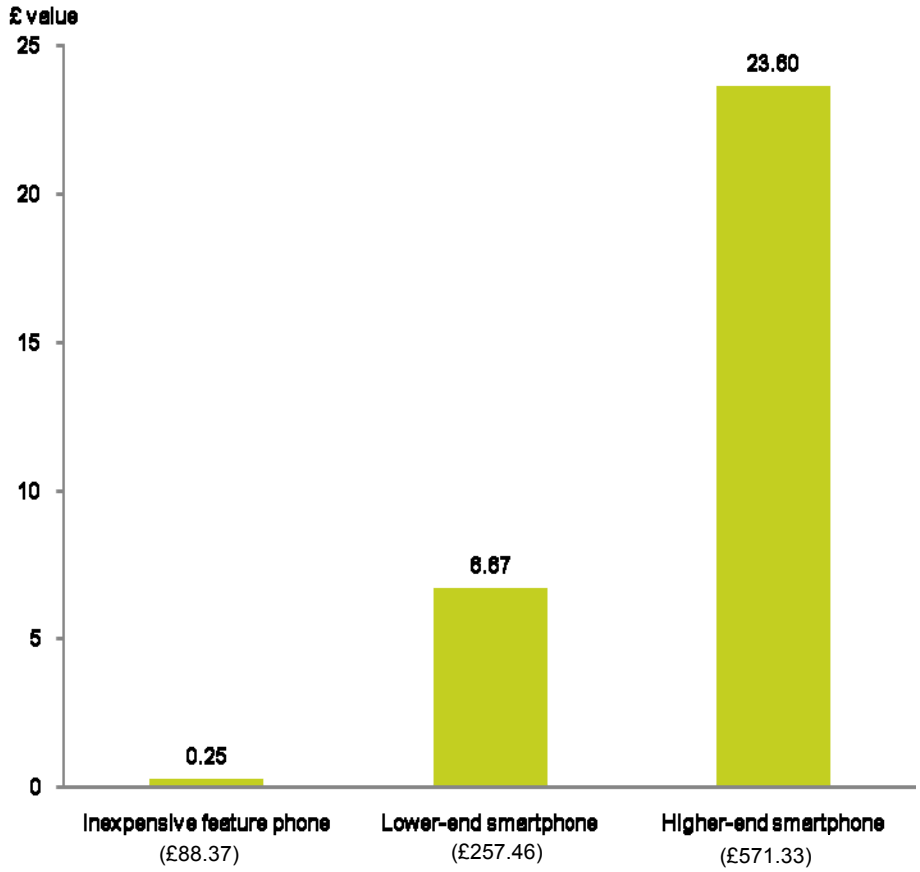
Value of the ability to copy music from CD for a range of phones

The value to each type of device for the ability to copy music from CD ranges from 0.28% for the most basic, to 4.13% for a high-end smartphone. In terms of value, this provides a range between £0.25 for basic and £23.60 for higher-end phones

Proportion of mobile phone value of the ability to copy music from CD for a range of mobile phones



Actual value of the ability to copy music from CD for a range of mobile phones



Source: Oliver & Ohlbaum analysis, Fly Research, n=519

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Conjoint analysis – Findings

Headlines from the tablet conjoint analysis

Our research showed that copying music from CDs was a mid-range feature in terms of desirability. On tablets, consumers ascribe the most value to mobile internet and video functionality.

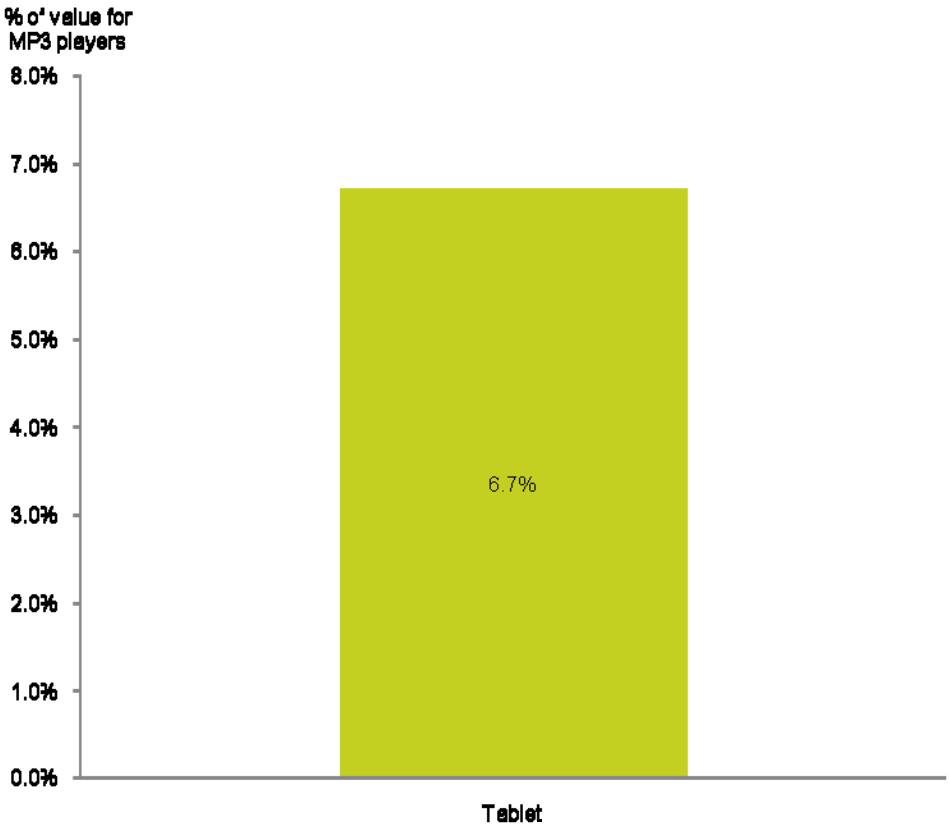
- Unlike the MP3 player, copying music from CDs is not the feature which is least removed. Mobile internet and playing videos are the most important features
- No changes were made to the standard device offered for about one quarter of responses (25.3%)
- On average, for 19.7% of the tablets that were shown, the "copying from CD" feature was removed. This was about 15% for MP3 players and between 21% and 32% for phones depending on their type
- The mid-range percentage is not a surprise as music is an important part of tablets but not an essential feature
- The camera is the most often removed (i.e. least value attached to the camera), which does make sense for a tablet product
- All features are less removed than the premium brand feature is added

Conjoint analysis – Findings

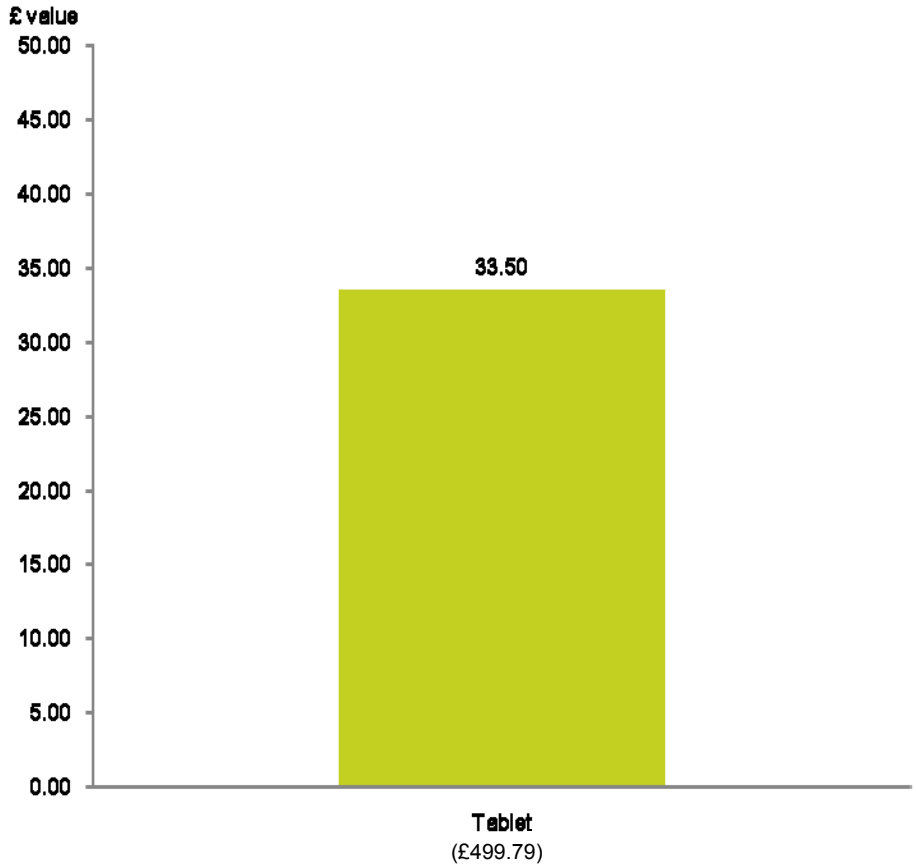
Value of the ability to copy music from CD for tablets

6.7% of the value of a tablet is derived from the ability to listen to music from copied CDs. At the £499.79 price consumers indicated they were willing to pay this equates to £33.50 ascribed to the function

Proportion of tablet value of the ability to copy music from CD



Actual value of the ability to copy music from CD for a tablet



Source: Oliver & Ohlbaum analysis, Fly Research, n=570

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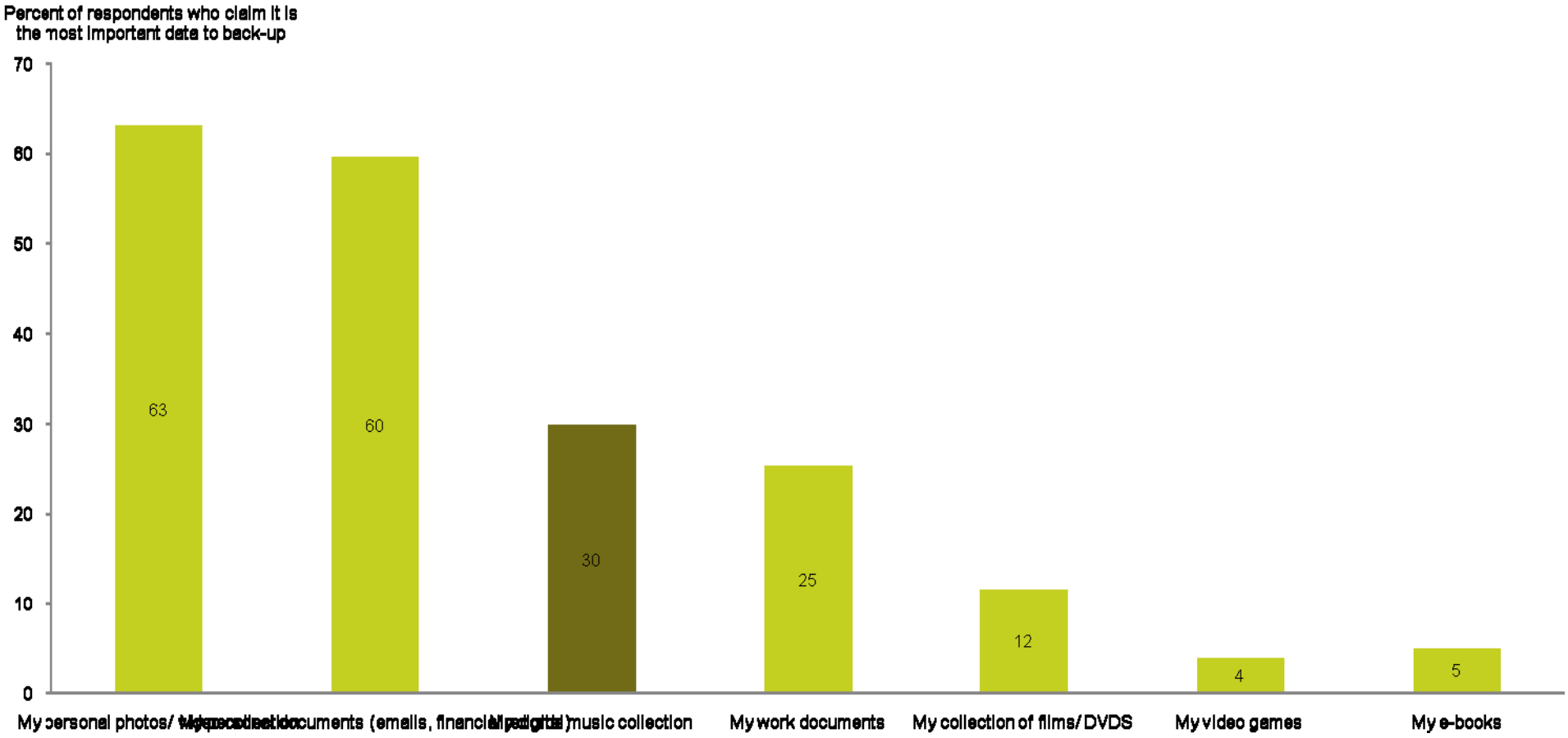
Conjoint analysis – findings

Most important data to back-up

Music comes in third place as the most important type of data to back-up. However, it is more valuable when compared to films, eBooks or video games, as 72% of respondents consider it their most valuable commercial data of any type

Respondents' most important documents or commercial data to back-up



Source: Oliver & Ohlbaum analysis, Fly research (initial research n=2,283, conjoint n=1068)