

Some of the industry players

Digital Music Player manufacturers

iPOD (Apple)

Archos

Creative Labs

Dell

iRiver

MPIO

RCA

Rio (Sonicblue)

Samsung (Napster player)

Sony

On-line music stores

BuyMusic.com

iTunes (Apple)

Musicnow (Full Audio Corp)

Microsoft (in 2004)

Music Match

Musicnow

Rhapsody (Real Networks)

Napster 2.0 (Roxio)

Sony (in 2004)

Viacom—MTV (in 2004)

Wal-Mart

Record Labels

Vivendi Universal

Sony Music

EMI

AOL - Time Warner

Bertelsmann

Peer to Peer Software

Blubster

Direct Connect

eMule

Grokster

Kazaa

Limewire



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CENTER FOR
DIGITAL STRATEGIES

Tunes@Tuck:

Fresh Tracks for the Music Industry

February 4, 2004

The music industry has undergone a massive change in recent years, but many chapters of the book are yet to be written. The internet and supporting digital technologies have driven radical changes in the value chain for music, impacting everything from the production of music to its distribution and how it is enjoyed by the consumer.

This Tech@Tuck will provide us a glimpse at the components of this changing industry and a look at the future business models.

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Tunes@Tuck

Panelists

- Victoria Bassetti, VP, EMI
- Peter Fader, Professor, Wharton School
- Wayne Rosso, CEO, Optisoft/Blubster (former CEO Grokster)
- Tim Schaaff, VP, Apple

Moderated by: Jimmy Guterman,
Ziff Davis Media

Digital Music Overview

The IFPI Online Music Report 2004 report shows paid online music taking off internationally in 2004, following on the success of services such as Apple iTunes, Napster and Rhapsody in the USA. Announcements of services outside the USA are expected by those players in the first half of 2004. In Europe, some half a million people are already signed up to more than 30 different legal sites. This figure is expected to rise sharply in 2004 as record companies continue license their catalogue for legitimate distribution online.

Incumbent Music Industry

- Worldwide music sales account for \$33 billion annually.
- Five companies have taken over vertical and horizontal control over almost every aspect of the industry.

Vivendi Universal	24%
Sony Music	15%
EMI	13%
AOL-Time Warner	12%
Bertelsmann	10%

- US CD sales are down 15% since 2000. Consumers' embrace of file-sharing technology like Kazaa and the encouraging start of paid services like Apple's iTunes beg the question: Will music delivery on CDs become obsolete?

Market Overview

- 49% of 12- to 22-year-olds downloaded music last month.
- Half of downloaders say they now buy fewer CDs.
- 31% of consumers download music and burn CDs
- These frequent digital music users buy 36% of all CDs.
- File sharing has lopped \$700 MM of sales.
- CD sales will be down 30% from their 1999 peak.

File-sharing

- File-sharing in Europe has, with less publicity than in the U.S., taken a big bite out of the world's second-largest music market, which accounted for \$11 billion, or 34%, of global sales in 2002.
- A survey of Internet users shows sharp drops in usage of music file-sharing software, another encouraging sign for the recording industry as it battles the online swapping of pirated music.
- The percentage of people saying they download music from the Internet through file-sharing programs fell to 14% late last year from 29%. Those who continue to download music through file-sharing programs such as Kazaa, Grokster and BearShare also say they are doing it less frequently.

On-line Music Stores

- By the end of 2003, iTunes had sold more than 30 million songs at 99 cents each. Similar services, such as the revamped Napster, BuyMusic.com, Musicmatch, Rhapsody and Wal-mart follow with strong sales numbers.
- Some reports estimate that by 2007, downloads will generate \$2.1 billion, or 17% of the music business.