New Life For CDs?
Study Says There Is Room For Physical Product Sales To Grow

Even as consumers switch to digital music and physical sales decline, a study finds that physical product is still important to shoppers. The study shows that even teenagers increased their purchases of physical music by 9%.

The study, conducted by the NPD Group for NARM, discovered that while practices like CD burning, peer-to-peer file-sharing and legitimate downloading have an impact on physical sales, "there is still opportunity" for the CD, NARM president Jim Donio says. "There are still pockets of heavy buyers out there that embrace the physical product, and the industry needs to market to them and provide them with a better in-store experience to boost sales," he says.

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—JIM DONIO, NARM

The study shows that the physical-album world could still grow slightly over the next year or two, if merchants take the right steps, which include better display organization and improved shopping experiences for consumers.

As for the labels, the study found that traditional radio is on the downswing as a motivator to buy music, but "TV is really powerful" in driving sales. That finding was not quantified in the study, but was conveyed anecdotally. Donio says. Other tactics to increase sales include packaging music soundtracks with movies or videogames, he says.

The study—which had 3,700 respondents, 2,600 of whom bought physical music—found that the 13-17 age group accounted for 18% of all physical music sales last year, that is up from 15% in 2002 and up from 16% last year. In total, the average respondent in that group spent $57 last year on music, a number that also reflects digital sales.

On the other hand, the older demographics—people 36-50 and 50-plus—showed a decline in total physical sales. The 36-50 group went from accounting for 27% of physical sales in 2002 down to 23% in 2005, while the over-50 group accounted for 17% of physical album sales, down from 18% in 2004.

The study also broke out music sales by dollars for various age groups. Respondents older than 55 averaged $46 in purchases, while the 44-54 age group averaged $70. Those 35 to 44 years old averaged $57 annually while demographic skews younger. Less than half, or 44%, of the 25-34 age group buy CDs, and only 19% of 13-17-year-olds purchase CDs. Curiously, a greater percentage, 27%, of the 13-17 group bought CDs. Almost two-thirds of 13- to 24-year-olds say they are likely to acquire music through burning a friend's CD, while 30% say they are likely to get music through unauthorized file-sharing.

The survey also broke out respondents by how much they spend on music. Slightly more than half of respondents were light buyers (spending up to $50 per year on music), who spend $50 a year in physical music. More than half of respondents were heavy buyers (spending more than $100 per year on music), who spend $100 a year in physical music. Those respondents make music purchases on almost five occasions (4.6) a year, and average 1.8 units per occasion. Like the light buyers, they also tend to shop in mass merchants' music departments, but will also go to consumer electronics chains and online stores.

Finally, the heavy buyer (more than $100) comprised 10% of respondents, spending $234 annually on music, buying it seven times per year. On each occasion, they spend 22 minutes in the music section.

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complain about music prices. 54% of respondents said music is a good value, versus 48% for DVDs. Yet, when asked what would encourage them to go to the store specifically to buy music, more than two-thirds of respondents—the No. 1 answer by an overwhelming margin—said a sale. Meanwhile, 27% said a good selection helps, while 22% said a live performance or an in-store signing helps.

But when asked what would encourage them to spend more money, movies bundled with music soundtracks got the highest ratings, with about 40% of buyers citing the idea. The DualDisc and custom CDs from kiosks were also touted by about one-third of respondents.

The survey also broke out shoppers in such categories as "impulse," those who see something and buy it; "wanderer," or browsers; and "determined," those who go to a store for a specific album. The "determined" category spent an average of $51 per year and accounted for about 19% of U.S. sales last year. If those shoppers were to buy one more unit on just one occasion, U.S. music sales would grow by 6%, the study reported.

"It takes a little bump to move the needle and have a huge impact on physical sales," says Russ Crupnick, VP/senior industry analyst for the NPD Group. "There is daylight here. If stores did a little better merchandising, there is plenty of reasonable upside."