

Streaming Goes Global:

Analysing Global Streaming Music Adoption

By Mark Mulligan
July 2012



About The Author

Mark Mulligan

Mark Mulligan is a digital media strategist and a leading impartial authority on digital music. Mark helps companies makes sense of, and profit from digital content. For 11 years Mark was a Vice President and Research Director at Jupiter Research and then Forrester Research where he worked with companies right across digital media value chains, right up to the C-Suite. Mark's clients have included record labels, retailers, telcos, book and magazine publishers, newspapers, CE companies and venture capital companies.



Mark's expertise includes content strategy, media product innovation, user experience, value chain analysis, consumer segmentation and go to market strategy. Mark is routinely quoted by top tier media and speaks at leading music industry events.

Mark is routinely quoted and interviewed by top tier media (TV, radio, print and online) and speaks at leading industry events.

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The 20,000 Foot View

Streaming music services have brought some much needed momentum to the global digital music market, just when it was needed. But the success has come with price of controversy and heated debate across the value chain about just what effect streaming services have on the broader music marketplace.

Now, using EMI's 850,000 interview consumer dataset, we can assess just what impact streaming is having across the globe.

Notes on the data used in this report

The data in this report comes from EMI's Global Consumer Insight data. This 850,000 interview dataset covers 25 countries and over 7,400 artists. The award winning EMI Insight team interviews twelve people at any given moment, 24 hours a day, 7 days a week. Millward Brown ranked EMI Insight's proprietary segmentation scheme as one of the best in the market.

In July 2012 EMI launched an unprecedented initiative, making much of their Insight data available for use by the data science community. The data is being shared with the data science community in a range of initiatives including forthcoming Music Data Science Hackcamps.

All of the opinions and interpretations stated in this report are those of the author and are not necessarily those of EMI.

Definitional note

For the purposes of this report streaming refers to all streaming audio activity, free and paid. It also refers to both fully on-demand streaming and non-interactive streaming.

STREAMING MUSIC GOES GLOBAL

AN OVERVIEW OF GLOBAL STREAMING ADOPTION

STREAMING MUSIC PENETRATION RATES



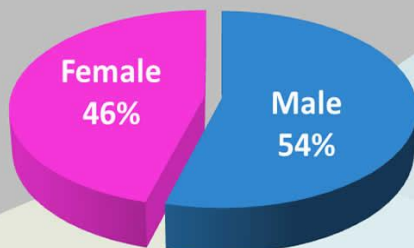
16.4 Million Consumers

Global audience of paid music subscribers in 2011
According to the IFPI

STREAMING'S INFLUENCE



GENDER SPLIT OF STREAMING MUSIC USERS



<http://musicindustryblog.wordpress.com/>

All data, unless stated otherwise: EMI Insight Data, 2011

EMI Insight

Streaming Has a Strong But Unevenly Distributed Footprint

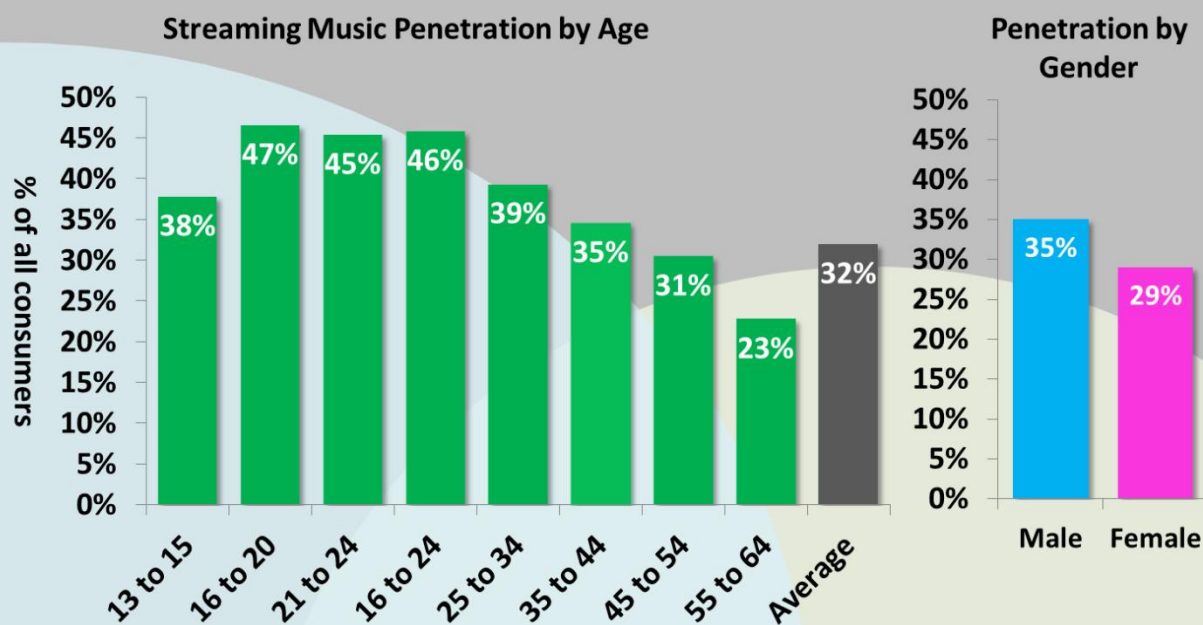
Streaming has quickly gained a firm foothold in the music consumption landscape, with 32% of consumers across the globe now using streaming services (see figure 1). In many ways streaming services are a more 21st century usage paradigm than the currently much higher revenue generating paid download. Whereas downloads are effectively a digital iteration of the transactional ownership model that defined the analogue age in the form of the CD, streaming services are part of the new *Consumption Era*. An era in which a growing body of consumers value access and convenience either as much as or more than they do ownership. Though there have been high quality streaming services in the market for years, such as Rhapsody and Napster, it took Spotify's (well executed) dual strategy of a free entry tier and portable streaming to kick start the market.

Streaming adoption is far from uniform, but there are early indications of positive impact on music sales:

- **Nordics lead the way.** Norway and Sweden (the home of Spotify) are respectively the 1st and 3rd most active streaming markets globally. Key to this trend is the relative sophistication of Internet users in these markets. Nordic consumers were at the forefront of Internet adoption in Europe and throughout the noughties their usage levels and sophistication of behaviour was far ahead of the rest of Europe and also the US. This long legacy of sophisticated Internet behaviour, coupled with strong declines in CD sales, created the perfect conditions for recent rapid widespread adoption of streaming music. Adoption which has been driven not just by Spotify but also by Norwegian Aspiro powered WiMP. The net result is that 48% of Norwegians are now streaming music users, as are 43% of Swedes.
- **Streaming is a good fit for piracy riddled Spain.** Nestled in between Norway and Sweden in the second podium spot is Spain with 44% streaming penetration. But the reasons for Spain's streaming prominence are very different from its podium peers. Spain was a relatively late developer in terms of European Internet adoption but the advent of highly affordable broadband at what was a relatively early stage of the development of the Spanish Internet market super charged Spanish Internet usage trends. One of the largest single beneficiaries was music piracy, to such an extent that Spain is now arguably Europe's most heavily impacted piracy market. An incredible 58% of Spanish consumers now regularly download music illegally, with penetration rising to 70% among under 25's. Consequently, until the advent of Spotify the Spanish digital music market wasn't so much stuck on the starting blocks as having its feet nailed to them. For a digital population weaned on free music Spotify has been the perfect fit. And although the share of Spanish streaming users that buy more music downloads because of streaming is lower than the global average (15% compared to 20%) migrating a share of free consumption to a legitimate revenue generating alternative is a measure of success in itself for Spain. Whereas previous digital models have had marginal success, streaming is showing early signs of monetizing consumption of otherwise 'lost' consumers.
- **Free is a good fit for France too.** Streaming France is in a similar vein to Spain in that broadband also transformed its relatively modest Internet adoption and usage trends, with piracy again being a key beneficiary. Although the French authorities have done much to try to tackle the problem – most notably with the controversial Hadopi legislation – the carrot of Spotify and local streaming success Deezer has delivered immediate results. Translating usage into purchases though is even lower than Spain though, at just 13%, a concerning statistic for a market with an established download sector.
- **Purchase conversion rates are higher in lower penetration markets.** Streaming has a longer history in the US than most other markets thanks to the likes of Pandora and Rhapsody. Yet it remains outside of the leading pack of streaming markets at 32% streaming penetration due largely to the strongly established paid download market. A similar explanation applies to the other lower penetration markets such as the UK and Germany. However the stronger incidence of download purchasing in these markets also leads to much higher purchase conversion rates: across the US, Canada, UK, Germany and Denmark 23% of streaming users buy more music downloads because of streaming.

Figure 2

Streaming Music is Breaking Out of a Young Male Early Adopter Skew



Source: EMI Insight Data, 2011

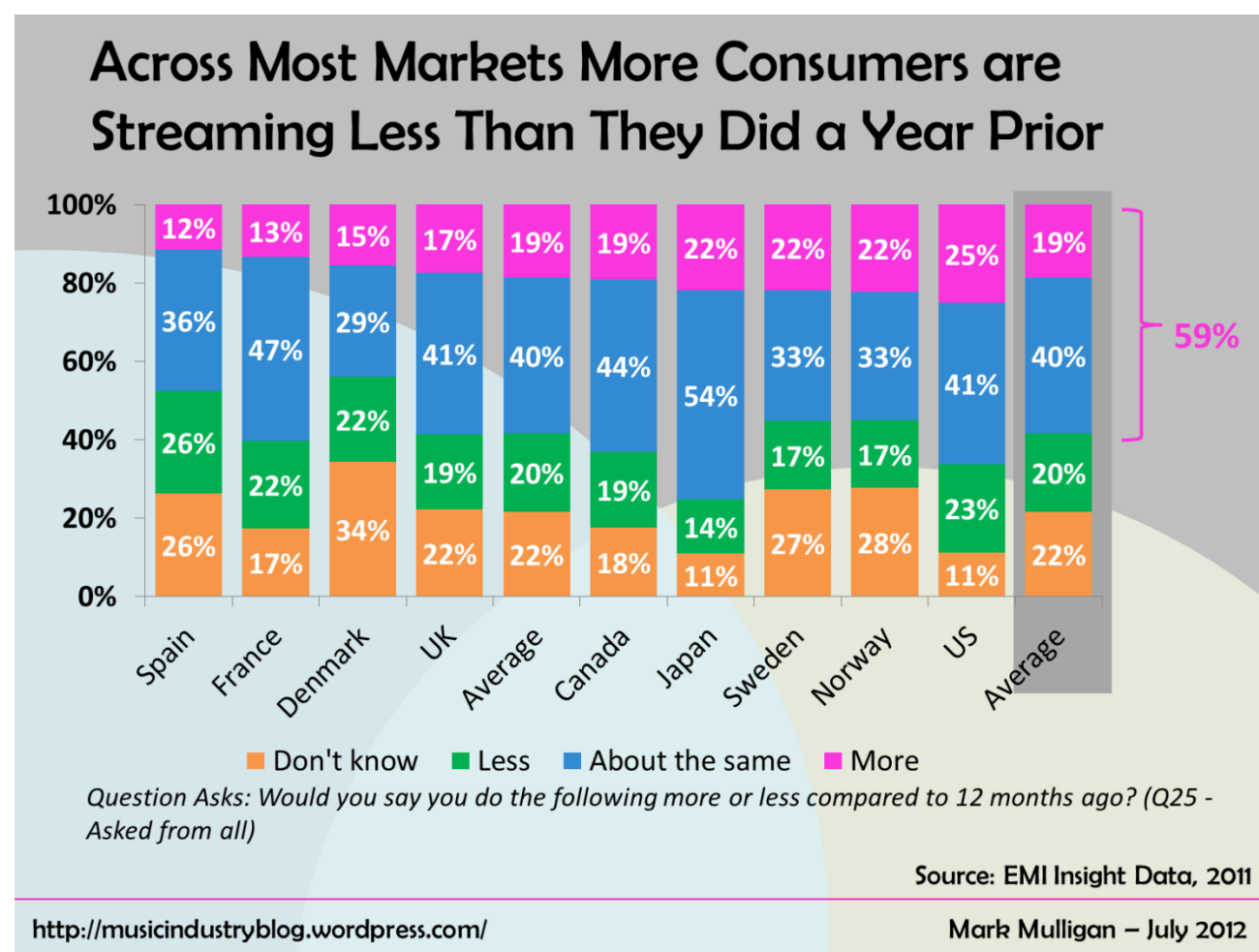
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Streaming Music is Breaking Out of a Young Male Early Adopter Skew

The early stage of new technology adoption is virtually always driven by young male skewed audiences. Music services are no different. Though there are clear signs of young male bias in the global streaming music audience, there are also clear indications that adoption is widening. The gender split is relatively close with 54% of streaming users male, representing a male penetration rate of 35%, compared to 29% for females (*see figure 2*). Penetration by age remains above age average right up to the 44 age group but also at a highly credible 23% for 55 to 64 year olds. Although streaming music penetration is still far from mainstream, current demographic trends suggest the right foundations are being built for broader success.

Figure 3



Across Most Markets More Consumers are Streaming Marginally Less Than They Did a Year Prior

Interestingly, although more and more new consumers are being swayed by streaming services, of those who currently use them slightly fewer are increasing their usage than are actually decreasing usage compared to 12 months previously. There are only a few markets where usage is clearly net positive (Norway, Sweden and Japan) while usage is clearly net negative in Spain, France and Denmark. There are numerous potential contributory factors to decreasing usage including: the novelty factor wearing off, and free users responding to not being able to take their music with them on their portable devices but being unwilling or unable to pay to do so. Caps imposed on usage of the free tier of Spotify also plays a role. Overall all though, usage among existing streaming users is broadly steady, and of course the market continues to be expended by new streaming users.

Further Reading

Related Reports

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<http://musicindustryblog.wordpress.com/free-reports/>

The Music Format Bill Of Rights

The music industry is in dire need of a genuine successor to the CD, and the download is not it. The current debates over access versus ownership and of streaming services hurting download sales ring true because a stream is a decent like-for-like replacement for a download. The premium product needs to be much more than a mere download. It needs dramatically reinventing for the digital age, built around four fundamental and inalienable principles of being Dynamic, Interactive, Social and Curated (D.I.S.C.).

This is nothing less than an entire new music format that will enable the next generation of music products. Products that will be radically different from their predecessors and that will crucially be artist-specific, not store or service specific. Rights owners will have to overcome some major licensing and commercial issues, but the stakes are high enough to warrant the effort. At risk is the entire future of premium music products.



The Socially Integrated Web

Change is afoot in the Internet. Facebook's new Socially Integrated Web strategy is set to make Facebook one of the most important conduits on the web. Facebook is pushing itself further out into content experiences in the outside web while simultaneously pulling more of them into Facebook itself.

The **Socially Integrated Web** is the strategic architecture of Facebook's digital content strategy. It is a strategy that others' are following too but that Facebook is currently doing best. Facebook has been quietly putting many of the building blocks of the Socially Integrated Web into place over the last year or so, but the most dramatic moves were announced at Facebook's f8 conference in September.



Agile Music

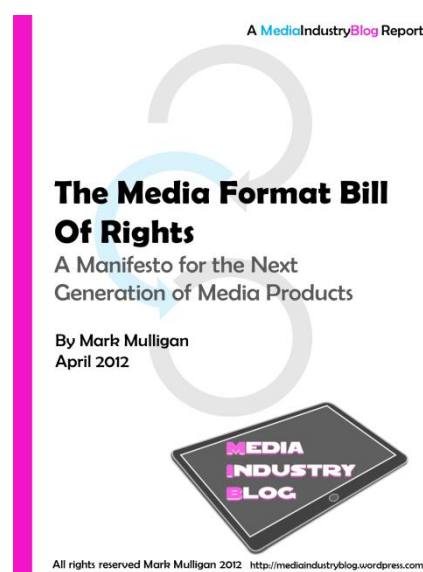
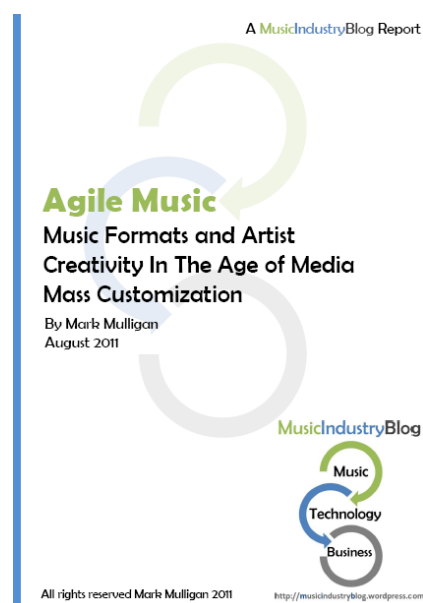
Digital and social tools have already transformed the artist-fan relationship, but even greater change is coming. In the analogue-era music was mass produced, releases cycles were static and music product formats were a creative dead-end. Mash-ups, engaged online fans and user generated content brought these barriers tumbling down. The scene is set for the Mass Customization of music, heralding in the era of Agile Music.

The driving force of Agile Music is Fan-Fuelled Creativity, with many fans taking an increasingly active role in the creative process. But it isn't only crowd-sourced editorial, Fan-Fuelled Creativity has implications right across the digital music value chain, from the creative process, through distribution to music product formats themselves.

The Media Format Bill of Rights

With the notable exception of games, media industries have failed to translate the digitization of consumer media consumption into digitization of their revenues. Digital revenue shares will continue to either remain stuck in single digit percentages or help pull down total revenues for as long as the digital products they depend upon fail to fully embrace the capabilities of digital interactivity.

Digital content products need dramatically reinventing for the digital age, to be built around four fundamental and inalienable principles of being Dynamic, Interactive, Social and Curated (D.I.S.C.). This is the case for nothing less than an entirely new generation of media formats and products. Products that will be radically different from their predecessors and that will crucially be title-specific, not store or service specific. Rights owners will have to overcome some major licensing and commercial issues, but the stakes are high enough to warrant the effort. At risk is the entire future of paid content.



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