

Digital Download Rates are Slowing

by Frank Green

Sales of digital music downloads may be showing the first signs of leveling off, as two new reports indicate week-to-week sales are stagnating - and sometimes declining - this year.

"The hypergrowth period is gone," said Marc Freedman, digital media analyst at the Diffusion Group in Plano, Texas. "Like any new offering, there is a period of fast growth, but then you reach penetration of the market."

DIGITAL MUSIC SALES - John Garcia, a student at San Diego State University, listens to music on his iPod. Slowing sales of downloads could be bad news for the \$12 billion music industry. CNS Photo by Sean M. Haffey. Though the average number of digital downloads sold in the United States more than doubled in the first 16 weeks of 2006 compared with the same time last year, sales thus far in the second quarter are trending down from the previous quarter, according to Diffusion.

Recent reports from both Diffusion and Pali Research in New York conclude that the spring trend could portend a slower rate of growth for paid music downloads. That would be bad news for the \$12 billion music industry, which has counted on accelerating digital downloads to offset a slide in compact disc sales - down 25 percent from a peak of 942 million in 2000.

Overall, U.S. sales of paid downloads have grown at least 8 percent from quarter to quarter since the last quarter of 2004.

The reports analyze sales data from Nielsen SoundScan, which does not release its data to the public. The data are for sales of single digital music downloads in the United States. Pali extrapolated from that data to convert album sales at a 10-to-1 ratio.

The sales information includes paid music services, but does not include free downloads from Web-based services or music exchanged for free among friends.

Other experts dispute the Diffusion and Pali analyses of the sales numbers.

A spokeswoman for Nielsen SoundScan said they are misreading industry sales trends. "The biggest flaw in the report is that it doesn't take into account seasonal fluctuations," said spokeswoman Anna Loynes.

She noted that digital music sales reached a record 19.9 million in the last week of December, when many people bought online music for iPods and other devices they'd received as holiday gifts. That compares with 6.7 million tracks downloaded in the last week of 2004, she said.

In the first four weeks of 2005, an average of 7.38 million song sales were tallied weekly, with the average rising to 8.73 million in the fourth four-week period of the year, Freedman said.

But while sales in the first four weeks in 2006 soared dramatically to a weekly average of 17.56 million, the number of downloads cooled to a weekly average of 15.68 million by the fourth four-week period of this year.

Sales of downloadable music are "bound to slow down a little bit," said David Card, a music industry analyst at JupiterResearch in New York. Card stressed that he has yet to detect ebbing enthusiasm among listeners for downloads.

Seeming to support that argument is the continuing popularity of iPods and MP3 players. Annual sales of portable media players are expected to jump 40 percent to 187.7 million in 2006, according to Gartner, a Stamford, Conn., research firm.

But paid downloads make up a fraction of the music on the typical portable media player. Other sources: tunes ripped from CDs, songs copied from one player to the next, free downloads and illegal peer-to-peer use.

For example, Rebecca Gruwell, a professional chef who lives in San Diego, said she's compiled about 1,300 songs on the iPod she received as a birthday present a year and a half ago. But only 50 or so of the tunes, many by singer David Gray, were downloaded from paid services.

"I borrow friends' CDs and copy them to my computer" and onto the iPod, said Gruwell, 26.

Several analysts said that if paid downloading is fading, it could be because of restrictions by the recording industry on how listeners can use the music. In order to keep control of revenue and royalties, the industry has insisted that downloaded tracks contain protections that prevent customers from freely copying music.

"Limits can be a hassle because if you purchase songs on one computer, you have to buy new tracks if you want them on a different computer," said Phil Leigh, founder of Inside Digital Media in Tampa, Fla.

Another concern is that restrictions by the paid services could cool enthusiasm for them. Apple's iPod - which has market share of more than 80 percent - can only play music downloaded from Apple's iTunes, which shuts out other providers and can restrict which artists are available.

"Mainstream consumers won't pay for something that is going to further complicate their lives," said Leigh, adding that consumers are finding out that downloading is not like owning CDs "that you can freely copy anywhere."

Some digital music companies are beginning to downplay the download format in favor of online subscription services that allow listeners to access - and sometimes transfer - unlimited music for a fixed monthly rate.

Napster spokeswoman Dana Harris said the company thinks the a la carte downloading business "is not a compelling experience for consumers."

Besides offering individual digital tracks, Napster provides subscription programs in which customers listen to unlimited music for as little as \$9.95 a month.

Some digital music experts said Americans may have already filled their players with their favorites and will become choosier, downloading fewer songs in the future.

Jim Hervey, a Navy master chief petty officer based in San Diego, said he bought 100 songs via the Internet last year for his MP3 player, but has only purchased six to 10 tracks this year as his computer catalog of Bob Seger and .38 Special tunes has become saturated.

"I've pretty much bought all the basic stuff I need," said Hervey, 39.

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