



**INSIDE DIGITAL MEDIA**

PRIVATE CLIENT RESEARCH

**FUTURE ONLINE & DIGITAL  
MUSIC OPPORTUNITIES**

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**RESEARCH PROSPECTUS**

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# FUTURE ONLINE & DIGITAL MUSIC BUSINESS OPPORTUNITIES

*Confidential Private Client Market Research*

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## PROJECT OVERVIEW

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*Inside Digital Media* is accepting a maximum of 20 subscriptions for a confidential research initiative examining future opportunities in legitimate digital and online music. Although the primary focus will be on business opportunities in 2004 – 2005, we also intend to identify and evaluate sectors of the market that will not achieve commercial potential until later. Primary data and in-depth interviews will be central to the analysis provided in the report.

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## OBJECTIVES

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The overall objective of the study is to estimate and closely analyze future opportunities in legitimate digital and online music markets. While this prospectus indicates the scope of the project at this writing, subscribing clients will be permitted to add value by helping to shape the study objectives through collaborative input.

The table below summarizes the key areas of research (continued on following page):

KEY RESEARCH AREAS	RELATED QUESTIONS
<b>Minimizing Renegade P2P Usage</b>	<ul style="list-style-type: none"><li>• What is the effect of lawsuits against individual file sharers?</li><li>• What do users like about renegade P2P networks?</li><li>• What do they dislike and how can this be used advantageously?</li><li>• How long and actively do members use a P2P network after they initially download the software?</li><li>• What's the best way to discourage use of P2P file swapping?</li></ul>
<b>Pricing Digital Music</b>	<ul style="list-style-type: none"><li>• Does uniform pricing make sense?</li><li>• Can labels get a premium for popular content?</li><li>• What will consumers think about variable pricing?</li><li>• Is bundling a good idea?</li><li>• Is the concept of the album going to die?</li><li>• Will variable pricing encourage consumers to return to P2P networks?</li></ul>
<b>Format Wars &amp; DRMs</b>	<ul style="list-style-type: none"><li>• What standard will eventually emerge?</li><li>• What developments can change the outcome?</li><li>• What really happens if there is no DRM protection?</li><li>• What is the potential for Janus-powered subscription downloads?</li></ul>

	<ul style="list-style-type: none"> <li>• What does the Microsoft-InterTrust settlement imply?</li> <li>• Can DRM technology work on P2P networks?</li> </ul>
<b>The Mobile Market</b>	<ul style="list-style-type: none"> <li>• Why will subscribers pay \$2.50 to download a master ringtone but not pay for a full song?</li> <li>• What will the consumer pay for master ringtones? Full song downloads?</li> <li>• What are the leading companies that provide technology to make master ringtones and full song downloads compatible with today's wireless networks?</li> <li>• What is the likely future breakdown between monophonic, polyphonic, and master ringtones?</li> <li>• Can the process for full song downloads be made reliable?</li> </ul>
<b>College &amp; University Market</b>	<ul style="list-style-type: none"> <li>• How do college students use their computers?</li> <li>• What will they pay for online music?</li> <li>• Should colleges adopt the Penn State model?</li> <li>• What can be done to encourage university administrations to move forward?</li> <li>• What is a fair price to the provider and the student?</li> <li>• Will students pay for permanent downloads from an administration-provided streaming service?</li> </ul>
<b>Portable Devices</b>	<ul style="list-style-type: none"> <li>• Can the iPod remain on top?</li> <li>• What are the weaknesses of the iPod?</li> <li>• What does the consumer expect for battery life?</li> <li>• What do consumers expect to pay?</li> <li>• How will the market split between flash memory and hard drive devices?</li> <li>• What features will next generation devices have?</li> </ul>
<b>Selling Digital Inventories At Physical Stores</b>	<ul style="list-style-type: none"> <li>• Can Starbucks become an important retailer of "make-your-own" CDs?</li> <li>• Can other stores replicate the Starbucks concept?</li> <li>• What other kinds of retailers aside from CD stores might profitably do so?</li> <li>• Can the concept be applied to video rental stores but with DVD burners instead of CD burners?</li> </ul>
<b>Downloads Versus Subscriptions</b>	<ul style="list-style-type: none"> <li>• Is Apple pursuing the right long-term strategy?</li> <li>• Is there room for both?</li> <li>• What's the right price for subscriptions and downloads?</li> <li>• Which will be more profitable?</li> <li>• Are wireless LANs required for subscriptions to be truly popular?</li> </ul>
<b>Consumer Attitudes</b>	<ul style="list-style-type: none"> <li>• Does the consumer really understand much about legitimate online businesses?</li> <li>• How ready is the consumer to embrace digital distribution?</li> <li>• How long will he continue to buy pre-recorded CDs?</li> <li>• What developments can enhance consumer attitudes toward legitimate online music?</li> </ul>

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## METHODOLOGY

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There will be two basic sources of data.

First will be a survey containing about 20 questions targeted at Internet users. We anticipate using a panel large enough to ensure a minimum of 1,000 respondents. Subscribers will be provided an opportunity to inspect and shape the questionnaire prior to the actual survey process.

The second source of data will be interviews with industry constituents. In addition to subscribing clients, we anticipate leveraging our years of experience in digital media to gain insight from a wide spread of participants ranging from giant public companies to recent start-ups.

Primary data obtained by interviewing industry participants, including clients, shall be confidential with respect to the identity of the source but generalizations about the information shall be shared with all subscribing clients unless specifically denied by the source.

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## SURVEY RESULTS

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Survey results shall be shared with all subscribing clients promptly after the survey is completed. We anticipate that the questionnaire data shall be available within 30 days of submission to the panel. A detailed analytical report of the survey results and industry constituent interviews shall be completed by the authors 10 weeks after the survey results are available. Upon release of the analytical report, *Inside Digital Media* will host a webcast with a PowerPoint slide show explaining the results and our analysis. Subscribing clients shall also be entitled to reasonable telephone consultation with the report authors.

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## PROJECT WORK PHASES

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**Collaborative Design.** While this prospectus outlines the major objectives of the research study, *Inside Digital Media* recognizes that subscribing clients may have special topics that they would like to have addressed. Therefore, we anticipate that the study objectives will be refined somewhat through consultation with the subscribing clients.

We hope to accommodate the needs of every client to maximize benefits of the project for all subscribers. Accordingly, there will be a defined time window for clients to supply input. However, in order to keep the study to a manageable limit, not all suggestions can be adopted. Every reasonable effort will be made to keep the study balanced and reflective to the objectives of all subscribers.

**Data Acquisition.** Primary data will be acquired through the Internet survey and from interviews with industry constituents. Once a final questionnaire design is set, the results should be

available within thirty days. Interviews with industry constituents will extend over a period of approximately 2-3 months.

**Analysis.** After collecting the appropriate data, the report authors will prepare a detailed analytical report. Sections of the report providing analysis of data obtained by interviews with industry participants shall typically be reviewed by those individuals who were interviewed. Where appropriate, *Inside Digital Media* will provide forecasts of industry and unit sales.

**Conclusions.** In the end, the report will provide actionable recommendations for industry participants including record labels, artists, music publishers, retailers, online music providers, PC manufacturers, offline retailers, software suppliers, portable device manufacturers, etc.

As a means of publicizing its research capabilities, *Inside Digital Media* shall be entitled to release selected data and conclusions to the press. *Inside Digital Media* is sensitive to the value of various items of information and shall use discretion in selecting the items it will release to the public.

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#### BIOGRAPHIES OF REPORT AUTHORS

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**Phil Leigh** is the President of *Inside Digital Media*. His company is both a market research firm and an Internet media property. [insidedigitalmedia.com](http://insidedigitalmedia.com) is a website where you can hear and see interviews conducted by Phil of thought leaders in the digital media industry. *Inside Digital Media, Inc.* is a market research firm concentrating on the future of media.

Mr. Leigh is the author of a number of white papers and research reports about digital music. He is often interviewed by news publications and television news programs. Prior to organizing *Inside Digital Media* in September of 2003, Mr. Leigh worked for three decades as an investment security analyst specializing in communications and computer technologies at such firms as The First Boston Corporation and Raymond, James & Associates.

At *Inside Digital Media*, Mr. Leigh has conducted scores of interviews with top industry executives and analysts dedicated to the future of digital and online music. He also hosted similar interviews at [On24news.com](http://On24news.com) for several years prior to the formation of *Inside Digital Media*. Mr. Leigh's network of industry contacts is a powerful asset which can be leveraged in this report to provide unique insight into the future of recorded music.

Phil holds a B.S. in Electrical Engineering from the Florida Institute of Technology and a MBA from the Kellogg School of Management at Northwestern University.

**Paul Resnikoff** is the Founder and Editor of *Digital Music News* ([www.digitalmusicnews.com](http://www.digitalmusicnews.com)), an information source for top-level industry executives. Subscribers come from traditional labels, music subscription and download stores, player software firms, digital radio companies, P2P applications, legal services, portable mp3 player manufacturers, micropayment firms, and other segments.

Prior to starting *Digital Music News*, Paul accumulated valuable experience in the recorded music business. Most recently, as head of U.S. Digital Music Group at Lycos, he implemented new technologies for various major labels and developed scores of special artist promotions. Prior to that, he managed international marketing for Epic Records, part of Sony Music Entertainment in New York.

Resnikoff brings specialized experiences to bear, including those in Internet and television artist advertising, CD-based bonus content, digital rights management, live webcasts, and legitimate music services.

Paul's passion for digital music comes from his passion for performance, as he plays both the French horn and the bass guitar with organized groups of amateur musicians in his hometown of Boston. Paul has also written a large amount of musical compositions of his own.

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### SUBSCRIPTION TERMS

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There shall be no more than 20 subscribers, nor less than 15. The subscription offering will close on May 31, 2004, Each subscriber shall pay *Inside Digital Media* a fixed fee of either \$12,500 or \$15,000.

- The \$12,500 fee will apply to all subscribers who pay in-full in prior to June 1, 2004.
- Those who choose to pay by installment will be charged \$15,000. The first installment of \$7,500 shall be due prior to June 1, 2004. The second installment of \$3,750 shall be due July 15, 2004. The final installment shall be due September 30, 2004 which is also when the analytical report is due to be released.

If, at the end of the offering period, there are fewer than 15 subscribers all fees paid to *Inside Digital Media* shall be treated as advance deposits and returned in full to the subscribing clients.

Should you wish to subscribe, please complete the order form and send via postal mail or fax to Phil Leigh at the address or fax number indicated in the form.

Please feel free to contact Phil Leigh at (813) 837-3631 with any questions.

**ORDER FORM**

Please fax completed form to (813) 436-5240 and mail payment the following postal address:

Inside Digital Media  
 Attn: Phil Leigh  
 3911 San Pedro  
 Tampa, FL 33629

For any questions, please contact Phil Leigh at (813) 837-3631.

SUBSCRIBER INFORMATION	
Company Name	
Contact Person	
Email Address	
Company Address: Street, City, State, Zip	
Phone	

BILLING INFORMATION	
Payment Plan (Please Check One)	<input type="radio"/> Plan A: \$12,500 Total Payment Due June 1, 2004 <input type="radio"/> Plan B: \$15,000 <ul style="list-style-type: none"> <li>• \$7,500 Due June 1, 2004</li> <li>• \$3,250 Due Upon Receipt of Primary Data (July 15<sup>th</sup>, 2004)</li> <li>• \$3,250 Due Upon Completion of Report (Sept. 30, 2004)</li> </ul>
Payment Amount Enclosed	<input type="radio"/> \$12,500 <input type="radio"/> \$7,500
Purchase Order No.	

I hereby authorize my company's participation in this study and agree to the payment schedule selected.

\_\_\_\_\_  
 Authorized Company Representative  
 (Sign & Print)

\_\_\_\_\_  
 Date