

## **Introduction**

The aim of this coursework is to try to define the how the innovation of file sharing technology will affect the future of the music industry. In this project I will present a number of different responses to this innovation which have taken place and I will give my opinion on what I consider the most suitable way to respond to change so a company can gain competitive advantage through this innovation.

For this coursework I have used a number of different primary and secondary sources. I have consulted recent news based on responses to file sharing innovation from different newsgroups (Reuters, Europa Press, etc) and I have looked for reports from analysts specialized in Internet and communication. As primary source, I have sent e-mails to Mark Mulligan – specialist analysts of Jupiter MMXI (analysts) -, a couple of music groups and Napster from which I only received a response from Napster (Appendix 1). In addition, I have carried out a survey to find out how many people use file sharing web sites and what they consider as the main reason for using these sites and how they think the cost of music varies this (see appendix 3).

In my opinion, it very important that recording companies and the music industry in general respond flexibly and rapidly to change because if they don't, not only will consumers be less happy but other companies might do so and hence add value to their products by having competitive advantage over the less flexible and less responsive to change companies.

## **The Innovation**

The music industry is often thrown into turmoil by a new format innovation. Quite recent examples include the change from Long Plays to Tapes or 8-Tracks with a much greater acceptance to tapes. Tapes then moved away to allow Compact Discs to appear which seems to be letting MP3 players into the market. In May 1999 two American students (Shawn and John Fenning) launched a system by which anyone in the world could receive music for free if they had a connection to the Internet. The news rapidly extended throughout the world until Napster, the pioneer of the innovation reached its peak number of users in Europe in February 2000 (6 million users of the 8.1 European Internet users which were accessing a dozen separate file-sharing sites). In the USA, file-sharing activity between March and August that same year increased by 500%, according to Jupiter Media Metrix analysts.

The massive as well as rapid increase in use of this new technology has increased the interest of some of the most important recording and producing media. Companies such as Emi or Sony Corporation have decided to launch web pages which offer this service while others like the members of the RIAA (Recording Industry Association of America) try to avoid their benefits falling by suing the file sharing “companies for trading with copyrighted material without paying the cost of these”.

Napster is the world's leading file sharing community. Napster's software application enables users to locate and share media files from one convenient, easy-to-use interface. It also provides media fans a forum to communicate their interests and tastes with one another via instant messaging, chat rooms, and Hot List user bookmarks. The files provided by Napster are in MP3 format. MP3 is an audio format that allows users to compress and send music files easily over the Net. It's the de facto audio standard online, but the majority of MP3 files are pirated, a phenomena that's caused a stir in the music industry. The recording industry is working on an initiative to add security to its music downloads. But that hasn't stopped new businesses and new ideas for how artists can make money from proliferating online.

Fans like Napster because it combines existing elements of the online music experience into a single application that allows people to talk about what music they like and trade files. Even though the quality of the program code of Napster is very poor, it is tremendously efficient and definitely cheaper and quicker than buying CDs.

## **How the music industry is affected by file sharing**

At present, most recording companies are having a mass movement against the new technology as most of them have decided to sue companies such as Napster, FastTrack or KaZaA which use the file sharing technology to provide music to their users. It is less often, that companies do accept the innovation and decide to become part of the innovation like worldwide computer giant Intel or British recording company EMI have done.

The British company EMI have decided to be an active part in the innovation and have decided to offer a selection of videos from its Priority Records label through the Gnutella network. This is not the first initiative of EMI in collaboration with file trading sites, earlier this year, EMI already promoted its Radiohead album through the Aimster and Angry Coffee file trading networks. EMI doesn't lose money through the free videos offered as the files come with embedded links to online record outlets and advertisers, for example, Lil' Romeo's "My Baby" video was viewed by over 400000 users and 15 percent of those clicked onto an e-commerce site where they could purchase the album. "We are extremely supportive of our music fans turning each other on to new videos in a secure environment, one that has a strong potential to drive sales", said Ted Cohen, EMI's vice president of new media.

Furthermore, chip making company Intel decided to use the file sharing technology not for the general public but to increase drastically the efficiency of their offices and their employees. Intel decided to introduce the "Napster" technology in their offices so employees could download files from any PC in the office instead of having to send big files over the wide area network. Doug Busch, Intel's vice president for information technology assured that the new technology would "improve performance and reduce costs by around 10 times".

On the other hand, companies members of the RIAA have decided to "control technology, control innovation". Most of the recording companies are suing web sites which trade with music or films freely but don't realise that this won't stop file sharing because every time one site is shut, two more are opened. The evidence of the questionnaire suggests that file sharing sites have so many users mainly due to the very high prices of the compact discs and that there are not many substitute goods for the music industry as mini-disc recorders are too expensive and cassettes are considered old-fashioned, have less sound quality and are easier to break.

## **Conclusions**

To sum up, I think that it is very important that companies in the music industry are prepared to become part of the innovation (like EMI) or they will have problems to stay in the market. I would think that EMI is the company which has better adapted to change, proving to be very prepared to changes in the market – flexibility –, as it has had a quick and most importantly effective response to the new technology appeared as it has found a business use for the innovation brought forward by Napster.

A simple and positive solution for the fall in sales due to internet file swapping could be to join all of the file sharing networks in a massive joint-venture which would send the program needed for a very reasonable price (e.g. \$20 + \$5 per month) and which would give the user the right to download a number of songs or videos per month. The benefits would probably increase given that even though the turnover would fall, the production costs would be cut drastically plus there is less need of space and staff to upload the music and videos. Probably, the number of users which would use this service would be much greater to that of customers who buy CDs, Cassettes or Minidisk albums.

The only solution if the recording and motion picture industry don't accept any agreement would be to do a massive, worldwide campaign to stop block, like with Napster, all the file swapping networks in the world, but probably others would appear. I think that the musicians and artists in general would not mind to loose some money from the sales of their albums if they were listened more hence increasing the value of their live concerts, musical DVDs or VHS and their presences in different public acts.

To sum up, I think that the innovation of file sharing over the internet will affect the future of the music industry greatly. The way in which it affects it will depend greatly in the interest the recording companies have in applying the technology or simply stopping the technology. I hope that the music and film industry is more flexible to change as the application of new technology as it would not only reduce the price of music but it would increase the commodity of getting to the music as you would be able to receive it in your own house.