



MY FRIEND P2P

Music and Internet for the Modern Entrepreneur

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ABSTRACT

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The music industry is undergoing an extensive transformation due to the digital revolution. New technologies such as the PC, the internet, and the iPod are empowering the consumer and the musician while disrupting the recording industry models. The aim of my thesis was to acknowledge how spectacular these new technologies are, and what kind of business structure shifts we can expect to see in the near future.

I start by presenting the underlying causes for the changes and go on to studying the main effects they have developed into. I then analyze the results of these changes from the perspective of a particular entrepreneur and offer a business idea in tune with the adjustments in supply and demand.

Overwhelmed with accessibility caused by democratized tools of production and distribution, music consumers are reevaluating recorded music in relation to other music products. The recording industry is shrinking but the overall music industry is growing.

The results strongly suggest that value does not disappear, it simply relocates. It is important that both musicians and industry professionals understand what their customers value and how to provide them with precisely that.

Key Words: Music business, digital revolution, internet, piracy, marketing.

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1. INTRODUCTION TO THE THESIS

The decline in record sales over the past decade has continuously echoed in the news, and the uncertain yet dismal outlook hangs heavy on the faces of most industry professionals. Entering the job market with a degree in media can, needless to say, be disheartening with all the glum warnings hanging heavy in the air. Ready to dive head first into the life of an entrepreneur, I wanted to prove that new possibilities lay hidden under the old ones, and that even a penniless one-man company like my own could make a place for itself in the internet era of the music business.

In my thesis I focus on understanding the relativity between what a consumer values and basic supply and demand logic. In a world increasingly dominated by digital bits, it is important that companies understand which qualities and products their customers still value. The recording industry has always been slow to adapt to new technologies but even a decade after the peak of the CD the debate over how to prevail carries on.

With an emphasis on the meaning of copyright and the reasons for piracy, my thesis proves a compelling case against the resistance toward new technologies, which the major record labels have displayed. I also gather the ideas presented by industry professionals on how to salvage the recording industry and make it stronger than ever. With a firm focus on what has value in the digital realm I develop a humble, but quite complicated, business concept integrating several marketing functions into a model which may come to resemble that of the future independent record label.

2. REFERENCE FRAMEWORK

2.1 The Digital Revolution

“Dig-i-tal: of, relating to, or being data in the form of especially binary digits” (Merriam-Webster 2010), is often referred to as the opposite of analog. Analog flows organically while all digital information is essentially comprised into countless distinctions between on or off – 1 or 0. Even though this binary system can come across as rather simplistic, enough of these 1’s and 0’s in a row can store amazingly high quality information like seamless sound and video data. The great value of digital over analog has, however, had less to do with its storage capacity or humans preferring one over the other, and more to do with the effortlessness and resilience with which it copies itself. There is no loss in quality when multiplying, editing, or moving a digital file since it is not bound to the physics of matter which rule over analog. It is this simple fact that has allowed digital information to surpass all of its predecessors both in popularity and widespread use. (Lallana & Uy 2003, 8; Techterms 2010.)

Parsons & Oja (2010, 4) explain the origins of the dramatic term ‘digital revolution’ as most likely having been inspired by the term ‘industrial revolution’, and thus carrying with it a promise of change and influence in every aspect of daily life as great, or greater than, that of the invention of machines. By producing technology such as computers and the internet, the digital revolution plays the role of rocketing us into the Information Age (Lallana & Uy 2003, 10).

Computers were not much more than a myth to the common man before the microprocessor was invented in the 1970’s. This invention spurred the mainstream success of the computer, spreading them from government institutions to universities and finally reaching businesses and homes. Ever since, the computer has come to symbolize the digital revolution. (Lallana & Uy 2003, 6.) Without dwelling on the magnificence of electricity itself, it is the remarkable qualities of the transistor that are driving the digital revolution forward at a steady yet exponential speed. In a sense, the scientist teams behind the invention of the transistor are highly responsible for sending us into the Information Age. (Ideafinder 2005.)

Gary Moore, one of the co-founders of the highly prestigious technology company Intel, made an astoundingly accurate prediction in 1975: “The number of transistors incorporated in a chip will approximately double every 24 months” (Intel 2010). This quote received so much attention that it was eventually coined ‘Moore’s Law’. Moore’s law has predicted, and continues to predict, the path of the digital revolution and the rate at which it grows. Thirty years later Moore chimed in once again with a charming addition to his famous law: “Moore’s Law is a violation of Murphy’s Law. Everything gets better and better.” (The Economist 2005; Anderson 2010, 82.)

When you add an idea as compelling as the internet to the digital revolution equation, you are left with a concoction infinitely more powerful, and with a future much harder to predict. As the statistics at Internet World Stats (2010) indicate, internet penetration has previously been slow to make headway in developing countries, but we are starting to see a change there, too. With well over half of Americans and Europeans connected to the internet, these numbers are growing dramatically for the rest of the world as well. As of June 2010 approximately 2 billion internet users, more than one quarter of the world’s population, can be found scouring the Web. (Internet World Stats 2010.)

Many technological advances have led to where we are today and innovation shows no sign of slowing down. The shift from analog to digital – atoms to bits – has lowered the threshold to engage in an expanding number of activities, from production and distribution to spying and piracy, and activated a frenzy of new strategies and business models that were completely unviable in a ‘pre-digital revolution’ era. The internet, with its immense reach, has enticed many wealthy entrepreneurs, but few companies seem able to anticipate where this technology is taking us. In fact, Matt Mason (2008, 27) argues that *technology changing us* is a misconception – the path we are on is paved by profound cultural changes. The way we connect to family, peers, corporate entities and information in any form is constantly evolving. We are part of an ‘Information Society’ in which the individual is empowered by new freedoms in economic and cultural activities on the internet. Even technology businesses, brave investors and governments need to be alert about changes in the digital environment. New digital innovations can spring up overnight and suddenly require radical adjustment to any structures: traditions, lifestyles, or legislation, leaving precious time and money wasted on systems and services rendered outdated, or simply irrelevant. (Parsons & Oja, 4.)

2.2 Great Success Productions

I am the owner and sole employee of Great Success Productions, founded in 2008. My aim with the company is to fuel original ventures in the internet platform of music, marketing and design. While I have no lack of ambition, there are many restrictions that a business of this size is forced to comply with. I admire max strategy business models and hope to eventually be able to pursue ideas with more than just economic profitability in mind. In this starting blocks stage monetary resources are low, around 1500 euro, but the company prides itself in being free of debt, thus allowing a clean slate approach on new business ideas. With Great Success Productions I am ready to tackle sustainable business ideas that require investments mainly in the form of blood, toil, tears (preferably of enthusiasm), and sweat.

2.3 My Friend p2p

The idea for My Friend p2p came to me when witnessing feeble attempts by record labels trying to harness peer-to-peer networks as a marketing channel. I was intrigued by the weak impression completely free, legal digital music had on the file-sharing community and I saw many opportunities for improvement. The result was a concept relying on a wide variety of services all enforcing a brand that had a better chance of standing the critical crowd of today's music fans and trendsetters. The My Friend p2p service is basic marketing and market research executed by using methods credible to the target audience.

3. SHIFTING BUSINESS STRUCTURES: THE UNDERLYING CAUSES

3.1 Music Production

3.1.1 Myth Busted

The digital revolution is playing a big part in the second wave of the do-it-yourself philosophy currently taking music production to a new level. The first wave hit us back in the mid 70's with something we refer to as the punk movement. The do-it-yourself (DIY) ethic was one of the main points the punk movement emphasized. Until then, the notion that only a small group of selected people could have a profession within contemporary music had scared off the dreamy eyed kids and built a barrier of caution between musicians and their fans. Naturally, a counter reaction came about and it preached that anyone could start a band. An interesting illustration was published as early as 1967 by the fanzine *Sideburns*, which set the mood extremely well for the DIY ethic in the punk movement. It read: "This is a chord. This is another. This is a third. Now form a band" (Kusek & Leonhard 2005, 109; Mason 2008, 93; Anderson 2009, 82–83; British Library 2010.)

The spread of the DIY ethic caused a worldwide boost in creating music. A myth had been proven untrue, and it was as clear as day that anybody could grab a cheap guitar and start making music. Or, as Anderson (2009, 82) describes it, "[w]atching someone your age play three chords badly, while jumping around on stage, one couldn't but think: 'I could do *that*.'" Straying out of punk and into most contemporary music genres, this mentality changed even the casual listener's understanding of the tunes he heard on the radio or at a concert. It was suddenly something he could more or less relate to, and this is something that did not die along with the punk movement.

3.1.2 Tools

Music, being among the forms of traditional art that smoothly transform from analog into a binary representation of ones and zeros, has encountered an uncompromising force driven by the digital revolution. Empowered by astounding advances in consumer electronics and digital technology, we are in the midst of a second wave of DIY driven

creativity. Music presents itself in numerous interactive software embodiments like music players, remixing games, social network applications, online competitions, playlist sharing, high quality streaming, etc. – all sparking interest in and activating a crowd of otherwise passive music fans. Alongside this development, the process of creating, recording and mixing music on a professional level has greatly benefited from the digital revolution. There are hundreds of audio processing software and plug-ins available, ranging from free to expensive, theoretically making it possible to produce a full length album, matching the quality of any contemporary release, all in the comfort of your own home studio, and for less money than a monthly membership at your local gym would cost. If you think you have something to say, and a surprising number of people do, the barriers of music production have become practically obsolete. (Mason 2008, 93; Anderson 2009, 54, 83; Casero 2010.) “Music-making is a global phenomenon, and there is more of it being made than ever before. There are more bands, more writers, more songs, more CDs, more shows, and more awareness of all of it” (Kusek & Leonhard 2005, 37).

3.1.3 Content

Despite the fact that these new means of music production are freely available, knowing how to use them is a matter of its own. Interestingly enough this has not discouraged the average, technically able, musician, but has rather created a demand for knowledge. Most hobbyists and amateurs thrive in the freedom of excelling at their own pace, and of not having to choose between making music their profession or abandoning it completely. For these individuals, information is shared among friends and, increasingly, sought from cheap or free online forums and communities. The widespread approval, understanding and glorification of the music business has, however, resulted in an exponential growth of youth seeking professional careers within music. In turn, courses and bachelor degree programs specializing in music and audio production are rapidly springing up worldwide in an attempt to meet the ever growing demand. (Kusek & Leonhard 2005, 165; Lines 2005, 1–2; Mason 2008, 93.)

But are these amateurs simply diluting the quality of music and bringing shame to this once elitist art? Anderson (2010, 194) responds to this classic conservative objection by stating that “[c]rap is in the eye of the beholder.” This is Anderson’s way of stressing

that the old fashioned system in which talent eventually was recognized and utilized was nowhere near perfect. Today, when the masses are allowed to enter the competition, talent increasingly emerges from unlikely places. While relatively few amateurs will ever reach mainstream success, their work still bears meaning and invigorates our culture. (Anderson 2009, 63.)

3.2 The Internet

3.2.1 The Significance of the Internet

The internet, as it is used today, is a network of servers broadcasting content designed to be read by a web browser or an internet application. Individuals can browse and interact with this content by connecting to it over telephone lines, with a computer, or wirelessly, with an internet capable mobile device. The BBC's acclaimed Virtual Revolution documentary (BBC 2010a), demonstrates that the internet is a decentralized entity equally valuing all nodes connected to it, be they huge university server systems or puny personal setups. This democratic system has been crucial in spreading the internet wide and far. Like most network based technologies, the internet is useless unless many people are using it. Simply conceiving the idea of a linked network of computers and launching the protocol for it was not like striking gold or finding an untapped oil reservoir. Tim Berners-Lee has been crowned the inventor of the internet, but it was the unusual force of blind sacrifice, goodwill and utter belief, coinciding with the hippie mentality of the time, which created enough activity on the network to push it through its infancy. (BBC 2010a.)

In an interview, Tim Berners-Lee himself characterizes the original spirit of the internet as “[v]ery open, very giving, people very much working together, encouraging each other. Very much full of excitement, getting a kick out of making things work, and very much out of making things work together” (Berners-Lee 2009). This encouraging and collaborative environment inspired more and more to selflessly contribute to the noble investment in civilization, that is: the internet.

Networking concepts such as the telephone, fax machines, and ultimately the internet, all face the same predicament when first launching. How does one manage to sell the

first telephone when it essentially has zero value until more are sold? This question, however, also proves the point that for every telephone sold, their collective value rises. The same principles apply to the internet – for every web page created its value rises. While the numbers have no doubt multiplied since, Google’s last announcement, in mid-2008, revealed that it tracked over one trillion unique web URLs. Whichever way you look at it, a monthly broadband subscription is peanuts for access to this astounding, unrestricted and constantly expanding resource. (Official Google Blog 2008; Berners-Lee 2009; Jarvis 2009, 5.) FIGURE 1 shows us that the adoption rate of the internet in the U.S. has been faster than that of any other consumer technology to date. (Pew Internet & American Life Project 2007; Gordon 2008, 30)

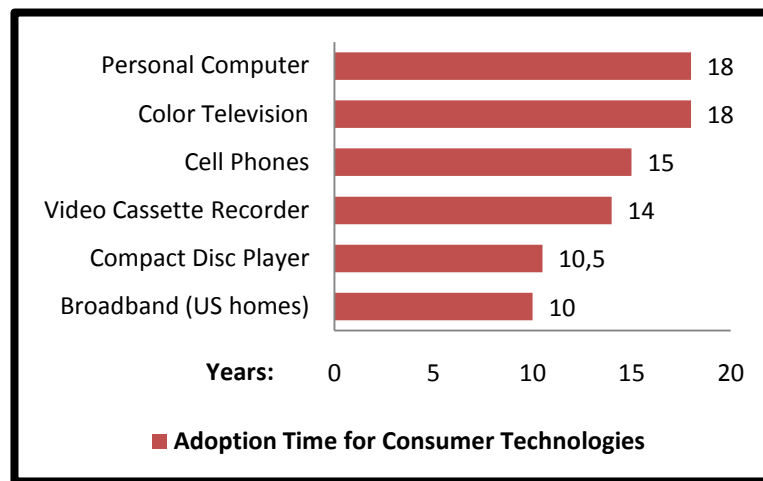


FIGURE 1. Adoption Time for Consumer Technologies (Pew Internet & American Life Surveys for broadband 2007; Gordon 2008, 30)

An international survey released by the BBC (2010b) shows that nearly 80% of those questioned consider internet access a fundamental right (BBC 2010b). Parallel to this, Finnish legislation has passed a law ultimately acknowledging not only the extreme popularity of the internet but also its necessity. YLE (2009) reports that, as of July 2010, every household in Finland has the right to demand broadband access at a reasonable price. As the internet expands, its value continues to grow to the human race, transforming our perception of it from a luxury to a necessity – a fundamental right. FIGURE 2 demonstrates the correlation between the growth of web sites, not to be confused with web pages (which are contained inside web sites), and users worldwide (Internet Growth Statistics 2010; Internet Systems Consortium 2010). The reach, and thus value, of a website grows when more users connect to the internet, likewise, the internet grows more valuable to its users for every web site that is added (All About

Market Research 2010; Internet Systems Consortium 2010). This prosperous, upward spiraling cycle of the internet is the key to its perseverance.

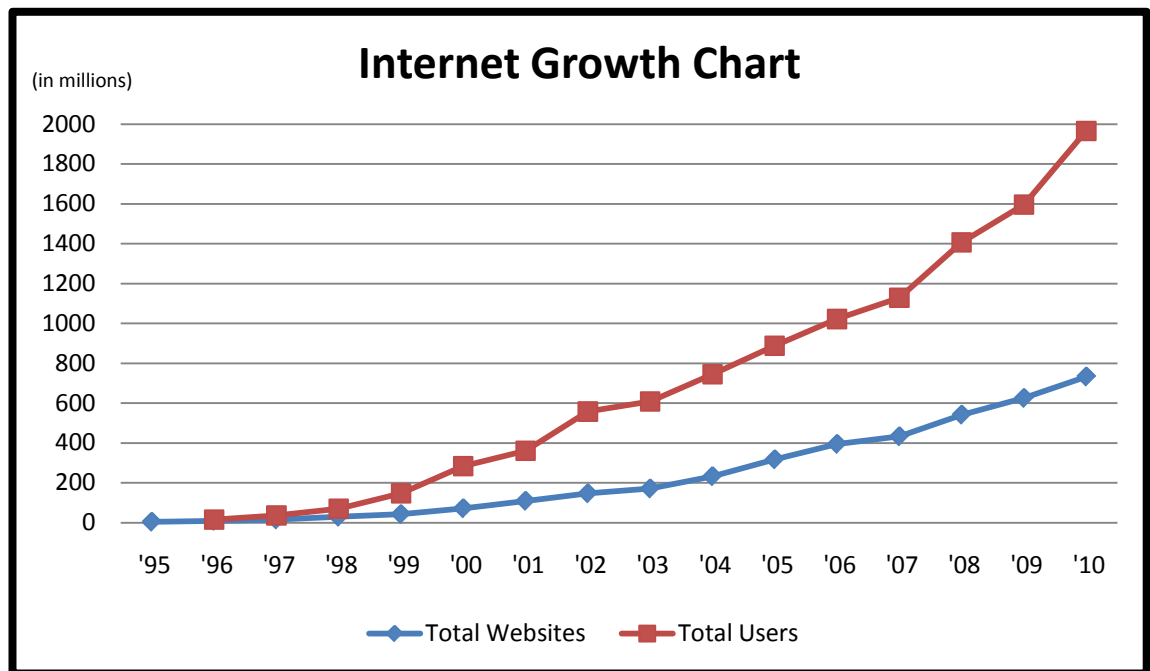


FIGURE 2. Internet Growth Chart (All About Market Research 2010; Internet Systems Consortium 2010)

FIGURE 3 is a snapshot of internet users and internet penetration in the world as of June 31, 2010 (Internet World Stats 2010). With penetration rates reaching towards 100 per cent in developed countries, these statistics demonstrate how improvements in the infrastructure of developing countries will eventually lead to a dramatic rebalancing of traffic focal points, and no doubt influence, on the internet (Internet World Stats 2010). With densely populated continents such as Africa, Asia and South America racing towards higher penetration rates, North America and Europe will, without a doubt, constitute a clear minority in the pool of internet users when these democratizing forces have played out. After all, the Web was built on highly democratic values, and we cannot declare the Web a true mirror of humanity until we level the playing field for all countries and continents. (Berners-Lee 2009; BBC 2010a; Internet World Stats 2010.)

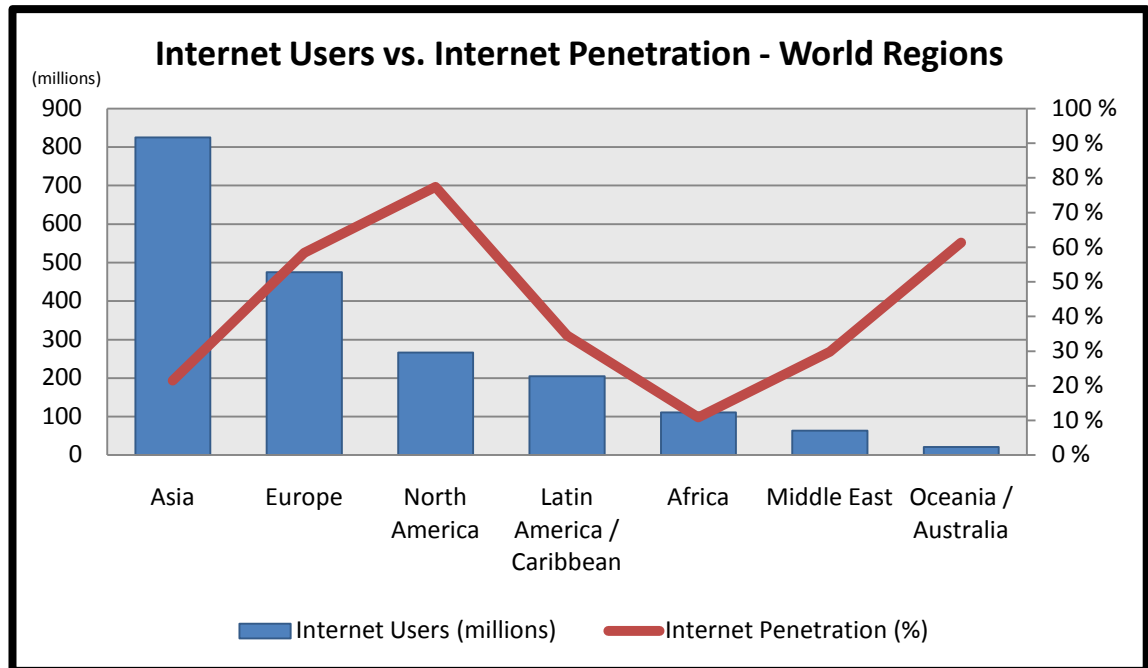


FIGURE 3. Internet Users vs. Internet Penetration – World Regions (Internet World Stats 2010)

3.2.2 The Long Tail

In 2006 Chris Anderson released a book titled *The Long Tail*. This now famous term was coined to describe an economics phenomenon caused by the internet. A Long Tail emerges when three forces are set free.

In the case of the internet, ‘force 1’, depicted in FIGURE 4, is tightly knit to the digital revolution (Anderson 2009, 54). Computers and other production electronics and software becoming available and affordable to the masses, spurred tons of new content to be created by amateurs and enthusiasts both for commercial and non-commercial purposes. (Anderson 2009, 54.)

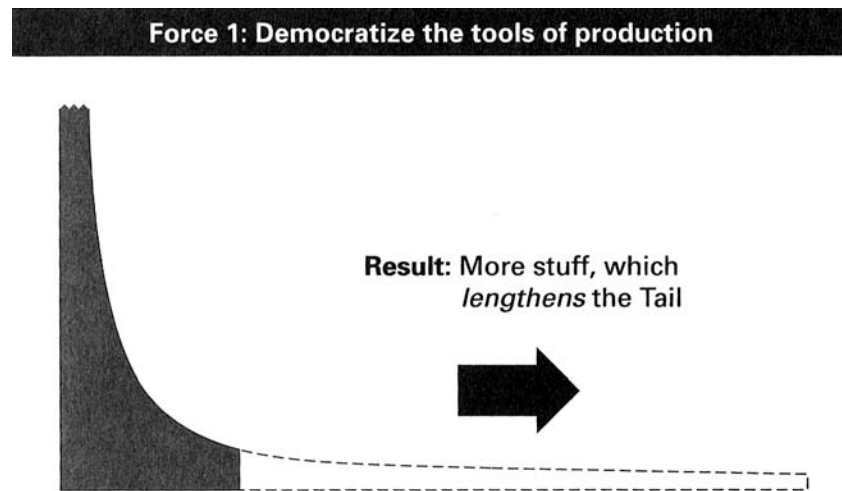


FIGURE 4. Force 1: Democratize the tools of production (Anderson 2009, 54)

FIGURE 5 demonstrates that making content available is the only way for it to spread (Anderson 2009, 55). Thanks to the internet, the huge influx of content created by ‘force 1’ has an outlet. The bottlenecks of distribution in the physical world can be circumvented, and at an extremely low price you can now effectively reach anyone surfing the Web. After reaching your target audience, the sale of physical goods will still need to be shipped, but for digital goods (text, pictures, music, video) it really is as simple as that. (Anderson 2009, 55.)

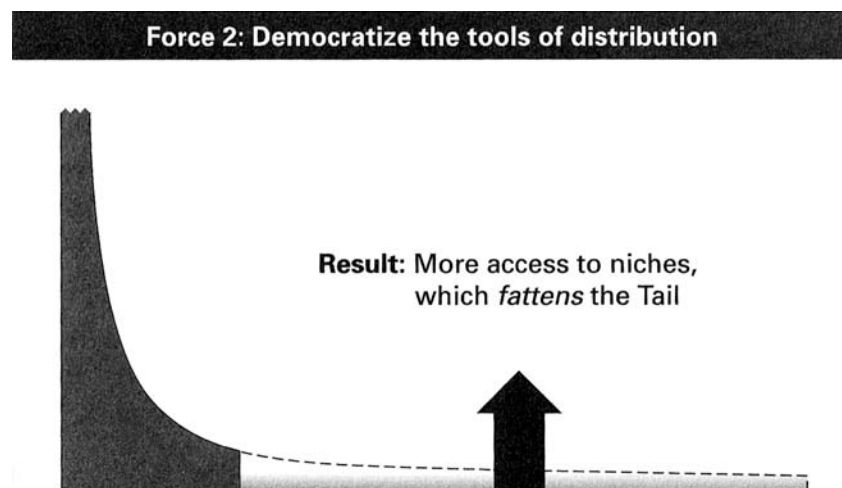


FIGURE 5. Force 2: Democratize the tools of distribution (Anderson 2009, 55)

FIGURE 6 illustrates how our consumption adapts to niches when we have abundant choice (Anderson 2009, 55). Humans have diverse tastes and opinions. We can find comfort in following the crowd and consuming what is thrown at us by traditional content outlets, but given the opportunity to delve into our deepest niche interests, we’ll

often take it. This is what the Long Tail is, a freely accessible, massive cluster of niche content. As such, it is overwhelming, but add ‘force 3’ to the mix and suddenly the Long Tail can be painlessly navigated. Pandora, iTunes, Rhapsody, Netflix, Google, Forum and Blog organized word-of-mouth are all using the wisdom of the crowd to guide us down the Long Tail. (Anderson 2009, 55–57.)

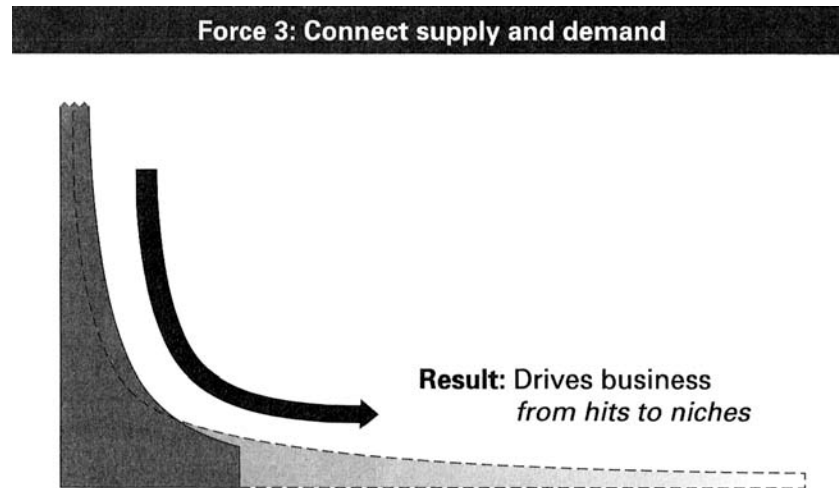


FIGURE 6. Force 3: Connect supply and demand (Anderson 2009, 56)

Music has been particularly susceptible to the power of the internet and Long Tail forces. Having met the digital revolution head on, resulting in democratized tools of production, the internet contributes to filling force two and three of the Long Tail. Democratizing the tools of distribution has, as Kusek & Leonhard (2005) put it, “injected a good deal of Darwinism into the business. The more people record, produce, and publish their works, the more new releases will vie for our attention. And today, attention is the name of the game” (Kusek & Leonhard 2005, 144). Even so, with a potential audience the size of the ever-growing internet, we can afford to spread the wealth of attention, since catching the attention of even the smallest sliver of a percent of this two billion large audience would more than suffice for most artists and bands. (Anderson 2010, 128.)

3.2.3 A Battleground of Ideals

Having caught on with the masses, the internet has turned into a battleground of ideals. On one side you have the eccentric misfits that spawned the internet out of the pure fascination of a playground where information could be free. On February 9, 1996, John

Perry Barlow (1996), co-founder of the Electronic Frontier Foundation, published ‘A Declaration of the Independence of Cyberspace’ which sums up the notions of this movement extremely well. Here is an excerpt:

Governments of the Industrial World, you weary giants of flesh and steel, I come from Cyberspace, the new home of Mind. On behalf of the future, I ask you of the past to leave us alone. You are not welcome among us. You have no sovereignty where we gather. – – Your legal concepts of property, expression, identity, movement, and context do not apply to us. They are based on matter, there is no matter here. (Barlow 1996.)

On the other side of the battlefield you have the ‘late adapters’ who saw the internet as nothing more than a shiny cash cow. Ever since, the internet has been in a tug of war between these capitalist and socialist ideals. Bringing money into the equation of the internet has resulted in an eclectic range of services, but it has also given ground to negative phenomena like excessive advertisement, spam, viruses and other abuses of the widely unmonitored system.

Lawrence Lessig (2004), a copyright specialist, describes music as “the crack cocaine of the internet’s growth” (Lessig 2004, 296). By this he means two things. Firstly, he likens the ‘high’ of cocaine to the fact that search queries for music have always been extremely popular, meaning that music, especially when the internet was first taking off, was one of the prominent reasons for connecting to the internet. (Lessig 2004, 296; Google Insights 2010.) Or, as Kusek & Leonhard put it, “for a short period around 1999, the number-one word most used in Web-based search engines changed from ‘sex’ to ‘MP3’” (Kusek & Leonhard 2005, 72). Also, the demand for faster speeds can be traced back to this obsession with streaming and downloading music. And secondly, Lessig likens the detrimental effects of using crack cocaine to the legal mess that file-sharing has gotten the internet into, ultimately restraining innovators from using the internet to its full capabilities. (Lessig 2004, 296.)

3.3 The Consumer’s Needs

In 1998 the Rio PMP300 portable MP3 player was released. It was among the first of its kind and it grew to symbolize the beginning of a huge business. Three years later, Apple joined the competition with the first iPod, a groundbreaking device capable of storing

up to 1000 CD quality songs. Today, after years of cunningly controlling the MP3 player market by continuously improving their products and staying a few steps ahead of the competition, Apple's iPods boast up to 160 gigabyte of storage – 40,000 songs! (Apple 2001; CNET 2005; Apple 2010.)

Music fans have been egged on by the consumer electronics industry to fully embrace the possibilities of the digital revolution ever since the first success of the RIO player. But with record labels dedicating all of their energy to enforcing copyright laws of the matter based world in a digital space, how is a teenager, or anyone for that matter, supposed to legally fill an iPod with 40,000 songs? Apple's two cents worth is evident in their classic 'Rip, Mix, Burn' motto. (Anderson 2010, 154–155.) Indeed, Apple CEO Steve Jobs revealed in a 2007 press release that, according to their research "under 3% of the music on the average iPod is purchased from the iTunes store" (Apple 2007). He did not, however, care to elaborate on where the remaining 97 percent might derive from (Apple 2007).

As of 2008, Apple's iTunes was crowned the biggest digital music retail outlet (NME 2008). It is logical to assume that Apple would want to stay on good terms with the record labels that provide the content for this seemingly profitable business. Interestingly enough, this is not the case. Chris Anderson (2010, 142), an expert on business models based on 'free', recognizes that Apple hardly cares where iPod customers get their music from as long as they keep supporting their hardware business, which greatly overshadows iTunes profit-wise. The content providers were not aware of Apple's strategy when they licensed their music to iTunes, and later on this resulted in hard feelings between the two sides, making the music oligopoly especially wary of dealing with the consumer electronics industry or any innovative startups relying on a blanket license. Having played its cards right and reaching the powerful stance of number one, iTunes now calls the shots. The record industry will likely continue to either isolate itself from making crucial licensing deals with new innovative companies, further alienating the honest customer, or be strong armed by 'bigger fish', as one must remember that mechanical sales only represent a small piece of the entire entertainment economy. (Kusek & Leonhard 2005, 161; Music Ally 2010a, 2.)

In 1999, Napster was the first file-sharing network to truly set free the power of internet and music combined. While it swelled with the viral tendencies that most timely

internet concepts based on ‘free’ do, the Record Industry Association of America (RIAA) managed to bring the party to a fairly abrupt halt. But what they failed to recognize was that music fans worldwide were ready to move into the digital realm. Instead of approaching this new marketplace demand their fear of what the internet represented got the best of them, and they branded all file-sharers criminals, forgetting the fact that these rabid music fans were none other than their most engaged customers. (Gordon 2008, 118; Mason 2008, 59, 154.) “Technology means you can now do amazing things easily; but you couldn’t easily do them legally”, is how Lessig (2004, 105) describes the dilemma music consumers had found themselves in. Seen from a teenager’s perspective the choice is, understandably, quite easy.

The strong opposition from the RIAA towards Napster and the internet as a platform for music has stirred a bee’s nest of criticisms aimed at the recording industry, further encouraging the contagious disobedience that is making its way through the crowds of technically able music fans. Among the most notable criticisms are: the stale and outdated CD format which still seems to be the only thing labels care about selling, the ridiculously uncompetitive price of an album compared to, e.g., a multimillion dollar film production DVD, and the common knowledge that the artists are not the ones benefiting from record sales. (Kusek & Leonhard 2005, 81, 84, 103, 124, 148; Mason 2008, 158.) As FIGURE 7 demonstrates, the entertainment economy in the UK is still growing, but consumers are reprioritizing where they put their money (Guardian 2009). Add to that the record industry’s highly profitable yet ethically questionable replacement cycles, which rely on forcing people to purchase their whole record collection again, and again, and again – Vinyl to 8-track tape, 8-track to Cassette, Cassette to CD, and CD to MP3. The problem with that last conversion is that personal computers are able to greatly assist consumers in accomplishing it sans the help of the record labels, and the feeling is that it should have been this way from the beginning. (Kusek & Leonhard 2005, 81, 84, 103, 124, 148; Mason 2008, 158.)

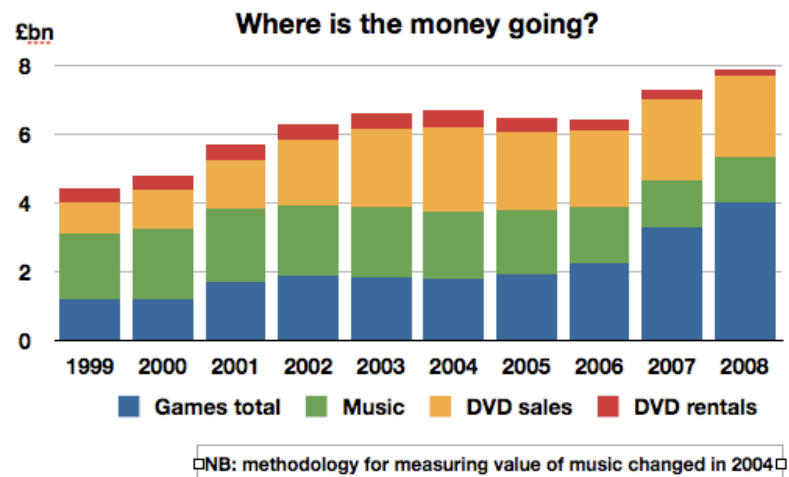


FIGURE 7. Where is the money going? (Guardian 2009)

All of these heartfelt injustices have added up in the consumer's mind, and any loyalty music fans had toward the corporate thrones that the four major record labels constitute, has been put to the test. Kusek & Leonhard (2005) write that today's consumers crave to be activated and respected. They need to be allowed and encouraged to explore the depths of what the digital revolution renders possible. (Kusek & Leonhard 2005, 99.) They demand wider variety in music and attest the record industry's feeble attempts to stick to the business models of yesterday. They have experienced the extraordinary capacities and efficiencies of music let loose, and intend to use their new-found power to make sure no laws or bureaucrats stand in the way of such a magnificent means of experiencing culture. (Lessig 2004, 199; Kusek & Leonhard 2005, 86; Mason 2008, 59; Anderson 2009, 32) So this means that musicians are being hung out to dry while consumers loot what they can, until one day no one will make good music anymore, right? Wrong...

3.4 The Musician's Needs

In an interview with Steve Gordon, music business visionary Jim Griffin explains his view on how music benefits from being monetized:

Music has to walk this very tight rope strung between these two notions that we should equalize access, and that it should be relatively easy to find these things for most anyone, yet we do need to monetize them. And, I think most people could agree that for the most part, the less you monetize them, the less there will be of them. – – It’s our obligation, our responsibility, our opportunity, to monetize the anarchy of art as best we can. (Gordon 2008, 127.)

The RIAA reinforces this argument by announcing a correlation between a decrease in registered musicians and the ever plunging record sales (IFPI 2010a; RIAA 2010a). Sheryl Crow, one of the more politically outspoken pop artists, is in tune with the changes in consumer habits and expressed her somber feelings about the lack of respect for the creative work of musicians in a 2008 interview with the New York Times (New York Times 2008). But seeing as the ailments of the record industry are coinciding with unprecedented growth in both music production and time spent enjoying music, Anderson (2010, 223) finds these arguments silly, and feels that Crow should be content with her successful career. “Crow is being listened to by the most distracted generation in history, with the most choice and the most competition for their time. There are worse problems than getting attention” (Anderson 2010, 223).

In 2009, a team effort by Harvard Business School professor Felix Oberholzer-Gee and Kansas School of Business professor Koleman Strumpf debunked the theory that file-sharing lowered the incentive for artists to create, rendering the assumed correlation in the RIAA statistics laughable (Oberholzer-Gee & Strumpf 2009). Boldrin & Levine (2008) further accentuate this point by writing that “[intellectual property] does not increase either innovation or creation” (Boldrin & Levine 2008, 7).

Even with more and more people finding ways to express themselves in music, it is important to note that a growing number of musicians are content with not getting paid for their art. Sure, it’s great that music is becoming the choice of expression for many creative people, but *everyone* can’t make a living off it, nor do they expect to. (Anderson 2010, 29.) Mason (2008) sees this as a humility that often accompanies do-it-yourself booms in production. “Punk made the idea of putting purpose before profit seem cool to an entire generation” (Mason 2008, 31), and there is certainly some of that in the air this time around, too.

Similar to the case of ‘The Consumer’s Needs’, the musicians are experiencing a type of empowerment brought on by the digital revolution, and for the first time in decades many artists are publicly criticizing the major labels. In a speech in 2000, singer and guitarist Courtney Love explained how the support of the major labels was crucial in launching a career of any kind of professional caliber – and the labels knew it. It had turned into a charade where artists, promoters, radio stations and retailers were all slaves toiling away at the ‘record company plantation’. (Mason 2008, 154) She said, “[r]ecord companies figured out that it’s a lot more profitable to control the distribution system than it is to nurture artists” (Mason 2008, 154).

The digital revolution and the internet have democratized music production and distribution—two of the three pillars the major labels base their business on. The last, marketing, has also been partially democratized, but the assets and connections of the major labels still play an important role in this phase of releasing an album. Regardless, the monopoly that has once forced musicians into indentured servitude in exchange for a half-hearted promise of success is beginning to look more and more like a mirage. (Kusek & Leonhard 2005, 52–53, 108; Music Ally 2008, 4.) Chris Evans, founder of Internet Freedom, has been quoted saying:

The recording industry is attempting to take the moral high ground by making out that it represents the true interests of artists. The reality is that for decades they have exploited artists and fixed prices. Instead of embracing new technology and new models of distribution, the recording industry has finally woken up to a world to which it no longer belongs. (Kusek & Leonhard 2005, 148.)

With record sales reaching new lows and the bitter sting of years of oppressive tactics from the record industry still fresh in the minds of musicians, one might think there was little hope left. Kusek and Leonhard (2005, 20) write that, while the recording industry is hurting, the music industry has never been better. Musicians are starting to rely more on the ever-growing income from concerts, merchandise, and publishing and licensing deals. After all, less than ten percent of record deals ever manage to produce a single cent of income for the artist, and now the smart musician can have money pouring in from tons of directions without selling their soul to the CD obsessed moguls. (Kusek & Leonhard 2005, 24, 53, 108; Anderson 2010, 155; Music Ally 2010b, 4; TorrentFreak 2010a.) Peter Gabriel, Prince, Todd Rundgren and Aimee Mann were among the first to

leave the labels and take matters into their own hands. Since then, countless superstars and smaller artists alike have followed in their tracks. (Kusek & Leonhard 2005, 109.)

Some artists still refer to the monopoly run years as the ‘good old days’. A lot of money was made, no doubt, and some came to success easier than others. They may claim that making it today requires a great deal of entrepreneurial skills and focusing more on non-musical aspects, thus depriving the musician of precious time to devote to her art. Kusek & Leonhard (2005) are skeptic to this reasoning, and counter it with this concise, yet insightful, comment: “The real truth is that you need to do it yourself – because you always had to, anyway” (Kusek & Leonhard 2005, 54).

4. SHIFTING BUSINESS STRUCTURES: THE COLOSSAL EFFECTS

4.1 Copyright

4.1.1 The Original Intent of the Right to Copy

Ever since its growth into the largest economy in the world, The United States has often provided an example of conduct for other countries to use in countless areas. While copyright reigns slightly different in each country, the main principles are relatively universal. In this section I will use the American copyright law system and its history as the main reference point due to recent debates over copyright having been fought the strongest in the United States.

In 18th century England the ‘copy-right’ authorized exclusive permission to print a book. The aim of this right was to provide an incentive to produce and materialize culture in the form of books. However, it was quite obvious that this ownership of the intellectual property in the book could not last forever considering that that would have been a monopoly and brutally hurt the second purpose of the law: to spread culture. When the limited period had ended, a healthy competition among the publishers could give a second life to the work, thus assuring long life to culture worth preserving. Who knows if Shakespeare’s work would have survived without the public domain allowing it to spread freely over the course of centuries? The bottom line is that this ‘copy-right’ was created for the pure purpose of benefiting society. The length of the limited period of time was meant to be a perfect balance between the restrictive right that sparked the commercial market, and the unrestricted freedom which further enhanced the spread of quality. (Lessig 2004, 29, 87-89.) Therefore, “[t]he term should be as long as necessary to give incentives to create, but no longer” (Lessig 2004, 292). The British Parliament concluded that fourteen years, with an extension option for an additional fourteen years, if the author was still alive, was the correct threshold to maximally benefit society (Lessig 2004, 86).

Today we take for granted that any copyright eligible work an individual produces shall be automatically protected towards any and all uses for many generations (Lessig 2004, 137-139). How did this simple and narrow law suddenly expand so rapidly into such a

powerful fundamental right? Lessig (2004) and Anderson (2009) explain that the reason lies in a series of poor decisions made by law makers, heavily lobbied for by wealthy copyright owners such as the Record Industry Association of America (RIAA), the Motion Picture Association of America (MPAA), as well as private beneficiaries such as the Disney estate (Lessig 2005, 187; Anderson 2009, 74).

These were the words of MPAA president, Jack Valenti, when addressing US Congress in 1982:

No matter the lengthy arguments made, no matter the charges and the counter-charges, no matter the tumult and the shouting, reasonable men and women will keep returning to the fundamental issue, the central theme which animates this entire debate: *Creative property owners must be accorded the same rights and protection resident in all other property owners in the nation.* That is the issue. That is the question. And that is the rostrum on which this entire hearing and the debates to follow must rest. (Lessig 2004, 117.)

It sounds like an airtight argument, and the now late Jack Valenti specialized in painting these seemingly sensible and rational black and white pictures of the creative property debate which were key in approving decisions like the Copyright Term Extension Act of 1999 (also fittingly referred to as the Mickey Mouse Protection Act), successfully causing a twenty year void in the public domain. This confusion between physical property and intellectual property could lead to a monopoly over creativity – the very forces copyright laws were meant to stop. (Lessig 2004, 117-127.)

The original intent of the copyright law is long forgotten and these powerful copyright owners have redefined its purpose to protect themselves instead of society. With the completely unfounded argument that intellectual property should be protected just like any property, the content industry and rich copyright holders have managed to prolong their terms by more than one year for every year that passes – resulting in an essentially unlimited right. United States copyright now protects a ninety-five year exclusive right for corporate authors, and natural authors receive a term extending seventy years after their death. Not only that, but the entire registration process has been removed from the equation, and this control also extends onto all derivative works. (Lessig 2004, 137-139, 292.) Contrast this to the patent system, which still expires after seventeen years. Lessig (2004) puts this into perspective by explaining how, in twenty years after the Copyright

Extension Act, “while one million patents will pass into the public domain, zero copyrights will pass into the public domain” (Lessig 2004, 135).

It is important to note that the decision to remove the registration process was made before the digital revolution had shown us viable options for better organizing the process. The tedious and uncertain process of registering a copyrighted work led to an abandonment of all registration procedures at the Berne Convention in Berlin, 1908. This compromise caused a tragic, stifling effect on the development of non-commercial culture. Suddenly everyone took for granted that *everything* was off limits. Around 98 percent of art is created without commercial intent. Before the decision in Berlin this art was free to use, be inspired by and even make money off. Sure, the original author did not necessarily get a royalty from it, but that was never his intention in the first place. Now, with the internet, creators could go and register their work with the click of a mouse, and yet 98 percent of everything produced would fall back into the unregistered category. The immense handicap to the public domain and creative freedom in general is an unnecessary side-effect of the decision made in Berlin. (Lessig 2004, 137, 250, 253, 288.)

4.1.2 Applying Copyright Laws to the Internet

Seen from the perspective of the fundamental copyright law, the digital revolution has made every individual a publisher with his own printing press. With computers carrying out in a simple [ctrl + c] [ctrl + v] command what was once a complicated task accomplished only by enormous and costly machines, United States Congress has chosen to interpret copyright laws as applying to computers and the internet as if each computer were any other commercial press entity. (Lessig 2004, 3, 284.) Lessig (2004) writes that this distinction is not one that follows the common sense that is crucial when adapting laws to new technologies for the good of society. In this case, common sense has been affected by our misinterpretation of the concept of copyright and therefore the general opinion is, in fact, one that favors the wellbeing of a monopoly over the wellbeing of our society. (Lessig 2004, 3, 284.)

The recording industry was among the first that had to assess the situation the internet implicated for their business and determine what their role was going to be. They

decided upon unifying a front of lawyers to defend how the copyright laws applied to the internet, protecting their business model at all cost. Besides playing an important role in the extension of copyright terms, they were adamant about preserving the flourishing business they had once run, and have taken extensive legal action against innovators applying the power of the internet to music. The story of MP3.com demonstrates this well. (Lessig 2004, 190-191.)

MP3.com was a website that allowed you online access to all of the music you could prove that you owned. The website would scan your purchased CDs and then allow you access to those same songs on their servers, from any web browser. It was, thus, a service meant to give consumers a higher degree of accessibility and a new way to organize the music they had already purchased. In order to start out, MP3.com bought around fifty thousand CDs and uploaded the songs to their servers, so that once a user had proven he owned one of these CDs, he could access it immediately. Although MP3.com had purchased the music once, and the website users had purchased the music once, the RIAA was able to sue the company for not seeking the correct license required to perform the act of copying the fifty thousand CDs, regardless of whether the copies were going to commercial sale in the form of physical records or from one batch of digital bits to another batch of digital bits on their personal servers. They had paid for the music, the servers were protected and nothing was public, but the simple click of copying the albums to the other computer could be interpreted as a felony by applying the outdated copyright law to this new technology. The labels persevered and the first internet threat to their business had been defeated. But that wasn't enough. Instead, Universal bought the remains of MP3.com for a cheap penny, only to be able to sue both the law agency who had ensured MP3.com of the legality of their concept, and the Venture Capital firm who had invested in the project. The tactic was to use legal intimidation to discourage all lawyers and venture capital firms from getting involved with music startups. This attack on innovation led to a widespread apprehensiveness toward approaching the recording industry with new creative solutions. (Lessig 2004, 190-191, 284.)

In a more recent campaign, the RIAA launched their infamous broad-based end user litigation program with the sole purpose of suing any and all individual file-sharers they were able to detect through spying on peer-to-peer file-sharing networks. The hope of the litigation program was to spread awareness that file-sharing is copyright

infringement no matter how you spin it. They sued teenagers, college students, single moms and even senior citizens who had no idea how to use a computer. Using fees as high as \$150,000 per infringed song, they managed to settle almost every case out of court taking all of the defendant's personal savings with them. While currently having shut down the program, the RIAA still describes it as a success. (Lessig 2004 48-52, 199, 200; RIAA 2010b.) But music fans and consumers were not impressed.

In the legal system, "the law adjusts to the technologies of the time" (Lessig 2004, 3), but we are not seeing that here. Lessig (2004) writes about a great example of a case where common sense prevailed when a new technology clashed with the law. The year was 1945 when the Causby family claimed that the military aircrafts flying over the land of their farm constituted an act of trespassing, and so, sued the government. Until then, the law described the parameters of property to not only cover the surface of the land owned, but to extend vertically all the way down to the core of the earth and, respectively, up to the heavens. The event of airplanes trespassing on this space had not been calculated into the law, simply because the technology of flight had not existed at the time. But this is to be expected of an ever changing world. (Lessig 2004, 1-3.) The judge of the case, Justice Douglas, realized that the law needed to be adjusted and summarized this concisely with the words: "Common sense revolts the idea" (Wiecek 2006, 372). Similarly, the internet is a completely different environment than that for which the copyright laws were intended.

Today, the creative content industry has become so protective of their lengthy copyright periods that they have managed to convince the government to take action against a revolutionary technology which could benefit society far more than rescuing a crippled business model ever could. When this happens we are neglecting the essential purpose of copyright and are being lured into a stagnant state of innovation. Kodak once had a huge business within camera film and related products, but the consumer electronics industry would be very different now, had we shown the same mercy and let them pass laws against digital cameras in order to protect their business model from superior technologies. What if roads had been banned to protect the railroad business? (Lessig 2004, 117-127.) Common sense seems to be so obvious in many other cases, why then do we have this Achilles' heel for the intellectual property industry? One thing is for sure, the internet will always provide outlets for circumventing copyright restrictions, and a growing crowd of people are demonstrating their discontent by doing just that.

“Think about all the creative possibilities that digital technologies enable; now imagine pouring molasses into the machines. That’s what this general requirement of permission does to the creative process. Smothers it” (Lessig 2004, 295). This puts us all in a dilemma and a type of rebellion should not be unexpected. Justifying such action is however a touchy subject. Before we further delve into the significance of the public domain it is important to fully comprehend that “[a] free culture is not a culture without property, just as a free market is not a market in which everything is free” (Lessig 2004, 14).

4.1.3 The Public Domain

“To know which side to take in this war, most think that we need only decide whether we’re for property or against it” (Lessig 2004, 10). This is a dire misconception. Whether the current term length has the maximum benefit for society, or the Pirate Party’s proposal for only 5 years is a better guess, we must first understand the profound beauty of the public domain concept. The public domain can be about much more than only spreading culture. Clear copyright laws can turn the public domain into a haven for artists to be inspired by and develop the work of others. A song can often be remade many times by different artists before becoming a hit song. The stories Walt Disney used to build his empire on were ironically enough based on content in the public domain. The freedom of the public domain is vital to democratizing knowledge of our culture and history. Imagine someone controlling and commercializing use of the bible or any other historic writing. Great inventions such as the internet and the World Wide Web can spring out of technologies which have been voluntarily deployed into the public domain. Old books and films can be freely digitized and archived as remnants of our culture. It is not that these things cannot be done while they are still controlled by copyright laws, but the tedious work needed to clear rights has a huge discouraging effect. Also, critical or independent usage is seldom, if ever, granted. (Lessig 2004, 10, 23, 24, 225; Kusek & Leonhard 2005, 46, 262; The Pirate Party 2010.) Imagine if I wasn’t allowed to reference or criticize other authors in this thesis.

When commenting on the continuous extending of copyright terms the New York Times wrote:

In effect, the Supreme Court's decision makes it likely that we are seeing the beginning of the end of public domain and the birth of copyright perpetuity. The public domain has been a grand experiment, one that should not be allowed to die. The ability to draw freely on the entire creative output of humanity is one of the reasons we live in a time of such fruitful creative ferment. (New York Times 2003.)

Digital technology could enable the most comprehensive collection of human culture ever seen – a feat more miraculous than the Library of Alexandria. But copyright gets in the way and is allowing decades of books to rot and films to disintegrate. Simply digitizing them before clearing the various rights is a felony. (Lessig 2004, 114, 221-224.)

The internet is still young, yet poor decisions on how to adapt copyright laws to its open nature have hurt everyone's interests. Even representatives from corporate Disney and Apple have encouraged the recording industry to prevail by innovating instead of taking legal action. (Lessig 2004, 181; Mason 2008, 59.) The empowering and free nature of the internet is a fresh breath of air to what has been an environment rapidly moving towards more and more control. It is time that society respected itself enough to demand something in return. Thomas Jefferson had the right idea: "He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening mine" (Wired 1994, 1).

4.2 Piracy

4.2.1 The Origins of Piracy

Piracy is in our blood. It is a tradition that has followed us ever since laws were made against it. Mason (2008, 67) writes that piracy is "how inefficient systems are replaced." Anderson (2010, 229) goes on to say that piracy "is more like a natural force than a social behavior that can be trained or legislated away." Both of these seemingly controversial statements have a lot of facts to back them up. Huge copyright controlled industries like radio, records, film, and cable TV, have all either descended from, or vastly gained from piracy. Radio experienced a huge transformation when pirates took broadcasting into their own hands and demonstrated the real appeal of radio – music. Edison was first branded a pirate for inventing the phonographic record and 'stealing

musicians' work'. It's no coincidence that the film production capital of the western world ended up in California, in fact, film producers fled to the lawless west coast to circumvent Edison's licensing fee. Cable TV met a fierce legal battle when refusing to pay for the content they stored and rebroadcast. (Lessig 2004, 61; Mason 2008 36–37.)

Piracy was the window into something new, better and more efficient. The generations of the time understood that and were eventually willing to compromise to the wishes of the pirates and the needs of technology, in order to achieve something new and better. This is an understanding that our generation lacks. Piracy acts out against deficiencies in a business model. In the case of music file-sharing the consumers are rebelling against fixed prices in a near-zero marginal costs production and distribution chain, the lack of accessibility which the internet could easily actualize, and the overall superior, intolerant attitude of the major labels. (Lessig 2004, 61; Mason 2008, 49; Anderson 2010, 230.) Pricing has always been more of an art than a science. A lesson everyone selling digital products soon will learn, is that piracy takes this creative burden off your shoulders and reveals to you what the reasonable price for your product is. For many, it may be disappointing to find that the reasonable price in the digital environment, as Jarvis (2009, 80) concludes, most often is: 'free'.

4.2.2 Piracy Today

The word piracy can be used to describe a great deal of things. Due to the growth of the internet, the most common use of the word today refers to copyright infringement and the theft of intellectual property. Lessig's (2004) interpretation of the common understanding of the word is, "using value from someone else's creative property without permission from that creator" (Lessig 2004, 61). It is important to note the difference between this type of piracy and e.g. that of the Somali sea pirates. "[S]tealing a physical thing deprives someone else of it and costs somebody real money – not so for a digital file" (Anderson 2010, 142). Creative property piracy can be broken down into two main categories: piracy for profit, and illegal file-sharing. Throughout this section I will concentrate mostly on the latter, as it is much more relevant to my topic.

Piracy for profit, as its name implies, is the act of monetizing piracy – mostly pertaining to selling illegally produced physical copies of copyright protected content. There are

some examples of websites and online services providing pirated digital content on the internet against a charge. Any case which relies upon making a profit off pirated content belongs to the piracy for profit category.

Illegal file-sharing is the act of making copyrighted digital files on your computer available to a network of users and/or downloading copyrighted digital files from such a network. The most popular networks will use an application or website to assist in finding the files, which you search for, but the actual copyrighted files are never hosted on the website's or application's servers, thus leading to a certain degree of legal unaccountability.

4.2.3 File-Sharing Networks and Statistics

File-sharing has undergone a huge transformation over the past decade. The technology has adapted to court rulings and the needs of its users, becoming ever more agile and powerful. From ripping and burning a CD for a friend, file-sharing has travelled through the primitive FTP sites, newsgroups, and failed P2P programs like Napster, to finally arrive at a stronger, more resistant strain of file-sharing technology. Limewire, running on the Gnutella network, and uTorrent, running on the BitTorrent protocol, represent the elite of modern P2P applications. Limewire and uTorrent distance themselves from the illegal activity their software is being used for by pointing to the various legal tasks it can accomplish. FIGURE 8 shows the most used P2P programs and their respective share of the market as of 2008. Both applications have grown in popularity due to their speed, ease of use and ability to handle huge file sizes. Although Limewire has a bigger market share than uTorrent, uTorrent traffic greatly outdoes that of Limewire's, by handling more and larger files more efficiently. (Wang 2004, 135-144; Gordon 2008, 320, TorrentFreak 2008; Zeropa 2009; BitTorrent 2010; Limewire 2010 .)

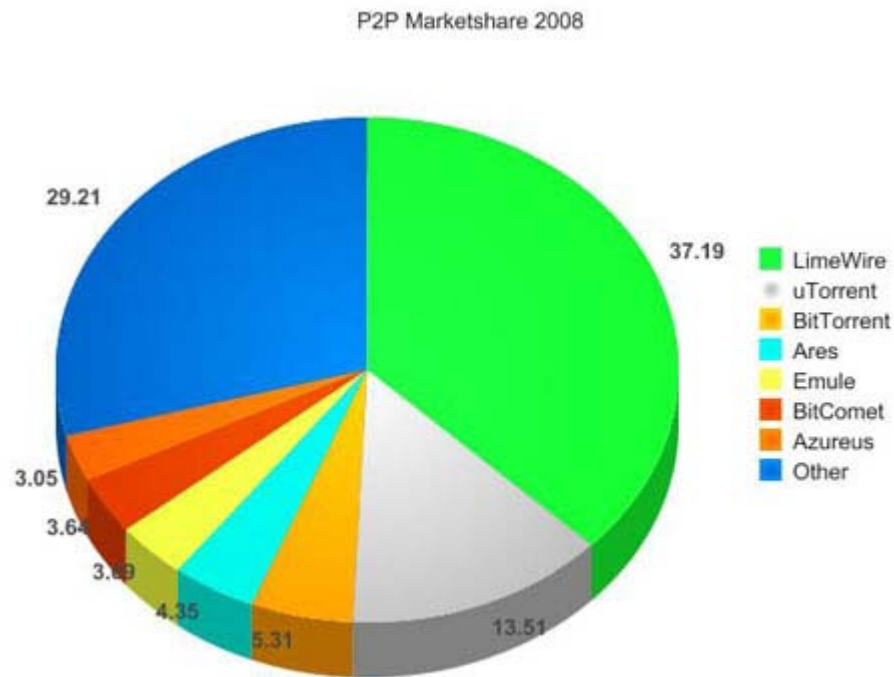


FIGURE 8. P2P Market Share in 2008 (TorrentFreak 2008)

It is hard to appropriately track the massiveness of file-sharing due to its decentralized structure and the countless applications and websites that enable it. There are, however, some indicators we can use to get a ball park figure of its influence. Kusek & Leonhard (2005, 101) write about a poll conducted by Harris Interactive in 2004 where American teenagers with internet access revealed that they infringe copyright despite knowing that they are breaking the law – 56 percent of them downloaded music on a regular basis. Kusek & Leonhard (2005, 43) also write that applications enabling file-sharing have been downloaded over 500 million times. Statistics from online media experts Digital Music News, Big Champagne and PC Pitstop uncovered that 17.8 percent of all computers worldwide had some type of file-sharing program installed, in September 2007 (MP3newswire 2008). Gordon (2008, 168) goes on to write that the number has risen to at least 20 percent for the U.S., effectively labeling one fifth of Americans criminals according to current U.S. copyright law. BayTSP, a firm dedicated to tracking file-sharing, reports in their ‘online trends & insights’ for 2008, that the United States might finally have reached a plateau for its file-sharing growth. Copyright infringement cases in France, Spain and Italy, however, were growing faster than ever. (Zeropaïd 2009.)

4.2.4 The Detrimental Effects

In his 2007 report, Stephen E. Siwek (2007) announces some astounding calculations of the real cost of piracy to the U.S economy. This IPI (Institute for Policy Innovation) supported study concludes that piracy robs the U.S. economy of over 58 billion dollars per year. That impressive number was reached through adding the estimates of not only revenue losses, but also hypothetical jobs and taxes lost. Keep in mind that this is the total for losses in not only the recorded music industry, but also the motion picture, software publishing and video game industries. (Siwek 2007, 15-17.) The RIAA has, not surprisingly, chosen to reference only this study on their website, in their short explanation of the detrimental effects piracy has on the economy. (RIAA 2010c)

One credible analysis by the Institute for Policy Innovation concludes that global music piracy causes \$12.5 billion of economic losses every year, 71,060 U.S. jobs lost, a loss of \$2.7 billion in workers' earnings, and a loss of \$422 million in tax revenues, \$291 million in personal income tax and \$131 million in lost corporate income and production taxes. (RIAA 2010c.)

At the other end of the table you have the 2004 analysis by Oberholzer & Strumpf concluding that “[d]ownloads have an effect on [CD] sales which is statistically indistinguishable from zero” (Oberholzer & Strumpf 2004, 1). What could possibly cause the outcome of two ‘reliable’ analyses like these to differ so drastically? It turns out that there are quite a few variables to take into consideration when calculating the effects of piracy, and each study interprets them in their own way.

It’s quite easy to determine that every CD downloaded does not equal a lost sale, since illegal downloads have long ago surpassed legal sales in pure quantity, yet CD sales have a long way to go before they hit zero (Lessig 2004, 71). Then there is the intangible promotional value file-sharing networks offer their victims, and how this transforms into monetary benefits (Gordon 2008, 278; Mason 2008, 157). Add to this the other countless variables eating away at record sales, like pricing, competition from other media formats and more, as mentioned above in the ‘3.1.3 The Consumer’s Needs’ section. There are simply too many uncertain factors in play to accurately pin the declining sales on any single one of them (Lessig 2004, 70–71).

In the IFPI's (International Federation of the Phonographic Industry) 2010 release of their Digital Music Report, IFPI Chairman John Kennedy discredits the Oberholzer & Strump 2004 study by writing that "it has been frequently discredited" (IFPI 2010b, 18). While this type of blunt discrediting only stirs more questions, Kennedy does succeed with his argument by listing a dozen studies that better prove his point of file-sharing being connected to the steady decline in record sales (IFPI 2010b, 18, 19).

File-sharing has grown impressively since 2004, and regardless of whether the 2004 Oberholzer & Strump study should be discredited or not, nowadays it is more or less an accepted fact that file-sharing does affect record sales negatively to some extent. But when you understand the purpose of copyright the question is no longer whether or not file-sharing brings a negative effect on sales, but how it affects the incentive to create, produce and distribute culture. Five years later, Oberholzer-Gee & Strump (2009) attempt to answer this much more relevant question, instead of rampantly analyzing sales like the rest of the business. The conclusion was simple: between 2002 and 2007, content creation, production and distribution grew alongside the growth of file-sharing. (Oberholzer-Gee & Strump 2009, 26.)

4.2.5 Retaliation – the RIAA's Attempts to Conquer Piracy

So how is the squad of RIAA lawyers handling file-sharing? As the RIAA (2010b) website commends, the defunct end user litigation program succeeded in spreading knowledge of the fact that file-sharing indeed is illegal. But ignorance of the law, it turns out, was not behind the rapid growth of file-sharing. A report driven by the European Union's 2007 Safer Internet for Children affirmed the suspicions that awareness of the law has not achieved any significant reluctance to download music. Similar results were attained from a study in the UK conducted by Harris Research in 2009. (IFPI Digital Music Report 2010, 30.)

Another consequence the user litigation program had on file-sharing habits was to stigmatize the behavior and push it further underground and into darknets – closed, tight-knit communities with security as their number one priority (Kusek & Leonhard 2005, 146; Gordon 2008, 179). But none of this seems to bother the RIAA. Despite even conjuring greater monetary losses than profits from the extensive legal campaigns,

successfully lining the pockets of lawyers with copyright holders' money, the RIAA defiantly announces, 'mission accomplished'. (TorrentFreak 2010b.)

In the past two years the RIAA have continued to use the law to force Internet Service Providers (ISP) to reveal the identities and residencies of those subscribing to IP addresses which have been spotted on P2P networks. This time around, the infringers will receive a warning rather than a court order. The scope of these warnings is, however, much larger without the hassle of individual legal formalities, and has extended their reach to over two million infringers during the past two years. Especially college campuses have been susceptible to the warnings, many investing several hundreds of thousands of dollars each in anti file-sharing measures. (TorrentFreak 2010c.)

But why not go after the companies providing P2P software, or the websites offering downloads, instead of persecuting the users? While such tactics have worked for the short-term with MP3.com, Napster, The Pirate Bay, Isohunt, and many more huge networks, the industry has learned firsthand that file-sharing services function like hydras. Where one head is severed two new ones grow in its place. And the newer applications, like uTorrent, are designed in a specific manner so as to circumvent the current law. (Gordon 2008, 178; National Public Radio 2009; TorrentFreak 2009.) The lawsuits against Limewire do, however, prove that the RIAA are a long way from giving up. And in May 2010, they were finally, after lawsuits and countersuits, able to convince a New York District judge that the Lime Group, the company responsible for Limewire, is liable for the copyright infringements perpetrated by its users. (CNET 2010.)

Anyone raised in the capitalist Western world can acknowledge the logic behind the RIAA pursuing legal action against file-sharing and lobbying for strengthened copyright control. Their entire business is quite rapidly diminishing into a fraction of the size it used to be – they would simply not be doing their share-holders justice if they let the whole business wither away without a fight. What is not understandable is that we, the democracy, stand by and let them turn such a large portion of us into blatant criminals. (Lessig 2004, 204; Anderson 2009, 32.)

As Lessig (2004) puts it, “[c]an common sense recognize the absurdity in a world where the maximum fine from downloading a song off the internet is more than the fine for a doctor’s negligently butchering a patient?” (Lessig 2004, 185). Or that, “when I take a CD from Tower Records, the maximum fine that might be imposed on me, under California law, at least, is \$1,000. According to the RIAA, by contrast, if I download a ten-song CD, I’m liable for \$1,500,000 in damages” (Lessig 2004, 180). Imagine the Orwellian scenarios that suddenly could play out when a fifth of all citizens can be swiftly labeled as criminals – thus, automatically, and even unknowingly, forfeiting many of their basic rights.

A reaction countering the efforts of rights holder organizations is the Pirate Party. These are groups of activists taking a political stance against what they consider abusive and creativity thwarting methods, practiced by the likes of the RIAA and MPAA. The first Pirate Party was registered in 2006 in Sweden, the home of The Pirate Bay. This started a movement quickly stoking like-minded people around the world to rise and spread the word in their respective countries. Finally, in 2010, the Pirate Party International was born and now acts as an international level representative for around half of the forty-six regional Pirate Parties worldwide. (The Inquirer 2006, PPInternational 2010a, PressEurop 2010.) The main and universal points of the various Pirate Party manifestos can be summed up as: a shortened term of copyright protection, and no copyright restrictions on any forms of non-profit use, including derivative works, copying, sharing, uploading, etc. (The Pirate Party UK 2010; PPInternational 2010b.)

4.2.6 Crying Wolf

The entertainment industry has a long history of crying wolf when learning of new technologies. The live music industry had ‘come to an end’ when Edison invented the phonographic record – who needs to hire local musicians when you can store the cream of the crop in your closet and bring them out any time, any day, for a one-time paltry sum? Later, they realized a royalty collection system could be put in place and a huge industry was born on a completely new revenue stream. The same goes for the cassette and VHS technology ‘crisis’ in the 1980’s. Both recording- and motion picture industries scrambled like never before until finally realizing the extremely lucrative possibilities which these technologies offered. (Mason 2008, 37, 56.) Jack Valenti of the

MPAA even went as far as saying “[t]he VCR is to the American film producer and the American public as the Boston Strangler is to a woman alone”, at the 1982 Congressional hearing on the VCR (Ars Technica 2009).

The major label’s theory about cassette bootlegging accounting for a ‘devastating’ slump in record sales was later disregarded and pinned on the “stagnation in musical innovation at the major labels” (Lessig 2004, 70), by a Cap Gemini Ernst & Young study (Lessig 2004, 70–71). Keith Armstrong, co-founder of development label Kitchenware Records, recalls a campaign that ran in the early 1980’s called ‘Home taping is killing music’. Back then, he and his label recognized that this was far from the truth, and their version of the slogan was ‘Home taping broadens minds’. But when confronted with illegal file-sharing, Armstrong is unable to predict any chances of a happy ending. He finds the danger of the two cases incomparable. (IFPI Digital Music Report 2010, 23.) Matt Mason (2008) begs to differ, and summarizes the exaggerated fear and despair of the recording industry in the face of file-sharing as simply a “case of history repeating itself” (Mason 2008, 151).

4.2.7 Coping – the Music Industry Swallows its Pride?

On October 7, 2008, a groundbreaking music streaming service was launched out of Sweden backed by licensing deals with all of the major labels and some key independent label aggregators. Spotify has come to represent the socialist take on music to most industry professionals, and has been criticized of being utopistic. Besides offering an unparalleled consumer experience, Spotify is free. (Spotify Blog 2008; Techcrunch 2010.) This is an unstoppable combination – not even piracy can compete with convenient and free.

Spotify combines two of the business models explained in Anderson’s (2010) book *Free*: ‘freemium’, where the initial service is free, but higher quality experiences are offered in return for monetary compensation, and the ‘three-party market’, basically covering all aspects of advertisement funded schemes. (Anderson 2010, 24-27.) While growing rapidly in the seven European countries it has launched in, Spotify has had a hard time convincing record labels in other countries to believe in its concept based on ‘free’. Negotiations have been especially tough in the U.S., and there are grounds to be

skeptical of Spotify founder Daniel Ek's promise of a 2010 U.S launch. A new, but poorly coded, competing service, Rdio, took hold of the opportunity and has already begun the U.S. invasion. How was a junior league startup able to woo the major labels into a licensing deal when Spotify was not? Rdio did the American thing and deserted the idea of 'free'. (TechCrunch 2010.) Time will tell if anything less than free can kill piracy.

David Geffen, of Geffen Records, is quoted as saying “[w]hen we get the price for that service down to \$5 or \$6 a month then we’ve destroyed the motive for piracy without needing to worry about its mechanisms” (Gordon 2008, 136). Spotify’s ‘free’ is substantially less than five or six dollars, but remember, it doesn’t include downloads. Eric Garland, Chief Executive of online media measurement firm Big Champagne, is on the same track saying, “if you make it so easy to buy, that it’s actually, passively, easier to buy than it is to steal, then what you’ll find is, most people will be your customers all of the time” (Gordon 2008, 154). Describing the way PC game developer, Cliff Harris, surrendered to the suggestions of file-sharers to improve his business and make more money, Anderson (2010, 72) writes, “[Harris] looked into the mind of the pirate and saw a paying customer looking for a reason to come out.”

As predicted, the ease of use that some of these streaming services offer (especially the free ones: Spotify, Youtube, MySpaceMusic), seem to have succeeded in taking a bite out of file-sharing – a feat no one else has managed to pull off thus far. The UK, which belongs to Spotify’s approved country list, witnessed more than an annual thirty percent drop in teens admitting to regular file-sharing, reveals a survey conducted by Brindley and The Leading Question, in 2009. Convenience was the reason for this shift and not moral guilt, as ‘lawyer-happy’ labels may choose to spin the statistics. (The Christian Science Monitor 2009.)

Cisco’s Visual Networking Index has calculated a forecast of the development in internet traffic market share between 2009 and 2014. Based purely on the amounts of data transferred, FIGURE 9 does not portray the amount of time or interest spent in the categories, it does, however, signal the rise of a powerful trend. (Cisco 2010; TorrentFreak 2010d.) While file-sharing will continue to grow, streaming technologies will grow faster (Cisco 2010). Speedy internet connections allow for a seamless streaming experience which will always beat mucking around with files.

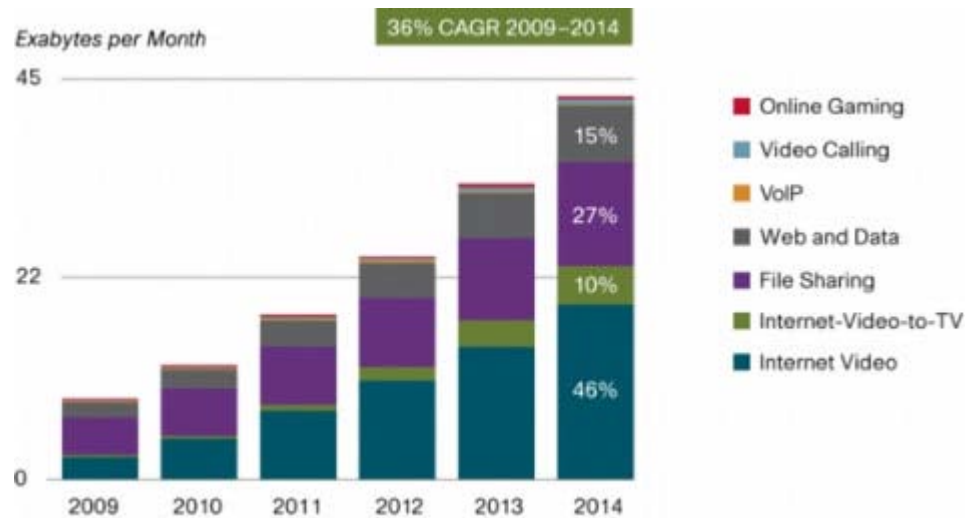


FIGURE 9. Internet Traffic Growth Prediction 2009–2014 (TorrentFreak 2010d)

Steve Gordon (2008), author of *The Future of the Music Business*, suggests an entirely different approach. Running with the thought that ‘free’ is the industry’s savior he proposes applying a levy, or tax, on ISPs as well as all entertainment technology like MP3 players, CD burners and blank optical disks. The money would be gathered into a pool and then dispersed of to copyright owners according to statistics collected off file-sharing networks (effectively legalizing file-sharing) and other major channels. Some countries already apply similar taxes to digital electronics, mainly blank CDs, but so far never on ISPs. (Gordon 2008, 125, 157, 184.)

”To many consumers ‘free music’ does not seem free at all – it does not seem free because they already spent a great deal of money on the technology that made getting the music possible” (Gordon 2008, 158). Computers, high speed internet connections and expensive iPods are all marketed and sold with an undertone of copyright infringement. The digital electronics producers are the hidden profiteers, gloating at the predicament the record industry has found itself in. (Gordon 2008, 157.) Antony Bruno, of *Billboard Magazine*, agrees with the logic in Gordon’s proposal, saying that, “[t]hat makes the most sense: monetizing behavior, not trying to control it” (Gordon 2008, 142).

Shen Lihui, who runs the Chinese record label Modern Sky, predicts Western world countries to evolve like Third World countries were forced to when the bootlegging phenomena first came around. Piracy for profit, in the form of streets filled with CD vendors, has taken over huge developing countries like China, Brazil and India. Only

around five percent of records bought in China are legitimate copies, and without effective legal enforcement against this, record labels have been left to fend for themselves. Shen Lihui now runs more of a talent agency than a record label in its traditional sense. The company gets a piece of the action by brokering the artist's product endorsements, personal appearances, commercials, radio spots and sponsors for concerts. (Anderson 2010, 199–200.)

MicroMu, a Beijing based label, is also on to something new with their creative ways of financing and producing music. Recording new material may go hand in hand with a sponsored live show, an exclusive concert, or may end up as an interrupted process in various cheap studio spaces around the city. The important thing is to keep a continuous flow of content to the MicroMu blog, and to keep it free. The label sells sponsorships to all of their artists as a package and splits the profits with the artists according to their popularity on the blog. (Anderson 2010, 199–201.) “The moment you put a fee on accessing music in China is the moment you cut off 99 percent of your audience” (Anderson 2010, 201) Ed Peto of MicroMu sums up. Brazilian artists are taking it one step further, completely cutting ‘the man’ out of the equation. The great majority of bands don't have a record contract – nor would they care for one. Piracy spreads their music better than any label could and, on top of that, they get to keep 100 percent of the profits from all other revenue sources. (Anderson 2010, 206.)

“[P]irates are changing the way we use information, and in fact, the very nature of our economic system. – – Are pirates here to scupper us, or save us? Are they a threat to be battled, or innovators we should compete with and learn from? – – [It's] not just about how we compete against pirates, and how we treat *them*, it's also about how we can become better by recognizing the pirate within ourselves” (Mason 2008, 3–4, 6).

4.3 The Fall of the Plastic Disc

1999 was the golden year of the plastic disc. Sales for recorded music in the U.S. had almost reached \$14.4 billion. The major labels had cunningly cultivated the recording industry into the most profitable form it had ever seen. Platinum was the name of the game as the influential executives pulled strings in radio, marketing, and distribution, mastering the economic powers of how scarcity affects choice. Success for the major

labels has always meant a one-size-fits-all hit album, and restricting choice is the easiest way to achieve this. Seven years later, sales had dropped by over 20%. (Gordon 2008, 155; Anderson 2009, 143; Anderson 2010, 159.)

Even before the internet had flexed its muscles, the major record labels of the world had let their obsession with hit albums put music retail in a vulnerable position. The famed disappearance of the 'local record shop' was a direct symptom of the labels favoring large supermarket chains for their powerful distribution networks and the quantities they were able to move. Wal-Mart, which in this context may symbolize most large supermarket chains, became a cash-cow for the recording industry. If you could get an album in among one of the approximately 4,500 CDs offered at Wal-Mart, you were pretty much guaranteed sales – if not, you were nobody. The Wal-Marts of our world unanimously decided that CDs were best used as loss leaders. This meant that the chains would make huge orders of a few hit CDs, often earning them a discount, and then go on to sell them at low-margin prices. Why? To lure crowds into their superstores in order to sell them other products. The small record shops could impossibly compete with a close to zero-margin price, and they fell like flies, leaving the record labels entirely dependent on the mega retail chains. Wal-Mart, for example, is not a music store. In fact, CD sales represent less than one tenth of a percent of Wal-Mart's entire revenue. (Kusek & Leonhard 2005, 7, 87; Anderson 2009, 20, 36, 155; Anderson 2010, 23) When your most important client couldn't care less about your business, you're on thin ice!

A restricted assortment of albums was completely acceptable a decade ago. You made the best of the situation and were content with choice under scarcity, simply because you had never encountered anything different. When the internet came along, Long Tail forces went into motion, and all of that changed. Four types of retail models were set loose, each of them completely nullifying the distribution networks which major labels had prospered on controlling. (Kusek & Leonhard 2005, 7, 86; Mason 2008, 154; Anderson 2009, 36.)

1. The iTunes model. iTunes offers millions of songs for digital download to an international customer base
2. The CD Baby model. CD Baby offers over 250,000 physical CDs from independent artists to an international customer base (CD Baby 2010)
3. The Ebay model. Ebay offers a vast platform for reselling used, physical format music to an international customer base
4. The Direct Sales model. Unsigned artists can now easily set up an internet shop of their own, selling both physical and digital products to an international customer base

There are obviously many more companies in the music retail game, but they all seem to fall into one of the above categories, and as with most Long Tail models the real benefits, in all four cases, have shifted from the record companies to the distributors and the credit card companies (Kusek & Leonhard 2005, 124; Gordon 2008, 262).

“You don’t want to be the ice man still trying to deliver blocks of ice when everyone has a freezer of his or her own” (Kusek & Leonhard 2005, 8). So what now? The IFPI, with most of the industry behind it, is still bent on blaming file-sharing for all of their troubles, and strongly suggests more legal action (IFPI 2010c). While digital download sales have not been able to fully compensate for the declining CD sales, there does seem to be hope for a steady revenue stream in the years to come. FIGURE 9 shows the expected growth of digital versus physical music income over the next few years. (ReadWriteWeb 2010.) Total sales may be down, but a steadfast income stream is something the industry has needed for a long time. However, even this modest projection may be naïve when taking into consideration the new expectations and demands consumers have for recorded music. Anderson (2010) argues that, for consumers who have tasted ‘free’, there is no turning back (Anderson 2010, 140).

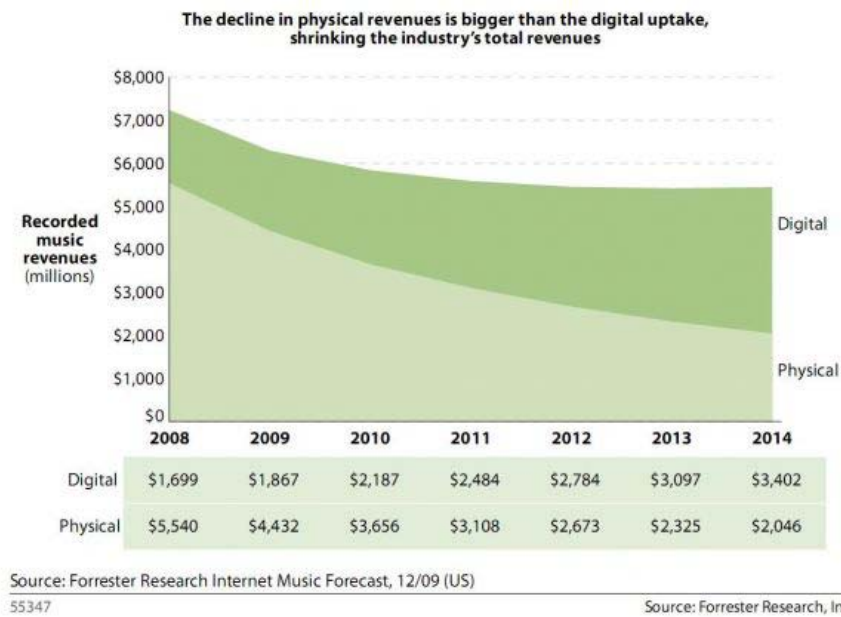


FIGURE 9. Digital and Physical Music Sales Prediction 2008–2014 (ReadWriteWeb 2010)

4.4 Rethinking Marketing

4.4.1 What has Value in the Information Age?

Think about the last gig you went to, or the last CD you bought. What made you do it? Was it a trusted friend, or a half-torn street poster or one of those five second radio ads where you can't even work out which song they've sampled? Our research suggests that 82% of people who go to shows or buy music products find out about them through friends (Posse 2010.)

Eighty-two percent! Posse is a new, potentially viral startup which aims to commercialize word of mouth. It is hard to predict whether their concept – turning music fans into paid promoters – will take off or not, but they certainly have a cutting edge understanding of how marketing should work. (Posse 2010, Anderson 2010, 2, 159, 224) The amazing thing is how big a chunk of that percentage can be influenced through the internet. “A 2006 survey by the Center for the Digital Future found that 43 percent of online networkers from the United States felt ‘as strongly’ about their Web community as they did about their real-world friends” (Mason 2008, 207). It turns out, even recommendations from complete strangers with no apparent credentials, usually in the form of reviews, blogs, or forum posts are considered reliable in most cases

(Anderson 2009, 15, 16). The internet is the Promised Land for marketing music, and word of mouth is the name of the game.

Fans are the most valuable asset a band or artist can have, and therefore marketing should optimally concentrate solely on creating these lucrative connections. Kevin Kelly (2008a) coined the term ‘1000 True Fans’ in a *Technium* article, in 2008. The term embodies the outlook that fans are the elixir of life for creative producers, by claiming that having surpassed the threshold of 1000 true fans, you are blessed with the opportunity to continue creating – forever. Kelly describes a true fan as someone who loyally purchases anything and everything their idol produces, and that one thousand of these are sufficient for sustaining and nourishing the career of an artist. Outside of this inner circle are ‘Lesser Fans’, who further support the artist’s endeavors, but with less enthusiasm, and they cannot be relied upon for continuous patronage. (Kelly 2008a.)

In order to create, nurture and activate long-term connections with fans, one must first understand who these people are and what they expect in return. As I am sure everyone working in marketing will be happy to hear, there is no single formula for this. Each case is its own and consequently requires a human touch. Some general guidelines to what still has value in the Information Age can, however, help with understanding the focus group and forming a strategy. Interestingly enough these guidelines are practically the opposite of what was expected in the days of hoarding and scarcity, back when a few key companies controlled the market.

- Trust is something that cannot be copied, and it is required in order to spark and maintain the loyalty of a True Fan. As an artist, it is your responsibility to make sure your fans feel respected, and this entails a general attitude in everything you do, from upholding the quality of your work to respecting their privacy. (Kelly 2008b.) A classic example of what not to do is the Madonna fiasco, where she, with her record label on board, flooded P2P networks with fake Madonna songs ranting “[w]hat the f*** do you think you are doing?” (BBC 2003), at interested file-sharers. The problem with such a tactic is not the aim of the stunt or the harsh words used, but the clear lack of respect toward her fans on the file-sharing networks. Despite the real tracks ending up on the networks and her official website being paid a visit by computer hackers unimpressed by the stunt, the substantial loss lay in the alienation of her fans. (Kelly 2008b; BBC 2003.)

- Authenticity is something that cannot be copied, and it is required in order to spark and maintain the respect of a True Fan (Kelly 2008b). “In a world where product placements are broadcast by trusted networks as news pieces and we are approached by make-believe MySpace friends made of spam, it’s getting harder to believe what we see and hear. As a result we thirst for authenticity like never before” (Mason 2008, 175). In an interview with Steve Gordon (2008), publicist Ariel Hyatt revealed that bombarding the media with hundreds of press kits no longer gets results for musicians, “[y]ou have to identify an angle, and there has to be some sort of story” (Gordon 2008, 223). A genuine approach to interactions with fans and direct marketing will be much more successful than hiding behind a fake image. Matt Mason (2008, 174) writes that “we are becoming more immune to marketing – consumers are as brand-savvy as ad agencies, and we only respond to advertising with a genuine value for us.” Locke (2001, 195) emphasizes that, “the fundamental message of marketing must change from ‘we want your money’ to ‘we share your interests.’”
- Exclusivity is something that cannot be copied, and it is required in order to spark and maintain the allure for the True Fan. Lesser Fans cannot become True Fans unless you offer information, content and products tailored to a True Fan’s needs. He who seeks should also, optimally, find. Concerts, mailing lists, news updates, limited editions, discount codes, free downloads, competitions, chat rooms – anything that gives True Fans a feeling of separation from Lesser Fans will assist in creating a perception of exclusivity, even if access to it is freely available to the masses. (Kelly 2008a; Kelly 2008b; Anderson 2010, 117.)
- Accessibility is something that *can* be copied, and must thus be executed better than competitors in order to receive and maintain the attention of a True Fan. It is important that your fans can effortlessly connect with you and support you. It is important that you are the one offering the most qualitative and extensive access to your material, and not your competitors. Many artists choose to give digital content away for free in an attempt to win new fans and stay connected with those who would otherwise illegally pirate the content. (Kusek & Leonhard 2005, 106; Kelly 2008b; Anderson 2010, 29.)

Attention is a scarce resource in today's oversaturated music market, and failure to keep the loyalty, respect, interest, and attention of your fans will quickly send them on their way to one of the other million bands waiting in line (Kusek & Leonhard 2005, 180).

4.4.2 What Are You Marketing?

In response to file-sharing and the fall of the plastic disc, it is relevant to ask what it is you are marketing – what has value now? The generic, twelve song album used to be end-all focus of the fan, but today it is just one of the vessels with which potential fans acquaint themselves with a band. Personalized embodiments of music remain as objects of value and the desire for them is intensified by the rules of scarcity that govern them. (Kelly 2008b; Anderson 2009, 103; Anderson 2010, 117.)

In light of this realization many artists have surrendered digital versions of their music to the immense copying machine known as the internet (Kelly 2008b; MusicMarketing 2010). “This is a case where the product has become free because of sheer economic gravity, with or without a business model. That force is so powerful that laws, copy protection, guilt trips, and every other barrier to piracy the labels could think of failed (and continues to do so)” (Anderson 2010, 61), but musicians hoping to make a living off their art need to form a business model compatible with this powerful force. There are only a few classic models, but many variations and combinations of them to choose from. Anderson (2010, 21) describes loss leader based businesses that surround us in the material world as well; expensive popcorn subsidizing the empty seats in the movie theatre, or the cheap meal being paid for by the expensive drinks at the restaurant. Lessig (2004, 302) points out that cable television and bottled water companies have proven that business can thrive on personalizing the embodiment of free products. RcrdLbl is an online music label, marketer and distributor, which allows free access to all of their artists' music. How? Advertisement revenues proportionate to the amount of visitors to each artist's profile page are shared among the bands. (RcrdLbl 2010.)

The model artists need to embrace is to use ‘free’ to get exposure, to turn exposure into fans and to turn fans into cash (Anderson 2010, 202). Each step on its own seems straightforward enough, but these new demands of economic wits can seem foreign and be discouraging to many artists. “Music and the music industry are getting a lot of

interest and attention, even though the *record industry* is on its way to the meat grinder. We are experiencing a phenomenal tidal wave of interest in music, and once that interest can be turned into better ways of discovering and enjoying music, the money will inevitably follow. Why mourn the *record* business when we will have much bigger fish to fry in the *music* business?" (Kusek & Leonhard 2004, 202).

Online word of mouth platforms worth taking into consideration are: blogs, review sites, forums, social networks, virtual worlds, and peer-to-peer networks. Influential bloggers and reviewers can sell out concerts with an effortless crack of their keyboard whips. Forums can be homes to the heated discussions of even the tiniest niche genres. Social networks have an uncanny representation of basic human communication – everyone is equal and you can make a much more direct and lasting impression on those you interact with. Social networks are the pinnacle of spreading information fast, virally and personally. Virtual worlds are simulated environments inside a computer application where users can navigate and connect with information, media or other users in avatar form. Having remained mostly an underground phenomenon, there are indications that virtual worlds will grow into flourishing marketplaces for many things, including music. Most peer-to-peer networks are built around the search field, meaning that the network itself is made to find specifically what it is you are looking for, not necessarily pushing people down the Tail. Some of them have integrated recommendation features, but all of them play a big role in supplying the demand which word of mouth creates. (Kusek & Leonhard 2005, 78; Gordon 2008, 250, 327-332; Anderson 2009, 242–243.)

In 2007, Columbia Records' Big Red focus groups found a unanimous opinion among music oriented college students. Mark DiDia, former General Manager at Columbia, summarized the findings, "The kids all said that a) no one listens to the radio anymore, b) they mostly steal music, but they don't consider it stealing, and c) they get most of their music from iTunes on their iPod. They told us that MySpace is over, it's just not cool anymore; Facebook is still cool, but that might not last much longer; and the biggest thing in their life is word of mouth. That's how they hear about music, bands, everything" (New York Times 2007, 3). Advertising and institutions have lost their credibility – word of mouth is all that matters (Anderson 2009, 98). But who controls what is spread and what is ignored?

Music is crashing down on consumers like a tidal wave. The habits of music consumption are adapting to the abundance by regarding music as a utility – as essential as electricity, or a telephone, or an internet connection. With other utilities, they either work or they don't, music is different because the perception of quality is unique for every single person and no single, generic feed could satisfy everyone. So, the quality of this music utility depends on each individual's personal effort, and navigating all the music in the world is potentially such an overwhelming task that it could completely dishearten even the most passionate of music fans. All of this wealth and abundance is useless to us unless we have filters, recommendations, referrers to accurately connect us with music that we will like. This is why consumers value their referrers more than the artists or music they are guided to. Combining the power of free with the correct referrers is the new formula for exposure. (Kusek & Leonhard 2005, 57, 154; Anderson 2009, 55, 108; Jarvis 2009, 59, 135.)

4.4.3 Direct Marketing

If you have an online infrastructure capable of turning exposure into direct connections with your fans, and your fans appreciate the value you offer them (trust, authenticity, exclusivity and accessibility) enough to stick around and turn into True Fans, you can finally approach the lucrative game of direct marketing. Both signed and unsigned bands are exploiting the ease of online direct marketing, which has been largely enhanced by the internet's habit of making statistical information abundant. The success of a newsletter or any referral rates can be evaluated down to the smallest variable, not to mention social networking sites which allow targeted groups based on age, gender, and preferences. (Kusek & Leonhard, 13, 79, 106, 158.)

Musicians themselves are no doubt the greatest benefactors of direct marketing. When they reach a certain stature, e.g. the 1000 True Fan threshold, they will find more and more ways of cutting out the middlemen. Radiohead's 2007 stunt with their 'In Rainbows' album is a classic example of this. Radiohead had outworn their recording contract and decided to produce and sell their next record without the help of any greedy middlemen. Besides gaining lots of hype from the extravagance of the plan, the band earned more from 'In Rainbows' than from all of their other record sales combined. Overall, the money brought in hardly outdid the total revenue of previous

records, but that is little consolation to the artists when over ninety percent of that revenue falls into the pocket of someone else. Radiohead still made sure products of personalized embodiment were available to their True Fans in the form of high-quality box sets, exclusive access to special footage online, and USB sticks shaped like their logo and filled to the brim with CD-quality music and digital album artwork. (PaidContent 2007; Anderson 2010, 13, 253.)

Topspin Media and Media Junction are just two of the companies offering artists the tools they need to handle their direct marketing needs. Media Junction's 'print at home' approach to concert promotion is a tested and true way for bands to completely eliminate the concert promoters cut. Popular musician Jamiroquai recently used Media Junction's service to sell concert tickets exclusively to his fan club, online, paperless, and completely avoiding ticket fraud of any kind. (Media Junction 2010, Topspin 2010.)

The extraordinary tools and tactics mentioned in this chapter signal hope and power to the business savvy musician. We are collectively testing old boundaries and rethinking marketing – the last pillar major labels continue to base their business on.

4.5 Predictions of the Future

Much thought and work has gone into compensation systems capable of legalizing file-sharing. The popular idea has been that of applying a tax on technology businesses that enable file-sharing with their products and services. Besides the common collection and distribution schemes for 'media tariffs', already in place in the U.S., Canada and many European countries, intricate systems have even been built around the idea of monitoring the digital space to be able to more accurately distribute the shared pool of money to the original producers. Mediaguide has a unique watermarking technology which lets it keep extraordinarily precise control over content broadcast on thousands of radio stations worldwide – in real time – and similar fingerprinting techniques could be used in tracking statistics over the entire digital domain. (Lessig 2004, 301; Kusek & Leonhard 2005, 131, 133; Gordon 2008, 125, 157, 168, 184; Mediaguide 2010.)

There are varying theories on how significant file-sharing will become for future music business models. Kusek & Leonhard (2005, 100) argue that today's kids are tomorrow's

adults, and therefore the music related habits and values taking over the youth will slowly but surely encompass all generations. Anderson (2010, 185) points out that “[t]ime really is money”, and as these kids enter the workforce and start earning money, they will choose the upfront monetary costs of the legal service over the hassle of file-sharing – successfully turning them into law abiding citizens.

Lessig (2004, 211) explains that the fate of file-sharing is a simple case of evolution. The superior service will prevail, and mucking around with files and acting as your own database manager is becoming increasingly unattractive compared to what commercially financed platforms can offer. He considers piracy a mere transitional phase of a much more profound change, and sees no benefit in trying to fight or adapt laws to this fire which, “if let alone would burn itself out” (Lessig 2004, 211.)

In 2005, Kusek & Leonhard (2005, 128) predicted that legitimate businesses would develop products focusing on the consumer’s experience, ultimately putting P2P networks to shame with improved technologies, intricate recommendation engines and even customer service. And sure enough, Spotify came and has brought others along with it. Kelly (2008b) predicts that besides the obvious profitability of mega-aggregators, the analysis of data they gather will produce an important, and possibly even expensive, resource called ‘findability’ – a commodity that can personalize the flow of music and guarantee a satisfactory listening experience for everyone.

The music business information and strategy company, Music Ally, has covered a lot of hype around cloud computing and how it may come to revolutionize the way we connect to music. Cloud computing is based on the simple concept that files, programs, everything except the browser itself, are hosted on a remote server and streamed to the user through any internet capable device. In a world where high-speed 3G networks and smart phones are taking over, cloud computing is by far the most convenient technology introduced so far. Having recently signed licensing deals with all of the four major labels, Music Anywhere is a pioneering service within cloud computing. The service is, interestingly enough, practically a copy of the original MP3.com concept, allowing users cloud access to music they already own. The major labels have been promised extensive usage statistics, such as region based song/artist popularity, as well as royalties on each and every stream. The money comes from the subscription cost of £29.99 per year, and since streaming royalties are paid whether or not the user has

purchased or pirated his library, this is, in a sense, accepting piracy by monetizing its behavior instead of trying to control it. (Music Ally 2010b, 1, 2.)

At Music Ally's Cloud Models debate on July 14, 2010, Rob Lewis, executive chairman of Omniphone, said: "The cloud is the future. The only issue, as it always is with the music industry, is it's so bloody fragmented it takes ages to get the business right" (Music Ally 2010c, 4). Ever since the launch and suppression of MP3.com, the industry has been in a constant fight with technology. It seems only fitting that it would get a chance to redeem itself by learning from previous mistakes. Maybe 'cloud music' will show us the world we could have lived in a decade ago, had MP3.com been allowed to lead the way.

Beyond record sales, the music industry is doing better for each day. The live music business, including the ever-reliable merchandising market, is reporting all-time highs alongside other secondary revenue streams, such as royalties from mechanical performances on radio, television and in clubs and bars. (Kusek & Leonhard 2005, 6; Mason 2008, 159; Music Ally 2010b, 4.) While this might seem like all the more reason to ditch the record labels, many artists would rather have someone else take care of business, and why not let that continue to be the established major record label?

Rick Rubin, music business guru who made a name for himself producing independent acts, said "you still really need the muscle of the majors. A record company call can still get you heard like nobody else" (New York Times 2007, 10) in an interview with the New York Times. Kusek & Leonhard (2005, 22, 23) believe in the importance of an administrative service providing legal support and business networks, but doubt that they will be the same pompous institutions they are today. "A joint venture or co-op approach will be the way forward" (Kusek & Leonhard 2005, 23). The 360 degree model is one way of doing just that.

In the 360 degree recording contract the label gets a taste of every revenue stream the artist has. Labels are given the incentive to invest in more music production, since they, too, will benefit from the loss leader effects albums have on secondary revenue streams. EMI was the first of the majors to offer 360 deals, but later the others followed the example, and in 2008, Warner Music Group CEO, Edgar Bronfman, announced that 360 deals are mandatory for all new artists and that a third of the label's band roster has

already been transferred to the new record deal. So far the problem with the 360 deal has been the record labels' lack of experience in fields outside of, well, records, and this has failed to convince artists that the deal is anything other than robbery at point blank. (TechCrunch 2008; Anderson 2010, 156.) The opinion that the record labels have outstayed their welcome will, however, always linger and motivate many artists to take matters – along with the profits – into their own hands (Kusek & Leonhard 2005, 25, 44).

5. DEVELOPING A NEW PRODUCT

5.1 Assessing the Goals

Great Success Productions is eagerly anticipating being set loose on the music business. This company, like the majority of startups, is equipped with a penniless yet passionate employee. Based on what we have learned so far, the two fields within music promising the greatest development and growth are distribution and marketing. Ideas can certainly run wild with the futuristic possibilities of distribution, but considering the financially restrictive circumstance, the decentralized tendencies of marketing make it the most sensible area to focus on.

A company venturing into music marketing needs to have every intention of utilizing digital technologies, habits and cultures to their fullest, while maintaining a deep respect toward the powers behind the changes in this environment. Economist Umair Haque (2010a) hones in on the subject of ‘reconceiving capitalism’ in his dramatic blog topics. Many of the economic encouragements and conclusions he arrives at are completely in line with the state of the music business, singling out which old attitudes deserve to be abandoned.

Haque (2009a) takes a stab at all the hype about ‘innovation’ in his *Awesomeness Manifesto*. Innovation was the most sought after resource of the industrial era, but the Information Age has changed even that. Innovation has always bore with it an undertone of drastically changing a market for the means of controlling and profiting from the results. You had succeeded in being innovative if you could think of a new solution that was creative enough to force others to buy your product. Whether it was being used to circumvent laws or strategically defeat the competition in hopes of a monopoly – it was innovation all the same. ‘Awesomeness’ is what Haque says today’s capitalism demands instead. Ethical production and love are the main ingredients to becoming awesome and reaping the benefits it can offer. Haque uses Apple as an example of a company using the awesomeness model instead of outdated innovation. Apple is a role model for its customers, genuinely loving what they do so much that that infatuation spreads to and among their customers. Awesomeness is about offering a product or service which sends a positive vibe resonating through the whole chain of

production all the way down to the customer – the win-win-win business model, which even has the well-being of our societies and environment in mind. (Haque 2009a.)

Haque (2009b; 2010b; 2010c) continues to depict similar pictures of the new capitalistic values in the other articles he writes. The general guidelines are about taking responsibility, bettering your business from the inside, listening to your customers, focusing on value outside of revenue, planning for the future with a sustainable growth model, and basically valuing all of the things computers can't do. (Haque 2009b; Haque 2010b; Haque 2010c.) Howe (2008) and Jarvis (2009) share Haque's views on opening up a business to the crowd. They explain how it is not about putting the future of your company in the hands of millions of strangers, but rather using a meritocratic approach and letting them push you forward. Respecting your customers is a must, as well, because in the world of the internet one angry customer's frustrations can spread like wildfire and suddenly unite a slumbering mob of neglected customers. Lots of large companies have a department of their own scouring blogs and forums for negative keywords about their company, hoping to nip problems in the bud. (Jarvis 2009, 99, 102, 108; Howe 2008, 9, 62, 198, 288) Google Alerts (2010) offers a sufficient substitute for smaller companies interested in what is being said about their brand (Google Alerts 2010).

Charging a customer money for something can sometimes turn into an awkward situation. When a product is ethically stable the provider will be proud to ask for compensation and the buyer will be proud to give compensation. Catches, hidden fees, sketchy contracts, etc. all send out negative signals to the customer about the product. (Kusek & Leonhard 2005, 168.) Successful business models in the age of the internet will revolve around the concept of "charging the people who *want* to pay, because they understand the value of what they're getting" (Kusek & Leonhard 2005, 149). The charity-angle is also more popular than ever – a piece of the proceeds going towards charity or even just highlighting the benefit society has from your products, are both great ways of evoking respect in a customer (Jarvis 2009, 47; Penenberg 2009, 17).

Kevin Kelly's (2008b) rules of thumb are definitely aspects to try to incorporate and create value with. Authenticity, exclusivity, accessibility and personalized embodiment can turn the most boring products and services into intriguing, profitable business

concepts. And the main warning Kelly has is, “[w]hen copies are free, you need to sell things which can not be copied” (Kelly 2008b.)

Kusek & Leonhard (2005) point out that transparency, more than ever before, is a trait admired by consumers. The duo emphasizes how important it is for future music business models to implement a new operating mantra where everyone involved (the provider, consumer and creator) understands who does what and how the money is split. (Kusek & Leonhard 2005, 129.) Jarvis (2009) agrees that the internet “despises secrecy and rewards openness. It favors collaboration over ownership” (Jarvis 2009, 27). He also encourages businesses to forget their inhibitions and dive into new projects while making them available to the public from the get go. A simple ‘beta’ tag can be slapped on anything, effectively excusing any and all imperfections, all the while utilizing the feedback from users. (Jarvis 2009, 93.)

Most online music services today are considered to be either too expensive for the consumer, or ‘robbing’ the artists. This makes it difficult to achieve awesomeness since there is no clear understanding of what is fair, and each service’s value to the consumer varies based on what features it offers. When describing the virtues of the 1000 fan rule, Kelly (2008a) tries to persuade musicians to give up on the dream of making it big – simply making a living off music is “a much saner destination to hope for” (Kelly 2008a). After all, “[s]hould society care if rockers can’t afford to build their own backyard amusement parks?” (Mason 2008, 159). It is a valid question, and the answer is no. At that point copyright has already done its job, but for future business models to work, everyone needs to be in the same boat. The interests of everyone involved in producing, distributing and marketing music should be the same in order to together achieve a career sustainable over the long-term. (Kusek & Leonhard 2005, 23; Gordon 2008, xxii, 146.) All of these forces are bringing music back down to earth, which may not be such a bad thing.

What does down to earth mean when applied to the music business? It means: having realistic expectations, not taking things for granted, relying upon the quality of the art, and respecting the fans, who ultimately finance it all. Each artist needs to have a unique monetizing approach tailored to the characteristics of his or her art. Stuffing music down the same generic promotion and marketing chains will work for less and less artists. As a result, the quality of the music will grow in importance and subjectivity.

Fans are scarce and deserve to be wooed and impressed, just as genuine artists deserve the loyalty of their fans more than ever. (Gordon 2008, 226; Mason 2008, 85, 155; Jarvis 2009, 27; Music Ally 2010c, 12; MusicDish 2010.)

5.2 Catering to the Demand

So far, we have addressed the fact that consumers are in need of reliable referrers and greatly value the ones they already have (Kusek & Leonhard 2005, 154; Jarvis 2009, 59). Consumers also love the versatility of digital music, but in most cases refuse to pay for anything digital (Anderson 2010, 29, 61). Lastly, they detest efforts made to limit the possibilities of new technology (Lessig 2004, 105; Kusek & Leonhard 2005, 99).

Musicians and most independent record labels, on the other hand, would like to indulge consumers in the accessibility they expect, as long as they can keep producing their art (Kusek & Leonhard 2005, 109; Kelly 2010a). The solution lies in the fans; finding, nurturing and marketing directly to them (Kusek & Leonhard 2005, 13, 79, 106, 112, 158).

5.3 Viral vs. Value

When someone exclaims “I have a new internet concept!” the majority of people take that to mean a new Facebook, or Google, or Youtube, or Myspace. The stories of one college student changing the world with his computer are widely spread and admired, but the missing geographic barriers of the internet make it a platform of unprecedented competition for attention, also resulting in a cynicism toward new ideas among users and investors. Could this idea really be *that* groundbreaking? Wouldn’t someone else have done it already if it really was *that* great? Is this really worth my time?

Penenberg (2009) defines these types of internet concepts as viral-loop companies, and it is understandable that they are the first to come to mind. Pretty much every viral-loop company is based on a free service that is *so good*, that word of mouth sends it off into exponential growth. It is a human trait to want to pass on ideas, products or funny memes, and “[v]iral-loop businesses seek to take advantage of this trait” (Penenberg

2009, 11, 12, 239). Conceiving an idea *that good* is, needless to say, a rare feat. Howe (2008) points out, that viral networks always have a certain dependency on their users to add value to the service simply by using it – also called crowdsourcing. This attribute often forms the content of the service or product to resemble those who use it, like in Wikipedia's case. (Howe 2008, xi.)

There are, however, reasons for professions like journalism not just completely tossing up the white flag and handing over news and reporting to the crowd. Information is abundant but authenticity, exclusivity, accessibility and personalized embodiment still have value. A successful viral-loop network is based on a rare type of formula which, by itself, grows in size and in value. (Gordon 2008, 306; Kelly 2008b; Penenberg 2009, 8, 195.) The majority of actual business done on the internet is not through networks like these, it is done through millions of smaller websites offering specialized services demanding a human touch and actual labor. As for the needs of artists, they don't need another MySpace, they need something putting their MySpace to work!

6. MY FRIEND P2P

6.1 The Concept

My Friend p2p is a music marketing service tailored to the rising demand for opinionated referrers, exclusivity, direct marketing and long-term relationships between artists and fans. The service consists of three steps; achieving visibility, turning that visibility into connections with fans, and providing the means to market directly to the fans. We require all of our clients to produce music we believe in, and to possess a current understanding of the role of music on the internet. When a band meets the requirements, their next release is eligible for our online marketing service against a charge, or, alternatively, free for unsigned acts.

The first two stages, achieving visibility and turning it into connections with fans, are accomplished by promoting the artist and their music, along with the sleek My Friend p2p widget, to our partnering, influential referrers: music blogs, forums, websites, and p2p-networks. The widget will offer free access to the band's complete new release for stream or download, as well as some simple steps to connect with the band. The third stage, providing the means to market directly to the fans, will be accomplished by collecting all of the statistics and connections conjured from the widget in a central database, and allowing bands and their representatives to access the information they need to start nurturing and profiting from their newly won fans. Besides providing information and news on the project, the My Friend p2p website will act as an online platform to sell any physical content, serving artists who don't have an online storefront of their own. With a steady stream of bands, the website will also act as a type of referrer of its own.

The possibilities of direct marketing are virtually limitless. Jam band String Cheese Incident has proven this fact many times over. They were some of the first bands to embrace file-sharing as a marketing technique, and ended up making millions of dollars through direct marketing. More bands will follow in their footsteps, but not all bands have the time or entrepreneurial traits required for masterminding a successful campaign like SCI's. This is likely to lead to unsigned artists opening up to the idea of

actually paying for marketing through third-party service agencies. (Kusek & Leonhard 2005, 67, 125, 159.)

The My Friend p2p project relies heavily upon its awesomeness, openness, and sincerity both when convincing referrers to publish the widget to their platform, and when convincing artists and labels to invest their digital content for free. The service is based on the actual labor, behind the scenes decision making, and deploying and maintaining the technical tools. The human touch: our passion for what we do, and our ethical standards, are the most important ways our service protects itself from being copied. (Kelly 2008b; Haque 2009a.)

6.2 The Infrastructure

6.2.1 The Benefit Tool

The benefit tool is My Friend p2p's widget, which will be deployed into the referrer website environments. The tool itself will be hosted on the My Friend p2p server, and our partnering blogs, forums, websites and p2p networks will receive a short URL to add to their website within an 'iframe' html tag. The code will look something like this:

```
<iframe src="http://www.myfriendp2p.com/tool/bandname.php"></iframe>
```

The tool is a compactly designed widget consisting of two interactive toggle bars named 'Connect to the Music' and 'Connect to the Band' as shown in FIGURE 10 (My Friend p2p 2010a). FIGURE 11 shows the appearance when both bars have been clicked open. The first bar contains a streaming function, direct download links to three different qualities (192 kbps MP3, 320 kbps MP3 and the lossless CD quality WAV files), and a link to the My Friend p2p website. The second bar contains a link to donate directly to the band, a link to visit the My Friend p2p shop, a concise request to participate in the short interview, a five step interview, and a long list of links at the bottom. (My Friend p2p 2010b.)



FIGURE 10. My Friend p2p Benefit tool (closed) alpha version (My Friend p2p 2010a)

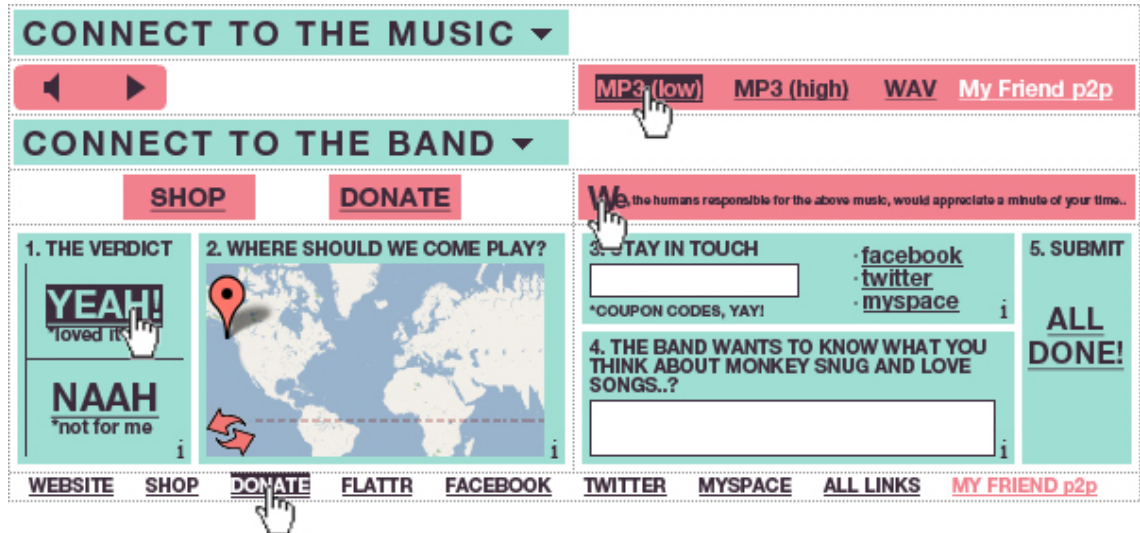


FIGURE 11. My Friend p2p Benefit tool (open) alpha version (My Friend p2p 2010b)

The five steps of the interview, as depicted in FIGURE 11, are each unique methods of interaction for the intrigued visitor. Step 1 is a simple yes or no question of whether they were interested in the music or not. Step 2 is a highly a modified interactive Google map, which allows the visitor to zoom in on her whereabouts and drag'n'drop the marker to signal her approximate location to the band. Step 3 offers direct links to the band's Facebook, Twitter and MySpace profiles while requesting the visitor's email in exchange for a coupon code to the My Friend p2p shop. Step 4 is any random question the band would like to ask the visitor. Step 5 is a simple 'all done!' button which submits all of the data into the My Friend p2p database. Each step has its own information icon which explains the steps to the visitor in more detail when hovered over with the mouse cursor.

6.2.2 The Website

The benefit tool provides direct links to the My Friend p2p website in four locations; the logo, 'Shop', 'Donate', and the last link in the bottom row. The traffic generated by these links will be met by a website offering news and information about the company,

introductions and news about all of the bands who have worked with My Friend p2p, and a Paypal integrated shopping system offering all of the bands' and artists' products. There will also be numerous ways to connect to the website and spread the word through social media networks. The design of the website aims to portray a modern company, and appeal to the type of customers we expect to deal with.

Scott Meldrum, founder and President of Hype Council, emphasizes simplicity in web design in an interview with Steve Gordon (2008) saying that “[t]hey need to be able to get what they want in no more than four clicks” (Gordon 2008, 217). While this can be difficult to achieve with online storefronts, The My Friend p2p website has been optimized as far as economically possible with ease of navigation in mind.

Purchases made over the internet will continue to grow as more content is made available, and customers are no longer wary of using their credit card online. Lifestyle stores have swept the physical market and the same trend is visible on the internet where the image and credibility of the shop has to be perfectly in tune with the values and opinions of the customers. (Kusek & Leonhard 2005, 88, 118; Gordon 2008, 276.) An interesting thing John Buckman of Magnatune noticed on his site is that online sales of the good old physical CD have stopped declining and it continues to represent around fifteen percent of their business (Gordon 2008, 270). Jarvis (2009, 44) encourages using permanent addresses (permalinks) for every web page on a website so that links cached by Google or spread by fans will not disappear, and a recent Music Marketing (2010) article on exclusivity urges online shopkeepers to make use of the tried and tested coupon concept to increase sales and customer loyalty. Both of these tricks are definitely attributes the My Friend p2p website will carry.

6.2.3 The OCAT

The Online Client Account Tool (OCAT) is a simple webpage where artists and their representatives can access the results and statistics brought in by the Benefit Tool. Clients will be able to view the number of streams, downloads, clicked links, ‘Yes’ vs. ‘No’ answers, emails collected, and answers to the custom question. A separate page will be designated to the main map which collects all of the submitted markers, and can help clients plan tours based on the knowledge of their fans’ whereabouts. The map will

also enable copying the emails of markers from a specific area, so as to avoid notifying the whole email list of upcoming gigs.

6.3 The Value

“The best way to market to Long Tail consumers is to find out who is influencing them and focus your energies there” (Anderson 2010, 230). “The key to success in music niche marketing is to focus promotional dollars where they will bring the highest return” (Kusek & Leonhard 2005, 28). These two quotes pretty much sum up the strategy of the My Friend p2p service. Our concept has been optimized to offer the maximal return for the money our clients invest. Music fans value music more than before, but the focus has shifted from the generic album to specialized products. Our service and online tools help artists put their focus in the right place and reap the benefits of connecting with and understanding the people supporting them. (Kusek & Leonhard 2005, 40, 67; Anderson 2010, 155, 229.)

Folk artist Derek Webb is another example of an artist who built a dedicated fan following by giving his record away for free. The relatively unknown artist was left with no marketing money from his label after finishing his album in 2006. Two years later he was playing at sold out venues and selling tons of merchandise thanks to a simple online campaign where he managed to collect over 80,000 emails and zip codes from visitors lured in by ‘free’. (Anderson 2010, 157.)

A good email list can be very powerful. It is safe to assume that a visitor interested enough to complete the five-step My Friend p2p benefit tool interview will also be interested enough in purchasing products from the band. The point is not that no labels or artists could possibly market their free music on the web without us. There is no trade secret that we aim to milk for as much money as possible – although we do pride ourselves in the tools and networks we have built. Our product, service and value, is simply that we’ll get the job done when the record labels or artists would rather concentrate their efforts elsewhere. (Gordon 2008, 224; Mason 2008, 150,165.)

The value of marketing services can sometimes be hard for the client to fully appreciate due to the abstractness of the benefits it produces. The OCAT partly takes care of that

by allowing the clients access to the statistics, but we feel that it is important for the client to receive something in a material form to further strengthen the perceived value of what they have paid for. When the first three weeks of a campaign have passed, the client will receive a printed report (and a PDF) on the observations of their campaign including all of the statistics gathered at that time.

6.4 Clients

The clients will mainly consist of two groups, independent record labels and unsigned artists. There are thousands of independent record labels worldwide (Allrecordlabels 2010). Record labels managing signed artists who interest us will be sent a promotional package via snail mail including information about our project, login details for the OCAT, and an offer. While our requirements will no doubt dramatically shorten the list of possible clients, the abundance is clear – there will be no shortage of independent labels to approach. As for unsigned artists, there will be a form on the website where they can request to become a My Friend p2p band. In the case that we're impressed by their music, we will take on the role of a record label, sponsoring the fee.

6.5 Pricing

6.5.1 One-time Payment.

Marketing budgets for new releases at independent record labels can vary greatly. It is therefore difficult to tailor a price to the demand – each label will value the service differently. The idea of charging more for the same service just because a label or project budget happens to be bigger is, however, not an ideal approach. Playing games like that will dilute our credibility and unavoidably result in some clients feeling unfairly treated. We value the labor, know-how and platforms we put into each client at \$850. This will cover active promotion through our partnering networks, access to the OCAT, a feature article on the My Friend p2p blog and unlimited space in the shop. A fee of \$30 will be required to keep the benefit tool hosted for each following six month period.

6.5.2 You Win, We Win

The ‘you win, we win’ payment model is a classic system used within online advertising. The idea is a simple post-payment model in which the advertiser pays only for the tangible results of a campaign. For My Friend p2p, the tangible currency we are selling is a connection with the fan – the email address and approximate location of a visitor who is genuinely interested in the band. We believe the average value of each such connection over time to be well over \$10, but are content with a \$2 per fan fee. (Digital Enterprise 2010.)

6.5.3 Free

The unsigned artists who impress us will be offered the campaign for free. They will be viewed as artists under the My Friend p2p label, and sign a six month recording and merchandising contract granting us exclusive rights to the areas we have an infrastructure to properly utilize. They will be assisted in producing some type of audio- or audiovisual recording for their music, and will also be encouraged to create products for the store.

6.6 Partners

The success of the My Friend p2p marketing service relies heavily upon the exposure of referrers. These partners will consist of music related blogs, forums and regular websites. The primary allure to the My Friend p2p service is, however, incorporating the power of peer-to-peer networks – turning stealing customers into paying customers. My Friend p2p will hopefully be seen as having pure intentions and be welcomed by both large, public networks as well as smaller, hidden darknets.

The inevitable truth about free music today is that ‘free’ doesn’t matter per se unless it can be accessed via the routes consumers are used to getting their music. Radiohead’s free ‘In Rainbows’ release still ended up being downloaded hundreds of thousands of times on the file-sharing networks, considerably reducing the benefits they had aimed to collect through their own website. (Forbes 2010.) We need to entwine with the

networks, the referrers, the sources, in order to receive the maximum benefit of ‘free’ (Kusek & Leonhard 2005, 77).

6.7 The Fans

The profile of the My Friend p2p core segment fan is sketched as follows: loves to interact on the web, uses Facebook, is bored by MySpace, is sick of the limited selection offered in brick-and-mortar stores, feels no guilt for file-sharing, refuses to pay for digital music unless it’s a choice they are allowed to legally make, expects to be wooed, trusts proven word of mouth sources over anything else, and relies upon tastemakers and referrers to filter through new music releases and serve the best to them on a silver platter. (Kusek & Leonhard 2005, 57, 86, 91, 99, 124, 229; New York Times 2007, 3; Gordon 2008, 168; Mason 2008, 174, 175; Anderson 2009, 36, 55, 98, 108; Jarvis 2009, 59, 135; Anderson 2010, 140.) This is the up-to-date, open-minded, youthful person who always has ideas for what song to stream at the weekly get-togethers. But this is only the segment user – in reality the group of fans and participants will consist of anyone intrigued by what the portrayed segment user is passionate about.

6.8 The Competition

My Friend p2p is comprised out of four services which can already be found separately on the internet, but as we have learned, the early bird seldom gets the worm – when referring to internet music applications. A quick Wikipedia search for the most cutting edge online services from the past decade will often lead to a sentence starting in past tense. “MP3.com was – – Imeem was – – MusicStation was – – SpiralFrog was – – Napster was – – Movie Link was – – Wurld Media was – – StreamCast was – – Pressplay was – – BuyMusic was – – Sony Connect was – – Snocap was – – Firefly was” (Wikipedia 2010), etcetera... Spotify, Voddler and Hulu are just some of the names that are doing the same things, except better.

There are abundant free widget services allowing you to embed anything from media to interactive applications, on pretty much any site. The most prominent of these, with a

special catering to bands and artists, is ReverbNation. ReverbNation works on a 'freemium' business model where a basic assortment of widgets is free for anyone to use, and more advanced widgets come with a monthly or annual price. (ReverbNation 2010.)

ReverbNation sneaks into the next category with their community features, along with MySpace and ArtistShare. These are platforms where artists get their own profile page and can communicate with fans. MySpace is funded by advertising, allowing everyone access for free, ReverbNation, again, takes the 'freemium' approach, and ArtistShare costs around 500 dollars for those who fit the profile of what the label is looking for. Of the three, the ArtistShare model is most reminiscent of the My Friend p2p model, in that it is exclusive and has a base fee. (Gordon 2008, 306; MySpace 2010; ReverbNation 2010.)

The third category is direct marketing – offering bands a digital storefront to monetize their fans with. A big part of ArtistShare's business is based on this need, but there is an increasing amount of impressive storefronts like Bandcamp and Greedbag, through which independent labels are doing business at a commission rate of ten to twenty percent of the total sales (Gordon 2008, 306; Bandcamp 2010; Greedbag 2010).

The main difference between the My Friend p2p service and its competitors so far is that they are open to everyone. They hope to achieve a viral-loop of exponential growth and the tactic is blatantly apparent in the generic way their products are designed. The exception is ArtistShare, but besides concentrating on completely different genres of music, they, too, lack the aspect of actively bringing exposure to their artists. This brings us to the last service category: the pure labor aspect of marketing, and using contacts to produce exposure. It's the most valuable thing the major labels still have to offer, so there is good reason to respect its power (Kusek & Leonhard 2005, 52, 53, 108; Music Ally 2008, 4). Independent artists have always been expected to take care of marketing themselves, but that is seldom the most effective method. The Orchard is an international Long Tail distribution and marketing company aimed at independent artists and bands (Gordon 2008, 244-246). But while huge conglomerates, such as The Orchard, are an important part of the music business eco-system, personalized, authentic and exclusive marketing – the core of the My Friend p2p service – does not need to be intimidated by them.

6.9 Legal Issues

The RIAA, and similar organizations worldwide, are not afraid to use their lawyers, as we have seen in the examples of MP3.com, the end user litigation program, and the warnings being sent out in Europe (Lessig 2004, 48-52; RIAA 2010b; TorrentFreak 2010c). Music blogs have found that the best way to deal with this threat is to simply post a disclaimer and contact information somewhere on the website. Music attorney Steve Gordon (2008) gives an example:

Disclaimer and Contact. MP3 files are posted for evaluation purposes only. Through this site I'm trying to share and promote good music with others, who will also hopefully continue to support these artists. Everyone is encouraged to purchase music and concert tickets for the artists you feel merit your hard-earned dollars. If you hold copyright to one of these songs and would like the file removed, please let me know. (Gordon 2008, 250.)

It is still a debatable topic, whether the liability of hosting copyrighted files can be waived this easily, but Youtube's favorable ruling in the 2010 Viacom vs. Google case does ultimately send that message. What the win ultimately came to mean was that a media hosting service, such as Youtube, could not be held liable for what its users posted as long as the company complied with takedown notices from copyright owners. The Viacom argument was that it should not be the copyright owner's job to enforce the law, but the court found Google's intentions pure. (Music Ally 2010a, 1-3.)

The My Friend p2p disclaimer will make it perfectly clear that the files are hosted on our site at the will of the copyright owners and that the intention is to increase exposure and boost the commercial success of the band or artist. My Friend p2p will demand signatures from both the labels and the artists on the sales contracts – sufficiently proving our intentions. In case the rights to the songs have been signed over to a publishing firm, which is not uncommon for bands with a record deal, the My Friend p2p contracts *should* immunize us from having to pay the statutory mechanical licenses for offering free streams and downloads – similar to the way MySpace streaming and downloading is tolerated.

6.10 Expansion Possibilities

Based on the points made in my thesis so far, the following features and services would be valuable to add as My Friend p2p services in the event that the marketing service starts earning money, and generating a decent amount of traffic and interest.

- A secure 'Print At Home' concert ticketing service added to the shop
- Develop more interview step options so that each client can mix the interview up the way they want
- A viral social networking campaign awarding My Friend p2p followers for spreading the word about our project
- An invitation only, street team management platform for artists to connect with and motivate those fans willing to go the extra mile
- Further embracing the responsibilities of a record label and a referrer, with exclusive My Friend p2p produced content such as artist compilations, mash-ups, remixes, videos, recordings, events, interviews, collaborations, merchandise
- A system motivating microreferrers to further spread the widget

(Kusek & Leonhard 2005, 67, 68; Jarvis 2009, 46; Media Junction 2010; Music Success Coach 2010.)

7. CONCLUSIONS

I dove into this project with nothing but a vague idea of what I wanted to achieve. For quite some time now I have not been able to clearly form my thoughts and opinions about what is going on in the recording industry and music overall. Growing up in this day and age, the influences from the internet and the ideas of people who frequent the internet have to a great extent shaped my socialist values of digital property. At the same time, music has always been a passion of mine, and with a four year degree in media behind me, I can proudly say that I feel just as much a part of the talented and creative group of people who are running this miraculous music industry, as I do the regular music consumer. This has been a dilemma of mine, but the research process has helped me organize my thoughts, opinions and ideals, ultimately lifting a burden off my shoulders.

I was thrilled about having the time to sit down and soak in both the printed and online thoughts of today's music business and economic masterminds. The amount of information on the subject was overwhelming and I had to restrain myself to keep within the time limits reserved for the project. I had originally planned to focus more on piracy, but the idea of listing fact after fact seemed boring to me since I genuinely don't see a very prosperous future for music piracy. Instead, I was encouraged make a timeline type of story, with piracy in the middle – a mere transitional phase. With support from my references, I really pushed myself to attempt at least a few profound conclusions of my own, but there are truly some ingenious thinkers out there already, and reading their material often left me completely convinced and without much to add. The idea to end the report with a practical embodiment of what I had learned came from this craving to bring something new to the table.

Playing the role of both a consumer and a producer has given me a perspective I feel that many of the more politically outspoken people in the music business lack. We live in a time when it is considered unpatriotic to set the wellbeing of society before the wellbeing of anything else. We take for granted that any form of weakening proprietary rights is an attack on capitalist values, and thus impairs the American dream in each one of us. How can the confidence responsible for propelling our human race forward into the largest, most complex and beautiful economic eco-system of all time sway so easily? We got where we are by adapting to change. Business has always been art, and it

is depressing to see the discriminative, dumbed down, black and white pictures painted by the recording industry and copyright fanatics in an attempt to save a business, which, as it currently is run, has little use to society.

I do not claim to know what music is worth, I only know what I am willing to pay for it in its various embodiments offered today. And for an MP3 download the answer is: nothing. If you, the artist or record label representative, genuinely believe that your digital offerings are worth more, please walk a day in the shoes of the twenty percent (and growing) of the world's population who arrive at the same empty price as I do, and then try to change our minds. While you're down here, in our shoes, pay attention to what it is we *do* value. Never before have individual consumers actively pursued direct relationships with companies and brands like they do today. Take a look at what that means and how this democratic process is turning consumer respect into monetary success.

My Friend p2p definitely fills the criteria I had set out to fill. This is a concept born from a stew of pure positivity and good faith, completely surrendering to the demands of the modern customer. The model is the epitome of an 'awesome' company, involving our customers with our clients in a natural, unforced way and focusing our efforts on those who will appreciate them. My Friend p2p applies its own mix of: trust, authenticity, exclusivity, accessibility, and personalized embodiment, in line with the strengths of Great Success Productions. It is an idea a one-man company with a very restricted budget can try out without risking the mortgage.

The competition on the internet is intense and My Friend p2p has somewhat protected itself against this threat by aiming for a specialized market and basing its value on work that requires a human touch. Hopefully the service will be able to portray its pure intentions to the public and to its partners, as they are the key to its success over the other great alternatives. The fact that technology itself could suddenly develop in a direction effectively eliminating the need for this type of service, is a risk every internet based company takes. Specific changes in the law may even suddenly render the service illegal. While these risks lurk in every line of business, music combined with the internet is unquestionably one of the most unpredictable combinations, and it will be vital to stay up to date with competing services and changes in legislation. With the Gallo report being adopted by the European Union in September 2010, we are likely to

see another wave of conservative restrictions before society moves past file-sharing. I myself wrote to my EU representative convincing him to vote against the report, but in vain – the supporters greatly outdid those opposing it.

The next few months of my life will be dedicated to launching the My Friend p2p service. Do I think it will be the next MySpace? Definitely not – it isn't designed to have mainstream appeal. It is meant to function as a business model for an amateur music enthusiast to turn labor into money – a rare feat nowadays. And so, needless to say, I will be extremely proud if it succeeds in this endeavor. For those who are interested, please follow how the project grows, adapts, or dies, at <http://www.myfriendp2p.com/>.

While I would regard my report as slightly biased against the major record labels, my intention was never to undermine their work. One of the main goals I had with my thesis was to present positive and encouraging views of the changes we are experiencing. Record labels are often taunted to simply innovate their way out of this 'mess'. It was important for me to believe in the truth behind this seemingly scornful reproach – it was important to have someone to blame – because there's no use in looking to the future unless you understand what went wrong the last time around. I believe that I also proved this point, maybe the most blatant example being the likening of Music Anywhere to MP3.com, and how a decade of progress was lost due to arrogance and a lack of innovation by the major labels.

One of the things I struggled with was finding up-to-date statistics on file-sharing. Going into the research phase of my thesis I was sure such numbers would be abundant but I met a very different reality. The interest in file-sharing trends is bigger than ever, which has turned the knowledge into a commodity (even on the internet!). There are many companies who focus solely on providing wealthy clients with the latest advances in this phenomenon, and the information is kept surprisingly private. It blew me away that even the IFPI tries to cash in on their annual 'Recording Industry in Numbers' report for £550! Since the only currency I could invest in this product was time, I was unable to entertain the idea of paying for statistics, and as a result, I'm not fully satisfied with the relevance of the section on piracy. If I could change one more thing it would probably be to add more predictions of the future. Predictions of the future are, understandably, always a bit fascinating, but I was surprised by how in tune with each

other most of the authors I read were, and that contributed to the monotony in that section. Perhaps an interview with a more conservative industry professional could have spiced things up.

The biggest surprise for me was how inspired I became from Lawrence Lessig's (2004) book about copyright. Although the section left pretty much all countries but the U.S. untouched, I feel it contributed to an essential red thread that was carried on throughout the rest of my report: unless it kills incentive to create, promote, distribute – copyright law shouldn't prohibit it. It's an old fashioned view, no doubt, but I'm pretty sure that this is a rare understanding of copyright, especially among younger generations.

I am convinced that the time and effort I spent working on this project will benefit me later on in my career. The process has completely changed how I perceive the music industry, or any economic model for that matter, and I'm pleased to find it all a bit demystified. I have much more confidence when debating industry related subjects with friends and colleagues, and I will be proud to refer to this project when pursuing a career within music.

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