

Music Distribution over the Internet Should Be Regulated

The Internet, 2002

Randall E. Stross argues in the following viewpoint that allowing unregulated exchange of free music over the Internet may destroy record companies and harm artists and consumers. He claims that record companies serve customers in a way that the Internet cannot duplicate: they cull out less-talented artists, which enables musicians with more potential—whom they subsidize—to succeed. Stross predicts that other industries dealing in intellectual property—such as book publishing—will likewise be destroyed if the sharing of their products over the Internet remains unregulated. Randall E. Stross writes for *U.S. News and World Report*.

As you read, consider the following questions:

1. According to Stross, who are the music industry's most prominent defenders?
2. Why is the author skeptical that websites like Napster will encourage consumers to purchase CDs?
3. What is the net profit that a record company realizes from the sale of one CD, according to Stross?

Microsoft's director of government relations. Village's chief financial officer. The Recording Industry Association of America's PR honcho. These professional explainers have some of the most unpleasant jobs I can think of at the moment.

The Napster Controversy

The music industry enjoys about as much sympathy from the public as does, oh, the tobacco industry. Its image is not helped by the recent Federal Trade Commission wrist slap for record companies' penalizing retailers that advertised deep discounts on CDs. Now, a string of unwelcome headlines have chronicled its legal war on Internet challengers, first MP3.com [a website that offers free music to download] and, more recently, Napster, the site that enables users to download songs that reside on the hard drives of other fans and are available free.

The music establishment's most prominent defenders, heavy-metal group Metallica and rapper Dr. Dre, have also attacked Napster, forcing it to close down the accounts of fans who have downloaded the performers' songs.

In retaliation, Napster supporters have made Metallica the butt of ridicule: Crowds of Web visitors have been enjoying a satiric, expletive-filled animated cartoon, "Napster Bad," starring two members of Metallica, developed by Campchaos.com. The cartoon drummer directs outrage at Napster users: "Just because you, like, made us rich, you think you can get free stuff, for stuff that we spend upwards of, you know, like, 24 to 48 hours writing and recording?" His sidekick is capable only of monosyllabic growls. His longest utterance: "Money good. Napster bad."

Some bands have come to Napster's defense. Limp Bizkit and Cypress Hill will make up part of the

opposing tag team in this World Music Federation Smackdown. The two groups will go on a "Back to Basics" tour in 2000 flying the banner of Napster, which has put up \$1.8 million to underwrite the free concerts.

Cut prices, get rich? The biggest surprise has come from *Wall Street Journal* technology columnist Walter Mossberg, who described Napster with uncharacteristic giddiness. So excited was Mossberg about his experience in the Napster "candy store" that he suggested that the music industry adopt an entirely new business model. Permit consumers to purchase and download a single song—for no more than 75 cents, he suggested helpfully—rather than force buyers to pay \$16 for a CD with a dozen songs to obtain a single favorite track. Then Mossberg tried to argue that such deep price cuts would benefit the record companies because it would unleash untapped demand that would make up for the drop in per-unit revenue. His evidence? He personally bought five CDs after stumbling across artists found on Napster that he had forgotten about.

An expectation of resurgent CD sales flies in the face of common sense. Wasn't it Mossberg himself who lamented the 1:12 ratio of favorites to filler that one expects on the new CD purchased at the store? More likely, users will download their favorite songs free and "burn" their own compilation CDs: Twelve favorites out of every 12 tracks will always beat 1:12.

Napster's interim CEO, Eileen Richardson, is even more audacious in her claims: The record industry today is a \$40 billion business, and Napster—by helping to make current titles available to one and all free—will build it into a \$100 billion business. Why, of course!

Subsidizing the Not-Yet-Famous

If the industry is forced to adopt a pennies-per-song model, I'm not concerned about Metallica band members missing payments on their Ferraris. But I am concerned about what the implications are for the not-yet-famous bands that account for almost all of the 7,000 new CD titles that come out each year on the major labels—because the Metallicas and Dr. Dres subsidize the costs.

Consumers pick up a CD at the store and think the difference between the 60 cents it takes to make a disk and the \$16 retail price is prima facie evidence of gouging. But the dreary economic facts are these: Subtract all the costs and the overhead that serves to support other artists under the same roof, and the net profit that the record company retains is about 59 cents per CD.

The same combination—low unit manufacturing costs and comparatively high retail price—is found in book publishing, and there, too, a few hits carry the entire list. Book publishers do not yet face the immediate threat that Napster and its successors pose for the music business. But the publishers know it is ahead, and there is plenty of hand-wringing about what can be done about it.

Free music, or almost free music, sounds sweet to me, too. But if record companies are destroyed by the "new economics," and all artists offer their wares directly through the Web, I predict we will then discover that we have lost a crucial function we never gave record companies credit for: winnowing. With the demise of business as usual, every garage band in existence will have equal standing in the

undifferentiated mass of millions of titles thrown up on the Web. Yes, downloads will be inexpensive, but how will one find the good stuff? Then we'll belatedly realize that those demonized record companies once had saved us from ourselves.

Further Readings

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