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The State of Music Online: Ten Years After Napster

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Introduction

At the ripe old age of ten, the current incarnation of the Napster music service scarcely resembles its former bawdy self. If the original Napster was a loud, raucous garage band made up of drunken college students, the present offering is what happens when the band sobers up, signs to a major label, and starts house hunting.

Long gone are the days of free-flowing music from the vine of central servers. Today's Napster requires a grown-up kind of commitment: a credit card and a monthly subscription. It also faces stiff competition; while Napster morphed from its lawless larval stage to a dues-paying music service, consumers in search of free content have had their pick of surviving peer-to-peer applications and torrent sites that more than make up for the loss of the original rogue site.

The current economic climate makes music an even tougher sell. In today's economy, how do you compete with free? While it may seem counterintuitive, some experts see consumers' insatiable appetite for free content as an opportunity rather than a cause for

concern. Chris Anderson, author of *The Long Tail* and Editor-in-Chief at *Wired* ignited a fiery debate among the technology and entertainment community recently when he published an article touting free content as the key to earning income in the digital age. His article, titled, “Free! Why \$0.00 Is The Future Of Business,” argues that when digital content approaches zero marginal cost to distribute, the more you give away for free, the more you can sell to the small segment of consumers who are willing to pay for premium content.¹

For today’s Napster, that means that along with the unlimited streaming capability that a monthly \$5.00 subscription fee buys, the listener also scores five “free” digital downloads with no strings attached. For some artists, Anderson’s scenario translates into giving away the entire album for free in hopes that fans will pay for concert tickets or limited access to live streaming video from the road. What’s clear at this point in the evolution of the music business is that there is no clear business model. In the internet age, selling recorded music has become as much of an art as making the music itself.

While the music industry has been on the front lines of the battle to convert freeloaders into paying customers, their efforts have been watched closely by other digitized industries—newspapers, book publishing and Hollywood among them—who are hoping to staunch their own bleeding before it’s too late. And if the music market is any indication of how consumer expectations will evolve elsewhere, the demands for free content will extend far beyond the mere cost of the product.

In the decade since Napster’s launch, digital music consumers have demonstrated their interest in five kinds of “free” selling points:

1. **Cost** (zero or approaching zero),
2. **Portability** (to any device),
3. **Mobility** (wireless access to music),
4. **Choice** (access to any song ever recorded) and
5. **Remixability** (freedom to remix and mashup music)

All of this makes for a tall order, but if history is any guide, music consumers usually get what they want.

Free music makes the network wealthy

As researchers look back on the first decade of the 21st Century, many will no doubt point to the formative impact of file-sharing and peer-to-peer exchange of music on the internet.

Distributed networks of socially-driven music sharing helped lay the foundation for mainstream engagement with participatory media applications. Napster and other peer-to-peer services “schooled” users in the social practice of downloading, uploading, and sharing digital content, which, in turn, has contributed to increased demand for broadband, greater processing power, and mobile media devices.

Internet scholar Lawrence Lessig has even gone so far as to argue that music was the *most* important catalyst to early adoption of the internet. As he notes in *Free Culture*, “The appeal of file-sharing music was the crack cocaine of the Internet’s growth. It drove demand for access to the Internet more powerfully than any other single application.”²³

Media analysts now broadly use the term, “Napsterization” to refer to a massive shift in a given industry where networked consumers armed with technology and high-speed connectivity disrupt traditional institutions, hierarchies and distribution systems. And in many cases, those consumers have come to expect that a digitized version of a product—such as news, movies or television shows—should be available online for free.

Yet, the current reach of this Napsterization effect extends far beyond the media industry; patients are sharing peer-to-peer expertise on coping with medical conditions and are engaged in efforts to gain free access to vaulted personal health records, citizens are networking to increase oversight of politicians and are demanding unfettered access to government data. Even online daters—one of the few segments of the internet universe willing to pay at the gates of the walled garden—are circumventing the paid services and connecting directly via free social networking sites.

Partying like it’s 1999—until the subpoenas come in

Music critic Sasha Frere-Jones has referred to the plight of the music industry as the “canary in the economic coal mine,” citing it as “a small example of the enormous financial buckling that is now global.”²⁴ If the music business was the canary, then the MP3 was its carbon monoxide, choking an industry that had built its empire on the clean, regulated air of analog music products. First, music went digital. Then the MP3 compression format shrunk those big music files into transportable size. After that, there was little hope of record companies making it out of the mine without some serious lung damage.

Napster arrived at a time when tightly controlled access to new music was still the norm. While online radio stations were starting to flourish, music lovers were becoming disillusioned with the homogenizing effects of terrestrial radio consolidation that was enabled by the 1996 Telecommunications Act. Their frustrations were made clear when the Federal Communications Commission reviewed these rules in 2003 and opened them up for public comment. The FCC received more than 15,000 letters, emails and other

documents. This was one of the largest responses in FCC history, with most writing in to oppose further media consolidation.²⁵ Before Napster, internet users had limited access to digital music through legitimate channels. After Napster's software allowed fans to share their entire catalog of music files online, the music ecology radically changed.

The revolutionary file-sharing application created by college student Shawn Fanning officially launched in June of 1999. By November, the file-sharing network had grown so popular that it had attracted the first of many peer-to-peer-focused lawsuits from the RIAA. And by the time the Pew Internet Project fielded its initial survey on music file-sharing in July 2000, nearly one in four adult internet users said they had downloaded music files, and most of them (54%) had used the Napster network to do so.²⁶

The musical bacchanalia that consumers experienced at the height of Napster's popularity prompted many industry observers to declare record labels obsolete long before sales figures had shown any serious decline. A *New York Times* article that ran during the summer of 2000 described the scenarios put forth by industry experts:

In the none-too-distant future, techno-visionaries declare, musicians will not need record labels. Instead, they will market and sell recordings directly to fans over the Internet. Even the labels that manage to hang on to their artists will find their sales eviscerated by piracy. With free music available on the Web via Napster and other song-trading services, only fools will pay for songs.²⁷

Yet, in 2009, there are plenty of fools among us, and the record labels are still hanging on to their broken strings. Granted, consumers aren't spending as much on music as they used to. Record sales for the music industry continue to decline; the latest reports from Nielsen indicated that total album sales, including albums sold digitally, fell to 428.4

million units, down ~~8.5%~~ 14% from 500.5 million in 2007.²⁸

And while *digital* album sales actually increased 32% during the same period—to a record 65.8 million units—they were still dwarfed by the 362.6 million physical units sold. Pew Internet Project data echoes these findings; the market for digital music is still in its infancy, and those who do continue to buy music still overwhelmingly choose CDs. According to our 2008 “Internet and Consumer Choice” report, just 13% of music buyers say their most recent music purchase was a digital download.²⁹

At the same time, unauthorized file-sharing venues are still firmly rooted in the online music world. In a recent Pew Internet Project survey, 15% of online adults admitted to downloading or sharing files using peer-to-peer or BitTorrent.³⁰ Globally, estimates from file-sharing research firm Big Champagne place the P2P universe at more than 200 million computers with at least one peer-to-peer application installed, and operators of the popular Pirate Bay torrent tracker have identified more than 25 million “peers” who have

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