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Market Research in the Internet Age: How Record Companies Will Profit From Illegal File-Sharing

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History has repeated itself. In the 1920s publishers fought radio because they believed it was giving music away for free. As time went on the music industry settled down as radio carved a niche for itself. Today, not only has radio become extremely important with regards to marketing, it has also become a key research tool for the industry. The Internet walks in the footsteps of radio—first feared, but now slowly embraced. Although the Internet has created problems for the music industry, it is now clear that there are benefits from this new medium.

As of October 29, 2004 record companies have filed over 6,000 lawsuits against individuals whom they allege downloaded music illegally.¹ While over 6,000 lawsuits may seem like a drop in the bucket compared to the total number of users, the lawsuits have received a great deal of publicity.

Record companies have released bogus music files on the Internet and have been working with technologies such as watermarking. Bogus music files, empty files that appear to contain music, are released on the Internet for the purpose of frustrating people who are downloading music illegally. The act of distributing bogus music files on the Internet is called “spoofing.” Another developing technology is the watermark. A watermark is an embedded code placed in a music file by a copyright owner to track and manage the use of music over the Internet. Watermarks allow copyright owners to trace and identify the source of unauthorized copies. Record labels have been relying on the RIAA for direction and support. The voluntary anti-piracy warning sticker, PR campaigns against piracy, and appointing anti-piracy executives are examples of the types of activities the industry has been practicing in order to thwart internet piracy. Music publishers have begun licensing their copyrights to online music services to try and provide a convenient way for consumers to download music legally. While all these activities have captured our attention and kept the industry busy,

companies like Jun Group, WebSpins, and BigChampagne have stepped in and presented a way to profit from the illegal use of music on the Internet.

Jun Group is a company that has a unique use for illegal file swapping. Record labels authorize Jun Group to use the illegal downloading websites for promotional purposes.² They distribute music directly to the highest levels of the file-sharing universe—the more-technical users who trade files on Internet Relay Chat and Usenet. This group is known to be the Internet arbiters of cool. They are the first group to receive content and distribute it throughout the rest of the Internet community. Jun Group's use of peer-to-peer file swapping is ironic, as is that of BigChampagne and WebSpins. While record companies are doggedly fighting to prevent online piracy, these companies are monitoring file-sharing and selling that information to the record companies for a hefty price. WebSpins and BigChampagne monitor what Internet users are sharing on peer-to-peer file-swapping services. To add fuel to the fire, these companies are able to pinpoint where and when Internet users are sharing. This is an important part of the equation. Using this type of information, the music industry will be better informed about their consumers' habits in specific locations. KaZaA, Morpheus, and Grokster are all examples of file-swapping services monitored by both companies. All of the legal online music services combined are selling about two million songs per week; illegal downloading is estimated at 500 million songs per week.³ Tracking the activity of peer-to-peer file-swapping services may change the way certain facets of the Industry operate.

“The industry's argument in court battles against file-sharing hinges in large part on the argument that file-sharing networks serve no purpose other than to foster copyright infringement.”⁴ Now, the music industry has found another purpose for file sharing networks. They are using it for market research and promotional purposes.

Given this information, the record industry is not very open about its relationship with BigChampagne. While record executives are meeting with BigChampagne's executives on the street, they refuse to meet at their labels' or BigChampagne's offices.⁵ Nevertheless, there are numerous potential benefits to many areas of the music industry who choose to use information collected by WebSpins and BigChampagne and the marketing techniques of Jun Group. As the Industry moves ahead, it is going to become increasingly difficult to ignore these pioneering companies.

In the past, research techniques have consisted of focus groups, phone surveys, and music tests. These new Internet research techniques cover a much wider audience and are not influenced by a moderator. BigChampagne and WebSpins do not claim that their techniques are infallible, but at the very least they provide a big edge when anticipating trends. Imagine if these companies could fine-tune the act of capturing and quantifying this information. There could be significant changes in the way the music industry does business.

The main goal of BigChampagne and WebSpins is to monitor peer-to-peer file-swapping services. The big questions are what to do with that information and how much is it worth. According to a *Wired Magazine* article published in October 2003, BigChampagne sells subscriptions to its database. A company might pay \$7,500 to track one album or might sign up for an annual deal of up to \$40,000 to have access to the entire BigChampagne database. Adding credibility to this new research process, two major deals have come to the forefront. First, Uncommon Media, the parent company of WebSpins, has struck a deal with Nielsen Entertainment.⁶ The data collected from WebSpins will be included in packages offered to Nielsen's clients. This represents a prestigious "stamp of approval." Nielsen Entertainment's research tools also include SoundScan (a point-of-sale accounting system) and BDS (an electronic broadcast-monitoring system). Both are respected staples in the entertainment community.

Second, media giant Clear Channel and BigChampagne have also decided to work together.⁷ Given the fact that Clear Channel operates about 1,200 radio stations across the country along with 5,000 stations in their Premiere Radio Network, this agreement is a clear show of confidence in the strength of the technology. In addition to radio, Clear Channel is involved with other aspects of the entertainment industry including television, outdoor advertising, and live events. Clear Channel has recently begun to produce CDs with their new venture, Instant Live. At the end of an evening, concert patrons are able to purchase a CD of the show they have just attended. For those who miss the show, the CDs will be available at retail or on the company's website. Since Clear Channel is involved in other aspects of the entertainment industry besides radio, the demographic and marketing information provided by BigChampagne could prove helpful in the areas of Clear Channel's business that involve similar demographics.

Radio

Radio, retail, touring, licensing, marketing, and advertising are all areas of the music industry that will benefit from the use of this information. Radio is the first place where this information has been tested. The record industry currently buys information from BigChampagne and uses the data to influence radio station play lists.⁸ If a label knows that one of its artists is popular, but is having difficulty breaking the single on radio, the information supplied by BigChampagne can be very helpful. A record label can show a radio station hard evidence that an artist's single is very popular on the Internet with file-swappers in a particular city. Radio stations work hard to maximize listeners. Theoretically, they want to play music that is popular in their locations. This application of technology may be an important departure from the methods stations currently use to construct their play lists. Often, play lists are created by the pressure and manipulation of independent radio promotion companies and label radio promotion people who have relationships with station program directors. Traditional research techniques, mentioned earlier, can continue to be used in creating play lists, but music tests or focus groups work with a very limited, and perhaps non-representative, sample of the target population. Rather than all the behind-the-scene deals between promoters and radio stations, broadcasters could simply consult BigChampagne and SoundScan reports. Programming play lists based on data that accurately represents what is most popular in a given city will produce results far more reliable than play lists composed using current methods. By playing what the public wants to hear, instead of what executives think the audience should hear, a station might attract more listeners. Research from SoundScan and the Internet monitoring services cover a huge audience. A company like Clear Channel, using information from BigChampagne, will have a big edge in play list development. The relationship with BigChampagne gives Clear Channel a direct line to accurate, up-to-date information.

One must remember that radio continues to be a very important marketing tool for the record industry. Currently, record labels pay hundreds of thousands of dollars to get a single played on radio.⁹ Legally, labels may not pay a radio station directly in order for their music to be added to the play list. Instead, they pay an independent radio promotion person to act as a middleman in the transaction. Some might consider this an unfair business practice. Radio stations may well need to pay more attention to research and less attention to outside influences. The question remains whether

those involved with these business deals are willing to change standard industry practices.

Retail

Retail is the second area of the record industry that could derive benefits from utilizing peer-to-peer file-swapping information. Since the monitoring companies can determine the location of the downloader, retail stores and record labels can be sure to stock music that is being swapped. Perhaps for the first time a retailer could focus inventory and promotional efforts on what is actually popular—across all genres—in a given area. Even though the common perception about downloading is that there is no longer a need for retail stores, music consumers often use streaming on the Internet as a tool to listen to music prior to buying the album at a traditional retail outlet. Record labels are now differentiating online music buying options from traditional retail buying. Labels are posting songs on the Internet that are not ordinarily available on CD. Labels may offer, for example, outtakes on legal download websites. Outtakes would not usually be offered on CD, but using online opportunities, this option is possible. It would be an innovative use of the Internet to draw consumers back into brick and mortar stores by offering special recordings, not only on the Internet, but also on albums available in retail outlets. A retailer working with a label could create a listening post with an artist's top Internet swapped songs. The retailer might also create a listening post with the city's top-swapped songs. There could be a section in the retail store of local Internet favorites where a collection of top-swapped artist CDs would be for sale. Combining the results of SoundScan and BigChampagne, retail could very well strengthen its position.

Touring

Touring is the third area that could benefit from the file-swapping services. In addition to SoundScan, which tracks sales, understanding an artist's popularity through file-swapping could help a tour promoter better prepare for a concert. Since Clear Channel books national tours, using the information from BigChampagne could help focus business on selected cities. If Clear Channel notices that there is significant downloading activity of a particular artist in a particular city, the tour could be routed through that city. Without the knowledge that BigChampagne could provide, an artist might miss important tour stops that could help bolster his or her

career. Even more intriguing, artists could tailor each show based on their most popular swapped songs on the Internet for each city they visit. The artist's management, keeping in touch with BigChampagne, would download file-swapping data on cities where the tour stops. Management would provide the artist with information on the most popular songs downloaded in each city. Using this information the artist would build a customized set list designed to be most appealing to each specific audience at each tour stop. Working with retail, a label could promote live albums based on the most popular swapped songs in a particular location. Pearl Jam has done something like this in the past when they released a number of CDs of their live shows around the world. Instead of using set lists created solely by the band, they could now use online research to create the most popular set list for each location and create CDs based on these popular set lists. Fans around the world could hear live recordings of songs that are popular outside of their home region.

Licensing

Licensing departments could also take advantage of reviewing reports from online music monitoring services. Although a label pushes a single, there might be another song on the album that file-swappers find more interesting. In an effort to boost the popularity and income of the artist, the label could push these "B-side tracks" to the film and television industry for licensing purposes. If a single hits it big it is usually very expensive to license. Since many film and television projects limit their music budget, it is important to have other musical options. By finding popular online tracks, it gives the film and television production companies a popular alternative that might not be as obvious or expensive. If the film and television industry had access to online file-swapping information, they might find tracks that the label missed as being popular. They could license these tracks from the label at a lower cost than a conventional hit song and still have a well-known song for their project. (A less popular song is usually easier and less costly to license than a hit single.) Another licensing aspect could be the creation of compilations based on the top-swapped songs. An entire series of CDs could be licensed based on file-swapping information.

Marketing and Advertising

Finally, record industry marketing and advertising executives should show great interest in the information supplied by companies like WebSpins

and BigChampagne. With the information gathered from Internet monitoring services, BDS, and SoundScan, a record label will have a much clearer picture of an artist's position in a particular location. By consulting data from the Internet monitoring services, record labels will be able to focus their marketing and advertising campaigns to bolster weaknesses and exploit strengths. For example, advertisers could determine the best songs to use for promoting a tour based on information from the online monitoring services. The most popular songs could be used to create television and radio commercials.

Overall, the information gathered from file-sharing monitoring services will enhance a record label's ability to market and sell records by improving its ability to match music to consumers' tastes. This will provide the music industry with new opportunities for increased business. Each record company department mentioned has a use for information collected by BigChampagne and Webspins. Retail, promotion, touring, and marketing could all use the online information to better target and serve consumers. For too long the record industry has viewed the Internet as a threat. BigChampagne and Webspins have raised the possibility that the industry might actually prosper from the intelligent use of data gathered from those downloading music illegally. As with radio, the Internet will also find its place within the music industry.

Endnotes

- ¹ Alex Veiga, "Recording Industry Sues Another 750 Computer Users," The Associated Press, October 29, 2004, <http://web.lexis-nexis.com/universe/printdoc>
- ² Sue Zeidler, "Internet Pirates Gain Unlikely Allies: Music Industry Seeks Download Data as Gauge of Demand," *National Post*, November 4, 2003, http://web.lexis-nexis.com/universe/document?_m=71d6b8403225eeec3bc130837e79a56c&_docnum=6&wchp=dGLbVzz-zSkVA&_md5=adc2c290bce33d98487ed92657010811.
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