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Commentary; Where Napster Has Gone, Others Will Follow

By Jeremy Rifkin

Napster, the snappy upstart company that's been facilitating the free downloading of music tracks, is on everyone's mind since a federal judge agreed with the music industry that Napster was engaged in massive copyright piracy and ordered the firm to cease operations. But an appeals court has stayed the order, giving Napster a temporary reprieve.

At the heart of the controversy is a clash that goes far beyond the music industry. What we're witnessing is the beginning of an epic struggle between two great economic systems. On one side lies the old market-based economy, made up of sellers and buyers. On the other side lies the new network-based economy, made up of servers and clients. In markets, the parties exchange property. In networks, the parties share access to services and experiences.

The new information and telecommunications technologies, e-commerce and globalization are making possible a new economic era as different from market capitalism as the latter is from mercantilism. In the new century, markets are slowly yielding to network ways of doing business, with profound implications for the future of society. By the middle decades of the 21st century, markets, the hallmark of conventional capitalism, will have largely disappeared, replaced by a new kind of economic system based on network relationships, 24/7 contractual arrangements and access rights.

Far from being an anomaly, Napster is really the first of a new genre of businesses that operate by a network mentality rather than by market logic. It is the new software technologies that are making companies like Napster possible and revolutionizing the nature of commerce. Here are some of the reasons why the Napster model is likely to set the pace for the way companies do business in every field:

* The near warp speed of distribution and exchange on the Web makes direct market-based transactions far too slow. With a simple click, before a cash register can even ring up the sale for a single compact disc, one can distribute music to people around the world and exchange whole libraries of songs.

* Web distribution reduces transaction costs toward zero, virtually eliminating the traditional profit margins on sales-related activity. Compare the transaction costs of

producing, packaging, inventorying, transporting and merchandising a CD with the cost of producing a single music track and distributing it instantaneously to millions of people, at no appreciable additional cost, in an electronic network.

* In markets, the emphasis is on maximizing production, and profit is made on the volume of the sales; in networks, the emphasis is on minimizing production--making just one CD--and profit is made by pooling risks and sharing savings. Everyone in the Napster network swaps their music with one another. It's called peer-to-peer computing. But because the music has been reconfigured digitally as pure information, it can be shared with other people without any loss to the holder.

So how will companies like Napster make money? They will first build up their network of users by providing a free service. Then they will most likely transform their main asset, their network of millions of users, into paid subscribers or members and share the revenue with the music companies as well as charge for advertising and marketing new music groups on their sites. While Napster continues to claim that it will keep its service free, it's interesting to note that a recent poll of college students found that 50% of Napster users say they would be willing to pay a \$15 monthly fee to access the Napster service.

Already, EMI Recorded Music, the Universal Music Group and Sony Music Entertainment have announced plans to make their music available on the Internet, as a subscription service, by the end of the year. Napster and other similar companies might have little choice but to follow suit. A Jupiter Communications study projects that by 2005, online subscriptions for music will account for \$980 million in revenue, while individual market-based transactions of CDs online will account for less than \$531 million in revenue. In networks, everyone is more likely to be a subscriber, member or licensee.

The notion of substituting subscriptions and unlimited access to music for sales of individual CDs gets to another key difference between a market-based economy and a network-based economy. In markets, physical property is exchanged between seller and buyer. In networks, access to experiences over a fixed time is being purchased. When subscribers pony up a monthly subscription for online music, they are paying to have access to the experience of listening to their favorite music, rather than purchasing the music in the form of a propertied acquisition. In networks, ownership of things gives way to access to experiences.

In the new e-commerce economy, hyper-speed and continuous change are the rule. The result is that the purchase and ownership of CDs or, for that matter, any other fixed product, make less and less sense. Why would anyone want to acquire or hold on to anything when everything is immediately accessible and updatable in vast commercial networks, right when you need it, and is cheaper to access than to buy? That's why Napster is such a success. It provides instant access to music at near-zero cost.

Finally, sophisticated software and the new telecommunications technologies allow for a perpetual flow of feedback, turning the economy from discrete market transactions to continuous nonstop access in networks. One pays to be always connected to a steady stream of virtually unlimited music rather than to buy an occasional CD. Commercial life is now all day, every day.

Napster is only the tip of the commercial iceberg. The film industry is locked into a similar court battle with hackers who have created code that cracks the digital video disk format, allowing anyone who has access to the code to make copies of DVD movies and exchange them free, like Napster users are doing with music downloads. The new code is called De CSS for Descramble Content Scramble System.

A federal judge in New York City ruled Thursday that the Web company 2,600 Enterprises cannot distribute the computer program used to crack the DVD code. The defendant has appealed and both sides anticipate a long and protracted court battle.

More than 300,000 movie downloads are happening each day with the De CSS technology, and observers expect the number to reach 1 million or more per day by the end of the year. While Jack Valenti, president of the Motion Picture Assn. of America, warns that hackers should not be allowed to put the code on the Internet and therefore share movie files the way Napster does with music, there may be little he and the film industry can do to stem the tide. In the long run, the film companies are likely to follow the lead of the music industry and make their peace with the Net by setting up their own sites and providing ongoing access to films to paid subscribers.

While there has been a great deal of angst over how to protect copyright and ensure that musicians and music companies are rewarded for their contribution, little attention has been paid to where the whole network process is leading society. Napster speaks to a much deeper change in the economy. In the coming century, short-term access between servers and clients operating in networks is going to redefine our social dynamics as powerfully as did exchange of property in markets in the past century. Today, Napster is an oddity. In the future, it will be the norm.

Credit: Jeremy Rifkin is the author of "The Age of Access: The New Culture of Hypercapitalism Where All of Life is a Paid-For Experience" (Tarcher/Putnam, 2000)