
Buxton, William (2004). Music Sharing Over the Internet. *Canadian New Media*, 7(11), 8,7.

Music Sharing Over the Internet¹

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June 2, 2004

As someone who has made a significant part of their living from book and music royalties, and who has also played a non-trivial role in the development of the enabling technologies, I find the debate on music sharing over the Internet interesting. Its implications go far beyond the music business, and speak to a number of issues around innovation, competition, and the general transformations that the Internet is bringing.

The issues around the free sharing of music files are usually discussed from one of two perspectives: "the music industry" who want to outlaw it or charge for it, and the consumers, who want to keep it free. I don't think that it is that simple. Some additional insight can be gained by thinking of it as, at least, a triangle, with the three sides being the record companies, the recording artists, and the consumers.

One observation is that the loyalties of the fans is to the musicians, not the record companies. Second, the record companies know this, and so a major part of their strategy is to do everything that they can to create a linkage between their interests and those of the artists. However, this may not be in the best interest of the musicians, whose dependence on the fans is far stronger and fundamental than the relationship between musician and label. The relationship between artist and label is a marriage of convenience. It is far easier to change labels than fan base. And the financial forces that have heretofore made this marriage necessary are being drastically altered by technology. New options are opening up for artists. I suspect that record companies know this, and hence their fervor in doing everything that they can to consolidate their bond with the artists, while they still have leverage.

In the midst of all of this we have the issue of file sharing. While this is not something that I condone, or suggest is right, in the overall context of things, it absolutely is something that is comprehensible.

Consumers have an extremely understandable impression that they are being ripped off, and therefore feel justified in "returning the favour." And it is the record labels, not the artists, that they feel are the culprits.

¹ This is a revised version of a letter read on CBC Radio's *Metromorning* show, April 2, 2004.

A simple example. Kids are not stupid. Now that they understand, and have access to, the means of production, they are perfectly aware of three things: (a) cassettes cost significantly more to make than CDs, (b) CDs and cassettes are made from the same master tapes (c) cassettes cost significantly less than CD's. Now I am a businessperson, and understand that the quality of product, not the cost of goods is what business says should determine price. But kids just don't see that. If cassettes cost significantly more to make, yet are sold for far less than CDs, then it is understandable that they will conclude that they are being way overcharged for CDs. Hence a significant part of the problem.

In all of this, the artists are far less at risk than the record companies, at least in the medium and long term (the short term is debatable). The reason is that the same technologies that let consumers burn and distribute CD's also provides the means of production to the artists. This eliminates one of the things that the record companies traditionally brought to the equation. With the advent of home studios and the associated means of production, for the most part, the main things that the labels bring now is distribution and marketing. With services such as Apple's iTunes, or artist's individual or collective web sites, even the need for labels for distribution is being eroded.

If an alternative vehicle for marketing music can be established, then the existing labels are on a fast track to oblivion, outside of what they can make from their existing catalogues (which would then put them in similar shoes as the artists, as a music source).

So, yes, the record companies should be worried. But music will continue to be produced and people will still be paid for it. It might just be different people and certainly different business models. If the record companies – in light of the technology induced loss of control of production, and increasingly distribution – do not want to lose what little that remains, then they need to stop relying on the (comfortable) windfall margins that they initially had from CDs (a new technology, by the way), and figure out how to innovate so as to bring real value to the equation. Too bad they didn't reinvest some of the windfall earlier, when they had the chance.

In the meantime, there may be some disruption for some artists, but the market will quickly adjust. Another structure for marketing will emerge, opening up the potential for artists to have more control, and more participation (financial and creative) than any but a few stars ever had in the past.

The winners will be the consumers and the artists. The losers will be the record companies. That is, unless they start to recognize that every past wave of prosperity that they have experienced came from riding a new wave of technology, not engaging in some futile rear-guard struggle over the last one.

It is not the pirates that are going to kill the record companies. It is their own lack of imagination and innovation. How ironic for this to be happening to an industry associated with some of the most creative people in the world. Too bad so little of that creativity has rubbed off. The question now is, is it now too late? My best suggestion: focus on innovation, not litigation.