Weekly insight: Remake of the Napster phenomena
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WEEKLY INSIGHT
Remake of the Napster phenomena
History recurs. The recording industry scored another victory over illicit online music-swapping services, reaching a swift out-of-court settlement with Audiogalaxy that requires the 'Napster-like clone' to halt unauthorized music trades.
Audiogalaxy agreed to pay an undisclosed sum to music publishers and the recording industry. The agreement would permit the Austin company to continue to operate its Web-based file-swapping service, so long as it offers only licensed music for download.
It's the same strategy that led Napster, the peer to peer (P2P) service that switched on the music revolution, to bankruptcy. (From Silicon Valley.com) [Full Story]

Highlights
- Born as a music search engine of the Texas University, Audiogalaxy's business is based on advertising and premium access subscriptions. It had been gaining popularity, attracting some 30.8 million Internet downloads over the last year - and 3.5 million regular users, according to Jupiter Media Metrix.
- Despite the industry efforts to control illegal file downloads, P2P sites grow month to month to the detriment of legal sites. Only in Western Europe, the number of unique visits to 'grey market' P2P rose to 11.3 million in March from 10.2 million in January. So says Jupiter Media Metrix analysts, who also reveals that legitimate music sites fell to 2 million from 2.5 million in the same period.
- Since its crushing victory over Napster, the recording industry has brought suits against other popular sites
- including Aimster, Morpheus, Kazaa.

Press Review

From News.com
"Although the settlement clears the way for Audiogalaxy to leave its legal headaches behind, it raises other, equally pressing concerns over the company's future. Audiogalaxy has attracted millions of Web surfers by offering a broad menu of free music-an arrangement that almost certainly will not survive the settlement. The tough road to legitimacy for file-swapping companies was illustrated last year by Napster, which added filters aimed at blocking its users from trading unauthorized files, only to shut down voluntarily when they proved insufficient. The company has remained dark ever since. It filed for bankruptcy protection earlier this month, although it still awaits a chance to come back online, according to its primary backer, German media giant Bertelsmann."
[Full Story]

From Ecommerce Times
"'With functions such as the ability to download entire songs and albums, cover artwork and software, as well as a peer-to-peer file-sharing function, Audiogalaxy's system is even more egregious than that of Napster,'" the complaint states.

Matt Oppenheim, senior vice president of business and legal affairs for the RIAA, told the E-Commerce Times: "Though claiming fealty to copyrights, Audiogalaxy continues to offer up virtually all of the music we told them should be excluded. The firm's sieve-like filter has been totally ineffective."

It remains to be seen whether Audiogalaxy can buck the trend and find enough ready cash for lawyers. Although suits against such "music for the people" start-ups have sparked discussion about the value of free online music, even powerhouse Napster was ultimately felled by litigation."
[Full Story]

From The Register
"The Austin, Texas firm can negotiate collectively with the music indies, and it can operate some type of declaratory form for people putting up demos. But can you imagine how negotiations with the music majors (with the possible exception of Bertelsmann) will go? Four of the five big music firms had no intention of settling with Napster, so why should it be any different with AudioGalaxy?"
[Full Story]

From Business Week (august 2001)
"After all, the Napster case demonstrated the courts will shut down services that abet illegal activity, even if the primary use of such systems is legal file sharing. Even so, it's easy to find dozens of copyrighted songs on Audiogalaxy, by everyone from Louis Armstrong to the Velvet Underground. Just as with Napster, music swapsters can join Audiogalaxy groups that let them find others with similar tastes in music. Anyone can set up a group. To join, others need simply to apply for permission from the group owner. Audiogalaxy won't confirm the number of groups that currently exist, but there appears to be something for everyone.

The popularity of such groups could be the harbinger of truly unstoppable P2P service. Instead of one Napster, imagine a world with hundreds of niche file-sharing services for small but passionate groups of jazz or hip-hop lovers. The secret subnetworks wouldn't have enough users to attract the attention of the RIAA. (The networks would be the equivalent of today's cable and satellite pirates. The companies know they're out there, but it's not economically viable to try catching them.)"
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MP3, the battle goes on
The traditional recording industry has won another battle against Audiogalaxy, one of the companies that, according to the filed lawsuit, "facilitated and encouraged" users to copy and distribute copyrighted works. I must confess that, personally, I have at some time downloaded songs from the biggest in this arena, the now disappeared (or on the way to) Napster and for the very same reason. But what makes me think most is every time my twelve-year-old son tells me: 'Come on Dad, listen to what I have downloaded this time from this other site', some so-called Grokster.com. The other day my child astounded me absolutely by telling he had downloaded Star Wars II from somewhere; it still hadn't been released in DVD.

On one hand, there are reasons related to the copyright vs. the copywrong matter. Not underestimating the legislative effort made so far, this proves that the pace of progress and adoption of new technologies is so quick that legislation comes at full speed, but late. Let's not even mention the fiscal questions.

On the other hand, important players of industries such as music and video have been caught. Why? I wouldn't dare to give one sole reason. Convenience, not rethinking strategies again and again, not paying enough attention to what technological acceleration and digital convergence are doing, not realizing they may develop new business models if they evaluate properly their value chain and system chain... Like someone said, "what is now for the first time in the Net is human intelligence". I would add, "for good or bad", just like in everything. For certain, legal battles will continue and many other similar sites will suffer similar effects. But I think it's time for established players to wake up. Are they listening to what clients really want? Are they not too comfortable? Otherwise, why do I have to pay between €18 and €20 for a CD of a certain music group when I'm only interested in one or two songs? It takes up room, it's breakable. It's another physical good defying its validity in the digital era. Copyright, yes and more than ever, but with more accent on the right than on the copy, please.

REPORTS
Internet, a good source of information about EU for 18% of European users
Title: Eurobarometer Especial Bureaux 2002
Source: European Opinion Research Group for European Commission
Date: May 2002
Abstract: European Commission has published a new edition of Eurobarometer Bureaux, a survey that analyses the European public opinion and the use of media. There is a global survey and there are also different versions of the report for each country. Seven EU citizens out of ten believe that television is a useful source of information about the EU; television is followed by daily newspapers (43%) and radio (30%). The Internet (18%) is seen as a good source of specific information on the EU. 88% of European Internet users have never been on the web site of the EU. Only 1% say they use this web site one to three times a month; 1% say they use it several times a week, 0,3% once a week and 8% "less often" (less than 1 to 3 times a month).

More than one Internet user out of two (51%) would like to find on Europa some information on their citizens' rights. The second option, "general information on EU institutions", is credited with 37% of responses. Some 35% of Internet users would like to get more information on key issues. [Full Story]

Silicon Valley salaries decrease 20%
Title: Executive salaries at top 100 Silicon Valley companies
Source: Silicon Valley
Date: June 2002
**Abstract:** Salaries of the executives of the top 150 Silicon Valley companies are 20% less than in 2000. That is the major finding of a Silicon Valley.com study elaborated among 776 executives, who have earned a total of $3,800 million, compared to $4,700 million in 2000. However, everybody has not received the same amount of money. A lot of CEO's, among them Steve Jobs, Apple's CEO, conformed with a salary between zero and one dollar and 219 executives have chosen a zero bonus, compared to 132 executives who did it in 2000. Other executives, such as Oracle's CEO Larry Ellison, got a better deal: $706 million in stock options. [Full Story]

**To review new advertising techniques**

**Title:** Study on the development of new advertising techniques and their regulatory implications

**Source:** European Commission

**Date:** June 2002

**Abstract:** A European Commission survey about new advertising techniques shows differences between laws of the different members. One of these formulas is interactive advertising, which allows viewers to control what they wish to see and how long they are exposed to advertising, and which is going to expand not only with digital television but also with the Internet and mobile phones. In the United Kingdom there must be a clear separation, using an intermediate screen, between the moment when the viewer leaves the programme and the moment when he enters the commercial environment. 

Split screens enable editorial content and commercial information to be presented simultaneously on the same screen. At present, split screens are banned by the Netherlands, Portugal, Sweden and France. However, this type of advertising is allowed in the United Kingdom and Germany.

Virtual advertising or sponsorship enables advertising messages or the name of a sponsor to be inserted into a programme using special electronic means. One example of this is the use of panels in sports grounds where the broadcaster can change an advertisement during the broadcast or adapt it to the area where the game is being broadcast. This form of advertising is banned in Italy, France and Portugal. It is allowed in Greece and Spain and, under certain conditions, in Germany and the United Kingdom. [Full Story]

**COMPANIES**

**Nasdaq arrives to Germany**

Nasdaq, the U.S. stock exchange will launch an exchange together with Commerzbank and Dresdner Bank to rival Germany's Deutsche Boerse. Nasdaq will own 50% of Nasdaq Deutschland, while Commerzbank and its online brokerage business comdirect will each hold 7.5% and Dresdner 15%. The Berlin and Bremen bourses will each hold 10%. From Silicon Valley. [Full Story]

**eBay launches a joint site with Sotheby's**

The online auction giant and the traditional auction house opened their joint web site and have begun to stock it with pricey goods and special collections. eBay and Sotheby's announced an agreement in January whereby Sotheby's would close its own site and move its listings to eBay. Last week, Sotheby's stopped posting new listings on its own site and began encouraging customers to register with eBay. From News.com. [Full Story]

**Owners to sell Viaplus**

Altadis and Cortefiel, the two companies that control Viaplus, may look to sell their stakes in the money-losing online store. Last March, Altadis and Cortefiel carried out a massive restructuring of Viaplus, which included replacing CEO Ana María Llopis with Andrés Pérez, to keep the sinking dot.com afloat. From Europemedia.net. [Full Story]
WE RECOMMEND
What's the problem with software?
When automotive engineers discuss the cars on the market, they don't say that vehicles today are no better than they were ten or fifteen years ago. However, software seems different. Many software engineers believe that Windows XP quality is not improving. If anything, they say, it's getting worse.
That very day of the Windows XP release the company posted 18 megabytes of patches on its Web site. Two patches fixed important security holes. Or rather, one of them did; the other patch didn't work.
Until the 1970s, writing software was much like writing scientific papers. Rigor, documentation and peer-review vetting were the custom. But as computers became widespread, attitudes changed. Instead of a meticulous planning code, programmers stayed up in caffeinated all-night hacking sessions, constantly bouncing results off the compiler.
Some argue that software simply cannot be judged, measured and improved in the same way as other engineering products. Moreover, software companies are constantly asked to create products—Web browsers in the early 1990s, new cell phone interfaces today—unlike anything seen before.
More optimistic observers believe that industry is slowly beginning to adopt new practices and technological tools to make better software. But some engineers argue that the only solutions are litigation and legislation. One way or another, some computer scientists predict, the software culture will change. From Technology Review. [Full Story]

The New Economy, a Myth?
The new economy was not an economic concept but a social metaphor for the times. People believed it was an economic concept largely because the media, Wall Street and a variety of authors, including a handful of academics, told them it was. And the direct contribution of the Internet to economic growth was small. That is the opinion of Jeff Madrick, Fellow of the Shorenstein Center of Harvard’s Kennedy School of Government, who explains so in a research article that analyses how the media treated this concept in the eighties and nineties.
According to Madrick, the phrase new economy has been common since the 1970s. Globalisation, deregulation, privatisation and faith in markets were also often included as components of the definition in those years.
Eventually, the new economy had come to mean the Internet and the private intranets of corporations. There were assertions about a weightless, paperless, office-less, and transportation-light society of e-commerce and instant, comprehensive information. References to the new economy began to rise dramatically, from 325 in 1995 to 22,848 in 2000.
For the author, the new economy was simply good business for the media. The value of ad pages bought to promote Internet services rose by 183% in 2000 over the 1999 figure to nearly $280 million. Specifically, Madrick criticises Business Week, which he considers the leading advocate of a new economy in the late 1990s. In addition, he states that works published by Nicholas Negroponte and Manuel Castells were more acts of speculative insight than grounded in empiricism or strong theory.
According to the expert, only the crash of high technology stocks in 2000, and later the slowing of the economy and the uptick in the unemployment rate, cooled the rhetoric. From Joan Shorenstein Center on the Press, Politics and Public Policy. [Full Story]

ERRATA:
Isabel Tocino is not an IESE MBA, as we said in our last newsletter. Actually, she followed an IESE PADE.

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