Napster and mp3: redefining the music industry

Introduction

Napster was the first, very innovativemusictechnologyapplication that allowed users to download MP3 from the internet and other peers for free, or at a cost. Napster strongly adapted the word sharing and put it their own terms to avoid any copyright infringement but it ended badly on their part. This disruptive technology was leading the market and had over 60 million users by 2001. Although very similar technologies were soon after developed, Napster was still on top and lead the market.

Many users knew exactly what they wanted but getting it seemed to be the difficult part once Napster and the RIAA went into a legal battle. More commonly, the industry has been shaped from Napster and the base product that has been derived. Napster may have been afailureto the industry but it shaped the industry for the future from 2001 until present and for years to come.

What is Napster's Business Model?

Being as though Napster was the first to market with their music search engine for MP3 files, they successfully managed to set up an online community where users could download these files.

Napster had its market segments and was targeting the college and high school demographic, as described in thecase study. The main objective was to give users the opportunity to listen to the songs before they wanted to go ahead and purchase them. During the dot. com boom, when Napster was created, it seemed as though the developers only wanted to create the program to attract a client base to increase the value of the company mainly

to sell it off to a larger, more valuable company. Once the main database of Napster was created, they started off by seemingly trying to create a membership based business model.

They had a free membership to start as a trial run, basic membership for relatively inexpensive that would cost between $2. 95 and $4. 95 per month. This basic membership would have a limit on file transfers. They also had a premium membership that would cost between $5. 95 and $9. 95 with an unlimited amount of file transfers. Most of these file transfers came from peer-to-peer which was part of the interesting aspect of Napster. Users could upload files from their computer to their Napster desktop and another user could download straight from their computer.

Certain users had a better rating than others and so forth. It seems as though their business model was working until the music industry became aware of what was really going on.

How have Napster and MP3 Changed the Music Industry?

Napster and MP3 were the start to the online music industry databases during the dot. com boom. This was the beginning of the greatest innovations yet to come. Not only did this lead to what we now use as iTunes but it went through multiple transformations with different music download programs and revamped the way artists were selling their music.

CDs were most common before Napster and now, the percentage of CDs compared to online purchases are completely reversed. Many people don't even own CD players unless they are on their computers and iPod or iPhones are the new use of music play. Without Napster, none of this would even be possible because the whole concept of having the MP3 on a database where

you can see each song and download right from the Internet. Now, you have to purchase each song or album and the artists get credit for their work.

Back when Napster was the source with MP3, there were possible ways around the memberships and for a very light fee, you could get music for almost nothing where the artists were not getting the compensation that they deserved and worked for. The music industry is completed revamped since Napster and thanks to Napster and MP3, we now have the convenience to purchase a song or album right at the touch of our fingertips or click of a button as opposed to going to a store and buying a CD.

Who are the winners and the losers in the industry transformation?

Explain why in detail. Within the industry transformation, there are many different aspects to be considered when discussing the winners and the losers. In terms of the artists and musicians, I believethat although they started out as losers, in the end, they ended up winning because for already discovered, well-known singers, they are getting the royalties they are owed and for new, up and coming artists, they are getting their name out there in a much less expensive way than before and still making some sort ofmoneyto support their dream.

The agents and label companies will become winners as well through the transformations. The larger companies will most likely lose some strength and then gain back once they begin to find new artists and those artists begin to take off. The risk/reward of the digital market here will yield much more reward and their financial strength from the start will help them be a winner here. I feel the biggest loser in throughout the entire industry

transformation is the packaging and CD production industry. Because CDs are no longer at an all time high, they will no longer be needed.

There is very little need for this and it has almost become a niche market, barely used for music anymore, unless someone is burning their own music onto a CD. Albums being created and sold solely onto a CD has decreased substantially and within the next few years could become something in the past. This is the biggest loser by far through the music industry transformation. Although customers might think they are losing because now they have to pay for songs, they are winners because the quality of the music is better as well as the people creating.

The level of effort matters to the customers when creating their next masterpiece of an album and if they weren't getting the compensation they feel they deserve, it would be hard to justify a very complete, well written album. Customers are winners during the industry transformation. As for the biggest winner, I believe digital retail has won in this category. Apple and Microsoft have both done an amazing job with allowing iTunes to properly run on both of their software where it is so extremely easy to access any song, album, artists, video, TV show, movie, you name that a person could possible think of.

To have a song on there takes a very small amount of work for Apple and it is one of the most genius programs to every be invented by one of the most powerful companies we will ever come across. At this time, if you were to watch a TV reality singing show, for example, X-factor, and you see a live performance you really enjoy, you can literally go on iTunes the very next day and purchase that specific person singing that very song. The digital

retail market is only growing and technology has done something so amazing by growing the concept of Napster into something that can yield such amazing results.

This is by far the biggest winner of the music industry transformation.

From the perspective of the stakeholder who stands to lose, is there anything you can do to change this? From the perspective of the stakeholders in Napster, it seems that they would all end up losing and there really is not much to be done to change this. Even though the concept of Napster really did drive the entire music andsocial mediaindustry to a new place, it was a highly illegal application where many people lost a ton of money.

Because of the money put into this application, stakeholders will end up being the losers when they lose their investment when they expected a return.

How will the Industry Change over the next 5-year Period?

As difficult as it is to say how the industry will change within the next 5 year period, I believe there will be many more drastic changes between now and then. Technology is rapidly growing and altering while new products are being brought into the market.

I believe that iTunes will be around for some time but as they continue to update and make it better, faster and stronger, it will only take up more of the market share. As of right now, they have a tool called " genius" where it searches through the music you already have and suggests new music for you to buy. This tool is extremely helpful and can create thousands of new

playlists and songs for a person to listen to. New artists, groups, reality TV shows, YouTube sensations and small town discoveries are being made every single day.

The next pop star could be in the localcoffee shopone day and on your TV screen the next. The industry is so quickly growing that it is almost impossible to keep up with technology and talent wise. 6. As viewed from the perspective of the record companies, retailers, artists, and Napster, what strategy would you pursue, and how? If I were viewing this situation from the perspective of the record companies, retailers, artists and Napster, I would pursue the strategy of Phase 2.

In this day and age, many people try and keep up with the technology that they are given. Napster was first to market with their idea and what they were given but many people were not happy. In Phase 2, it gives Napster the option to still let people play the music that they had already had on their original Napster, but from there forth, purchase the rest of the music and pay where the price is due. Napster was a disruptive technology that absolutely lacked refinement and had some major performance problems whether those were the slow search or the filters.

However, this application was proven to be somewhat practical once it was perfected through the years. Apple used Napster's disruptive technology and built their sustaining technology from the concept and played out the revenue aspect of Phase 2. That being said, I would stick with Phase 2 and continue to grow the industry based of of each song and price because even though many customers would initially complain, this would eventually turn

into the norm, like it has, and will drive the music industry to become a much more organized and beneficial industry.