3.6 Lessons from Content–for–Free Distribution Channels

Michel Clement[826]

I Content for Free?

> "*If somebody comes to our service and is looking for a song and they can't find it, the likely result is not going to be that they are going to turn off their computer, get in their car, drive to the record store and buy the CD. The likely result is they will now be forced off to a peer–to–peer site.*"
>
> Alan McGlade, CEO of MusicNet, interview given to CNET July 18, 2002

The most challenging task facing McGlade is licensing content for MusicNet, but the content he is looking for is already digitized, compressed, labeled, and widely published on the Internet. Peer–to–peer networks like KaZaA or iMesh virtually offer all content users desire. The only problem is that right owners did not license the content to them and users are acting illegal, if they offer content — and in some countries, when they download it.

A KPMG survey shows the currently favored strategies by media companies. Encryption is by far the most popular strategy to fight digital piracy[827]. The defensive strategy of protecting content from being copied and distributed by third parties is accompanied by heavy law enforcement to secure copyrights. Nevertheless the pure defensive strategy is wrong at this point of time, since it offers only short term relief. In the long run, users are getting more and more locked–in with peer–to–peer services. The economics of black markets do not make exceptions in the digital economy[828]. Without legal ways to access content, people will provide access to their content themselves and some of them will be able to monetize this market gap. Prohibition has always one looser: The customer.

The defensive strategy leads to a bumpy customer experience. For example the new "De Phazz"–Album "Daily Lama" is copy protected. The customer spends €15.99 for a CD and is not able to play the CD on the PC without using the obscure player that is included on the CD. It is not possible to play the CD using the standard Microsoft Media Player, which is installed on most PCs. At launch time a German customer was not able to download the new De Phazz songs from a legal source; even if he was willing to pay.

But customers can access the album plus a wide selection of other (related) content from a service, which is easy to use, offers great service without restrictions — and all this for free. This service is provided from the leading digital content distributor: KaZaA. The content industry does currently not offer any competitive download service.

---

[826] University of Kiel.

[827] See: KPMG (2002).

[828] See: Givon, Mahajan, Muller (1995).

II   Existing Distribution Channels

Media products are nothing else but information which can easily be digitized. On the one hand digital products have one major characteristic: they can be reproduced without loss of quality and with marginal costs of close to zero. On the other hand it is costly to produce the master copy, and labels, studios, or publishers try to secure their investments by using encryption methods usually embedded in DRM–Systems[829]. Using encryption methods raises the costs for pirates to produce their first master copy. But the potential reward for pirates is high: Hackers are gaining recognition from insiders, if they crack a new encryption method. But it is not necessary for a mainstream user to be a hacker to access encrypted content. It is sufficient, if one person in the world is willing to invest his time and money in producing the first master copy without encryption[830]. If this file is offered on KaZaA, in just hours the file will be spread over the world, assumed that demand is high.

Users create an important channel to digital content distribution[831], by adding value in a process that starts with digitizing and ends with distributing content (figure 1):
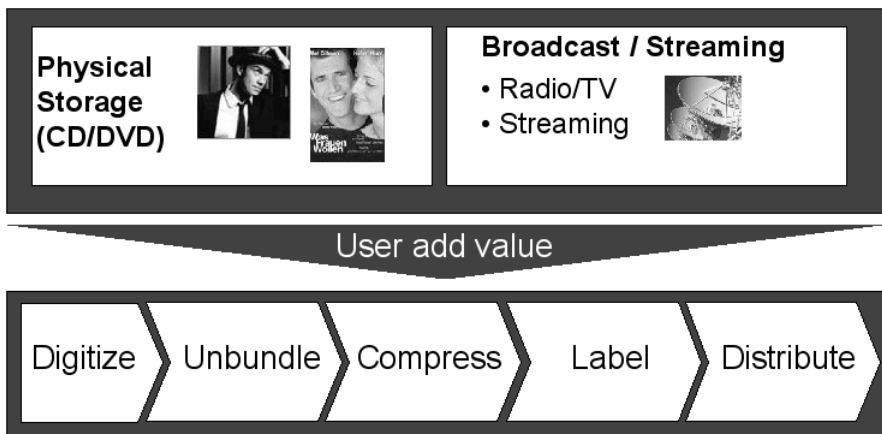

Fig. 1. The Piracy Value Chain of Users

Technology enables users to create a new master copy of basically any encrypted media product without being a professional computer scientist. The data source to produce the master copy comes either as a physical storage medium like a CD or DVD or via broadcast or streaming to the user. Ripping CDs is a standard application integrated in most MP3–Players and therefore mainstream, whereas the digitization of a DVD on a PC is a little more complex[832], but easy to use tools like "DivX Video Bundle" are becoming increasingly popular.

---

[829] See: Durlacher (2001).
[830] See: Hess, Anding, Schreiber (2002).
[831] See: Geyskens, Gielens, Dekimpe (2002).