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Newsweek Technology & Science



Finding a New Groove

The music biz is upbeat about downloads and wireless.

By Johnnie L. Roberts
Newsweek

July 11 issue - It was an unusual but fitting code name: "Project Tapas" was launched a year ago by Andy Lack, the new CEO of Sony BMG Music Entertainment, to end a raging war between music companies and peer-to-peer networks like Grokster that let Net surfers pirate music and movies. In secret meetings with a Madrid-based P2P service—whose location in Spain explains the code name—and later with U.S. operators, Sony officials tried to persuade them to "go legit." P2P software could be enhanced, they said, to thwart piracy and enable users to buy songs legally. But the networks, smug after earlier legal victories, balked. "The P2Ps turned their nose up to Andy's concept," says former Grokster president Wayne Russo, Lack's ally.

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But the two sides may end up sharing some tapas—or perhaps a more lavish meal. Now that the U.S. Supreme Court has held P2Ps are financially liable for piracy by their users, the P2Ps and music companies have reason to work on a new business model. Two days after the court ruling, Sony BMG licensed its music for sale over Mashboxx, a P2P network founded by Russo.

It's a welcome turn for an industry trying to reinvent itself. After songs became widely available in the MP3 format in the late 1990s—largely free of charge to anyone—sales of CDs began to plunge. Music labels responded with lawsuits and by licensing music to on-line stores, such as Apple's iTunes. Sales of downloads skyrocketed, and not just because of iTunes and its rivals. Shawn Fanning, who helped lead the free-downloading movement, is working with music companies with his Snocap P2P service, which has recent deals with EMI, Universal and Sony BMG. Still, downloads account for just 2.5 percent of worldwide music revenues. "The music industry has been a little slow in developing the products and services and new ways to learn and gain knowledge about music," says Adam Klein, top strategist for EMI.

But there are other signs the industry may be finding a new groove. Record execs are excited about the fledgling market for mobile music. Cell-phone operators are aggressively introducing services like downloadable music ringtones and ringbacks (what callers hear after they dial a number), and eventually entire songs, as manufacturers build iPod-like features into phones. The cell-phone market is huge. Last year wireless subscribers totaled 163 million, a universe that will expand to 208 million by 2009, according to PricewaterhouseCoopers. The firm estimates that spending on mobile music will surge to \$3.4 billion in 2009 from \$320 million last year. "What are the three things people take when they leave home? Keys, wallet and cell phones," says Thom-as Hessa, who runs Sony BMG's digital business. "The mobile-phone services will be clearly more important than online."

In hushed tones, music execs say they are hoping wireless operators and legit P2P services dive deeply into the music business for another reason—as a counterweight to iTunes. The industry has been quietly stewing because downloadable music has fueled the runaway success of the iPod—and records labels don't get a slice. No wonder music execs may find tapas with cell-phone operators and reformed P2P services so appetizing.

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