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P2P Gets Profitable

OutKast, Britney, Destiny's Child to be offered through new P2P service

Sharing OutKast online

Two pioneers of file-sharing -- Napster's Shawn Fanning and Grokster's Wayne Rosso -- are quietly working with the major labels to find ways of making peer-to-peer sites profitable.

Mashboxx, a new P2P site started by Rosso, is expected to launch early next year and incorporate new technology developed by Fanning. Called Snocap, it allows users to share music freely but with a catch: When you attempt to trade a protected song, Snocap will swap it with an authorized file -- likely a low-quality version of the song or one that lets you listen just a few times. Mashboxx will then provide the option of buying a CD-quality file of the track with a click of the mouse.

Sony BMG is the first major label to embrace the technology, though others are expected to follow. According to a source familiar with negotiations between Sony BMG, Mashboxx and Snocap, the label will offer most of its catalog -- which includes music by Bruce Springsteen, Destiny's Child, OutKast, Britney Spears, Modest Mouse and Bob Dylan -- through the service.

It would mark a new era in the relationship between labels and file-sharing sites -- a relationship previously "characterized by fear, anger and a desire to take revenge," according to Josh Bernoff, an Internet analyst at Forrester Research. The Recording Industry Association of America has long held the position that unauthorized use of P2P technology is the major reason for the decline in music-industry revenues in the past three years. Sony BMG CEO Andrew Lack quipped to the *New York Times* in September 2003 that "P2P stands for piracy to pornography." But record-label sources say that since taking over Sony early that same year, Lack has been fascinated with the possibility of using P2P as a new way to distribute music.

Mashboxx is actively seeking deals with other labels, though none have yet signed on. Mashboxx users will still be able to freely trade songs from labels that decline to work with Mashboxx, as well as share bootleg recordings the labels don't sell.

But some observers suggest that P2P users will likely migrate to other sites where Snocap does not operate. "If people want to get legitimate music, there are a huge

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number of legitimate distribution services they can get it from," says Bernoff. "If they want to steal music using P2P, then they aren't interested in paying for it. I can't figure out who is supposed to use a service like this."



BILL WERDE

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