PEARSON NEW INTERNATIONAL EDITION

Media of Mass Communication

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File-Swapping Blow

Conditioned by decades of success, the record industry, especially the major companies, had become smug in their formulas for manufacturing and marketing high-profit pop culture. Then along came an 18-year-old college kid, **Shawn Fanning**. Single-handedly, Fanning almost brought down the whole industry. Over Christmas break his freshman year, Fanning put together peer-to-peer software so his dorm buddies could swap audio files among themselves. With this P2P there was no central infrastructure and no cost. Fanning called his free-wheeling system **Napster**, after his nickname as a toddler. At first it all seemed kind of cute. Young people, who comprise the main market for recorded music, saw it as a friendly application of technology. Instead of forking over $15 for a CD, they could exchange music worldwide free. They loved Napster.

Recording companies were slow to pick up on Napster's ominous potential to wipe out the retailing structure for the music industry. Soon Napster had 25 million users who had 80 million songs on their hard drives. Instead of buying music, they were swapping it for free. Customer traffic slowed to a trickle at music retailers. Best Buy shut down its Sam Goody's, Musicland and other music outlets that had been steady money-makers. The recorded music industry went into freefall. From a pre-Napster peak of $14.6 billion, recorded music sales in the United States plummeted to $6.9 billion in 10 years—a loss of more than half its revenue.

The Recording Industry Association of America, which represents the recorded music companies, was late to act but finally slowed the decline by going to court against Napster. In 2005 the U.S. Supreme Court bought the RIAA argument that Napster was participating in copyright infringement by facilitating illicit copying of protected intellectual property. Napster was toast. So were other file-swapping services that had cropped up.

▲ **Napster Guy.** *Shawn Fanning introduced free-for-all online music-swapping technology that he dubbed Napster. The incredible popularity of swapping threatened the recording industry's traditional profit model. Why pay $15 for a CD? The industry went to court claiming that swap services were facilitating copyright infringements and won.*

Shawn Fanning
Pioneered music file-swapping through original Napster

iTunes Recovery

Besides the anti-Napster intervention of the U.S. Supreme Court, the record industry owes its survival also to Apple mastermind **Steve Jobs**. In 2001 Jobs opened **iTunes** to sell songs by downloading them to Apple's popular handheld iPod playback device. ITunes was convenient. Unlike Napster's unpredictable sound, iTunes had consistent fidelity. People could sample songs with a single click and then download with another click at 99 cents a song. In iTunes' first week, more than 1 million songs were downloaded, juicing a 27 percent spike in Apple stock. By 2008 iTunes was the largest U.S. music retailer in the United States. In all, iTunes has sold 16 billion songs since its inception.

Unlike download-swapping, iTunes wasn't free. But it had advantages. The sound quality was exceptional. Apple used a new format that compressed music efficiently, downloaded faster and consumed less disk space. It was a clean system, without the annoying viruses that affected swap systems like Kazaa, Morpheus and Grokster. Apple benefited too from the guilt trip that RIAA was trying to lay on illegal downloaders.

Jobs began iTunes with huge repertoires from some major labels. Other labels begged to sign on as soon as the iPod–iTunes success was clear. By 2005, 62 percent of all music downloads were from iTunes. To be sure, copycat services spawned quickly.

▲ **Download Solution.** *Steve Jobs of Apple Computer gave the recording industry an online retailing outlet with his iTunes store, from which music could be downloaded into incredibly popular Apple iPod listening devices at 99 cents a song. Downloaders could feel good that they weren't violating the intellectual property rights of recording companies or performers, lyricists or composers. And recording companies, desperate to stem revenue losses from illegal but free downloading, could derive income from the sales.*

APPLYING YOUR MEDIA LITERACY

- **If you were a Big Four executive, where would you look to grow your company?**
- **To what extent do you regard Shawn Fanning as a folk hero? Or a criminal who facilitated the theft of legitimate income from composers, lyrists, performers and recording companies?**
- **How would you rate iTunes 99-cent-a-download charge for a song? High? Optimal? Low?**

Radio Industry

STUDY PREVIEW

A government role in radio was based on a premise that the public owned the airwaves and could regulate them in the public interest. This so-called trusteeship model has shaped the radio industry. Today11,000 commercial stations, after rebounding from a major slump, generate $17.3 billion in revenue annually.

Steve Jobs
The driving force behind the Apple Computer revival, iPod and iTunes

ITunes
Apple-owned online retail site for recorded music

Government Licensing

Broadcasters are wont to grumble about government regulation. But press them. You'll learn they wouldn't have it any other way. Before 1927 broadcasters had made such a mess of the airwaves that they couldn't straighten it out. They went to Congress begging for regulation to assign frequencies and otherwise manage the airwaves. Congress responded with regulations and a licensing system. To be on the air under the new systems, stations needed a government license to comply with technical and other government regulations.

The 1927 **Federal Radio Act** made the government a stakeholder in the system that the government itself created. As a stakeholder, the Federal Radio Commission saw stability as essential to assure the orderly growth of the medium's potential for public service. With stability as a goal, the FRC and its successor, the Federal Communications Commission, have protected the industry's status quo. This status quo mindset was not without problems. The FRC and FCC, have stalled changes in the industry's infrastructure that threatened tried-and-familiar business models and even thwarted new technologies. No better example exists than the lengthy delays in authorizing satellite radio through the 1990s. Owners of terrestrial stations, acting through their National Association of Broadcasters, opposed satellite competition. The FCC dallied on approving satellite radio to protect existing station owners who feared a new rival for advertising revenue.

Federal Radio Act
1927 law establishing government regulation of radio

Here is the infrastructure of regulation that the 1927 Radio Act and the 1934 Communications Act created:

Ownership Limits. The law allowed stations to be licensed only to a locality. The idea was to encourage local ownership and community service enforced informally though the dynamics of local accountability.

The idea was also to prevent more stations than could be supported financially through advertising and sponsorship. With this cap on the number available licenses, competition was limited. Critics of the system note that, considering the profitability of radio that was coming into being, licensees were being issued government licenses to make money.

The system also precluded national stations, unlike the systems of many other countries that have national stations.

Technical Restrictions. Stations were assigned frequencies with their signal strength capped so their signals wouldn't overlap. The caps solved the pre-1927 problem of stations amping up their signals to reach larger audiences and drowning each other out.

Content Requirements. In an attempt to keep favoritism out of the licensing process, the government established quality criteria. License applicants were told to broadcast "in the **public interest**, **convenience and necessity**." It was a high-minded although vague standard. The upshot has been, among other things, to keep stations taking political favoritism in elections and to maintain decorum in language.

public interest, convenience and necessity
Standard by which the U.S. government grants and renews local radio and television station licenses

Trusteeship Concept

Government regulation of radio may seem contradictory to the U.S. Constitution's prohibition of government interference with mass media. But the cacophony of 732 stations trying to broadcast on a spectrum of 568 available frequencies in 1927 was a

MEDIAcounterpoints

Unviable Business Model?

The global recorded music industry is divided on its future. The question: Is there much of a future?

Global sales have been slipping 8 to 9 percent a year for a decade. During the decline, a glimmer of hope had been that sales of digital music would offset declining CD sales. It hasn't happened. For 2010, the industry's sales of music in digital formats, mostly downloads, were indeed up 6 percent. But that was hardly enough to offset worsening sales overall. Worse, there are indications that digital sales have peaked while the non-digital sales, mostly CDs, dwindle. Analyst Mark Mulligan of Forrester Research says it's not unreasonable to conclude that the recording industry's hopes for digital music have failed. Mulligan told the New York *Times:* "Music's first digital decade is behind us and what do we have? Not a lot of progress."

Are people listening less to music? No. But instead of buying music many are downloading music free from the internet. By its nature, the leakage cannot be measured, but estimates at the high end say that 95 percent of downloaded music worldwide is acquired outside of revenue-generating channels.

The situation is not as bleak in the United States as elsewhere. In the United States, the industry went to court against peer-to-peer internet services that had facilitated free music-swapping. The recording industry also sued individual music downloaders in showcase suits to discourage the practice. In Duluth, Minnesota, a federal jury fined Jammie Thompson $1.9 million for copyright violations for downloading 24 songs. In addition, the industry pressed colleges to close student access to illegal music downloading through campus servers. In effect, the industry said to colleges: "If you don't, we'll sue you too."

Even though the U.S. government sided with recording companies against downloading cheats, the companies got serious too late. By the time the companies went to court, their retailing business model was in ruins. Desperate for a new business model, the companies turned to Apple's iTunes as a download retailer—even though Apple took the top 30 cents off every 99-cent sale. But the issue was survival. It worked. Americans turned to iTunes, which was technically reliable, easy to use,

▲ Kesha Doing OK.

The recording industry does well from big-name performers. Kesha's "OK to ToK" sold $12.8 million in downloads alone in 2010. But for the recorded music industry, the looming issue is how much is less how much Kesha earned than how much was lost to download piracy.

inexpensive and legal. Although still grumbling about Apple's 30-cent cut, the U.S. industry has stabilized—although smaller than at its peak.

No matter how shaken the recording industry was in the United States, in Europe the situation was worse. The iTunes model for music retailing hasn't caught on.

Also, European governments were slow to crack down on unauthorized downloads. Not until 2009 did France, pressured by the recording industry, create a law requiring internet service providers to disconnect repeat offenders. But several warnings were required, and internet providers balked at enforcing. Although hundreds of thousands of e-mail warnings were sent to suspected violators, nobody was cut off in the first year.

Despite problems, the French law is being modeled elsewhere. If enforced, these laws may stall, perhaps even stem the recording industry's decline.

POINT

The record industry has only itself to blame for declining prospects. It was too cozy, too smug, too long with an outdated business model. Stop griping. Adjust to the new reality.

COUNTERPOINT

Music is at the heart of a vibrant modern culture. The recording industry's survival is essential. Its financial well-being must be protected.

DEEPENING YOUR MEDIA LITERACY

EXPLORE THE ISSUE: Look for data from the Recording Industry Association of America and the Motion Picture Association of America on how much their members lose annually to piracy?

DIG DEEPER: How successful have these trade associations been in curbing piracy?

WHAT DO YOU THINK? In your experience, do young people have a sense that the creators of music and also movies are denied a financial incentive when their property is downloaded free?

reality. Something had to be done or the potential of radio as a medium would be lost. Indeed, when the FRC denied some stations licenses to clear the air, so to speak, the stations waged battle in the courts. The stations argued that the **First Amendment** of the Constitution literally says: "Congress shall make no law abridging . . . freedom of the press." The courts sidestepped the issue, stating simply that the FRC was within its authority.

First Amendment
Provision in U.S. Constitution against government interference with free citizen expression, including media content

The theoretical justification for government regulation was the **trusteeship concept.** A premise of the concept was that the airwaves are the public's property and cannot be subject to ownership. Ever heard the phrase "free as the air"? That's the idea. Because the air waves belong to the public, the theory says, the government, as trustee for the public, is uniquely qualified to regulate the use of the airwaves for the public's good.

trusteeship concept
Government serves as a trustee for the public's interest in regulating broadcasting

Underlying the trusteeship concept is that the public was being poorly served with more stations trying to squeeze into the electromagnetic spectrum than could fit. There was a scarcity of frequencies.

The trusteeship concept has survived even though scarcity is hardly an issue any more. Technology has eliminated the scarcity. In fact, more than 14,000 stations are on the air in the United States. In some respects, government regulation has eased with the emergence of a **marketplace concept**. Today the government protects license-holders less from competition than it once did. Increasingly the industry is left to marketplace forces to decide what stations survive. The public is more directly the regulator, rather than through the government as a trustee or some kind of middleman. Under the marketplace concept, stations that survive and thrive are those that the most people listen to and for which advertising pays the bills. It's a survival-of-the-fittest model as determined by listenership directly.

marketplace concept
Listeners through marketplace mechanisms determine the fate of a business.

APPLYING YOUR MEDIA LITERACY

- **How do you regard the argument that government regulation of the U.S. radio industry came about for common-sense reasons?**
- **Do you favor marketplace forces as the sole regulator of radio? Or is government better positioned as a regulator? Or do you favor a marketplace-government hybrid?**

Characteristics of U.S. Radio

STUDY PREVIEW

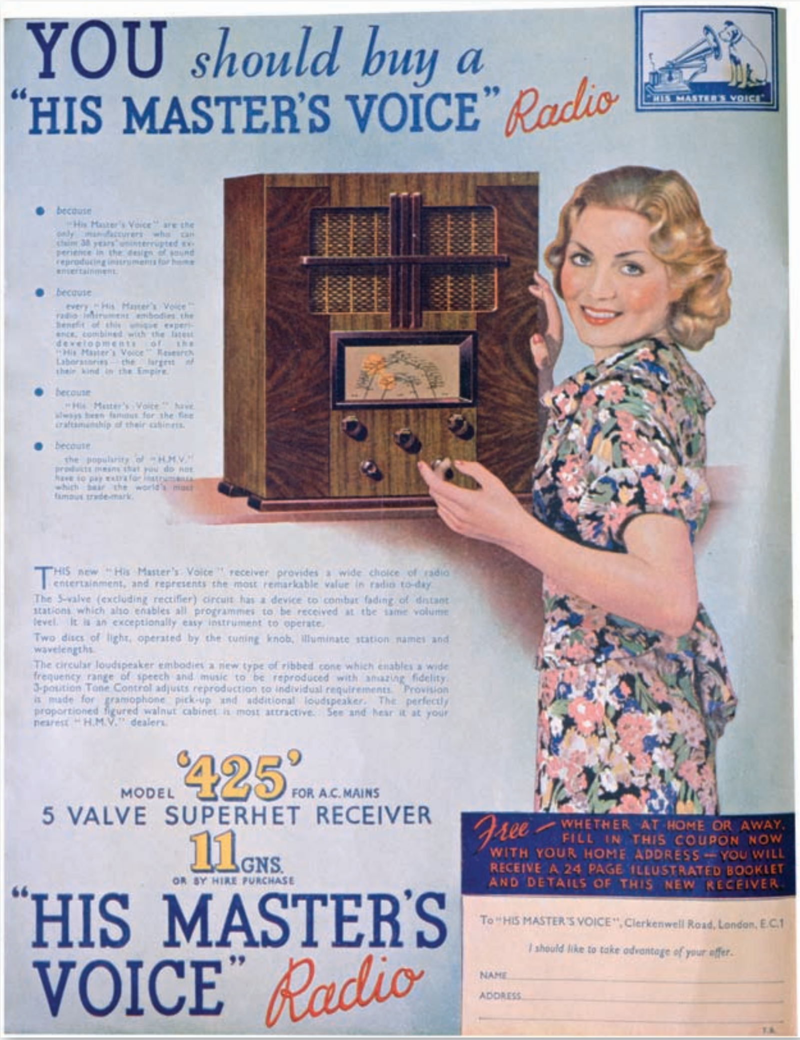
The financial base of the U.S. radio system is mostly advertising revenue to stations that are licensed to operate in a defined locality or in some cases a region. A second tier of radio is comprised of network and programming sources that lend a national character to programming.

Radio Infrastructure

When government began regulating the U.S. radio industry in 1927, many existing practices were accepted. These included selling airtime to advertisers to generate revenue. Government also introduced other new policies that shaped the industry.

Advertising. Early government regulators accepted the emerging financial model at the time that the financial foundation of the industry would be advertising. Advertising already had long been the financial foundation of the newspaper and magazine industries.

The government also provided for noncommercial stations, mostly for education. These noncommercial stations comprised a miniscule part of the industry until much later when public radio took hold.



Radio as a New Medium. *The commercial and cultural potential of radio were recognized clearly in the 1920s. But the potential was threatened by too many stations elbowing their way into a limited number of channels. Congress addressed the issue in 1927 with a system of strict licensing and regulations. With stations no longer drowning out each other's signals, the industry flowered.*

The radio industry today remains largely dependent on advertising. This is unlike some countries, which see radio programming as a national service meriting government financing.

Ownership Limits. Wary about powerful newspaper chains in the 1920s, Congress capped the number of stations that a single person or corporation could own The goal: No radio chains.

For most of its history, there was a cap of seven stations in a single ownership. When the FM part of the electromagnetic spectrum was opened up, stations were allowed to add a sister FM station. Further relaxations followed on the limits. The 1996 **Telecommunications Act**, the first major revision of radio regulation since 1927, eliminated most other restrictions marking a widened acceptance of the marketplace concept over the trusteeship model. The new reality was far from the long-standing limit of seven stations in a market.

Telecommunications Act
1996 law overhauling federal regulation. Ended most limits on chain ownership.

For most intents and purposes, there are no ownership limits anymore. The large Clear Channel chain owned more than 1,200 stations at its peak in 2005, including seven stations in some markets.

Localism. The 1927 ownership limits were intended to give radio a local flavor: Local personalities as on-air hosts with local talent and playing back local culture to the community. The ideal of **localism** has faded. Music, which comprises most radio programming today, is from the nation's centers of pop-culture manufacturing. Local announcers still exist, but many stations import programming from far-away central studios and programmers who have never set foot in most of the communities that carry the programming. Radio has a coast-to-coast homogeneity albeit exceptions.

localism
Issuing broadcast licenses for service to a specified community and its environs

Even at the time that government regulation began, the NBC and CBS networks were linking major stations. This worked against the ideal of localism. But the networks escaped the FRC's purview. As program suppliers, the networks didn't use the public's airwaves directly and were exempt from regulation. From the 1930s on, the networks provided more and more programming and clearly diminished localism as a key characteristic that Congress originally envisioned for the U.S. radio industry.

Two-tier infrastructure. The U.S. radio industry today operates at two tiers. At one tier, stations remain licensed in local communities—although ownership generally is far-away and not community-connected. At the second tier, networks, programming suppliers and recording companies give radio a national identity. You hear the same network news coast-to-coast, and Katy Perry, Kelly Rowland and Blake Shelton play in every market, the same everywhere.

Scope of Radio Industry

After slippage for a decade, the revenue of U.S. commercial radio stations grew 6 percent in 2010 to $17.3 billion. The news was welcome to the industry, after a decade of slippage and an 18 percent drop the year before. The revenues were shared by 11,000 stations.

Two Technologies. Stations broadcast with one of two technologies. Stations licensed as FMs, short for **frequency modulation**, have strong signals within line-of-sight of a transmission tower and some fringe areas. FM signals go out in a straight line. In contrast, signals from AM stations with **amplitude modulation** technology ricochet off the ionosphere. In effect, AM signals follow the curvature of the planet and reach much more distant points than FM, although with less fidelity. FM lends itself to music because of superior sound. AM stations are more for information and talk.

frequency modulation (FM)
Radio technology with superior fidelity. Signals travel in straight lines

amplitude modulation (AM)
Radio technology with great range. Signals follow curvature of Earth.

Public Radio. Besides commercial radio, the Federal Communications Commission licenses an additional 2,500 stations that are prohibited from selling advertising. The legacy of these stations, in radio's early days, was the idea that some of the radio spectrum should be preserved for educational purposes. Most were operated by colleges and school districts but some by churches and labor unions. The concept expanded in the 1960s into public radio as an alternative to formats that might be hard to sustain commercially, like classical music, cultural programming and public affairs. These stations derive revenue from donations from well-wishers, including listeners and philanthropic and corporate sponsors. They also receive from the federally funded Corporation for Public Broadcasting and state governments.

Radio Chains. Although stations are licensed to serve an FCC-designated area, generally local, few stations remain locally owned. In its heyday in 2005, the conglomerate Clear Channel owned more than 1,200 stations with revenues of $3.5 billion. But financially overextended, Clear Channel began a sell-off and trimmed its radio holdings to 850 and laid off 1,800 employees. In second place, Cumulus Media operates 570 stations, followed by Citadel with 240, and CBS with 130. Rare is the locally owned independent station anymore.

Formats. Stations broadcast in a wide range formats, mostly defined by music but also news and information. Religious, foreign language and ethnic stations are enduring format segments. Formats largely are a marketing tool to attract a defined audience that advertisers want to reach and are continually being refined to lure listeners from competitors.

Because of the flux, and also the ever-changing subcategories of formats, the number of stations using formats is impossible to track precisely. But this is a recent snapshot of major formats:

Country	2,041 stations
News/talk/sports	1,579 stations
Adult contemporary	1,213 stations
Religious	1,019 stations
Golden oldies	822 stations
Classic rock	639 stations
Top 40	444 stations
Alternative/modern rock	334 stations
Urban contemporary	312 stations