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Business News

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## Universal Music to Offer Free Downloads

By Charles Duhigg and Dawn C. Chmielewski, Times Staff Writers  
August 30, 2006

Music fans for years have been telling record labels what they want to pay for downloaded songs: nothing.

Now the labels are starting to agree that free might work for them too.

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Universal Music Group announced Tuesday that it would license its digital catalog to a website offering free legal downloads. The two-year deal marks a significant shift in an industry long criticized for fighting, rather than harnessing, the Internet's potential.

The new website, backed by New York company SpiralFrog, hopes to make money selling advertisements that play while songs download. In addition to Universal's artists, which include Mariah Carey, Eminem, U2 and Kanye West, SpiralFrog is seeking to license the catalogs of Sony BMG Music Entertainment, Warner Music Group and EMI

Group.

"This is really promising that the labels are going to finally stop kvetching and start thinking intelligently about where their money's going to come from in the 21st century," said Aram Sinnreich, managing partner of the media and technology consulting firm Radar Research. "SpiralFrog is one small step for the record labels, one great leap for music kind."

The deal between SpiralFrog and Universal Music, the world's largest record seller, reflects how the entertainment industry is scrambling to find new ways to make money as the Internet rewrites the rules of distribution and marketing.

"If someone wants to buy a million CDs from us and then give them away on a street corner, that's fine with us as long as we get paid," said Larry Kenswil, a top digital-media executive at Universal Music.



Free, edgy and legal (Leif R. Jansson / EPA)  
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The record company will receive an upfront payment from SpiralFrog and a portion of the company's advertising revenue. "Anything that encourages people to get music from legitimate sources is a good thing."

SpiralFrog's site is expected to debut later this year. When it does, users will be able to save downloaded tunes to a hard drive or a portable music player.

They won't be allowed to burn songs to a CD. Users also will have to visit the SpiralFrog website once a month to watch more ads. Otherwise, digital locks on the music will make it inaccessible.

SpiralFrog's 90-second download is significantly longer than the 15 to 20 seconds it takes to download a ditty from iTunes.

The company intends to target current users of illegal peer-to-peer networks who are frustrated by the poor song quality and viruses that thrive in the Internet's seedier corners.

Notably, the songs downloaded won't be formatted to play on iPods.

That could be a boon to Apple rival Microsoft Corp., which is preparing to launch its own music player, called Zune, later this year.

Already, Microsoft provides the technology that supports subscription music sites such as Yahoo Music and the recently relaunched Napster Inc.

But SpiralFrog's success is far from guaranteed.

Record labels have spent much of the seven years since the debut of Napster trying to persuade music fans not to download free songs from online file-sharing networks. They've fought the networks in court and sued thousands of individual users for copyright infringement.

And, at least for the foreseeable future, online ad revenues are unlikely to replace the \$33 billion spent worldwide last year on recorded music.

Even with the success of outlets such as Apple Computer Inc.'s iTunes Music Store, labels still make most of their money selling compact discs — although those sales have been declining for years.

"There's a real risk that, over time, consumers will eventually lose their willingness to pay for music at all," said entertainment analyst Mike McGuire of research firm Gartner. "You have to drive a lot of ads to a lot of eyeballs to make as much money as iTunes earns by selling songs for 99 cents each."

Finally, there's the question that cuts to the core of SpiralFrog's business model: Will fans sit through a 90-second ad to get free music?

Despite the conventional wisdom that young people don't want to be bombarded with marketing messages online, advertisements are some of the most popular video clips bouncing around the Internet. Teenagers routinely sign up to receive promotions and e-mails from their favorite brands.

"The currency we're using is time," said SpiralFrog Chairman Joe Mohen. "Young people are already downloading free songs illegally on peer-to-peer networks. We believe that advertisers will pay to show those consumers ads, and that those payments will rival what music companies get from iTunes or other online retailers."

Mohen said the company has conducted dozens of focus groups showing that young people are enthusiastic about the service.

At least one Irvine teenager said he'd be willing to watch ads if it meant getting music free. Justin Wilcock, 14, said it's unfortunate he can't burn the tunes onto a CD, but "if you're just sitting in your room, doing nothing, that's pretty cool."

Artists had mixed reactions Tuesday to the notion of sponsored music.

Kenneth B. Hertz, a senior partner whose firm Goldring, Hertz & Lichtenstein represents Universal artists Black Eyed Peas and No Doubt, said that "from an artist's point of view, it's not free as long as I'm getting paid for it."

Artists would object only if SpiralFrog somehow attached the ad to a song in the same way that music would be used in a beer commercial. Record labels don't have unfettered right to license music to advertisers, Hertz said.

"If they're showing me ads while something is downloading, God bless," Hertz said. "If the record label says, 'You pay us 67 cents and we don't care whether or not someone

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is watching ads while they're downloading it,' I don't either."

But Jeff Jampol, manager of the classic-rock band the Doors, said he would "have major concerns about what ads run alongside my artists' songs. I don't know that it is right to make someone watch a commercial for the Army or McDonald's when they are downloading a Doors song."

The Doors are not a Universal act.

Some wonder if SpiralFrog will attract advertisers, regardless of its agreement with Universal.

The company has yet to complete the design of its service or commit to a definitive launch date, said SpiralFrog General Manager Roger Munford.

Although executives said the company has deals in place with major advertisers, Mohen, the chairman, would not reveal who those advertisers are. And the only funding the company has revealed comes not from a Silicon Valley venture capitalist but from a London-based hedge fund, RAB Capital.

However, many within the music business remember that an unknown college student named Shawn Fanning upended the music industry by releasing Napster in 1999.

Others point out that while advertising-supported downloads may be new, record-sellers have long relied on ad-supported radio stations to help move albums.

Even if SpiralFrog ends up failing, industry observers said it's probable that Yahoo Music or another established digital service will eventually try a similar scheme.

"It's a really intelligent move," Sinnreich said. "It's a good step."

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