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## Advertising to the File-Sharing Crowd

Entertainment companies are looking for ways to colonize the technology long accused of fostering piracy. Will the peers buy it?

by Catherine Holahan

For a year, Edward Koziel valiantly tried to keep computer users from illegally downloading music. His antipiracy company, C-Right, infiltrated networks using the peer-to-peer technology that can be used to share files illegally. Once there, C-Right effectively blocked downloads of unlicensed content on behalf of its entertainment clients.

But for every download thwarted by C-Right and others, countless more proceed unhindered. Illegal files still account for an estimated 90% of the music download market (see BusinessWeek.com, 1/22/07, "[Making a Ruckus in the Music Business](#)"). Entertainment executives grew frustrated with battling downloads a few at a time, Koziel says. Representatives of one music label even told him they no longer planned to spend money on blocking downloads.

### IF YOU CAN'T BEAT 'EM...

So Koziel adopted a different tack. If he couldn't keep people from using file-sharing technology to chase free music, then he'd find another way to help clients make money from the technique. "There was this large market for the labels, we just needed to give them a chance to commercialize it," Koziel says. In August, Koziel relaunched his company with a new name, Skyrider. And this month, backed by \$20 million in venture funding, the startup unveiled a product that lets content owners include ads in video files over peer-to-peer networks.

Skyrider is one of a growing number of companies trying to deliver ads over the peer-to-peer services once deemed the agents of piracy. Among them is MediaDefender, an antipiracy company acquired by ARTISTdirect in 2005. Last summer, MediaDefender launched a program that returns licensed videos or songs, often sponsored by advertisers, to peer-to-peer searches for that artists' work. Among its first promotions: a Jay-Z video sponsored by Coca-Cola ([KO](#)).

MediaDefender still tries to combat piracy through tactics such as flooding peer-to-peer networks with decoy files that tie up a user's computer. However, the company sees potential in the marketing business. "Peer-to-peer is a phenomenon that is here to stay," says Jon Diamond, chief executive of ARTISTdirect.

Koziel concurs. Here's how Skyrider works: A peer-to-peer user searching for, say, a Barenaked Ladies song (the band is a client) would receive multiple results for the corresponding music video, including one that includes a clickable ad at the base of the video for the band's ringtones, a list of the dates when the band is coming to the specific computer user's area, or a marketer's logo, for example. "It's a way to engage his audience with legal content," says Koziel. "And the labels now recognize this is a new channel for them."

### GETTING MAJOR LABELS ON BOARD

That recognition, at least publicly, has been a long time coming, says Eric Garland, CEO of online media measurement firm BigChampagne. Marketing departments at major record labels have quietly discussed the potential of marketing to

peer-to-peer audiences for years, Garland says. After all, at any given moment, big file-sharing networks such as Gnutella, eDonkey, and FastTrack often have a million people on them searching for record label content.

The labels were reluctant, however, to use the services for fear of damaging their legal position. "The problem was the litigation strategy," says Garland, adding that the labels did not "want to do anything that would jeopardize their very clear legal position that there is no legitimate use for this technology."

That thinking changed in 2005, when the Supreme Court ruled that peer-to-peer networks could be held liable for the music piracy of their users (see BusinessWeek.com, 6/28/05, "[A Supreme Slap at Grokster & Co.](#)"). Once that was decided, it gave them more freedom to test the peer-to-peer waters, says Garland.

### **SKITTISH CONTENT OWNERS**

The Jun Group, a marketing company that has delivered ads on peer-to-peer networks since 2004, has seen more interest in its file-sharing ad services since the legal case was settled. "The MGM vs. Grokster agreement was a huge monkey off the back of the entertainment industry," says Mitchell Reichgut, principal at the Jun Group. He says the decision has allowed advertising on peer-to-peer networks to become mainstream.

Intent Media Works, a peer-to-peer advertising company that testified in the Grokster decision, also has benefited from a change in attitude among the major record labels since the court decision. The company, which works with rap artist 50 Cent, has recently signed letters of intent with several record labels. Intent's services give peer-to-peer users the music or movies they want bundled with a mini-pop-up Web site that offers everything from ringtones and concert tickets to links to paid music and film download sites. About 60% of users interact with the mini-window, says Intent Media Works President and co-founder Les Ottolenghi.

Despite what appears to be enthusiasm on behalf of content owners, Garland cautions that it is still early days for the market. Measurements for the market do not yet exist, and content owners are still unsure whether to embrace peer-to-peer technology. During the past school year, the recording industry seemed to ratchet up its campaign of complaints to peer-to-peer users, sending thousands more than in prior years and publishing a list of the worst offending universities. The Recording Industry Association of America refused to comment on this story.

### **CONVERTING P2P USERS**

There are hurdles for the marketing sites as well. The companies that once combated piracy, and in some cases still do, will have to gain the trust of users, says Garland. Many users can identify a file more likely to come from a company because it has a faster connection speed. "That's a difficult transition to make to reinvent your company around this different experience," says Garland.

The others will have to learn to walk a careful line between giving peer-to-peer users enough of what they want so that they interact with the ads. "I think there are some big challenges with that experience," says Ashwin Navin, president and co-founder of peer-to-peer service BitTorrent. Users on peer-to-peer networks known for offering copyrighted content for free will not necessarily be the easiest people to transition into paying customers, he says, particularly if the firms want them to interact with something other than the file-sharing network.

That's why BitTorrent launched a peer-to-peer service on Feb. 26 that will only offer legitimately licensed entertainment content from television, movie, and video game studios. Many movies will sell for between \$3 and \$4. The idea is that, if users visit a service aware that it is a peer-to-peer store and not a network with illegal content available on it, they will already be in the frame of mind to make a purchase.

Still, if even some users on the illegal networks make purchases, it will be better than what the industry is getting now: lost revenue. Intent's Ottolenghi is hopeful: "The users on peer-to-peer understand there will be a day when the piracy part is going to be commercialized in some form," he says.

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