DATA FROM SOME leading research firms indicate that peer-to-peer (P2P) consumption is still on the rise—but don't tell that to the major labels and the RIAA. A year after its win over Grokster in the Supreme Court, the music industry is pushing hard on the message that illegal file swapping of songs, while by no means dead, is flattening out.

The RIAA has been advising anyone who will listen that statistics suggesting digital piracy is growing substantially are, at best, misconstrued.

RIAA chairman/CEO Mitch Bainwol helped set up the argument in January when he wrote a guest editorial for Billboard taking the P2P growth numbers to task.

"The next time you hear some sky-is-falling funky number about the explosion of P2P activity, make sure it reflects domestic (not global) active (not passive) downloading of music (not movies, porn, software or games), excluding spoofs. If you measure something else, the picture gets badly distorted," he wrote.

Six months later, Bainwol remains on message.

"I don't mean to suggest that we're happy with the current level of P2P—far from it," he says. "But we have a sober perspective of what's doable. Just as we've managed to find a way to make it work with physical piracy, there is a level of Internet piracy we can survive.

"We're going to continue to drive down digital piracy," Bainwol continues. "But my fundamental point has been that over the last couple of years digital piracy has stabilized when it comes to users."

So has digital piracy really stopped growing at a significant rate?

The mixed signals coming from P2P trackers not sourced by the RIAA have fired up a debate over which data providers offer the best information about piracy rates—and how their data should be interpreted.

When it comes to hard numbers that can be related to online piracy, the two most-quoted sources for P2P data are NPD, a Port Washington, N.Y.-based research firm that has long conducted consumer studies on behalf of the music industry, and Beverly Hills, Calif.-based BigChampagne, a specialist in tracking online buzz that monitors music usage on P2P networks and other nontraditional outlets.

They are not alone in monitoring P2P, but they represent the leading schools of methodology for tracking it. Cambridge, England-based CacheLogic and Los Gatos, Calif.-based BayTSP also track piracy levels based on P2P network usage and yield results similar to BigChampagne. Other research firms traffic in usage-behavior data relating to piracy—including Peter D. Hart, PEW, ComScore Media Metrix, Ipsos-Reid, Forrester Research—but they do not offer stats about the number of P2P downloaders or the unauthorized tracks being shared.

BigChampagne CEO Eric Garland likens the debate over the validity of P2P statistics to the parable of the blind men and the elephant: There is no consensus because each group is observing a different part of the same thing.

The agendas of those using or refuting the data also play a big part in the debate.

"You've got all of these different camps. There is a factionalization that's not unlike a Democrat or Republican talking about an election," says Russ Crupnick, president of NPD's music and movies division, the RIAA's current favored source for P2P data. "Among the factions, if we have a number they like, we're golden; if they don't like it, we're viewed as black magic."

NPD collects data by monitoring a panel of computer users, in much the same way Nielsen Media Research tracks TV viewership. A volunteer group of 12,000 Internet users allow NPD to keep tabs on everything they do online. In the process, NPD tracks downloading behaviors of users in commercial and unauthorized file-sharing environments and then projects its findings to create an estimate of Internet users at large. The company has the ability to track usage by region and file type as well as monitor post-download playback trends. NPD also does usage-behavior surveys to relate consumer attitudes to its tracking data.

By contrast, BigChampagne monitors usage on the network level, using propriety technology to track the number of users logged into a file-sharing network at any given time. The company tracks the two basic activities that can be monitored on P2P networks: "queries" (searches) and "acquisitions" (downloads). Then they match a computer's IP address to its ZIP code, creating a map of P2P activity.

Garland says BigChampagne's technology can isolate the use of any form of copyrighted material, from music, feature films, software and videogames to instructional manuals or TV episodes.

IS P2P GROWTH SLOWING? DEPENDS WHOM YOU ASK

BY BRIAN GARRITY
ILLUSTRATION BY
STEPHEN WEBSTER

The company, which has been in business since 2000, sells the data to record labels, marketers and other entertainment companies. But Garland maintains BigChampagne's mission is to help determine the popularity of songs online—not to track piracy.

From these very different measurement approaches come very different snapshots of the pirate market. Both firms agree that P2P usage continues to climb. But they differ on the pace of adoption.

Direct comparison of NPD and BigChampagne data is problematic.

NPD reports that the number of U.S. households actively downloading music from P2P sites has grown 14.8% over the last two years, rising from an estimated 6 million households in April 2004 to 6.9 million in April 2006.

But as a percentage of the overall Internet population, P2P growth has slowed dramatically, according to NPD. It estimates that active P2P households represent 10.2% of the current U.S. Internet population, an increase of just one percentage point over the 9.1% of active P2P households in 2004. Over the same period, NPD notes, the percentage of homes connecting to the Internet has more than doubled, the amount of storage space on PCs has grown markedly and the number of iPods and other MP3 players has exploded.

In terms of music use, what is growing significantly, NPD says, is the number of files being traded. More than 333 million files were swapped in April 2006, up 54% from an estimated 216 million files in April 2004. That stat suggests an entrenched group of hardcore users increasing their consumption.

BigChampagne claims that growth rates for P2P users are much higher. It estimates that the average number of simultaneous P2P users in March 2006 was 7 million, up 49% from the 4.6 million users in April 2004. It also says that about 1.5 billion songs, 70% of the files offered through P2P networks, are available for download at any given time—although it does not project the actual number of downloads.

Stan Liebowitz, a professor of economics at the University of Texas at Dallas' School of Management, has been closely monitoring the reports of P2P tracking firms. He says that each data source, regardless of methodology, suffers from one or more deficiencies.

In an April 2006 study titled "File-Sharing: Creative Destruction or Just Plain Destruction?" Liebowitz breaks down the flaws of the data trackers. Panel-based data sources like NPD might underrepresent the population of people actively engaged in file sharing, Liebowitz argues. He says the most active users may be "particularly reluctant" to have their computers monitored by third-party software. (Crupnick counters that the NPD panel includes heavy downloaders.)

As for BigChampagne's method, Liebowitz says metrics based on the number of users alone might fail to capture increases or decreases in the number of files exchanged per user. He also argues that by tracking simultaneous users, BigChampagne may be double-counting some who are logged onto P2P networks for long stretches of time. (Garland says BigChampagne weeds out repeat individual users when determining its figures.)

So NPD or BigChampagne? The answer hinges on a second question: What's actually growing, the number of files being traded or the number of users trading files?

Therein lies the disparity between NPD data, which indicates file growth, and BigChampagne data, which says P2P households are expanding.

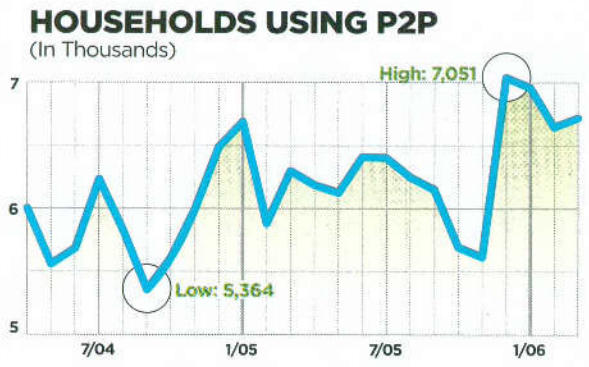
"We're in agreement there is a lot of P2P activity," Crupnick says. "But BigChampagne suggests the cancer is growing and growing. We don't think that's the right diagnosis. We believe ours is a more accurate diagnosis of what the disease is."

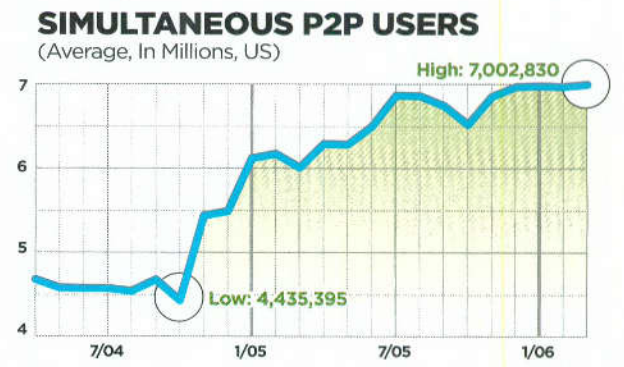
Regardless of who is painting the more accurate picture, the RIAA says the rise in adoption of legitimate offerings like iTunes and mobile music is proof that digital piracy is at a more manageable level.

"Our focus is on whether or not digital piracy is so rampant it's taking the oxygen out of the legal marketplace, and what we are seeing is that's not the case," Bainwol says. "We're moving in the right direction and that's a function of the stabilization of users on the P2P side." ••••

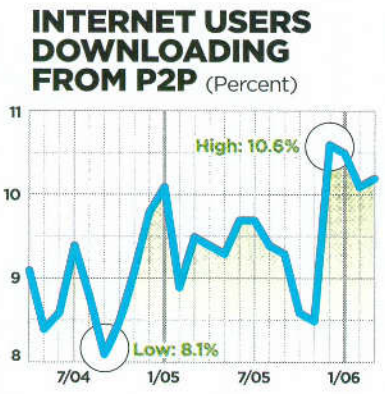
FILE TRADING TRENDS

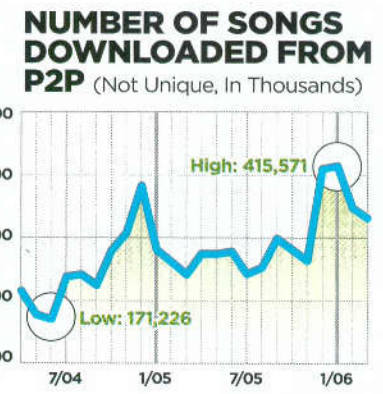
Are the number of P2P households growing or stabilizing? NPD and BigChampagne differ on the pace of adoption during the last two years, in part because they use different methodology. NPD (*below left*) measures active downloaders based on a sample of 12,000 Internet users, while BigChampagne (*below right*) monitors average simultaneous users of P2P networks.

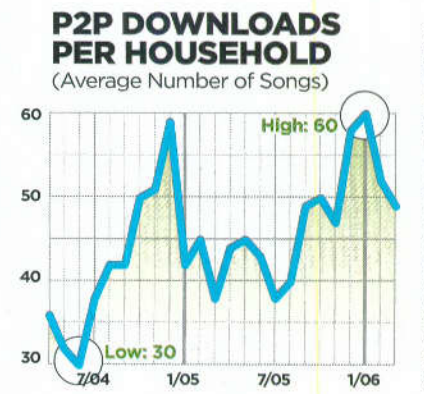




Below: NPD reports that the percentage of Internet households using P2P has grown minimally between April 2004 and April 2006. But active users of P2P are downloading more music than ever before.







SOURCE: BigChampagne (Simultaneous P2P Users); NPD(4)

P2P BY THE BOOK

Private researchers are not the only ones trying to make sense of P2P piracy. Academia is also exploring the P2P phenomenon, with a particular eye toward the behavior's effect—if any—on sales. Billboard offers some quick takes from the leading studies on file sharing.—*BG*

2004

Authors: Felix Oberholzer, Harvard Business School; and Koleman Strumpf, University of North Carolina-Chapel Hill
Study: "The Effect of File Sharing on Record Sales: An Empirical Analysis"
Bottom Line: "Downloads have an effect on sales, which is statistically indistinguishable from zero despite rather precise estimates. Moreover, these estimates are of moderate economic significance and are inconsistent with claims that file sharing is the primary reason for the recent decline in music sales."

2004

Author: David Blackburn, Harvard University
Study: "On-line Piracy and Recorded Music Sales"
Bottom Line: "File sharing reduces sales for well-known artists relative to unknown artists . . . Lawsuits brought by the RIAA have resulted in an increase in album sales of approximately 2.9% during the 23-week period after the lawsuit strategy was publicly announced. Furthermore, if files available online were reduced across the board by 30%, industry sales would have been approximately 10% higher in 2003."

2005

Author: Norbert Michel, Nicholls State University
Study: "A Theoretical and Empirical Analysis of the Impact of the Digital Age on the Music Industry"
Bottom Line: "Despite major labels' advantage in large-scale distribution, we argue that digital downloading has the potential to radically alter the current industry structure, and that artists would be unable to sell their music in such an environment without enforceable copyrights . . . We hypothesize that Internet file-sharing has been undertaken by both consumers who were previously not in the market, and by those who decided to copy rather than buy."

2006

Authors: Thomas Karagiannis, University of California, Riverside; Andre Broido, Nevil Brownlee and KC Claffy, Cooperative Assn. for Internet Data Analysis—CAIDA San Diego Supercomputer Center, University of California, San Diego; and Michalis Faloutsos, University of California, Riverside
Study: "Is P2P Dying or Just Hiding?"
Bottom Line: "Recent reports in the popular media suggest a significant decrease in peer-to-peer (P2P) file-sharing traffic, attributed to the public's response to legal threats. If measured accurately, P2P traffic has never declined; indeed we have never seen the proportion of P2P traffic decrease over time (any change is an increase) in any of our data sources."

2006

Author: Stan J. Liebowitz, University of Texas at Dallas, School of Management
Study: "File-Sharing: Creative Destruction or Just Plain Destruction?"
Bottom Line: "Although file-sharing has been imperfectly and inconsistently measured, [information] nevertheless appears to reveal a fairly close linkage between changes in file-sharing and changes in record sales. Explanations, other than file-sharing, for the recent decline in record sales seem to have little or no support."