

We Are All Pirates

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Author Matt Mason takes a hard look at how established companies should face the growing threat of piracy.

by Edward Baker

Given his support of the ascendancy of pirate culture, it should come as no surprise that Matt Mason began his career as a pirate. “I grew up in London, where pirate radio stations — which broadcast illegally or without a license, sometimes from off-shore ships and oil rigs — were in abundance,” he said in a recent telephone interview with *strategy+business*, “and I was a DJ on pirate radio for many years. So I always had this very different idea about what piracy meant and what piracy could be, and the kind of value it could add to society.” In Mason’s view, piracy has gone far beyond teenagers illegally downloading copyrighted music to become a part of our culture and a successful business model in its own right, one that legitimate businesses would do well to learn from.

Since his radio days, Mason completed a degree in economics and economic history at the University of Bristol in the U.K., worked for Atlantic Records in the press department and in advertising at Saatchi & Saatchi, and then founded the urban music magazine RWD (pronounced “rewind”). His first book, *The Pirate’s Dilemma: How Youth Culture Is Reinventing Capitalism* (Free Press, 2008), examines how interconnected cultural pursuits such as piracy, hip hop, remixing music to make new songs, graffiti, and open source have transformed how we think about using and reusing information.

Mason’s premise: Thanks in great part to the Internet, piracy is becoming more firmly established in our culture and economy. Consequently, it is incumbent on every industry — not just media and entertainment — to come to terms with that reality or at least to try to understand how piracy delivers value, in order to compete with or perhaps even benefit from it.

S+B: In your book, you quote the co-chair of Disney as saying, “Piracy is just another business model.” What does that mean?

MASON: Look at the DVD pirates on Manhattan’s Canal Street. They release films on DVD for US\$5 just as Hollywood releases the films in theaters. That business model is in direct opposition to the way Hollywood set up the system. Hollywood’s model depends on exclusive release of films to theaters, followed months later by a DVD release. Yet despite the activity of the pirates, the summer of 2007 was Hollywood’s biggest ever, with movies taking in \$4 billion at the box office. That doesn’t add up; if piracy is such a problem, then you would think it would have a negative impact on the box office. Hollywood has simply refused to acknowledge the idea of simultaneous release because they’re so worried about the effect it will have on theater revenues. But according to the evidence, movies in the theater and

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movies on DVD are two different products. That tells me that if Hollywood accepted the presence of the pirates' business model, as Disney's co-chair seems to have, the movie companies could actually learn how to compete with them.

Every company is capable of having its business model turned upside down by piracy, but every business is also capable of competing with that model. The people I refer to as pirates in the book are all people who use information in really unconventional ways. So rather than thinking about how we can stop piracy, let's consider how we can come up with better ideas by thinking in the same way as the pirates.

S+B: You have said that there are going to be more and more instances of companies encouraging us to share, use, and disseminate information and content more freely. But why should companies be willing to allow people to share?

MASON: The kind of boundaries that used to exist in capitalism are breaking down. Capitalism used to be about whoever owns the means of production calls the tune. Now, it's about the quality of the ideas you produce. It's about creativity. That fact is causing a shift whereby companies are reluctantly starting to compete with piracy because they have to. As more people do that, I believe the benefits of making content more freely available and working out other ways to make consumers pay for it are going to become more obvious.

But this shift won't be easy. Ten years ago, all of the major music labels knew they could sell music online, but they didn't want to — it wasn't in their interest. It took an outsider, Steve Jobs, to force the labels to act together and agree to do this. But now, Jobs and iTunes

are in the same boat. A licensing model in which people were charged a small fee each time they listened to a song, for instance, would suddenly put iTunes in a much more competitive marketplace. And the notion of licensing copyrighted material would disrupt a lot of other incumbents, even the new ones. It would be really bad for Google, for example, which makes its money by collecting and disseminating other people's information and putting its own ads around it. But in a licensing model, Google would have to pay for that information, too.

S+B: Have you tried to adopt content-sharing ideas in your own work?

MASON: I'm talking to my publishers about giving away a free e-book version of *The Pirate's Dilemma*, which I think would be a really great marketing strategy and would actually help us sell more physical copies of the book. But they've been very cautious about doing that because it's a huge change for them in terms of how they think about what they sell and what they do. In fact, book publishing is a really good example of the pirate's dilemma. From the author's point of view, the threat really isn't piracy; it's obscurity. Two hundred thousand books are published every year, and the average book sells 500 copies. Against those odds you need as many people reading your book as possible. One of the best ways to do that is to give away an electronic copy in the hopes that people will read it and talk about it, and that it will generate a buzz that leads to the sale of physical copies.

When authors offer free versions of their books, one of two things typically happens. Either people like the book and the pirate copy helps sell print copies or people don't like the book and so they don't pay to download it or buy the print version. What is lost by

downloading a free version of the book?

Paulo Coelho, author of *The Alchemist*, recently said that he had been leaking his own books to BitTorrent (a peer-to-peer downloading site) behind his publisher's back, and that this had been helping him sell books. He has since created a Web site where his books can be downloaded for free. In Russia, after he made a Russian translation of *The Alchemist* available on his Web site, Coelho went from selling 1,000 physical copies of *The Alchemist* a year to selling 1 million copies of all of his books within three years. Now he sells 10 million books a year in Russia.

S+B: Are there any industries that you believe are adapting well to the threat from piracy?

MASON: Yes, the fashion industry. In 2006, Congress began considering extending copyright protection to fashions — which had never before been protected — to try and bring them more in line with European laws, which are designed to protect smaller companies from having their designs stolen immediately by large retailers. Yet even during this reevaluation it was universally accepted that piracy is literally how the fashion industry innovates. Because people are able to copy the 3-D design of garments, they can create trends. And because those trends can be disseminated so quickly and the new rapidly becomes old, we have seasons in fashion. This allows the fashion industry to sell more clothes than if individuals could protect their designs for a long time and trends lasted a couple of years rather than a couple of months. The problem now is that copying is happening so fast in fashion that people are losing sight of the original.

The legal question facing Congress was how to protect the small designer from the potential losses from the copying of their designs. But what was so amazing to me was that everybody involved — the largest companies, the smallest designers, Congress itself — were all in agreement that the ability for people to be able to copy each other to a reasonable degree has to be preserved. You never hear anything remotely like that in the movie or music industries, or in any other industry that involves intellectual property.

S+B: What makes the culture of piracy so effective?

MASON: When you think about the effectiveness of piracy, you also have to consider the impact of remix culture and the open source movement. All three are based on sharing and, ultimately, they're more powerful than most intellectual property laws because they operate in the

public domain, which is indefinable and mutable. The public domain may be defined legally, but where it begins and ends must be viewed culturally. For example, most remixes fall on the wrong side of copyright laws because they involve pirated samples, film clips, music clips, designs, and trademarks that are mashed up and reused. And the average person in the U.S., even if he or she doesn't illegally download music or movies, violates copyright laws so many times a day, according to John Tehranian, a law professor at the University of Utah, that if he or she were sued for just one day's worth of violations, the damages would amount to about \$12.45 million. It involves everything from forwarding an e-mail with another e-mail or a photo attached to taking a photograph with a TV on in the background. All these activities are technically illegal.

But humans are copying machines. We learn by imitating one another. That's how we learn to speak. That's how we learn social norms. That's how culture happens. Everything we do is an invitation to copy. And now, thanks to digitization and the Internet, we can express that in ways that we couldn't before. The Internet is the ultimate copying machine, and it's affecting many business models. There are times when piracy is a great idea and there are times when it's not; that's why I call it a dilemma. The point is, though, it is not a dead end. It's in the interest of all who deal with the buying and selling and sharing of ideas to confront piracy and its implications now — that is, to reevaluate their business models so they include ways to capitalize on a freer flow of ideas and on more sharing of information and content. +

Resources

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John Tehranian, "Et Tu, Fair Use? The Triumph of Natural-Law Copyright(PDF)," *University of California Davis Law Review*, vol. 38, no. 2, February 2005: An in-depth analysis of the long history, legal merit, and social value of the concept of "fair use." http://lawreview.law.ucdavis.edu/issues/Vol38/Issue2/DavisVol38No2_Tehranian.pdf

The Pirate's Dilemma Web site: Information about Matt Mason and his book, including a useful Weblog on issues pertaining to intellectual property, copyright, and piracy. www.thepiratesdilemma.com/

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