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Introduction

Napster Group PLC (henceforth referred to as 'Napster') is a public company that lists five people in its board and two people in the committee (Napster, 2021). Napster completely changed looks after its beginnings as an illegal music database. Now, the company is not only a fully licensed music streaming platform, but it is also focussing on pioneering into multi sensorial in app-experiences thanks to its recent acquisition by MelodyVR. This report will look at the company's business environment to analyse possible areas of development and concern. To do so, it will be analysed against similar companies such as Spotify and SoundCloud. Findings of the report show that, although Napster completely disrupted and changed the outdated pre 2000s recorded industry models, it could not live up to the expectations. Part cause of the incumbent lawsuits, part fault of the frequent changes in management, Napster has been trying to stay afloat for more than 20 years. Now, in the heavily unregulated streaming landscape, Napster seems to be working on re-building a name for itself. While songwriters struggle to keep their art alive, Napster focuses on streaming for businesses and researching the market needs, perhaps making the error of forgetting to pay artists once again.

History Of The Company

Napster was founded in 1999 by college students Shawn Fanning and Sean Parker as a peer-to-peer (henceforth referred to as 'P2P') service that allowed users to upload, share, and download music files for free (Harris, 2019). The service got extremely popular among the college students, as it provided access to an almost infinite library of music at no cost. At the time, music could only be accessed through CDs or physical formats, as downloads would only become popular and available later in 2001 as a response to music piracy. In 2001, Napster was at the peak of its popularity, with more than 80 million registered users and around 1.5 million users downloading at the same time (Harris, 2019). At the time Fanning programmed the P2P technology at the core of Napster, the industry was already sensing an immediate revolution in the way it was used to operate. Kover (2000, pp. 129-135) reports an attempt by record labels at promoting downloads: in her report, she mentions the difficulty in locating and purchasing the files, which would take over ten minutes for one single song. Moreover, the cost would vary from \$2 to \$3 per single: in the month of April 2000, Sony was reported to sell only 50 songs through their website. Due to

the speed of download and convenience of Napster, people would completely avoid the record labels' digital stores.

The recording industry soon realised that Napster was the main reason the sector was declining, and one year after its entrance on the market, at the beginning of 2000, the Recording Industry Association of America (RIAA) filed a lawsuit for infringement of copyright. Although Napster claimed it was not the one committing the crimes, but rather the case should have been filed against its users, the court found it complicit and guilty of copyright infringement two times (McIntyre, 2018). Musicians the likes of Metallica also filed a lawsuit against the company when a rough mix of the track they were recording for Mission: Impossible 2 started circulating in US radios. The track was traced back to Napster, and soon after Dr Dre also joined in the lawsuit, which was won by the artists (Law, 2021).

After filing for bankruptcy, Napster was acquired by Best Buy and Rhapsody, companies that teamed up hoping to exploit the company name's popularity. According to McIntyre (2018), the name Napster was used for trading in Europe while Rhapsody was trying to establish itself in the American market. However, after a couple of years the name Rhapsody was ditched for the more recognisable Napster. The company is now acting as a streaming platform, and was recently acquired by MelodyVR (Fildes, 2020), which raised investments for £6.48m in convertible Loan Notes, each having a value of £10,000 (Stassen, 2021). It is interesting to note that MelodyVR is a UK-listed virtual reality music company: the ultimate aim of this acquisition will be to have Napster pioneer as a next-generation music platform probably based on the meta universe. In fact, the Swiss company for corporate financing Nice & Green holds the majority of the shares (10.2%), being a key financial asset for this expansion (Napster, 2021).

Napster was founded by a college student, for college students that would not or could not pay for music. Numerous colleges banned Napster from being used from their servers in the years it was first active, as it would use up all the available bandwidth (Rawlings, 2010). More than just an app for teenagers, Napster laid the groundwork for a digital revolution in the recorded music industry. This was demonstrated by the numerous streaming platforms that generated after the downfall of the website, and that were moulded on its services. Not only Napster marked the start of a new era for music, it also developed a devoted user pool that stood by it during the trials in court. Numerous articles report Napster fans waiting for the judge's decision outside the courts (Ante, 2000, p. 113). Although the website was majorly criticised by record labels and publishers, investors saw

ways of generating income through the platform's design. Napster's ex-CEO Barry (2000, quoted in Ante, 2000, p. 113) stated that the company was trying to find ways to generate revenues legally in-between the hearings. Some of the methods cited were implementing ads and sponsorships, or creating a subscription system that would get some of the money to go back to the recorded music industry. This idea is now the model that modern streaming platforms are based upon. When the company was acquired by Rhapsody, the new CEO Gorog transformed it into a subscription service: users could pay as little as \$0.99 per-song download, or \$9.95 a month to download and stream on personal computers (Burrows, 2003, p. 66). Up until that day, albums could only be purchased in full, encouraging people to switch to piracy if they did not want to spend enormous amounts of money on music they would not listen to.

Nowadays, Napster looks exactly like any other streaming platform, with different plans and prices available. Among its competitors, however, Napster is the one with some of the lowest monthly users: according to Kopf (2020), in fact, only 3 million people use it, while Spotify for instance reported 381 million active users in the third quarter of 2021 (Spotify, 2021).

A recent addition to Napster's services is their 'Business Premium Powered by Napster' in partnership with SoundMachine, a cloud-based music service for businesses. The companies act as a music provider for a variety of businesses, from BMW Music (an integrated on-demand radio built in the audio interface of cars), to mobile carriers such as the German Telefónica, to the re-launch of Uforia, the app for Latin music fans. The service is tailored for apps and businesses that need to integrate music into their services. Napster offers constant support, business consultation, and IT teams to enhance their services. Moreover, businesses can opt in for AI or human-generated music curations, and can also schedule promotional messages to play in-between songs (Napster, 2021).

Microeconomics

Napster's microeconomics can be analysed using Porter's Five Forces to identify key areas that need focussing on. These areas help understand where the company sits in the music streaming landscape. Understanding the forces that play important roles in the business environment helps adjust and improve the company's profitability (MindTools, 2021).

The first area that will be looked at is the competition in the industry. Nowadays, almost forty music streaming platforms operate in the global market. This data suggests that competition is high, since at least thirty other platforms were discontinued for various reasons. Competitive rivalry brings threats to companies in the area, as customers are prone to change business if they feel that the price they are paying does not match the services provided (MindTools, 2021). This is the reason why in the music streaming industry companies usually try to give out the best possible deals to their customers. An analysis of some of the biggest competitors was conducted to better understand the microeconomics affecting Napster.

Spotify and YouTube

Global music streaming revenues grew by 7.4% in 2020, accounting for a share of 62.1% of the total global industry revenues. Of these, paid streaming revenues grew by 18.5% (IFPI, 2021). IFPI (2021) analysed that 23% of the global weekly music engagement accounted for streaming, positioning streaming on top of the statistics. In the global market, two streaming services are currently the biggest competitors: YouTube Music and Spotify. According to YouGov's International Media Consumption Report (Nguyen, 2021), YouTube is used by 44% of the American population, with Spotify accounting for 27%. On the other hand, Spotify achieves greater success in the UK (31%), with YouTube used by 19% of the population. Although Spotify is by far the most successful streaming platform to date, it is now plateauing at 30% of the consumers (Midia, 2021). Today, YouTube is catalysing more than 50% of the market, with an increase in consumers during the pandemic - this was due to the population shifting to a more home-based lifestyle; during lockdown, people did not need the convenience of audio-only and downloads. It is not only convenience that leads consumers to use YouTube as the preferred music platform: unlike Spotify, it is included on a large number of Android phones, giving it an advantage over the competition (Zeman, 2021). Moreover, YouTube is owned by Google: when looking up music on the internet, the website is the first result to come up, making it the most straightforward way to listen to music for people.

The advantage of Spotify and YouTube over Napster is that they expanded much more rapidly across the world. Moreover, Daniel Ek, founder of Spotify, was inspired by Napster when building its platform. Ek was able to transform the concept behind Napster into a business by placing ads in-between songs and by partnering with record labels and publishers (Kopf, 2019). This strategy, which can be considered the natural evolution

of P2P, gave Spotify an advantage over the competition, and nurtured the company's reputation as a valid alternative to piracy.

SoundCloud

Founded in 2008, SoundCloud has shown incredible growth over the years, as reported by Smith (2021): in 2019 the platform was used by 76 million monthly users, with 175 million global users reached in the same year. Its revenues grew by 37% in 2019, helped especially by ad sales in partnership with Pandora (Dredge, 2020). SoundCloud's success is fuelled by its attention to customer feedback. Numerous additions to the software were made in 2018: from integrations with DJ software that made the platform the 'most widely integrated streaming service in DJ performance software and hardware' (SoundCloud Limited, 2019), to the introduction of aggregation services and tools to help artists distribute their music on all major platforms. Moreover, SoundCloud's interface facilitates music discovery and connections among artists and fans, as the platform is mindful of the industry's penchant for all-around experiences and the importance of the artist-to-fan relationship.

Most streaming platforms in 2021 operate through freemium or premium offers. Freemium account holders agree a certain degree of advertisement in-between what they're listening, and to a lack of functions. In Spotify's case this model is highly remunerative, generating €323 million after the first wave of Coronavirus (Mukherjee, 2021). SoundCloud, on the other hand, was able to turn the freemium/premium business model into a new, more competitive idea. The platform launched an additional premium service in 2018 to turn people into subscribing. This service allows users to distribute tracks on all major streaming platforms, directly from the SoundCloud website (Ingham, 2020). This idea thus allows songwriters to test run their tracks on SoundCloud before distributing to other platforms, without incurring in extra risks or paying extra money. SoundCloud then seems to operate on the side of artists, especially through its user-centric politics that sees premium accounts' fees going directly to the artists that users listen to.

As it was analysed, the most successful streaming platforms such as Spotify and YouTube utilise freemium tiers to lure customers in. The heavy use of advertisement in-between playings is also used to encourage listeners to subscribe. Moreover, these platforms offer free months when subscribing, and family and student discounts. Most platforms such as Spotify and Apple Music also have user-friendly interfaces, with perks such as lyrics,

snippets of videos or Canvas, exclusive live or acoustic sessions, and tailored playlists and statistics. Napster offers a 30-days free trial, and the subscription fee is £10 a month. The price is in line with other platforms', although no student or family plans are available, and the service is basic compared to what other platforms offer.

On the other hand, Napster seems to be on top of the competition for what concerns their 'Business Plan': Napster is currently the only streaming platform to offer a 360 range of services for businesses, from built-in apps to software integrations. Several companies deal with licensing Spotify catalogues, however the only other streaming platform to offer an in-app business service is Apple Music. Nonetheless, its model does not match Napster's: the latter seems to be focussing all its efforts on this integration to increase its cash flow, as it cannot offer anything more than the competition to the standard customer.

Buyer power refers to the influence that consumers hold on businesses when the competition is high: the stronger the buyer power, the lowest the prices will be, and the better the offers (The Strategic CFO, 2021). In the 'Business Plan' case buyer power is weak, as businesses - especially in tech - will prefer an all-around, 360 service such as Napster's to the rest of the small competition. However, when it comes to regular music streaming, the buyer power gets stronger as the competition gets harsher. Consumers can easily switch from one platform to another, and thanks to the freemium tiers and free trials the likelihood of losing customers is extremely high in the current market. Moreover, platforms such as Spotify, YouTube and Apple Music have much bigger popularity than Napster. The competition has better relationships with labels and their roster of signed artists, and much more money is devolved to advertising and customer relationships. Napster, on the other hand, does not seem to allocate enough money in publicity, and its popularity rank is therefore lower. However, since the competition is so strong, it is unlikely that new streaming platforms will enter the market, lowering Napster's risks of being outclassed.

Macroeconomics and Financial Activities

Napster's macroeconomics environment will be analysed using a PEST analysis that will look at all areas including financial activities and investors. PEST analysis is a globally recognised method to assess any external factor that might affect a company's operations

(MindTools, 2021). Understanding areas of concern can help the company to consolidate or pivot their business strategy accordingly to the market's needs.

P OLITICAL	E CONOMICAL	S OCIAL	T ECHNOLOGICAL
FIX STREAMING ISSUE UNFAIR LABEL DEALS USER-CENTRIC PAYMENTS	COVID-19 AND DROP IN STREAMING ROYALTIES LACK OF EVENTS RISE OF LIVE STREAMING EVENTS	RISE OF VIDEO PERKS OF STREAMING VS DOWNLOADS NEED FOR SLEEK PLATFORMS AND FRIENDLY USER INTERFACE MARKETING CAMPAIGNS	METaverse WHAT WILL HAPPEN TO MUSIC LIBRARIES IF SERVERS GO OFFLINE? MULTIMEDIA EXPERIENCES

Streaming is the reason behind the music industry's growth, with streaming income amounting to 62.1% of the global recorded revenues (IFPI, 2021). However, streaming platforms have been under scrutiny in the past years for their lack of consideration when distributing royalties. In fact, streaming royalties are calculated on a per-stream basis, with an average of £0.003 paid after the first 30 seconds of streaming - this means that, in order to generate the same amount of money as one single download, a song needs at least 200 streams (Musician's Union, 2021). Furthermore, major record labels hold the biggest shares of streaming platforms, and any additional income is paid to artists who hold the biggest pool of listeners and streams on the platforms. Independent artists are left with little to no income from streaming, making it increasingly harder to sustain their arts. One of the most recent controversial news was Four Tet suing Domino Records after the indie label removed his three first albums as a consequence of an undergoing legal battle between the two. Four Tet claims that the label is only giving him the 18% of his royalties as opposed to the 50% stated in the contract (Cooke, 2021). This shows that one of the major issues when it comes to streaming is the direct influence that labels have: unfair contracts and missing retribution from albums that came out before the 2000s are just some of the causes of the uproar. Many movements across the world are currently fighting for equality and transparency across platform's operations, with a call for higher royalty

rates and fair pay for all songwriters. After months of investigations following the numerous complaints and petitions filed by groups of artists, songwriters, and managers, in December 2021 the UK Government stated that the music industry is expected to address the digital royalties issue (Cooke, 2021). MP Brennan's proposed bill seeks to improve the artist/label relationship and to change deals made before streaming existed. Moreover, the bill wants to modify copyright law to have statutory rights and equitable remuneration on income from streaming, giving more power to songwriters (Cooke, 2021). Although the bill was not passed, the government's formal request to the music industry seems to be a huge step forward for the campaigns launched by Ivor's Academy and Musician's Union. Music streaming platforms need to carefully consider how to move forward, as their infamous reputation risks getting in the way of their practices. Platforms such as SoundCloud and Deezer have already moved towards a user-centric model, and such policies could be a smart move for Napster and other smaller providers. Not to mention that, if all minor music streaming platforms shifted towards a more ethical model, Spotify, YouTube and Apple Music would be more likely to change as well to keep in line with new policies and 'trends'.

When analysing the macro economics, it is important to keep into account economic factors that reside out of companies' control. The 2020 Pandemic saw the whole world move to a home-based lifestyle. As reported by Kizielewicz (2021), a study into the streaming economy saw that countries where commuting was abandoned had significantly low streaming statistics. Figures were down by about a third during the first lockdown (Brambilla Hall, 2020), with Spotify losing 692 million euros in the first three quarters of 2020 (Business Line, 2021). At the same time, music consumption rose on video streaming platforms such as YouTube after the emergency was declared by WHO (Business Line, 2021). Many music streaming platforms are now shifting towards video as well, with Apple Music offering embedded music videos in the app itself, and Spotify's Canvas that play short clips while the music is being played.

Streaming revenues, however, are determined to raise thanks to the ease and value to consumers, as well as the continuous investments by a huge number of firms in catalogues and shares in the music industry (Digital Media Association, 2021). Moreover, the convenience of having cheap distributors allows for thousands of tracks to be uploaded daily on multiple platforms at the same time, resulting in harsh competition that brings even more cash flow into the industry.

These factors and trends should have been taken into consideration by Napster's development team, as the platforms' not-so user-friendly and overly simplified interface does not allow for audiovisual content and does not appeal to younger generations. Moreover, as the downfall of streaming during the Pandemic brought other platforms to come up with marketing campaigns, ideas and modernised looks, Napster remained the same, perhaps victim of the very funding activities going on behind the scenes. In fact, ever since Fanning developed the software, the company has been sold and bought several times: from Bertelsmann in 2002 for \$8 million (Hu, 2002), to Best Buy in 2008 for \$121 million (Skillings, 2008), to MelodyVR for \$70 million in 2020 (Schneider, 2020). The financial statements for the period ended in December 2020 show that during the Pandemic the company co-hosted a series of live-streamed events with Live Nation; however, the majority of its income (£987.7k) came from subscription fees thanks to their partnership with O2 (Napster Group PLC, 2020). Moreover, the costs of these events were not capitalised (Napster Group PLC, 2020). Comparing it to Spotify's total subscription revenues for the same period, amounting to €7,880 million (Spotify, 2020) it is clear that Napster cannot even be considered competition in the streaming industry. The financial report mentions \$27 million to be invested in renovating activities to make the platform more appealing to customers and "supplement[ing them with] new content, extend[ing] beyond the boundaries of traditional music platforms" by Q4 2021 (Napster Group PLC, 2020). However, the content that Napster and MelodyVR have sought to launch still has not come out. Following the Full Year Results (2021), we can see a pattern in Napster's stubbornness in maintaining its position as the 'original music-platform for music fans', straying away from the now extremely popular podcasts that other platforms monetise upon and offering instead bespoke music experiences. In fact, Napster seeks to offer its customers interviews, documentaries, 360 live shows across the world and downloads. However, Napster seems to have not analysed trends thoroughly and to be far behind the competition, which has already been offering similar offers and experiences for many years.

Napster started a music revolution, but it has now fallen behind the competition. When Napster started back in the 2000s, people welcomed the benefits of digitally-stored high-quality music. Moreover, all those files were completely free of charge. CDs suddenly became obsolete, and as we shifted for a very short time to downloads people started realising that, although they welcomed this new, digital music, they did not want to pay for it anymore. Piracy was still very much a thing when Spotify was opened in 2006, and due

to the convenient freemium tiers people nowadays still do not feel like they should be paying for music, often preferring constant advertisement to monthly fees. The efficacy of streaming resides in the ease of having music on the go, whenever and wherever it is needed, offline or online. Streaming means having access to an infinite library of tracks, genres, playlists. As argued by Steve Jobs (2003, quoted in Ricker, 2015), however, downloads are far more cost-effective than subscription services because

“If it costs you \$10 a month or over a \$100 a year for a subscription fee to rent that song, that means for me to listen to my favorite song in 10 years I paid over a \$1,000 in subscription fees to listen to my favorite song ten years from now, and that just doesn’t fly with customers. They don’t want subscriptions.”

At the time, Jobs had just launched the first Apple iPod, and iTunes was the only alternative to pirated songs. Nobody wants to store files on their phones now. We are now accustomed to paying monthly subscriptions and having everything at hand. This sociological change is probably due to the advent of mobile smartphones and fast broadband. From Amazon Prime to Netflix, everything is widely available and can be bought in a few clicks. When we get tired of listening to an artist, we can unfollow them and delete their discography without losing money. However, some people are concerned with what will happen to their music libraries if and when streaming platforms’ servers go offline. Pinsker (2021) describes the feeling of losing his 5,000 downloaded songs library due to a hard-drive backup gone wrong, and fearing the same could happen to his now 10-years old Spotify collection. At the same time though, Gen-Z are used to listening to short excerpts of songs on social media, and they enjoy the music rotation on their tailored Spotify playlists as the trends change and new artists get pushed onto the platform. It seems that older generations are much more connected to discographies and artists they love and would benefit from a more permanent solution (although even CDs get worn out after a while), while youngsters need engagement and freshness. Therefore, platforms should present customers with more options, tailoring their services to different audiences.

Although Napster can be considered the very agent of change at a time when the music industry was stalling, consumers now prefer more reliable platforms such as Spotify and Apple Music. This is also due Napster’s lost years in court. Moreover, as the company changed ownership, nobody could renovate the platform and market it as well as its competition. Most people in 2021 are not even aware of Napster’s existence, nor would

they use it. It seems that Napster could not keep its popularity in a fast-paced market, and lost its chance at reaching the next step.

Lean Business Method Application

Ries (2011, p. 27) defines a startup as a 'human institution designed to create a new product or service under conditions of extreme uncertainty'. What makes a startup successful over the others is its ability to use *validated learning*, a method that seeks to empirically demonstrate progress through research into present and future business methods (Ries, 2011, p. 38). Napster was born to fill a gap in the market, but was it strong enough to keep its legacy? Ries (2011, pp. 61-63) explains the two assumptions that entrepreneurs need to consider to gauge success: *value hypothesis* and *growth hypothesis*. The *value hypothesis* exists to test if the product holds any value to customers. This assumption can be verified through customer feedback or experimenting. A real-life example of this is YouTube, which initially started as a video-dating website, but quickly changed to be a user-generated video content app after validating customers' feedback (Dredge, 2016). The *growth hypothesis* tests how new customers will discover the product, and how likely it is to virally spread from the early adopters to mass consumption. These assumptions help to make sure that customers exist and are ready to embrace the new product (Ries, 2011. p. 83). At the time Napster was made available to the public, its founders could easily test the app's efficacy by circulating it initially among their college network. The test, probably conducted with no awareness of it, instantly made the startup look successful: as a matter of fact, Napster quickly spread to the rest of the world in a matter of weeks. However, what Napster lacked was vision. When the recorded music industry started to fight back against piracy, nobody at Napster tried to find ways to save the company. If Napster had applied the lean business method at its beginning, the founders could have used the *vision-strategy-product* method, and they could have tested new products' value in the market. This method is built on the assumption that, by making constant adjustments, entrepreneurs can learn when and how to pivot or persevere in their methods (Ries, 2011, pp. 20-24).

Napster's fame of being an early catalyst for change in the music industry, if supported by strong startup management, could have pushed it to become the first and biggest streaming platform. Moreover, Napster could have retained its 'punk' ethics by listening to the market's needs of fair pay across streaming practices, and become a user-centric giant. However, we can still see some lean activities in the new value propositions of the

company. In fact, as detailed in the Full Year Results (2021), Napster is now pivoting its activities to the metaverse by hosting live concerts and audio-visual experiences in the platform interface. Moreover, Napster for Business aims to fill the gap in the market for an all-around streaming platform for apps, cars, and businesses all over the world. This report suggests Napster to test the ideas first and value customers' feedback over the rest. In fact, the numerous changes in management and lack of credibility in the industry did not put it in a favourable position against the competition. Now, the company needs to invest in its growth in the market by testing new ideas and being ready to pivot when necessary, in order to establish credibility and value.

The current market seeks two fundamental needs: equitable royalties for songwriters and convenience for customers. Taking as example Spotify, the platform was able to create value for customers through constant innovation, making it a staple of music streaming (Jones, 2020, pp. 9-10). People are not willing to pay more than \$10 a month for music when they can easily revert back to piracy, therefore streaming platforms need to come up with ways to increase loyalty and convenience for consumers. The first step would be to lower the value gap for songwriters, in order to gain their support. This can be done by increasing the subscription fees (Hogan, 2015, cited in Jones, 2020, p. 11); however, the risk would be to lose a huge customer pool due to competition. If laws against low royalties rates were enforced, however, labels, publishers and streaming platforms would need to stipulate agreements and licenses that could help increase payments to songwriters. On the other hand, customers are now used to state-of-the-art apps that offer 360 experiences. Netflix, for example, now offers free videogames that can be downloaded directly through the app, 'watch parties', specials and tailored recommendations (Shaw and Gurman, 2021). Apple Music offers music videos, and Spotify recently added lyrics. If Napster's efforts to combine live, video and music can offer consumers a valid alternative to the much more trusted competition, its chances of raising its popularity might increase in the future. A valid initiative would be to involve songwriters in the process in order to increase value for both key resources (musicians) and customer base.

Conclusion

Napster's product and business methods completely changed from the P2P startup it was conceived to be to today's streaming platform. Early disruptor of the recorded music industry, Napster was able to become a worldwide necessity in just a matter of weeks. Not only the website showed the world that music could easily be accessed and shared by

everybody, it also opened the doors for incredible growth in recorded music revenues. Napster applied the lean business strategies by shifting its focus towards streaming, however it could never beat the competition. The company suffered from the numerous changes in ownership and a lack of innovative ideas. Now in 2021 Napster is trying to bring back the nostalgia and re-establish itself as the go-to music provider by widening its range of offers. Moreover, the company is also trying to establish a legacy in music streaming for businesses, by being the first music streaming company to offer tailored services directly from its app. Napster could be a promising entry into the market if it was sustained by stronger beliefs and lean methodologies.

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