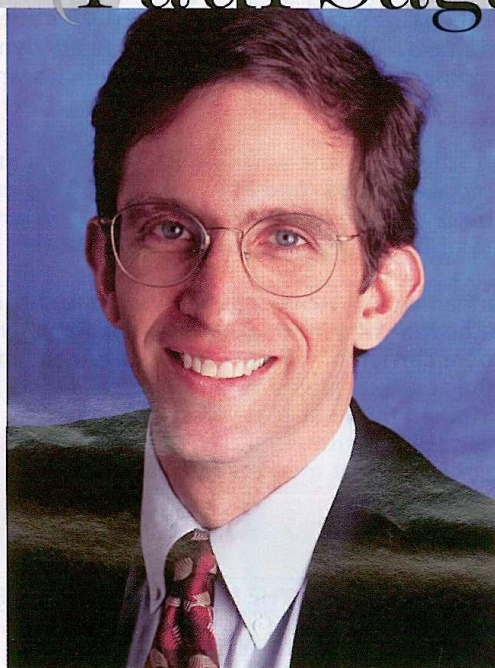


BY ANTONY BRUNO

(Paul Sagan)



The digital entertainment industry has been kind to Internet network-services provider Akamai.

The Cambridge, Mass.-based company operates a “distributed network” of more than 16,000 servers worldwide that it uses to more effectively route Internet traffic to and from its clients’ Web sites.

Originally used by early dotcom companies looking for faster page-loading times, Akamai struggled after most its customers went out of business when the Internet bubble burst.

But the advent of streaming multimedia and on-demand content downloading has sparked an avalanche of new business. In 2003, Apple Computer chose the system to manage the distribution of music purchased from the iTunes Music Store. Akamai now counts almost every Web-based music and video service as clients.

The company recently acquired Speedera, its closest competitor, to stand virtually unchallenged in its space, commanding more than 80% of the Web content delivery services business. The explosion of online retail and digital distribution is expected to double the company’s profits by the end of the year.

Akamai president Paul Sagan was named CEO in April 2005. He sat down with Billboard to discuss the future of digital distribution and its impact on the technology and entertainment industries.

Q: You often talk about the “demand economy.” Can you explain it to us?

A: There’s been a fundamental shift enabled by the Internet. The supply side used to dictate the pace of innovation, the change of product life cycle, the introduction of new products, the messaging and, effectively, pricing.

The power now is with the buyer. All my stores are open all the time. I can globally source whatever I want. I get price comparisons a click away. I get peer reviews and find out what others think of a product in an unfiltered way. I expect immediate inventory updates. And I can control which messaging I get.

If your inventory isn’t competitive, you lose. If your price isn’t competitive, you lose. If you lie to me, you lose immediately. It fundamentally makes the world much more competitive for sellers.

Q: Has the entertainment industry’s attitude changed in recent years to accept this?

A: It has, very slowly. Too slowly. It’s still playing catch-up and is much further behind than it needed to be. I still think there is too much a sense

in many corners of the media world of “Can I hold this back long enough to get through my career and make it someone else’s problem?” But it’s happening so fast, that unless your retirement party is between now and July 1, you’re not getting there.

Q: The Internet has proved to be a double-edged sword for the music industry. On one hand, it has caused a lot of disruption, but on the other it is also the path to its future.

A: Clearly it’s an industry that’s been suffering, but you can’t blame all the downturn on the digital transformation or even piracy. For any industry there’s this difficult

crossover point, which is: Can you find the new future online, and who will profit from it before the old business is destroyed? Music is feeling that. Newspapers and certain forms of mass media are feeling it. But every industry in one degree or another is being transformed by this demand economy.

Q: Akamai has had some ups and downs. Any advice on how to stay positive during the dark years?

A: Have a fundamental vision of why you’ll be successful, because of what you know your customer wants. Keep delivering that, and you’ll find the future you want.

My advice to anyone in the digital media business thinking about what their digital strategy should be is this: The future is here and now, so you’ve got to embrace it. Understand what your customers want and figure out how to give it to them in a way that’s both fair to them and profitable for you.

Q: Sounds easier said than done.

A: When I got into this 10 years ago—when the Web was just taking off—a lot of people said nobody would do this in-

teractive stuff because they’ll just be sitting on the couch. We proved quickly that that wasn’t true. The next question was whether they’d pay for anything. I think we’ve proved that they’ll pay for value.

Q: What positive developments have you seen?

A: The pace of adoption of the new rules and change has kicked into a much higher gear. You’re seeing that with the flood of video deals, for example. Not just licensing deals, but also all the ways people are monetizing content online. iTunes is a great example of that. XM is another. They started out in the business of satellite radio, but they’re really in the on-demand radio business. It doesn’t make sense that your subscription ended when you parked your car. So there are now mobile players and access via the Internet.

It’s no longer about just a lit-

tle bit of marketing by putting some content on the Internet. It’s about driving profitable customer relationships enabled by the Internet.

Q: How important is digital entertainment to your business today, and what is the forecast for its importance in the future?

A: Digital entertainment probably was the first category we launched our business in with our very first customers, including Apple and Yahoo. It continues to be one of the largest.

We don’t report on specific sectors, but generally media and entertainment is one of the two or three most important categories for us. And because of the shift in the last year, it’s one of the fastest-growing categories.

Q: What are the ongoing challenges of using the Internet as a content

delivery platform?

A: Scale is a big one. We still see a lot of companies still trying to do it alone. Which is pretty funny, because in their traditional business people don’t do it that way. Music labels have multiple plants they use to produce massive numbers of discs. But in digital media, people try to just build their own data center and try to reach a global audience. That just doesn’t scale and is incredibly expensive.

Q: As bandwidth and hardware costs fall, won’t it be easier for companies to keep their Web delivery services in-house?

A: No, because people keep trying to do more, so they have to buy more. But the bigger problem is that it doesn’t make sense to centralize this, because you create single points of failure. It’s why the biggest online Web properties distribute even their internal infrastructure to multiple locations . . . so they’re close to where their users need to access content or interact with a dynamic application.

Q: You are an Emmy Award-winning TV producer now leading a high-tech firm. What similarities do you see between the entertainment and technology industries?

A: They’re both filled with incredibly smart and competitive people who reinvent themselves quickly, although technology is reinvented more quickly than media. The industries truly are now becoming one and soon will become indistinguishable from each other. You’re seeing Internet technology pervading these businesses and accelerating the rate of change in even the fundamental business model.

HIGHLIGHTS

PAUL SAGAN

1987: Becomes youngest-ever news director of WCBS-TV

1991: Joins Time Warner and launches NY 1 News

1995: Named president/ editor of new media at Time Inc.

1997: Serves as senior adviser to World Economic Forum

1998: Joins Akamai

2005: Named Akamai CEO