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The Nation

Top music seller's store has no door

Apple's iTunes passes Wal-Mart to become No. 1 in the U.S. as the digital world alters shopping habits.

April 04, 2008 | Michelle Quinn and Dawn C. Chmielewski | Times Staff Writers

SAN FRANCISCO — Apple Inc. has surpassed Wal-Mart to become America's No. 1 music store, the first time that a seller of digital downloads has ever beaten the big CD retailers.

Apple sold more albums in January and February than any other U.S. retailer, market research firm NPD Group said Thursday, underscoring how the music industry is on the front edge of a digital media shift that is upending businesses as diverse as bookstores and video game makers.

U.S. consumers still buy more CDs than digital downloads, but the gulf is narrowing rapidly. Only five years after launching its iTunes digital store, Apple has dominated the fast-growing download market so completely that it jumped ahead of individual CD sellers such as Wal-Mart, Best Buy and Target.

"It's a major milestone," said Tom Adams, president of consulting firm Adams Media Research. "It is the first instance of an electronic venue surpassing a [bricks-and-mortar] retail venue for any kind of media delivery."

Many industries are feeling the pain. Bookstores are shutting down, unable to compete with online sales and huge retail chains. Newspapers are laying off thousands of employees as advertisers and readers move to the Web.

Television networks are making more of their shows available online to reach people at their computers and prevent advertisers from abandoning them for other forms of online entertainment. Video game companies and other software makers are selling more of their products as downloads rather than CDs.

But the music industry has been rocked by the digital transition much harder than TV, movies and other entertainment media. CD burners made it possible for anyone to create playlists of favorite songs, hastening the shift from albums to singles. Songs could be downloaded faster than movies or TV shows, both legally and illegally. And devices such as Apple's iPod made songs easy to listen to anywhere.

"We are thrilled," Eddy Cue, Apple's vice president of iTunes, said in a statement.

NPD Group, based in Port Washington, N.Y., did not release figures on how many albums each company sold. It said it counted every 12 singles sold as one album, and that Apple probably received a boost during the two months by people cashing in iTunes gift cards -- which Wal-Mart and other retailers also sell -- received during the holiday season.

But NPD Group analyst Russ Crupnick predicted that Apple's music industry power would only continue.

"If you look at what is happening to the CD and the growth of the digital side, it's a pattern that is going to hold," he said.

Apple launched iTunes in 2003, creating an online business model for a music industry that was struggling with plummeting CD sales and online piracy. In addition to selling albums, iTunes offered hundreds of thousands of individual songs for 99 cents each. That was ideal for customers who wanted to buy hot singles or old favorites without buying the whole album.

Apple doesn't disclose financial results for iTunes. But in the first fiscal quarter ended Dec. 29 it reported \$808 million in revenue for a category that includes iTunes store sales, a 27% jump from the same quarter the previous year.

The Cupertino, Calif., company has pushed into other entertainment markets in the last few years, offering downloads of TV shows and movies for sale and rent. It's trying to capitalize on the digital transition that's sweeping through those industries, albeit more slowly than the music industry.

Like other TV networks, CBS has put many of its shows on the Web and sells them through iTunes and other download stores. Quincy Smith, president of CBS Interactive, said he believed that the DVD market wasn't going to vanish any time soon, but he added that the network could cater to a different demographic by offering shows through iTunes and Wal-Mart.

"I think it's a sign of things to come, if you believe in evolution," Smith said.

Consumers already are making the shift. In the first 18 weeks of the fall TV season, Disney-ABC Television Group said viewers watched more than 124 million episodes of its shows on the Web -- an increase of 178% over the same period a year earlier.

In 2007, 9% of all broadcast and cable network viewers watched TV shows on their computers, up from 6% the previous year, according to Convergence Consulting Group. The Toronto-based market research firm predicted that 23% of TV viewers would watch episodes online by 2010.

Advertisers haven't flocked to the Web as quickly as viewers. Their spending online last year was only 2%, or \$1.4 billion, of the total spent on all broadcast and cable TV advertising, Convergence said.

That highlights the central challenge facing many media companies -- the switch to digital does not generate the same revenue as traditional means.

Convergence's president, Brahm Eiley, said TV and movies would move online more slowly than music because the experience of buying, downloading and watching video on a computer isn't better than simply turning on the TV.

"It's going to be a long time before people give up watching video on TV for their computers," he said.

Although Apple has given the music industry a new way to sell songs, it has become so powerful that music companies have sought to help create and fortify potential iTunes rivals.

The newest of those is MySpace, the social networking site owned by Rupert Murdoch's News Corp. Apple announced its ascension to No. 1 on the same day that MySpace revealed plans to launch a competing service. MySpace Music will let users sample and download music from three of the four major record labels, as well as buy merchandise and concert tickets.

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