

# iTunes' success revolutionizes music business

By Nekesa Mumbi Moody Associated Press | Posted: Sunday, October 9, 2011 12:00 am

NEW YORK - When Apple rolled out iTunes for the masses in the spring of 2003, the music industry was at a point of transition - and chaos.

Entering the new millennium, albums were enjoying blockbuster sales of several million units for its superstar artists, and profits were booming. Yet the threat of Napster and other forms of illegal downloading threatened to eviscerate those profits as many music fans were starting to get used to the idea that music, and loads of it, could be free.

Apple's iTunes entered into that landscape with a concept that wasn't exactly new: a system where you could pay for songs online. Yet iTunes, with its simple interface, its simple concept - 99 cents per song - and revolutionary MP3 device, the iPod, made it the golden standard.

The entry of Apple and its leader, Steve Jobs, who died Wednesday, into the music world was more than a success - it was a phenomenon. Today, iTunes is the largest music retailer, has redefined the listening experience and has largely become the way that music is consumed.

What's less clear is how much the music industry - which is continuing to decline - has benefited. Even today, consensus is mixed.

"It really did remind an entire industry, and gave a cue to even a culture beyond the industry that if you provided music in a convenient, direct way and responded to the consumers' interest and demands, they would in fact buy it, especially if it was priced appropriately," said James Diener, CEO and President of A&M/Octone Records.

"It forced change in a positive way. People who are critical of what iTunes may have done perhaps have short memories and don't realize that the alternative at the time was that an enormous amount of music was leaking onto the Internet and being consumed for free," Diener added. "The alternative was to inspire people to buy music, and to go to a digital retail site. ... That was a remarkable step forward."

Apple introduced iTunes in 2001, a few months before it would release the now-ubiquitous iPod (which begat the iPod Nano, the iPhone, the iPad). At the time, it was not a music store but a rip-and-burn library service only available for Mac users. It initially was viewed with great skepticism by record companies for its ability to make digital copies of music - something the industry thought would lead to piracy.

The industry had a lot to protect. It was enjoying booming sales at the turn of the last century, fueled by the success of teen sensations like Britney Spears, the Backstreet Boys and 'N Sync. But it was just starting to feel the effects of the illegal downloading era: The top-selling album of that year, Linkin Park's "Hybrid Theory," sold 4.8 million, down from 2000's top-seller, 'N Sync's "No Strings Attached," which sold almost 8 million a year before.

"That was at the same time we were confronting Napster, we were confronting the beginnings of the global piracy epidemic that was to come," said Jim Donio, president of the National Association of Recording Merchandisers, or NARM.

"At the same moment of time, we were also experiencing the biggest weekly sales of all time. It was a very odd

confluence of events, because you had the harbinger of immense challenges, but at the same time, reaping the rewards of incredible record breaking physical sales. ... It was heated, it was tense."

When Apple's iTunes became a full-service online music store in 2003, it offered more than 200,000 songs that could be loaded on your iPod and fully portable, all for 99 cents a download, no matter who the artist was (in recent years, it has allowed for more variation, with some singles now costing \$1.29 per song).

Bill Werde, editorial director at Billboard, said that while other services were available at the time, the genius of Jobs was making iTunes the ultimate consumer destination.

"He created the retail experience that most people know now. He focused on the fan, he focused on the user experience, he didn't focus on rights and complicated pricing schemes. He focused just on what would be simple and what would be easy for a music fan to do, and what would be good for a music fan to experience," Werde said.

"You look around today, we sell tens of millions of digital tracks each year," he continued. "Given that Apple has an 80 percent, 70 percent market share in that digital space when it comes to downloads, you really see how important Apple has become in selling music to music fans."

Apple set the pricing, to the chagrin of the music industry, promoting parity for singles and albums.

"If you walked into a physical record store prior to iTunes ... there was more confusion about what the value of what certain records were worth. You'd see one record that was a brand new release marked at \$17.98, and then another one right next to it for \$13.98, so there was a lot of clarity for iTunes," Diener said. "I think what iTunes did, which was wise on their part and difficult necessarily for the industry to appreciate at first, was they just standardized all the pricing. ... That was growing pains for the industry because they were used to having more control of the pricing of their products."

Diener believes that price standardization was one of the key reasons for iTunes' success. But while iTunes was booming, the era also hastened the demise of traditional retail stores like Tower and Virgin. No longer did rabid fans need to form a line in front of a music store to get their favorite album, then play it once they got home; They could order it at home and listen instantaneously.

They also didn't have to buy the whole album: iTunes ushered in the era of the singles artists. Cherry-picking songs from albums has become the norm, and some artists have complained that iTunes led to the diminishment of the album.

"I don't disagree with some of that criticism," Diener said. "By unbundling the album and allowing consumers to buy songs one at a time, it changed the whole nature of consumer thinking of what is the basic unit of music - is it an album or is it a single?"

But Werde says Napster and other forms of illegal downloading already had started that process in motion.

"I don't think that iTunes unbundled the album, but I think Apple sort of benefited from this eco-system that certainly supported the single," he said. "Really, it's the music fan that unbundled the album, by all of these fans clearly responding to this amazing new way to experience their music. I mean, the shuffle button? I think the shuffle button may have single-handedly changed the musical horizon of 50 percent of the world."

In 2010, iTunes marked the sale of its 10 billionth song. Even longtime stalwarts have come to embrace iTunes: The Beatles' catalog finally became available late last year. Paul McCartney considered Jobs a friend and called him "a great creative artist" and a music lover.

Yet for all of iTunes' success, the music industry is still floundering. While sales are up slightly this year, the industry has been on a dramatic decline for the past decade, as labels have been shuttered and thousands of jobs lost as it continues to contract. While digital downloads continue to explode, overall album sales have dropped by at least half.

"Steve Jobs leaves behind a little bit of a complex legacy," Werde said.

"He helped create what we think of today as the legal digital music market, which is a substantial music market around the world. But at the same time, the music business in the retail space is probably worth about half of what it was worth ten years ago, so I don't know that anyone saved the music business," he said. "No one has yet solved the problem that music can still be free."