

# TIME

Monday, Nov. 17, 2003

## Coollest Inventions: Invention Of The Year: The 99<sup>th</sup> Solution

By Chris Taylor

When Steve Jobs holds forth in public, it's usually to a mob of fawning Apple-ites--the true believers who still develop software and accessories for Apple products. Not so last month at the Moscone Center in San Francisco. This crowd was more mack daddy than Macworld. Bono, Mick Jagger and Dr. Dre made video appearances. Grateful Dead drummer Mickey Hart was in the audience. Sarah McLachlan sang her latest hits live. What was pulling these musical supernovas into Jobs' magnetic field? A software product that just might save their free-falling industry: the iTunes Music Store.

It's a disarmingly simple concept: sell songs in digital format for less than a buck and let buyers play them whenever and wherever they like--as long as it's on an Apple iPod. Jobs had proved the idea back in April when he launched the Music Store for Mac users, who represent only 3% of the computer world but promptly gobbled up a million tracks in the first week of business. By October he was ready to set the Music Store aloft in the 97% of the world that uses Windows PCs, and the prospect of converting millions of music pirates into credit-card wielding music buyers was enough to make even the most jaded rock stars take notice. How did Jobs do this trick? In a word: simplicity--the transparent ease of use that is the hallmark of Apple's entire product line, including the Music Store. "I'm a complete computer dummy," McLachlan told TIME after the event. "If I can use this, anyone can."

And, it seems, just about anyone is. Three days after the Moscone event, PC owners had downloaded a million copies of the software and paid for a million songs (adding to the 14 million music downloads already made by Mac users). In a year when record labels hit a sour note by suing students, grandparents and 12-year-old file sharers, Jobs had effectively brokered a peace agreement: he had shown the music industry how to win friends and turn a profit on the very Internet that was being used to steal their songs.

Other inventions this year may have more altruistic intentions (like Dean Kamen's water purifier) or be more visible on street corners (like those ubiquitous camera cell phones). But for finally finding a middle ground between the foot-dragging record labels and the free-for-all digital pirates and for creating a

bandwagon onto which its competitors immediately jumped, Apple's iTunes Music Store is TIME's Coolest Invention of 2003.

Long before the Music Store came on the scene, frantic record-industry executives had been searching for some way to combat their nemesis: Napster, the original file-sharing service, but to no avail. Their first online ventures, MusicNet and PressPlay, were disasters, largely because the labels didn't trust their users--or one another. High subscription fees and poor selections turned off would-be customers; most skulked off to the underground services, such as Kazaa and Limewire, which had sprung up after Napster's demise.

Enter Jobs. Back in April, Apple's CEO revealed that he had spent the previous year negotiating an unprecedented deal with all five major labels and thousands of independents. His iTunes software, which had previously been nothing more than a place to store and play digital music on a Mac, would become a gateway to the Music Store, where you could easily find and save music to your hard drive, CD or iPod music player--no subscription necessary, just 99¢ per song, or \$9.99 for an album. Competitors tried to match that price but couldn't come up with a service as free of restrictions. They said Jobs had been given a sweet deal by the labels because Apple, with its minuscule share of the computer market, was never going to be a real distribution threat. "The Mac world is a walled garden," said [BuyMusic.com](#) vice president Liz Brooks. "The PC environment is like the Wild West."


Then came iTunes for Windows, and suddenly there was a new sheriff in town. Not content with creating a music store for PC users that was a perfect clone of its Mac counterpart, including all of the 400,000 songs Apple now has the rights to resell, Jobs added a couple of cool new features. The best is a monthly allowance you can set up for your kids to govern their online purchases--a godsend for any parent trying to curb an offspring's downloading habit.

Jobs has another reason not to be concerned about the competition. "The dirty little secret of all this is there's no way to make money on these stores," he says. For every 99¢ Apple gets from your credit card, 65¢ goes straight to the music label. Another quarter or so gets eaten up by distribution costs. At most, Jobs is left with a dime per track, so even \$500 million in annual sales would add up to a paltry \$50 million profit. Why even bother? "Because we're selling iPods," Jobs says, grinning.

That may make iTunes the most benign-looking Trojan horse in software history. The Windows crowd can get iTunes free, and it offers almost all the same functionality as the paid versions of MusicMatch and Real One, two PC-based rivals. But iTunes is the only music application that will work with the enormously popular iPod, and it has features--like its powerful search function--that are unrivaled. "Once people are locked into using iTunes, the game's over," says Charles Wolf, an analyst at the New York City--based Needham & Co. investment bank. "They could sell an extra 2 million iPods because of this." And the margins on these devices make the Music Store's arithmetic look like child's play. Each \$499 iPod returns as much as \$175 in profit, Wolf says.

format that Bill Gates had hoped would become the music-industry standard. If iTunes becomes the player of choice for PC users, it would be a blow for Microsoft's grander audio ambitions--and may well unearth the hatchet that Jobs and Gates buried back in 1997.

For now, Jobs faces some smaller hurdles, like filling in a few significant gaps in the iTunes Music Store selection (the Beatles are the most glaring omission). Even so, Jobs continues to score points with consumers for making available songs so easy to find and so easy to download. The music industry, of course, is anything but simple. That's probably why Jobs, an inveterate challenge seeker, likes it. But can it grow his business? Stay tuned.

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