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From the Los Angeles Times

DIGITAL MUSIC

Apple may offer music subscription service

Buyers of iPods and iPhones would be allowed to pay extra upfront for unlimited access to digital library.

By Michelle Quinn

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Consumers might have the option to pay a higher price for iPods and iPhones in the future and get unlimited access to a music library, according to record industry executives who say they have had preliminary conversations with Apple Inc., the manufacturer of those devices.

That would mark a change in strategy for Apple. A year ago, Chief Executive Steve Jobs said he didn't believe most consumers wanted to rent their music and that Apple had no plans to offer a music subscription service. "Never say never, but customers don't seem to be interested in it," Jobs told Reuters then.

An Apple spokesperson declined to comment Wednesday.

Apple owns iTunes, which has become the nation's No. 2 retailer of music, mostly through the online sale of single tracks at a price of 99 cents. As a result, any change in its approach to the sale of music could have a profound effect on the market for digital music.

Apple's position might be changing, in part because of competition in the online music market, where music is increasingly sold without digital copyright protections that keep it tied to one device.

Also, the growth in sales of digital music players has slowed, giving Apple incentive to rejuvenate demand by coming out with new models and features.

A music subscription service could help the iPhone gain market share in the cellular space, said Ross Rubin, director of industry analysis at the NPD Group. "Or it could bring new excitement to the digital music players, which are starting to mature a bit. And if it is tied to new models, it could be a reason for people to upgrade their iPods."

Somewhat slow to catch on, music subscription services are billed as an easy way to check out new music. The services work with a variety of digital music players, though not the iPod.

Subscribers pay a monthly fee for unlimited access to music, which they can download or stream. Each downloaded song is available for 30 days, or until the subscription lapses.

There's been speculation in the past that Apple might offer a music subscription service. But in recent months, Apple has begun to talk with the music companies about a two-pronged approach similar to one offered by Nokia, the cellphone handset maker, said a person familiar with the discussions.

The proposal, first reported Wednesday in the Financial Times, involves selling some iPods at a higher price. By spending more, people would get a certain amount of music bundled in the iPod and iPhone for a set period of time.

After a year, for example, the iPod owner would then have unlimited access to the iTunes music library. The music companies would receive a cut of Apple's iPod sales, something Apple has balked at doing in the past.

A person familiar with the talks said that money has never been discussed. Other reports on the issue have estimated that iPods and iPhones would cost an additional \$100 for lifetime access to the iTunes library or a monthly subscription fee of \$7.

In December, Nokia announced it would offer unlimited free downloads of music from Universal Music Group on some of its mobile phones. Universal would receive a portion of revenue from the sales of Nokia's cellphones.

Nokia has created an online music store to compete with Apple's iTunes.

Some industry executives are skeptical of the seriousness of Apple's intentions. "Are they fishing around?" asked one person.

Others worry that a subscription service from Apple could further hurt the music industry.

"If Apple is using its dominant position to try to force the labels to give them a deal for music, it could kill the retail market for music," said David Pakman, the chief executive of EMusic, a competitor to iTunes.

Current providers of music subscriptions, however, said Apple's entry could lend credibility to the market, which has faced challenges.

"It's been an uphill battle," said Neil Smith, vice president of marketing at Rhapsody, a digital music service with 1.9 million subscribers that is a joint venture of Viacom's MTV Networks and RealNetworks. "There's a lack of understanding among consumers. I call it consumer mental limbo."

Some industry observers say that this is a chance for Apple to help people in the discovery of music. "A lump of music is incredibly uninteresting," said Ted Cohen, a former record industry executive and managing partner with Tag Strategic, a digital entertainment advisor.

"It's getting harder and harder to monetize the music. What Apple can do is monetize the experience," Cohen added. "I hope it's more curated. Then you have something there, with playlist recommendations and artist recommendations. This could be an exciting moment or a me-too moment."

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