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Amazon takes on Apple with copy-protection-free music

By Jefferson Graham, USA TODAY

The music industry is finally comfortable selling digital music without copy protection, but the huge shift hasn't resulted in dramatically higher sales.

Instead, it produced something that major music labels have long sought: a strong No. 2 competitor to Apple.

Amazon's ([AMZN](#)) MP3 store — which sells only songs without copy protection — has quietly become No. 2 in digital sales since opening nearly six months ago, say the four major labels. That's even though Apple ([AAPL](#)) dominates digital music with its iTunes Store (the second-largest music retailer in the world, after Wal-Mart) ([WMT](#)) and its hugely popular iPod.

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The push for copy-protection-free music began nearly a year ago, when Apple and major label EMI shocked the industry by announcing a landmark arrangement to sell 150,000 songs without digital rights management (DRM) software. It was the first time a major label had agreed to such terms.

Consumers had long complained about DRM, saying it hindered what they could do with their purchases. For instance, a song sold at iTunes with DRM couldn't be played on a Microsoft ([MSFT](#)) Zune digital music player.

Apple, which claims an 80% share of digital music sales, said consumers would be ecstatic about the EMI deal and that digital sales would greatly increase. CEO Steve Jobs predicted his iTunes catalog would be 50% DRM-free by the end of 2007. But that never happened.

Warner ([TWX](#)), Sony/BMG ([SNE](#)) and Universal all opted to sell their DRM-free music on Amazon instead. "The labels think Apple has too much influence," says Phil Leigh, an analyst at Inside Digital Media.

Apple now has 2 million songs from EMI and independent labels available without DRM, out of its 6 million-song catalog. Amazon offers 4.5 million DRM-free songs.

Amazon's arrival "removed some of the stranglehold iTunes had on the market," says Ted Cohen, a former EMI Music executive and managing partner of the Tag Strategic consulting firm.

Apple originally sold each DRM-free song for a premium, \$1.29, compared with 99 cents for a song with copy protection. But Apple was forced to lower the price to 99 cents when Amazon launched its MP3 download store at that price.

Pete Baltaxe, Amazon's director of digital music, won't say how many songs Amazon has sold but will say that consumers love the experience.

"What we hear a lot is, 'Thank you.' They appreciate that everything is DRM-free and so comprehensive," he says.

Apple declined to comment for this story.

'Music is mature'

The labels are also offering DRM-free songs at other digital media outlets. Universal is working with Wal-Mart, Rhapsody, Best Buy (BBY) and a handful of smaller retailers. Sony/BMG has a deal with Target (TGT). That hasn't significantly boosted sales. It hasn't hurt them either, although music label executives had argued against selling songs without copy protection, saying such a move would increase piracy.

About 239 million digital tracks have been sold this year, according to Nielsen SoundScan. That compares with 189 million at the same time last year, which is not a dramatic jump. (CD sales continue their decline: 74.3 million this year, compared with 89.2 million at the same time in 2007.)

That's because "music is mature," says Eric Garland, CEO of BigChampagne, which monitors online piracy. "The growth is in TV shows, movies and gaming."

Garland says there is no evidence that download sales will be affected by DRM-free songs. "The music consumer holds all the cards, and they have a list of complaints. They want iTunes to be 100% DRM-free. They want unlimited selection and to have more of a social component to their songs. Having one label without DRM (at iTunes) isn't enough to make an impact," Garland says.

Amazon's Baltaxe says the best defense against piracy is a good offense. "Songs sold without DRM, at high quality, with album art, that's the best way to get people to buy music instead of stealing it. DRM is a way to punish people who are buying," he says. "Offering a great product at a great price is a way to combat piracy."



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