Apple’s success with iTunes, its online music system, has shot up its share price but has aroused the interest of other titans like Microsoft. The fight is on.

Apple Computer more than doubled its share price in 2004 thanks to online music and it does not look like it is going to stop. After the illegal experiments of the poplar Napster and other peer to peer file sharing networks, the pioneering iTunes Music Store opened in October 2003 and according to Eddy Cue, Vice President of Apple Applications, it has already sold more than 150 million downloads, all of which are legal.

iTunes’s expansion now looks unstoppable. The online shop is available throughout the United States, Canada and half of the European Union: Germany, Austria, Belgium, Finland, France, Greece, Italy, Luxemburg, Holland, Portugal and Spain.

iTunes has become the absolute world leader in legal online music, cornering about 70% of the market. This can be put down to the prestige Apple has among its users, its relative simplicity of use, its attractive features, but, above all, its huge catalogue of 700,000 songs that belong to 100 music labels and the four big multinational players: Universal, EMI, Warner and BMG/Sony.

After installing the software and filling in personal data, iTunes lets you play songs, which you can buy at 0.99 euro cents each, on up to five different computers as well as burn them to a CD or transfer them to a specific portable player: the now famous iPod.

Launched in 2001, two years before iTunes, the iPod has sold more than ten million units and at present brings in more profit for Steve Jobs’s company than the sales of Macintosh computers. The player uses ACC (Advanced Audio Coding) digitalised music technology, which also belongs to Apple.

It seems that the real battle is precisely in the field of consumer electronics, at a time when consumer electronics buy more chips than professional electronics. Apple competes with companies like Sony, but it also faces off such computer giants as Dell, Hewlett-Packard and even Gateway. These makers are launching new products to cash in on this convergence between information technology and consumer electronics. However, they are playing at a disadvantage if you compare them to Apple, which is the only one that provides a truly integrated experience with hardware, software and even an online shop.

**Integration**

Computer companies must rely on other companies to provide software and services. Microsoft is one of the foremost allies of those computer companies. Although they
were late starters, the giant from Redmond has recently launched, at the same price as iTunes, MSN Music, its download music service and it has also freely provided the tenth software update for Windows Media Player, which uses WMA technology.

Microsoft’s strategy is to make its popular player the absolute Standard, so it has made sure that it is compatible with all the formats sold by the different online music shops: the reconverted Napster, Musicmatch, Real, Wal-Mart, etc.

If Microsoft manages to introduce its software while Apple uses its software to sell hardware, then Microsoft, as usual, will have won the war after losing the first battle. History never repeats itself, but sometimes it comes close. Just like twenty years ago in the PC market, Apple has a good head’s start in the online music business. We must not forget that at present, Jobs has got only 2% of the computer market, while Microsoft, after starting out from behind, has made its Windows operating system the king of personal computers. Some say that the same will happen in the online music market, while others insist that they are two entirely different markets.

For the moment, the only irrefutable argument is that nobody can overshadow the millions of iPods sold all over the world. Apple has gambled on its hardware. It is earning a lot of money with it, but what has been recently questioned is the profitability of iTunes, not that of iPod. Meanwhile, the company in Redmond will continue with its eternal strategy, which is none other than biting into the software apple.

A Window of Opportunities
Bruno Cassiman, IESE professor
As the battle rages between Apple and Microsoft for market share in the online music business, one cannot but wonder whether Apple has learned from its past mistakes. Instead of being a closed system, iTunes works in windows, while Apple, its owner, has closed deals with HP, Motorola and BMW, the car maker, so that users can control their iPods from the steering wheel. The aim is to turn iPod and iTunes into the standard application for the music business.

Although the apparent similarities to the previous fray for the PC industry are obvious, it should be said that there is in fact one difference that could be vital to the battle being waged: the most important asset of the business is the song copyright, not the system in itself.

To do so, it is necessary to control the use of the files with Digital Rights Management applications. This type of application could be decisive in convincing the music industry to provide their latest songs and guarantee the best possible experience for the consumer, thanks to the seamless integration of the different components. For now, Apple has been careful to guard its DRM software, which is more than likely what it should do at this point.

Think of the Consumer
Javier Núñez, Manager PwC
Most of the problems related to the distribution of online music stem from the fact that consumers have not been provided with a simple, legal, comfortable and cheap platform to acquire music over the Internet.
Usability is the key word in this field, as it is the driving force behind the sale of music over the Internet. The fact is that, naivety aside, we have to think that most surfers who access this type of service do so not from a desire to break the law, but simply to have a suitable environment to acquire music. Apart from technological restrictions, in my view, the battle for online music will be won by the company that is able to efficiently provide its music on a platform that enables the user to acquire songs and share them in the simplest and cheapest way, between the many devices on the market today such as the computer, the PDA or the mobile telephone. An example of this is the joint project between Apple and Motorola to develop a software version of iTunes that can be integrated into mobile phones and let the user store and play music just like on an iPod.