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By Peter Burrows

Is This Digital Music's Future?

Startup MusicGiants is offering downloads of CD quality. Industry watchers agree there's a market -- but just how big is another question

When it comes to the red-hot online music business, a lot of the focus has been on how we'll get our music: whether we'll buy songs from a download site such as Apple's ([APPL](#)) iTunes music store or rent it from subscription services that let you listen to almost anything so long as you keep paying the bill, a la Napster ([NAPS](#)) or RealNetwork's ([RNWK](#)) Rhapsody service.

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But another question is going to become an important issue for an increasing percentage of consumers: Namely, what will the sound quality of this music be? Today, songs pulled off the Net are skimpy facsimiles of the ones you get on a CD. They're highly compressed -- stripped of millions of digital bits that leave them with about one-tenth of the data found on a CD track (that's assuming the typical "bit rate" of 128 kilobits-per-second). You can transfer the files fast, but the sacrifice is sound quality.

CD QUALITY. That's fine for now, since most people listen to digital music on their PCs or MP3 players -- devices normally used with cheap speakers that mask any sound quality deficiencies. And compression has played a vital role in the development of the market so far. It's the magic that makes iPod-mania possible, by enabling even tiny devices with limited storage to carry thousands of songs.

But if the digital music revolution is to reach its full potential -- an all-digital future, perhaps, in which CDs racks are no longer needed -- analysts say the industry will have to hit a far better-sounding note. Already, tech-savvy consumers are dabbling with ways to distribute their digital tunes more freely, to play them on their good living-room speakers, wall-rattling home theaters, or slick car audio systems.

Often they find the compressed files' sound quality sorely lacking. "If you're listening to compressed music using your iPod earbuds, you won't notice much difference [from a CD]," says Scott Bahneman, founder and chief executive of tiny startup MusicGiants. "But once you play it on a good home stereo, the difference is huge."

Bahneman hopes to close that gap, and position MusicGiants to take a high-end niche in the fast-growing "digital home" market. This summer, his 15-person outfit will launch the first service that sells online music at CD-equivalent fidelity -- what Bahneman calls "high-definition music." MusicGiants has licensed the music of all five major record labels, which it will sell in a "lossless" format, defined by Microsoft ([MSFT](#)), that results in digital songs that equal the quality of CDs.

NO GEEK-SPEAK. These are big files requiring far more storage space than MP3s traded on file-sharing sites, or downloaded from the for-pay services. But for music lovers who can hear the difference -- or think they can -- MusicGiants' service will be the only game in town, at least for now. "They're addressing the biggest compromise that music fans have had to make: trading portability for quality. This solves that dilemma," says Ted Cohen, senior vice-

president for digital development and distribution for record label EMI.

A preview version of the MusicGiants service is available at musicgiants.com. So far, song selection is limited because the company has uploaded only EMI's catalog. It's postponing an official launch until it has the catalogs of the others ready to go, later this summer.

Still, MusicGiants offers some interesting features that provide a glimpse into the future of digital music. The service is clearly designed to be used with a big-screen TV in the living room, not the PC in the den. The company has designed a wireless keyboard and handheld mouse to navigate the site, and three remote-control manufacturers are designing compatible models. And the uncluttered user interface was created with the technically challenged in mind. It's devoid of geek-speak. Rather than "rip," for example, there's an icon simply labeled "Copy from CD."

STORAGE ISSUES. MusicGiants isn't for everyone, and not only because it takes minutes to download a song -- an eternity online. The service is for the serious audiophile, or those with serious disposable income. For starters, songs cost \$1.29, vs. 99 cents or less at most online sites. There's also a \$50 annual membership fee (waived for anyone buying more than \$250 worth of songs). The higher prices help cover the higher costs of distributing music in lossless format, such as extra storage and bandwidth bills for those huge files.

Customers also need top-of-the-line gear to make the investment worthwhile. To get the benefits of the better fidelity on a PC, you'd need a pricey sound card and speakers, not to mention plenty of storage. Even an empty 40-gigabyte hard drive would hold only 100 CDs or so. A 1-terabyte drive from Le Cie USA, may be more like it, if you've got \$949 with nothing better to do.

Optimally, you want a media server of some sort to store the digital music right in your stereo cabinet, but such gear doesn't yet exist. Many companies, from boutiques such as Elan Home Systems to PC powerhouse Hewlett-Packard ([HPQ](http://www.hp.com)), make gear for piping digital music from PC to the entertainment center, but none support Microsoft's lossless mode.

"AHEAD OF ITS TIME." That's why MusicGiants plans to sell a \$9,500, 400-gigabyte device called the SoundVault that would sit in the stereo cabinet, just like a CD-player or receiver. (The package includes hardware, a high-end sound processing card, and networking gear.) That way, MusicGiants' customers could bypass their PCs and load songs directly into their living room stereo. "It's hard to sell gas, if no one has a car," says Bahneman, who hopes to get out of the hardware business as soon as other gear starts to appear.

The hardware requirements will limit MusicGiants' market to a small niche of the \$700 million digital music market, expected to grow to \$4.6 billion by 2008, according to Forrester Research. To grab a larger slice of the overall market, the company must convince mainstream music consumers -- still cooing over their iPods -- that they're missing out on something even better. Says Forrester analyst Josh Bernoff: "The idea of a higher quality music service is probably a little bit ahead of its time."

Still, MusicGiants' efforts are being closely watched. Besides the 2 million or so audiophiles out there, Bahneman is trying to build a distribution network with high-end home builders and home-theater installers. "MusicGiants is going to attract a lot of interest from [leading edge] consumers -- and once that happens, other people are going to begin hearing about it," says Dave Fester, general manager of Microsoft's digital media division.

SOUNDS FOR SYSTEMS. If the service, which works with Microsoft's Windows Media Player 10 software and uses Microsoft's digital-rights management, does well, larger players could be compelled to follow suit. "As people get more comfortable with digital music, they're going to realize that they want the best sound quality," says Fester. Gartner G2 analyst Mike McGuire thinks all digital music service providers will end up following MusicGiants' lead. "It could take years. But ultimately, I think CD-quality will have to become an option on all of the online services."

Indeed, some experts envision a future in which consumers download a CD-quality "master" copy of songs, which can then be compressed to a size that's appropriate to various playback devices -- say, a near CD-quality version for the big hard-drive in the car of the future or a lower-quality one for tomorrow's music-playing cell-phones. That way, consumers wouldn't have to worry about buying multiple versions of the same songs.

"In an ideal world, you'd have your complete library of songs stored somewhere in uncompressed form, so you could use whatever levels you wished," says John McFarlane, chief executive of Sonos, which makes a home networking system for playing digital music in up to 32 rooms.

RISING TIDE. That vision could take years to materialize. The giants of digital music are hardly racing to embrace a high-fidelity future. Apple, Napster, and others say their customers are happy with current compression standards, and many

industry executives argue that the human ear can't distinguish between CD-quality and bit rates of more than 192 kbps.

Yet, online music providers are inching higher on the fidelity scale. Most services offer lossless ways for customers to rip their own CDs into their PCs. And others are increasing their bit rates to offer higher quality downloads. In April, for example, RealNetworks upgraded its Rhapsody subscription service to 192 kbps, from 128 kbps.

If MusicGiants makes a splash with its new "high-definition music" service, it may force the industry to deal with its fidelity issues sooner rather than later.

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