Apple sets tune for pricing of song downloads

By Joshua Chaffin and Kevin Allison in New York
Published: May 1 2006 21:15 | Last updated: May 1 2006 21:52

Apple Computer on Monday revealed it had renewed contracts with the four largest record companies to sell songs through its iTunes digital store at 99 cents each. The agreements came after months of bargaining, and were a defeat for music companies that had been pushing for a variable pricing model.

The music industry’s big four - Universal, Warner Music, EMI and Sony BMG – were not immediately available to comment.

Since iTunes’ launch three years ago, Apple has charged US consumers 99 cents for each track – a uniform price that Steve Jobs, its chief executive, favours because of its simplicity for consumers.

Edgar Bronfman, Warner’s chief executive, and senior executives at EMI and Sony have in recent months supported variable pricing, which would allow them to charge more for new material from top artists. Universal has taken a more modest approach, suggesting that the market should be allowed to develop further before any adjustments are made.

The issue has occasionally become acrimonious, with Mr Jobs last year publicly labelling the industry “greedy”. However, several music executives privately acknowledge that they have little leverage over Mr Jobs.

iTunes accounts for about 80 per cent of the US digital music market at a time when the record companies are desperate to show shareholders they are replacing declining compact disc sales with new internet revenues. “The labels need Apple too much right now,” one record executive said.

Online music sales surged 194 per cent last year to 352m units, according to Nielsen Soundscan, as overall album sales fell 3.9 per cent. Digital sales now account for about 5 per cent of the music majors’ revenues.

The surge underlines the competing priorities for Apple and the music industry. While the record companies are seeking new ways to generate revenues, Apple generates the bulk of its music-related revenues from sales of iPod players.

Some record executives had speculated that the big labels might sign short-term contracts with Apple and revisit the issue later. The companies were also discussing issues such as anti-piracy controls and the possibility of greater interoperability between iTunes and other download services.