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Apple Said to Be Entering E-Music Fray With Pay Service

By MATT RICHTEL

SAN FRANCISCO, April 25 — [Apple Computer](#) plans on Monday to introduce a digital music service, according to industry analysts. It is a move that thrusts the company into the middle of a contentious and technologically challenging area of digital commerce.

Apple itself has provided few details of its new service, but people in the music industry and analysts said users would be charged 99 cents to download individual songs drawn from the catalogs of the big record labels. They said that once users download the music, they would be able to listen to it on their computers or transfer it to a portable music player.

The music industry was given a new impetus to develop its own channels for online music last week when a federal judge in Los Angeles ruled that two file-sharing services, Grokster and StreamCast Networks, were not guilty of copyright infringement. In the face of the availability of so much free music online, the industry has yet to offer an alternative service that consumers seem willing to pay for.

Unless Apple unveils something radically unexpected, its service will not represent a marked difference from some of the Internet services already in existence. The announcement, however, will bring a big-name company into the mix, presenting a potentially



Apple's iPod music player.

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significant change in what has been a tense relationship between consumer electronics makers and the music industry.

Computer and electronics companies see digital music as a way to drive sales of their hardware, and they have pushed hard to expand its availability. But the recording industry has battled technology companies on Capitol Hill, asserting that new digital products make music easy to copy and share over the Internet.

Music executives were unhappy when in 2001 Steven P. Jobs, Apple's chief executive, kicked off the "Rip, mix, burn" ad slogan, which encouraged people to transfer music from compact discs onto computers and create their own custom CD's.

Now, though, they seem comfortable with Apple's new strategy. Hilary B. Rosen, the chief executive of the Recording Industry Association of America, said she believed Apple had struck an industry-friendly balance. Apple's music service "has compatibility with a hardware product that is elegant and easy to use," said Ms. Rosen, who said she planned to attend Apple's news conference. "The Apple system has the potential to do for music sales what the Walkman did for the cassette," she added.

That prospect would certainly be welcomed by Apple, which is trying to solve its marketing problems. The company's share of the personal computer market has steadily eroded about 3 percent. But it still has a loyal following, little if any debt, and around \$4.5 billion in cash. Moving into the digital music business may be a smart way to expand beyond hardware, some industry analysts say.

The company's fortunes "are tied so closely to Apple hardware, and if that hardware continues to slide, they're done," said Rob Enderle, a personal technology analyst with [Forrester Research](#). "This is a hedge," he said. "They want some products they can sell into a broad market."

Indeed, the company is expected to announce the next generation of its iPod portable music player on Friday, said Brett J. Miller, an industry analyst with A. G. Edwards & Sons, an investment firm.

Apple's foray into a digital music service comes at a time when combining music and the Internet has been a struggle. The concerns of the music industry have not diminished despite the demise of Napster, the free online sharing service used by more than 50 million people to download songs over the Internet. It shut down in 2001 after being sued by the music industry for abetting copyright infringement.

But since then, a new generation of free music services, most

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notably KaZaA, have arisen and are now used by tens of millions of people to share music files over the Internet. The music industry has also sued to shut down KaZaA.

In addition to free file-sharing services, paid music services have emerged that charge users to listen to songs over the Internet through streaming and to download the songs to computers. These include Pressplay and MusicNet, both of which have financial backing from the record labels, and several independent services that license music from the record labels.

The offerings vary, but a typical service might charge \$9 a month for unlimited streaming and downloading to a computer, but does not allow users to burn the songs onto a CD or transfer them to a portable device. Some services also charge monthly subscribers an additional 99 cents for each song that they want to burn.

While offerings vary among the existing services, what is clear is that their popularity, while growing, remains meager compared to the popularity of the free music downloads. Lee Black, a digital media analyst for Jupiter Communications, estimates that the paid music services have a total of no more than 350,000 subscribers.

Even so, competition is increasing in this market. [RealNetworks](#), which owns a portion of MusicNet, announced last week its plans to spend \$36 million in cash and stock to acquire Listen.com, which offers an online music service called Rhapsody.

Technology and music industry analysts said they expected that Apple's service would allow users of Macintosh computers to download songs into iTunes software. Users then would be able to listen to songs on the computers, and also download them to iPods. It is unclear whether the service would be available to users of Windows-based machines.

But Philip Leigh, a digital media analyst with Raymond James & Associates, an investment banking firm in St. Petersburg, Fla., said the presence of Apple in the market could give a lift to digital music services beyond the confines of Apple's limited user base. The reason, he said, is that if Apple starts advertising the sale of music, "they'll be advertising to the whole world."

"It will raise the consciousness of the public that there are legitimate alternatives to KaZaA," Mr. Leigh said. He added that Apple's experiment would also allow the music industry to see how a piecemeal 99-cent offering — without connection to a monthly subscription — works in the relatively small universe of Macintosh users.

And he said the move could mean a long-term shift for Apple. "This signals a transformation of Apple into a digital media company," Mr. Leigh said. "Within 10 years, we'll look back and say this is when it mutated."

But Mr. Miller of A. G. Edwards said the company remained on solid footing as a hardware company. He said Apple, like others in the industry, was suffering from the weak economy.

While a music service could increase demand for Apple hardware, Mr. Miller noted that it was impossible to know the overall effect on the bottom line until Apple divulges specifics about the service and what royalties it must pay to record labels.

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