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THE POP LIFE

Apple Finds the Future for Online Music Sales

By NEIL STRAUSS

Apple Computer seems to have the future of online music in its hands for the moment. Its new service, iTunes Music Store, has been the first real success story in the long effort to sell music over the Internet. In just its first month of operation the service, by the company's estimate, has sold three million songs online, at 99 cents each. This is an impressive figure considering the limited access that music fans now have to the service. Less than 1 percent of the country's home computers are Macintoshes that are compatible with the iTunes Music Store, and only a fraction of those have a broadband connection to the Internet.

But it would not be an online success story without a complicating twist. That complication came this week when the specter of the music industry, which has been publicly supportive of iTunes, began to loom over Apple. The success of iTunes, after all, depends on cooperation from the music business, which controls the songs that iTunes wants in its collection. Apparently trying to stay in the record industry's good graces, iTunes removed a service it had previously offered customers. Called Rendezvous, the service enabled listeners and their friends to access one another's music and listen to it — but not download it — from any computers. Hackers, however, had figured out how to download the music as well, creating programs with names like iLeach and iSlurp. So on Tuesday Apple sent out an update for its iTunes software, disabling



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Apple Computer

A display from Apple's iTunes Music Store, which sells songs online.

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Associated Press
Steve Jobs introducing Apple's online

Rendezvous and limiting music access to a user's local network at home or at work.

In a statement released yesterday, Apple said Rendezvous had been "used by some in ways that have surprised and disappointed us."

"We designed it to allow friends and family to easily stream (not copy) their music between computers at home or in a small group setting, and it does this well," the statement said. "But some people are taking advantage of it to stream music over the Internet to people they do not even know. This was never the intent." A spokesman for Apple, Chris Bell, said the company made the decision by itself.

The restriction makes sense: hackers are exploiting a loophole, so get rid of the loophole. But in offering music online, there will always be a loophole. Nate Mook, who runs the online news site Betanews, said hackers were already finding a way around this new restriction, writing software that would trick iTunes into thinking that an outside user's computer was on a customer's local network. If Apple responds by limiting the functionality of the music it is selling every time that hackers find a way to trade files, it could end up with a system as unsuccessful as the record industry's own attempts, like Pressplay and Musicnet.

Most of the uses for Rendezvous were not about illicit downloading. For example, Richard Yaker, co-founded — with a friend, Christian Bevcqua, who is in the band Ditch Croaker — a Web site called shareitunes.com. His intention was to enable iTunes users to see one another's song collections and then listen to the music (but not download it). Next to every song, Mr. Yaker put links to the iTunes Music Store and to online mail-order retailers like Amazon and CDBaby, so that users had options to buy the music. As far as he knew, his application was neither illegal nor even sneaky.

"The industry has never explored the idea of how people sharing and listening to one another's music helps sales," he said. "We're all about selling the music once people find it and like it."

"But," he continued, referring to Apple, "they just closed everything down. I was totally disappointed. We were hoping that traffic would continue to grow and we could quit our day jobs."

No one has ever doubted that there is an audience that wants to buy music online. And that audience hasn't asked for much: just the permission to do whatever it wants with the songs once they're purchased. Apple Computer gave it just that. The music store is a simple concept: after giving Apple a credit card number, a Macintosh user with an up-to-date computer and operating system can click on a button and buy any song or album in the store. Buyers can then do what they want with the music, except trade it online.

Steve Jobs introducing Apple's online iTunes Music Store last month.

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What is notable about the success of iTunes is that it has been achieved not by a music company but by a computer company. And this makes sense, because it was a computer solution that was needed, not a music one. Even more impressive is that Apple's coup has been accomplished relatively simply and cheaply. It owns nearly everything it is using: the Web browser software (Safari), the computer media player (iTunes), the portable digital music player (iPod), the streaming technology to play music videos (Quicktime), the software that creates the service (WebObjects), the computer itself (Macintosh) and the operating system (MacOS).

"Apple is the new MTV," said Numair Faraz, 18, who has started several online service companies. "It is the new funnel for music. When things moved from radio to video, MTV was the sole source of music. Now Apple is going to control the distribution and the promotion of music. The entire ecosystem they are using is theirs." Mr. Faraz said he bought roughly \$115 worth of music at the iTunes store last month. In comparison, he said, he spent no money on CD's in the last year.

On a recent visit to the studio owned by the pop production team Matrix — which has produced music for Avril Lavigne, Ricky Martin and Britney Spears — Andrew Nast, the recording engineer, was working on his Macintosh. "I'm buying Paul Simon's 'Graceland' right now," he said.

He was asked why he is buying it rather than downloading it free of charge from a file-sharing service like Limewire. "Because it's a pain," he answered. "It takes forever to find the track. Then once you find it, maybe you can download it. And then if you download it, maybe it sounds cool. And if it sounds cool, maybe the whole track is there."

The iTunes Music Store is not without flaws. Its song collection is not only relatively small, but also limited to music from major labels; independent labels are shut out. Another flaw is that it does not allow consumers to get more involved, as they did with Napster, by promoting their favorite songs through instant messaging and other features of the open architecture of the Internet. In fact, iTunes, doesn't even have an affiliate program, similar to Amazon's, so that other Web sites can refer customers to the iTunes Music Store and earn a small portion of money from the sales. And of course the iTunes store is available only through a Macintosh.

Mr. Bell of Apple said the company planned to add content beyond the major labels, was open to other innovations and would have a Windows version by the end of the year.



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