iPod: Digital Music's Windows Desktop

iTunes distribution deals are nice, but they're nothing compared with iPod bundling arrangements.

By Jimmy Guterman, June 11, 2003

The hottest thing in digital media right now is Apple's (AAPL) iTunes Music Store. Although iTunes lacks two of the key features that made Napster/Kazaa so appealing -- peer-to-peer sharing and a huge library of unreleased material -- it is easier to use and has more to offer than do the "legitimate," major-label-blessed digital-music-selling services, like MusicNet and Pressplay.

Although there are still some major holes in the iTunes catalog, it's no surprise that labels have licensed it more than 200,000 songs, including exclusive performances from acts you've actually heard of. Also, since more than 9 out of 10 computers can't connect to the iTunes store -- it works only for Macs -- iTunes is an easy way for the major labels to experiment without giving up their proprietary Net-music-selling plans.

That's all well and good, but it leaves out the most lucrative short-term opportunity for Apple in the music business. The portable music device of choice is Apple's iPod, which set the stage for the elaborate iTunes store.

Since record companies are desperate for new means of distribution, shouldn't they be looking for access to the iPod rather than just iTunes? It's a classic bundling arrangement. Consider how software makers have pursued big deals to get on the Windows desktop because they know that preinstalled material gets the user's attention. Take this idea to the iPod: What would a broadcast network pay a television manufacturer to ensure that the network was the first station anyone saw when turning on a TV? Apple has an opportunity, first of all, to release a series of customized, high-priced iPods. This would bring large fees into Apple's coffers. The record companies would get a premium, plus outstanding distribution. And for both companies, such a move would mark a first step toward even bigger deals.

Indeed, the company has missed out on an opportunity to do this already. Last year, Apple marketed a "limited-edition Beck version" of its iPod with no actual Beck music on it, just a little engraving of Beck's name on the back of the device. Imagine how much more successful and buzzworthy (a crucial concept for Apple) it would have been if that iPod came with everything the guy ever recorded (capturing casual fans) and a generous helping of unreleased material (pulling in hard-core fanatics) -- which still leaves room for hundreds of CDs' worth of music. But such customized iPods are just a necessary stepping-stone toward the biggest opportunity: premium placement on all iPods. If Apple's portable music players retain their hegemony in the market and the market keeps growing, there will be no better place for record companies to present new music to potential customers.

None of this will happen soon. I called Apple, and a spokesperson said the company was not in discussions on selling iPod real estate. Then I spoke to three executives at the five major labels (two never called back) and they confirmed that no such talks are going on. But before he got off the phone, one of them shouted into his speakerphone, "Damn, we should do that. You know who at Apple we should talk to about that?"

Jimmy Guterman was the editor of Media Grok and its successor, Media Unspun. He has written or edited for more than 90 periodicals (some of which still exist), has written five books (half of which are still in print), and has produced CDs for every major record label (all of which have consolidated). He is the founder and president of a consultancy, the Vineyard Group.