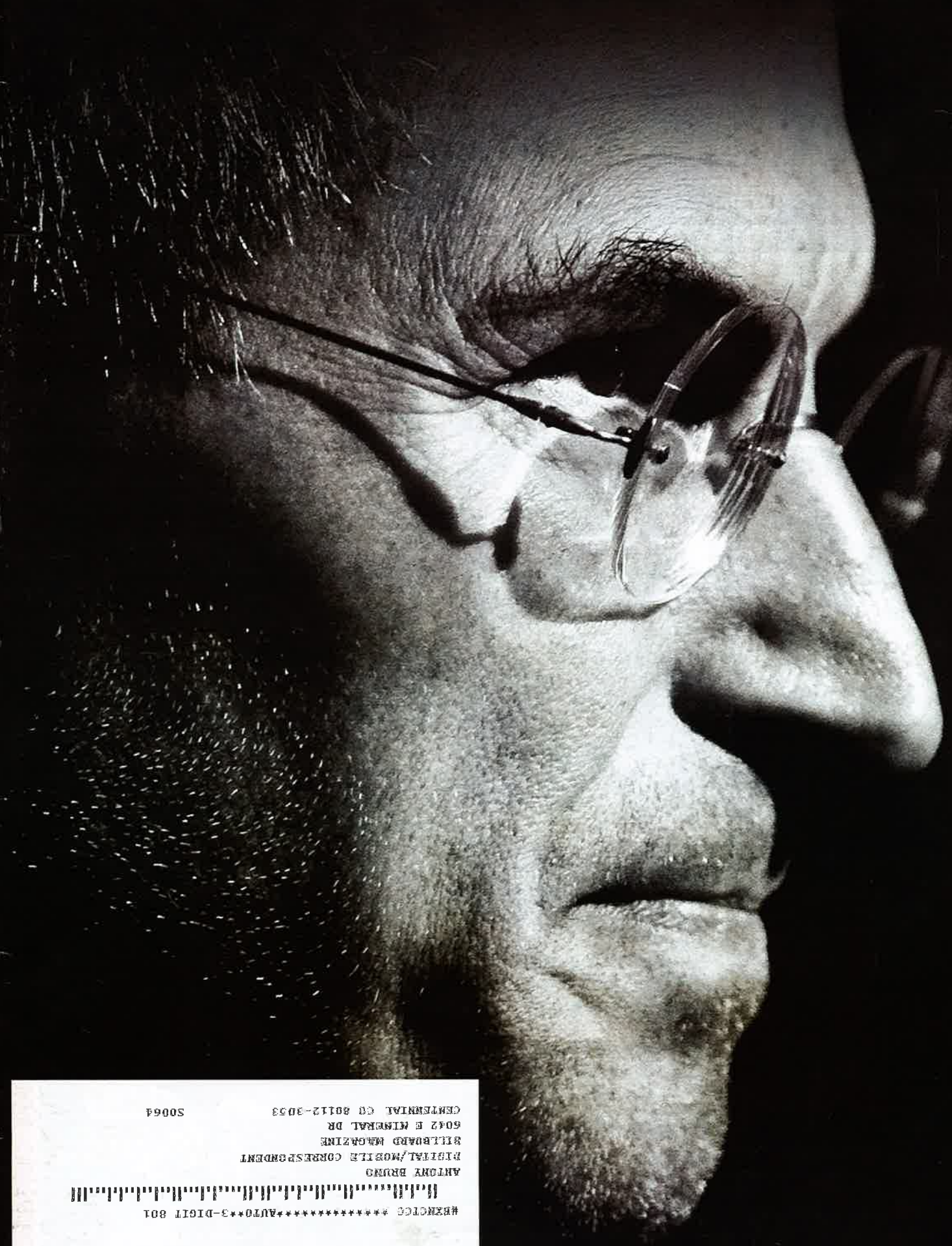


Billboard

OCTOBER 15, 2011
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VISIONARY. GENIUS.
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STEVE JOBS'
MUSIC LEGACY

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UP FRONT

OBITUARY BY ANTONY BRUNO AND KYLE BYLIN

Steven Paul Jobs

1955-2011

That a man who never played an instrument or so much as sang a note professionally could be considered one of the greatest rock stars of this generation speaks to the impact that Steve Jobs had on the music industry and the legacy he leaves behind.

At a moment of perilous transition for the recording industry, Jobs emerged as a bold and innovative leader. He rolled out the first handheld digital media player to go mainstream. He negotiated licensing deals with major-label executives to launch the first successful—and now market-leading—digital music store. And when things got contentious with his label partners, he reframed the debate by going straight to the music-buying public with a well-timed interview or blog post, accusing labels of “getting a little greedy” in 2005 when they wanted to raise prices at iTunes, or calling on them in 2007 to drop digital rights management (DRM) restrictions on downloads.

By dint of his strategic brilliance, an unerring sense of what consumers want and a lamentable lack of viable alternatives being generated by other music and technology companies, Jobs became by default the principal architect of the recording industry’s digital strategy, mapping out the way forward.

“We needed something compelling that the consumer would embrace,” recalls Paul Vidich, who was Warner Music Group executive VP when Apple launched the iTunes Music Store in 2003. “Jobs and Apple using our content created a compelling format and permanently altered the relationship between fans and music. He did it at a moment in time when there was a lot of chaos in the market.”

Al Smith, former senior VP for Sony Music Entertainment, agrees that Jobs played a pivotal role in the development of the digital music market. “Before Jobs, we couldn’t agree on anything,” Smith says. “We couldn’t talk to each other. . . . It took someone like Jobs as an outsider to deal with everybody.”

Jobs was also an avid music fan. According to former Apple employees, his involvement in the music industry was a labor of love. He was personally involved in not only creating the iTunes digital retail system itself, but also in acquiring the music catalog he himself wanted to hear and make available on it. The most high-profile

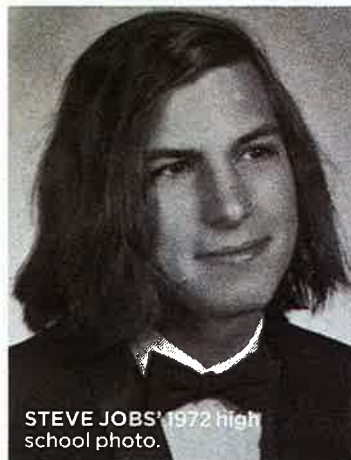
example was his success in finally persuading the Beatles in 2010 to drop their resistance to make their catalog available for download.

But there were many more such cases of his personal involvement. He convinced Dr. Dre to make his catalog available digitally. He negotiated directly with Bono, Jimmy Iovine and manager Paul McGuinness at his kitchen table for the U2 iPod in 2004 (see page 23). He invited the acts he liked to perform at Apple’s many special media events. And, of course, Apple’s TV ads became a powerful promotional platform for recording acts ranging from Feist to U2 (see page 26).

RETURNING TO APPLE, LAUNCHING THE IPOD

Jobs didn’t assume the mantle of digital music trailblazer until the remarkable third act of his storied business career.

After starting Apple Computer in 1976 with Steve Wozniak and Ronald Wayne, Jobs helmed the company through its celebrated success with the pioneering Apple II and Macin-



tosh personal computers before being ousted from the company in 1985. He went on to build two other companies that would further cement his legacy: computer platform developer NeXT and animation studio Pixar. NeXT was acquired in 1996 by a then-troubled Apple, in a move that eventually brought Jobs back to the company he had co-founded.

Four years after his return, Jobs led

Apple—and, as it turned out, the entire entertainment industry—into a new frontier with the 2001 launch of the iPod, a digital music player that put “1,000 songs in your pocket,” as Apple touted at the time.

Initial reaction to the \$400 device wasn’t wholly positive: Some critics joked that its name was an acronym for “Idiots Price Our Devices,” a ding on its premium price.

Much of this derision stemmed from the fact that the market for MP3 players was pretty much a dud. The original Napster had introduced music fans to digital downloading, but for most consumers, those downloads remained on their computers, with only the savviest digital users dealing with the clunky experience of transferring song files to a portable player.

But what Apple designed in the iPod was nothing like the devices cluttering the market to date. It was intuitively designed, looked beautiful and had a cooler name. And it worked great with Apple’s music management software program iTunes (which wouldn’t become a retail store until 2003).

The combination was slick, easy and exactly what digital music fans were looking for. Jobs always stayed focused on what made sense for consumers, says Cameo Carlson, head of digital business development for Borman Entertainment and a former label relations and music programming manager at Apple: “What does that consumer want? What do they need? How do they use products and services? And I think that’s what makes him very different.”

The iPod/iTunes ecosystem was warily received by the music business. Labels interpreted Apple’s 2001 “Rip. Mix. Burn.” advertising campaign to promote iTunes as an attempt to le-

gitimize all the illegally downloaded music that consumers had on their hard drives.

Moreover, the iPod’s eventual dominance of the MP3 player market made it difficult for rivals to mount an effective challenge.


“The iPod became so ubiquitous that no other device sold in the marketplace,” says Larry Kenswil, former president of Universal Music Group’s eLabs division. “Because no other devices sold, no other formats could get a foothold in the marketplace. . . . Once the iPod spread and became the music player of choice, the marketplace for Rhapsody and the latter-day Napster became very small because [they weren’t compatible with] the player that people already owned.”

But working with Apple also reaped benefits for labels, as the company used iPod ads to showcase hip new music. The first ad featured the Pro-Pellerheads, while the Black Eyed Peas got their first big break with an Apple synch placement for “Hey Mama.”

But the bigger impact was on how fans suddenly began interacting with music. iTunes helped popularize the idea of making playlists for different occasions. And the shuffle feature helped them rediscover tracks otherwise long forgotten in the depths of their music library. Of course, this was just the beginning.

LAUNCHING ITUNES, USHERING IN ERA OF DIGITAL MUSIC RETAILING

It was in the creation of the iTunes Music Store that Jobs’ personality and negotiating style really made a difference. Labels at the time saw the iPod as a way to listen to illegally downloaded music on the go. They were casting

A photograph of Steve Jobs, wearing his signature black turtleneck and glasses, with his hands raised in a clapping gesture. He has a slight smile and is looking upwards and to the right. The background is dark, making his hands and face stand out.

“He stepped past everything going on and put together a way to deliver music without worrying about compatibility problems. He forced the industry to follow. He ended the bullshit.”

—AL SMITH, FORMER SONY MUSIC ENTERTAINMENT SENIOR VP

STEVE JOBS in 2006 during a press event at the Yerba Buena Center for the Arts in San Francisco.

For more coverage of Steve Job's legacy, and the complete interview with U2 manager Paul McGuinness (see page 23), go to Billboard.biz.

about for a legitimate way to sell music digitally, and all their internally built efforts were failing.

Given the desperation in the air, Jobs didn't need to turn on the charm too high to get them onboard. He simply presented himself as the answer to their problems, and the rest took care of itself.

Former Warner executive VP Paul Vidich recalls an early meeting with Jobs, who rocked back and forth in his chair in obvious frustration as he listened to Warner execs explain their digital plans. "I don't want to talk about what you guys are doing," Vidich recalls Jobs finally saying, noting that he began to say, "You guys have always had your head up your," but diplomatically opted not to finish his sentence. Warner was ultimately the first major to strike a deal with iTunes.

The industry as a whole was so mesmerized with the slick interface and intuitive navigation of iTunes that the implications of the terms it demanded didn't immediately appear obvious.

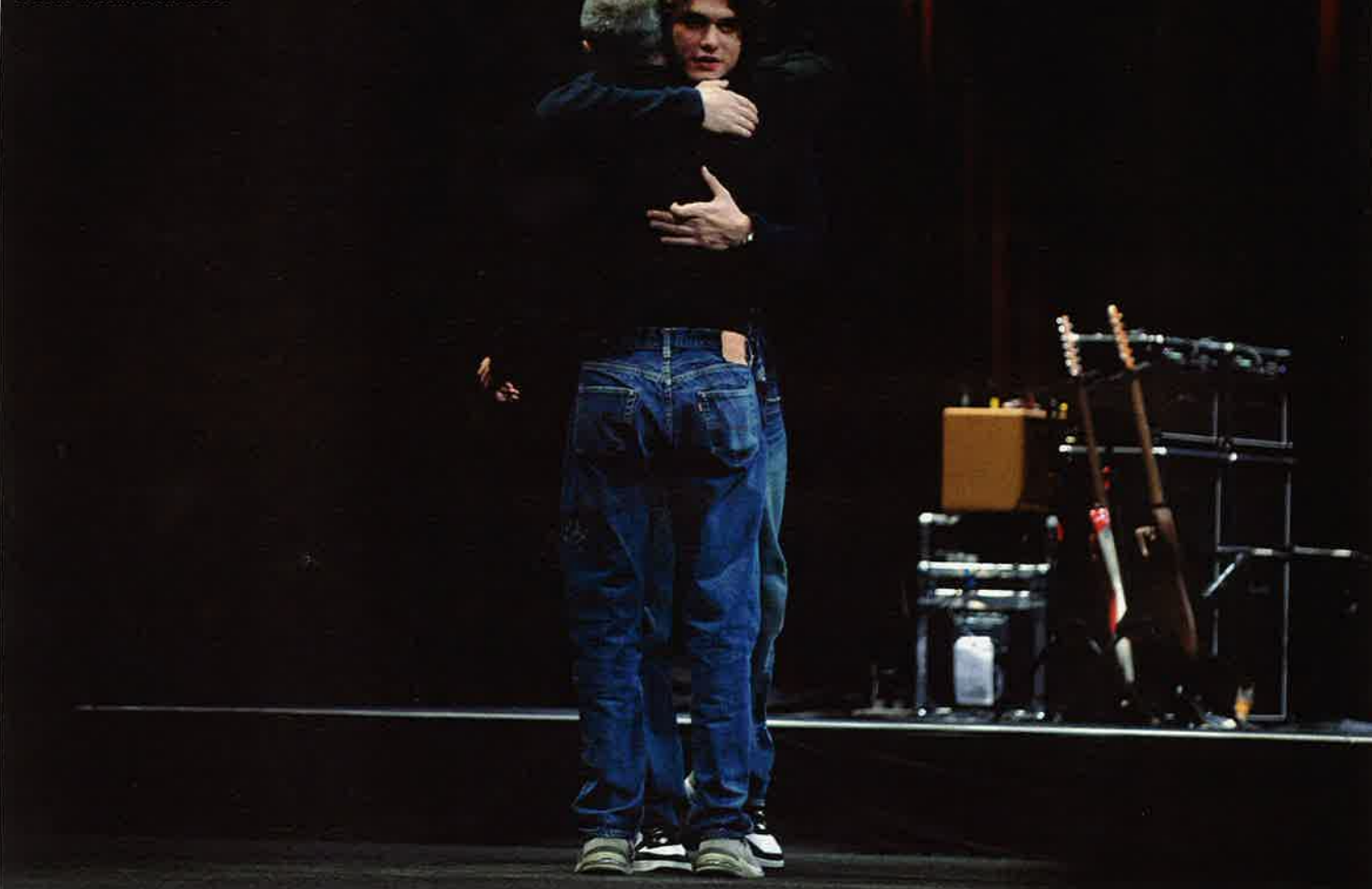
For the traditional music industry, the 99 cent per-track price point—de-bundled from the album—gave consumers less of a reason to buy albums.

While digital tracks were growing, they didn't make up for the decline in album sales in both digital and physical formats, leading many in the music business to question the logic of the transition, even if it was an inevitable one.

Even more interesting is the effect this had on other digital music services. The deal Jobs struck gave 70% of each sale to the labels and publishers, with Apple keeping only 30%. That's a thin profit margin, but Apple didn't care—it could afford to run iTunes on a break-even basis while it raked in the cash from the iPod.

Other digital music services didn't

STEVE JOBS hugs **JOHN MAYER** following the artist's performance at Macworld 2007 at the Moscone Center in San Francisco.



music failed because there was just no margin there. That was what got the labels onboard. He made it such that there was no way for anybody else to make any money, and that gave Apple a huge portion of the market share."

Then there was the issue of DRM, insisted on by the labels, the ramifications of which grew far beyond what

Thanks to the success of the iPod and the restrictions of DRM, Apple soon captured an estimated 80% of the digital music market.

But to just look at revenue splits and user interface designs isn't enough to fully appreciate what Jobs brought to iTunes. His mere opinions helped shape the market by what he didn't do as much as what he did.

Take subscription music. Jobs from the very beginning looked down on the model, because he didn't personally think that's what consumers wanted.

"He probably had a role in the slow development of the streaming business by criticizing it with some frequency," former Napster CEO Chris Gorog says. "Days after [Napster's rebirth as a legitimate subscription service], Apple put out a press release comparing iTunes' great success versus Napster 2.0's still-developing opening numbers. Jobs followed this by giving media interviews explaining that 'nobody wants to rent music'—attacking Napster's subscription model. This was like the hare circling back to jump up and down on the turtle. It made us mad, and then it made us laugh. He was awesome."

JUMP-STARTING THE SMARTPHONE MARKET

The debut of the iPhone in 2007 revolutionized the mobile business, both from the perspective of hardware manufacturing (particularly with its touchscreen

interface), but more importantly by the way content is acquired through them. The App Store model largely removed wireless carriers from the content retailing equation, allowing developers, service providers and media/entertainment companies to reach mobile consumers directly.

It also had a profound impact on the digital music business by essentially mobilizing any service that could create an app. Before the iPhone, custom Internet radio, subscription music and music-ID companies, among others, had yet to find their legs and their lack of mobility inhibited their ability to grow. To take mind share away from established players like commercial radio and TV, make accessing music as compelling as owning it and, ultimately, let users identify songs while they're out, these services needed a connected device that enabled users to take their services on the go.

And the iPhone turned out to be exactly that: the platform that freed Web-based music services from the chains of a computer and make them mobile. Due to the frenzy surrounding the device and the subsequent app downloading craze, mobile usage of Pandora, Slacker, Rhapsody and Shazam

skyrocketed, reinvigorating users with a sense of enthusiasm for music.

Once mobile, Pandora and Slacker allowed listeners to take the customized stations they made online and take them places they hadn't been experienced before. For many new users, this may have been the first time they'd ever heard a radio station tailored to match their tastes and one that they could give feedback to in real time. The popularity of these services caught the attention of terrestrial radio giant Clear Channel, which recently rolled out the ability to create custom channels on its iHeartRadio app.

Where all of this leads remains to be seen. Apple can be expected to remain an innovator. But it will now have to soldier on without Jobs' charisma and his ability to cajole media and entertainment chieftains to venture out into new terrain.

"He stepped past everything going on and put together a way to deliver music without worrying about compatibility problems," former Sony exec Smith says. "He forced the industry to follow. He ended the bullshit." ●●●

Billboard chart manager Kyle Bylin (@kbylin) oversees the social/streaming media charts.

"Jobs and Apple, using our content, created a compelling new format and permanently altered the relationship between fans and music."

—PAUL VIDICH, FORMER EXECUTIVE VP, WARNER MUSIC GROUP

have that luxury. They had to make that same deal that Apple was giving, only without the benefit of a brisk hardware-selling business to offset the losses.

"He made it very difficult for anybody else to be a retailer of digital music because the margin structure that was set up was very advantageous for labels and very disadvantageous for anybody else," says Dave Goldberg, founder of Launch.com and former head of Yahoo Music. "All the others who tried to get into the business of selling digital

they could have ever predicted. Apple's DRM implementation used a proprietary system called FairPlay, which worked only within the ecosystem of Apple's devices. The company refused to license it to other digital retailers, meaning any music bought in DRM form from those services wouldn't play on the iPod. This was particularly frustrating for subscription services.

At the time of the iTunes negotiations, Apple accounted for only about 5% of the personal computer market.

For more on Steve Jobs and his impact on the music industry, turn to page 21. >