



>: The Sounds of Profits

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I've talked to you a lot about Web 2.0 ? I've talked a lot about the impact this new set of technologies and services *will* have on the Internet and how business is done there.

I've even given you several examples of publicly traded companies that are making a lot of headway in this sector.

Well, let me take a step back for a minute.

Let me talk to you a bit about an old technology that's merging with a new one and generating a lot of profits for companies in the process.

What I'm referring to is *Online Music*.

Just last week we had 2 major announcements from the technology industry's "big boys" ? Apple (Nadaq: AAPL) and Microsoft (Nasdaq: MSFT).

We've also seen a *slew* of announcements from other companies looking to move into the online music space ? some of them must have Apple (the number 1 provider of downloadable music) shaking in its boots at least getting a little nervous.

So what I want to do today is to go over some of the major players in this space ? as well as some of the "potentially" major players based on recent product and partnership announcements.

So here we go:

Apple Computer (Nasdaq: AAPL)

Even in this infant industry, Apple is considered the Grand Daddy ? here's the first company that was able to *successfully* implement a pay-per-download model for the online music space. Others had tried but nobody was able to succeed the way Apple has with its iTunes music service.

In the last operating quarter, Apple sold almost \$500 million worth of music from its iTunes store ? making it the market leader (with an 85% share according to NDP) in legally downloaded music.

The success can be attributed to the ubiquity of the company's mp3 player ? the iPod.

Apple really has the entire supply chain on lockdown ... but that could end up being the company's downfall if it isn't careful.

I always default to the famous Competitive Strategist, Michael Porter, who said the worst thing a company could do is be "stuck in the middle."

With Apple competing on both the software end (iTunes) *and* the hardware end (iPod) it won't be able to compete as effectively on both as it would if it just focused on a single front.

We've seen it before with the Macintosh and Apple's proprietary Operating System. We all know what happened when Microsoft stepped in, sold its Operating System to everybody and completely took over the personal computer market.

And speaking of Microsoft ...

Microsoft (Nasdaq: MSFT)

Microsoft ? taking a page from its old playbook of waiting for a competitor to blaze the trail that Microsoft then marches down ? announced its own MP3 player last week, the Zune.

The company also plans to launch a music service similar to iTunes. Unlike Microsoft's previous efforts in the online music space ? the company originally provided Rights Management for music companies ? the Zune service won't be compatible with other players.

So I'm not sure what the company really hopes to do differently here.

Plus, it's still too early to tell whether or not the Microsoft venture will be one that's won on the hardware front or the software front. The Zune player has some cool features such as wireless music sharing and social networking ... but is it enough to topple an entrenched competitor that has 75% market share?

Even a minor share in a fast growing market could be enough to poke some holes in Apple's defenses.

And you can never really write off Microsoft too quickly ? billions of dollars in cash, a proven track record in penetrating new markets ... we'll just have to wait and see.

The company is hoping to have its player and service out in time for the holiday shopping season and is taking an approach similar to that taken with the Xbox ? a completely independent operating division is in charge of running and marketing the new product and service.

This strategy helped the Xbox become the Number 2 game console in the world.

Napster (Nasdaq: NAPS)

Now, most of us know this company by name. Napster was the original peer-to-peer (and illegal) music download service that truly spawned a revolution in online music downloads.

After losing a mammoth court battle, the company shut down and its assets (brand name) were auctioned off, and it was eventually acquired by Roxio.

Roxio originally produced an MP3 player that never gained much traction but used the Napster brand to launch a subscription based Music service. The company now sells music on a pay-per-download basis but makes its bread and butter on subscriptions.

Interestingly enough, some of Napster's biggest clients are colleges and universities who pay a per-seat license for their students. This way, instead of using Napster like college students originally did (to download songs illegally) they now use it in a legal manner to download songs for free (the school picks up the tab)