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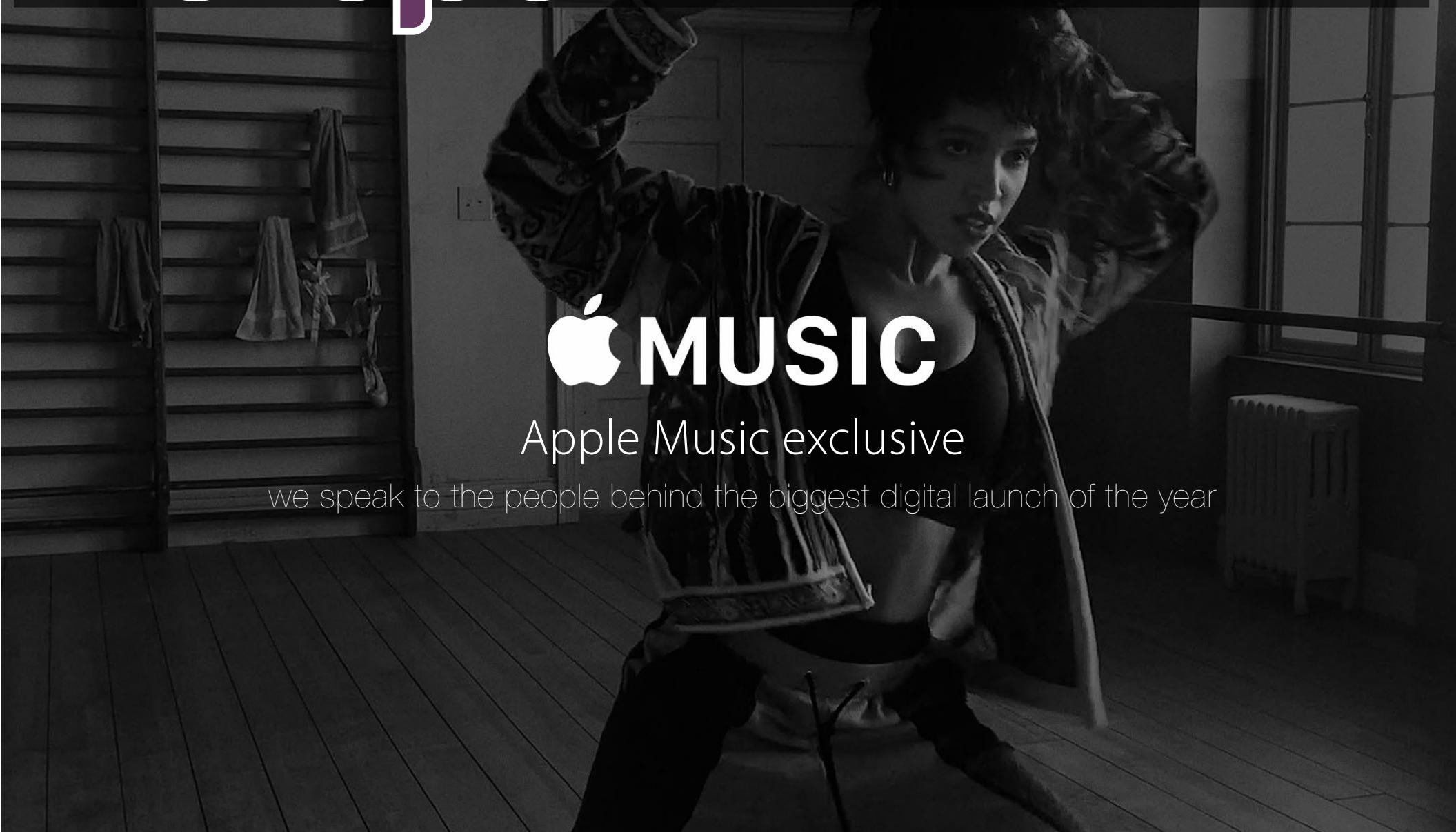
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ISSUE 368 | 10 JUNE 2015

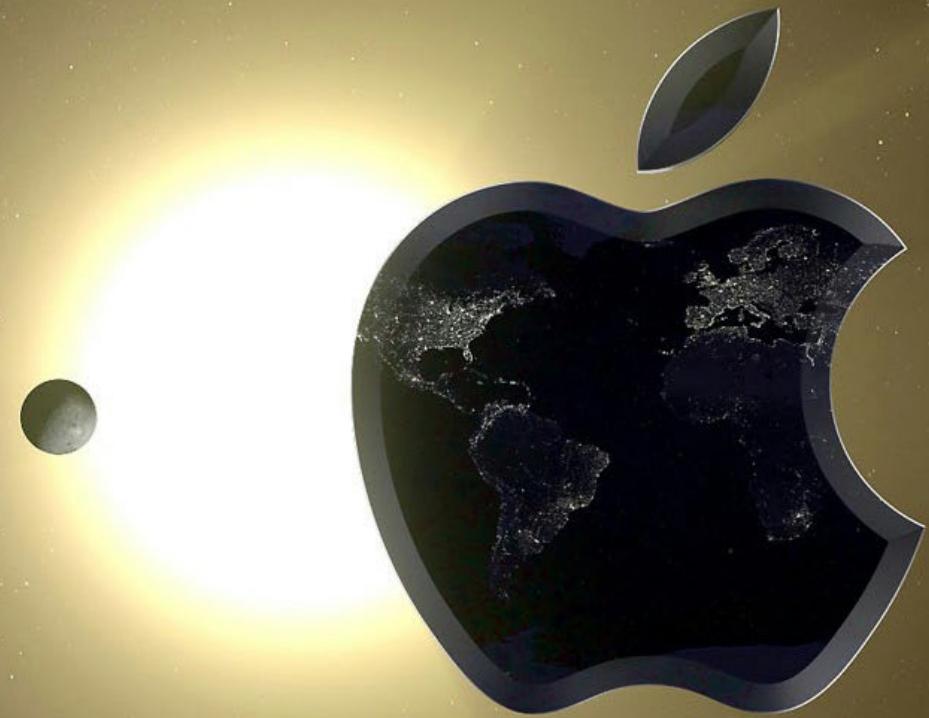


Apple MUSIC

Apple Music exclusive

we speak to the people behind the biggest digital launch of the year

Taking the lid off Apple Music



Apple was rumoured for years to be transitioning into streaming. Last May it paid \$3bn to buy Beats, including the just-launched Beats Music, and then... nothing. Speculation went into overdrive about what it would do, if it would kill Spotify and then talk of delayed launches suggested Apple was having a nightmare of the soul. On Monday night, it finally unveiled what it is calling Apple Music – and it goes live at the end of the month. We look at what it is, speak to those who built it and consider just what impact it will have not just on the future of streaming but also on Apple's relationship with the music business.

THE NEW AGE OF RADIO?

The first thing to understand is that this is much more interesting than just "Apple versus Spotify" or "streaming versus sales". This is about Apple and Spotify versus radio. A concerted effort by the two key players in the digital music space – and others, too – to secure a shift in media consumption from the kind of mainstream listeners for whom music discovery has generally meant turning a dial.

There are certainly differences in approach. Apple Music's main curveball at this week's WWDC reveal was Beats 1, a round-the-clock live radio station staffed by Zane Lowe, Ebro Darden, Julie Adenuga (pictured on next page), with other DJs yet to be confirmed.

It's a worldwide, all-genres station where, in the words of Apple's announcement, "listeners around the globe will hear the same great programming at the same time". This is something music:ally hears will not be supported by on-demand access to shows after they air.

From that announcement: "Apple has also redesigned radio with human curation taking the lead" with an array of genre-based stations playlisted by (as-yet unnamed but famous) DJs. Here there are strong parallels with Spotify, whose playlist editorial team



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may be less starry, but which is attracting hundreds of thousands of subscribers (listeners) at a time to its most popular playlists.

"The old-world paradigms we used to have are no longer true," Spotify CEO Daniel Ek told **music:ally** shortly before Apple Music was unveiled. "When I think about music in the future, I don't make a distinction between what's radio, what used to be the music library and so on. It's only going to be listening."

He added, "As that goes forward, this old notion of these different industries or different competitors will collapse and merge together."

Apple's Jimmy Iovine didn't shirk the radio comparisons either. "What I saw in the record industry is it's just getting more restricted to where everyone's trying to figure out what kind of song to make, to get on the radio - that's researched. That's advertisers telling you what to play," he told **music:ally**.

"So Trent [Reznor] says, like I said in the keynote: 'Let's make a radio station where there's no restricting, no genre, not research-based' - which is very, very crippling to radio - and he said 'Let's do that'. Because

right now, what's happened to the music industry from my perspective is a lot of great music is behind the wall that can't get through and therefore a lot of artists are getting discouraged. And we hope that this ecosystem really helps revive that."

APPLE VERSUS, WELL, EVERYONE ELSE

The second thing to understand about Apple Music is how the company is throwing shade at competitors - and what this says about how it will be presented to the market.

Two specific points of attack emerged from the keynote and subsequent interview with Iovine and iTunes veteran Eddy Cue: first, the labeling of other streaming services as "utilities" - with echoes of the "search box" claims of Beats Music's very first press conference in January 2013 when it was still known as Daisy. But also Apple's emphasis on humans over algorithms.

"A lot of these companies were built as utilities - and this is not a utility. As a matter of fact, some of the people we're talking about, when they first came to my office [in



Iovine's Universal Music days] said 'We're a utility! That's all we are: we're a utility'. And I said 'Well, that's a problem,'" he said. "I don't believe a utility is scalable, personally [...] You can't just be a utility - and most of these other companies or services are utilities. A utility is exactly what it sounds like - cold and noisy."

Meanwhile, on algorithms: "Algorithms are really great, of course, but they need a bit of a human touch in them," said Iovine. "You have to humanise it a bit, because it's



What I saw in the record industry is it's just getting more restricted to where everyone's trying to figure out what kind of song to make, to get on the radio – that's researched. That's advertisers telling you what to play"
Jimmy Iovine, Apple

a real art to telling you what song comes next [in a playlist]. Algorithms can't do it alone. They're very handy, and you can't do something of this scale without 'em. But you need a strong human element, and then you need people that know which human element to give them."

THE HUMAN TOUCH

Apple is making the identity of its human curators - the DJs - a key part of its service. Spotify, much less so: its emphasis is on the playlists' themes, from Today's Top Hits and Afternoon Acoustic to the longer tail of programmed playlists. And rather than humans versus algorithms, Spotify's focus has been moving from some time towards algorithms *connecting* humans - the thrust of its Spotify Now feature is using its big data on each listener's habits to put the right playlist in front of them at the right moment.

This is one strong point for Spotify, which moved beyond the well-worn humans versus algorithms debate some time ago following its acquisition of The Echo Nest. If Apple wants to be better than Spotify for the kind of

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Understanding a listener in 2015 is a lot more than understanding their library. It's about understanding their behaviour" – Eddy Cue, Apple

mainstream listeners both want to suck away from broadcast radio, it will need to prove its ability to understand its users and match them and their current context with curators and playlists.

"Understanding that I have a lot of Latin music in my library doesn't give me a great Cuban playlist," Cue told **music:ally**. But understanding a listener in 2015 is a lot more than understanding their library. It's about understanding their behaviour. If Apple throws its might at this problem, just as Spotify has done, it could be just as meaningful for its prospects as the much-discussed (and still only rumoured) strategy of heaving sacks of cash at Kanye, Taylor and other big artists in return for exclusivity on new music.

THE SECRET PRICING WEAPON

What else to learn from the launch of Apple Music? Despite carefully leaked stories in the tech press in recent months that the company was eyeing \$4.99, then \$7.99 as the monthly subscription cost, we've ended up with the standard \$9.99 figure, even if Cue presented this as the desired outcome. "We always thought \$9.99's the price of an album, on a monthly basis that's great," he said, while claiming that Apple "put all of our energy behind" the \$14.99 up-to-six-people family plan.

With Apple, Spotify and Rdio among others now boasting such plans – the latter two swiftly renegotiating their terms and pricing, we suspect – it will be interesting to see the impact if this kind of deal proves popular. It could lead to a sharp increase in the number of paying music subscribers, albeit while bringing the average revenue per user (ARPU)

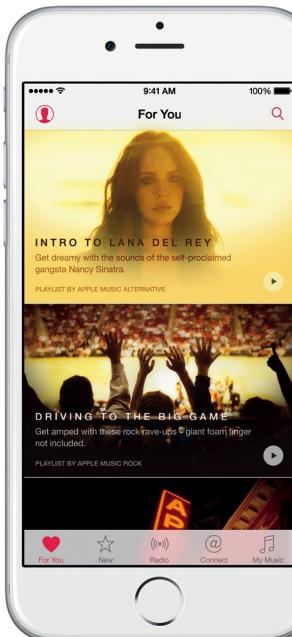
down. There may be some discussion about whether the model is storing up trouble: for example, at what point might a teenager of today on their parents' family plan turn into a standalone subscriber paying full-whack? Or will they even?

APPLE CONNECT: JUST DON'T MENTION PING

Perhaps the most interesting thing about Apple Music, though, is Apple Connect, which is another clear sign that "Apple versus Spotify" is not the only dynamic at play here. Connect, with its ability for artists to upload photos, videos and music to share with fans, and also to post that content to Twitter, Facebook and their own websites, is more about "Apple versus SoundCloud, Facebook and YouTube" as a unified hub for artists' digital promotion. A concept we've seen before as far back as MySpace, for those with long memories.

Connect's impact will not be gauged by how many big artists like Drake and Pharrell Williams use its features, but by whether it gets traction with a much larger community of musicians who buy into Iovine's pitch of an ecosystem that feeds on itself.

"The community now helps in the curation, so if you have an ecosystem, and we upload music, and the audience starts checking it out and telling their friends and posting it on to places ... and our radio guy sees it and goes 'Look how these fans are reacting to this



song' or 'I have this song that the fans haven't even caught yet: I'm gonna post it with my recommendation on that thing,' then you have an ecosystem," he told us. "That's how you break the wall down."

WHERE ARE THE INDIES IN ALL OF THIS?

But that brings us onto the final point to chew over in these days between Apple Music's announcement and its actual launch, with so many of the finer details yet to be explained – including its terms. Spotify has been criticised for the size of

its payouts once they make their way to artists and songwriters, but Apple is facing exactly the same scrutiny – both for its varying deals with labels, and on its ability to affect the industry economics that dictate how much creators receive for streams of their work.

A leaked contract this week led Digital Music News to claim that Apple will pay 58% of its streaming royalties pot back to independent labels, while there are rumours bubbling of template contracts with non-negotiable terms being sent to smaller indies – something YouTube was hammered for last year in the run-up to Music Key's launch. Proof remains thin on the ground, and with no public comments (yet) from Merlin or WIN, we'll have to see whether "Apple screws the indies" becomes an industry meme in the three weeks leading up to launch.

On the record, Cue told Rolling Stone that Apple remains committed to its independent partners. "Obviously we did the deals with the major labels and we've done some with a few of the major indies."

"Now that we're live and we're going around talking about it, we'll go after everybody around the world. And this is something we've done many times. Even in the original iTunes Music Store, we never did a deal with the indies – we actually launched with all the [major] labels [...] We've got the next three weeks to complete this and get those done."

All this, and we have yet to get to the question of whether Apple Music is actually any good. Can the company shed its reputation of being closed to create a thriving, open community of musicians and fans? Will its playlists really be better than Spotify's at – in Iovine's words – picking "what song comes next"? Will it be smart at understanding its users, will the music quality be better than rivals?

And one more question to finish with: is Apple willing to cannibalise iTunes with Apple Music in the same way that it cannibalised the iPod with the iPhone? Is it all-in on streaming. Or does it even need to be? "You shouldn't take a customer who's buying an album who's happy buying an album and try to tell them that what they're doing is wrong," Cue told **music:ally**. "We don't have to, and we shouldn't try to kill the iTunes Store."

Is Apple ahead of Spotify in seeing an ecosystem where some people buy and others stream, or is it not being bold enough in nudging buyers to become \$120-a-year subscribers? The next few months are going to be mightily entertaining as we find out. :)

Apple Music: the music industry reacts

"We have just witnessed a format shift – the streaming revolution and the end of paid downloads is here. Apple will drive consumer awareness of streaming. I believe the user experience is most important, but the \$14.99 price for a family of six can affect everyone in the digital ecosystem."



**Jeff Liebenson, Liebenson
Law & president of
International Association
Of Entertainment Lawyers (IAEL)**

"Four words - All In One Place. That's their play. Combining attributes of streaming, radio, download and social engagement in one offering. They said it a lot. All in one place. This is a bigger play than just streaming. It's a swipe at SoundCloud, Pandora/XM, Spotify and regular radio. They want to 'own' music consumption. Hence the name. For me it comes down to two things – execution and adoption. Ease of use and whether an all-in-one-place is all that people actually want. My guess is that execution will be iterative but better than most. Sure, some people want everything in one place, but it results in quite a homogenous experience. Somewhat like Google and its version of the internet, will music consumption



be determined by Apple? I hope not. I'm a fan of well-executed music experiences so I'm excited by the potential for Apple Music. I'm a bigger fan of diversity, choice and disruption so I'm keen to support a wider field too and make sure those aspects of our business remain."



**Adrian Pope, MD, Artist &
Label Services, [PIAS]**

"Thumbs up from me for the Connect feature; looks like it could be a serious upgrade from the current Facebook offering and a big step forward in terms of evolving the artist/fan relationship business. I can't see the radio feature denting Pandora in the US nor making inroads into those new kids coming into music for the first time; do they listen to radio-type services? I'll be interested to see if the accounting presented by major

- labels to artists is as opaque as with other services. Great to see Apple moving away from the walled garden approach, too."



**Brian Message,
ATC Management**

"Here are my biggest questions and observations. iTunes Music Store still exists. Per an interview with Eddy Cue, it seems they aren't even going to market Apple Music to iTunes purchasers. There is no mention if Apple Music will resolve to your local and/or iTunes Cloud tracks when you stream in the app – which has big royalty implications. There is no web experience and no embeddable players for Apple music – this means no blogs/sites will be leveraging it for promotion or in-page listening. Without this, YouTube and SoundCloud will still be the promo tools of choice – and there will be no web-component to Apple's customer acquisition funnel. No free features (Beats 1 radio, Connect etc.) are available on Android. You can only use Apple Music on Android if you are a subscriber. And likely you will only be able to sign-up on the web or an iOS device using your Apple ID – no billing

Apple Music: the music industry reacts *continued...*

through the Google Play store (which would enable Google to levy a 30% fee on top of the service as Apple does to other music services that bill through the Apple Store). It seems that posting/managing Apple Connect is not supported on Android (at least not unless those artists are paying subscribers?)— so will all artists have to use iOS to take advantage of it? Granted, a large number are probably already on iPhones – but still yet another point of fragmentation for managing your online presences, merch sales, ticket pre-sales, etc. You can't cross-post to Apple Connect from Snapchat, Bandpage, Twitter, Vine, Songkick – only from to a limited number of services. Yet another social channel to be managed by artists."



Jason Herskowitz,
Hatchet / Tomahawk

"Any new digital service means more choice for music fans and greater competition, which can spur the market forward. But a new launch from Apple, when it comes to the UK with its vast digital penetration and marketing reach, could represent one of those pivotal moments when the industry

takes its next big leap forward. It is sure to give the streaming market, which doubled last year in the UK, a further turbo boost. And most important, it is likely to deliver a fantastic experience for music fans, helping to drive consumer awareness and appreciation of premium music subscription as something that enhances your life. That will help to build value for the whole music industry long term."



Geoff Taylor,
chief executive, BPI

"With an audience of millions already in place via its hardware/iTunes and app store, there is nobody better placed to enter the streaming market. But let's not forget, Apple is late to the party with the likes of Spotify and Deezer very well established in many territories. It is pushing the boundaries in some areas – no other streaming service has gone to the lengths that the radio side is looking at. Apple Connect looks promising – but it will really need the support of the whole music community in order to thrive. I think there is a lot more that can be done if Apple is serious about making a market-leading service long term. It's very early

days, but it has the potential – if developed and supported – to change the music consumption landscape, hopefully in a positive way for all concerned."



Matt Bristow, director and business affairs manager, Cherry Red

"Apple have a track record of creating compelling products and if it can do the same here that can only help to grow the streaming pie. Can it help to convert the one album a year consumer to an engaged monthly paid subscriber? If so then I'm all for that."



Kameil Sattar, head of digital, Proper Music Distribution

"Fair play to Apple, innovating in the new world when they could sit on the download empire they created. That said, I think the short-run concern for the industry is how fast downloads fall as a result of the shift. The notion of Connect is interesting. It shifts some of the value proposition from recorded music itself and towards fans engaging with artists more directly. They are giving consumers something more scarce than music – access to their artists.

Whether fans engage with the service this way, we'll have to wait and see. People keep talking about competition and about Apple killing Spotify. I don't think this launch competes with Spotify's existing user base. The battleground is the new users – people trying streaming for the first time. Where do they choose to start? And if they like it would they ever try a competitor? And let's not forget, Spotify is growing at a pace and could continue to for many years yet."



Chris Carey, CEO, Media Insight Consulting

"Apple has been a singular force in the digital evolution of music, so the launch of its subscription service is a milestone moment for our industry. Right now, accelerating the global proliferation of paying subscribers is one of our most important goals, and Apple's massive resources and huge customer base will make it a powerful player in turbocharging that growth. The increased competition in this space is also a big positive, and will help unlock as much value as possible for our artists and songwriters."



Steve Cooper, CEO, Warner Music Group