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JUNE 28, 2005

NEWS ANALYSIS :TECH  
By Steve Rosenbush

## Dancing to the Digital Beat

**With the Web transforming the music industry, here's a consumer guide to how the major players stack up**  
The Internet has rocked the music business. Few industries have been as susceptible to changing technology -- and few have had as much to lose as the world's music companies.

All of the music industry's growth, and hence its future, lies online. Global sales of physical recordings, which have been falling since the late 1990s, declined 1.3% in 2004, to \$33.6 billion, according to the International Federation of the Phonographic Industry. But last year, digital music generated more than \$300 million in sales.

**LEGIT BUSINESS.** That figure is expected to double in 2005, according to Jupiter Research. "We believe that music is going to be completely digital over the next 10 to 15 years," says David Goldberg, general manager of Yahoo!'s ([YHOO](#)) burgeoning Internet music business, Yahoo! Music .

The music industry is fighting to hold onto its power. It successfully sued to shut down online services like Napster, and it has even sued individual consumers. On June 27, the Supreme Court handed the recording industry a victory by ruling that file-sharing networks that are primarily designed for illegal swapping of music and video can be sued. But that won't change the fact that music is going digital. It will merely make life more difficult for the pirates (see BW Online, 6/28/05, "[A Supreme Slap at Grokster & Co.](#)").

Online music has gone way beyond the illegal file-swapping networks that dominated the scene just a few years ago. Millions of consumers are already downloading songs through legitimate means such as iTunes from Apple ([AAPL](#)). They're carrying around thousands of songs on Apple iPods and other handheld devices.

**LEARNING CURVE?** Plus, they're listening to Internet radio networks such as [Live365 Radio](#). Many are subscribing to music services such as Rhapsody from Real Networks ([RNWK](#)), which allow them to listen and download as much music as they want for a set monthly fee less than the cost of one new CD. And they're sharing playlists and trading reviews using comprehensive services including Yahoo! Music, through which listeners can download music, listen to Internet radio, and more.

Millions who came of age in an earlier era of compact discs and CD players, or even vinyl albums and turntables, may have to learn how to listen to music all over again. Their basic tools are going to be computers and handheld devices such as digital music players and phones. And they'll need to learn how to use the software programs that download and manage their digital music libraries.

While the world of handheld music players has been the subject of research and reviews, the software side of the business has received less attention. The cool gadgets get all the attention, while the software that goes with them is often an afterthought.

**APPLE'S EDGE.** That's too bad. While most music software may look the same, it's not. Regardless of how much you love the way your iPod looks, consumers need to understand that the software that goes with it has certain limitations. For example, people love the way iTunes software manages their music, but it doesn't work with all-

you-can-eat subscription services. If you want unlimited access to a big catalogue of music for a set monthly fee, you will need to check out a rival service such as Rhapsody.

Over the last few weeks, BusinessWeek Online has reviewed digital music software and services from a variety of major companies. We've looked at iTunes, Rhapsody, Yahoo, Windows Media from Microsoft (**MSFT**), AOL's Winamp (**TWX**) and Quintessential, which is owned by Gracenote, a privately held company that provides online data about CDs.

Here's a comprehensive look at what we found. In our view, iTunes still has an edge over its rivals when it comes to clean design and ease of use. But rivals such as Rhapsody, Windows Media, and Yahoo are closing the gap. And for those consumers who prefer to buy music the way they purchase cable or satellite TV -- purchasing unlimited access for a set monthly fee, in other words -- Apple's rivals are one step ahead.

SPECIAL REPORT DIGITAL MUSIC FORMATS

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