

While we all wonder what the content companies will do going forward with Google and Youtube, you have to wonder what Apple is thinking and how they will respond.

They have to be sitting there with eyes wide open as they watch 3 of the major record labels sign some sort of deal with Gootube that rewards them with 40k shares of stock each, worth more than 15mm dollars that from appearances will allow Gootube to offer music videos for free from the Gootube site.

In the past, offering free music videos would not have been perceived as a big deal. Music videos are just commercials for the sale of CDs ? Right? Wrong. That notion is "so last century" to paraphrase some commentators these days. The days of Music Video as commercial ended when Ipod added video. A downloaded music video file with full fidelity vs a downloaded music song at full fidelity song can sound exactly the same on an Ipod . Of course there are sometimes little differences from video to song to make the video more entertaining, but nothing that would make the song any less enjoyable when listening on an Ipod or other portable media device, and there is the value of watching the video itself.

Apple has realized this, and as a result priced music videos at \$1.99 and songs at 99 cents.

It worked for them too. It used to be that most people who wanted to acquire music legally and easily went to iTunes Music Store (ITMS). According to Apple on their latest conference call, [ITMS is 85pct of all legal downloads](#) in the US. On that call, Apple also said that "ITMS was run above break even with the primary goal of selling more iPods and accessories." But what was more interesting to me was their mention that Music Sales were flat quarter to quarter. Apple said this was due to seasonality. Time will tell if that's the case

While it used to be ITMS was the path of least resistance to legal music downloads in the past. That position is quickly being replaced by Youtube. As I have written earlier, it's just too easy to convert the music videos that Youtube downloads to my computer over to Ipod format. ITMS has lost business from me. I believe they are losing business across the board. While some people think that it's too much hassle for most people to do the conversion, that problem is disappearing quickly. [A cottage industry of software apps](#) is being built around Youtube. It's getting easier by the minute to download music to your iPod .

But that's not the worst part of it for Apple. Apple had pretty much flipped the notion that it was impossible to compete with free. They had done a great job of making it easy to buy anything short form, music, video, whatever. But they were competing with companies that were purposely in the background for fear of being sued. People who used BitTorrent, Grokster, Limewire did and do know they were getting their music illegally.

It's different on the video hosting sites like Youtube, Grouper, etc. The owners of the sites all make the point as loudly as they can that everything they do is legal. Then Youtube is bought by Google AND they do deals with the music labels . So everything and anything that happens on Youtube must be legal. So forget going to ITMS for music. Let's go to Youtube. It's perfectly OK to convert the music Youtube downloads to me over to my iPod (of course if Youtube and Google truly were legal in their video hosting, there never would have been a reason to do a deal with these music companies at all, would there ? )

It will definitely impact the sale of online music and music videos. But more importantly for Apple, it wrestles away control of music sales from Apple and opens the door for Microsoft for their new Media Device, and for any other Portable Media Player that supports video. The number one application Microsoft should ship with Zune or make sure is available from a 3rd party for free ? A Youtube downloader. Just read the quicklist on Youtube, and download to your Zune. Fast, friendly, free music just for your Zune. Why spend 99c or 1.99 per song on iTunes when it's free for your Zune!

All the music you can eat, Google pays. How great is that ! Not so great for Apple.

Apple is smart enough to have picked up on all of this and I'm sure Steve Jobs and Eric will have a nice little chat about it.

And while we are on the topic, I think the music labels got the better part of the deal with Google. Three companies, \$50mm dollars. You have to sell a lot of music on ITMS to net \$50mm dollars. I'm not saying it was a bad deal for Google. It was probably only 120k shares. They won't miss that. But the devil is always in the details.

It will be very interesting to see just how long the deals were for. Was it just till the end of the year ? Time enough to see if the new Content Filtering Software application works ? Was it 1, 2 years or longer ? Personally, I would be surprised if it was longer than a year. If that is the case, then the music labels pimped out their music video catalogs for 15mm plus a share of ad revenue per year, each ! Google in essence, "prebought" every download that would have been sold over at Apple and gave it away for free without any DRM, and they gave up a pct of their ads. Again, not a terrible deal for GooTube unless the music labels expect to be paid the same amount every year.

So we could have an interesting year of watching Apple to see if this change in where music is discovered impacts their competitive situation. Watching the labels to see how much they can get paid for licensing their catalogues. Will it be 15mm plus ad share per year or get sued ? What will other content providers who didn't get their 15mm think ? Will they sue to prove a point that you can't leave them out ? Will Google just write checks or give stock to the entire universe ?

Speaking of lawsuits. It will be very interesting to see how the Universal suits against Grouper and Bolt play out. Grouper has already said they are on firm ground. I of course don't agree. I think they will get nailed. It will be interesting to see if Sony gives them money to fight the fight. I also think that Universal will settle with Bolt.com . I'm just guessing here, but if I'm them, knowing Bolt doesn't have deep pockets, I make them settle on the exact terms of how Doug Morris wants to see video sharing sites deal with copyright. I would make bolt.com the poster child for what video sharing sites have to do to be in compliance and avoid lawsuits from Universal and by proxy the other music labels and most likely other content providers. Using bolt.com to get that level of control and a public admission that the Safe Harbor provisions of the DMCA don't apply will help Universal far more than any financial settlement or from forcing sites like Bolt.com into bankruptcy and getting nothing