

There is a lot of interesting speculation about iTunes Music Sales. Are they going up , down, flat, flattening ?

There is a lot of interesting speculation about Zune sales. Will sales accelerate, slowdown, drop off a cliff ?

What there hasn't been much of, is speculation of what might happen if Google entered this market.

It used to be that no matter what technology business you entered, you always had to model for what would happen if Microsoft entered your business and tried to kick your ass. These days Google has taken that spot with Microsoft still a force to be reckoned with and Apple the wild card in any personal electronics or digital distribution of content. So let me offer my personal speculation of what might happen when Titans clash in the online music sales and device business and why they will clash.

First the why. The brilliance of apple in personal electronics is that they realize that music sells Ipods. Sell 65 million Ipods at an average of a couple hundred dollars each, plus accessories and thats real money. A whole lot more exciting than the \$ 300mm in gross margins (30pct of 1billion songs) from music content. Smart. But not a strategy that only Apple can implement.

Lets start with Itunes Music Sales. Slowing or accelerating, we can safely say that they can or will sell 1 Billion songs a year. We can also safely say that they pay about 70 cents per song back to the label/licensor of the song. So doing the math, they pay out about 700mm dollars a year to the labels. Now if we aggregate [2005 market share for the top music labels of about 82 pct](#) and multiply them by the payout from ITMS sales, that would mean that Apple paid about \$ 575mm to the top labels for the year.

Now lets introduce Googlenomics.

There has been [speculation](#) that Google is offering 100mm dollar or more licensing opportunities to TV Networks. Thats 100mm in cash for SEGMENTS of shows. Not full shows. Not full movies. Clips. There has also been speculation that GOogle offered stock in exchange for licenses at the time of the Youtube transaction. If true, and I believe they are, these actions in the user generated video space defines that I think will come to be their approach to capturing content markets. Pay a lot of money in a land grab for the best properties you can find and aggregate them in a manner that can pre-empt or displace the existing competition, and then give the content you just paid a boatload to license away for free, hoping to make your money back along with a return by selling advertising around it.

For the historians of the PC industry, its not a far cry to the maneuver that put Microsoft Office in the drives seat many years ago. When Office apps were also rans, the traditional spreadsheet, word processor, database and graphics program cost about \$495 EACH. MicroSoft decided to offer their Microsoft Office Suite as an upgrade to any competitive product for only \$99. The promotion brought major market share and a foundation for software upgrade revenue that would be in place for a decade. Microsoft tried to own your desktop, Google tries to own the advertising on your browser. Not apples to apples, but pretty damn close. Get big, subsidize and monetize.

So how could/would Google enter the Itunes Market ? I dont know if they would buy or build their user interface for a music store, but I would be willing to bet they would use their stock and cash in the bank to go to the same companies they are licensing music videos from Universal, Warner Music and fellow market share leaders and basically pay them about \$575mm per year in licensing revenues for exclusive access to SELL OR GIVEAWAY their music online (Online only, say the 1st Billion songs ?)

Its the answer to the following question: Would it be worth it to Google to pay \$575mm and up per year to completely turn Apple upside down ? To completely pre empt their ability to sell IPods ? To potentially introduce a new hardware device, or partner with someone who has one ? To sell advertising around the music rather than the music itself ? Is their a traditional Google arb here of 70c per song vs 70c of advertising around the song ? Could it sell that much advertising online to justify giving the music away ?

Which also requires that we introduce MicroSoft into the equation. Could they position the Zune as the defacto winner by spending \$575mm per year with the music labels and giving the 1st billion songs away to Zune owners ? Of course they could create the possibility of selling ads online the same way as Google

Or would Yahoo enter the fray and partner with a 3rd party or Microsoft and pony up the stock and/or cash ?

Is turning the IPod/PDA industry upside down worth \$575mm a year ?

I would think so, but time will tell.

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