

Apple's iTunes might not be only answer to ending piracy

Steve Jobs is pretty smug about iTunes, but maybe he's got it wrong.

It's at least worth exploring, because so far the tech industry has treated Apple Computer CEO Jobs and his creation of iTunes much the way the Hebrews treated Charlton Heston after he parted the sea of Jell-O in *The Ten Commandments*. Praise be Steve! He has saved us!

Except now there's a daring young Web site called Magnatune that's asking some interesting questions about ways to finally create harmony between the Internet, music artists and consumers.

It suggests that iTunes and all the similar 99-cents-a-song sites from the likes of Dell and Musicmatch are just a waylay on a longer path. Eventually, that path has to lead to a business model that stops the ongoing insane war between the music industry and its customers — a war in which both sides continue to give each other plenty of reason to act stupid.

Magnatune was launched in May by John Buckman, who is otherwise CEO of e-mail software company Lyris. At its core, Magnatune is an effort to create the first real Internet-era record label. It's intriguing enough that Hank Barry, former CEO of Napster, took Buckman to lunch a couple of weeks

ago to learn about the company.

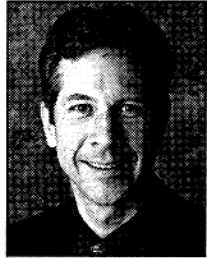
Magnatune doesn't have all the answers. But its model reveals how the Internet, CD burners and inexpensive digital recording technology are undermining the music industry's economics to a greater degree than most people realize.

The questions about current models start with pricing. Why, in this era of eBay, is all music priced the same? A new track from White Stripes can't be worth the same 99 cents online as an old Bread recording of *Baby I'm-A Want You*. (No quips from the peanut gallery about which is worth more.)

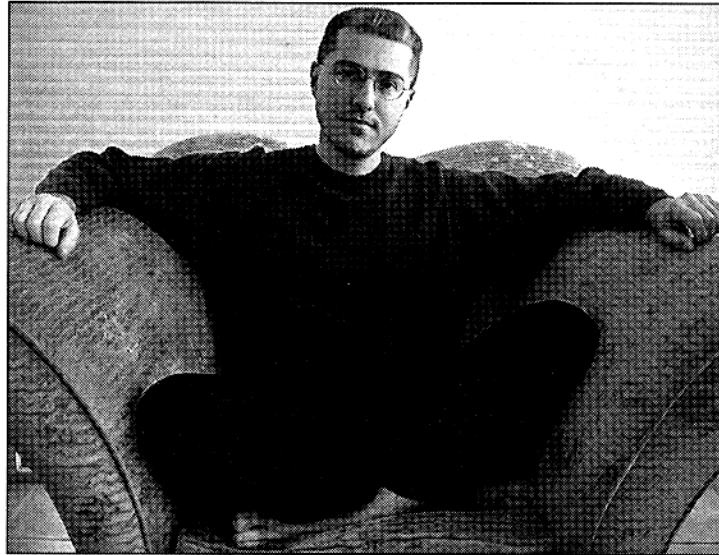
The Internet makes dynamic pricing possible — prices that change depending on demand. eBay's auctions are one way to do it. Magnatune is trying something a little different, and it includes playing on a buyer's conscience.

When you go to Magnatune, you find a list of a few dozen artists the company has signed. They are not famous. (About one in 300 artists that send music to Magnatune get signed — the idea is to maintain a level of quality.)

Click on an artist such as Falik — who plays electro-Indian music and may or may not intend his name to be a homonym — and you can listen to his album for free by streaming it over the Internet. It works like an on-demand radio



By Kevin Maney



Magnatune

New prices: John Buckman launched Magnatune, which lets consumers decide how much they want to pay for a record, starting at \$5.

station: You're not downloading the music onto your computer's hard drive, and you don't own it.

To download an album so you can play the songs any time or burn them to a CD, you have to buy it. When you click to buy, you see a "suggested" price of maybe \$8, but you can choose to pay as little as \$5, or as much as you want. Here's what's fascinating: "Everyone assumes we're just getting \$5," Buckman says. "The average is \$8.93."

Buckman is convinced his customers are willing to pay for — not steal — his artists' music, and even pay more than is necessary, be-

cause Magnatune pays artists half its revenue from selling music.

Which brings into play another layer of the Magnatune model. In decades past, it cost a lot to get recorded music to the public. Studios and equipment were expensive, so recording an album took a lot of upfront money. Then, manufacturing thousands of LPs or CDs and shipping them around the country cost a ton.

It all meant artists had to sign with a record label that would advance the money to launch an act. The price to artists has often been restrictive contracts that pay little

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royalties.

But every part of that model is changing. PCs, digital gizmos and software can be assembled into a high-quality basement studio for a few thousand dollars. Former Byrds legend Roger McGuinn is recording his next album on his laptop while on the road. And with high-speed Internet, CD burners in most every PC, and blank CDs that cost 30 cents, it makes little sense to manufacture and ship pieces of plastic. It's like, in the 1940s, when the first refrigerator/freezers made home ice delivery irrelevant.

Bottom line for Magnatune: It can sign artists who have already recorded their albums, advance them nothing, then split all purchases 50-50. If you pay \$8, the artist gets \$4.

The 50-50 deal is spelled out on the Magnatune site. Consumers, Buckman says, want to support artists.

But they don't want to support the Recording Industry Association of America (RIAA) and the music industry, which they see as the enemy. People are willing to steal music from music companies but not from artists, Buckman says. Considering the outrage in 2003 over the RIAA suing a 12-year-old girl for downloading music, he's probably right.

Magnatune is taking advantage of this zeitgeist with a certain glee. Its slogan: "We are not evil."

Buckman is even embracing some of the more radical aspects of Internet culture. One is open source. Because music now is digital code, why not allow people to take it apart, improve on it, use it to make something new? Magnatune's contracts with artists allow for certain kinds of sharing. "We want to be the Linux of the music world," Buckman says.

Now, nobody suggests Magnatune is going to overtake iTunes or the major record labels. "It probably won't get past a certain point because the music is obscure," says Mark Coleman, author of *Playback: From the Victrola to MP3, 100 Years of Music, Machines and Money*. But the model should make the music industry take notice.

Yes, compared with the lame attempts to sell music online before, iTunes is a breakthrough, and it is popular.

Still, it sells music from major labels that operate much the way they have since Elvis recorded *Blue Suede Shoes*. Jobs admits iTunes loses money. Consumers still steal: BigChampagne, a service that the music industry itself uses to monitor file swappers, reports a 35% increase in illegal traffic in 2003. And the RIAA threatens another round of lawsuits against consumers.

It's still broke. Jobs hasn't fixed it.

E-mail kmaney@usatoday.com