Online Music Industry
Apple's iTunes vs. the Fast Followers

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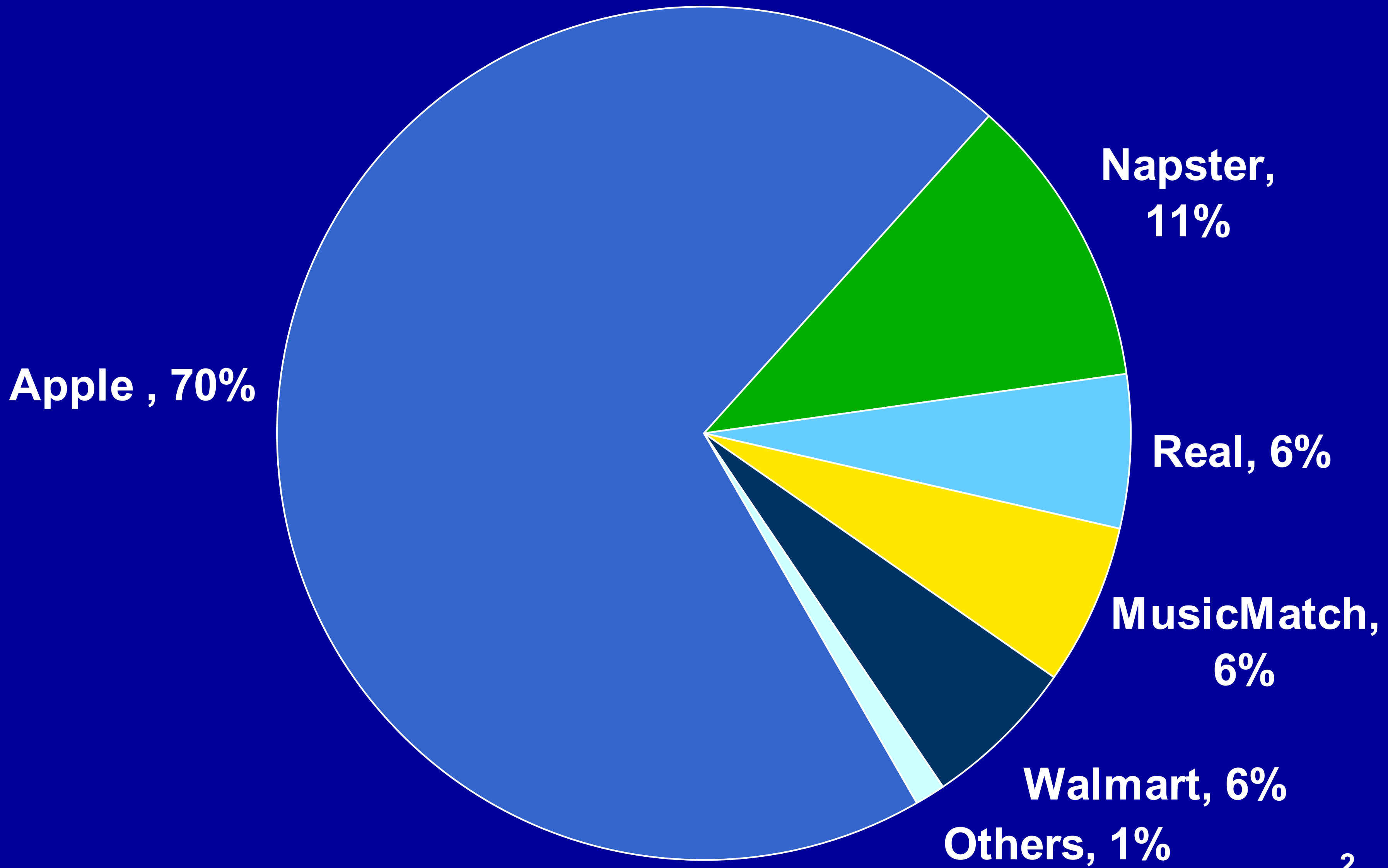
Apple Dominates Online Music Sales Market Share



Music Industry Forces Create a Dynamic and Fast Changing Environment

Supplier Power - Low

- Increased size and power of the online distribution channel compromises suppliers' bargaining power
- Labels are losing traditional revenues, forcing them to move into online music distribution

Buyer Power – High

- Many alternatives with fairly low switching costs
- Music piracy is also a legitimate option for many consumers

Rivalry – High

- Numerous services are popping up
- Partnerships and shakeouts are prevalent

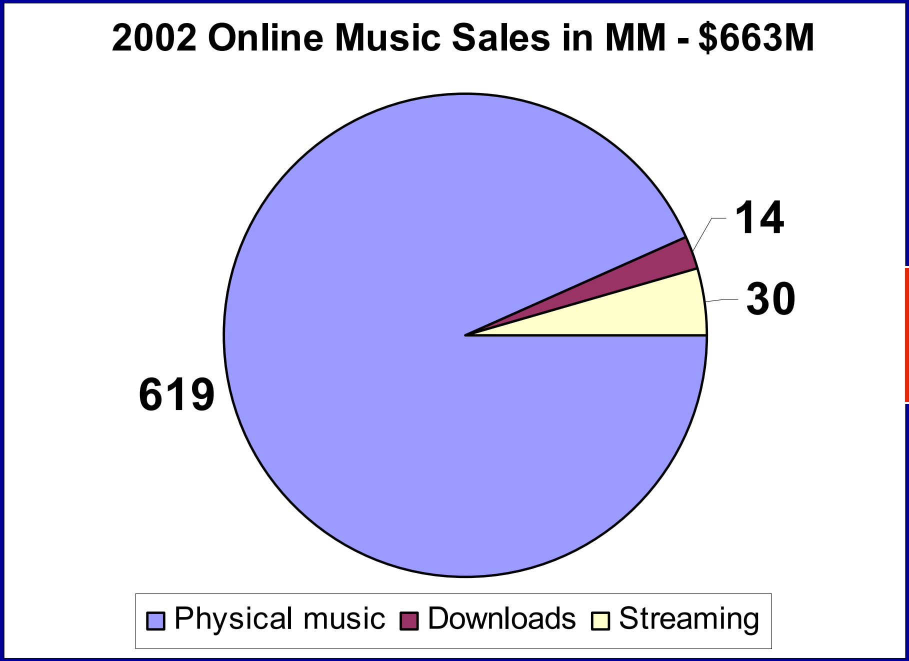
Substitutes – Medium

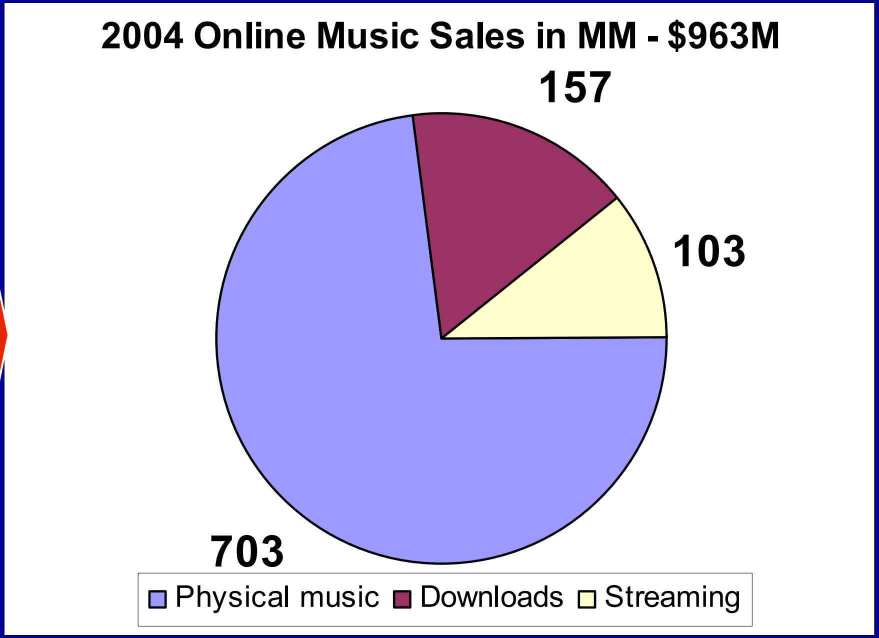
- Many alternatives including physical CDs, traditional radio and satellite radio
- But online format is increasingly appealing to consumers

Entry Barriers – Low

- No fixed assets
- Advertising, Marketing and Pricing can allow companies to gain a quick foothold in the industry

Rapid Growth and Change Seen in the Music Industry from 2002-2004





- **Total music sales continue to grow, nearing $1B in 2004**
- **Downloads and Streams continue to steal share from physical music**

*Source: Mintel- Online Music, 8/04

Complementing Factors Also Contribute to Industry Dynamism

- **Changing consumer expectations of music consumption**
  - Multiple delivery models
    - Purchase and Own
    - Stream
    - Limited Time Download
    - Mix and Burn
  - No physical limitations on selection
  - Play before you pay
- **Digital Rights Management development and File Format Wars**
- **Hardware development and convergence**

Apple SWOT Indicates Share Points are Theirs to Lose

Strengths:

- Market Leadership through adoption of closed AAC format
- Design & Usability
- Full solution software > UI > hardware

Weaknesses:

- Learning curve on first ever PC product
- No partnerships to complement their offering

Opportunities

- Continued next generation prod development
- Target PC users- 97% of market
- Lock users in now for the Long Term

Threats:

- Price War
- Backlash from consumers
- Anti-competition lawsuits

Fast Followers SWOT Points to a Number of Opportunities

Strengths:	Weaknesses:
▪ Multiple hardware partnerships ▪ Large WMA install base through Windows	▪ Late start- Fast follower ▪ Hardware Design
Opportunities:	**Threats:**
▪ Compete on price ▪ Strategic partnerships ▪ New delivery models ▪ Universal file format ▪ Turn Apple's closed format market leadership against them	▪ Apple's early adopter community closed format

Recommended Strategies for Apple vs. Fast Followers

Apple	Fast Followers
▪Improve iTunes usability: customer recs and premium services ▪Hardware evolution as convergence and product features develop ▪Aggressively target PC market with iPod and Digital Hub ▪Lock users into the AAC format as long as possible	▪Strategic partnerships ▪Universal open file format ▪Price competition ▪New delivery models ▪Turn Apple's Early Adopter Customer base against them ▪Contract for exclusive content and features

All Parties will have to Navigate the Changing Industry Landscape

- Broadband Increase
- Comprehensive Online Music catalogs
- File Format Wars & Digital Rights Management
- Hardware Convergence- Digital Hubs & MP3 cell phones