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## More Artists Steer Clear of iTunes

Apple's Online Music Store Sells Lots of Singles,  
But Labels Seek Higher Profits of Full Album Sales

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iTunes has been the runaway hit of the music business, selling more than five billion song downloads since it started five years ago. But a growing number of record companies are trying to steer clear of **Apple Inc.**'s behemoth music store, because they say selling single songs on iTunes in some cases is crimping overall music sales.



Getty Images


AC/DC hasn't licensed its music to iTunes, staying with album sales, which are more profitable.

there -- and the same week that one of its songs entered the top-10-selling tracks on Apple's download service.

Avoiding iTunes runs against the conventional logic of the music industry, where it's now taken as an article of faith that digital downloads will eventually replace CDs. But there is growing discomfort with the dominant role iTunes already plays: The store sells 90% or more of digital downloads in the U.S., according to people in the music industry. At the start of this year, iTunes became the largest retailer of music in the U.S., surpassing **Wal-Mart Stores Inc.**, according to research firm NPD Group Inc.

Label executives, managers and artists chafe against the iTunes policy that prevents them from selling an album only. iTunes, with few exceptions, requires that songs be made available

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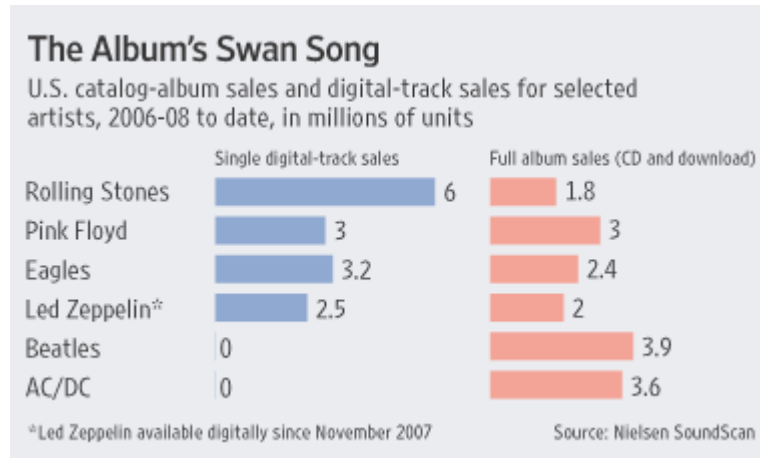
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Kid Rock's "Rock 'n Roll Jesus" album was kept off iTunes' virtual shelves. It has nonetheless sold 1.7 million copies in the U.S. since its release last year -- a sizable number for the depressed music industry. Sales of the album have increased in 19 of the past 22 weeks, according to Nielsen SoundScan, vaulting it to No. 3 on the Billboard 200 sales chart. After witnessing the album's performance, his label, Warner Music Group Corp.'s Atlantic Records, last week yanked an album by R&B singer Estelle from the iTunes Store, four months after it went on sale

separately. Consumers strongly prefer that, though Apple also typically offers a special price for buyers who purchase all the songs on an album.

Some artists see their albums as one piece of work, and don't want them dismantled. Their handlers believe they can make more by selling complete albums for \$10 to \$15 than by selling individual songs.

"In so many ways it's turned our business back into a singles business," says Ken Levitan, Kid Rock's manager. Mr. Levitan says the rise of iTunes is far from being a boon to the industry; instead, he calls it "part of the death knell of the music business."



An Apple spokesman declined to comment.

Music sales have been in free fall since 2000, the year file-sharing networks made online copying of music widespread. The launch of Apple's iTunes service in 2003 was hailed as a potential savior for the industry: It allows consumers an easy, legal way to buy music online, while still cutting record companies in on a portion of the sales. But

iTunes' rapid growth has turned it into a Goliath, music executives complain. It often asks for exclusive sales rights for songs in exchange for prominent placement on its home page.

Apple isn't willing to sell songs for more than 99 cents. Most record labels see higher prices as critical to increasing revenue. But no other online music store has been able to mount a serious challenge to iTunes. Apple keeps about 30% of the price of each music sale, whether it's a 99-cent track or a \$10 album, according to people in the music industry. Apple has said it makes little profit from iTunes because of the costs of running the online store.

Irving Azoff, the manager of numerous high-profile acts including the Eagles, says that a few years ago he presented the band with a financial analysis showing that their royalties to date from iTunes sales were far lower than anyone expected.

Guitarist Glenn Frey did some back-of-the-envelope math of his own. "His comment was that it amounted to 39 minutes on stage in Kansas City," Mr. Azoff recalls with a chuckle.

Though Mr. Azoff didn't disclose the royalty figure, Mr. Frey's off-the-cuff analysis implies the band had received less than \$500,000 from its iTunes sales at that point. The band's iTunes income has increased since then, Mr. Azoff adds. Nonetheless, he says: "I'm underwhelmed by the number of sales I see on iTunes for the classic bands."

That sentiment was a factor in the Eagles' decision to sell their latest album, "Long Road Out of Eden," only through Wal-Mart.

Before Apple launched the service in 2003, Apple Chief Executive Steve Jobs appealed personally to Mr. Azoff for the band's participation, telling the manager that he couldn't imagine

launching a music store without his favorite rock group.

Shunning iTunes carries risks for the labels. Not only is it the biggest force in music sales, but keeping songs off the service could prompt listeners to look for illegal downloads instead. In addition, customers have demonstrated a clear preference for buying singles instead of entire albums. Only in a few cases have record labels been able to boost album sales over those of individual songs.

"This is a last gasp for the album format," says Aram Sinnreich, a media professor at New York University, who says most albums have only one or two good songs surrounded by little more than "filler material."



Getty Images

The success of Kid Rock's album -- which wasn't sold on iTunes -- prompted Warner Music to pull an album by R&B singer Estelle from the Apple music store.

This year, Kid Rock, whose real name is Bob Ritchie, has had a massive radio hit with "All Summer Long" -- a nostalgia-soaked rocker built on riffs sampled from two of the most iconic songs in classic rock: Lynyrd Skynyrd's "Sweet Home Alabama" and Warren Zevon's "Werewolves of London."

Mr. Levitan, his manager, points out that if his client's album were sold the way iTunes wants, many of his 1.6 million U.S. album sales to date would instead have shown up as 99-cent downloads of "All Summer Long."

Pop singer Katy Perry has sold 2.2 million downloads of her hit song "I Kissed a Girl" in the U.S., nearly 10 times the 282,000 copies she has sold of her "One of the Boys" album. Rapper M.I.A. has sold 888,000 downloads of her surprise hit "Paper Planes," compared with 272,000 copies of the album "Kala."

"Check some of these artists that have hit singles, versus their album sales," Mr. Levitan says. "Then compare it to what Kid Rock is doing."

David Goldberg, a former head of Yahoo Inc.'s digital music initiatives, says the grumbling from record industry executives is unlikely to lead to widespread shunning of iTunes, unless a number of top-selling artists of the caliber of Coldplay and U2 were to abandon the Apple site. Even then, Mr. Goldberg believes many artists would be hurt by such a move.

"On certain albums, you can justify it, but you're also going to push people to the illegal stuff," says Mr. Goldberg, currently an entrepreneur in residence with Silicon Valley venture-capital firm Benchmark Capital.

After witnessing the sales performance of Kid Rock's album, Atlantic Records executives decided to look for other albums whose sales might get a boost from being taken off iTunes, according to people close to the company. They settled on Estelle's "Shine," which had sold 95,000 copies; the song "American Boy" was just taking off as a single, and had recently become one of the 10 best-selling songs on iTunes. In July the label had issued a press release touting the single's success on

iTunes.

A Warner Music Group spokesman, Will Tanous, acknowledges that the label removed the album from iTunes. In a written statement, he called the removal part of a broad range of digital-release strategies "uniquely tailored to each artist and their fan base in an effort to optimize revenues and promote long-term artist development."

In other cases, Mr. Tanous added, Warner has made songs or albums available exclusively on iTunes for certain periods, if that seemed a promising approach.

Estelle's album remains available on **Amazon.com** Inc.'s MP3 download store, which gives labels and artists the option to sell their music as intact albums only.

Last year, U.S. consumers downloaded 844 million individual songs from digital-download stores, according to Nielsen SoundScan. By contrast, they bought only 50 million digital albums. Most of these transactions took place on iTunes.

Like Kid Rock, AC/DC has never licensed its music to iTunes. The Australian hard rockers sold an estimated 2.7 million CDs world-wide last year, up from 2.55 million in 2003. The band has consistently sold more than one million CDs in the U.S. alone, year after year. Overall U.S. album sales -- of both CDs and digital downloads -- declined 21% to 500 million copies in 2007 from 2003, according to Nielsen SoundScan.

Since the beginning of 2006, only the Beatles have sold more "catalog" albums in the U.S. than AC/DC -- also without licensing their music to iTunes. Among the six best-selling catalog artists during that period, the act that sold the most individual songs digitally -- the Rolling Stones -- sold the fewest albums, digital or physical. That is important because while the Stones' six million single tracks sold may seem impressive, they represent low-cost, low-profit transactions. Album sales, on the other hand, are much more profitable.

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