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Apple Stokes a Digital Music Standards War

Apple's recent deal with EMI to sell DRM-free songs from the publisher's catalog on iTunes may clinch the iPod's AAC format as the industry standard

by [Arik Hesseldahl](#)

A few months ago I was at a big family dinner at Capsouto Frères, a fancy French bistro in Tribeca. One of the partygoers runs a small computer and electronics shop and considers himself an authority on computers and consumer electronics. His opinions on Apple ([AAPL](#)) and its products bug me (to put it simply).

I held my tongue as he chattered on about all the supposedly fascinating things he was doing with his Microsoft ([MSFT](#)) Windows machines. We barely know each other, and he had no idea what I write about for a living. But when the subject turned to the iPod, he gave me an opening I couldn't resist. "Oh those iPods," he said dismissively. "People are always bringing them into the shop with complaints, and they don't even play standard MP3 songs like all the others."

"Absolutely not true," I said, breaking my silence. "I don't know where you got that idea, but it's patently false."

A POPULAR MISCONCEPTION

His convoluted explanation, as best I could understand it, was that he thought iPods played some "Apple-only" format, which he called ACC (it's actually AAC, as in Advanced Audio Coding, and it isn't "Apple-only"). I explained that the iPod plays every major digital audio format save two, Windows Media Audio (WMA) and Ogg Vorbis.

He had somehow gotten it into his head that all online music stores, save iTunes, sell MP3s on which there are no copy restrictions. Noting that he was vastly misinformed, I told him that in fact no online music store sells unprotected MP3s—the exception being eMusic.com—while Napster ([NAPS](#)) and Yahoo! Music ([YHOQ](#)), for instance, sell heavily protected WMA files, which are compatible with a wide range of portable players, but not the iPod. Where he got his set of ideas, I don't know.

I was reminded of our conversation earlier this week when Apple announced a deal with British recording label EMI Group ([EMIPY](#)) to sell music on iTunes that has been shorn of its digital rights management (DRM) copyright protections (see [BusinessWeek.com](#), 4/3/07, "[Will the Apple-EMI Deal End DRM?](#)"). And guess what? The newly unprotected catalog of EMI songs (sans the Beatles, for now), which will sell for \$1.29 a track, will be encoded as 256-kilobit AAC files.

LOOSENING THE DRM STRANGLEHOLD

The accord marks a fundamental change in the digital music landscape, a feat Apple is pulling off with increasing regularity of late. If I were an employee of Microsoft and involved with its confusing digital-music efforts, built around its

highly DRM-protected WMA format, I'd be sweating right now.

But one of the truly remarkable aspects of the pact is how Apple is pulling it off. Having floated the rhetorical trial balloon for selling unprotected music files via iTunes in his landmark essay "Thoughts on Music," Apple Chief Executive Steve Jobs in hindsight appears to have been deliberately ambiguous about the file format he preferred. It's now clear why. He didn't mean selling unprotected MP3s, but unprotected AAC songs. The decision will have important long-term effects, especially as more labels follow EMI's lead.

Using AAC is brilliant for several reasons. First, for Apple, whose stated market aim is to do everything in its power to sell more of its highly profitable iPods (and beginning in June, presumably profitable iPhones), the choice of AAC means more non-Apple devices will be able to play songs purchased on iTunes.

Before the EMI deal announcement, the AAC-formatted songs sold on iTunes were encoded in Apple's DRM technology called FairPlay (see BusinessWeek.com, 10/25/06, "[Apple, Tear Down This Wall](#)"). When FairPlay is no longer an obstacle, other players that support AAC can give their owners a ticket to the iTunes party.

OPENING ITUNES TO NEW PLAYERS

AAC-format supporters include some notable names, including Microsoft's Zune. So come May, the 16 people who own one will be able to buy EMI tracks from iTunes and presumably play them on that device. Sony's ([SNE](#)) PlayStation Portable also supports the format, as do a few of its Walkman-branded MP3 players. I can find one player each from SanDisk ([SNDK](#)), Creative Technology ([CREAF](#)), and Sharp ([SHCAY](#)) that include AAC support. Palm ([PALM](#)) and Research In Motion ([RIMM](#)) both support AAC via software that runs on the Treo and BlackBerry Pearl smartphones. iPod sales, which are crucial to Apple's bottom line are unlikely to get much competition from these devices, as none are as good at the stripped-down interface, and none can touch the iPod's inherent status factor.

Having stripped the iPod-only restrictions, at least from the EMI catalog, on iTunes means there is even less shackling an iTunes customer to the iPod than before, which may help Apple fight off the antitrust complaints of European regulators.

But the real target is Microsoft. What we now have is a good old-fashioned standards war heating up, and it is pitting the old foes Apple and Microsoft against each other once again. Saying Apple has the upper hand is giving Microsoft more credit than it deserves.

SPURNED PLAYS FOR SURE PARTNERS

All of those companies that have been "partners" of Microsoft—Samsung, Creative, Archos, and SanDisk, to name a few—have been treated pretty poorly by Redmond recently. Before the Zune, Microsoft had a branding program called "PlaysForSure" that was intended to indicate wide-ranging compatibility. Buy a song on Napster, or Yahoo, or MTV Networks' ([VIA](#)) URGE, or any one of a score of other online music stores, and they were guaranteed to play on devices with the PlaysForSure brand. (Some people had another phrase for it, which I won't reproduce here, but the third word rhymed with "bit.")

Those partners were all left holding the bag as Microsoft walked away from PlaysForSure, when it launched the Zune and the companion Zune Marketplace. Now these same members of Microsoft's gang, at least those lucky enough to have players on the market that support AAC, will be only too proud to brag on their packaging that they are, at least in some limited way, compatible with iTunes.

In turn this will make Microsoft's WMA format—and all its expensive licensing terms—a lot less attractive. The next generation of non-Apple MP3 players heading to market will be notable for two things: AAC support, and maybe, just maybe, a lack of WMA support.

FINALLY, COMPATIBILITY

Online music stores, like Napster, Yahoo Music, URGE, and all the others that sell WMA songs will be forced to consider jumping into the DRM-free AAC camp, and thus become "iPod compatible," and in so doing become competitors of iTunes. Apple will no doubt be fine with the longer list of online music rivals, because in its range of priorities, anything that sells more iPods can only be a good thing. With time, practically all music stores will be selling iPod-compatible songs. This will be considered a Richter 10 event at Microsoft.

If more labels follow EMI's lead, and the other online music stores of the world are offered the same conditions on DRM-free music as Apple, Microsoft will have completely failed to corner the digital-music market, and by this time next year, there will be talk of it pulling the plug on its WMA-based efforts entirely. Or it will be forced by market forces to follow Apple's lead entirely rather than, as it has with the Zune and Zune Marketplace, copy it poorly. Think of it: Microsoft labeling its second Zune player as "compatible with iTunes."

All of this will of course, be lost on my annoying relative. But then, just as some people deserve Windows, they also deserve to remain oblivious.

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