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MAXWELL WESSEL

Maxwell Wessel is a member of the [Forum for Growth and Innovation](#), a Harvard Business School think tank developing and refining theory around disruptive innovation. Wessel also is the founder of [nuevoStage.com](#), an online music promotions company .

Why Spotify Will Kill iTunes

11:02 AM Friday July 22, 2011

by Maxwell Wessel | [Comments \(112 \)](#)

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For another look at the Spotify launch, see "[Why I'm Not Going Near Spotify \(and Why You Shouldn't Either\)](#)."

iTunes as we know it is over. It is walking, talking, and continuing to pretend it's alive, but Spotify, Europe's outrageously successful streaming music product, has just shown us the future.

Though you might not even be aware of the competitor that is attacking the music titan of the past decade, that iTunes business model is about to be blown up completely and swiftly. And it could even be thought of as fitting: iTunes accomplished the exact same thing during its early-2000s attack on the bricks-and-mortar retail music industry. Apple set the stage to decimate Tower Records and Sam Goody before either had a clue their industry was about to revolt. But innovation theory can provide a crystal ball; theory could have predicted iTunes' success and it's currently predicting Spotify's success.

To appreciate the truth of this claim, it's vital to understand one of Clayton Christensen's theories on marketing and product development: **Jobs-to-be-done**. Jobs-to-be-done suggests that in order to predict how to develop, compare, and position our products, we should be driven by a fundamental understanding of what that product is hired to do. For example, every day I hire a Coke to be a wake-me-up mid-afternoon break in my workday. To get the Coke, I walk from my building to a store next door and pay \$1.25. I could substitute a free cup of coffee from my own office, which would provide my much-needed caffeine at no cost. But because the job is to break up the afternoon, I value both the caffeine in the product and the distance I walk to pick up the product. I am happy to pay for the Coke because it completes the job I hire a mid-day beverage to complete. To disrupt the purchase of my afternoon Coke, a product would have to be fundamentally advantaged in one of the two areas I value for that product; caffeine and time away from my desk.

When it comes to the music industry, I used to hire Tower Records to deliver my music. For that job, I valued Tower's music selection, the store's convenient locations, the fact that its music was compatible with my Discman, and the low prices. When I compared Tower to other options to fulfill that job, it was pretty well positioned.

Enter iTunes. After iTunes was introduced, its online model beat Tower in selection, convenience, and price. As an online storefront it had a fundamental advantage. It was in your home, had no shelf space limiting its inventory, and could beat Tower on price because of its lower fixed costs. The only thing that might have kept Tower treading water at first was its ability to be compatible with Discmen,

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which we know now disappeared quickly. With a basic grasp of technology innovation trends, Tower should have known as much and immediately begun running around with its hair on fire.

Now, a decade later, enter Spotify (at least, enter the U.S. market). Based on the job of delivering music, Spotify completes the job of delivering music in much the same way as iTunes does. Spotify is conveniently located, has a wonderful selection, is compatible with my computer, smartphone, and tablet (which are in turn compatible with my stereo and car), and is backward-compatible to play music from my existing iTunes library.

It's easy to read the above statement and seem doubtful. Even if Spotify competes in a similar fashion, that doesn't mean it's better than iTunes. Indeed, Spotify's 12 million tracks don't compare with those available on iTunes. And though Spotify is compatible with a handful of important devices, iTunes proliferates. But this is the nature of what Professor Christensen calls **low-end disruption**. At first, a disruptive product fails to deliver a superior offering to the incumbent technology in one or more characteristics of the job-to-be-done. But consumers switch nonetheless because the disruptor has a systemic advantage in at least one of these characteristics. We gave up minicomputer performance for the cost advantage of PCs, we gave up plasma television contrast for the slimness of the LCD, and we gave up the personality of written letters for the speed of emails.

Spotify holds a systemic advantage over iTunes in one particular job characteristic of delivering music: relative pricing. While iTunes and Spotify both deliver music over the net, Spotify's position as a radio service lets it price far below the level of iTunes. For \$10 a month, I can gain access to unlimited music as long as I am listening through a Spotify music player. I don't even have to be connected to the net. Because Spotify pays record labels only a small royalty by audio stream, it has aligned its business model around this low pricing. **It's business model innovation.**

Though Spotify did not pioneer this disruptive innovation, it is the first time mainstream media is exposing the American public to it. And we know it's disruption because it is a business model, fundamentally advantaged in one of the characteristics we value in completing the job-to-be-done. Over time this model will displace iTunes. We've seen the future, because that's what disruptive theory lets us do.

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Tim Yu 1 week ago

If there is an argument here, I am not following it. As best as I can reconstruct:

1. It's vital to understand some-Professor's-theory that says that to succeed in business, you must understand the needs of your customers. (Thanks)
2. iTunes killed Tower Records because of better accessibility, selection, and price. Now comes Spotify, which is less accessible and has a more limited selection, but costs \$10 per month. This apparently means it is cheaper. (Because, as everyone knows, everyone who uses iTunes purchases over \$120 in music per year?)
3. Because it is cheaper, the market will inexorably swing towards Spotify. We know this is true because this same Professor has invented a term, "low end disruption", which apparently refers to "why be competitive on all fronts when you can compete on price alone?" We also know this is true, apparently, because... "It's business model innovation." (The significance of these terms escapes me, but they must be important, because they are highlighted in bold and are linked to Wikipedia.)

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Dan 1 week ago in reply to Tim Yu

And what's to prevent Apple from offering the same pricing and killing spottily in a nano second?



kalamhavi and 9 more liked this

Like

Reply



RFrangioni 1 week ago in reply to Dan

Nothing is preventing Apple from doing the same thing. That's the beauty of it. Punch, counterpunch. Options are good. Spotify won't kill iTunes, but I can assure you that Apple's strategists are paying extremely close attention and they'll adjust fire if need be.

Like

Reply



jamesont 1 week ago in reply to RFrangioni

BTW Apple is revamping its "mobile me" cloud set up and offering something like \$25 dollars a year to play your itunes library anywhere. I imagine it won't be too long before the actually offer a subscription.

Like

Reply



Scott Henderson 1 week ago in reply to jamesont

While I think this article is a bit weak in its argument, I do agree that the mobile music space is waiting for someone to get it right. Spotify is enjoying great attention now doing what, Rhapsody and Rdio have already been doing. It's going to take more than just provide access to music. To the author's point, what's the job to be done?

What about giving the user music to fit the location and context he/she is in? My team has been working with another new player that believes in the emotional connection between music and locations. In the coming weeks, Raditaz is launching its newest online version, which will allow users to create stations based on a specific location (work, home, commute) and add greater context using tagging. Updated Android and iPhone apps will follow. More context and ideas can be found here <http://explore.raditaz.com> That type of offering meets a different need than Spotify or iTunes does right now. The company who figures out these news jobs-to-do made possible by mobile tech will be one that thrives. And it will be multiple players, not just one dominant.

1 person liked this.

Like

Reply



TransducerX 8 hours ago in reply to Scott Henderson

People already do this themselves, happily, via playlists.

Like

Reply



Greg Levine 1 week ago in reply to Tim Yu

Tim, awesome and intelligent response to this article which I do disagree with as well. nice form.

5 people liked this.

Like

Reply



Tony Calice 1 week ago in reply to Tim Yu

Ouch! "The significance of these terms escapes me, but they must be important, because they are highlighted in bold and are linked to Wikipedia."

2 people liked this.

Like

Reply



seamusiv 1 week ago in reply to Tim Yu

IMO, iTunes has already announced a similar service that is cheaper and you have ownership and

accessibility on up to 10 devices – iCloud.

1 person liked this.

Like

Reply



Relentlessfocus 1 week ago

yeah, Spotify killed iTunes here in the UK where we've had it for quite some time... wait... what?



Theshow Runner and 27 more liked this

Like

Reply



Doodpants 1 week ago

"Enter iTunes. After iTunes was introduced, its online model beat Tower in selection, convenience, and price."

Are you even aware of what iTunes is? When iTunes was first introduced, it didn't have an "online model". It was just a CD player app for your Mac. Well, it also allowed you to rip songs from your CDs, and burn CDs as well. Remember the "Rip. Mix. Burn." campaign?

Sometime later, Apple released this thing called an "iPod". iTunes gained the ability to manage your iPod, putting songs on it, updating the firmware, etc.

Sometime later, Apple created an online music store. You could use iTunes to purchase music.

Sometime later, they added the ability to purchase and rent movies and TV shows through iTunes.

Then they came out with this thing called an "iPhone". iTunes gained the ability to manage an iPhone, just like an iPod.

Later, the iPhone gained the ability to run third-party apps. You could purchase them through iTunes.

So, unless this "Spotify" of which you speak can rip, mix, and burn CDs, let you purchase and rent movies and TV shows, back up and restore your iPod and iPhone, update the firmware on your iPod and iPhone, and let you purchase apps for your iPhone, I don't see how Spotify can kill iTunes.



Theshow Runner and 20 more liked this

Like

Reply



emanuelbrown 1 week ago

Unfortunately I have to disagree with this article for the main reason that it presumes a consistent market bias toward commoditization, something I see as inherently unsustainable. While there are certainly trends in this direction, trends are often a mirage and should be viewed skeptically. Clearly people see less friction in amortizing their cost over time with subscriptions than paying per diem but what other options have been offered to them?

Too many media services practice this way, so there exists little to no real qualitative differentiation between Pandora, Rdio, Spotify et al. This is merely Radio 2.0 though with a pay-to-play gate — haven't we been here before? Overvaluing incrementalism in lieu of true innovation is the devil in this so-called bargain but I'm not blaming the services as much as the industry.

A fundamental lack of objectivity is precisely why the music (media?) industry can't do much more than reinvent the wheel over and over. Artistic output is viewed through tired 20th Century manufacturing goggles: Its "product" that must be "distributed" to be "consumed" in ever larger "volumes" to justify their top-heavy licensing fee model. Because they've defined artistic output in such quantitative terms, any real benefit from "going digital" will mostly affect production and distribution which misses the point entirely.

The real sea change that digital has wrought is a return on relationship dynamic facilitated by the social web. This is inherently a qualitative determinant because the value judgement lies with people not producers. A general rule of thumb would be: the higher the content quality is in a particular digital asset (song, video, blog post, tweet, etc) the more valuable it is deemed by the broader audience. Spotify and the rest know this because they're fundamentally technologists trying to build useful services that people will use (and pay for). I'm not clear that the music industry leaders understand this whatsoever but by the time they figure it out, we'll be elsewhere.

At the end of the day, I see Spotify offering a minor user experience bump for music lovers but one plagued with numerous gotchas. In my own early-adopter usage, I've had numerous headaches, miscues and poorly placed ads to get past in order to play the music I'm interested in. This erodes my quality of experience to the point where it makes me not want to pay for it. Its too bad too because I was pumped for Spotify after hearing from folks overseas about how wonderful it was. Since I know that I am not alone, this may become a serious drag on their revenue.

Is iTunes any better? Not really. The main difference is that they've smartly avoided this issue by focusing on the direct one-to-one sales effort (their strong suit) while watching the digital marketplace evolve. Apple's purchase of Lala and the forthcoming iTunes Match service extends that model into the cloud without fundamentally changing it. As others in this thread have pointed out, in order for Apple to facilitate that move

they've had to work out new terms with the labels, publishers et cetera to cover multiple points of access. It wouldn't be hard at all for them to turn on a subscription model without sacrificing the quality of experience they're known for.

Though I disagree with it, thanks for a thought-provoking article, Maxwell ;^)

 [Greg Levine](#) and 11 more liked this

Like

Reply



Greg Levine 1 week ago in reply to emanuelbrown

E-man, I am with you and I agree. I'll also add another layer to your thoughts.

You referred to Spotify as a bump in the experience road, and I would go a step further in the positive. If anything to me, Spotify/Rdio/et-all are offering an ALTERNATIVE model to Apple's offering. I believe both models and services can exist side by side. To me it's NOT about an "iTunes killer" or some kind of replacement to iTunes. I think the consumer is sophisticated to support both and they both have a value proposition to the differences in the consumer profiles.

Let's also not forget that Apple, at the end of the day, doesn't give 2 flying burning rat's asses about music. They care about selling DEVICES and iOS. Period.

They are doing the smart thing by also adding a subscription/cloud offering on top of what they already slay at, (to E-man's point) 1 to 1 sales with the consumer via a thoroughly well thought out model and ubiquity across it's hardware (iTunes -> iPod/Nano/iPhone/iPad. Period.

Like

Reply



SAE 1 week ago

Could be just ignorance, but I don't know how Spotify is different than Rhapsody. Rhapsody is \$9.99 for all-you-can-eat music as long as you remain a subscriber and I can download all that music to my iPhone and listen offline. Not a commercial for Rhapsody - just saying the model has been around for some time and iTunes does not seem to be any worse for the wear...

 [Rick Cusick](#) and 10 more liked this

Like

Reply



maxwellelliot 1 week ago in reply to SAE

Rhapsody and Spotify are essentially the same product. In Europe a key feature that resembles Pandora sets Spotify apart. That said, early on Rhapsody started out as a not-nearly-good-enough product with the same potential to disrupt.

In recent years, Rhapsody's product has moved forward to be more appealing but they'll need to overcome the bad taste in many early users mouths (if only a function of the internet not being readily available everywhere!). Who wins, I can't say specifically -- that would be more the call of a student of Geoffrey Moore (Crossing the Chasm). But I truly believe that disruptive theory suggests this sort of all you can eat Radio plan is the future.

1 person liked this.

Like

Reply



stevenjklein 1 week ago in reply to maxwellelliot

"this sort of all you can eat Radio plan is the future."

But it's been offered by multiple providers (including Microsoft), and so far has gained little traction.

I don't want to rent my music, and I don't know anyone else who does.

 [steven75](#) and 3 more liked this

Like

Reply



GiggityGoldStar 1 week ago in reply to maxwellelliot

Many young people think "this is the future", primarily because they have limited their imagination and creativity to what they can do when they "own" what it is they are paying for. I can name more use cases for owning music than I can for renting music. The sweet spot is somewhere in-between.

 [AllSanDiegoComputerRepair](#) liked this

Like

Reply



quesrty 1 week ago

I was a rhapsody subscriber but cancelled when the technology stopped working as promised ("your drm software needs to be updated" and I could not get it to work again on my player or my computer).

Itunes is part of a one stop shop. I can buy an audiobook to listen to while flying for instance. Consumers are tired having five different incompatible platforms to learn and keep updated.

7 people liked this.

Like

Reply



maxwellelliot 1 week ago in reply to quesrty

And that's a staple of a system that needs interdependent architecture! Based on disruptive theory, you're right. But the fact is that Spotify's backward's compatibility makes this no problem at all. If you're trying to tell me that switching apps on your iPhone or Android device is too much of a hassle to deal with so you can get to an audiobook I have a hard time seeing this as a mass market problem.

As modular systems get better and better, they will replace one stop shops that don't do anything as well as their competitors. I love Apple products (iPhone, 2 iPods, 3 Mac computers), but there is a reason Android is massively outselling iOS.

Like

Reply



Ted_T 1 week ago in reply to maxwellelliot

"I love Apple products (iPhone, 2 iPods, 3 Mac computers), but there is a reason Android is massively outselling iOS."

No it isn't. Worldwide Android phones are outselling iPhones (though not on carriers where iPhones are available -- see AT&T's latest quarter earnings report -- the year old iPhone is outselling all Android phones put together by wide margin. Apparently the same is true on Verizon although their earnings report is less transparent). As far as iOS (which includes the iPad and iPod Touch) vs. Android, judging by the latest Apple and Google earnings calls indicate that iOS has a 100 million device lead -- 220 million vs 120 million Androids.

So far as Spotify killing iTunes, the graveyard is full of subscription based iTunes "killers" for one simple reason -- most people don't want their music to poof once they stop paying monthly fees, or the company they buy it from goes under or changes its business model. Add to that the fact that Spotify makes "no" money for the actual musicians and you will realize, if you care to, that Spotify is only going to kill itself in the long run -- probably after the insiders line their pockets in an IPO and leave the new investors holding the bag.

And second -- were it ever to become a competitive issue, Apple could offer iTunes subscriptions the next day -- then what would Spotify do? But it will never even come to that...

 His Shadow and 14 more liked this

Like


Reply



Mark Mayer 1 week ago in reply to Ted_T

It's unclear if Android phones are actually outselling iPhones, or if the manufacturers of Android phones are just channel stuffing. Google states that there are 500,000 activations a day, but what does this mean in terms of actual sales numbers?

Based on the lack of hard data on Android, it's not clear that Android is ahead. I would guess that iOS and Android are close, and probably the lead has and will continue to change back and forth. I also doubt that Android will kill the iPhone, nor will the iPhone kill Android. Each is too well established, with strong ecosystems/platforms. Those that think otherwise are on crack.

 emanuelbrown and 2 more liked this

Like

Reply



andrei_timoshenko 1 week ago

Rhapsody, as the first all-you-can-eat music streaming service launched when? 2000? 2001? Some disruption Spotify is bringing about...

Granted Spotify is very well executed (for the first time in this space), but it has hardly set the European market on fire for the couple of years that it has been around, much like Deezer before it. From what I know, the economics of Deezer are not really working either, and I don't know what Spotify can do differently in this regard...

From my own use (I'm in Europe and have been a Spotify member almost from the time it first opened to the

general public), I use it when I want a random variety of things to listen to, and cannot be bothered with a playlist (such as when some friends are over). It definitely has not replaced my iTunes library or my iPod.

 AllSanDiegoComputerRepair and 4 more liked this

Like

Reply



HuRa 1 week ago

This is a much more compelling argument than the counterpoint mentioned at the top of the article. For the cost of an album a month, you get access to a large portion of music.

It's a great proposition. Don't be surprised if Apple jumps in this market.

4 people liked this.

Like

Reply



Michael Klopf 1 week ago

I don't think Spotify will succeed in the way you describe. The biggest flaw is, you don't own your music. Anytime a label can deny access to its artists and you have the problem of getting no music anymore. It's inherent in most people to own something, that's why we download music. We want to have it on our hard drive and be happy with it. Give it to friends, do everything we like with it.

Secondly, Spotify lacks sound quality. Only a small percentage of it's library is in 320kbps MP3s. The biggest part is only 160kbps. And iTunes sells song in the AAC format, which has superior sound quality even when it is only 256kbps.

Artists see only small revenue streams from Spotify compared to iTunes or CD sales. That's sad and one reason why Spotify won't come to Germany, they pay not enough to artists.

Spotify could be a nice addition to iTunes, but I like to buy music, because it is mine then.

4 people liked this.

Like

Reply



Tommy 1 week ago in reply to Michael Klopf

Except that you don't really get to do what you want with music, even when you buy it from iTunes. iTunes. For example, you're description of "giving it to friends" - yeah, that's illegal.

And you people talking about Spotify "not paying artists" don't have a clue what you're talking about. That's been disproven as FUD for several years now.

Like

Reply



Michael Klopf 1 week ago in reply to Tommy

German law allows the right of a private copy you can share with friends and family.

And there was this nice chart published some months ago where you could learn how much CDs, iTunes downloads, Spotify plays are necessary to have a basic income.

And the biggest argument for my opinion is that the biggest German artist association is denying Spotify's offer. Spotify wants to pay a flatrate but the right holders want to be paid per song played.

I don't think that would happen when Spotify would be great for artists.

Like

Reply



hock3yadd1ct 1 week ago in reply to Michael Klopf

"Secondly, Spotify lacks sound quality. Only a small percentage of it's library is in 320kbps MP3s. The biggest part is only 160kbps. "

I would like to know from where you got this from... Link source

Like

Reply



Michael Klopf 1 week ago in reply to hock3yadd1ct

Found it <http://www.spotifyclassical.co...>

Like Reply



Michael Klopf 1 week ago in reply to hock3yadd1ct

Lengthy article at Hacker News this week. I have no link at hand but the guy had it confirmed by Spotify's customer service.

Like Reply



drrjv 1 week ago

I think it is still an open question. I read somewhere that only 1.5 million of the 10 million European Spotify users are paid subscriptions. Is that enough to sustain it?

I have a free Spotify account which I use to check out music (although there are a lot of times I don't find what I'm looking for) and then go elsewhere if I want to buy it. Also, remains to be seen how it competes with iCloud.

If Apple iTunes is Toast, then what about Amazon, Rhapsody, Pandora, [Last.fm](#), Lala, etc?

<http://jamadots.olhblogspace.c...>



Rick Cusick and 3 more liked this

Like Reply



ilya brook 1 week ago

Your imprecise language makes it hard for me to follow your argument. You say iTunes but you seem to mean iTunes Music Store. You say Spotify but you seem to really mean Subscription Based Music Services which would include Rhapsody, MOG, and Rdio.

You say "Spotify's position as a radio service lets it price far below the level of iTunes" and therefore they will win on price but then acknowledge in the comments that "the heavy music buyer pays something like \$6 a month to iTunes" implying a 70% price increase for the hard core music buyers (and much higher increases for more casual music listeners).



Andrew Wood and 2 more liked this

Like Reply



rob nienburg 1 week ago

Well, well, well, another killer comes along. Why does everyone want to be the first to predict the demise of Apple products? And why is it always about "killing" rather than offering (finally) a decent competitor and pushing them to get even better? I'm so sorry, Max, but iTunes is not going to die any time soon. Spotify will fill a gap in the market, for sure. And if it's significant enough, Apple will stretch and change to accommodate that segment as well. But subscription music has come and gone in the US several times, and has yet to catch on. Maybe it's different in the UK, but Americans like to own their music, share their music, take it with them. Time will tell, and we must see what happens with iCloud when it comes full on.



His Shadow and 2 more liked this

Like Reply



Etienne Douaze 1 week ago

Maxwell,

A question: why couldn't iTunes offer a mix of subscription (for the music you want to explore) and purchasing (for the music you absolutely want to own)?

Sure, their revenue stream might suffer, but they would be in a position to kill Spotify's (and others') competitive advantage.

Best regards, Etienne.

3 people liked this.

Like Reply



maxwellelliot 1 week ago in reply to Etienne Douaze

Etienne,

iTunes could change its business model and application to combat Spotify. However, as with most disruptive situations, the economic losses associated with business model shifts prohibit the incumbent from moving. Apple has been fairly good about this in the past, so it is a clear possibility -- they would have to get, unfortunately, all new agreements with the record labels.

Additionally, if you look at Spotify's product, you really don't need to own music. As their audio player shows up on more devices, it won't matter who has the rights to the music. Your ability to play offline essentially fills the same role as ownership.

Max

1 person liked this.

Like

Reply



Etienne Douaze 1 week ago in reply to maxwellelliot

Maxwell,

I agree with you that the risks of altering iTunes's business model would be significant.

But I disagree when you say: 'you really don't need to own music'.

As James Allworth has pointed out in a separate HBR column (<http://bit.ly/pEeAAH>): 'the way we consume music is fundamentally different to the way we consume movies and TV.'

People have no problem renting movies because they watch most of them once, but they tend to listen to some songs hundreds of times.

And if Spotify were to disappear, or seriously increase its pricing and you choose to unsubscribe, all your beloved music would be gone.

So I am afraid there IS a case for owning music.

Best regards, Etienne.

maxwellelliot and 6 more liked this

Like

Reply



Mark Mayer 1 week ago in reply to Etienne Douaze

Behaviors change, and if the public grasps that the subscription model offers more advantages than "owning", they'll embrace it.

A lot of my casual music listening is actually done through Youtube! Even with songs I own, there are many live performances or interesting covers by other artists of my favorite songs. I'm not saying that this sort of choice would be part of a sub model, I'm just pointing out one anecdote of behavior change in music listening.

And it might be of interest that after listening to a number of covers of songs I love that were performed by Joan Jett, I went and bought the whole album on Amazon. (They had more tracks than what was offered at iTunes.)

Like

Reply



maxwellelliot 1 week ago in reply to Etienne Douaze

Actually Etienne,

That would only be the case if there were no other listening options! As long as streaming audio is an option, people will be able to find an alternative. James is just wrong.

There is a real reason why DVD and Blu-Ray sales are crashing. People are fine streaming instead of owning. If James wanted to address the real issue, he would be addressing the DVD sale not rental programs.

Max

Like

Reply



Andrew 1 week ago in reply to maxwellelliot

You think James is wrong, don't state it as fact because you don't know. It's one thing for people to switch from Netflix to Hulu+ to whatever when watching one off programs, but to expect people to just simply switch over to a whole new system for listening to music every day is a different animal.

This completely ignores the fact that Spotify is under tremendous backlash from labels (at least they make some money via iTunes), and they aren't even remotely profitable outside of Sweden.

I'd be a little less eager to anoint them as the iTunes killer if I were you.

2 people liked this.

Like

Reply



Foo Writer 1 week ago in reply to Andrew

Again, you don't know what you're talking about. Labels are embracing Spotify.

Like

Reply



abugida 1 week ago in reply to Foo Writer

Yes, to weaken iTunes. Not because they're making money with it.

1 person liked this.

Like

Reply



Etienne Douaze 1 week ago in reply to maxwellelliot

Maxwell,

Thank you for your comments. Much appreciated. Best regards, Etienne.

1 person liked this.

Like

Reply



Ted_T 1 week ago in reply to maxwellelliot

Speaking for myself, as someone with a 2000+ DVD/Blu-ray collection at some point you simply reach your limit. The novelty of owning all your favorite (and not even all that favorite) movies wears off. Those who care, already have everything they want. New/young consumers have far more options to get video based material without paying -- ripping DVDs/Blu-rays is trivially easy, downloading is easier as well due to much faster internet connections. This was simply not the case in the late '90s/ early '00s when DVD was king. And there are no more companies like [800.com](#) burning through investor money offering 4 DVDs for \$1.

Netflix streaming plays a very small part (poor selection, so-so quality).

Like

Reply



WaltFrench 1 week ago in reply to maxwellelliot

"...economic losses associated with business model shifts ~~prohibit~~ **discourage** the naive incumbent from moving."

Fixed that for ya. We just saw Apple introduce a cheaper MacBook Air that will cannibalize sales away from the MacBook Pro line, possibly significantly. They would rather eat their own children than have somebody else do it. They read the damn book, just don't spout the buzzwords about "hiring" a phone to be your jukebox.

Furthermore, iTunes is not NOW a business model concerned with making high profit margins directly, as long as it helps move millions of iGizmos and Macs. They originated and grew it as a premium-priced product compared to file-sharing, and if there's any sign they actually needed to, could practically give away the service, pay the labels, and still come out ahead.

Finally, there's one hellacious big hole in the story: the playing device. 3G has adequate bandwidth but not the coverage, reliability and increasingly, PRICE to provision Spotify. That means you're bound to your desk, where (a) your boss doesn't want you using up network bandwidth or installing anything that reeks of wares, and (b) doesn't do you one iota of good when you go to the gym or get on a plane.

 abugida and 2 more liked this


Like

Reply



Nolageek 1 week ago

The thing I love most about spotify (as oppsed to itunes) is that it's a small program that runs well. My small netbook can run spotify while I surf the web and carry on my business. If I so much as start itunes I can kiss my computer goodbye. iTunes is horribly bloated for those of us who have no iDevices and just want to use it as a music player. I abhor it.

 Mark Mayer and 1 more liked this

Like

Reply



Mark Mayer 1 week ago in reply to Nolageek

My situation isn't as drastically bad as yours, but iTunes certainly gobbles up the RAM on my Mac. It mostly performs OK, and I haven't noticed any major performance hits until I have too many programs open.

Like

Reply



nangka 1 week ago in reply to Mark Mayer

i don't understand:

you run itunes and it runs fine.

you then launch "too many programs" and your mac slows down and who do you blame?

looks like you're trying very hard not to like itunes to me..

launch itunes, word, excel, and powerpoint and then activity monitor. compare their initial ram footprint for yourself.

and when you load up word documents, excel spreadsheets and powerpoint slides data, while still playing your music, then compare the footprint again.

maybe you'll learn to like itunes again.

Like

Reply



Bob Davidson 1 week ago

what about the annoying Spotify ads?

2 people liked this.

Like

Reply




scott o 1 week ago

This is shoddy journalism titled and framed the way it is just for click-thrus and SEO. Harvard should be ashamed of itself.

iTunes purchased lala recently, which is a streaming service. Anyone doing their research would know that. There is no question iTunes will make the same move and compete with Spotify as a streaming service in the near future. Perhaps it will only start out by streaming "your" library rather than the entire iTunes's catalog, but that move will be made at the necessary time to ensure Spotify doesn't overtake the market. Also, Apple' may be holding back from such an offering because of its close ties to the telecommunications industries, and the fear that all iPhone users streaming music 24/7 would overload the broadband infrastructure.

Sure, it's valid to argue that the mp3 is dead, but it's just lazy to consider iTunes a static service shackled to the mp3 model.

 Andrew Wood liked this

Like

Reply



Shellyr1971 1 week ago

Why would I want to pay \$10 every month to listen to music? I've got a Spotify account and find it useless.

1 person liked this.

Like


Reply




His Shadow 1 week ago

There must be big money in hysterically ignorant pronouncements of the death of iTunes, because dozens of bloggers simply can't help themselves when claiming some web service or another is going to kill iTunes.

Guess how all those other pronouncements turned out?

 Andrew Wood liked this

 **James** 1 week ago

If Spotify is "outrageously successful" then I must be king of the world. It was very popular, but only when it was an ad supported service free to the user, and more importantly

It has never turned a profit, the record companies earn precious little from it, and payments to artists are simply derisory. (See <http://www.informationisbeautiful.com> for details). Other music subscription services have also been tried, and none of them worked. Spotify isn't trying anything new or different, or that hasn't failed before.

1 person liked this.


 **ilya brook** 1 week ago

Come to think of it, I am not sure I understand your definition of "kill" either. In the comments you say "It took decades for IBM and the PC to beat the mini-computer" but the IBM PC was introduced in 1981 and by the mid 1980s Data General and Digital Equipment Corporation, the two leading minicomputer companies, were showing dismal financial results. By the late 1990s, less than two decades after the introduction of the IBM PC, they were gone, their withered husks sold off to EMC and Compaq.

1 person liked this.

 **msitarzewski** 1 week ago

I think you're all making one huge assumption - and that's that everyone wants to "own" music. I don't, personally, and my wife and I are happy paying for two premium subscriptions at Spotify. I think the future iTunes will be a different iTunes - it won't die of course, but it'll adapt to market conditions. There's room for many players in this market, and no one has to "win."

 maxwellelliot liked this

 **LavaLight** 1 week ago

This is how little Spotify pays musicians.

<http://www.informationisbeautiful.com>

Take a look - if supporting musicians is the goal, Spotify is morally repugnant. All the money is going to make the founders rich, who will I'm sure dump their unprofitable and rapacious business at first opportunity after it IPOs.

The author is a sucker to think he is helping artists by praising Spotify as a superior model.

1 person liked this.

 **Foo Writer** 1 week ago in reply to LavaLight

Until you follow the "sources" and find out that at best, they're all guesses.


 **Masternav** 1 week ago

Interesting thesis Maxwell - a number of pundits both tech and music have proclaimed in favor of Spotify, and for a variety of reason - which thankfully mostly fall outside the reasons you give. I question a couple of things though:

- Spotify is only one of several subscription streaming services offering similar (if not better) features and controls - is Spotify on your list because of media buzz or because you have hand-selected it from among the other worthies like Rdio, MOG and Grooveshark?

- You tried to bolster your argument using minicomputers to PCs, plasma to LCD TV and letter-writing to emails. None of these were in direct competition with the example - minicomputers were certainly not ubiquitous, a separate use case entirely from the vast population of home and business PCs that are the case now. Minis were dedicated computing machines, not swiss pocket-knife like PCs which gave you internet access, word processing, spreadsheeting, media management, etc. Likewise LCDs were evolutionary not disruptive where plasma was concerned, plasma was almost a stop-gap technology in screen construction given it's poor time-life rating - but LCD was more expensive initially, bad example as well. Your example of emails taking over the role of letter-writing is arguable and better than the previous two. I submit that email however is a unique form of communication, not comparable to letter-writing, nor to telegraph - which it supplanted as well, except by virtue of formatting. Were there no other comparable disruptions that more closely and effectively made the case you posited for Spotify?

- I agree that this can be classified as a low-end disruption, but whether it has the chops to take on what is effectively an entire ecosystem by simply providing a better set of subscription features, I don't think that you have conclusively made the case here.

 maxwellelliot liked this



Sam Sharif 1 week ago

I'm leary of any 'New' product offering until it has been thoroughly tested. I think that if there are enough folks and friends that like Spotify vs. iTunes, that Might provoke me to use it, but until then, buying songs from iTunes when I want and streaming music via Slacker, etc. works for me(Even though I can't stand the commercial interruptions)

Great comments all around too!

 AllSanDiegoComputerRepair liked this



Nick Hevelian 1 week ago in reply to Sam Sharif

It's been tested in Europe for the last four years - and it currently has over 10 million subscribers there. Just how much testing do you want?

 AllSanDiegoComputerRepair liked this



GiggityGoldStar 1 week ago in reply to Nick Hevelian

Do most of them pay?


 Andrew Wood and 1 more liked this



iamdm 1 week ago

Great article and thought provoking business application. I wonder if the Microsoft Zune Marketplace lowered the price to \$10.00 if it could compete? Of course Microsoft would have to continue to broaden it's device comparability. I have used the Zune Marketplace for several years now. It has a great selection plus you get to "keep" 10 tracks each month.


Thanks for the post.

 maxwellelliot liked this



Ryan Connors 1 week ago

Nice read Maxwell. I'm a fan of iTunes myself and have been using it since the iPod. I think there is so much dust still settling from the MP3 wars with the recording industry, and that has expanded to the entertainment industry with faster internet and storage. Interesting that HBR had a article last month talking about how bad Stotify is <http://blogs.hbr.org/cs/2011/0...> Perhaps they've invested in some good PR? Kidding aside, from both articles I'm getting a sense that no one truly knows what lays ahead. Who knew 10 years ago about MP3s? or 5 years ago about tablet PC? Things are changing so fast its tough to see what is relevant now, let alone 10 minutes from now. I think iTunes is doing well to capitalize on a dying market in my opinion. Many of the younger generation, especially the less-wealthy, refuse to pay for music now due to piracy and changing that paradigm will be very hard. Scare tactics have failed, 3 strikes have failed and so haven't copyright protections. Streaming music for a month fee is a good middle ground and a sound business model. That being said, I wouldn't invest in the company additionally because the ground-rules for the internet are still in their infancy and will evolve greatly over the next 20 years.

 maxwellelliot liked this



maxwellelliot 1 week ago in reply to Ryan Connors

James and I are actually good friends who have come down on two different sides of this issue for very different reasons. James seems to be afraid that Spotify will gain control of the market and then raise prices immediately. I see that as less of a threat (Probably because I am a music industry insider and know that record labels would immediately strike deals with competitors to enable price battles). It's in the music industry's best interest to ensure that for a reasonable price recorded music is consumed... James' big fear seems moot to me.

I don't care who owns the rights to my music so long as I get to listen to it!

Also - For everyone's information the heavy music buyer pays something like \$6 a month to iTunes. People don't buy a ton of music. Spotify would provide more tracks per person, but also increase the total pie available to artists, labels, and distributors.

Like Reply



Dan 1 week ago in reply to maxwellelliot

But that means there no need. If people are spending less than \$9.99 a month to have music on their iPhones, why would they spend \$120 a year for the same music. You're looking at it through the eyes of someone who listens to thousands of different tracks (for whom this service is great). Most of us listen to just one or two albums for a multi month period. We don't have the time to discover lots of new music.

Like Reply



Delta 1 week ago in reply to maxwellelliot

"I don't care who owns the rights to my music so long as I get to listen to it!"

What is the most you would pay for access to this service? Surely there is some limit.

Like Reply



Rick Cusick 1 week ago

I've been using spotify since it was available in the US, getting one of the early invites. At first I loved it - there are definite wins over iTunes and services like Pandora. I found it much easier to find new music, which I think is iTunes' biggest flaw - it caters to big artists, with home screen placement for instance.

iTunes is more than music, though. Podcasts, movies, TV shows, and the big one - Apps. All of my music and my playlists are available in Spotify. But once I opened iTunes for something - it stayed open. Maybe I'm not ready to pay monthly for on-demand radio, only to have to manage other media within other apps. Interested to see what others think, thanks for starting a discussion.

1 person liked this.

Like Reply



maxwellelliot 1 week ago in reply to Rick Cusick

Rick, your point is absolutely correct. I am only referring to the iTunes music store in the above article. But if you do believe that every industry will be able to get to an offering like a spotify, netflix, etc. do you think we'll still need to buy rights to digital content at all? Or is this the beginning of a modular architecture that will change the way we consume content?

 Rick Cusick liked this

Like Reply



GiggityGoldStar 1 week ago in reply to maxwellelliot

"Disruptive, Modular Architecture". Love it. I love listening to business school types. The language they use is just, well, its just so cute.

1 person liked this.

Like Reply



Mark Mayer 1 week ago in reply to maxwellelliot

It would have been nice if you had clarified you meant specifically iTunes.

I wouldn't be so sure that Apple won't cannibalize itself, whether with subscriptions or some other model. As you note, they've done it before. In fact they're doing it now with the iPad taking a bite out of Mac sales. They're even encouraging it by not requiring iOS to sync with iTunes on a PC/Mac and shifting the "digital hub" to the cloud. Furthermore, who bought Lala? What are they doing with it (or the developers of it)?

I think your "kill" thesis is premature and grossly overstated. You're underestimating Apple's ability to adapt and disrupt, even when it means disrupting its own business.

1 person liked this.

Like

Reply



Rick Cusick 1 week ago in reply to maxwellelliot

Interesting angle. Disclaimer - I'm a big fan of Apple's ecosystem. For me - having all my consumable media in 1 place has advantages, but I can allow room for the possibility that modularizing the architecture for accessing content could be on the rise. These are good things to think about.

Like

Reply



Retsaf Swen 1 day ago

Unlike iTunes, if I choose to unsubscribe from the Spotify service (in case they choose to raise their fee ..which they will)...all ...and I mean every single song on my computer will get wiped out! ...that's why iTunes is betterI own the songsI can hear those songs again n again without paying anyone extra

Fundamentally, listening to music is different from watching a movie once ..or twicemusic ..I want to hear multiple times ...so the consumption of music to video is quite different.

For reference ...read <http://blogs.hbr.org/cs/2011/0/...>

Like

Reply



Theshow Runner 1 day ago

Wow.. This piece starts off with one of those: "Everything that can be invented has already been invented" / "invented" / "in 2011 all offices will be paperless" / "the Internet is just a fad"... kind of proclamations. Will I spend time that I will never get back, to read the "evidence"? Honestly, no.

Like

Reply



emlit 4 days ago

I'll stick with Beatport, thank you.

Like

Reply



Cameron Clark 1 week ago

i miss yahoo radio- free and tons of selection. anyone remember that???? gone since about 2007, but was way better than pandora, rhapsody, etc.

Like

Reply



Hector Barrera 1 week ago

I think the pricing argument is of importance to many from a business model and sustainable standpoint. Is it the reason why Apple or Spotify will win or lose maybe. But I think that here enlies a deeper reason for displacement on any application.

If you haven't noticed Spotify is feature rich in it's service from Offline Access, Compatibility and it's social sharing and messaging features. Pricing is one and a huge part of this equation but there is also a huge value in the features these companies are building in their products that is hugely affecting the users decision over how they want their music and at what price.

This drama will unfold not solely based on the cost of music but also in how these companies are going to deliver it.

Like Reply



Jeremy Bonney 1 week ago

Good article, I think it's not just about price though, it's also about a superior user interface, and ultimately that all your music is backed up on the cloud (which means simply flicking a switch to re-download all your synced playlists instead of manually downloading everything again from iTunes).

Like Reply



qka 1 week ago

Specious logic, case poorly developed.

Like Reply



Rachel 1 week ago

You make some good points, but have the licensing wrong. Spotify pays far more than a royalty for the audio stream (which is much larger than you imply). They must also pay to host a server copy ("reproduction" in copyright language) from each pertinent rights holders, and these costs are huge in the US (hence the delay in launching).

Like Reply



Jesse Krieger 1 week ago

First let me say that I love Spotify. I've used it for years and was lucky to get an invite long before it launched in the US. That said, the idea that Spotify will "kill" iTunes is irrelevant. Although Apple has sold billions of songs through iTunes, that is just one aspect of their offering which also includes movies, podcasts, TV shows and more. But even with that key differentiator, consider that combined sales through iTunes is literally a rounding error in Apple's revenue.

Spotify is not in the business of making and selling mobile devices, nor do I imagine they ever will be. Therefore, to take advantage of the awesome feature they offer that let's you load a couple thousand songs on your phone with a premium subscription, the best they can hope for is to displace iTunes. To be a substitute for the music listening function iTunes provides. In fact, if it becomes popular enough, Spotify could in fact boost iPhone sales. In that case, Apple wins all the more.

My two cents,

Jesse

Like Reply



Matthew 1 week ago

The last mp3 that I downloaded wouldn't play on my turntable. I guess I'm just completely SOL.

Like Reply



biopharm_visionary 1 week ago

Why Cepsi will kill Coke (and Pepsi)

Max,

Thanks for your views on Spotify and its potential disruptiveness...I have tremendous respect for Clay and his intellect, have met him in person and enjoyed his lecture, when he visited my firm, on disruptiveness in the pharmaceutical industry.

However, I am hesitant to call Spotify disruptive. I also don't entirely agree with James Allworth as it is possible that Spotify or its variants may occupy a niche among a few techies/music fiends as it helps providing rapid access to a large amount of music. (one of the comments on James's article alluded to this point). So while the trend of renting music online and listening to it via streaming has the potential to disrupt,

it would strictly be a niche alternative. Let me elaborate on my point further.

In my opinion, iTunes is as big as a Coke or a Pepsi in that the money is now in the brand and not actually in the product. So, tomorrow, I could launch Cepsi, (99% water and 1% sugar with some caffeine), charge \$0.75 from the vending machine near your office to satisfy your "jobs-to-be-done", and still tear my hair apart wondering why you are not buying it.

Would love to know your thoughts!

Like Reply



maxwellelliot 1 week ago in reply to biopharm_visionary

Actually, you make a great point. If the products were identical that would be exactly correct. Pricing difference is not a sustainable strategy. We've come to expect generic players and new market entrants providing low cost solutions as low quality. But to paraphrase Michael Porter, a defensible strategy is a complementary set of actions that can't be mimicked.

The iTunes music store is a massive brand capable of serving you with traditional pay per download retail. That is not the product Spotify, MOG, Rdio, or Rhapsody are selling. iTunes doesn't have the right revenue or licensing model to copy the streaming radio stations behaviors and offering the product while maintaining their current system's pricing. Almost any consumer, in my opinion, would be able to accept a new entrant into a new market for a type of music delivery.

A good analogy for this sort of disruption would be Wal*Mart's disruption of Sears. It is a novel and defensible business model allowing for the entrant to create separation in the minds of consumers.

Like Reply



Tamara Vann 1 week ago

Very interesting piece. iTunes has failed to deliver what customers want and it is going to suffer as a result. If this new platform gives people what they want it may very well take over. As this video (<http://www.upyourservice.com/v...>) points out, it takes constant attention to build a lasting culture of service. iTunes has lost sight of this.

Like Reply



Tony Calice 1 week ago

This blog (forwarded to me by my brother that is considering an MBA) brings back silly memories from college. Before my comments on the article, Maxwell I give you credit for being brave enough to put this idea out on the web.

Bottom line, the title of the article is catching but doesn't have an article that backs it up.

Challenge 1: Even if you were to misguidedly think that iTunes solely took out Tower records (and that Napster and other P2P services had nothing to do with it), iTunes is not "brick and motar" and Tower was. So how is that analogy relevant to two online companies duking it out?

Challenge 2: Echo from the rest of the comments, what prevents iTunes from changing to better compete? It would seem that being online makes iTunes more nimble than Tower Records

Caution to everyone that reads blogs like these: Maxwell (just like many academics) is just testing out ideas informed by a wealth of opinion. Don't run with this just because of the headline, Maxwell has a poverty of experience in "killing" an industry.

Lastly, Maxwell don't stop what you are doing. You need to make a lot of mistakes before you can get good at anything. I hope you find a good mentor (with a wealth of experience) that you can apprentice under and learn from.

Like Reply



Andreas Duess 1 week ago

Kill iTunes. Hardly - this is yet another HBR sensationalist headline, pure link bait and lazy writing. Markets evolve. Business models evolve. There is space in all markets for more than one player, for more than one model. Why? Because people's needs a different. Rdio has been out for some time, along with other music streaming services similar to spotify, even superior to it in some ways. Have these services killed iTunes? Not a bit, they happily co-exist.

spotify is new and shiny, and like one year olds, some tech pundits are grabbing, ooh-in and aah-ing in really quite an embarrassing fashion. I've got a rdio subscription, which is use daily. That doesn't stop me from

purchasing music I really want to keep from iTunes. Rdio has taken over as a discovery tool, but not as a collecting tool. To compare the two as equals is comparing apples to oranges.

But of course, that doesn't make an attention grabbing headline.

Like Reply



J.C. 1 week ago

This is the most....

This has been said a number of times before, and it's not going to happen, all we are seeing now is click bait B.S.

The iTunes model even in the EU where spotify has been for the past year shows that more music was purchased from Apples iTunes then not, even while users where Spotify subscribers.

Learn that by having a different business model doesn't mean it will kill of another, iTunes has proven this time and again.

Like Reply



Andrew Wood 1 week ago

First, Spotify has been around for a long time, and not killed anything.

Second, it's not the first subscription music service, nor the second, nor even the third. Third, there is no way Apple will allow the market to innovate without them. If you think Apple haven't been discussing subscription music services with the record labels for years, you're not paying attention. You've been asked to write this article as a counter to the 'why I'm not going near spotify' article, or as link bait or whatever. It's a poorly constructed argument, and the title is inflammatory but plain wrong. If you'd said 'why subscription music services will kill downloads', that'd be something entirely different (still wrong I think - because at the end of the contract, you would have nothing to show for your money - but more credible than this).

Like Reply



Jeremiasz_Dixit 1 week ago

The problem with Spotify is that it allows the standardization of music consumption. And music is a cultural good, not a standard product to be put on a big digital convenience store. People consumes music according to their cultural background. Music trends grow as countercultures fighting the media standardization and saturation. They grow underground until the "media" discovers the "new" gold pot. Teenagers are the ones that move the music industry forward. They consume 50% popular music and 50% underground / indie / non labeled music mostly because in every single teenage social circle (direct or not) there's always someone trying to be a musician or at least a trendsetter moving towards this underground culture which is natural and a byproduct of the teenage angst. Spotify as well as the other on demand streaming sites or apps are consumed by 23-35yo early adopters. Teens are searching for ways to hack this models. And they're the main consumers of the music industry.

Like Reply



BBWI 1 week ago

You can't compare Europe with the US in terms of streaming. Europe has a much better developed wireless infrastructure. It won't be long and US carriers will start limiting your bandwidth and then... huh... they did, when?

Like Reply



oliversl 1 week ago

On demand radio is better than iTunes? You may not know iTunes, I can't live without iTunes-U or Podcast.

Like Reply



Smith Shea 1 week ago

not sure i understand the hype here. Rdio has been doing the same thing for months. someone special must be profiting from this deal.

Like Reply



Lucas Bertolino Pizzo 1 week ago

Yeah, Europe's iTunes sales have been SO HURT by Spotify that Apple was thinking about withdrawing from from the continent...

...oh wait... nevermind that.

Like Reply



AntiCitizen1 1 week ago

Does HBR now promote link-baiting?

Like Reply



kmore 1 week ago

It's only April and you sir have just won the award for the worst claim of 2011.

Do yourself a favour, go home, give your head a shake and come back tomorrow with a reasonable comment on what absolutely is a decent service...Shopify.

Like Reply



gabriel_ca 1 week ago

Already using Pandora for free. Same with various shoutcast streams for real radio stations (the DJ's are fun fun sometimes, get to hear about events, etc). So streaming I have covered (as well as new music discovery). Song comes up I like that I don't have? I buy it in iTunes. I have zero interest in subscriptions for offline. I don't want to rent the tracks I like, I want to own a copy of them. Would I love to see a streaming option in iCloud after the purchase has been made? Maybe...depends on my data plans, but I will always have a copy on a physical device regardless that will not disappear when I decide to stop paying for the service...or the service goes under, or they lose their license for a particular label, etc, etc.

Spotify just isn't that compelling compared to what I already have, and it sounds like a recipe for me having to go out and buy the tracks in the long run anyways after spending \$10 times N Months (assuming I can remember all the tracks I would have purchased).

PS: I love genius mixes ;)

Like Reply



gprovida 1 week ago

So what are the profit figures and number of users that Spotify dominates Europe. My last look showed Spotify operating at a loss and number of users largest of non-Apple vendors but not that big. see quote from Wikipedia below: 1M paying customers and Apple with 225M credit card valid users.

"... Spotify is a Swedish DRM-based music streaming service offering streaming of selected music from a range of major and independent record labels, including Sony, EMI, Warner Music Group, and Universal.[3] [4] Launched in October 2008 by Swedish startup "Spotify AB", the service had approximately ten million users as of 15 September 2010:[5] about 1,000,000 of whom were paying members.[6] The service is, as of July 2011, only available in Finland, France, the Netherlands, Norway, Spain, Sweden, United Kingdom and the United States...."

Like Skype, Spotify's opportunity comes from Facebook to really compete for market. In other words, Spotify is Facebook's answer to iTunes.

Like Reply



Jimhass 1 week ago

I'm all for competition. Where are the books, movies and apps that you can get from Spotify? Why is this so different from many other streaming clients? I have the free version, and it's nice, you know, but what's so different from anything else?

I don't need my facebook friends to tell me what to listen to. How about musicians telling me their recent favorites? How about making it possible to link up with people in the same city as me? Then we could get together a few times a year and go to a concert.

Like Reply



RickB 1 week ago

I think someone posted that Spotify doesn't pay the musicians. If that is true, how can you justify using it?

Like Reply



Andrew 1 week ago

(oops, this is a reply to an earlier comment about the 15-30 year cycle).

Online cycles are far more compressed than 15-30 year cycles. Google didn't exist until September 1998 for example, so you can't operate with that type of mindset anymore.

Also, when you talk about audiophiles, that is a very small niche market. So yes, Spotify might be able to hold on (until VCs start demanding that they actually turn a profit), but I bet most users in the world purchase well under 120 USD of music a year, making a switch to Spotify a bit of a waste.

Like Reply



Mark Mayer 1 week ago in reply to Andrew

Agreed about the cycle generalization.

Disagree about folks not being willing to pay more for a subscription service than they are for "ownership" of music. It depends on if they perceive the service to be "worth it" based on any number of factors (convenience, selection, etc.).

One other thing. It's a mistake to think (or merely to think) of subscription models as a replacement for iTunes. A stronger comparison would be with radio, where many people traditionally have gotten their music.

Like Reply



Chris Allen 1 week ago

First of all, fantastic article. I hope to read more in the future!

To me, I think the future of any music subscription service really hinges on social. When you look at turntable.fm and how well it's been received, it's clear people enjoy sharing and experiencing music together digitally. I think if Spotify, with their 15M+ song library, bought out Turntable and implemented their system in the Spotify application, they would really be a big competitor to Apple and Amazon. Unlike other services, Spotify actually fits into the Apple ecosystem quite well (something a lot of other services have had trouble with).

To other readers - I'm a \$10 Spotify customer and absolutely love it.

Like Reply



Fresh Ronaldo 1 week ago

Rubbish.

For Spotify to succeed, and iTunes to fail (or, fall) there must be a compelling reason for users to switch from iTunes to Spotify. What's the compelling reason?

Music selection? Nope.
Convenience? Nope.
Ease of use? Nope.

See the trend here?

How about price? That might have some legs, but immediately disappears when Apple provides the same

monthly subscription functionality in iTunes, which already does far more.

How about streaming? That's brain dead already, as iCloud vs. Google vs. Amazon already attests. My iPhone gets capped to 2 gigs a month. I won't be streaming much of anything at AT&T's rates.

Just over a decade ago, Apple was predicted to be dying or dead already. Microsoft won. Here we are and guess what? Apple is the top dog and Microsoft is scrambling (well heeled, of course) to catch up to a rapidly changing world.

Does anyone think that Apple can't flip a switch (so to speak) and do everything that Spotify does, but some of it better?

Subscriptions haven't worked too well in the US, and not greatly elsewhere. For all of Spotify's so-called success in Europe, iTunes still dominates, Mac or PC or handheld device.

Taking over a top dog's market position is tough unless you bring something to the table that makes for a strong, compelling reason for users to switch?

Low priced audio streaming? That's it, right? How's that working out in the market place so far?

Like Reply



maxwellelliot 1 week ago in reply to Fresh Ronaldo

Disruption occurs in 15 to 30 year cycles. If you read the above article carefully, I am very clear in my opinion that you are in fact correct - Spotify holds no true advantage in the first three job-characteristics you've come up with.

But as a true audiophile - I purchase between 2 and 5 albums a month - I can attest that Spotify dominates iTunes on price for the segment of the music industry that matters to labels.

Apple could obviously change their model to compete in the same way Spotify does, but then, wouldn't they have done that with movies? Netflix is a 15 billion dollar company that just increases in importance over time, and Apple had all the opportunity in the world to do exactly what Netflix now does with streaming unlimited. As with all incumbents, economics serves as the primary factor in not adopting disruptive business practices. It doesn't make sense for Apple to sacrifice its model in the short term. By the time they realize they should have, they will be out of opportunity to steal the market.

I definitely suggest reading the Innovator's Solution, by Clayton Christensen and Michael Raynor if you want a more detailed account of why big companies lose to small ones in situations just like this!

Like Reply




Ted_T 1 week ago in reply to maxwellelliot

If Apple were concerned about Netflix they could buy it tomorrow, and still have investors and ill informed journalists complaining about how Apple is not spending any of its huge \$76 billion cash hoard.

Apple has no movie business to protect -- the size of the iTunes* movie business is definitely in the "hobby" category -- as Tim Cook never tires pointing out about AppleTV. The reason that Apple doesn't view Netflix as enough of a threat to do something about it is that it isn't. Netflix became a streaming powerhouse because it got dirt cheap streaming from studios that didn't think they were worth much. Those rights don't run in perpetuity -- once they come up for renewal Netflix will be paying through the nose. Why do you think they just announced a 60% price increase starting September 1? How did Netflix's customer base react?

*iTunes as a whole, even the far more lucrative music part, is there for one reason only -- to sell Apple hardware. Apple has stated over and over and over that iTunes operates at slightly above break even. Unless you think they habitually lie during earnings calls, you'll realize they have no iTunes money stream to protect -- they have hardware sales to protect, and for that they need iTunes to be as useful as possible to their customers. They would have no problem offering movie or any other kind of subscriptions.

 Andrew Wood and 1 more liked this Like Reply



DavidN 1 week ago in reply to maxwellelliot

iTunes is a part of the proposition that makes the Apple platform attractive to many users. As already mentioned Apple just breaks even with iTunes. They make most of their revenue from hardware sales. Even if Spotify manages to 'kill' iTunes so what? Apple could buy out Netflix if they wanted to but instead Netflix is offered on Apple TV and on iPhone, iPad through App Store. Apple only cares about content to the extent it makes their hardware more attractive.

1 person liked this.

Like

Reply

**Tim Yu** 1 week ago in reply to maxwelleliot

"But as a true audiophile - I purchase between 2 and 5 albums a month - I can attest that Spotify dominates iTunes on price for the segment of the music industry that matters to labels."

I'm afraid you only "matter to labels" under the current purchasing model insofar as you purchase content. If the industry were to switch to subscription, the favored customers would become the underutilizers, not the overutilizers. Fee for service vs. capitation in health care is a parallel example.



Andrew Wood liked this

Like

Reply

**Mark Mayer** 1 week ago in reply to maxwelleliot

"Disruption occurs in 15 to 30 year cycles."

This is based on what, something you read? I am very interested in the topic of disruption, but I would be wary of generalizations like this. It makes you sound like a parrot, I might add.



Andrew Wood liked this

Like

Reply

**Fresh Ronaldo** 1 week ago in reply to maxwelleliot

There is a difference between possible and plausible. It's possible that iTunes could be disrupted by Spotify. Is it plausible? No argument I've read on this page indicates plausibility.

"Disruptions occurs in 15 to 30 year cycles" is babble. It's not a math formula. Things change in the marketplace and 15 to 30 years have nothing to do with it.

Actually, Apple did not have "all the opportunity in the world to do exactly what Netflix now does with streaming..." Agreements are important, and content providers want money and control. With Apple and Netflix, they get both. Streaming movies and TV shows is as much of a hobby for Apple as AppleTV.

I've read the Innovator's Solution and it's a nice collection of David and Goliath tales. Spotting David and Goliath battles after the fact is easy. Predicting them ahead of time is more difficult.

So far, Maxwell, you've predicted Spotify will topple iTunes. You haven't identified the how or the when or any milestones so we can watch with wonder as your prediction comes true. Or, when we can begin giggling at your naiveté.

To paraphrase a great quote: 'Those who can, do. Those who can't, write about it.'

Like

Reply

**Dan** 1 week ago

1) while the free model is business innovation (at least in a legal world), it doesn't vibe with how most of us use music: on the street, in our cars, on a subway or airplane).

2) to achieve use of spotify in mobile, you need to pay \$9.99/month. This is nothing new. See playsforsure and the dozen of big companies that failed to unseat iTunes.

3) spotify does have the potential to find a niche: delivering music to computers on desks and in homes. It could very well destroy pandora. That said, some has expressed doubt that spotify is a viable business based on ad support alone.

4) but American business will never regain it's place in the world until the experts stop looking at the problem as "how do we maximize market share and beat the competition" and start looking at the problem as "what's a problem consumers have that I can solve?"

Like

Reply

**Ian** 5 days ago in reply to Dan

"the problem consumers have that i can solve"... i think Spotify is lazier focused on that. The author already mentioned price. And Spotify has generated a service that is extremely simple and easy which

will be ubiquitous for you as a user - to your first point. Like iTunes Spotify will be available in car radios and you can already take it with you on mobile. In Europe, most bars/cafe's use it (whether legal or not) to play music. Unlike iTunes, you can play your own library + anything else in the world. And btw, i think the author had it wrong with the selection available. Spotify has 15m songs in its catalogue and publicly stated this was all available in the u.s. iTunes boasts 14m tracks by comparison on wikipedia.

It is real competition for Apple as Spotify also has a free service to access all this music. And I agree with you that the Premium model is the way forward for Spotify's viability as a company. But they are proving that nicely. They already have almost double the amount of premium subscribers to Pandora (something like 1.7m are latest figures i have seen).

although there are improvements to be made in every service, the Spotify model is the clear disrupting force now. I'm sick of paying 2.99 per song and 14.00 per album when i can get one of the Spotify plans.

Like Reply



maxwellelliot 1 week ago in reply to Dan

Dan,

Great comment! I absolutely agree on all your points. At least at some level. To your point about the pay model being nothing new, your dead on correct. It's not. That doesnt mean it's not going to be the model that wins. It took decades for IBM and the PC to beat the mini-computer... but come on, who even remembers what a minicomputer is these days!

And following on that example, IBM was not the first to enter the PC market. They were the first to cross the chasm in Moore's words. They brought a better product to the mainstream market than the existing solution.

I could care less about the free model. You're right in that its not disruption. If you're not going to pay 9.99 for unlimited music, you're probably not buying that much music to begin with. 9.99 is less than many newly released albums on iTunes. My guess is that Spotify thinks of their free model just like dropbox.com, a means to get people interested in the full version of the product.

I am arguing that the 9.99 model is fundamentally better suited towards satisfying our needs. When I buy music, I don't buy it because I want the "rights" to reproduce that music at home, I buy music because I want to listen to it on my stereo, computer, and iPod. I can do all of that with Spotify premium at a much lower per track cost. What I cant do is burn CDs, make mash-ups, and the like. But how many of us really do that.

Your 4th point is dead on. American business needs to focus on figuring out what's the job-to-be-done and actually doing it. I just disagree in your perspective on Spotify. I would argue that it's doing a pretty good job at completing the job to be done in a novel (to the mainstream population) way.

Like Reply



John 'Six' Reilly 1 week ago

I got Spotify yesterday and Im sold, I kie it better than itunes, why I dont know, but I stayed up til 4 in the morning playing music, some of which I couldnt find on itunes

Like Reply



Jimzine 1 week ago

What about MOG?

Like Reply

Real-time updating is **paused**. ([Resume](#))

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