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Product of The Year Apple iTunes Music Store

By Peter Lewis
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(FORTUNE Magazine) – Napster proved that tens of millions of consumers were eager to download digital music from the Internet. They just weren't inclined to pay for it, which led music companies to believe that the Internet was the superhighway to ruin and that most Internet users were thieves. All of which makes the achievement of Apple's iTunes Music Store impressive from both a diplomatic standpoint and a technical one.

Apple CEO Steve Jobs persuaded the five major music labels and scores of independent labels to open their vaults (at least partially). Together they put more than 400,000 songs on sale at 99 cents each, or \$9.99 for a typical album. Consumers benefited ethically, by having a viable alternative to stealing music; and aesthetically, by being able to search for, preview, and download music with unprecedented ease. Unlike most rival services, the iTunes Music Store gives customers the freedom to store music indefinitely, burn custom CDs, and transfer songs to the Apple iPod portable player. (The iTunes Music Store is not just about music; it also sells audio books.)

Although you don't need an iPod to use the iTunes Music Store, Apple needs the iPod to make the Music Store profitable; the company makes chump change from music sales but big profits from sales of the phenomenally successful hardware. Apple's success has jazzed up the competition, ranging from Roxio's reformed Napster service to the new Dell Music Store. Microsoft, Yahoo, Amazon, and even Wal-Mart are expected to join the me-too chorus with similar services. Apple countered by forming an alliance with AOL (which, like FORTUNE's parent, is a division of Time Warner). With the success of its iTunes Music Store, Apple is almost single-handedly dragging the music industry, kicking and screaming, toward a better future.

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