

# Recording companies eager for Google to launch music service

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Google Inc., which is developing a digital music service, is winning over record companies that are hoping the technology company can loosen Apple Inc.'s grip on the digital music market.

The talks center on securing a sweeping set of licenses that would give [Google](#) the latitude to offer an array of products and services through its Android operating system for mobile phones as well as through computer browsers, said executives familiar with the discussions.

Music companies have all but rolled out the red carpet for Google, believing that the Mountain View, Calif., technology giant can serve as a counterweight against Apple, which controls 75 percent to 80 percent of [digital music](#) sales via its [iTunes](#) store. Though record companies collect 70 percent of the revenue generated by iTunes, they have bristled under Apple's terms, which had limited the prices music companies could charge, among other things.

With Google on the scene, the hope is that music companies can lessen their dependence on Apple.

"Google has smart people, and they recognize record companies need to be more than just suppliers," said Jac Holzman, senior advisor to [Warner Music Group](#) Chief Executive Edgar Bronfman. "The attitude that you bring to the table is clearly the first step."

Google sees the ability to offer a music service as a key to the success of

Android, a free operating system that runs millions of smart phones worldwide. Its entry into music is one of several efforts by Google in recent months to play a greater role in delivering digital content, including books, movies and television shows.

A move into music would put the company in more direct competition against Apple, a onetime [Silicon Valley](#) ally on whose board Google CEO [Eric Schmidt](#) sat until just a year ago.

The search company is said to be looking to wrap up talks with the music companies in time to launch a service for the next release of its Android operating system, code-named Gingerbread, due in the fourth quarter of this year, said executives familiar with the talks.

Google declined to comment about its music plans, as did music firms involved in the negotiations, citing confidentiality agreements.

Another impetus for labels: new revenue streams. While digital music sales have steadily grown, overall industry revenue continues to fall. In the U.S., music sales were \$7.7 billion in 2009, down 12 percent from \$8.8 billion a year earlier, according to the Recording Industry Association of America. Worldwide, recorded music revenue fell 7 percent in 2009 to \$17 billion, according to the International Federation of the Phonographic Industry.

With sales of Android phones outpacing iPhone sales in the first half of the year, Google is in a position to bring millions of potential customers to the table. There were about 7.6 million Android phones in use in the U.S. at the end of June, compared with 12.4 million iPhones, according to ComScore Inc., a market research firm.

Moreover, cell phone users are willing to pay for access to content, especially if the fees are embedded in the phone bill. Four in 10 Android

owners listen to music on their phones (the figure is 6 in 10 for iPhone users), according to Brian Jurutka, a mobile analyst at ComScore. Most listen to music that they load into the device from their computers, but about 13 percent downloaded the music to their phones via subscription or outright purchase from the phone, Jurutka said.

Among the scenarios raised in Google's discussions with music labels are streaming music and paid downloads, according to music executives who say the talks are led by Andy Rubin, who heads up Google's Android business.

But there are many variations within those two models that have not been nailed down. Those include whether there would be a free streaming service and whether the cost would be supported by audio advertising or built into the price of the phone.

[Music companies](#) have been reluctant to embrace free, ad-supported services such as the one offered in Europe by Spotify, because the advertising revenue has been paltry. Labels have also expressed disappointment at the portion of customers who switch from Spotify's free service to its premium subscription service. Such hybrid models, with a free entry-level tier and a paid premium tier, are often called "freemium" services.

Should Google go down the freemium path, music executives want Google to guarantee a minimum percentage of listeners who will spring for a paid service, sources said.

Music executives anticipate that once the outlines of an agreement are reached, Google will bring in Elizabeth Moody, a longtime music-industry lawyer that Google hired in July, to negotiate details from a broader framework.

Google seems aware that helping users access digital music is a logical extension of its search business.

"Consumers are constantly looking for new music, and discovering music is a key to monetization," said Russ Crupnick, a [music](#) analyst with NPD Group Inc. "Lord knows people are using Google to learn and discover just about everything else. The labels are very aware of that."

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