

Five things to know about Apple's duet with Beats

May 29 2014, by Michael Liedtke



In this May 9, 2014 file photo, Beats Audio equipment is arranged for a photo next to an Apple laptop at Best Buy in Boston. Apple announced Wednesday, May 28, 2014, that it is acquiring Beats Electronics for \$3 billion. Beats, the headphone and music streaming specialist, also brings the swagger of rapper Dr. Dre and recording impresario Jimmy Iovine. (AP Photo/Michael Dwyer, File)

Apple CEO Tim Cook looked like he wanted to dance Wednesday as he discussed his company's [\\$3 billion acquisition of Beats Electronics](#). The deal, by far the most expensive in Apple's 38-year history, will give the

iPhone and iPod maker a line of trendy headphones known for their hip appearance and thumping bass sound.

But Cook seems most excited about the potential of Beat's still nascent music-streaming service, which currently has more than 250,000 subscribers. That's paltry compared to the more than 10 million people subscribing to Spotify's rival streaming service, Cook is confident that will change once Beats has access to the data that Apple Inc. has accumulated while selling more than 35 billion songs to more than 800 million iTunes accounts during the past 13 years.

COMBINING MATH WITH EMOTION

Apple is intrigued with Beats Music's approach to compiling playlists to suit the individual tastes of each subscriber. Rather than just grouping songs by genre or relying on toneless algorithms that analyze past listening habits, Beats also draws upon the knowledge and ears of tastemakers such as Beats' co-founders—rap music pioneer Dr. Dre and longtime recording industry executive Jimmy Iovine, who has been an engineer or producer on seminal albums made by Bruce Springsteen, Tom Petty and Dire Straits.

"We are getting the first music subscription service that got it right, that believes in human curation," Cook said during a Wednesday interview at Apple's Cupertino, California headquarters. "We think this is killer. The feeling that you get from listening to this service is so different than anything else."

FILLING A VOID

Apple is the top seller of songs downloaded over the Internet and has attracted 40 million listeners to its free iTunes Radio service since its launch eight months ago. But neither of those resonates with music

lovers like a classic album or a playlist tailored for a person's mood at a particular time, according to Eddy Cue, the head of iTunes.

"With Beats, you can create a playlist that truly moves you," Cue said Wednesday. "It gives you emotions, it gives you meanings, it tells about culture. Those are things you can't get from a single song and we love that."

MONEY MAKER

Cook says Beats is already profitable, six years after Iovine, 61, and Dre, 49, started the company, which is now based in Culver City, California. Dre originally wanted to design flashy sneakers, according to Sony Music CEO Doug Morris, who considers Iovine to be his best friend. Iovine thought making a stylish line of headphones would be more lucrative. The company launched its music streaming service earlier this year.

After generating \$1.1 billion in revenue last year, Beats' sales increased by 30 percent during the first three months this year, Cook said. He expects Beat to boost Apple's earnings beginning in October. Apple earned \$37 billion on revenue of \$171 billion in its last fiscal year, so Beats' initial contribution won't be that significant financially.

A DECADE-LONG COURTSHIP

Iovine has disparaged the technology industry as "culturally inept," but he says he has always thought of Apple differently since he first met the company's late co-founder, Steve Jobs, to discuss the state of digital music in 2003.

"I came back to my team and said, 'These guys get our industry and they get culture,'" Iovine said Wednesday. "This is a company that was

founded by a person who respects music."

Cook, who worked closely with Jobs before succeeding him as CEO in 2011, says the admiration was mutual.

Jobs "knew Jimmy very well and he loved Jimmy very much," Cook said.

THINKING DIFFERENTLY

Many Apple watchers are convinced that Jobs would have never have bought Beats, no matter how fond he might have been of Iovine.

Jobs, who died in October 2011, was famous for hoarding cash and when he spent money, he preferred investing it in research that would enable Apple to innovate on own. Until Wednesday, Apple's biggest previous purchase had been its \$400 million acquisition of NeXt Computer, a company that Jobs started after he was ousted from Apple in the 1980s.

Jobs also had denigrated music subscription services, such as the one that Beats is trying to build.

Cook says he tries not to ever consider what Jobs might have done if he were still alive, but he insists that his predecessor wasn't as resistant to acquisition as most people think.

"We have never been anti-acquisition," Cook said. "We have looked at some very, very large companies and we decided not to buy them. But we didn't decide not to do them out of religious reasons. There was no rule, 'Thou Shalt Not Acquire.' There was no rule that everything had to be built organically."

Apple has now bought 27 companies since September 2012. Most of them have been small deals that haven't required Apple to disclose the price.

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