Apple angles for position of power in publishing world

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Apple's bold foray into the world of digital publishing could make it the online gatekeeper for newspaper and magazine content, just as it is for music.

But for a plan ostensibly designed to help ailing print publishers sign up new readers and thrive in the digital jungle, the Cupertino, Calif., giant's new subscription model has met with push-back from the industry, mixed reviews from analysts, and rants from bloggers calling the company everything from monopolist to Mafioso.

"Apple envisions a world," Forrester Research analyst James McQuivey told the BBC, "in which people don't consume any kind of digital media without its help."

The recurring-payment model, which enables Apple to regularly bill a customer's credit card through the course of a digital subscription, represents a chest-thumping move by the company. And if successful, it could help fatten its coffers significantly. Not only does Apple take a 30 percent cut for each newspaper or magazine subscriber it enlists through its iTunes store, but it also restricts publishers from selling content for less than they charge through their iPhone and iPad apps, assuring the price within Apple's walled garden can never be beat.

"If you sign up with them, your hands are tied," said Ron Adner, associate professor of business administration at the Tuck School of Business at Dartmouth College. "Apple's saying to subscribers, 'You'll

never have reason to leave because your subscription will always be lowest here.' But this puts the publishers in a world of pain, and because of that I think Apple's reputation is taking a hit here."

Apple's not saying much publicly. But its model represents a huge bet that by luring publishers with the prospect of new customers, Apple could position itself as the go-to digital newsstand, mirroring the way its 2001 iPod launch led to its dominance of online music sales.

Analysts, however, point out a number of potential stumbling blocks. There are concerns about the plan among European antitrust authorities, which the American Antitrust Institute's Bob Lande says could put "a target on the company." Some observers even suggest that by playing hardball with publishers, Apple risks driving customers into the arms of competing tablet-makers.

"I think this will ultimately hurt Apple," said David Wertheimer, executive director of the Entertainment Technology Center at the University of Southern California. "They created all this hope and promise with the iPad as the future of digital-publishing incarnate. Now, they've knocked it down with these restrictive rules, and I think that's somewhat short-sighted."

Or maybe not. Media analyst Ken Doctor said that "Apple will become A gatekeeper, not THE gatekeeper," because "core customers who already read a newspaper in print or online are more likely to digitally subscribe through the publisher's site, while Apple will attract new and younger readers through its Apps Store."

With some analysts estimating 300 million more tablets will be sold by 2014, the bulk of them iPads, Doctor says, "if this plan works, it could be a very profitable new revenue stream for Apple - you've got your hardware, your software, your digital music sales and now your publisher

fees."

He said Apple's new subscription revenue could reach "hundreds of millions of dollars a year."

Apple's new model certainly has its enticements. It offers publishers instant exposure to legions of potential subscribers now loitering in the Apps Store. And it makes subscribing a snap, through iTunes and its 100 million active credit cards already on file. But it remains unclear what special arrangements, if any, Apple may be making with various print partners.

A handful of publishers have taken the plunge, including Rupert Murdoch of News Corp., whose iPad-only digital newspaper The Daily launched around the same time Apple announced its new plan.

Gregg Hano, vice president and group publisher of the Bonnier Technology Group, which owns Field & Stream, Popular Photography and other well-known titles, said its decision to offer one-year subscriptions to Popular Science for $14.95 through iTunes resulted in 8,000 new customers in the first three weeks.

"We feel strongly that the subscription model is a step in the right direction," Hano said. "We think this will be an exciting new business model for publishing, the first in a long series of ways for us to monetize our brands."

Yet many publishers fear Apple is putting itself between them and their new customers. Subscribers who sign up under the plan are given the option to share their name, email address and ZIP code with the publisher. But if publishers know nothing about those subscribers who declined to share that information, they'll have no easy way of customizing content and ads to these shadow customers.

"It's really important to publishers to have access to the people buying their magazines and newspapers," said Zeke Koch, an Adobe project manager who has worked closely with national publishers on their digital offerings. "That dramatically raises the value of the magazine to advertisers, because readers they know something about are much more valuable than readers they don't know anything about."

While some newspapers, including the San Jose Mercury News and the New York Times, are trying Apple's in-app subscription model, many others are waiting on the sidelines. John Sturm, who heads the Newspaper Association of America, says many of the 1,000 daily newspapers his trade group represents are reluctant to embrace Apple's model.

Knowing your customers, Sturm said, is crucial because in the digital age "that information has become so important for the way publishers market to their customers, get renewals and target advertising based on people's behavior and interests. But once a subscriber signs on through the iTunes store, it becomes a sort of closed system."

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