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Nokia Tries Apple's Tune

The Finnish phone maker signs up Warner Music as part of its effort to develop a new music service to compete with Apple's iTunes

by Jay Yarow

Nokia ([NOK](#)) wants some of Apple's rhythm. On July 1 the Finnish mobile-phone maker said that Warner Music Group ([WMG](#)) has agreed to participate in Nokia's fledgling music service, making Warner the third of the major record labels to join in the effort. The move is one more step in Nokia's effort to compete against Apple for the people who want to carry around music libraries in their pockets.

Nokia's service, which will officially launch in the second half of this year, is called Comes With Music. It will be built into certain Nokia handsets and will allow customers to download unlimited amounts of music from participating labels. The downloaded music can be kept on a PC or mobile-phone forever. In theory, a consumer could download every single song from the labels' catalogs; they'd simply need a very big hard drive on which to store the files. Nokia and its partners have not disclosed pricing for the service, but they believe it has plenty of potential. "We believe this will be a significant contributor of revenue over a long-term basis for Nokia," says Liz Schimel, global head of music for Nokia.

(ALMOST) ALL ABOARD

The record labels seem to be buying that argument. [Universal Music Group](#) in December [signed up with Nokia](#) (BusinessWeek.com, 12/4/07), and [Sony BMG Music Entertainment](#) partnered with the service in April. A spokesperson for [EMI Group](#), the sole major label yet to join, says the company is talking with Nokia, although no deal has been reached. Nokia says it is in talks with independent labels as well.

For the music industry, the Nokia venture represents a departure from the old ways of doing business. Susan Kevorkian, program director of consumer markets at research firm IDC, says there is "broader experimentation" as CD sales decline and music revenues slide overall. For record companies, it may make sense to look for new ways to sell the work of their artists. Ringtones, for example, have become a multibillion-dollar business in only a few years. "We have a long-term sustainable business for Nokia, the music industry, and the artists," says Schimel.

It's hard to evaluate the service before pricing and other specifics are known. Nokia remained tight-lipped about the details of Comes With Music as it unveiled the Warner Music partnership. But Apple ([AAPL](#)) has said that it makes little money on music sales through its iTunes store, instead generating profits from sales of iPods and other hardware. Will the music business for Nokia and its partners also be of marginal financial benefit? Schimel says such comparisons are off-base. "We feel it is apples and oranges," she says. "We are offering a structure that will attract new customers and new revenues."

WILL IT PAY?

Some analysts are skeptical that Comes With Music will help Nokia attract new customers for its mobile phones. James McQuivey, a principle analyst at Forrester Research ([FORR](#)) says, "There won't be the same rush to buy Nokia phones" as there is for iPhones. Apple is expected to sell 10 million iPhones by yearend. McQuivey guesses that at most Nokia could sell between 2 million and 4 million handsets in the year following Comes With Music's launch. The amount of revenue the

company earns from downloads will depend on how much Nokia intends to charge consumers. But it is sure to be insignificant at a company that made \$10.6 billion last year on sales of \$75 billion.

IDC's Kevorkian sees this as part of a bigger move by Nokia and the music industry. "It is a slim revenue margin, but it makes sense as part of a volume play for Nokia, who is in the midst of transition," she says. Kevorkian sees Comes With Music as fitting into Nokia's Ovi service, [a broad effort to sell services to mobile-phone users](#) (BusinessWeek.com, 8/29/07).

Still, McQuivey thinks Nokia and its partners may find few takers for the new music service. He argues that music enthusiasts won't be satisfied with a phone that's merely adequate for listening to tunes, while other people won't be willing to pay money for such music services. He says it's a lot like digital cameras. Some people use their phone as a digital camera, but people taking lots of photos will generally purchase a separate, higher-quality digital camera. "It's a mismatch in market opportunity," says McQuivey.

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