

# Seeking an alternative to DRM

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Steve Jobs, in a recent open letter, urges the departure from current Digital Rights Management (DRM) systems. This message has shaken the world of music and digital content distribution. Jobs attempts to confront pressures arising from certain European governments that are demanding “fair play” with respect to Apple’s own DRM system. These governments want songs purchased in the iTunes store to be reproducible in all players on the market, not only in Apple iPods, which has been the case up to now.

Last year, France passed a law to this effect, and though the law has been softened by the French government, it continues in force. One Norwegian consumer association has issued Apple an ultimatum to make a decision before this coming October as to whether it prefers to license its FairPlay system to third party companies, collaborate in the design of an open standard DRM system, or renounce its use. Denmark and Sweden assure that they will second Norway’s motion and follow suit.

In his letter, the Apple CEO also wishes to silence those critics who assail his closed system with the claim that Apple holds users “prisoner” within the iTunes, FairPlay, iPod circle. Jobs responds convincingly to this accusation. According to him, CDs sold by record companies lack an anti-copy system. Therefore, 97% of the music contained in the iPod system corresponds to unprotected files in the market. Furthermore, it is highly improbable that consumers are going to refrain from buying MP3 players from competing companies just because of this remaining 3% of protected music. To this he adds that crackers already offer solutions for accessing those remaining files.

Steve Jobs adds further technical arguments to his defense against regulators and critics as well. He assures that a closed DRM system is less likely to be cracked. However, this is true only in part. While it is certain that Windows’ Play for Sure system, for example, has suffered fewer hacker attacks than FairPlay, it is a known fact that crackers prioritize their objectives on dominant platforms (as demonstrated by the scarcity of viruses aimed at MAC OS). Furthermore, the fact that AACs, the DRM used in high definition video standards HD-DVD and Blue Ray, have been cracked even before being used

## Highlights

**1** Norway, Sweden, Denmark, Germany, France and the Netherlands have rejected Apple’s closed DRM system. In January, a Norwegian consumers’ association filed a complaint against Apple for breaking the laws of that country. Steve Jobs, who calls on record companies to shed all DRM systems, points out that two of the big four (Universal and EMI) and 50% of Sony BMG belong to European groups.

**2** Digital music sales doubled in 2006, reaching \$2 billion, according to the IFPI report. The organization, which represents the recording industry worldwide, estimates that by 2010 at least 25% of overall music sales will use the digital online channel.

**3** According to IFPI, in recent months the distribution channels for digital music have become diversified. While à la carte services, led by iTunes, remain the predominant option of choice, competition is coming from subscription services, ringtones and the more recent models featuring sponsored content, such as on YouTube or MySpace.

on a mass level suggests that licensed standards are cracked more easily.

On the other hand, beyond the technical aspects, there is another way to approach this question. Maintaining a DRM system is expensive, and only content-based companies receive the benefits. DRM is a very unattractive business proposal for Apple due to the high costs involved in designing and maintaining the system, fighting against attempts of crackers to break it, and solving system violations to avoid claims from the content owners.

Songs sold by Apple have a very narrow profit margin. Of the 99 USD cents that each file costs, 66 cents goes to the record company, and 22 cents go to the credit card payment system. Thus, Apple makes only 11 cents per song. This amount must then cover costs for design, maintenance and management of the iTunes web site, according to experts from JP Morgan. As such, it is only the pressure from content companies that forces Jobs to adopt and employ DRM technology.

These arguments are logical, but why hasn't Jobs used them until now? The answer is that Apple now has a position of power over the record companies and movie studios that it lacked previously. For example, on-line digital channels provided 10% of the worldwide total of music sales in 2006, while in 2005 the percentage was only 5.5%, according to IFPI. Nielsen SoundScan assures that 582 million songs were sold in the United States in 2006. In that same year, iTunes sold 1 billion songs worldwide. Since launching iTunes in April of 2003, Apple has sold 2 billion songs and 1.3 billion movies, a figure that confirms the demand for digital content.

The problem is how to divide the value created by this distribution channel among artists, producers and distributors. It is evident that DRM systems do not allow for an acceptable distribution of value among the different parties. In addition, they limit users' options when it comes to enjoying and sharing legally purchased content. This situation stimulates the world's most creative technical minds to work on breaking these systems. As such, it is essential to find an alternative to DRM that allows users to enjoy music, permits technology companies to improve their products continuously, and still lets artists and companies protect their investments in creativity.