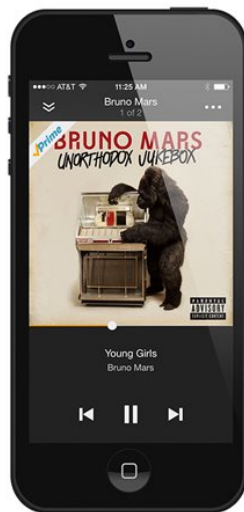


Ahead of Smartphone Unveil, Amazon Launches Music Service

Ryan Nakashima, AP Business Writer

LOS ANGELES (AP) — Amazon is launching a music streaming service for its Prime members, adding yet another freebie to its popular free-shipping plan ahead of the



expected unveiling of its first

smartphone next week.

Starting Thursday, Amazon.com Inc. will offer more than a million tracks for ad-free streaming and download to Kindle Fire tablets as well as to computers and the Amazon Music app for Apple and Android devices. The service, called Prime Music, is likely to be integrated with an Amazon smartphone expected to be previewed on Wednesday.

People who pay \$99 a year for Prime can listen to tens of thousands of albums from artists including Beyonce, The Lumineers and Macklemore & Ryan Lewis for no extra cost. By adding music, Amazon is hoping to hook new customers and retain existing ones on its Prime free-shipping plan, which also allows subscribers to watch streams of movies and TV shows and gives Kindle owners a library of books they can borrow once a month.

Steve Boom, Amazon's vice president of digital music, said the service will pay for itself and isn't part of the reason why the company raised the price of Prime from \$79 in March — a move Amazon said would cover higher shipping costs. Instead, the company will benefit because Prime members tend to buy more from Amazon and remain loyal customers.

"If they come to Amazon for their music needs, they become better and longer-term Amazon customers, and we think that's a good thing," Boom said.

The deal comes on the heels of Apple Inc.'s announcement that it is purchasing

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headphone and music-streaming company Beats for \$3 billion and is a further acknowledgement of the rise in popularity of streaming and the decline of digital downloads. U.S. sales of downloaded songs slipped 1 percent last year to \$2.8 billion while streaming music revenue surged 39 percent to \$1.4 billion, according to the Recording Industry Association of America.

Early results this year showed a further decline in music download sales, Boom said.

"Music consumption habits are changing, which is why we started this," he said. "We saw the change happening."

Seattle-based Amazon reached licensing deals with most of the top independent labels and major recording companies Sony and Warner Music, but failed to reach a deal with top-ranked Universal Music Group.

That means that while the service will feature artists like Justin Timberlake, Bruno Mars, Bruce Springsteen, Pink and Madonna — it will lack music by Universal stars such as Katy Perry, Taylor Swift and Jay-Z.

The service also won't have many new releases — and for major artists that could mean music that has been released within the last six months.

Universal didn't reach a deal with Amazon because it disagreed with the value of the lump sum royalty payment on offer for the albums in question, according to two people familiar with the matter.

One person said the royalty amounted to about \$40 million to \$50 million for the entire music industry over two years.

Labels other than Universal concluded the amount would be equal to or better than a per-play streaming royalty, given how often the songs were played on other digital services, the person said. Both people were not authorized to speak publicly and spoke on condition of anonymity.

Amazon will recommend songs to customers who have bought music from it in the past with offers to complete albums if they're available on the service. It has also hired experts to compile hundreds of playlists that are 20 to 50 songs in length based on genre or mood that are easy to download before getting on the subway or on a plane, Boom said.

Russ Crupnick, managing partner of market research company MusicWatch, said that while the offering falls short of what's available on \$10-a-month music subscription plans like Spotify or Rhapsody, it may be enough for Prime subscribers to discover they can enjoy an album or two for free.

"If you're a young person and really a superfan all about discovering new music, this probably isn't for you. That's ok, there's enough of the rest of us," he said.

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