

Apple decision of making iTunes free

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### **Apple Computer Inc. decides to make iTunes freely available in unlimited quantities.**

Below is an article about how Apple has made the decision to make iTunes free of cost as per their conversation with the Rolling Stones Magazine on May 31, 2019 at 2:26 PM. Article is written by Amy X. Wang

Update (6/3/19): Apple announced at its conference Monday that is retiring the iTunes brand and introducing three separate apps for music, podcasts and television in the next version of its software, macOS Catalina.

It's the end of a music era. Nearly two decades after launching iTunes and ripping up the retail-store model of album purchases, Apple is ready to retire the iconic product, according to Bloomberg. During the software keynote at its annual Worldwide Developers Conference in San Jose, California next Monday, the tech giant is set to replace iTunes with standalone music, television and podcast apps.

The move, which has been rumored for years now, will align Apple's media strategy across the board: iPhones and iPads already offer separate Music, TV and Podcast apps in lieu of the centralized iTunes app that lives on Macs and Macbooks. Users can expect the new Music app to offer some of the same functionalities that iTunes currently does — such as purchasing songs and syncing phones — just with a sleeker interface that's free of the outdated and oft-bemoaned features of the heritage product, and more closely bundled with streaming service Apple Music.

But the scrapping of iTunes' brand symbolizes a lot, too. By portioning out its music, television and podcast offerings into three separate platforms, Apple will pointedly draw attention to itself as a multifaceted entertainment services provider, no longer as a hardware company that happens to sell entertainment through one of its many apps. That's crucial for Apple's future, as the company combats sluggish phone sales with aggressive growth in its services division. At WWDC this year, according to various reports, Apple is planning to buff up other apps including Books, Messages and Mail; it also announced ambitious plans for original video programming featuring the likes of Reese Witherspoon and Steve Carell just a few months ago, in another bid to grow its content presence in entertainment industries.

Welcome as the death of iTunes may be to frustrated users, the software will forever deserve credit for the revolution it engineered in the early 2000s. Before iTunes debuted, the music industry was tearing its hair out trying to combat illegal file-sharing on Napster; Jobs' new product presented the digital era's first sustainable, user-friendly way to listen to music. Other firms like Sony and Microsoft had toyed with the idea of digital record stores, yet they "were technology companies that knew how to build disc players and hardware, but they weren't companies that had demonstrated Apple's sophistication with regard to software,"

Warner Music's vice president Paul Vidich recalled to Rolling Stone in 2013, on the iTunes Store's 10th anniversary. "It really took a company that was able to bridge those two things and come up with an attractive consumer product."

The Article above talks about the decision that Apple Computers Inc. will be making a decision to shut down iTunes and how it will affect its consumers and could attract new customers

### **A) How does Apple's decision change the opportunity cost of a download**

Answer) To answer this question, let us first understand what is the opportunity cost with simple examples

#### Opportunity Cost

The opportunity cost, or alternative cost, of making a particular choice is the value of the most valuable choice out of those that were not taken. When an option is chosen from alternatives, the opportunity cost is the "cost" incurred by not enjoying the benefit associated with the best alternative choice.[1] The New Oxford American Dictionary defines it as "the loss of potential gain from other alternatives when one alternative is chosen." [2] In simple terms, opportunity cost is the benefit foregone from the next best alternative that is not selected. Opportunity cost is a key concept in economics, and has been described as expressing "the basic relationship between scarcity and choice". [3] The notion of opportunity cost plays a crucial part in attempts to ensure that scarce resources are used efficiently.[4] Opportunity costs are not restricted to monetary or financial costs: the real cost of output forgone, lost time, pleasure or any other benefit that provides utility should also be considered an opportunity cost. The opportunity cost of a product or service is the revenue that could be earned by its alternative use. In other words, opportunity cost is the cost of the next best alternative of a product or service. The meaning of the concept of opportunity cost can be explained with the help of following examples:

(1) The opportunity cost of the funds tied up in one's own business is the interest (or profits corrected for differences in risk) that could be earned on those funds in other ventures.

(2) The opportunity cost of the time one puts into his own business is the salary he could earn in other occupations.

(3) The opportunity cost of using a machine to produce one product is the earnings that would be possible from other products.

On the basis of the explanation above, we can say that if Apple decides to make iTunes available for free,

The **opportunity cost will be the money that could have been earned in exchange of the services provided.** The subscription to iTunes at the moment is \$9.99 per month or \$14.99 per month for family sharing for up to 6 people (which requires iCloud Family Sharing). College students can now subscribe for \$4.99 per

month only. If a person does not have subscription to iTunes, a song generally costs 99 cents, however for songs with high popularity the price is often raised to \$1.29. As of 2018 Apple told WSJ that they had over 36 million subscribers. Therefore, we can say that the opportunity cost if iTunes is freely available becomes the millions of dollars that they will be losing in terms of moneys. The opportunity cost for Apple will increase which is not good because the money that could be earned and invested somewhere or used in new technology will be lost.

One of the greatest competitors of Apple is Spotify. Spotify offers three membership levels (1) Free service that lets you play up to 20 hours of music a month with occasional advertising, (2) \$4.99 a month unlimited plan that lets you stream unlimited music without the ads and (3) a \$9.99 premium service that offers downloadable or streaming music for your smartphone. Spotify already has 170 million active users and 75 million paid users as per statistics from 2018. Spotify is cheaper than iTunes because it has the option of using it for free whereas iTunes is free only for the first three months of usage.

With iTunes becoming free it is possible that many people will switch to iTunes to gain free access to unlimited music in comparison to Spotify's limited usage. The opportunity cost for Spotify will be the customers that they lose to iTunes. Spotify works on any smartphone whereas iTunes has a limitation to iPhone users only.

B) Does Apple's decision change the incentives that people face?

Answer) What is Economic Incentive?

Economic incentives are what motivates you to behave in a certain way, while preferences are your needs, wants and desires. Economic incentives provide you the motivation to pursue your preferences. Of course, economic disincentives discourage behavior. Incentives can help motivate people to perform to the best of their abilities, or do things they otherwise wouldn't.

Examples for Economic Incentives are:

1) Tax Incentives- Tax incentives also called "tax benefits" are reductions in tax that the government makes in order to encourage spending in a certain area.

2) Tax rebates- Tax rebates are incentives to take certain actions, like investing in solar energy, for example. In the case of renewable energy tax rebates, a state or local government offers a certain amount of money to consumers to purchase more environmentally-friendly methods to generate electricity.

Let us see if this decision will affect the incentives that the people face

Consumers will definitely benefit because they don't have to pay money anymore to listen to their favorite music. Free music will help them to capture more market share. With unlimited free music it is no longer a scarce

product for the end user. This may result in the change in incentive to listen to iTunes.

Apple is collecting database from the users in a way that they buy apps. They can categorize you as per the spending bracket you fall into. That way they can decide on how to create a package for you which means that the consumers will get a customized solution for family, friends, partner etc. The marginal cost may decrease through a short range but increase in the long run. The marginal benefit will be the extra profit they earn due to the increase in sales because it is possible with the iTunes being free that the sales will see a rise on Apple products because they are trustworthy but the conception that people had about the products being expensive will see a change in the incentives that people face.

C) Is Apple's decision an example of microeconomic or a macroeconomic issue?

Answer) What is Microeconomics and Macroeconomics?

Microeconomics refers to the study of human behavior related to the use of scarce resources in an economy on the individual level. On the other, macroeconomics refers to the study of human behavior and economic behavior as a whole. Demand and supply come under the microeconomics, whereas the aggregate demand and aggregate supply come under the macroeconomics.

a. Apple Computer Inc. decides to make iTunes freely available in unlimited quantities. With this decision \_ tunes are no longer scarce, and the incentive to listen to tunes changes \_

- With the unlimited quantity available the tunes are no longer scarce for users of goods produced by Apple Computer Inc. It may result in a change in incentive to listen to tunes. It may lead to a fall in the incentive to listen to tunes, as now the consumers are getting it for free.

b. Apple's decision is a Microeconomic decision.

- Apple decision is the microeconomic decision, as this decision is related to the Apple Computer Inc. and will affect the consumers of their product only. It will not have any external effect on the economy and will not affect the external business environment, as it is the decision of an individual firm.

## References

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