

# Steve Jobs: The Rolling Stone Interview

*He changed the computer industry. Now he's after the music business*

**By Jeff Goodell**

When Steve Jobs cruises into the airy reception area on the Apple Computer campus in Cupertino, California, on a recent morning, nobody pays much attention to him, even though he's the company's CEO. He's wearing shorts, a black T-shirt and running shoes. Tall and a little gawky, Jobs has a fast, loping walk, like a wolf in a hurry. These days Jobs seems eager to distance himself from his barefoot youth -- who was that crazy kid who once called the computer "a bicycle for the mind"?-- and driven to prove himself as a clear-thinking Silicon Valley capitalist.

Jobs punches the elevator button to the fourth floor, where his small office is located. For a man who is as responsible as anyone for the wonder and chaos of Silicon Valley, Jobs' view of it all is surprisingly modest: shrubby treetops extending out toward San Francisco Bay, the distant whoosh of the freeway below.

There is nothing modest, however, about Apple's recent accomplishments. In the past few months, Jobs' company has rolled out the PowerMac G5, arguably the fastest desktop computer on the planet; has redesigned the Powerbook and iBook laptops; and introduced Panther, a significant upgrade of the OS X operating system. But Jobs' biggest move, and certainly the one closest to his heart, has been Apple's plunge into the digital-music revolution. It began two years ago, with the introduction of the iPod portable music player, which may be the only piece of Silicon Valley hardware that has ever come close to matching the lust factor of the original Macintosh. Then, in April of this year, Apple introduced its digital jukebox, the iTunes Music Store, first for the Mac, and then, in October, for Windows. The result: 20 million tracks downloaded, close to a million and a half iPods sold, aggressive deals with AOL and Pepsi,

and lots of good PR for Apple as the savior of the desperately fucked-up music industry.

Still, Jobs' bet on digital music is a hugely risky move in many ways, not only because powerhouses such as Dell and Wal-Mart are gunning for Apple (and Microsoft will be soon, as well), but because success may depend on how well Jobs, a forty-eight-year-old billionaire, is able to understand and respond to the fickle music-listening habits of eighteen-year-olds in their college dorms.

### **Do you see any parallel between music revolution today and PC revolution in 1984?**

Well, obviously, the biggest difference is that we're on Windows. It's still very early in the music revolution. Remember there are 10 billion songs that are distributed in the U.S. every year -- legally, on CDs. So far on iTunes, we've distributed about 16 million [as of October]. So we're at the very beginning of this. It will take years to unfold.

### **Bringing iTunes to Windows was obviously a bold move. Did you do much hand-wringing over it?**

I don't know what hand-wringing is. We did a lot of *thinking* about it. The biggest risk, obviously, was that we saw people buying Macs just to get their hands on iPods. So taking iPods to Windows was really the choice. That was the big decision. We knew once we did that that we were going to go all the way. I'm sure we're losing some Mac sales, but half our sales of iPods are to the Windows world already.

### **How did the the record companies react when you initially approached them about getting on-board with Apple?**

Well, there's a lot of smart people at the music companies. The problem is, they're not technology people. The good music companies do an amazing thing. They have people who can pick the person that's gonna be successful out of 5,000 candidates. And there's not enough information to do that -- it's an intuitive process. And the best music companies know how to do that with a reasonably high success rate.

I think that's a good thing. The world needs more smart editorial these days. The problem is, is that that has nothing to do with technology. And so when the Internet came along, and Napster came along, they didn't know what to make of it. A lot of these folks didn't use computers -- weren't on e-mail; didn't really know what Napster was for a few years. They were pretty doggone slow to react. Matter of fact, they still haven't really reacted, in many ways. And so they're fairly vulnerable to people telling them technical solutions will work, when they won't.

### **Because of their technological ignorance.**

Because of their technological innocence, I would say. When we first went to talk to these record companies -- you know, it was a while ago. It took us 18 months. And at first we said: None of this technology that you're talking about's gonna work. We have Ph.D.'s here, that know the stuff cold, and we don't believe it's possible to protect digital content.

### **Of course, music theft is nothing new. Didn't you listen to bootleg Bob Dylan?**

Of course. What's new is this amazingly efficient distribution system for stolen property called the Internet -- and no one's gonna shut down the Internet. And it only takes one stolen copy to be on the Internet. And the way we expressed it to them is: Pick one lock -- open every door. It only takes one person to pick a lock. Worst case: Somebody just takes the analog outputs of their CD player and rerecords it -- puts it on the Internet. You'll never stop that. So what you have to do is compete with it.

At first, they kicked us out. But we kept going back again and again. The first record company to really understand this stuff was Warner. They have some smart people there, and they said: We agree with you. And next was Universal. Then we started making headway. And the reason we did, I think, is because we made predictions.

We said: These [music subscription] services that are out there now are going to fail. Music Net's gonna fail, Press Play's gonna fail. Here's why: People don't want to buy their music as a subscription.

They bought 45's; then they bought LP's; then they bought cassettes; then they bought 8-tracks; then they bought CD's. They're going to want to buy downloads. People want to own their music. You don't want to rent your music -- and then, one day, if you stop paying, all your music goes away.

And, you know, at 10 bucks a month, that's \$120 a year. That's \$1,200 a decade. That's a lot of money for me to listen to the songs I love. It's cheaper to buy, and that's what they're gonna want to do.

They didn't see it that way. There were people running around -- business-development people -- who kept pointing out AOL as the great model for this and saying: No, we want that -- we want a subscription business. We said: It ain't gonna work.

Slowly but surely, as these things didn't pan out, we started to gain some credibility with these folks. And they started to say: You know, you're right on these things -- tell us more.

**Well, despite the success of iTunes, it seems that it's a little early to call all of your competitors failures. Real Network's Rhapsody, for example, has already won over some critics.**

One question to ask these subscription services is how many subscribers they have. It's around 50,000. And that's not just for Rhapsody, it's for the old Pressplay and the old MusicMatch. 50,000 subscribers, total.

The subscription model of buying music is bankrupt. I think you could make available the Second Coming in a subscription model and it might not be successful.

**When you went to see music execs, was there much comment about Apple's "Rip, Mix, Burn" campaign? A lot of music execs regarded it as a subtle invitation to steal music.** Well, when we did the Rip, Mix, Burn thing -- I mean, "rip" is the phrase that means "take the bits off the CD and put 'em on your hard drive." Rip the bits off your CD -- as if you're physically ripping them off and putting them on your hard drive. The person who assailed us over it was

Michael Eisner. Because he didn't have any teenage kids living at home, and he didn't have any teenage kids working at Disney that he talked to, so he thought "rip" meant "rip off." And when somebody actually clued him in as to what it meant, he did apologize.

**Lately, the recording industry has been threatening to throw anyone caught illegally downloading music in jail. How smart is that?**

Well, I empathize with 'em. I mean, Apple has a lot of intellectual property. We told 'em that, too. We said: We really get upset when people steal our software. So I think that they're within their rights to try to keep people from stealing their product.

Our position, from the beginning, was that 80% of the people stealing music online don't really want to be thieves. But that it is such a compelling way to get music: It's instant gratification. You don't have to go to the record store; the music's already digitized, so you don't have to rip the CD. It's so compelling that people are willing to become thieves to do it. And to tell them that they should stop being thieves -- without a legal alternative, that offers those same benefits -- rings hollow. We said: We don't see how you convince people to stop being thieves, unless you can offer them a carrot -- not just a stick. And the carrot is: We're gonna offer you a better experience ... and it's only gonna cost you a dollar a song.

**You've sold about 20 million songs on iTunes so far -- it sounds like a big number, until you realize that some 35 billion music files swapped in a year.**

Well, we don't even have to go that far. There are approximately 800 million CD's sold in the U.S. a year, I believe. That's about 10 billion tracks, right? About 10 billion tracks in the U.S. -- sold legally. Our next milestones are to get up to 100 million tracks a year, then a quarter a billion, and then half a billion, and then a billion. And that's gonna take a little bit of time. But we can see a path that people will buy a billion tracks a year online. From us and others. And that'll be 10% of the music that's sold today in the country, and then it will keep going from there. And, someday, maybe all of the music will be delivered online -- 'cause the Internet was built to deliver music. I

mean, if nothing else, Napster proved that.

**David Bowie predicted that because of interent and piracy, copyright is going to be dead in ten years. You agree?**

No. If copyright dies, if patents die, if the protection of intellectual property is eroded, then people will stop investing. That hurts everyone. People need to have the incentive that if they invest and succeed, they can make a fair profit. Otherwise they'll stop investing. But on another level entirely, it's just wrong to steal. Or, let's put it another way: it is corrosive to one's character to steal. We want to provide a legal alternative. And we want to make it so compelling that all those people out there who really want to be honest, and really don't want to steal, but haven't had a choice if they wanted to get their music online, will now have a choice. And we think over time, most people stealing music will choose not to if a fair and resonable alternative is presented to them. We are optimists. We always have been.

**Of course, a lot of college students who are grabbing music off Kazza today don't see themselves as doing anything any different than what you did when you were a teenager, copying bootleg Bob Dylan tapes.**

The truth is, it's really hard to talk to people about not stealing music when there's no legal alternative. The advent of a legal alternative is new -- it's six months old. Maybe there's been a generation of kids lost -- and maybe not, who knows. Maybe they think stealing music is like driving 70 mph on the freeway -- it's over the speed limit, but what's the big deal? But I don't think that's the way it's going to stay -- not with future generations, at least. But who knows? This is all new territory.

**Lots people who work in the movie business have watched what's happened to the music industry and think they're next. Do you see that?**

It is a problem. But movies are very different than music. First of all, they're a hundred times larger. So in countries like the U.S., where broadband is not very evolved, it takes forever to download a high-

quality version of a movie. And remember that the bar is going to get raised on that quality in another four years, when we have high-definition DVDs in the market. That's going to increase the download times by another ten X. Because people's of what they want are going to go up with that. Second, movies are not deconstructable into songs, like an album is, that are easy to download. Five minutes of a movie isn't very useful. You want the whole thing. Third, there's only been one way to buy your music -- that's on a CD. Look at the ways there are to legally buy a movie -- you can see it at the theater, you can buy it on home video, you can buy on DVD. But you can also rent it at Blockbuster or Netflix. You can watch it on pay-per-view. You can also watch it on cable or network TV. There are a lot of ways to legally get a movie. There was only one way to legally get music. That's a really big difference. The distribution is much more highly evolved in the movie industry than it ever was in the music industry.

Now, all this doesn't mean that piracy isn't taking place in movies -- because it is. And that doesn't mean that it's good -- because it's not. But because of all those factors, people who just make the leap that movies are next are wrong. It may take a different path.

**Apple has had a head start in the digital music business, but obviously lots of other companies are getting into it now too. Last week, for example, Dell come out with it iPod-clone, the Dell DJ.**

We will ship way more digital music players than Dell this quarter. Way more. In the long run, we're going to be very competitive. We beat Dell on operational metrics every quarter. We are absolutely as good of a manufacturer as Dell. Our logistics are as good as Dell's. Our online store is better than Dell's. And we have retail channels. Most people don't want to buy one of these things through the mail. Dell is going to have to sell that thing retail if they are going to succeed. Their distribution model works against them when they get into consumer electronics. Like they're going to be selling plasma TVs online. Would you ever buy a plasma TV without seeing it? No way.

**And then there's Microsoft. What happens to Apple when they build an iTunes-clone into the Windows desktop?**

I think Amazon does pretty well [against Microsoft]. Microsoft hasn't really been able to compete with them -- maybe not wanted to. EBay does pretty well; Google's done pretty well. Actually, AOL's done pretty well -- contrary to a lot of the things people say about them. So there are a lot of examples of people offering services, Internet-based services, that have done quite well.

And Apple's in a pretty interesting position. Because, as you may know, almost every song and CD is made on a Mac -- it's recorded on a Mac; it's mixed on a Mac. The artwork's done on a Mac. Almost every artist I've met has an iPod, and most of the music execs now have iPods. And one of the reasons Apple was able to do what we did was because we are perceived by the music industry as the most creative technology company. And now we've created this music store, which I think is nontrivial to copy. I mean, to say that Microsoft can just decide to copy it, and copy it in six months -- that's a big statement. It may not be so easy.

**Despite the wonders of digital music services, a lot of musicians and listeners worry it's killing the album as an art form.**

We've heard both sides of it. Most of the successful artists have carve-outs in their contract for the distribution of music online by their record company. And so even though we could convince, let's say, Universal Music, the largest, to do a deal with us for the iTunes Music Store, they were not able to offer us their top 20 artists. All music companies were like this. We had to go to the individual artists, one by one, and convince them, too. And we did, and they trusted us.

Now, there were a few who said: We don't want to do that -- and we respect that. They said: We will let you distribute our albums as a whole, but not individual tracks. And we declined. We said: You know, our store is about giving the user that choice. And what's happened is that half the songs we've sold, approximately -- about half have been as albums ... and the other half have been individually. I think there's a much higher proportion of sales of songs as albums than anyone thought. We thought it was gonna be around a quarter, but it's around a half.

But for every one of those, we've talked to, probably three or four artists who've said: You know, this is the best thing in the world. Because I don't want to have to wait 18 months to get together a dozen songs to make an album to get in front of my audience.

### **When is Apple going to start signing musicians - in effect, become a record label?**

Well, it would be very easy for us to sign up a musician. It would be very hard for us to sign up a young musician that was successful. Because that's what the record companies do. Their value is in picking that 1 out of 5,000. We don't do that.

We think there's a lot of structural changes that are probably gonna happen in the record industry, though. We've talked to a large number of artists that really don't like their record company, and I was curious about that. And the general reason they don't like the record company is because they think they've been really successful, but they've only earned a little bit of money.

### **They feel they've been ripped off.**

They feel. But then, again, the music companies aren't making a lot of money right now ... so where's the money going? Is it inefficiency? Is somebody going to Argentina with suitcases full of hundred-dollar bills? What's going on?

And it turns out, after talking to a lot of people, this is my conclusion. A young artist gets signed, and they get a big advance -- a million dollars, or more. And the theory is that the record company will earn back that advance as the artist is successful.

Except that even though they're really good at picking, still, only one or two out of the ten that they pick is successful. And so, for most of the artists, they never earn back that advance -- so they're out that money. Well, who pays for the ones that are the losers?

### **Kid Rock.**

The winners pay. The winners are paying for the losers, and the winners are not seeing rewards commensurate with their success. And so they get upset. So what's the remedy? The remedy is to stop paying advances. The remedy is to go to a gross-revenues deal and to tell an artist: We'll give you 20 cents on every dollar we get ... but we're not gonna give you an advance.

The accounting will be simple: We're gonna pay you not on profits -- we're gonna pay you off revenues. It's very simple: The more successful you are, the more you'll earn. But if you're not successful, you will not earn a dime. We'll go ahead and risk some marketing money on you, and we'll be out. But if you're not successful, you'll make no money -- but if you are, you'll make a lot more. That's the way out. That's the way the rest of the world works.

### **So you see the recording industry moving in that direction?**

No. I said: I think that's the remedy. Will the patient swallow the medicine is another question.

### **I want to ask you about your own interest in music. I know you're a big Bob Dylan fan. What does Dylan mean to you?**

He was a very clear thinker, and he was a poet. I think he wrote about what he saw and thought. The early stuff is very precise. But, as he matured, you know, you had to unravel it a little bit. But once you did, it was just as clear as a bell. I was listening the other day to "Only a Pawn in Their Game." You know, when Medgar Evers was shot there were all these folk songs written about it. Dylan thought it through so carefully, and wrote this brilliant song about it. And that stuff's as good today as when he penned it.

### **When did you discover Dylan?**

Steve Wozniak turned me on to him. I was probably ... oh ... maybe 13, 14. We ended up meeting this guy who had every bootleg tape in the world. He was a guy that actually put out a newsletter on Bob Dylan. He was really into it -- his whole life was about Bob Dylan. But he had the best bootlegs -- even better stuff than you can get today that's been released. He had amazing stuff. And so we had

our room full of tapes of Bob Dylan that we copied.

**Obviously music is important to Apple's future. But skeptics have long viewed Apple as little more than as the cool R&D lab for the computer industry. Apple innovates -- everybody else takes it and makes money off it. How does Apple survive in an industry that's getting more consolidated, more mature?**

Well, first of all, I don't think that's a terrible thing, what you've just portrayed. Right now, in the personal-computer business -- in terms of companies that sell personal computers -- everyone is losing a lot of money, except for two companies.

Hewlett-Packard just announced their results, and they just lost \$56 million in the PC business in one quarter. That's over \$200 million a year. Sony's losing a lot of money in the PC business; Gateway's losing a lot of money in the PC business; IBM's losing money in the PC business; Toshiba's losing a lot of money in the PC business. Everyone's losing money in this business -- except for Dell, which is making a reasonable amount of money, and Apple, which is making a little money.

And Dell's making money because they're taking market share away from the guys, because they all sell the same product. We're making some money because we're innovating. And we decided to innovate our way through this downturn, so that we would be further ahead of our competitors when things turn up.

**Still, Apple's market share seems stuck at about 5% in the U.Ss and 3% worldwide.**

So our market share is actually greater than BMW's -- greater than Mercedes -- in the car industry. And, yet, no one thinks BMW or Mercedes are going away, and no one thinks that they're at a tremendous disadvantage because that's their market share. Matter of fact, they're both highly desirable products and brands.

**But is that a fair analogy? Mercedes isn't dependent upon having a critical mass of developers writing software in order to make their product useful.**

Except that we do have that critical mass now. In other words, the thing about Apple's market share that you have to understand is, when you get under the hood, we don't sell computers, en masse, to sit on every desk of every corporation. So when you take that out, the remaining markets -- we have a much higher market share. Our consumer market share has doubled in the past few years -- doubled. So our market share in the creative-professional marketplace is over 50%.

So when you look at the markets that we compete in, our market share isn't 5% or 3% -- it's 10% to 60%. In some cases, it's up at 90%. So that's sort of the myth of the market share. If you throw in the boatloads of PC's that are sold to corporations, then that waters down our market share. But that's not a market we compete in, you know? That's like saying: Let's add the computers that are sold, you know, on Neptune.

**Do you see a time when a version of the iPod will become more important to Apple than the Mac itself?**

Well, Apple has a core set of talents, and those talents are: We do, I think, very good hardware design; we do very good industrial design; and we write very good system and application software. And we're really good at packaging that all together into a product. We're the only people left in the computer industry that do that. And we're really the only people in the consumer-electronics industry that go deep in software in consumer products. So those talents can be used to make personal computers, and they can also be used to make things like iPods. And we're doing both, and we'll find out what the future holds.

**You're well-known as being a technological optimist. Do you still feel as hopeful about what technology has done for us as a culture as you did, say, twenty years ago?**

Oh, yeah. I think it's brought the world a lot closer together, and will continue to do that. There are downsides to everything; there are unintended consequences to everything. The most corrosive piece of technology that I've ever seen is called television -- but then, again,

television, at its best, is magnificent.

**Why do you call television the most corrosive of technology you've ever seen?**

Because the average American watches five hours a day of television, and television is a passive medium. Television doesn't turn your brain on. Or, television can be used to turn your brain off, and that's what it's mostly used for. And that's a wonderful thing sometimes -- but not for five hours a day.

**When you talk about what technology has done for the world, though, it's not just TV and computers. It's also genetic research, cloning, nanotech. There are a lot people who feel like we're pushing technology too far, that we don't really know what we're messing with. Do you have any sympathy for that point of view?**

You know, again -- I'd rather just talk about music. These big-picture questions are just -- (Snores) I think we're all happier when we have a little more music in our lives.

**(Laughs) It's that simple?**

We were very lucky -- we grew up in a generation where music was an incredibly intimate part of that generation. More intimate than it had been, and maybe more intimate than it is today, because today there's a lot of other alternatives. We didn't have video games to play. We didn't have personal computers. There's so many other things competing for kids' time now. But, nonetheless, music is really being reinvented in this digital age, and that is bringing it back into people's lives. It's a wonderful thing. And in our own small way, that's how we're working to make the world a better place.

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