

# From Walkman to iPod: What Music Tech Teaches Us About Innovation

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*A short history of the songs in our pockets -- and how late-comer Apple came to dominate the business of portable music*

In 1978, engineers at Sony successfully married a compact playback device with lightweight headphones to create the prototype for a product that would become a worldwide hit. In 1979, the 'Walkman' was introduced in the Japanese market, selling out its entire stock of 30,000 units within the first three months.

Sony kept apace with its rivals. For a decade after its launch, Sony's Walkman retained a 50% market share in the U.S. (46% in Japan) in a space teeming with competitors, even as it enjoyed a price premium of approximately \$20 over rival offers.

Jump ahead to the late 1990s, when the sun had set on cassettes as the favored music delivery format in favor of compact discs and, for the technologically savvy, digital mp3 files. But electronic firms around the globe were betting that the CD would soon follow the cassette into extinction. Which

mp3 player would get there first and become the next 'Walkman'?

In 1998, South Korea's Saehan Information Systems created the first portable digital audio player, MPMan. It sold 50,000 players globally in its first year. By the launch of the iPod in 2001, there were approximately 50 portable mp3 players available in the U.S.--and no firm had achieved anywhere near the dominance that the Walkman had enjoyed 20 years earlier. Compared to the Walkman and cassettes, the story was very different for mp3s. You couldn't purchase them in traditional retail settings. Downloading an album--legally or not--could be a multi-hour affair. It didn't matter that MPMan was first--it wouldn't have mattered if they were 6th, 23rd, or 42nd. Without the widespread availability of mp3s and broadband, the value proposition could not come together.

The MP3 player market did eventually consolidate around a dominant product, Apple's iPod. But the iPod, launched in late 2001-- three years after the MPMan--was anything but a first mover. How can we understand the iPod's success despite its delayed entry?

### IPOD WINS ... THREE YEARS LATE

Apple waited, and then waited some more--until it finally made its move, putting the last two pieces in place to create a winning innovation: an attractive, simple device supported by smart software. Steve Jobs knew that, on its own, the mp3 player was useless. He understood that, in order for the device to have value, other co-innovators in the mp3 player

ecosystem first needed to be aligned. And, in October of 2001, when Apple announced the iPod, those pieces were solidly in place: both mp3s and broadband were finally widely available.

The first generation iPod for Macintosh retailed at \$399, had 5GB of capacity, and could store up to 1,000 songs. It boasted an intuitive interface design and was, for its time, lightweight. But the value of the device was cemented by its seamlessness with the iTunes music management software. Despite being available only for Mac users, the iPod was the fastest selling mp3 player to ever hit the market.

In April 2003, Apple announced the iTunes Music Store, an online retail hub where customers could browse and purchase music for 99 cents per song (or \$9.99 per album). By 2005, iTunes' library had grown to 1.5 million songs. Although Apple would make scant profit from selling songs at 99 cents per download (it had sold nearly 8 billion songs by the end of 2009 but, with Apple's ten percent commission, that only translates to \$800 million in revenue--before accounting for the cost of running the store; trivial when compared to \$22 billion gained in iPod sales at that time, the iTunes store gave the iPod legitimacy in a world of shady mp3 accessibility.

According to NPD Group, sales of portable CD players were still more than double those of mp3 players during the holiday season of 2004. But between the third quarters of 2004 and 2005, sales of the iPod had leapt 616%. As the same customer base kept repurchasing new and better iPods, Apple's profits soared: by 2008 it had captured 48%

of the mp3 player market share. SanDisk's Sansa mp3 player was the iPod's closest competitor with 8% market share.

Few would deny that the iPod is a great product, surpassing any other mp3 player offering. But is it six times better? Apple was, after all, three years late. But perhaps this logic should be flipped: perhaps everyone else was three years too early. As we'll see again in the case of the iPhone, Jobs tended to be late for everything because he wanted everything to be ready for him. Reflecting on catching technology waves in 2008, he said, "Things happen fairly slowly, you know. They do. These waves of technology, you can see them way before they happen, and you just have to choose wisely which ones you're going to surf. If you choose unwisely, then you can waste a lot of energy, but if you choose wisely, it actually unfolds fairly slowly. It takes years." Jobs's discipline paid off. In the three years between the launch of MPMan and the iPod, each element in the mp3 player ecosystem turned from red to green. Instead of waiting at the red light with everyone else -- wasting precious resources and time -- Apple drove right on through a green light towards victory, becoming, according to the Economist, "the Walkman of the early 21st century."

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