With a deal, Apple also would gain control of the Beats headphones, for which the company is well known. Iovine and Dr. Dre started Beats in 2008 as people used iPods and smartphones to listen to more music on the go. The pair marketed the devices aggressively, showing the high-end headphones as stylish accessories for the general public and not just audiophiles.

Apple Inc. is close to striking a deal with Dr. Dre.

In what would be the largest-ever purchase by the iPhone maker, Apple is in advanced talks to acquire headphone maker and music-streaming service Beats Electronics LLC for $3.2 billion, people with knowledge of the matter said.

A deal for the Santa Monica, California-based company, which was founded by music-industry executive Jimmy Iovine and hip-hop artist Dr. Dre, would bolster Apple’s online music capabilities by giving it ownership of the Beats Music service that started earlier this year. For $10 a month, subscribers get unlimited access to all of the songs in the service’s catalog through a smartphone, tablet or Web browser.

Music has long been one of the cornerstones of Apple’s business, with its iTunes store and the iPod music player that reignited the company’s growth more than a decade ago. Yet digital-download sales fell for the first time ever last year as people turn to streaming services such as Spotify Ltd., Google Inc.’s YouTube and Pandora Media Inc. to listen to music, according to Nielsen SoundScan.
“The age of digital downloads is basically over,” said Aram Sinnreich, a media professor at Rutgers University who studies the intersection of technology and music.

Music Subscriptions

While paying $3.2 billion would use just a fraction of the $150.6 billion in cash and investments on Apple’s balance sheet, a deal would signal that the Cupertino, California-based company is serious about introducing its own music-subscription service to rival Spotify. Apple co-founder Steve Jobs had long resisted such a move, insisting that people don’t want to rent their music.

“They are buying into the future and the future is going to be streaming and subscription,” said Jon Irwin, the former president of rival music service Rhapsody International Inc. “Revenue from streaming and subscription is growing. Files and downloads are shrinking. Everyone has to engage in streaming and subscription.”

Apple took a step in that direction last year, introducing iTunes Radio, which is an advertising-supported music streaming service that competes with Pandora. iTunes remains the world’s largest seller of music, but is only for downloads of single tracks and albums.

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‘The Chronic’

Dr. Dre, best known for his seminal rap album “The Chronic,” and Iovine, a music producer and executive who has worked with artists ranging from Bruce Springsteen to Lady Gaga, have struck partnerships with many musicians and athletes, including basketball all-star LeBron James and San Francisco 49ers quarterback Colin Kaepernick, to market the headphones. The devices start at $170 and cost as much as $450.

The deal discussions were reported earlier yesterday by the Financial Times, which said the Beats leadership team will report directly to Apple Chief Executive Officer Tim Cook.

Apple has been picking up the pace of its dealmaking, with 24 purchases over the past 18 months. Yet an acquisition of Beats would go against Apple’s typical playbook of buying small firms, then shutting them down and incorporating the team and technology into its own product lines.

“We are not in the race to spend the most or acquire the most,” Cook said on the company’s earnings call last month.

Cue, Iovine
Eddy Cue, Apple’s senior vice president in charge of iTunes and the App Store, has been leading the negotiations with Beats, said two people with knowledge of the talks, who asked not to be identified because the discussions are private. Cue and Iovine have known each other for years through the music industry, the people said.

If the discussions result in a deal, it would be the biggest purchase for Apple to date, according to data compiled by Bloomberg. Apple previously bought companies for far less, including the $400 million purchase of Next Computer Inc. in 1997 as part of an arrangement to bring Jobs back into the fold.

Sarah Joyce, a spokeswoman for Beats, didn’t respond to phone and e-mail requests for comment yesterday. Christine Monaghan, a spokeswoman for Apple, didn’t return a call seeking comment.

HTC Corp. used to own a 51 percent piece of Beats, a controlling stake that it purchased for about $300 million. The company sold back 25 percent of Beats in 2012. In September, Carlyle Group LP bought a minority stake in the company. Universal Music Group, the world’s largest music company, also owns a 14 percent stake in Beats, according to French parent company Vivendi SA.

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