News Item #1


Discussion:

This story vividly illustrates how companies can be competitors and cooperators at the same time. RealNetworks has been a major competitor against Microsoft in the media player software market. Their rivalry in this market was brought to a head when RealNetworks filed an antitrust suit against the software giant in December 2003. But since then, RealNetworks has evolved to become a digital media distributor. Although its media player is still very popular, its business now relies heavily on selling digital content in subscription services. Its leading competitor in this market is Apple Computer. Microsoft also holds an important stake here with its digital rights management software, which vies with similar software provided by Apple. Because the technologies of RealNetworks and Microsoft complement rather than compete against each other in the online music market, the two companies can benefit from forming an alliance to build up competitive forces to overthrow Apple’s dominance.
Microsoft finally put its antitrust troubles in America behind it today by agreeing to pay RealNetworks $761 million to settle a private lawsuit and the two former enemies agreed to forge a partnership that promises to heighten the competitive pressure on the dominant company in digital music, Apple Computer.

The announcement reflects how much the competitive landscape in the software and digital media markets has changed in the last few years. So the strategies and self-interest of Microsoft and RealNetworks has shifted as well, making the one-time antagonists into allies.

Rob Glaser, RealNetworks' chief executive, is a former Microsoft manager who departed to start his own company a decade ago and compete in the market for digital media software with his old boss, Bill Gates, Microsoft's co-founder and chairman. The two men appeared together today at a news conference in Seattle. "We're ending one chapter and opening a new chapter in our relationship today," Mr. Glaser said.

RealNetworks has evolved go become a distributor of digital media, especially its subscription music service, Rhapsody. Its leading rival in the online music market is Apple. RealNetworks' media player software is still widely used, but its business mainly depends on selling music, video and games online in subscription services.

Microsoft, by contrast, is a software company. Its interest in digital media is as an application that uses its media player, server and digital rights management software. Rights management programs prevent piracy. Microsoft wants its software to run on personal computers, cellphones, videogame consoles and digital media players, and it wants to sell its programs to media companies, telecommunications networks, cellphone suppliers, PC makers and consumer electronics makers.

"RealNetworks is now a media store, and Microsoft is a cash register on the back end, selling the underlying software," said Charles Di Bona, an analyst at Sanford C. Bernstein.
Their common ground, the two companies say, is a strategy of digital media in which Microsoft wants to see its software on all kinds of devices, and RealNetworks wants to see its subscription services distributed as widely as possible. "To have a digitally interconnected world, you need to collaborate with a lot of other companies, and this a step toward that world," Mr. Glaser said in an interview.

Over the years, Microsoft has often been portrayed by its rivals and critics as a greedy giant, trying to bundle all kinds of products into Windows and stifling consumer choice. Today, Mr. Gates and Mr. Glaser cast themselves as champions of choice in contrast with Apple, whose iPod players, iTunes software and iStore music store are tightly integrated.

"We're not one closed monolithic system where you have to use their device, their software and their service," Mr. Glaser said.

The Microsoft-RealNetworks collaboration, Mr. Gates said, was the "open alternative" in the digital media market.

The two companies emphasized that the pact was far more than a legal settlement. Under the terms, Microsoft will promote RealNetworks' music and game offerings on its MSN Web site and Xbox Live online game service. "A key thing for RealNetworks is acquiring subscribers at a reasonable cost, and this could really help them," said Phil Leigh, a senior analyst at Inside Digital Media, a research firm.

RealNetworks’ stock price jumped 34 percent, or $1.96, to close at $7.70 on the Nasdaq stock market. Microsoft's shares slipped 5 cents in Nasdaq trading to close at $24.41.

The RealNetworks settlement is the last notable private suit that followed on the coattails of the long-running federal antitrust suit against Microsoft, which the Bush administration settled in 2001.

In the last couple of years, Microsoft has reached a string of legal agreements with corporate plaintiffs including a $750 million pact with Time Warner (its Netscape unit was the centerpiece of the federal case), a $1.9 billion settlement with Sun Microsystems and a $775 million agreement with I.B.M.

Microsoft still faces antitrust sanctions in Europe. The European Commission ruled in 2004 that Microsoft had abused its monopoly power and ordered it to offer a version of its Windows operating system stripped of a media player to open up that market for competing software offered by RealNetworks and Apple. Microsoft has done so in Europe, but the commission is investigating whether the pared-down Windows complies with its order. If not, Microsoft could be forced to pay huge fines.

RealNetworks was a principal witness against Microsoft in the European case. As part of the settlement, RealNetworks will no longer be involved in the European case, Mr. Glaser said.

In Brussels, the European Commission said the settlement would have no effect on the European case. "The commission enforces competition rules for all companies and consumers in Europe, not just for
one company," a commission spokesman, Jonathan Todd, said.

Paul Meller contributed reporting from Brussels for this article.