Napster rues Microsoft, player glitches

By Adam Pasick, UK Media Correspondent

NEW YORK (Reuters) - Technical glitches by Microsoft and the digital music device makers have hampered Napster Inc.'s ability to close the gap with Apple's iTunes, the dominant online music service, Napster's chief executive said on Tuesday.

"There is no question that their execution has been less than brilliant over the last 12 months," Napster Chairman and Chief Executive Chris Gorog said at the Reuters Global Technology, Media and Telecoms Summit in New York.

"Our business does rely on Microsoft's digital rights management software and our business model also relies on Microsoft's ecosystem of device manufacturers," he added.

Microsoft Corp., he noted, had to grapple with the complexities of dealing with a number of different services and device makers.

"It's a lot more complex to get organized properly than it is to build one device and one service as Apple has done," Gorog said. "It's always been painful at the introduction of new technologies. But it always takes shape like it's done in the past."

Gorog, whose company has one of the best known names in the business but has failed to put a dent in Apple Computer Inc.'s 80 percent market share, argued that eventually the "Microsoft ecosystem" and its Windows Media format will prevail, with new devices on the way from firms like Samsung and Sony.

"Ultimately, the consumer electronics giants ... are all going to come to this Windows Media party," he said. "This is really going to be the ubiquitous format."

Apple's seamless combination of music player and download service has not yet faced a significant challenge from devices made by companies like Samsung, Sony or Creative, or from services such as Napster or RealNetworks' Rhapsody, which offer...
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monthly subscription plans using a Microsoft format.

"Apple set the bar ... it just worked," said a spokesman for RealNetworks. "That's one of the things -- it's hard to make it easy and easy to make it hard."

Napster, which shares a brand but little else with the free service that originally shook up the music industry in the late 1990s, has struggled to make its case with investors and consumers, Gorog acknowledged.

"We have not been as successful as we might in articulating the real value of this business," he said. Napster's market capitalization is about $160 million, but it has cash assets of about $112 million, leaving it with a relatively small enterprise value.

The company's third-quarter net loss widened to $17 million for the three months to December 31, from a loss of $12.8 million a year earlier. Revenue rose to $23.5 million from $12.1 million.

Napster has faced persistent speculation that it may be bought by a larger rival, a device manufacturer or a telecom company, but Gorog insisted there was no sale in the works despite numerous approaches.

"We have not ever sought any sale of our business. But we have received many enquiries from around the world and I think we well continue to receive many inquiries," he said. "We will do a deal if and when we feel it's in our shareholders' interests."

The company is working on an advertising-funded music service hosted at Napster.com, and on developing a platform for mobile phones along with telecom equipment giant Ericsson, but so far it has only stuck one deal with a mobile phone carrier.

Gorog insisted that despite Apple's dominance, the competitive landscape would be far different "in the next 12 to 24 months."

"A lot of people following this story in the media and investors ... are really focusing on the tree and are not stepping back and looking at the forest. To date, only 5 percent of (music) sales have migrated digitally. We are in the very, very early days of this."