Goliath vs. Goliath

Google, exploiting a Microsoft weak spot, complains to authorities about the tech titan’s browser. But the Web giant may have its own antitrust baggage.

By Jim Puzzanghera, Times Staff Writer
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The more things stay the same, the more they change — as Google Inc. and Microsoft Corp. demonstrate in their brewing struggle for Internet dominance.

For more than a decade, Microsoft has made fending off antitrust complaints seem as much a part of its big product rollouts as bug testing is for other software companies.

AOL and RealNetworks Inc., for instance, squared off against the software giant over the way it bundled software and services into its dominant Windows operating system. Netscape’s complaints triggered an antitrust trial that ended with Microsoft operating under federal supervision.

Now Google is taking its turn.

The Internet search leader has warned U.S. and European antitrust officials that a feature of Microsoft’s new version of Internet Explorer could stifle competition in the multibillion-dollar search engine market.

Given Microsoft’s history, the concerns draw attention.

“Just because they’ve killed a couple of people already, you can’t automatically convict them of a third murder,” said Robert H. Lande, a University of Baltimore law professor who has closely followed Microsoft’s antitrust cases. “Of course, if you’re Google, you’re going to be nervous. They fear what Microsoft will do to them is exactly what Microsoft did to Netscape, to RealNetworks.”

In those instances, Microsoft used its lock on operating systems to dethrone the technology companies that dominated Web browsers (Netscape) and streaming media (RealNetworks).

But Google is a much different rival.

“Netscape was a marginally profitable company with $500 million in revenues. It did not have the resources to fight Microsoft on Microsoft’s turf,” said David B. Yoffie, a Harvard University business professor. “Google is a $6-billion company with extraordinary profitability.”

Plus, Google has more than $9 billion in cash and is increasing its share of the search market at the expense of Microsoft and Yahoo Inc. Some analysts also say Google engages in some of the same sort of domineering behavior for which it faults Microsoft.

“They are not sitting on their laurels,” Rob Enderle, a technology analyst with the Enderle Group in San Jose, said of Google. “They’re incredibly aggressive.”

Microsoft itself is different from what it was a decade ago.

The company is hemmed in by antitrust decisions against it in the United States and Europe. With its business practices monitored by authorities on both sides of the Atlantic, Microsoft risks more legal trouble if it abuses its desktop dominance or is too heavy-handed in dealing with competitors.
Google's discussions with U.S. and European officials dealt with Internet Explorer 7, Microsoft's new version of its Web browser. Released two weeks ago for beta testing, the software contains a small search box on the toolbar.

The search box's default setting sends any queries entered to MSN, Microsoft's Internet search engine.

Google executives declined to comment on their discussions with antitrust authorities.

In a February status report to a federal judge on Microsoft's compliance with the final judgments in its latest U.S. antitrust case, officials said that they had received a complaint about the ability of computer manufacturers to change the setup options and commercial offers that customers see on the screen the first time they start up Windows Vista, which is expected to debut in January.

The report also said that several companies had raised concerns about other aspects of Vista. Officials from the Department of Justice, 17 states and the District of Columbia — the parties that brought the original suit — are gathering information and will advise the court if the concerns cause problems, the report said. A spokeswoman for the Justice Department would not say whether Mountain View, Calif.-based Google was among the companies raising concerns.

The European Union also has weighed in. Google is one of a number of companies expressing concerns about Vista, said Jonathan Todd, a spokesman for the EU's competition section. Microsoft is challenging a European antitrust ruling that includes a record fine of more than $600 million.

Microsoft said Google and other companies had no need to worry.

"We designed IE 7 with the user in mind," said Gary Scharf, director of product management for Internet Explorer. "We're all about user choice — that's our design philosophy."

The new browser automatically retains a user's search defaults when he or she upgrades from an earlier version of Internet Explorer, he said. It also allows computer makers to customize search settings and search guides — a feature that was available in earlier versions of the browser.

Enderle said that he had been using Internet Explorer 7 and that the search box had automatically defaulted to Google, his preference on the previous version of the browser. He also said a user could easily change the default by choosing another search engine from an alphabetical list.

How many users would passively adopt MSN simply because it's the default search option remains to be seen.

Jeffrey Tarter, founder of industry newsletter SoftLetter, questioned the premise of Google's complaints, in part because experienced users do sophisticated searches from a page on a search engine's site, rather than from a small box in a Web browser toolbar.

"If you use a search engine a lot, you figure out which one you want and stick with it," Tarter said. The people who are likely to accept a search box's default setting are probably not the heavy users who spend a lot of time surfing and shopping online — and are therefore less desirable to advertisers.

Some have tagged Google for hypocrisy in raising the issue. Google is the default search service for all the chief competitors of Internet Explorer — Firefox, Opera and Apple Computer Inc.'s Safari. Google recently plugged Firefox in a rare advertisement on the search giant's normally sparse home page. Among the boasts: Firefox comes with a Google-powered search box — just like Internet Explorer's MSN search box.

Also, the small search bar on the Internet Explorer toolbar, using MSN as the default, has been around for several years in earlier versions.

So why the sudden concern by Google?

It may stem from memories of Netscape's demise at the hands of Microsoft.

John Battelle, author of the 2005 book, "The Search: How Google and Its Rivals Rewrote the Rules of Business and Transformed Our Culture," noted on his Searchblog that some key people at Google had ties to Microsoft rivals during the bitter high-tech battles of the 1990s. Eric Schmidt, chief executive of the search giant, was at Sun Microsystems Inc. Omid Kordestani, Google's senior vice president for global sales and business development, was a Netscape executive, as was Google director Ram Shriram. Another Google board member, John Doerr, was an early investor in Netscape.
"If history is any guide, Google should be very worried, as I know they are," said Robert Litan, an antitrust expert at the Brookings Institution, a Washington think tank, who was a consultant to Seattle-based RealNetworks in its EU case against Microsoft.

Netscape had more than a 70% share of the browser market in the first quarter of 1996. Microsoft overtook Netscape in less than three years, in part by bundling Explorer free into Windows. Netscape was acquired by AOL in 1998 and has about 1% of the browser market today; Internet Explorer has 84%, according to Net Applications.

The key to Microsoft's victory, Yoffie said, was that it moved quickly in a rapidly growing and immature market.

Microsoft is trying to gain traction in the online market after a slow start. Chairman Bill Gates acknowledged last year that the company was "stupid" for not recognizing the importance of search engines sooner. But he promised that Microsoft's search technology would prove superior. And he is backing up that pledge with cash.

Microsoft announced last week that next fiscal year it would pour $1.6 billion in capital spending and research into MSN and other online services, a 60% increase. The company also launched its new Internet advertising service, adCenter, a month ahead of time.

But in today's mature search-engine market, "Microsoft has to go to Google users and say, "Use us instead of the product you like and are happy with," " Yoffie said.

That might be a hard sell, given that Google is entrenched as the market leader. It is used for 43% of U.S. Web searches, compared with MSN's 13%, according to research firm ComScore Networks. Google also has become part of the general lexicon.

"We talk about 'Googling' something. We never talk about 'doing an MSN search.' " Tarter said. "Once you win that brand-name presence in the language, it's hard to fight against. You have to destroy yourself, and I don't see the Google people as being dumb enough to shoot themselves in the foot."

Google's complaints may therefore be intended to force Microsoft to slow down out of fear of antitrust scrutiny, rather than any genuine expectation of legal action, Tarter said.

"A lot of this is like a political campaign," Tarter said. "It doesn't cost Google anything to complain."

Times staff writers Chris Gaither and Charles Piller in San Francisco contributed to this report.