Microsoft Seeks to Share in Portable Music Market

Its Zune player will debut by the holidays in perhaps the most serious challenge yet to the iPod.

By Dawn C. Chmielewski, Times Staff Writer
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REDMOND, Wash. — Two questions confront Microsoft Corp. as it prepares to launch its answer to Apple Computer Inc.'s hugely popular iPod.

First, how badly do the 79% of Americans who don't already own a portable digital media player want one?

And second, will they want one made by Microsoft?

The software giant best known for its Windows operating system and Office productivity suite said Thursday that it planned to start selling its Zune player in time for the holidays — potentially posing the most serious challenge yet to Apple's dominance in portable entertainment.

"Right now it's not an iPod killer. It's not even going to give iPod a headache," said Michael Gartenberg of Jupiter Research. "But down the road, to discount Microsoft or to underestimate them would be extremely foolish on Apple's part."

Although it's jumping into the portable entertainment market five years after iPod debuted, Microsoft has lots of experience building the back-end software used by virtually every online music and video service except Apple's own iTunes Music Store.

Zune shares many of the functions of the iPod, but Microsoft seeks to differentiate its player with a wireless feature that zaps songs and playlists between devices.

Also working in Microsoft's favor is its demonstrated willingness to spend billions of dollars to establish itself in new markets — a strategy it employed with considerable success in the video game industry. The same executive team behind Microsoft's Xbox video game console is also behind Zune.

"In some ways, it's like the Pong or Model-T of digital music. We're just getting started," said J Allard, Microsoft's vice president of design and development. "The number of people who listen to music versus the number of people that own an iPod — that's not daunting at all."

Apple holds a commanding 76% market share for digital music players and sells 88% of all legal music downloads. And, this week, Apple turned up the heat on the competition, announcing new versions of its iPods and adding full-length movies to the music, television shows and music videos already sold through the iTunes store.

Apple declined to comment on Zune.

People familiar with Microsoft's plans said Zune would be released in mid-November. Microsoft has not said how much the device will cost.

Only about 21% of Americans own digital music players. And Allard said Zune would initially target those other consumers — starting with music enthusiasts who don't see their personal style reflected in Apple Chief Executive Steve Jobs' minimalist design sensibilities.
"It's a fashion statement for them. They're like, it doesn't fit into my wardrobe. It's too neat. I mean, I respect it for what it is — just like Prada — but I don't rock Prada. Why would I rock an iPod?" said Allard. "Can you make something that fits into how I feel, in my wardrobe?"

It's the same strategy Microsoft pursued with the introduction of the Xbox game console in November 2001; it designed a high-powered machine for the hard-core gamer, then bought Bungie Studios for exclusive rights to the game "Halo."

In music, Microsoft designed the Zune for music aficionados — with an emphasis on community and music sharing. The 30-gigabyte media player has a wireless feature designed to accommodate how enthusiasts learn about new bands or tracks — namely, through recommendations or mix tapes exchanged with friends.

The built-in wireless connection lets one Zune owner transfer a song or complete playlist to another Zune device. Recipients of the music can keep the tunes three days or three plays before they're prompted to buy.

The major labels are still reportedly in talks with Microsoft and have yet to license this type of music sharing, sources say. Nonetheless, analysts say it could be a compelling feature not offered by Apple.

"We need to be able to hear it's all of the content from all of the labels, all of the majors and independents," said Mike McGuire, analyst for Gartner Dataquest Research.

"If that's the case, it could be a very powerful differentiator. If not, there will be a consumer issue with that. Consumers don't want to figure out which songs are and are not allowed to be shared."

Another feature — a built-in FM radio tuner — addresses the desire to tune in news at the gym whenever a natural disaster or other breaking story flashes on the TV overhead, Allard said.

As with the iPod, Zune synchronizes with an online music store — the Zune Marketplace. The device, with its 3-inch color screen, also displays photos and video.

Susan Kevorkian, an analyst with IDC, said Microsoft had designed an attractive device that was easy to use. But its failure to match Apple's distribution of television and movies — or fully exploit its wireless capability, so consumers can buy music directly from the device — put it at a competitive disadvantage.

"It will be confusing, initially, for consumers to understand the Zune value proposition," Kevorkian said. "And confusion in the Apple competitor camp means opportunities for Apple."

Other analysts say that, of all the would-be iPod challengers, Microsoft stands the best chance to challenge Apple.

"This is not a product that is going to make huge gobs of money right off the bat," said Michael Goodman, senior analyst at Yankee Group. "You've got to seed the market. Microsoft is a company that has the financial wherewithal to do that. And one thing that balance sheet allows them to do is build brand recognition."

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*(INFOBOX BELOW)*

Playoff

Here's how the new Microsoft Zune player stacks up against the full-size iPod unveiled this week.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Zune</th>
<th>iPod</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard drive size:</td>
<td>30 gigabytes</td>
<td>30/80 gigabytes</td>
</tr>
<tr>
<td>Wireless capability:</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Radio:</td>
<td>FM tuner</td>
<td>No</td>
</tr>
<tr>
<td>Screen:</td>
<td>3 inches</td>
<td>2.5 inches</td>
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<tr>
<td>Address book, calendar:</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Games:</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Colors:</td>
<td>Black, white or brown</td>
<td>Black or white</td>
</tr>
<tr>
<td>Available:</td>
<td>Mid-November</td>
<td>Now</td>
</tr>
</tbody>
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http://www.latimes.com/business/la-fi-zune15sep15,0,1138301,full.story?coll=la-headlines-business
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