Entertainment World Wary of Microsoft

By GARY GENTILE

LOS ANGELES (AP) - CinemaNow Inc., the Internet-based movie service, is a rarity in Hollywood - a company that eagerly embraces Microsoft Corp. (MSFT) technology and relies on it exclusively to transmit, protect and display the movies it rents to customers. Then again, Microsoft is a major investor in the company, which is also owned by independent studio Lions Gate.

The majority of entertainment companies, unsure of Microsoft’s motives and wary of its cutthroat tactics in the battle for the computer desktop, have preferred to maintain an arm’s-length relationship with the software Goliath.

But these days, studios fear digital piracy more than they fear Microsoft and have slowly begun to make deals to use its software tools, albeit on a non-exclusive basis.

For its part, Microsoft has tried to calm Hollywood’s anxiety, revealing a portion of its proprietary code for compressing large media files to a standards-setting group and offering longer-term deals to assuage fears it would hike the price of each new software version.

"They are being subtly aggressive, not like in the PC industry where they used strong-arm tactics," said Michael Wolf, principal analyst at research firm In-Stat.

Microsoft also is starting to see limited success in its efforts to work with Hollywood in the still nascent online movie market. Last week, Microsoft's MSN Internet division began linking to Blockbuster Inc. (BBI)'s online rental service. MSN also offers a limited number of pay-per-view movies through CinemaNow.

At a time when studios are seeking to make higher-quality versions of movies and television shows available on everything from computers to cell phones, dealing with Microsoft has become almost unavoidable.

"Microsoft wants to be the sticky stuff in the middle between the studios and all the different platforms consumers will use," said American Technology Research analyst P.J. McNealy. "They have the chance to really enable business models that we have heard about over the past five years."

But at what price?

Microsoft has long dallied with the media business, forming the MSNBC cable network with NBC and launching its own video game console to take advantage of the burgeoning game market.

It formed the online magazine Slate, which it recently said it would sell, and launched a number of other forays, not always successful. Its MSN service still lags America Online and it has closed a number of other ventures, including Mungo Park, an adventure travel Web site.

It has also amassed a huge amount of cash and a reputation as an aggressive and relentless competitor, willing to use its virtual monopoly power in computer
operating systems to crush would-be competitors.

That power made studios highly suspicious when Microsoft came calling in the 1990s seeking to persuade Hollywood to make content available in digital form on computers and home networks.

"There was an assumption that we were out there to screw them," said Kurt Buecheler, a former executive in Microsoft's digital media division whose job included approaching studios for possible deals.

"There were two fears," Buecheler said. "One was that Microsoft could buy the companies. The reality of that was just silly. Microsoft knows how to do technology and software. They don't know how to tell a story.

"Second, they (studios) looked at the PC as a device that was almost the murder weapon of the music industry when, in fact, it wasn't."

Those suspicions still linger, even as Microsoft has struck deals with several studios to protect movies and TV shows from piracy.

Microsoft recently announced a number of licensees for its latest Windows Media digital rights software, dubbed "Janus," including The Walt Disney Co., AOL, Dell Inc. (DELL), Samsung Electronics Co. and Movielink LLC, an online movie company owned by five of the seven major Hollywood studios. The licensing agreements are not exclusive, though. Movielink, the biggest Internet film provider, also offers films in RealNetworks Inc. (RNWK)'s format.

In July, Microsoft joined a cross-industry effort aimed at protecting content on different networked devices, including a new class of portable media players that are expected to be hot holiday season sellers.

That consortium includes Sony Corp. (SNE), which promotes its own proprietary technology for viewing entertainment, including the movies and TV shows produced by its studio arm.

Microsoft views these deals as thawing its icy relations with Hollywood and eradicating old stereotypes about Microsoft software being buggy.

Yet Microsoft can't quite shake fears that its real intention is to use its monopoly position to charge Hollywood outrageous fees to access the computer desktop.

In March, the European Union fined Microsoft $613 million, finding the company guilty of abusing its Windows monopoly to squeeze out rivals in related markets for digital media players. The EU ordered Microsoft to sell a version of Windows without its media player. Microsoft is appealing.

While Hollywood needs tools that compress huge computer files - especially digital files that contain next-generation, high-definition images - small enough to put on a DVD or send over the Internet, studios say they need to encourage competition so they won't be held hostage by one company.

Microsoft says it has learned from its earlier, sometimes heavyhanded, dealings with Hollywood.

The company recently plucked a Hollywood veteran to run a new division to develop relationships with the entertainment and media industries. Blair Westlake, a former chairman of the Universal Television and Networks Group, will be responsible for bridging the gaps between Hollywood, consumer electronics companies and government regulators.

Amir Majidimehr, who runs Microsoft's Windows digital media division, said he
understands that Hollywood is wary of ceding any of that power to a technology company like Microsoft. But he adds that recent agreements to work with Disney and Warner Bros. have helped allay Hollywood's fears.

He also notes that Hollywood holds the power in the relationship. He noted that Hollywood as kingmaker crowned the DVD format and MPEG-2 as the favored tool to compress large video files.

And now, he said, the content creators will lose if they are overcautious while ever-growing broadband Internet connections make swapping a two-hour movie as fast as a two-minute song.

"Our strategy is very simple - we make money selling Windows and we want to sell more copies of it. The way we sell more is to add new applications to it," said Majidimehr.

"What we're trying to do is be very true to our intentions, which is to drive PC sales. We've got to play fair, we've got to play open and frankly, we think we're doing it better than any competitors."

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