

EDITORIAL

Microsoft gets set to conquer the multimedia world

Microsoft, the world's leader in personal computer software, is developing an ambitious strategy to become a major player in the emerging global multimedia market.

Ahead of his meeting with European Commission President Jacques Santer on March 16, Mr. Bill Gates, Microsoft's CEO, released a White Paper on "Creating the information society in Europe," which describes the company's strategy in Europe.

Microsoft plans to develop along the main added-value elements of the multimedia chain, from broadband network technology, to distribution, terminals and content.

Content is a critical element as it largely determines both the price of on-line services and consumer choice. Thus, Microsoft has become a major CD-ROM title developer and Bill Gates has also set up Continuum Productions, a company specialised in buying electronic reproduction rights of art treasures from museums worldwide.

Regarding the technological platform, Microsoft and the US computer groups Compaq and Intel have jointly developed Tiger, a server for video-on-demand services.

In the area of distribution, Microsoft has announced the launch of The Microsoft Network (TMN), an on-line personal computer service which should be available in 35 countries and 20 languages before the end of 1995. TMN, which will compete directly with other on-line PC services such as CompuServe, Prodigy or America OnLine, will provide new information services such as data bases, E-mail or on-line software shopping.

Finally, Microsoft hopes to impose its own technology as the world's standards for the operating system and presentation interface of new multimedia services as it did with MS-DOS and Windows in the PC market. With the launch of Windows 95, the latest version of its Windows programme, which will also serve as the interface to directly access TMN, Microsoft builds on its domination in PC operating systems with a 85% market share.

But Microsoft's strategy could raise issues that may have to be addressed by regulatory and competition authorities. In

particular, it could use its quasi-monopoly in combination with its financial power to wipe rivals out of new market segments.

Microsoft's plans to develop applications could raise another issue if it would deprive competing service suppliers of access to TMN. This would constitute a breach of the open network access principle adopted by the G-7 at its conference on the information society.

In fact, Microsoft's commercial practices have already come under scrutiny of the US federal justice. But whatever the way the regulator will tackle these issues, the final winner ought to be the end user -- with or without Bill Gates.

EUROPE

Trends: Information society applications are expanding with new initiatives by the French government and the Bertelsmann-America OnLine tandem. Separately, a software deal between IBM and Star Division proves that European software firms have the innovative capacity to become global players.

APPLICATIONS

The French government has decided to devote 75 million Ecus to the co-financing of multimedia projects submitted by private companies following a call for proposal issued in October 1994 to promote the development of France's information society.

An inter-ministerial Committee on information superhighways has selected a first roster of 49 projects out of 635 proposals on the basis of their economic, technical, industrial and financial viability, users' involvement, and their societal and regional impact.

While 81 projects have been definitely rejected, another 218 will be reviewed again in six months while a remaining 287 will require some technical and financial changes.

Amongst refused projects were those of the French cable operators Générale des Eaux and Lyonnaise des Eaux, which planned to offer phone services over their cable networks. But the government argued that such services could not be offered, even on a trial basis, without changing the French legislation and emphasised that it wants to stick to the 1998 deadline for liberalising voice telephony and infrastructures in Europe.

The German media giant Bertelsmann and America OnLine, a US leader in on-line PC services, have unveiled plans to set up a joint venture to launch a pan-European PC on-line service in Britain, France and Germany before the end of 1995. The

service will later expand towards other European countries, including Italy and Spain in 1996-1997.

Bertelsmann will invest over 80 million Ecus in the venture while America OnLine will provide its technological expertise and access to its US content base. Bertelsmann expects the service to have 1 million subscribers and a revenue of about 500 million Ecus by 2000.

LEGISLATION AND POLICY

The European Commission has warned the French and German national telecoms operators that Atlas, a joint venture which would offer telecoms services to corporations, could reinforce the two companies' dominant position in their home market, thus constituting a breach of European Union competition law.

MARKET

The US computer giant IBM has signed up Star Division, a small German software company, to market its award-winning word processor Star Writer and other programmes worldwide under the brand name IBM Star Office.

The deal, which financial terms were not disclosed, could propel Star Division into the world's league of office software manufacturers. In Germany, Star Writer is the best seller word processing programme for DOS and IBM's OS/2 operating systems, and second best-selling for Microsoft's Windows, the world's most popular PC software.

Germany's national telecoms operator Deutsche Telekom and the American regional telecoms company GTE said they will jointly launch in June 1995 a service based on a single smart card allowing their mobile customers to make and receive calls throughout Europe and the USA while keeping the same phone number and pay their bills at home.

The system, which will automatically transfer a call from one network to the other, has however one little snag: it doesn't allow a customer to use the same phone on both sides of the Atlantic as US and European cellular technologies are not compatible. Each customer will therefore be given a new phone whenever he or her crosses the Atlantic.

TECHNOLOGY

Europe's leading pay-television channels, Britain's BSkyB, France's Canal+ and Nethold, the mother company of Filmnet in Scandinavia and MNet in Africa, said they will start digital broadcasting before the end of 1995, a technology that allows a satellite to broadcast four to eight TV channels over each communication channel.

The Italian pay-TV channel said it would follow one year later. Yet Europe's first digital channels on the air will probably be America's MTV and European Business News, with an expected launch before the Summer of 1995.

NORTH AMERICA

Trends: The battle over local telephony is heating up in the USA with MCI's plan to develop a local network. Separately, the launch of a new joint interactive TV experiment by Bell Atlantic, Nynex and Pacific Telesis shows that Baby Bells are at the forefront of the information age. At the same time, the sluggish progress of CD-ROMs suggests that the US market is not yet totally ripe for multimedia products.

INFRASTRUCTURE

America's second largest long distance operator MCI said it will invest \$600 million over three years in setting up a local telecoms network in a move to cut fees it pays to US regional telecoms operators -- the Baby Bells -- to connect the calls of its business subscribers to its long distance and international network.

As a first step, MCI plans to offer local phone services to corporations in 10 major US cities by the end of 1995. MCI claims that in 1994 it paid \$6 billion to Baby Bells in connection fees, which represents 45% of its traffic revenue. In addition to substantial savings, MCI believes the move will allow it to significantly reduce prices.

APPLICATIONS

The US regional telecoms companies Bell Atlantic, Nynex and Pacific Telesis have agreed to launch a interactive television experiment in Northern Virginia which will provide services such as video-on-demand (VOD), TV-shopping or video games.

The service will be based on a hybrid infrastructure including fibre optic for the main trunks and coaxial or copper cable for connecting homes. With a transmission capacity of 6 megabit per second, the three firms believe they can provide good quality video.

The set top boxes will be produced by the Dutch electronics giant Philips and later by America's General Instruments(GI) for \$300 a unit. The video servers, which are already tested in Rome in a VOD experiment launched in 1994 with the Italian telecoms operator Telecom Italia, will be supplied by the US computer manufacturer n'Cube.

Video services will be based on programming from leading US media groups as well as three Baby Bells' own production. They have therefore signed an agreement with the leading Hollywood agency CAA under which each partner will invest \$100 million.

LEGISLATION AND POLICY

The US Federal Communications Commission (FCC) has overturned a 21-year-old ban preventing regional telecoms companies from owning dispatch licensing and offering dispatch services over their own networks. Dispatch systems provide two-way mobile radiocommunications for taxi fleets, lorry companies and the like.

The move was welcomed by Nextel, America's leading radiocommunication group, whose stock surged 15% after the decision was announced. Nextel, who is trying to set up a nationwide digital radio network to rival cellular operators, said the move may help it find a partner to mind a \$800 million financial gap to finalise its plans worth \$2.5 billion.

However, criticism was voiced that the decision may foster strong competitive pressure that could wipe out of the market hundreds of America's 2,500 small dispatch companies.

MARKET

Despite many encouraging signs concerning the development of multimedia, US CD-ROM developers face difficult times and an overwhelming majority of them could go bust: according to a study of Gistics Inc., a Californian consultancy, which found that 96% of US CD-ROM title developers (mostly SMEs) were found unprofitable in 1994.

While the number of CD-ROM titles skyrocketed to over 2,000 in December 1994 compared with 197 in January 1993, a survey by PC Data Inc., another consultancy, found that 20% of these titles sold a maximum of 110 copies while 90 sold only one copy.

Yet, breaking even requires sales of 19,000 copies at an average wholesale revenue of \$20 per unit considering an average cost of \$383,000 to develop a CD-ROM,

This trend seems in contradiction with the number of CD-ROM players sold in the USA, which should reach 28 million in 1995 compared to almost 16 million in 1994. But close to half CD-ROM sales come from bundling titles with new computers.

ASIA AND PACIFIC

Trends: AT&T achieved a major breakthrough in the Japanese telecoms market following a milestone alliance with NTT.

MARKET

Nippon Telegraph and Telephone (NTT), Japan's national telecoms operator, has decided to join WorldPartners, a global telecoms alliance led by the leading US long distance operator AT&T, for a six-month trial period.

Under the agreement, NTT will become WorldPartners' point of contact for its Japanese customers. The alliance is temporary because NTT wants to test whether its customers are really interested in the kind of services provided by WorldPartners.

WorldPartners specialises in selling voice, data and E-mail services -- so called virtual private networks -- to multinationals. The alliance also includes the Japanese long distance operator KDD, and the national telecoms operator Singapore Telecoms.

The move could give WorldPartners a head start in the Japanese market over Concert, a rival partnership between the telecoms group British Telecoms (BT) and the second largest US long distance operator MCI. Yet NTT emphasised that the deal is temporary and does not prevent it from signing similar agreements with other carriers.

SOCIAL, SOCIETAL AND CULTURAL

China National Aerospace, the Chinese space agency, plans to launch a nationwide satellite TV system that allows viewers to watch only programmes that have been cleared by Chinese authorities. The system would be based on small satellite dishes manufactured by China Aerospace International Holdings, China National Aerospace's Hong Kong subsidiary, which would fix reception to channels certified by government censors. Last year, China banned the individual use of satellite dishes to stop the flow of subversive or obscene Western audiovisual material. But despite tough fines, the ban is widely defied.

In a move to fight against subversion and pornography in cyberspace, Singapore has called upon Internet users to notify any criminal or anti-social behaviour to the Singapore Broadcasting Authority (SBA).

WORLD-WIDE

TECHNOLOGY

The Personal Conferencing Work Group (PCWG), a group of 16 leading computer and telecoms companies set up to support the video-conferencing standard of America's Intel, the world leader in microprocessors, has voted to make Intel's technology automatically compatible with the rival H.320 standard. Intel hoped to impose its technology as a world's standard.

but at the end of 1994 two thirds of the world's 60,000 installed videoconferencing systems were H.320's, while only the remaining third relied on Intel's technology. PCWG members include AT&T , Novell, Lotus Development, Hewlett-Packard (HP), France Télécom and Deutsche Telekom.

The worldwide war over the standard of digital video disks (DVD), which will replace audio-CDs, video tapes and possibly CD-ROMs, is still looming after Japan's electronics giant Sony announced it would not compromise with its Japanese rival Toshiba.

In early February, Sony and its Dutch partner Philips said they would open discussions with Toshiba following the endorsement by leading electronics and entertainment firms of its DVD standard. But Sony now claims that the standard it developed with Philips is more acceptable to consumers despite its lower performances because it is cheaper and is compatible with traditional CD players after only minor modifications.

The content of the press review does not necessarily reflect the European Commission's views.

Annex to Press Review number 30:

POPULARITY OF THE INFORMATION SOCIETY WITH EUROPEAN BUSINESS LEADERS

OVERVIEW OF COPPERS & LYBRAND'S SURVEY OF EUROPEAN INDUSTRY LEADERS' OPINION ON THE INFORMATION SOCIETY AND ITS BENEFITS

A majority of European business leaders is convinced that the development of the information society will foster economic benefits but fear that Europe will be left behind the United States, according to a survey by the consultancy Coopers & Lybrand .

The survey, which is based on a sample of 383 British, Dutch, French and German company leaders of the electronics, computer, telecoms, media, financial, transport and distribution sectors, found that 80% believe the information society will have a positive impact on businesses over the next five years, in particular regarding competitiveness.

However, European managers are split (45%-44%) over the positive or negative consequences of multimedia products and services for their own company. There are in particular huge differences between industries: while 90% of managers in the financial, computer and electronics sectors are convinced of the benefits of multimedia, figures drop to 10% for distribution and

transport. Telecoms are caught in the middle with 51%.

There are also differences by country: while 72% of German managers say they are in a position to exploit the benefits of multimedia, they are only 29% in France despite the popularity of the Minitel .

Concerning Europe's position in the global market, 66% believe the USA will take the lead in the information age, but only 38% are afraid of being left behind Japan. This US domination would be a result of both a lack of innovative capacity of European companies and a lack of integration of the European market, especially regarding cultural differences.

To face international competition, over 90% of business leaders call for a coordinated approach of the European industry, but 70% lament that such coordination doesn't yet exist. A majority stresses that accelerating the pace of European telecoms liberalisation and the reduction of tariffs are key to fostering a leading role of industry.

However, they are split (40%-41%) on whether the European Union or the private sector should coordinate the development of Europe's information superhighway.

Finally, no clear picture emerges concerning the information society's impact of Europe's employment situation: 29% of business leaders say it will increase the amount of jobless while only 16% say it will contribute to reducing unemployment. A positive element, however, is that 75% are confident that will increase demand for skilled workers.

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