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Technology | Microsoft

You’ve heard this song before:

Microsoft’s shameless copy of the iPod is just one of many strategic shifts Who in his right mind would step into the ring against the iPod? Apple Computer’s sleek music-player, and its iTunes software and online store, dominate the digital-music industry as comprehensively as Microsoft’s Windows operating system dominates desktop computing. But just as Apple has tried for years to loosen Microsoft’s grip on computing, so Microsoft now hopes to loosen Apple’s hold on digital music. On November 14th, the software giant will launch Zune, a music-player that looks and works very much like an iPod.

Zune is unlikely “to make any dent at all in Apple’s market share,” says Tim Bajarin of Creative Strategies, a consultancy in Silicon Valley. But Microsoft probably has no choice but to try, he adds. During its first 25 years, he says, Microsoft succeeded above all by bringing computer technology to businesses; to succeed in its next 25 years, it must turn its attention to consumer gadgets, for that is where the innovation and growth will be. But the formula with which Microsoft achieved its dominance in the first round appears not to be working in the second. So Zune is based on a very different business model-evidence that Microsoft is changing.

Microsoft’s music-player is a device that is tightly coupled to music-library software that runs on a computer, and to Zune Marketplace, an online music store. The Zune device does not work with other online stores, even those of Microsoft's partners; and Zune Marketplace does not offer songs for non-Zune devices. Zune, in other words, is a proprietary bundle of hardware, software and service-exactly like

Apple's iPod-iTunes combination.

For Microsoft this amounts to an about-face shocking enough that Robbie Bach, the executive who runs the company's entertainment division and who devised the strategy, goes out of his way to play down its importance.

Microsoft's traditional approach is to stay out of hardware and concentrate on making software, such as Windows, which it licenses to as many hardware companies as possible. Competition turns hardware into a low-margin commodity, but Microsoft, as owner of the software standard, makes a fortune.

In recent years, Microsoft tried to use the same approach with consumer technologies. It developed music and video software and invited gadget-makers to build hardware around it, and other firms to build compatible online stores to sell content. This "flat out didn't work," says Matt Rosoff of Directions on Microsoft, a specialist research firm. In the case of music, Microsoft's PlaysForSure software proved flaky: not all music from all stores would play for sure on all players, and the iPod remained unchallenged.

So Microsoft has ditched the idea of providing enabling software to other firms in favour of Apple's approach of doing everything itself. Its first move in this direction came with its Xbox games consoles, in which hardware, software and an online service are tightly coupled. (The Xbox division also reports to Mr Bach.) Zune is much more controversial, however, because Microsoft's pre-existing hardware and service partners are left high and dry. "I've never seen a business so blatantly screw its business partners," says Peter Sealey, a professor at Berkeley's Haas School of Business.

The about-turn on digital music is not the only recent shift in Microsoft's strategy. Having campaigned for years against open-source software, it has lately changed its stance. Last month it formed a partnership with Zend, a small Israeli-American firm, to make PHP, an open-source programming language that powers many large websites, work better with Windows. And last week it struck a deal with Novell, a long-time enemy that is now a strong proponent of Linux, the open-source operating system that competes with Windows, to ensure that Windows and Linux can run smoothly alongside each other on big computers.

This does not mean that Microsoft now thinks open-source software is a good thing. It hopes to make Windows more attractive to firms running large websites, and by promoting Novell's flavour of Linux as the natural partner for Windows it hopes to undermine other flavours backed by Oracle, IBM and Sun. But previously it would have nothing to do with open source at all. Steve Ballmer, Microsoft's boss, once called it a "cancer".

Microsoft has also been shifting its business model for delivering software in response to Google and other firms that let users access e-mail, word processing and other software via the web, rather than installing software on their own computers. The mission of Microsoft's new online-services division is to become, in effect, an in-house Google, while Mr Bach's division does its best to imitate Apple with Zune.

As Microsoft borrows from Apple, the opposite is also true. After failing to defeat Microsoft in operating systems, Apple learned a valuable lesson and has opened up its music technology just enough to make it a standard. It licensed the iPod's connector-plug so that other firms could make accessories for it, and it made the iPod and iTunes available on Windows, something that would once have been unthinkable. The great irony of the epic rivalry between Apple and Microsoft, says Mr Bajarin, is that the longer they fight, the more they resemble each other.