

AOL vs. Microsoft vs. All of Us

As AOL and Microsoft battle, will consumers get caught in the cross fire?

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Three years ago, America Online introduced its Instant Messenger service for the Web, which lets its subscribers find friends--aka buddies--online and communicate with them in real time. Since then, the use of instant messaging has soared. Today, over 80 million people use AOL's messaging systems--AOL Instant Messenger and ICQ--to send over 750 million messages a day. That's a staggering amount of mail: nearly 12 times more than its conventional e-mail traffic, says AOL, and more mail than the U.S. Postal Service delivers.

Microsoft, Yahoo, Prodigy, and others recently introduced their own instant messaging software--with a twist. Microsoft's MSN Messenger, introduced in late July, and the other new services let customers send messages to people who use the new software and to those who use AOL's messaging software. By contrast, people with AOL Instant Messenger can communicate only with those using the same software.

Here's how Microsoft did it. The new MSN Messenger uses a customer's free Hotmail account along with free software that users download from Microsoft's Web site. An AOL Instant Messenger user who downloads Microsoft's software enters their AOL screen name and password and imports their existing buddy list. The Microsoft software then logs on to AOL's network servers to send messages to other AOL users.

Outraged by what it called Microsoft's "hijacking" of its customers, AOL changed its communications protocols and blocked Microsoft's and other competitors' access to its servers. Not to be outmaneuvered or outprogrammed, Microsoft's coders found back doors into AOL's servers. Each time Microsoft reconnected to the servers, AOL blocked access again. At last count, Microsoft had changed its software at least 12 times. Because Yahoo's and Prodigy's messaging software communicates with AOL's servers in a different way, those services haven't been able to reconnect.

Drawing the Battle Lines

As the plot unfolds, both AOL and Microsoft are slinging accusations and lining up allies. The number one Internet service provider charges Microsoft with unauthorized hacking and endangering customers' security and privacy by requesting their names and passwords. On the other hand, the number one software maker charges AOL with disservice to users, preventing people with different messaging systems from communicating with each other.

AOL has insisted that it will work with an industry task force to develop an open messaging standard. It has also formed a working committee of its own, aligning with Apple, Novell RealNetworks, Sun, and others. In the absence of an open standard, AOL is also licensing its messaging system, which uses a proprietary protocol, to other Internet service providers, including EarthLink and MindSpring.

Microsoft has lined up allies of its own, including AT&T, Excite, Infoseek, Prodigy, and Yahoo. This group argues that until an open messaging standard is developed, AOL should stop blocking its servers.

Most observers agree that an open messaging standard will be developed in the not-too-distant future, possibly sometime later this year. Meanwhile, it's not clear whether a short-term solution can be found or if people will continue to need multiple messaging systems to talk to their friends and colleagues.

Internet Users, Beware

Analysts have been quick to point out that the current AOL-Microsoft messaging battle is just the latest round in what will become a protracted war for dominance of the Internet. The reason: AOL's huge market share in Internet service and software makes it possible for the service to become a viable software alternative to Microsoft's Windows.

The next battleground, many say, will be Internet access. AOL currently charges its 17 million-plus customers \$22 per month for use of its service and content. Analysts estimate that these access fees account for about two-thirds of AOL's revenue.

Microsoft's MSN trails far behind, with just 2 million Internet access customers. As part of its efforts to overtake America Online, Microsoft plans to move toward cheaper, possibly even free, Internet access. Already, the company has struck deals with system vendors to offer customers \$400 rebates on personal computers in exchange for their signing three-year service contracts with MSN. The company reports that this latest program has increased MSN's subscription rate by 50 percent.

Expect both industry giants to fight hard--and dirty--in the coming years. And hope you don't get caught in the cross fire.

Cathryn Baskin is editorial director of PC World.