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The Internet enters a bold second act

Across the high-tech landscape, tectonic plates are shifting.

Google, the company that's king of the online search, recently offered to provide wireless Internet access to the entire city of San Francisco - for free.

Apple Computer now offers an iPod music player so tiny it could get lost in your wallet.

And the British Broadcasting Corp. is starting to offer many of its TV programs in digitized formats online.

In their own ways, these developments point to a common theme: Led by the Internet, the high-tech industry appears to be entering a vibrant new phase of both growth and upheaval.

This is a far different boom from the dotcom craze of the late 1990s. It is the Web's sober second act, characterized not by soaring stock prices but by forces that are challenging traditional industries - from publishing to telecommunications - to adopt new business plans. Consumers seem to be the only sure winners.

"We've taken a huge step forward and moved from a stage of concept to a stage of product and service delivery," says Brooks Gray, vice president of Technology Business Research in Hampton, N.H. His warning is clear: "There are some sizable risks to companies that don't evolve."

The maturing of the Internet as an engine of the global economy is being driven by a handful of important forces:

Prices and sizes shrink. Miniature "flash memory" technology, for example, is enabling the rise of little gadgets that link people to the Web. Transferring songs from the Internet to a shirt-pocket music player is just one example. Next, in an announcement Wednesday, could come iPods that show music videos. And cellphones will soon display TV episodes.

Information goes digital. Lines are blurring between computers and traditional consumer devices such as phones, television sets, or even printed books and newspapers. Finally, "digital convergence" - the fusion of computing with other traditional industries foreseen in the 1990s - is happening in earnest, challenging traditional communications industries.

Mobility expands. Wireless services, such as the network Google envisions in San Francisco, are making the Web portable, not just a desk-bound tool. Shopping for shoes? A smartphone will help navigate as you hoof it from store to store.

As all these trends shower consumers with new products and services, corporations face both risks and opportunities.

The good news, experts say, is that the online realm has reached critical mass.

As of this fall, an estimated 1 billion people worldwide have Web access. In the US, the share of Internet users with high-speed connections is passing 50 percent. Online advertising revenue is soaring, and consumers are getting used to the notion of paying for services online.

But as information is digitized, profit margins can get squeezed. The Internet may be maturing, but it's not yet yielding the rich rewards that top companies typically reap when an industry reaches full bloom.

Instead, it's shaking up a host of traditional industries.

Consider telecommunications. Businesses and consumers are increasingly flocking to upstart providers like Vonage, which send calls over the Web for a fraction of the traditional land-line cost.

The rise of wireless online networks adds to the potential for price wars. These networks compete with phone and cable wires to take people online. They also could give consumers an alternative to traditional cellphone voice traffic.

"It's good for everybody except possibly the providers" of all these networks, says Allyn Hall, an expert in wireless technologies for the market-research firm In-Stat, in Scottsdale, Ariz.

Advertising revenue may help Google or some other bidder to finance a free wireless network that San Francisco hopes to create.

Such efforts, under consideration in other US cities, represent a direct challenge to traditional phone companies. So it's likely they will fight back not only with rival service plans but also by lobbying lawmakers and regulators.

"Never bet against the regulated providers," Mr. Hall says.

But in this battle to provide access to an array of online services, the winner will be "perhaps less dependent on technology than on other factors like marketing," he says.

The providers of content, such as media conglomerate Time Warner, face a different set of challenges. As content goes digital, these firms are learning to get consumers to pay for the information and news they get online. And they're finding more advertisers who will help foot the bill. By 2010, online ad revenues are expected to more than double from last year's $9.3 billion.

The problem of illegal copying, which has plagued the music industry, must be solved anew for video products as TV goes online.

Whatever the hurdles, Time Warner CEO Richard Parsons recently said the Web - specifically his company's troubled merger with Internet service provider AOL - is where the "growth opportunity" lies.

Mainstream high-tech companies are also scrambling for their place in the wild wild Web. The most closely watched battle pits Microsoft, the dominant software provider for personal computers, against Web-search giant Google.

"Google is certainly the best candidate that's come along in a long time to displace Microsoft," says Joe Wilcox, a senior analyst at Jupiter Research.

That doesn't mean it will. Microsoft is famous for tenaciously fending off threats, and has recently reorganized, in part to strengthen its MSN Web services. The company has also discussed a possible alliance with AOL.

But Google embodies a whole new model of computing.

Where Microsoft has traditionally helped people make the most of their own PC, Google wants the Internet to be a giant personal computer for the planet. It's stated mission is "to organize the world's information and make it universally accessible."

The more the Internet becomes such a tool, the less important traditional desktop software like Microsoft's becomes. The PC becomes just a way to get on to the Web.

Mr. Wilcox isn't counting Microsoft out just yet. But "Google could be in a very good position if it executes well," he says.

And as all these battles shake out, consumers stand to be in the best position of all. Their main challenge may be the old one of competing standards. Remember Betamax vs. VHS? Today, consumers could pay $299 for an iPod, only to find that next year's music player comes from a different company.

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