

Microsoft 1.0: It Was All about Bill

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Bill Gates earns \$250 every SECOND; that's about \$20 million a DAY and \$7.8 billion a YEAR! If he drops a thousand-dollar bill, he needn't even bother to pick it up because in the four seconds it would take him to pick it up, he would've already earned it back.

*"Little-Known Facts about Well-Known Leaders—
Bill Gates," a June 22, 2007 post from the
AchieveMax blog*

Given that this is a book about Microsoft's future, and not the past, this chapter is short and to the point. However, as it's impossible to look at where Microsoft is going without looking back on where it's been in the past 30+ years, I can't just skip over the past altogether. So consider this a whirlwind tour of Microsoft up to the point of Chairman Bill Gates's retirement from his daily duties at the company.

If you want the short and sweet version of Microsoft's history, there's no need to look further than Chairman Bill Gates. More than almost any tech company, Microsoft has been identified with its founder and leader since the get-go. As Gates went, so, too, did Microsoft.

An immeasurable amount of change has happened in the industry and inside Microsoft since Gates launched the company in 1975. I am not going to re-document the history of Microsoft as so many others have done (both well and badly) before me. Instead, I'll point you to the annotated reading list of some of the best known and loved books on Microsoft that appears in the Appendix. There you'll find everything from choice biographical tidbits about Gates, to blow-by-blow coverage of Microsoft's strategy in the 2004 U.S. antitrust trial against the company. (The reading list is not meant to be exhaustive, by any stretch—there have been hundreds of tomes written about

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and by the Softies—but it represents what I regard as an essential introduction.)

“If you want the short and sweet version of Microsoft’s history, there’s no need to look further than Chairman Bill Gates.”

There are a few things I do want to note about Microsoft’s first chapter—the period I’ve christened “Microsoft 1.0.” Sometimes it’s easy to forget that Microsoft didn’t just emerge overnight into the tech world as a big, bad monopolist. The following timeline¹ of some of the most important milestones in the company’s climb to its current status is a reminder that Microsoft’s

climb has been a methodical one:

1975—Microsoft founded. By year end, it had three employees: Bill Gates, Paul Allen, and Rick Weiland.

1978—Microsoft’s sales exceed \$1 million.

1980—Steve Ballmer hired.

1981—IBM PC debuts, running Microsoft Disk Operating System (MS-DOS).

1983—Microsoft introduces Windows 1.0, an extension to DOS.

1985—Microsoft turns 10. Sales for the year: \$140 million. Employees: 900.

1987—Windows 2.0 debuts.

1990—Windows 3.0 is born.

1993—Windows NT launches.

1995—Microsoft launches a slew of new products, including Windows 95, Internet Explorer, Microsoft Bob. Microsoft turns 20. Sales for the year: \$5.9 billion. Employees: 17,800.

1998—Ballmer is named President and Gates, Chairman and CEO.

2000—Microsoft launches Windows 2000.

2001—WindowsXP and Xbox gaming console debut.

¹ For an easy-to-digest and succinct view of Microsoft’s history, check out http://www.thocp.net/companies/microsoft/microsoft_company.htm.

2005—Microsoft comes to terms with EU over antitrust violations and agrees to create SKUs of Windows that don't bundle Windows Media Player.

Ray Ozzie pens his "Internet Services Disruption" memo, and Microsoft launches its "Live" Software + Services strategy.

2006—Microsoft announces Gates's plan to relinquish day-to-day duties in July 2008 and passes the Chief Software Architect torch to him, effective immediately.

2007—Microsoft launches Windows Vista and Office 2007.

The latest tally (from Microsoft's FY 2007 year-end Securities and Exchange filing): As of June 30, 2007, Microsoft employed approximately 79,000 people on a full-time basis, 48,000 in the United States and 31,000 internationally. Approximately 31,000 were employed in product research

and development, 24,000 in sales and marketing, 13,000 in product support and consulting services, 3,000 in manufacturing and distribution, and 8,000 in general and administration.² Sales for fiscal 2007 hit \$51.12 billion.

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The Cult of Bill

As Microsoft has morphed and spread into new markets over the years, Gates has remained the constant star by which everything and everyone connected with the company has navigated. In short, up until this point, Microsoft has been all about Bill.

I remember the first time I heard someone who worked for Microsoft refer to Gates as "Bill." It surprised and shocked me. Did he mean Bill Gates, the big kahuna? Was everyone on a first-name basis with the Chairman?

While everyone at Microsoft knew that any reference to "Bill" meant the one and only Bill Gates, there was no buddy-buddy Billism inside the company. Gates was famous for his tirades, berating employees of all levels whom

² Microsoft's end of fiscal 2007 SEC statement can be found here: <http://www.sec.gov/Archives/edgar/data/789019/000119312507170817/d10k.htm>.

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he deemed unprepared for meetings or suggesting product or strategy questions he considered irrelevant. He was the same with the press. I was at the wrong end of Gates's wrath more than once for asking "the stupidest question I ever heard," among other pleasantries.

So how do we reconcile the Gates we see these days donating billions to help eradicate childhood diseases in Africa with the tyrant Gates? A mellowing with age? The humanizing influence of his wife Melinda and his three kids? Ya got me....

"Up until this point, Microsoft has been all about Bill."

It's worth noting that Gates was never a hands-off, figurehead-type leader. He set the tone for the company. To pay homage, managers started rocking in their chairs like Gates, parting their hair like Gates, wearing the

same kinds of glasses and shirts as the Chairman. They peppered their speech with Gatesisms like *super*, as in "super excited."³

The Softies both respected and feared Gates. Employees took their kids out of school to bring them to company shareholder meetings to get Gates's autograph. They were proud to say they'd had a chance to meet Gates themselves or—for some lucky few—visit his palatial mansion on Lake Washington. If he personally commented on a paper they submitted for consideration for one of Gates's annual ThinkWeek retreats, they wore that fact like a badge of honor.

"The Softies both respected and feared Gates."

Because he owns and has run Microsoft, Gates has had nearly unquestioned power to do what he wants. If Gates chose to champion a technology or an idea, it got love and seemingly unlimited funding. Some of

Gates's pet projects turned into successes for the company. Others have not. IPTV, Tablet PCs, SPOT watches, speech input—all Gates-backed projects that allegedly are still top priorities for the company—still have not gained traction.

There've been some company watchers who've opined that, given the new dynamics in the IT industry, Gates is passing the torch to a new leader at the right

³ For more on Gates's—and the rest of Microsoft's—obsession with the word "*super*," read this post by RedMonk analyst James Governor: <http://redmonk.com/jgovernor/2004/11/12/six-degrees-of-super-ation-closer-to-bill/>.

time.⁴ At 52, Gates is no longer (if he ever was) a trendsetter. The company needs new blood—leaders who aren't so mired in the past, the reasoning goes.

That said, it's hard to imagine Microsoft without Gates. Microsoft's image makers have been careful in orchestrating the transition,⁵ making sure to emphasize repeatedly that Gates isn't really going away on July 1, 2008, and will still have a hand in a number of projects at the company even though he won't have day-to-day duties there any more. Instead of just springing the idea of a Gates successor on the public months or even a year before Gates relinquishes his management responsibilities, the Microsoft public-relations squad has been slowly and carefully painting an image of a team of chief technology officers taking over where Gates is leaving off.

(It's been interesting to watch how Microsoft originally played up the idea of all three of its CTOs—Ray Ozzie, Craig Mundie, and David Vaskevitch—running the company together when they first floated the plan for Gates to move on. The mentions of Vaskevitch quickly fell off. Shortly thereafter, Ozzie was elevated to the Chief Software Architect role, with Mundie being pushed to the side as the head of research and policy.)

“Microsoft’s image makers have been careful in orchestrating the transition, making sure to emphasize repeatedly that Gates isn’t really going away.”

A Microsoft sans Gates is going to be a very different Microsoft. Regardless of what you think of the “three presidents” and other top managers (I'll talk about this motley crew at length in Chapter 3), at least for the next few years, “2.0” Microsoft is going to be run by more “adults” than Microsoft 1.0 was. This year, Ballmer will be 52. Business Division chief Jeff Raikes will be 50 (and his replacement taking over

⁴ From a June 7, 2007 article entitled “Bill Gates Goes Back to School” in *Time* Magazine: “Gates is probably getting out of technology at the right time. Funnily enough, it's not really a business for needs anymore. Gates was at the center of the personal-computer revolution and the Internet revolution, but now the big innovations are about exactly the things he's bad at. The iPod was an aesthetic revolution. MySpace was a social revolution. YouTube was an entertainment revolution. This is not what Gates does. Technology doesn't need him anymore.”

⁵ Microsoft's June 2006 press release announcing Gates's plans to transition out of his day-to-day role at Microsoft by July 2008 can be found at <http://www.microsoft.com/presspass/press/2006/jun06/06-15CorpNewsPR.mspx>.

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later this year, Stephen Elop, is 44); Platforms and Services Chief Kevin Johnson, 47; and Entertainment and Devices honcho Robbie Bach, 46; according to the latest SEC year-end filing.

While Microsoft is still a leader in operating systems and desktop business applications, it is a follower in the other main markets in which it is playing. And lawsuits figure a lot more prominently in Microsoft's existence these days than they did when the company got its start.

Inside the Borg House

Microsoft always has been a company of paradoxes. It has grown and thrived on dichotomies. And it is these dichotomies that have shaped Microsoft into the company that it is today. In the following sections I discuss some of those that have struck me most over the years I've been covering the company.

The “We Rule” versus “We Suck” Culture

It's not too surprising that arrogance and success often go hand-in-hand. At Microsoft, that's been the rule, not the exception. Many Softies believed and continue to believe that Microsoft employees are smarter than everyone else and that the company is a magnet for the brightest, most ambitious tech and marketing experts (in spite of the well-proven recruitment capabilities of adversaries like Google and Facebook).

*“Microsoft always
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At the same time, I've seen Microsoft employees be quite introspective, self-deprecating...and, some might even say, insecure. When inviting rivals, developers, and customers to campus or other events, among the first questions the

Microsoft minions pose is “Where are our blind spots?” and “What could we be doing better?” Good Softies want to know their own weaknesses so that they can address them and fare better against the competition.

Case in point: In March 2007, Microsoft invited a bunch of “non-fanboys”—Java, Linux, and PHP developers—to campus as part of a Tech Summit. Microsoft wanted critical feedback on everything from its Ajax platform to its

⁶ To read more about one of many Microsoft events in which the company's competitors are invited to campus so that the Softies can pick their brains—I mean, talk partnership opportunities—check out my All About Microsoft blog posting here: <http://blogs.zdnet.com/microsoft/?p=358>.

open-source strategy (or lack thereof). It got what it bargained for—and more. But it also got the answer to the question that the event organizers posed repeatedly to attendees: “How do we suck?”⁶

Another related instance: Microsoft’s human-resources team, as well as plenty of other employees, were fascinated in mid-2007 with an e-mail message that made the rounds inside Microsoft that portrayed—from a former Google employee’s perspective—what “Life at Google” was really like. (The employee who provided Microsoft with a brain dump on what was

Microsoft wanted critical feedback on everything from its Ajax platform to its open-source strategy (or lack thereof).

and what wasn’t working at Google was a former Microsoft employee who returned to the Redmondian fold.) The e-mail was dissected and analyzed at length for possible lessons Microsoft could glean from what was and wasn’t working for Google, in terms of hiring and maintaining its workforce.⁷ Not so coincidentally, in late 2007, Microsoft announced plans to make its Entertainment & Devices campus more Google-like, with an on-site health-care clinic, fast-food restaurants, and a bar.⁸

“Frat Boys” versus the Bootstrappers

In the mid-1990s, there was palpable tension inside Microsoft between the “privileged” Ivy Leaguer hires and the bootstrapped local (many times Northwestern born-and-bred) employees, some of whom went to less prestigious local colleges and universities—as well as several others who never attended college at all. Many of the locals felt the private-college boys (and small number

“Surprisingly, the fact that Chairman Bill Gates is both a Seattle local and a college dropout didn’t seem to reduce the friction.”

⁷ I covered the whole ugly blow-up involving the former Softie who turned Googler, who went back to being a Softie in this blog post: <http://blogs.zdnet.com/microsoft/?p=541>.

⁸ Microsoft’s plans to revise its Entertainment and Devices campus are detailed in this *Seattle Post-Intelligencer* story from November 8, 2007 (“Feel Like a Beer? Let’s Stop Off at Microsoft”): http://seattlepi.nwsource.com/business/338776_msftcampus08.html.

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of girls) got a lot more appreciation and opportunities. There was a definite privilege schism inside the hallowed Redmond halls. (Surprisingly, the fact that Chairman Bill Gates is both a Seattle local and a college dropout didn't seem to reduce the friction.)

There's still some of the old "us versus them" and "local versus outsider" undercurrent there, from what I've seen and heard. The dichotomy is less visible than it might have been a decade or two ago, but there's no denying there are two camps of Softies, right up until this day—the privileged and the bootstrapped.

"It's definitely not one, big, happy melting pot."

If you're looking for concrete examples, consider the case of two Windows execs. Bill Veghte, Senior Vice President, Online Services & Windows Business Group, and Iain McDonald, Director of Product Management for

Windows Server, could not come from more different places.⁹ Veghte graduated with honors from Harvard, with a B.A. in East Asian studies. "He joined Microsoft directly out of college drawn by the people, the impact that software could have in helping people realize their potential, and the Northwest," according to his bio on Microsoft.com. McDonald got his start as a busker in his native Australia. He dropped out of university and did, in his words "this kind of little computer schools course that a friend of mine had recommended. And I did a bunch of software contracts where you go and work for three months."

With Microsoft becoming more of an international company than ever before—in terms of its hires and office locations—there's less of a "frat boy" versus bootstrapper divide. Now there are "subcontinents" within Microsoft Redmond.

It's definitely not one, big, happy melting pot. But one thing's for sure: Microsoft is further, not closer, from being a homogeneous company and culture than ever before.

The Kids versus the Old Guard

In spite of all the stories you read about Microsoft attrition, there remains a sizeable contingent of 10-, 15-, and 20+-year veterans at the company. Many

⁹ A tale of two Windows guys. For more about Bill Veghte, check out his biography page here: <http://www.microsoft.com/presspass/exec/veghte/default.msp>. And for more on Iain McDonald's colorful background, check out this blog posting: <http://blogs.zdnet.com/microsoft/?p=551>.

of these old-school Softies remember happier Microsoft times, pre-antitrust lawsuits, pre-Linux, and pre-Web 2.0. They liked working at a company where software was developed in a predictable way, on a relatively predictable schedule, with (mostly) predictable results. They never cottoned to the government ruling that found Microsoft a monopolist that abused its power. And, wherever they've been able, many of the old guard have brought their old-guard ways with them as they've climbed the corporate ladders.

Then there's the new guard—the 20- and 30-somethings who have come to Microsoft more recently and with a different perspective. The newer blood wasn't there for the Windows 95 launch and the U.S. DOJ trial against Microsoft. (Heck, some of them were toddlers when Microsoft launched Windows 95.) Several of these folks joined Microsoft over the past few years straight out of college and grad school, picking Microsoft over Google, Facebook, and other hipper, get-rich-quick-promising Web 2.0 companies. The Microsoft they joined was vastly different from the one in which their now-graying predecessors enrolled. The Windows Live team is full of these fresh-faced new recruits.

(There's also a core group of not-so-young but brand-new Softies—some of whom joined the company after fending off recruitment attempts for years, and others who've defected or been lured from other companies, inside the software business and not.)

Microsoft has been ratcheting up its pursuit of the younger Generation X/Y types, especially to fill its growing number of consumer-focused jobs on the Xbox, Zune, Windows Live, and Windows Mobile teams. In 2007, Microsoft created several new recruitment sites aimed specifically at this demographic, emphasizing openings on cool/new teams over more traditional business-focused development and marketing jobs.

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As the Boomers and near-Boomers continue to drift away, whether via retirement or other means, and Microsoft becomes more dominated by employees with shorter memories and more itchy stock-trading fingers, it will be interesting to see how Microsoft's culture changes.

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Bill's Guys versus Steve's Guys

Ballmer is from Mars and Gates is from Venus. Bill Gates is a nerd. Steve Ballmer is a salesman. Gates has nurtured a group of hand-picked managers, as has Ballmer. Gates's picks, not surprisingly, have tended to be techies; Ballmer's are more in the category of "consummate salesmen."

The result? Two distinct camps formed inside Microsoft: Bill's guys and Steve's guys. Techies like Chief Technology Officer David Vaskevitch, Chief Research and Strategy Officer Craig Mundie, and Senior Vice President of Technical Strategy Eric Rudder are all examples of Bill's guys. Chief Operating Officer Kevin Turner, Platforms and Services chief Kevin Johnson, and Mobile and Entertainment President Robbie Bach and new Microsoft Business Division chief Stephen Elop (a former Chief Operating Officer with Juniper Networks) are Steve's guys. There are a few execs who have managed to straddle the fence and are favored by both Bill and Steve, including Chief Software Architect Ray Ozzie yet even Ozzie is more of a Bill guy than a Steve guy.

"Gates's picks, not surprisingly, have tended to be techies; Ballmer's are more in the category of 'consummate salesmen.'"

But in the end, it's all about nerds versus sales when it comes to categorizing who's who inside the Borg House. And with Gates on his way out, it is going to be interesting to see what happens to Bill's Guys in the aftermath. Will they hang on and carve out new niches for themselves (like Rudder seems to be doing, with his latest rumored project—devising an operating system that ultimately could

supersede Windows)? Will they be *riffed* once Gates leaves the building?

With Ballmer running the show, sales pedigrees and MBA degrees are likely to be more valued as Microsoft builds its leadership team for the next decade-plus. While a lot of lip service is and will be given to wanting to hire and cultivate technical thought leaders like Ozzie, there will likely be more COO Turner-types gaining power in the post-Gates Microsoft regime. This might not be an entirely bad thing, as Computer Science/Electrical Engineering degrees don't prepare individuals to run teams of thousands. But for a company that's always been by, for, and about geeks, a sales-heavy culture and management structure will be unsettling to more than a few inside and outside Redmond.

Microsoft's Scarlet "A": Antitrust

More than the exponential growth in processor speeds, the rise in popularity of open-source software, or the skyrocketing market cap of Google, the external event that had the biggest impact on Microsoft in the past 30 years has been the ongoing antitrust scrutiny to which the company has been subject.

That's not just me talking. In speaking with several Microsoft insiders, antitrust suits and oversight were mentioned, time and again, as having changed irrevocably the course of the company.

No doubt, some of Microsoft's insistence on the strong influence of antitrust oversight on the way the company does business these days could be pure posturing. When the European Court of First Instance came down hard on Microsoft in September 2007, refusing to overturn the European Commission's 2004 antitrust ruling against Microsoft, Microsoft officials were a little too ready to proclaim publicly and privately their fears of further antitrust scrutiny on a variety of fronts. If the EU frowned on Microsoft for bundling technologies and withholding documentation others needed in order to make their products interoperable, just imagine what the courts might do to Google or Facebook, the Softies whispered.

Whether intentionally exaggerated or not, past antitrust suits and the threat of potential new ones have had an increasingly strong influence on how Microsoft builds and positions its products. In part, Microsoft has been making fewer and fewer moves that could be construed as anticompetitive because several of the managers who seemed to believe the company was above the law have moved on (some-

times with a little encouragement from the top brass). The bulk of those who stayed—including a handful of company representatives who were rewarded with more visible and likely more lucrative jobs for "taking one for the team" during the U.S. Department of Justice antitrust trial—seemingly have gone to charm school. Those who were impervious to charm seem to have been persuaded that some of Microsoft's old ways of doing business needed to be left by the wayside. (See Chapter 5 for more on Microsoft's old *modus operandi*.)

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It's important to remember that in the United States, at least, it's not illegal to be a monopolist. It's illegal to abuse one's monopoly power. Microsoft was found guilty of abusing its desktop operating-system monopoly power. As Microsoft posited in its August 2007 self-examination regarding whether antitrust oversight in its case warranted a five-year extension:

Microsoft did not achieve its position in the PC operating systems market unlawfully; rather, the Court found that Microsoft maintained that position by specific anticompetitive means. Having prohibited Microsoft from further employing those or similar means, and having created mechanisms to facilitate competition with Microsoft, the Final Judgments created an environment in which market forces can determine the relative success and thus the market shares of participants. Measured by that standard, the Final Judgments have been a success.¹⁰

Whether or not you agree that Microsoft has been punished enough for its abusive ways (and is really and truly sorry and won't ever do it again, as the company contended via the list of "Voluntary Principles" it published in 2006),¹¹ you'd be hard-pressed to argue that the company hasn't had to change as a result of current and potential antitrust suits.

The "cut-off-their-air-supply" Microsoft just ain't what it used to be. If today's Microsoft were the same unbowed and unbridled company it was back in the 1990s, there would be some very different business practices in place.

A more cutthroat Microsoft would have been so bold as to try strategies like bundling SQL Server with Windows Server, or integrate and preload one or, most likely, more Windows Live services with Windows bundled on new

¹⁰ This passage comes from Microsoft's report on Final Judgments from August 2007: <http://www.microsoft.com/presspass/download/legal/SettlementProceedings/08-30MSFTReportConcerningFinalJudgments.pdf>.

¹¹ In July 2006, right in the midst of its attempts to prove to U.S. and international regulatory authorities that Microsoft was a good company that was sorry for any antitrust laws it had broken, as a gesture of goodwill, Microsoft announced a set of "Voluntary Principles." These 12 "guiding principles for development of the Windows desktop operating system" were all about ensuring that "Windows continues to foster competition and innovation in the marketplace." They espoused everything from interoperability, to open APIs. The principles got a lukewarm reception from the press and many Microsoft "partners." The full list of the principles is here: <http://www.microsoft.com/about/corporatecitizenship/citizenship/businesspractices/windowsprinciples.mspx>.

PCs. In the good old pre-antitrust days, Microsoft would have had few qualms about tightening the screws on system vendors who dared to preload Linux on new systems by charging them more per copy for Windows licenses, intentionally withholding Windows beta releases, or levying other punishments against vendors who dared show their “disloyalty” by

cavorting with anyone other than Microsoft. But constant scrutiny—and/or threats of scrutiny—by the U.S. authorities, the European Commission, and representatives from other U.S. and international regulatory bodies has led Microsoft to be a lot more cautious than it used to be.

Public exposure of Microsoft’s antitrustworthy ways also has made its existing and potential partners more leery of how they work with the software giant. Independent software vendors and services companies have become more careful about sharing product details and roadmaps, which, going forward, should lessen the Redmondians’ long-favored practice of “borrowing” cool concepts and features to incorporate in their own wares.

That said, the European Court rules won’t change significantly the market dynamics in place. Whether or not new antitrust cases are lodged against Microsoft—which they undoubtedly will be—Microsoft execs have been forced to realize that they always have to operate with an assumption of illegal

monopolistic behavior working against the company. Microsoft brass know that every product development and marketing decision Microsoft makes for the rest of the time it is in existence will be scrutinized for possible lawsuit opportunities.

Don’t be surprised to see Microsoft make more “proactive” changes to its products—like it did when it changed Vista’s built-in desktop search technology to head off a likely antitrust suit from Google. But don’t put too much stock in antitrust concerns completely crippling Microsoft’s business practices, nor (contrary to what its executives love to claim) its ability to innovate.

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“Don’t be surprised to see Microsoft to make more ‘proactive’ changes to its products.”

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Enter the New Kids on the Block

While Microsoft is a desktop operating-system monopolist, it's not the run-away leader in several other categories in which it's playing (search engines, digital-media players, game consoles, mobile operating systems). To assume that Microsoft can wield its desktop OS power to unfair advantage in these areas just because Microsoft is Microsoft is a big leap of faith.

The competitive landscape the Microsoft of 2008 is entering without Gates in a day-to-day supervisory role is very different from the one in which the company played in 1978, 1988, or 1998. While Microsoft always has had competitors with which to contend, it's now facing not just its usual stable of relatively well-understood adversaries (IBM, Oracle, SAP, Intuit, etc.), but a whole raft of additional, less-predictable ones (Google, Facebook, Salesforce.com, etc.).

To appreciate just how much Microsoft's competitive landscape is changing, as of late, check out Microsoft's annual 10-Ks from 2002 and 2007.¹² Just a few years ago (in 2002), the Softies explained the playing field in this way:

The Company's competitors include many software application vendors, such as IBM, Oracle, Apple, Sun Microsystems, Corel, Qualcomm, and local application developers in Europe and Asia....A number of Microsoft's most significant competitors, including IBM, Sun Microsystems, Oracle, and AOL-Time Warner, are collaborating with one another on various initiatives directed at competing with Microsoft.

The Linux open source operating system has gained increasing acceptance as well. Several computer manufacturers preinstall Linux on PC servers and many leading software developers have written applications that run on Linux....Microsoft's online services network, MSN, faces formidable competition from AOL-Time Warner, Yahoo!, and a vast array of Web sites and portals that offer content of all types and e-mail, instant messaging, calendaring, chat, and search and shopping services, among other things.

¹² Todd Bishop from the *Seattle Post-Intelligencer* analyzed Microsoft's lists of its competitors from 2002 and 2007 on his blog post last year: <http://blog.seattlepi.nwsource.com/microsoft/archives/119449.asp>.

Cut to 2007. While many old-time Softies would doubtless rank IBM as still being Microsoft's No. 1 competitor, there are a lot of other new contenders who belong on Redmond's list of rivals. Add Mozilla, Google, VMWare, Nintendo, Sony, Nokia, Symbian, and a raft of other new competitors to the existing list of Apple, Red Hat, Oracle, and the like.

"Microsoft is now playing in several markets outside of its traditional areas of core competency."

The result? Microsoft is now playing in several markets outside of its traditional areas of core competency. The company has been hiring folks with expertise outside of development tools and Windows—former Electronic Arts Studios President Don Mattrick, who is now Senior Vice President of Microsoft's Interactive Entertainment Business, for example. Until recently, Microsoft hasn't had to pour a lot of effort or money into recruitment; Microsoft was a hot commodity for the software-savvy. But management is going to have a tougher time convincing big-name hires to join a company that is not a leader in a number of key, hot markets—that they should join a behemoth like Microsoft.

Past Microsoft Truisms: Will They Hold in the Future?

Just because Microsoft clung to a strategy or behavior in its first 30+ years doesn't mean that the company will continue to follow the same patterns in its next 30. But there are a handful of "truisms" I've noticed about the Soft's past strategies that I am hard-pressed to believe they'll try and/or succeed in changing.

1. Outsiders Never Become Insiders at Microsoft

Microsoft has had a disastrous—there's really no other word for it—record in hiring from the outside. I've lost track of how many highly touted managers Microsoft has hired, only to be forced to acknowledge their hasty retreats. A few examples:

- **Rick Belluzzo**—In 2002, just 14 months after taking the President and Chief Operating Officer reins, Rick Belluzzo resigned from Microsoft. Belluzzo was the former CEO of Silicon Graphics Inc., a long-time Hewlett-Packard exec, and touted as a Ballmer buddy when he was brought on board.

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- **Robert Herbold**—Chief Operating Officer of Microsoft from 1994 to 2002, joined the company from Procter & Gamble (Ballmer's former employer). While eight years is a good amount of time to put in at any job these days, Herbold's tenure was rocky. Many company watchers considered him odd man out, despite his longevity.
- **Steve Berkowitz**—The former Ask.com CEO who joined Microsoft in 2006 to help fix the Online Services Business (OSB) is, for a couple more months, the Senior Vice President of the Online Services Group. Since he joined Microsoft, Berkowitz repeatedly was rumored to be on his way out.

Outsiders just never seem to make the transition to Microsoft insiders. In spite of this fact, the Microsoft brass continues to look outside to bring in new blood to supervise the troops. (And former Digital Equipment Corp. execs, many of whom have thrived inside Microsoft, don't really count as "outsiders" in my book, given that DEC West was practically an extension of Microsoft before it was shut down.)

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Granted, there are a few exceptions to the "Outsiders Not Welcome" rule. When hiring a new Live Search chief, Microsoft decided to award the position to an insider and chose Dynamics ERP veteran Satya Nadella, for example. (One caveat: Some say that Nadella won out over outsiders because no one wanted to take on the task of trying to turn the distant No. 3 search player into the market leader.)

And so far, at least, Chief Operating Officer Kevin Turner is an outsider who is still, as of this writing, managing to carve out for himself a spot as one of Microsoft's most influential insiders. (And then there's Chief Software Architect Ray Ozzie...but more about him and his prospects of becoming a permanent Microsoft fixture in Chapter 3.)

Do the Nadella and Turner cases show that Microsoft is turning over a new leaf? Maybe. But as a general rule, veteran Softies are not optimistic about outsiders' potential for success.

2. All Strategies Must Start (and End) with Windows

Microsoft's biggest and most successful franchise is Windows. That isn't a coincidence.

Nearly every strategic move Microsoft has made to date has been designed to protect the Windows business. When Microsoft faced a choice between promoting itself as a Web company or a Windows company back in the mid-to late-1990s, it went with Windows. The result? Microsoft bundled its Internet Explorer (IE) browser into Windows (and got in deep legal hot water in the process) rather than porting IE to other platforms and building itself into a Web powerhouse. Because Gates, former Platforms Chief Jim Allchin, and other influential Softies feared that an emphasis on IE could erode its Windows stronghold, Microsoft decided against betting big on the Web until its competitors started eating its lunch.

Former *Wall Street Journal* reporter David Bank wrote an entire book about the war inside Microsoft between Windows and the Web, entitled *Breaking Windows: How Bill Gates Fumbled the Future of Microsoft*, which was published by The Free Press in 2001. As a *BusinessWeek* review of Bank's book succinctly explained:

*The Web and its open standards were the future, Microsoft's Internet faction contended. Perhaps, replied the software experts inside the company, but Windows was the wellspring of the company's success and would remain the key to its financial future. The Internet forces had been in the ascendancy since December, 1995, when Gates publicly embraced the Net as the future of the company. But the move turned out to be more of a tactical feint designed to thwart upstart Netscape Communications than a strategic reorientation.*¹³

Microsoft almost waited until it was too late to try to fix the error of its Windows-centric ways. For five years—between 2001 and 2006—Microsoft let IE remain dormant because it was trying to prove its contention that the browser was an inextricable part of Windows. Microsoft's argument nearly cost

¹³ To read the full *BusinessWeek* review of Bank's book ("The Uncivil War Inside Microsoft," August 16, 2001, by Steven Wildstrom), go here: http://www.businessweek.com/bwdaily/dnflash/aug2001/nf20010816_910.htm.

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the company a loss in the U.S. Department of Justice antitrust case, and did allow Mozilla to come in and steal a good chunk of Web-browser market share.

Given this history, you might think that Microsoft had learned its lesson about trying to make the world bend around Windows. Right now, that doesn't look to be the case.

“Microsoft almost waited until it was too late to try to fix the error of its Windows-centric ways.”

After former Windows chief Jim Allchin retired in 2007, Microsoft appointed as the new head of Windows and Windows Live Engineering, Steven Sinofsky. While Sinofsky is credited as one of the executives who helped convince Gates and other Microsoft managers of the importance of the Web, he

also has a vested interest in maintaining Windows as it exists as one of the company's core franchises—regardless of how the market changes. Windows 7, the next version of Windows, sounds from early tips and feedback like a continuation of Windows Vista. And Internet Explorer 8, the next version of Microsoft's Web browser, has been slow out of the gate—much slower than Gates promised it would be back in 2006.

3. The Third Time's the Charm

Smart—and risk-adverse—customers never buy first- or second-generation Microsoft products. By the time it rolls out the third release of a new technology, Microsoft finally gets it right, according to industry lore and legend.

“Unfortunately, customers' experiences have not jived with the scenarios Microsoft has painted.”

Microsoft's contention is that this “truism” is no longer true. Customers don't need to wait around for service packs or new versions of software because Microsoft can continuously fix/update its products by pushing the latest patches and updates over its Windows Update/Automatic Update patching mechanism, the Softies claim. And when a product is “released

to the Web,” as opposed to shipped on disks or on new PCs, Microsoft can update that product regularly and often over the Web, as well, officials say.

Unfortunately, customers' experiences have not jived with the scenarios Microsoft has painted. Microsoft emphasized during the first year of availability of Windows Vista that users didn't need to wait around for Service Pack (SP) 1 before upgrading, since the company planned to push any and all fixes and updates over Windows Update as soon as they were ready. That didn't stop many, if not most, businesses from waiting at least for SP1, which shipped in early 2008, before getting serious about planning their Vista deployments.

It takes more than just hundreds of thousands of beta testers to get a product right. It takes hours and hours of everyday people running every possible permutation and combination of software, hardware, and services to make a product rock-hard. (And this isn't true for Microsoft products only, as Apple and other companies are discovering as their wares are gaining greater market share.) Yet every time Microsoft changes substantially the inner workings of its software, the countdown toward the magic Version No. 3 starts all over again for many long-time Microsoft users. And that scenario doesn't look like it is going to change any time soon.

4. You Don't Have to Be First to Win

Microsoft has spent an awful lot of time and energy in recent years trying to prove that it is just as innovative, if not more so, than its competitors. But the reality is quite different.

Microsoft is far better at copying, building on, and "perfecting" existing innovations than it is at coming up with brand-new ones. Microsoft studies its competitors and finds their weak spots. And it has the time, the cash, and the people to be very thorough in its studies.

It's hard to dispute that Microsoft didn't copy Apple when developing Windows Vista. But so what? Instead of feigning outrage, why not admit that Microsoft took the best of a number of Apple's "Tiger" Mac OS X concepts and ended up one-upping Tiger on several fronts. Ditto with Zunes and iPods; Xbox consoles and Sony Playstations; Live Search and Google Search; C# and Java; and Internet Explorer 7 and Mozilla.

"Microsoft is far better at copying, building on and 'perfecting' existing innovations than it is at coming up with brand-new ones."

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When Microsoft strikes out on its own and tries something new/different, its track record is far less stellar. Microsoft's Surface multi-touch tabletop is my favorite whipping boy when talk turns to Microsoft as innovator. Going further back, the Microsoft Bob interface is another oft-cited example of Microsoft's failure to innovate. More examples: SPOT watches, Tablet PCs, ultra-mobile PCs and plenty of other much ballyhooed Microsoft innovations.

Sure, there are some instances in which Microsoft was first to market with an innovation that turned into revenue gold for the company. Xbox Live, Microsoft's gaming service, comes to mind here. But as a general rule, Microsoft has built itself up by being more of a strong follower than a thought-leader. Microsoft should embrace its "extend and embrace" strategy rather than fight it.

5. If You Can't Beat 'Em, Wait 'Em out

Microsoft—even the old, more ruthless, pre-antitrust-tamed Microsoft—often gets painted as more diabolical than the company actually is.

“Did the vendors of each of these products end up making so many missteps that Microsoft was able to wait them out and capitalize on their failures?”

While Microsoft has been credited with putting more than a few companies out of business, it's often the ineptitude of its competitors that ends up eliminating Microsoft adversaries. Was Microsoft Office really better than WordPerfect? NT superior to OS/2? Internet Explorer a noticeable advance over Netscape? The Xbox a killer compared to Sony's Playstation? Or did the vendors of each of these products end up making so many missteps that Microsoft was able to wait them out

and capitalize on their failures?

I am not trying to excuse Microsoft here. Microsoft abused its desktop operating-system-monopoly powers to squeeze out unfairly some of its competitors and to hurt some of its supposed PC and software allies, as various antitrust regulatory bodies around the world have ruled. Withholding protocols and documentation required for interoperability; creating onerous licensing terms—Microsoft was found to have done all of these things and more in its quest to be No. 1 in its various markets.

However, Microsoft also has benefited and is continuing to benefit from its deep pockets that enable the company to wait out its rivals. Microsoft was able to get Novell to sign a patent cross-license agreement because Novell was hurting financially and needed Microsoft as an ally to continue to do business. When selling databases, mail servers, and systems-management suites, Microsoft has been able to wait months, if not years, for lengthy (and lucrative) enterprise sales to close—a luxury that many of its less-well-heeled competitors and/or single-product vendors do not have.

Microsoft has time to keep trying to crack new markets (see Truism No. 4 above). If at first it doesn't succeed in gaming consoles, hosted CRM software, or healthcare services, Microsoft has time to try and try again. And more time means more chances for other vendors to make wrong moves.

The bottom line: Time is on Microsoft's side. And even with more and more technologies, especially on the consumer side, being developed "in Internet time," Microsoft still is going to be able to wait out its rivals, customer fads, and the vagaries of the market for a good number of years.

Enough about the past. It's onto the topic of Microsoft's future from here on out....

