

From: "Donald Jenner" <djenner@jenner.org>  
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Monday's (7/29/02) FT presents a very good overview of the current shifts at Microsoft, with careful attention to two interesting elements, viz., license changes and extended R&D investment.

What is missing, I think, is an accurate assessment of why Microsoft is doing what it is doing. Herewith a couple educated guesses, based on a decade and a half analysing and commenting on the computer industry in general and Microsoft in particular, and 25 years of university teaching, currently management and marketing in one of New York's city colleges:

Microsoft is having a hard time being innovative. The company's cash-cow products (a reasonable description, based on reports in, among other places, the Financial Times) -- Windows and Office (Word and Excel -- the rest of the suite is a sort of G&S "corroborative detail" ploy) -- are very "same-old".

Windows 2000 is very good, very stable; so was WinNT4 with its later service-packs. In most cases, WindowsXP adds nothing compelling in performance or features; some "features" are actually annoying, or even dangerous (the auto-update feature has been known to break well-balanced or highly custom installations; does one really want to leave open a trap-door for Microsoft? &c.). Add to this, WinXP "home edition" needs at least twice the RAM to run, compared to Win98; similar problems obtain in the "pro" version, compared to earlier generations of the NT family.

The proliferation of very able, feature-rich free office-suite products (PCSuite, ThinkFree, Star Office and Microsoft's own Works come to mind instantly) demonstrate just how lacking Word and Excel are in compelling new features.

If Microsoft's products offer no compelling reasons for upgrade, most IT managers will hesitate to do so. If Microsoft's operating system software breaks highly customized environments, IT managers will manage with the older OS versions, to avoid the very high costs of reinventing that custom environment for the newer OS. This has happened before, in, e. g., mainframe computing environments.

In several cases, where software companies have lost their forward-looking, innovative edge, their response has been intensified protection of their intellectual property rights. It seems likely, as Microsoft has encountered greater challenges being an innovative developer of operating system and mainstream office applications, and of adding new features perceived as sufficiently valuable as to mandate upgrading, it too is falling back on various strategies to insure it garners the last dribble of revenue from its increasingly obsolete "new" products.

The question for the financial community -- analysts, investors and so on -- as well as for the IT community, is, will Microsoft succeed in making a transition from focus on these hitherto dominant product lines, to new products where it once again establish the innovative dominance demanded of high-tech vendors.

The indications are not all that positive: Microsoft comes late into

the game against, e. g., game-machine makers such as Nintendo and Sony -- at a time when many game-machine users are happy with the hardware they have and would rather spend money on software for their present machines. Similarly, PalmOS devices from various vendors remain the PDAs of choice for many; they are smaller, they require a shorter learning curve, they have a tremendous software base and are easily extended. Only a couple PDAs running Microsoft software compare on the first point, and none on the other three.

Add to this, for every successful product Microsoft has brought to market, at least one other has failed. This is as much true for products in which it has had a substantial development stake (e. g., LAN Manager) as it is for those it has acquired (various database products; PowerPoint -- which was a dramatic failure until the company effectively gave it away free with Office; Internet Explorer -- a superior browser that killed off the competition, but has since become mostly a tool for Microsoft to push unwanted updates, and is now easily eclipsed by the latest Navigator or Opera browsers).

Equally interesting: The most technically innovative operating system on the market today comes from Apple. OSX takes a Unix kernel and layers the Macintosh user interface. Unix is available for x86 processors; if Apple has done its job right, the rest of the software suite could be adapted to the admittedly chaotic PC-family hardware universe with simple re-compilation. Equally, it is easy to see how a software vendor could give the Linux kernel away, while selling the suite of (user-invisible) utilities and interface elements that ran on top; this scenario would make Linux a product at long last. Both could readily compete with Microsoft's cash-cow products. [Add to this, AMD's commitment to x86 backward compatibility in the company's forthcoming 64bit processor -- something not promised by Intel -- and Unix/Linux adaptability, and things get very interesting indeed.]

Two observations follow from the analysis thus summarized: Clearly, Microsoft is an enormous company, with enormous resources. Clearly, it is not going to disappear in anything like a foreseeable future. It is equally true, however, that had it been broken up into two or three smaller, more nimble companies, those successors might have had a chance to recover the innovative edge it seems Microsoft has lost. To be sure, they would be less powerful, and its chiefs would be less powerful; we have seen recently how insistence on keeping companies -- and their masters -- power is not an altogether profitable attribute, if it obscures really effective and efficient business practices.

Clearly, the kinds of intellectual property protection afforded Microsoft (and many other software vendors) simply makes no sense. Copyright protection (the foundation of software protection) is simply being bent out of shape by software vendors. Better older models of protection be applied, or even, greatly attenuated; the idea should be, innovate sufficiently that last year's model is no longer compelling. This poses a problem of short product life-cycle -- but that is endemic to lots of other businesses (some of them technology businesses -- the photography and digital-photography businesses come to mind), and they do survive quite handily.

Donald Jenner  
Business Management Department  
Borough of Manhattan Community College  
City University of New York

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