

From richardb Thu Oct 31 16:04:39 1991  
To: billy  
Subject: Managing the Microsoft Image for Public and Political Acceptance  
Date: Thu Oct 31 16:59:01 1991  
Status: RO

Darryl suggested that I should copy you on this:

>From richardb Thu Oct 31 12:22:15 1991  
To: mikehal  
Subject: Managing the Microsoft Image for Public and Political Acceptance  
Date: Thu Oct 31 12:22:11 1991

The position of Microsoft in the market has grown rapidly; today, it has an impact on the economy, the information infrastructure of business, and the public that is reminiscent of the situation of AT&T in the early nineteen hundreds when telephones had been widely accepted, but had not yet become ubiquitous.

Peter Drucker has written an account of how AT&T recognized the implications of its position at that time, and how it responded successfully. I would like to recount that story and then suggest how Microsoft's situation is similar, and how it can and should apply the lessons of our predecessor in order to be equally successful for the long term (25 to 50 years).

"One of the earliest and most successful answers [to the question 'what is our business'] was worked out by Theodore N. Vail (1845-1920) for the American Telephone and Telegraph Company almost seventy years ago: "Our business is service." This sounds obvious once it has been said. But first there had to be the realization that a telephone system, being a natural monopoly, was susceptible to nationalization and that a privately owned telephone service in a developed and industrialized country was exceptional and needed community support for its survival. Second, there had to be the realization that community support could not be obtained by propaganda campaigns or by attacking critics as "un-American" or "socialistic". It could be obtained only by creating customer satisfaction. This realization meant radical innovations in business policy. It meant constant indoctrination in dedication to service for all employees, and public relations which stressed service. It meant emphasis on research and technological leadership, and it required financial policy which assumed that the company had to give service wherever there was a demand, and that it was management's job to find the necessary capital and to earn a return on it. The United States would hardly have gone through the New Deal period without a serious attempt at telephone nationalization but for the careful analysis of its own business that the Telephone Company made between 1905 and 1915.

Microsoft's position is not exactly the same, but there are strong parallels.

The establishment of a universal platform upon which to build software applications is in the interest of the general public, and of most ISVs, unless they are in the business of supplying competing platforms. The explosion of new software applications and ISVs after the market for them was increased by a common PC platform is analogous to the growth in the telephone business as the number of callable subscribers increased. Software system platforms define communities that can purchase software, analogous to the communities served by competing telephone networks of the early 1900's.

Just as the nation needed a common carrier for telephony, this nation needs a single common platform upon which to build software, so that the energies of our software engineers can be applied to building new products at a higher level, rather than systems that duplicate work already done by competing platforms. Multiple system architectures exist today, because the technology is relatively new, and we are still learning what works, but we will converge on a common solution (for example, consider the multiple window systems starting from

Plaintiff's Exhibit  
9509  
Comes V. Microsoft

MS 5015918  
CONFIDENTIAL

Xerox Parc's Star that have appeared). As that happens, competition will be of less value, and the advantages of a tolerated monopoly will be greater. I believe that convergence will take place in this decade.

The industry has recognized the value of such a monopoly and has attempted to create one without creating a competitor by establishing committees and standards groups (e.g. POSIX, XWindows). Unfortunately, such standards are defined by the groups who build systems, and thus will not in fact establish a standard. For telephones, the analogy would be for individual telephone companies which establish interface standards to switch calls between systems. It will work only as well as such standards - which is to say not as well as a true monopoly where the single vendor could apply more global optimizations and apply larger advantages of scale.

Win32 is an alternative standard architecture defined by Microsoft. It is our challenge to alternative standards, and we stand a chance of making it stick because of our dominance in the market. The biggest obstacles to making this happen are probably political rather than technical or business related. This standard is only one of a series we contemplate which lead to a new component architecture and true IAYF.

The recent FTC probe of Microsoft is a symptom of this coming challenge. The probe may fail, and I'm sure there is no basis for it. But it should be interpreted as the warning shot of a war that we will lose if we don't recognize the danger and take actions now. The recent letter from Senator Metzenbaum (from OHIO of all places) telling the FTC to pursue this case vigorously because Microsoft clearly has been 'anticompetitive' is an example of the kind of political forces that will rise against us as our success and dominance increase, unless we turn this feeling and win support.

We must make it clear that our business is providing the framework and standards for building apps and integrating them into a common framework where they work well together and get the benefits of synergy. We must make it clear that what we do is for the benefit of the majority of ISVs and businesses, and thus for the country, and that it is in their interest to help us succeed. We must set this as our goal.

To accept this goal means to provide leadership for apps other ways besides delivering software such as Windows. We must do other (perhaps less profitable) tasks which contribute to the same goal. For example, we should take the lead in establishing a common approach to UI and to interoperability (of which OLE is only a part). Our efforts to date are focussed too much on our own apps, and only incidentally on the rest of the industry. We want to own these standards, so we should not participate in standards groups. Rather, we should call 'to me' to the industry and set a standard that works now and is for everyone's benefit. We are large enough that this can work.

We can take some simple initial steps such as publishing publish books and articles about existing standards for GUI Interfaces for apps, and a guide to solving frequent UI issues in a common way. These may be as useful and enabling for our ISVs as the software itself. We can back this up with sample code and tools (such as additional standard Win controls) that simplify building apps according to these guidelines.

We should develop spokespeople who can establish themselves as effective advocates for the enablement of a large software industry built on wide standards.

We should become actively involved in education in order to enable people to use software - i.e. we should solve the usability problem by attacking both ends of the problem (UI complexity and user experience). We might do this through local schools, teachers colleges where they prepare teachers for local schools, through universities, etc.

A significant investment is required to do this task effectively. It should be done by a separate group and not by product groups that make their numbers by delivering specific apps. The group should have sufficient talent and experience to deal with engineers in MS and other companies, to deal with the press, with business people, and with politicians. They should be committed to enabling applications to reach ever wider markets and providing more value by working

MS 5015919  
CONFIDENTIAL

together. We are too big to treat our business as strictly business  
- it is a matter of public affairs.

If we are successful, we will be asked/encouraged/led to extend the reach of our architecture to mainframe and mini computer platforms. Our architecture will achieve the goal that IBM set for SAA. The difference will be that we own it.

MS 5015920  
CONFIDENTIAL