

# Microsoft

A close-up photograph of a person's hand holding a white computer mouse. The background is a blurred green wall. The word "Microsoft" is overlaid in large, bold, black letters at the top of the image.

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# Microsoft

Microsoft is a multinational computer technology corporation which develops, manufactures, licenses, and supports a wide range of software products for computing devices. It was founded by Bill Gates and Paul Allen on April 4, 1975, and its headquarters was in Redmond, Washington. Its current best-selling products are the Microsoft Windows operating system and the Microsoft Office suite of productivity software.

# Microsoft



From left to right:  
Top: Steve Wood,  
Bob Wallace, Jim  
Lane.  
Middle: Bob O'Rear,  
Bob Greenberg,  
Marc McDonald,  
Gordon Letwin.  
Bottom: Bill Gates,  
Andrea Lewis, Marla  
Wood, Paul Allen

Microsoft staff photo from December 7, 1978.

# History Time Line

- ◆ **1975–1985:** Originally founded to develop and sell BASIC interpreters for the Altair 8800, Microsoft rose to dominate the home computer operating system market with MS-DOS (Microsoft Disk Operating System) which followed by the Windows line of operating systems.
- ◆ **1985–1995:** In August 1985, Microsoft and IBM partnered in the development of a different operating system called OS/2. In the following year, the company went public with an initial public offering (IPO). In 1989, Microsoft introduced its flagship office suite, Microsoft Office. The software bundled separate office productivity applications, such as Microsoft Word and Microsoft Excel. In 90s, Microsoft released Windows NT 3.1 , Windows 95, web browser, Internet Explorer, with the Windows 95 Plus! Pack in August 1995 and subsequent Windows versions.

# History Time Line

- ◆ **1995–2005:** Microsoft began to expand its product line into computer networking and the World Wide Web. On August 24, 1995, it launched a major online service, MSN (Microsoft Network), as a direct competitor to AOL. Later in 1997, Internet Explorer 4.0 was released for both Mac OS and Windows, marking the beginning of the takeover of the browser market from rival Netscape. In October, the Justice Department filed a motion in the Federal District Court in which they stated that Microsoft had violated an agreement signed in 1994, and asked the court to stop the bundling of Internet Explorer with Windows. Then, Microsoft released Windows XP, the first version that encompassed the features of both its business and home product lines

# History Time Line

- ◆ 2006–present: Microsoft released Windows Vista. Windows 7 will be the next iteration of Microsoft Windows
- ◆ Gates's last full-time day at Microsoft was June 27, 2008
- ◆ Ceo of Microsoft = Steve Ballmer



# Microsoft monopoly power

Microsoft has succeeded to eliminate competition without having to compete on price, then profits would increase as selling more software. The method it used to prevent the competition is **predatory pricing**—distributing its products at no apparent cost to the consumer, primarily by original equipment manufacturer (OEM) distribution, so that its software becomes a standard, which would then allow Microsoft to charge that price and yields maximum profits at the expense of the consumer.

# Microsoft monopoly harmed consumer

1. Microsoft limited innovation by preventing specific products from being developed and deterring other software companies from devoting developer time and money to new products.
2. Microsoft overcharges the consumer for the operating system and increase the short term cost for consumers. In the long run, it causes price to increase so that consumers need to pay more for hardware through its software design, licensing and upgrade.
3. Microsoft lowered its product quality and make consumer face great risk by forcing its Internet browser on the desktop to prevent competitors from being compatible with them.

# Internet explorer

In 1995, Internet Explorer was introduced as a startup kit that was to be used with Windows 95 operating system. At the beginning, it sold separately from all Windows systems, but Internet Explorer soon became bundled into such programs. Internet Explorer maintained a variety of new features including support for video and audio, Java applets, and more. By 1997, the extensive Internet Explorer 4.0 was introduced as an integration and bundle with the newest Windows 98, as well as full compatibility with all previous Windows systems since 95. Microsoft advanced and developed its Internet Browser technology for several reasons. First, it wanted to initially break into the web browser market. Second, Microsoft programmers saw the internet as the future of computing, and web-based operating systems could create advantage for Microsoft over its competitor.

# Product division

- Microsoft divided its original seven business groups into the three core divisions that exist today: the Windows Client, MSN and Server and Tool groups were merged into the **Microsoft Platform Products and Services Division**; the Information Worker and Microsoft Business Solutions groups were merged into the **Microsoft Business Division**; and the Mobile and Embedded Devices and Home and Entertainment groups were merged into the **Microsoft Entertainment and Devices Division**.
- The Microsoft Business Division produces Microsoft Office, which the software product includes Word, Access, Excel , Outlook, PowerPoint, and so on. Actually, the division focuses on developing financial and business management software for companies

# Issues over Microsoft

- **Microsoft anti trust case: U.S VS Microsoft**

The development of Internet Explorer 4.0 marked the literal beginnings of the United States vs. Microsoft antitrust case. On May 18, 1998, the United States Department of Justice, and the Attorneys General of 20 States<sup>27</sup> and the District of Columbia sued Microsoft.

- **European Union Microsoft competitions case**

# Microsoft anti trust case

## U.S VS Microsoft

### Government allegations

1. Microsoft illegally monopolized the market for operating systems for personal computers because Microsoft's windows operating system is the dominant system in use.
2. Microsoft had anti-competitive contractual arrangements with various vendors of related goods, such as with computer manufacturers and Internet Service Providers, and had taken other actions to preserve and enhance its monopoly
3. Microsoft illegally attempted to monopolize the market for Internet browsers.
4. Microsoft bundled its Internet browser, IE with its Windows operating systems. Then, the action harms the Netscape.

# Microsoft anti trust case

## U.S VS Microsoft

### Microsoft's Defense

1. Microsoft argued that the law was on its side since the Court of Appeals had ruled on June 23, 1998 that Microsoft can legally add new features and functions to Windows. Therefore Microsoft argued that it was legal to add IE's functionality to Windows, and it had done nothing wrong by integrating IE in Windows.
2. Microsoft argued that it was just competing hard against Netscape, that such competition was welfare-enhancing, and that it did not commit any anti-competitive acts.
3. Microsoft argued that it did not have monopoly power in the operating systems market.

# Microsoft anti trust case

## U.S VS Microsoft

### Microsoft's Defense

4. Microsoft argued that competition in the software sector was intense and that its leadership position could be replaced at any time by a new competitor or entrant.
5. Microsoft argued that it is a leader in software innovation and that it has enhanced rather than hobbled the innovation process.
6. Microsoft argued that consumers have benefited from its actions rather than been harmed by them. Microsoft claimed direct consumer benefits from its low pricing of the operating system, the zero pricing of its Internet browser, and from its enhancement and acceleration of the innovation process.

# European Union Microsoft competitors case

The European Union Microsoft competition case is a case brought by the European Commission of the European Union (EU) against Microsoft for abuse of its dominant position in the market (according to competition law).

It started as a complaint from Novell over Microsoft's licensing practices in 1993, and eventually resulted in the EU ordering Microsoft to divulge certain information about its server products and release a version of Microsoft Windows without Windows Media Player.

In March 2004, the EU ordered Microsoft to pay \$794 million, the largest fine ever handed out by the EU at the time, Microsoft paid the fine in full in July 2004.

# Network effects

- definition: It exists when consumers' value of a product is higher when a larger number of other people also purchase the product.
- It is also called Network Externalities.
- Classification
  - Direct Network Effects
  - Indirect Network Effects

# Network effects

- ◆ **Direct network effect**- it increase as the size of the network users increase in which the users of the product can communicate directly with each other.
  - Example: fax machine, telephone, email
- ◆ **Indirect network effect**-it exists when the number of consumers of a particular good cause firms to produce complementary goods that increase the value of the initial product.
  - Example: computer operation systems (software), automobile (servicing), Bank (ATM network), DVD players.

# Direct network effect example

- **Telephone company Direct Network Effect**

The value of the telephone grows as the number of people on the network increases due to the increasing number of reachable people. They can communicate with each other with telephone.

- **Microsoft Direct Network Effect**

Microsoft attracted consumers and software developers to use its technology, the software that controls the basic operations of a personal computer. The more that people used Microsoft's operating system, the more that third party developers built products to run on Windows, which attracted more users.

# Indirect network effect example

- **Hardware/software:** the benefits of the hardware good increase when the variety of compatible software increases. Since an increase in the number of users of compatible hardware increases the demand for compatible software. Since software goods are typically characterized by economies of scale, the increase in demand leads to increases in the supply of software varieties.
- **Microsoft window is the example of network effect.** Windows is compatible with the widest range of hardware and software. As a company's software becomes widely distributed, it draws more third-party support. There will be more schools, businesses, websites, and private tutors using, teaching, and supporting the software.

# Why was Netscape a threat to Windows OS?

1. The presence of network effects exist in open system market.
2. Netscape's browser would aid competition in operating system and decline in Microsoft's dominance market power.
3. The rapid growth of the internet makes software firms to develop applications that could run on the browser and decline to use Windows OS.
4. Netscape's software had a potential to become an alternative platform to Windows, since Microsoft would no longer have the advantage of having substantially more applications written specifically for its OS.

# What incentive for Microsoft to sell IE at zero prices?

1. The primary incentive for the zero-policy was to maintain dominance in the opening system market.
2. Browser can steer consumers to a particular portal site. A portal site is website where user enters the web, example of portal are MSN and AOL.
3. Microsoft may obtain higher overall revenues by giving IE away for free to increase usage and thereby traffic at portal Microsoft chooses (MSN).
4. The free web services create value for visitors to a portal, and thereby increase hits at the portal, portal often collect payments from the service providers, rather than paying them, this is because the portal brings consumers to the service providers.

Did Microsoft's integration made Navigator unreasonably difficult to use?

1. After integration took place, Netscape did not suffer and substantial loss of market share.
2. Netscape was still installed on 22% of new machines in 1998, it was no very clear evidence that Netscape was locked out of the market with PC manufacturers.
3. Microsoft contracted with PC manufacturers to prevent them from removing the IE icon from the desktop.

# Market Shares of Browsers

- March, 2009

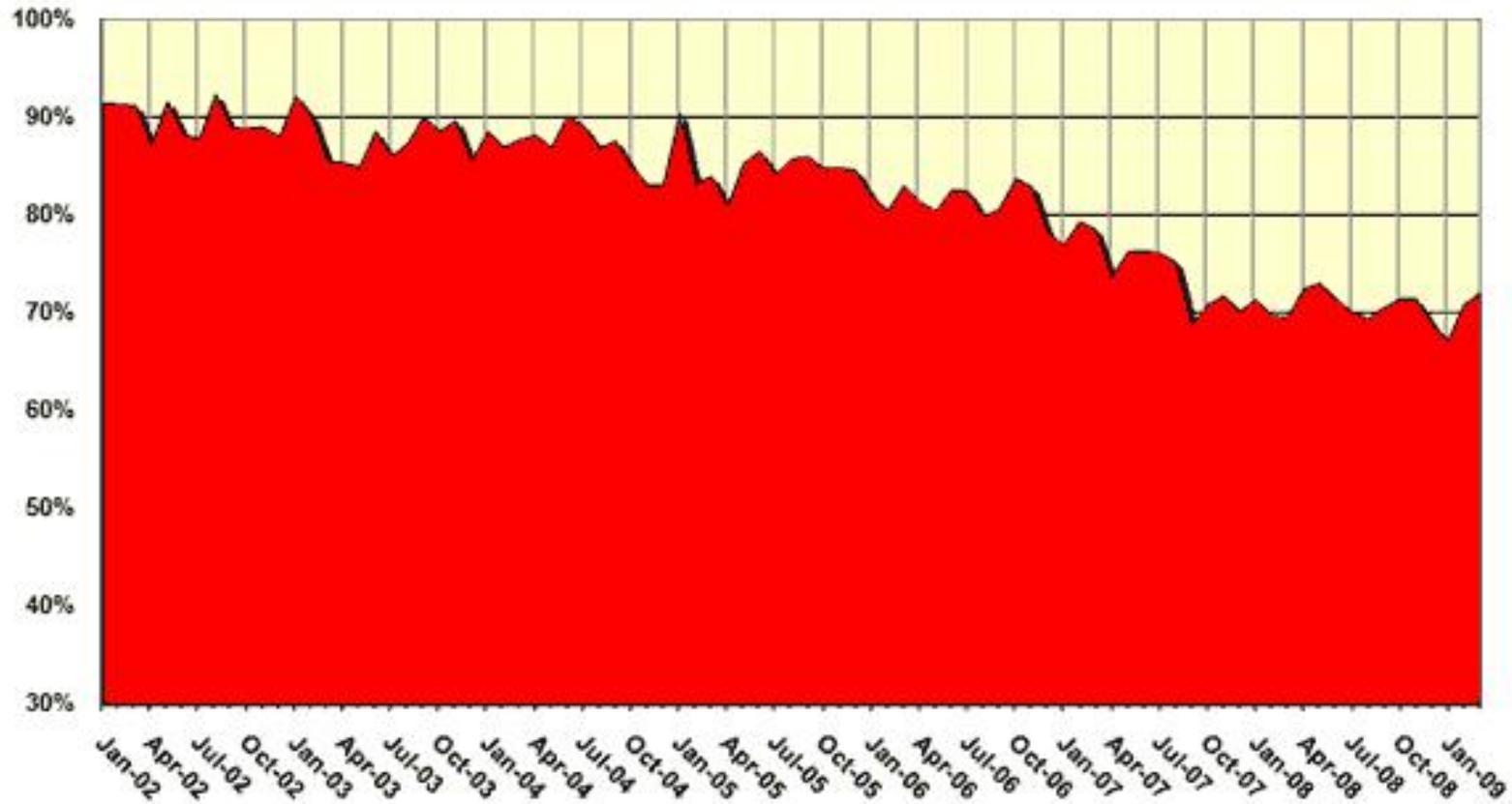


- 1: 66.82% - Microsoft Internet Explorer
- 2: 22.05% - Firefox
- 3: 8.23% - Safari
- 4: 1.23% - Chrome
- 5: 0.70% - Opera
- 6: 0.69% - Netscape
- 7: 0.10% - Mozilla
- 8: 0.07% - Opera Mini
- 9: 0.04% - Playstation

# IE Market Share

Historical IE Market Share

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# References

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