The IT industry is shifting away from Microsoft

Comment In the beginning there was Microsoft. Then it exploded

By Charlie Demerjian:

EVERY SO often, there is a big shift in an industry. The shifts are not usually visible until long after they've happened, making you look back and say: "Oh yeah, things were different back then".

We are experiencing a major IT industry shift right now, and if you know where to look you can actually see it as it happens. This shift is all about Microsoft and open source.

Until very recently, Microsoft owned everything in the personal computer business, both low and high on the food chain. The low end was occupied by Palm, the high end by Sun, IBM and others. In the vast soft middle, there was Microsoft and only Microsoft.

Everyone who challenged it was bought out, cheated out of the technology , or generally beaten into the ground with dirty tricks, by ruthless competition, or on rare occasions, with a better product. Listing the failures would consume more column inches than a person could read in a year.

Netscape, Stac, Wordperfect, Novell, and others are among the notable casualties. Those that technically survived are ghosts of their former selves.

Just as the press proclaims the inability of anyone to challenge the Redmond beast, control is slipping from Microsoft. As with any company faced with a huge loss of market share, Microsoft is acting predictably, pretending it is not happening, and putting on a smiley face when asked about prospects. On the inside, Microsoft is as scared as hell.

One of the richest companies on earth, run by one of the richest people on earth afraid? What can you mean?

Hung, Drawn and Quartered
To put things in perspective, Microsoft has always performed better each quarter than the one before. Whenever the financial types settle on quarterly earnings, Microsoft always manages to pull a few more cents per share out of their hat, and beat those earnings. The collective bunch of jackals and worms that are known as 'Wall Street' sit slack jawed in amazement, and give half hearted golf claps. Rinse and repeat every quarter, including the analysts 'amazement'.

How it does this is no trick. It has profit margins on its two major products of over eighty per cent. The rest of the products, from handhelds to MSN and the Xbox are all horrific money losers. Its finances are so opaque and badly presented, that it can shuffle money around from one part of the company to another without anyone noticing. Make too much money one quarter?

Stash it in the closet labeled investments, or write off some losses. Not making the numbers? Cash in some assets and make a 'profit'.

Overall, it has been able to show a smooth earnings curve, and surprise on the upside every time it reports a quarter? Monopolies and almost no cost to make your physical product other than R&D has it's advantages.

Corporations cry Linux
About a year ago, things started to change. The cries that Linux would dethrone Microsoft remained the same, but there was a shift in the corporate reaction to those cries. CTOs (Chief Technology Officers) started to say 'tell me about it'. In a down economy, free is much cheaper than hundreds of dollars, and infinitely more attractive. Linux started gaining ground with real paying customers using it for real work in the real world, really.

Up until then, Microsoft had simply ignored the tuxedoed threat. Then it started reacting with the usual FUD (Fear, Uncertainty, Doubt) , the Halloween memos, various white papers and clumsily purchased studies. Somehow, people didn't buy the fact that $1,000 a head was cheaper than free, and so Microsoft had to move on to a different tactic. Since it couldn't buy the company that produced Linux, and people had simply grown to hate Microsoft for all the pain they had been caused over the years, the firm found itself in a bind. How do you compete when all your dirty tricks are either inapplicable or fail, and buckets of cash can't buy your way out of the hole you are in? Simple, you compete on their terms.

Other than in the last six months, when was the last time Microsoft lowered prices, or gave anything other than a trivial discount on anything? Yeah, right, never. Faced with losing the home office market to OpenOffice/StarOffice, the server side to Linux, databases to MySQL, and the desktop to Linux in the not too distant future, what could it do? It targeted price cuts at those who matter most, the early adopters and other key segments.

The first of these cuts was aimed at MySQL, with the developer edition of SQLServer getting the axe to the tune of about 80 per cent. Then it started a slush fund to prevent high profile companies and organizations from giving Linux that all important mindshare beachhead. Then it came out with a 'student and teacher' version of Office. Hint to the readership, if you don't want to pay $500 for office, the new version doesn't make you prove you a student or a teacher like the last one. Well, none of these tactics is working, and one of the reasons it isn't going as well as Microsoft hoped is its own money grubbing product activation scheme. Without starting the old debate about the cost of pirated software, it is hard to argue against the fact that even with the numbers it spouts off about piracy, Microsoft still clears about a billion dollars a quarter or more. If it wasn't for piracy, the Gates sprouts (little 1.0 and 2.0) could afford to be sent to a good school. Cry for them. In its wisdom, Microsoft decided to squeeze the users a little, and to its abject horror it began to realise that people were willing to take the slightly less functionality of OpenOffice for the $500 a machine discount. Who would have guessed that result? See foot, see gun, see gun shoot foot.

The next winning strategy was to circle the wagons, and lock people in. If you prevent other programs from working with your software, and make your stuff fairly cheap, people will flock

to it, right? Well, right to a point, at least until you build up hatred and people have an alternative.

Licensing 6.0, the new 'rent as you go, but do so at our sufferance' was the catalyst here. When it proposed this scheme, people laughed outright. When Microsoft said do it or pay the retail price, people blinked, and a few cried monopoly. This is when people started to take Linux seriously.

Defections, Defections
When Microsoft set a deadline for licensing 6.0, people balked. Adoption was less than the 100% it was counting on, so it blinked and extended the deadline that wasn't capable of being extended. People still didn't flock to the plan, so Microsoft turned the screws and, um, blinked again. Once it was clear that customers weren't viewing 100% plus price increases as a benefit, and Microsoft was looking weaker and weaker with each delay, it stopped delaying. Any reasonable observer would chalk up losing one third of a customer base, and alienating it at the same time, as an unmitigated disaster.

Microsoft touted this as a sign that people didn't truly understand the generosity emanating from Redmond, so it sweetened the pot by offering tidbits to the reluctant. That included training and other things, but no price break. That was the sacred line that it would never cross. For a bit. People still didn't flock back, and high profile clients started to jump ship. What to do, what to do?

The answer was to head off the defections by offering massive discounts. Send in the big names to woo the simple. Threaten behind the scenes. Do anything it takes, and when Microsoft says anything, rest assured that there are things none of us have thought of coming into play with the subtlety of a sledgehammer.

The strange thing is that even this didn't work. People did the math. With expensive lock-ins on one hand, and cheaper, more interoperable software on the other, they started choosing the less expensive route. Imagine that. The high profile defections started happening with more and more regularity, and Redmond was almost out of tricks.

Some defections were headed off, like the Thai government, which pays $36 for Office and Windows XP comes with a 95% discount if you compare it to list. There are probably other similar deals elsewhere that we have not heard about. For every one of the Microsoft victories, there were two or three Linux wins. Then four or five. Now it is not even a contest. High profile defections like cities, governments, and, *gasp*, IBM, are just the tip of the iceberg, and almost everyone is looking at the pioneers to see if the trail they are blazing is worth following.

If it turns out that these first few companies can make it, expect the floodgates to open, and everyone to follow. The designed in security flaws, that make Microsoft software insecurable, are only adding to the misery. Every day that a company is down due to worms or viruses, it starts re-evaluating Microsoft software. When bidding on the next round of contracts, the memory of all night cleanups tends to weigh heavily on the minds of many CIOs and CTOs.

The latest quarterly numbers showed something that hadn't happened before -- flat Microsoft

numbers. It blamed this on large corporations who were skittish in the wake of the Blaster worm. But if you stop and think about that, most companies are on Licensing 6.0 or other long term contracts, so the income derived from them is steady. People who are going to buy Microsoft products will do so, people who have jumped have jumped. A large corporation does not delay purchases like this for a quarter because of a security breach, they will have their licences run out from under them, or they will just buy the software as planned and sit on it if absolutely necessary. Something does not smell right with this explanation.

If Microsoft can't pull off an upside surprise, something is very wrong. It is now at the point where it must beat the street, or the illusion is shattered, and that has this nasty effect on stock prices. If Microsoft didn't meet expectations this quarter, it goes to show that it either couldn't do it, or made a conscious decision not to.

Running low on Wiggle Room
If Microsoft can't beat the numbers, it shows that it is running low on wiggle room, the core customers are negotiating hard, and Microsoft is giving way. Without billions to throw at money losing products like XBox and MSN, can these properties survive? If they can't, that would make a financially healthier Microsoft, but would it still be Microsoft? Could it offer a complete end to end solution if it found itself unable to control the internet? Would it be able to fight the phone wars without being able to casually sign off on nine digit losses? How long will the set top box world take to make money?

The more troubling aspect for the company is if Microsoft decided to report what is really happening. Wall Street is in a Microsoft fed la-la land when it comes to numbers. The stock is absurdly high, and in return, it is expected to do things in return. Once it stops doing those things, it becomes a lot less valuable. And when that happens, shareholders and the Street start asking all those nasty questions that executives don't want to answer. If the stock plummets, those options that Microsoft is famous for as employee incentives become much more expensive, and morale goes down. In short, things get ugly.

For Microsoft to actively shift the company into this mode would signal nothing less than a sea change, one that would bring the company a lot of pain on purpose. I can't see anyone purposely doing this unless backs are to the wall and there is no other way out. A much smarter way would be to ease out of it over the course of a few years, and change the company slowly. That way, you could still prep the analyst sheep, and escape relatively intact.

If I have to guess, I would say that the competition is starting to force Microsoft into a pricing war, and any moron can tell you a price war against free is not a good thing. Don't believe me? Just go ask Netscape. Oh how the worm turns. But price wars are destructive, and will sink Microsoft faster than you can say "$50 billion in the bank". Microsoft can afford to cut prices but after a while those $10 million discounts start to add up. It just won't work when everyone knows the simple truth of Linux.

The fact is, if you are negotiating with Microsoft, and you pull out a SuSE or Redhat box, prices drop 25 per cent from the best deal you could negotiate. Pull out a detailed ROI (return on investment) study, and another 25 per cent drops off, miraculously. Want more? Tell Microsoft

the pilot phase of the trials went exceedingly well, and the Java Desktop from Sun is looking really spectacular on the Gnome desktop custom built for your enterprise, while training costs are almost nil.

It isn't hard to put the boot in to Microsoft again and again these days -- being a Microsoft rep must be a tough job. And whatever it does, people are still jumping ship.

Trusted Computing
The problem is that Microsoft just isn't trusted, questionable surveys aside. That knowledge is spreading up the executive ranks. Microsoft has a habit of promising users things, but not delivering.

Security is a good example. A few years ago, Microsoft promised to stop coding XP and do a complete security audit and retraining. Everything would be good after this, it said, trust us. People did. Blaster, Nachia, and a host of others illustrate that Microsoft didn't make anything close to a sincere effort.

So, what comes out of Redmond nowadays? Hot air and Ballmer dance videos made on Macs. Monkey boy is funny to watch, but after an all night patching stint with the CEO yelling at you, it loses its charm. Remember that same Ballmer who said that Microsoft would not release a service pack for Win2K because it would not be released until it was perfect? How about that same security audit for XP that would erase the chances of anything like Blaster ever happening? Anyone think the masses will buy the line for the next release? The truth is they will, and Microsoft knows it.

The phrase 'it will be fixed in six months, trust us' seems to have a magic power when emanating from Microsoft. Every time someone big enough comes to it with a list of complaints, it announces an initiative, comes out with a slick Powerpoint presentation, half a dozen press releases, a Gates speech, and several shiny things to distract people.

The fact remains that security has been getting worse every year since Windows 95 was released. One hell of a track record don't you think? The fact also is that for the first time, Microsoft revenue is flat, it has competition, and it publicly blames security woes for the monetary loss.

The culture at Microsoft, however, prevents change. I was talking to a high level person in charge of security at the Intel Developer Forum last fall, and we chatted about what Microsoft could do to fix things. He asked the right questions, and I told him the right answers, trust. Plus, throw everything you have out and start again. He didn't get it. No, more than that, he was impervious to the things I was saying to him, the culture is so ingrained that the truth can't penetrate it. Microsoft cannot fix the 'bugs' that lead to security problems because they are not bugs, they are design choices. When faced with Java, Microsoft reacted with ActiveX. That, it claimed, could do everything that Java could not, because Java was in a 'sandbox', and programs could not get out.

The fact remains that Microsoft's entire infrastructure is based on fundamentally flawed designs, not buggy code. These designs can't be changed.

To change them, Microsoft would have to dump all existing APIs and break compatibility with everything up till now. If Microsoft does do this, it will have the opportunity to fix the designs that plague its product lineup.

I doubt it will. Even .Net, the new secure infrastructure, and built with security in mind, lets you have access to the 'old ways'. Yes, you are not supposed to, but people somehow do, and hackers will. Microsoft and its customer are addicted to backwards compatibility in a way that makes a heroin addict look silly.

And if Microsoft does change its ways, what incentive will you have to stick with Microsoft? If you have to start over from scratch to build your app in this new, secure Microsoft environment, will you pay the hundreds or thousands of dollars to go the Microsoft route, or the $0 to go with Linux?

Starting from Scratch
Starting over from scratch nullifies the one advantage that Microsoft has, complete code and a trained staff. Migration and retraining features prominently in most Microsoft white papers, and if it has to throw all that away, what chance does it have?

In light of the won't do and can't do, Microsoft sits there, and watches its market share begin to erode. That's happening slowly at first, but the snowball is rolling. A few people are starting to look up the hill and notice this big thing barreling down at them, and some are bright enough to step out of the way.

The big industry change is happening, and we are at the inflection point. Watch closely people, and carefully read each and every press release. If you can see the big picture, this is one shift that won't be a surprise in hindsight. *μ*