

# "Help! Microsoft is Targeting Our Business"

## If you are not in the crosshairs already, get ready

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By Michael Mace | Rubicon Consulting, Inc.

Recently we've been hearing that from more and more companies in Silicon Valley. The companies being targeted usually assume they've been singled out for special attention from Microsoft, but when you add up all the reports, a different picture emerges. Microsoft is targeting almost every major tech company, all at once. This is a fairly new behavior for Microsoft, and it means the rules of competing with Redmond have changed as well.

Not so many years ago, Microsoft was famous for its ability to focus on one unifying goal. The cry would go out: "Make Windows the dominant OS," or "Make Internet Explorer the dominant browser," and the company would rally around that cry. Of course, no large company ever focuses *entirely* on one thing. But more than most other companies, Microsoft had a knack for aligning its best managers and its most powerful assets against a single target.

Today, the threats to Microsoft are different. The famous "Internet Services Disruption" memo written last October by Microsoft CTO Ray Ozzie was notable because it attempted to focus the company against *an entire sector of the tech industry*, rather than against a single competitor or product.

But despite even that broad effort at focus, Microsoft is in reality pursuing even more opportunities. A quick online search for the phrase "Microsoft targets" yields a blizzard of news articles written in the last six months, listing new and renewed initiatives that Microsoft has launched to take business away from competitors. They include:

- An initiative to displace Apache from leadership in web servers.
- Yet another effort to take over Intuit's small business accounting franchise.
- Creation of a Microsoft-branded MP3 player to compete with Apple's iPod.
- A renewed push in corporate databases against IBM and Oracle.
- Launch of a new model of the Xbox game player, aimed at Sony's PlayStation.
- A new initiative to move people off of Lotus Notes and Domino.
- The creation of a new document standard to compete with PDF.
- An ongoing effort to displace the RIM Blackberry mobile e-mail business.
- Sparkle, a competitor to Adobe Flash.
- The launch of a new computer security product targeting Symantec and McAfee.
- A new push in high-performance computing.
- The creation of a new suite of graphics tools targeting Photoshop.
- A push into the VOIP market.
- And of course, the ongoing effort to create web services in competition with Google and Yahoo.

We're pretty sure we missed a few, but you get the idea. Microsoft is pushing almost everywhere. To understand why, you need to look at the forces affecting the company.

### The Logic of Growth Changes Microsoft

Microsoft is simply not the same place it was ten years ago, when most of the tech industry formed its image of Microsoft. Today Microsoft is a \$40 billion company that needs to grow revenue 10% a year in order to hit its financial goals. That urgent search for new revenue leads Microsoft to look for pools of money anywhere it can find them. If you have a successful software franchise and haven't been targeted yet, just wait – your turn will come.

Once you get this perspective on Microsoft, you can see a fairly predictable and logical pattern to its actions. First it probes markets, looking for areas of weakness. The company can run many of these experiments in parallel, which is why there were so many new initiatives reported in the last six months. Then if Microsoft gets traction in a particular market, it pours in the reinforcements and tries to take over. In the markets where Microsoft doesn't have traction, the company generally changes out the management team and redraws its plans.

This means it's very important not to let Microsoft get that first toehold in your market. It's worth sacrificing short-term profits to give them a lousy launch experience. Your goal is to convince them that the reinforcements should be aimed at a softer target. It's reminiscent of the old joke about outrunning a bear – you don't have to be faster than the bear, you just have to be faster than someone else who's running away.

Chances are you'll never completely force Microsoft out of your market. WiFi routers are about the business we can think of that they totally exited. But it is possible to transform Microsoft into the business equivalent of a chronic disease: unpleasant, expensive to deal with, but not ultimately fatal.

Part of the mystique of Microsoft is that it eventually kills any company it targets. The folk-tale that Microsoft will get a product right by the third version feeds the belief that resistance is futile. But today that's more of a demoralizing myth than a reality. Some companies have found ways to force Microsoft through a lot more than three versions, or to dominate their markets so thoroughly that it's not clear if Microsoft will ever catch up. Some winning tactics include the use of alliances, changing the rules of the competition, building up a passionately loyal customer base, innovating faster than others can respond, and using aggressive marketing to lock up a market. Here are examples of each in action:

#### **Alliances: IBM and the Linux world**

Even for a company as large as IBM, it can be difficult to fight Microsoft on your own. IBM tried in the 1990s with OS/2, and lost. That failure helped drive IBM out of the PC business, but it turns out to have been a tactical retreat. IBM refocused on tech services, and is building an ecosystem of allies capable of standing against Microsoft as a group. The open source and Linux communities can move faster than any individual company, but in their natural state they aren't organized enough to coordinate their efforts. IBM works behind the scenes to provide that coordination, and contributes its own engineering talents to help Linux grow. And of course all that software needs someone to provide services built on top of it, which is where IBM makes its money. The result: IBM is still a major power in computing years after competitors like DEC and faded away.

#### **Change the rules: Apple's iPod**

Apple tried and failed to use Macintosh to displace the IBM PC in the 1980s and 1990s. Many observers blame the failure on Apple's decision not to license Mac clones early on, but actually even if Mac clones had been available, most DOS users would have refused to switch hardware because they didn't want to give up their applications. Apple managed to keep the Mac alive, but it never grew into the dominating force Apple wanted it to be.

Enter the iPod. Apple targeted an emerging market without strong competitors, and created a solution combining hardware and software in unique ways that are very hard for others to duplicate. Rather than competing in Microsoft's mode of licensing software to hardware cloners, Apple competed as a systems vendor. The results are remarkable. Apple's iTunes store has about 70%-80% of e-music sales in the US, and it's growing so fast that it's not clear whether anyone will be able to catch up. Meanwhile, Microsoft's still talking about making a hardware competitor to the iPod.

#### **Build passionate bonds with your users: Intuit**

The case of Intuit is unusual, because the company received the ultimate endorsement from Microsoft – an attempted purchase. The government didn't allow that, but the market got the message: even

Microsoft itself said Intuit's products were better than its own. If you can arrange for Microsoft to attempt and fail to buy your company, that's fantastic, but probably the better lesson is to emulate what made Intuit so successful in the first place – its fanatical focus on building close ties with its customers. Intuit was one of the first major companies to deploy its applications online as a service, and it has made notable use of third party partners and technologies such as wikis to create a rich community with its customers. Basically, Intuit doesn't just sell a product, to many customers it sells a relationship. That bond was the thing Microsoft Money couldn't overcome, and it's what Microsoft was hoping to buy when it bid for the company.

#### **Innovate in ways they can't easily copy: Google**

Google is supporting a new model of software development and marketing that's very challenging to Microsoft. Rather than creating packaged software sold at retail and supported by a ponderous team of engineers, Google delivers its software online, and often assembles it out of bits and pieces from other companies. Google Maps is a great example – the user interface is from Google, but the underlying mapping technology and databases come from several other companies. They're simply integrated using Internet standards.

Although there has been a lot of media focus on Google's advertising business model, it's actually the development process used by online software services that's most challenging to Microsoft. It undermines Microsoft's engineering cost structure, and enables Google to create and ship new products faster than Microsoft can copy them.

#### **Consume all the oxygen in a market: AOL**

AOL is thought of as a troubled company today because its core dial-up business is declining. But it's good to remember that in the heyday of dialup, AOL successfully fought off a full-bore assault from Microsoft's MSN. AOL succeeded by blanketing the nation with offers for its services. All those AOL CDs people received in the mail became an industry joke, but they had the effect of consuming most of the available customers before Microsoft was ready to attack. AOL simply didn't leave any space in the market for MSN, and so it kept its franchise to this day.

None of this information means that it's easy to compete with Microsoft. It still excels at destroying companies that move predictably and allow themselves to be targeted. But if you're willing to change your business before the threat becomes critical, and if you use the right tactics, an assault from Microsoft doesn't have to be a death sentence.

*We can share additional examples of companies that have gone toe to toe with Microsoft and won. Success requires a deep understanding of the stakes, knowledge of how Microsoft operates, and the vision to change the playing field. If you would like to talk about how your company can build effective defenses against Microsoft, please give us a call.*

### **About Rubicon Consulting**

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