

From w-collin Tue Mar 26 10:22:17 1991
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Subject: Church vs. state text (LONG EMAIL)
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Microsoft's Applications and Systems Division: A Separation
of Necessity

Microsoft has a policy of running its applications and systems divisions as separate businesses. We have often used the phrase "church and state" to indicate this idea: that while both groups share the same cultural assumptions and corporate beliefs and certainly engage in a constant dialogue and interchange of ideas -- the two groups also have fundamentally different missions. The charter of the applications group is to develop a world-class family of applications on the major PC platforms: DOS/Windows, OS/2, and the Macintosh. The charter of the systems group is to recruit a critical mass of software developers for DOS/Windows and OS/2 to make those platforms a success. This means wooing the support of outside parties, hardware and software vendors alike and working with these parties in a fair and open manners. These are compatible but not identical goals for Microsoft's two divisions.

The policy is not a legal requirement, nor is it self-proclaimed righteousness on the company's part, some kind of altruism with no further motivation than to help "the industry." Microsoft states, for the record, that this policy is nothing more and nothing less than a sensible and rational business policy that generates large amounts of revenue for Microsoft and for other companies in the industry. That is why the policy exists and why it will continue. It is good sound, honest business.

The systems group could, in fact, succeed by providing significant advantages to the company's applications group and effectively "locking out" other competitors. Then the applications group would get all, or most, of a small business pie, for at least some period of time. In fifteen years of business, Microsoft has rejected this approach. Its fundamental business strategy has always been, and remains, the opposite. The company believes it will make much more money by keeping its systems business open and growing a mass market -- one that is orders of magnitude larger than the world has known before -- and having its applications group share in this huge pie along with others.

Microsoft has succeeded as a systems vendor because it recognizes the inherent trap of proprietary solutions. Proprietary systems will work for some time, but ultimately customers will desert them for platforms with many vendors. This has happened repeatedly in the industry, and Microsoft sees no reason to repeat the mistake. The most open platform in history -- DOS/Windows on Intel hardware, with hundreds of hardware vendors and thousands of software vendors -- is the result of a conscious business strategy.

Thus, what is at issue is not whether Microsoft will be fair because it is the right thing to do, but whether the company has an easier moral task -- to show enough common sense to keep executing a pragmatic business philosophy of fairness

Plaintiff's Exhibit

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that has been successful beyond anyone's wildest dreams, not only for Microsoft but for all companies selling into a market of more than 60 million customers and rising at 12 to 15 million per year.

Systems Mission and Business Policies

What Microsoft has said is that we do not seek competitive advantage for our applications by hiding system capabilities from other applications vendors. Microsoft's systems division has a number of goals to support independent software developers (ISVs) in an open and honest manner, and a number of specific programs to carry out the goals. In the broadest terms, the policies are:

- o Early disclosure of specifications of systems code to major ISVs, and broad dissemination of technical data to the overall ISV community as early as practical. This includes printed specifications, release of early systems code, and technical review sessions with individual companies.
- o Intensive work with major developers -- including Microsoft's own applications division -- on systems specifications. Openness to input from all ISVs about future technical directions and new product features. Such input has been significant in the development of features for Windows 3.0, in the upcoming Windows 3.1, in OLE, in Open Tools, and in Windows-32, among other systems software.
- o Open, published specifications for systems products. No secret "hooks" in systems products used by Microsoft applications products. * (*footnote: Beta versions of systems software often contains private interfaces for debugging purposes. There are also private interfaces within groups of related system modules. These are not used by applications and often change from version to version of the system product.)
- o Major programs to recruit, evangelize and support ISVs. These include several major technical conferences each year, design reviews with individual companies, joint marketing programs of various kinds, and MSU training programs.

What requires Microsoft to continue these policies? Customer pressure -- for the systems division, this means software developers and hardware manufacturers. If software developers cannot make a business case for supporting Microsoft platforms, either because the market is too small, or because Microsoft plays unfairly and therefore the business risk is too great, then those developers will desert Microsoft platforms for the many competitive alternatives available -- alternatives that are languishing today because developers believe their best opportunities are on Microsoft platforms. Microsoft might win in the short term, but over time Microsoft platforms would be abandoned as just one more closed solution.

And, because Microsoft is not the leading software vendor in most categories -- including the major areas of word processing, spreadsheets, and networking -- a huge installed base of other people's customers make up the bulk of PC purchasers. Consider the pressure that major hardware

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manufacturers could bring to bear on Microsoft if they became convinced that Microsoft was closing its systems platform and costing them millions of potential customers.

Microsoft's systems division is under constant pressure from software and hardware vendors to be fair, and under constant scrutiny for any hint that it is not.

[Do we need a section "proving" we're not taking advantage of the situation? The following is a shot at this.]

If We've Got An Advantage, We Sure Are Lousy at Exploiting It

If any proof is required that Microsoft has not used its systems division for the particular gain of its applications division, a simple reality-check is in order:

- o Microsoft is not the market leader in any of the overall major application areas in which it competes. Its success has been in the breadth and integration of its line, not on domination of a category.
- o The only system for which Microsoft is the dominant supplier is on the Macintosh, where Microsoft does not supply the underlying systems software.
- o On the Mac and in other other areas in which Microsoft is the leader -- notably, major application areas in international markets such as Germany and France -- it has had nothing to do with systems code but with Microsoft's willingness to take early risks when other companies held back. Microsoft developed Mac applications when other PC vendors declined, and gambled on international products two years before other American PC companies decided to.
- o Microsoft was not the first company to release major Windows applications; [detail on other companies/products]. In fact, until recently the general industry view was that Microsoft was late in bringing its own products to Windows.
- o Microsoft currently leads in the Windows segment (about 10 percent of the overall PC market and rising) because its key competitors in spreadsheets and word processing declined to do Windows products despite significant Microsoft evangelism; yet with both key competitors promising Windows products in the next year, Microsoft leadership in these categories is in no way guaranteed.

No Wall With Anyone, Not Even Ourselves

A recent article on Microsoft referred to a "Chinese wall" between Microsoft systems and applications; because the reporter's phrase was in quotes, some people have assumed "Chinese wall" is a Microsoft term. The company has not used it, and would never imply that its systems and applications divisions do not communicate with each other. There is no wall between them. They do have fundamentally different missions, and Microsoft's business strategy is to keep them separate. Microsoft's situation is the opposite of the Great Wall of China -- instead of trying to keep anyone out, Microsoft tries to let everyone in. Every ISV, including Microsoft's own applications group, gets to

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provide feedback on design and testing of systems products. Several different ISVs have provided code that has ended up in a variety of Microsoft systems products; the only consideration is that the ISV be willing to let the information become public.

If the accusation, then, is that the Microsoft systems division talks with the applications division or exchanges ideas with its personnel, the plea is nolo contendere -- no contest. Microsoft has never pretended that the two divisions never communicated. Obviously, they do. But the mission of the systems division is to get as many applications available on Microsoft platforms at the earliest possible time, and that mission compels the systems side to talk as often and as earnestly with other ISVs as possible, and to provide them with early design specifications, early code, and intensive technical support. The systems division is competing with other major systems providers -- the Macintosh, various Unix solutions, DOS clones on the low end -- and it cannot afford to withhold information from the ISV community. It is business necessity that compels Microsoft to treat its systems customers fairly, and nothing else.

Consider adding addendums or sections on:

X. Stuff in Windows, OLE for example, from Microsoft applications group and others.

X1. Stuff in Windows 3.0/3.1 or OS/2 requested/developed by other ISVs.

X2. Stuff in Windows 3.0/3.1 or OS/2 from corporate developers.

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