
HARD DRIVE

Bill Gates
and the
Making
of the
Microsoft
Empire

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Gates: Well, Go hasn't shipped anything yet, and I'll ship my stuff before they ship theirs.

Microsoft's Ballmer dismissed complaints that Microsoft has taken advantage of software companies. "Number one, we've never stolen anything from anybody," he said in a *PC Week* story. "But do we, like every other smart company, look at the works of others and try to get smarter by understanding what our competitors do? That we do."

Few companies, other than Apple, have dared sue Microsoft (although Go Corporation is reportedly considering legal action).

"If you are a software developer, you would think twice about taking Microsoft on," said Tim Bjarin, executive vice-president of Creative Strategies, a market research and consulting group that works with many of the leading players in the industry on strategic planning. "Microsoft has a massive legal department, and you still need them. You don't bite the hand that feeds you. You need their technical support. And if you are a hardware developer, you better have good relations with Microsoft because you need that operating system."

One competitor that did sue Microsoft was Z-Nix, a Pomona, California, hardware company that makes a mouse device for computers. In November 1990, the same month *Business Month* printed its article on Gates entitled "The Silicon Bully," Z-Nix filed a \$4 million lawsuit against Microsoft in federal court in Los Angeles. Tiny Z-Nix, with a mere \$6 million in annual sales, dared to accuse giant Microsoft of violating the Sherman Act, which prohibits a company dominating one market from using its position to control another market. A 98-pound weakling had hit the biggest kid on the block with brass knuckles.

The story of Z-Nix's suit hit the papers the next day. Frank Yeh, Z-Nix's vice-president of sales and marketing was quoted as saying, "It's time for us to stand up to Microsoft's unfair trade practices and stop the slow death of innovation in this industry."

The suit claimed Microsoft dominated computer operating environment user interfaces for the PC with its best-selling Windows 3.0 program, and it was using that control to run Z-Nix out of the mouse business. Z-Nix is one of a handful of U.S. firms that manufactures computer input hardware, including a device called the "Super Mouse." It competed with Microsoft for a share of the mouse market. Microsoft had been the dominant mouse maker for the PC since 1983, selling 500,000 of the mice by mid-1987. But by 1990, its market share of more than fifty percent was eroding, partly because of companies like Z-Nix.

The introduction of Windows 3.0 had fueled a burst of mouse sales, and Z-Nix had wanted to capitalize on that increased demand. In a not atypical alliance, Microsoft and Z-Nix struck an agreement that allowed Z-Nix to bundle its Super Mouse with Windows for resale. In return for the license to sell Windows, Z-Nix agreed to pay Microsoft a royalty of \$27.50 for every copy of Windows it sold.

The California company had been marketing the package when Microsoft changed its mind about letting competitors ride along on the wave of Windows popularity. Without warning, Microsoft informed Z-Nix that the royalty had doubled to \$55. At that price, Z-Nix officials said, the company would lose money. Having poured the equivalent of a year's profit into the Windows promotion, Z-Nix had its back to the wall. Finding itself cornered, the company bared its teeth. The result was its antitrust suit.

The suit was settled just hours after Microsoft's legal people learned of the suit in the Seattle newspaper. An attorney for Microsoft flew to Pomona to meet with Z-Nix. That same day, Microsoft proclaimed victory, saying Z-Nix agreed to retract allegations that the Redmond company used its marketing muscle to force Z-Nix to redesign its Super Mouse. Terms of the agreement were never publicized, but Z-Nix officials said they got what they wanted—the Super Mouse/Windows bundles stayed on the shelves of software dealers.

Having tangled with Microsoft, Z-Nix attorney Thomas Chan, a Los Angeles lawyer seasoned in computer law, had this to say of Microsoft:

"This is one of the few companies where the businessman wants to drive a harder bargain than the lawyer. They are really the toughest negotiators I've encountered in the industry. Small guys, they don't even talk to you. It's just take it or leave it. With big guys, they push and push and push and push, and at the last minute they up the stakes. That's got to be because of Bill Gates."

One reason Gates pushes so hard is fear—he is always looking over his shoulder. "You always have to be thinking about who is coming to get you," he told the *Wall Street Journal*. It's a message and attitude that filters down through the company. A couple years ago, Gates said his products managers ought to wake up thinking about their main competitor. He even suggested they go so far as to get to know the names of their competitor's children and birth dates.

"It is a competitive edge we try and hone," said Jeff Raikes, then manager of Microsoft's word processing division, of the chairman's remarks about knowing the competition. "Bill expected me to always be thinking about my competitor. If you just say 'We're No. 1, that's good enough,' that kind of complacency will lead to failure in a business as dynamic as ours." A week after Gates made his remarks about knowing one's competitors, Raikes has a photo of WordPerfect's executive vice-president's children on his desk. And he sends them birthday gifts.

Perhaps as a result of this attitude within Microsoft, Microsoft Word, for years trailing far behind WordPerfect as the industry's best-selling word processing application for personal computers, has steadily closed the gap. Twice a year, Gates personally visits WordPerfect's best customers, demanding to know why they continue to buy WordPerfect when Microsoft Word is so much better.

Pete Peterson, WordPerfect's executive vice president, has said he would love to see Gates mellow out. "I wish he'd get married and have a couple kids so he couldn't work as many hours as he does."

It's a plaintive cry from many in the computer industry today.

A few years ago, Pete Peterson described Microsoft as the "fox that takes you across the river and then eats you." He was making the same complaint others in the industry have made many times since, that Microsoft has a huge advantage over its software rivals because of DOS. The resentment has been festering like an open sore since the deal with IBM more than ten years ago which gave Microsoft control of Big Blue's operating system. The person who controls the operating system, many feel, controls the direction of the industry, and at the moment that is Gates. Microsoft has forced a generation of software developers to write applications that conform to its standard.

WordPerfect may have decided it was time for someone to shoot the fox. When Microsoft announced in April of 1991 that the FTC investigation of the company had been expanded, the *San Jose Mercury News* quoted several industry sources as saying the folks at WordPerfect played a "lead role" in lodging complaints against Microsoft. Officials of the Utah-based company acknowledged they had talked to the FTC, as had a lot of others in the industry.

At the heart of the FTC probe is not Microsoft's aggressive style or the way it does business, but whether or not Microsoft's dominant position has chilled competition and thus hurt consumers. Proving that Microsoft has engaged in anticompetitive practices would be very difficult and could take years of litigation, according to many legal experts. The federal government had a much stronger case against IBM and was unable to beat