

Commentary

Microsoft vs. Linux: The Changing Nature of Competition

Microsoft's attitude toward competition has changed as a result of Linux and other open-source software. Its business tactics are changing to focus on areas that have not been Microsoft's traditional strengths.

Linux and open-source software are unlike any competition that Microsoft has ever faced. Microsoft is now perceived as "expensive," at least in preliminary discussions regarding Linux. There is no single competitor or group of competitors that Microsoft can challenge. Free open-source software is more a fundamental movement, and because the nature of competition has changed, Microsoft must now employ strategies that are very different.

Background

Microsoft has faced many types of competitors in the past. It has actually thrived on this competition, often worrying more about that than technology or customers' wants and needs. While the constant focus and even obsession with competition has kept Microsoft remarkably agile, it has also contributed to Microsoft's sometimes overly aggressive tactics. One of these tactics involved bundling, which landed Microsoft in antitrust court in the late 1990s. It was found guilty of illegally maintaining a monopoly, but it escaped with permission (at least for now) to bundle products in any way its sees fit, with relatively minor restrictions. However, many are wondering whether this will matter in the future.

Competitors have come and gone, but one tactic has remained constant — Microsoft's ability to use price to its advantage. Although neither unique to Microsoft nor the sole reason for its success, this price advantage has been effective and consistent with Microsoft's original goal — enabling PCs that run Microsoft software on every desktop. As part of that goal, Microsoft has been a low-cost software provider. For years, its entry into markets and brutal price competition lowered the cost of computing and made it much more mainstream. Microsoft benefited enormously. It had long been considered the champion and enabler of end users, as well as an overall force for lower software prices — until recently.

Microsoft has also been a proponent of "commercial" software as opposed to "free" software. Founder Bill Gates, who was involved with the emerging computer hobbyist and embryonic world of software in the 1970s, authored a famous memorandum that established this position. While technology and the industry have come a long way since then, two things have remained remarkably constant: Software (unlike hardware) can be easily duplicated (leading to the issue of piracy, which is still crucial, but also enabling

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the huge, potential profit margin business that Microsoft enjoys), and hobbyists (now software hobbyists in the world of open source) continue to innovate.

Fast forward to 2003 — Linux and open-source software are changing everything — at least for Microsoft and its competitive stances.

In the next five years, Microsoft's competitive tactics will be dramatically different from those of the previous five years (0.8 probability).

What Microsoft *Will* Do:

1. Microsoft will use strategies that attempt to leverage innovation and trustworthiness through 2006 (0.7 probability).

We believe that Microsoft's focus will change toward areas in which it has not yet established a solid reputation. For example:

- Innovation through new graphical application programming interfaces, as well as unified storage in "Longhorn," which is Microsoft's next Windows OS.
- Trustworthiness through security-oriented initiatives, such as the Windows secure base platform, which was previously called "Palladium."
- Concentration on the lack of accountability in Linux and other open-source software.
- Total cost of ownership.

Microsoft will try to leapfrog Linux and other open-source software in these areas in the next two to five years.

2. Microsoft will use strategies that leverage tight technical integration between its operating systems, middleware and applications through 2007 (0.8 probability).

Not everything will change at Microsoft. Some deeply held beliefs, such as the importance of the OS and tight integration, will remain set in stone. Microsoft continues to believe in tight integration between its OSs, middleware and applications. With Linux, the GNU's Not Unix (GNU) General Public License requires that any changes to the code be made available to the open-source software community. Therefore, the importance of the OS, and the capability for tight technical integration, is a major barrier to Microsoft's potential willingness to support Linux.

What Microsoft *Won't* Do:

1. Microsoft will not support Linux through 2006 (0.8 probability).

Microsoft has changed its overly negative stance toward Linux and open-source software, but we believe this is only a "public" change because denigration has been ineffective. This does not, however, signal a real change in strategy.

Microsoft is business-driven, and most of its revenue and profits come from OSs or OS-specific products. For it to move to Linux, Microsoft would have to move that value or perceived value to a brand such as .NET, or something other than Windows. Gartner is watching closely as Microsoft continues to adjust its

.NET messaging and branding. So far, it seems Microsoft is moving toward strengthening its Windows platform brand, and repositioning .NET as a connectivity strategy rather than a platform.

Even if high-growth Linux server forecasts materialize, most of that growth would likely be at the expense of Unix. Eventually, however (perhaps by 2008), Microsoft may find that there is a cap on its enterprise opportunities. Much of Linux's high-growth numbers may be a result of high potential in the Chinese market. Again, if true, it's doubtful that the dynamics involved would favor Microsoft software running on Linux — any more than it would Microsoft software running on a Microsoft platform — so this would not be a reason for Microsoft to support Linux.

It is unlikely (0.2 probability) that, by 2004, Microsoft would announce a strategy to support its software on Linux, let alone implement such a strategy. For the long term, Microsoft is likely to keep its options open. Desktop Linux adoption would play a greater role in such a decision, should it increase significantly. Any such move by Microsoft would be later than 2004 — and it would not be a replacement for a Windows strategy, but rather an augmentation of that strategy. It would also be very difficult to do technically, culturally and in terms of marketing.

2. .NET will not be used as a cross-platform strategy, but it will remain a brand for connectivity through 2007 (0.8 probability).

.NET can be viewed as a type of middleware platform that could be used to market and sell value independent of an OS. Gartner has referred to this as Microsoft's "Plan B" for dealing with any potential corporate breakup, or for dealing with Sun Microsystems' Java. Now it can also be seen as a type of Plan B for dealing with the threat posed by Linux. The option exists, technically, but any decision would be business-driven and unlikely to be made before 2006.

Most interest in cross-platform strategies (for example, Java or .NET on alternative platforms) revolves around the potential for future choice. Microsoft is very interested in preserving that choice for itself. Java vendors promote cross-platform flexibility as a benefit to users. In both cases, however, it's more an insurance policy than a real plan to change. Through .NET technology, Microsoft has an insulating layer that it *could* move to Linux or other OSs — if it had to. Enterprises purchase Java because they like having the option that they *could* move to another vendor if they needed to.

Moreover, we don't believe there is any faction within Microsoft that advocates moving the value to higher levels (as Brad Silverberg, a former Microsoft senior vice president, did circa 1997). However, one possible indication of a major shift would be people like Group Vice President Jim Allchin or Bill Gates leaving Microsoft, or assuming lesser roles.

3. Microsoft will not use bundling strategies through 2007 (0.7 probability).

Microsoft's strategy of bundling other software with an OS will be ineffective. Other vendors may bundle Linux with application-platform-suite-like products, but this doesn't mean Microsoft will adopt Linux. Rather, it means Microsoft needs to find other ways to compete. Those vendors that might bundle an integrated, application-platform-suite-like stack on Linux (for example, BEA Systems or IBM) could become stronger competition for Microsoft, but this should not force Microsoft to follow suit and bundle Linux.

Despite progress, Microsoft will lose market share in servers and desktops to Linux by 2008 (0.7 probability).

Despite Microsoft's quick reaction to changes, Linux and other open-source software will have an effect on its markets — but less than if Microsoft had done nothing to change its tactics.

Bottom Line: Enterprises will see major changes in Microsoft's competitive strategy as Linux and other open-source software continue to erode Microsoft's traditional sources of income. Don't expect Microsoft's bundling strategies to continue as before, and don't expect it to support Linux before 2006 at least — if ever.