

## How Did Microsoft Become Microsoft?

First, a little quiz.

Which company invented these cornerstones of the personal computer revolution:

- First personal computer
- First high-speed computer network
- First laser printer
- First graphical user interface (mouse, pull-down menus, etc.)?

(The answer is three paragraphs down.)

A few days ago, I taught a new case, *Apple Inc. in 2010*, in a graduate student orientation session at MIT. In preparation, I reread one of the most interesting and informative books on strategy that I know.

The book is *Accidental Empires: How the Boys of Silicon Valley Make Their Millions, Battle Foreign Competition, and Still Can't Get a Date*, by Robert X. Cringely. Cringely was a columnist for *InfoWorld*, a PC trade magazine, and his book chronicles the early days of PCs and software. Written in 1993, it is still a wonderful read.

By the way, the answer to the quiz is Xerox. These were all invented at Xerox's PARC (Palo Alto Research Center). The company failed to commercialize them because they didn't seem to fit its strategy closely enough. Think about it.

Some of the most informative stories in the book concern the early history of Microsoft. The company's story starts in 1975, when Bill Gates was a sophomore at Harvard. Cringely writes,

Like the Buddha, Gates's enlightenment came in a flash. Walking across Harvard Yard while Paul Allen waved in his face the January 1975 issue of *Popular Electronics* announcing the Altair 8800 microcomputer from MITS, they both saw instantly that there would really be a personal computer industry, and that the industry would need programming languages. Although there were no microcomputer software companies yet, 19-year-old Bill's first concern was that they were already too late. "We realized that the revolution might happen without us," Gates said. "After we saw the article, there was no question of where our life would focus."

In a recent Harvard Commencement address, Bill Gates told of how he went to his dorm room and called the responsible executive at Altair, offering to provide software for the new PC,

One of my biggest memories of Harvard came in January 1975, when I made a call from Currier House to a company in Albuquerque that had begun making the world's first personal computers. I offered to sell them software.

I worried that they would realize I was just a student in a dorm and hang up on me. Instead they said: "We're not quite ready, come see us in a month," which was a good thing, because we hadn't written the software yet.

When Gates received the nod, he dropped out of Harvard, Allen left his programming job, and they moved to New Mexico to finish the software. That was how Microsoft began.

Cringley notes, "Gates and Allen started Microsoft with the stated mission of putting 'a computer on every desk and in every home, running Microsoft software.'" Before long, Microsoft was the dominant provider of software to the early PC business.

Unlike the other PC and software pioneers, however, Bill Gates was first and foremost a businessman. He saw clearly the need to get an inside track on the revolutionary growth by using his products to create a dominant strategy.

The second major cornerstone of Microsoft's early success came about five years later. IBM had developed its PC, and Gates had agreed to provide BASIC for the new computer. He also offered to provide an operating system.

At that time, Microsoft was the dominant provider of software, but Digital Research's CP/M was the dominant operating system. IBM sent a team of managers to Digital Research and Microsoft to find out more about the companies.

First they went to Digital Research. Cringley writes, "When the IBMers arrived...to talk with Gary Kildall at Digital Research, he wasn't there. Despite his appointment with IBM, Gary had gone flying in his small plane. Not a good first impression."

Needless to say, when the IBM team arrived at Microsoft, they were greeted by Bill Gates. Gates proposed providing an operating system, and IBM was interested. The only problem was that Gates didn't have an appropriate system.

When he heard that IBM was interested, Gates contacted Seattle Computer Products, a small local company that had an early operating system called QDOS ("quick and dirty operating system" – later to become a more respectable-sounding MS-DOS). Microsoft bought the system for \$50,000 even though it didn't work well. They rewrote it, and entered into their historic agreement with IBM in which DOS would be provided on every IBM PC, while Microsoft was free to sell DOS to every other PC maker as well.

And that's how Microsoft became Microsoft. The rest is history. Bill Gates was 25 years old at the time.

This story is remarkable. What's even more amazing is that at every point, someone else had a better product. But Microsoft always had a much better strategy. Remember Xerox's PARC?

There's an old rule of thumb in checkers that if you're not sure what to do, move toward the middle. Bill Gates relentlessly moved toward the middle, and won by constantly positioning Microsoft at the center of the entire PC industry.

The moral of the story: a great strategy always beats a great product.

Or, as my father used to say about sailboat racing, a good sailor in a bad boat will always beat a bad sailor in a good boat.