Microsoft’s fine: a boost to innovation
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Can the 497 million euros that Brussels condemned Microsoft to pay for abuse of its dominant position dissuade the company from carrying on its current practices?

Although this is the largest fine in the history of the European Union, ever to be imposed on a single enterprise for breaking the laws of competition, the fact is that Microsoft has 50,000 million dollars in cash and its software market will grow substantially over the next few years.

That is why, unless it runs the risk of getting a fine that exceeds the profit it earns from continuing to exploit its monopoly in operating systems, it hardly seems necessary for the company to change its behaviour.

The European Commissioner for competition, Mario Monti, also wants to force Bill Gates to share technical information with its competitors to guarantee the compatibility of rival servers with Microsoft’s operating system. Although this measure could clash with the idea that to promote innovation the intellectual capital of companies must remain private for a certain time, the fact that Microsoft is a monopoly has to be taken into account.

And, if a company with a dominant position in the market (like the market for operating systems for clients) keeps the information on its products hidden in order to weaken the competition in another sector (like the sector for operating systems for servers) that depends completely on the former (many PCs are connected to servers), it is clearly abusing its dominant position.

That is why the existence of real competition between operating systems for servers and the promotion of innovation depends on Microsoft revealing part of its code for Windows. This guarantees competition on equal terms with Microsoft in the sector of operating systems for servers and does not, in any way, threaten the dominant position that Microsoft has in the operating system for clients.

Lastly, the sentence compels Microsoft to distribute copies of the
its Windows operating system without Windows Media Player, its video and sound player.

For the user, having this software preinstalled in his PC is very convenient. He perceives it as an added functionality with which he can see all the content that uses the main compression formats on the market.

However, there is nothing to guarantee that Microsoft’s multimedia player will continue to be compatible with the other compression formats. It does not seem so preposterous to think that, in the mid term, Windows Media Player will only play Windows Media Audio (WMA) and that Microsoft will start charging content proprietors or the developers that design players for this format for user licences.

After all, this is the same strategy, embrace and extend, that the software giant followed to rid itself of Netscape. At the beginning, Microsoft’s Explorer and Netscape were totally compatible. But as Explorer’s market share increased (due to the fact that it was distributed with Windows) that compatibility waned. Therefore the web pages that worked well in Explorer did not work well in Netscape and given that the number of users with Microsoft Explorer was much larger and companies devoted more resources so that their webs worked better with Explorer. Soon, many webmasters decided to optimise only for Microsoft Explorer. Today Netscape is history.

In fact, more than a solution for the problems posed by Microsoft, the European Commission sentence will act as a reference for the solution of future conflicts. It seems that the next version of Windows, called Longhorn, may include a search engine in Internet, a market led by Yahoo! and Google, the pioneers in this field.

If Monti’s verdict hampers Microsoft from applying the strategy it used against Netscape or Realworks, then innovation and the creation of value will have been greatly benefited.