Weekly Insight:
Microsoft’s margin on Windows is 85%
Commentary by... Juan Miguel López, Technology Manager, PwC

EBCenter Article
Marketing finds a new goldmine in mobiles

Reports
The number of Internet users worldwide to reach 655 million by the end of 2002
Parents use more Internet than non-parents
Market, regulation and infrastructure, keys of the e-commerce success
Prolonged daily computer use can diminish your energy and motivation
Addresses posted to web pages, to newsgroups and to chats, the most used by spammers

Companies
Millionaire campaign of HP
The debut of Nokia software that allows wireless communication between machines

We Recommend
Security, an industry ready to take off
Situations not appropriate for e-mail

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WEEKLY INSIGHT
Microsoft’s margin on Windows is 85%
Microsoft has revealed for the first time that four of its seven business units are losing money, while its Windows software continues to generate an 85% profit margin. This information was revealed by a routine document that the Redmond giant sent to the Securities Exchange Commission (SEC). The text certifies that the brilliant results of the last fiscal quarter, which shows that profits increased by 26%, are due to the sales of their operating system.
The news of the enormous profit margin in Windows irritated its rivals, especially now that only three weeks have passed since Bill Gate’s company avoided the threat of partition due to alleged anti-trust activities in this field. However, some analysts point out that the low profitability of the rest of the Microsoft divisions questions the vendor’s diversification strategy. From National Post [Full Story]

Highlights
- In the first quarter (July-September) of this fiscal year, Microsoft had profits of $2,730 million, 113.2% more than in the same quarter of last year.
- These good results came from the so-called Client Division, which includes revenue from Windows and which made an operating profit of US$2.5 billion on revenue of US$2.9 billion. Similarly, the Information Worker division (Office) made US$1.9 billion on sales of US$2.4 billion.
- Microsoft’s home and entertainment division, which includes Xbox sales, was the worst-performing division with US$177 million in losses on revenue of US$505 million. Experts from Salomon Smith Barney estimate that the vendor is losing about $120 for each console sold.
- Things are no better in the rest of the Microsoft units. **MSN** Internet service posted **losses of US$97 million** on US$531 million in revenue; **Business Solutions** lost **US$68 million** on US$236 million in revenue; and the **CE/Mobility** unit, which makes wireless device software, **dropped US$33 million** on US$17 million in revenue.

**Press Review**

*From Financial Times*  
“Bill Gates, Microsoft's chairman, speaking yesterday in Las Vegas at Comdex, America's largest information technology conference and show, warned that investors and pundits were becoming too pessimistic about the prospects for innovation in the information technology industry.  

(…)  
[In the opinion of Gates] Moreover, the economics of the **IT industry was changing as technology continued to become increasingly affordable.**  
He said Dell, the world's leading PC maker, intended to enter the market for pocket PCs, fully functional PCs in a small format, costing $199, well below the prices of existing pocket PCs.  
As technology became cheaper, so it would become increasingly pervasive”.  
[Full Story] (Reprinted in *Business Day*)

*From The Register*  
“It's clear who's paying the rent for these expeditions, and it's also clear that **Microsoft is the dominant force in the PC market, and only the PC market.** It can afford to shoulder big losses in the areas where it wishes to be the dominant force for a very long time. Which is fortunate, because in several cases these look suspiciously like ventures normal businesses would be forced to put a bullet into”.  
[Full Story]

*From NewsFactor*  
“That kind of **profit margin** is **unheard of in any other industry.** There’s nothing wrong with turning a profit, of course, but the money isn’t just falling out of the sky and into Bill's pockets. It’s coming out of your pocket and, more than likely, your employer’s.  
While companies across the country were cutting costs to survive, laying off thousands of people, Microsoft was using its dominance to gouge companies and consumers by raising the retail cost of Windows and instituting Licensing 6.  
This new subscription-type licensing deal guarantees Microsoft income on an annual basis. But there's no guarantee that Microsoft will deliver new products to subscribers.  
More importantly for the economy, there’s not much likelihood that Microsoft will be spending its money anytime soon.  
At last report, Redmond was sitting on about US$40 billion in cash. That money has been drained from the economy and is not being put back into play to buy products and pay salaries for people who don't happen to work for Microsoft”.  
[Full Story]

**Commentary by…**

Juan Miguel López, Technology Manager, PwC  
**What is the real value of software?**  
While the price of hardware has been decreasing, the smart engine that is inside it (software) has become more and more expensive. That has a certain logic from the point of view of the varied production of these technological pieces, but it is not so evident if you watch the prices of some software products.  
The phenomenon has taken on a huge dimension over the last few years, above all in the business applications related to e-business. Licenses for CRM, marketplace or content management solutions cost about 1 million. On top of that you have to add business consulting services and implementation costs, which are quite significant, not to mention the necessary investment to maintain and update these applications. What are these fees for?  
In most cases software prices have not been marked by a traditional market's dynamics based on demand, but by ignorance and the prospects generated from the offer, which have enabled the fixing of opportunity prices. For instance, many companies contracted, some of them still do, CRM systems according to an estimation of the volume of new commercial contacts or new incomes that they should generate.  
The economic crisis and the general deception created around these technologies are making this change, but there are still some very inflated prices in the market which are difficult to amortise.  
On the end user side things are quite different. Massive use, with the scale economies that this implies, makes prices
lower in general. Moreover, home users are not used to buying software because basic programs usually come pre-installed in the hardware that they buy.

In this way software is regarded as a commodity whose price is spread out in the product or in the end service. Microsoft has managed to escape from this logic. Its overwhelming penetration in the operating systems market has converted the software giant in the de facto standard not only for technology, but also for the consumer price policy and indeed the hardware manufacturers. In that way it is understandable that Microsoft’s profit margin is so high. However, the cited economic recession and the appearance of alternative solutions, such as open source code, are questioning these schemes. Although there are many unsolved aspects, it seems clear that software prices will begin to be more realistic, based on development costs, the aims of each case and the estimated return on investments.

**EBCENTER ARTICLE**

**Marketing finds a new goldmine in mobiles**

By Rita Ferreira, PhD student, IESE

Short messages via the mobile phone have become an effective and indispensable tool when carrying out advertising campaigns. [Full Story]

**REPORTS**

**The number of Internet users worldwide to reach 655 million by the end of 2002**

**Title:** E-Commerce and Development Report 2002

**Source:** United Nations Conference on Trade and Development (UNCTAD)

**Date:** November 2002

**Abstract:** In contrast with the difficulties experienced by the information technology (IT) sector, Internet use and particularly electronic commerce have continued to grow, according to a study elaborated by the UNCTAD, that estimates that there will be 655 million Internet users by the end of 2002.

According to this document, developing countries accounted for almost one third of new Internet users worldwide in 2001. In most of them, however, Internet penetration rates remain very low. For example, although Internet connectivity has improved in Africa, only 1 in 118 Africans has Internet access. In Latin America, e-commerce is highly concentrated in four relatively developed Internet markets: Argentina, Brazil, Chile and Mexico.

This organism expects a fast growth in both B2B and B2C e-commerce in Central and Eastern European countries, but e-commerce is not likely to reach 1% of global e-commerce before 2005. Moreover, the survey warns that, in addition to the “digital divide” and the risk of excluding a large part of the population, attention must be paid to the question of whether the digital revolution reinforces existing gender inequalities. According to the research, although ICT and e-commerce are attractive to women entrepreneurs, most women are engaged in activities such as data processing and storing transcription services. [Full Story]

**Parents use more Internet than non-parents**

**Title:** Parents Online

**Source:** Pew Internet & American Life

**Date:** November 2002

**Abstract:** Paternity promotes Internet use. That is the major finding of a Pew Internet & American Life report, which reveals that 70% of the U.S. parents with a child under the age of 18 use the Internet, compared to 53% of non-parents.

According to the survey, parents are generally more enthusiastic about technology and less burdened by technological change than non-parents.

One strong incentive for parents to have Internet access is for their children. The vast majority of parents believe that their children need to know about computers and the Internet in order to succeed. However, parents are less likely than non-parents to use the Internet on a typical day. The researchers found that 54% of the parents with Internet access were online on an average day, compared with 60% of the non-parents who have Internet access. They spend less time using the Internet on a typical session than non-parents: a parent spent an
average of 81 minutes online during an average day’s worth of Internet use compared to an average 94 minutes for a non-parent’s sessions.

**Market, regulation and infrastructure, keys of the e-commerce success**

**Title:** Most Favourable Environments for e-Commerce  
**Source:** Booz Allen Hamilton  
**Date:** November 2002  
**Abstract:** A new study by Booz Allen Hamilton identifies the United States, the United Kingdom, and Canada as the nations with the best environments for e-commerce. The report measures the e-commerce progress of the G7 countries (Canada, France, Germany, Italy, Japan, UK, and the US) plus Australia and Sweden. The consulting firm considers that the development of e-commerce is due to three factors. The first is the market. In this way, those most prepared for e-commerce present three common strategic elements: integrating computer training into the educational process, stimulating investment in the e-economy, and regulating the price of internet access. Secondly there is the political and regulatory environment. Lastly there is infrastructure: all countries studied are working to extend and accelerate broadband rollout in a competitive market. According to this document, the citizens of Canada, Sweden, and the US are the most involved in the e-economy, while countries with most business e-maturity are the US and Sweden. Both countries, plus Canada, and Australia, have the strongest e-government development.

**Prolonged daily computer use can diminish your energy and motivation**

**Title:** Association Between Duration of Daily VDT Use and Subjective Symptoms  
**Source:** American Journal of Industrial Medicine  
**Date:** November 2002  
**Abstract:** A survey published by the American Journal of Industrial Medicine and led by professor of the Japanese University Chiba, Tetsuya Nakazawa, reveals that people who work in front of computer screens are more likely to experience physical pain, such as eye and shoulder strain, and to suffer from motivational symptoms, such as lethargy. The report, elaborated among more than 25,000 workers over three years, points out that those who spent more than five hours daily in front of a computer screen cause sleep-related symptoms and mental stress. Moreover, the exposition to computer screens produces anxiety, difficulty getting along with co-workers and reluctance to go out to work.

Japanese experts think that physical symptoms increase with duration of computer display use, while mental and sleep related symptoms grow with screen work exposure of more than five hours per day.

**Addresses posted to web pages, to newsgroups and to chats, the most used by spammers**

**Title:** e-Mail Address Harvesting  
**Source:** Federal Trade Commission (FTC)  
**Date:** November 2002  
**Abstract:** According to the investigators, spammers typically use computer programs that search public areas on the Internet to compile and capture lists of email addresses. The survey found that 86% of the addresses posted to web pages received spam. It didn’t matter where the addresses were posted on the page: if the address had the ‘@’ sign in it, it drew spam. Another 86% of the addresses posted to newsgroups received spam. On the other hand, chat rooms are virtual magnets for harvesting software: one address posted in a chat room received spam nine minutes after it was first used.

Some e-mail addresses posted to children’s newsgroups received a large amount of spam promoting adult web sites, pitching work-at-home schemes, and even advertising hallucinogenic drugs. Thus the spam is not related to the address used and is not targeted.

**COMPANIES**

**Millionaire campaign of HP**
HP has released a branding campaign estimated in hundreds of millions of dollars, its first campaign since the union with Compaq, whose name is not mentioned. Under the slogan "Everything is possible", the ads show how HP is helping DreamWorks' animators, NASA and FedEx. From Technology Marketing [Full Story]

The debut of Nokia software that allows wireless communication between machines
Nokia's version of so-called machine-to-machine (M2M) networks has been used commercially for the first time. It works similarly to remote monitoring systems that use traditional landline telephone networks, but it uses wireless networks, thus they are cheaper to install. AT&T Wireless's GPRS (General Packet Radio Service) network has been in charge of transmitting information in this first use. From News.com [Full Story]

WE RECOMMEND
Security, an industry ready to take off
Business Week addresses a dossier of articles on security, a segment that, in spite of being supposed to be a hot business, has not grown nearly as fast as investors had wanted. Corporations will continue to spend on computer security but, in an economic crisis period, tend to focus on tech investments that can show a return, which security, inevitably a cost center, can't. According to the magazine the security sector has started consolidating in recent months. The stocks have divided into two groups: those that have no movement and those that have shown some signs of life. On the other hand a new business opportunity has raised its head: open-source security software. More and more businesses and government entities are deploying this kind of solution, which still accounts for only 0.5% to 1% of commercial spending in the computer-security market. But that's up from zero only two years ago. From BusinessWeek [Full Story]

Situations not appropriate for e-mail
This month, Entrepreneur magazine offers a practical article about when the e-mail is the wrong way to communicate. Firstly it should never be used in negotiating a business deal, because a lot of the power of negotiation is lost. In this case, it is better to pick up the phone. This is also true when it is necessary to communicate a lengthy message. The author remembers that nobody has the patience to read wordy explanations and any message that exceeds 50 words should not be sent by e-mail.

On the other hand, the e-mail should never be used to deliver bad news, such as to fire an employee or to announce that your office is relocating to Siberia. Also it is risky to confirm appointments. The phone is the most appropriate means to assure the date, hour, day and place.

Lastly, it's better not to send an e-mail reply when someone e-mails an inopportune message. The Entrepreneur's advice is to send a short e-mail reply to discuss the issue in person the following day. If there is a terrible need to answer, it's is advisable to draft an angry reply and save it in "drafts" folder. From Entrepreneur [Full Story]