



Will Microsoft become the General Motors of software?

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It has near-monopoly status and nimble, disruptive competitors. We've seen this movie before.

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Galbraith questions Microsoft's resolve to change. Image: Galbraith Management

The more I learn about the current situation in software, the more Microsoft's position seems to mirror General Motors' position in the auto industry a few decades ago. Like Microsoft (MSFT) today, GM was an icon in its industry, held a quasi-monopoly, produced eye-popping profits and was often distracted by antitrust lawsuits. When a company experiences this kind of environment over a couple of decades, it eventually loses its competitiveness. Of course, Microsoft would vigorously deny any such comparison. The top executives in Redmond, Wash., claim to be on top of the trends in the industry. They are confident they can develop all the software they will need to be competitive.

My concern is not with the leadership of Microsoft; I am sure Ray Ozzie, the chief technical officer, will stay on the cutting edge of the technology. But its 15,000 to 20,000 middle managers have never been through a downturn (assuming they've worked only at Microsoft). And to me, you are not a real company until you have been through a downturn. Growth and high margins are very good at covering up a company's bad habits and unresolved issues. When a downturn hits, all of the flaws come to the surface and the company purges itself of its bad practices. A 3% decline in sales in 2008 – Microsoft's first ever – during the worst recession in decades will not wake up Microsoft. The bad habits will persist.

Microsoft's Options

The *best* thing that could happen to Microsoft would be successes by Apple ([AAPL](#)) or Google ([GOOG](#)) that cause a significant loss of sales and market share. The shock would create a sense of urgency and cause the leaders to clean house. The *worst* thing that could happen is a success with Windows 7, which would reinforce management's focus on the desktop. Then, as customers move away from the desktop to smartphones and other devices, market share will decline. But if share declines slowly, maybe a point or two a year, the drop will not be enough to overcome the pride that comes with high margins and high profits. Over time, the desktop mafia will experience a shift from pride to hubris. Welcome to the General Motors scenario.

I am not concerned about Microsoft developing the software. They always have. My question is whether they will develop the new business models. As computing moves away from the desktop and onto small mobile devices, the industry moves away from Microsoft's strengths. Consumers are driving computing now, though, and customer-centricity is not a Microsoft competence. Steve Ballmer, Microsoft's CEO, will have to give a lot of his [famously YouTube-worthy stage performances](#) to convert the middle managers who are currently enjoying monopoly profits.

Microsoft's Path Ahead

Microsoft also suffers from the incumbent's curse during a technological transition. The curse is well described in Clayton Christensen's research. Cloud computing, in which software and other applications are housed in a central location and delivered over networks to end users, could lead to a shift away from desktop-based computing and from complicated operating systems. As Microsoft adapts to it, will it promote cloud computing or protect Windows? Will the team leading Microsoft's Azure cloud computing business have the freedom to cannibalize the desktop? Or will it be integrated into Windows, where the desktop mafia will slow, modify and dilute the efforts to convert to a new business model?

The General Motors scenario does not have to happen. Ballmer can focus inward on transforming the desktop mafia to the new computing paradigm. Or, better yet, appoint a hands-on, change-experienced chief operating officer who can do it with him.

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