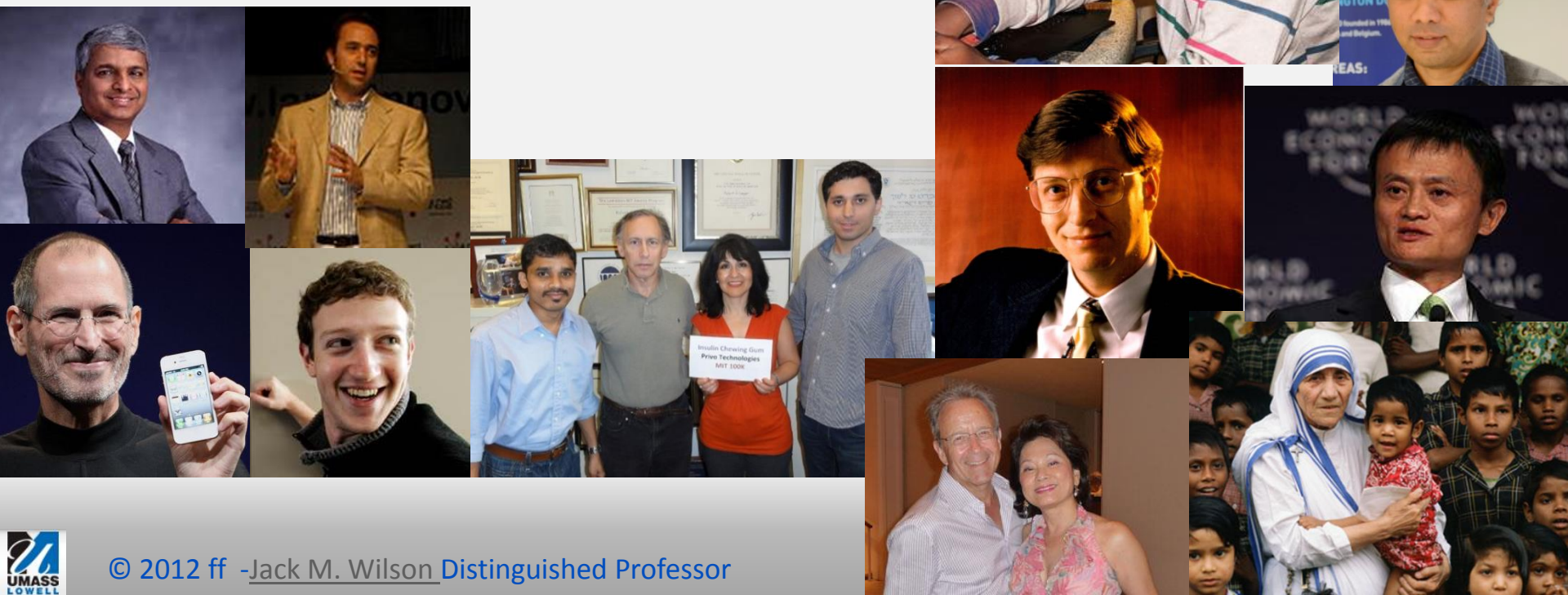




Case: Microsoft –Bill Gates

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Interesting Entrepreneurs: Bill Gates

- Bill Gates –Microsoft
- Harvard Dropout
- Computer whiz
- Wrote operating system for IBM
 - Because IBM was too cheap to license CPM
- Signed Giving Pledge and Created the Gates Foundation
- Microsoft wanted to enter China, but faced formidable challenges in intellectual property protection and government regulation.
- Entered anyway with 500 engineers in a building on the Tsinghua University Campus.
- Why? They had to be close to an important source of intellectual capital and they wanted to maintain some position in the fastest growing market in the world.



Steve Ballmer, CEO of Microsoft

- I had the unique opportunity to spend a couple of days with Steve Ballmer in 2005. We met when we were the two main speakers at a meeting of the Mass Technology Leadership Council and began to discuss various topics in both application of computers in education and in the area of Microsoft's Global strategy.
- I invited him to come back again and fly out to UMass Amherst to name them the first Microsoft Showcase campus. We took the trip by helicopter from Logan Airport and landed on the football practice field.
- He had a ball with the students as we launched the new Learning Commons in the library.
- On the trip back I gave him an aerial tour of Massachusetts where we flew around the Quabbin Reservoir while I described the UMass-WGBH produced documentary "Under Quabbin."
- Then we buzzed the UMass Medical Center and Medical School before landing at Logan again.
- His staffers seemed completely surprised that I had survived all those hours in a helicopter with Steve. He is a very high energy/hyperactive guy and they refused to be put into such a small place with him for so long. I enjoyed it, but I certainly understood their trepidation.



Microsoft Research in Beijing

- I asked him about why Microsoft founded the Microsoft Research Center in Beijing on November 5, 1998.
- Microsoft was finding it almost impossible to sell Windows or Office in China.
- It was embroiled in trade dispute with the government.
- The products were widely available as almost free pirated software versions.
- Given all the negativity, why did they open a center with 500 engineers right on the edge of the Tsinghua University campus.
- He gave me two reasons:
 - 1. He felt they needed to be there to take advantage of all the intellectual capital being created at that great university.
 - 2. No matter how difficult it proved to access the China market, it was simply too large to ignore.



Supplementary Readings

- [Microsoft Picks Beijing for New R&D Lab](#); Science Magazine; Nov. 13, 1998.
- [Microsoft builds R&D Dream Team in Beijing](#); EE Times; Sunray Liu; 9/3/1999
- [Microsoft latest US tech target in Beijing](#), Eunice Yoon (@eyoonCNBC), Tuesday, 29 Jul 2014
- [Beijing Hits Microsoft With Windows 8 Ban](#); Forbes; 5/21/2014.
- [Microsoft faces monopoly investigation in China](#); The Guardian; July 29, 2014.
- [Inside The Crumbling Microsoft-China Love Affair](#); World Crunch; <http://www.caixin.com/>
- <http://steveblank.com/2013/04/13/zhongguancun-in-beijing-chinas-silicon-valley-part-4-of-5/>

- “His first visit to China was very short. March 21, 1994 was his first visit to China, when he was 39, to sell Windows. He met [President] Jiang Zhemín and the visit was short. Jiang talked to Gates about Chinese Civilization. He told him that he should try to understand Chinese language and culture in order to be able to collaborate more.”
 - *“Guanxi (The Art of Relationships): Microsoft, China and Bill Gates Plan to Win the Road Ahead.”* Robert Buden and Gregory Huang, Simon & Shuster, (2006).

- According to Bill Gates: “Remember, in China, when you are one in a million, there are thirteen hundred people just like you.”
 - *“The World is Flat 3.0;”* Thomas L. Friedman; MacMillan Publishing (2005).

- Commercial-licensing revenue fell to \$10.7 billion in the period that ended Dec. 31, the world's largest software maker said Monday in a statement.
- Analysts on average had projected \$10.9 billion, based on a survey conducted by Bloomberg.
- Unearned revenue, a measure of future sales, was \$21.2 billion, compared with estimates of \$21.8 billion.
- The shares fell to \$42.11 at 9:56 a.m. in New York, the biggest drop since July 2013.
- Gross margin, or the percentage of sales left after subtracting production costs, was 61.7 percent, while analysts were looking for 62.9 percent, on average, Ives said

Ballmer Bares China Travails -

<http://www.wsj.com/articles/SB10001424052702303654804576347190248544826>

- “Rampant piracy means Microsoft Corp.'s revenue in China this year will only be about 5% of what it gets in the U.S., even though personal-computer sales in the two countries are almost equal, Chief Executive Steve Ballmer told employees in a meeting here.
Mr. Ballmer's candid remarks provided a glimpse at the software giant's struggle with piracy in what will soon be the world's largest PC market. In China, copies of Microsoft's core Office and Windows programs are still available on street corners for \$2 or \$3 each, a fraction of their retail price, despite efforts by the company to curb theft.”
- Microsoft's revenue per personal computer sold in China is only about a sixth of the amount it gets in India.
- Microsoft's total revenue in China, population 1.3 billion, is less than what it gets in the Netherlands, a country of fewer than 17 million.

Questions

- Has Microsoft's long term strategy in China paid off?
- Do you see any way in which Microsoft's situation in China can get better?
- What future trends in China could make the situation improve?
- What future trends in China might make things worse?
- Are there any actions that Microsoft could take to improve its market position?