# Assessment 2 Case Study

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By Kurt Eichenwald

**Microsoft's Lost Decade**

Once upon a time, Microsoft dominated the tech industry; indeed, it was the wealthiest corporation in the world. But since 2000, as Apple, Google, and Facebook whizzed by, it has fallen flat in every arena it entered: e-books, music, search, social networking, etc., etc. Talking to former and current Microsoft executives, Kurt Eichenwald finds the fingers pointing at C.E.O. Steve Ballmer, Bill Gates's successor, as the man who led them astray.

Amid a dynamic and ever changing marketplace, Microsoft—which declined to comment for this article—became a high-tech equivalent of a Detroit car-maker, bringing flashier models of the same old thing off of the assembly line even as its competitors upended the world. Most of its innovations have been financial debacles or of little consequence to the bottom line. And the performance showed on Wall Street; despite booming sales and profits from its flagship products, in the last decade Microsoft's stock barely budged from around $30, while Apple's stock is worth more than *20 times* what it was 10 years ago. In December 2000, Microsoft had a market capitalization of $510 billion, making it the world's most valuable company. As of June it is No. 3, with a market cap of $249 billion. In December 2000, Apple had a market cap of $4.8 billion and didn't even make the list. As of this June it is No. 1 in the world, with a market cap of $541 billion. How did this jaw-dropping role reversal happen? How could a company that stands among the most cash-rich in the world, the onetime icon of cool that broke IBM's iron grip on the computer industry, have stumbled so badly in a race it was winning?

The story of Microsoft's lost decade could serve as a business-school case study on the pitfalls of success. For what began as a lean competition machine led by young visionaries of unparalleled talent has mutated into something bloated and bureaucracy-laden, with an internal culture that unintentionally rewards managers who strangle innovative ideas that might threaten the established order of things.

By the dawn of the millennium, the hallways at Microsoft were no longer home to barefoot programmers in Hawaiian shirts working through nights and weekends toward a common goal of excellence; instead, life behind the thick corporate walls had become staid and brutish. Fiefdoms had taken root, and a mastery of internal politics emerged as key to career success.

In those years Microsoft had stepped up its efforts to cripple competitors, but—because of a series of astonishingly foolish management decisions—the competitors being crippled were often co-workers at Microsoft, instead of other companies. Staffers were rewarded not just for doing well but for making sure that their colleagues failed. As a result, the company was consumed by an endless series of internal knife fights. Potential market-busting businesses—such as e-book and smartphone technology—were killed, derailed, or delayed amid bickering and power plays.

That is the portrait of Microsoft depicted in interviews with dozens of current and former executives, as well as in thousands of pages of internal documents and legal records. "They used to point their finger at IBM and laugh," said Bill Hill, a former Microsoft manager. "Now they've become the thing they despised."

Today, Microsoft stands at a precipice, an all-or-nothing opportunity that may be Ballmer's last chance to demonstrate to Wall Street that he is the right man with the right plan to lead the sprawling enterprise into the future. With Surface, the recently unveiled tablet, Windows 8, Windows Phone 7, Windows Server 2012, and Xbox 720 in the offing, he could be on the verge of proving his strategies—including last year's controversial, $8.5 billion acquisition of Skype. But whether these succeed or not, executives say, the Microsoft of old, the nimble player that captured the passions of a generation of techies and software engineers, is dead and gone.

"I see Microsoft as technology's answer to Sears," said Kurt Massey, a former senior marketing manager. "In the 40s, 50s, and 60s, Sears had it nailed. It was top-notch, but now it's just a barren wasteland. And that's Microsoft. The company just isn't cool anymore." Cool is what tech consumers want. Exhibit A: today the iPhone brings in more revenue than the entirety of Microsoft. No, really. One Apple product, something that didn't exist five years ago, has higher sales than everything Microsoft has to offer. More than Windows, Office, Xbox, Bing, Windows Phone, and every other product that Microsoft has created since 1975. In the quarter ended March 31, 2012, iPhone had sales of $22.7 billion; Microsoft Corporation, $17.4 billion.

Monopoly Money

While Microsoft was once the hippest company on earth, its beginnings could be traced to the Holy Bible for nerds—*Popular Electronics.*

In December 1974, a 21-year-old college dropout named Paul Allen purchased the latest issue of the hobbyist magazine at a newsstand in Harvard Square and was barely able to contain his excitement. In bold letters, the cover headline screamed out that the world's first minicomputer with the power to rival commercial models had been invented. Allen rushed six blocks to Harvard College, where his high-school chum Bill Gates was a student. The two had long wanted to write an operating program using the computer language called BASIC, but Gates had held off; he would start such a project, he told Allen, only when someone developed a computer with a fast processor. Allen thrust the magazine into Gates's hands, and the two agreed: the moment had arrived.

Things moved quickly. Gates, Allen, and another friend wrote a program they called Altair BASIC and persuaded the company that made the computer—MITS, in Albuquerque—to license it. They named their new company Micro-soft. Soon, the personal-computer market was exploding. Micro-soft began selling its programs to bigger and bigger corporate players. Within two years, the company, renamed Microsoft, was setting the industry standards for microprocessor programming. Working at the young Microsoft was, by all accounts, thrilling, but also unnerving. Gates was relentless, demanding the same intense commitment of everyone he hired.

In 1980, IBM—then the world's largest computer-maker—came to Gates and Allen and licensed their company to write the operating software for their soon-to-be-released product, the IBM P.C. It was Microsoft's big break, bringing the company the riches it needed to finance its coming blast into the stratosphere.

The same year, Gates and Allen decided that neither of them had the management skills or business savvy that Microsoft needed. So Gates turned to a Harvard friend, a boisterous, loud, hard-charging math-and-economics major—Ballmer—to run the business side. Ballmer had worked as an assistant product manager at Procter & Gamble before enrolling at Stanford business school, from which he dropped out to join Microsoft. In his 2011 book, *Idea Man,* Allen remembers meeting Ballmer: "I thought, This guy looks like an operative for the NKVD [the secret police of the U.S.S.R.]. He had piercing blue eyes and a genuine toughness."

The company started doubling and tripling in size every year, and the operating systems from Microsoft grew in sophistication. MS-DOS was a text-based system, but then came Windows, which brought a graphic interface—desktops, icons, and the like—to P.C.'s and any other computer.

On August 24, 1995, Microsoft reached the pinnacle of cool, releasing what would then be its largest-selling operating system ever: Windows 95. Seeking to buy the first copies, computer geeks lined up at midnight around the block outside technology stores. Jay Leno showed up at Microsoft's campus to celebrate, and the Empire State Building was lit in Microsoft's colors—red, yellow, and green. Gates paid $3 million to the Rolling Stones for rights to use their classic "Start Me Up" as the theme song for ads and other presentations. Yes, a theme song. For software.

By the end of 1997, Windows 95, along with Microsoft's other operating systems, ran on 86.3 percent of the P.C.'s in the U.S. (Apple's Mac O.S., by contrast, then had only 4.6 percent of the market.) Worth $6.8 billion, Bill Gates had been named the richest man in the world by *Forbes* magazine in 1992. Nerds were now chic, and Microsoft exerted unprecedented power over American society. It seemed as if nothing could ever slow the software Goliath.

On the other hand, investor Warren Buffett, the "oracle of Omaha," didn't get Microsoft. It was August 1997, and Jeff Raikes—the executive responsible for Microsoft's sales, marketing, and service initiatives—was urging him to buy shares. Microsoft, Raikes wrote in an e-mail, was just like the Coca-Cola Company, one of Buffett's best-known investments. Coke essentially received a royalty on swallows; Microsoft manned the toll bridge for almost every personal computer sold in the world. Still, Raikes conceded, there was a danger in Microsoft shares. The threat, he wrote, was from some unforeseen transformation of the tech market, the same phenomenon that had crippled IBM, the granddaddy of computer giants, when Microsoft burst onto the scene. "I think [I.B.M's] addiction to the power they had in previous generations of computing really blindsided them from the paradigm shift of the PC," he wrote. That concern about Microsoft made sense to Buffett. Would the company fall prey to the arrogance that dethroned IBM? Would there be another paradigm shift that Microsoft didn't see until it was too late? Raikes acknowledged that he had the same worries. “I do wonder about the time period ten or twenty or more years down the road,” he wrote.

He had good reason to fret. Signs that Microsoft would be missing the boat in the next decade were already emerging. That very moment at Microsoft’s headquarters, in Redmond, Washington, a group of executives were developing a device that, in 10 years’ time, would transform a multi-billion-dollar industry: an electronic reader that allowed customers to download digital versions of any written material—books, magazines, newspapers, whatever. But, despite its multi-year head start, Microsoft would not be the one to introduce the game-changing innovation to the market. Instead, the big profits would eventually go to Amazon and Apple.

The spark of inspiration for the device had come from a 1979 work of science fiction, *The Hitchhiker’s Guide to the Galaxy,* by Douglas Adams. The novel put forth the idea that a single book could hold all knowledge in the galaxy. An e-book, the Microsoft developers believed, would bring Adams’s vision to life. By 1998 a prototype of the revolutionary tool was ready to go. Thrilled with its success and anticipating accolades, the technology group sent the device to Bill Gates—who promptly gave it a thumbs-down. The e-book wasn’t right for Microsoft, he declared.

“He didn’t like the user interface, because it didn’t look like Windows,” one programmer involved in the project recalled. But Windows would have been completely wrong for an e-book, team members agreed. The point was to have a book, and a book alone, appear on the full screen. Real books didn’t have images from Microsoft Windows floating around; putting them into an electronic version would do nothing but undermine the consumer experience.

The group working on the initiative was removed from a reporting line to Gates and folded into the major-product group dedicated to software for Office, the other mammoth Microsoft moneymaker besides Windows. Immediately, the technology unit was reclassified from one charged with dreaming up and producing new ideas to one required to report profits and losses right away.

“Our entire plan had to be moved forward three to four years from 2003–04, and we had to ship a product in 1999,” said Steve Stone, a founder of the technology group. “We couldn’t be focused anymore on developing technology that was effective for consumers. Instead, all of a sudden we had to look at this and say, ‘How are we going to use this to make money?’ And it was impossible.”

Rushing the product to market cost Microsoft dearly. The software had been designed to run on a pad with touch-screen technology, a feature later popularized with the iPhone. Instead, the company pushed out Microsoft Reader, to run on the Microsoft Pocket PC, a small, phone-size device, and, soon after, on Windows. The plan to give consumers something light and simple that would allow them to read on a book-size screen was terminated.

The death of the e-book effort was not simply the consequence of a desire for immediate profits, according to a former official in the Office division. The real problem for his colleagues was that a simple touch-screen device was seen as a laughable distraction from the tried-and-true ways of dealing with data. “Office is designed to inputting with a keyboard, not a stylus or a finger,” the official said. “There were all kinds of personal prejudices at work.”

Indeed, executives said, Microsoft failed repeatedly to jump on emerging technologies because of the company’s fealty to Windows and Office. “Windows was the god—everything had to work with Windows,” said Stone. “Ideas about mobile computing with a user experience that was cleaner than with a P.C. were deemed unimportant by a few powerful people in that division, and they managed to kill the effort.”

This prejudice permeated the company, leaving it unable to move quickly when faced with challenges from new competitors. “Every little thing you want to write has to build off of Windows or other existing products,” one software engineer said. “It can be very confusing, because a lot of the time the problems you’re trying to solve aren’t the ones that you have with your product, but because you have to go through the mental exercise of how this framework works. It just slows you down.”

But the power of the Windows and Office divisions in dictating the direction of product development was only one of the myriad problems unfolding within Microsoft that served to crush innovation. The far bigger issue, executives said, was a corporate culture that by 2001 was heading down the path of self-immolating chaos.

The Bubble Bursts

In the early 1990s, it seemed as if every Microsoft employee's computer ran an application that left an image on their screens at all times: a cartoon depiction of a face whose expression changed depending on the direction of the company's stock price. When shares increased in value, the face smiled; when they fell, it frowned.

And no wonder. Almost every employee received a stake in the company through stock options. When the share price went up, everyone got richer. When it went down, everyone was—well, a little less rich. The mythology was true: in the early days Microsoft minted millionaires almost as quickly as it packaged software—the original 11 staff members besides Gates and Allen came away with sums ranging from $1 million to $100 million—and the result was that everyone ran full speed in hopes of pushing up the stock price a little bit more.

"People were eager and in a big hurry to capitalize on every opportunity to gather new revenue," said Ed McCahill, who worked at Microsoft as a marketing manager for 16 years. "In every meeting, there were clear goals and clear outcomes, because everybody knew that the faster they could move the quicker the stock price would go up and the sooner they would be wealthy."

Résumés poured into Microsoft from business-school and engineering students lured by tales of vast riches, and the company went on a hiring binge. Many of the longtime executives let new employees handle the work while they themselves lolled around, waiting for the next vesting period when they could exercise more options—a behavior known derisively by the younger hires as "rest and vest."

Then everything changed. On December 30, 1999, the face from the computer application frowned. Microsoft stock had hit its pre-split all-time high of $119.94 a share the day before, then started to fall. Even Microsoft, it turned out, was not immune to the dot-com crash.

Sixteen days later, Bill Gates handed off the C.E.O. reins to Ballmer. "I was stunned when Bill announced that he was stepping aside to become 'chief software architect' in January 2000, with Steve Ballmer succeeding him as C.E.O.," recalled Paul Allen. "While Steve had long served as Bill's top lieutenant, you got the sense through the nineties that he wasn't necessarily being groomed for Microsoft's top spot. I'd say that Bill viewed him as a very smart executive with less affinity for technology than for the business side—that Steve just wasn't a 'product guy.' "

A businessman with a background in deal-making, finance, and product marketing had replaced a software-and-technological genius. Within a year, Microsoft had lost more than half its value, never to return to its soaring heights of the past. The stock options—once the golden key to untold wealth—were underwater.

The music had stopped. The Microsoft Millionaires were now working alongside the Microsoft Minions. One came to work bragging about his new Bentley; the other made do with a Dodge Neon. The days of shoulder-to-shoulder teams fighting to beat the world were over. A financial fissure tore at already strained relationships between the Old Guard and the new blood.

Small changes in corporate policy began to be perceived as slights to those who hadn't been lucky enough to land at Microsoft in time to become millionaires. When the company decided in about 2003 to save money by no longer providing towels for employees using the company showers, the response was pure fury. The older employees had millions, and the younger ones couldn't have *towels?* "If you just add up the time people spent sending angry e-mails about the towels disappearing … I expect they lost a lot more money than the cost savings from the towels," a former lead software-design engineer said. The towels returned, but the bitterness about cost-cutting didn't end. Microsoft abandoned its gold-plated health-insurance plan—the enticement, some former employees told me, that had brought them there in the first place. Whiteboards grew scarcer. It even became harder to find office supplies.

Worse, the strategy for success at Microsoft was turned on its head. Where once creating innovations was both the thrill of the job and the path to riches through stock options, guaranteed financial success could now be achieved only the way it was at stodgy old General Motors or IBM—through promotions.

"People realized they weren't going to get wealthy," one former senior executive said. "They turned into people trying to move up the ladder, rather than people trying to make a big contribution to the firm." And so, the bureaucratization of Microsoft began. Some executives traced the change to the ascension of Ballmer, but in truth Microsoft's era of fast cash was almost certainly the actual driving force. More employees seeking management slots led to more managers, more managers led to more meetings, more meetings led to more memos, and more red tape led to less innovation. Everything, one executive said, advanced at a snail's pace. "There was this institutionalized system, and it was like designing software by committee," said Prasanna Sankaranarayanan, a former Microsoft engineer. "Things moved too slowly. There were too many meetings."

Just as with e-books, opportunities for major product developments slipped away. Windows CE, an operating system distinct from Windows that was originally used for pocket devices like personal digital assistants, would ultimately be the foundation of the mobile operating system that would power Microsoft's first smartphones. But despite the fact that Microsoft had the jump on its competitors with Windows CE, it still lost the race for the wildly successful smartphones.

"You look at the Windows Phone and you can't help but wonder, How did Microsoft squander the lead they had with the Windows CE devices?" said McCahill. "They had a great lead, they were years ahead. And they completely blew it. And they completely blew it because of the bureaucracy." The achingly slow processes at times bordered on the comical. Marc Turkel, a product manager, told me about an initiative he oversaw around 2010 that involved multiple groups. At the same time the new project began, workers were breaking ground for construction of a 12-story building that would occupy a square block; Turkel's office window looked out on the construction site.

Turkel began negotiating with the different managers, then their supervisors, and then *their* supervisors as he tried to get the project finished. "It was amazing the amount of buyoff that was required," he said. "It was something, without all that time we wasted, that should have taken six weeks at most." Finally, one day, Turkel was running another interminable meeting when he looked out the window. The building was finished. The project was not. "I pointed to the building and said, 'When we started this, that building didn't exist,' " Turkel told me. "It was unbelievable."

Sometimes, though, the problems from bureaucracy came down to a simple reality: The young hotshots from the 1980s, techies who had joined the company in their 20s and 30s, had become middle-aged managers in their 40s and 50s. And, some younger engineers said, a good number of the bosses just didn't understand the burgeoning class of computer users who had been children—or hadn't even been born—when Microsoft opened its doors. When younger employees tried to point out emerging trends among their friends, supervisors sometimes just waved them away.

"Most senior people were out of touch with the ways the home users were starting to use computers, especially the younger generation," one software developer said. An example—in 1997, AOL introduced its instant-messenger program, called AIM, a precursor to the texting functions on cell phones. Two years later, Microsoft followed with a similar program, called MSN Messenger.

In 2003, a young developer noticed that friends in college signed up for AIM exclusively and left it running most of the time. The reason? They wanted to use the program's status message, which allowed them to type a short note telling their online buddies what they were doing, even when they weren't at the computer. Messages like "gone shopping" and "studying for my exams" became commonplace. "That was the beginning of the trend toward Facebook, people having somewhere to put their thoughts, a continuous stream of consciousness," said the developer, who worked in the MSN Messenger unit. "The main purpose of AIM wasn't to chat, but to give you the chance to log in at any time and check out what your friends were doing."

The developer concluded that no young person would switch from AIM to MSN Messenger, which did not have the short-message feature. He spoke about the problem to his boss, a middle-aged man. The supervisor dismissed the developer's concerns as silly. Why would young people care about putting up a few words? Anyone who wanted to tell friends what they were doing could write it on their profile page, he said. Meaning users would have to open the profile pages, one friend at a time, and search for a status message, if it was there at all. "He didn't get it," the developer said. "And because he didn't know or didn't believe how young people were using messenger programs, we didn't do anything."

## "The Bell Curve"

By 2002 the by-product of bureaucracy—brutal corporate politics—had reared its head at Microsoft. And, current and former executives said, each year the intensity and destructiveness of the game playing grew worse as employees struggled to beat out their co-workers for promotions, bonuses, or just survival.

Microsoft's managers, intentionally or not, pumped up the volume on the viciousness. What emerged—when combined with the bitterness about financial disparities among employees, the slow pace of development, and the power of the Windows and Office divisions to kill innovation—was a toxic stew of internal antagonism and warfare. “If you don’t play the politics, it’s management by character assassination,” said Turkel.

At the center of the cultural problems was a management system called “stack ranking.” Every current and former Microsoft employee I interviewed—*every one*—cited stack ranking as the most destructive process inside of Microsoft, something that drove out untold numbers of employees. The system—also referred to as “the performance model,” “the bell curve,” or just “the employee review”—has, with certain variations over the years, worked like this: every unit was forced to declare a certain percentage of employees as top performers, then good performers, then average, then below average, then poor.

“If you were on a team of 10 people, you walked in the first day knowing that, no matter how good everyone was, two people were going to get a great review, seven were going to get mediocre reviews, and one was going to get a terrible review,” said a former software developer. “It leads to employees focusing on competing with each other rather than competing with other companies.”

Supposing Microsoft had managed to hire technology’s top players into a single unit before they made their names elsewhere—Steve Jobs of Apple, Mark Zuckerberg of Facebook, Larry Page of Google, Larry Ellison of Oracle, and Jeff Bezos of Amazon—regardless of performance, under one of the iterations of stack ranking, two of them would have to be rated as below average, with one deemed disastrous. For that reason, executives said, a lot of Microsoft superstars did everything they could to avoid working alongside other top-notch developers, out of fear that they would be hurt in the rankings. And the reviews had real-world consequences: those at the top received bonuses and promotions; those at the bottom usually received no cash or were shown the door.

Outcomes from the process were never predictable. Employees in certain divisions were given what were known as M.B.O.’s—management business objectives—which were essentially the expectations for what they would accomplish in a particular year. But even achieving every M.B.O. was no guarantee of receiving a high ranking, since some other employee could exceed the assigned performance. As a result, Microsoft employees not only tried to do a good job but also worked hard to make sure their colleagues did not.

“The behavior this engenders, people do everything they can to stay out of the bottom bucket,” one Microsoft engineer said. “People responsible for features will openly sabotage other people’s efforts. One of the most valuable things I learned was to give the appearance of being courteous while withholding just enough information from colleagues to ensure they didn’t get ahead of me on the rankings.” Worse, because the reviews came every six months, employees and their supervisors—who were also ranked—focused on their short-term performance, rather than on longer efforts to innovate.

“The six-month reviews forced a lot of bad decision-making,” one software designer said. “People planned their days and their years around the review, rather than around products. You really had to focus on the six-month performance, rather than on doing what was right for the company.” There was some room for bending the numbers a bit. Each team would be within a larger Microsoft group. The supervisors of the teams could have slightly more of their employees in the higher ranks so long as the full group met the required percentages. So, every six months, all of the supervisors in a single group met for a few days of horse trading.

On the first day, the supervisors—as many as 30—gather in a single conference room. Blinds are drawn; doors are closed. A grid containing possible rankings is put up—sometimes on a whiteboard, sometimes on a poster board tacked to the wall—and everyone breaks out Post-it notes. Names of team members are scribbled on the notes, then each manager takes a turn placing the slips of paper into the grid boxes. Usually, though, the numbers don’t work on the first go-round. That’s when the haggling begins.

“There are some pretty impassioned debates and the Post-it notes end up being shuffled around for days so that we can meet the bell curve,” said one Microsoft manager who has participated in a number of the sessions. “It doesn’t always work out well. I myself have had to give rankings to people that they didn’t deserve because of this forced curve.” The best way to guarantee a higher ranking, executives said, is to keep in mind the realities of those behind-the-scenes debates—every employee has to impress not only his or her boss but bosses from other teams as well. And that means schmoozing and brown-nosing as many supervisors as possible. “I was told in almost every review that the political game was always important for my career development,” said Brian Cody, a former Microsoft engineer. “It was always much more on ‘Let’s work on the political game’ than on improving my actual performance.”

Like other employees I interviewed, Cody said that the reality of the corporate culture slowed everything down. "It got to the point where I was second-guessing everything I was doing," he said. "Whenever I had a question for some other team, instead of going to the developer who had the answer, I would first touch base with that developer's manager, so that he knew what I was working on. That was the only way to be visible to other managers, which you needed for the review."

I asked Cody whether his review was ever based on the quality of his work. He paused for a very long time. "It was always much less about how I could become a better engineer and much more about my need to improve my visibility among other managers." In the end, the stack-ranking system crippled the ability to innovate at Microsoft, executives said. "I wanted to build a team of people who would work together and whose only focus would be on making great software," said Bill Hill, the former manager. "But you can't do that at Microsoft."

Why, Jim Allchin wanted to know, was Apple's technology so much better than Microsoft's? "I would buy a Mac today if I was not working at Microsoft," Allchin, a senior member of Microsoft's leadership team, wrote in a January 7, 2004, e-mail to Gates and Ballmer. "Apple did not lose their way."

Truly, for senior management, the problems didn't make sense. Microsoft had some of the smartest people in the technology business. It had billions of dollars at its disposal, and the ability to throw that money into any project the executives chose. How was Apple avoiding Microsoft's pitfalls? The answer wasn't hard to find. Current and former executives said that, each year, they tried to explain to Microsoft's top executives why the company was struggling in the quality of its innovation compared with Apple, Google, and other competitors. The information was conveyed through employee surveys conducted every six months. Time and again, the message from the responses was the same: groups at Microsoft that are supposed to be working together aren't, a symptom of the stack-ranking program. And in response the company did … nothing in particular. "Microsoft keeps surveying the employees, hearing about the problem, trying to fix it the same way every time, and it never works," said Turkel.

And so Microsoft kept getting slammed by the competition. Apple released the iPod music player in 2001; two years later, senior managers at Microsoft were still trying to figure out how to compete. "Because we are going to be so late with a music service, we are going to be behind others almost forever it seems like," Bill Gates wrote in a November 2, 2003, e-mail to a group of managers. "People won't want to give up their hardware."

The result, Gates wrote, was that they wouldn't be able to persuade customers to use a Microsoft system: "I don't see enough that we are doing that will help us be viewed as a leader People I know (a rich group, I admit) are getting iPods with thousands of songs on them." Herb Allen Jr., the billionaire investment banker with Allen & Company, had purchased dozens of iPods for his friends, Gates said. "Warren Buffett just loves the thing," he wrote.

Less than two weeks later, Allchin tried out a music device being developed for Microsoft by an independent hardware vendor. He reviewed the experience in a November 13 e-mail to a group of executives. "I have to tell you, my experience with our software and this device is really terrible," he wrote. "Apple is just so far ahead."

Years passed. Finally, on November 14, 2006, Microsoft introduced its own music player, called Zune. Fifty-four days later, Steve Jobs unveiled the iPhone, which combined a mobile phone, a music player, Internet capability, a camera, and other features not available on Zune. But the iPod was still around for customers who didn't want a phone. In fact, Apple had already introduced its fifth-generation iPod, its less expensive iPod Mini, and was about a year away from marketing the least costly of its music players, the iPod Nano.

Zune was blown away. By 2009, iPod maintained an astonishing 71 percent of the market, the kind of numbers rarely seen anywhere outside of a North Korean election. Meanwhile, Zune limped along with less than 4 percent. Last October, Microsoft discontinued it, in hopes that customers would instead purchase a Windows Phone that, like the iPhone, has a music player.

By the fall of 2004, Microsoft faced a huge challenge from Google, because the smaller enterprise was snagging so many talented young software designers. Google was emerging as the new "It" company, with lots of cachet. The search-engine titan had gone public in August and, just like the Microsoft of old, was minting millionaires from stock options dished out to employees. And, it seemed, day after day, a few more Microsoft executives announced their plans to jump ship to the upstart competitor.

One topflight engineer, Mark Lucovsky, met with Ballmer on November 11, 2004, as a courtesy to let him know that he had accepted an offer from Google, which at the time was led by Eric Schmidt. And, according to a sworn statement submitted by Lucovsky in an unrelated lawsuit, Ballmer exploded. He threw a chair against the wall. “xxxing Eric Schmidt is a xxxing pussy!” Ballmer yelled, according to the court document. “I’m going to xxxing bury that guy! I have done it before and I will do it again. I’m going to xxxing kill Google.”

Internet search emerged as Microsoft’s newest top priority. At that point, the company already had a mediocre search engine, called MSN Search, but it didn’t hold a candle to Google. So, Microsoft developed Windows Live Search, which also proved inferior. Following more revisions, with a few features discontinued, Microsoft announced its new platform, called Live Search. Finally, in May 2009, Ballmer unveiled Bing. But by then the unit working on online search had become encrusted with Microsoft bureaucracy and the usual destructiveness that came along with it.

“It was a bloated mishmash of folks,” said Johann Garcia, a former Microsoft product manager who worked on the Bing project. “They had two or three times the number of people they needed. There were just so many layers of people.” Working in the online division evolved into a miserable experience, members of that unit said. Most of the homegrown innovations were shoved aside. Instead, managers spent their days studying Google and telling the employees working on Bing to match whatever that competitor brought out. “There was this never-ending demand to keep up with Google, and after a while we saw no more innovation for Bing,” Garcia said. “Google was so far ahead and we had so much infighting. A lot of people became so unhappy and just lost all momentum.”

To date, Bing has lost about $6 billion for Microsoft; add in the earlier search products and the amount of money poured into the effort rises to almost $10 billion. Microsoft did have some success making deals for Bing, in particular with Yahoo. In 2009 the two reached an agreement—controversial among investors—under which the Bing search engine would power the Yahoo Web site and the two would share revenues.

Ballmer’s key business philosophy for Microsoft was so antiquated as to be irrelevant. The Microsoft C.E.O. used to proclaim that it would not be first to be cool, but would be first to profit—in other words, it would be the first to make money by selling its own version of new technologies. But that depended on one fact: Microsoft could buy its way into the lead, because it always had so much more cash on hand than any of its competitors. No more. The advantage that Ballmer relied on for so long is now nonexistent. Google has almost the same amount of cash on its books as Microsoft—$50 billion to Microsoft’s $58 billion. Apple, on the other hand, started the year with about $100 billion. Using superior financial muscle to take over a market won’t work for Microsoft or Ballmer anymore.

In Walter Isaacson’s authorized biography *Steve Jobs,* Jobs acknowledged Ballmer’s role in Microsoft’s problems: “The company starts valuing the great salesmen, because they’re the ones who can move the needle on revenues, not the product engineers and designers. So the salespeople end up running the company.… [Then] the product guys don’t matter so much, and a lot of them just turn off. It happened at Apple when [John] Sculley came in, which was my fault, and it happened when Ballmer took over at Microsoft. Apple was lucky and it rebounded, but I don’t think anything will change at Microsoft as long as Ballmer is running it.” Most interesting, however, is that Jobs put the ultimate blame on Bill Gates: “They were never as ambitious product-wise as they should have been. Bill likes to portray himself as a man of the product, but he’s really not. He’s a businessperson. Winning business was more important than making great products. Microsoft never had the humanities and liberal arts in its DNA.”

**[note: Ballmer stepped down as CEO of Microsoft in February 2014]**

**Article 2 of 2**
source: Financial Times, February 8, 2013 12:30 pm [abridged version]
http://www.ft.com/cms/s/2/ed6a985c-70bd-11e2-85d0-00144feab49a.html#ixzz2PJIm6500
by Sarah O'Connor

**Amazon unpacked**

The online giant is creating thousands of UK jobs, so why are some employees less than happy?
Between a sooty power station and a brown canal on the edge of a small English town, there is a building that seems as if it should be somewhere else. An enormous long blue box, it looks like a smear of summer sky on the damp industrial landscape.

Inside, hundreds of people in orange vests are pushing trolleys around a space the size of nine football pitches, glancing down at the screens of their handheld satnav computers for directions on where to walk next and what to pick up when they get there. They do not dawdle – the devices in their hands are also measuring their productivity in real time. They might each walk between seven and 15 miles today. It is almost Christmas and the people working in this building, together with those in seven others like it across the country, are dispatching a truck filled with parcels every three minutes or so. Before they can go home at the end of their eight-hour shift, or go to the canteen for their 30-minute break, they must walk through a set of airport-style security scanners to prove they are not stealing anything. They also walk past a life-sized cardboard image of a cheery blonde woman in an orange vest. "This is the best job I have ever had!" says a speech bubble near her head.

If you could slice the world in half right here, you could read the history of this town called Rugeley in the layers. Below the ground are the shafts and tunnels of the coal mine that fed the power station and was once the local economy's beating heart. Above the ground are the trolleys and computers of Amazon, the global online retailer that has taken its place.


©Ben Roberts
A motivational poster at the Amazon depot

As online shopping explodes in Britain, helping to push traditional retailers such as HMV out of business, more and more jobs are moving from high-street shops into warehouses like this one. Under pressure from politicians and the public over its tax arrangements, Amazon has tried to stress how many jobs it is creating across the country at a time of economic malaise.

The undisputed behemoth of the online retail world has invested more than £1bn in its UK operations and announced last year that it would open another three warehouses over the next two years and create 2,000 more permanent jobs. Amazon even had a quote from David Cameron, the prime minister, in its September press release. "This is great news, not only for those individuals who will find work, but for the UK economy," he said. People in Rugeley, Staffordshire, felt exactly the same way in the summer of 2011 when they heard Amazon was going to occupy the empty blue warehouse on the site of the old coal mine. It seemed like this was the town's chance to reinvent itself after decades of economic decline. But as they have had a taste of its “jobs of the future”, their excitement has died down. Most people are still glad Amazon has come, believing that any sort of work is better than no work at all, but many have been taken aback by the conditions and bitterly disappointed by the insecurity of much of the employment on offer.

If anyone should still be a cheerleader for Amazon, which has created hundreds of jobs in the past 18 months in a community that sorely needs them, it is Glenn Watson, manager of economic development at the district council. But he is dismayed. “They’re not seen as a good employer. It’s not helpful to our economy; it’s not helpful to the individuals,” he says. Britain’s economic transformation is playing out in miniature in this smoky little town. It hasn’t been a smooth ride. Like almost everyone without a job in Rugeley, a mostly white working-class town of about 22,000, Chris Martin started scouring the internet for application details as soon as he heard Amazon was coming. Local politicians rushed out jubilant press releases. “It’s absolutely fantastic news for Rugeley,” the release from Aidan Burley, the area’s member of parliament, said. “People are crying out to get back into work.”

Rugeley had never fully recovered from the mine’s closure in 1990, and the local economy was further depleted by Britain’s deep recession of 2008-09. Chris Martin moved there in 2007 to be with his partner. “She led me a merry story, saying, ‘Oh you should walk into a job,’ but there’s no jobs down here,” he said ruefully. The 54 year-old found a night job filling shelves in the Morrison’s supermarket for a while, but it didn’t last. It didn’t help that he was a relative newcomer in this close-knit community, where job opportunities often spread by word of mouth. “Nearly everybody knows everybody else. If you come from outside it’s like walking into a bar in a western,” he said. “Everyone stares.”
So Martin was thrilled when he passed the Amazon recruitment process, which includes drug and alcohol tests, and was given a job on the night shift. A global employment agency called Randstad, which had handled the recruitment process for Amazon, was also to arrange his shifts, manage him on the warehouse floor and pay him his near-minimum wage. After three months, if he had performed well, he could apply to be an Amazon employee, though there was no guarantee he would succeed. Randstad calls this sort of system “Inhouse Services” and describes it as a “flexible work solution designed exclusively for each client to optimise the work force and drive cost effectiveness”. One of the benefits for clients, it says on its website, is the “removal of the administrative burden of recruiting and managing large numbers of staff”.

There was an electric atmosphere in the big blue warehouse that autumn as the operation geared up for the first time. “At the start it was buzzing,” said a member of the Amazon management team at the site, who did not want to be named. “Brothers, sisters, neighbours, everyone was just so pleased to have jobs. Everything was new.”
Workers in Amazon’s warehouses – or “associates in Amazon’s fulfilment centres” as the company would put it – are divided into four main groups. There are the people on the “receive lines” and the “pack lines”: they either unpack, check and scan every product arriving from around the world, or they pack up customers’ orders at the other end of the process. Another group stows away suppliers’ products somewhere in the warehouse. They put things wherever there’s a free space – in Rugeley, there are inflatable palm trees next to milk frothers and protein powder next to kettles. Only Amazon’s vast computer brain knows where everything is, because the workers use their handheld computers to scan both the item they are stowing away and a barcode on the spot on the shelf where they put it.
The last group, the “pickers”, push trolleys around and pick out customers’ orders from the aisles. Amazon’s software calculates the most efficient walking route to collect all the items to fill a trolley, and then simply directs the worker from one shelf space to the next via instructions on the screen of the handheld satnav device. Even with these efficient routes, there’s a lot of walking. One of the new Rugeley “pickers” lost almost half a stone in his first three shifts. “You’re

sort of like a robot, but in human form," said the Amazon manager. "It's human automation, if you like." Amazon recently bought a robot company, but says it still expects to keep plenty of humans around because they are so much better at coping with the vast array of differently shaped products the company sells.

The unassuming efficiency of these warehouses is what enables Amazon to put parcels on customers' doorsteps so quickly, even when it is receiving 35 orders a second. Every warehouse has its own "continuous improvement manager" who uses "kaizen" techniques pioneered by Japanese car company Toyota to improve prod�uctivityMarc Onetto, the senior vice-president of worldwide operations, told a business school class at the University of Virginia a few years ago: "We use a bunch of Japanese guys, they are not consultants, they are insultants, they are really not nice … They're samurais, the real last samurais, the guys from the Toyota plants."

In Rugeley, the person with the kaizen job is a friendly, bald man called Matt Pedersen, who has a "black belt" in "Six Sigma", the Motorola-developed method of operational improvement, most famously embraced by Jack Welch at General Electric. Every day, the managers in Rugeley take a "genba walk", which roughly means "go to the place" in Japanese, Pedersen says as he accompanies the FT on a tour of the warehouse. "We go to the associates and find out what's stopping them from performing today, how we can make their day better." Some people also patrol the warehouse pushing tall little desks on wheels with laptops on them – they are "mobile problem solvers" looking for any hitches that could be slowing down the operation.

What did the people of Rugeley make of all this? For many, it has been a culture shock. "The feedback we're getting is it's like being in a slave camp," said Brian Garner, the dapper chairman of the Lea Hall Miners Welfare Centre and Social Club, still a popular drinking spot. One of the first complaints to spread through the town was that employees were getting blisters from the safety boots some were given to wear, which workers said were either too cheap or the wrong sizes. One former shop-floor manager, who did not want to be named, said he always told new workers to smear their bare feet with Vaseline. "Then put your socks on and your boots on, because I know for a fact these boots are going to rub and cause blisters and sores."

Others found the pressure intense. Several former workers said the handheld computers, which look like clunky scientific calculators with handles and big screens, gave them a real-time indication of whether they were running behind or ahead of their target and by how much. Managers could also send text messages to these devices to tell workers to speed up, they said. "People were constantly warned about talking to one another by the management, who were keen to eliminate any form of time-wasting," one former worker added. In a statement, Amazon said: "Some of the positions in our fulfilment centres are indeed physically demanding, and some associates may log between seven and 15 miles walking per shift. We are clear about this in our job postings and during the screening process and, in fact, many associates seek these positions as they enjoy the active nature of the work. Like most companies, we have performance expectations for every Amazon employee – managers, software developers, site merchandisers and fulfilment centre associates – and we measure actual performance against those expectations."

The former shop-floor manager and another worker described a strict "three strikes and release" discipline system – "release" being a euphemism for getting sacked. In the early days, people were "released" frequently and with little warning or explanation, workers said. A very large number were laid off after the first busy Christmas period, some of whom had assumed their jobs would be permanent. Chris Martin says his job lasted less than a week after he took a day off for blisters and returned to find the night shift he was on had been abruptly cancelled.

It is this job insecurity that has most disappointed Glenn Watson at the district council. “Our definition of a good employer is someone who takes on people and provides them with sustainable employment week in week out, not somebody who takes on workers one week and gets rid of them the next,” he said. The council had understood Amazon would use the first 12 months to gradually build up its own workforce, transferring agency staff on to its payroll, but by last autumn Watson thought there were still only about 200 Amazon employees, with the rest of the workers supplied by Randstad and two smaller agencies. One young man strolling out of the warehouse last September said he was still an agency worker, even though he had been there since the site opened. Watson said Amazon was supposed to send the council employment data every six months, but it had not done so. “We had no idea Amazon were going to be as indifferent to these issues as they have been, it’s come as a shock to us how intransigent they are,” he said.

Inside the warehouse, Amazon employees wear blue badges and the workers supplied by the agencies wear green badges. In the most basic roles they perform the same tasks as each other for the same pay of £6.20 an hour or so (the minimum adult wage is £6.19), but the Amazon workers also receive a pension and shares. A former agency worker said the prospect of winning a blue badge, “like a carrot, was dangled constantly in front of us by management in return for meeting shift targets”. Amazon’s Darwinian culture comes from the top. Jeff Bezos, its chief executive, told Forbes magazine last year (when it named him “number one CEO in America”): “Our culture is friendly and intense, but if push comes to shove, we’ll settle for intense.”

Chris Forde, a professor of employment studies at Leeds university, says arrangements such as Randstad’s with Amazon are becoming increasingly common in Britain. He has encountered situations in which workers on these sorts of contracts make up 90 per cent of a company’s workforce in sectors such as car manufacturing, food processing, hotels and restaurants. “The message [from the agencies] is we are a key intermediary and we can help people back into work, but I think the danger with these big contracts, which are now the bread and butter of most big agencies, is that people just get stuck in these jobs.” Across Britain, the number of people in temporary jobs has swelled 20 per cent since the financial crisis hit in 2008, and the proportion of that group who say they cannot find permanent jobs has increased from 26 per cent to 40 per cent.

Amazon said it employed “hundreds of permanent and temporary associates” at Rugeley and had recently given a further 200 permanent jobs to temporary workers there. It said it was proud of giving its “associates” a “great working environment”, including on-the-job training, opportunities for career progression, competitive wages, performance-related pay, stock grants, healthcare, a pension plan, life assurance, income protection and an employee discount. It added: “In order to ensure that we are providing our customers [with] the highest level of service, we do take on temporary associates during periods of high demand. When we have permanent positions available, we look to the top performing temporary associates to fill them.”

The total size of Amazon’s workforce in the UK is hard to pin down and it changes dramatically depending on the time of year. Late last year, an Amazon official told a parliamentary committee the company employed about 15,000 people. In October last year, Amazon issued a press release saying it was about to take on 10,000 temporary workers to deal with the Christmas rush. In the company’s 2011 UK accounts, it said its average number of employees was 3,023.

Ransdtad said it supplied a number of clients with “onsite-flexible workforce solutions”. It added: “The number of workers required by these clients fluctuates in response to supply and demand. When demand for clients’ products or services is high (for example during the Christmas period) the Randstad partnership allows local people to benefit from short-term work on a temporary contract, to help supplement our clients’ permanent workforce and deliver against order requirements.”

Certainly, not everyone in Rugeley is upset about Amazon. A group of workers having a pint on a picnic table outside The Colliers pub near the warehouse gates said they liked their jobs, albeit as their managers hovered nervously in the background. One young agency worker said he was earning about £220 a week, compared with the £54 he had been receiving in jobless benefits. He had bought a car and moved out of his mum’s house and into a rented flat with his girlfriend, who he had met at work. “I’m doing pretty well for myself,” he said with a shy grin. “There’s always opportunities to improve yourself there.” Across the table, an older man, wagging two fingers with a cigarette pinched between them, said slowly: “It gives you your pride back, that’s what it gives you. Your pride back.” Many in the town, however, have mixed feelings. They are grateful for the jobs Amazon has created but they are also sad and angry about the quality of them. Timothy Jones, a barrister and parish councillor, summed up the mood. “I very much want them to stay, but equally I would like some of the worst employment practices to end.” For Watson, the big question is whether these new jobs can support sustainable economic growth. Angi Cooney, who runs C Residential, the biggest estate agent in Rugeley, thinks the nature of employment is changing permanently and people should stop pining for the past. It’s “bloody great” that a company like Amazon chose to come to “this little old place”, she says fiercely, looking as if she’d like to take the town by the shoulders and give it a shake. “People expect a job for life, but the world isn’t like that any more, is it?”