

Verdict won't alter Microsoft strategy to boost MSN business

by David Streitfeld and Ariana Eunjung Cha The Washington Post April 3, 2000

WOODSIDE, Calif. — Three thousand miles away from the courtroom where Judge Thomas Penfield Jackson was readying his devastating verdict, it was business as usual for Deanna Sanford. The lead product manager for Microsoft's Internet access operation, Sanford was in Silicon Valley to tout the division's umpteenth retooling. "It has gone through several versions over the last five years," she conceded. "But now we're clearly focused." Perhaps this incarnation of the Microsoft Network service, which has only a tenth the subscribers of America Online, will succeed. If not, Microsoft will assuredly try again, pouring as much money and sweat into the process as necessary. Like the villain in some cheesy Hollywood horror movie, the company can never be counted out. Monday's verdict, which slammed Microsoft for anti-competitive practices, won't change that, a half-dozen experts said. In some ways, they added, the trial has even strengthened the company — which was and remains the single most dominant technology firm in the world, despite its struggling MSN service. "There's a saying along the lines of 'Nothing concentrates the mind like the news you'll be hanged in the morning,'" said Seattle software consultant Frank Catalano. "This verdict was Microsoft's deadline. And they used it to integrate the Internet into everything that they're doing." Microsoft's core businesses — its Windows operating system and Office software — may be threatened on various fronts, but at the moment they're still generating tremendous revenues and profits. As the company tries to get a grip on a future that involves wireless

communications, hand-held devices and all sorts of other new technologies that are distant from its core competencies, that bundle is proving extremely useful. "Microsoft's basic business strategy is to use profits from the businesses it unquestionably dominates to subsidize money-losing entrants into new businesses," said Richard Shaffer, a consultant with Technologic Partners. "Microsoft goes to the heart of the business models of its competitors, giving away what others must sell." Sanford was announcing just such a development. Until Monday, a subscription to MSN's service cost the same as AOL: \$22 a month. But since MSN wasn't gaining ground fast enough, Microsoft will now give it away free for the first six months. Observed Shaffer: "Using this strategy, there's no business that Microsoft couldn't get in. The only reason it wouldn't dominate is the same factor that has held it from dominating other markets it has entered: its own incompetence."

Microsoft has never been accused of being a technological innovator. But it's brilliant at "reverse engineering" — taking another company's successful product, figuring out what made it work, and copying it. This is what it did with Netscape's Internet browser, of course, which lead directly to the antitrust suit. But it also happens in many more minor ways. In jump-starting MSN this time around, for instance, Microsoft will give away 13 million free CDs to make it as easy as possible to get consumers hooked up — the same strategy AOL used. And, borrowing from Yahoo's wildly successful decision to do heavy advertising, Microsoft plans to spend \$150 million on television and magazine spots. These plans are unlikely to be affected by Monday's verdict. Nor will consumers shun Microsoft. For one

thing, at least at this moment, computer buyers have little choice. "Some people may not have liked Henry Ford, but if they wanted a car,

wanted to pick a software program that was pretty well unassailable, you'd pick Microsoft's Office," said Davis, former editor of Windows Watcher. "It



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Microsoft chairman Bill Gates speaks to reporters about a federal judge's "findings of fact" that the software giant acted as a monopoly in relation to its operating system and web browser.

they had to buy a Model T," said Dwight Davis of Summit Strategies. "For the average person, if they want a computer and want it to be compatible with other stuff, they have to buy a Bill Gates product, whether they like him or not." The antitrust verdict, Davis added, will "probably" cause "more people to wonder a bit about what happens in Redmond," the Seattle suburb where Microsoft is headquartered. "But will it stop Microsoft's revenue growth? Probably not. This has been a growing cloud for the last seven or eight years. The antitrust suit has become like the wallpaper. It's always there in the background." What may stop Microsoft's revenue growth instead are changes in the technology world, which is shifting even more rapidly than the famously nimble company can follow. "Two or three years ago, if you

was a category leader that had pretty much obliterated the competition. But suddenly now there's application functionality over the Internet being offered by companies from Sun Microsystems to little start-ups." Meanwhile, the operating system Linux — written by Finnish programmer Linus Torvalds and refined over the years since by developers all around the world who work on the project gratis — has continued to capture the hearts of technology wonks who loathe Microsoft, as well as the wallets of investors. Linux's share of the market for large "server" computers has jumped, but it has made few inroads into the personal computer systems market. In terms of retail sales, Linux accounts for only 17 percent of sales while Microsoft's Windows has 77 percent, according to Howard Dyckovsky, vice president of

operations for PC Data. "Yet Windows' stranglehold may not be secure. Despite its reputation as clumsy or difficult to use, hardware makers like Dell Computer Corp. are increasingly pre-installing Linux as well as Windows on their personal computers. Microsoft's personal computer share is "down a little bit but they are not hurting," Dyckovsky said. For the past few months, Microsoft emissaries have been quietly touting the development of the company's Next Generation Windows Services, which it calls "a new set of software, services and solutions for its customers, built around the Internet, Windows and new devices." While the company has released no further details about the product, several industry analysts say they expect it to be a big step in creating a central computer system connecting everything from your telephone and television to your toaster. "Will it be the watershed event that gets people forgetting about the Justice investigation? Maybe. But I think it's just one thing of many that is getting them back in a position where Wall Street is hyped up in terms of the fundamental picture," said Michael Stanek, a vice president at Lehman Brothers. If executed poorly, however, analysts say the effort could be Microsoft's biggest embarrassment in its mission to dominate in the online world, where it has continued to lag behind its younger competitors despite billions of dollars of investments. America Online, the upstart that Microsoft Chairman Bill Gates once promised to buy or "bury," has captured half the Internet access market. MSN spokeswoman Sanford said Monday that the network has added 500,000 subscribers in recent months, giving it a total of 2.5 million. But AOL has more than 22 million — and promises to be-

come an even bigger powerhouse after it completes its merger with media conglomerate Time Warner. Meanwhile, Yahoo has become the premier search and directory site. And Amazon.com is now consumers' e-commerce destination of choice. "MSN has been a work-in-progress for quite a long time. It has never even come close to achieving the critical mass of AOL, and right now I think that's really on the back burner," said George Godfrey, an analyst with ING Barings. Money and a renewed effort may enable Microsoft to improve here. "There have always been markets where Microsoft was the underdog. We were the underdog in graphical user interfaces and applications and Web server space," said Charles Fitzgerald, Microsoft's director of business development. "Historically this company has done a very good job of going from the underdog to being a leader a variety of product categories." The brightest sign for Microsoft has been its surprising success in many international markets, where it is the second most popular Internet portal after Yahoo. The victories are even more stunning because the company in 1997 conceded failure in the MSN access service in France and Germany by shutting them down. But once again, it retooled. As Microsoft prepares for more shifts and improvements in its Internet strategy yet again, it began last week by reshuffling its executive team — for the fourth time in 18 months. It is melding two of its four main business groups: the platforms division, which oversees the Windows operating system, and the developer division, which builds tools, will be combined to be led by Paul Maritz and Jim Allchin. Mich Mathews, vice president for corporate communications, will oversee a new marketing group.

Gunmaker Smith & Wesson calls wholesaler meeting to explain new settlement

by David Olinger Knight-Ridder Tribune March 29, 2000

Smith & Wesson has called a hastily scheduled conference with gun wholesalers alarmed by the terms of its new agreement with the federal government. About 25 Smith & Wesson distributors had been invited to a meeting Thursday, April 6, at the gunmaker's Nashville, Tenn., headquarters. Company President Ed Shultz plans to discuss the pact it signed to settle pending lawsuits with several cities and to avoid a threatened lawsuit from the U.S. Department of Housing and Urban Development.

In interviews, several of those distributors said they may sever longstanding relationships with Smith & Wesson rather than try to meet the new regulatory demands being placed on them and gun-store owners. "It's sad to see this happen," said Ron Shirk, a Smith & Wesson distributor in Pennsylvania for 15 years. "The company's always been good to us." But Shirk said he also has to consider the risk that few of the 250 authorized Smith & Wesson retail dealers in Pennsylvania will accept various new sales restrictions as well as demands for liability insurance and fire-

proof gun storage. "I've talked to quite a few of them. They say they can't do it. What happens to my customer base?" he said.

"We can let others make choices for us and determine our fate or we can be actively involved in the process and exercise some control. The effect of this agreement will mean a change in the way Smith & Wesson does business. It will not sacrifice the Second Amendment rights of gun owners."

-Ken Jorgensen, Smith & Wesson spokesman, on company Web site, www.smith-wesson.com

Other wholesalers expressed unhappiness with the Smith & Wesson settlement but said they want to hear the company's explanation before closing the door to a leading gun manufacturer. "I'm concerned about it. I think it's going to be bad for the whole indus-

try," said Gil Hebard, a Smith & Wesson distributor for 42 years. He predicted that the settlement will eliminate thousands of gun-store owners currently authorized to sell Smith & Wesson products, "and I cannot sell to them if I agree to this." But "the door is slightly open," he added. "I want to get the facts before I make a decision." Smith & Wesson spokesman Ken Jorgensen said the company does not fear a shortage of distributors willing to take its firearms along with the new sales restrictions. A memo from Smith & Wesson Vice President Chris Killoy acknowledged the wholesalers' concerns and invited them to review its interpretation of the

settlement on the Smith & Wesson Web site. "There has been more than enough emotion over this past week," Killoy wrote. "Please take the time to read our side of the story." Two weeks ago, Smith & Wesson signed what President Clinton hailed as a landmark agreement to change its marketing practices and improve gun safety. In return, HUD and several cities suing the gun industry agreed to drop Smith & Wesson as a defendant. As part of the agreement, Smith & Wesson promised that its products would be withheld from any gun show where private, unregulated sales occur. The company also agreed to stop sales of high-capacity ammunition magazines and limit multiple handgun sales by letting customers take only one Smith & Wesson handgun home on the purchase date. In addition, wholesalers may be told to cut off deliveries to any retail dealer whose guns are frequently traced from crime scenes. The settlement has been praised by gun-control groups but condemned by gun-owner and industry associations. One group, Gun Owners of America, called for a boycott against Smith & Wesson. To date, no other manufacturer has agreed to the terms of the Smith & Wesson settlement.

Human rights official urges probe in Chechnya

by Richard C. Paddock Los Angeles Times March 4, 2000

MOSCOW — The United Nations' top human-rights official, saying she was "shocked and appalled" by accounts of Russian atrocities in Chechnya, called on the Russian government Tuesday to establish an independent commission to investigate alleged human-rights violations in the separatist republic. After a three-day visit to the war-torn Caucasus region, High Commissioner for Human Rights Mary Robinson urged Russia to respond to mounting concerns in the West about Moscow's conduct in the war by opening its own inquiry into charges of murder, rape, and looting by Russian troops. Robinson said she was horrified by the "accounts of Chechen civilians, many of them women, and by the utter devastation that has been visited on Grozny and other parts of Chechnya." For the most part, Russian officials have dismissed allegations of atrocities committed by their soldiers as Chechen propaganda and misinformation spread by Western media outlets. Last week, however, authorities arrested a Russian army colonel in the slaying of a Chechen woman who had also been raped. Human Rights Watch, a New York-based group, reports that it has documented at least 130 cases in which Russian troops summarily executed Chechen civilians. Most, if not all, of the killings occurred while the troops were looting newly conquered towns and villages. "I listened to testimony of summary executions, intimidation, looting by military personnel, disproportionate use of force, attacks on civilian convoys, rape, and other violations,"

Robinson said. "These accounts corroborate much of the serious and documented information available so far, and they require a serious response." Russia has faced growing criticism in the West for the high number of civilian deaths in the war and its apparent unwillingness to investigate war crimes in Chechnya. The Council of Europe, the continent's top human-rights body, is expected to vote this week on whether to suspend Russia's membership in the group. During her visit, Robinson did not meet with President-elect Vladimir V. Putin, but she did hold talks with other top officials, including Foreign Minister Igor S. Ivanov. Ivanov, in a statement after his talk with Robinson, denied systematic abuses in Chechnya and said Russia will not permit other nations to dictate how to handle its internal matters. "We will never allow this problem [the Chechen war] to be used as a pretext for interference into Russia's domestic affairs," he said. Ivanov said Russia is trying to respond to international concerns and organized Robinson's trip to Chechnya to give her a firsthand look at the situation. "I cannot remember even one case in international practice in which a government of a country solving its internal problem would have been so open for cooperation with international organizations," he said. Robinson noted that the Chechens also have committed atrocities. But she defended her criticism of Russia by pointing out that the main focus of her agency's work is to prevent human-rights violations by government agencies and troops.

Questions raised about national missile defense

by John Diamond Knight-Ridder Tribune April 05, 2000

WASHINGTON — With a major presidential decision approaching, the Pentagon said Tuesday that the cost of building a national missile defense system is rising sharply because of an expanded defensive scheme and technical problems that have raised questions about whether missile defense is even possible. Adm. Craig Quigley, a Pentagon spokesman, said the total cost of building and operating a national missile defense from 1991 to 2026 is now an estimated \$30.2 billion. That's up \$6.4 billion, or 27 percent, from the previous estimate, according to the Pentagon office in charge of the program. The new Pentagon numbers track roughly with a recent Congressional Budget Office estimate pointing to a \$5 billion cost increase. They come on top of an earlier announcement by Defense Secretary William Cohen of a \$2.3 billion cost increase. All of this comes as military specialists and defense contractors scramble to pro-

duce a second successful test of the all-important missile interceptor. In the most recent flight test in January, the interceptor missed its dummy warhead target in space over the Pacific when a cooling system malfunctioned. The rising cost estimate could be crucial because President Clinton has identified cost as one of the four criteria — along with technical feasibility, the nature of the threat, and Russia's posture — on which he will base his decision whether or not to approve the project. "We are committed to giving enough technical information to the President for him to make an informed decision," Quigley said. But he suggested that Tuesday's announcement may not be the last missile defense price increases. "Things could change," Quigley said. "The further you go into the future, the less certainty you have." National missile defense, as currently envisioned, is a scaled-down version of the Star Wars defensive shield proposed by President Reagan in 1983. It would not be able to cope with a massive nuclear attack of the kind that Russia could launch but would be designed to shoot down a few incoming missiles launched by potential

enemies such as North Korea, Iran, or Iraq. Republicans want to delay a decision in hopes that a Republican president could deploy a more robust missile defense. Democrats who oppose the program want a delay because they assume a rushed decision would be to deploy. About three-quarters of the cost increase stems from the growing scope of the missile defense system envisioned by the Pentagon. Where earlier plans involved 20 silo-based missile interceptors, the latest estimate is for 100 interceptors along with an advanced "X-Band" radar system that can accurately track the flight of an incoming warhead. But a portion of the higher cost stems from emerging technical problems and changing demands, according to Air Force Lt. Col. Rick Lehner, spokesman for the Ballistic Missile Defense Organization, the Pentagon agency running the missile defense program. These cost factors include: -Needed upgrades to the X-Band radar so that it can better distinguish an actual warhead from decoys deployed to foil the missile interceptor. -Upgrades to computers involved in early warning and command and control.

-More ground and flight tests that the Pentagon believes are necessary to ensure the system can work. Proponents and opponents of national missile defense jumped on the cost estimates as indicators of political maneuvering. Arms control advocate John Isaacs of the Council for a Livable World said the lower earlier estimates were deliberately inaccurate to stave off opposition and to "get people to buy in at a lower level." Rep. Curt Weldon, R-Pa., one of the leading advocates in Congress for national missile defense, said the new, higher estimate represents the Pentagon's effort to give Clinton an escape hatch in case he wants to postpone a decision or kill missile defense. By the standards of large and complex weapons programs, the cost increases encountered by the national missile defense program are not out of the ordinary. The Congressional Budget Office routinely anticipates cost growth of 50 percent to 65 percent in new missile systems. But such budgetary minutiae may be lost on taxpayers being asked to pony up tens of billions of dollars for an as-yet unproven defensive system.



LA TIMES PHOTO BY YURI KOZYREV

Klavdiya Nefyodova, 87, of Grozny has been unable to give her son a proper burial.