Section 10

SURVIVAL OF THE FITTEST

Microsoft

Revenge of the nerds

Bill Gates did not become the world's richest man by making an amazing discovery or dreaming up an irresistible product. His skill lay in less tangible areas: an uncanny ability to anticipate what his customers would need in the future, recognizing opportunities, and harnessing the talents of people around him.

Gates, son of an attorney father and schoolteacher mother, had always been the archetypal computer nerd, writing commercial software from the age of thirteen while at school in Seattle.

He has always looked the part, too—unkempt hair, scruffy clothes, out-of-date glasses. His appearance and mannerisms have, if anything, worked to his advantage, catching others off guard. Behind the geeky façade lay a natural entrepreneur who combined knowledge of the law, business sense, and a love of computer technology in a formidable package.

His first opportunity presented itself when he was nineteen and a halfhearted accounting student at Harvard who spent most of his spare time fiddling about with computers. Paul Allen, a slightly older friend who shared his passion, came across the January 1975 issue of *Popular Electronics*, which featured on its cover the world's first personal computer, a machine called the Altair 8800.

Back then, computers cost hundreds of thousands of dollars. The Altair was laughably crude by today's standards but cost just $395 in part form. Instead of just wondering how they could get their hands on one, Allen and Gates wondered, did its makers need somebody to write software for it? A month later they had sold the makers of the Altair a computer language program called Basic.

The entrepreneur in Gates woke up, decided to drop out of Harvard and moved with Paul Allen to Albuquerque, New Mexico, of all places, where the Altair was built. They set up shop across the street from the Altair people in a business they called Micro-Soft (they later dropped the hyphen). After their success with the Altair, they began to make a name for themselves, attracting business from other hardware manufacturers, including Commodore, RadioShack, NCR, Texas Instruments, and even Apple, which bought a program called Applesoft Basic from them for a flat fee of $21,000. By the end of 1978 Gates and Allen had made sales of $1 million.

Towards the end of the 1970s, IBM, the market leader in commercial computers, decided it wanted in on the burgeoning personal computer market. Late to the party, it locked in a tight one-year schedule and decided it would be easiest to buy software rather than waste time developing it in-house.

In July 1980, a team of IBM executives headed by Jack Sams visited Gates and Allen at their new offices in Seattle. Gates was still only twenty-four years old and looked much younger. "I knew Bill was young, but I had never seen him before," Sams recalled of the meeting. "When someone came out to take us back to his office, I thought the guy who came out was the office boy. It was Bill. Well, I'll tell you or anybody else, that by the time you were with Bill for fifteen minutes, you no longer thought about how old he was or what he looked like. He had the most brilliant mind that I had ever dealt with."

Gates did not have an operating system he could sell to IBM. But he knew that another young programmer, who happened to be just down the road, had been selling a rudimentary program called QDOS (Quick and Dirty Operating System) for about a year. Gates hired its creator and renamed it MS-DOS. He and Allen fixed it up and, crucially, licensed it to IBM, rather than selling it outright. Instrumental in the deal was a man named Steve Ballmer, who had come on board as Microsoft employee number twenty-four and helped to negotiate both the purchase of the original software and the licensing deal with IBM.

By then Microsoft had grown from a tiny company with three employees (including Gates and Allen) and revenues of $16,500 to a small business with 128 employees and a turnover of $16 million.

IBM's decision to buy software rather than develop its own gave Gates a foot in the door. IBM's next decision, to allow other manufacturers to license its computer designs, was to make Gates's fortune. By allowing other companies to build what became known as "clones," IBM set the industry standard. It benefited by creating a large market, and initially taking a major share of it, but eventually the clones won out. IBM and clones alike required Bill Gates's software to make them do anything. By 1984, Gates was worth $100 million.

That was the year Apple launched the Macintosh, a personal computer that offered a point-and-click interface instead of the clunky command-based interface of MS-DOS. In terms of usability, the Macintosh was infinitely superior to the IBM-style computer—something Gates realized immediately.

His response, a program called Windows, did not work nearly as well as Apple's system and was not immediately successful. But Apple's reluctance to license its products to other manufacturers, as IBM had done, cost it the chance to make its superior system widespread. Microsoft persisted and, after two revamps, launched a version of Windows that, while still not as good as Macintosh's, worked well enough—and had enough momentum behind it—to become the world standard. It was a similar story with applications such as spreadsheets and word processors. Other companies had superior products, but eventually they slipped up—shipping a new version behind schedule, or overloading it with complicated features—and Microsoft was there to take their place, helped along by the dominance of its operating system.

In 1992 Microsoft's stock value overtook that of IBM. In 1995, when Microsoft launched Windows 95, it sold 11 million copies in the first five minutes. Today, over 90 percent of the world's personal computers run a version of Windows, and most are loaded with other Microsoft programs.

Microsoft, which reported a profit of $12 billion for the 2004–05 financial year, has revenues of $30 billion and has cash and other short-term reserves of around $50 billion.

Its dominance has mired it in antitrust litigation: to cut an extremely long story short, in 1998 the U.S. Justice Department filed antitrust charges against the company, which were eventually settled, though there were threats for some time that the company would be broken into two. Microsoft also faced actions from, and eventually reached agreements with, Netscape, Sun, and Novell.

Bill Gates stepped down as CEO of Microsoft in January 2000, creating a role for himself as chairman and chief software architect. Practically, that means he still spends much of his time supervising projects and looking for opportunities, ceding much of the day-to-day running of the business to CEO Steve Ballmer.

Personal time with Gates is judged to be so valuable Microsoft calls it "Bill Currency."

Gates spends his spare time with his wife, Melinda, and their three children, and administers a charitable foundation through which he has started giving away much of his fortune—last weighed in at around $46 billion—to causes such as the fight against AIDS. The Bill and Melinda Gates Foundation has an endowment of some $29 billion and by 2005 had given away close to $7.5 billion—impressive enough for Queen Elizabeth II to make Gates a knight of the realm (though, as he is not a British subject, he is not called "Sir").

Paul Allen, who left Microsoft in 1983 after being diagnosed with Hodgkin's Disease, made a full recovery—and his share holdings in Microsoft ensured he had the cash to enjoy life to the full. He now spends much of his time aboard the $200 million yacht

Octopus, which was until very recently the largest privately owned yacht in the world (and is still rather impressive by most people's standards), and he dabbles in spaceflight—in 2004 bankrolling the successful attempt by the privateer craft SpaceShipOne to become the first commercially-owned vehicle in space.

NOTES

"I knew Bill was young . . ." Tucker, William. "Open Season on Bill Gates," *The American Spectator*, 7.98.

REFERENCES

BusinessWeek, Forbes, The Economist, Fortune, The Guardian, Salon.com, *Seattle-Post Intelligencer, New York Times, Toronto Star, Washington Post*

Mars Inc.

The creators of chocolate empires are not necessarily sweet

THERE HAVE BEEN MANY DESCRIPTIONS OF THE LATE FORREST Mars, the magnate who created the Mars family $10 billion fortune, but none of them are kind. He has been described as the Monster from Mars; a tyrant with a terrifying temper and a cold-hearted, cruel father; and regular humiliator of his staff. Forrest will go down in history as one of the toughest, most private, and single-minded entrepreneurs. His company is one of the most secretive in the world; it never releases financial information; photographs of the Mars family are not permitted; the staff are forbidden to talk about their workplace; interviews are never granted to the media; and information about the Mars product range is strict-