

When trying to spill the beans of MS's success, the titles of two books from Bill Gates slip into my mind. They are "The Road Ahead" and "Business @ the speed of thought", which I would translate into "Direction" and "Speed" and could be the reason for MS's success – be good at setting strategy and adapting to the changes. However, to reframe them within the context of Modern Competitive Strategy, the reasons for MS's success are to create and maintain its modern COMPETITIVE ADVANTAGES.

With the analysis of its competitive advantages, MS's profitability was more rely on its ability to DEFEND its market position rather than to create. To put it another way, the usage of MS's resources and capabilities can be better understood in light of isolating mechanisms.

On one hand, MS focus on increasing customer retention. Software is an experience good. It can be tell exactly from the name – Windows XP – where XP is short for experience. For an experience good, the search costs, training cost and learning cost are high, which in turn help to increase customer retention. Here is a classic example. In 1998, Bill Gates gave his speech at Washington University and talk about piracy in China, and he said: "About 3 million computers get sold every year in China, but people don't pay for the software. Someday they will, though. As long as they are going to steal it, we want them to steal ours. They'll get sort of addicted, and then we'll somehow figure out how to collect sometime in the next decade." For the same reason, MS bundled

Office Suite, expanded server platforms, and gave many stuffs/features for free like IE and Media Player. We can expect the adding to the list will grow on and on. Its broad scope of products and global presence also helped MS to increase customer retention.

On the other hand, MS defend its market position fiercely. ▲ typical tactic used by MS is the prohibitive development cost. For example, it spent \$2 billion alone in 2001 for its .net platform. When MS identifies a potential threat, it react with all of it resources and capabilities to compete with. Through advance technology, enticement OEM manufactures, or even giving for free, it won battles over Office Suite, OS, Internet browser and media player.

▲ as a result, MS stands above its competitors and reaps its profit like printing money. For example, while application software price dropped by an average of 8.9% at 1989, MS could raise its OS price. While WordPerfect was priced at \$79, MS charged \$249 for upgrades of Office 2000.

The challenges MS faced somehow derived from its own marketing activities. The antitrust litigation is a warning for its aggressive assault on its competitors. In general, Microsoft should keep focus on defending its market positions, using its resources and capabilities cautiously and smartly. Its isolation mechanisms could be enhanced by strategies like product development and acquisition, platform integration, user and channel enticement, all happen at prohibitive cost.

