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Interview with Bill Gates

Julian Hewett met Bill Gates for a one-to-one interview during his visit to London

I met Bill Gates for a one-to-one interview during his visit to London last Monday. Here are some of the highlights.

How do you see the IT business changing shape over the next five years? Who would you pick out as being the dominant players in 5 years' time?

Interview with Bill Gates



Julian Hewett, Chief Analyst

The only thing you can say for sure is buyers of IT goods are going to be getting a better deal every year. Not only do we have Moore's law working in their favour, so now they are moving to these low cost servers that have unbelievable power, but we have the magic of software, where a company like Microsoft can spend \$6 billion [on R&D] and not raise the price of the software. So a lot of things like updating systems, managing systems, load-balancing systems, things that have been extremely manual and require you to write software, those will just be built in. And so I think it's a little hard to predict anyone's domination. I'd rather be a customer than a vendor in this business.

Microsoft's unique position is focused on software R&D. [We are very] optimistic about speech recognition, business intelligence, workflow, very high level web services, letting people use models to define how their business processes work and not have to write code - just work at a visual business process level. Anyway some of these breakthroughs explain why we are spending all of that R&D money. We should be in a strong position, and there's no-one doing what we're doing. I do think IBM will be there. In a certain sense IBM's always been the dominant IT player. Not in terms of volume, because they're more low-volume, high-price in what they do, but just in terms of headcount. Their two profit sources - which are mainframe annuity and consulting - are both under challenge. Having said that I don't think they are going away or anything. But finally people are moving away from mainframes, not at a dramatic rate but at a measurable rate, and from the consulting business.

As the software platform gets richer the need for the consulting should go down. That's partly why we are not in that business. It's our job to make it easier to take packaged software and just add a sort of business analyst level to describe how your process is slightly different. So it will be interesting to see how they [IBM] deal with that because their strategy is consulting. And yet in my view a lot of consulting will be done in different places around the globe than they are now. And even though IBM can do some of that, it doesn't really play to their strengths.

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Dell – in some ways you could say they're the healthiest IT company there is. But they are also the simplest IT company there is. I mean they take R&D and package it up. HP, partly because of the printing franchise, that's real R&D – patented, unique, skill stuff that will give them the ability to invest not only in that but keep strong in a number of other areas. SAP is super strong, they're not going to double in sales or anything, but someone's who's got R/3 doesn't wake up in the morning saying 'OK let's switch away from R/3'. And they're going to gain share, because it's a case of the leader leads and can integrate the pieces better.

You said the price of your software will stay the same. That's good news for the customer but what does it mean for Microsoft? How are you going to keep on growing, given that constraint?

We will be more comprehensive for enterprises. As we solve storage, management, modelling and workflow problems for them we could have some upside in the enterprise. But not dramatically because they – in terms of how they measure per desktop or whatever – expect us to keep improving things.

So a lot of our growth will come out of higher penetration in medium and small businesses. And then we've got a lot of investments that relate to the consumer area, that although they are giving us some revenue at this point, we expect them to become profitable, so as those turn around that could be a very good [source of growth].

Are you making more use of brain power in other parts of the world? And what do you think the impact of India and China will be on the IT sector?

India and China are super interesting. China in manufacturing today defines what's state of the art. India in terms of IT services defines what's state of the art. Now the number of countries that are coming to also share in that is huge. I talked to the president of Pakistan – he wants them to be in it. Down in Egypt they're saying, 'Come on, we've got these great universities, great people, we're right here next to Europe, we want to help out on this'. And it's not like India is running out of people either to do this. Their universities are cranked up, and so it's a phenomenon that's going to grow, it's going to create a lot of controversy.

For Microsoft we're still going to do the overwhelming majority of our development where we do it today, we need to do integrated innovation. Having an R&D budget be 20% less or something, it's just not worth it when we're trying to be on the cutting edge and close to the most demanding customers.

The place where we can use multiple locations very effectively is in our research. Whereas our core R&D is mostly in Redmond.



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You could say that the Internet and web services and Java opened up the IT world. Is Indigo [a key part of Longhorn] an attempt to bring things back inside the Windows franchise?

No, to the degree that systems are interoperable Microsoft is the biggest beneficiary of that, because we have the high-volume, low-cost platform, we've got the best tools and the most applications. Indigo is our packaging up of our web services run-time. And I think one of the greatest contributions to the industry we've made is getting XML on the agenda, getting web services on the agenda and be willing to sit down with IBM (and they deserve equal credit), sit down and come up with a common view. Not just the low level stuff, the SOAP and WSDL stuff that's been done, and everybody loves that, but this high level stuff that's super core stuff, the transactions, the reliability, the rich security protocol, what I sometimes called 'advanced web services' that are just now getting solidified and they will be part of the Windows run-time.

We're taking the IBM code, the Microsoft code and making sure it works together, and we do these interop fests, where we invite everybody in – it's not just us and IBM – and we see what works. And so it's more like TCP/IP was in terms of openness and flexibility.

What do you think of industry analysts? Do you take any notice of them?

Well, this industry is complicated enough that very few customers can really track the R&D failures, R&D breakthroughs, the trends. Customers need someone who's a neutral fair broker to try to analyse these trends and project out.

There were a ton of analyst firms during the bubble period, there were too many, lets say, during that period. Now I almost feel like it may have consolidated down too much. The kind of wild opinions that some people had that were kind of interesting, there's a bit less of that. For us it means we don't have quite as many analysts to sit down and keep up-to-date with.

It's a super important role, and if we can't make our strategy clear to analysts, who are more sophisticated than the average customer, then it says 'hey our strategy must be a little too complicated' or maybe it's not right.



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I'm 50 in a few months' time and I wonder if you have any tips for coping with this [Bill is 50 next year]? How long do you expect to keep going? Do you have a succession plan?

Well it's tough when you've been with a company from the beginning and then grown it. And whoever else comes in won't have all those experiences and all the mistakes that were made and why certain things worked. I always thought I won't do this full-time job of being the person in charge of the product strategy by the time I'm 60, so I have a little more than 11 years. I suppose if you'd asked me at a young age, I'd have said not even a 50 year-old can do it, but now I've changed my criteria! But I don't think somebody of 60 in terms of catching the trends and the breakthroughs, you've got to have somebody who's a bit younger doing that in a software company. Software companies are particularly tough because of the twists and turns, and the fact that if you pick web services and that's wrong, or if you don't pick it and it's right, it's very dramatic.

So it's a bit scary for Steve and I because he and I are sort of the same age. Picking the team, the CEO team and the chief software architect – or however it gets configured – that is one of our biggest jobs for this next decade, and our board is good about being part of that dialogue.

Interview by Julian Hewett, 26 January 2004. You can contact Julian Hewett at jjh@ovum.com

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