

Microsoft's midlife crisis

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Microsoft is slowing down. It is bigger, more lumbering and less profitable than it was five years ago. Its sales are up 73% in five years, but profits are up only 30%. Payroll has doubled in the last six years. In the fiscal year just ended, sales rose only 8%, the first time the company has ever reported less than double-digit growth.

In the dog years of Silicon Valley, Microsoft, at 30, is in advanced middle age. The company relies on Windows and a suite of desktop applications--products released a decade ago--for 80% of sales and 140% of profits. Newer products--the Xbox videogame machine, the MSN online service, the wireless and small-business software--collectively have racked up \$7 billion in losses in four years.

In Web-server software, Microsoft has 20% of the fast-growing market, while the free Apache program, a Linux variant, has 70%--worth \$6 billion in revenue had Microsoft gotten the sales. In search, Google and Yahoo! get 70% of queries while MSN gets only 13%. Google now gives away features (desktop search, photo archiving) that Microsoft promises in its next upgrade of Windows--which is running two years late.

What has gone wrong?

"Microsoft is a vestige of the past," says Marc Benioff, chief of rival Salesforce.com.

"Microsoft has become what it used to mock," says Gabe Newell, a developer on the first three versions of Windows.

Jeff B. Erwin, who quit in December after five years there, adds, "Microsoft has some of the smartest people in the world, but they are just crushing them. You have a largely unhappy population."

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