Microsoft becoming a monopoly

Business, Company

Over the years of Microsoft's tight grip in the field of digital and computer products and services, the company has been considered plotting a monopolizing scheme against other brands of the same field. Microsoft has evolved its powers to control the market and competition for Intel-compatible PC operating systems, which enable them to control supply, costs of products and services and market competition. b. Monopoly and Microsoft: Overview During the early years of Microsoft expansion in the global marketplace, their growing market share was not given much attention since monopoly laws in United States were inexistent in their constitution.

However, by the time Microsoft extended its virtual monopoly to act unfairly and with belligerence in the global market, the United States Justice Department and European Commission prosecuted the marketing and economic participations of Microsoft (Seidman 87-88). Antitrust case against Microsoft began in the late 1990s after uncovering their company's dominion over the marketplace, which consequently altered the market competition (Croteau and Hoynes 145).

According to Nadir (2004), Microsoft used its Office franchise to negate market share of competitors and create a dominating sphere for Internet marketers (57). Microsoft Corporation was under strict investigations by U. S Department of Justice and Federal Trade Commission for their monopolization of various lines of products and services of software industry (Grimm, Lee and Smith 174). The emphasis of the study centers on the Microsoft's monopolizing economic schemes contradicting the ideal market setup and violating economic laws of fair trade. II. Discussion a.

Monopoly of Microsoft Windows operating system, Internet explorer and Microsoft Office package suites are the three principal products of the company used in manipulating and controlling the existing market and pressing competitors (Levinson 88). In fact, according to Grimm, Lee and Smith (2005), Microsoft's MS-DOS and Windows Operating Systems attained control on approximately 85% of overall computer market share in the year 2000 (174). Microsoft has always been able to control price setups and indications of their products offered to the ever-demanding consumers.

According to Croteau and Hoynes (2006), the court cited three significant features of economic monopoly applicable to Microsoft's case. First, Microsoft possesses a large and stable economic participation in terms of production, marketing and demand of digital products and software. Second, Microsoft utilizes strict and exceedingly high barriers to counteract competitors and their potential market share. Lastly, consumers possess no pronounced or comparable alternative to the Microsoft's product (Croteau and Hoynes 145).

The establishing of Microsoft's monopoly powers is due to its Intel products' high compatibility and operating system that lets variety of software applications ride on top of the Windows platform. Unfortunately for these overriding software producers, according to Neuchterlein and Weiser (2005), the United States government does not render regulation on Microsoft's price manipulation enabling the company to maximize its monopoly profits and market share by overcharging the prices of their products offered to operating system market (17).

In the study of Economides (2001), the monopoly and legal grounds in the accusations filed by U. S. Department of Justice together with the 19 States of America against Microsoft has been investigated. Allegations made by these State and legal bodies include (a) monopoly of Microsoft in the market for operating systems of personal computer, (b) bundling of Windows O. S together with an official Internet Browser - Windows Explorer, (c) attempts to monopolize competitions on Internet Browsers, and (d) its several engagements in a number of anti-competitive exclusionary arrangements (Economides 2001).

Microsoft's first attempt in monopolizing the industry of computer and digital software started in 1994 and eventually continued up to 2001. According to Evans (2002), the initial legal attacks against Microsoft monopoly left the company undamaged even after the U. S. Justice Department charged Microsoft with market violations of engaging in anticompetitive and exclusionary schemes to retain its monopoly status in personal computer OS and Internet browser (4).

In the study of Baseman, Warren-Boulton and Woroch (1995), the strategies of Microsoft in retaining its monopoly extend from overcharging licensing of OS for personal computers to induction of technical incompatibility between their OS and competitors' applications (e. g. MS-DOS and DR-DOS). Nonetheless, Microsoft continues to decline the alleged charges against their monopolizing schemes and claims to uphold appropriate pricing for their PC OS (Werden 2001). b. Microsoft's Court Cases: Antitrust and Monopoly

In July 1994, Microsoft made their settling agreement against the four-year antitrust investigations enforced by U. S Justice Department and European Commission. However, according to Grimm, Lee and Smith (2005), negotiations offered by the company did not pass the 1990 complaints filed by misled competitors and IBM, which consequently led to the allegations of stricter antitrust enforcement policy against Microsoft (175). On October 20, 1998, DOJ Antitrust Division's Assistant attorney general – Joel I. Klein – together with other 20 state attorney generals filed an official legal suit (Civil Action No.

98-1232; filed in U. S. District Court for the District of Columbia) against William Gates, CEO of Microsoft Corp (Steiner and Steiner 337). Charges made by the group of Attorney generals consisted several violations in Section 1 of Sherman Act declaring the unlawful " every contact, combination in the form of a trust or otherwise, or conspiracy, in restraint of trade or commerce…", which was interpreted as prohibition of monopoly practices including price-fixing, exclusive dealing, resale price maintenance and tying.

According to Evans (2002), Microsoft had violated Section 1 because of their entry in exclusive contracts with different parties together with the bundling of Internet Explorer to Windows (4-5). However, Microsoft immediately denied the accusations made by these legal bodies against their company (Steiner and Steiner 33). The Supreme Court claims the unlawful bundling of Microsoft OS with their Internet Explorer restraining competition and

competitors' market share thereby producing monopoly in the line of computer applications (McKenzie 2001).

Furthermore, allegations against Microsoft also included Sherman Act Sect 2 consisting of two violated elements: (a) " the possession of monopoly power in the relevant market", and (b) " the willful acquisition or maintenance of such power as distinguished from growth or development as consequence of a superior product" (Evans 6).

According to Neuchterlein and Weiser (2005), Microsoft initiated their plans to inhibit the growing market share of Netscape not because of Netscape's potential to increase its value over Window's official Internet Browser, but because Netscape can actually decrease the overall economic value of Windows by breaking the applications barrier protecting Windows monopoly (18).

Charges against Microsoft consisting of (a) violation due to entry in exclusive contract, (b) bundling or tying, (c) monopoly leveraging, (d) attempted monopolization of web browsers, (e) maintenance of PC OS monopoly and (f) predatory pricing led to the break-up of Microsoft into two different companies under the umbrella of the general Microsoft Corporation (Evans 7-10; Grimm, Lee and Smith 175). c. Defining the Market Microsoft's progressing monopoly is due to the " integrated nature of software and operating systems" that creates the pressing " Chicken and Egg" economic problem (Croteau and Hoynes 145).

The principal market supporting the product lines of Microsoft Corporation comprises the multi-segmented sectors, personal users of PC Windows OS and application innovators from small to large-scale companies (Eisenach and Lenard 95). The market shares controlled by the company accounts to the entire majority of consuming public, which has been estimated to be 85% to 90% of overall computer users (Grimm, Lee and Smith 174). As of September 2008, Windows OS version XP accounts to 73.

3% of overall OS users, 2. 2% for Windows 2000, 0. 2% for Windows 98, 13. 2% on Windows Vista and 1. 8% on Windows 2003. Meanwhile, major competitors of Microsoft – Linux and Mac – account to only 3. 8% (Linux) and 5. 2% (Mac) from the overall OS user population (OS Statistics, 2008). Evidently, the market shares of Windows account to 90% of the overall OS user population leaving only 10% for its competitors. d. Issues on Inhibition of Competitors

Microsoft’s aggressive strategy – embrace, extend and extinguish – has led them to (a) embrace Internet authoring tools as a dominant Office suite component, (b) extend control of the new market through their introduction of proprietary standards incompatible with competitors’ standards, and (c) extinguish the competing software through their manipulative licensing schemes (Nader 57). Unfair practices of Microsoft against its competitors are due to its massive and expanded market share accounting to approximately 90% of global PC-users (Croteau and Hoynes 145).

According to Croteau and Hoynes (2006), Microsoft has always utilized its monopolizing power to convince small to large-scaled companies to limit

their participation and usage of competitors' products, such as the famed browser-Netscape (145). Microsoft and its Chief Executive saw the potential competition threat of Netscape Navigator towards his Windows Operating System, which Gates perceived as a potential de-valuator of Windows OS (Steiner and Steiner 338).

Aside from Netscape, Microsoft also inhibited the participations of Sun Microsystem's Java since these components can override Windows platform especially if Netscape Navigator combines with Java systems (Hahn 24). According to Steiner and Steiner (2005), shortly after the release of Microsoft Windows Internet Explorer, Microsoft executives together with Netscape executives had their meeting aimed at persuading Netscape not to compete with Microsoft (338).

In order to eliminate the marketing potential of Netscape browser, Microsoft tied or bundled Internet Explorer with Microsoft Windows promoting the use of an official web browser instead of an installable or downloadable web browser (Hahn 24). In another case, Microsoft has used its product lines monopoly to bully Original Equipment Manufacturers (OEMs). According to Spinello (2002), since OEM is one of the two principal channels in distributing different browsers, Microsoft allegedly performed negotiations to remove Netscape browser and promote the official Windows browser to the public users (84).

Threats on Windows access were thrown against OEM executives who refused cooperating in this deals; hence, Microsoft was sued for committing anticompetitive and monopoly campaigns against its competitors (Hahn 24).

Aside from OEM, Microsoft also approached various independent browser distributors, such as America Online Inc. (AOL) approached in 1996, MCI, AT&T Worldnet and Earthlink, requesting them to prioritize Internet Explorer by making it the main browser for subscribers instead of Netscape navigator (Steiner and Steiner 338-339).

III. Conclusion Evidently, Microsoft had performed anti-competitive and monopolistic actions against its competitors in order to maintain its monopoly in the industry of computer and software applications. Microsoft has violated anti-trust policies and Sherman Act sect 1 and 2 in order to retain its monopolistic powers and prevent competitors from increasing their market share in the industry of web and OS applications.

Monopolistic campaigns of Microsoft included (a) exclusive contracts, (b) bundling, (c) monopoly leveraging, (d) attempted monopolization of web browsers, (e) PC OS monopoly, and (f) predatory pricing on all Microsoft products.

Works Cited

Baseman , Karen C. , Frederick R. Warren-Boulton , and Glenn A. Woroch . " Microsoft Plays Hardball: The Use of Exclusionary Pricing and Technical Incompatibility to Maintain Monopoly Power in Markets for Operating System . " Antitrust Bulletin 40. 2 (Mar. 1995): 265-315. Croteau, Dave, and William Hoynes.

The Business of Media: Corporate Media and the Public Interest. New York, U. S. A: Pine Forge Press, 2006. Economides, Nicholas. " The Microsoft Antitrust

Case . " Journal of Industry, Competition and Trade 1. 1 (Mar. 2001): 7-39. Eisenach, Jeffrey A. , and Thomas M. Lenard. Competition, Innovation, and the Microsoft Monopoly: Antitrust in the Digital Marketplace. New York, U. S. A: Springer, 1999. Evans, David. Microsoft, Antitrust and the New Economy: Selected Essays. London, New York: Springer, 2002. Grimm, Curtis M.

, Hun Lee, and Ken G. Smith. Strategy As Action: Competitive Dynamics and Competitive Advantage. Oxfordshire, U. S: Oxford University Press US, 2005. Hahn, Robert. High-stakes Antitrust: The Last Hurrah?. New York, U. S. A: Brookings Institution Press, 2003. McKenzie, Richard B. " Trust on trial How the microsoft case is reframing the rules of competition . " Business Horizons 44. 1 (Feb. 2001): 84-85 . Nader, Ralph. In Pursuit of Justice: Collected Writings 2000-2003. London, New York: Seven Stories Press, 2004.