



Microsoft's Steve Ballmer talks about Apple, Google and—oh, yes—Microsoft.

CEO Interview

Beyond the PC: Ballmer's Battle Plan

Steven Ballmer, Microsoft

Steve Ballmer was onstage at the *Saturday Night Live* studio in New York City. He was relaxed, taking off his tie to fit microphones for a product announcement he was making later that morning; with his slight paunch and rumpled shirt, he might have been the late *SNL* comedian John Belushi. Ballmer, 51, was joking around with his handlers

while men with headsets tinkered with equipment and sound. And why wouldn't he be happy? Microsoft stock had hit yearly highs in anticipation of the splashy launches of Vista, its new Windows operating system, and Office 2007, its revamped applications suite. The six-month rise alone added \$2.9 billion to his net worth, for a total of \$12.7 billion in Microsoft stock.

Even with the uptick, Microsoft stock has been flat for five years running, a far cry from the \$60 it commanded during the tech boom. The open-source movement, free Internet-based applications, Google's dominance in paid search, Apple's dominance in music and the Justice Department have all been thorns in Microsoft's side. Yet few on Wall Street underestimate Ballmer when it comes to competition—least of all Harvard pal Jim Cramer of *TheStreet.com*. “No one could lead this next leg up for Microsoft as well as Steve,” Cramer says with his typical, hypervocal exuberance. “Tenacity, loyalty, rigor and honesty all rolled into one great guy.”

Ballmer grew up outside Detroit, the son of a Ford accountant and a homemaker. His intellect was recognized early—he won a scholarship to prep school and went on to Harvard, where he shared a dorm with Bill Gates. After a stint in marketing at Procter & Gamble, Ballmer started graduate school at Stanford University, then joined the drop-out club in 1980, when Microsoft had \$12.5 million in sales. Gates, who never finished at Harvard, passed the CEO reins to his college buddy in 2000.

The word “intense” was invented for Ballmer, who met with us in a green room that had a paper sign with his name taped to the door. While he was at first warm and engaging, a question about security features shifted his mood. His eyes, soft when he smiles, grew dark. The usually boisterous Ballmer became unexpectedly quiet and soon exited the room without saying goodbye. Still, he had a lot to say to

SMARTMONEY senior writer **Dyan Machan** before he did.

If Apple is cool and edgy, Microsoft is ...

Leadership, responsibility and innovation. There are points on the spectrum between boring and edgy. In politics, the guy who wins isn't boring or edgy. We are more centrist. Apple is trying to appeal to the edgy.

So your main customer is business.

No. I don't think most individuals are edgy.

Steve Jobs's iPhone announcement stole the thunder from Bill Gates's keynote address at the Consumer Electronics Show. Do you wish you had the iPhone?

No. Apple has put its brand into a new category. That doesn't mean it's a good product. I wouldn't be surprised if one of our partners came out with a device that looks exactly the same at a lower price in six or seven months [near the time when

has no presence. There are videogame machines; Apple has no presence. TVs: Apple has no presence; Microsoft has some presence. Music: Apple has a very large presence [via the iPod]; Microsoft has an interesting presence in the high-end market.

You mean the Zune? Please.

We don't kid ourselves. We won't come out

People complain about feature bloat.

Most of us use 5 to 10 percent of features.

People won't buy for features.

No. They *will* buy for features. People use more of these products than they think. Maybe you couldn't write [a great PowerPoint presentation]. But now you can read it. The user interface is sexier. Sex sells.

“We don't kid ourselves. We won't come out our first Christmas [with a new entertainment product] and take over. But at the end of the day, entertainment devices will be very good business for us.”

our first Christmas and take over. There will be a phase two and three. But at the end of the day, entertainment devices will be a very good business for us.

You said you would sell Vista and Office 2007 to 200 million people by 2009. What about the other 800 million PC users?

It's a huge number. When will you upgrade in your household?

In two years, when the kids go to college.

See, it's the same with IT departments. Some can't afford it today. Some will wait for a product cycle. Most people upgrade software when they get a new machine. The more interesting point is that every new computer you buy after Jan. 30 will come with Vista.

Spam and viruses exist at Microsoft's tolerance. Security is a selling point for Vista. Have you held back security improvements to force people to upgrade?

Quite the contrary. Our strategy is to get rid of it. We've done our best. Bad guys have to be right once. We have to be right all the time.

Why haven't you done more before now?

Windows XP eliminated a lot of problems. SP2 was a huge release to improve security. Vista took even more steps. The best thing for us is to get people to upgrade for the right reasons. Confidence is what sells.

Google has a ridiculous lead in paid search, and Linux, your open-source competitor, continues to nip at your heels.

We have two competitive phenomena that are new to us. One is open source. [Since it's free,] we can't do that. Advertising is the other. We *can* do that. We have embraced the advertising model. We're No. 3 [behind Google and Yahoo]; I'd like to be No. 1 or 2.

What's doing in paid search?

We're improving our technology. Google is an incredible brand. It's the No. 1 opportunity for everyone. Fifty percent of search answers are not very good. People aren't getting what they want. The average search engine is better on fewer words than more. That's counterintuitive.

Technology will improve that?

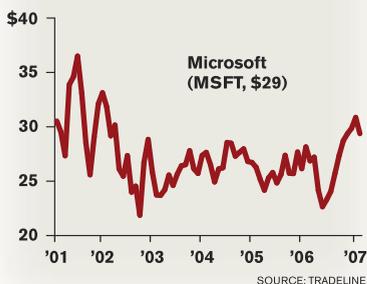
We're working on that. So is Google. The market is going to continue to transform. Google didn't invent search—it refined it and took it to a new level. It's not a category that is all done. There will be innovation; some of it will be disruptive. Some of it will be difficult for Google to embrace. They are locked into a specific revenue stream.

What part of Bill Gates's job stretches you the most?

There's no replacing Bill Gates. I gotta go.

ON THE HORIZON

Ballmer hopes Vista, Office 2007 and Internet advertising will move Microsoft stock.



iPhones will ship]. There's a notion that there's magic with Apple. *iPod* is a hot brand—not Apple.

But Apple is in the home, winning in the very place Microsoft has identified as important to its strategy—that is, entertainment.

It's a romantic notion that Apple has the lead. People who build overpriced, underpowered equipment and then market it in an edgy way do not have a formula for broad success. In the home there are PCs; Apple