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# The Soul Of A New Microsoft

Edgy thinkers like J Allard are looking far beyond Windows for the next big thing

At 3:32 p.m. on Oct. 19 an e-mail flashed across the screens of the 230 Microsoft employees working slavishly to bring the Zune music player to market. The sender was their brash team leader, J Allard, 37. The message included a link to an old video of Steve Jobs on YouTube, mocking Microsoft's creativity. "The only problem with Microsoft is that they have no taste,"

the Apple Computer boss says. "They have absolutely no taste."



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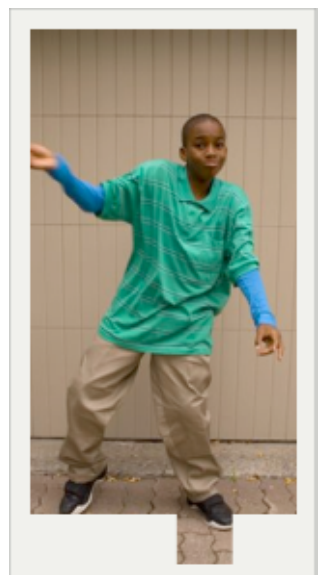
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Allard was using one of the oldest motivational tricks in the book--his version of a football coach posting an opponent's quote on the locker room wall. "I for one...want to see this guy eat his words," Allard wrote. "Those are fighting words. He is speaking to every one of us and saying that we don't get it."

Zune hit store shelves on Nov. 14--a mere eight months after Allard's team got the go-ahead for the seemingly impossible task of toppling Apple's iPod music player. Contrast that with the five years and some 10,000 Microsoft Corp. workers it took to give birth to the latest version of the



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company's Windows operating system, Vista, which begins selling to corporate customers on Nov. 30 (and to consumers in January). From the start, Vista has seemed like an anachronism--packaged software in a Web 2.0 era where ever more applications are moving off the PC and onto the Internet, some springing forth in a matter of weeks. Microsoft Chief Executive Steven A. Ballmer vows that this time-consuming process of cranking out code, which created complexity and bogged down development, will never be repeated.

No one's suggesting that Zune will have anywhere near the impact of Vista. In its early form, it is clearly no iPod killer. It's bulkier and more of a battery hog, and the Zune Marketplace doesn't offer as many songs or videos as Apple Computer Inc.'s iTunes does. Plus, you pay for them with a confusing point system instead of dollars and cents. Zune will be lucky to sell 3 million units its first year and is sure to lose money for the foreseeable future. Vista, on the other hand, should run on about 76 million PCs by the end of 2007, says Roger Kay, founder of research firm Endpoint Technologies Associates. Vista sales should help fuel an \$11.5 billion contribution to operating profits from Windows in the current fiscal year, says Credit Suisse First Boston analyst Jason Maynard.

But maybe the point is that Microsoft needs to find its un-Vista. Several of them, in fact. The software giant is entering perhaps the greatest upheaval in its 30-year history. New business models are emerging--from low-cost "open-source" software to advertising-supported Web services--that threaten Microsoft's core business like never before. For investors to care about the company, it needs to find new growth markets. Its \$44.3 billion in annual sales are puttering along at an 11% growth pace. Its shares, which soared 9,560% throughout the 1990s, sunk 63% in 2000 when the Internet bubble burst, and they have yet to fully recover.

Reigniting growth will require a cultural shift at a company that has long shaped its strategy around maintaining its Windows operating system and Office word-processing and spreadsheet monopolies. That calls for a new breed of leaders who can push the company in directions it hasn't gone before. "Things are different from the desktop world that most of the Microsoft guys grew up in," says Michael A. Cusumano, a management professor at Massachusetts Institute of Technology who has written extensively about the company.

**No one leader** will replace William H. Gates III, the iconic software geek who came to define an era and plans to leave the company in June, 2008. But a cadre of execs is positioned to step up. Steven Sinofsky, the longtime head of the Office unit and onetime Gates technical assistant, has been put in charge of speeding up the Windows product cycle. Ray Ozzie, a relative Microsoft newbie and computing industry icon, is working to Web-ify many of Microsoft's products.

The soul of the new Microsoft, though--its Geek 2.0--may just be Allard, the vice-president for design and development at its Entertainment & Devices unit. Allard looks and acts nothing like the prototypical Microsofty. Over the years he's swapped his plaid shirt and khakis--something of a Microsoft uniform--for edgy jackets made by Mark Ecko and other designer wear. He loads up his nine iPods, and now his Zune, with songs from hardcore bands like A.R.E. Weapons. And he's a downhill mountain biking maniac who has broken several bones after flying off his bike.

More important than his cool quotient, though, is that Allard gets things done--fast. Zune is only the latest example. At the turn of the decade, he led the software giant into the video game business with Xbox, a risky gambit that's just starting to pay off. Xbox is now a solid No. 2 to Sony Corp.'s PlayStation, and analysts expect it to turn its first profit in the next fiscal year.

Allard is one of more than 100 Microsoft vice-presidents, but he has played an outsized role in shifting perceptions about whether the company can innovate in areas other than packaged software. In June, when Gates announced his plan to focus full time on his charitable foundation, he anointed Allard, along with a

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handful of others, as the leaders he expects to clear new paths.

Already, Allard and those like him are having an impact. They're showing that strategies to move the company beyond Windows can emerge and be accepted by top brass as nonthreatening. A key moment came six years ago, when Allard insisted that the new Xbox video game console be developed without using Windows. In one meeting, Gates berated him for suggesting that the operating system wasn't up to snuff. But Allard argued that it wasn't specialized enough to handle video gaming. Gates eventually relented, in a decision that is widely seen today as a key to the console's success.

Even Ballmer, once pigeonholed as a micromanager, seems increasingly willing to distribute power and let those underneath him try new approaches. "I would have been hell-bent and determined six years ago to call Xbox the Windows Game Machine," he says. "My natural tendency would have been to call Zune something that was related to Xbox, since we had some consumer franchise. And yet we're really building consumer marketing muscle, and those guys are really teaching and educating us on new ways to do things."

Never afraid to speak his mind, Allard started pushing buttons way back in 1994, when, as an eager 25-year-old programmer only three years on Microsoft's payroll, he penned a sea-changing memo titled "Windows: The Next Killer Application on the Internet," which found its way to Gates. The note, now part of Microsoft lore, helped awaken Gates to the potential and threat of the Web. "I'm a pain-in-the-ass change agent," Allard says.

That's exactly what Microsoft needs if it hopes to again set the tech agenda. Windows and Office will deliver more revenues in coming years than the exports of many small nations. But Web spitfires such as Google Inc. and Salesforce.com have the wind at their backs. And while Microsoft continues to recruit top talent, it also continues to see key leaders move on: executives such as Vic Gundotra, a top evangelist in its developer division, who will soon join Google, and Brian Valentine, the longtime leader of the Windows server business, who now works for Amazon.com Inc.

**Nowhere are Microsoft's** missteps more apparent than in digital music. When that business first emerged five years ago, the company saw it through Windows-colored glasses. Using the same model that worked in pcs, Microsoft produced software to play music on computers and handheld devices, slapping the Windows brand on it and leaving the hardware design to partners. Microsoft figured Apple was making the same mistake it made with the iPod as it had made with its Macintosh pcs: By creating both the proprietary hardware and software, it would lock out partners and limit growth.

But it turns out the silky experience of hardware married inextricably with software was crucial in coaxing nontechies into the world of digital music and downloading. Microsoft's market share pales in comparison with Apple's because its software never worked smoothly with devices that came from partners such as Creative Labs and with services from outfits like MTV. Apple seized 85% of the song download business and to date has sold 67 million devices and 1.5 billion songs.

When Allard's team hatched Zune, they unabashedly cribbed from Apple's playbook. Microsoft all but abandoned its music partners, built its own device, and offered its own music-selling service. Moreover, the player and service, which work exclusively with one another, operate far more smoothly than any previous iPod challenger.

Allard recognizes, though, that he can't beat Apple by merely mimicking its best features. So he wants to change the rules of the game. That's why he led the effort to include wireless fidelity, or Wi-Fi, inside Zune. Zune's users can use it to beam songs to friends' devices. Microsoft cut deals with record studios, persuading them to let consumers share music in a tolerable way; Zune includes

technology that limits beamed songs to three plays or three days, whichever comes first. Labels bought into the idea of promotion. "My customer becomes your street team," Allard says.

Microsoft is betting that Zune will follow the path of Xbox: Like the game machine, Zune arrives as a flawed first version that screams for an update. And like a much criticized networking feature on Xbox that eventually gave it an edge when online gaming took off, Zune's Wi-Fi technology hints at a broader vision.

Sitting in the open, communal meeting space at the center of Zune headquarters--a refurbished dance studio a few miles from the main Microsoft campus--Allard wonders why every pundit is so focused on the device rather than the listening experience. He envisions a time (not soon, mind you) when all of your music will be "in the cloud"--tech-speak for Net-connected servers that dish up content wherever you happen to be, beamed to any device. Hop on a plane, plug headphones into the armrest and poof!--there's your music. Set your hotel alarm clock to wake you to your favorite song. Zune may be a swell device, but for Allard it's a means to a much larger end.

The giant of Redmond is starting to take an Allard-like fresh look at many of its older product lines, as well. Webification can be seen seeping into all corners of Redmond (Wash.) headquarters. Its leading proponent is Ozzie, who developed Lotus Notes in the 1980s, then joined Microsoft in 2005 when it acquired his Groove Networks. Ozzie quickly emerged as heir to Gates's role as technology sage. Under the year-old "Live" strategy, Microsoft is blending services it launches on the Web with programs consumers run on their PCs. That way, Netizens get a better experience using Web services when they harness Windows and the processing power of PCs. Take Windows Live Mail, a small software program that lets users view various e-mail accounts--even Google's Gmail--in the same window. Because it runs on a PC desktop, it's easy to include zippy features such as automatically completing an e-mail address after you type in a few keystrokes. Microsoft will give away services such as e-mail, limited Web hosting, and perhaps one day that portable jukebox in the sky Allard dreams of, making money from advertising and subscriptions.

Challenging Google on the Web and Apple in music are stretches for a company that critics say lacks a culture of innovation. But while nearly all the profits are from the old products, the growth opportunities are in the businesses Allard and Ozzie are igniting. Xbox, for example, should ring up \$4.6 billion in sales in the fiscal year that ends next June, says Goldman Sachs & Co. analyst Rick Sherlund. That number should climb 67%, to \$7.6 billion, in fiscal 2009. He estimates that Zune sales will climb from \$250 million to \$575 million over the same period. By that time he expects the Home & Entertainment unit, which includes Xbox and Zune, to kick in \$1.2 billion in operating profits.

Lately, some outsiders who work with Microsoft detect signs that the culture is slowly shifting as well. "They're definitely in the middle of a strategy re-look," says Hewlett-Packard Co. chief strategy and technical officer Shane V. Robison, who chats with Microsoft brass. "It will be a fairly orderly evolution, but there's a lot of new discussion that I'm seeing."

There's hardly anything old school about Allard. On a drizzly fall night in the Seattle suburb of Issaquah, he sets out with some Microsoft mountain biking buddies for a ride through a pitch-black forest. Guided only by lights mounted to their helmets and handlebars, the group bumps over tree roots, splashes through puddles, and powers over trails, some no more than two feet wide. Allard hustles his bike up yet another hill, then stops to catch his breath and check his heart-rate monitor. It's racing high, at 197 beats per minute. A minute later he's back in the saddle, looking for the next hill to climb.

**Everything with Allard** is about velocity. He drives a Ferrari 360 and a Porsche 911. He bombs down ski runs during the summer on a mountain bike at speeds topping 30 miles an hour. He qualified for the U.S. Nationals race this summer

but had to drop out after he was hit by a car while biking around Seattle. "I love that gravity is unforgiving," he says. He even blazes through e-mail, jotting down notes all in lower case: "shift key slows you down," he writes.

His fascination with technology and commerce started early. When Allard was about 12, he wrote an elaborate computer game called Lemonade Stand. The proprietor started with a \$5 allowance to buy sugar and lemons. You had to look at weather reports; if you guessed wrong and made too much lemonade, it would go bad and take your investment with it. "If I had half a brain, I would have waited 10 years, called it Sim Lemonade and made a bazillion," Allard jokes.

A B+ student who thrived on math, Allard dove deep into computer engineering at Boston University. He and his future wife, Rebecca Norlander, impressed a Microsoft recruiter enough at an MIT job fair to get two tickets to Seattle for a full round of interviews. (Norlander also works at Microsoft, most recently as general manager of the security business unit.) During one session, Brian Valentine, then a networking manager, asked Allard what he'd want his epitaph to read if he died tomorrow. There was little hesitation: "Go big or go home."

In college, Allard had become addicted to the Internet. Raw as it was back then, he connected to others with similar interests and had an inkling of the power it held to bring together the masses. But Microsoft had no clue. It had registered microsoft.com as an Internet domain name only a few months before Allard landed, more than five years after Sun Microsystems Inc. registered its name. Microsoft was far more interested in desktop computing than figuring out how to make all those computers work together.

Three years into his Microsoft tenure, Allard was working on Windows NT server software, with no direct reports. Frustrated, he wrote his now-famous memo. Allard wanted Microsoft to figure out what Internet users wanted to do, build tools to help them do it, and become a technical leader before rivals did. "Embrace, extend, then innovate," he wrote. "Change the rules: Windows becomes the next-generation Internet tool of the future!"

**That message**, along with an e-mail to Gates from Sinofsky, served to awaken the slumbering company. Allard became a star, and Microsoft focused on connecting customers through its server and PC software, crushing Web browser pioneer Netscape Communications Corp. along the way.

But the Net and Microsoft were still an awkward fit. In the late 1990s, Allard was put in charge of a wildly elaborate Web-services initiative dubbed Project 42. The group took its name from the cult classic book *The Hitchhiker's Guide to the Galaxy*, in which the absurd answer to the question "what is the meaning of the universe?" is: 42.

Allard now says he used the name in part because the group's goals seemed equally absurd. Its roster expanded to an unmanageable 1,500 workers, and the project became a clearinghouse for every Web idea that bubbled up. "We started with the organization first, not the dream," Allard recalls. "It was quickly the answer to everything." Team members sparred over different visions for the Web: Would it be tightly coupled to Windows or open to other technologies? In May, 1999, Project 42 disbanded, collapsing under its own weight.

Microsoft's longtime Windows chief, James E. Allchin, later described the effort as "incredibly ambitious and naive." Allard pondered that barb recently and wondered if it's really a knock. "The only way to change the world is to imagine it different than the way it is today," he says. "Apply too much of the wisdom and knowledge that got us here, and you end up right where you started. Take a fresh look from a new perspective, and get a new result."

Allard took two months off and pondered his next gig. Based on the Project 42 debacle, he knew he had to start small: "The critical lesson was: Crawl, walk,

run." A handful of buddies working on an idea to build a video game device needed someone with political clout. Allard still had sway with Gates and Ballmer, so he dove in.

Just like the pre-Internet days, Microsoft was stuck thinking conventionally. Allard's bosses wanted to develop a video game version of Windows and get computer makers, such as Dell Inc., to build the device. But the industry didn't work that way. Hardware makers lose money on console sales and make it back from royalties on games. When it became clear that Microsoft had to enter the console business, building from scratch wasn't his superior's first choice. "I wanted to acquire Nintendo," recalls Rick Thompson, a vice-president who then ran the hardware business. Allard pushed to do the whole project in-house, and Microsoft ultimately vaulted ahead of Nintendo.

Allard's reward for the success of Xbox was being put in charge of finding new multibillion-dollar device businesses, which became the quest to topple Apple's iPod. The enemy in this case is very familiar: Behind Allard's desk is a crystal given to him by his boss, Microsoft entertainment division President Robert J. Bach, upon his 15th anniversary at the company. In the middle sits a photo of Steve Jobs. Always the iconoclast, Allard works on an Apple G5 computer, next to an obviously less frequently used pc. Allard says it's important to learn about the competition.

Allard has surrounded himself with a small posse of loyal colleagues who move with him from project to project. Douglas C. Hebenthal started with Allard 15 years ago on a networking product called lan Manager. Hebenthal ticks off the big assignments they've shared since--Internet Information Server, Project 42, Xbox, and now Zune. "In every case in which I work with J, there is a mountain to climb, there is a clear leader, and most folks would see that mountain as insurmountable," he says. "The thing about the guys who work with J is that we never think things are insurmountable. In fact, that's the draw."

#### READER COMMENTS

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**Nickname:** den

**Review:** New culture of innovation? like zune and vista? you must be kidding. They're 3rd rate ripoffs of their competitors.

**Date reviewed:** Feb 1, 2007 11:23 AM

**Nickname:** jam\_n\_texas

**Review:** This is clearly a new era for Microsoft, a defining moment if you will. There seems to be a renewed emphasis on innovation, culture, diversity, and overcoming adversity! As an investor, with what is on the horizon, I am taking a serious look at the potential upside here as we have seen in the past with Microsoft. Can they do it again? Is this where they clearly separate themselves and pull away (again going from "Good to Great to Greater")? I believe it is!

**Date reviewed:** Jan 7, 2007 7:40 PM

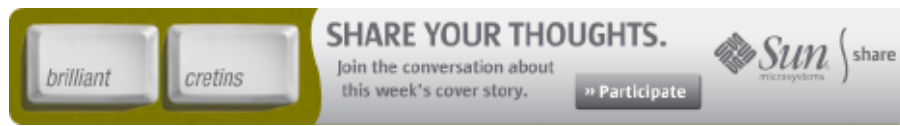
**Nickname:** ADS

**Review:** Get a life, guys. He's doing his job and really, seriously, really doesn't know your name. And if Xbox does turn a profit, then he damn well deserves whatever accolades he gets. Aren't some of us saying the same thing as his chum in the last paragraph -- seeing the mountain as insurmountable. Well some are complaining about the mountain or him. Better do something. Go impress a Google recruiter, join them, make the killer-app to wipe off MS -- if you can. Strange how most people who accomplish things let their work do the talking.

**Date reviewed:** Jan 7, 2007 2:50 AM

**Nickname:** j-jumpz

**Review:** J Allard didn't invent Lemonade Stand? By the time he was 12 the game was already nearly a decade old--it was written by a guy named Bob



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