**BELL FACING FRESH CHALLENGES**

To most people in the lower half of Manhattan, Manhattan Cable Television is an entertainment company. But to banks and large companies, Manhattan Cable is also a telephone company.

Those banks can use the cable, instead of New York Telephone lines, to send data from one of their buildings to another. And if John Gault, president of the cable company, has his way, those businesses will also be able to use the cable to communicate by voice from one of their buildings to another.

Manhattan Cable is at the forefront of change in the telephone business. The last vestige of the American Telephone and Telegraph Company's near-monopoly - local telephone service -is being pierced.

Competetive Obstacles Fall

In the last decade, A.T.& T. has seen competition chip away at two of its most lucrative businesses - long-distance transmission and the provision of customer equipment such as telephones and office switchboards. But competitors have not seriously tried to encroach upon local phone service.

For the rewards envisioned, it was considered too great an obstacle to try to compete with the Bell wire that has been put into nearly every home, office and factory in America at great costs over several decades.

Now, however, a combination of new markets, new technology and rising local phone rates are making that once-forbidding task possible. Not an 'Assured Monopoly'

''We don't view the local loop as being an assured monopoly anymore,'' said Tom L. Powers, executive director of network planning for Bell Laboratories, the research arm of A.T.& T. ''Too many things are happening and we don't feel we can turn our back on them.''

The new competitors are:

- Cable television, which found it economical to run wires along the streets, often hung from the phone company's own poles, to provide television entertainment. But now that the second wire is in every home, some cable companies are looking at transmission of voice and data, tasks traditionally handled by the phone company.

- Cellular radio, a new technique that will allow for a vast increase in the number of automobile telephones. But some companies in the cellular radio business say those same phones can be used at home, too, instead of the wired phones.

- Digital termination systems, authorized by the Federal Communications Commission in April, that would use microwave radio to beam data throughout a city at high speed. Not for Casual Chats

The new competition, at least initially, will not offer any alternatives to residential users who want to call their neighbor or the corner drugstore. The new competitors are not looking at that market.

''That is a rotten business,'' said Howard Anderson, managing director of the Yankee Group, a Cambridge, Mass., consulting firm. ''It is a capital-intensive business. It is a labor-intensive business. It is a politically intensive business.'' That explains why local service has remained a monopoly for so long, Mr. Anderson said.

The competitors, at least initially, will go after high-volume business of large corporations. In fact, to the extent that they divert this business from the local phone company, rates for residential users might have to be increased somewhat to compensate. Not Designed for Data

The hole in Bell's monopoly is that its system was designed to carry conversations, not data. Cable and radio techniques have greater carrying capacity than the phone wires, allowing companies to send data at high speeds from computer to computer, or extremely high-speed facsimile. But once they provide those services, it is also easy to provide voice service.

Among those most interested in providing or using new methods of local telephone service are those companies that compete with Bell in the long-distance market. Competitors such as the MCI Communications Corporation, which provides long-distance voice transmission, are irked by the fact that they must still rely on the local phone company for connections at either end.

Other long-haul carriers, such as Satellite Business Systems and the American Satellite Corporation, complain of the ''last mile'' problem. Data and voice can be beamed thousands of miles at extremely rapid speeds, only to reach a bottleneck in the last mile at either end, in which the data must travel over a phone line. Experimental Link Tested

This month, a major experiment was begun to test methods of circumventing the phone company in that last mile. Major banks and companies are transmitting data and facsimile between their New York and San Francisco offices by satellite. In New York, the data are being collected and distributed over cables provided by Manhattan Cable Television. In San Francisco, the signals will be distributed by a combination of microwave radio and cable owned by Viacom International, which provides cable television in that city.

The equipment for the local distribution at either end will be provided by the Local Digital Distribution Company, a joint venture of M/A-Com Inc. and the Aetna Life and Casualty Company formed to capitalize on what the company sees as the coming boom in local communications.

Three companies have already applied to the Federal Communications Commission to set up digital termination services in major cities, which would take signals from the satellite and distribute them on microwaves beamed from a tall building to a small dish antenna on the customer's roof or in a window.

The companies are Satellite Business Systems; Tymshare Inc., which runs a data communications network, and Isa Communications Services, an Atlanta-based company run by a consortium of insurance companies. United Telecommunications, the nation's third-largest telephone company, is buying a controlling interest in Isacomm. On a Collision Course

In addition to providing data communications for business, cable television is also on a collision course with the telephone company in providing residential service. Again at issue is data communications, not voice.

Consumers are increasingly starting to read information, shop and bank on home video screens connected to large computers elsewhere. Both the phone company and some cable companies want to provide that connection.

Cable, however, has its limitations. Cable television, for instance, will reach only about half the nation's homes by 1990, and a smaller percentage of those homes will be served by two-way cable, which will be needed for information services. That leaves at least half of the business to the phone company by default. And in most cities - Manhattan is an exception - cables serve only residential areas and not the downtown business areas, preventing cable companies from serving as data communications links for corporations. A Technical Obstacle

Cable systems also are not switched systems, meaning that one person cannot call any other person. That will severely limit the ability of cable television to provide voice services as well as data transmission.

However, one applicant for the cable television franchise in Prince Georges County, Md., has offered to build a switched-voice telephone system for use by the county government and businesses. If other cable companies, which are competing fiercely for franchises, follow that practice, it would put the cable companies in more direct competition with the phone company for its bread-and-butter business.

It is unclear to what extent the cable companies, which have a lucrative business providing home entertainment, will want to engage in a clash with the phone company to provide commercial services.

Doing that, for instance, might result in the phone company countering by trying to get into cable television, although A.T.& T. now says it has no intention of doing that. So far, phone companies have been prohibited from owning cable systems in the same cities they serve. But the F.C.C., which has already relaxed this rule for small towns, is considering relaxing it further.

The phone company is not sitting back. Bell is upgrading its lines to better handle digital communications and is installing, in some areas, optical-fiber cables, which can carry as much information as conventional television coaxial cable, if not more. Bell is aggressively trying to move into the provision of home information services. Cellular Radio's Possibilities

One company that is itching to compete with the phone company is Millicom Inc., a small New York company that sees a growing market in cellular radio. Cellular radio is a new technique that will allow many more mobile phones. With cellular radio, A.T.& T. estimates that in New York City, 130,000 people could have phones in their cars, compared with 900 now.

Millicom thinks the car phones can also be used at work or at home, allowing a person to carry the same phone number around all day. Especially in rural areas, where wiring distances are long, Millicom thinks the portable phones could compete with the wired phone systems.

Most everyone else dismisses that prospect. ''If you're starting from scratch there would be no doubt that it would be cheaper to go with radio,'' said Carl H. Insel, vice president and general manager of the radio products division at the E.F. Johnson Company, which makes mobile telephones for both A.T.& T. and Millicom. But with wires already in place, Mr. Insel said, mobile phones will not be cheap enough to supplant the existing phone system.

In addition to the prospect of communications companies providing the service, some large corporations are building their own local communications facilities. The Westinghouse Electric Corporation, for instance, is building its own private network to connect its 65 facilities in the Pittsburgh area.

**Illustration**

photo of cable television lineman stringing cables

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[Pollack, Andrew](http://search.proquest.com.proxy-library.ashford.edu/indexinglinkhandler/sng/au/Pollack%2C%2BAndrew/%24N?accountid=32521). [**New York Times**](http://search.proquest.com.proxy-library.ashford.edu/pubidlinkhandler/sng/pubtitle/New%2BYork%2BTimes/%24N/11561/DocView/424157312/fulltext/E7B4779C6B874440PQ/2?accountid=32521)**, Late Edition (East Coast)** [New York, N.Y] 28 Aug 1981: D.1.

**You Call This A Midlife Crisis?**

[STEVE LOHR and JOHN MARKOFF](http://search.proquest.com.proxy-library.ashford.edu/indexinglinkhandler/sng/au/STEVE%2BLOHR%2Band%2BJOHN%2BMARKOFF/%24N?accountid=32521). [**New York Times**](http://search.proquest.com.proxy-library.ashford.edu/pubidlinkhandler/sng/pubtitle/New%2BYork%2BTimes/%24N/11561/DocView/432466438/fulltext/E7B4779C6B874440PQ/1?accountid=32521)**, Late Edition (East Coast)** [New York, N.Y] 31 Aug 2003: 3.1.

MUCH of what [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) has done over the last year or so might suggest a company settling into middle age.

It has overhauled its management structure, tightened its financial controls, expanded its financial reporting, started paying dividends and abandoned the high-tech currency of stock options in favor of risk-free grants of shares to employees.

All the moves are sensible, pragmatic steps, but they have the feel of concessions to an era of reduced growth and diminished expectations for [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521), the premier technology growth company of the last two decades.

So, is this it? Is [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s corporate metabolism finally slowing? The senior management team at the company has a ready answer: not in your dreams.

The recent organizational and financial maneuvers, the [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) executives say, are the preparations of an ambitious company on the cusp of a new cycle of opportunity and growth. The changes in how people work, play and communicate using digital devices of all kinds, they say, are really just beginning, and software -- especially [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) software -- will make them happen.

''Our innovation challenge is that there's this big opportunity to change many things,'' said Bill Gates, [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s chairman. ''The actual achievement of software in delivering benefits to customers is, say, 20 percent of what it will be even by the end of this decade.''

Only [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521), Mr. Gates says, has the skills, money and focus to put all the software pieces together -- a concept the company calls ''integrated innovation'' -- to deliver the promise of the digital world, at low cost, to hundreds of millions of people and hundreds of thousands of companies. It is a bold vision, and an inspiring one to those toiling at [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s sprawling corporate campus here, outside Seattle. Yet as Mr. Gates himself observed, ''Vision is pretty cheap stuff.''

Even for a company with [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s wealth and power, the challenges are daunting. For perspective, consider a few of the similarities between [I.B.M.](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) 20 years ago and [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) today. In the early 1980's, [I.B.M.](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) was emerging from a protracted antitrust battle with the Justice Department, just as [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) is now. Back then, [I.B.M.](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) was reaping enormous profits from its virtual monopoly in mainframe hardware and software, as [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) does today from its dominant positions in personal-computer operating systems and personal-productivity software like word processing and spreadsheets. [I.B.M.](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) was facing emerging competition from computers using low-cost microprocessor technology. [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) is confronting a similar bottom-up assault from Linux, a free operating system, though one supported by rivals of [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) led by [I.B.M.](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)

OF course, [I.B.M.](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521), struggled badly trying to make the transition to post-monopoly corporate life, reluctant to abandon its old ways until it nearly collapsed amid huge losses and layoffs in the early 1990's, before it turned around.

No one is predicting a similar fate for [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) today, and its leaders, Mr. Gates and Steven A. Ballmer, are the main reason. In particular, the two appear to have finally adjusted to their new roles, with Mr. Ballmer as chief executive and Mr. Gates playing the part of in-house technology guru.

The two men, who met as Harvard classmates, have been in business together for 23 years. It is probably the most effective, and certainly the most lucrative, partnership in modern corporate history. By all accounts, including theirs, the relationship is the business equivalent of an old marriage, tested by time and events but very solid. They have had their differences, but they know each other's strengths and weaknesses, and they are united by their belief in [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521).

They went through a tricky transition for about 18 months, after Mr. Gates handed the chief executive's job to Mr. Ballmer in January 2000. The move was made to give Mr. Gates more time to focus on technology and product strategy, as well as the company's legal troubles. (Those troubles are largely behind [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) in the United States today, but the European Commission's antitrust investigation continues.)

Yet Mr. Gates had been at the helm since 1975, and some old habits changed slowly. Besides, he was still [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s chairman, chief technology strategist (officially chief software architect) and largest shareholder. And Mr. Ballmer had to get a feel for his new job. ''We were both kind of frustrated with each other in terms of, well, who's driving this car,'' Mr. Gates said.

They had disagreements, company executives say, with Mr. Ballmer less enthusiastic than Mr. Gates about some of [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s big investments in telecommunications companies and its costly plunge into the video game business. But such differences, the executives say, were mainly part of the give-and-take between the two, rather than any fundamental break.

''I think they probably managed as well as you could manage it,'' said John Connors, [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s chief financial officer. ''And if you've been here a long time, you're used to seeing those guys disagree on topics in meetings.''

Jeff Raikes, a group vice president and [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) veteran, offered a bit of corporate folklore by way of explanation. Soon after Mr. Ballmer, a former assistant product manager at Procter & Gamble, dropped out of Stanford's M.B.A. program to join [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) in 1980, he told Mr. Gates that the company ought to double its work force, to more than 30 people, to handle all the work it had taken on. According to Mr. Raikes, Mr. Gates replied, ''Steve, you go out and hire one good person and then we'll talk about the second one.''

Today, the two have settled comfortably into their roles. ''We don't have many rough patches,'' Mr. Ballmer said in a joint interview in Mr. Gates's office.

Mr. Gates added, ''Yeah, we really don't.''

They often finish each other's sentences. They swap calendars and scrutinize each other's schedules, using what Mr. Gates described as ''crazy spreadsheets.''

''We have a pretty good understanding of how each other thinks,'' Mr. Gates explained. ''Steve likes to think hard about things, come in and talk about it. I like to think about it, and send long e-mails. We get a lot of bandwidth back and forth.''

The back-and-forth dialogue, ''bandwidth'' in Microspeak, continues on weekends. Mr. Gates will send e-mail, and Mr. Ballmer will mull it over.

''On the weekends, until about 4 p.m. on Sunday, my wife knows she loses me because that's when I catch up on e-mail,'' Mr. Ballmer said.

Mr. Gates added: ''Steve reads e-mail on Sundays. If I see him Monday or Tuesday, he's really thought hard about what I said and he will either just say, 'Yes, I agree,' or 'We're going to have to talk more about that.' ''

As chief software architect and chairman, Mr. Gates says he spends 60 percent of his work time on technology strategy and product reviews and 30 percent on business matters like management and budget reviews. (The remaining 10 percent is spent on his philanthropic activities.) The percentages were reversed, he said, when he was chief executive. He says he misses nothing about being chief executive, adding, ''I have the ideal job right now.''

Mr. Ballmer's stamp on the company is increasingly evident. The changes in management structure, compensation, financial reporting and the effort to improve relations with customers and partners have been mainly his handiwork. In the last year, the company has been reorganized into seven business groups -- the Windows desktop operating system, the Office suite, server software, business software for small companies, software for hand-held computers and cellphones, video games, and MSN, the Internet service. Each now reports its own revenues and profits or losses.

The goal is to decentralize decision making, and accountability, in a company with a tradition of having the important decisions made at the top -- by Mr. Gates on technology and products, and by Mr. Ballmer on sales and marketing.

In a company with 50,000 employees and several businesses, the traditional structure was too top-heavy. Decisions were not being made, and managers were frustrated, which contributed to the departures of talented people, especially during the dot-com boom.

''In our company, too many things, I think, were just having to run through two guys,'' Mr. Raikes said. ''So that was a big point of change.''

Mr. Ballmer led the overhaul of [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s compensation policy. The shift from stock options to stock grants for all employees, announced in July, has attracted most of the attention. But another change may have greater impact on [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s corporate culture. The company's top 600 managers will now have their performance-based stock awards -- which can be a majority of their total compensation -- determined mainly by how well they satisfy customers, based on surveys conducted by the company. In the past, the stock bonus program for senior management was based on meeting sales and profit targets.

The new policy was set in a contentious meeting of the senior managers at a four-day retreat in February 2002 at a ski resort in Bend, Ore.

A large contingent of managers at the retreat expressed concern that the company's reputation as an arrogant monopoly, obsessed with its own profits and often insensitive to customers' needs, would hurt [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) in the long run, people who attended the meeting said. That is certainly not [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s image of itself, but nearly everyone at the gathering recognized the problem, people who attended said.

There was resistance to tying compensation so tightly to customer satisfaction because it is so much more difficult to measure fairly than sales and profits. In the end, the customer satisfaction advocates, strongly encouraged by Mr. Ballmer, prevailed.

The Oregon session was a turning point, according to Orlando Ayala, a senior vice president. ''We changed in that meeting,'' Mr. Ayala said. ''We changed our mission as a company.''

It was part of the broader change at [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) as Mr. Ballmer has more and more taken charge. Inside and outside [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521), there were doubts about how well he would run the company, first after he became president in 1998, then after he became chief executive two years later.

NO one questioned his brilliance; instead, the doubts were about whether he would really listen to others, delegate authority and put systems in place to decentralize a lot of the decision making. After taking over, Mr. Ballmer spent three months talking to the top 100 technical and product people at the company, not telling them what to do but just listening.

''Steve has matured substantially in his C.E.O. role at [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) over the last five years, including the two-year transition as president,'' said Craig Mundie, a senior vice president.

Brad Silverberg, a former senior executive at [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521), said, ''Steve transformed himself to become chief executive, and he has led an incredible transformation at [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521).''

And Mr. Ballmer, far more than Mr. Gates, seems suited to the industry fence-mending needed in the aftermath of the long-running federal antitrust case, which tarnished [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s image by depicting the company as a bullying monopoly. Mr. Gates often appeared to be the government's prime target in the case, because he wrote much of the e-mail that served as evidence. Mr. Ballmer's name, by contrast, rarely surfaced in the e-mail evidence. And temperamentally, colleagues say, Mr. Ballmer is the obvious choice for striking a new tone. ''Steve can stand up and say, I'm sorry, we have to be better partners,'' said a [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) manager, who asked not to be identified. ''Bill just doesn't have that in him.''

Mr. Ballmer has his work cut out for him as [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) seeks growth in new fields. The financial reporting by business group, which began in 2002, points to the company's quandary. The Windows and Office desktop products are two of the most profitable large businesses ever, with pretax profit margins of about 80 percent each. The server software business, where [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) is strong but not dominant, does well, with profit margins of about 30 percent. But the other four businesses -- software for small and medium-sized companies, software for hand-helds and cellphones, video games and MSN -- all lose money.

''The critical issue for [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) now is that the businesses that really matter for [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) are flattening out, and nearly everything else is losing money,'' said David B. Yoffie, a professor at the Harvard business school.

Inside the product teams at [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s Redmond campus, however, the talk is all of nearly limitless opportunities. ''Shame on us if we can't innovate,'' said James Allchin, a group vice president. ''I'm up for a good competitive fight.''

[Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) has identified business software for small and medium-sized companies as a market ripe for growth. The idea is to use software to make e-commerce easy and affordable for these companies in the Internet era, much as the electronic spreadsheet gave them a tool for financial tracking and modeling in the personal computer era.

New versions of [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s small-business server products will go on sale this fall, starting at less than $1,000, including the computers from Dell, Hewlett-Packard and others. The goal is to make Web sites, online brochures, sales, billing and customer service as easy and automated as possible for small businesses, with the final customization often done by the local technology consultants who are [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) partners.

Today, this software business generates about $500 million a year in revenue, but the target is a $1 billion rate a year from now. ''That is what attracted me to this business,'' said Mr. Ayala, who became the executive in charge of the small-business software group in March. ''There are very few businesses that can grow 20 percent or 30 percent a year. This is one. We believe this can be a $10 billion business for us someday.''

''This is a test of the growth model,'' he added.

Of course, overall annual growth for [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) these days simply cannot match the 20 percent to 30 percent of the old days. For a company that now has revenue of more than $32 billion a year, this is largely an inevitable byproduct of the law of large numbers. High single-digit growth, without acquisitions, would be impressive over the long term.

The company is maturing in other ways as well. Mr. Gates and Mr. Ballmer built [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) into the powerhouse of computing thanks to a corporate culture renowned as ''hard core.'' The term was long a matter of pride at [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521), and it meant tireless work, aggressive competition and absolute commitment. In the early years, there were signs of that commitment -- notably whose car was first to arrive in the parking lot in the morning and whose car was last to leave at night.

But Mr. Gates and Mr. Ballmer, both 47, have families and other interests now. Mr. Raikes recalled skipping a senior management meeting one afternoon last year to attend an art show at his daughter's elementary school. Mr. Gates was there as well, because his daughter, Jennifer, attends the same school. ''Hey, aren't you supposed to be at that meeting?'' Mr. Raikes asked.

ALTHOUGH 16-hour workdays are no longer the rule, Mr. Gates and Mr. Ballmer typically work 12-hour days, colleagues say, and sometimes longer. One business review in January, Mr. Ballmer recalled, began at 8 a.m. and concluded at 5:30 a.m. the next day. ''I'm not sure if I'm bragging about it,'' Mr. Ballmer said. ''I'm probably apologizing for it.''

Still, long days remain part of a work ethic that is duly noted by anyone with ambition at the company.

Asked how he would describe the [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) culture today, Mr. Ballmer replied, ''I'd still say hard core works pretty well -- but I'll put one little difference on there. Hard core means passionate. Hard core means intense. And hard core also needs to encompass this value we call open and respectful, which is you can be hard core, sometimes so passionate, so excited, so over the edge that you're not as respectful as you need to be to other people.''

Is there any current equivalent of watching cars in the parking lot? ''If e-mail's not turned around in reasonable speed,'' Mr. Ballmer replied, ''that's bad form.''

**Photograph**

Bill Gates, left, and Steven A. Ballmer have adjusted to their new job descriptions at [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521). (Photo by Annie Marie Musselman for The New York Times)(pg. 1); Bill Gates, left, and Steven Ballmer, at [Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521) in 1992, have worked together 23 years and, Mr. Gates said, know ''how each other thinks.'' (Photo by Doug Wilson/Associated Press for The New York Times)(pg. 9)

**Chart**

''Three Profits, Four Losses''

[Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s profits come from its three divisions that license its popular software, while its other four divisions lose money.

[Microsoft](http://search.proquest.com.proxy-library.ashford.edu/docview/432466438/E7B4779C6B874440PQ/1?accountid=32521)'s divisions

Client

Windows operating system

Figures in billions, nine months ended March 31

REVENUE: $7.828

OPERATING INCOME/LOSS: +$6.395

Information worker

Programs like Office, Project and Visio

Figures in billions, nine months ended March 31

REVENUE: 7.250

OPERATING INCOME/LOSS: +5.740

Server platforms

Server software and client access licensing

Figures in billions, nine months ended March 31

REVENUE: 4.775

OPERATING INCOME/LOSS: +1.438

Home and entertainment

Video game and consumer hardware and software

Figures in billions, nine months ended March 31

REVENUE: 2.280

OPERATING INCOME/LOSS: -$0.715

MSN

Internet subscriptions and services

Figures in billions, nine months ended March 31

REVENUE: 1.719

OPERATING INCOME/LOSS: -0.346

Business solutions

Business services

Figures in billions, nine months ended March 31

REVENUE: 0.394

OPERATING INCOME/LOSS: -0.228

CE/Mobility

Portable devices software

Figures in billions, nine months ended March 31

REVENUE: 0.090

OPERATING INCOME/LOSS: -0.113

(Source by Company filing)(pg. 9)

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1 day ago