Microsoft Antitrust Case: Microsoft A Monopoly?

In the late 1990s, as Microsoft[1] was preparing to enter the new millennium, the company was fighting the anti-trust proceedings initiated against it by the US government. One of the main charges against Microsoft was that it was distributing its Internet browser software, Internet Explorer (IE), free of cost along with its Windows Operating System.

Microsoft was a late entrant into the Internet software market. Subsequently, it adopted aggressive marketing tactics to catch up with the early entrant, Netscape Communications. Netscape protested against Microsoft's move calling it an attempt to shut out other software that competed on a stand-alone basis.

Another important charge against Microsoft was that it had modified Sun Microsystems' Java language in order to make it Windows compatible. Some analysts argued that the overwhelming market share that Microsoft held was a major impediment to innovations in the software industry.[2]

Microsoft was not only a leading player, but also the standards provider for the industry. By controlling the standards, the company was in a position to curb innovations. Microsoft, however, maintained that its dominance of the market was due to its superior products and not because of any unfair market practices.

In 2000, the US Department of Justice (DOJ) ruled that Microsoft be split into two smaller companies to prevent it from indulging in anti competitive practices. However, in June 2001, the US Court of Appeals reversed this ruling, but said that Microsoft did have a monopoly[3] in the market and had violated US antitrust laws. (Refer Exhibit I for US antitrust policy).

In August 2001, Microsoft appealed to the US Supreme Court to overturn the ruling that Microsoft was an illegal monopoly. A final verdict on the case was expected by October 2001. (Refer Exhibit II for the chronology of events in the case.)

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[1] In 1998, with a market capitalization of $466 billion, Microsoft was the global computer software leader and had emerged as the world's most valuable company. Microsoft's products included operating systems (OS) software for personal computers (PCs), server applications for client/server environments, business and consumer productivity applications, interactive media programs, and Internet platform and development tools. Microsoft's products were available in over 30 languages and sold in more than 50 countries.

[2] In the late 1990s, Microsoft's MS Office applications suite had a market share of nearly 90%. Its market share in the Internet browser market was 44%, and Server operating systems 36%, during the same period.

[3] Monopoly is a market structure in which there is a single player; there is no substitute for the product it produces and there are barriers to entry. The main causes that lead to monopoly are: ownership of strategic raw materials, or exclusive knowledge of production techniques; patent rights for a product or for a production process and government licensing or the imposition of foreign trade barriers to exclude foreign competitors. Sometimes existing firms adopt a pricing policy that prevents the entry of new players.