

2 February 2008

By: Marius Oiaga, Technology News Editor

Windows Vista PC  
Microsoft

## [Windows 7 to Swim in Windows Live + Yahoo? Where Will Vista SP1 and XP SP3 Fit?](#)

*In case that Yahoo says 'I do' to Microsoft's marriage proposal*

Traditionally, Microsoft's core business has been focused on the Windows platform and the Office suite. Windows and Office, by all means, continue to be the heart of Microsoft. The latest versions of the flagship products, Windows Vista and the Office 2007 System, made available to the public at the end of January 2007, have fueled the vast majority of the company's most recent fiscal second quarter record financial results of \$16.37 billion in revenue, and \$6.48 billion in operating income. With Office SP1 out of the way at the end of 2007, Microsoft is currently building Windows Vista Service Pack 1, Windows XP Service Pack 3 and [Windows 7](#) client platforms, as well as putting the finishing touches on Windows Server 2008. But on February 1st, 2008, the Redmond company managed to steal the show away from its flagship products with the \$44.6 billion cash and stock unsolicited acquisition proposal directed at Yahoo. Enjoying a continual near-monopoly on the desktop with Windows and Office, and pushing hard on the server side with the new lineup of Windows Server, SQL Server, ISS7 and PHP against Linux, Apache, MySQL and PHP, and with the entertainment division starting to pick up steam, Microsoft is now turning to the Internet. In the Cloud, the Redmond company is the indisputable underdog. And with the rival Internet giant from Mountain View hugging the online advertising and search engine markets, Microsoft is now doing a tad of hugging itself: bear hugging. Microsoft has been looking to acquire Yahoo since the end of 2006, but has been repeatedly shut down.

**And All Because of Google**"We have been engaged in conversations with Yahoo! management off and on for the last 18 months. Last night I called Jerry Yang to discuss our proposal. This is a proposal we believe to be a very good deal for Yahoo! shareholders and an offer we want them to think about seriously, to be excited about, and particularly to have the Yahoo! employees be very, very excited about," stated Microsoft Chief Executive Officer, Steve Ballmer."A year ago the Yahoo! management team told us it wasn't really the right time to discuss an acquisition. We believed then in the benefits of combining the two companies and we believe now in those benefits more than ever. That is why we are making it public today so both sets of shareholders, employees and customers can understand the incredible opportunity in a combination of Microsoft and Yahoo!. This is a decision we have thought and I personally have thought long and hard about. And we are very, very confident it is the right path for Microsoft and for Yahoo!," Ballmer added. Microsoft going public with the offer means that all private negotiations have failed to the extent that the Redmond company now feels that it's the right time to apply pressure on Yahoo's Board of Directors to consider their proposal. The tactic of delivering an unsolicited acquisition bid in order to force a public company to consider a takeover offer is referred to as a "bear hug". And the soil couldn't be more fertile for Microsoft, as Yahoo is now squeezed tight in between the \$44.6 billion offer, and its falling profits, eroding search engine market share, audience and layoff perspectives. And make no mistake about it. Microsoft did not just all of a sudden decide to take a close affinity to Yahoo. The \$44.6 billion bid has been fermenting for almost two years. The unsolicited acquisition proposal is nothing more than the latest step in a ballet debuted at the end of 2006, and that is far from finishing whether Yahoo will say yes, or no. And all because of Google. "Let me just start with the opportunity. The online advertising industry is a very large industry today at over US\$40 billion and it is forecasted to grow quite rapidly to reach nearly \$80 billion in the next three years. Online advertising not only represents a significant growth opportunity but it is also a critical element of the business model for monetization of consumer Internet services,

Internet services we create and Internet services of our partners," explained Kevin Johnson, President, Platform & Services Division. **The Art of Biting off More than You Can Chew, Swallowing It without Choking and Digesting It Whole**In the eventuality that [Yahoo will agree to be swallowed by Microsoft](#), the Redmond company is in for quite a digestion. There are more aspects to Yahoo than meet the eye. There are for example the Sunnyvale's company's datacenters and server farms running for the most part open source software, an infrastructure that will have to be married with Microsoft's own Windows oriented backbone. Then, there is Yahoo.com with the adjacent portals, Yahoo ID, Yahoo Games, Yahoo Maps, Yahoo Messenger, Yahoo Mail, Flickr, 360°, Yahoo Widgets, Yahoo Mobile, Yahoo Developer Network, Yahoo Pipes, Yahoo Small Business, del.icio.us, alibaba, Y! Music, Music Jukebox and so on and so forth. I purposefully left out Yahoo Search and Yahoo's advertising platform. These two are the main focus of Microsoft. Sure, by swallowing Yahoo, Microsoft will get an estimated 1.2 billion unique users per month (although visitors often overlap on more sites, so it's highly unlikely that Microsoft + Yahoo combined would go over an audience of 1 billion). On the search engine market, Microsoft will grow to over 30% market share, half of Google's. But at the same time, Microsoft plus Yahoo equals over 80 million users of web-based email services, just in the U.S. Google only has about 13.6 million email users. And now, Microsoft will also have the largest instant messaging community in the world with Yahoo Messenger and Windows Live Messenger users combined. "The Yahoo! brand is a great brand. We love the [Yahoo! brand](#). Part of our integration principles and the learning and working with aQuantive and Tellme is that we want to have clear integration principles and a joint leadership team of Microsoft leaders and Yahoo! leaders to really work through the thoughtful process of how you land the specifics on this. We have got clear line of sight to the synergies and the value creation we are going to unlock. We have got a clear set of principles and we are going to go through a thoughtful process with great talent from both Yahoo! and Microsoft to really make the specific decisions on how that lands," Johnson added.**Resolving the Windows 7 + Windows Live + Yahoo Equation =?**How is Yahoo about Windows? And where do Vista SP1, XP SP3 and [Windows 7](#) fit into Windows Live + Yahoo? Because between Windows Live and MSN, the Redmond company, after it will have merged in with the Sunnyvale company, will go on to melt the entire suite of Yahoo's services and products into its own. This means that by various degrees, Yahoo will essentially be broken up into components and integrated into both MSN and Windows Live in the long run. And if there is one small detail about Windows 7, outside of the MinWin kernel and the 2009 release date, it's the fact that the next Windows version will be intimately connected with Windows Live. "We will invest to deliver a seamless experience for customers who own a Windows PC. We have a unique opportunity to remove the seams between Windows, our applications, and our services. Windows Live Wave 3 will be designed so it feels like a natural extension of the Windows experience. While we will target a seamless experience on Windows Vista, we will make a bet on the Windows 7 platform and experience, and create the best experience when connected with Windows 7. We will work with the Windows 7 team and be a first and best developer of solutions on the Windows 7 platform. Our experiences will be designed so when they are connected to Windows 7 they seamlessly extend the Windows experience, and we will work to follow the Windows 7 style guidelines for applications," Microsoft revealed back in 2006 via a [memo](#) put together by Chris Jones, Corporate Vice President of Windows Live Experience, David Treadwell, Corporate Vice President of Live Platform Services, and Brian Arbogast, Corporate Vice President of Mobile Services. The bridge between Windows 7 and Windows Live fits perfectly into the Redmond company's Software plus Services business strategy. Initially, Microsoft planned to connect the next version of desktop client with Windows Live Wave 3. But this was back in 2006, before the Yahoo deal came into play. Now, Windows 7 still has to stretch into the cloud, but the difference is that Microsoft's cloud will also contain Yahoo components. Ballmer confirmed Microsoft's direction of going Live with Windows 7, and it is certainly a development direction that will

illustrate the company's S+S vision. As far as [Windows Vista SP1 and Windows XP SP3](#) are concerned, the cards have already been dealt. The two operating systems plus their respective service packs will simply adapt to the new and extended Windows Live. With the core of the impact of Yahoo's integration reverberating through the architecture of Windows 7, users of [older versions of Windows](#) won't really feel the effect in their operating systems. However, expect Microsoft's Cloud components to evolve in a manner illustrative of the acquisition of Yahoo. "You know Windows software, [not] service, is sometimes people read that when we say it as search and advertising and portal. It really represents a transformation of our business. The Windows user wants to be live. The Windows experience needs to increasingly embrace the Internet. There will be a Windows Live office. There will be an Office Live as we continue to bring out innovations in which Office transforms and is transformed by the Internet. So certainly Windows Live, Office Live, Yahoo!, those are all I think powerful opportunities, powerful brands. Exactly how we relate MSN and some of those other things, we have some thoughts, the team from both companies would be best prepared to assess that," Ballmer concluded.