

What If Car Boss Mulally Took over at Microsoft?

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Back when Microsoft was the biggest name in technology, CEO Bill Gates leveled an attack on the auto industry: If carmakers were as innovative as computer companies, he said, a car would cost just \$27.

That was 16 years ago.

Today, PC sales are falling as consumers show a preference for mobile devices, and Microsoft is struggling. Meanwhile, U.S. car companies are resurgent. General Motors, the world's No. 2 carmaker, is gaining ground on No. 1 Toyota. And Ford, after 16 quarters in the black, expects to see \$8 billion-plus in profit this year.

It's a testament to the changing times that Microsoft is reportedly considering Ford Motor Co. chief Alan Mulally as CEO Steve Ballmer's replacement when he steps down in less than a year.

Mulally says he's made no changes to his plan to stay at Ford through the end of 2014. But he hasn't denied rumors that Microsoft Corp. is courting him. Ford's board of directors will gather in Dearborn, Mich., starting Wednesday. One of the items on the agenda will be a discussion of Mulally's future at the company.

Here are the pros and cons of Mulally taking the wheel at Microsoft, a company whose stock price has been stuck in neutral for more than a decade:

THE PROS:

HE HAS FRESH EYES: As an outsider, Mulally could identify problems an insider might not see, like Microsoft's culture of interdivisional competitiveness or the fragmentation of its businesses. While its lucrative enterprise-computing services rival its bread-and-butter Windows business in revenue, Microsoft is losing billions chasing Google with its own Bing search engine. The company has also booked hundreds of millions in losses on its Surface tablet computer.

In contrast, Mulally helped Ford become the only Detroit automaker to survive the recession without a government bailout. He forced engineers to start building global cars like the Focus instead of wasting billions making individual cars for each region. He sold or shuttered brands such as Volvo, Jaguar and Mercury, and plowed

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cash into cars with edgier designs — such as the Fusion sedan — even in the midst of the downturn.

He told feuding executives to embrace the new plan —or leave. Most stayed and learned to appreciate Mulally's weekly meetings and focus on cooperation and transparency.

James Schrage, a professor at the University of Chicago's Booth School of Business, says Mulally was a "genius" at "working person-to-person on the management side." The CEO helped Ford figure out "who we really are as a company, where we're going to spend all our time and money and what we really have to achieve to be special to our customers."

HE'S BEEN HERE BEFORE: When Ford hired Mulally in 2006, the company was drifting. Its flagship money-makers —trucks and SUVs — were suffering as consumers sought more fuel-efficient cars to combat rising gas prices. Similarly, Microsoft's still-dominant Windows operating system faces serious headwinds as consumers switch to tablets, a trend that threatens to scuttle its core business providing operating system software for PCs.

"Once something works, it's hard to change your behavior," says analyst Roger Kay, president of Endpoint Technologies Associates Inc. "Microsoft is in the same position. It's running like a billing machine. At some point, they're going to have to add value if they want to generate some more money."

Mulally is already being compared to Lou Gerstner, the former RJR Nabisco CEO who took over as IBM's chief executive in 1993 and — despite his lack of industry experience— helped transform IBM from a money-losing personal computer maker to a profitable technology services company.

HE KNOWS MICROSOFT AND BALLMER: For a car executive, Mulally has unusually close ties to Microsoft. Microsoft's Windows Embedded software powers the Ford Sync dashboard entertainment system launched during Mulally's tenure.

Technology analyst Rob Enderle says Mulally acted on trends that Microsoft was slow to notice. "Of the car companies, they got mobile (communications) first."

Mulally spent most of his career at Boeing in Seattle, not far from Microsoft's headquarters in Redmond, Wash.

Ballmer, 57, has said his father worked for Ford for more than 30 years. And Mulally and Ballmer are friends. Ballmer even spoke with Mulally over coffee about a wide-ranging reorganization that Microsoft announced in July.

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As a Top 5 holder of Microsoft's shares, Ballmer's support is essential, and Mulally would clearly have it.

In a 2009 contribution to Time magazine's Time 100 issue, Ballmer praised Mulally effusively, saying his support for the auto chief was "both emotional and rational."

"He understands the fundamentals of business success as well as any business leader I know," Ballmer wrote.

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THE CONS:

HE'S A SOFTWARE SOPHOMORE: As a trained aeronautical engineer with an MIT management degree, Mulally lacks the programming chops of the troops he would be leading.

Patrick Moorhead, president of Moor Insights and Strategy, says that's a knock against him: "In today's tech world, I think we've seen the best leaders, whether in software or hardware or consumer devices, have very deep background in technology."

The analyst favors Tony Bates, a self-taught programmer and the former Skype CEO who is now Microsoft's executive vice president of business development, strategy and evangelism. Microsoft acquired Skype in 2011 for \$8.5 billion.

HE'S OLD SCHOOL: At 68, Mulally would strike a grandfatherly presence among Microsoft employees. The average age of Microsoft workers is 34, according to compensation research firm PayScale Inc. While that's higher than companies such as Google (29) and Facebook (28), a younger leader may help Microsoft attract and inspire new recruits.

Yahoo Inc., for example, regained some of its cool and saw its stock price double after hiring as CEO Marissa Mayer, who's 38. After arriving more than a year ago, she quickly moved to boost morale and improve Yahoo's recruiting and retention of talented workers, the lifeblood of any tech company.

"If (workers) see a younger CEO, there's more reason to believe they can get ahead," Moorhead says.

HE ALREADY HAS A LEGACY: Mulally has cemented his reputation and could retire from Ford into a lucrative world of speaking engagements and board positions.

While Mulally is fit and enthusiastic, a turnaround of Microsoft could take five years

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or more. He would have to decide if he wants to be a CEO into his mid-70s.

"Unless Ford completely collapses, Alan's tenure at Ford is going to be regarded as one of the greatest CEO stints in corporate history," says Morningstar analyst David Whiston. "If he goes to Microsoft in a totally new industry and it doesn't work out, that could tarnish his legacy a little bit."

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