

Bundling software and hardware

Beware the Bundler

By Jon "maddog" Hall

Why do companies pay a "Micro\$oft Tax" for putting the Microsoft operating system in each and every desktop computer and laptop? This practice is a time-honored tradition called "bundling."

When you "bundle" a software product with a hardware product (such as a laptop computer), you cut down on a lot of the costs of sales and manufacture. No longer does the software salesperson have to convince the end customer to buy their software. No longer does the OEM have to keep track of which systems have the software and which don't. They simply cut a check to the software supplier based on the number of systems shipped.

At Digital, I was involved in several bundling agreements, one of which delivered a US\$ 100,000 database engine onto our server systems for US\$ 840 and onto our workstations for US\$ 10 each. At that time, only four percent of all Unix systems had a relational database on them, and that four percent was split between four or five major databases.

The database company saw a chance to increase the sale of their development tools from one percent of the market to 100 percent of the market, with perhaps a 10 percent penetration of their development tools into that market.

In other words, the database company would decrease their per-copy database revenues to one one-hundredth of what they were but collect almost 100 times more unit sales of the base engine. Quite frankly, it was unlikely a customer would buy another relational database engine

to go on their systems, so the company would have increased their market penetration against their competitors. Additionally, they could possibly see a 100 times increase in the sales of their tools at no reduction in price. Some customers might have complained that they were getting a database engine they did not want or order, but few did. They just used the database provided.

Another time, we negotiated for a graphical desktop replacement that normally would cost US\$ 285 a copy that cost only US\$ 5 a copy when we bundled it. People could say the product we bundled was not what they wanted, but on the other hand, we could have had our engineers build it and put it on the system, and the customers still might not have liked it and would still have to pay for it.

At one time, Digital had a desktop computer called the "Multia" that came with one of two CPUs: an Alpha or an Intel. The Alpha version ran Microsoft's Windows NT system, although in 32-bit mode. The Intel version ran a Microsoft desktop, perhaps Windows XP. The Alpha version was not selling very well, through a combination of the lack of good marketing and a lack of native applications to run on the system. The product manager wanted to put the Alpha version of Red Hat Linux on it, but our contract with Microsoft said that every "Multia" needed to go out with Windows NT.

So, we had to create another name for the product. We called it the "Universal Desktop Box," or "UDB" for short. We created a new product for the catalog and sales brochures, created a new front plate for it that did not have the word "Multia" on it, and sold it with Alpha Linux installed. Even though an issue with the memory subsystem meant the computer was not as fast as the Alpha could have been, we sold thousands of them because it was an Alpha.

So you see, there really are reasons for having a "Micro\$oft Tax," but as a vendor, there are also ways around it. The only way you can fight it as a consumer is to vote with your purchase dollars and buy a system from an OEM outlet that does not bundle, or bundles Linux at no charge to you ■■■

