Microsoft Holds Back on Its Prices Despite Demand for Windows XP

By REBECCA BUCKMAN  
Staff Reporter of The WALL STREET JOURNAL

Microsoft Corp. is gearing up to launch sophisticated new Windows software that will offer scads of new programs, snazzy new graphics and much greater reliability -- in other words, fewer crashes -- for consumers.

So why isn't the Redmond, Wash., software company boosting the price of the operating system?

Microsoft's chief Windows guru, Group Vice President Jim Allchin, acknowledged in a recent interview that "we could" charge more for Windows XP. That is the highly touted, and highly controversial, version of Windows due out Oct. 25.

After all, Microsoft does have a monopoly in the market for computer operating systems, which gives it wide pricing latitude. Company officials are on record in old e-mails, unearthed during Microsoft's recent antitrust trial, as touting the move toward newer, more expensive operating systems as a key to future sales growth.

But in a move that surprised some analysts, Microsoft in late August said it would keep retail prices roughly steady for the home and business versions of Windows XP. By some measures, prices could actually drop slightly from the previous version.
The pricing decision comes as Microsoft struggles like never before to maintain profit growth in an economy where not too many people -- or companies -- are buying new computers like they used to. But, at the same time, it highlights the antitrust concerns that continue to dog the big software company as it tries to churn out critical new products.

Before Microsoft began to talk down chatter of a Windows \textit{XP} price increase in July, "I had thought there would be perhaps a modest price increase," said Rick Sherlund, a Goldman Sachs Group analyst. But, he said, "in the current environment, in which Microsoft is under the [antitrust] microscope, there would be a lot of political backlash were they to" raise prices.

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**Priced to Move?**

In Windows \textit{XP}, Microsoft will finally give consumers an operating system that is based on the same, more robust computer code that underpins software for business users, such as Windows 2000. But Microsoft, which faces a tough antitrust climate as well as weak demand for new computers, is not raising prices* for Windows \textit{XP}. Here is a breakdown:

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*Microsoft notes, however, that these are "estimated retail prices," and retailers usually discount them. Upgrade copies of Windows Me were recently selling in two San Francisco-area stores for $89.99, for instance.

Source: The company

Microsoft denies that antitrust concerns are what prompted it to keep \textit{XP} prices low. Mr. Allchin said previous Microsoft talk of making money off newer operating systems had to do with business users, not consumers. (Windows \textit{XP} pricing for big companies, which buy the product in bulk through special licensing agreements, hasn't yet been announced.)

Still, the potential lost revenue for Microsoft could have a silver lining for consumers: They will get a far better version of Windows, based on the more reliable "NT" base of computer code, for about the same price they had been paying for older, and in some cases less reliable, products, such as Windows Me and Windows 98. Upgrade copies of Windows \textit{XP} for the home will cost about $99, down from Windows Me's estimated retail price of $109. Mr. Allchin is blunt in conceding the difference between the new and the old offerings. "It truly is night
and day," he said.

Consumers buying computers in places like the cavernous Best Buy store in San Carlos, Calif., already know what they have been missing. After they buy computers preloaded with Windows Me, "I've had people come back and say, 'Hey, this [software] stinks,' " said Josh Vazquez, a salesman in Best Buy's computer department.

According to Mr. Vazquez, about 40% of the people who come to his store to buy new PCs -- almost all of which are outfitted with Windows Me, since it is Microsoft's most current operating system for consumers -- request a change to either Windows 2000 or even the older Windows 98.

Microsoft spokesman Frank Shaw said some people may simply have higher expectations for Windows now that they use more reliable products such as Windows 2000 at work. As far as whether Windows 98 might be superior to Windows Me, Mr. Shaw said: "Jim [Allchin] would say he's not happy with Windows Me. Nobody is. But it's immeasurably better than Windows 98."

With Windows XP's launch approaching, though, some big computer makers have been offering special coupons that will allow people to upgrade to Windows XP for a small fee when the software hits the market. People who buy machines from Gateway Inc. can get a copy of Windows XP for just $15; Compaq Computer Corp. has a $29 deal, while Dell Computer Corp. is charging $20.

The relatively cheap price of Windows XP for consumers, compared with Windows 2000, "is a real benefit, and a great way, on Microsoft's part, to spur demand," said Brad Williams, a Gateway spokesman.

Of course, analysts point out that computer makers probably wouldn't stand for a price increase right now, with their margins under so much pressure. Then again, Microsoft is always free to raise prices later -- no matter what the computer makers think. "What are they going to do, put Linux on their machines?" asked Greg Vogel, who follows Microsoft for Banc of America Securities.

Write to Rebecca Buckman at rebecca.buckman@wsj.com