

BEWARE OF GATES BEARING GIFTS
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African leaders are busy signing agreements with major US software companies granting them long term monopolies in return for short term donations. They are proudly announcing the short-term benefits but remaining silent about any long term costs. Foreign corporations know well how important immediate benefits are to politicians and how difficult it is for them to resist such photo-opportunities. But they think long term which is where the profit is. As Bill gates said: “Most of our growth will come from outside the U.S.”(Fortune: July20 1998)

But if foreign corporations want to make us free gifts why should we complain? That is a good question. Everyone knows the story of the Trojan horse, the free gift left by Greeks, which led to the fall and destruction of Troy. In the business world there are many Trojan horses. We know that drug dealers are happy to give away the first few doses for free. After that they know the customer is hooked for life perhaps, an endless stream of income. Tobacco companies target youth as they know that each one represents a life time income stream. A free gift is what unwary politicians are always falling for, and hooking youth is the most profitable target. For a software company then the profit-maximising strategy is to offer free gifts to politicians in return for exclusive access to the nation's youth. Frankly, these are deals to die for. Unsurprisingly, most of these deals would be illegal in US or Europe.

But many people will say that MS is one of the richest and most powerful companies in the world. Why would it need to exploit poor Africans? There is much more to this than meets the untutored eye. Does not every conman proclaim he does not need your cash? Let us look again at how rich and powerful MS really is?

MS' wealth is based on the stock market and the stock market values companies on future income streams and future growth opportunities. But MS' traditional markets are saturated and the growth opportunities are declining. Worse still the rise of free and open source software, which is being used by companies such as BP etc, is presenting a threat to its otherwise stable income stream. In this environment new markets geographic and conceptual i.e. developing continents such as Africa, have a crucial role to play in MS' stock market valuation. If MS loses new markets and continents such as Africa, it will lose a chance of future growth. Once the stock market recognises this MS' stock value will plummet. A falling stock price will devastate MS' equity compensation plans. MS has been able to employ and retain many top IT executives by the promise of huge profits on equity compensation plans. If the share price falls equity compensation will be worthless and shareholders will resist extravagant cash payments and many executives will start to leave. MS will implode. So without places like Africa and the future growth that they offer MS will collapse. As Bill gates said:” outside the U.S. we still have that early-growth-slope phenomenon”. So much for the rich and powerful company that does not need Africa.

There are other reasons why MS needs places like Africa. The nature of software is that the first copy costs say \$10 billion but every other copy is free. Selling windows OS to Africa represents the greatest imaginable profit. The cost of the software had been covered long long ago. Every sale represents a mind-stunning profit margin. To give a little away in order to gain such, huge profits is the least a predator could do. This is the software cash cycle. Cash goes out to build and the comes in from sales with little or no further investment required. The only other business that comes close

to this in profitability is extortion.

Since the proprietary software industry is based on the upgrade model, it is essential to get the customer on the escalator as soon as possible. Once you have version 2.0 and have learnt how to use it, you can be persuaded to pay for v 3.0. If you resist, v 2.0 can become incompatible with the latest Windows OS. One way or another it will be made impossible to stay on v 2.0. How does this affect users in the US? Users complain and suffer from 'lock-in'. Once users have been trained in a particular brand of software it becomes very expensive to change. The costs of training is usually many times the cost of software and therefore faced with the costs of an upgrade as against the cost of retraining their whole workforce, business men reluctantly pay for the upgrade. The only real way out is never to get on the escalator in the first place. Knowing this software companies are desperate to give early versions away for free. This is not philanthropy. It is drug pusher's imperative.

Africa represents a continent where the majority of the population are not already hooked on proprietary software only because they presently have no software. But because they are not yet hooked Africans represent the greatest threat to MS. Not only is there the threat that they might go open source from the beginning and never get hooked on proprietary software. But even worse is the possible consequence of Africa going free and open source. The PR effect of Africa successfully going open source would impact upon the US and European markets and would accelerate the collapse of MS' formerly stable income stream. Then finally, if Africa went free and open source, African open source companies could become the world's leaders and could then invade the US market and other market segments.

In every major business school, it is drummed into business executives that the best time to destroy a strategic enemy is while it is weak, and the best of all before it is born. African free and open source companies rooted in a large continental market would represent MS' worst nightmare. Such an organisation must be strangled at birth. There are some who would say these complaints against MS are unfounded because this is just the way of capitalism and free markets. Let us look at how US and Europe view MS' behaviour. Creating a monopoly is illegal both in the US and Europe and MS has been charged several times with doing just that. Many of the tactics that MS uses in Africa would be either illegal or intolerable in US or Europe, so the argument that MS' behaviour is just free markets does not hold water. Equally the US judiciary are reluctant to impose too many penalties on MS because of the enormous profits it exacts from foreign countries. In fact much of US trade and foreign policy has been bent to protect and foster the profits of MS.

Much more telling is the case of how Europe behaved when it was faced with potential US monopoly. This occurred with Boeing in aircraft manufacture. Europe responded to Boeing's monopoly by getting together to sponsor a European aircraft producer of their own – Airbus Industries. Airbus was set up not to make a profit but to destroy Boeing's monopoly. However, Airbus today is a major competitive threat to Boeing, standing on its own feet and very profitable. What is important here is that Europe was willing to set up an aircraft producer at a loss to avoid being held to ransom by Boeing's monopoly. This is the model Africa should use in building its free and open source software industry. Africa should take serious note of his history!

This finally brings us to MS' relationship with African politicians MS knows, like any drug pusher, which button to press and where its customers weaknesses are. Immediate benefits without checking long-term costs are well known weaknesses of all politicians. There is also one question we should ask of the African officials who negotiated with MS: after signing the deals with the African governments did the MS representatives wait till they reached the lifts before they burst out laughing or did they do so in front of them?

Finally, let us face the issue of piracy. This item will be used to make Africans feel defensive. But actually Microsoft supports piracy as a form of predatory pricing. Bill Gates said: “ .. in China, people don't pay for software. Someday they will, though. And as long as they're going to steal it, we want them to steal ours. They'll get sort of addicted, and then we'll somehow figure out how to collect sometime in the next decade.” Microsoft plays the long game. As Bill Gates said: “ it's really by taking a ten-year view that we can say it's worth the emphasis we're putting on it.” Simply put, Microsoft will tolerate and sometimes encourage piracy if it believes the market simply cannot afford proper pricing and wait till 'addiction' kicks in and the economy has moved up a level and then they will be like the pusher and come and collect from the junkie.

By way of conclusion

It is in the interest of even those who want to use Windows or other proprietary software to support and encourage the growth of free and open source software. As a result of the existence of the open source alternatives they will get fantastic offers permanently from proprietary software vendors. This has always been the best response to foreign monopolists. It is essential that any gift, contribution or investment by Microsoft in Africa be platform independent and not tied to Microsoft product. This applies to ALL proprietary software suppliers not just Microsoft.

Our politicians like to see themselves as leaders bringing in foreign investments and grants. Rather they should realize the history will see them as successors to the local slave traders, traders who sold their countrymen into a future of slavery in return for a handful of trinkets. They will have sold their fellow countrymen into a future of slavery to proprietary and foreign software companies.

There are three alternatives. Firstly, to mandate open source as many European institutions have already done. This will kick start an African IT industry, would earn foreign exchange and could create a world beating industry. Secondly, governments and private sector could sponsor and encourage a free and open source industry while allowing some institutions to adopt proprietary software if they chose. This will lead the proprietary software companies to offer fantastic deals. This has already happened in Thailand where the existence of a government supported cheap computer with Linux installed has led to MS offering unbeatable deals with Windows XP!

The third alternative is to grant exclusive deals to MS and other proprietary software companies. This is absolutely the worst choice possible even for those who wish to use proprietary software. In economic terms this is the granting of an official monopoly which cannot be justified. This is an invitation to pillage. Any politician going down this route does not deserve to remain in office.

In the 21st century world we are facing, with all the difficulties that confront Africa, buying a Trojan horse is a suicidal policy. It is every African citizens duty to reject these gifts and to warn our government officials and politicians to 'beware of Gates bearing gifts'.