IT Industry History Repeats Itself, Again

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In the immortal words of Yogi Berra, “It’s déjà vu all over again.” Technology historians had to smile at the recent news that Google is being accused in Europe of abusing its market-dominant search engine position, and that Facebook hopes to bring WiFi to the world via 747-sized, solar-powered drones.

The IT industry keeps repeating itself in almost uncanny ways. In each of three major IT eras – mainframes, PCs and the internet – the dominant US high-tech players have repeatedly been sued in Europe; they have also all dreamed of beaming technology down from the sky. In both cases the results have been relatively modest.

First, it was IBM’s turn. While the US government’s antitrust suits against IBM had a major impact on the early years of the IT software and services businesses, the long-running suits in Europe, mostly during the 1970s and ‘80s, were of a more ameliorative nature. The European Commission pressed IBM to make it easier for the so-called Plug Compatible Manufacturers (PCMs) to build computer and storage equipment that worked well in IBM mainframe environments. Such pressure saved customers money and helped Hitachi become the major storage provider it is today. But, ultimately, it was the microprocessor and the PC, not lawsuits, that marked the end of IBM’s IT industry dominance.

Perhaps one of the reasons IBM was tempted to look upwards was because, while it had vast amounts of cash, it faced serious legal constraints in many of its core markets. Thus, in 1975, to great fanfare, it launched (with Aetna and Comsat) Satellite Business Systems. The idea was that multinational firms would have dedicated satellite dishes and systems for global voice (mostly) and some data services. At one time, SBS was seen as a major challenge to the then mighty AT&T. But the initial customer investment costs were just too high, and SBS was eventually sold to MCI in 1985.

The PC era followed pretty much the same pattern. This time, both the US Government’s antitrust case vs Microsoft and the various European lawsuits regarding the ‘bundling’ of Internet Explorer and other PC software into Windows really didn’t accomplish much. The rise of the internet defanged the once fearsome Microsoft far more than any government action did. In the end, all the legal battles and press coverage were pretty much a waste of time and money, much more so than they were with IBM.

But with his pockets full of cash and seeking new worlds to conquer, Bill Gates also looked to the sky and in the early 1990s formed Teledesic (with cell phone entrepreneur and fellow Seattle native, Craig McCaw, as well as a Saudi prince). The idea was to surround the globe with hundreds of low earth-orbiting (LEO) satellites to provide voice and data links in the multi-megabits/second range. The project never went operational, and Teledesic was abandoned in 2002. Numerous other satellite voice/data ventures also went bust.

Which brings us to the internet era. Just as IBM did indeed favour its own disk and tape drives, and Microsoft did favour its own applications on the Windows desktop screen, Google is now accused of favouring its Google Shopping product in its search results. (Somewhat more surprisingly, it is also accused of various Android-related abuses.) Once again, the European intervention seems likely to curtail certain practices without seriously altering the defendant’s near-monopoly market control. Google’s share of the search engine market in Europe is estimated to be over 90 percent.

And like its predecessors, Google has also heard the siren’s call, and is said to have pledged to invest $1 billion (along with Fidelity) in Elon Musk’s SpaceX. The idea is that today’s smaller, less expensive yet more powerful satellites will prove that this technology has finally come of age. Similarly, Facebook, with its own set of European (mostly privacy related) legal challenges, hopes to bring WiFi to the developing world via a fleet of unmanned and solar-powered aircraft.

Does this mean that Google and Facebook’s telecom dreams are destined to fail spectacularly as others have in the past? Of course not. But what it does mean is that just because today’s dot.com giants are pouring money into all kinds of exotic projects – digital wallets, robots, electric cars, network bandwidth, clothing, drones, biotech and so on – doesn’t mean that they will succeed. The history of the computer business is that its market leaders are both fabulously rich and highly ambitious. This is a proven formula for all manner of grand adventures and misadventures. IBM, Microsoft and Intel have all been through it, with surprisingly few lasting results.
This sort of entrepreneurial extravagance is not a bad thing at all. These vast and risky investments can be seen as essentially a way of recycling the enormous funds that successful firms and individuals have accumulated from you, the customer. Better to re-deploy one's fortune chasing breakthrough dreams in the sky than on palatial corporate headquarters, private islands, ever larger yachts, and sometimes even huge charitable contributions. But of course, they do all those things too.

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