



Committee Secretary
House of Representatives Standing Committee
on Infrastructure and Communications
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AUSTRALIA

Microsoft Pty Ltd. (Microsoft Australia) welcomes the opportunity to provide input in response to the inquiry by the House of Representatives Standing Committee on Infrastructure and Communications into pricing in the information and communications technology sector. Microsoft has contributed to the submissions of the Australian Industry Group (AiG) and the Australian Information Industry Association (AIIA). We take this opportunity to highlight below a number of issues of particular relevance to Microsoft Australia and our customers and partners.

Microsoft Corporation is based in Redmond, Washington in the United States of America. It was founded by Bill Gates and Paul Allen in 1975 and is today one of the world's most significant information technology companies. Microsoft operates subsidiaries in 110 countries, in addition to the USA, and directly employs around 90,000 people across the world and engages more than 100,000 contractors and vendors. The company's core business is the development, manufacturing, and licensing of software products, including operating systems, server applications, business and consumer productivity applications and software development tools, the manufacture of hardware and peripherals and the provision of a range of technology services including online consumer services.

Microsoft Australia is a sales and marketing subsidiary of Microsoft Corporation. It directly employs approximately 800 people and has offices in Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra.

To market our portfolio of intellectual property, Microsoft Australia makes its products and services available to consumers and businesses through a multitude of commercial channels, including a community of over 13,000 independent Australian technology and retail businesses. In 2009 this partner community was estimated to have employed over 84,000 people and generated over \$15 billion in revenue.

The ICT industry has witnessed continuing, rapid and at times dramatic changes over the past decade. In the past, the industry has been based predominately on the development and provision of one of two horizontal layers, hardware or software. More recently this has been expanded to include a more consumer-oriented focus on devices and services. The makers of both consumer-focused and commercially-oriented ICT now seek to build and sell vertically integrated offerings designed to meet the expectations of seamless experiences across devices, software, services and content.

Consumers and businesses have a plethora of choice and market competition remains a driver of innovation. Within today's competitive market there are, at least, three predominant business models used by ICT industry participants:

1. The first model is primarily Microsoft's business model¹. It is based on the company's intellectual property portfolio and efforts to simultaneously enhance customer experience and derive commercial benefit from it. This traditional model views the consumer of our software and services as the customer. In this model, significant proportions of profits earned are reinvested into research and the development of new intellectual property – and new innovations in devices and services. Microsoft invested more than \$10 billion globally in research and development in 2011.
2. A second business model, used by companies that deliver online services, involves the provision of a digital service for free with revenue being generated through online advertising.
3. A third business model relies upon the ubiquity of the internet to create a mass commercial market for goods and services. Here, the global nature of online commerce and transaction repetition means the business can operate on very thin margins - provided there is mass volume.

As noted above, to market our portfolio of intellectual property, Microsoft makes its products and services available to consumers and businesses through a number of commercial channels and a very large community of Australian technology and retail businesses. The Microsoft partner community is an economic "ecosystem" in its own right. While our partners in Australia (and elsewhere) are in no way exclusively tied to Microsoft, many have become specialists in technologies built on the Microsoft platform. They go to market both on their own and in partnership with Microsoft to provide software solutions and services to Australians. Many of these partners work directly with governments to build bespoke solutions based on the Microsoft platform.

Microsoft makes products available through a variety of channels including (1) through volume licensing; (2) by retailers as full-packaged product, or "FPP"; (3) bundled by original equipment manufacturers ("OEMs"); and (4) through Microsoft online subscription programs and syndication.

We note that the Committee's inquiry is based upon an effort to compare absolute prices for particular products lines offered in different jurisdictions. Microsoft respectfully submits that any such attempted comparisons are of limited use, as prices differ from country-to-country and across channels due to a range of factors.

There is a need to compare like with like. ICT products are often sold as a package of offerings, with additional support and extended warranties included in the price. In Australia, it is common practice to include the GST in the quoted price whereas in the US, sales tax is not typically quoted in the price. Microsoft's global policy is to provide consistent and predictable local pricing while maintaining reasonable alignment of local currencies relative to the US dollar.

¹ While Microsoft's business model is predominately one based on intellectual property, we offer in addition certain products and services that rely on other business models.

Largely, Microsoft Australia does not sell directly to consumers or small businesses, who instead purchase products through a third party. Microsoft provides guidance on recommended retail pricing. The recommended retail price is not the same from market to market. It is impacted by market forces including but not limited to the size of the market, which affects supply and demand. Microsoft does not, however, set the final 'to-the-customer' price. The channel and value-added partners who deliver those products to customers ultimately determine retail pricing.

There are a range of additional factors that impact pricing in the Australian market, including the relatively high cost of labor and rent; the impact of Australian specific regulations; the higher costs of marketing, training and advertising; supply chain costs, including transport and distribution and exchange rates.

Like any other company in any other industry, Microsoft seeks a rate of return on its investment in the Australian ICT market to enable it to market and support its products with a presence in Australia. The cost of doing business in Australia has a direct impact on prices recommended by Microsoft and ultimately charged to customers. The cost of doing business in Australia also obviously impacts on the 13,000 Australian technology companies and the third party retailers who make up the Microsoft partner network that ultimately set prices.

Software that is delivered via an online portal offers the potential for reduced transaction costs for vendors in the way of distribution costs. Nevertheless the costs of providing the services – including establishing, maintaining, supporting and advertising the services – needs to be recovered and a profit from those operations derived, in order to contribute to the overall return on the company's investment.

Microsoft again thanks the Committee for the opportunity to contribute to its inquiry.