

# AI-01940 IBM vs MSFT Synthesis

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In the 1990, who was Msft rival? IBM? Compare the income per year in the 1990 and today between the two. What was ibm downfall and thinking errors?

In the 1990s, Microsoft's main rival was often considered to be IBM. While Microsoft's success was initially built on a partnership with IBM (providing the MS-DOS operating system for the IBM PC), the two companies became fierce competitors as Microsoft's Windows operating system began to dominate the market. Microsoft also competed with other companies like Apple and various independent software vendors.

## Income Comparison: 1990s and Today

It is important to note that financial reporting standards and the scale of the companies have changed dramatically over time, so a direct comparison is not a simple "apples-to-apples" exercise. However, we can look at some key figures to illustrate the massive shift in their respective fortunes.

In the 1990s:

- IBM: IBM was a massive, established corporation. In 1994, it reported revenue of approximately \$64.1 billion.
- Microsoft: Microsoft was a rapidly growing upstart. In the fiscal year ending in 1997, Microsoft's revenue was around \$11.36 billion. During this period, IBM's revenue was significantly larger than Microsoft's. However, Microsoft's growth rate was staggering, and its market capitalization was soaring.

Today (as of recent financial reports):

- Microsoft: Microsoft has become one of the largest and most valuable companies in the world. In fiscal year 2024, Microsoft's revenue was approximately \$227.6 billion.
- IBM: While still a major company, IBM's revenue has grown at a much slower pace. In 2024, its revenue was approximately \$62.73 billion. The roles have completely reversed. Microsoft's revenue today is several times larger than IBM's, reflecting its dominance in software, cloud computing, and other technology sectors.

### IBM's Downfall and Thinking Errors

IBM's decline in the 1990s and subsequent struggles can be attributed to several critical strategic and thinking errors:

- Misunderstanding the Personal Computer Market: IBM, with its legacy as a mainframe giant, failed to anticipate the explosive demand and potential of personal computers. It saw PCs as a niche product and didn't fully commit to the market. This led to a key decision: outsourcing the operating system to a small company called Microsoft and the microprocessor to Intel.
- Relinquishing Control: By allowing Microsoft and Intel to retain control and intellectual property rights over MS-DOS and the x86 chip, IBM created the "Wintel" standard. This allowed other companies to create "IBM-compatible" PCs, leading to a flood of cheap clones that eroded IBM's market share and profit margins. IBM's PC became just one of many, with no distinctive advantage.
- Vertical Integration in a Changing Market: IBM's business model was based on vertical integration—creating all the hardware, software, and services for its mainframes. This was a strength in the mainframe era, but it made the company slow and inflexible in the fast-moving PC market, which favored a horizontal, component-based approach.
- Bureaucracy and Internal Fragmentation: IBM was a massive, bureaucratic organization with a rigid corporate structure. Its various divisions operated as independent fiefdoms, often competing with each other and hindering the company's ability to act as a unified force.

- **Slowness to Adapt:** When the market shifted from mainframes to PCs and then to services, IBM was slow to adapt. It took a deep financial crisis in the early 1990s for the company to undergo a radical transformation under CEO Lou Gerstner, who shifted the company's focus from hardware to high-value services.

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In 1990, Microsoft's chief rival in the software space was indeed IBM—particularly in operating systems and enterprise software—but it was joined by companies like Lotus, Novell, and Apple in specific application markets like spreadsheets or word processing .

## **Revenue Comparison: Microsoft vs. IBM**

### **Fiscal Year ~1990**

- Microsoft: about \$1.32 billion in software revenue in 1990 (~8.3 % market share of global software) .
- IBM: roughly \$9.95 billion in software revenue in 1990 (~31.9 % market share) .
- Additionally, IBM's overall reported gross income was around \$69 billion in 1990 .

### **Today (~2024/2025)**

- Microsoft (Trailing Twelve Months to June 30, 2024): \$261.8 billion in revenue; net income around \$92.8 billion .
- IBM (12 months ending Dec 31, 2024): \$62.75 billion in revenue; net income around \$6 billion .

## **Revenue Snapshot**

Company	Approx. 1990 Income*	Revenue ~2024-25
Microsoft	~\$1.3 b billion (software only)	Revenue: \$261.8 b; Net Income: \$92.8 b

IBM	~\$69 b gross; ~ \$10 b software only	Revenue: \$62.8 b; Net Income: ~\$6 b
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- 1990 Microsoft figure reflects software revenue alone. IBM's full operations were much broader and generated higher total income.

## IBM's Downfall: Key Missteps & Faulty Thinking

1. Underestimating the PC Boom and Upstream Partners  
IBM invented the PC in 1981 but treated it as a low-tier product. It outsourced key elements—OS (to Microsoft) and CPU (to Intel)—which allowed these small partners to build dominant ecosystems that OEMs could adopt without owning IBM's hardware .
2. Failure to Capture Profits from Software  
While Microsoft licensed DOS and later Windows broadly, IBM tried to tie OS 2 to its own hardware platform, limiting third-party adoption. Their insistence on controlling platform features slowed compatibility and market acceptance .
3. Organizational Inertia and Cultural Inflexibility  
IBM's bureaucratic structure made it slow to respond. Internal turf wars, bloated codebases, and difficulty integrating acquired businesses slowed innovation and adaptability .
4. Strategic Misalignment and Declining R&D Focus  
Transitioning into services too late, IBM divested commodity hardware businesses but failed to invest sufficiently in emerging areas like cloud and AI. Innovation lagged behind more dynamic competitors like Microsoft and AWS .
5. Failed OS/2 Partnership with Microsoft  
Once a collaborative project, OS/2 development fractured in 1990. Microsoft pivoted toward Windows, leaving IBM to develop OS/2 alone—a costly miscalculation with few hardware or software partners, and lower adoption .

## Summary

- In 1990, IBM was the dominant software vendor; Microsoft was growing rapidly as the key new entrant.
- Today, Microsoft dwarfs IBM financially: ~\$262 b vs. ~\$63 b in revenue, and ~\$93 b vs. ~\$6 b in net income.
- IBM's rise and fall hinged on strategic misjudgments: marginalizing PCs, under-leveraging software revenue, a rigid culture, and failure to innovate at the pace of the industry.

Let me know if you'd like a deeper dive into any specific era, product (like OS/2), or strategic decision!

**In 2025 with the AI infrastructure dominance, it seems like NVDA, MSFT and AMZN are the 1990's IBM of the computer mainframe analogy. AAPL is yet the baby of the AI development. What changes in the 1990s is the personalization of computing, will AAPL repeat the personalizing of AI at every human fingertips? Make some assumptions or predictions about where AI goes beyond in 2030 and the winning companies.**

The comparison of NVDA, MSFT, and AMZN to the 1990s IBM in the context of AI infrastructure is a compelling analogy. IBM's mainframe dominance was a product of a vertically integrated business model where they controlled the hardware, software, and services. Similarly, today's leaders are building vast, integrated ecosystems. NVIDIA's dominance in GPUs and its CUDA software ecosystem make it the essential "mainframe" for AI training. Microsoft and Amazon, through Azure and AWS respectively, are providing the "data center" infrastructure and cloud services that power AI development and deployment. They are not just selling a single product but an entire ecosystem that is difficult to replicate, similar to how IBM's mainframes were once the backbone of enterprise computing. Apple, in this analogy, is well-positioned to repeat the personalizing of AI. Just as the 1990s saw the shift from corporate mainframes to personal computers, the next wave of AI will likely be about taking the power of large models and making them deeply personal and embedded in daily life. Apple's strategy, with its focus on "Apple Intelligence," on-device processing, and a strong emphasis on user privacy, is a deliberate move in this direction. By leveraging its vast ecosystem of iPhones, Macs, and Apple Watches, and its control over both hardware and software, Apple can create a seamless and personalized AI experience that is unique to each user and their data. This approach is reminiscent of how the

Macintosh and later the iPhone revolutionized personal computing by making it accessible and intuitive.

#### Predictions for AI beyond 2030

Assuming this trajectory continues, here are some predictions for where AI is heading beyond 2030 and the companies that will likely lead the way:

- **Ubiquitous, Invisible AI:** By 2030, AI will likely become so seamlessly integrated into our lives that we won't even perceive it as a separate technology. It will be an ambient intelligence, managing everything from our smart homes and cities to our health and professional lives. This will go far beyond simple voice assistants to truly proactive systems that anticipate needs and act on our behalf.
- **Multimodal and Context-Aware AI:** The AI of 2030 will not just process text or images but will understand and integrate multiple data types (text, audio, video, sensor data) to form a complete picture of a situation. This "context-aware" AI will be able to understand nuance, emotion, and personal history, making interactions more natural and effective.
- **The Rise of the "AI Agent":** We will see the emergence of highly sophisticated AI agents that can perform complex, multi-step tasks for us. Instead of just a single command, we might instruct an agent to "plan and book my next family vacation," and it will handle everything from research to reservations.
- **Specialized and Democratized AI:** While large foundational models will remain important, a new wave of highly specialized, smaller models will emerge for specific industries like healthcare, finance, and engineering. The tools to create these models will also become more accessible, democratizing AI development beyond a handful of large tech companies.

#### Winning Companies in 2030 and Beyond:

- **Apple:** As the champion of personalized, private, and on-device AI, Apple is in a strong position to win the consumer market. Its control over its ecosystem and its focus on user experience will be a powerful differentiator.
- **Microsoft and Amazon:** Their dominance in cloud infrastructure (Azure, AWS) will continue to make them the backbone of AI development for most of the world. They will continue to win by providing the foundational platforms and services that other companies build on.

- NVIDIA: With its hardware and software moat, NVIDIA will likely remain a critical player in AI training and infrastructure. Its role may evolve, but it is hard to imagine a future of AI without powerful processors.
- Emerging Players: The democratization of AI will likely lead to the rise of new, agile companies that create specialized AI solutions for niche markets. These companies may not be household names but will be critical for driving innovation in their respective fields.

This video explores Apple's announcements about its new AI features, which are focused on personalization and on-device intelligence. Apple Intelligence is Coming to the iPhone. Is it Good?