

BUS 478-D200

Case Synopsis:

Microsoft



Microsoft

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HISTORY

Microsoft was founded by Bill Gates and Paul Allen in Albuquerque, New Mexico on April 4, 1975. Its success on developing the Microsoft Windows operating system and Office software packages has allowed the company to be the world's largest computer technology corporation. On November 1, 1978, the company set up the first international office in Japan and on June 1981, the company became incorporated in the state of Washington. Bill Gates became the president, and Paul Allen became the executive vice president.

As of 2012, Microsoft has 94,420 employees worldwide and its net revenue is 74.30 Billion U.S. dollars. The company's mission is to help their customers to realize their full potential. Through constantly updating and improving their products, Microsoft is able to maintain its leading position in the market (Microsoft Corporation, 2012).

Microsoft has five business divisions:

- Windows & Windows Live Division offers PC operating systems and PC hardware products;
- Server and Tools Division produces the server version of Windows, Windows Azure, Intune, and Embedded, Microsoft SQL Server, Visual Studio, Silverlight, system center products, Microsoft consulting services, and Premier product support services, and cloud-based services;
- Online Services Division provides chatting tools like MSN and search engines like Bing;
- Microsoft Business Division offers a line of Microsoft Office software (e.g. Word, Excel, Access) and enterprise resource planning (ERP) software for companies under the Microsoft Dynamics brand.
- The Entertainment and Devices Division designs, markets, and manufactures electronics such as Xbox 360 game console and Windows Phone (YAHOO FINANCE, 2012)

EXTERNAL ENVIRONMENT

General Environment

Economic Environment: The factors that impact Microsoft's operations include personal income, the unemployment rate, and interest rates. All of these factors can have influence on the purchasing power of consumers and firms. Companies using software tend to choose less costly ones to replace Microsoft. Also, households are likely to spend less on computer products because of the current recession.

Global Environment: Since early 1990's, Microsoft has become the global leader of software services and Internet technologies for the computing industry. Sales for the global software and service industry stood at \$2,330 billion in 2009. Though it experienced decelerating growth in the recent years, it is forecasted that the industry will experience 50% growth and sales will reach \$3,400 billion by 2014.

Sociocultural Environment: With the rapid development of computer technology, people can easily talk and see each other via the Internet. This new style of communication gives Microsoft an chance to promote MSN and Skype which offer convenient and cost-saving ways for keeping in touch with families and friends.

Demographic Environment: Globalization and the diffusing of technology drive significant changes in the demand of IT products. Africa currently has the lowest penetration of Internet use. Asia has the largest amount of Internet users. However, Internet users only represent 20% of the total Asian population. This shows a huge potential market for the IT industry to expand in these areas.

Political/Legal Environment: The general environmental factor that highly affects Microsoft is political. The U.S. Justice Department filed antitrust charges against the company in 1998, claiming that Microsoft had stifled Internet browser competition and limited consumer choice. In March 2004, the European Union (EU)

fined Microsoft and ordered it to take out its media player software from European's Window version. Microsoft already reached the settlement for the first case, but a worst case scenario would be that, these legal actions can cause Microsoft to be split up.

Technological Environment: Microsoft strongly depends on its technologies. The market requires the most advanced technology to meet the consumers' preferences and competition with other rising companies, such as Google and Apple, is intense. Google's web browser, Google Chrome, is compatible with all operating systems. Apple's main selling point is that its operating system is not as vulnerable to attack by virus and hackers as Microsoft's operating system.

Industry Environment

Threat of New Entrants: The threat of new entrants for Microsoft is very low. In fact, Microsoft has practically been a monopoly company. It held over 90% of the market share with their operating system and browser. Competitors have a hard time accessing the market due to economic, technological or legal barriers.

Bargaining Power of Suppliers: The main suppliers for the industry are hardware device suppliers and software tool suppliers. Principle hardware components are mainly obtained from a sole supplier (Intel). The power of suppliers is strong because of high importance of inputs.

Bargaining Power of Buyers: The main buyers in the industry are corporations, individual consumers, as well as government bodies. These buyers could be divided into two segments: (1) lower end buyers who are small businesses that serve local or regional firms; (2) upper end buyers that include large corporations and customers for whom a name reputation carries importance. The buying power of these customers is limited because there are few alternatives. Microsoft's reputation in the industry helps gain a competitive advantage.

Threat of Substitute Products: Threat of substitutes always exists. Apple is one of its most important threats. Microsoft's profitability suffered when better Apple software came into the market. Microsoft has always positioned itself at a lower price than Apple to retain their position in the software market.

Rivalry among Competing Firms: Competition among existing rivals is forcing to new product development, discounting, advertisement, and service improvements. The dominant players like Microsoft continue to intensify competition in the high-end market from the diversification and other fields. The low switching cost and high exit barriers also add to the rivalry. Thus, there is moderate competition in the industry.

INTERNAL ANALYSIS

Resources

Tangible Resources: For Microsoft these include:

1. **Financial Resources:** Microsoft has produced not only continuous huge positive net income, but it has also increased cash flow. Therefore, it owns sufficient cash reserves (Julian, 2010).
2. **Physical Resources:** Microsoft has placed regional operating centers in strategic geographic locations that service all aspects of customer interactions including vendor management and logistics. These operational centers are located throughout the world. These operational centers also serve as data centers.

Intangible Resources: For Microsoft these include:

1. **Human Resources and Innovative Resources:** Microsoft is able to retain its current talented employees and attract new ones. These employees are capable of contributing creative ideas to the company. The company also acquires new ideas and scientific capabilities by making several strategic acquisitions (Julian, 2010).

2. Reputational Resources: As mentioned before, Microsoft's product has a strong brand name among customers, especially enterprises.

Capabilities

Research and Development: Microsoft is able to do comprehensive and intense Research. The company is also able to develop new products frequently and continuously.

Marketing: As an upgrade replacement of XP, Microsoft introduced Vista. Nonetheless, this operating system did not meet the consumers' preferences. After that, Microsoft introduced Windows 7, which not only helped the company revive but also enhanced its image (Julian, 2010).

Core Competencies

Microsoft is one of the dominators in the software market. It is strong financially. Therefore, to keep its products attractive and ahead of many competitors, the company is able to spend a large amount of capital on R&D. Also, Microsoft possesses a strong brand name around the world; consumers are familiar with its products.

CURRENT SITUATION

Microsoft, whose assets were valued at \$41 billion, as compared to only \$8.5 billion in unsecured debt, received a AAA rating from financial service companies S&P and Moody's. Consequently, in February 2011 Microsoft released a corporate bond amounting to \$2.25 billion with a relatively low borrowing rate (Sifert & Rigby, 2011).

Microsoft is challenged in many areas. For instance, Firefox has blunted Internet Explorer's dominance. Microsoft's Bing has never managed to come close to the kind of usage obtained by Google,

the world's largest search engine. Microsoft's Online Services Division has been continuously losing money since 2006. Most recently, Online Services lost \$726 million in the first quarter of 2011. This follows a loss of \$2.5 billion for the year 2010 (Siegler, 2011). For the first time in 20 years Apple surpassed Microsoft in Q1 2011 quarterly profits and revenues. This was due to a slowdown in PC sales and continuing huge losses in Microsoft's Online Services Division (which contains its search engine Bing). Microsoft profits were \$5.2 billion, while Apple profits were \$6 billion, on revenues of \$14.5 billion and \$24.7 billion respectively (White, 2012).

MAIN STRATEGIC CHALLENGES

Leverage Bing to Generate More Profits

To be successful online, Microsoft needs to do a better job of leveraging Bing and increasing its web-advertising revenue. For too long, Microsoft performed poorly in web-advertising. In contrast to Google's advertising platform, Microsoft's service falls behind in almost every area. The company needs a strategy to fight Google's domination over the Internet and ad based revenue generation.

Create Solid Marketing Campaigns

Apple's "I'm a Mac, I'm a PC" ads have proven extremely successful. Over the past few years, Microsoft has tried to match their success with marketing campaigns of its own; however, they never worked out. In order to motivate consumers to use Windows and Bing, Microsoft needs to spend time in the coming years developing marketing campaigns that appeal to consumers, package its products in a good light, and show consumers the benefits of using Windows and Bing. Without doubt, the development is challenging.

Gain Market Share for Hardware Devices

According to International Data Corporation's data, Windows Phone has only 2% global market share in the third quarter of 2012 (Computer World, 2012). The consistency of the low market share in the recent years may indicate the unpopularity of Windows-based phones. Recently, Microsoft has also released a new tablet called Surface. The same issue may exist in this new device as well. In order to compete with other similar products, the company needs to prove that their tablets compatibility and manageability are as good as they claimed.

Solve Security Problems

The popularity of the company's software products makes it a major target for hackers. Its operating system, chatting software such as Messenger, Skype, and Explorer are victims to hackers and spammers. Mostly, the company patches its software only after finding out that users are being attacked. The company needs put more effort on proactively fixing its security holes and improving its response time to security issues to better protects its users.

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