

Analysis of Microsoft's Strategy Development

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Abstract: The purpose of this paper is to examine the corporate strategy of Microsoft. Microsoft was founded in the US in 1975 and it has been 45 years since then. As one of the largest IT companies in the world, Microsoft is undoubtedly successful. Its success is inseparable from its corporate strategy. This report will use PESTEL model to analyse the macro environment where Microsoft is located and 5Forces model to analyse the micro environment that Microsoft is involved in. In this context, the report uses the SWOT and BCG models to analyse how Microsoft allocates its limited resources to a rational product mix in order to reduce risk and ensure profitability. The report concludes with some suggestions on the problems of Microsoft. This report provides implications for Microsoft and companies similar to Microsoft in their strategic planning.

Keywords: Microsoft; IT; PESTEL; SWOT; 5Forces; BCG; Strategie

1. Background

Microsoft, the world's leading personal computer machine software development company, was founded by Bill Gates and Paul Allen in 1975. Its headquarters are in Redmond, Washington. It is one of the world's largest computer software providers, with a revenue of 102.3 billion dollars in 2017. The Windows operating system is Microsoft's most famous product. It covers the desktops of almost all personal computers worldwide. Since its establishment, Microsoft has been in a leading position in technological innovation.

2. Introduction

Basically, strategies are used to determine the direction in which the company want to expand its business and determine how to achieve its goals. How to build a strategy that is suitable for a company is a difficult project. The company need to analyze the internal and external environment and fully understand the advantages and disadvantages of itself and its competitors. This report is to analyze what strategy does Microsoft formulate, why formulate it, how to implement it, what results it has and how to evaluate it.

3. Context

3.1 Political

The US has relatively stable political system and macro policies. The government has always attached importance to investment in high-tech industries and supported the development of high-tech enterprises. In addition, the United States has formulated some attractive policies in attracting high-tech talents, including immigration policies, foreign student policies, and international exchange and cooperation policies. What's more, with the development of globalization, regional and global cooperation has become more frequent, and the interdependence between countries has become increasingly close. Peaceful and friendly environment is conducive to the development of Microsoft's global market.

3.2 Economic

Affected by the 2008 financial crisis, the global economy experienced a recession. The economy has rebounded in recent years through the implementation of economic stimulus measures by various governments. From 2013 to 2020, the growth rate of the IT industry has been between 3% - 5% [3]. Economic growth will inevitably promote the rapid growth of electronic consumption. In

addition, the emerging markets have huge potential of development.

3.3 Social

The development of the information age makes people rely more on the Internet and electronic products. And the Internet has dramatically changed people's lifestyles. Microsoft needs to adapt to the various needs of different customers. The increase in global population is mainly driven by developing countries. In order to win more market share, Microsoft not only needs to maintain the market in developed regions, but more importantly, tap the markets in less developed regions and provide suitable products for these regions.

3.4 Technology

More and more enterprises have reduced costs, increased speed and productivity, and expand their scale on an unrestricted global reach by cloud technology [7]. With the maturity of 4G technology and the development of 5G technology, the field of Internet of Things (IOT) will meet huge opportunities for development which will promote the development of big data. The development of artificial intelligence (AI) will be further promoted by the development of big data. At present, the field of AI, especially natural language processing, computer vision, and machine learning have reached relatively high levels, and many AI products have been applied to daily production activities.

3.5 Environment

With the weakening of traditional manufacturing, the status of the information technology industry in the world economy is becoming more and more important, IT companies are also increasing. 184 technology enterprises are among the top 2000 global enterprises in 2019. Meanwhile, the competition between IT companies is also fierce.

3.6 Legal

Cloud computing, software, and mobile technologies face many of the legal challenges. And these technologies are important in almost every industry. For large technology companies, the key competitive advantage is security and data protection. More and more countries have formulated and strengthened the "Anti-Monopoly Law", and Microsoft will also face more anti-monopoly investigations.

4. Situation

4.1 Five Forces

4.1.1 Bargaining power of suppliers (low)

Microsoft's product line of personal computers, game consoles and other hardware may require specific materials, which may give suppliers more power. But suppliers do not want to risk losing big customers like Microsoft to raise prices for the reason that they are dependent on Microsoft's orders.

4.1.2 Bargaining power of buyers (Moderate)

For consumers, once they are accustomed to using Microsoft's system, it is unlikely to be replaced with another system. Because familiarizing with the new system can be time-consuming and reduce efficiency, even Microsoft's price increases can be accepted by customers. And customers may choose Microsoft (Azure) instead of Google (GCP) if they prefer cloud service platforms with more enterprise experience [9]. However, for hardware products, customers can more easily adapt to new products. The switching cost is low which makes the bargaining power of buyers high.

4.1.3 Threats of substitute products and services (low)

The threat of substitutes is low in the IT industry. Comparing with other companies, Microsoft has unique products for specific customers like Azure could, and because of the high switching cost, it is difficult for customers to abandon Microsoft. The threat of alternative products may be moderate in the gaming market. Depending on the customer, Microsoft customers may be attracted by Sony's high-ranking exclusive video game products or Google's new Stadia cloud gaming platform [9].

4.1.4 Rivalry among existing firms (high)

Microsoft has many strong competitors in the IT industry. For example, as figure1 shows, its competitors in the cloud market include Amazon Web Service (AWS), Google Cloud Platform (GCP), etc. In software market, Salesforce, Adobe, SAP, and Oracle are the main competitors as figure2 shows. And Microsoft mainly faces competition threats from Sony and Nintendo in games consoles market (figure3). Many products made by these companies could provide similar performance to Microsoft products. Therefore, differentiation strategy could be productive.

4.1.5 Threat of new entrants (low)

Firstly, the cost of developing a technology company is relatively high, which weakens the impact of new entrants. Moderate conversion costs make it harder for new entrants to compete with companies like Microsoft. And labor costs are also relatively high because the IT industry requires highly skilled employees who are usually paid higher salaries [2]. Secondly, the IT industry is no longer in its infancy for new companies to enter, it already has a certain scale. And the companies within the industry have cost advantages because they have been in the industry for a long time. Thirdly, existing companies in the industry already have a loyal customer base and a strong brand image.

4.2 SWOT

<p>Strength</p> <ul style="list-style-type: none"> Leading Software Company Strong Brand loyalty and reputation Broad Products and services portfolio Strong R&D capabilities Outstanding financial performance 	<p>Weakness</p> <ul style="list-style-type: none"> Legal proceedings Data security issues Unsuccessful acquisitions and investments Poor performance in mobile market (computers and phones)
<p>Opportunity</p> <ul style="list-style-type: none"> successful acquisitions and investments cloud computing services IOT and Edge technology AI and game business 	<p>Threat</p> <ul style="list-style-type: none"> Software piracy Fierce competition Investment increased its operating expenses

Broad range of products and services expand Microsoft’s brand influence and consumer base and provide Microsoft multiple sources of income, which also disperses the risk [6]. The company has three business segments as figure4 shows: product and Business Processes, Productivity Intelligent Cloud, and More Personal Computing.

Microsoft regards research and development (R&D) as an important investment. Its R&D spending has been increasing in recent years and reached 16.9 billion in 2019 (figure5). Strong R&D capabilities enable it to continuously develop new products and add a large number of patents, which enhance Differentiation. For example, Azure introduced 100 new azure features in the first quarter of 19, focusing on existing working loads like security and new working loads like the edge AI and Internet of things (IOT). What’s more, the company has more than 34000 pending patents and more than 65000 patent portfolios issued in US and international patents as of the end of 2017 [6]. For Microsoft, asymmetric strategy (W-O) addresses firm’s hardware weakness by taking good use of firm’s cloud computing opportunity. Microsoft benefits from LinkedIn customer management and social sales products, the LinkedIn sales navigator. LinkedIn can also help Microsoft win new customers and deliver bundled services [4]. As another huge expenditure of Microsoft, the success of the acquisition has a great impact on Microsoft. On the contrary, Microsoft's quarterly profit fell 7.1% due to the acquisition of Nokia's money losing mobile phone business [8]. In addition, the (S-T) strategy uses the company's strength to fight against threats to stabilize the market position [5]. Strong R&D capabilities can make Microsoft constantly carry out technological innovation to gain differentiation advantage, which can make it maintain its advantage in the face of fierce competition threat.

4.3 BCG Growth-Share Matrix

Product	Annual Real Rate of Market Growth
Azure	72%
Office 365	21%
Gaming	10%
Windows	4%
Surface	23%

(Microsoft, 2019)

The above data and data from Figure 1-3 and Figure 6-7 will be used to make Microsoft's BCG matrix.



Question Mark

These market segments belong to the Question Mark category with low relative market share and operating in industries with high sales growth. And these markets are relatively unstable. Because the early development is not as good as the brands such as apple and dell, Microsoft's surface market share is low. But from the perspective of its profit growth in recent years, there is still a chance to expand its market share. In addition to continuing to upgrade its products, Microsoft also needs to step up publicity efforts.

Stars

Stars are market segments that have a high market share and compete in industries with high sales growth. Azure, office365 and game belong to this category. They are relatively stable and have great development prospects. For Microsoft, it should continue to increase investment in these markets.

Cash Cows

Cash cows are market segments that operate in industries with low sales growth but have a higher market share. Such market segmentation is feasible for the company to maintain its financial position for a long time. For Microsoft, although Windows has grown slowly, it has maintained a high market share, which is irreplaceable by other products.

Dog

Dogs are market segments with low relative market share and slow or negative sales growth. Products in this segment should be eliminated. None of Microsoft's product fall into this category.

5. Microsoft's existing problems

5.1 Legal proceedings

Microsoft has encountered many legal issues in recent years. Microsoft is suspected of using the monopoly position to force the binding, sales, and sales of browser software Internet Explorer in Windows. And Microsoft was sued by multiple Illinois residents for its Windows 10 upgrade plan. They claimed that without knowing what they could avoid, the company forced them to deal with various useless Microsoft technical support options and install new versions [1].

5.2 Software piracy

Microsoft's products are threatened by unauthorized copying and piracy, which may have a negative impact on its growth and future profitability. Microsoft not only loses money, it may also lose reputation because of the security issues of pirated products.

5.3 Unsuccessful Phone market

Due to low market share and sales, Microsoft decided to withdraw from the mobile phone market in 2017. Microsoft re-enters the smartphone market and launches the foldable phone Surface Duo to be released in December 2020. Surface Duo's success is still a huge challenge for Microsoft.

6. Solutions

As a multinational company, Microsoft should pay attention to the different legal environments of various countries. Microsoft should try not to use bundled sales to increase sales, and not to automatically update without customer consent. Customer satisfaction is quite important for large companies like Microsoft. It needs to strengthen communication with customers and improve the quality of after-sales service.

Firstly, legal measures can be taken to protect intellectual property rights. Microsoft can also encourage people to report piracy and give certain rewards. Secondly, Microsoft can take technical measures to prevent products from being copied.

Microsoft should do a market research in the early stage of the sale to find out the acceptable price of potential customers. In order to improve the competitiveness of Surface Duo, it is possible to appropriately reduce prices to attract customers and seize market share. Microsoft also needs to strengthen product promotion to increase exposure by advertising, news reports, and celebrity endorsements.

Conclusion

In conclusion, Microsoft is doing well in IT industry and makes good use of differentiation strategy's advantages. It's not easy to balance every product and service of the company. There are also risks in differentiation strategies. Users may abandon the services or product functions owned by different manufacturers, but choose low-cost products to save money. When users become more experienced, they are not clearly aware of product features and differences and may ignore them. And in the mature product market, the manufacturer with technology can imitate vividly to reduce the difference between products easily. Microsoft needs to keep innovative to avoid these problem.

Appendix

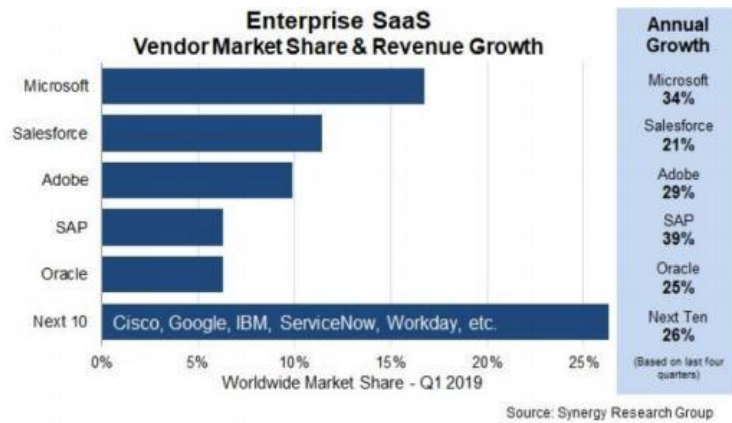
Figure1

Worldwide cloud infrastructure spending and annual growth Canalys estimates, Q4 2019					
Cloud service provider	Q4 2019 (US\$ billion)	Q4 2019 market share	Q4 2018 (US\$ billion)	Q4 2018 market share	Annual growth
AWS	9.8	32.4%	7.3	33.4%	33.2%
Microsoft Azure	5.3	17.6%	3.3	14.9%	62.3%
Google Cloud	1.8	6.0%	1.1	4.9%	67.6%
Alibaba Cloud	1.6	5.4%	1.0	4.4%	71.1%
Others	11.6	38.5%	9.3	42.4%	24.4%
Total	30.2	100.0%	22.0	100.0%	37.2%



Note: percentages may not add up to 100% due to rounding
Source: Canalys Cloud Channels Analysis, January 2019

Figure2



Synergy Research Group

Figure3

Company	% Share
Sony	52.9%
Nintendo	24.5%
Microsoft	22.6%
Total	100%

SOURCE: MARKETLINE MARKETLINE

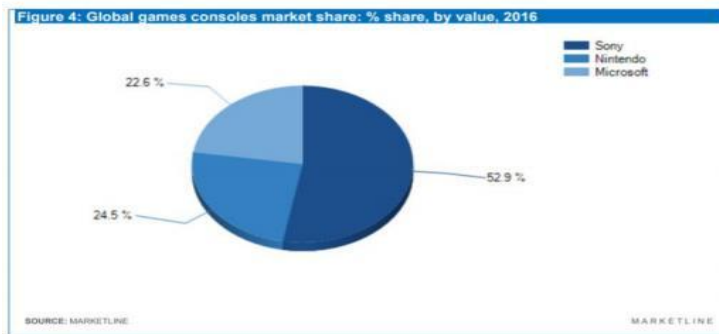


Figure4

Microsoft buckets products into 3 business segments

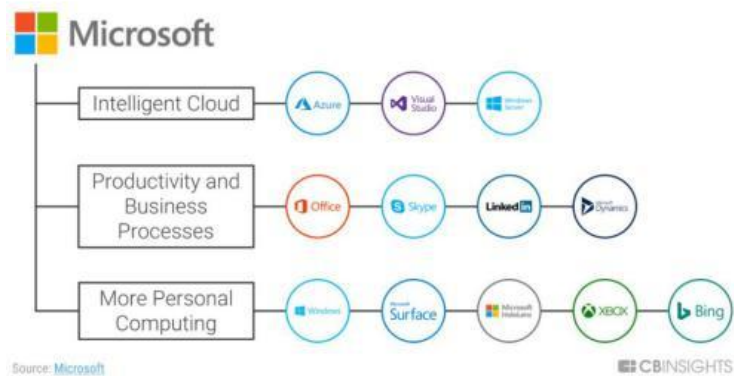
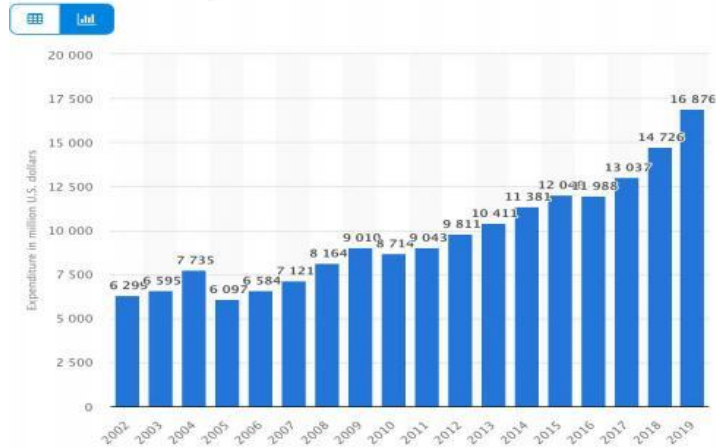


Figure5

Microsoft's expenditure on research and development from 2002 to 2019

(in million U.S. dollars)



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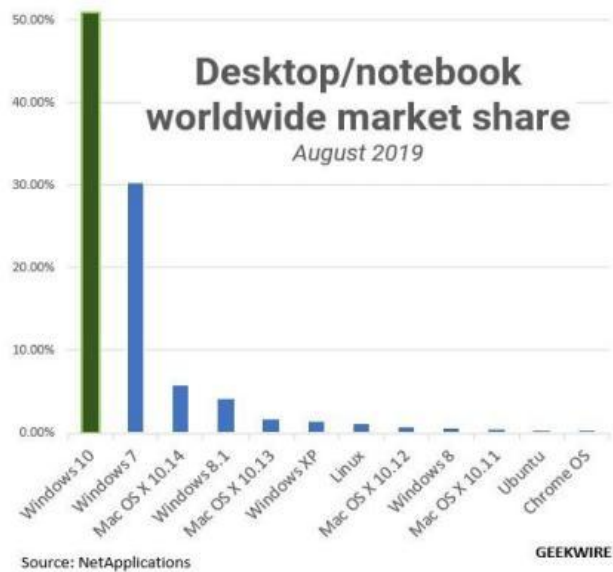
Figure6 Microsoft Surface market share 3Q17-3Q18

Preliminary U.S. PC Vendor Unit Shipment Estimates for 3Q18 (Thousands of Units)

Company	3Q18 Shipments	3Q18 Market Share (%)	3Q17 Shipments	3Q17 Market Share (%)	3Q18-3Q17 Growth (%)
HP Inc.	4,531	30.7	4,377	29.5	3.5
Dell	3,831	25.9	3,860	26.0	-0.8
Lenovo*	2,276	15.4	1,863	12.6	22.2
Apple	2,022	13.7	2,189	14.8	-7.6
Microsoft	602	4.1	591	4.0	1.9
Others	1,510	10.2	1,949	13.1	-22.5
Total	14,771	100.0	14,828	100.0	-0.4

US PC Market Share, Q3 2018 (Image/data Gartner) GARTNER

Figure7



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