Microsoft Case
ETM 610 Technology Management: Practices Around Boarder
Summer 2011
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Executive summary

In appraising Microsoft's way of doing business and how its culture drives its value, this study takes the corporation through various systematic perspectives. First it provides an insight into Microsoft. This is followed by a statement about the current global market trends visible to multinational corporations in the presence of persistent economic downfall. A brief description of a winning business model for multinational follows, providing specific features of a corporation in which Microsoft, or any corporation, has to concentrate its strategic efforts in order to assure future sustainable economic growth. Finally, Microsoft as a business is evaluated against the twelve dimensions of business innovation in order to assure future effectiveness in sustaining its future growth trajectory. The paper is concluded with a summary note on Microsoft and its future prospects.

Prelude

Microsoft is a software multinational corporation headquartered in Redmond, State of Washington. The corporation was founded in 1975 by Paul Allen and Bill Gates. Bill Gates became the corporation's first CEO. Paul Allen resigned from the corporation in 1983 due to ill health whilst Bill Gates retained his leadership as CEO until January 2000 when he created and assumed the position of Chief Software Architect and handed over the CEO position to Steve Ballmer. Bill Gates retired his role as Chief Software Architect in June 2008 whilst retaining many advisory roles in the corporation [1].

Over the years Microsoft has grown to become one of the world's largest technology-based corporations with a diverse portfolio of products within Information Communications Technologies (ICT). The corporation has research and development centers in eight regions around the world including North America, Africa, Europe and Asia [1].

Microsoft has battled many legal and market wars, some of which threatened its very existence such as the 1994 legal action from the US Department of Justice Antitrust Division which filed a Competitive Impact Statement citing Per Processor Licenses. Under Per Processor License, OEMs with MS license were obligated to pay a fee per computer produced whether or not the computer had any MS software [2,3,4]. Such exclusive contracts were considered acts of monopolization and one of the possible remedies proposed by the department of Justice was to break up Microsoft according to lines of business into two companies, one for operating systems (Windows 98, NT, and 2000) and one for the rest (MS-Office, MS-Money, etc). Many of these legal battles resulted in Microsoft having to pay out large amounts of payments such as in the 2008 European Union legal action citing that Microsoft was failing to comply with the 2004 judgment. Microsoft paid out a staggering $1.4billion to satisfy the fine [1,3,4,5].

In spite of all these setbacks and challenging litigations, age, size and legacy, Microsoft continues to lead a sustainable and profitable business. However, as it would be shown in this paper, Microsoft is slipping behind some of its popular competitors, such as Google, and many critics are quick to point out that may be this once-a-big-company company is heading towards its last years of dominance.

The purpose of this paper is not to redeem Microsoft from its critics but to cast out the company's profile in a way that it becomes easier to take a snap shot of its current scenario through the lens of how it evolved through history and attempt to project its future performance. Specifically, the paper assumes path dependency and posits that Microsoft current and future health has a lot to do with its past choices and that its legacy is a dominant determinant of its culture. Whatever choices Microsoft takes on now will be critical in future decisions.

Microsoft and global ratings

According to Forbes 2011 Microsoft ranks 50th largest company in the world behind companies like Apple at 47th and HP at 42th but ahead of Intel at 93 and Google at 120. Bigger companies are usually very inflexible and experience too much deadweight due to legacy and unnecessary red-tape that make a company difficult to innovate [6]. Smaller companies, on the other hand, are agile and quick to take action and therefore easier to innovate. Again, according to Forbes 2011, the most innovative companies are those that set the agenda in an increasingly important market, on the verge of disrupting an established market, or creating an entirely new market. Forbes 2011 gives the World's Most Innovative Companies and Salesforce.com is the leader seconded by Amazon, whilst Apple, Google, Nintendo, Adobe Systems and Microsoft rank number 5, 7, 20, 54 and 86 respectively [6]. The obvious takeaway from these simple statistics is that companies like Apple, for an example, is larger (almost same size) than Microsoft but it is by far the more innovative of the two. Even in terms of the brand equity, as given by M&M Networking Global Markets, Microsoft rank and file is losing to newer companies like Google [7].

Quest for new markets

Nowadays, the quest to for sustainable advantage is more dominant in boardrooms than strategy as the primary building block of competitiveness. It is generally argued that his change in business focus is necessitated by the pressure to enter markets in developing countries, particularly those at the middle and bottom of the pyramid. The seemingly unending global economic crises increase this pressure to unbearable and often threatening levels for multinational corporations whose native markets have dried up or are diminishing at unprofitable rates [8,9,10,11]. Many proactive multinational corporations are looking at these alternative underserved markets as their future stronghold, and Microsoft is in this race. To some extent, Microsoft has become a first mover in this respect and may be heading towards enjoying the first-mover advantages depending on what choices and decisions and how much management support and investment it makes [11,12,13,14,15]. The other reason why multinational corporations like Microsoft seek newer markets in emerging and developing economies is due to the rise of new technology-based and low cost rivals reshaping industries and redistributing profits. Global trade has reduced trade barriers and it is forever easy for new entrants to enter a market that proves profitable. It is therefore imperative that companies constantly appraise ways by which they create and capture value through their business models. How a business model performs eventually depends on its wider corporate culture and its interactions with its external environments [13,14,15,16,17].

The business model

According to Harvard Business Review of January-February 2011, there are three characteristics of a good business model: Alignment to company goals; Self-reinforcing; and robustness [9]. The choices that a company makes while designing a business model should ultimately deliver outcomes that enable a company to achieve its goals. This characteristic is engrained in Microsoft's culture of doing business either in its regional American markets or in other continents. Self-reinforcing relates to internal consistency [9,10,13,15,16]. That is, choices that executives make while creating business model should complement one another. This is akin to upholding to core capabilities and leveraging complementary capabilities for consolidation. It also relates to choices made in collaboration projects be it the types of projects or type of organizations. Either way, the cultures of the collaborating companies must complement each other and the outcome must necessarily be seen by the parties involved as a shared value. The characteristic of robustness relates to a good business model that is able to sustain its effectiveness over time by fending off the four threats that were identified by Pankaj Ghemawa as: can competitors replicate your business model; can customers, suppliers, or other stakeholders capture the value you create by flexing their bargaining power; organizational complacency; Can new products decrease the value customers perceive in your products or services [9].

It is questionable that any one company would want to replicate the Microsoft business model because the model can, within reason, be considered to have resulted from effects between its specific culture and everything else external. The model is therefore unique and would be very difficult to replicate, and may even be suicidal if one includes the litigations mentioned earlier into the process of replication. There are obviously better models out there but I would argue that the design of any model is incomplete without the people who work in the business. How employees function as a term is key to the ultimate success of a business. This, again, complicates the process of replication. It might be easy to replicate some part of a process, a Unit or Department such as Production or Logistics. Putting Production and Logistics to function together presents a case of additional complexity. I want to argue that the complexity in replicating the entire process of a corporation is not the net sum of each component but much greater.

I do not know anybody who uses a computer who does not know about Microsoft Office or Windows (let alone actually using these products) but there are so many computer users and owners who do not know exactly what these other more innovative companies are doing or offering. There is no doubt that the world has captures the value that Microsoft creates, its offerings. The question as to whether the world buys more of Microsoft products than, say, Google is a little more complicated: Are we counting quantities, the amounts of money paid, or both. According to Forbes their methodology of ranking companies along the continuum of innovativeness is based on Net Present Value (NPV), and therefore the calculation is based on revenue per product category. Microsoft has been losing money from the on-line services for the past few years and that is where Google is raking in profits. Ultimately, the brand equity is based more on perceptions. No wonder Google tops the list for the first time since the first quarter of 2011, because their future projections look very promising.

Organizational complacency is more common in monopolistic environments and hardly present in a competitive landscape. Microsoft weakness could be anything but complacency, the corporation is well known in market battle fields and it is feared by most. Because of its history, the company has experience workforce including sales/marketing and legal teams. The fact that the company is actively seeking new and underserved markets speaks volumes of a corporation that is not too comfortable in its present position and its future well-being.

Whether new products can decrease the value customers perceive in Microsoft's products is a question of which products we are talking about. I do not see Microsoft Office going anywhere in the next few decades even as Microsoft embraces open innovation. The kind of substitute products to those of Microsoft that are a real threat are online services as already demonstrated by low revenues in the past few years. Microsoft may choose to confront competitors in these product categories or disinvest. Microsoft may also choose to intensify and accelerate the adoption of a strategy similar to Blue Ocean Strategy and serve in new market as compared to fighting an already-lost course over the on-line services unless the company comes out with a truly disruptive technology [11,13,14,16,16,18,19].

Microsoft's Mission and Innovativeness

Microsoft's Mission is "At Microsoft, our mission and values are to help people and businesses throughout the world realize their full potential" [http://www.microsoft.com]. In applying this assertion across the twelve dimensions of innovativeness by Sawhney and his team, this study explores the company's profile and in so doing hopes to provide a better understanding of the corporation's current scenario in the light of intense global competition [10]. It is further hoped that this understanding will highlight areas of strength and weakness as well as point out opportunities and threats that that will be affected by current and future choices the company makes.

The twelve dimensions of business innovation are: Offerings; Platform; Solutions; Customers; Customer Experience; Value Capture; Process; Organization; Supply Chain; Presence; networking; and Brand. These dimensions provide an expanded feature of characteristics of a good business model already discussed in this paper. However, whilst the characteristics are what a working business model must demonstrate, they fall short of explaining how they can be exploited or even better that each is a composite whole of other interacting variables. The twelve dimensions provide simpler metrics that could be used as benchmarks against competitors on an on-going basis for comparisons. The twelve dimensions are only simpler but by no means easy to capture because they may involve elements that can only be quantified using subjective judgments. However, the dimensions give a fuller picture.

Offerings

Offerings are the Microsoft's products and services that are valued by its global customers. Microsoft offers software products, hardware products, and services which can be grouped into the following product categories [http://www.microsoft.com/en/ussitemap.aspx].

1. Products: Bing, Internet Explorer, Microsoft Advertising, All Office products, All Windows products, Microsoft security essentials, and Windows Live
2. Business Software: All Microsoft business products, All server products, Microsoft dynamics ERP & CRM, Cloud services, Bing Maps, Microsoft Amalga, Microsoft Forefront, Microsoft office Live, Microsoft On-line services, and Windows Small Business server.
3. Design Tools
4. Entertainment
5. Hardware
6. Home & Educational Software

7. Macintosh
8. Mobile devices & Software
9. Servers

Microsoft offers several products across a wide range, and some products do well whilst other suffer great revenue losses. Microsoft is well known for commoditization, selling large volumes of products at low prices. Products such as the latest Bing, the windows phone 7 OS, and the hands-free Kinect for the Xbox 360 console are competitively doing well in the market. On the down side, Microsoft On-line Services have been a source of financial loss to the company and they continue to drain the corporation's resources. The on-line services may be considered the weakest link in the Microsoft product categories and serves as a constant torment to bad press in respect to comparison to newer, smaller and more innovative companies such as Google. It might as well be the reason why Google has just surpassed Microsoft in Brand equity for the first at the end of this year's first quarter. It is reasonable to expect Microsoft to re-engineer the Business Unit or come out with a new product or an improved version of the current. Even if Microsoft comes out with a new one product, it would have to be really good to be considered a competitive substitute to what others are offering.

Platform

A platform defined a set of building blocks for a portfolio of products or services. Platform innovation uses modularity to create a diverse set of derivative offerings. Throughout its long history, Microsoft has profited immensely from its platform advantage, in terms of both scale and scope, in development of its products. For example, Microsoft XP was created in 2001 to unify the mainstream software and NT lines under the NT codebase. The use of platform innovation has resulted in enabling Microsoft to exploit the market place with many products sharing the same software codes. For example, Windows CE 1.0 was basically a reduction of Windows 95 operation System for devices with low memory and other constraints such as in Personal Digital Assistants.

Solutions

A Solution is a customized, integrated combination of products, services, and information that solves a customer's problem. Solution innovation creates value for customers through the breadth of assortment and depth of the integration of the different elements. Whilst Platform innovation helps to create many product derivatives, Solutions add value through customization. This is one area where Microsoft seems to be doing very well as evidenced by its ventures in emerging and developing markets.

Microsoft's Research and Development is at least eight different geographic areas (excluding the corporation's Headquarter Offices). The research is both basic and applied depending on skills set and the intensity of technology utilization. Because of the distribution of Microsoft's Research and Development laboratories, the company is able to scan and target the markets. Whilst it has been Microsoft's strategy to mass-produce its products in order to allow for commoditization, the company recognizes the need for customization. However, it is noted that when there is a call for this it is mostly for lower-technologies. That is, scaling down already existing technology for the purposes of cutting down cost. An example of this is what Microsoft does serving middle and bottom of the pyramid market.

Customers

Customers are people or organizations that use or consume a company's offerings to satisfy certain needs. To innovate along this dimension, Microsoft has an agenda to discover new customer segments or uncover unmet needs and sometimes unarticulated needs. Microsoft is good at using user-centered innovation, particularly at middle and bottom of the pyramid markets. Whilst Microsoft is struggling to beat competition among many of its products lines at the end of the day it is really the final value from total sales that counts. Individual product line sales help to note which ones are failing but the dilemma is when failing product lines help to sell the 'Cash Cows' product lines or even such an interaction taking place within a given product line.

However, there is no substitute for really understanding the customers and delivery beyond their expectations at marginal cost. Microsoft has used its experience in customer understanding and strategies, in spite of customer differences and therefore utilizing cultural diversity to its advantages, to exploit opportunities and avoid bottlenecks.

Microsoft, like many multinational corporations, is in a race to enter and establish itself in emerging and developing markets. Some example, many of its projects in these markets have been replicated regionally and continue to grow. Emerging and developing economies make most of the middle and, predominantly, the bottom of the pyramid. Microsoft is probably hoping that, and chances are that this will succeed, as more and more countries in these regions begin to use its products the customers will be hooked to the products either because they are merely too used to the products or because of some other 'technical' reason (for example, technological or legal). Microsoft is a founding member of open innovation in software to help develop and grow cloud computing but Microsoft also has a track record of unfair dealings and therefore one might question its operation in the poorest of the poor countries such as Uganda. Only time can tell because these countries are institutional unstructured and they lack critical mass in skills set. However these are current times and Microsoft has not only embraced open innovation but sustainability as well and is collaborating with the United Nations Industrial Development Organization in the BoP projects.

Customer experience

Customer experience considers everything a customer sees, hears, feels, and otherwise experiences while interacting with a company at all moments. Microsoft accomplishes this dimension through shared values, where a national government representing the public, NGO, and private sector come together to identify problems and probable solutions that are context-appropriate. The involvement of the local community gives Microsoft legitimacy, and also helps the corporation to exploit the locally available and accessible social capital. Microsoft has demonstrated its expertise in this regard as demonstrated by the fact that the projects are being replicated regionally and across continents.

Value Capture

Value Capture is a mechanism that a company uses to recapture the value it creates. To innovate along this dimension, Microsoft already exploits untapped revenue streams (such as in India and Uganda) by developing pricing strategies or otherwise expands its ability to capture the value from interactions with existing customers (might be from another area or region acting as a referent to new customer and/or countries) and partners (other multinational corporations already using Microsoft's products doing business in the markets or partners in collaboration projects with Microsoft).

Recapturing value has been a very elusive act to Microsoft in the past and has led to various litigations against the company from many quarters: government (US, European Commission), other companies, etc. In particular, the US v Microsoft in 2001 had the following impositions:

1. Microsoft would not be allowed to have exclusive contracts that do not allow other party to use, display or feature its opponent's products.
2. Microsoft would create a pricing schedule that would apply to all buyers so that price would not be conditioned on the sale of other Microsoft products
3. Microsoft is not allowed to take actions against manufacturers who feature competitors' software
4. Microsoft is will allow OEMs to alter Windows significantly
5. Microsoft is not allowed to design Windows to disable or compromise rivals' products

Whilst Microsoft was found liable and paid large amounts of money, the company's total revenue contributions from these defensive and sometimes offensive tactics were by far more significant.

Process

Processes are the configurations of business activities used to conduct internal operations. The winning factors under this dimension are greater process efficiency, higher quality and faster cycle time. There are mixed feelings about modularity: Whilst Microsoft continues to use this design methodology to produce derivative offerings, some critics cite barrier to innovation as setbacks associated with it (where innovation, in this case, defines the depth of the product differentiation in form and features). Big corporations the size of Microsoft have deadweight due to legacy and red-tape (to name just a few0 rendering them inflexible and slow to resolve problems. These problems could be anything from technology-based to merely administrative. Managing processes for a big-sized has its problems that might hamper efficiency. Because of so many offerings that have common base-code, and therefore attributes, it is likely to duplicate efforts which result in fixed costs of production. In other perspective such as quality management, a process capability defines the financial health of the corporation, holding other efficiency score constant such as operational efficiency.

Organizational

Organization defines the way in which a company's structures itself, its partnerships and its employee roles and responsibilities. It is about the scale and scope of the firm's activities and management thereof, including responsibilities and incentives found of different business units and individuals.

Microsoft is renowned for its recruitment and interviewing tactics. The incentives for employees are legendary: the corporation produced four billionaires and 12000 millionaires on its Initial Public Offering (IPO) in 1986.

The rate of its organic growth is a testimony of how it has managed to recruit and retain motivated personnel over the years. It has steered its growth organically through investments but the corporation has also been very good at mergers and acquisitions. But even more interesting is the fact that the company has been able to integrate all these 'foreign' parts into its core culture and succeeded in making them as attractive as any Microsoft's business unit can ever be.

Supply Chain

A supply chain is the sequence of activities and agents that move goods, services and information from source to delivery of products and services. While doing this, it is critical to streamline the flow of information through the supply chain, change its structure or enhance the collaboration of the participants. Microsoft is known to have used its OEMs in exclusive contracts to fend off competitions and while that might be wrong the tradition of exclusivity is still prevalent to date: In the entire USA mobile service provision, AT&T has an exclusive contract with Apple to sell the iphone. That is, a USA customer cannot buy an iphone in the USA and use it with any provider except At&T. The bottom-line is knowing your partners and nurturing the partnership during its lifespan for a win-win relationship.
Microsoft has turned to sustainability and open innovation as hallmarks for its future growth.

Presence

Presence defines channel of distribution that a company employs to take offerings to the market and places where its offerings can be bought or used by customers. Creating new points of presence or using existing ones in creative ways allows a company to innovate in this dimension. Microsoft's presence is felt in all regions/ countries of the world. Addition of the middle and bottom of the pyramid markets is a major effort in long term market leadership. Microsoft is primarily Software Company but it also deals in hardware and services, which are all components of Information and Communication Technologies (ICT).

ICT sector affects any country in so many ways, both socio- economic and political (not forgetting environment, cultural, etc) and the pace of such impact is usually accelerated and amplified due to the sector's positive externalities. The rate at which Microsoft's projects are replicated across the middle and bottom base of the pyramid might explain this. Assuming Microsoft keeps abreast all the dynamics of this development, it makes sense to assume that Microsoft will be well placed to enjoy first-mover advantage as and when these markets mature and demand more advanced products.

Networking

A company and its products and services are connected to customers through a network that can sometimes become part of the company's competitive advantage. The last point explained under Presence demonstrates how this can happen in one way, but the essence of networking as a dimension of innovation is more about the scope of integration than the scale or volume sales. On a simple uniform sales distribution, this relates to market share but it could also depend of level of technology utilization or technology intensity. When one considers different products or services, as mentioned earlier in the case of Microsoft and Google innovativeness ranking, one should be careful with how the comparison is carried out. There could be many people, indeed in most countries, using a given product but what ultimately counts are the returns in financial terms. Therefore a low cost technology could be common (large quantities) but the returns might not be necessarily large. This point might explain why many others have not yet intensified their efforts in this regard. This is a case that may favor Microsoft's intention of becoming a future leader in these markets.

Whilst it has stepped on many competitors' toes several times over the years it still remains one company that one cannot refuse to collaborate with because they deliver on their mandate all or most of the time. World's institutions such as the World Bank, United Nations, governments, NGOs, universities and Private sector continue to do business with Microsoft. But even more interesting is the fact that the company has been able to integrate all these ‘foreign’ parts into its core culture and succeeded in making them as attractive as any Microsoft’s business unit can ever be.

Brand

Brand are the symbols, words or marks through which a company communicates a promise to customers. To innovate in this dimension, Microsoft requires leveraging and extending its brand in creative ways.

Microsoft has been able to retain its position in brand ranking, according to M&M Networking Global Markets, until this year when Google dominated the 2011 BrandFinance Global 500 ranking with a brand value of $44.3 billion pushing Microsoft (at $42.8 billion) into second position. Many critics are quick to judge Microsoft petting the company against newer and often smaller corporations offering limited set of offerings.

Conclusion

The global economic meltdown and emergence of fast-paced high-tech companies in an almost free trade world-market present huge pressures to big and small companies each ever trying to inter a new market and grow into market leadership in order to assure sustainable growth. The situation is even more pressing for large companies that, one for one reason or the other, are failing to innovate. Microsoft is an excellent example of such a company. Whilst struggling to keep its ratings in Innovation indices, Revenue Growth rates, Brand equity, etc, there is evidence that the traditional Microsoft products, Microsoft Office and Windows continue to do well. Some products like the On-line Services are hurting the financial health of the company. Whether Microsoft will eventually terminate some of these losing products or re-structure their business units will ultimately depend on the type of impacts and interactions such action will have on their premier products. Cloud computing provides opportunities for Microsoft. The fact that the company is embracing open innovation says a lot about its culture in the trade and its future projects. Most importantly Microsoft is not complacent about its position, its diminishing rankings, and the company is making tangible effort to circumvent the bottlenecks by adopting a strategy of seeking new underserved and/or unarticulated markets at the middle and bottom of the pyramid whilst also intensifying its competitive muscle in developed markets. These efforts might be leveraged to build the global market leadership providing Microsoft manages first-mover advantages. Only time will tell Microsoft destiny, but the choices and decisions management makes now will have critical consequences in the future.

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