

Michael Doyle

Mar. 12, 2017

BA 3103 – 018

R, 5:30 PM – 8:00 PM

Microsoft's Turnaround Efforts

Background

Microsoft began in 1975 when founders Bill Gates and Paul Allen converted BASIC, a popular computer programming language, to use on a personal computer (PC) (Zachary & Hall, 2015). In 1980, International Business Machines Corporation (IBM) asked Microsoft to produce an operating system software for its first PC (Zachary & Hall, 2015). This operating system, called MS-DOS (Microsoft Disk Operating System), was used in the IBM PC in 1981 and most other manufacturers of PCs afterwards (Zachary & Hall, 2015). MS-DOS and Windows, another operating system that Microsoft developed, allowed Microsoft to grow rapidly and become one of the largest corporations in American history (Zachary & Hall, 2015).

In addition to its operating systems, Microsoft developed and sold a variety of products that contributed to its success. In 1993, Microsoft released Windows NT, a networking program that tied PCs together and offered network reliability and security (Zachary & Hall, 2015). In 1995, Microsoft developed a web browser called Internet Explorer (Zachary & Hall, 2015). In 2001, Microsoft released a gaming console called Xbox that quickly became successful in the video game market (Zachary & Hall, 2015). In 2009, Microsoft released a search engine called Bing and unveiled a cloud computing software called Windows Azure (Zachary & Hall, 2015). By 2015, Microsoft had a revenue of \$93.58 billion (Microsoft Corporation, 2015).

However, for the first 3 months of 2016, Microsoft's earnings did not meet Wall Street's expectations (Bailey, 2016). Microsoft reported a 6 percent drop in revenue to \$20.5 billion, and a 25

percent drop in profit to \$3.76 billion (Bailey, 2016). Microsoft said revenue from Windows software declined 2 percent and operating profit from cloud computing products fell by 14 percent (Bailey, 2016).

Problem

Microsoft reported poor financial results despite efforts by the CEO to turnaround the business. Satya Nadella, Microsoft's CEO, made changes to improve Microsoft's financials, but Microsoft still had a decline in revenue and profit for January to March of 2016.

Alternative Strategies

Despite the poor results from January to March of 2016, Microsoft said sales of its Surface tablet grew 56 percent to \$1.1 billion and revenue from its Bing search engine grew 55 percent to \$1.5 billion (Bailey, 2016). Microsoft should invest in these products to sustain their growth and make them top revenue contributors. Microsoft should advertise its Surface tablet to increase consumer demand. To support this increase in demand, Microsoft should also increase production of the Surface tablets. Microsoft should capitalize on the growth of the Bing search engine. It should fund research and development to help Bing compete with Google. The investments in the Surface tablet and Bing search engine will sustain their growth and enable them to become a larger percentage of Microsoft's revenue.

Microsoft should keep investing heavily in its cloud computing services despite less than expected returns for the beginning of 2016. The demand for cloud services is growing tremendously. Microsoft's CEO Satya Nadella said, "The enterprise-cloud opportunity is massive – larger than any market we have ever participated in" (Weinberger, 2016). Market research firm Gartner said that for 2017 "overall demand for cloud computing will grow 18% this year to \$246.8 billion in total worldwide revenue from \$209.2 billion" (Barrow, 2017). Microsoft should invest in research and development for its cloud computing services to capitalize on the market growth. As a result of these investments, cloud computing services will become Microsoft's top product.

Lastly, Microsoft should try to generate more revenue from its Windows 10 operating system. It should stop giving free upgrades to those that have older Windows versions. Although the necessity of a new desktop operating system from Microsoft has lessened, Windows 10 still has a massive customer base (Anderson, 2016). Microsoft said Windows 10 runs on more than 270 million machines (Bailey, 2016). If Microsoft stopped providing free upgrades to users of older Windows versions, revenue from Windows 10 will increase dramatically and result in a higher total revenue.

Recommended Strategy

The best strategy for Microsoft to pursue is to invest heavily in its cloud computing services. There is a large amount of growth and potential in this market that Microsoft can take advantage of. The market research firm Gartner estimated that the market for cloud computing services is going to grow 18% in 2017 (Darrow, 2017). The demand for a Windows operating system is declining, and it is imperative that Microsoft invests in cloud computing to replace the revenue lost from the decline in Windows sales.

Performance Metrics

For intermediate tracking metrics, Microsoft can use the growth of the cloud computing market and compare it to its own revenue growth from cloud computing products. The revenue from Microsoft's cloud computing products should grow at the same rate or faster than the total market growth. This will ensure that Microsoft is staying ahead of competitors and capturing as much of the market as possible.

Microsoft can use its market share in the cloud computing market and its revenue from cloud computing services as conclusive metrics. Ultimately, Microsoft should be the market leader of cloud computing services and have most of its revenue come from cloud computing services. Microsoft will have achieved this when it has the highest market share in the cloud computing services market and when revenue from cloud computing services is the highest percentage of its total revenue.

References

- Anderson, K. (2016, November 26). How Microsoft makes money: revenues broken down by product line. *On MSFT*. Retrieved March 12, 2017, from <https://www.onmsft.com/news/microsoft-makes-money-revenues-broken-product-line>
- Bailey, B. (2016, April 21). Microsoft reports weak results despite turnaround effort. *Associated Press*. Retrieved March 11, 2017.
- Darrow, B. (2017, February 22). Cloud Adoption Is Growing But Forecasts Differ on How Much. *Fortune*. Retrieved March 12, 2017, from <http://fortune.com/2017/02/22/cloud-growth-forecast-gartner/>
- Microsoft Corporation. (2015). Microsoft 2015 Annual Report. Retrieved March 11, 2017, from <https://www.microsoft.com/investor/reports/ar15/index.html#income-statements>
- Weinberger, M. (2016, January 28). Satya Nadella's master plan for Microsoft is starting to work. *Business Insider*. Retrieved March 12, 2017, from <http://www.businessinsider.com/microsoft-ceo-satya-nadella-master-plan-2016-1>
- Zachary, G. P., & Hall, M. (2015, January 05). Microsoft Corporation. In *Encyclopædia Britannica online*. Retrieved March 11, 2017, from <https://www.britannica.com/topic/Microsoft-Corporation>