

# Key challenges which microsoft is facing marketing essay



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## **1. Introduction**

This purpose of this report is to discuss the key challenges which Microsoft is currently facing and is likely to face in its near future. As his newly appointed consultant this report would give an insight to Microsoft CEO Steve Ballmer about the strategies and the options which the company and its management have and its implications on its business and future prospects. This report would also provide an insight about its core competitors using various analytical tools.

As CEO Mr. Ballmer once said in his interviews “ You’ve got to be very realistic about where you are, but very optimistic about where you can be, And the day you can’t be both of those things, you shouldn’t be a leader of a company like Microsoft. You have to believe; you have to believe; you have to believe.” Hence keeping his belief and optimism in mind this report would focus on Microsoft’s current and future business strategies in helping it to be among the strongest and well respected companies in the world.

## **2. Key Challenges faced by Microsoft**

The recent economic meltdown which hit the world had severe implication on all the major economies and most of the companies worldwide. Microsoft being one of them. Even after being hit with the financial crisis, it still continues to remain among the big players in the market.

After analysing the situation of Microsoft with help of some essential tools like SWOT, Porters 5 forces and Parenting Matrix we realize some of the key challenges and capabilities which Microsoft requires to face those challenges

combined with a good leadership and strategy. Some of the key challenges have been discussed below.

## **Lack of Innovation**

One of the key challenges surfaced after SWOT analysis(Appendix 1) was Microsoft's lack of innovation. Most of the products of Microsoft has introduced in the last 25 years were influenced by existing products of its competitors. This can be evident from the fact that Windows operating system was much influenced by Unix and which was used by Apple in their operating systems. Similarly Microsoft's office suite was influenced by Lotus and Word Perfect. Microsoft's lack of innovation does not stop here, in the following years it continued to introduce products which were in some way similar to products which already existed in the market. Microsoft's very own browser Internet Explorer was very much similar to Netscape and now with its introducing its new search engine Bing which is more or less similar to Google, hence one can see a continues strategy followed by Microsoft when it creates an imitation of already existing products and with the help of heavy marketing manages to promote its product among people and try to then generate get a huge share in the market (Seeking Alpha).

According to some employees of the company the reason for lack of innovation is that the company is busy upgrading Windows rather than innovating new products and services. However from our SWOT analysis(Appendix 1) it can be seen that Microsoft has a monopoly of over 85% with its Windows operating system. According to Mike Smith who was a former software architect in Microsoft, " So much of what Microsoft is doing right now is maintenance," and this is leading to cause increasing discontent <https://assignbuster.com/key-challenges-which-microsoft-is-facing-marketing-essay/>

among the software programmers within the company. So instead of working on innovating new products and services, the programmers of Microsoft were still catering to their previously created monopolies. This increasing discontent led to many developers leave the company for better opportunities. Just hiring the best staff and employees is not important the essential part is retaining them and making the best possible use of their skills and talent. Also to add to the frustration of the employees, after Steve Ballmer became the CEO of Microsoft he placed more emphasis of cross group collaboration hoping that this would ease the way this large organisation is managed. However on the contrary this led to employees spending most of the time in preparing for the meetings rather than spending time on innovating and creating new products and technologies. The dissatisfaction in employees was also due to cuts in their compensation and benefits inspite of increasing profits earned by the company in the past. They seem to feel like being trapped in a company whose past successes is restraining its current and future growth. According to the views of one of the engineers of the company “ There’s a distinct lack of passion, we’re missing some spunk”. Hence it is very important for Microsoft to not only hire but retain its top developers (Business Week, Sep 26th, 2005)

Also from our from our further analysis of Microsoft we can see that currently Windows 7 has sold more than 60 million copies since it was introduced making it the fastest selling operating system ever. This boosted the revenue of the company by 14% which also led to 60% increase of second quarter income hence we could see that however Microsoft’s operating system is helping it earn huge profits currently would these profits sustain

for a long time is a question to be addressed (Dina Bass , Business Week). The share of Microsoft Online services in 2009 was a mere 5. 27%(Appendix 4) and it is very important for Microsoft to boost its revenue in this sector as with the cloud computing coming into the picture desktop computing would now move to web based computing which would make it difficult for Microsoft to follow its monopolistic practices as for consumers it would be easier to switch from one website to the other(Seeking Alpha). This does seem as a matter of concern as 80% of the profits of Microsoft comes from Windows and Office applications and all these now being available online from competitors offering packages like Google Apps, Zoho, Zimbra, StarOffice, OpenOffice who offer it as software that is internet based hence there is always a risk that this cash cow of Microsoft might not be able to yield same amount of profit as it used to till now (Greg, Iperior). Also the operating system would not be much of a matter of concern as such programs and online softwares can be delivered to customer at much cheaper price online (The Economist). The revenue which Microsoft earned from its business division declined 2. 8%, online services dropped 4% due to decline in online ads and even the entertainment division saw a drop as well. Hence its high time Microsoft innovates some new products and services keeping the future of cloud based computing in mind (Dina Bass, Business Week)

## **Search Engine**

According to New York based Nielsen 86% of users have used Google as their search engine in November 2009 compared to a minute 11% used Bing.

Through our Parenting Matrix(Appendix 3) one can see Bing has very low

market share and low profit generating business compared to Microsoft Office, Windows and server applications also currently Bing has a very small share compared to Google however it is also interesting to notice that there is immense potential Microsoft's Bing has in terms of the gaining foothold in search engine market. It can also prove to be a tuff competitor for Google in the future. It can help Microsoft generate a lot of revenue in terms of advertising. But one can criticize the fact that even after spending millions of dollars on Bing, it does not offer anything significantly or extra unique compared to Google's search engine. However one expected Bing to have some extra features which Google search doesn't provide thereby proving its worthiness and an added advantage to people to switch their search engines.

### **3. Recommended strategies for Microsoft and its implications**

#### **No frills Strategy**

With the introduction of Cloud computing most of the computing would be done online as a result customer loyalty towards online softwares and web based applications would be low. Through Porters 5 forces analysis (Appendix 2) we can see that in this market bargaining power of buyer is more. A customer can easily change their software or online web based application if they are provided with similar service at a cheaper rate with reasonable good quality. Hence by keeping their key focus on innovation this strategy would clearly appeal to customers who are price sensitive and are not concerned with quality of the product or service. With majority of work being done online the users command high power and cost of switching is

almost nil. If Microsoft adopts this strategy it can not only manage to keep competitors at bay but also ensure that it retains its customers by constantly innovating and ensuring that its customers get the best products at the best rates.

However this strategy cannot be adopted by Microsoft overnight as it is highly reliable on its cash cows namely Microsoft Office and Windows operating systems. Following this strategy might have sudden drastic effect on the share price of Microsoft as the all the shareholders might not agree as this would lead to drastic drop in the income earned by the above cash cows of Microsoft. This strategy can be implemented by Microsoft slowly and gradually keeping in mind the competitor's strategy (Gerry Johnson, Kevan Scholes, Richard Whittington, Exploring Corporate Strategy, 2008)

### **Low price strategy**

If Microsoft follows this strategy it would clearly be differentiating among its previously adopted monopolistic practices in terms of its operating systems. Under this strategy Microsoft can continue to provide its regular products or services however keep the price at minimum thus making it very difficult for the new entrants to enter the market. With the help of low price strategy it will gain popularity among users thus gaining its market share.

However there are some limitations if Microsoft adopts this strategy, its profit margins may be heavily impacted as there will be very little scope to earn heavy profits with this low priced category products. This would also have a drastic impact on its future re-investment as the margins were kept quite low. Eventually the investment need to research and development

would be hit thus making it difficult for Microsoft to innovate and re-develop its search and entertainment and devices division thus making them a profitable venture (Gerry Johnson, Kevan Scholes, Richard Whittington, Exploring Corporate Strategy, 2008).

## **Focused Differentiation Strategy**

Under this strategy Microsoft can concentrate on innovating products and services that are not only unique to its competitors but also add value for its customers. Currently Microsoft relies heavily on its cash cows for its majority of its profit gradually it can expect revenue from other streams which it can create using the focused differentiation strategy which would give them competitive advantage over its competitors. With introduction of new age computing most of the work would be done online thus reducing the usage of desktop computing. By following this strategy Microsoft can charge its customers for using its premier applications online thus providing them exceptional service and giving them their money's worth (Gerry Johnson, Kevan Scholes, Richard Whittington, Exploring Corporate Strategy, 2008).

This strategy can help Microsoft earn huge profit margins but it also puts it into risk of being avoided by customers for other free web based applications. Also the customer loyalty in this segment would be quite low as the cost of switching web based application is quite low.

## **4. Preferable Strategic choice for Microsoft**

### **Hybrid Strategy**

Out of all the available strategies for Microsoft the most suitable strategy would be to follow a Hybrid strategy (Gerry Johnson, Kevan Scholes, Richard



Whittington, Exploring Corporate Strategy, 2008). Under this strategy it can not only differentiate its products and services but also choose to charge different prices for different products depending on its product quality and competitors pricing. With the introduction of cloud computing Microsoft can concentrate on integrating customer's desktop computing to online computing. It can invest in server farms thus a customer's desktop data can be easily stored in Microsoft's server hence giving the option to the consumer of logging in any computer in the world and accessing his desktop. Currently Microsoft has everything that it requires to remain the key player in its domain. Combined with 25 years of experience and a good team of developers and programmers it can focus on innovating products that are not only unique but also offer best value for price charged (Seeking Alpha)

In terms of revenue generation it can concentrate more on ad based revenue for every click on its webpage on ad placers. As people are already familiar with Microsoft it would be easier for them to adapt to it. With regards to its office applications and operating systems Microsoft might have to reconsider its pricing keeping in mind its competitors price strategy also Microsoft should innovate products that are required by the customers rather than inventing a product first and then planning how to sell it. It should keep its software developers and programmers well motivated. More focus should be given to collaboration and alliances with smaller but potential entities.

With regards to its current products and services Microsoft should focus on bit of differentiation of its current offering in the market, This can be partly achieved by technological innovation. Its newly launched search engine Bing has a lot of potential to grow, currently Apple is in negotiations with <https://assignbuster.com/key-challenges-which-microsoft-is-facing-marketing-essay/>

Microsoft to replace Google with Bing as their default search engine on its iPhone. This may not be a major breakthrough for Bing but it can be perceived as a small step in the way up in gaining the market share in search engines (Burrows and Cliff Edwards, Business Week, Jan 20th, 2010)

According to the study conducted by qualitative research firm who were secretly hired by Microsoft to evaluate with the help of 15 Google users to use Bing for one week as their search engine. The result was that 10 people out of those 15 changed their search engine to Bing. Hence going by public reviews Bing seems to be gaining popularity. With Microsoft planning to increase its investment in Bing from 5.5 billion to 11 billion in the next 5 years the future of Bing as search engine seems bright. Though Bing has still a long way to go in terms of increasing its market share so on its way it can add some features to it thus making it unique and not just a copy of its competitor Google (Digital inspiration, Dec 3, 2009)

## **5. Conclusion**

With the above research we can hereby see the key challenges faced by Microsoft in terms of lack of innovation and creativity. We also realize that without innovating it would be very difficult for Microsoft to generate and sustain the same amount of profit it used to earn until now with help of its cash cows Microsoft Office and Windows. With the introduction of cloud computing Microsoft has to prepare itself for web based computing instead of traditional desktop computing. It also has to carefully plan the prices it charges for its applications and its operating systems which are available free through the internet. It also has to continue its innovation in terms of its new search engine Bing and make it unique thus giving enough reasons for <https://assignbuster.com/key-challenges-which-microsoft-is-facing-marketing-essay/>

its customer to change their search engine to Bing. Thus with proper analysis Microsoft should select an appropriate strategy which is inline with its capabilities and which would extract its full potential thus helping it retain its position among the top companies in the world.

## References

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## Appendix 1

### 1- SWOT Analysis

#### **Strengths**

Holding a global monopoly of over 90% with Windows operating system

Efficient Customer service

Well known and established brand

More than 25 years of experience

Positive response to Windows 7 operating system

Wide customer base

High levels of held capital (Revenue of \$60bn v \$23 of Google)

Licence model guarantees income stream

Strong entrance into the game market

#### **Weakness**

Lack of innovation

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Low market share in online office tools(Office Live) compared to Sun open office

Weaker web based application

Complex code base makes it difficult to modify and update core products (Google use modular approach)

Office products expensive for small businesses, start-ups and charities

Game hardware (Xbox) has low margin

Need to be a game developer.

Late entrance in diversification into consumer product markets (Sony and Apple have significant head start)

## **Opportunities**

Increased chances of growth and can give tuff competition to Google in terms of generating ad revenue with Bing search engine.

Produce and enhance online office products to match competitors, adding value to existing PC products.

Produce basic low-cost online office products for small businesses

Acquire game design company or recruit their own development team to increase profitability of game products.

Acquire or partner with Yahoo to improve position in the web portal and online services businesses

Acquire enterprise technology company (SAP or Oracle) to gain foot hold on high end market

Free office software model makes Google very vulnerable to market conditions and increasing entries will make it even harder

Can gain huge market share in the mobile industry even though it is making a late entrance

## **Threats**

Google, SUN, and SAP combined could present a critical threat to existing PC user base by developing cheaper or free online replacements.

Google could develop full function office suite that could directly compete with MS

More and more entrants into online office software could fragment market and MS will lose its monopoly

Developing products for established business level product markets is a risky strategy (e. g. SAP)

Anti-trust issues will slow acquisition processes, hence hinder diversification strategy

Strong resistance to brand from some communities

Appendix 2

## **Competitor Analysis – Porters 5 forces**

### **Existing Competition:**

Google

Linux

Apple

Yahoo

Red Hat

Oracle

IBM

SAP

### **Threat of new entrants:**

With the introduction of Cloud computing there are increased chances of competition increasing and new smaller entities entering the market.

Many companies coming up with their own operating system also planning to distribute them free of cost.

### **Threat of substitute products or services:**

Customers can switch to similar products and services from other companies which are mostly free. Also once computing shifts from desktop computing to

web based computing due to cloud it would be easier for the buyers to change their preference as everything is going to be done online.

### **Bargaining power of buyers:**

In future with the introduction of cloud based application customer would have a wide choice of online softwares and web based applications.

Customer loyalty would generally be low

### **Bargaining power of suppliers:**

New technology developers worldwide

Recruitment and retaining of good programmers.

Appendix 3

## **The Parenting Matrix**

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