

Marketing strategies

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MARKETING STRATEGIES CONTENTS INTRODUCTION MICROSOFT TO BUY SHARES IN FACEBOOK — NEWS ARTICLES : Microsoft Corp., lagging behind Google Inc. in the online advertising market, is in talks to purchase a stake of as much as 5 percent in social-networking site Facebook Inc. The investment may be \$300 million to \$500 million, giving Facebook an overall value of \$10 billion, the newspaper reported on its website, citing unidentified people familiar with the matter. The talks are still preliminary, and Google has also expressed interest. For Facebook, the talks come about one year after a proposed deal with Yahoo collapsed. Facebook then was said to be seeking more than the \$1.65 billion Google paid for YouTube - and considerably more than the \$580 million News Corp. paid for MySpace in 2005. This move by Microsoft will help bring the software giant further into the realms of the internet. While already synonymous with operating systems and office productivity software, the company hasn't really taken off in areas that rival Google has exceeded in. Investing in Facebook will offer a jump-off platform to get new online software out to the public. There has already been cases of developers selling their applications after they've become popular on Facebook. News of the talks between Microsoft and Facebook came on the heels of reports of a high-level, confidential meeting at Google on Friday 21. 9. 2007 in which several executives and investors discussed Facebook. Participants were required to sign non-disclosure agreements, but Michael Arrington of the blog TechCrunch reported that three participants said Facebook was the central topic. He reported that a group of "industry luminaries" attended a cloak-and-dagger meeting at Google's headquarters to discuss how to deal with Facebook, whose 40-million-plus users aren't the

issue so much as its open development platform. Arrington said not one but THREE sources fed him the info. If there is a shred of proof to this leak, I can't help but believe Google has abandoned its attempt to grab a stake in Facebook and that this move is a declaration of all-out war against a company it perceives as a threat to its online advertising business said Joe Wilcox of Microsoft Watch . If there is any fact to the rumours, one thing is for sure - Microsoft and Facebook are keeping quiet on any negotiations that are taking place. Facebook has made no secret of the fact that it wants to go public and will likely allow its search box to return keyword-driven results to generate greater online advertising dollars, which would pose a serious threat to Google . One final thought or let just say an equation:

MICROSOFT+FACEBOOK= BIG TROUBLE FOR GOOGLE MICROSOFT HISTORY

" YOUR POTENTIAL OUR PASSION " Microsoft Corporation is an American multinational computer corporation with 79, 000 employees in 102 countries and global annual revenue of US \$51. 12 billion as of 2007. It was founded in Albuquerque, New Mexico, USA on 4th April 1975 by Bill Gates and Paul Allen. It develops, manufactures, licenses and supports a wide range of software products for computing devices. Its headquarters are in Redmond, Washington, USA. Although, best selling products are the Microsoft Windows operating system and the Microsoft Office suite of productivity software with which Bill Gates got in line with his vision " to get a workstation running our software onto every desk and eventually in every home". These products have prominent positions in the desktop computer market, with market share estimates as high as 90% or more as of 2003 for Microsoft Office and 2006 for Microsoft Windows. Microsoft was founded to develop and sell

BASIC interpreters for the Altair 8800. However, they rose to dominate the home computer operating system market with MS-DOS in the mid-1980s. On November 20, 1985, Microsoft released its first retail version of Microsoft Windows, originally a graphical extension for its MS-DOS operating system. In 1989, Microsoft introduced its most successful office product, Microsoft Office. In addition, the true glory came with Windows 95, since more than a million copies of Microsoft Windows 95 were sold in the first four days after its release. March 13, 1986 the company went public with an initial public offering (IPO) in the stock market. Starting initial offering price was \$21.00 and at the end of the first day of trading the price stopped at US \$28.00. Moreover, due to the ensuing rise of the stock price, it has made four billionaires and an estimated 12,000 millionaires from Microsoft employees. The greatest projects that followed were: Internet Explorer, MSN, Windows 98, Xbox, Windows Vista, other versions of Microsoft. On the other hand, throughout its history the company has been the target of criticism for various reasons, including monopolistic business practices - both the U. S. Justice Department and the European Commission, among others, brought Microsoft to court for antitrust violations and software bundling. Finally, future projects of Microsoft are best illustrated with next words: " We're focusing more on research than ever. We're building the technology that will enable computers to see, listen, speak, and learn so people can interact with them as naturally as they interact with other people. " – Bill Gates, Microsoft chairman and chief software architect.

PORTER'S FIVE FORCES A MODEL FOR INDUSTRY ANALYSIS: It is a framework for industry analysis and business strategy development. The concept is to derive 5 forces that

determine the competitive intensity and therefore attractiveness of a market. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally requires a company to re-assess the marketplace. Five forces include three forces from “horizontal” competition: threat of substitutes products, the threat of established rivals, and the threat of new entrants; and two forces from “vertical” competition: the bargaining power of suppliers, the bargaining power of customers. Industries are influenced by those 5 forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates. In our case, Facebook’s business manager has to use this model to know what can be the consequences of this alliance.

THE BUYER POWER: The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a monopsony — a market in which there are many suppliers and one buyer. In our case, we can speak about oligopoly, few corporations share the market and there are many customers. Microsoft has got a dominant position on the market of the computer technology, but on the internet technology, Microsoft is sharing the market with the giant Google. Microsoft has got a competitive advantage with its feedbacks, it has been successful. This table outlines some factors that determine buyer power and the application of those factors in Microsoft case. Buyers are powerful if: Microsoft case: Buyers are concentrated- few buyers with significant market share Microsoft has an important place on this market but is not the number one.

Buyers purchase

a significant proportion of output-distribution of purchases Microsoft is going to obtain 5% of the society at \$400 millions Buyers possess a credible backward integration threat-can threaten to buy producing firm or rival Microsoft has already demonstrated its abilities when he worked with Dream works (creation of DreamWorks interactive or its accord with Matsushita, MTV and Tivo in the multimedia technology³. In our case, Microsoft has a lot of threats that will allow it to create this alliance with Facebook. Microsoft is the most powerful industry in its sector and has already demonstrated its abilities in different alliances. Furthermore, Microsoft has a powerful financial statement what is an interesting element for Facebook. Microsoft is in negotiation with Facebook to buy 5% of its capital investing between \$300 millions and 500% millions . This investment could increase the value of the website at \$10 billion. Thanks to this investment the website will become an important actor on the virtual world, and it represents a powerful advertisement platform. This increase in value will permit to discourage the competitors. This alliance will help Microsoft because today, Microsoft has some problems integrating the new web 2. 0. The company has cumulated an important delay in the development of advertisement platform on line. Microsoft failed in the alliance with AOL, EBay, Myspace (investment in advertisement system) against Google and Yahoo. Face to Google, Microsoft takes this new opportunity to improve its situation and relies on Facebook to take some shares of the market . The participation of Microsoft will offer to Facebook some news possibilities to develop with a good partner staying independent. SUPPLIER POWER: A producing industry requires raw materials-labour, components, and other supplies. This requirement leads to buyer-

supplier relationships between the industry and the firms that provide it the raw materials used to create products². Supplier, if powerful, can exert an influence on the producing industry. The following tables outline some factors that determine supplier power. Suppliers are powerful if: Facebook case: Credible forward integration threat by suppliers Facebook has already worked with partners and with success. It received \$500, 000 from Peter Theil, co-founder of PayPal. It was also able to get \$13 million from Accel Partners, who are also investors in 15 other Web 2. 0 startups, and \$25 million from Greylock Partners, making their overall venture equal to approximately \$40 million . Suppliers concentrated It's not the case of Facebook. They did not concentrate with other suppliers. Customers powerful Customers of Facebook are really powerful, they can influence future of Facebook. Customers can influence each others against Facebook. Facebook has a lot of interest in working with Microsoft. Facebook needs partners to develop and because Facebook needs financial investment. Doing an alliance with Microsoft, Facebook will improve its technical skills and increase its finance. Actually, Facebook has more than 40 millions subscribers, it corresponds to an increase of 63% in comparison with the 24 million subscribers in May; and the website quickly won parts of the market against its main competitor Myspace, property of News Corp. The social website Facebook has known a spectacular success. It has more than one million new subscribers each month and its goals is to have 60 million at the end of the year. The main interest for social websites is to have advertisement revenues with appropriate ads for each customer. Facebook indicated that it will develop well-targeted ads, depending of the profile of

each member . SUBSTITUTE PRODUCTS : Another important factor is possible substitute products to social networking sites and their computer program add-ons. In this case, the most likely substitute would be telephones that allow text messages. In fact, a substitute can be anything that provides an alternative to the current product, even complementary products, as long as there is a possibility that the substitute can take away the current product's market share. The threat of substitutes is measured by the brand loyalty of customers, the relationship of customers to their supplier, the expenses of switching products for the customer, the comparison of prices, and general trends operating in the marketplace (http://www.themanager.org/Models/p5f.htm#Five_Forces). This means that the cell phones do count as possible substitute products. Currently, about 81% of Americans own a portable phone. This is an increase in 20% from the year 2002. There was a 57% increase in cell phone ownership in Russia and a 56% increase in Nigeria during this time as well (<http://www.pcworld.com/article/id,138146-c,researchreports/article.html>). And these cellular phones are more than just a voice communicator. New phones, like the Nokia E 90 released in South Africa can use all types of communication, not just the Internet, like instant messaging and video conferencing, not to mention their own social networking features (<http://www.gadget.co.za/pebble.asp?releid=852>). Brand loyalty is an important market of the social networking industry, or at least can play a role, because of the number of times the social networking sites and cell phone companies advertise their names. Customers, in this case users, use phones often, perhaps more than their social networking sites, again making cell phones viable substitutes. However, cell phones can be

expensive. The Nokia E 90 was released with a price tag of 800 Euro (<http://www.mobilegazette.com/nokia-e90-communicator-07x02x12.htm>). However, if it becomes fashionable to have a phone with all these communication features, it is likely that, due to market forces, the price would go down, so the trends of the market have power, as well. Of course, something this powerful affects the social networking industry. Indeed, the social networking industry has had to make strategic alliances with the cell phone industry. In April, MySpace made a deal with Cingular Wireless to have MySpace features preloaded on Cingular phones. At this same time, Facebook.com began allowing people using Cingular, Sprint, and Verizon phones to receive friend requests and even send short messages using their cellular devices. And this use of cellular phones is not just limited to these social networking sites. About a third of young adult Americans use their phones to post pictures to the Internet, and the trend of mobile social networking is expected to grow. A Gartner analyst named Tole Hart expects that in two years, a minimum of 5% of all wireless network text messages will relate to social networks (http://www.businessweek.com/technology/content/may2006/tc20060530_170086.htm?chan=technology_technology+index+page_more+of+today's+top+stories). The two industries are tremendously linked, and Facebook and Myspace have to adapt in order to keep up with the cell phone usage. They have had to open up their abilities to cellular phone companies or risk losing their market share to the cell phone companies' own social networks. New Entrants Power

Another of Porter's 5 Forces is the possibility of new entrants in the industry. However, there are many barriers to entry. These can be the companies

already in the industry having the minimum efficient scale, or the best economy of scale, so that new companies find it very hard to compete, companies already present in the industry keeping prices low to make it unappetizing to new entrants, government granted monopolies and regulated industries, patents that make certain knowledge accessible to only a few, and specialized, costly equipment necessary for the industry (Porter's 5 forces). These barriers are partly what encourage the strategic alliances currently found in the two industries involved in this possible merger, the computer applications industry and the social networking website industry. Right now, the entertainment and communications industries are merging, as evidenced by the strategic alliances being formed by phone companies, computer firms and entertainment companies (Porter's 5 forces). The companies know that they each do not have the ability to enter into the markets alone, and so they are working together to do so. However, even though it may be hard to enter the social networking industry singularly, some companies are doing exactly that. Yahoo is setting up its own social networking site called Mash (Yahoo takes on). Yahoo has experience in this industry, even though its last attempt, the site Yahoo 360 did not do well in 2005 (Yahoo Takes on). Google is also talking of building its own social networking platforms (Microsoft, Google). This may also be because Google is not succeeding in a bid to buy Facebook, like Microsoft is trying to do right now. The entry of companies into an industry is a big factor in the choices companies make. Industry Competition Competition comes most directly from companies already active in the industry. This is called rivalry (Porter's 5 Forces). Many factors influence the level of rivalry. A large number of firms

raises the rivalry involved in the industry since there are more firms to compete for market share. Slow market growth also raises rivalry for the same reason. High fixed costs increases rivalry as companies compete to sell the product to cover the fixed costs. It is similar for high storage costs or is perishable goods. Suppliers see high rivalry when it is easy to switch suppliers. Rivalry increases when there is little difference between the products, even though the rivalry is constrained by lack of brand identification. A factor that is playing a role in the current action between Facebook and Microsoft is that the industry is a strategic stake. Companies can possibly gain a lot or loose position depending on what they do. This, of course, leads to high competition. When there are exit barriers rivalry goes up. Companies have no choice but to compete. When each rival has different varieties, philosophies, and approaches, we see a high possibility of maverick firms that do things very differently than all the rest, and this makes rivalry volatile. Lastly, when an industry shakeout, where the industry has grown too fast so that it has too many suppliers compared to customers, occurs rivalry increases quickly (Porter's 5 forces). All of these factors increase or decrease rivalry depending on their presence. When they are not present and rivalry is low, the industry is considered "disciplined" (Porter's 5 forces). Basically, all the firms are searching for market share and more profits. Everything they do is in pursuit of these items. When they are in short supply and the company has no choice but to compete, rivalry goes up. The social networking industry shows the activity of many of these factors, and so it is no surprise that the industry is currently witnessing heavy rivalry. Just looking at the industry leaders reveals many of these factors. The

products are very similar but the approaches of the different companies can be vastly different. The different sites cater to different clients, like the musician heavy MySpace having music applications available while Facebook, with mostly college students, allows clients to add their own music applications but does not provide any (MySpace takes a page). The two sites also have a different look and use features differently. The new optional homepage layout of MySpace is very similar to that of Facebook, but apparently is more colorful. MySpace also uses message boards in its forums, while Facebook only uses this type of communication within its networks and groups (Myspace takes a page). The two sites are not exactly the same. However, recent changes with the MySpace site are making the two sites more similar than ever, according to the author of MySpace takes a page. For example, it is now possible on both sites to search through someone else's contacts. Also, both sites allow a user to "tag" a friend in photos so that a link pops up to that friend's profile. Also, MySpace, long notorious for heavy spam, now has a spam control feature (MySpace takes a page). Facebook, meanwhile has become a bit more like MySpace with the lowering of restrictions on membership. Previously, it was necessary to show school affiliation in order to be a member of Facebook. Now, anyone can join and have a profile (Facebook Strategy). But even through these similarities, it is possible to see that the two companies have very different approaches to this type of site. Though Facebook is no longer restricted to students it still has a studious feel. However, the industry is not composed entirely of Facebook and MySpace. Other rivals include the smaller sites Blogger, Classmates Online, YouTube, MSN Groups, AOL Hometown, Yahoo! Groups,

MSN Spaces, Six Apart, TypePad, Xanga. com, and LiveJournal (Top 10). Thus, the industry shows a variety of firms as well as a large quantity. It exhibits the factors of high rivalry. These sites are not only competing for users, but also for advancements in Application Program Interfaces. These APIs, allow the development of new applications that can communicate with existing programs (Open Up). Facebook is one of the pioneers of this type of development (Open Up). The problem with this type of programming is that it allows other companies to look at the networking site's codes, its blueprints. However, Facebook is not the only one to give this type of information to developers. MySpace. com, LinkedIn, Friendster, and Orkut, owned by Google, are all " expected to follow suit and open their code to third-party developers this year as well-promising to kick off a spurt of innovation in social networking" (Open Up). This type of information sharing has already aided the networking sight site Friendster. com, which saw a 17, 6% growth in the number of visitors to 18. 8 million in December 2006, its largest growth since launch. It brings more interest into the social networking company. Thus, the APIs are becoming an important part of the online social networking business. It is easy, then, to understand why other companies would like to enter the many facets of this highly lucrative and growing industry. And, indeed, there is a rush to buy up already existing companies. In October 2006, Google bought the popular YouTube site for \$6. 65 billion. July 2005, Rupert Murdoch's News Corp. bought MySpace for \$580 million (Face Off). Microsoft is attempting to buy a 5% interest in Facebook (Face Off). These already existing companies offer an easy way into the social networking industry. But the companies are not only buying the social

networking sites, they are buying other sites that use API and Rich Internet Application programming or developing their own programs. Adobe bought the company Buzzword, which allows documents to be created and modified online by multiple people (Adobe buys Buzzword). Microsoft has developed its own program to facilitate online document created called Office Live (Adobe Buys Buzzword). Google is building its own web-office productivity suit (Adobe buys Buzzword). Here we see, again, high rivalry. There are many companies involved in the production, they vary greatly in type, and they all have a strategic stake in this new market. However, there is yet another part to the competition between these companies, especially the ones with advertising departments. Social networking sites have a great capacity to expose people to advertising. After signing a deal to with Facebook to obtain exclusive banner ad providing rights before the membership was opened, the Microsoft expects \$200 million ad revenue through 2008. Google and Microsoft are fighting heavily in this arena. Google purchased the ad company DoubleClick while Microsoft bought the online ad company aQuantive (Face Off). Thus, the forces around Microsoft are all pushing it into action as the all the industries it is involved in are showing high rivalry and competition. Consequences After the news last week (PaidContent) that Google had signed up with Fox Interactive Media as search partner, Facebook has subsequently (and very quickly) chosen Microsoft's adCenter (Searchblog) in a superficially similar deal. The deals are of course not directly comparable: MySpace/Fox was about search, and included sites outside MySpace such as IGN. Facebook/Microsoft is about display, and necessarily limited to the Facebook site itself. Virtualeconomics.

typad. com Could Facebook become the next Microsoft? It's difficult to be against Facebook at this time. The platform strategy and now the move into Web Operating Systems are fairly lauded as being smart business moves, and of course the Facebook product itself is constantly improving. From a user's perspective, a centralized one-stop shop of applications has great appeal, particularly in a marketplace where choice can actually be overwhelming. Yet Facebook is a closed shop; there's no open source in Facebook and every app built for it will not work with other sites. Facebook could easily become the Microsoft Windows of tomorrow. Microsoft will tell you how better the world is for having their product, and little doubt that Facebook will spin a similar line; yet it's not unreasonable to question whether uniformity and centralized control ultimately delivers better outcomes for everyone. Of course Facebook is not at Microsoft's level yet, but we are better asking these questions today and tomorrow rather than 2-5 years time when by that stage it may well be too late. Techcrunch. com

Clauses contract risk Nothing has been said about the existence or otherwise of a clause similar to that obliging MySpace to meet " certain traffic and other commitments" (TechCrunch), which struck me as the most interesting aspect of Fox's Google deal. If this deal has been struck on the same sorts of terms, then the risk is all with Facebook as they set out to overcome the utter fickleness of their user-base in order to meet their traffic commitments. If there are no such conditions, then the risk is all with Microsoft and they could pretty quickly find themselves saddled with a three-year tenancy for an empty site as the faddish tide of social networking popularity moves against their latest friend. Conclusion The social networking industry and the

related computer programming industries are all in a process of flux. It is possible to take the two very different companies, Microsoft and Facebook, that are a part of this strategic alliance and analyze their behavior according to the market forces acting upon them. Their suppliers, customers, substitute products, potential entrants, and industry rivals all push the companies to make strategic alliances. Microsoft and Facebook are, in essence, behaving exactly as the market demands they behave. Sources: - [http://www. boston.com/business/globe/articles/2007/09/25/microsoft_reportedly_interested_in_s](http://www.boston.com/business/globe/articles/2007/09/25/microsoft_reportedly_interested_in_s) take_in_facebo - http://googlewatch.eweek.com/content/google_vs_microsoft/microsoft_facebook_trouble_for_google_1.html - [http://www. microsoft.com/about/brandcampaigns/innovation/yourpotential/main. html](http://www.microsoft.com/about/brandcampaigns/innovation/yourpotential/main.html) - <http://en.wikipedia.org/wiki/Microsoft> - <http://research.microsoft.com/aboutmsr/overview/default.aspx> - [http://en. wikipedia.org/wiki/porter_5_forces_analysis](http://en.wikipedia.org/wiki/porter_5_forces_analysis) - <http://quickmba.com/strategy/porter.shtml> - [www. microsoft.com](http://www.microsoft.com) - [http://www.trends.be/fr/economie/high-tech/12-1637-43743/facebook---la-derniere-chance-de-microsoft-pour-entrer-dans-l-ere-du-web-2-0. html#articleContainer*](http://www.trends.be/fr/economie/high-tech/12-1637-43743/facebook---la-derniere-chance-de-microsoft-pour-entrer-dans-l-ere-du-web-2-0.html#articleContainer*) - [http://www. lesechos.fr/info/comm/4627038. htm](http://www.lesechos.fr/info/comm/4627038.htm)