

# A study of the business model of american multinational giant microsoft

[Business](#), [Company](#)



Microsoft Corporation (MSFT) operates in the technology sector and Business Software and Service industry. The company was incorporated in the year 1993 and has become the world number one in licensing, designing and selling of software and hardware products and services, and offering online advertising services to customers. MSFT conducts its operation in five distinct strategic segments, namely Device and Consumer (D&C) Licensing, Commercial Licensing, Commercial Other, D&C Hardware and D&C software. The company specific primary products are computer programs' operating system, computer gadgets, servers, phones and other intelligent devices. Particularly, the server application provides a network of computing environment while the software application comprises of video games as well as online advertising. Additionally, the company also offers cloud based solutions, which provides customers with centralized data that contains software and services over the internet.

Being a public corporation, MSFT trades its shares on the New York's NASDAQ stock exchange and is globally active. The company has offices in over 70 countries. In an overview, MSFT initially made up operating system for their 8800 Altair System. Since then, MSFT has remained a key benchmark in the market. It started with MS-DOS in the 1980s and proceeded to Windows in the 1990s. The company strategies and technological expertise granted it a near total monopoly on the world's market. Over the years, MSFT has managed to design software application that has complimented, supported, and boosted its product range. For instance, Microsoft Office has become a successful clutch of desktop

publications, and recently, has the company launched integrated programs and services to MSN.

Although MSFT enjoys a partial monopoly, it suffers some stiff competition from companies such as Apple, Google, IBM, Oracle, and SAP. The competition has become more rigid since MSFT is a diversified corporation that provides products and services in several areas of the technological sector. For instance, Oracle and SAP represent direct competition to MSFT in software products as their products are of quality as that of MSFT. Due to the intense competition, MSFT has to evaluate and revise some of its strategies to boost its competitive advantages over its rivals.

Thus, the paper seeks to analyze the essential business-level strategies that suit MSFT and will guarantee long-term success, as well as the corporate-level strategies that will be appropriate for MSFT long-term success. In addition, the paper will evaluate the nature of competition in Business Software and Service industry by determining the main competitors and compare their strategies at each level. Lastly, it will assess and weight of MSFT and competitors' business level that is co-operate level strategies behaviors under slow-cycle and fast-cycle markets.

### **Business Level Strategies**

Business-level strategies refer to plans and approaches that a company can employ to improve various projects and functions in their business operation. Giant Corporations are bound by using more sophisticated business strategies than small firms as they have several departments with different economic functions. There are five distinct level strategies,, namely cost

leadership, differentiation, focused low cost, focused differentiation and the integration of both low costs differentiation strategies (Abraham, 2012).

Cost leadership strategy allows an organization to compete by tapping wide proportion of customers basing on prices. In settings prices, a company relies on internal efficiency to create margin that will sustain it above average returns and cost, which impacts on customers so that they can increase their purchasing power. This strategy is applicable and efficient when the product or service is standardized and when the goods are generic and acceptable to many customers; therefore, offering lower prices becomes feasible. In this respect, an organization will manage to attain a cost leadership status by continuing to keep its costs lower as compared to competitors' ones (Abraham, 2012). On the other hand, differentiation entails providing customers with the same product but with unique characteristics instead of lowering the prices. This strategy is applicable and efficient if products are of high quality, have extensive features, display high creativity, innovation, image management, comprise advanced technological features and the company provides good customer service (Hill, Schilling, & Jones, 2016).

Under focused low costs strategy, companies compete by selecting a target market where they could lower the cost of their products and services. In case of focused differentiation, a company selects a particular market segment to provide goods and services basing on differentiation (Abraham, 2012). Lastly, an integration of both low-cost and differentiation strategies allows companies penetrate the market with low prices and win the market

share through product differentiation. This helps a company to improve its flexibility in regard to environmental changes as well as boost their core competencies across business units and product lines (Hill, Schilling, & Jones, 2016).

From the analysis above, it is apparent that the most suitable business-level strategy is the cost leadership strategy. This approach will help MSFT to remain profitable over its rivals in the long term. MSFT can achieve this by establishing a brand of art with efficient facilities as this will make it costly for rivals such as Oracle and IBM to imitate (Hitt, Ireland, & Hoskisson, 2014). Another approach to attain the cost leadership strategy is to maintain strict control over production and overheads, minimize the cost of sales and service, and reduce the expenses incurred in research and development. Underpinning the strategy with Porter's 5 model, a cost leadership strategy will help MSFT to limit the intensity of competition from rivalries, hamper new entrants, win suppliers' power and buyers' power, as well as outshine the substitute products.

Particularly, a competitor will tend to avoid price wars since MSFT will continue to make profits by offering lower prices to the market since competitors cannot match the prices to earn a profit. MSFT will manage to offer lower prices since its cost of production is reduced. In regard to the aspects of buyers' power, MSFT will be able to maintain the customers who have a tendency of forcing firms to offer products and services at lower prices (Kale, 2014). As a result, the rivals will fail to provide goods and services to customers at preferred prices; therefore, they will be forced to

exit the market instead of earning below average profits leaving MSFT as a sole player in the market. In the long term, the buyers will lose their buying power making it easier for MSFT to dictate the prices in future. In relation to the suppliers, Microsoft as a cost leader will manage to absorb high prices from suppliers before it considers raising prices to its prices (Kale, 2014). In addition, MSFT tends to bar new entrants from entering into the Business Software and Service industry if it continues placing focus on reducing costs and improving efficiency. Lastly, MSFT adoption of low-cost leadership strategy allows selling of products and services at lower prices hence attracting customers to stay loyal to their products. In addition, the company can purchase patent to reduce the threats posed by substitute products provided by the competitor (Kale, 2014).

Evidently, Microsoft has attempted to employ low price strategy, it has been successful, efficient taking into account the company's initial objective to make the software products affordable to all the PCs users utilizing Microsoft products. Another MSFT's vision is to make its computing products affordable to the disable population, which entails a need to lower prices to its customers. The pilot attempt to lower prices proved feasible as it attracted many customers around the world within a short period. Consequently, the broad customer base granted Microsoft a future prospect, which ultimately allowed it to operate in economies of scale. Working in a large economy of scale allows the company to sustain lower prices while making reasonable profits (Hitt, Ireland, & Hoskisson, 2014).

### **Corporate Level Strategy**

Corporate-level strategies concern decisions, which a firm makes and adopts; the strategies affect the entire organization performance. The performances can be divided into finance, scale operation, resource allocation, as well as human resource management. However, there are three practicable types of corporate level strategy that a firm can adopt, which include value creating strategy/expansion strategy, value-neutral strategy/retention strategy, value-reducing strategy/retrenchment strategy (Hill, Schilling, & Jones, 2016).

Value-creating strategy involves concentration strategy and diversification strategy. This strategy is applicable if an organization has contemplated broadening of their scope of operations. The primary objective of the plan is to add perceived values to a firm products and services while taking advantage of the company's economies of scale. This strategy is congruent with low cost leadership approach under business-level strategy as it facilitates maximum exploitation capabilities and resources, which can be shared with other departments of the organization, hence reducing cost of production and improving efficiency (Hill, Schilling, & Jones, 2016). On the other hand, value-neutral strategy or stability strategy concerns the idea of a company allocating resources and setting projects with an aim of maintaining its current market position. In other words, the strategy aims to shore up some of operation plans. This implies that Microsoft needs to initiate a regulatory policy to oversee and develop an internal synergy between departments and minimize risks to create a steady cash flow. Lastly, the value reducing strategy is contemplated when the owners realize

that business is expanding too much and the benefits are uneven to the stakeholders. In this respect, retrenchment of resources will prevent the firm from possible and unnecessary expansion (Kale, 2014).

Therefore, Microsoft has to adopt the value-creating strategy since the Business Software and Service market is steady. Through diversification, Microsoft will attempt to enter new market with new products and services as they are likely to be profitable due to the stability nature of the market (Kale, 2014). Diversification is the primary idea behind the expansion strategy. Through diversification, Microsoft will sell more products to a wider market, which will result in high sales. In the long run, Microsoft will gain competitive advantage thus earning a new competitive edge by setting and controlling a group various kinds of business while striving to capture new strategic positions that will earn above average returns (Hitt, Ireland, & Hoskisson, 2014).

Evidently, diversification attempted by the company has reduced variability of the profitability as revenues are scooped from different businesses. In addition, to make a headway into non-PCs market, the company has expanded its product line into enterprise software, consumer goods and services. Value-creating strategy is the most suitable corporate strategy as it places Microsoft in large economies of scale thus allowing the implementation of low cost strategy. The reason for this is the fact that high revenues from numerous businesses provide enormous resources that reduce general costs of production.



### **Competition Analysis**

Using two aspects of Porter's five forces, which are the threat of rivalry and threat of substitutes, makes the Business Software and Service industry slightly competitive on division. As much as Microsoft is the leading software provider in the industry in terms of market share, the existing competitors, such as IBM, and new entrants, such as Apple, still pose some threats to Microsoft products and services. However, the threat of rivalry is less intense as Microsoft has managed to thrive to the onset of the competition, which was significantly higher. From an operating system standpoint, there are few competitors, such as Oracle, focusing on producing their operating system into the market (Hitt, Ireland, & Hoskisson, 2014). In this respect, Microsoft enjoys some partial monopoly as they do not require conducting a market survey to check on prices patterns and sales trends in the market. The monopoly nature of the market tends to make prices of operating systems static thus reducing the need for employing differentiation. However, the only differentiation carried out on the operating system is what the software can run.

In the gaming division, the competition is intense from companies such as Sony and Nintendo as they have active units focusing on producing video games. The threat from the side of Nintendo is imminent and continuous after their recent announcement about the unveiling of product that will succeed Wii at E3 in 2014 (Kale, 2014). On the other hand, Sony forthcoming console has leaked in the new, and this proves to be a real threat for Microsoft gaming products. Therefore, Microsoft can employ the costs leadership strategy due to its large economy of scale that will allow offering

their gaming product at lesser prices than that of competitors (Hitt, Ireland, & Hoskisson, 2014).

The competition posed by substitute products is relatively small despite the sophisticated advancement that Mac OS X has designed. The introduction of Mac OS X has failed to eclipse Microsoft operating system as the user will be forced to incur unbudgeted costs on purchase of an Apple gadget to accommodate Mac O

S X. Additionally, substitute products are relatively expensive compared to Microsoft products with similar power and features. The major threat is Linux, with its GUI functioning freely and stably in spite of its constant manual updating and complex interface that requires time to learn to attract many users (Kale, 2014).

Basing on the analysis, Microsoft will continue dominating the market in the long term due its competitive advantage earned from its economy of scale. As much as competitors such as Apple and IBM possess a threat in many MSFT divisions, the company can employ both cost leadership strategy and value-creating strategy to suppress its competitors. In addition, the strategies will allow Microsoft to penetrate new markets with new products and services (Abraham, 2012).

### **Microsoft's Behavior in a Slow Cycle and First-Cycle Market**

In a slow-cycle market, Microsoft's competitive advantage is shielded from imitation by the immediate rivalry. The shedding usually lasts longer, and this will be a long-term strategy for Microsoft. In other words, a company's

competitive advantage is sustainable in slow-cycle market (Abraham, 2012). IBM will not operate efficiently in slow market environment because in contrast to Microsoft, IBM cannot exploit its position in the market when the returns level out. In addition, Microsoft is aware of a possibility of a counterattack from competitors in an attempt to erode their competitive advantage. Due to this likelihood, both the low cost strategy and expansion strategy will be vital to sustain its competitive advantage over a long period.

In a fast-cycle market, Microsoft will still outperform its competitors despite the competitive inertia that is typical for a fast-cycle market. Competitive inertia occurs when a company concentrates on nurturing inappropriate competency and developing unnecessary projects (Kale, 2014). However, due to its set of resources, the high level of competency and technology, Microsoft can manage to neutralize the competitive inertia in a fast -cycle market. In contrast to a slow-cycle market, in a fast cycle market, Microsoft will be forced to launch counterattack measures before its strengths are depleted by the competitors' strategies. Practically, the pressure from Apple, IBM, and Oracle can depreciate and slack Microsoft resources in a fast-cycle environment despite its large economy of scale, high technology, and huge advertising budge (Hill, Schilling, & Jones, 2016)t.

## **Conclusion**

Microsoft Corporation has remained the world leading provider of software products due to its strategic operations. This has made it surpass its preliminary competitors such as IBM and suppress its recent competitors such Apple. The company has managed to earn a sustainable competitive

advantage by adopting and harmonizing between the most appropriate business-level strategies and corporate strategies. Through cost leadership strategy and value-creation strategy, Microsoft will be able to operate in both slow-cycle market and fast-cycle market. Its reaction and operation in these type of markets will be different but still manageable due to its high competitive advantage acquired from economy of scale.