

Microsoft

Business



The launch of Surface tablets challenge the existing hardware vendors as they face competition from Microsoft.

This harms the relationship between Microsoft and its vendors. Microsoft has to find way to solve the conflict of interest or choose other alternatives.

Since its introduction of Lumia smartened Alumina and Surface tablets, Microsoft faces the problem of low popularity in using its Windows ecosystems. Regarding this, there is a hot debate of whether to allow Windows ecosystem running in Android-powered devices.

In order to enter into devices market, Microsoft acquired Nokia.

However, there is integration problem within the two big companies. Both companies have their unique features, cultures, systems and histories, there is difficulty for two to merge. At the same time, Microsoft also has reorganization problem for internal structure. Trade-offs in different scenarios: Microsoft face the dilemma of giving up its devices expanding strategy in order to save the relationship with its partners and enter into the hardware business directly regardless of the relationship damaged.

If Microsoft choose to run its Windows ecosystem on its exclusive devices, it may face low popularity problem while the launch of Windows ecosystem in Android devices may risk its sales of Microsoft devices. Facing the restructure, Microsoft has to choose if it should lay-off its staff for the huge labor cost incurred after integration.

It also needs to consider the combination of two teams into Microsoft at the expense of the attractive Nokia brand name. Recommendations: Microsoft

should fully enter into the hardware business to combine its PC's, smartness and tablets businesses to form a “ devices and services” company.

It should open up its ecosystem on Android market with the partnership of an Android phone manufacturer to attack Google market share and gain customer base. Last but not least, it needs large-scale laid-off to release its capacity and combine both Nokia and Microsoft teams by arrange them into functional teams with their own strengths. Introduction Microsoft is an American multinational corporation headquartered in Washington, that develops, manufactures, licenses, supports and sells computer software, personal computers and services .

Its flagship products are Windows operating systems and the Office applications for personal computers and servers. It is the world's largest software company measured by revenues and it is also one of the world's most valuable companies. Rules of game. It has brought the new smart connected devices era. Facing the challenges from the new technology, traditional PC has reduced in its popularity, while the mobile and tablet devices are gaining their customers base.

The situation is putting Microsoft at a disadvantage position as most of its revenue come from license fee for its Windows platform.

The shrinkage of personal computers would mean the drop of its Windows usage and the peripheral Office applications. In order to overcome the challenges, Satya Nadella, the new CEO of Microsoft, has set up “ mobile first and cloud first” strategic plans for the company's long term development. It is important that Microsoft has to keep up with the new changes. 2

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Therefore, the CEO has announced to build its own mobile operating systems for smartphones and tablets, establish its ecosystem, and integrate Windows devices and services. The move of “mobile first and cloud first” brings three major issues to Microsoft: 1 .

Windows platform: The conflict of interest with vendor partners 2. Mobile ecosystem: The exclusive issue of platforms used 3. Windows integration problem In the following of the report, there will be analyses and recommendations based on the three issues mentioned above. Analysis of Issues 1 . Windows Platforms Microsoft launched its first generation Surface tablet in 2013 which marked the intention of Microsoft to end its platform-only approach in dealing with the shifted mobile devices paradigm. It lives up to its new positioning as a “devices and services” company from a software-centric company.

An integrated “devices and services” strategy could work if a company uses either proprietary or license-free software, which is open source software. Unlike its competitors like Apple and Google who adopt the latter one, Microsoft’s entire business model with the Windows SO is based on licensing software to OEMs. Continuing this model in the midst of this shift would mean Microsoft gives a new message to the market. 4 It is a clear message that Microsoft’s hardware forays with the Surface tablet become one of the hardware vendors’ major competitors.

It can be seen that the challenge of engineering the “devices and services” shift is relatively small compared to the challenge of maintaining original

equipment manufacturer (MEMO) relationships that are responsible for Microsoft's success.

Instead of working together with computer regarded as competition for market share and suppliers' resources by the traditional hardware vendors. At any moment, Microsoft, who is no longer a software maker but also a hardware maker, is able to launch a device that is better due to Microsoft's control of the software and the ecosystem.

The Memos can no longer share their plans to differentiate with Microsoft. As a result, Memos are difficult to compete and may be eliminated in the future. With such a situation, Microsoft is facing a challenge in solving the conflict with its ender partners. 2.

Mobile Ecosystem With the aim to enter mobile device platforms, Microsoft has to build its own ecosystem. However, Microsoft faces its strong opponent, Google, in the industry. Windows Phone OS's market share was 8% in October 2013, trailing far behind Google's 57%. 5 Microsoft's mobile device ecosystem is comparatively weak, especially with application developers. This due to the popularity of Windows in mobile devices. Before there is a large customer base for Windows mobile devices, developers prefer to write applications for iOS and Android rather than for Microsoft's Windows platform.

However, without the support of strong ecosystems of application developers, consumers would not choose Windows Phone operating system. Another reason for weak support among application developers is due to the past pattern of Microsoft being difficult to work with. 7 With negative

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experiences before, developers doubled the challenge of building a strong ecosystem to support Microsoft's mobile devices.

Microsoft has limited experience in working with the telecoms and mobile operators around the world. If Microsoft's " devices and services" strategy has to become successful, it has to figure out how to strengthen its ecosystem.

In order to increase the popularity, there is suggestion for Microsoft to consider running the Windows ecosystem on Android-powered devices instead of just focusing on running the Windows ecosystem on its exclusive devices. Therefore, Microsoft has to decide on the exclusive issue of its Windows ecosystem. 3. Monika Integration devices engineering team.

With its weakness at hardware development, the only way to strengthen its device capability is through merger and acquisition. Therefore, it acquired Monika and planned to transfer the staffs in the mobile company to form the core of the devices division.

However, the merger with Monika does not guarantee a success. According to McKinney & Co. , 70% of M&A results in failure. 8 There are several factors that are the risk for the integration. Firstly, the two companies involved are extremely large. There are 32, 000 staff at Monika and 100, 000 employees at Microsoft.

9 It is particularly hard to manage the large teams for integration.

Secondly, the two giant organizations have their own unique backgrounds, operating systems, cultures and histories. Both Microsoft and Monika would
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need time to understand each other's culture without reading negative sentiments among the Monika team by implying their culture as the inferior one. Thirdly, it is very easy that morale at Monika team is badly affected. Monika staff may worry about losing their jobs while most skilled employees may choose to leave the company. This particularly hurt Microsoft as it plans to make use of the talents at Monika to fulfill their highest values in filling Microsoft's skill gaps.

Facing the problems brought by the integration, Microsoft may need to call for a reorganization plan to develop a right structure for Microsoft. Analysis of Options 1 . Windows Platform – Relationship with vendors Acre CEO JET Wang pointed out that Microsoft is competing with its partners and other brands may take negative reactions. Acre's global PC operation chief Campbell Kane added Acre was debating whether to “ find other alternatives” to Windows. HP also describes Microsoft as “ outright competitors” and “ difficult to partner with”.

When Microsoft starts making devices, Memos obviously do not have confidence of getting fair treatment when Microsoft sources the SO.

This could be a huge risk for Microsoft as it has damaged its relationship with its key partners to a point that Memos may switch to another established operating system available in order to survive in the market. There is a viable alternative, Linux which is a free operating PC sold, abandoning Microsoft Windows. In fact, the vendors are not just limited to the traditional Linux system. Google's Chrome SO are also another option for them.

Google is even showing signs of releasing a version of Android that would work as a desktop operating system. Given the poor relationships with its hardware vendors, there are two options for Microsoft.

A. Give up the devices division b. Fully enter the hardware business For (a), Microsoft can retain the partner relationships with its hardware vendors. It can enjoy a broad outlet sources for its software and continue to earn huge licensing revenues. However, Microsoft has put huge investment in hardware developments, including launching Surface tablets and acquiring Nokia for smartness.

Turning down the devices division would be a great cost for Microsoft and severely affect its development strategies. For (b), Microsoft can fully control its products. It can make sure the quality and unify the standard of all Microsoft hardware. However, this would totally turn its OEMs into mediators and give up their partner relationships. 2.

Mobile Ecosystem - Exclusive Issue Due to the low popularity of Microsoft Windows ecosystem, it comes to the question if Microsoft should (a) enable its ecosystem in Android-powered devices or (b) exclusively for its own devices.

For (a), the existing Android device manufacturers can leverage and get scale with their investments, as they can simply install Windows directly in their Android devices without building a separate models that costs more. The elimination of the entry barriers and high profitability would attract more manufacturers to use Windows ecosystem. It enables Microsoft Windows

ecosystem to reach the larger population at Android market, such that it can penetrate into the market quicker and accumulate its customer base.

However, it may lose its uniqueness in its own devices. Monika Alumina and Surface tablets may not have comparative advantages as their competing products can also install Windows ecosystem.

For (b), Microsoft can put its products at an advantage position as only Monika Alumina and Surface tablets are the only devices that can adopt Microsoft Windows ecosystem. However, this may hinder it to reach more consumers as the current Windows devices are not attractive enough to target customers by their own. 3. Monika Integration Problem integration. A) Whether or not to cut the employee number due to the excessive size of the combination of two teams (b) Whether or not to separate two divisions under the name of Microsoft and Monika respectively For (a), Microsoft can cut lay-off some of the employees. This can retain the most productive staff and simplify the company structure.

However, this will severely affect the morale of the team. It can also keep the existing employees. This can show the team spirit of Microsoft and willingness to reform together with staff. However, this requires higher costs for Microsoft as the labor cost would be a huge burden.

For (b), Microsoft can separate Microsoft and Monika into two divisions under their own names.

In this way, Microsoft can enjoy a larger customer base as it helps to attract both Microsoft and Monika users with their brands. However, the

collaboration between the two teams will be greatly reduced. On the other hand, Microsoft can reorganize the structure by combine both teams into a single structure by forming different functional department. Though Microsoft may lose some existing clients uh to losing Monika brand name, it can optimize the collaboration within the team to perform the best.

Recommendations and Plans 1 . Windows Platform It is advised to fully enter into hardware business.

Reasons: The relationship between Microsoft and its vendors are damaged. Even Microsoft postpone its devices strategy, Memos would worry Microsoft to launch its products one day. Without the trust, Memos would shift away from Microsoft Windows before it matures in devices market. Microsoft should not give up its “ devices and services” strategy for remedying the relationship as mobile devices are the future trend of technology.

Given the slowing growth in PC market, PC vendors, such as Dell and HP are struggling in their PC business.

It is a good chance for Microsoft to acquire PC business for its Windows platform given its control on Windows. Plans: Acquire one of the PC companies to fully enter into hardware market to secure its dominant position in operating system. Dell would be a good target as it has shown to sell its PC business and it is one of the long-term partner with Microsoft. Combine PC with its existing handsets and tablets to form a devices and services company.

Maintain close relationship with Intel, the microprocessors manufacturers to secure .

Mobile Ecosystem It is advised to run Microsoft ecosystems in Android-powered devices as well. Microsoft is comparatively too weak for Android at this stage. For Microsoft, this is a way to get Memos who would otherwise only make Android devices to include Windows Phone on stellar hardware at very little additional cost. By cooperating with manufactures who can enjoy larger customer base with a single device appealing to two types of consumers, Microsoft can hack its way into deeper market penetration, achieving win-win strategy.

Allow Microsoft ecosystems running in Android-powered devices with testing points t emerging market, such as India Launch the campaign in US and Europe if the plan is successful in absorbing consumers in India Corporate with an Android-powered device manufacturer, such as ETC. Since ETC cannot compete with Samsung to build a flagship phone with more outstanding features, cooperating with Microsoft allows it to have unique Windows platform feature over other Android phones.

Launch dual- SO devices which can switch Windows and Android operating system within one device. This can help Microsoft to attract into Google's smartened ecosystem easily. It is advised to lay-off some employees and combine both Microsoft into a single organization. Reasons: The employee number of 130, 000 is too large for Microsoft. It is better to cut some of the employees to reduce labor cost.

It is also easy for reorganization. The combination of two teams into one can effectively foster greater collaboration.

Announce a restructuring plan to simplify its organization and align the recently acquired Monika Devices and Services business with the company's overall strategy. Eliminate of up to 18, 000 positions over the next year. Of the total, about 12, 500 repressions and factory positions will be eliminated through synergies and strategic alignment of the Monika Devices and Services business acquired by Microsoft. Expect to incur pre-tax charges of \$1 billion over the next four quarters, including \$750 million for severance and related benefit costs, and \$350 million for asset-related charges.

Carry out “ One Microsoft” restructure which organize the company by functions, joining as teams of engineering, business development, strategy and research, marketing, finance, human resources and operations.

Setting four engineering teams as operating systems, applications, the cloud, and devices with employees from Monika focusing on devices teams. Respect both cultures of Monika and Microsoft and foster employees relationships through organizing internal social activities.

When facing the challenges from smart devices, Microsoft should react promptly to maintain its position as a technology company. Facing the platform problems, it should fully enter into hardware business to compete with the vendors of devices. It can choose achieve this through acquisition of Dell to obtain its PC business and further combine PC's, smartness and tablets to form “ devices and services” company.

Facing the ecosystem problem, it should open up its Windows ecosystem in Android-powered devices and launch dual-SO products to obtain larger customer base and penetrate into device market.

Facing the Monika integration and reorganization problem, Microsoft should simplify its giant structure by employee laid-off and carry out the “ One Microsoft” restructure to integrate Monika team into its functional teams. It is anticipated that Microsoft can successfully shift from a software company to “ devices and services” company and catch up with its competitors, Google in mobile device market in the very near future.