

# Swot analysis of microsoft corporation



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This chapter presents a SWOT analysis of Microsoft Corporation. It highlights how Microsoft remains in an extremely strong position within the global software industry, increasing its revenues and diversifying to remain competitive within emerging markets. However, it also points to the rapid rate of technological development within the software arena and the significant threat that this poses for Microsoft, who will be continually forced to meet the needs of a more divergent consumer group.

Overview:

## **Strengths**

### **Weakness**

Strong revenue growth

Strong cash position

Broad offerings

Strong position in desktop application market

Strong R&D capabilities

Dynamic business

Lack of near term catalyst

Decrease in Brand value

Overdependence in US market

## **Opportunities**

### **Threats**

Launch of cloud computing services

Emerging business units

Expansions into new markets

Software plus services

Software piracy

Open source software

Intense competition

### **Strengths**

Strong revenue growth

Microsoft had strong revenue growth in fiscal 2007 from both emerging and developed markets. In Russia and Vietnam the company's revenue grew more than 70% in the 2007. Other emerging markets that saw impressive growth included India, China, and Brazil, which all delivered revenue growth of 40% year-on-year.

Microsoft also reported strong growth in many developed countries, with Ireland, the Netherlands, Spain, and Australia each exceeding revenue growth of 25%. In all, the revenues increased by 25% or more in 46 countries in the fiscal 2007.

Strong cash position

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Microsoft has a strong balance sheet with \$24bn in cash and short term investments in fiscal 2008. In addition to that, Microsoft generated very strong cash flow of \$10bn in 2008. It had positive quarters for at least the last six years and has generated about \$4bn per quarter in free cash flows on average. This cash reserve and cash generating capacity helps it to pursue strategic initiatives.

#### Broad offering

Microsoft's product portfolio is highly diversified, with product offerings targeting consumer software, consumer entertainment and enterprise software markets. It offers a wide range of products and services to a diverse set of end market and develops, manufactures, licenses, and supports a range of software products for many computing devices.

In addition, Microsoft provides consulting and product support services, and trains and certifies system integrators and developers. The company also sells the Xbox video game console and games, PC games, and PC peripherals as well.

#### Desktop application market

Microsoft has a much stronger hold on the desktop application market. Besides the Windows OS, Microsoft produces the Office suite of productivity software, software for computer servers and the Web browser Internet Explorer. Another important Microsoft product is its line of Xbox consoles and games.

#### Strong R&D capabilities

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Microsoft has strong R&D capabilities and maintains a strong focus on R&D for introducing innovative products. It invested about \$7.12bn in R&D in the fiscal 2007, an increase of 8.2% over the previous year, and R&D expenses accounted for 14% of revenues in fiscal 2007. Microsoft's main R&D facilities are located in Redmond, Washington. In addition, it operates research facilities in China, Canada, Denmark, England, India, Ireland, and Israel. This global approach helps it to remain competitive in local markets.

#### Microsoft Dynamics business

Dynamics is a strong performing and growing business for Microsoft. In fiscal 2007, it surpassed the \$1bn mark and its revenues reached \$1,894m in fiscal 2008. Its revenues from this business also continue grow at more than 20.0% over the last three-years (2006-08) and its customer billings have been growing more than 15.0% during the same period. It has developed an ecosystem of 10,000 business partners. It has a customer base of about 300,000 worldwide, which is very high when compared to, for example, Infor's customer base of 70,000.

#### Weaknesses

##### Lack of near term catalyst

Microsoft lacks any major product launch in the near term. Starting with Xbox 360, followed by Vista, Office 2007 and Server 2008, Microsoft has already launched the latest versions of its major platforms and products. It experienced growth in its stock price in 2007 partly because of these launches but there are no major product launches in 2008 and beyond.

### Decrease in brand value

Microsoft's declining brand value could impact the demand for the company's products. According to Millward Brown Optimor (the brand finance and ROI arm of market research and consultancy company Millward Brown), Microsoft's brand value (present value of future earnings expected from the brand) has decreased 11% year-on-year to \$54,951m in 2007. By contrast Google's brand value increased 77% year-on-year, which reached \$66,434m in 2007.

### Overdependence on the US

Microsoft has concentrated its operations in the US. revenues from which contributed to around 61% of the total revenues in fiscal 2007. By contrast, Sun Microsystems has a more diversified revenue structure with the US (accounting for 40.7% of the total revenues), Europe, Middle East and Africa (EMEA: 36%), Asia Pacific (17.1%), and Canada and Latin America (6.2%).

### Opportunities

#### Launch of cloud computing services

Microsoft is gradually shifting to cloud computing to provide software and applications on-demand over the internet wherein the user will be paying on a per-use or monthly subscription basis rather than paying for licenses. In this regard, it has recently launched a beta version of Microsoft Online Services and new services are scheduled to be available to businesses by the end of 2008.

With the launch of cloud computing services, Microsoft joins Amazon, Google, Omniture, Salesforce. com and Yahoo!, all of which are building infrastructure and applications to be delivered as SaaS. Although in the short term Microsoft will have to build huge data centers to provide services on-demand over the internet, in the long term it will be benefited from the shifting industry trend towards online computing. In addition, it will also have cost advantage as it is easier for Microsoft to add product features in its cloud computing offering whereas Google or other companies will have to develop those features from scratch.

#### Emerging business units

Microsoft's two business units Online Services Business (OSB) and Entertainment and Devices Division (EDD) are emerging segments with significant growth potential. Online search based advertising represents an attractive market opportunity and is expected to increase at a CAGR of 18% from 2006 to about \$37bn by 2011 – which underlines Microsoft's 2008 bid for Yahoo. Microsoft has significantly increased its focus on building its OSB, which includes online offerings like e-mail, instant messaging, Map Point, and other MSN portals. Its acquisition of aQuantive aims to help the company become one of the top two online advertising platforms in the industry.

Microsoft's EDD segment comprises the Xbox console and gaming software as well as the mobile and embedded devices. The video game hardware and software market is expected to grow at a CAGR of 10% from 2006 to \$44.5bn by 2011. Moreover, as the PC and server markets saturate, EDD business will be a key growth area.

## Expansion into new markets

Microsoft has announced number of acquisitions in 2007 to enable it to expand into new markets. A Quantive was the largest acquisition in the company's history, and it positions the company to offer an industry leading advertising platform. Other acquisitions included Tellme Networks, which is a leading provider of voice services and technology, ScreenTonic, a pioneer in mobile advertising, and Medstory, which develops Web search technology specifically for health information.

## Software plus services

Microsoft's software-plus-services approach aims to strengthen its services platform, and equip the company to deliver a broad range of new products and service offerings. Software plus services provides a means to combine the power of desktop and server software with the internet. Software available on the internet can be downloaded quickly and accessed through the web browser with the help of desktop and server software. In the fiscal year ended June 2007, Microsoft introduced Windows Live Spaces and Windows Live for Mobile, and beta of Windows Live Search, Windows Live.com, Windows Live Local Search and Office Live. The company also launched new developer tools such as Silverlight, Popfly and the Microsoft .NET 3.0 Framework.

## Threats

### Software piracy



Software piracy is a major threat and Microsoft has adopted a multipronged strategy to stop it. It is selling cheaper versions of its products in certain Asian countries where software piracy is widespread and working closely with law enforcement to stop those who manufacture or sell illegal copies of its products. In an effort to fight software piracy, Microsoft put a piracy lock on two of its download Web sites in 2005, which required all Windows XP and Windows 2000 users to validate their copy of Windows before downloading software.

#### Open source software

Continued adoption of open softwares will increase pressure on Microsoft's traditional licensing based software model and disrupt its core revenue growth. Open source software such as Linux software has seen significant growth within the enterprise market and many governments have supported the greater use of open-source software in government institutions to reduce software licensing costs.

Several companies produce open source software by using an open source business model through modifying and then distributing open source software to end users at a nominal cost. These companies earn revenue on complementary services and products, without having to bear the full costs of R&D for the open source software and as such this software model poses a significant challenge to Microsoft's business model.

#### Intense competition

Microsoft continues to face intense competition across all markets for its products and services. Its competitors range in size from Fortune 100 companies to small, specialized single-product businesses and open source community-based projects and the emergence of both the internet as a distribution channel and non-commercial software models has further reduced barriers to entry. In the enterprise software segment, Oracle and IBM are key competitors and have been engaging heavily in acquisition activity to increase scale and broaden the scope of their product portfolios.