Running head microsoft diversification strategies

Abstract

The purpose of this essay is to examine Microsofts diversification strategies based on thorough competitive analysis. With the use of strategic tools and the application of those tools in the competitive context, it was discovered that Microsoft has strategically protected itself from its competitors in various markets. However, there are still areas which Microsoft could invest into if they intend to regain their super-competitiveness which was lost a while back.

INTRODUCTION

In 1975, a visionary drop-out from Harvard University set out with a brilliant plan to see a PC on every desktop. Today, his company, Microsoft, is a domineering leader in multiple industries. It has amassed an impressive portfolio of global operations, alliances, resources, customers and critics. One of the newest entries and the one with potentials for profitability is the acquisition of Skype. Furthermore, Microsoft entry into the video game industry and their presence in the business solutions world are also commendable factors. Through analyzing Microsoft's competitive environment and their positioning in the software enterprise industry with relevant strategic tools, this paper will synthesize recommendations for Microsoft's continued operations in their diverse portfolios.

MICROSOFT'S DIVERSIFICATION STRATEGY

Microsoft's conceptualization of its business scope has changed radically over time and their goals have dramatically evolved from being a software supplier to a company that has attempted to epitomize the new developments in seamless technology, including information services,

entertainment, networking software and more. Their diversification has extended in many areas whilst trying to mitigate the market saturation as well as market dominance. Some of which includes:

Microsoft's primary product lines include:

– PC Games – Internet technologies

– Xbox Games – Xbox Hardware

– Hardware – Home Productivity

– Development tools – Reference Software

– Business software – Macintosh Products

– Operating Systems & Servers – Telecommunication

Microsoft has captured various segments of the IT industry and is gradually diversifying their portfolio into unrelated areas such as finance and investments. This initiative is a far-cry from Microsoft's initial vision. The move into multiple portfolios provides the incentive for Microsoft to afford to cross-subsidise one business from the surpluses earned from another, in a way that their competitors may not be able to. In other words, it ensures a competitive advantage for the subsidised business, and the long-run effect may be to drive their competitors out of business, leaving Microsoft with a monopoly from which good and services can then be earned.

Microsoft's diversification into video games and game consoles, with launch of Xbox 360, has proved extraordinary and also particularly interesting. The

rationale behind their market entry into the video games industry comes with good reason. It was designed primarily to keep their potential competitor, Sony, in check. Although, Sony operated in a different industry, Microsoft recognized that they could emerge as its rival. The SonyPlayStation was in essence nothing more than a specialized game console and even worse, not having Microsoft Operating System. However, SonyPlayStation II was introduced with web browsing potentials and Microsoft thus worried that SonyPlayStation II could gain control of consumers' computing habits and web browsing, ultimately, taking their customers away from PCs with Microsoft Operating Systems.

Just recently, Microsoft closed a deal with Skype to buy the internet call provider. This progressive move by Microsoft to become a major player in the convergence of communication, information and entertainment is strategically advantageous. Microsoft could utilize the brand name to build a bigger consumer business and integrate the internet call services into the Xbox live gaming service. Even though Microsoft has similar softwares (Windows Live Messenger & Linc) as Skype with a greater user base; the key difference is that most of Skype users pay for the service. Skype enables telephone connectivity for both inbound and outbound calls while its online service is free to all users; these phone services cost a lot of money. Skype is also strategically positioned around the world, making it easily for customers to buy phone numbers in foreign market at cheap rates to easily establish international tele-presence.

The telephone infrastructure of Skype will be an additional value to the Messenger/Linc platform and also for the Microsoft Exchange 2010, which

has voicemail integration. Integrating Skype's telephone services to Messenger/Linc and Exchange is a logical way to extend those products across the market.

A difficult, albeit, soon to be rewarding move, was the newly introduced Microsoft Surface. It is a multi-touch surface computer, quite similar, but better than the Apple's Ipad series. It was designed to unlock the power of people that have been intimidated with computing products. It is very easy to use and social. In the near future, it is believed to compete with any multi-touch device available in the market. Though, it has not been commercialized yet, the functionality is very impressive and has taken an unconventional turn of computer technology.

MICROSOFT'S MOTIVE FOR DIVERSIFICATION

Microsoft has strategically moved from being less dependent on PCs, as the industry, or anything related to it mature and eventually decline. This reflects the evolution of their mission statement, its perseverance to research in new areas of computing technology and its diversification into various industries and products. Microsoft intends to position its software, services and operating system as a de facto standard for accessing information, communication, entertainment and business transactions (Microsoft

Company Capsule, 2003, para. 4). Microsoft believes that by extending its market power through diversification, it will achieve higher revenues, as PC has become less popular.

Microsoft believes that diversification is a logical progression from where they came. This diversification into various products and services has made Microsoft more attractive to investors and as long as Microsoft continues to utilize its capabilities and resources in new areas, and manage them efficiently, diversification will continue to be a winning instrument for them. Bill Gates recently addressed the issue of diversification:

. We. re sitting at a pretty interesting juncture. Handwriting recognition, speech

recognition, B2B, easy inter-operability, decent development tools: All of these things

we. ve dreamed about for the last 20 years. But it. s only now that the right level of power

in the systems and the right kind of R&D to take on these tough problems is really in

place.. (Chan, 2002, para. 13)

COMPETITIVE ANALYSIS & POSITIONING

Microsoft practises long term positioning strategy of differentiation and lays emphasis on branding, quality service, software design and innovation, as supposed to low cost strategy which gives emphasis on the reduction of input cost and economies of scale. Organization that pursues differentiation strategy, such as Microsoft tend to have high skilled employee, access to research, a strong sales staffs and a reputation of excellence. Therefore, in order for Microsoft to compete on differentiation and price to customers,

they must insure that it creates and preserves the uniqueness in the industry, in terms of tangible and intangible product characteristics. In addition, must exploit their commitment to innovation.

INDUSTRY ENVIRONMENT

Not only must an organization fully understand their objectives, goals, capabilities, resources and advantage, but they must be able to understand where exactly to function within the industry. The nature of business is vicious competition, and it is this context in which an industry analysis will be executed. Since, Microsoft competes in multiple industries, due to their diverse products; the focus of this competitive analysis will be based on the Enterprise Software Industry. This analysis will begin with a brief description of the Enterprise Software Industry, followed by a breakdown of the macro-level influences on this industry.

Enterprise Software is software used mostly by organizations such as government or business, contrary to retail software. It is very attractive to companies such as Microsoft; because the income generated through enterprise software is twice the amount of consumer software. It is an expensive investment, therefore big business for the providers. Ever since Microsoft entered enterprise software industry in 1993, with the introduction of Windows NT, they have grown stupendously. Much of Microsoft's enterprise software solutions is based on their . NET infrastructure, which is designed to facilitate an easier connection of different systems and improve integration with external web services such as marketing automation services, credit checking and analytics.

PORTER'S FIVE FORCES FRAMEWORK

With Porter's high level five forces framework, we can identify the key attributes of the industry and the attractiveness of the industry. The Porter's five forces include: (i) Industry Rivalry, (ii) Threat of new entrants, (iii) Threats of substitute products, (iv) Bargaining power of suppliers, (v) Bargaining power of buyers.

Industry Rivalry – HIGH: there is considerably high amount of rivalry in the enterprise software industry. The intensity of rivalry within the enterprise software industry is affected by various factors.

– diversity of competitors

– product differentiation

– concentration of competitors

– price differentiation

First, the level of concentration of competitors within the industry is extremely high. Many multinational vendors and small localized companies compete in the enterprise software industry. Industry pioneers like Oracle, SAP, Baan, PeopleSoft which together comprise of nearly 60 percent of the market (Madden, 1998).

Secondly, there is a huge diverse range of companies within the enterprise software industry, many of which have specific skill sets that concentrate on particular segments of the industry while few have very general skill that apply across the board. Since the edge of the industry is ambiguous, several

of the larger organizations not only produce, consult on software and hardware but also manufacture operating systems and development platforms.

Third, there is a considerable amount of product differentiation within the industry. There are myriads of ways an enterprise software application can be tied together and run on various platforms. The products are differentiated by being focused on the level customizability, different size enterprise, and varying development and development times. Finally, equally with price differentiation, the variation in price exists within the industry. The boundaries of the blurred and organization will tend to alter their price schemes depending on the number of licenses purchased. Price will be weighed on the size of client, types of software required, the client's existing systems, the amount of consulting required, the amount of training and technical support required.

Threats of new entrants – LOW: Given that the capital requirement to enter the industry is very large such as financial resources, marketing and so forth, the threat of new entrant is relatively low. The cost of design and development of enterprise software is very expensive due to the amount of time invested in its creation and also the limited availability of people who have the required proprietary knowledge. Moreover, organizations within the industry have achieved economies of scale, thereby, minimizing the potential profits that new entrants will receive. Organizations within the industry, in common, have achieved absolute cost advantage because of the time they have spent in the industry.

In addition, organizations within the industry have variation in products supported with strong brand names and tend to invoke strong customer loyalty. The issue of system compatibility plays a vital role in customer loyalty because of the cost of switching to a different vendor. Intellectual properties and proprietary knowledge are highly important components in the industry which will ultimately inhibit new entrants. If a new company were to attempt to enter the industry, existing companies will react very quickly by creating compatibility issues, essentially making it difficult for the new company to operate. In cases where the new company comes with a brilliant piece of software or skilled employees, it is likely that one of the existing companies would buy the company in order to acquire the technology or employees for themselves.

Threats of new substitute – LOW: there are very few substitute products that can compete with enterprise software. The old way of maintain and transferring information from separate database has evolved. The modern way is enterprise software, which connects all of the business information into a single platform. A business could progressively continue to build disparate system but can not achieve what an enterprise software solution can provide. Thus, enterprise software is flexible, scalable and expensive, causing the near absence of new substitute in the industry which in turn is a good sign to existing companies.

Bargaining Power of Suppliers – LOW: In the enterprise software industry, the bargaining power if supplier is relatively minimal. The reason is that there are few suppliers with whom the companies can consult. The fact that enterprise software applications are intangible product and intellectual

property reduces the number of suppliers required. The types of supplier an enterprise software organization will like to do business with are those who physically records the media. The cost of transferring the software to media is nominal, the media manufacturers and producers have little effect on the industry as a whole.

Bargaining Power of Buyers – LOW: For several reasons, the bargaining power of buyers is fairly minimal. First, the concentration of buyers is growing rapidly; on the other hand, they are very diverse and non-unified groups, because of their preference. Second, businesses have recognized that enterprise software is essential for their business. Thus, they will be ready to pay at going rate. Finally, due to the incremental cost of switching providers and the high cost of the related infrastructure of these systems, buyers will be refuse to rethink.

SWOT ANALYSIS

The SWOT analysis will be based on a general overview of largest software conglomerate. This analysis will examine new threat and potential opportunities.

Strengths: Microsoft is recognized by their brand name, they have built a reputation on their successful development of software and hardware. They are diversified into various portfolios which have subsides that can sustain them through several research and innovative programs. They have multiple operational bases in about 60 countries. Windows operating systems have a huge market share in most continents and expanding rapidly.

Weaknesses: Microsoft has several compatibility issues and is fairly dependent on hardware manufacturers to pre-install their software applications. They lack significant presence in the internet wireless industry which is particular crucial for their operations. Their customer services are not as effective as their competitors and this could erode the quality and integrity perceived by customers on their products.

Opportunities: Microsoft recently moved to the Chinese market by producing software applications in Cantonese and giving discretional authority the Chinese government, the entrant into a bigger and new market will be highly beneficial to them. Smartphone and its application shows optimistic potentials for the future, especially now that technology is going mobile, this will be a good time for Microsoft to consider the mobile phone market as a new advancement and invest heavily.

Threats: The success of Microsoft in the development of new software has spawned other competitors to follow in the same footsteps. Due to their diverse product lines, Microsoft will have to compete with any new development from other expert companies in their respective fields. Linux operating system poses as a threat to Windows operating system because it is open source and very flexible. The issue of piracy is another perennial problem for Windows OS; their software applications are easy to unlock giving competitors like Apple an edge over them in the market. Apple, Blackberry, HTC and Google have introduced advanced mobile phones which are gradually substituting for PCs.

DISCUSSION

Since Microsoft competes in a technology demanding industry, they will continue to explore their options to how competitive advantage and differentiation can be achieved in a complex competitive environment. Therefore, an organization such as Microsoft can achieve a large portion of the market share by not inventing much but rather perfecting and commercializing technology effectively. Microsoft could adopt a followership strategy where they follow the changes in the market and improvise where accordingly. Many companies within the software industry have limited resources and thus, struggling to make profit. Microsoft has its brand which can be utilized to commercialize its innovation. Microsoft has successfully managed to make returns through licenses and patents as well as establishing industry standards.

Technology requires the cooperation among related or unrelated companies, because technology changes swiftly, Microsoft has succeeded in collaborating and making strategic alliances with various companies within their diversified industries. This makes it easier when they decide to introduce new products into the market. Microsoft has used compatibility issues and licensing as a major tool to shut down others from making claims of the market share. Through signalling, Microsoft has been able to steer competitors in a certain direction or deceive a competitor into thinking they would perform a certain action.

CONCLUSION

Microsoft has been very consistent with their mission in enabling businesses realize their full potential, both in the software enterprise industry and other

diversification. In addition, they have successfully leveraged their core competencies of research capacity, brand equity, and financial stability to survive the segmented and aggressive competitive market. Microsoft has shown that they are capable to compete with various industries while sustaining their competitive advantage and brand equity.