Microsoft's transformation – can it work in india?

Parts of the World, Asia

250% – a figure which is impressive by itself but even more so when you are told that is the kind of growth an investor in a Microsoft share stands to make had he bought into the company 5 years back. (Source : Nasdaq historical share prices). Naturally the major change that Microsoft has gone through lies not just in one but a whole host of underlying factors and strategic moves by its new leader Satya Nadella to effect this incredible transformation of a company once feared to be languishing among the ' has been companies' to one of the foremost leaders spearheading the technology change which the world is witnessing. And while Microsoft today stands as one of the greatest movers and shakers in the IT industry among the likes of a chosen few like Apple, Amazon or Alphabet can it repeat this success in India?

A company which was known mainly as the Windows and Office desktop software major is today regarded as a pioneer in the current digitally transformed age. A company perhaps spoken in more hushed tones as the bully of the software industry is now being regarded as one of those who are embracing the more ' open' technology movement. But the India market presents its own unique challenges when compared to the rest of the world. On one hand there is huge opportunity here as while the global digital transformation world grows at about 18-19%, the digital market in India is growing at over 30%. In fact revenues from the digital segment alone is expected to comprise 38 per cent of the forecasted US$ 350 billion industry revenue by 2025. However, on the other hand, India also brings with itself a whole host of new factors to contend with such as the current political climate relative to foreign investment, inconsistent telecom infrastructure,

protection for domestic companies, regulation, a huge population with a vast rural market etc. But among these constraints, the size of market opportunity in India cannot be underestimated. The National Association of Software and Services Companies (NASSCOM), estimates the total number of internet users in India to reach 730 million by 2020. Consequently, most global IT multinationals of the likes of Amazon, Apple and Google, have major plans to address the tremendous market opportunity which India offers. Among these while Microsoft continues to wow investors and industry pundits worldwide with its remarkable transformation story and reporting consistent growth numbers across its businesses, can Microsoft carry this transformation through to India?

Let us take a quick look first at how Microsoft is transforming globally and what does the investment community see in Microsoft which continues make the stock attractive? Perhaps the most compelling reason for Microsoft is the consistent, across-the-board growth that the company has been experiencing for the past few quarters. In its latest earnings disclosure where the company declared its results for the fiscal 4th quarter, 2018, Microsoft once again reported revenue increases of over 10% in each of its three primary divisions, even including the theoretically more mature personal computing segment – fueled in part by a robust economy and partly by healthy consumer discretionary spending trends. The latter is probably also the positive results Microsoft has seen by continuously introducing innovation through its Surface range of devices which are looking to redefine personal computing. This is just one example perhaps of the new " intelligent cloud and intelligent edge" approach Microsoft is taking. In fact, Microsoft

has redefined the way it approaches the technology world. In a simplistic view Microsoft essentially views the world through solution areas across two main pillars. The first of these is what Microsoft calls empowered experiences including areas like Gaming, Modern life and Modern Workplace and the second is digital transformation which encompasses areas like Business Applications, Applications and Infrastructure and Data & Artificial Intelligence.

However, what are some of other strategic steps Microsoft is also deliberately undertaking to carry forward this success to the domestic India market? This is the question that the subject of this essay looks to answer and focuses on the following two key areas which Microsoft appears to be addressing first as it seeks to also maintain an edge over its competitors in India as it is attempting to do worldwide:

Leading the way in addressing new technology areas like the cloud and gaming

Transforming its own organization structure and culture

The new big bets – cloud and gaming

Microsoft's revenue exceeded $100bn and its market capitalization crossed the $800 billion mark for the first time during Microsoft's last earnings statement in July 2018. Noteworthy among these results was the continuous growth in cloud revenues as well as the uptake in revenues from gaming. It is apparent that the legacy software company's efforts to reinvent itself as a major player in cloud computing continues to pay off while reinventing itself in gaming is also making the market stand up and take notice.

The Cloud

As per estimates from Gartner Inc., the worldwide cloud services market is set to grow by over 20 percent in 2018 to total $186 billion with cloud infrastructure services (infrastructure as a service or IaaS), growing the fastest which according also to Gartner is forecast to grow 36 percent in 2018 to reach $40. 8 billion. That said, Platform as a Services (Paas) and Softwre as a Services (Saas) also constitute close to $90B market opportunity and this where Microsoft scores over its rivals as it has a presence across all three as detailed later.

How has the cloud market opportunity in India shaped up in comparison? Today the public clod market is estimated to be in the region of $1. 8B and is set to grow to over $4B by 2020. In fact, after China India is now the second largest and fastest growing cloud markets in the Asia Pacific region. Moreover with a healthy GDP growth rate of 7. 2% and rapidly rising internet penetration, India is poised for significant expansion in this sector. Consequently, we have witnessed all the major players make a play to get a share of this large market opportunity like Amazon, Alibaba, Google and of course Microsoft with all of these companies setting up local data centers in India.

Let us look at how Microsoft has taken cloud computing to the next level making its foray into cloud as one of its primary growth engines of the future. As a key transformation move, Microsoft had recently reorganized itself by actually breaking up the one large division, Windows which was hitherto responsible for driving Microsoft success in a past. This move perhaps heralds the new Microsoft as this change ushered in the new era of

accelerating Microsoft's emphasis on newer, faster-growing businesses like cloud computing and data-fueled artificial intelligence. A few years ago some questioned whether Microsoft could make the transition to the new technology world, especially after the complacency of the previous regime, but it is now pretty clear Satya Nadella has done an excellent job pivoting the company into a leadership position with one of the primary drivers of the stupendous growth Microsoft has been witnessing being its " intelligent cloud" approach to cloud computing.

On contrasting Microsoft's strategy with that of its largest cloud competitor, Amazon Web Services who in turn is one of the truly great success stories of the past decade, one apparent fact which stands out is the relatively higher success Microsoft has managed to demonstrate with its commercial cloud offering aimed at large enterprises. Microsoft is able to offer corporate customers more cloud innovation across more parts of those customers' businesses—and can drive more business value for those customers via the cloud—than perhaps some of its competitors like Amazon or Google can. This could explain why Microsoft is #1 in the Cloud Wars Top 10 ranking and AWS is #2 (Source Forbes 2017 Cloud Wars). One key difference is Microsoft's presence across all three layers of cloud computing – while AWS is a leader in establishing the cloud backbone viz. providing Infrastructure as a Service (IaaS), its Platform as a Service (PaaS) offering is in its early stages, and it does not have much of a presence in the cloud-applications (SaaS) space. Microsoft however, ticks all the right boxes in all three layers. Consequently, while Amazon is unquestionably helping scores of businesses cut IT costs and accelerate some key processes, Microsoft and its wide range of

Commercial Cloud products and services has carved itself a place among one of the leading companies enabling digital transformation for businesses across the globe.

Satya Nadella's all encompassing vision for the cloud meant that Microsoft went all-in and end-to-end on the cloud across its vast range of products and services that covered the entire landscape of users from IoT sensors, mobile devices, millions of PCs to mission-critical servers and all the way into the data center itself. This ensures that Microsoft is able to not only comprehend but also address customers' needs across the board, which means customers do not need different cloud vendors to procure different services and require thousands of people to integrate, manage, secure and monitor. So while Microsoft continues to raise the bar even in things like innovations in setting up data centers (Microsoft is today looking at placing self-sufficient underwater datacenters to provide quicker services to coastal cities) it will not only have to compete with Amazon, but also with Google, which intends to go after business customers.

In India, inconsistent internet connectivity, irregular power and optical fiber connections have all presented obstacles to cloud adoption but the increasing need for business innovation and agility and the ability to scale fast in a competitive market as well as the government's own efforts towards a Digital India together present significant untapped potential which companies like Microsoft are well poised to take advantage of.

Gaming

Now let us take a look at Microsoft's new approach to the gaming industry. When the original Xbox video-game console went on sale in 2001, it was not very clear why Microsoft, known for its staid workplace software, was branching out into fast-paced action games. But Microsoft had decided that that the opportunity was not just about gaming but the realization that capitalizing on the popularity of gaming could help the company position itself for the coming wave of home digital entertainment by establishing a solid presence in the living room. This is apparent from the broad based approach Microsoft has been taking – for example as the Xbox gave way to the Xbox 360, and competitors like Sony and Nintendo also launched new consoles (the PlayStation 3 and the Wii), Microsoft's online service continued to distinguish it from its rivals. Unlike its competitors, Microsoft was quick to latch on to the concept of using its console to offer content from many partner sources, such as games created by external developers as well as video streaming players like Netflix and Hulu. Microsoft also established a partnership with cable providers such as Comcast and networks such as HBO to funnel pay TV through the Xbox 360 console instead of dedicated cable boxes.

Microsoft's latest console is the Xbox one X, a powerful new console aimed at Sony's high-end PlayStation 4 Pro. Most importantly Microsoft also announced that it is adding backwards compatibility with the original Xbox allowing users to be able to play games designed for the first Xbox on the Xbox One. This further consolidates its user base as the move is a big step toward allowing Xbox customers to build a library of games that don't

become extinct as they buy a new console. On platforms like mobile and PC this is perhaps a given but on gaming consoles, digital libraries are a relatively new concept, and Microsoft is leading the way.