

First Stop

Microsoft: Adapting to the Fast-Changing Marketing Environment

Twenty years ago, talking high-tech meant talking about the almighty personal computer. Intel provided the PC microprocessors while manufacturers such as Dell and HP built and marketed the machines. But it was Microsoft that really ruled the PC industry—it made the operating systems that kept most PCs humming. As the dominant software developer, Microsoft put its Windows operating system and Office productivity suite on almost every computer sold.

The huge success of Windows drove Microsoft's revenues, profits, and stock price to dizzying heights. By the start of the 2000s, Microsoft's was the most valuable company in corporate history. In those heady days, no company was more relevant than Microsoft. And from a competitive standpoint, no company was more powerful.

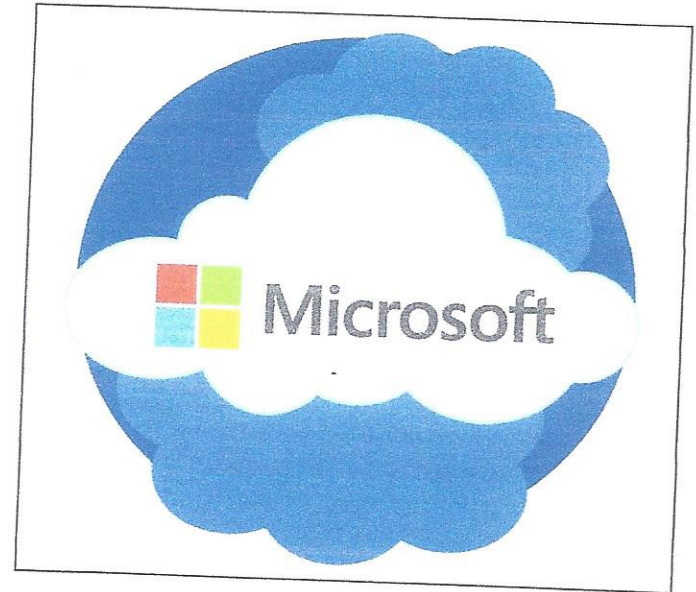
But times change. Moving through the first decade of the new millennium, PC sales growth flattened as the world fell in love with a rush of alluring new digital devices and technologies. The computing industry shifted rapidly from stationary stand-alones like the PC to connected mobile devices that linked users to an ever-on, ever-changing world of information, entertainment, and socialization options. But unlike PCs, those mobile devices didn't need Microsoft Windows.

In the new digitally connected world, Microsoft found itself lagging more-glamorous competitors such as Google, Apple, Samsung, and even Amazon and Facebook, which provided a complete slate of things digital—not just the software but also the smart devices, connecting technologies, and even digital destinations. Although still financially strong and still the world's dominant PC software maker, Microsoft lost some of its luster. In turn, the company's growth stalled and profits languished at early-2000s levels for a dozen years or more. Microsoft needed to change with the times—and fast.

So Microsoft began a sweeping transformation to align itself better with the new digital world order. More than just a PC software developer, Microsoft set out to become a full-line digital competitor. In tune with the times, the company pursued a new "mobile first, cloud first" strategy. It developed a mobile version of its Windows operating system—the longtime company cash cow. And it created Office 365—a cloud-based subscription version of its market-dominating suite of productivity apps.

At the same time, Microsoft unleashed a flurry of new, improved, or acquired digital products and services. These included an upgraded version of Skype, a OneDrive cloud storage solution, and even an innovative new digital hardware line—Microsoft Surface tablets and Microsoft Surface Book laptops—that it hoped would lead the way to even more innovative Windows devices. Microsoft also dabbled seriously with mobile phones, first buying then selling phone maker Nokia and then rumored to be soon introducing its own Windows-based Surface phone. Microsoft hoped that the Surface line, along with its Xbox console, would give it better access to three important digital screens beyond the PC—tablets, TVs, and phones.

But even with these new initiatives, Microsoft found itself still chasing rather than leading the pack of new digital competitors. The Microsoft Windows operating system still dominates the declining PC market, but its mobile versions capture only a sliver of the mobile operating system market dominated by Apple iOS and Google Android. Although its Surface tablets and laptops have done well,



➤ In the fast-changing digital marketing environment, Microsoft has transformed itself into a brand that consumers can't live without in the post-PC world.

imageBROKER/Alamy Stock Photo

they still lag far behind those of Apple and Samsung. And Microsoft has yet to introduce a successful Surface phone.

Thus, to continue its massive makeover, Microsoft has made yet another significant shift. It started with a new mission. Microsoft's early mission was to "put a computer on every desk in every home." Not until 2013 did that change to a grander but still-product-centered mission: "to create a family of devices and services for individuals and businesses that empower people around the globe at home, at work, and on the go." Then in 2015, Microsoft announced a simpler mission: "to empower every person and every organization on the planet to achieve more."

The new mission focuses not on devices and services but on outcomes. Rather than chasing competitors in mobile devices and operating systems, Microsoft now intends to lead them in productivity tools. And instead of clinging to Windows as the linchpin in its future, Microsoft is taking its productivity apps and services headlong into the cloud. The old Microsoft didn't care what apps you ran as long as you ran them on Windows. In a dramatic shift, the new Microsoft doesn't care what operating system you run as long as you're using Microsoft apps and services.

Microsoft has undergone a dramatic transformation to better align itself with the new digital world in the post-PC era. More than just making the software that makes PCs run, Microsoft now wants to empower every person and every organization on the planet to achieve more, regardless of what device or operating system they use.

At the center of Microsoft's cloud offerings is good old Microsoft Office, with its Word, Excel, PowerPoint, and other productivity apps. Although competitors Google and Apple have word processing, spreadsheet, and presentation apps, Office is still far and away the gold standard for getting things done, whether for large corporations, small businesses, students, or home users. In the old days, Office came bundled with Windows. But the plan now is to make Office accessible to anyone and everyone. Office 365 subscription services can be accessed from the cloud and run on any device or operating system—iOS, Android, or Windows.

Accessibility is only the start. Microsoft's goal is to make Office 365 the center for a whole new family of cloud-based online services that work seamlessly together. To that end, in addition to mobile versions of Word, Excel, and PowerPoint, Microsoft has been adding an ever-expanding set of mobile productivity apps to the Office 365 portfolio, such as Outlook Mobile (email) and To-Do (task management). Moreover, the cloud-based Office 365 increases the likelihood that subscribers will sign up for other Microsoft services, such as Skype, OneDrive cloud services, or Power BI data analytics and insights tools.

Another key part of Microsoft's new direction is artificial intelligence (AI)—the latest battleground for digital giants Amazon, Google, Samsung, and IBM. For example, Microsoft's Windows 10 AI

voice assistant—Cortana, already installed on hundreds of millions of Windows devices worldwide—is currently no match for Amazon's Alexa, Apple's Siri, or Google's "OK, Google." However, Microsoft recently partnered with Amazon to let their formerly competing voice assistants work with and through each other. The partnership gives Amazon Echo users access to Microsoft's productivity apps. In turn, it gives Cortana users access to Alexa's smart home capabilities, such as streaming music and controlling smart home devices.

So this is not your grandfather's Microsoft. With its sweeping transformation well under way, Microsoft now seems to be making the right moves to stay ahead of the times. As a result, sales and profit growth have rebounded. Although the Windows operating system remains a key component of Microsoft's current success, the company's future now lies in the cloud. And with nearly \$19 billion in commercial cloud revenues last year, more than 20 percent of its total revenues, Microsoft is now winning the cloud wars, ahead of Amazon, IBM, and a host of others.

Still, continued success will depend on Microsoft's ability to effectively adapt to—or even lead—the lightning-quick changes occurring in the marketing environment. "The opportunity ahead for Microsoft is vast," says Microsoft's CEO, "but to seize it, we must focus clearly, move faster, and continue to transform."¹