



International Business Case Study

QCF

Microsoft

Tuesday 5 December 2017, Afternoon

This is an open-book examination, and you may consult any previously prepared written material or texts during the examination.

Only answers that are written during the examination in the answer book supplied by the examination centre will be marked.

Notes

- As in real life, anomalies may be found in this Case Study. Please simply state your assumptions where necessary when answering questions. ABE is not in a position to answer queries on Case data. Candidates are tested on their overall understanding of the Case and its key issues, not on minor details. There are no catch questions or hidden agendas.
- Your answers should be based on the case study content and on your general knowledge of markets. Any subsequent events impacting on featured organisations, their competitors and their markets should be ignored.
- Do not make contact with any of the featured organisations in order to obtain more information. The information included in the Case Study will be sufficient to answer the questions in the Question Paper.

Microsoft

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INDUSTRY ANALYSIS

The technology sector can be somewhat confusing to categorise. According to Investopedia (2017), the technology sector is the category of stocks relating to the research, development and/or distribution of technologically based goods and services. This sector contains businesses revolving around the manufacturing of electronics, creation of software, computers or products and services relating to information technology.

The technology sector offers a wide range of products and services for both customers and other businesses. Consumer goods like personal computers, stereos and televisions are continually improved and upgraded, offering the latest technology to all users. Businesses receive information and services from software and database systems, which allow the companies to make strategic business decisions.

In another article, Investopedia (2017a) breaks down the 'tech industry' into a few categories which range from personal computers to entertainment media to mobile payment systems. These can also be grouped as:

- **Personal computers:** main competitors in this space include Apple, Dell, Acer, HP, Sony, and Toshiba.
- **Mobile computers:** competitors include Apple, Alphabet Inc. (GOOG), Samsung, and Nokia.
- **Smartphones:** this industry was once dominated by Canadian giant BlackBerry Limited (BBRY) (formerly Research in Motion Limited). That changed quickly with the introduction of the Apple iPhone. The iPhone has literally decimated BlackBerry's business model and caused the company to restructure several times. Alphabet Inc.'s Google produces the Android operating system, which is installed on most non-Apple phones produced by Huawei, Samsung, Sony (SNE), HTC, Lenovo, and others.
- **Entertainment media and applications:** the two major players in this space are Apple and Google, with the Apple iOS running on its iPhones and iPods, and Google Android running on most competitor phones and tablets. Each operating system interfaces with App Store and the Google Play Store respectively, allowing users to purchase music, books, applications and other media.
- **Mobile payments:** Apple entered the mobile payment industry in 2014 but has quickly become a titan in this arena. According to CEO, Tim Cook, the company took on more than 1 million users in its first 72 hours, making Apple Pay larger than 'all competitors combined'. Key competitors in the mobile payment industry include PayPal and Google. According to research from fin tech analysts, Apple Pay has 86 million users (as of April 2017) and is the dominant player in the mobile payment industry. In contrast, Samsung Pay has 34 million users, and Android Pay has 24 million users.

According to Microsoft (2017), the industry is dynamic and highly competitive, with frequent changes in both technologies and business models. Each industry shift is an opportunity to conceive new products, new technologies, or new ideas that can further transform the industry. It is therefore important to push boundaries of what is possible through a broad range of research and development activities that seek to identify and address the changing demands of customers and users, industry trends, and competitive forces.

The market for software, devices, and cloud-based services is dynamic and highly competitive. Devices and the form factors that customers prefer evolve rapidly, and therefore it is important for technology companies to evolve and adapt over an extended time in pace with this changing environment.

Changes in Europe have also seen strengthening of the US dollar relative to certain foreign currencies throughout fiscal year 2015, and continuing into fiscal year 2016, and this has an impact on prices and units sold.

COMPANY OVERVIEW

Microsoft Corporation is an American multinational technology company, which develops and sells a wide range of consumer and enterprise software, hardware, services, and electronics. Founded by Bill Gates and Paul Allen in Albuquerque, New Mexico, in 1975, the company is currently based in Redmond, Washington. (Statista, 2017)

Microsoft's mission is 'to enable people and organizations throughout the world to do more and achieve more by creating technology that transforms the way people learn, work, play, and communicate'. Microsoft employs approximately 114,000 people on a full-time basis; 63,000 in the US and 51,000 internationally. Its business strategy can be classified as product differentiation. The company develops advanced technology products and services and sells them for premium prices. Moreover, Microsoft business strategy is currently focused on 'cloud-first, mobile-first', growth through mergers and acquisitions, and exploring business opportunities related to augmented and virtual reality. (Research Methodology, 2017)

Long seen as one of the world's largest and most successful IT companies, Microsoft's global revenue has increased relatively consistently since its conception, with the figure standing at \$85 billion in 2016. That same year, the company's net income topped \$16 billion, higher than 2015 but down from its 2011 peak of \$23 billion. The company's success has translated into personal wealth for those closely involved in its formation. Predictably, both Bill Gates and Paul Allen have both amassed large fortunes on the strength of Microsoft's growth. (Statista, 2017)

Historically, Microsoft has generated the majority of its revenue from its commercial licensing business segment. This is perhaps unsurprising, considering that the segment traditionally included licensing for Microsoft Office, the most commonly-used suite of office/productivity software, as well as Microsoft's enterprise server operating systems. Windows has been installed in more than 1 billion devices and the introduction of Xbox Live has seen a growth to 49 million users every month, which is a 33% increase from last year. The growth was mainly driven by the game franchise Minecraft, which has sold over 106 million copies. The company plans to drive that even more with an 18-month plan to release the Xbox One S, Project Scorpio and investments in growth areas that include video, eSports and virtual reality. (Microsoft 2016 Annual Report)

Recent changes to Microsoft's financial reporting structure have meant that the new largest segment is More Personal Computing. This comprises Microsoft Windows, which continues to dominate the personal computer operating system market, as well as Microsoft devices, such as the Surface, gaming revenue from consoles, and search advertising. Microsoft's gaming consoles also continue to perform well, with the Xbox One gaming console selling around six million units in 2016. (Research Methodology, 2017)

In 2016, Microsoft acquired LinkedIn for \$26 billion. The deal marked Microsoft's biggest acquisition to date, well surpassing the \$8.5 billion paid for Skype in 2011. In 2014, Microsoft acquired gaming software company, Mojang, for \$2.5 billion. Mojang's flagship game, Minecraft, has been one of the top-selling games on iOS, the iPhone operating system, and brings in significant revenue from sales, merchandising, and licensing. Since 2014, Microsoft has made a number of strategic purchases of smaller vendors, including developers of key mobile, cloud, and analytics software and platforms. (Statista, 2017)

FINANCIAL PERFORMANCE

According to Microsoft Annual Report (2016), Microsoft generated \$85.3 billion in revenue, \$52.5 billion in gross margin, and \$20.2 billion in operating income. Revenue was \$92.0 billion, with \$27.9 billion in operating income. Microsoft also recorded a shareholder return of \$26.1 billion, up 12% from last fiscal year.

Table 1: Microsoft's financial highlights

(\$mil, except per share data)

	Year ended June 30,	2016	2015	2014	2013
Revenue		85,320	93,580	86,833	77,849
Gross margin		52,540	60,542	59,755	57,464
Operating income		20,182	18,161	27,759	26,764
Net income		16,798	12,193	22,074	21,863
Diluted earnings per share		2.10	1.48	2.63	2.58
Cash dividends declared per share		1.44	1.24	1.12	0.92
Cash, cash equivalents, and short-term investments		113,240	96,526	85,709	77,022
Total assets		193,694	174,472	170,675	140,962
Long-term obligations		62,340	44,742	35,391	24,601
Stockholders' equity		71,977	80,083	89,784	78,944

(Source: Microsoft 2016 Annual Report)

Segment Reports

Microsoft uses segments for its financial reporting and these segments are split into the following:

1. Productivity and Business Processes
2. Intelligent Cloud
3. More Personal Computing

Productivity and Business Processes

This segment consists of products and services in productivity, communication, and information services, spanning a variety of devices and platforms. This segment primarily comprises Office Commercial, Office Consumer, and Dynamics business solutions.

Office Commercial is designed to increase personal, team, and organisational productivity through a range of products and services. Office 365 is a cloud-based service that provides access to Office, plus other productivity services. Client Access Licenses (CALs) provide access rights to certain Office Commercial products and services, including Exchange, SharePoint, and Skype for Business, and revenue is reported along with the associated Office products and services.

Office Consumer is designed to increase personal productivity through a range of products and services that include Skype, Outlook.com, and OneDrive. These are largely driven by subscriptions, advertising, and the sale of minutes. Dynamics provides business solutions for financial management, customer relationship management (CRM), supply chain management, and analytics applications for small and mid-size businesses, large organisations, and divisions of global enterprises. Dynamics revenue is largely driven by the number of information workers licensed.

Competition

Competitors to Office include software and global application vendors such as Adobe Systems, Apple, Cisco Systems, Facebook, Google, IBM, Oracle, SAP, and numerous web-based and mobile application competitors, as well as local application developers in Asia and Europe. Cisco Systems is using its

position in enterprise communications equipment to grow its unified communications business. Google provides a hosted messaging and productivity suite. Apple distributes versions of its pre-installed application software, such as email, note-taking, and calendar products, through its PCs, tablets, and phones. Skype for Business and Skype also compete with a variety of instant messaging, voice, and video communication providers, ranging from start-ups to established enterprises. Web-based offerings competing with individual applications have also positioned themselves as alternatives to its products.

The two pillars of this segment are Office 365 and Dynamics 365. According to Microsoft (2012), Office is on more than 50 million iOS and Android monthly active devices, up more than four times over last year. Dynamics 365 was launched to empower business users with built-in insights and intelligence, accessed from within the business applications it is working on – cloud-based apps like field service, sales, finance, and operations. It is deeply integrated with Office 365 to bring together all of the capabilities people need to get their jobs done. Overall, Dynamics 365 builds on a strong base of nearly 10 million monthly paid seats, up more than 20% year-over-year. In addition, in this past year, Microsoft saw Dynamics CRM Online seat additions more than double year-over-year, driving overall Dynamics revenue growth. (Microsoft 2016 Annual Report)

In 2016, Microsoft and LinkedIn announced an agreement to join forces to connect the world's professional cloud and the world's professional network, creating new experiences and new value for users, with more than 1.2 billion Office users and 433 million LinkedIn members. Skype and Outlook are also part of the segment.

Intelligent Cloud

This segment consists of public, private, and hybrid server products and cloud services that include Server products and Cloud services (SQL Server, Windows Server, Visual Studio, System Center) and Enterprise Services that includes Premier Support Services and Microsoft Consulting Services.

These services face competitions from a wide variety of server operating systems and applications offered by companies with a range of market approaches. Vertically integrated computer manufacturers such as Hewlett-Packard, IBM, and Oracle offer their own versions of the Unix operating system preinstalled on server hardware. Microsoft's cloud-based services face diverse competition from companies such as Amazon, Google, IBM, Oracle, and Salesforce.com. (Microsoft 2013 and 2016 Annual Reports)

Microsoft's ambition to build the intelligent cloud is closely linked with cloud-based applications like Office 365 and Dynamics 365 and it is on track to achieve \$20 billion in commercial cloud annualised revenue run rate in fiscal year 2018. Revenue within the Intelligent Cloud segment alone increased \$1.3 billion, which is a 6% increase. More than 70% of the Fortune 500 have at least two different Microsoft Cloud offerings. And more than 80% of the world's largest banks are Azure customers (the Microsoft cloud platform). The integration of cloud-based cognitive services like Cortana is just the tip of the spear, and will fuel our vision for conversation as a platform. The company plan to include vision, speech, text, recommendations, and face and emotion detection.

More Personal Computing

This segment is geared towards harmonising the interests of end users, developers, and IT professionals across screens of all sizes. This segment includes Windows, Devices (Microsoft Surface, phones and PC accessories), Gaming and Search advertising. The company acquired Nokia in April 2014 and jointly created new mobile products and services that include the Surface Pro 4 and Surface Book, which were released in October 2015. It has also been manufacturing and selling Microsoft Lumia ('Lumia') phones and other phones since the acquisition of NDS in April 2014. In July 2015 and May 2016, it announced a plan to restructure the phone business to better focus and align resources.

On the gaming platform, Microsoft released Xbox 360 and Xbox One in November 2005 and November 2013, respectively, and recently announced Xbox One S in August 2016. It also launched the Windows 10 Xbox app in July 2015. Xbox Live enables people to connect and share online gaming experiences and is accessible on Xbox consoles, Windows-enabled devices, and other devices. Xbox Live services consist of subscriptions and sales of Xbox Live enabled content, as well as advertising, and are designed to benefit users by providing access to a network of certified applications and services. The company also design and sell gaming content to showcase its unique platform capabilities for Xbox consoles, Windows-enabled devices, and other devices. Another product is the Search advertising, which includes Bing and Bing Ads designed to deliver relevant online advertising to a global audience. (Microsoft 2016 Annual Report)

The Windows operating system faces competition from several software products and from alternative platforms and devices, mainly from Apple and Google. Devices face competition from various computer, tablet, hardware, and phone manufacturers, and offer a unique combination of high-quality industrial design and innovative technologies across several price points.

The gaming platform competes with console platforms from Sony and Nintendo, both of which have a large, established base of customers. The lifecycle for gaming and entertainment consoles averages five to ten years. Nintendo released its latest generation console in November 2012. Sony released its latest generation console in November 2013. In addition to Sony and Nintendo, the company competes with other providers of entertainment services through online marketplaces. These competitors include Electronic Arts and Activision Blizzard. Xbox Live faces competition from various online marketplaces, including those operated by Amazon, Apple, and Google. (Microsoft 2016 Annual Report)

The search advertising business competes with Google and a wide array of websites, social platforms like Facebook, and portals that provide content and online offerings to end users.

For statistics on performance of these products for each segment, see Appendix 1.

SWOT ANALYSIS

According to Research Methodology (2016), Microsoft has the following strengths, weaknesses, opportunities and threats:

Strengths

1. Global leadership in cloud sector
2. Effective leadership by Satya Nadella
3. High profitability of the business and solid financial position
4. Diversified product portfolio
5. Strategic collaboration with other companies in e-commerce and IT industry

Weaknesses

1. Lack of innovation
2. Weak position of Internet Explorer browser application
3. Occasional technical issues with Windows updates
4. Dependence on hardware manufacturers
5. Security issues of Microsoft products

Opportunities

1. Engagement in mergers and acquisitions
2. Developing innovative products and services
3. Focusing on smartphone segment
4. Developing mobile advertising
5. Enhancing security against cybercrime

Threats

1. Exchange rate risks
2. Emergence of new competitors
3. Anti-monopoly and other lawsuits
4. Economic crisis
5. Emergence of CSR-related scandals

SWOT adapted from Research Methodology
For details on each of the SWOT factors, see Appendix 2.

COMPETITION

Microsoft has a number of competitors in different industries and sectors. This is because of its diversified portfolio. According to Investopedia (2014), Microsoft's primary competitors include the most prominent technology companies in the technology sector. The companies include Apple, Google, IBM and Oracle. Microsoft got its start by focusing on software, and although the company has branched out into other areas, it still has a strong emphasis on this sector. Some of the most successful software corporations in the world, such as Oracle and the German firm SAP, compete directly with Microsoft for the lucrative business services market.

The extremely popular Windows operating system is perhaps the most prominent Microsoft product. In this area, the company competes with a number of smaller firms, such as Red Hat, which distributes open-source operating systems, such as Linux. Microsoft is also an important player in the hardware field. Its products include tablets designed to compete with similar devices made by other companies, such as Apple. The company makes a variety of computer accessories as well, which brings it in direct competition with several firms that specialise in this area, such as Logitech. (Investopedia, 2014)

Microsoft is also a major force in online search with its Bing search engine. The main rival company here is Google, along with various other firms with smaller engines.

Microsoft faces competitive pressures in all areas of its operations. The pressure comes from a diverse mix of technology companies, both large and small.

Apple

Apple Inc. and its wholly-owned subsidiaries (collectively 'Apple') designs, manufactures and markets mobile communication and media devices, personal computers, and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. In addition, the Company sells a variety of third-party iPhone, iPad, Mac and iPod compatible products, including application software, printers, storage devices, speakers, headphones, and various other accessories and peripherals, through its online and retail stores. (Apple 2016 Annual Report)

In terms of profit, revenue, market capitalisation, and consumer cachet, it certainly ranks right up there. The iPhone, in its ninth year and seventh generation, has been the company's golden goose, although the aging product may be losing a little of its lustre. In addition to the iPhone, other familiar Apple products and services include MacBook computers and iPad tablets, as well as iTunes, the App store, and Apple Music. Primarily a consumer-oriented company, Apple has inked alliances with IBM and Cisco Systems to deepen its penetration of the enterprise market. About 60% of its revenue comes from outside the Americas. (D&B Hoovers, 2017)

Key Financial Data

	\$mil	2016	2015	2014
Revenue		215,639	233,715	182,795
Gross Profit		84,263	93,626	70,537
Operating Income		60,024	71,230	52,503
Net Income		45,687	53,394	39,510
Diluted EPS		8.31	9.22	6.45
Total Equity		128,249	119,355	111,547

(Source: hoovers.com)

Google (Alphabet Inc)

Google offers targeted search results from billions of webpages. Results are based on a proprietary algorithm. Its technology for ranking web pages is called PageRank. The firm generates revenue through advertising sales. Advertisers deliver relevant ads targeted to search queries or web content. The Google Network is a network of third-party customers that use Google's ad programs to deliver relevant ads to their own sites. In October 2015, Google formally became part – and by far the biggest part – of the Alphabet Inc. holding company. (D&B Hoovers, 2017a)

Key Financial Data

Sales Revenue: \$83.73 billion

Net Income Growth: 23.08%

Gross Profit Margin: 60.84%

Operating Profit Margin: 25.83%

Market Capitalisation: \$139.04 billion

(Source: Wall Street Journal Financials, 2017)

IBM

IBM Global Services has the modest goal of making a smarter planet. The information technology and business services arm of International Business Machines operates in about 170 countries, providing a comprehensive range of enterprise IT and consulting services to commercial and public sector clients. IBM's service operations are organised into two primary units:

- Global Technology Services (GTS), which encompasses the company's business process outsourcing, infrastructure support, and product maintenance offerings
- Global Business Services (GBS), which handles application management services, consulting, and systems integration.

IBM Global Services integrates both IBM products and third-party hardware and software. (D&B Hoovers, 2017b)

Key Financial Data

Sales Revenue: \$79.92 billion

Net Income Growth: -11.10%

Gross Profit Margin: 47.03%

Operating Profit Margin: 15.42%

Market Capitalisation: \$18.25 billion

(Source: Wall Street Journal Financials, 2017)

SAP

SAP's software forms a company's nerve centre. Its enterprise resource planning software integrates back-office functions such as analytics, accounting, distribution and human resources, and comes in on-premises and cloud-linked forms. While the sale and servicing of its legacy on-premises offering brings in the majority of the company's revenue, SAP is going all-in on cloud computing and the digitalisation of business with the release of S/4HANA in 2015 as an alternative to its existing SAP Business Suite. The company serves over 300,000 customers in 25 different industries across 190 countries. (D&B Hoovers, 2017c)

Key Financial Data

Sales Revenue: \$22.06 billion

Net Income Growth: 18.99%

Gross Profit Margin: 70.16%

Operating Profit Margin: 23.41%

Market Capitalisation: \$26.38 billion

(Source: Wall Street Journal Financials, 2017)

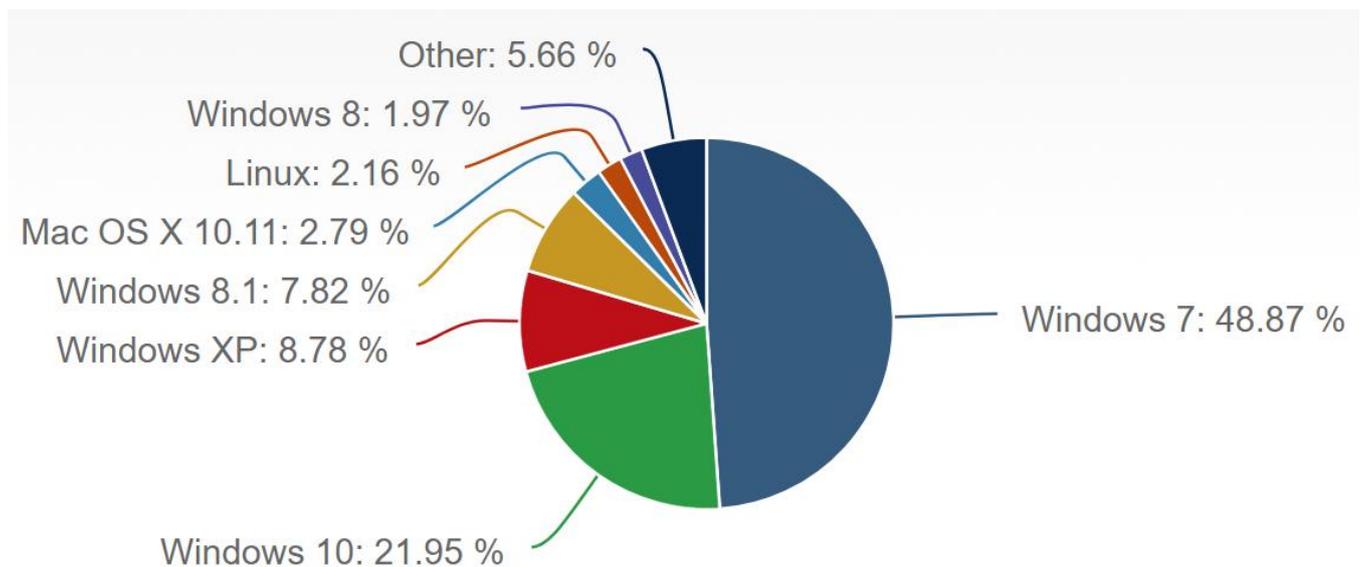
PRODUCT WARS

Over the years, Microsoft has had a number of companies that compete with them on a product level. In the late 1990s, Microsoft's Internet Explorer (IE) was the only internet browser that most consumers knew about and thus it had the majority of the market share. This is now different and there seems to be 'perfect competition' in this industry with the likes of Facebook also taking over in terms of how people read and share news. The analysis below highlights the major 'battles' Microsoft has had to endure over the years:

Windows vs Mac OS

According to Extreme Tech (2016), Windows hit a pair of significant milestones in April 2016, though they may not have been exactly what Microsoft was hoping for. Windows 10 saw some significant gains that resulted in Windows 7's market share dropping below 50% for the first time. The bad news is the drop in Microsoft's total market share. Microsoft held 89.23% of the OS market in April 2016 and this was the first time in years that its market share fell below 90%. Other operating systems increased from 5.4% to 8.59% between January and April.

Windows 10 gained 1.89% of market share from December to January, 0.97 percentage points from January to February, and 1.33 percentage points from February to March. Microsoft's decision to make Windows 10 a free upgrade could be the reason for this but it might need to look for an alternative strategy over the next 2-3 years. The decision to release the OS free has been attributed to some of the continuing weakness in the PC sector.



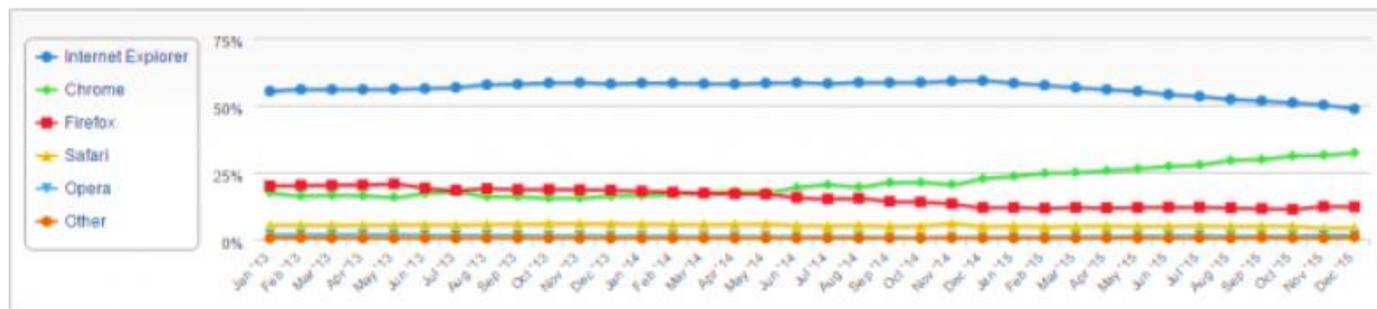
(Source: NetMarketShare, 2017)

Internet Explorer vs Firefox vs Chrome

Microsoft made a decision to end support for Internet Explorer 8, 9, and 10, and it released a final patch on 12th January 2016 that came with an update that reminded people still using these aged browsers that they ought to upgrade. Microsoft would certainly prefer people to upgrade to Internet Explorer 11 or Microsoft Edge, if they're using Windows 10. That's not what users have been doing in the last few years. About 20% of internet users are still running these old versions of IE, according to NetMarketShare. That's only a bit smaller than the desktop user base of Internet Explorer 11 (about 25% of all browsers). Edge is hovering right around 2% despite being the default in Windows 10, which Microsoft was proud to note recently has seen high adoption.

According to Extreme Tech (2016a), Internet Explorer used to be the clear browser of choice for consumers. Users of Internet Explorer in the early 2000s probably remember how basic the feature set

was, and that's one of the things that gave upstarts like Firefox a chance. Microsoft was resistant to adding features like extensions and tabs to Internet Explorer for years. When Chrome came along, IE's fortunes only got worse. Two years ago, IE was still accounting for most desktop browsers on the internet with 58.2% market share. By March 2016, that had dropped by 10 points. During the same period, Chrome went from 16.4% to 32.2% of the desktop market. Virtually no one uses Microsoft's mobile browser because very few people use Windows on phones. The lion's share of this market goes to Mobile Safari followed by Chrome.



Browser share over time.

(Source: Extreme Tech, 2016a)

Bing vs Google

According to comScore (2016), Google Sites led the US explicit core search market in February with 64% market share (up 0.2 percentage points), followed by Microsoft Sites with 21.4% (up 0.1 percentage points) and Yahoo Sites with 12.2%. Ask Network accounted for 1.6% of explicit core searches, followed by AOL, Inc. with 0.9%.

16.8 billion explicit core searches were conducted in February, with Google Sites ranking first with 10.8 billion. Microsoft Sites ranked second with 3.6 billion searches, followed by Yahoo Sites with 2 billion, Ask Network with 273 million and AOL, Inc. with 145 million.

In February, 64.0% of searches carried organic search results from Google (up 0.2 percentage points), while 31.9% of searches were powered by Bing.

comScore Explicit Core Search Share Report (Desktop Only)

February 2016 vs January 2016

Total US – Desktop Home & Work Locations

Core Search Entity	Explicit Core Search Share (%)		
	Jan-16	Feb-16	Point Change
Total Explicit Core Search	100.00%	100.00%	N/A
Google Sites	63.80%	64.00%	0.2
Microsoft Sites	21.30%	21.40%	0.1
Yahoo Sites	12.40%	12.20%	-0.2
Ask Network	1.70%	1.60%	-0.1
AOL, Inc.	0.90%	0.90%	0

(Source: comScore, 2016)

Windows Phone vs iPhone vs Android

While worldwide smartphone sales increased by nearly 4% in 2015, Microsoft's Windows Phone OS failed to capitalise on the growth and dropped below 1% market share. Nearly 2.4 million Windows Phones were sold in the third quarter (Q3) in 2016, around 0.7% market share overall. That's a decrease from the 2.5% market share of Windows Phone back in the first quarter of 2015.

IDC (2017) suspects that it might have seen the last Lumia already mainly because of the drop in sales that was primarily caused by Microsoft's lack of new Lumia devices. Microsoft revealed its plans to sell its feature phone business to a Foxconn subsidiary for \$350 million in 2017 and the company hinted that it might have seen the last Lumia-branded smartphone. Microsoft only sold 2.3 million Lumia devices in 2016 Q3, a massive 73% drop from the 8.6 million in the same period in 2016. As a result, Microsoft's revenue from phones declined 46%.

IDC (2017) also notes that Microsoft sold 2.3 million of the 2.4 million Windows Phones in 2016 Q3. If Microsoft has no plans to introduce new Lumia phones in 2017, then the drop in both sales and market share will continue. Microsoft appears to be leaving Windows Phone up to other phone makers to support, but the company currently controls more than 95% of all Windows Phone sales with its Lumia devices. It's unlikely that other phone makers, that have typically ignored Windows Phone, will have any impact on Microsoft's mobile OS market share as a result.

According to the IDC Quarterly Mobile Phone Tracker, phone companies shipped 344.3 million smartphones worldwide in the first quarter of 2017 (2017 Q1). In light of what might seem like a slowing market, consumers continue to show demand for smartphones and worldwide smartphone shipments grew 3.4% in the first quarter of 2017.

Period	Android	iOS	Windows Phone	Others
2016 Q1	83.4%	15.4%	0.8%	0.4%
2016 Q2	87.6%	11.7%	0.4%	0.3%
2016 Q3	86.8%	12.5%	0.3%	0.4%
2016 Q4	81.4%	18.2%	0.2%	0.2%
2017 Q1	85.0%	14.7%	0.1%	0.1%

(Source: IDC, 2017)

Microsoft Tablet vs iPad vs Android Tablets

According to International Business Times (2015), Windows Tablet market share is set to double by 2019. A new report from Strategy Analytics on Monday predicted that by 2019, Windows will be running on 18% of tablets globally, nearly doubling its current 10% market share.

iOS, which runs on the iPad, is expected to claim 23% of the market in 2019, increasing market share by 1%. The big loser in the shift will be Android, whose current 68% share may decrease to 59% towards the end of the decade.

'Windows Tablet market share has dwindled in the mid-single digit range for the last few years but Windows devices now run the gamut from 2-in-1 Tablets from E-Fun in the US starting at \$139 retail, to Microsoft's Surface Book starting at \$1499 retail', said Eric Smith, senior analyst at Strategy Analytics. (International Business Times, 2015)

The Surface Book, one of Microsoft's newest additions to the 2-in-1 hybrid space, looks like a traditional laptop, but can detach to form a tablet at a moment's notice. But even before the Surface Book was announced, analysts had been predicting a major increase in Windows tablet market share, with its 8.4% estimated to grow to 17.5% by 2019. The IDC also reports that Microsoft's OS is set to breach the 10% market share milestone in 2017, taking 11.3% of the market, while Android is to take 66.2% and iOS 22.4%.

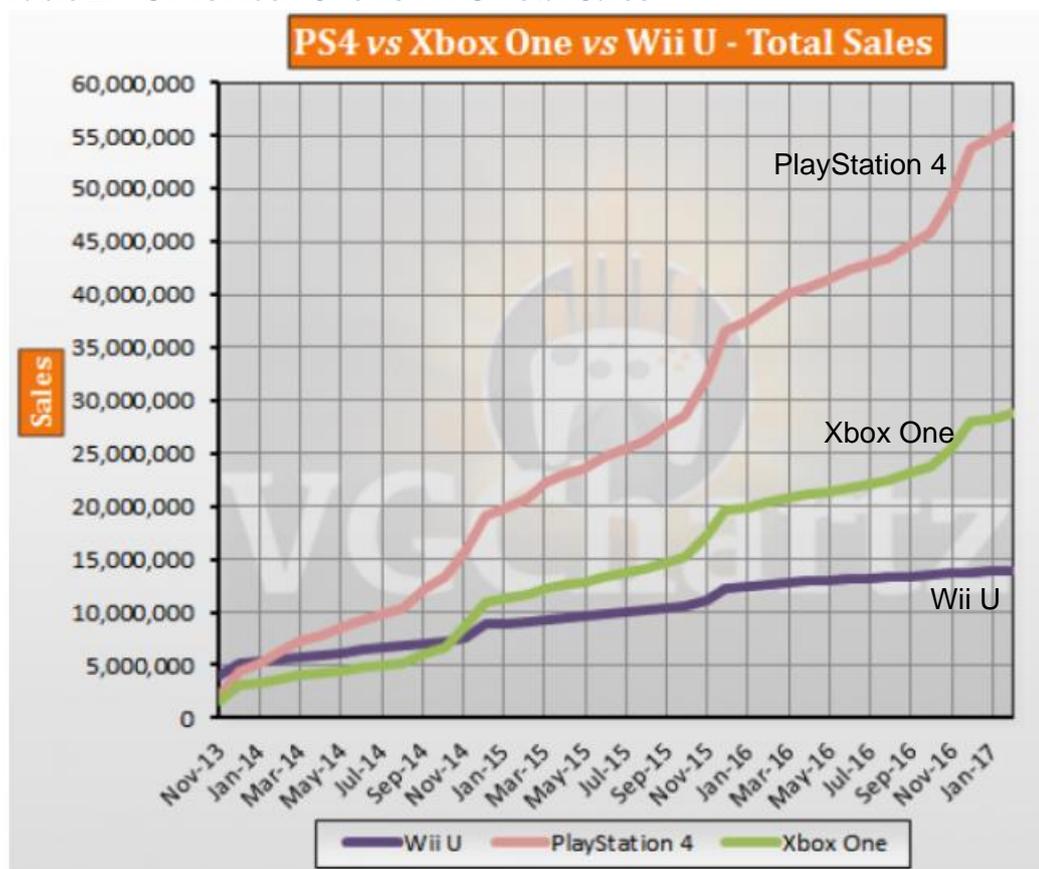
According to the IDC, Windows had 9% market share in first quarter of 2016. It also included a forecast for the next four years, and expect Windows to grow to 19.3% of the market in 2020, with iOS taking 22.9% and Android 57.8%.

Xbox vs PS4 vs Wii U

A report in the Business Insider (2017) suggests that the Sony PlayStation 4 (PS4) is selling approximately twice as fast as Microsoft's Xbox One. That puts Sony in a dramatic lead over Microsoft when it comes to game console sales, and casts the long-running competition between the two console makers in a very different light.

Sony has a significant lead over Microsoft when it comes to the video game business. There are a few reasons for this lead, from major game exclusives ('Horizon Zero Dawn') to new models of the PlayStation 4 (the PlayStation 4 Pro is a slightly more powerful version of the original PS4, which launched in late 2016) to an excellent loyalty program (PlayStation Plus). Microsoft turned off potential buyers with a higher price point (\$499 for Xbox One compared to \$399 for PlayStation 4), and a major messaging problem. While the Xbox One isn't failing by any means, it's clearly a distant second to the PlayStation 4's sales numbers — and it's unlikely the discrepancy is going to shift any time soon.

Table 2: PS4 vs Xbox One vs Wii U Total Sales



(Source: VGChartz, 2017)

The PlayStation 4 outsold both the Xbox and Wii U by a combined 13.32 million units. The Xbox One in turn continues to increase its lead over the Wii U and has outsold it by 14.85 million. In terms of market share, the PlayStation 4 has 57% market share, the Xbox One 29% and the Wii U 14%.

PlayStation 4 Total Sales: 55,910,684
 Xbox One Total Sales: 28,717,251
 Wii U Total Sales: 13,869,740

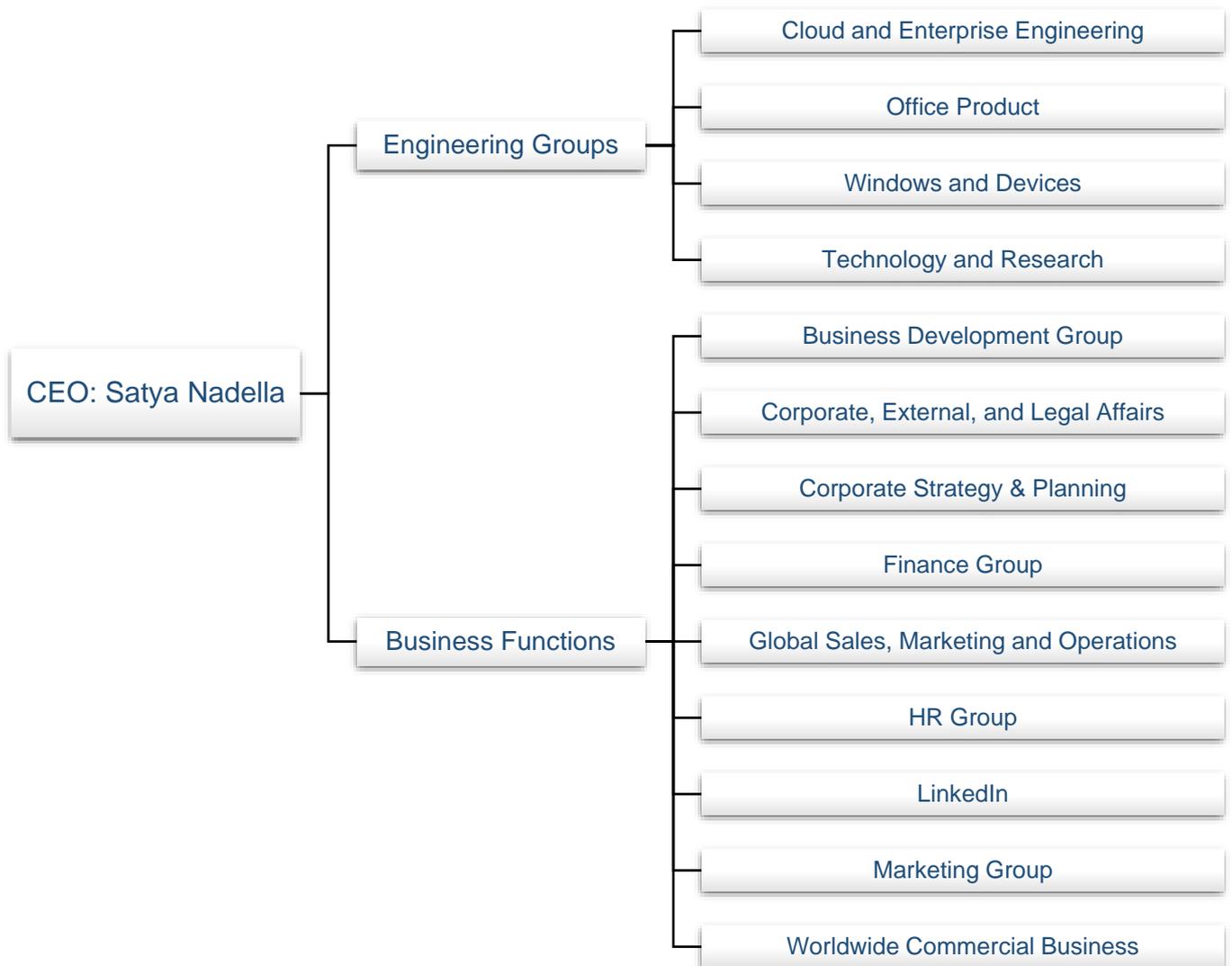
ORGANISATIONAL STRUCTURE AND CULTURE

See Appendices 3 and 4 for more details.

Microsoft operates a divisional structure. This structure is a result of a restructuring following a decision by senior management to align to its strategic direction as a productivity and platform company. In July 2015, Microsoft cut 7800 jobs and wrote down \$7.6 billion of its Nokia acquisition. (Techcrunch, 2017)

The organisational structure is divided into divisions depending on the business functions and engineering groups. The engineering groups are divided into four divisions while the business functions are divided into nine divisions as show in the figure below. This structure enables the heads of the groups to report to CEO Satya Nadella and this can have some implications on product development and innovation. According to Research Methodology (2017), this structure largely eliminates bureaucracy in business processes and procedures and this increases the flexibility of the business to adapt to changes in the external market. The cutting of jobs has been seen to have an impact of saving financial resources that can be used in developing new products.

Table 3: Microsoft’s organisational structure



(Source: Research Methodology, 2017)

As of 30 June 2016, Microsoft employed approximately 114,000 people on a full-time basis, 63,000 in the US and 51,000 internationally. Of the total employed people, 38,000 were in operations, including manufacturing, distribution, product support, and consulting services; 37,000 in product research and

development; 29,000 in sales and marketing; and 10,000 in general functions and administration. Certain employees are subject to collective bargaining agreements. Corporate restructuring initiative introduced by senior management in June 2015 resulted in elimination of approximately 7,400 positions in 2016. Microsoft has been recognised as the World's Best Multinational Workplace in Europe for 2014 by the Great Place to Work Institute. CEO Satya Nadella has made a public pledge to improve the performance of human resources by improving organisational culture. However, Nadella also became a reason for controversy for his remarks about payment gaps between men and women. Specifically, Microsoft's CEO had stated in October 2014 that "women should trust 'karma' instead of asking for pay raises" (Chowdry, 2014) and that their work will be rewarded by the 'system'. However, Nadella's acknowledgement on the following day that his comment was 'completely wrong' helped the incident to pass with the least damage to Microsoft's brand image. (Research Methodology, 2017)

CORPORATE SOCIAL RESPONSIBILITY

Microsoft has been involved in a number of CSR programs. Research Methodology (2017) gives a detailed report on projects it has done over the years:

Microsoft Supporting Local Communities

- The Lagos Solar project in Nigeria uses batteries that are charged by solar panels, along with intelligent inverters connected to Microsoft Azure Internet of Things (IoT) technology
- International software provider Temenos relies on Microsoft Cloud services to reach people across Myanmar who lack access to banking, giving them opportunities for more financial stability and access to microcredit and other financial services
- Microsoft's 4Afrika Initiative provides a set of programs to empower African youth, entrepreneurs, developers and business and civic leaders
- YouthSpark initiative aims to empower 300 million young people around the world with opportunities for education, employment, and entrepreneurship

Microsoft Educating and Empowering Workers

- In financial year 2016 more than 99% of Microsoft employees completed annual training on Standards of Business Conduct, which is available globally in 17 languages
- Microsoft collects employee feedback through multiple channels and acts on it. As part of this initiative, nearly 85% of more than 117,000 employees responded to employee surveys
- 92% of those surveyed stated they feel proud to work at Microsoft and 87% of employees would recommend Microsoft as a great place to work
- 90% of Microsoft's employees are eligible for various bonuses

Labour and Human Rights at Microsoft

- Since 2016, Microsoft has had a formal commitment to respect human rights as a signatory of the United Nations Global Compact
- The technology company adheres to its Global Human Rights Statement
- Employee Health and Safety at Microsoft
- The Microsoft CARES employee assistance program, offers free access to services including personal and family counselling, stress management, and referrals for child/elder care
- The Microsoft Ergonomics Program offers the workforce ergonomic assessment and training programs and special furniture, equipment, and software for medical needs
- The company conducts Voice of the Supplier Surveys in an anonymous manner to monitor the adherence to health and safety and other important CSR-related principles

Microsoft and Gender Equality and Minorities

- The company is one of the first Fortune 500 companies in the world to offer domestic partner benefits for Microsoft LGBT employees
- Since 2005, Microsoft achieved a 100% score on the Human Rights Campaign Foundation (HRC) 2014 Corporate Equality Index (CEI)
- The proportion of women in the global workforce grew from 24% to 28% during 2014
- Representation of women and minorities increased from 22% to 27% during the same period

Energy Consumption by Microsoft

- 44% of the electricity used by Microsoft data centres comes from wind, solar, and hydro power electricity
- Air cooling techniques used at Microsoft data centres result in 20-30% lower energy consumption
- Microsoft leveraged its corporate campus to help create an analytical software solution that prioritises maintenance and repairs its 125 Puget Sound buildings based on energy and cost savings potential
- All new data centres of Microsoft have an average 1.125 Power Usage Effectiveness (PUE), which is one-third less than the industry average datacentre PUE of 1.7

Water Consumption by Microsoft

- Air cooling techniques used at Microsoft data centres result in 90% lower water consumption
- In India, the company captures rainwater for irrigation, and on its Hyderabad campus, it treats sewage for use in landscaping, resulting in zero sewer discharge
- Paris office also uses captured rainwater for irrigation and flush fixtures

Waste Reduction and Recycling by Microsoft

- Microsoft Real Estate and Facilities teams around the world implement waste minimisation programs, including office supply reuse, recycling, and in many cases composting
- Company's Redmond, Washington dining facilities divert 99% of the waste from the landfill by recycling, using compostable tableware, and adapting our menu to minimise food waste
- The Microsoft IT Asset Disposition Program (ITAD) avoided over 4,000 metric tons of carbon dioxide equivalent (mtCO₂e) in financial year 2015
- Carbon Emissions by Microsoft: Since 1 July 2012, Microsoft's global operations have been carbon neutral
- The company has purchased more than 14 million megawatt-hours (MWh) of green power and reduced company-wide emissions by more than 9 million metric tons of carbon dioxide equivalent (mtCO₂e)
- Microsoft has supported the lives of more than 7 million people in emerging nations through carbon offset community projects
- Company's carbon offset project portfolio represents more than 600,000 metric tons of carbon dioxide (CO₂) emissions

Microsoft and Sustainable Sourcing

- The company evaluates the operations of its suppliers against 23 different ethical, social, and environmental risks
- Microsoft's Device Supply Chain group (DSC) and indirect purchasing group oversee dedicated programs to ensure that its standards are met and to build partnerships with suppliers that advance social and environmental goals
- Company's Global Procurement Group created a formal responsible sourcing function in 2013 to consolidate and enhance its responsible sourcing activities with the indirect suppliers
- More than 100,000 device and packaging components provided by suppliers have been evaluated for compliance by Microsoft

Microsoft's other CSR Initiatives and Charitable Donations

- The International Association of Privacy Professionals (IAPP) has recognised Microsoft for having the second largest number of certified privacy professionals (CIPP) of any company
- Microsoft employs more than 50 people whose primary role is investigating potential breaches of company policy, and an additional 120 people whose primary role is compliance
- Microsoft has launched Office 365 for Non-profits in 92 countries around the world, providing USD55 million worth of Office 365 subscriptions to nearly 11,500 non-profits globally
- Microsoft completed the Global Network Initiative (GNI) Phase III Assessment, conducted by an independent assessor, and the GNI Board determined that Microsoft is compliant with the GNI Principles on Freedom of Expression and Privacy
- The company began the audit of its non-hardware suppliers against 23 different ethical, social, and environmental risks by country and by commodity category

CSR Criticism

It is important to stress that unlike the majority of other global corporations there are no specific CSR-related incidents associated with Microsoft. Nevertheless, Microsoft's stance to CSR has been subjected to criticism a number of times. Generally, the format and size of the Corporate Citizenship Report changed starting from 2010 when it was criticised by various parties for the lack of content in general and absence of details about greenhouse gas emissions and emissions reduction target in particular.

Moreover, in a Special Report issued by Greenpeace International in 2011, Microsoft is given Grade C on the issue of transparency, because Microsoft's reporting of its corporate environmental footprint does not provide a clear picture of its operational impacts, but has provided basic information on the energy footprint of its major data centres. Moreover, the company is graded C on the criteria of 'Infrastructure Siting' and 'Mitigation' on the same report. Additional CSR-related issues related to Microsoft include 'use of permatemp employees (employees employed for years as temporary, and therefore without medical benefits), use of forced retention tactics, where departing employees would be sued to prevent departure, as well as more traditional cost-saving measures, ranging from cutting medical benefits, to not providing towels in company locker rooms'. It has to be noted that despite the few incidents listed above, Microsoft performs comparably well in terms of CSR, taking into account its large size and the scope of its operations. (Research Methodology, 2017)

Microsoft also faced criticism from its customers when it tried to 'kill off' Microsoft Paint. See Appendix 5.

Adapted from

- Microsoft website and Annual Reports
- Microsoft Investor Relations
- Research Methodology Microsoft Report (2017)
- Investopedia
- D&B Hoovers
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- Google Investor Relations
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- IBM Investor Relations
- Business Insider
- Statista

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Appendices

Appendix 1: Microsoft Segment Data from Microsoft's 2016 Annual Report

(In millions, except percentages)	2016	2015	2014	% Change 2016 vs 2015	%Change 2015 vs 2014
Revenue					
Productivity and Business Processes	\$26,487	\$26,430	\$26,976	0%	-2%
Intelligent Cloud	25,042	23,715	21,735	6%	9%
More Personal Computing	40,460	43,160	38,460	-6%	12%
Corporate and Other	-6,669	275	-338	*	*
Total revenue	\$85,320	\$93,580	\$86,833	-9%	8%
Operating income (loss)					
Productivity and Business Processes	\$12,461	\$13,359	\$14,173	-7%	-6%
Intelligent Cloud	9,358	9,871	8,446	-5%	17%
More Personal Computing	6,142	4,667	5,605	32%	-17%
Corporate and Other	-7,779	-9,736	-465	*	*
Total operating income	\$20,182	\$18,161	\$27,759	11%	-35%

Shareholder Letter from CEO Satya Nadella

Dear shareholders, customers, partners, and employees:

I'm proud of the progress we've made as a company this past year and excited about the opportunity for even more progress in the year ahead. We've advanced our mission to empower every person and every organization on the planet to achieve more. We've continued to cultivate a Microsoft culture in which people connect their individual energies and passions for technology to this mission. We're leading profound digital transformation both for people and institutions. We've achieved strong financial results. And we're building a sturdy foundation for an even brighter future.

We generated \$85.3 billion in revenue, \$52.5 billion in gross margin, and \$20.2 billion in operating income this past fiscal year. Adjusting for Windows 10 revenue deferrals and impairment, integration and restructuring expenses, revenue was \$92.0 billion with \$27.9 billion in operating income. Even as we invested in innovation and expanded geographically, we maintained our commitment to shareholder return and increased our total cash return to \$26.1 billion, up 12% from last fiscal year. These results reflect exciting new product innovations as well as increases in customer usage and engagement across our businesses:

- Commercial cloud annualized revenue run rate exceeded \$12.1 billion, up more than 50% year-over-year.
- More than 70 million people use Office 365 commercial every single month.
- Revenue from our cloud platform, Azure, grew triple digits, with usage of key computing and database workloads more than doubling year-over-year.
- Windows 10 is now active on more than 400 million devices around the world and over 197 billion hours of usage. This is the fastest adoption rate of any prior Windows release.
- Bing has leveraged this incredible usage to become profitable with search advertising revenue up 17%, excluding traffic acquisition costs.
- Xbox Live monthly active users grew 33% year-over-year to 49 million.

Appendix 2: Microsoft detailed SWOT Analysis by Research Methodology (2017)

Strengths

1. Microsoft is an undisputed leader in the global marketplace in the cloud segment. Microsoft offers a wide range of cloud-based computing services that include Bing, Microsoft Azure, Microsoft Dynamics CRM Online, Microsoft Office 365, OneDrive, Skype, Xbox Live, and Yammer. Moreover, public announcement of plans by Satya Nadella that Microsoft will be earning USD20 billion per year from cloud business by 2018 is a clear illustration of further commitment of the company to further increase its presence in highly profitable cloud business. Microsoft has maintained its leadership position in the cloud segment according to the amount of revenues for the last several years, followed by Amazon, Salesforce and Oracle. Leadership in cloud segment is a major strength for the multinational technology company, taking into account its increasing popularity and long-term growth prospects.
2. Effective and visionary leadership by Satya Nadella is one of the factors that sets apart Microsoft from competition in positive terms. Since taking over from Steve Ballmer as Microsoft CEO in 2014, Nadella has been bold and effective in restructuring and reinvention of the company. Initiatives introduced by Nadella such as refocusing Microsoft 's mobile-based efforts and expanding many of its services to be offered on other platforms like Mac have proved to be effective up to date. It has been noted that the leadership principles of Satya Nadella are based on the values of learning, choosing to create a positive impact, finding ways to innovate and making meaning a priority.
3. In fiscal year 2016, Microsoft generated USD 85.3 billion in revenue, USD 52.5 billion in gross margins, and USD 20.2 billion in operating income. Commercial cloud annualized revenue run rate exceeded USD 12.1 billion, up more than 50% year-over-year. Moreover, during the last financial year, revenue from the cloud platform Azure grew triple digits, with usage of key computing and database workloads more than doubling year-over-year. Microsoft's high level of profitability and the solid financial position of the company is a considerable strength from multiple points of view. In particular, the solid financial position of the business can play an instrumental role in terms of facilitating new product development with positive implications on the long-term growth of the business.
4. Unlike the portfolio of some of its direct competitors such as Apple and Samsung, Microsoft's portfolio of products and services is vast, comprising operating systems for computing devices, servers, phones, and other intelligent devices; server applications for distributed computing environments; productivity applications; business solution applications; desktop and server management tools; software development tools; video games; and online advertising. Additionally, Microsoft designs and sells hardware including PCs, tablets, gaming and entertainment consoles, phones, other intelligent devices, and related accessories. Such a diversified portfolio protects a company against downturns in any specific product or service segment.
5. Strategic collaboration with other companies in e-commerce and IT industry is an additional notable strength that Microsoft benefits from. The multinational technology company has entered into strategic cooperation with a number of companies in IT and e-commerce industries on a mutually beneficial basis. Microsoft's cooperation with Red Hat, Docker, Mesosphere and other companies can be mentioned to illustrate this point. Microsoft has partnered with Rolls Royce, the PGA Tour, Japan Airlines, and Volvo to install Microsoft HoloLens and the Windows Holographic platform, transforming the way they work by breaking down the barriers between virtual and physical reality.

Weaknesses

1. Lack of innovation is one of the Microsoft's major weaknesses. It has been noted that 'right now people are sitting on a huge installed base of old Windows XP and Windows 7 computers. These users seem to be happy right now even though Microsoft has virtually abandoned Windows XP, its most solid operating system ever. They are temporarily happy because nothing on the market has shown them a good reason to upgrade'. In other words, Microsoft has lagged behind its major competitors such as Apple and Samsung in terms of introducing innovative products and services and adding innovative features and capabilities to its current portfolio of products and services. While competitors have been busy to introduce innovative products such as Apple Watch and Samsung SMART TV, Microsoft has not launched an innovative product or services during the past several years.
2. Loss of leadership position in internet browser segment is a noteworthy weakness associated with Microsoft. Microsoft's Internet Explorer was a leading browser application with market share of more than 90% for about two decades since the beginning of the 1990s. However, Internet Explorer has been quickly losing its market share since the launch of Google Chrome in September 2008. Microsoft market share in internet browser segments accounts for only 20.57% and the leadership spot has been lost to Alphabet's (Google) Chrome, which possesses 42.47% of the global market share.
3. Occasional technical issues with Windows updates is another weakness related to the Microsoft brand. There are number of occasions where Windows updates caused technical disadvantages to users with negative implications to the brand image. The most notable case is the Windows 7 update of KB 3004394 in December 2014 that automatically blocked the installation or update of graphics drivers such as AMD's new Catalyst Omega and caused difficulties in installing GeForce drivers and a set of other drivers and software. Such user inconveniences have inevitable negative implications on brand image. More recently, 'Microsoft has advised Windows 10 users against downloading the Creators Update before their computers become eligible for it. The company released the new software two weeks ago, but has decided to roll it out to users in stages, partly because it doesn't want to overwhelm its servers.'
4. Windows desktop operating systems is a significant source of revenues for Microsoft. During the financial year 2016, the sales of Microsoft Office system and Windows PC operating system accounted to about USD 23.5 billion and USD 8.1 billion respectively. However, the volume of this specific source of revenue is dependent on external hardware manufacturers such as Dell, HP, Asus, Compaq, Acer and others, and the revenue decreases if hardware manufacturers do not ensure compatibility of their products with the Windows desktop operating system. Moreover, it can be argued that the popularity of traditional desktop computers, as opposed to smart phones and tablets, are rapidly decreasing and this tendency can be specified as a considerable weakness for Microsoft, taking into account dependence of considerable parts of its revenues on desktop PCs.
5. Security issues associated with Microsoft products remain as one of the major weaknesses of the brand. In 2015, the German-based testing firm pitted 28 antivirus programs (a mix of free and paid offerings) against 153 pieces of zero-day malware and 12,327 pieces of known malware on Windows 7 machines in a three-part test that scores on protection, performance and usability. The tests, which were conducted in December, not only had Microsoft's free antivirus tool (version 4.6) coming in dead last among 28 competitors, but it scored 0 out of 6 points in the category of malware protection. It fared better when it came to performance (4 out of 6) and scored a perfect 6 points when it came to usability.

Opportunities

1. Microsoft has initiated a set of significant mergers and acquisitions that include acquisition of Skype Global S.à r.l. ('Skype'), a leading global provider of software applications and related Internet communication products for USD 8.6 billion in 2011, acquisition of Yammer, Inc. ('Yammer'), a leading provider of enterprise social networks, for USD1.1 billion in 2012 and Nokia's Devices and Services business in 2014. Nevertheless, there is an opportunity for Microsoft to further diversify its portfolio via engaging in mergers and acquisitions with other businesses in the consumer electronics industry. Specifically, Microsoft should target companies that will assist in addressing weaknesses of the company as discussed above.
2. During fiscal years 2016, 2015, and 2014, Microsoft's research and development expenses totalled to USD 12.0 billion, USD 12.0 billion, and USD 11.4 billion, respectively. These amounts represented 14%, 13%, and 13% of revenue in fiscal years 2016, 2015, and 2014, respectively. Surface Pro 31, Surface Hub and Microsoft HoloLens have pushed the boundaries of how personal the computing experience can be, with Surface Book and Surface Pro 4 released in the last year. Nevertheless, the company is rightly criticized for the lack of innovative products and services in its pipeline. The company needs to increase the effectiveness of its research and development initiatives through promoting the culture of creativity and innovation, thus ensuring the launch of innovative products and services.
3. Despite the increasing popularity of the smartphone market segment and its emergence as a substitute to desktop computers, Microsoft is yet to offer competitive alternatives to Apple's iPhone and Samsung Galaxy smartphones. Microsoft is presented with an opportunity to satisfy growing demand for smartphones by developing competitive products of this category.
4. Increasing popularity of smartphones as discussed above has triggered the surge of popularity of mobile advertising. Microsoft's direct competitors such as Apple and Samsung have been successful in offering hundreds of thousands mobile applications free of charge thanks to mobile advertisements integrated in those applications. Microsoft has an opportunity to adopt this strategy with positive implications on the volume of sales of its smartphones.
5. Enhancing security against cybercrime is an additional important opportunity to be explored by Microsoft. The multinational technology company needs to invest considerable amounts of resources for this purpose and attract highly qualified industry experts. The company already has a Digital Crime Unit staffed by a 100-strong team of specialists. 'Set up in 2013, the Digital Crimes Unit has taken on the task of trying to fight the tide of online crime, ranging from spam attacks spreading malware through zombie computer networks to software piracy that impacts Microsoft's own bottom line. Located in a restricted area of Microsoft's Redmond campus in Washington, the unit works with companies and organisations to track down and eliminate threats.' Nevertheless, these initiatives may not be enough and there is an opportunity for Microsoft to further invest in dealing with cybercrime with positive implications for the brand image and the bottom line.

Threats

1. Microsoft has offices in more than 100 countries around the globe and it generates a substantial proportion of its revenues from international markets. Accordingly, Microsoft's financial results might be negatively impacted by the volatility in exchange rates between USD and local currencies. Specifically, there is a threat that further strengthening of USD will decrease the amount of reported profits generated by Microsoft in the global marketplace.
2. Emerging competition from east in general and from China and India in particular represent a substantial threat for Microsoft. Microsoft's current and future competitors from emerging economies will have a substantial competitive advantage associated with access to cheaper resources and it might be difficult for Microsoft to address this issue. Moreover, taking into account unique aspects of e-commerce and the IT industry, it can be argued that any new market entrant from any place can represent a threat to Microsoft's market share if they come with an innovative business idea and implement the idea in practice efficiently.
3. Microsoft is faced with a threat of being in a disadvantaged position due to the implications of anti-monopoly lawsuits. For example, in China, the company was given 20 days by the State Administration for Industry and Commerce 'to explain what they called compatibility and bundling issues with its software, putting pressure on the software maker as it faces an antitrust probe into its business practices here'. There is a threat for similar incidents to take place in other international markets where Microsoft operates.
4. There are warnings of another economic crisis from a number of respected business practitioners such as Chairman and CEO of JP Morgan Chase Jamie Dimon and Chairman of Berkshire Hathaway Warren Buffett. It has been noted that 'the world's banks are mostly stronger now than they were on the eve of the last financial crisis, but there are important exceptions. The stock of Deutsche Bank, German's biggest, has fallen 62% from its 2015 high, and Chief Executive Officer John Cryan has so far resisted an obvious solution to shore up the bank, namely raising money by issuing new shares, which would dilute the ownership of current shareholders. The German government, having inveighed against bailouts for southern European banks, is insisting it will not reverse course now for its own bank. In Italy, meanwhile, troubled loans on banks' books equal about one-quarter of the nation's GDP. If materialized, an economic crisis may have severe implications on Microsoft operations in the global marketplace.
5. Emergence of CSR-related scandals represents another threat that can cause damage to Microsoft at multiple levels. In the past, the multinational technology company had CSR-related issues such as 'use of permatemp employees (employees employed for years as temporary, and therefore without medical benefits), use of forced retention tactics, where departing employees would be sued to prevent departure, as well as more traditional cost-saving measures, ranging from cutting medical benefits, to not providing towels in company locker rooms'. The company is not insured in any way against new CSR-related scandals and this fact constitutes a major threat for the business.

(Source: Research Methodology, 2017)

Appendix 3: Microsoft Business Organization: Extract from Annual Report

Engineering Groups:

Cloud and Enterprise Engineering Group

Scott Guthrie is the leader of the Cloud and Enterprise Engineering Group, which is responsible for the company's cloud infrastructure, server, database, CRM, ERP, management and development tools businesses. His engineering team builds Microsoft Azure, Windows Server, SQL Server, Microsoft Dynamics, Active Directory, System Center, Visual Studio and .NET.

Office Product Group

Rajesh Jha leads Microsoft's business across productivity, communications, education, search and other information services, setting the vision, strategy and overall direction of the Applications and Services group, and is responsible for all of the research and development teams across Microsoft Office, Office 365, SharePoint, Exchange, Yammer, Lync, Skype, Bing, Bing Apps, MSN and the Advertising platforms and business group.

Windows and Devices Group

Terry Myerson leads this group, which focuses on the software platform, apps, games, store and devices that power the Windows ecosystem, including Microsoft Edge, Minecraft, Halo, Surface, Surface Hub, HoloLens and Xbox.

Technology and Research

Harry Shum leads Technology and Research, including Microsoft Research, Trustworthy Computing and Technology Policy, and is responsible for driving the company's overall technical directions.

Business Functions:

Business Development Group

Peggy Johnson leads the Business Development Group, focusing on key partnerships, especially our innovation partners (OEMs, silicon vendors, key developers, Yahoo, etc.) and our broad work on evangelism and developer outreach. DPE, Corporate Strategy and the business development efforts formerly in the business groups are part of this group.

Corporate, External, and Legal Affairs

Brad Smith leads as president and chief legal officer. His teams are responsible for the company's legal work, its intellectual property portfolio, patent licensing business, corporate philanthropy, government affairs, public policy, corporate governance, and social responsibility work. His teams also lead the company's work on a number of critical issues including privacy, security, accessibility, environmental sustainability and digital inclusion, among others.

Corporate Strategy & Planning

Kurt DelBene is the executive vice president of Corporate Strategy and Operations, leading the company's cross-engineering and cross-business strategy, execution and planning initiatives as well as Microsoft's IT and operations.

Finance Group

Amy Hood leads all product group finance organizations. Global Sales, Marketing and Operations

Jean-Philippe Courtois leads global sales, marketing and services for 122 subsidiaries worldwide, driving strategic planning, running global operations and shaping growth initiatives both in developed and emerging markets.

HR Group

Kathleen Hogan leads Human Resources, responsible for pushing the company's cultural transformation forward so it can thrive in a mobile-first, cloud-first world.

LinkedIn

Jeff Weiner leads LinkedIn, the world's largest and most powerful network of professionals.

Marketing Group

Chris Capossela leads Microsoft's worldwide marketing and consumer business. This includes advertising, brand, communications, research as well as Microsoft's retail stores.

Worldwide Commercial Business

Judson Althoff leads the Worldwide Commercial Business organization, including enterprise, public sector, small and mid-market, services, developer and partner.

Source: Microsoft Website

Read more at <https://news.microsoft.com/facts-about-microsoft/#rPph7Ff5SzMjZ3FD.99>

Appendix 4: Article from TechCrunch, 2 July 2017

Microsoft is laying off 'thousands' of staff in a major global sales reorganization

A source with knowledge of the planned downsizing told TechCrunch that the U.S. firm would lay off 'thousands' of staff across the world. The restructuring is set to include an organizational merger that involves its enterprise customer unit and one or more of its SME-focused divisions. The changes are set to be announced this coming week, we understand.

Microsoft declined to comment.

Earlier this weekend, the Puget Sound Business Journal, Bloomberg and The Seattle Times all reported 'major' layoffs related to a move to increase the emphasis on cloud services within Microsoft's sales teams worldwide. Bloomberg said the redundancies would be 'some of the most significant in the sales force in years.'

The reorganization looks to be a result of a change of leadership this past year. Executives Judson Althoff and Jean-Philippe Courtois took charge of Microsoft's sales and marketing divisions following the exit of long-serving COO Kevin Turner last summer. Althoff, for one, has been public in his criticism of previous sales approaches, and he is keen to make Azure a central part of the focus.

At any rate, the time is right for change, historically. The end of Microsoft's fiscal year typically falls in July, and in recent years it has been a time when the firm has announced headcount reductions.

Last year, Microsoft announced that it would cut 2,850 jobs — including at least 900 from its sales group, according to The Seattle Times — having two months earlier said it would let go of 1,850 staff related to its smartphone business. In July 2015, it made 7,800 job cuts and wrote down \$7.6 billion of its Nokia acquisition.

Appendix 5: Article from The Washington Post, 25 July 2017

An Internet revolt just saved Microsoft Paint

Microsoft Paint isn't going anywhere after all. After an outcry of long-time aspiring digital artists, Microsoft had a change of, umm, art, and said it would not discontinue the classic program. Instead, the company said an app version would be available in the Windows store.

'MS Paint is not going away', a Microsoft spokesperson said in an email. 'In addition to the new 3D capabilities, many of the MS Paint features people know and love like photo editing and 2D creation are in Paint 3D--the new app for creativity, available for free with the Windows 10 Creators Update. In the future, we will offer MS Paint in the Windows Store also for free and continue to provide new updates and experiences to Paint 3D so people have the best creative tools all in one place.'

The reversal came after word spread Monday that Microsoft planned to push Paint out of its software picture, putting it on a list of 'deprecated' features that would be included in the company's Windows 10 Fall Creators Update, set to be released this fall. The categorization meant that Paint would be available as part of the software package come autumn, but that it would no longer be subject to active development and could go away.

The label led to numerous tweets from long-time users who took to the program to paint how they were feeling. The hashtag #RIPMSPaint was also trending throughout the day.

Microsoft published a blog post Tuesday night saying the outcry of fan support led the company to clarify its plans for Paint.

'Today, we've seen an incredible outpouring of support and nostalgia around MS Paint', Microsoft said in its blog post. 'If there's anything we learned, it's that after 32 years, MS Paint has a lot of fans. It's been amazing to see so much love for our trusty old app.'

Paint launched on the company's original Windows 1.0 program in 1985. Over the years it became a staple on Microsoft software programs, winning over users with its simplicity.

In October 2016, Microsoft launched Paint 3D, which was the biggest upgrade the program ever received and allowed users to share their work in an online community. It removed its 3D Builder app for the fall update and encouraged users to use Paint 3D instead.