

# Microsoft's overview and development strategies based on multiple analyses

Boqing Zhao

Beijing Royal School, Beijing, China

**Abstract.** The development of the Internet has changed all aspects of Internet companies, patterns of people's lives, and the orientation of economic progression. Then, Microsoft company is the bellwether in internet enterprises. This article takes Microsoft company as an instance to analyze issues related with the internet industry. Via SWOT analysis, key ratios analysis, and relative evaluations, this article in-depth discuss preponderances, disadvantages, opportunities, threats, and risks of Microsoft company during its development and provides some recommendations in terms of its overall situation.

**Keywords:** Microsoft, internet, SWOT analysis, Key ratio analysis, evaluation.

## 1. Introduction

With the existence of internet, it brings people lots of conveniences and newfangled products, showing that internet is ingrained into human society. Over time, Microsoft company, the representative company among internet domain, has great potentials. This is because Microsoft is one of the most prominent companies in America, and it is in global top three brands in 2020. According to the Yahoo website, the Microsoft Company has great economy. It has huge capital reserves and its market cap reaches 2.1 trillion in March 12 2022, which is higher than most other companies.

However, Microsoft, which's mission is to empower every person and every organization on the planet to achieve more, still has four main risks.

Initially, the competition is too drastic in the technological market. Microsoft Company is in the monopolistic competition market, which means that there is no barrier entering this market, so competitors include both small and big companies. Each competitor has its own featured products, platform-based ecosystems, business model and cloud-based services. Therefore, Microsoft's failure and stagnation in innovating these elaborated before may reduce the revenue and operating margins.

Additionally, the return brought by the evolution of Microsoft is unexpected. Microsoft continues to make acquisitions and build strategic allay with other companies. However, these involve great challenges and risks. For example, cooperators may not promote Microsoft's revenue, unify employees and technology, or they may distract the focus from businesses. Then, even Microsoft makes significant evolution in products, these may not be profitable when costumers think that these novel functions are redundant and useless. For existing products, practices that monitor and percept mismanagement on them may negatively influence products' appearances and qualities.

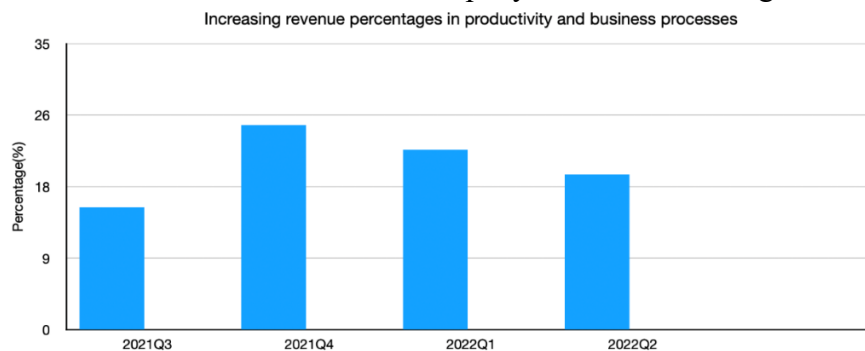
What is more, issues related to the security of products may not only reduce profits and increase costs for Microsoft, but also shield the company's reputation. Types of threats to information technology are various, which can be individuals, teams, and groups buttressed by nations. These attack the cybersecurity uninterruptedly via stealing costumers' private data and inducing employees to disclose codes and other sensitive information. Besides, online threats become more and more complex gradually, which raises the difficulty scale for identifying and defending them. For Microsoft, it may not have the ability to detect some specific bugs, meaning that these bugs may exist in the environment for a long time. Thus, when these threats destroy Microsoft's system successfully, Microsoft may delay the product development and divulge technological business secrets, allowing it allocate more resource to rectify detrimental effects and protect the company's reputation.

Finally, Microsoft may have operational risks. Increasing costumers and services require Microsoft possessing more powerful computing capacity. Therefore, Microsoft spends huge funds to build and buy database centers and equipment. Then, maintaining and expanding these infrastructures

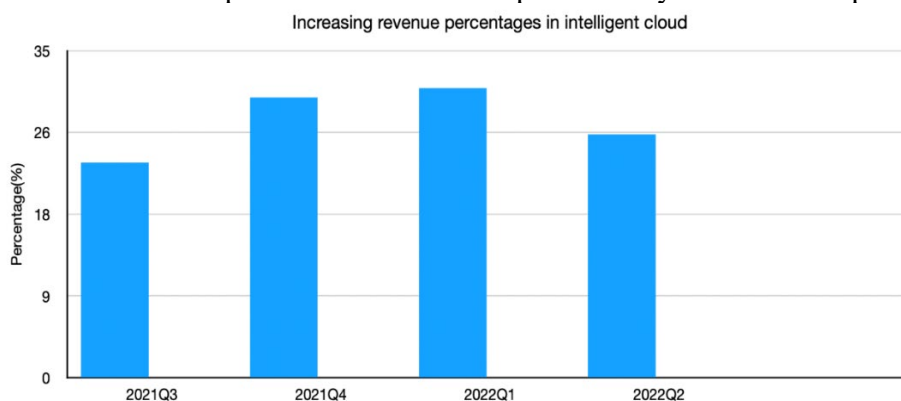
are challenging and expensive. Low efficiency and mismanagements when operating these infrastructures, such as losing costumers’ data eternally, may affect existing user experiences, lose potential customers and advertising agencies, and reduce the quality of Microsoft’s products. Besides, Microsoft’s hardware products, such as Xbox, may have defections in various aspects that are not discovered by testing. Therefore, the company may incur significant expenses and revenue losses because it needs to recall products to repair.

After analyzing Microsoft’s risks, it is necessary to determine what orientation Microsoft wants to step into. Its main businesses are personal computing, productivity in business processes, and cloud. Then, the future development of Microsoft Company is probably towards subscription transformation and the intelligent Cloud, Azure. In 2022 Q1 report according to the Microsoft official website, revenue in intelligent cloud was 17 billion dollars and increased 31%, which are all higher than these of Microsoft’s remaining businesses. As a result, the intelligent cloud has great potentials. Besides, increasing the investment in the Cloud can not only increase the company’s revenue, but also lay the foundation for the company. Meanwhile, implementing the software subscription system increases the profit via promoting subscribers. Subscription has been proved that it is an effective means to increase the revenue. The similar example is that the stock price of Adobe has increased for about 10 percent after it exerts the subscription system. In 2022 Q1 report, Microsoft 365 consumer subscribers increased to 54.1 million and the revenue increased 10%. In conclusion, Subscription increases profits directly, and cloud increases the revenue.

Finishing Scrutinizing the Microsoft overall company, it is crucial to use the macroscopic perspective to determine Microsoft’s condition in the overall industry. Eventually, even Microsoft has some defections, the result shows that Microsoft is in the high growth stage of life cycle, which means its growth percentage must be over 10 percent. As Fig.1 shows, according to 2021 Q3, 2021 Q4, 2022 Q1, and 2022 Q2 reports, revenue in productivity and business processes increased by 15%, 25%, 22%, and 19% respectively. Similarly, as Fig.2 shows, revenue in intelligent cloud increased by 23%, 30%, 31%, and 26%, and revenue in more personal computing increased by 19%, 9%, 12%, and 15% as Fig.3 shows. These three aspects, which all increased by more than10% each quarter for four quarters, consist the business of Microsoft Company. Thus, Microsoft grows highly currently.



**Fig 1.** Horizontal comparison in revenues of productivity and business processes



**Fig 2.** Horizontal comparison in revenues of intelligent cloud

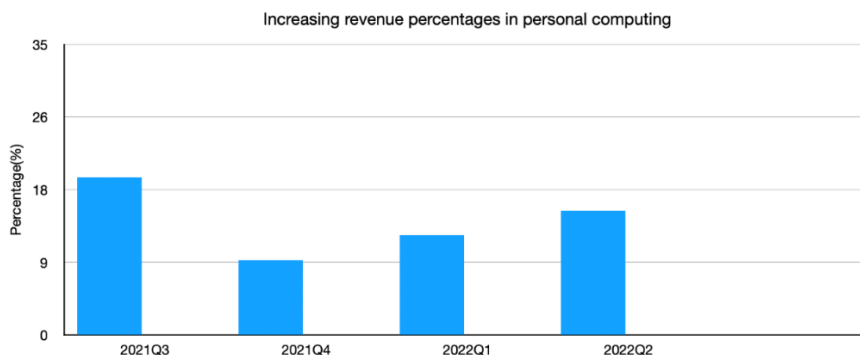


Fig 3. Horizontal comparison in revenues of personal computing

Microsoft has some main competitors, which are Apple, ORCL, Google, IBM, and Amazon. Through key ratio analysis and SWOT analysis, Microsoft’s merits and demerits can be showed conspicuously in these extreme competitive markets.

## 2. Key ratios analysis

In terms of the profitability ratio, Microsoft becomes outstanding in profit margin both vertically and horizontally. Horizontally, according to macrotrends website, From June 30 2017 to June 30 2021, net profit margins over these five years are about 26.4 percent, 15 percent, 31.2 percent, 31 percent, and 36.5 percent, as Fig.4(a) shows, proving that Microsoft’s profitability increases hugely as time passes. According to Yahoo website, vertically comparing with its competitors’ profitability ratios, Microsoft is also successful in yielding profits. As Fig.4(b) shows, Microsoft’s current profit margin is 38.5 percent. By contrast, ORCL’s current profit margin is 24.79 percent, Apple’s current profit margin is 26.58 percent, Google’s current profit margin is 29.51 percent, Amazon’s current profit margin is 7.1 percent, and IBM’s current profit margin is 10.01 percent, which are all lower than Microsoft’s.

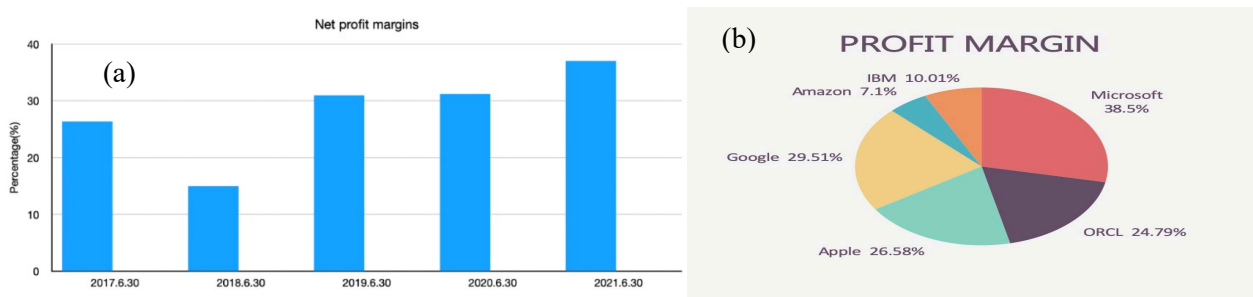


Fig 4. (a) Horizontal comparison in net profit margins (b). Vertical comparison in profit margin with competitors

Secondly, in terms of liquidity ratios, which refers to both an enterprise’s ability to pay short-term bills and debts and a company’s capability to sell assets quickly to raise cash, Microsoft’s current ratio decreases as a whole, showing that Microsoft’s abilities in these aspects become weaker. According to the Macrotrends website, from December 31 2017 to December 31 2021, current ratios over these five years are 2.89, 3.12, 2.80, 2.58, and 2.25 as Fig.5(a) shows. According to Yahoo website, Microsoft’s recent current ratio is 2.25. Then, Google’s current ratio is 2.93, Apple’s current ratio is 1.04, IBM’s current ratio is 0.88, ORCL’s is 1.52, and Amazon’s is 1.14 as Fig.5(b) shows. As far as concerned, even though Microsoft’s current liquidity has a downward fluctuation during recent periods, it is still very extraordinary in the corresponding market meanwhile.

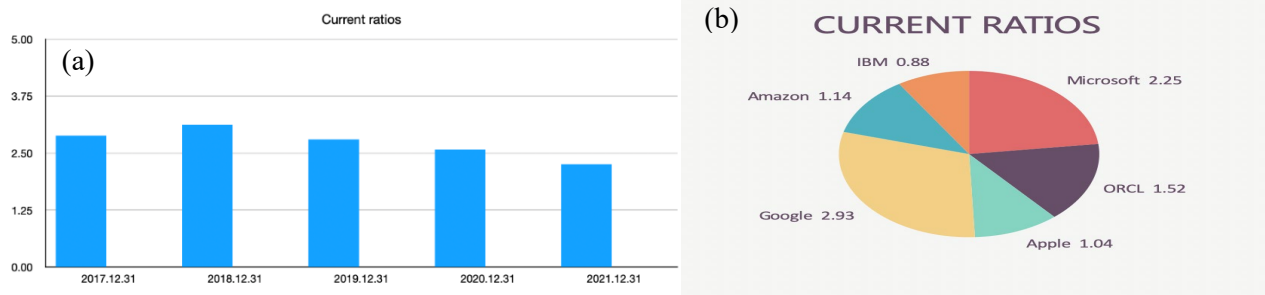


Fig 5. (a) Horizontal comparison in current ratios (b). Vertical comparison in current ratios with competitors

### 3. SWOT analysis

Regarding strengths, it is one of the largest companies all over the world, which means the brand can have superior customer loyalty and vast market reach. Besides, stable foundation and huge fund enable Microsoft exert its marketing strategies, glorifying its products. In terms of Microsoft's software and products, they are user-friendly and have high quality standards.

Also, Microsoft Company grasps opportunities. Since Biden became the American president, America government paid more attention to the environment protection, recycling, and renewable resources, and one specific policy stated that the power industry should be zero carbon pollution. Microsoft began to make the innovation while it notices this political conversion. In 2021, Microsoft developed a novel mouse which was made by a new resin from recycled plastic bottles from the ocean. The mouse contained 20 percent of recycled marine plastic, meaning that purchasing this novel mouse twice was just like recycling one plastic bottle from the ocean. Besides, in terms of product packaging for the mouse, Microsoft utilized absolutely recyclable packaging based on recycling woods and sugar canes. All of these progresses are corresponded with Microsoft's commitment about "realizing negative carbon emissions by 2030". At the same time, it is expected that Microsoft can help industries and enterprises make breakthroughs in recycling, which Microsoft can get benefits from as well, such as spreading its reputation further. Other opportunities-expanding the cloud business because it has obtained huge success, developing artificial intelligences, and focusing on the smartphone industry which is rapidly developing nowadays-are all seized by Microsoft.

About weaknesses, Microsoft's internet browser segment lacks market share. According to the Stat Counter website, until January 2022, Edge 97-Microsoft's browser-only take up 2.85 percent market share. By contrast, Google's chrome browser takes up 34.68 percent, and Apple's safari takes up 14.67 percent. At the same time, Microsoft lacks the innovation in hardware products. For example, Microsoft does not really have the tablet product, just like Apple's iPad. Besides, its phones are totally failed. In 2017, Microsoft gave up the phone business because its market share was only about 0.1 percent. In 2019, even Microsoft returned into the phone market, its published phone used Android system instead of its own Windows 10 Mobile system, which means it compromised.

In terms of threats, Microsoft's Xbox Live game service receive many criticisms because homosexuality cannot be mentioned in the user's profile, which dissatisfies gays in America. What is more, as time passes, more and more people start to focus on smartphones and notepads, but the harsh reality is that Microsoft occupies tiny shares in these markets. By the way, as it mentioned in the risk part of this essay, soaring cybercrime thefts and costumers' privacy issues will have a detrimental effect on Microsoft's reputation and potential targets if it does not fix this problem in time.

As far as concerned, Microsoft has no fatal problems with its products and operations, which means it will have a brilliant future, but its stock is still be overvalued. According to Yahoo Finance Website, Microsoft's trailing PE and Forward PE are 31.42 and 32.26, similarly, 28.01 and 28.25 for Apple (overvalued), 22.88 and 15.06 for ORCL (overvalued), 24.12 and 23.7 for Google (undervalued), 24.98 and 12.76 for IBM (near fair valued), and 47.88 and 52.36 for Amazon

(overvalued). Based on competitors' valuation situations, Microsoft may be overvalued. Then, PEG ratio supports this conclusion as well. When PEG ratio is less than 1, the stock is relatively undervalued. By contrast, when PEG ratio is bigger than 1, the stock is relatively overvalued. Microsoft's current PEG ratio is 2.4, so it may be overvalued.

#### **4. Conclusion and suggestion**

Microsoft company, established in 1975, is more historical than most competitors, only except IBM company. Therefore, the time advantage lays its financial advantage. Microsoft has huge capital stock, market share, and good development prospects, but its weakness-especially in the phone industry-should not be ignored. Microsoft seizes the chance that caters the government policy, being beneficial to its growth, but its risk-operational risks, security risks, sexual-orientation discrimination and so forth-cannot be overlooked either. As the internet industry flourishes, uncertainty in the future will become more and more, and competition will become more drastic. Thus, Microsoft company should develop strengths, avoid weaknesses, and complement other advantages. It is necessary for Microsoft company to maintain certain cooperative relationships with other companies, but also retain competitive relationship with them, so as to motivate its own development. People who have Microsoft's stocks may sell them because Microsoft is overvalued. However, Microsoft's stock is still deserved to be bullish and favored by people because of its successful businesses, widespread reputation, and distinguished performances.

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