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MICROSOFT: IS THE CREATIVE SPARK BURNING OUT?

Microsoft was built on innovation, and our future depends on it.

- Bill Gates, chairman, and Steve Ballmer, chief executive officer, Microsoft[1]

In July 2010, Microsoft, the global leader in software, services and solutions, announced record revenue of US$62.48 billion for the year ending 30 June 2010, an increase of 7% from the previous year. This came as a relief to investors, given that the previous year had seen the company report its first-ever annual drop in sales.

Founded in 1975, Microsoft's software pervaded computers worldwide. The company had traditionally been regarded as being on the cutting edge of software and services. However, for some time—particularly since the middle of the last decade—it had been increasingly criticised for having had the opportunity for massive disruptive potential in the market but repeatedly allowing it to slip away. Its huge employee base of bright and talented engineers had not kept up with the creativity and innovation displayed by its competitors, whether it was Apple's iPod or iPad, Google's search engine, Nintendo's Wii, Amazon's Kindle, or social networking services such as Facebook and Twitter. Despite its undisputed financial success, Microsoft was being described as having become a "clumsy, uncompetitive innovator".[2] In a tangible reflection of this concern, on 26 May 2010, Microsoft's position as the technology industry's most valuable player was overtaken for the first time in many years, when Apple exceeded the company's US$219.2 billion market capitalisation by almost US$3 billion.[3]

[1] Microsoft (2004) "Annual Report", Letter to Shareholders.
[2] Brass, D. (4 February 2010) "Microsoft's Creative Destruction", *The New York Times,* http://www.nytimes.com/2010/02/04opinion/04brass.html (accessed 18 May 2010).
[3] Ellis, B. (27 May 2010) "Apple Topples Microsoft's Throne", *CNNMoney.com*, http://money.cnn.com/2010/05/26/technology/apple_microsoft/index.htm?hpt=T2 (accessed 29 May 2010).

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On 4 October 2010, Goldman Sachs downgraded Microsoft's stock, which it had supported since the company's initial public offering in 1986:

> *In our view the intrinsic value of the shares cannot be realized if the status quo remains intact. We believe that top-line momentum and hence investor sentiment on Microsoft's core Windows and Office franchises is unlikely to improve until the company gains a firmer foothold in the growing migration to mobile devices. … In addition, we have increased caution near term on a more elongated PC refresh cycle, combined with the newer threat of notebook cannibalization from tablets, where Windows does not yet have a presence.*
>
> - Sarah Friar, Goldman Sachs analyst[4]

Why was Microsoft no longer creating the truly disruptive and breakthrough technological products and services that the company used to pride itself on? How could the company once again regain its position as the powerhouse of technology innovation?

History of Microsoft

Microsoft, the behemoth software manufacturing giant, was founded by two school friends, Bill Gates[5] and Paul Allen,[6] who had started writing computer programs when they had just entered their teens. In 1975, Allen came across an issue of the hobby magazine *Popular Electronics*, which was selling by mail-order the MITS Altair 8800, a newly launched microcomputer kit released by MITS Computer. Both Gates and Allen were convinced that there was great potential for software to be developed for the Altair and other desktop computers they believed would follow. Thus they wrote a programming language for the machine, released the program and licensed it to Altair. Later that year, Gates dropped out of Harvard to work full-time developing programming languages for the Altair. Subsequently, Allen too joined MITS as director of software. A few months later, Gates and Allen set up an informal partnership, which was initially named Micro-soft, an abbreviation of "microcomputer software". Their revenues for 1975 totalled all of US$16,000. It was from this humble start that Microsoft went on to achieve its mission "to help people and businesses throughout the world realize their full potential".[7]

One of the critical turning points in the company's success came in 1981, when it licensed Microsoft Disk Operating System ("MS-DOS"),[8] a 16-bit operating system for the new personal computer ("PC") being developed by the International Business Machines Corporation ("IBM").[9] At the time, Microsoft was still a fledgling company with fewer than 40 employees and just about US$7 million in sales, while IBM was a global giant with over 325,000 employees and annual revenue of almost US$30 billion.[10] Microsoft negotiated a very favourable contract with IBM, which enabled it to successfully piggyback on the resounding success of the IBM PC. In 1985, the company signed a joint development agreement with IBM.

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[4] Blodget, H. (4 October 2010) "Goldman Downgrades Microsoft (MSFT), as Wall Street Begins to Throw In the Towel", http://www.businessinsider.com/goldman-downgrades-microsoft-msft (accessed 7 October 2010).

[5] Gates, the precocious second child of a lawyer and a teacher, was born in 1955 in Seattle, US.

[6] Allen was born in 1953 in Seattle. His father was an associate director of the University of Washington library.

[7] For further details, see Microsoft's website: http://www.microsoft.com.

[8] Microsoft bought QDOS, or "quick and dirty operating system", for US$50,000 from a Seattle programmer and renamed it MS-DOS.

[9] Microsoft was actually IBM's second choice as a software partner, and was only approached when IBM's deal with Digital Research did not go through.

[10] Tate, C. (22 April 2000) "Microsoft Corporation", *HistoryLink.org,* http://www.historylink.org/index.cfm?DisplayPage=output.cfm&file_id=2294 (accessed 27 May 2010).

1985 was also when Microsoft shipped Windows, a graphics-based version of MS-DOS. The usage of words such as "menu" and "icon" became popular, and helped simplify PCs for lay users. Windows remained one of the biggest contributors to the company's revenue, with frequent upgrades being made every few years. In 1986, Microsoft went public with a share offering of US$21 per share, resulting in Gates and Allen[11] becoming billionaires overnight. In 1989, the company launched the Microsoft Office software suite, which, along with Windows, became one of the company's flagship products. In 1995, Microsoft realised it could no longer ignore the growing significance of the internet and the networked economy, and launched the Microsoft Network ("MSN"), a web portal that offered an assortment of internet services.

It was in 1997–98 that Microsoft faced the first of its legal problems with monopoly and antitrust issues, which continued to plague the company for many years. Both the US Justice Department and the European Union found that Microsoft had breached antitrust law by bundling its Windows operating system with other Microsoft software—including the Internet Explorer browser and Windows Media Player—thereby stifling competition and limiting consumer choice.[12] The company was forced to uniformly license its operating systems and allow computer manufacturers to include their competitors' software with Windows. In Europe too, Microsoft had to offer European computer manufacturers a stripped-down version of Windows by taking out its media player software.[13] As a result of these legal challenges, Microsoft's legal costs for the year ending 30 June 2008 amounted to a whopping US$1.8 billion, of which a staggering US$1.4 billion went toward paying the fine imposed by the European Commission.

In 2001, realising the impact that the booming videogame market may have on its traditional PC and software domains, Microsoft launched its videogame console, the Xbox. In 2002, Microsoft and its partners launched the Tablet PC, which could function as a sheet of paper, and accepted data input by several modes, such as keyboard, mouse, pen and voice. In 2009, Microsoft launched Windows 7, which was the first PC operating system by Microsoft that did not require more advanced machines to run than prior versions, and was touted by the company as the "fastest selling operating system in history"[14] [see **Exhibit 1**].

Microsoft's Areas of Business

Since its inception, Microsoft had been in the business of "creating technology that transforms the way people work, play, and communicate".[15] The company was truly global; as of April 2010, it had offices in more than 100 countries and a global headcount of over 88,000 employees. However, the fiscal year ending 30 June 2009 was a difficult year for Microsoft, as the company reported its first-ever annual drop in sales [see **Exhibit 2**]. While it had still made US$58.44 billion in sales, this was a 3.2% fall from the previous year's sales of US$60.42 billion. Net profit had dropped by 17%, from US$17.68 billion to US$14.57 billion. However, with the successful launch of Windows 7 and Office 2010, the year ending 30 June 2010 was better, and the company stated record revenue of US$62.48 billion, with net profit of US$18.7 billion [see **Exhibit 3** for financial data]. The company had attributed the fall in 2009 revenue across most segments largely to the global recession and a weak PC market worldwide.

[11] In 1983, Allen left Microsoft when he discovered that he had developed Hodgkin's disease.
[12] US Department of Justice (30 August 2007) "Review of the Final Judgments by the United States and New York Group", http://www.justice.gov/atr/cases/ms_index.htm (accessed 27 September 2010).
[13] Lower, J. (2005) "Microsoft Corporation", Hoover's Company Information.
[14] For further details, see Microsoft's website: http://www.microsoft.com.
[15] Ibid.

Operating Segments and Competition

Microsoft generated revenue "by developing, manufacturing, licensing, and supporting a wide range of software products and services for many different types of computing devices".[16] The company's operations were broadly divided into the following five segments: Client; Server and Tools; Online Services Business; Microsoft Business Division; and the Entertainment and Devices Division [see **Exhibit 4** for a breakdown of financial data by segment].[17]

Client

This segment included the Windows product family and was responsible for relationships with PC manufacturers. For the fiscal year 2009, this segment contributed approximately 25% to overall revenue. Of all Client revenue, 80% came from original equipment manufacturers, which pre-installed versions of Windows on their machines. The overall weakness in the PC market in the fiscal year 2009 resulted in a decrease in this segment's revenue. The Windows product family faced competition from the products of other PC software manufacturers, such as Apple, Canonical and Red Hat. It also had to compete against platforms and new products (particularly mobile devices) that had the potential to reduce demand for the traditional PCs that Microsoft's software was made for.

Server and Tools

This segment primarily targeted improved productivity and efficiency for developers and technology professionals. It comprised server software licenses and client access licences for Windows Server and other server offerings. This segment also offered training and consulting services. The principal contributor—comprising approximately half of this segment's revenue—was multi-year licensing agreements. The Server and Tools segment recorded annual growth of about 8% (US$809 million) in the fiscal year 2009, despite competition from a range of companies such as IBM and Sun Microsystems.

Online Services Business

This included services such as: an online advertising platform for publishers and advertisers; personal communications services such as e-mail and instant messaging; online information services such as Bing and Live Search; and MSN portals around the globe. The majority of revenue was earned through online advertising, digital marketing and advertising agency services, and from MSN narrowband internet access subscribers. During the fiscal year 2009, revenue decreased by about 4% from the prior year, primarily due to a decrease in online advertising[18] resulting from the overall business environment, but also due to a fall in access revenue,[19] with subscribers migrating to broadband or other cheaper service providers. The operating losses deepened with increases in the cost of revenue, largely on account of increased costs related to online traffic acquisition, data centres and equipment, and headcount. This segment, particularly Microsoft's search engine Bing, faced aggressive competition from AOL, Google, Yahoo! Inc ("Yahoo"), and many other websites and portals that provided content and online offerings of all types to end users. In July 2009, Microsoft announced that by 2010 it hoped to improve the effectiveness of its search services by entering into a 10-year agreement with Yahoo, under which Microsoft would provide the "exclusive algorithmic and paid search platform for Yahoo websites".[20]

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[16] For further details, see Microsoft's website: http://www.microsoft.com.

[17] Microsoft (19 November 2009) "Fast Facts about Microsoft", http://www.microsoft.com/presspass/inside_ms.mspx (accessed 1 June 2010).

[18] Online advertising fell 3%—a drop of US$73 million.

[19] Access revenue fell US$72 million, or about 28%.

[20] For further details, see Microsoft's website: http://www.microsoft.com.

Microsoft Business Division

This was the largest contributor (about one-third) of Microsoft's total revenue, and primarily included the Microsoft Office suites; Microsoft Dynamics;[21] and Unified Communications business solutions. The revenue from this segment for the fiscal year 2009 remained largely unchanged since the previous year at US$18 billion, over 90% of which was generated from the Microsoft Office packages. This segment faced competition from several other software application vendors, such as Adobe, Apple, Corel, Google and IBM.

Entertainment and Devices Division

This segment comprised the Xbox videogame system (including consoles and accessories), Xbox Live operations, the Zune digital music and entertainment device, Mediaroom, mobile and embedded device platforms, the Surface computing platform, and Windows Automotive. This segment was also responsible for developing Microsoft's line of consumer software and hardware products and saw to all the retail marketing and sales for Microsoft Office and Windows operating systems. For the fiscal year 2009, revenue dropped across most of the segment's offerings, resulting in an overall decline of revenue for this segment by about 6% (US$453 million). This business was intensely competitive in terms of product and price, with the majority of competition to the company's Xbox hardware business coming from Nintendo's Wii and Sony's PlayStation.

Key Trends and Players in the Software Industry

Microsoft faced competition from a host of companies in the software industry, where its principal product offerings were the Microsoft Office applications and the Windows family. Microsoft's Entertainment and Devices segment also competed in the videogame industry; however, its contribution of about 13% to the company's overall revenue was not as significant.

The technology industry had demonstrated steady growth until 2008, when the global financial crisis caused companies to curb investments. As a result, IT purchases in the US shrank almost 9% in 2009, according to Forrester Research.[22] For 2010, it was expected to pick up, although the expectations ranged from a conservative 2.8% prediction by research firm Gartner (to reach US$958 billion) to 7.7%, as predicted by Forrester.[23]

It was suggested that the growth in Apple's value signified an important cultural shift, whereby it was no longer business needs but rather consumer tastes and preferences that were the primary forces shaping technology.[24] Traditionally, the software industry had revolved around a PC-based, client/server approach. However, it was observed that computational capability was increasingly being incorporated into non-PC products, such as phones and appliances. The other important trend was in cloud computing, which was a major shift toward combining the internet and computing, with immensely scalable IT-related capabilities for software, content and data being maintained in remote servers and provided as services to customers through computers, phones and other devices on demand, thereby freeing the users from the responsibility and financial burden of managing the technology infrastructure that

[21] Microsoft Dynamics products provided business solutions for financial management, customer relationship management, supply chain management, and analytics applications for small and medium-sized businesses, large organizations, and divisions of global enterprises.

[22] Bednarz, A. (5 January 2010) "Tech Industry Trends 2010: A Year of Guarded Hope", *PC World*, http://www.pcworld.com/article/185828/tech_industry_trends_2010_a_year_of_guarded_hope.html (accessed 1September 2010).

[23] Ibid.

[24] Helft, M. and Vance, A. (26 May 2010) "Apple Passes Microsoft as No. 1 in Tech", *The New York Times*, http://www.nytimes.com/2010/05/27/technology/27apple.html?ref=technology (accessed 19 June 2010).

supported these services.[25] This was expected to have an evolutionary effect on the IT industry. In 2008, a Gartner report on cloud computing stated that it had the opportunity "to shape the relationship among consumers of IT services, those who use IT services and those who sell them".[26] Another significant expectation from the software industry was the projected boom in the mobile devices industry, which industry experts had surmised to be the future of the personal computing technological world.[27]

Key Competitors

Microsoft's key competitors in this industry were many. Some of the most significant were Apple, IBM, Google and Yahoo.

Apple

In March 2010, for the third time in a row, *Fortune* magazine named Apple the "world's most admired company".[28] This time Apple had won the vote by the highest-ever margin seen for first place.

> *What makes Apple so admired? Product, product, product. This is the company that changed the way we do everything from buy music to design products to engage with the world around us. Its track record for innovation and fierce consumer loyalty translates into tremendous respect across business' highest ranks.*
>
> - Christopher Tkaczyk, *Fortune*[29]

Apple designed, manufactured and marketed the Mac line of desktop and portable computers, mobile communication devices such as the iPhone, the iPod range of portable digital music and video players, and a variety of other related software and services. However, Apple had not always tasted such success. The company was co-founded by a pair of teenagers, Steve Jobs and Steve Wozniak. While both Apple and Microsoft revolutionised the personal computing industry in the 1970s, Microsoft soon left Apple far behind. By 1985, Jobs resigned as chairman of Apple after having lost a boardroom battle for control of the company. The turnaround started in 1996, when Jobs returned to Apple. His legendary vision for what customers wanted, coupled with an investment of US$150 million from Microsoft, set the company on a sure road to recovery.

With the introduction of the iPod music players and creation of the iTunes online music store, Apple came to dominate the music distribution business and compete with such giants as Sony. In 2007, the company released yet another revolutionary product, the iPhone, which soon displaced Nokia as the leading brand in mobile phones. In 2010, the market was once again disrupted by an Apple product, the iPad, a tablet computer with the potential to change the way people interact with their devices.[30] In between there were several other breakaway product releases, such as the iMac, the iBook, Mac OS X and the MacBook.

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[25] Well known cloud applications included Google Apps, iTunes, Facebook and Hotmail.

[26] Schurr, A. (8 July 2008) "Keep an Eye on Cloud Computing", *Network World*, http://www.networkworld.com/newsletters/itlead/2008/070708itlead1.html (accessed 17 June 2010).

[27] Lashinsky, A. (7 June 2010) "Steve Ballmer Doesn't Get It", *Fortune*, http://tech.fortune.cnn.com/2010/06/07/steve-ballmer-doesn't-get-it (accessed 30 June 2010).

[28] Tkaczyk, C. (22 March 2010) "World's Most Admired Companies", *CNNMoney.com*, http://www.money.cnn.com/magazines/fortune/mostadmired/2010/full_list/index.html (accessed 17 June 2010).

[29] Ibid.

[30] Helft, M. and Vance, A. (26 May 2010) "Apple Passes Microsoft as No. 1 in Tech", *The New York Times*, http://www.nytimes.com/2010/05/27/technology/27apple.html?ref=technology (accessed 19 June 2010).

Thus while Apple grew increasingly innovative, Microsoft struggled to create new products that could disrupt the market. There was hence little doubt that "Apple was viewed by Wall Street … as an investment in innovation and growth; and Microsoft, by contrast, as a dubious bet on the status quo."[31] Apple's financials reflected this sentiment [see **Exhibit 5**], with perhaps the highlight having taken place on 26 May 2010, when it exceeded Microsoft's US$219.2 billion market capitalisation by almost US$3 billion.[32]

IBM

IBM was the world's largest provider of computer products and services. The company's major operations comprised providing IT infrastructure services and business process services, professional services and application outsourcing services, middleware[33] and operating systems software, business solutions requiring advanced computing power and storage capabilities, and facilitating clients' acquisition of IBM systems, software and services. IBM had taken significant steps to improve productivity and to shift its business mix to more profitable segments. As a result, despite the downturn in the industry resulting in revenue falling by 5% to US$95.8 billion as of 31 December 2009, IBM's gross profit margin rose for the sixth consecutive year to 45.7%. Pre-tax income margin too showed an increase by 9% to US$18.1 billion, its highest ever [see **Exhibit 6** for financial data].[34]

IBM's intellectual capital portfolio was huge. The company held more patents than any other company in the world, and each year it added to its lead.[35] The company was also acutely aware that it was not enough to merely create innovations and radically new technologies; it also had to ensure that these could move into its already huge product portfolio and start generating revenue. One of the ways this was done was through IBM's Innovation Jam in 2006. The Innovation Jam brought together 150,000 employees and stakeholders, and was a forum for participants to brainstorm new ways to use new technologies and work on business plans for key ideas.[36]

Google

Google was founded in 1998 by Sergey Brin and Larry Page, each of whom had nearly 30% voting control of the firm as of 2010. The company was the leading internet search engine operator and offered targeted search results from billions of web pages. Nearly 97% of the company's revenue in 2008 and 2009 was generated through search advertisement sales, as advertisers could deliver relevant ads targeted to search queries or web content. Along with the basic Google search, the company had also expanded its product range to include products such as Google Books, Google Maps, Google Apps, and Google News. Google subsidiaries included YouTube and DoubleClick. Despite the global recession, Google increased its revenue for the year ending 31 December 2009 to US$23.7 million from US$21.8 million in the previous year. This was primarily a result of an increase in the number of paid clicks through its advertising programmes, partially offset by a decrease in the average cost per click paid by its advertisers [see **Exhibit 7** for financial data].

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[31] Elmer-DeWitt, P. (27 May 2010) "Microsoft in the Steve Ballmer Era", *Fortune*, http://tech.fortune.cnn.com/2010/05/27/microsoft-in-the-steve-ballmer-era (accessed 19 June 2010).

[32] Ellis, B. (27 May 2010) "Apple Topples Microsoft's Throne", *CNNMoney.com*, http://money.cnn.com/2010/05/26/technology/apple_microsoft/index.htm?hpt=T2 (accessed 29 May 2010).

[33] Middleware software enabled clients to integrate systems, processes and applications across otherwise incompatible software platforms.

[34] For further details, see IBM's website: http://www.ibm.com.

[35] Bjelland, O. and Wood, R. (1 October 2008) "An Inside View of IBM's 'Innovation Jam'", *MIT Sloan Management Review*, http://sloanreview.mit.edu/the-magazine/articles/2008/fall/50101/an-inside-view-of-ibms-innovation-jam/2 (accessed 18 September 2010).

[36] Ibid.

Google, with its Android operating system and mobile advertising, was by 2010 perceived to be a new and powerful rival to the industry leader, Apple, in mobile devices. It was also moving ahead of Apple with internet-connected televisions, an area which could have a brilliant future. According to Tim Bajarin, a technology analyst, "The battle has shifted from Microsoft against Apple to Apple against Google. Apple has a significant lead. But Google is going to be a powerful competitor."[37]

Yahoo!

Yahoo was formed in 1994 by two graduate students, David Filo and Jerry Yang. The company was a leading online portal, attracting customers to its network of websites with a mix of news, entertainment and shopping. The company generated most of its revenue by providing marketing services to advertisers across a majority of its sites. It published content in over 25 languages, and Yahoo remained the number one portal in some markets, including Malaysia and Hong Kong.[38] The year ending 31 December 2009 showed a decline in revenue of about 10% as compared to 2008, which the company attributed primarily to the economic environment [see **Exhibit 8** for financial data].[39]

Yahoo had a reputation for being bureaucratic and slow to innovate, especially in contrast to its rival Google.[40] In a major step taken to address this challenge, in 2006 Yahoo formed Brickhouse, an offsite incubator tasked with ensuring that new innovations and ideas reached the market as soon as possible. As stated by Salim Ismail, the head of Brickhouse, "The goal is to take the idea, develop it, and make sure it's seen by senior management quickly. We need to iterate, see customer reactions, and launch fast."[41]

Innovation at Microsoft

Microsoft Products

When launched, Microsoft products have typically been judged harshly by reviewers. For instance, David Kirkpatrick, writing for *Fortune* magazine, described the initial release of Windows NT as a "typically unreliable, bug-ridden Microsoft mess".[42] Microsoft's first real experience of the problems associated with its inefficient approach to new product development was when the dotcom bubble burst in 2000. It then found that the erstwhile near-monopoly it had on PC operating systems and office software was being challenged by new, smarter, smaller and nimbler competitors, who were launching popular internet programs such as email and instant messengers at a rapid pace. While Microsoft still had a winner in its flagship product, Windows, this too had evolved into a highly complex product that was proving extremely difficult to upgrade and test.

One of the criticisms levied against Microsoft was its traditional preference for higher-margin and lower-risk software over the riskier business of hardware development. While this made financial sense, it also implied that the company could not match its competitors' highly integrated and innovative products, thus placing it second to such companies as Apple. As stated by Scott McNealy, the co-founder and chief executive of Sun Microsystems, "Steve

[37] Helft, M. and Vance, A. (26 May 2010) "Apple Passes Microsoft as No. 1 in Tech", *The New York Times*, http://www.nytimes.com/2010/05/27/technology/27apple.html?ref=technology (accessed 19 June 2010).
[38] ComScore (2010) "Press Release", http://comscore.com/Press_Events/Press_Releases/2010/8/.../eng/US (accessed 29 September 2010).
[39] For further details, see Yahoo's website: http://www.yahoo.com.
[40] Jana, R. (15 November 2007) "Case Study: Yahoo!'s Hot Innovation Incubator", *Bloomberg Businessweek*, http://businessweek.com/innovate/content/nov2007/id20071114_614922.htm (accessed 30 September 2010).
[41] Ibid.
[42] Kirkpatrick, D. (26 May 1997) "He Wants All Your Business and He's Starting to Get It",*CNNMoney.com,* money.cnn.com/magazines/fortune_archive/1997/05/26/226644/index.htm (accessed 12 August 2010).

(Jobs) saw way early on, and way before Microsoft, that hardware and software needed to be married into something that did not require effort from the user. Apple's products are shrink-wrapped and ready to go."[43]

Another criticism of Microsoft's new products was that they tended towards imitation rather than true innovation. As commented by industry expert Brent Schlender:

> *Microsoft has long been dissed by the digerati as a big fat copycat ... Microsoft has more than once found itself defending its methods of software development in court ... In each contest, Microsoft staunchly defended itself by citing its fundamental right to "innovate." Yet its modus operandi has most often been to replicate and try to improve upon others' successful software ideas, and then absorb them into its products. That's pretty much how it overthrew Lotus and WordPerfect with its Office productivity suite in the early 1990s, how it is attacking Oracle and IBM with its SQL database software today, how it hopes to displace Sun's Unix-based enterprise and Web server products with Windows 2000, and outdo Yahoo and AOL with its oft-reconfigured MSN online services. All these lucrative digital franchises were pioneered by others and grew so fast that Microsoft's hyper-competitive brain trust found it impossible to just sit by and watch.*
>
> - Brent Schlender, *Fortune*[44]

The tendency Schlender criticises was also demonstrated by Microsoft's foray into the videogame industry. Microsoft had neglected the booming entertainment sector right until 2001, when it could no longer ignore the resounding success of the Sony PlayStation and its potential threat to Microsoft's highly profitable traditional software market. In 2005, when it launched the Xbox 360, a new version of its Xbox console, it discovered that this product could not meet the challenge offered a year later by the smaller, cheaper and technologically far inferior Wii developed by Nintendo, which simply swept the videogame industry.

Hence, the question remained: why was there a lack of truly innovative and disruptive products from the Microsoft stable? In an email sent to Gates and Ballmer in January 2004, Microsoft executive Jim Allchin commented:

> *I am not sure how the company lost sight of what matters to our customers (both business and home) the most, but in my view we lost our way. I think our teams lost sight of what bug-free means, what resilience means, what full scenarios mean, what security means, what performance means, how important current applications are, and really understanding what the most important problems [our] customers face are. I see lots of random features and some great vision, but that doesn't translate onto great products.*
>
> - Jim Allchin, Microsoft executive[45]

It was difficult to believe that a company as successful as Microsoft could have its products criticised so much. As noted by Kirkpatrick, "For 15 years, as the company has racked up one victory after another, jealous observers and rival executives have carped that Microsoft is nothing more than an overbearing marketer popularizing work bought or appropriated from

[43] Helft, M. and Vance, A. (26 May 2010) "Apple Passes Microsoft as No. 1 in Tech", *The New York Times*, http://www.nytimes.com/2010/05/27/technology/27apple.html?ref=technology (accessed 19 June 2010).
[44] Schlender, B. (28 June 2001) "Microsoft: The Beast Is Back", *Mutual of America*, www.mutualofamerica.com/articles/Fortune/2001_06_28/micro.asp (accessed 12 August 2010).
[45] Allchin, J. (7 January 2004) "Jim Allchin's Mac Message: The Full Text", *Seattlepi.com*, http://blog.seattlepi.com/microsoft/archives/110354.asp (accessed 15 August 2010).

others."[46] It appeared that these critics perceived Microsoft's success to be only partly anchored in the company's technological prowess, and that it was instead largely a result of the company's marketing prowess, acquisitions and highly aggressive competitive tactics.[47] This perception was supported by Microsoft's long list of acquisitions in the industry [see **Exhibit 9**].

Research and Development at Microsoft

Microsoft undoubtedly had a large research budget and some of the finest minds in the industry. As Ballmer commented in May 2010, the company would be spending about US$9.5 billion on research and development ("R&D").[48] However, critics often complained that Microsoft's R&D efforts appeared inadequate in recognising opportunities and getting its timing right in the highly volatile technology industry. For instance, it acted too soon with its Web TVs, and too late in the case of the mobile devices industry (widely seen as the future of the software industry). Microsoft's Windows phone was struggling to catch up with other industry players, particularly Apple's iPhone.

> *Ballmer's reminiscing that Microsoft was ahead of the curve on mobile software only draws attention to the fact that the PC kingpin's cash, power, research and market might have left it approximately nothing in the phone arena. That's not good. If the growth is in mobile devices and Microsoft can't shoot straight on anything other than a PC or a laptop (and, to give credit where its due, gaming devices), then its fearsome cash flow and market position in the corporate enterprise mean less than nothing going forward. In the area of computing where Microsoft has been thrashed by Apple, it is nothing more than an extremely well-funded yet dysfunctional and emotionally scarred company.*
>
> - Adam Lashinsky, senior editor at large, *Fortune*[49]

Microsoft did agree that the timing of innovation was a problem; however, it offered the following rationalisation in one of its official blogs:

> *At the highest level, we think about innovation in relation to its ability to have a positive impact in the world. For Microsoft, it is not sufficient to simply have a good idea, or a great idea, or even a cool idea. We measure our work by its broad impact. … Now, you could argue that this should have happened faster. And sometimes it does. But for a company whose products touch vast numbers of people, what matters is innovation at scale, not just innovation at speed.*
>
> - Frank X. Shaw, vice-president of corporate communication, Microsoft[50]

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[46] Kirkpatrick, D. (26 May 1997) "He Wants All Your Business and He's Starting to Get It", *CNNMoney.com,* money.cnn.com/magazines/fortune_archive/1997/05/26/226644/index.htm (accessed 12 August 2010).

[47] Reference for Business (2010) "Microsoft Corporation—Company Profile, Information, Business Description, History, Background Information on Microsoft Corporation", http://www.referenceforbusiness.com/history2/14/Microsoft-Corporation.html (accessed 12 August 2010).

[48] Ballmer, S. (10 January 2010) "Nashville Technology Council Address", *Microsoft Press*, http://www.microsoft.com/presspass/exec/steve/2010/01-20.ntc.mspx (accessed 24 May 2010).

[49] Lashinsky, A. (7 June 2010) "Steve Ballmer Doesn't Get It", *Fortune*, http://tech.fortune.cnn.com/2010/06/07/steve-ballmer-doesn't-get-it (accessed 30 June 2010).

[50] Shaw, F. (4 February 2010) "Measuring Our Work by Its Broad Impact", *The Official Microsoft Blog,* http://blogs.technet.com/b/microsoft_blog/archive/2010/02/04/measuring-its-impact-by-its-broad-impact.aspx (accessed 3 September 2010).

Corporate Culture at Microsoft

Despite the company's wealth of young talent around the globe, Microsoft's corporate culture had often been blamed for the company's inadequate performance in creating disruptive products in the recent past. As former vice-president of Microsoft Dick Brass commented, "Unlike other companies, Microsoft never developed a true system for innovation. Some of my former colleagues argue that it actually developed a system to thwart innovation. Despite having one of the largest and best corporate laboratories in the world, and the luxury of not one but three chief technology officers, the company routinely manages to frustrate the efforts of its visionary thinkers."[51]

In the same article, he continued to lament that internal competition had "created a dysfunctional corporate culture in which the big established groups are allowed to prey upon emerging teams, belittle their efforts, compete unfairly against them for resources, and over time hector them out of existence. It's not an accident that almost all the executives in charge of Microsoft's music, e-books, phone, online, search and tablet efforts over the past decade have left".[52]

Microsoft: Looking Beyond Creative Lapses

> *As Apple grew increasingly nimble and innovative, Microsoft has struggled to build desirable updates to its main products and to create large new businesses in areas like game consoles, music players, phones and Internet search. Microsoft, which is a component stock of the Dow Jones industrial average, has lost half its value since 2000.*
>
> - Helft, M. and Vance, A., *The New York Times*[53]

Microsoft was undoubtedly an incredibly powerful and profitable company in the technology world.[54] The two primary products constituting the major part of its annual revenue, namely Windows and the Office productivity suite, were widely used around the world. However, it was being increasingly regarded as a follower whose products in recent years had been no match for the innovative and technological prowess displayed by such competitors as Apple, Google, Nintendo and Amazon. While it would be unduly harsh and unreasonable to write off Microsoft's huge successes and future prospects, it was clear that the software giant needed urgently to revisit its strategy for the future to meet the challenges created by the disruptive products offered by its competitors. What course of action was available?

[51] Brass, D. (4 February 2010) "Microsoft's Creative Destruction", *The New York Times,* http://www.nytimes.com/2010/02/04opinion/04brass.html (accessed 18 May 2010).
[52] Ibid.
[53] Helft, M. and Vance, A. (26 May 2010) "Apple Passes Microsoft as No. 1 in Tech", *The New York Times*, http://www.nytimes.com/2010/05/27/technology/27apple.html?ref=technology (accessed 19 June 2010).
[54] Ibid.

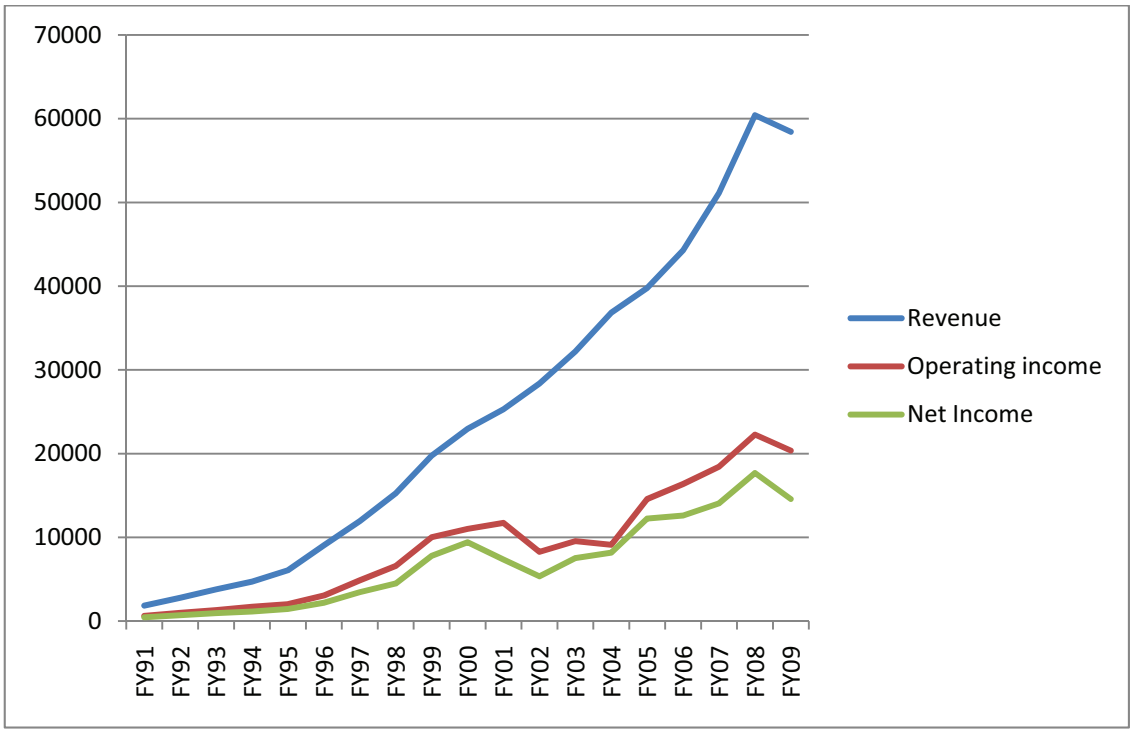
EXHIBIT 1: SIGNIFICANT MILESTONES IN MICROSOFT'S HISTORY 1975–2009

1975	Microsoft was founded by Bill Gates and Paul Allen. Their first sale was of BASIC, a PC computer language program, to MITS Computer.
1977	The company starts selling an enhanced version of BASIC to other blue-chip clients such as General Electric and Citibank. It also began developing new languages such as FORTRAN, COBOL, and Assembler, thereby enabling PC usage in science and business. Bill Gates and Paul Allen moved from being "partners" to Gates becoming president and Allen vice president of the company.
1978	The first international sales office was established in Japan.
1980	Microsoft launched the highly successful Microsoft Z-80 SoftCard, a microprocessor on a printed circuit board that plugged into the Apple II computer and allowed thousands of programs to be run with only minor modifications.
1981	Microsoft ceased being a partnership, and was incorporated as a privately held corporation with Gates as President and Chairman of the Board, and Allen as Executive Vice President. The 16-bit IBM personal computer was launched, using new advanced and evolving versions of the 16-bit "Microsoft's Disk Operating System" ("MS-DOS").
1983	Microsoft developed the following: • The revolutionary Microsoft Windows, which enabled a graphical operating environment, and allowed a user to view unrelated application programs simultaneously, while also permitting data to be transferred from one application program to another. • The XENIX operating system, to enable the transfer of UNIX's multiuser capabilities to personal computers. • The Microsoft Mouse, which was a hand-held pointing device that could be used with any MS-DOS-based personal computer.
1984	Microsoft becomes the forerunner in developing software for the Apple Macintosh computer.
1985	Microsoft shipped the first retail version of the Windows graphical environment. Microsoft and IBM signed a joint development agreement.
1986	Microsoft Works was launched, integrating in one program the word processing, spreadsheet, database, communications, and drawing functions. Microsoft had a public issue at US$21 per share, raising US$61 million. By the end of the first trading day, the price had gone up to US$28.00 per share.
1989	Microsoft and IBM further strengthened their development agreement by agreeing to jointly develop a full range of systems software offerings for the next decade, which would include enhancements to MS-DOS, Microsoft OS/2, and Microsoft LAN (local area network) products, working with the Intel 386 and 486 microprocessors. Microsoft Office was released, on both standard disks and CD-ROM.
1990	Microsoft Windows 3.0 was launched to resounding success, changing the way of graphical computing for the future. Microsoft became the first PC software firm to exceed an annual turnover of US$1 billion.
1993	Microsoft launched Microsoft Windows NT, which was a powerful upgrade to Windows, providing a range of user solutions.
1995	It announced the launch of Windows 95, a fully integrated 32-bit

	operating system, and Microsoft Network ("MSN"), a collection of internet services. Microsoft and NBC entered into an equal partnership to create two new businesses: a 24-hour news and information channel and an interactive on-line news service distributed on MSN: The Microsoft Network.
1997	Microsoft Office 97 was released. Microsoft's Internet Explorer 4.0 too was launched and became a huge success. In an important understanding, Jobs and Gates agreed upon some broad terms for product and technology development between Apple and Microsoft. This included the production of future versions of Microsoft Office, Internet Explorer, and other Microsoft tools for the Macintosh; the bundling of Internet Explorer with the Mac OS; a broad patent cross-licensing agreement for leading-edge Mac technologies; and a US$150 million investment in Apple by Microsoft. The Justice Department alleged that Microsoft violated a 1994 consent decree concerning licensing the Windows operating system to computer manufacturers. In 1998, two antitrust cases were filed against Microsoft.
1998	Windows 98 was launched globally. The company also launched Office 98 for the Macintosh, which offered Mac users all the features of Office 97.
2000	Microsoft Office 2000 was officially launched.
2001	Microsoft Windows XP was released internationally. Microsoft released the Xbox.
2002	Microsoft and its partners launched the Tablet PC.
2003	Microsoft announced "Windows Mobile", a new global brand for the software in mobile devices such as Pocket PCs and smart phones.
2006	Microsoft announced a new US$20 billion tender offer, and authorized an additional share-repurchase program of up to $20 billion over five years.
2007	Microsoft launched globally: • Windows Vista • Microsoft Office System 2007 • Zune, a digital and music entertainment device • Microsoft Windows Mobile 6 • Microsoft Silverlight, which enabled the creation of interactive media experiences and applications for the Web.
2009	Microsoft launched Windows 7.

Source: Theocp.net (17 March 2010) "Microsoft's Timeline From 1975 to 2005", http://www.theocp.net/companies/microsoft/microsoft_company.htm (accessed 23 May 2010); Microsoft (2005) "Annual Report"; Microsoft (2006) "Annual Report"; Microsoft (2007) "Annual Report"; Microsoft (2008) "Annual Report"; Microsoft (2009) "Annual Report".

EXHIBIT 2: MICROSOFT REVENUE AND INCOME EARNINGS 1991–2009 (IN US$ MILLIONS)



Source: Microsoft (2010) "Microsoft Investor Relations", http://www.microsoft.com/investor/EarningsAndFinancials/TrendedHistory/default.aspx (accessed 22 May 2010).

EXHIBIT 3: MICROSOFT'S INCOME STATEMENT
2008–2010

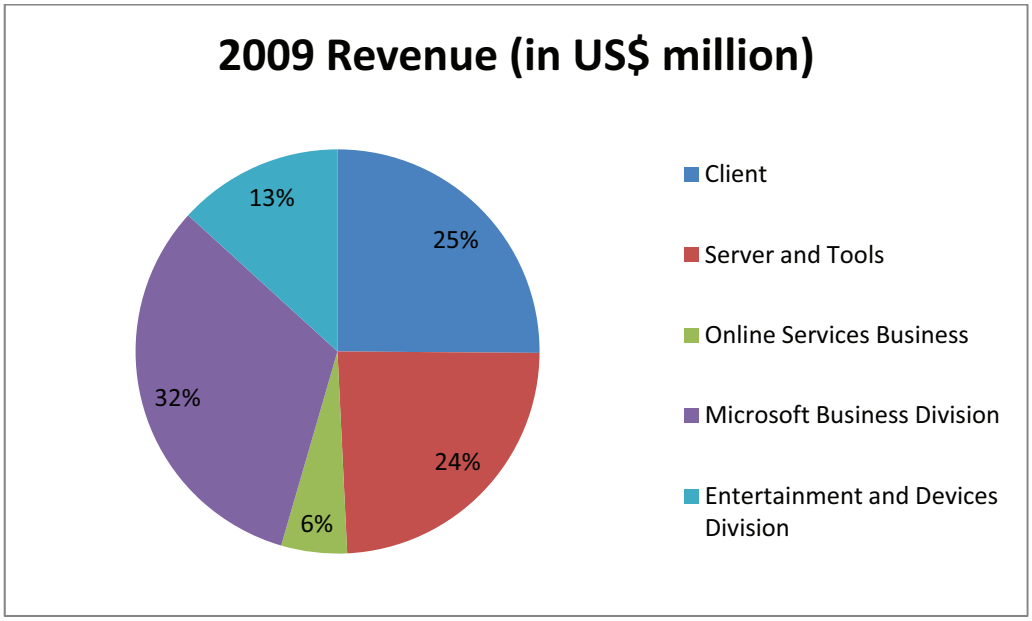
	Year ended 30 June 2010 (in US$ millions)	Year ended 30 June 2009 (in US$ millions)	Year ended 30 June 2008 (in US$ millions)
Revenue	62,484	58,437	60,420
Cost of Goods Sold	12,395	12,155	11,598
Gross Profit	50,089	46,282	48,822
Selling, General &Administration Expense	17,277	16,909	18,166
Depreciation & Amortization	2,673	2,562	2,056
Operating Income	24,098	20,363	22,492
Non-operating Income	223	(1,248)	434
Non-operating Expenses	692	706	-
Income Before Taxes	25,013	19,821	23,814
Income Taxes	6,253	5,252	6,133
Net Income After Taxes	18,760	14,569	17,681

Source: Hoovers (2010) "Microsoft Corporation", http://www.hoovers.com/company/Microsoft_Corporation/rctif-1-1njea5.html (accessed 30 August 2010).

EXHIBIT 4: MICROSOFT PRODUCT REVENUE AND OPERATING INCOME BY SEGMENT

Overall Company

	2009	2008	2007	Percentage change 2009 - 2008	Percentage change 2008 - 2007
Revenue (US$ million)	58,437	60,420	51,122	(3%)	18%
Operating income (US$ million)	20,363	22,271	18,438	(9%)	21%



As seen from the above, the Microsoft Business Division (largely made up of the Microsoft Office packages) made up almost one-third of the overall revenue. This was followed by the Client (Windows family) segment, and the Server and Tools segment, both contributing about a quarter each to the company's overall revenue. The Entertainment and Devices segment and the Online Services Business together made up about 19% of the total revenue of the company.

1. Client

	2009	2008	2007	Percentage change 2009 - 2008	Percentage change 2008 - 2007
Revenue (US$ million)	14,712	16,865	14,911	(13%)	13%
Operating income (US$ million)	10,856	13,105	11,424	(17%)	15%

2. Server and Tools

	2009	2008	2007	Percentage change 2009 - 2008	Percentage change 2008 - 2007
Revenue (US$ million)	14,126	13,102	11,104	8%	18%
Operating income (US$ million)	5,327	4,539	3,571	17%	27%

3. Online Services Business

	2009	2008	2007	Percentage change 2009 - 2008	Percentage change 2008 - 2007
Revenue (US$ million)	3,088	3,214	$,2,434	(4)%	32%
Operating income (US$ million)	(2,253)	(1,222)	(604)	(84)%	(102)%

4. Microsoft Business Division

	2009	2008	2007	Percentage change 2009 - 2008	Percentage change 2008 - 2007
Revenue (US$ million)	18,894	18,929	16,476	-	15%
Operating income (US$ million)	12,141	12,369	10,838	(2)%	14%

5. Entertainment and Devices Division

	2009	2008	2007	Percentage change 2009 - 2008	Percentage change 2008 - 2007
Revenue (US$ million)	7,753	8,206	(6,139)	(6)%	34%
Operating income (US$ million)	169	497	(1,898)	(66)%	-

Source: Microsoft (2009) "Annual Report".

EXHIBIT 5: APPLE'S INCOME STATEMENT
2007–2009

	Year ended 30 September 2009 (in US$ millions)	Year ended 30 September 2008 (in US$ millions)	Year ended 30 September 2007 (in US$ millions)
Revenue	42,905	32,479	24,006
Cost of Goods Sold	25,683	21,334	15,852
Gross Profit	17,222	11,145	8,154
Selling, General &Administration Expense	4,149	3,761	2,963
Depreciation & Amortization	734	473	317
Operating Income	11,740	6,275	4,409
Non-operating Income	326	620	(48)
Non-operating Expenses	-	-	-
Income Before Taxes	12,066	6,895	5,008
Income Taxes	3,831	2,061	1,512
Net Income After Taxes	8,235	4,834	3,496

Source: Hoovers (2010) "Apple Inc.", http://www.hoovers.com/company/Apple_Inc/rtjcci-1-1njea5.html (accessed 31 August 2010).

EXHIBIT 6: IBM'S INCOME STATEMENT
2007–2009

	Year ended 31 December 2009 (in US$ millions)	Year ended 31 December 2008 (in US$ millions)	Year ended 31 December 2007 (in US$ millions)
Revenue	95,758	103,630	98,786
Cost of Goods Sold	51,973	57,969	57,057
Gross Profit	43,785	45,661	41,729
Selling, General &Administration Expense	20,952	23,386	22,060
Depreciation & Amortization	4,994	5,450	5,201
Operating Income	18,190	15,938	13,516
Non-operating Income	351	1,451	1,019
Non-operating Expenses	(402)	(673)	-
Income Before Taxes	18,138	16,715	14,489
Income Taxes	4,713	4,381	4,071
Net Income After Taxes	13,425	12,334	10,418

Source: Hoovers (2010) "International Business Machines Corporation", http://www.hoovers.com/company/International_Business_Machines_Corporation/rfksji-1-1njea5.html (accessed 11 August 2010).

EXHIBIT 7: GOOGLE'S INCOME STATEMENT
2007–2009

	Year ended 31 December 2009 (in US$ millions)	Year ended 31 December 2008 (in US$ millions)	Year ended 31 December 2007 (in US$ millions)
Revenue	23,650	21,795	16,594
Cost of Goods Sold	8,844	8,621	6,649
Gross Profit	14,806	13,174	9,944
Selling, General &Administration Expense	3,651	3,748	2,740
Depreciation & Amortization	1,524	1,499	967
Operating Income	8,312	6,632	5,084
Non-operating Income	(160)	(1,167)	31
Non-operating Expenses	229	-	-
Income Before Taxes	8,381	5,853	5,674
Income Taxes	1,860	1,626	1,470
Net Income After Taxes	6,520	4,226	4,203

Source: Hoovers (2010) "Google Inc.", http://www.hoovers.com/company/Google_Inc/hsrfri-1-1njea5.html (accessed 31 August 2010).

EXHIBIT 8: YAHOO! INCOME STATEMENT
2007–2009

	Year ended 31 December 2009 (in US$ millions)	Year ended 31 December 2008 (in US$ millions)	Year ended 31 December 2007 (in US$ millions)
Revenue	6,460	7,208	6,969
Cost of Goods Sold	2,871	3,023	2,838
Gross Profit	3,588	4,185	4,130
Selling, General &Administration Expense	1,825	2,268	2,243
Depreciation & Amortization	39	87	107
Operating Income	386	13	695
Non-operating Income	165	3	175
Non-operating Expenses	22	86	--
Income Before Taxes	574	95	849
Income Taxes	219	262	337
Net Income After Taxes	354	(166)	512

Source: Hoovers (2010) "Yahoo! Inc.", http://www.hoovers.com/company/Yahoo!_Inc/cxfcyi-1-1njea5.html (accessed 15 August 2010).

EXHIBIT 9: SIGNIFICANT MICROSOFT ACQUISITIONS
2000–2009

Acquisitions made in 2000

Company	Business
Great Plains Software	A leading supplier of mid-market business applications.
Digital Anvil	A premier games developer
WebAppoint	Provider of WebAppoint, which allowed for online scheduling for such items as car repair or dentist appointments
Pacific Microsonics Inc.	The developer of HDCD digital audio technology
MongoMusic	A leading innovator in digital music infrastructure noted for its strong collaborative approach with record labels and artists
NetGames USA	A leading developer of scoring, matchmaking and other enhancements for retail and Web-based games
Bungie Software	A leading independent developer of action oriented computer and video games
Driveoff.Com	A privately owned subsidiary of e-business solutions and services provider Navidec Inc.
Peach Networks	A provider of technology for enhanced services for digital TV

Acquisitions made in 2001

Company	Business
Ensemble Studios	A games developer responsible for the top-selling, award-winning Microsoft "Age of Empires " game franchise.
NCompass Labs	The developer of NCompass Resolution, a Web content management system that enabled cost-effective deployment of dynamic and personalized e-business Web sites
Design Intelligence	An electronic publishing company

Acquisitions in 2002

Company	Business
Vicinity	A leading provider of location-based technology solutions
Rare	One of the world's leading video game developers
XDegrees	Manufacturer of software for securely viewing information stored on corporate networks
Navision	Provider of a wide range of business applications designed to help small and midmarket businesses become more connected with customers, employees, partners and suppliers

Acquisitions in 2003

Company	Business
PlaceWare	A leading provider of Web conferencing services
Connectix	Provider of virtualization software for Windows and Macintosh-based computing

Acquisitions in 2004

Company	Business
GIANT Company Software	A provider of anti-spyware and Internet security products.
ActiveViews	The provider of an ad hoc reporting system that would allow users to easily unlock and explore data stored in systems

Acquisitions in 2005

Company	Business
Alacris Inc.	A global provider of certificate management and identity assurance software products
FolderShare	A provider in file synchronization and remote access technology
media-streams.com AG	A software company that developed communications applications based on voice over Internet protocol technology
Teleo Inc.	A provider of voice over Internet protocol software and services
FrontBridge Technologies	A leading provider of managed services that addressed corporate e-mail security, compliance and availability requirements
Groove Networks Inc.	A leading provider of collaboration software for the "virtual office"
Sybari Software Inc.	A leading provider of security products

Acquisitions in 2006

Company	Business
Colloquis	A provider of conversational online business solutions that feature natural language-processing technology
Azyxxi	This was health intelligence software designed by doctors for doctors using Microsoft development tools. It brought together all types of patient data and made them instantly available.
Winternals	A provider of systems recovery and data protection solutions for Windows-based enterprises
Softricity	A leading provider of application virtualization and dynamic streaming technologies
Whale Communications	A leading provider of secure access products
Massive Inc.	The creator of a world-leading network for video game advertising
Lionhead Studios	One of the worlds's leading and most innovative video game developers and creators of "Fable," the hit Xbox franchise.
ProClarity Corp	A software company that developed advanced analysis and visualization technologies
Apptimum Inc.	An application company which provided products that transferred customers' applications to new computers
Onfolio Inc.	An Internet research and information management provider
Motion Bridge	A leading provider of search technology designed specifically for mobile operators and the mobile Internet

Acquisitions in 2007

Company	Business
Multimap	One of the leading online mapping services in the world
Global Care Solutions	A firm that developed enterprise-class health information systems
Parlano	The maker of MindAlign, a leading application for enterprise group chat
AdECN, Inc.	An advertising exchange platform company
2aQuantive, Inc.	The parent company of one of the industry's most successful families of digital marketing service and technology companies
ScreenTonic	A Europe-based mobile advertising pioneer
Tellme Networks, Inc.	A leading provider of voice services for everyday life
Medstory Inc.	A developer of intelligent Web search technology specifically for health information

Acquisitions in 2008

Company	Business
Greenfield Online Inc	A European price comparison, shopping and consumer reviews site
DATAllegro Inc.	A provider of breakthrough data warehouse appliances
Zoomix	A provider of data-quality technology
Powerset	Provider of a semantic search engine
MobiComp	A company that enabled the backup and restoration of mobile data and mobile posting of social content to Web sites such as Facebook
Navic Networks	A leading provider of television advertising solutions
Farecast	A travel search site
Komoku	A provider of advanced rootkit security detection solutions
Rapt Inc.	A leading provider of advertising yield management solutions for digital media publishers
Kidaro	A provider of desktop virtualization solutions for enterprises
Credentica	The U-Prove technology bought from Credentica was a privacy/security protection mechanism
YaData	A provider of advanced tools for the discovery of unique customer segments
Danger Inc.	A key provider of software and services that powered many popular consumer handsets
Caligari Corporation	A pioneer of 3-D modelling, rendering and animation software
Calista Technologies	A leading provider of graphics technologies for next-generation desktop and presentation virtualization solutions
Fast Search & Transfer	A leading provider of enterprise search solutions

Acquisitions in 2009

Company	Business
Opalis Software	A leader in IT process automation software
Sentillion	A company specializing in software for the healthcare industry
Teamprise	The Teamprise-related assets of SourceGear LLC enabled developers to build applications with Microsoft Visual Studio Team Foundation Server
Acquired technology from four firms	A process manufacturing solution acquired from Fullscope Inc. A professional service solution acquired from Computer Generated Solutions Inc., which would deliver a single system to manage projects and resources, execute financial transactions and customer billing, and match resources with client assignments Retail solutions from LS Retail EHF and To-Increase Denmark A/S, a wholly owned subsidiary of Columbus IT Partner A/S, that would enable Microsoft to provide an end-to-end retail solution including store management with point-of-sale, merchandising and ERP capabilities
Interactive Super Computing	A company that specialised in bringing the power of parallel computing to the desktop, and making high performance computing more accessible to end users
BigPark Inc.	An interactive online gaming company

Source: Adapted from Microsoft (2010) "Microsoft Investor Relations – Acquisitions" http://www.microsoft.com/msft/acquisitions/history.mspx (accessed 1 June 2010).