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# Strategies & M&A in the Digital Economy

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# 1 Digital Economy: A Classification of Microsoft

Pick a firm operating in the digital economy. According to your understanding, explain why this firm could be classified as a digital or traditional firm (max 400 words).

Microsoft is a prime example of a digital firm, with a business model that is heavily reliant on technology and digital innovation. In recent years, the company has also demonstrated a strong commitment to social responsibility and sustainability, making it an attractive choice for those who value these principles. Their products and services, including their flagship operating system Windows, are almost exclusively delivered through digital channels, such as online marketplaces, cloud computing platforms, and mobile applications. [1]

Microsoft's core operations i.e. product development, marketing, and customer support, are largely conducted online, and they heavily rely on digital technology to deliver value to customers. [2] While Microsoft does have some physical products [1], such as the Surface series devices, Xbox gaming consoles, and the HoloLens, their main activity is providing software, and services relating to their software. The company's suite of productivity tools, including Microsoft Office and Microsoft Teams, are designed to improve the efficiency and productivity of their customers. Additionally, Microsoft also expanded their range to provide digital services such as Azure [3], a cloud computing platform, and Xbox Live [4], a gaming platform that allows players to connect and compete online, complementing their Xbox consoles. They have also redistributed their entire game selection from also being sold as separate titles into subscription bundles called "Xbox game pass" [5], which allow gamers to access them on any Microsoft-compatible console. The "Ultimate" tier allows cloud gaming.

Microsoft's digital operations also consist of using data and analytics to inform decision-making and drive innovation. For example, the company's cloud computing platform, Azure, provides a range of data analytics tools and services. Their commitment to digital innovation is further demonstrated by their investment in artificial intelligence (AI) and mixed reality. [6] The company has launched initiatives aimed at developing AI applications and tools, e.g. the AI for Accessibility program. Microsoft has also developed a range of mixed reality tools and services, such as the HoloLens headset. [7]

A complete report of Microsoft's activities in 2022 can be found in [2], and a complete history of the company in [8].

In conclusion, Microsoft's focus on creating and delivering software solutions, use of data and analytics, and investment in emerging technologies such as AI and mixed reality, all contribute to its classification as a digital firm. The company's commitment to digital innovation and technology-driven solutions has allowed it to remain at the forefront of the technology industry, while its use of digital channels to deliver products and services has made it a leader in the digital economy.

## 2 Microsoft's Digital Technologies and Strategy

Provide the main specific-characteristics of your selected firm.  
Identify the type of digital technologies exploited and its impacts  
on the firms' strategic behaviour (max 400 words).

Microsoft is a multinational technology company that exhibits several key characteristics: global reach, diversification, innovation, progressive corporate culture, and social responsibility.

Firstly, Microsoft has a global reach, with operations and customers around the world. This has allowed them to tap into a diverse range of markets and customer segments, helping to drive growth and innovation. [9]

Secondly, Microsoft has broadened its operation area, expanding beyond its traditional focus on software to include hardware, cloud computing, gaming, and more. This diversification has helped the company to stay competitive, adapt, and reach an even larger segment of customers. [10]

Thirdly, innovation is at the heart of Microsoft's corporate strategy. They invest heavily in research and development, and have been responsible for several groundbreaking technologies and products over the years, including the Windows operating system, Microsoft Office, and the Xbox gaming console. [11]

Fourthly, Microsoft has a progressive corporate culture that encourages collaboration, diversity, and inclusion. They value employee empowerment and work to create a supportive work environment that fosters innovation and creativity. [12]

Finally, Microsoft is committed to social responsibility, with a focus on sustainability, accessibility, and community engagement. Most notably, there is the initiative to become carbon negative by 2030, and to remove all its historical carbon emissions by 2050. [13] There are also other initiatives. [14]

Microsoft has exploited various types of digital technologies to achieve its strategic objectives. One of the most significant technologies that Microsoft has leveraged is cloud computing i.e. through Microsoft Azure. [3] Microsoft has also focused on developing and marketing a range of software products and services, such as the Windows operating system, Microsoft Office, and the Dynamics suite of business applications. [15] These products have allowed Microsoft to maintain its position as a leading software provider, while also supporting its expansion into new markets, and sustaining one of their primary goals: innovation. [11]

Another important technology that Microsoft has exploited is AI. The company has invested heavily in AI research and development, and has integrated AI capabilities into many of its products and services, such as the Cortana virtual assistant, the Bing search engine, and the Office 365 suite. By incorporating AI, Microsoft has been able to deliver more personalized and intuitive user experiences, while also enhancing its competitive position. [6]

In conclusion, Microsoft's strategy is the commitment to driving growth and innovation across its businesses, while maintaining a strong focus on customer needs, without neglecting its social responsibilities.

### 3 Hostile Mergers

Identify a failed or hostile merger lead by your selected firm. Briefly (1) explain the merger case, (2) why it ended up as a failure, and (3) what could have been done differently to ensure a friendly and/or hostile deal (2 pages maximum).

The failed acquisition of Yahoo by Microsoft in 2008 was one of the most high-profile and controversial deals in the history of the technology industry. The proposed acquisition, which would have been valued at \$44.6 billion, was intended to create a formidable competitor to Google in the online advertising market. However, Yahoo's board of directors ultimately rejected Microsoft's offer, leading to a prolonged and ultimately unsuccessful negotiation process. [16] The failed acquisition had far-reaching consequences for both parties, as well as for the technology industry at the time.

Yahoo was founded in 1994 as a web directory, and over time it evolved into a major internet portal offering a variety of services including search, email, news, and finance. [17] In the early 2000s, Yahoo was one of the most popular websites on the internet, with a market capitalization of over \$100 billion. [18]

Meanwhile, Microsoft, the software giant best known for its Windows operating system and Office productivity suite, was looking to expand its presence in the online space. Microsoft had launched its own search engine, Bing, in 2009, but it was struggling to gain market share against the dominant player, Google. [19] On a more positive note, a recent development is that they integrated natural language processing into Bing. [20] A complete history of Microsoft can be found in [8].

In 2008, Microsoft made an unsolicited offer to acquire Yahoo for \$44.6 billion. Microsoft hoped that the acquisition would allow it to gain a larger share of the online advertising market, which was dominated by Google. The proposed acquisition would have given Microsoft access to Yahoo's large user base, as well as its online advertising platform and other valuable assets. Yahoo's board of directors ultimately rejected Microsoft's offer, believing that the bid undervalued the company and that Yahoo had a bright future as an independent entity. [21] Microsoft made only one bid to acquire Yahoo in 2008. The bid was for \$31 per share, which was later increased to \$33 per share, but was reportedly willing to raise the bid all the way to \$40 per share. [16] However, Yahoo rejected both offers. [21] In 2016, Verizon Communications acquired Yahoo's core internet operations for \$4.83 billion, roughly ten times less than what Microsoft was prepared to pay, effectively ending Yahoo's independence as a company. [22]

The failure of Microsoft's attempted acquisition of Yahoo was due to a combination of factors, primarily due to Yahoo's unwillingness to sell, but including differences in strategic compatibility, valuation, antitrust concerns, and cultural differences. [23]

The difference in their business models and cultures made it challenging to create a combined entity that leveraged their strengths effectively. [24] At the time, the companies could not find a way to make their operations complement each other and could not envision integrating their products and services successfully.

Another factor that contributed to the failure of the acquisition was price. Microsoft's initial offer for Yahoo of 33\$ per share was considered too low by Yahoo's board of

directors, which led to a breakdown in negotiations. The companies failed to agree on a fair valuation, and Microsoft's attempt to increase its bid were unsuccessful. Eventually, Yahoo's board decided to reject Microsoft's offer and explore other options.

Additionally, the possibility of antitrust issues arising from a merger was another factor that complicated negotiations. [23] The consolidation of a significant share of the online advertising market would have led to regulatory challenges and scrutiny. [25] The companies were concerned that regulatory hurdles could further complicate the integration process and make the acquisition less attractive to both parties.

Moreover, cultural incompatibility also played a role in the failure of the acquisition. [23] Yahoo had a more relaxed corporate culture, which clashed with Microsoft's more rigid and hierarchical work environment. [26] This cultural divide was evident during the negotiations, as the two companies could not agree on key issues such as leadership and control of the merged entity.

To ensure a friendly deal between Microsoft and Yahoo, there were several things that could have been done differently. Firstly, effective communication could have been established between the two companies, including greater transparency and clarity around objectives and concerns. Secondly, cultural differences could have been identified and proactively addressed to prevent clashes and integration challenges. Thirdly, a more thorough analysis of strategic fit and valuation could have been conducted to ensure that both companies were on the same page regarding the deal's potential benefits and risks. Finally, both companies could have worked closely with regulatory authorities to address antitrust concerns and ensure compliance with relevant regulations. By taking these steps, Microsoft and Yahoo may have been able to overcome the challenges that led to the failure of the acquisition and achieve a successful integration that would have benefited both companies.

Microsoft could have offered a more aggressive price for Yahoo. Microsoft's initial offer of \$31 per share was rejected by Yahoo's board of directors, who believed that the company was worth more. [21] If Microsoft had been willing to offer a higher price, it may have been more attractive to Yahoo's shareholders and could have increased the chances of a successful hostile deal.

Secondly, to force a successful hostile deal, Microsoft could have engaged with Yahoo's shareholders directly. Carl Icahn, a prominent activist investor, bought a significant stake in Yahoo and pushed for the company to accept Microsoft's offer. [27] If Microsoft had worked more closely with Icahn and other shareholders, it may have been able to convince them to support the acquisition.

Microsoft could have also pursued hostile takeover tactics, such as a proxy fight or a tender offer. A proxy fight involves trying to replace the target company's board of directors with directors who are more supportive of the acquisition. A tender offer involves making a direct offer to the target company's shareholders to buy their shares. However, these tactics can be risky and can damage relationships with employees and customers, which may have been a concern for Microsoft.

Finally, Microsoft could have sought legal or regulatory intervention to force the target company to accept the deal. However, this would have been difficult given the antitrust concerns raised by the proposed acquisition. [25]

In conclusion, the failed acquisition of Yahoo by Microsoft in 2008 was a significant event in the history of the technology industry. The proposed acquisition was aimed at creating a strong competitor to Google in the online advertising market, but it ultimately fell apart due to a combination of factors, including differences in strategic compatibility, valuation, antitrust concerns, and cultural differences. To achieve a successful integration, effective communication, cultural alignment, thorough strategic fit analysis, and engagement with shareholders could have been pursued. Moreover, Microsoft could have offered a more aggressive price, engaged with the shareholders directly, or employed hostile takeover tactics, but these come with risks. The Microsoft-Yahoo deal is an excellent case study and serves as a reminder of the importance of careful planning and execution when pursuing mergers or acquisitions.

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