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Position Paper for Microsoft Board of Directors

*"When I came to Microsoft 22 years ago, I believed I could make a difference and change the world through technology. That belief holds true today and together, we are empowering people to do more with the services, tools, applications, and devices we build. Our focus, simply put, is to help our customers and partners thrive in a mobile-first, cloud-first world."*¹

Topic 1: Strategic Placement

In the last 10 years, our industry has seen the emergence of a variety of new technologies. Microsoft is uniquely positioned in an era of multinational business and societal transformation. Much of the innovation of the past decade has been slanted towards helping us consume information. This technology absolutely has a place in our lives, and should be celebrated. However, I believe the next 10 years will be defined by technology that empowers profound creation. Since its conception in 1975, Microsoft has been a company for the builders, makers, and creators of the world. Our purpose is to make things that help our customers make things – and make things happen. We assist them in making the most out of every moment – creating, collaborating, learning, gaming, being mobile and staying secure. As CEO, I am committed to ensuring Microsoft leads profound digital transformation both for people and institutions.

In June of 2015, we announced a major reorganisation into three engineering groups, in order to drive engineering alignment against the company's core ambitions: reinvent productivity and business processes, build the intelligent cloud platform, and create more personal computing². Most recently, we created a new exciting group to place emphasis on our development in artificial intelligence and research³.

Our Windows and Devices Group (WDG), led by Executive Vice President Terry Myerson, focuses on enabling more personal computing experiences powered by the Windows ecosystem. Windows 10 users now number 400 million, and more than 200 billion hours of use time has now been logged by Redmond⁴. With that being said, we must build Windows for each individual, and that pushes the boundaries of input-output modality.

The Cloud and Enterprise Team (C+E), led by Executive Vice President Scott Guthrie, focuses on building the intelligent cloud platform that powers any application on any device. In addition to this, they address the production of high-value infrastructure and business services that are key to managing and operating businesses. Businesses everywhere are using Microsoft Cloud as their digital platform to drive their ambitious transformation and agendas⁵. In our first quarter of our 2017 fiscal year, we increased our

¹ Microsoft, "Letter from Satya Nadella," Microsoft.com, 2016, accessed November 2016, <https://www.microsoft.com/en-us/Legal/compliance/buscond/default.aspx>.

² <http://news.microsoft.com/2015/06/17/microsoft-aligns-engineering-teams-to-strategy/#sm.00007z4slco40e4111pu7rgd71ad6#xzBIQdHrB2803HDE.97>

³ <http://www.geekwire.com/2016/internal-email-microsoft-forms-new-5000-person-ai-division-top-exec-qi-lu-leaving-bike-injury/>

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⁵ <http://economictimes.indiatimes.com/tech/software/microsofts-secret-weapon-for-growth-in-the-cloud-satya-nadella/articleshow/50767959.cms>

commercial cloud margins to 49 percent, up from 42 percent last quarter.⁶ Our first quarter results showed continued demand for our cloud-based services. Cloud is the future for Microsoft, it is a key component in enterprise growth while also helping us appeal to consumers. Though we face stiff competition from Amazon and other cloud service competitor – our strengths lie in our differentiation strategy. Our cloud infrastructure is a combination of Office 365, Dynamics, and EMS – we are the one-stop cloud shop for all your enterprise IT needs⁷. Microsoft’s intelligent cloud serves as a communication tool, and creation tool and . Azure is just one of our several cloud services, however, it offers premium services like Advanced Threat Analytics and Azure Data Lake. We provide users with unique capabilities like being able to stretch a single table in a database in SQL server 2016 all the way to cloud. Our emphasis is on helping companies straddle the line between on-premises and in-cloud computing and storage. Our differentiated hybrid model of cloud services is what sets us apart from the rest and what we should continue to pursue.

Nonetheless, we have a large commitment to build out a global footprint. We have more regions than anyone else, and more certifications than anyone in terms of adhering to both regulated industry and digital sovereignty⁸. We are the only public-cloud provide in China. Moreover, we operate in Germany under German law; that matters to multinational companies that trying to operate across many geographies and jurisdictions.

Finally, I want to address Microsoft’s newest and most exciting group: our AI and Research Group. Our next focus strategy will be the “democratization of artificial intelligence” – the concept that everybody should have access to AI and AI-powered technology. We are pursuing AI to empower every person and every institution to build with the tools of AI to solve the most pressing problems of today⁹. Microsoft has made significant investments in AI, which manifests itself in ways big and small. Cortana the personal digital assistant, for instance, which comes with Windows 10, has 133 million monthly users. We plan to have Cortana draw on cloud-based inferences in order to provide users with suggested actions that are meaningful to them. Our vision for AI is to create a system that amplifies the potential for human creation.

The ultimate computer, for me, is the mixed reality world. Microsoft has already been investing heavily, and I believe it is in our best interest to continue to do so. Our HoloLens is already being used in a wide variety of settings, from human anatomy classes to home improvement. We have made developer editions of the HoloLens available in the US and Canada. We should continue to distribute our innovations – in order to obtain feedback and promote information regarding our product. In continuing to develop our AI capabilities, I hope we can push towards achieving this mixed reality world for everyone.

Though we have organized the company into four distinct groups, in each of their pursuits the technology being produced is just a tool in the hands of humanity. Every one of our ambitions is driven by our mission to empower every person and institution on the planet to achieve more.

We have set two major goals for the company, which we are on track to reach by our 2018 fiscal year: a commercial cloud revenue annual run rate of \$20 billion and 1 billion Windows active per month. Our strategy for achieving these objectives is simple – Differentiation and Innovation in markets that are large and growing.

⁶ <http://www.cnn.com/2016/10/20/microsofts-turnaround-strategy-appears-to-be-working.html>

⁷ <http://siliconangle.com/blog/2015/10/28/how-the-big-three-cloud-vendors-plan-to-differentiate-their-services/>

⁸ <http://www.geekwire.com/2016/microsoft-ceo-satya-nadella-touts-azures-advantages-market-leading-amazon-web-services/>

⁹ <http://www.businessinsider.com/microsoft-ceo-satya-nadella-on-google-deepmind-2016-9>

Topic 2: Commitment to the Mobile Sphere

The number of mobile phone users is forecast to reach 4.77 billion by 2017.¹⁰ Today we have devices which are phones, but the place that we should be focused on is, given the position of the market, what is the unique element that our phone can offer¹¹. It's true, we missed the boat when it came to embracing the smartphone boom. Nonetheless, mobile strategy does not just concern phones. Our goal now is to make sure we grow new categories¹². As well, I want us to be present on every mobile endpoint.¹³

I want to continue to push Continuum as the differentiator and future of mobile technology. This is where we want to continue to build out our capabilities. We have only one unified Windows, which runs across multiple form factors including Xbox, HoloLens and mobile phones. It is one developer platform, on store, one tool chain for developers – we allow the user to adapt it for different screen sizes and different input and output.¹⁴ The continuum feature allows Windows phones to connect to a monitor, keyboard, and mouse and transform into a computer. If the center of computing has shifted from the PC to the phone, then our phones should run all the peripheral parts of a personal computer. The processing is in the phone, while the data and applications run in the cloud. Continuum on phones running Windows 10 enable you to simply take your phone and attach it to a screen and keyboard providing robust productivity experiences so your phone can function as a laptop¹⁵. Our commitment to mobile is not simply about phones – it's about delivering a more personal and more productive Windows 10 with Cortana, Office, and universal apps. Security and Trust are essential values of Microsoft¹⁶. Windows 10 provides a safe, secure and up to date single device management platform across all devices, from phones to laptops, to Internet of Things devices.

To continue, I believe we can apply our developments in AI to the mobile sphere. During the first wave of the mobile internet, the volume of web traffic from mobile devices resulted in a frustrating experience for users¹⁷. Apps arose as an interface substitute to the HTML-based web, however, users remain resistant to downloading 'disposable apps'. I believe, much of the defining platform for the next generation of computing will lie in conversation. I like to call this paradigm shift "conversations as a platform."¹⁸ It's a simple concept, yet it's very powerful in its impact. It is about taking the power of human language and applying it more pervasively to our computing. This step will be a very natural progression for Microsoft, as it combines our cutting-edge speech research with the power of our Azure cloud to make it all possible. We already have the "conversation canvases" from Office, Outlook, Skype, and Cortana. Our AI "brain" has been in development for nearly 20 years. We have tremendous access to a social graph – especially now given our acquisition of LinkedIn. We are eager and have already experienced great with our Xiaoice Chabot in China, which has over 40 million users¹⁹.

¹⁰ <https://www.statista.com/statistics/274774/forecast-of-mobile-phone-users-worldwide/>

¹¹ <http://www.technobuffalo.com/2016/10/25/satya-nadella-admits-microsoft-missed-the-rise-of-mobile-phones/>

¹² <http://www.zdnet.com/article/ceo-nadella-talks-microsofts-mobile-ambitions-windows-10-strategy-hololens-and-more/>

¹⁴ <http://www.windowscentral.com/why-nadella-thinks-continuum-defining-feature-mobile>

¹⁵ <https://www.microsoft.com/investor/reports/ar15/index.html>

¹⁶ <https://www.microsoft.com/en-us/twc/default.aspx>

¹⁷ <http://www.theverge.com/2016/7/7/12111028/microsoft-bot-framework-artificial-intelligence-satya-nadella-interview>

¹⁸ <http://www.businessinsider.com/microsoft-ceo-satya-nadella-on-conversations-as-a-platform-and-chatbots-2016-3>

¹⁹

Finally, I want us to focus in on emerging markets and mobile-first countries like India. India is mobile-first country, but it will not be a mobile-only country for all time²⁰. Emerging markets will demand more computing in their lives as GDP continues to grow. As they grow, they will want computers that “grow” from their phones. That is where Continuum fits into the equation – it has other forms of input beyond touch, it presents enormous value to those in developing nations.

Topic 3: LinkedIn Acquisition

I have always had a great admiration for LinkedIn and what they have built. Productivity and Communication tools are what empower people to be creative and be great at their jobs. Our acquisition of LinkedIn will bring together the World’s Leading Professional Cloud with the World’s Leading Professional Network. LinkedIn has ongoing progress and momentum with regards to their membership, engagement, and revenue.

When I consider acquisitions, I evaluate them in three dimensions:

1. Is this an asset that will expand our opportunity? – does it expand our total addressable market?
2. Is this an asset that is riding the secular technology trend?
3. Is it core to who we are and our mission and sense of purpose?

LinkedIn checks each of the boxes. It starts with our common mission, which is centered on empowering people and organizations. The way we will realize this common mission, is by driving engagement across LinkedIn, Office 365 and Dynamics.

LinkedIn’s profile will become the social fabric across all of Microsoft. Individuals will have the ability to not only see the information of a contact that is contained in the Active Directory, but they will be able to get at the full richness that is contained in the professional network²¹. Another aspect of this acquisition that is very exciting is the Newsfeed feature of LinkedIn – which is their fastest growing engagement part. The feed is already quite relevant to the individual, suggesting posts which are based on your LinkedIn profile, however, with the addition of Office 365 and Dynamics, that feed will now be informed by the projects that users are currently working on, their calendar information, and the relevance of that feed which will draw on the AI and machine learning technology from Microsoft. Our AI capabilities will improve the relevance of the Newsfeed on a continuous basis, which will in turn drive engagement and the ad monetization that goes with it.

The next feature of interest is Cortana. Today Cortana knows about you and your organization, however, in the future, Cortana will also know your entire professional network to connect dots on your behalf. Cortana will become an invaluable digital assistant.

Further components of this acquisition we should aim to explore include: integrating Dynamics into Social Selling, Organizational insights and Transformation, and Social Learning.

²⁰ <https://mspoweruser.com/microsoft-ceo-satya-nadella-talks-future-windows-mobile-devices/>

²¹ <https://www.youtube.com/watch?v=IPY2sTt1dfl>

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