

Competitor Pricing Analysis

Microsoft
Yujie Tao

Introduction

Microsoft is one of the leading technology companies in the world. In this pricing analysis, three major product offerings from Microsoft were compared with three competing products from Google, which were Microsoft Surface with Google Pixelbook, Office 365 with GSuite and Azure with Google Cloud Service. Based on publicly available data, overall pricing strategy was summarized for client and competitor company. This pricing analysis also addresses on advantages and disadvantages of client's current pricing strategy, customer feedback, recommendation on how to evolve current pricing strategy and future price changes tracking.

Overview

The three product offerings analyzed in this pricing analysis fall into different product categories: hardware, productivity software and cloud services. The holistic strategy across all three product categories was being analyzed. Under each category, specific pair of product comparison was selected, which were Microsoft Surface Pro Intel i5 / 8GB RAM / 256GB with Google Pixelbook Intel i5 / 8GB RAM / 256GB SSD, Office 365 for Business with G Suite for Business, and Microsoft Azure Text Translation API with Google Cloud Services Text Translation API.

The pricing data in this analysis were all collected from the internet. In hardware comparison, both Surface and Pixelbook are sold under different online retailers, in which their prices vary by each retailers. Microsoft provides trade-in program for its Surface products while Google doesn't have trade-in option. They both provide bundle pricing on their Amazon store and have large discount before holidays. As for software products, the price fluctuation is less frequent than that of hardware. The most recent change in price of Office 365 was in 2015. The cloud services are only available on company's official websites. Specific pricing comparisons of three product offerings are listed in the appendices.

Pricing Strategy

Overall, Microsoft and Google have systematic pricing strategy. Compared to Google, Microsoft's pricing strategy is relatively complicated. There are four main pricing models Microsoft adopts across the three product categories: versioning pricing, psychological pricing, promotional pricing and freemium pricing.

Versioning Pricing

Versioning Pricing is the most heavily adopted strategy in Microsoft products. Microsoft Surface provides four different models, with pricing ranged from \$349 to \$3,499. This range includes more than 20 different hardware configurations, covering from the most affordable Surface Go to high-end Surface Book 2. In October, 2018, Microsoft announced its new Surface Pro 6 and Surface Laptop 2 (Heater, 2018). Google's Pixelbook, in comparison, only provides one version with three different hardware configurations, from \$999 to \$1,649.

Versioning pricing stands out even more in the comparison between Microsoft 365 and G Suite. G Suite has three versions of its productivity support: Basic, Business and Enterprise. In comparison, Microsoft establishes more versions to support demand from individual customer to large enterprise. There are two main categories: home and business. Under business category,

different subcategories serve different business types, which include small business, enterprise, education, non-profit, and first-line workers. Under each subcategories, different plans are provided, which are differentiated by the number of employees being served and the services being included.

The cloud services in nature have more levels of prices based types and usage. Both companies have a wide variety of cloud services while Microsoft still extends more sub-plans in its offerings. As two text translation API services under Microsoft Azure and Google Cloud Service being compared, Microsoft has six different sub-plans for different while Google only has two.

Psychological Pricing

Psychological pricing is one model both Microsoft and Google have used in their products. For example, one model of Microsoft Surface Pro lists its price as \$1,299 rather than \$1,300, which triggers consumer actions. All Surface and Pixelbook models adopt this strategy in ending the pricing the number '9' rather than '0'. Microsoft also uses this strategy in its offering of Office 365 home by ending the price as '.99' rather than '1'.

Promotional Pricing



Figure 1. Microsoft Surface Pro pricing. Adapted from Amazon price history for Microsoft FJX-00001 Surface Pro (Intel Core i5, 8GB RAM, 256GB) (B071SF41Y9), In *camelcamelcamel*, n.d., Retrieved October 4, 2018, from <https://camelcamelcamel.com/Microsoft-FJX-00001-Surface-Intel-256GB/product/B071SF41Y9?active=summary>



Figure 2. Google Pixelbook pricing. Reprinted from Amazon price history for Google Pixelbook (i5, 8 GB RAM, 128GB) (GA00122-US) (B075JSK7TR), In *camelcamelcamel*, n.d., Retrieved October 4, 2018, from <https://camelcamelcamel.com/Google-Pixelbook-RAM-128GB-GA00122-US/product/B075JSK7TR?active=summary>

Promotional pricing is the dominant strategy for hardware products of both companies. Based on pricing history of selected hardware products, presented in Figure 1 and Figure 2, both product pricing fluctuate frequently on their Amazon corporate stores. Holidays are leading signals for major price changes for both products. There was a major price drop of Microsoft Surface Pro before November 28, 2017, where were Thanksgiving and Cyber Monday. The low price continued to Christmas and New Year. As of Google Pixelbook, there were also pricing drops around Thanksgiving and Christmas last year.

The major pricing trend of both laptops is in decreasing pricing. According to Laptops & Tablets market (Statista, 2018), the in the Laptops & Tablets segment amounts to US\$22,336 million in 2018, the whole revenue trend is decreasing trend since 2014. Discounting more frequently under such market environment allows products to gain price advantages.

Freemium Pricing

Freemium pricing is adopted in softwares and cloud services of both companies. Office 365 provides 1 month free trial for some of their subscription plans while Google provides all basic productivity softwares free to the public and charging for more premium features, such as unlimited storage and advance control. As of cloud services, Azure allows customer to start with a free account, which includes 12 months of popular free services, \$200 credit to explore any Azure service for 30 days and always free in more than 25 services. For service usage after \$200 credit and any extra services customer may need except the free ones, Azure charges customers with according fees and provides pricing calculator for customer to estimate costs. Google adopts the similar strategy by granting customers with access to all Google Cloud platform products and \$300 credits for free over the first 12 months. Credit used after \$300 will be charged based on services being used.

Strategy Analysis

As a predominant pricing strategy across different product categories of Microsoft, versioning pricing allows customers to choose the features they want to pay to access. However with more versions also means that the customer cost of choosing the right plan is much higher. Research shows that there can be too much choice; when there is, consumers are less likely to buy anything at all, and if they do buy, they are less satisfied with their selections (Iyengar et. al, 2000).



Figure 3. Microsoft Surface Pro pricing and sales history. Adapted from Amazon price history for Microsoft FJX-00001 Surface Pro (Intel Core i5, 8GB RAM, 256GB) (B071SF41Y9), In camelcamelcamel, n.d., Retrieved October 4, 2018, from <https://camelcamelcamel.com/Microsoft-FJX-00001-Surface-Intel-256GB/product/B071SF41Y9?active=summary>

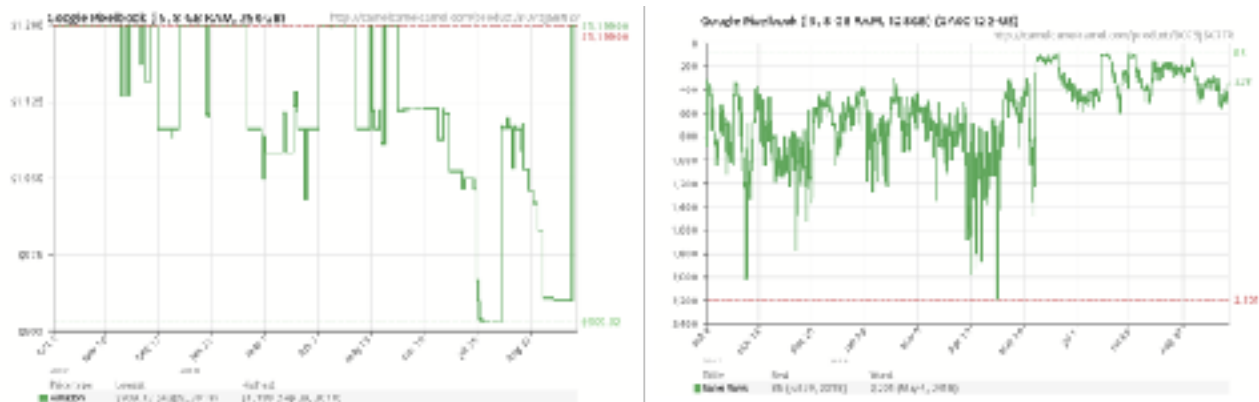


Figure 4. Google Pixelbook pricing and sales history. Reprinted from Amazon price history for Google Pixelbook (i5, 8 GB RAM, 128GB) (GA00122-US) (B075JSK7TR), In camelcamelcamel, n.d., Retrieved October 4, 2018, from <https://camelcamelcamel.com/Google-Pixelbook-RAM-128GB-GA00122-US/product/B075JSK7TR?>

Different from Google in providing more versions of product pricing, Microsoft is able to match the demand of different types of customers. Similar to Google of offering freemium and promotional pricing ensures Microsoft of not having pricing disadvantages in attracting customers. The strategy also provides Microsoft opportunity to convert freemium customers to premium customers to access to more features of the products.

The graphs above mark pricing history and sales rank of two same hardware models of Google Pixelbook and Microsoft Surface on Amazon. From two pair of graphs, both products change their prices frequently on corporate Amazon stores. Their prices both dropped before holidays such as Thanksgiving. Google Pixelbook's price fluctuated more, so as their sales. From the graphs, we can conclude that Microsoft Surface Pro's customers are more price-inelastic, as its sales remained relative stable even with major price drop as of Nov. 2017.

Customers of Office 365 are also relatively inelastic to the price change. Even with major price increase in 2015, more than 135 million people use Office 365 commercial every month (Microsoft, 2018). As of the the fourth quarter of last financial year, Office commercial products and cloud services revenue increased 10% (up 8% in constant currency) driven by Office 365 commercial revenue growth of 38%. Office consumer products and cloud services revenue increased 8% (up 6% in constant currency) and Office 365 consumer subscribers increased to 31.4 million (Microsoft, 2018). Furthermore, Microsoft plans to raise the price of its perpetually-licensed Office Suite by 10% in October, 2019 (Microsoft, 2018). This trend shows that customer's demand in Office 365 is relatively inelastic, as Microsoft keeps rising the price but the customers are still willing to pay for it.

Strategy Recommendation

To evolve pricing strategy, Microsoft should simplify its versioning pricing for hardware products. Customer's price inelasticity price change indicates that current pricing strategy is

effective. However, based on customer feedback, the versioning pricing confused customers in many ways.

From the Amazon “Questions and Answers” section of Microsoft Surface Pro, there were customers consistently asking question such as “What's the real difference between this model and the Microsoft surface pro 4 (128 gb, 4 gb ram, intel core i5)?”“What’s different about the surface pro compared to the sp4?”. Those confusion are caused by abundant versions provided by Microsoft.

Apple’s pricing strategy in hardware is a great example to learn from: it usually cuts off old product line when new products are released. On September 12, 2018, Apple announced three new models: the iPhone XS, iPhone XS Max, and iPhone XR. While the company also discontinued the iPhone X, iPhone 6s, iPhone 6s Plus, and iPhone SE (Lee, 2018). Despite rumors of low sales since its launch, iPhoneX is the company’s best selling phone, Apple chief executive Tim Cook said in a statement (Tsukayama, 2018). However, as Apple introduces three new version under iPhoneX line, this move would direct customers in purchasing new models and eliminate customer confusion around different versions.

One new pricing strategy proposed to Microsoft hardware product is transparent pricing, which allows customers to view what make up to the final retail price. This strategy is the founding idea of an online clothing retailer Everlane and it disrupted the fashion industry. On Everlane’s website, it reveals the true costs behind all of its products, from materials to labor to transportation and the final retailing prices. Everlane also details each factory from which their materials are sourced, and explains why the materials are top of the line. The transparency provides customers an authenticity of its individually priced pieces and how much they actually pay for the brand. This pricing strategy would allow Microsoft to differentiate itself to competing product’s pricing strategy and cater to younger, and more socially conscious customers.

Moving Forward

In order to predict possible price changes, there are several leading pricing indicators. For hardware products, indicators are supplier change, hardware upgrades and incorporation of new technology. If Microsoft, for example, changes its supplier for Surface Pro display manufacturing, that would lead to a fluctuation in cost, which further influences the price. Hardware upgrades and incorporating new technology such as AI, VR/AR will cause a raise in price since it requires more input int R&D. Issues such as hardware attack or callback can lead to price drop. Industry-wise technology renovation and customer migration to mobile products can also indicate price change in Microsoft Surface and Google Pixelbook.

For software products, there are several specific points of the year Microsoft would more likely to announce any major price changes. Price change of Microsoft office 365 is normally announced in fall, after the end of the fiscal year (June 30). New prices would take effective around September or October. Google’s new products are usually launched by October of the year, based on the release date of Google Pixelbook and G Suite.

As for clouds services, the release date of Microsoft and Google on new services spans across the whole year. As it is the most trending topic in the technology industry, the annual developer conferences are great touchpoint to track on new cloud services, which are Microsoft Build and Google I/O.

References

1. Heater, B. (2018, October 12) Here are the newest additions to Microsoft's Surface line. *TechCrunch*. Retrieved from <https://techcrunch.com/2018/10/02/here-are-the-newest-additions-to-microsofts-surface-line/>
2. Statista. (2018, September). Laptops & Tablets. In Statista - The Statistics Portal. Retrieved from <https://www.statista.com/outlook/15030100/109/laptops-tablets/united-states#market-revenue>
3. Iyengar, S & Lepper, M. (2001). When Choice is Demotivating: Can One Desire Too Much of a Good Thing?. *Journal of personality and social psychology*. 79(6), 995. doi: 10.1037/0022-3514.79.6.995
4. Microsoft. (2018, October). Annual Report 2018. Retrieved from <https://www.microsoft.com/en-us/annualreports/ar2018/annualreport>
5. Microsoft. (2018, July 19). Earnings Release FY18 Q4. Retrieved from <https://www.microsoft.com/en-us/Investor/earnings/FY-2018-Q4/press-release-webcast>
6. Microsoft. (2018, July 25). Announcing price adjustment for on-premises and cloud products. Retrieved from <https://blogs.partner.microsoft.com/mpn/announcing-price-adjustments/>
7. Lee, D. (2018, September 12). Apple discontinues iPhoneX and the last iPhones with headphone jacks. *The Verge*. Retrieved from <https://www.theverge.com/2018/9/12/17824594/apple-iphone-x-6s-se-discontinued-2018-event>
8. Tsukayama, H. (2018, May 1). Apple earnings: The iPhone X is doing just fine. *The Washington Post*. Retrieved from https://www.washingtonpost.com/news/the-switch/wp/2018/05/01/apple-overcomes-worries-posts-strong-earnings/?utm_term=.37f959e04e90

Appendices

Google Pixelbook v.s. Microsoft Surface

Google Pixelbook

List price on Google Store:

- Intel i5 / 8GB RAM / 128GB SSD: \$999 or \$41.63/months for 25 months
- Intel i5 / 8GB RAM / 256GB SSD: \$1,199 or \$49.96/months for 24 months
- Intel i7 / 16GB RAM / 512GB NVMe SSD: \$ 1,649 or \$68.71/months for 24 months

Microsoft Surface

Surface Go (New)

- 64 GB/Intel 4415Y/4GB RAM : \$399
- 128 GB/Intel 4415Y/8GB RAM: \$549

Surface Laptop

- Intel i5 / 8GB RAM / 128GB: \$999
- Intel i5 / 8GB RAM / 256GB: \$1,299
- Intel i7 / 8GB RAM / 256 GB: \$1,599
- Intel i7 / 16GB RAM / 512 GB: \$2,199
- Intel i7 / 16GB RAM / 1TB: \$2,699

Surface Pro

- Intel M3 / 4GB RAM / 128GB: \$799
- Intel i5 / 8GB RAM / 128GB: \$999
- Intel i5 / 8GB RAM / 256GB: \$1,299
- Intel i5 / 8GB RAM / 256GB / LTE: \$1,449
- Intel i7/ 8GB RAM / 256 GB: \$1,599
- Intel i7 /16GB RAM / 512 GB: \$2,199
- Intel i7 / 16GB RAM / 1TB : \$2,699

Surface Book 2

- 13.5-inch display / Intel i5 / 8GB RAM / 128GB: \$1,199
- 13.5-inch display / Intel i5 / 8GB RAM / 256GB: \$1,499
- 13.5-inch display / Intel i7 / 8GB RAM / 256GB: \$1,999
- 13.5-inch display / Intel i7 / 16GB RAM / 512 GB: \$2,499
- 13.5-inch display / Intel I7 / 16GB RAM / 1TB : \$2,999
- 15-inch display / Intel i7 / 16GB RAM / 256GB: \$2,499
- 15-inch display/ Intel i7 / 16GB RAM / 512 GB: \$2,899
- 15-inch display / Intel i7 / 16GB RAM / 1TB: \$3,299

Suite v.s. Office 365

G Suite

Basic

Professional office suite with 30GB storage

30GB Storage

- \$5 user/month

- Try it free for 14 days

Business (Best Value)

Enhanced office suite with unlimited storage and archiving

- \$10 user/month
- Try it free for 14 days

Enterprise

Premium office suite with advanced controls and capabilities

- \$25 user/month
- Try it free for 14 days

Office 365

For Home

Office 365 Home (Best Value)

Best for households. Includes Office applications for up to 5 users.

- \$99.99/year
- \$9.99/month
- Try free for 1 month

Office 365 Personal (Most Popular)

Best for individuals. Includes Office applications for 1 user.

- \$69.99/year
- \$6.88/month

Office Home&Student 2016 for PC

Best for individuals with basic needs. Includes Office applications.

- \$149.99
- One-time purchase

For Business

Small Business

Office 365 Business

Best for business that need Office applications plus cloud file storage and sharing. Business email not included

- \$8.25 user/month, annual plan
- \$10.00 user/month, monthly plan
- Try for free

Office 365 Business Premium (Best Value)

With more services, including Exchange, SharePoint, Skype for Business, Microsoft teams, Yammer

- \$12.50 user/month, annual plan
- \$15.00 user/month, monthly plan
- Try for free
- Special offer: 1 year free custom email

Office Business Essentials

Best for businesses that need business email and other business services. Office applications not included.

- \$6.00 user/month, annual plan
- \$5.00 user/month, monthly plan

Enterprise

Office 365 ProPlus

Office applications plus cloud file-storage and sharing. Business email not included.

- \$12.00 user/month, annual plan

Office 365 Enterprise E1

Business services—email, file storage and sharing, Office Online, meetings and IM, and more. Office applications not included.

- \$8.00 user/month, annual plan

Office 365 Enterprise E3

All the features of Office 365 ProPlus and Office 365 Enterprise E1 plus security and compliance tools, such as legal hold, data loss prevention, and more.

- \$20.00 user/month, annual plan

Office 365 Enterprise E5

All the features of Office 365 Enterprise E3 plus advanced security, analytics, and voice capabilities.

- \$35.00 user/month, annual plan

Education

Office 365 A1

Completely free online version of Office with email, video conferencing, customized hub for class teamwork with Microsoft Teams, compliance tools, and information protection.

- Free, for students
- Free, for faculty and staff

Office 365 A3

All the features in A1 plus full access to the Office desktop apps, and additional management and security tools.

- \$2.50 user/month for students
- \$3.25 user/month for faculty and staff

Office 365 A5

All the features in A3 plus Microsoft's best-in-class intelligent security management, advanced compliance, and analytics systems.

- \$6.00 user/month for students
- \$8.00 user/month for faculty and staff

Nonprofit

Office 365 Nonprofit Business Essentials

Best for small & mid-sized nonprofits that need email, cloud file-storage and sharing, web conferencing with IM, audio, and HD video, and other services. Office applications not included.

- Donation

Office 365 Nonprofit Business Premium

Best for small & mid-sized nonprofits that need email, Office desktop applications, cloud file-storage and sharing, web conferencing with IM, audio, and HD video, and other services.

- \$3 user/month

Office 365 Nonprofit E1

Best for large nonprofits that need email, cloud file-storage and sharing, web conferencing with IM, audio, and HD video, a corporate social network, work-management tools, compliance solutions, and other services. Office applications not included.

- Donation

Office 365 Nonprofit E3

Best for large nonprofits that need email, Office desktop applications, cloud file-storage and sharing, web conferencing with IM, audio, and HD video, meeting broadcasts over the Internet to up to 10,000 people, a corporate social network, work-management tools, compliance solutions, data protection with DLP, and other services.

- \$4.50 user/month

Office 365 Nonprofit E5

Best for large nonprofits that need email, Office desktop applications, cloud file-storage and sharing, web conferencing with IM, audio, HD video, and meeting broadcasts over the Internet to up to 10,000 people, a corporate social network, work-management tools, compliance solutions, data protection with DLP, advanced eDiscovery tools, analytics, advanced security, and other services.

- \$15 user/month

First line worker

Office 365 F1

- \$4 user/month, annual plan
- Free trial

Microsoft Azure v.s. Google Cloud Services

Google Cloud AI

Translation API pricing (as an example)

Text Translation

- \$20 per million characters

Language detection

- \$20 per million characters

Microsoft Cognitive Service

Translator Text API(as an example)

Free

Text translation, customization, language detection, bilingual dictionary, transliteration

- 2M chars free per month

S1

Text translation, customization, language detection, bilingual dictionary, transliteration

- \$10 per million chars (Pay as you go)

S2

Text translation, customization, language detection, bilingual dictionary, transliteration

- \$2,055.01/month
- Up to 250M chars per months
- Overage \$8.22 per million chars

S3

Text translation, customization, language detection, bilingual dictionary, transliteration

- \$6,000.00/month
- Up to 1B chars per month
- Overage: \$6 per million chars

S4

Text translation, customization, language detection, bilingual dictionary, transliteration

- \$45,000.00/month
- Up to 10B chars per month
- Overage: \$4.50 per million chars