VNIVERSITAT DE VALÈNCIA Facultat d'Economia

DEGREE IN BUSINESS ADMINISTRATION

CORPORATE STRATEGIES 202223

PRACTICE CASE Nº 4 GOOGLE MICROSOFT

PRACTICE CASE OBJECTIVE:

Study aspects covered in the classroom regarding the competitive advantage of firms.

WORK TO BE DONE:

Read, on an individual basis, the attached report on Google + Microsoft, and then answer the discussion questions that follow.

If you are not skilled in the analysis of cases, you may find it worthwhile reading 'How to Conduct a Case Analysis' (a file you can find in the same folder as this document).

After working individually, share your findings with your work team and make a joint report with a maximum length of four pages (**no cover page is needed, just the title of the case and the team member names**), written using Calibri 11 with 1.5 interlining and justified text. Upload your report as a pdf file on Moodle, before the due date. The report is not to be presented in class.

Originality and professionalism will be highly valued.

COMPETING ON BUSINESS MODELS: Google vs Microsoft

RIVALS OFTEN USE different business models to compete with one another. Due to competitive dynamics and industry convergence, Google and Microsoft progressively move on to the other's turf. In many areas, Google and Microsoft are now direct competitors. In 2012, Microsoft had $73 billion in revenues and Google $50 billion. Although Google started out as an online search and advertising company, it now offers software applications (Google Docs, word processing, spreadsheet programs, e-mail, interactive calendars, and presentation software) and operating systems (Chrome OS for the Web; Android for mobile applications), among many other online products and services. In contrast, Microsoft began its life by offering an operating system (since 1985, called Windows), then moved into software applications with its Office Suite, and into online search and advertising with Bing, as well as online gaming with Xbox One. The stage is set for a clash of the technology titans.

In competing with each other, Google and Microsoft pursue very different business models, as detailed in Figure 1, Google offers its applications software Google Docs for free to induce and retain as many users as possible for its search engine. Although Google's flagship search engine is free for the end user, Google makes money from sponsored links by advertisers. The advertisers pay for the placement of their ads on the results pages and every time a user clicks on an ad (which Google calls a "sponsored link"). Many billions of mini-transactions like this add up to a substantial business. As shown in Figure 2, advertising revenues account for close to 90 per cent of Google's total revenues.

As indicated in Figure 1, Google uses part of the profits earned from its lucrative online advertising business to subsidize Google Docs. Giving away products and services to induce widespread use allows Google to benefit from *network effects* -the increase in the value of a product or service as more people use it. Google can charge advertisers for highly targeted and effective ads, allowing it to subsidize other product offerings that compete directly with Microsoft.

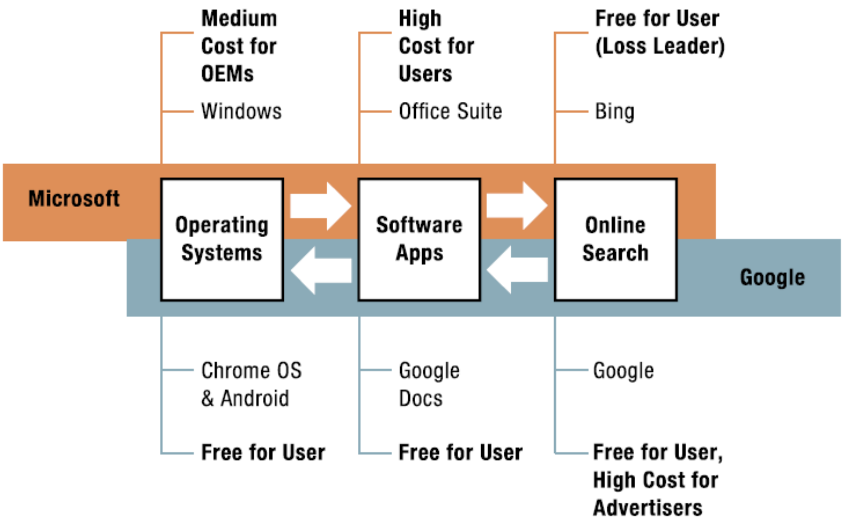

Figure 1: Competing Business Models: Google vs Microsoft

As indicated by the opposing arrows in Figure 1, Microsoft's business model is almost the reverse of Google's. Initially, Microsoft focused on creating a large installed base of users for its PC operating system (Windows). It holds some 90 per cent market share in operating system software for personal computers worldwide. As shown in Figure 3, roughly 50 per cent of Microsoft's revenues are based on the Windows franchise. Moreover, the users are locked into a Microsoft operating system (which generally comes preloaded with the computer they purchased), and then want to buy applications that run seamlessly with the operating system. The obvious choice for most users is Microsoft's Office Suite (containing Word, Excel, Power Point, Outlook, and Access), but they need to pay several hundreds of dollars for the latest version. This application software segment (called "Microsoft Business Division," see Figure 3) contributes roughly one-third of Microsoft's total revenues. This implies that over 80 per cent of Microsoft's revenues are either tied directly or indirectly to its Windows franchise.

As shown in Figure 1, Microsoft uses the profits from its application software business to subsidize its search engine Bing, which is -just like Google's- a free product offering for the end user. Given Bing's relatively small market share, however, and the tremendous cost in developing the search engine, Microsoft, unlike Google, does not make any money from its online search offering; rather, it is a big money loser.

Revenues ($ in millions)	2012	2011	2010	2009
Google Websites	$31,221	$26,145	$19,444	$15,723
Google Network Members' Websites	12,465	10,386	8,792	7,166
Total Advertising Revenues	43,686	36,531	28,236	22,889
Other Revenues	2,354	1,374	1,085	762
Total Google Revenues	46,040	37,905	29,321	23,651
Total Motorola Mobile Revenues	4,136	NA	NA	NA
Total Consolidated Revenues	50,175	37,905	29,321	23,651

Figure 2: Breakdown of Google's revenues by Business segment 2009-12

The logic behind Bing is to provide a countervailing power to Google's dominant position in online search. The logic behind Google Docs is to create a threat to Microsoft's dominant position in application software. Moreover, the computing industry is undergoing a shift away from personal computers to mobile devices. Although Microsoft set the standard and dominates the industry with Windows, Google holds some 75 per cent market share in mobile operating systems software with Android, while Microsoft's market share is less than 5 percent. These tactics create *multipoint competition* between the two technology firms. Taken together, Google and Microsoft compete with one another for market share in several different product categories through quite different business models.

Revenues ($ in millions)	2012	2011	2010	2009
Windows and Windows Live Division	$18,373	$19,033	$19,491	$14,712
Server and Tools (Windows)	18,686	16,680	15,109	14,126
Online Services Division	2,867	2,607	2,294	3,088
Microsoft Business Division	23,991	22,514	19,256	18,894
Entertainment and Devices Division	9,593	8,915	6,079	7,753
Unallocated and Other	213	194	255	145
Total Consolidated Revenues	73,723	69,943	62,484	58,718

Figure 3: Breakdown of Microsoft's revenues by Business segment 2009-12

DISCUSSION QUESTIONS

Review lessons 2 and 3 of the course.

1. How is a strategy different from a business model? How is it similar?

2. Why are Microsoft and Google becoming increasingly direct competitors?

3. Looking at Figures 2 and 3, calculate the annual growth rates for Google's and Microsoft's different business segments. What trend emerges? What conclusions can you draw?

4. What recommendations would you give to the CEO of Microsoft to compete more effectively against Google?

5. What recommendations would you give to the CEO of Google to compete more effectively against Microsoft?