How Microsoft Became A Trillion Dollar Company:

The Lessons To Be Learned For Enterprise Architects

There was a period in the 2000s when Microsoft looked a company in trouble. As with IBM before them, their monopoly position came under threat as new technologies emerged, particularly smartphones, and even Windows itself started to lose ground after poor launches for Windows Vista and Windows 8. Yet by 2020 Microsoft had become one of the most valuable corporations in the world, with a market capitalization of over $1Trillion, throwing off accusations that Silicon Valley competitors such as Apple and Google would overhaul them.
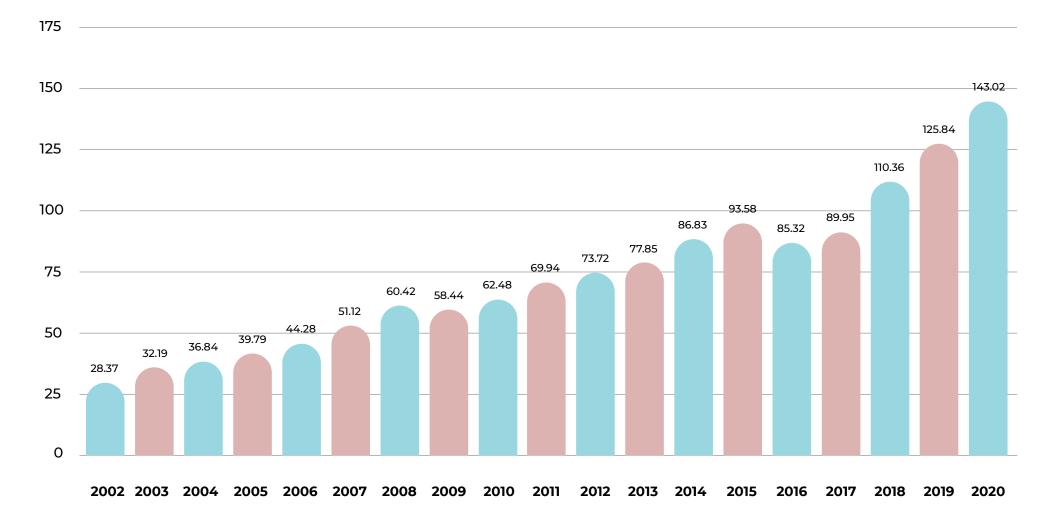
How did Microsoft get into trouble, and what caused their dramatic upswing? Microsoft's revival over the past decade is an interesting story that contains important insights for enterprise architects, demonstrating the value of integration, and of Microsoft's importance to enterprises.

Microsoft's Struggles.

First, it is worth addressing a misconception from the opening paragraph. As with many of these stories, the reality of the difficulties is often considerably less than the perception. Financially, Microsoft were never really in trouble, growing revenues almost every year for the past two decades:

Microsoft's annual revenue worldwide, from FY 2002 to FY 2020 (in billion U.S. dollars)

Year	Revenue
2002	28.37
2003	32.19
2004	36.84
2005	39.79
2006	44.28
2007	51.12
2008	60.42
2009	58.44
2010	62.48
2011	69.94
2012	73.72
2013	77.85
2014	86.83
2015	93.58
2016	85.32
2017	89.95
2018	110.36
2019	125.84
2020	143.02

Source
Microsoft
(c) Statista 2020

Additional Information:
Worldwide; Fiscal years 2020 to 2020

Other than a slight decline in 2009 - the great financial crisis - the only other decline was in 2016. Why then, was Microsoft perceived as struggling? Even the 2016 decline can be explained as a deliberate move on Microsoft's part, as Windows 10 was released essentially for free to the majority of customers. That Microsoft so drastically changed their approach with Windows 10 is a good indicator of what was going wrong. Windows had been Microsoft's greatest asset for most of its existence, but by the 2010s it had also started to become a millstone around Microsoft's neck. Everything Microsoft did was centered around pushing Windows to more devices. Had Microsoft not been caught out by the successes of iPhone and Android, this might have been fine, but as it was Microsoft was desperately playing catch-up with Windows Phone, and ended up throwing good money after bad with the acquisition of Nokia.

Even with the failure of their mobile efforts, most of Microsoft's business units continued to perform well; the problem was that they were all used to push the core business of Windows. Microsoft Office was only available for Windows devices, and Azure was built around Windows Server. As Android and iOS soared in popularity, Microsoft delayed and refused to release Office apps for the platforms in favor of continuing to push Windows Phone. In the server space, AWS raced ahead of Azure. If Microsoft had not changed course after the arrival of Satya Nadella, then who's to say what new competitors might have carved out chunks of Microsoft's business? That being said, Microsoft could still have maintained a strong position in the enterprise segment, even without mobile or server being successes. Unfortunately, another new development threatened their position here as well. Even if Windows itself remained the dominant enterprise OS, the massive growth of SaaS applications neutered Microsoft's biggest advantage.

What Microsoft had in the pre-cloud era was integration. Once you signed on for one part of the Microsoft stack, it became very, very easy for an IT team to take on the rest of the Microsoft stack since it all worked so well together. After all, Integration Architecture is one of the great challenges for enterprise architects, so being able to have a host of server or productivity applications that all work together out-of-the-box can be a major time saver. A good example of how Integration can bind customers to your products comes from Teams. Microsoft Teams launched several years after Slack, which held significant first mover advantages, yet it took just 2.5 years for Teams to surge past the Daily Active Users count of Slack, and it's only continued to grow since then. What made Teams so popular? It easily integrates with Microsoft's other productivity software. Through Teams you can access your Outlook contacts and calendar, easily share OneDrive or SharePoint files, and even open and edit Word or Excel documents. As a pure chat app, Slack might still have some advantages, but for the average enterprise having "good enough" chat combined with easy integration is the only selling point they need.

Prior to the emergence of mobile and the cloud, Microsoft could safely focus everything around Windows, knowing that any potential competitor would then have to be able to match their entire product portfolio. Once that era ended, enterprises suddenly had a lot more choice. With more and more applications offered over the cloud and accessed through mobile, why not switch? Cloud applications took away a lot of the maintenance and upgrade costs of on-premise applications, and once that was no longer a factor the need to buy everything from one vendor is much less important. IT departments did not have to worry about using scarce resources to implement new software, as the only barrier is the cost. Everything else is done in the cloud. This freed up enterprises to focus on other characteristics of the application (for example, mobile support) and this put Microsoft in a difficult position.

The Return to Prominence.

The above example of the success of the Teams app perfectly illustrates how Nadella was able to turn around Microsoft's difficult position into even greater success. Though Microsoft ran into trouble through their integration approach, this didn't mean that integration itself is a bad strategy. Rather, they had simply focused integration on the wrong product. Having bet the house on Windows dominance, Microsoft needed to transition away once it became clear that Windows was no longer an essential part of doing business. In fact, the revenue decline in 2016 was arguably a necessary step in turning Microsoft around. Windows 10 had been released towards the end of FY2015, and was essentially offered for free to all existing Windows 7 and 8 customers, so it is perhaps unsurprising that their revenues took a small hit from this. However, this move also signaled Microsoft's departure from being a "Windows" company to being a "Services" company.

Under Steve Ballmer, Microsoft had remained steadfast, but Nadella soon pivoted. Windows became just another client to access software, with Microsoft's applications offered on everything. Indeed, at the release of Windows 10, Microsoft committed to making Windows into just another service, not releasing any new editions and simply updating Windows 10 continually. This was following in 2018 by a reorganization that left Microsoft without a dedicated Windows team for the first time. In his very first memo as CEO, Nadella said the following:

> *More recently, we have described ourselves as a "devices and services" company. While the devices and services description was helpful in starting our transformation, we now need to hone in on our unique strategy. At our core, Microsoft is the productivity and platform company for the mobile-first and cloud-first world. We will reinvent productivity to empower every person and every organization on the planet to do more and achieve more.*

Nadella recognized that the device war had been lost; Windows is still the biggest OS for PCs, but so much of a PC's function can now take place elsewhere, and even for those who did stick to PCs, hardware has become powerful enough that update cycles can be 5 to 10 years. Switching to a service focus was not an instant panacea, but it enabled Microsoft to leverage a key strength: Office was already the default for the vast majority of enterprises. Once 365 began to offer proper mobile and cloud support, why would an enterprise even consider using Google Docs? Once Teams was released for free to 365 subscribers, why would an enterprise even trial using Slack? Microsoft's initial reluctance to embrace SaaS or mobile gave enterprises the impetus to try out different vendors, but once this was resolved, that impetus was removed and Microsoft once again became the default. It doesn't matter how good the likes of Slack even are, as long as Teams is good enough. And through it all, Microsoft's enterprise software and Azure services have remained very good indeed.

Lessons to learn.

First and foremost, Microsoft remains a powerhouse of enterprise software, and it is unsurprising that the vast majority of successful firms continue to make use of Microsoft products. What is more, Microsoft's strategic changes have seen Microsoft further strengthen its massive partner relationships. This is an area that Orbus are familiar with as well, with iServer being built entirely on the Microsoft stack and able to integrate easily with their product line. Having an enterprise architecture tool that is aligned to the Microsoft stack means firms can further extend their investments in the Microsoft suite, gives architects familiar interfaces to learn with, and aligns your EA tool roadmap with the Microsoft application roadmap. At this point, enterprises are not just looking at the Microsoft stack and comparing it to a Google or Apple stack, or disparate SaaS applications; they are looking at a Microsoft stack underpinned by thousands of third party applications that just work with Microsoft products. iServer is one such example.

Another lesson comes for Integration Architecture: do not ignore easy wins that organizations offer you. Mixing and matching applications from different firms might get you slightly more features or cost savings, but you cannot measure the benefit you gain from having apps that integrate seamlessly, without needing major input from an enterprise architecture team. Microsoft know promises cloud based applications across their productivity suite, giving seamless integration without needing to invest in an iPaaS or similar solution. There will come a point where integration is no longer the be all and end all, as Microsoft found, so it is worth tempering the instinct to focus all IT efforts on easy integration, but market fragmentation means it must still be a factor.

Strategy wise, Microsoft demonstrate the importance of horizontal integration in the cloud era. Windows, when it first launched, was a pioneer in not caring about the hardware that it was paired with, which gave Microsoft a big advantage over competitors such as IBM and Apple. Any firm could suddenly build PC hardware, giving Microsoft easy access to homes and offices. Now, devices are barely relevant, and software firms need to be able to offer their applications on any platform that consumers use. Windows is one such platform for Microsoft, but it is no longer the only platform. At this point, a user could access Microsoft Word on Windows, MacOS, Linux, Android, iOS, even potentially through a SmartTV or Car OS. Why limit your offering? For software firms, giving your customers access whenever and wherever they want it is the key lesson. For other firms, it's good to know that no company is powerful enough to resist the move to SaaS, and that your entire enterprise can become a lot more agile as on-premise applications become increasingly niche.

One easily overlooked area of Enterprise Architecture that will be impacted is Roadmapping. Your Application Roadmap, in this new paradigm, is no longer just your roadmap. It is now Microsoft's roadmap, it is Orbus's roadmap, it is a shared document. One of the key things to take away is that you cannot afford to ignore how Microsoft, or other vendors, are performing, and you should be aware of their strategies, their announcements and so forth.

Summary.

Despite some roadblocks, Microsoft remains the world's most powerful enterprise software provider. Their products continue to be great options for enterprise architects and other functions, and opting into the Microsoft stack can have large benefits when it comes to building Integration Architecture. But it's not just a story about Enterprise Architecture, but an excellent strategic lesson as well. Even if you don't make any changes to your architecture, knowing when to pivot, the importance of bundling, and the need to take risks to break out of slumps are vital lessons for any business and any function. Microsoft were never truly in danger as they acted quickly and decisively, but other enterprises may not be so bold.