REAL WORLD CASE 1

Microsoft: Looking at How Companies Do Business—and Writing Software for the Processes

Microsoft, whose fortune has been built around a computer operating system, is gaining influence on how things get done in hospital operating rooms by hiring doctors, nurses, and other health care professionals in an effort to establish internal expertise about the medical industry's IT needs.

Microsoft has customized sales and support teams for industry segments in the past. But it wasn't until five years ago that the company really began to divvy up its customer base, forming teams for financial services, communications, and government and education, followed more recently by those for automotive, retail and hospitality, health care, manufacturing, and the media.

Now Microsoft is expanding the number of industries it targets, injecting industry-specific codes directly into its core software platforms and hiring business technology professionals steeped in the sectors at which it's aiming.

CEO Steve Ballmer describes a two-pronged strategy of selling customizable applications directly to small and medium-sized companies via Microsoft's Business Solutions division, while serving larger companies through partnerships with other technology companies. In both cases, Microsoft engages its wide network of independent software vendors to build apps that run on top of its own software stack. "At the end of the day, we don't provide the vertical capabilities," Ballmer says.

But that's changing. Microsoft engineers are creating software add-ons, called accelerators, aimed at business processes common to companies in a given industry. And Microsoft Business Solutions has begun inserting what it calls "industry-enabling layers"—software that serves the needs of a broad base of companies in a particular sector—into its enterprise applications.

Microsoft is far from the only software company with a vertical strategy. Yet Microsoft has a major edge in extending its strategy: Call it Microsoft's Foot in the Door advantage.

When Cooper Tire and Rubber Co., a 90-year-old maker of aftermarket tires, set out 18 months ago to create a product-life-cycle management system for designing and building new products, it assessed software from PLM specialists, custom software, and Microsoft. Cooper Tire chose a Microsoft approach, using the company's SharePoint portal software, Project project-management application, and Visio diagramming program.

It was a pragmatic decision: Cooper Tire's license agreement with Microsoft already covered the products needed, so the tire company faced development costs but no added application expense. The other approaches would have cost at least $1.5 million, and Cooper did it for less than half that. But what does Microsoft know about tire manufacturing? "That's what we were wondering, too," says Todd Wilson, project manager of technical systems in Cooper's tire division.

Microsoft brought in a systems integrator—Avanade, a joint venture between Microsoft and Accenture—and bore some of the cost. "The people they've brought in have been experienced manufacturing people. We haven't had to teach them," Wilson says. Microsoft and Avanade spent three months developing a prototype to prove its tools could meet Cooper's needs.

The resulting system helps the company get new tire designs to market in about nine months, half of what it used to take. That scored points with management because speed to market is key to Cooper's strategy of developing high-performance and racing tires to compete with Chinese tire companies. "We were a fast follower. We want to be more of a leader," Wilson says.

Another industry in which Microsoft has well-established customers is retail—it estimates 70 percent of the computing infrastructure in stores runs on Microsoft software. Yet the company is depending on creative thinking to convince retailers to use its software in more, and more strategic, ways.

Microsoft is moving quickly, expanding industry-specific sales and support teams, developing application accelerators and industry-enabling layers, and seeking more partnerships with vendors that have deep industry roots. The big question for Microsoft is whether customers' familiarity breeds comfort—or contempt.

Case Study Questions

1. A common phrase among IT professionals is "The world views its data through Windows." Why does Microsoft dominate the desktop and networked software market? Visit its website at www.microsoft.com and review its broad range of software products and services to help with your answer.

2. How successful will Microsoft be in competing with software vendors who specialize in vertical market applications like health care, retail, and other specialty services? Why?

3. Do you agree with Microsoft's strategy to develop industry-specific partners to capitalize on opportunities in both large and small business sectors? Is there an advantage or a disadvantage to being one of Microsoft's partners in this type of relationship? Explain.