

Microsoft tears down walls to open up future

July 16 2013, by Janet I. Tu

When CEO Steve Ballmer announced Microsoft's most sweeping reorganization in years Thursday, he said it was to make the company faster-paced and more collaborative - all the better to advance his vision of turning the software giant into a devices-and-services company.

That's what makes the restructuring so crucial: The future of the company, and how well it competes in a changing tech market, hangs at least in part on how well this reorganization is executed.

Ballmer has realigned the company according to function, cutting in half the number of product divisions and centralizing operational services.

Previous divisions such as Windows and Windows Phone, or Office and Bing, have been collapsed into the larger engineering units.

Operational services such as marketing, finance and [business development](#) will now all go through a central companywide leader of those functions, rather than through each product division.

There are no plans for [layoffs](#), Ballmer said during a call with reporters and analysts. But he did say there would be many changes in people's job duties.

The reorganization attempts to address some of the shortcomings that have led a scrambling Microsoft to play catch-up in the smartphone, tablet and search markets as competitors, including Google and Apple, soared with their offerings.

This massive realignment is part of Microsoft's strategy for the future - one in which desktop and notebook PCs and in-house servers on which Microsoft built its empire are increasingly overtaken by [mobile devices](#) and cloud services.

"We see this as being a really significant move for Microsoft," said Al Gillen, analyst with research firm IDC. "It opens the door for them to make more aggressive moves to compete in the new world of computing."

Microsoft recognizes that in this new world, it has to provide a more coherent, cohesive message to users about why to choose its offerings and to developers about why to build for and on Microsoft platforms.

"This is a change that Microsoft is putting in place to set them up for the next five years, not for the next few months," Gillen said.

Microsoft traditionally has had a vertical hierarchy, with product divisions operating as silos, each with its own goals and strategies.

In the new structure, which is effective immediately, though likely to take months to fully implement, the company will be organized around the functions of: engineering, marketing, business development and evangelism, advanced strategy and research, finance, human resources, legal, and functions such as field sales and support, commercial operations and IT that fall under the chief operating officer.

The engineering groups contain the products and services that most people think of when they think of Microsoft.

The four groups:

- Operating Systems, run by former Windows Phone head Terry

Myerson, will handle Windows, Windows Phone and Xbox.

-Applications and Services, run by former Online Services President Qi Lu, will include Office, Lync, SharePoint, Skype, Yammer, Bing and MSN.

-Cloud and Enterprise, run by former Server and Tools President Satya Nadella, will include Windows Server, Windows Azure, SQL Server and Systems Center.

-Devices and Studios, run by former Windows engineering head Julie Larson-Green, will handle hardware development, including Xbox and Surface, and entertainment offerings such as games, music and videos.

On the operational side, Tony Bates, former president of Skype, will now head business [development](#) and outreach to developers.

Marketing for various products and engineering groups will all flow through central marketing head Tami Reller. Similarly, all financial functions will report to Amy Hood, chief financial officer.

Reller and Mark Penn, former adviser to Bill and Hillary Rodham Clinton and who has worked as a strategist for Microsoft since 2012, will co-lead advertising and media.

And there will be teams of people spanning different groups, to fulfill specific initiatives or projects.

"We are rallying behind a single strategy as one company - not a collection of divisional strategies," Ballmer wrote in an email to employees.

"We will see our product line holistically, not as a set of islands."

That single strategy, he reiterated during the conference call with reporters, is: "One Microsoft, focused on a set of high-value experiences, delivered in devices and services" to individuals and businesses.

Investors greeted the reorganization kindly, boosting the share price 99 cents to close at \$35.69 Thursday.

"Shareholders welcome such [restructuring](#) around reorienting the business for the future," said analyst Todd Lowenstein with asset management firm Highmark Capital.

And investors like the idea that the company is positioning itself in services, and not just traditional software licenses, said veteran Microsoft analyst Rick Sherlund with investment bank Nomura.

Still, Sherlund pointed out: "It kind of doesn't solve the predicament of tablets and smartphones and Microsoft's very low share. So I think it's designed for the future."

Indeed, it will take a while to see if the reorganization actually results in more nimbleness, better products and more cohesive marketing.

Clues could emerge by the end of this year, when the Windows 8.1 operating system upgrade is released and expected new tablets and other devices hit the market.

If Windows 8.1 works well and there are ample new tablets and devices that run it, "it's a good sign that the new, more cooperative system is working," said Rob Helm, an analyst with independent research firm Directions on Microsoft.

But for Helm, the key question on the reorganization is: What are the

new leaders going to be held accountable for?

"If it's the success of their own products, they're going to continue to focus on their own products and not on one Microsoft," Helm said. "But if the company comes up with some way to reward them for cooperating with their peers, this could be a substantial improvement on Microsoft's ability to deliver technology."

David Cearley, an analyst with research firm Gartner, sees both potential positives and pitfalls in the [reorganization](#).

On the positive side, it could break down barriers between product groups, provide a better environment for cooperating, and create more coordinated marketing and outreach efforts.

On the flip side, all the emphasis on collaboration and having each group work on many, rather than one, product, could lead to less focus on individual products - "and it's products that people individually buy," Cearley said.

"Ballmer's challenge will be to balance focus across individual products and driving coordination and leverage across the organization," Cearley said.

Another big challenge will be changing the culture to support the new structure.

"If they get it right, Microsoft has a powerful set of capabilities across a wide array of technologies and products," Cearley said. "It'll make them a formidable competitor."

But, he cautioned, the new structure has more disparate groups involved in the production and marketing of any one product now.

"If they get it wrong, we could actually see an increase in bureaucracy and slower innovation," Cearley said. "The key for Microsoft will be excellent execution of this organizational shift."

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