



Team Case Study Paper

AIS 4099 Senior Capstone

Professor: Dr. Michele Kegley

Group 1: Kendyl Brack, Nathan Burk, Jonathan Wilson

Introduction

With the continual great strides in the advancement of technology, it is difficult to believe that Microsoft, one of the largest technological corporations in the world, could be struggling. However, articles reveal the company is being affected not only by the economic slowdown but also issues related to overstaffing and the post-pandemic market.

Founded in 1975 by Bill Gates and Paul Allen, Microsoft's growth skyrocketed with just over 220,000 employees worldwide as of 2022. "Microsoft produces computer software, consumer electronics, personal computers, and related services" (Microsoft). The team developed applications that are used on an everyday basis in businesses, schools, and households around the globe including Teams, Outlook, Windows, Office applications, and more. However, Microsoft did not limit themselves to only laptops and computers, they tested and expanded the bounds of what only imagination could create at the time. In 2001, Gates and Allen tested the waters with gaming, which led to the creation of the infamous Xbox that became one of the most popular sources of entertainment for generations to come. Technology is growing at an even faster rate and being relied on for even simple daily tasks, and yet in January of 2023, Microsoft laid off 10,000 of its employees (Alund 2023). This paper identifies the problems Microsoft has been faced with in the post-pandemic market and an analysis that provides solution recommendations for the troubles the company continues to struggle with.

Problem Identification and Literature Review

Following Microsoft's recent layoff of 10,000 employees, the initial analysis concludes that reducing the number of employees is a response to the following possible challenges: overstaffing, inflation, pandemic response, slowing of the global economy, fluctuations in

foreign currency, legal problems, and competition. This literature review will focus on the effects of overstaffing, the global pandemic, economic slowdown, and their connection to one another.

The 21st-century global pandemic, often referred to as Corona Virus/Covid-19, crippled the entire world as it swept across each continent leaving large portions of the population ill. The pandemic changed how our society operated and everyone's routines changed drastically; people cut themselves off from the world and changed their social behaviors indefinitely. As people locked their doors trying to protect their loved ones, companies were affected on a global scale. Some companies had to close their doors due to the rapidly spreading virus, where others transitioned into a full remote work environment. This environment spawned a colossal need for infrastructure around the world to keep operations running. Companies needed software for communication, storage, and daily tasks. This elevated need had Microsoft positioned for a large workload that led to a hiring frenzy to keep up with demand.

As the demand increased exponentially, Microsoft experienced rapid growth with the use of its online cloud services and an increase in the sales of products such as laptops and online platforms that supported collaboration. Both occurred due to the incredible number of workers who moved to work remotely. Additionally, Microsoft experienced incredible success with its Teams communication software. This software helped keep the world connected and continue to collaborate as if everyone were still in the office. To keep up with Microsoft's booming demand for its products, the company had to hire additional team members to maximize its operations. As the pandemic receded and covid restrictions lifted, many workers returned to the office, causing a drop in the need for this additional staff. As the tech industry's growth slowed, the industry found itself overstaffed and had to reverse course and adapt (Alund, 2023). Microsoft is not the only big tech company laying off workers by the thousands because they are overstaffed

to accommodate the pandemic needs. It is estimated that over 120,000 workers have been let go from their jobs at some of the biggest tech firms, such as Amazon, Netflix, and Meta (Dewitte, 2022).

Microsoft is now navigating the post-pandemic market which has introduced inflation challenges for its consumers. Customers had less discretionary cash due to the higher cost of living and higher operating costs. The response to this inflation was that consumers exercised increased caution and cut back on their spending across the board. For Microsoft, there was a double whammy; they faced their own increased operating costs from inflation as well as decreased sales. Microsoft's net income fell 12% in the last quarter of 2022 – the company's lowest profit growth since 2016 (Dotan, 2023a). Microsoft's personal computing sales dropped by 19% and operating system profits fell by 47% (Weise, 2023a). In addition, they experienced a decreased demand for cloud services over the past year and reported that they expected slow PC (personal computer) sales to continue into 2023 (Dotan, 2023a). Azure, which is Microsoft's cloud computing business, had been a big money-maker for them, but recently dropped in revenue by 3.7% (Vlastelica, 2023). Microsoft reported that growth in demand for its cloud services slowed as consumer spending slowed ("Business," 2023).

Microsoft is not the only company experiencing slowed consumer spending, economic slowdown is being seen on a global scale since the pandemic slowdown in 2022, but the dollar worth remains strong, which has caused another problem. One would think that a strong U.S. dollar would be beneficial, and it was, in the U.S. markets. However, since Microsoft is a global company, the value of its foreign sales dropped due to the fluctuating value of foreign currencies compared to the strength of the US dollar. The company reported that the dollar's strength was weighing on expansion (Dotan, 2023b). Also, during these challenging times, Microsoft found

itself in a court battle with the Federal Trade Commission. The lawsuit is over its \$75 billion plan to buy Activision, a video game producer. The purchase would make Microsoft the 3rd largest video game publisher in the world (Dotan, 2023a).

With the issues Microsoft is facing with the economic slowdown that has resulted from the aftermath of the COVID-19 pandemic such as inflation and overstaffing, the company has been forced to make tough decisions in an effort to achieve sustainability in the current market. These tough decisions, unfortunately, included layoffs which led to negative public relations surrounding Microsoft and other technology companies that have joined this trend. Despite this, we have prepared an analysis of Microsoft with strengths and opportunities to be optimistic about as the company continues to reinvent the technology of the future as well as some concerns to be aware of as they navigate this territory.

SWOT Analysis

Strengths

While our world has gone through issues caused by inflation and the pandemic, companies like Microsoft are making investments and strategic allocations to promote growth and recovery. Microsoft has several strengths that pose an exciting outlook and can help support the company as they navigate issues such as overstaffing, inflation, and economic slowdown caused by the pandemic.

Market Share and Growth

As the 2nd largest company in the world based on market value, Microsoft's innovations in their 365-office software, cloud computing, and AI paved the road for impressive growth over the past several years and positioned them to provide crucial advancements to the remote work industry

during the Covid-19 pandemic. Microsoft's cloud computing platform alone posted "several quarters in a row of 50% or more year-over-year sales growth" (Dotan, 2023a) The company is anticipating this growth to accelerate as the world utilizes AI, a sector that Microsoft has been investing billions in. Their dominance in the cloud computing and office software has made the company "indispensable to the world's businesses that need everything from cloud computing to Excel spreadsheets to advertising and recruiting services on LinkedIn." (Gallagher, 2022b).

Microsoft has solidified themselves in the market with their advanced office and cloud computing technology that is crucial to the world's business operations. In addition to this Microsoft's investments in OpenAI and their recent acquisition of Activision Blizzard, has the company strategically positioned to boost their market share in the AI and Video game sectors to accelerate growth.

Advanced Microsoft 365 Software and Cloud Services

With impressive growth over the past several years and an increased need for software to power the world's remote business practices during the pandemic and post pandemic, Microsoft has continued to elevate its advances in office and cloud computing technology. Microsoft 365 is a multi-billion-dollar business for the company and continues to foster loyalty through the technology's ease of use and trusted brand. Microsoft 365 provides businesses with Word, Excel, Access, and other products that the world uses every day to conduct operations. In addition to this, Microsoft Team's has been a rapidly growing product that evolved the way we communicate and was expected during the pandemic to power remote communications. This innovation helped Microsoft build upon their existing customer loyalty and trust.

Microsoft's advancements in cloud computing have been the company's main engine of growth over the past several years. Their products, like Azure, have provided companies with the on-

demand availability of computer resources such as data storage and power. This business grew “18% to \$21.51 billion” (Dotan, 2023a) this quarter and was a major factor in Microsoft's 3% year over year growth from last quarter to \$52 Billion in revenue. With Microsoft's heavy investments in their AI business unit, the company expects their leading cloud computing technology to continue to grow as the world starts utilizing AI technology in more aspects of their life and business.

Emerging AI Popularity

Microsoft has recently invested over 10 billion into OpenAI (Weiss, 2023b) “. OpenAI is the startup that created ChatGPT, an artificial-intelligence bot that can answer questions in a conversational way.” (“Business,” 2023) The software launched last month and has “skyrocketed in popularity as users have flocked to the tool” (Gallagher, 2023a). Microsoft is heavily investing in this emerging popularity to use this AI software to advance their products such as Bing, a web search engine that has struggled to compete with Google’s industry leading search engine. These initiatives have Microsoft positioned to spread dominance and power in the age of AI.

Windows Operating System

Microsoft’s operating system unit, despite a recent decline in revenue due to overstocking and less demand in the personal computing market, still dominates the market share with close to over 76% of the market utilizing Microsoft Windows (Taylor, 2022). With the company’s dominance in this space and constant improvements they have made to evolve the experience of personal computing, Microsoft has a clear path to remain a juggernaut in this industry.

Weaknesses

Microsoft's recent layoff of 10,000 workers has highlighted the current issues the company is facing in the post pandemic market. The weaknesses below have been areas of concern for the company as they navigate these changes.

Overstaffing

Due to the pandemic, the rapid growth of need for Microsoft's cloud computing software and Office 365 to power the new business practices skyrocketed. This elevation forced Microsoft to accelerate their hiring practices to ensure they have a strong infrastructure to maintain the inflated demand. Now that the economy is slowing down and demand has dropped to pre-pandemic levels, Microsoft is overstaffed and experiencing a higher labor cost than their infrastructure is prepared for due to the lower demand for their services.

Hardware Innovations

Microsoft has a strong foothold in the computer software market, but their hardware products lack innovation and are far behind their competitors. Microsoft has promoted their Surface Pro tablet and computer combinations but is still far behind competitors such as Apple and Google in that market share with Apple leading the way with their famous iPad. Microsoft is also behind Apple when it comes to cell phones which have taken the world by storm over the past decade. Microsoft introduced the windows phone back in 2010 to compete with apple in the smartphone market but later discontinued these models in 2019. While Microsoft is a leading competitor in the software industry, their lack of innovation with hardware has the company falling behind.

Poor Acquisitions

While Microsoft has just acquired Activision Blizzard which opens a new avenue for them to explore and advance, they have had a troubling history with acquisitions. With failed acquisitions such as WebTV, LinkExchange, Massive, and Danger, Microsoft has seen a large amount of investments fail and hurt their profit margins. One of these misses being back in 2002 when Microsoft purchased Navision for \$1.45 billion. The company produced business management in Europe and gave Microsoft the opportunity to capitalize on that exposure. While Microsoft tried to bundle this with their other products, it failed. More recently Microsoft purchased AQuantive back in 2007 to pursue the online advertising market and compete with Google. This \$6.2 billion investment went to waste as the strategy failed and is Microsoft's biggest miss of the last several decades. (Statt, 1)

Opportunities

Microsoft's advancements in cloud services, AI, and business management software have the company positioned to capitalize on the growing technology market that launches our society into the future.

Cloud Business Growth

Microsoft's impressive advancement in cloud-based services such as Microsoft Azure has seen incredible growth in recent years. This business has grown "18% to \$21.51 billion" (Dotan, 2023a) this quarter and provides Microsoft a huge opportunity to keep accelerating their innovations and capitalizing on this market. Cloud-based services are a huge part of the future as they provide analytics, storage, and networking that is crucial to operating software that businesses use every day. With artificial intelligence taking the world by storm, the need for

cloud services to support more complex software is only going to increase and Microsoft is in the driver's seat to capitalize on their current success in this space.

AI and Innovation

With the recent emerging popularity surrounding artificial intelligence, Microsoft has an immense amount of opportunity if they continue to invest in programs such as OpenAI which produced ChatGPT and has amazed people across the world. Microsoft plans to incorporate artificial intelligence tools into all its products (Jin, 2023). Additionally, Microsoft's other innovations with acquisitions in the gaming industry such as Activision Blizzard pose great opportunities to gain exposures in other markets and boost their revenue.

Remote work solutions

With the pandemic behind us, the practices that it initiated are still largely being used throughout the world due to the conveniences and cost savings that companies have come to realize. Remote working has become increasingly popular and Microsoft's leading software such as Office 365 and Teams have made these operations extremely easy. This has fostered an incredible amount of customer loyalty. The growth of remote work and outsourcing employees from other countries has continued to create a high demand for communication and business management software. This gives Microsoft the opportunity to lead this market with future advancements to continue evolving the way we conduct business domestically and internationally.

Threats

Layoffs and cybercrime have posed to potentially put Microsoft in a negative spotlight and compromise their networking systems. On top of this, large competitors such as Apple, Google, and Amazon invest heavily into their technology in a race for market share.

Negative Public Relations from Layoffs

While Microsoft has an impressive amount of customer loyalty due to their innovations with their Office 365 services, their recent layoffs of 10,000 employees will have negative impacts on their PR during a time when the economy is seeing a large decrease in demand. The recent economic slowdown has companies cutting costs where they can maintain profit margins and negative PR from layoffs can put the company in a bad spotlight. According to Daniel Keum, a professor of business at Columbia business School, the layoffs aren't because big tech companies are running low on cash, but instead it is because they are making huge investments into risky new areas (Schulz, 23). These issues can inflict a negative spotlight on the company that can be difficult to erase.

Cybercrime

With Microsoft being an industry leader in software, cybercrime poses a huge threat to their infrastructure. Due to these rising cyber threats and piracy, Microsoft's security systems have been tested and affected by frequent malicious attacks. These attacks can compromise any of Microsoft's software programs from cloud products to their new AI innovations. An active issue Microsoft is dealing with in the AI space is with the AI discussing violence and insisting it was right when it was wrong (Leswing, 2023). Cyber criminals can use these defects to their advantage and use this information to inflict negative spotlights upon the company. Ensuring their network systems are secure has become a major focus item for the company to ensure their system integrity is not compromised.

Large Competitors

Microsoft has strong competitors in Apple, Google, and Amazon. These companies are quickly evolving their technology to capitalize in the AI, phone, software, and computer hardware markets. While Microsoft is leading the software industry, they are still behind companies like Apple and Amazon in computer hardware and trailing Google in the search engine and online advertising market as Google handles almost 90% of the world's searches and Microsoft's Bing has not been able to put a dent in Google's share (Gallagher, 2023a).

Recommendations

Microsoft will need to address the following problem areas including overstaffing, inflation, and slowing of the global economy. Regarding their staffing issues, we recommend that Microsoft works with their HR department to design work schedule alternatives instead of laying off large amounts of employees. This would allow the company to keep its talent onboard driving future growth. Microsoft could also experiment with reducing work hours or work weeks for employees who are able to voluntarily work part-time until they are needed full-time again. With how popular their new innovations in Artificial Intelligence has become, investing in retaining their employees and allocating them to support the growth of that sector can help not only reduce layoffs by repurposing but create a strong support network to keep the popularity skyrocketing.

Regarding inflation and the slowing of the global economy, Microsoft needs to continue to try to find sustainable solutions during our continued economic recovery including working within a budget, higher productivity, and reasonable expenditures. Our recommendations for overcoming these challenges regarding the decrease in customer demand is for Microsoft to stay

at the forefront of AI innovation and solutions and to continue to improve its most successful programs. If Microsoft can continue to focus its energy on its strengths and intelligent advancements, the company can achieve new economic heights without laying off employees as they continue to innovate the future of technology.

Conclusion

Microsoft is a huge player in the tech industry and has always been an innovative and successful company. They have had a colossal impact on business management with their Teams and Excel programs, to name just a few. That is why it is so concerning to see them conduct mass layoffs. To cut costs and keep up with the post-pandemic market, Microsoft's recent layoff of 10,000 employees poses a threat to their public relations. This issue is being forced by several problems, including overstaffing from the pandemic, slowing of the global economy, and inflation. Luckily for Microsoft, its ability to make investments in several sectors should help the company to continue to recover from these challenges and focus its attention on a brighter future. Microsoft's Office 365 products have continued to forge strong customer loyalty, their cloud-based services continue to command a strong market share, and their recent AI innovations, which have taken the world by storm, should all continue to ensure their success. Microsoft's future is promising, also due to the rising interest in artificial intelligence programs such as ChatGPT and cloud-based services such as Microsoft Azure that are powering the future of technology. As their 2016 Windows 10 ad suggests, "The Future Starts Now."

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