Microsoft: Humble Beginnings

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What is Reorganization

In the trying economic time of today's corporate world, the term reorganization, in relation to business, has been spoken in the same breath when discussing the long list of investment banks who have failed, or on the brink of failure. In addition, the automobile industry, (Big 3) are faced with possible bankruptcy, restructuring, a possible appointment of a "Car Czar", or Chapter 11 Bankruptcy (Reorganization). Discussions are currently being held on congressional "bailouts." Automakers are asking for "financial bridges." While others are calling this crises a "rescue Plan." Reform of bad business practices is not always a solution for reorganization. When discussing reorganization, many Wall Street analysts are referring to the equity, or stock, of a company in conjunction with potential financial strategies which may help these investment banks dig themselves out of their current turmoil. However, another major form of reorganization happens on a daily basis at many companies throughout the world. These reorganizations have nothing to do with company's equity or stock position, but rather the organizational alignment of the company. Many of these reorganizations occur to assist business groups in aligning with one another's priorities, efforts and goals. They also occur when the failure of a group's leadership occurs or to bring the engineering and manufacturing aspects of the business closer together with the product marketing.

Most reorganizations are viewed in a negative light by the employees and managers who are involved. These attitudes can be attributed to the unknown nature of reorganization. Many questions can come to mind such as, "What will happen to me?", "Is my job at risk?", "How will this affect the political landscape of the company?" and "Did we do something wrong?" What some do not realize is that many companies have adopted reorganization as a strategy to keep their organizations fresh with ideas, enthusiasm and a healthy mix of experience. One such company is Microsoft, who has used reorganization as part of its business strategy allowing the company to become one of the biggest and most successful in the world.

Microsoft: At a Glance

Microsoft is the world's leading software manufacture headquartered in Redmond, Washington. Over the last thirty years, Microsoft has grown to enormous proportions of over 90,000 employees, $60 billion dollars in revenue and five major business groups, Server & Tools, Client, Online Services, Microsoft Business Division & Entertainment and Devices Division. (Microsoft.com, 2008)

Microsoft is a publicly traded company on the NASDAQ stock exchange under the ticker symbol MSFT. Microsoft maintains a 10 member board of directors with Bill Gates acting as Chairman of the Board. Steve Ballmer is the current Chief Executive Officer of the company, taking over the role from Bill Gates in 2000. Operating in 107 countries at 677 sites, Microsoft occupies over 28 million square feet of real estate space around the world and has 113 executives spread across its five business units.

The core of Microsoft's revenue is the personal computer (PC) line and server line of operating systems and business/personal productivity applications. Microsoft recently expanded into the mobile device and cell phone software market under its dominant Windows brand as well as ventured into gaming console market with the Xbox 360.

Exhibit 1

Microsoft: At A Glance

- World's leading software manufacture
- Founded in 1975 by Bill Gates and Paul Allen in Albuquerque, New Mexico
- Over 90,000 employees worldwide in 107 countries
- Operates 677 sites totaling over 28 million sq. ft.
- $60 billion dollars in revenue in FY08
- 5 major business segments: Server & Tool, Client, Online Services, Microsoft Business Division & Entertainment and Devices Division

Microsoft: Humble Beginnings

Microsoft was founded in 1975 by Bill Gates and Paul Allen in Albuquerque, New Mexico after the MITS Altair 8800 appeared on the cover of Popular Electronics, inspiring Paul Allen and Bill Gates to develop a BASIC (Basic All Purpose Symbolic Instructional Code) language for the Altair (Microsoft.com, 2008). By the end of 1975, Microsoft had 3 employees, total revenue of $16,005 (Thocp.net, 2006) and Microsoft Basic was their only product. At the beginning of 1978, Bill Gates and Paul Allen began to question the company's future in Albuquerque and in March of 1978, the decision to relocate to Bellevue, WA was made. The move happened at the end of 1978, a year in which Microsoft had 12 employees and posted its first $1 million in revenue. (Allen, 2008)

Exhibit 2

Microsoft: Humble Beginnings

* 1975 Paul Allen and Bill Gates developed an operating system called BASIC for the Altair.
* By the end of 1975 Microsoft had 3 employees, total revenue of $16,005 . Microsoft Basic was their only product.
* 1979 Microsoft moves it's HQ to Bellevue, WA from Albuquerque, NM and reached $1 million in revenue.

Paul Allen & Bill Gates
http://political-figure.blogspot.com/2007_06_01_archive.html

The "Albuquerque 11" 1978
http://jtaplin.files.wordpress.com/2008/06/bill-gates-cony78.jpg

Microsoft: Growth of a Company

The 1980s was a time of both growth and growing pains for Microsoft. By November 1981, Microsoft had grown to 100 employees and reorganized from a partnership to a privately held corporation with Bill Gates as president and Chairman of the Board. Paul Allen became Executive Vice President**.** In 1980 Steve Ballmer was hired at Microsoft as its 24th employee and first Business Manager. (Wikipedia, 2008) By the end of 1982 Microsoft had doubled its work force, to 200 employees, and had $34 million in revenue and initiated an international operations group which oversaw sales and marketing activities outside the US.

1983 was a key year for Microsoft. During this time they hired John Shirley as the new President and Chief Operating Officer. Shirley is arguably one of the key architects, besides Bill Gates and Steve Ballmer, of Microsoft's overall success. Previous to his time at Microsoft, Shirley was employed at Tandy Corporation for 25 years. His last role at Tandy was Vice President Computer Merchandising before he left in 1983 to join Microsoft providing the practical business experience the company desperately needed. (Microsoft, 2008)

Paul Allen resigned from Microsoft in 1983 due to a battle with Hodgkins disease but remained on the Board of Directors until 2000. (Biography.com, 2008) That same year Rowland Hanson was selected Vice President of communications**.** Hanson paved the way for Microsoft's marketing machine in the years to come. (Allen, 2008) Word 1.0 and Windows 1.0 also made their debut along with the creation of Microsoft Press and Microsoft Hardware groups were also created in 1983.

Bill Gates managed most of the product development activities at the company up to this point. However, the three year period of 1982-1985, his responsibilities become more focused on the business aspects and growth of the company. In order to accommodate for this change John Shirley preformed one of the first major reorganizations at Microsoft. He placed Steve Ballmer in charge of the Systems Division, Ida Cole in charge of the Applications Division and hired Francis Gaudette as Vice President of Finance and Administration. (Allen, 2008) In 1985**,** Microsoft celebrated its 10th year anniversary with revenues of $140 million. (Microsoft, 2008)

On March 13th, 1986 Microsoft went public and is currently traded on the NASDAQ stock trade under the symbol MSFT. The stock opened the day $21 per share ending the day at $28 per share allowing the company to raise more than $61 million. (Microsoft, 2008)

Exhibit 3

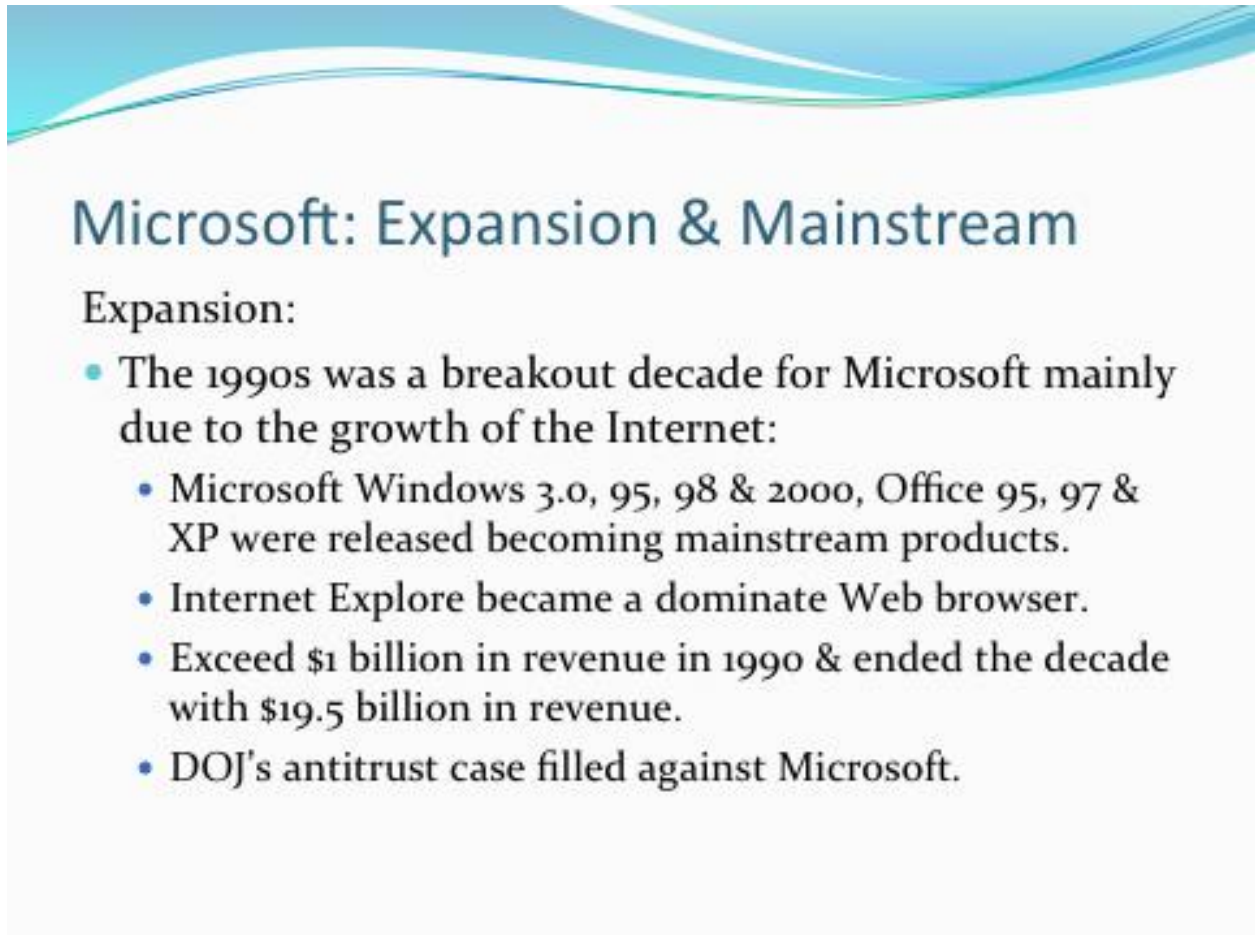**Microsoft: Expansion, Mainstream & How Reorganization Shaped the Company**

The 1990s was a breakout decade for Microsoft mainly due to the growth of the Internet, its Windows operating system and Office productivity software suite. During the decade, Microsoft released a flood of products to the new mainstream software market. Windows 3.0, 95, 98 & 2000, Office 95, 97 & XP were released during this time becoming household names around the world and Internet Explorer became a dominate Web browser as the Internet gold rush was at its peak. (Wikipedia, 2008) In 1990 the company exceeded $1 billion in revenue, which positioned it well for the battles to dominate the software industry during the decade of the 90s. It ended the decade with $19.5 billion in revenue. (Microsoft, 2008) John Shirley retired from Microsoft in 1990, but remained on the Board of Directors, which placed Bill Gates at the head of the company and as the new CEO. Around this time, Microsoft put its reorganization strategy into full throttle. In 1992, Gates created the Office of the President, which consists of three divisions: Worldwide Product Group, Worldwide Sales and Support Group & Worldwide Operations Group. Many of Microsoft's future reorganizations would follow this general alignment. Future CEO Steve Ballmer was appointed the head of the Worldwide Sales and Support Group by Gates. In 1996 Microsoft recognizes the ever growing potential of the Internet and shifts MSN from a dial-up internet service provider portal into a World Wide Web content provider. Around this same time a now "famous" memo written by J. Allard, a program manager at the time, and resent by Bill Gates titled "Windows: The Next Killer Application on the Internet." This memo put the Internet at center stage at Microsoft and realigned the company's product groups with a focus on investing in Windows for a Web-centric world. (Microsoft, 1998) 1999 was the year of the biggest reorganization in the company's history. Each product group was realigned into one of five major business groups that were introduced to better reflect its core customers.

Those groups were: Consumer and Commerce Group, Business Enterprise Division, Consumer Windows division, Business Productivity Group, Home and Retail Group. (Access My Library, 2000) This gave Microsoft the alignment to better react to not only its customer's needs but also to its competitors in an agile and efficient way.

As the millennium came to a close, another reorganization occurred that affected the very heart and soul of Microsoft. Gates' reign as CEO ended when he stepped down and handed control of the company he co-founded over to his good friend and schoolmate Steve Ballmer. As Gate's stepped away from many of the day-to-day aspects of Microsoft, he moved into a different, but familiar, direction as Chief Software Architect overseeing the company's long-term technical strategy. (Microsoft, 2008)

While under the new watch of Steve Ballmer, Microsoft once again embarked on a large- scale reorganization of the company's products groups. In 2002, Microsoft created seven core business units across the company, each with its own CFO and profit-and-loss statements. (Wikipedia, 2008) This new alignment let each business unit better prioritize and organize its financial and personnel resources against the business challenges each faced. However, just a mere three years later, in 2005, the seven business units are consolidated into 3 core division: Platform & Services, Business Division, Entertainment and Devices Division, with each division lead by a Senior Vice-President that reported directly to the CEO. In 2008 Microsoft underwent another shift within its high ranks. Senior Vice-president Kevin Johnson, who was the leader of the Platform & Services, left Microsoft which essentially broke the Platform & Services apart into three groups: Windows/Windows Live, Server & Tools & Online Services Business. Each would have a Senior Vice President that would report directly to the CEO. (Microsoft, 2008) This is the same year that Gates moved out of a fulltime role at Microsoft. Gates tapped Ray Ozzie to become his replacement as Chief Software Architect and look after Microsoft's long-term technical strategy.

Exhibit 4

Microsoft: Expansion & Mainstream

Expansion:
- The 1990s was a breakout decade for Microsoft mainly due to the growth of the Internet:
  - Microsoft Windows 3.0, 95, 98 & 2000, Office 95, 97 & XP were released becoming mainstream products.
  - Internet Explore became a dominate Web browser.
  - Exceed $1 billion in revenue in 1990 & ended the decade with $19.5 billion in revenue.
  - DOJ's antitrust case filled against Microsoft.

Microsoft: Bill Gates Reorganization Philosophy

Bill Gates is arguably one of the greatest businessmen of all time. His name will be mentioned alongside great business minds such a John D. Rockefeller and Henry Ford.
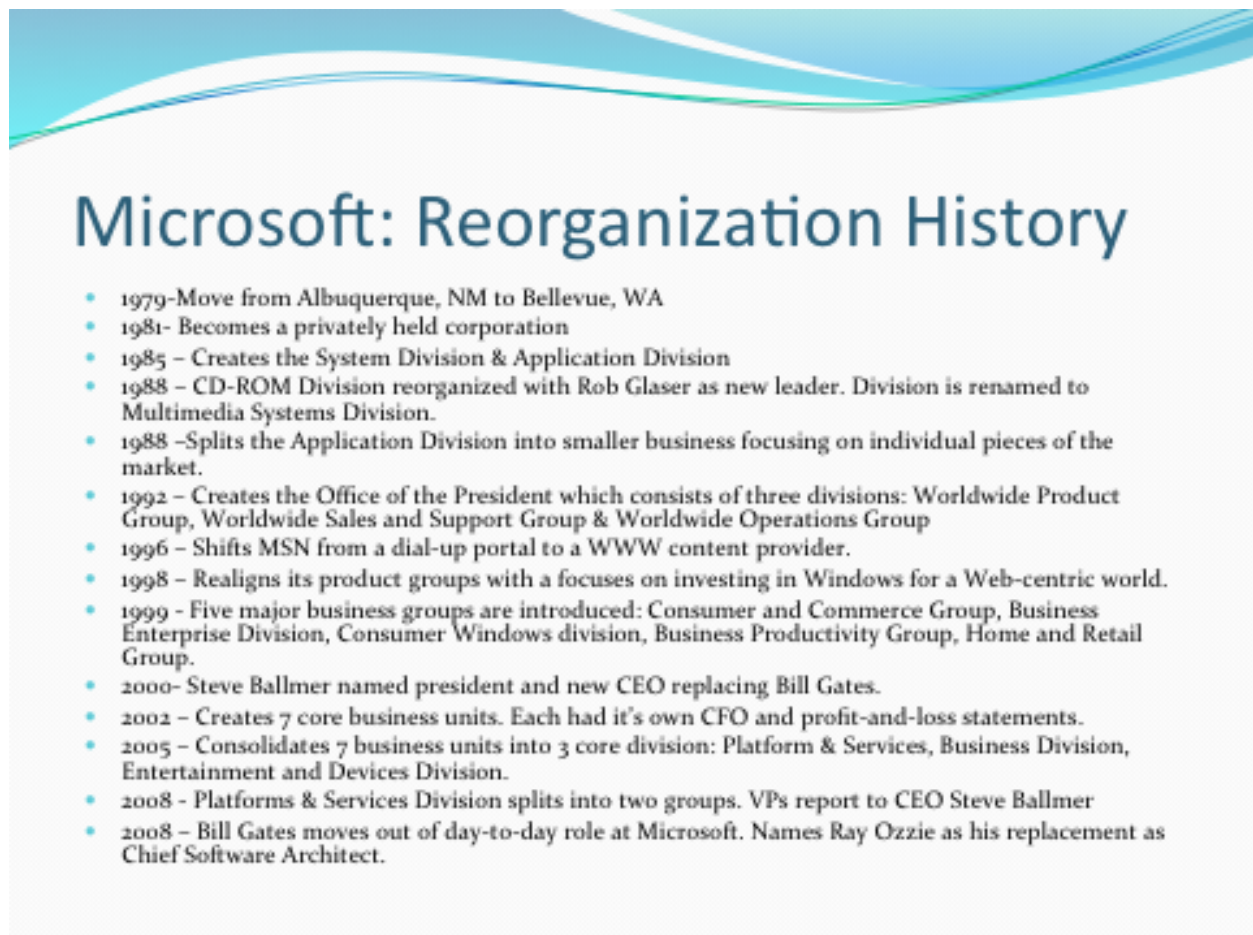
He has made some of the greatest, most strategic and perhaps the most interesting moves to push his company towards success.   He will, also, become one of the world's finest humanitarians through the work of his foundation.

One of the more interesting aspects of Gate's success strategy is his philosophy on reorganization itself. In 1996 Gate's penned a memo titled "Reorganization: A necessary art in a fast-changing world" which he published on his personal website. In it he describes the nature and perceptions of reorganization and how he sees the act as more an essential element of success. He argues that, if done correctly, it is a great way to move people into "new areas where they can be more creative and effective".   (Gates, 1996) It pulls people out of their comfort zones and introduces new challenges and problems. One example he gives is citied as "mixing the pot" which is when you move development focused employees into customer facing roles and vice versa. This type of mixture delivers better products.

Although Gates sees reorganization as tool to pull the best out of his people, it doesn't mean that these decisions come without risks. There are always potential drawbacks. He has concerns when reorganizations happen to whether the right decision is being made and how employees will react. However, if the decision makes sense for the business and people involved he says that he will "gain confidence about a potential reorganization when I see that it makes clear what every group is supposed to do, minimizes the dependencies and overlap between groups and offers developing employees larger responsibilities". "In designing a new structure for an organization, you must strike a balance between keeping it logical and keeping particular executives happy and effective by giving them assignments they want and will handle well." (Gates, 1996)

One of Gates' greatest points in his reorganization strategy is very simple and straight-forward. He states that a company unwilling to change or reorganize cannot be adaptive, becomes calcified and finding itself out of business. It brings to mind the age-old adage, "The only thing you can count on is change itself". Bill Gates recognized this first hand in the fast paced, every changing, face of the technology business and organized, and reorganized, this business to follow suit.

Exhibit 5

Microsoft: Reorganization History

- 1979-Move from Albuquerque, NM to Bellevue, WA
- 1981- Becomes a privately held corporation
- 1985 – Creates the System Division & Application Division
- 1988 – CD-ROM Division reorganized with Rob Glaser as new leader. Division is renamed to Multimedia Systems Division.
- 1988 –Splits the Application Division into smaller business focusing on individual pieces of the market.
- 1992 – Creates the Office of the President which consists of three divisions: Worldwide Product Group, Worldwide Sales and Support Group & Worldwide Operations Group
- 1996 – Shifts MSN from a dial-up portal to a WWW content provider.
- 1998 – Realigns its product groups with a focuses on investing in Windows for a Web-centric world.
- 1999 - Five major business groups are introduced: Consumer and Commerce Group, Business Enterprise Division, Consumer Windows division, Business Productivity Group, Home and Retail Group.
- 2000- Steve Ballmer named president and new CEO replacing Bill Gates.
- 2002 – Creates 7 core business units. Each had it's own CFO and profit-and-loss statements.
- 2005 – Consolidates 7 business units into 3 core division: Platform & Services, Business Division, Entertainment and Devices Division.
- 2008 - Platforms & Services Division splits into two groups. VPs report to CEO Steve Ballmer
- 2008 – Bill Gates moves out of day-to-day role at Microsoft. Names Ray Ozzie as his replacement as Chief Software Architect.

Exhibit 6

Microsoft: BillG's Reorg Philosophy

- Believes reorgs are not necessarily a product of failure but more of success.
- If done correctly they can move people into "new areas where they can be more creative and effective".
- Realignment brings fresh challenges.
- "Mixing the pot" with devolment focused and customers focused personnel delivers better products.
- A company unwilling to change or reorganize cannot be adaptive, becomes calcified and finding itself out of business.

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