

Microsoft Reshuffles Company Structure

Barbara Ortutay, Michael Liedtke, AP Technology Writers

NEW YORK (AP) — Microsoft Corp. is reshuffling its business in an attempt to promote faster innovation and a sharper focus on devices and services. The move by the world's largest software maker comes amid lukewarm response to the latest version of its flagship Windows operating system and a steady decline in demand for PCs as people turn to tablets and other mobile gadgets.

CEO Steve Ballmer said in a memo to employees Thursday that the changes mean the company is "rallying behind a single strategy" and organizing by function. While it has been widely anticipated, it's too early to tell how well the reorganization will help Microsoft compete with more nimble rivals like Apple and Google.

"You don't make massive, sweeping changes like this unless something is wrong," said Colin Gillis, an analyst at BGC Financial, pointing to Wednesday's reports of declining PC shipments around the world.

Worldwide shipments of personal computers fell 11 percent in the April-June period, according to data from research firms Gartner and IDC. Gartner Inc. said the PC industry is now experiencing the longest decline in its history, as shipments dropped for the fifth consecutive quarter. Analysts have blamed a massive consumer migration to tablets and other mobile devices for the falloff. But many observers also believe Microsoft's Windows 8 operating system — which comes installed on most new PCs— has turned consumers off.

The company's new divisions include engineering, marketing and business development. Microsoft named veteran executive Julie Larson-Green head of its devices and studios engineering group, overseeing hardware development, games, music and entertainment. She had been promoted in November to lead all Windows software and hardware engineering after Steven Sinofsky, the president of its Windows and Windows Live operations, left the company shortly after the launch of Windows 8.

Terry Myerson will lead Microsoft's operating systems and engineering group, namely Windows. Qi Lu will head applications and services.

Ballmer stressed the company's focus on "one Microsoft" in his memo. He said Microsoft will move forward operating as a cohesive company rather than a "collection of divisional strategies."

"Although we will deliver multiple devices and services to execute and monetize the strategy, the single core strategy will drive us to set shared goals for everything we do. We will see our product line holistically, not as a set of islands," Ballmer wrote.

The shake-up is being driven by competitive pressures as two of Microsoft's once

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much-smaller rivals, Apple and Google, have emerged as the technology trendsetters. In a world that increasingly revolves around mobile devices and Internet services, Microsoft has been scrambling to adapt to the upheaval. The company wants to ensure its relevance in the future while protecting the personal computer franchise that has always generated most of its revenue.

The changing of the guard has already been noted by Wall Street. Both Apple and Google boast market values higher than Microsoft, despite a surge in Microsoft's stock price during the past three months. The new pecking order would have seemed inconceivable when Google first went public nearly nine years ago. Apple's stock price is nearly 28 times higher than it was then while Google's is 10 times higher. Microsoft's stock price is up by just 30 percent since then, largely because the company has fewer outstanding shares than it did nine years ago.

Microsoft's lackluster stock performance has amplified speculation that the company might consider replacing Steve Ballmer, who took over when co-founder Bill Gates stepped down as CEO 13 years ago.

The reorganization could be Ballmer's attempt at placating shareholders with a dramatic overhaul that appears to borrow elements of Apple's and Google's set-ups. The winnowing of Microsoft's disparate divisions and Ballmer's rallying cry for "One Microsoft" suggests the company is trying to make its products work together more seamlessly, much like Apple has been doing since the late Steve Jobs returned as that company's CEO in the late 1990s.

At the same time, Ballmer appears determined to eliminate bureaucracy in hopes of making Microsoft operate more like a nimble startup able to quickly innovate — a goal that Google CEO Larry Page set out to achieve when he took over leadership of that company two years ago.

Janney Capital Markets analyst Yun Kim said the reorganization helps align Microsoft's various divisions around its devices and services strategy, but he added that he's taking a "wait and see" approach.

"We continue to look for signs on how the company can leverage its success in the Xbox business to re-energize its current efforts in the tablet and smartphone markets," Kim wrote in a note to investors.

BGC Financial's Gillis noted that major reorganizations "can serve as a negative distraction for months before potentially offering benefits."

Microsoft shares rose 67 cents to \$35.37 in early afternoon trading. The Redmond, Washington-based company's stock is up 32 percent since the start of the year, compared with a 17 percent increase of the Standard & Poor's 500 index.

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