

Microsoft Restructures for Emergence of Internet Platforms

David Mitchell Smith

Microsoft's restructuring shows that the software giant is preparing for the challenges of the coming "second Internet revolution," and for new releases of virtually every major product in its portfolio.

NEWS ANALYSIS

Event

On 20 September, Microsoft announced a major restructuring, with the company aligned in three newly created divisions:

- Microsoft Platform Products & Services — initially co-led by Kevin Johnson and Jim Allchin, with Allchin scheduled to retire at the end of 2006 — covering desktop and server operating systems (OSs), as well as tools and infrastructure and MSN.
- Microsoft Business Division — led by Jeff Raikes — covering desktop Office applications, collaborative applications and business applications
- Microsoft Entertainment & Devices Division — led by Robbie Bach — including Xbox and mobile devices.

Microsoft also announced that Chief Technical Officer Ray Ozzie will take on additional responsibility for driving its software-based services strategy across all three divisions.

Analysis

This restructuring clearly focuses on the evolution of Microsoft's platform strategy — long a major reason for the company's success. MSN's inclusion in the Platform group, in particular, suggests that MSN and the Internet will form an integral part of Microsoft's future platform as the company adjusts its strategies to deal with the coming "second Internet revolution." Another key component of Microsoft's emerging strategy is the emphasis on software as a service.

Microsoft is not separating the OS from other company operations, as the U.S. Department of Justice proposed during antitrust negotiations. Instead, OSs are aligned with tools, infrastructure and, significantly, MSN. Gartner has long believed that tools are an integral part of the success of a platform and its required ecosystem.

The coming departure of Jim Allchin — who was critical to the company's refocus on Windows (not the Internet) as a platform during the excitement of the first Internet revolution — is another sign of Microsoft's upcoming focus on software as a service and the Internet platform. While it is certainly possible that Allchin is now supportive of such a change, Gartner has long believed that Microsoft would not shift its central focus away from Windows as long as Allchin remained in charge. We believe the realignment and upcoming focus on software as a service and the Internet platform are not coincidental with Allchin's departure.

The decision to develop a central strategy for applications — to better leverage Office across the entire application suite — is also highly significant. The increased influence of Ray Ozzie, original designer of Lotus Notes and founder of Groove Networks (which Microsoft recently acquired), indicates that the company is assimilating his vision, which includes software delivered over the Internet and peer-to-peer technologies, for future applications.

Recommendations for Microsoft customers, partners and other stakeholders

- Follow Gartner's standard advice to make no strategic or tactical decisions based on an early announcement of corporate restructuring.
- Recognize that this restructuring reflects an inflection point — for both Microsoft and the IT industry as a whole — that takes into account many emerging trends surrounding the emergence of Internet platforms as a result of the second Internet revolution.

Analytical Source: David Mitchell Smith, Gartner Research

Recommended Reading and Related Research

- "Magic Quadrant for Web Services Platforms, 2005" — IBM, Microsoft, Oracle, SAP and Tibco Software are leading the market for Web services platforms. **By David Mitchell Smith and others**
- "Client Issues for Web Services Specifications and Architecture, 2005" — Enterprises and vendors need strategies for dealing with Web services standards and architectures. **By David Mitchell Smith, Charles Abrams and Daniel Sholler**

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