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Microsoft Store Strategic Audit

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This paper looks at Microsoft's Universal Store's digital distribution strategies for apps and games and potential strategies Microsoft can use to leverage its store to create value for itself and its users. This paper looks at specific uncaptured markets in gaming that Microsoft could capture.

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1 Background

Analyzing Microsoft Universal Store is difficult because Microsoft has put a lot of effort to consolidate all of its storefronts, including its retail stores, into one platform, controlled by one organization. Thus, the “Universal” moniker. This means that the Microsoft Store operates across multiple distribution channels and offers just about every consumer product and service that Microsoft sells. This paper will focus specifically on Microsoft’s Universal Store digital distribution strategy for apps and games.

In general, Microsoft Universal Store can be broken into four main product segments. That is apps, games, hardware, and digital content (think: Movies, eBooks, et cetera). Microsoft’s Universal Store acts as a distribution channel for both digital apps and services as well as physical devices. Notably, Universal Store does not process payments for Azure, Microsoft’s cloud computing platform.

For digital apps and games, Microsoft Universal Store has three primary distribution channels. The first is the digital store in Microsoft Windows 10. This store, packaged as an app, comes with the operating system and is intended to be the primary distribution platform for Windows apps and games. The second is the store on Xbox, which is the only option on Xbox to download new apps or games. This affords Microsoft a significant competitive advantage. The last one is Microsoft.com’s online webstore (which also superficially includes Xbox.com and Office.com). This website primarily distributes devices, but also sells apps that can be consumed on both Xbox and PC.

While Microsoft Store exists on Windows Phone, where it distributes digital apps and games, and offers apps that are compatible on Windows Phone, Microsoft Phone is considered a failure venture, only managing to capture three percent of the market in 2013, but now only has 0.1 percent of the market[1]. It’s important to note that the Microsoft Store was originally born out of the necessity of a secure app store for Windows Phone, designed to compete with Apple’s App Store, and Google’s App Store. However,

it ultimately failed to deliver the amount of high quality apps Windows Phone needed to survive. Microsoft Store lives on due to Microsoft's strategy of building a unified Windows operating system, on which, lives a unified store.

It's also important to note that Microsoft also operates over 100 retail stores in 5 different countries[2] which serve as a branding strategy and help distribute devices, provide tech support, and host Microsoft events¹. These stores are underneath the same organization as the Microsoft Universal Store. Additionally, 3rd party stores use tools created by Microsoft Universal Store team to maintain a consistent branding and marketing strategy for Windows.

Additionally, Microsoft Store works with Dynamics 365, Microsoft's customer management software. In this way, Microsoft Store is used to demonstrate to businesses the quality of software to business partners. Microsoft has integrated its retail store software with Microsoft Dynamics 365, and has integrated this software with its Universal Store platform. While this itself is an interesting strategy, Microsoft Store as a way to sell Dynamics 365 is out of the scope of this analysis.

2 Situational Analysis

For companies who distribute apps on Microsoft's store, Microsoft provides several key services over a custom distribution system. This includes payment processing, update management, analytic, distribution networks, and marketing. For users using Microsoft's store, the store provides content discovery, security, permissions, and automatic updates. Any good app store offers these features. In return, these companies capture a percentage of all sales on the platform.

In general, the store itself is a competitive advantage of the platform it lies on. This content is what keeps a platform alive. In this case, Microsoft's store on Xbox competes

¹These stores are clearly also being used to compete with Apple's retail stores

as a proxy for Xbox with PS4's store and the Nintendo Switch store. The resource here is two sided—users on one side, and apps and games on the other. Microsoft has a lot of users on the Xbox, and a decent amount of apps that users would be looking for.

2.1 Internal Situational Analysis

Within Microsoft, Microsoft's Store acts as the primary distribution channel for Microsoft's goods and services to consumers. Business applications are sold through secondary channels. For example, Microsoft Azure, Microsoft's cloud computing business, is not sold through Microsoft Universal Store.

Internally, Microsoft Store is able to leverage users as a competitive advantage. There's nothing quite special about Microsoft's store past the fact it exists on Microsoft's platform. Microsoft's platform however, includes development tools that make it easy to deploy to Microsoft's store. Microsoft's store analytics are apparently quite good. For schools that use Windows 10S mode, a locked down version of Windows, Microsoft's store is the only option for downloading new software.

Users are the “primary resource” of a digital distribution store. While many stores exist to distribute software, on the application side we see the Google Play Store and Apple Store distributing apps on their respective platforms. These stores act as important components to their respective platforms. Microsoft's Store does the same. Microsoft owns 75 percent of the PC operating system market share² However, Windows 8 and 10 are the only platforms with Microsoft's store, which means Microsoft's Store exists on about 45 percent of the PC market[4]. This shows that Microsoft has potential to capture another 35 percent of the PC market if it can upgrade Windows 7 users to Windows 10.

Microsoft Store's primary competitive advantage is that it rests on top of Windows 10, Xbox. Microsoft's store lives on Microsoft.com, which is the 36th most visited website on

²<https://www.statista.com/statistics/218089/global-market-share-of-windows-7/>

the internet [3]. Windows 10 has over 700 million devices using it [5]. Xbox is especially useful because Microsoft controls distribution on Xbox and thus can sell digital goods exclusive on the Xbox. This is juxtaposed against Windows, where secondary distribution channels (such as downloading a .exe) is easy and common. This has several implications in the gaming component of the Microsoft store, where Microsoft faces several competitors in this section.

On the PC, the primary dominating distribution channel for games is Steam. However, Origin and Epic games both have their own distribution channel. Furthermore, Discord has been moving into this space. While Windows benefits from being open to different distribution models, it also means that Microsoft is unable to capture as much value from its ecosystem. While both Google, Apple, and Steam are able to capture 30 percent of profits from their respective stores, Microsoft has been forced to reduce its captured profit to 15 percent in an effort to attract third party content. This is because Windows does not have lock-in. Microsoft has attempted to create this lock-in with Windows S mode, which only allows apps from the store. However, this has only really seen success in the educational market sector.

2.2 External Situational Analysis

Microsoft owns a good chunk of the PC market for distributing apps, but this has never been a fully developed service in the same way that the Apple App store or Google Play store are. Microsoft's ownership of the console game distribution service right now is directly proportional to its ownership of Xbox. Microsoft is estimated to have about 30 percent of the console market right now, although there are no firm statistics on this[6].

2.2.1 Apps and services

Microsoft has failed to capture a significant part of the app distribution environment on Windows. Microsoft would like to capture this market because by controlling the user experience of purchasing and updating software, Microsoft can directly improve its customers experience while cutting down on viruses, scams, and other malicious behavior.

Microsoft is able to sell its own service through the digital store on Windows. However, most purchases are made online at Microsoft.com or another relevant domain.

2.2.2 Digital games and Xbox

Microsoft has failed to capture the PC market for games, despite having a clear advantage on Windows. Part of this is due to Microsoft's overall goal of consolidation of platforms with UWP, a universal technology to create apps on mobile, Xbox, PC, Mixed Reality, and whatever uses Microsoft can come up with. While this shift into this technology has provided Microsoft to expanded into a variety of business uses for its own applications, it makes developing games for the Microsoft Store painful.

Microsoft operates its own notable game studios which help contribute to successful launches in Microsoft's store. However, in order to create a truly successful store Microsoft will have to woo 3rd party distributes to the Microsoft store.

2.2.3 Threat analysis

Since the Microsoft Store is fundamentally a two sided component the power of buyers and suppliers are part of an important balance that Microsoft must keep balanced. Suppliers can decide what applications to deploy their apps on, and games can also decide where to distribute their games. In this case, Microsoft must woo these companies into deploying

on the Microsoft store in order to succeed. Microsoft has done well on the Xbox side, and poorly on the PC side.

The threat of new entrants into this market is relatively low since Microsoft owns the distribution completely on Xbox. However, new entrants into the PC or console space directly threaten Microsoft's ownership of the distribution since platform and the store are linked.

On the PC, other updating and payments systems can act as a substitutions to the Microsoft Store. A notable example of Steam, which is the dominant game distributor, and pretty much is eating Microsoft's lunch, except Microsoft never had it in the first place (but reasonably should have). Notably enough, Valve, the creator of steam, was founded by Microsoft employees. There is no reason why Microsoft shouldn't be dominating this market at this point.

From the buyer side, Microsoft has two issues. First, Microsoft needs these users to use Microsoft devices first, before it can even consider capturing value. In this case, Microsoft is threatened by users moving to other devices, both away from PC to mobile devices, where Microsoft has less influence, and also by users moving away from Xbox to other gaming systems. Additionally, on the PC, Microsoft is threatened by Steam and other game distribution platforms. These platforms, to an extent, even distribute other software, which could further erode Microsoft's advantage in distributing apps through the Microsoft Store. However, buyers are locked into the devices they have, so overall this is a lesser threat to Microsoft.

On the technology side web technology threatens UWP applications which erodes barriers to entry into a universal platform. This might erode any advantage that Microsoft has gathered from creating applications that are compatible with Hololens or Mixed Reality, and further erode any advantage a specific store has. However, Microsoft, currently owning less of the app market share than Apple or Google in terms of total apps, is willing to embrace web apps as a technology in order to bring its store up to par.

2.3 Leadership structure

Microsoft's Universal Store is consolidated underneath Microsoft's Cloud and AI leadership team. Microsoft has used this organization to consolidate not only payment, data lakes, and ownership into one single organization, but also to align content management under one organization. Microsoft's challenge is that marketing content must be prepared for multiple languages and for multiple promotional campaigns.

This strategy means that Microsoft has a very unified distribution channel which is a key advantage for Microsoft. By consolidating all distribution channels under one organization Microsoft was able to prevent duplicate work from being done, while also letting information be consolidated between different organizations.

3 Strategic alternatives

Microsoft's strategic alternatives with the Microsoft Store highly depend upon the goals that Microsoft has as a company. The Microsoft Store is a potent weapon that can be used as leverage to support multiple Microsoft endeavors. For example, Microsoft has been using it recently to promote Hololens and mixed reality to consumers. This distribution channel lets Microsoft promote its own products, as well as third party products that act as part of its initiative.

3.1 Capture the PC gaming market

This strategic alternative assumes that Microsoft wants to capture more value from its PC gaming market. While Microsoft has been moving away from a windows-specific strategy, Microsoft has a lot of potential in its ability to capture the PC gaming market.

Microsoft has completely failed to capture this market. There are several reasons for this.

The first appears to be the somewhat requirement for UWP apps being pushed to the store. By making it hard for game developers to deploy their games to the Microsoft Store, Microsoft fails to capture the market itself.

The second failure point is modding games. Since UWP apps operate under a locked down environment, it makes it hard for gamers to modify games. While this isn't part of the Xbox or console environment, this is a fundamental part of PC gaming culture, and a major barrier to people purchasing games in the Microsoft Store.

However, this strategy has several benefits that Microsoft could leverage in order to capture this market. First, Windows Store is preinstalled on every Windows 10 device. Second, Microsoft can sell games in the Windows Store and also sell Xbox versions at the same time. This extra value-added has a lot of potential. Furthermore, Microsoft is charging game developers less money per each purchase, taking 15 percent of each purchase if discovered through the Windows Store, and only 5 percent if directed through other channels.

The PC gaming market is already owned by Windows as an operating system. However, secondary options exist in Linux and OSX. Steam caters to these distribution channels. Microsoft, in order to capture this market, would potentially need to distribute to these channels through, with the Universal Store.

3.2 Capture gaming-as-a-service market with cross-platform support

This strategic alternative assumes that Microsoft's Xbox Gamepass is profitable and that gaming as a service is a good market to be in. It seems clear that Microsoft is actively exploring this strategy. Microsoft has actively been promoting the Xbox Gamepass recently, and it's a big money maker for Microsoft.

This strategy calls for Microsoft to expand its Xbox gamepass to be multi-platform, and

rebrand it to Microsoft Gamepass. There were rumors this month that Microsoft was bringing the Xbox Gamepass to the Nintendo Switch, which would be a good first step to the plan. However, Microsoft would also need to rebrand the Gamepass and also bring its features to Windows. Bringing the Xbox Gamepass to other platforms would be an essential part of this strategy, but Microsoft may suffer opposition from the owners of this platform.

Nintendo is a good target for this service since Nintendo has not built a subscription based system at all on its system. Sony has done this, so expanding to the PS4 is less likely. Obviously Microsoft already has captured the Xbox market.

Subscriptions are a favorable strategic alternative because they provide a steady income. Microsoft already has the infrastructure in place to support this sort of model. Offering a large selection of games, with publishers already on board could also help Microsoft capture more of the game market being sold on the Microsoft Store.

This model also would benefit from Microsoft deploying the store on Macs and Linux. However, it isn't as essential that Microsoft do this.

3.3 Convert developers to the Microsoft Store through PWA

This assumes that Microsoft needs more apps to support its hardware sales. This includes mixed reality, a key part of Microsoft's recruitment pitch, and one of Microsoft's biggest bet. However, getting better apps on the store would potentially let Microsoft move competitively back into the mobile market. Additionally, Microsoft could better support its 2-in-1 and tablet hardware line.

This strategy calls for Microsoft to continue pushing aggressively for progressive web apps (PWAs). These apps are web applications that gracefully are augmented by the operating system and can acquire hardware access for things like taking pictures, using the

microphone, working offline, and sending pictures. This helps break Apple and Google's monopoly on apps, and would let Microsoft move back into popular platforms.

Converting developers over to the app store through PWA is a key strategy that can support this strategy. Microsoft is clearly focused on this strategy, but has stopped pushing PWA as aggressively. In order to execute this strategic alternative Microsoft will need to both push PWA, and also make sure the technology is more up-to-date. Additionally, while this supports Microsoft's attempt to capture more high quality applications in its store, this really doesn't help Microsoft capture any additional direct profit from its store, since the chance of PWAs using Microsoft's payment system is low.

This also assumes that Microsoft will be able to profit off of additional hardware sales such as phones or HoloLens running Microsoft's platform.

4 Strategic Recommendation

Overall, my recommendation is that Microsoft attempt to capture the gaming-as-a-service market through a cross-platform expansion. This steady source of revenue is currently limited to Xbox users. This is option 2.

4.1 Strategic justification

By expanding this to multiple platforms, Microsoft would be able to capture even more users. There are several reasons why this strategy is favorable. Having such a steady source of income is also very valuable to Microsoft, who is a public company. Capturing this value is also much easier to measure than creating a strong ecosystem for the apps on Windows. Finally, this strategy is one actively working for Microsoft, and is a good extension of Microsoft's existing infrastructure in its store.

4.2 Implementation timeline

While implementation depends heavily on cooperation with other platforms, Microsoft can easily distribute on other open platforms such as OSX or Linux. And, of course, Microsoft already has control over Windows as a platform.

Within 3 months Microsoft is already currently working on this service, which gives Microsoft a strong competitive advantage. However, the first thing that Microsoft needs to do is rebrand Xbox Gamepass from Xbox Gamepass to “Microsoft Gamepass” or something more generic. This will allow Microsoft to expand to other platforms without naming confusion.

This is especially useful because Microsoft already has cross-platform support for Windows and Xbox games, so this functionality is here, its just not advertised. Microsoft would need to push some user-experience changes to make this more visible, and move the selling of Xbox gamepass from the Xbox store into something that is purchasable on the Microsoft Store.

6 months Leverage the Microsoft Store to advertise and sell Xbox Gamepass. The hardest thing is getting first purchases. Getting user credit card information into the Microsoft Store on Windows can also let Microsoft leverage this strategy to make other paid purchases, including pushing the Windows Store as a device distribution channel.

1 year By this point, Microsoft should have been able to get itself on some other platform. The Nintendo Switch seems like the best potential bet for this strategy. However, Sony PS4 would also be a win in this case. In this case, Microsoft must find a way to convince Sony or Nintendo that this situation is going to bring profit to their platform.

There is potential risk that they would try to compete with this platform. Addi-

tionally, it's important to consider the game studios that are participating in the Microsoft Gamepass system. For them, the Gamepass is an excellent advertising strategy. This strategy is cleaner than a free-to-play strategy but still lets games acquire users. It's important at this point that Microsoft consider a long-term plan to retain game studios.

2 years Microsoft should consider looking at price points at this point, and if they can offer a “premium” service that could let Microsoft capture more profit. A two-tiered subscription model works well for Netflix, and other movie streaming services, but less well for Spotify, which is forced to offer its whole library. Games are somewhere in between in my opinion. Games are consumed like TV, but have more replayability than

3 years By this point, Microsoft should be able to deploy Gamepass to Linux or another platform. While this itself may not capture more market, it will generate a lot of goodwill within the gaming industry.

4 years Microsoft should leverage its position to distribute games on both the Hololens and other VR or mixed reality platforms. This assumes that gaming on VR or mixed reality has become successful and that this is a viable distribution channel. Microsoft would need to evaluate before executing this part of the strategy. Alternatively, Microsoft can use its position with gamepass to kickstart this development on its own platforms, this capturing more value.

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