Microsoft’s transformation to a cloud service powerhouse positions the company for continued growth. Microsoft’s customers should embrace Microsoft’s cloud offerings, and leverage Microsoft technologies for digital transformation.

**Overall Rating**

![Vendor Rating for Microsoft](image)

**Source:** Gartner (March 2021)

**ID:** 737912
Overall Rating: Positive

Microsoft's overall rating remains Positive (see Figure 1). During a tumultuous 2020, Microsoft's strategy successfully addressed changing market requirements with its cloud services and modern workplace offerings. Microsoft continues to promote its stated mission “to empower every person and every organization on the planet to achieve more” by delivering a combination of product and service offerings for both consumers and enterprise customers. Microsoft is a large technology provider with an extensive worldwide customer base. It makes cloud services its priority while continuing to support customers who rely on its traditional software offerings.

Microsoft has promoted a message of digital transformation for the past several years and has exemplified this philosophy in its own transformation from a traditional software and technology provider to a leading cloud service provider. Building on its heritage and cloud service capabilities, Microsoft extolls a vision for the next generation of disruptive solutions based on low-code enablers, artificial intelligence (AI), edge computing, the Internet of Things (IoT), data analytics and business intelligence (BI). Microsoft takes an open approach to working with other companies, including competitors (e.g., VMware), and continues to support developers through open-source technologies and the GitHub platform.

Microsoft continues its strong growth, increasing revenue from $125.8 billion for fiscal year 2019 to $143 billion for fiscal year 2020 — an annual growth rate of 14%. More impressively, Microsoft's revenue for the fourth quarter increased 13% — a very challenging quarter in the middle of a global economic slowdown and the COVID-19 pandemic. Growth has occurred across nearly all aspects of its business. Microsoft's commercial cloud business generated $51.7 billion for fiscal year 2020 — with year-over-year growth of 36%, solidifying Microsoft's position as one of the biggest and most successful cloud companies in the world.

The COVID-19 pandemic, economic slowdown and upheaval in work highlighted the importance of digital agility and digital transformation. Suddenly, the need for remote work increased dramatically, and Microsoft was able to scale Microsoft Teams to meet the growing demand. Enterprise computing loads changed (in some cases higher, in others lower dependent on industry), and Microsoft's Azure was agile enough to meet requirements. Enterprises that were already leveraging cloud computing benefited, others accelerated their cloud transformation, and Gartner is already forecasting an increase in cloud computing markets. Microsoft was well-positioned with the right products and the right strategy to address a rapidly changing market — and to provide customers with technologies they needed at a challenging time.

Microsoft's strengthening market position has driven changes in the way Microsoft engages with customers and partners. With a complex portfolio, ongoing changes to Microsoft licensing and contracting terms and partner programs continue to create angst with customers and partners. Microsoft’s customers should expect Microsoft to promote new contracts, premium licensing editions and its Unified Support offering. Partners can expect Microsoft to prioritize those that are driving growth.
in Microsoft’s cloud offerings through new customer acquisitions, competitive wins and expanded cloud usage.

Recommendations for CIOs and IT leaders using or considering Microsoft offerings:

- Consider Microsoft’s cloud offerings, and look for hybrid integrations and synergies across Microsoft products (both cloud and noncloud).
- Work with credentialed and qualified partners to assist with cloud adoption and migration initiatives.
- Carefully manage your Microsoft contracts and associated licensing entitlements.
- Consider Microsoft technologies for digital transformation, including AI, business intelligence, digital workplace, edge and IoT, and low code.

Detailed Rating

Product/Service: Strong

<table>
<thead>
<tr>
<th>Product/Service</th>
<th>Weak</th>
<th>Caution</th>
<th>Variable</th>
<th>Positive</th>
<th>Strong</th>
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</table>

Microsoft’s products and services are rated as Strong. This is an improvement from its last Vendor Rating. Microsoft’s offerings fare well and are rated highly by Microsoft’s customers. Microsoft’s product and service offerings span a wide range of capabilities, from cloud and data center to end user and gaming:


- **Modern Work and Modern Life** — Microsoft 365 (M365), Office 365 (including Teams), Windows 10, Enterprise Mobility + Security (EMS; including Microsoft Endpoint Manager), Surface, LinkedIn (Learning).

- **Data and AI** — Azure Cognitive Services, Azure Machine Learning, Azure Synapse Analytics, Azure Cosmos DB, SQL Server and Azure SQL.


- **Business Applications** — Dynamics 365, Power BI, LinkedIn (Sales Navigator, Talent Solutions, Talent Insights, Glint).

- **Security and Identity** — Azure Active Directory (Azure AD), Microsoft Defender, Azure Sentinel, Microsoft Endpoint Manager, Microsoft Information Protection & Governance.
Microsoft’s diverse collection of products, services and technologies highlights the breadth of its capabilities and market coverage. Microsoft delivers software, hardware and service offerings for multiple (yet discrete) constituencies — IT professionals, business leaders, end users, developers, gamers and consumers.

As of January 2021, Microsoft product and service offerings were featured in 33 different Gartner Magic Quadrants, and it was a Leader in 20 of these. In the 10 most important Magic Quadrants covering key Microsoft product offerings, Microsoft was a Leader in all of them, and often a dominant leader. In the past year, it has made impressive gains in key areas, especially in markets related to security, analytics, modern work and IoT.

Microsoft’s broad set of offerings and ability to deliver an integrated experience across the full application stack — including infrastructure, middleware and applications — make Microsoft technology popular with most organizations. (Microsoft is the provider most frequently referenced in Gartner inquiries.) Offerings like Azure, Power Platform, Active Directory, Teams and Windows create important synergies across product lines, and clients have shown increased interest in simplifying and going “all Microsoft” in the past year.

**Support/Account Management: Variable**

<table>
<thead>
<tr>
<th>Support/Account Management</th>
<th>Weak</th>
<th>Caution</th>
<th>Variable</th>
<th>Positive</th>
<th>Strong</th>
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</table>

The support and account management rating of Variable is indicative of the challenges many Microsoft customers continue to face. ¹ Based on client feedback, Microsoft has made marked improvements in support and account management in the past year due to the changes in focus and process under the corporate strategy and technical sales teams, in particular. However, COVID-19 created new account management challenges. While some organizations reported that Microsoft had responded to their requests for flexibility and economic support, others — particularly those that lacked executive relationships — reported account management being nonresponsive to requests for economic support, instead remaining focused on their immediate performance metrics. Customers report variable account management engagement experiences when working both directly with Microsoft account teams and with partners, where low cadence and quality of engagement remain key concerns. Additionally, customers report mixed results when working with Microsoft’s support services, often due to inadequate skills and know-how within the support teams.

Microsoft’s enterprise sales priorities focus on cloud-based annuity agreements. Priorities for Microsoft remain cloud subscription revenue growth and increasing the cloud mix ratio for each customer. Growth
is measured by new customer acquisition and increased cloud service utilization. Targeted, premium offers seek to deliver that growth objective and acquire new customers, most notably for Azure, and an increasing number of Microsoft customers now spend more on Azure than the rest of the Microsoft portfolio combined. Priorities also include “modern workplace” through Microsoft 365, with specific focus on security, compliance and voice offerings, and business application offerings such as Dynamics 365 and the series of Power Platform products (see Figure 2).

**Figure 2. Microsoft’s Priority Offerings and Sales Priorities**

<table>
<thead>
<tr>
<th>Priority Offerings</th>
<th>Sales Priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modern Workplace:</td>
<td>Strength cloud mix and annuity</td>
</tr>
<tr>
<td>Microsoft 365 E5,</td>
<td>through cloud subscription growth</td>
</tr>
<tr>
<td>E5 Security,</td>
<td>Facilitate renewal and reduce</td>
</tr>
<tr>
<td>E5 Compliance,</td>
<td>churn by accelerating utilization</td>
</tr>
<tr>
<td>Phone System and</td>
<td>Prioritize high-potential accounts</td>
</tr>
<tr>
<td>Audio Conferencing</td>
<td>Customer acquisition</td>
</tr>
<tr>
<td>Business Applications: Dynamics 365, LinkedIn and Power Platform</td>
<td></td>
</tr>
<tr>
<td>Azure Consumption Commitment: Applications and Infrastructure + Data Analytics and AI</td>
<td></td>
</tr>
<tr>
<td>Grow Unified Support</td>
<td></td>
</tr>
</tbody>
</table>

Source: Gartner

Microsoft’s Unified Support continues to be controversial according to Gartner interactions with Microsoft customers. As organizations’ spending on Microsoft products and online services continues to grow, their Unified Support bills also increase. However, their consumption of support services does not necessarily increase at the same rate and the quality of Unified’s reactive support continues to garner complaints. Especially during the economic downturn, it’s critical for IT leaders to ensure they get the best deal on their support agreement and to potentially consider getting support from third parties to save money (see 5 Things You Must Do to Optimize Your Microsoft Unified Support Contract).

Microsoft’s Enterprise Division manages the highest echelon of customers, in both the private and government sectors, each of which has a series of priority industries. Global customers continue to report fragmented management across territories and Microsoft subsidiaries. Within the Enterprise Division, Microsoft resources are aligned to key account constituents and engage with customers to provide relationship management, negotiate commercial terms, identify solution requirements, and provide expertise related to Microsoft technologies and industry-specific requirements. Microsoft account teams also drive and support adoption and consumption of all Microsoft offerings, as a key element of Microsoft customer success endeavors.
Customers not assigned to Microsoft’s enterprise commercial group are aligned to the Small, Medium and Corporate (SMC) division; this represents the majority of Microsoft customers, of which less than 1% are categorized as managed. Many customers engage with Microsoft partners for purchase, implementation and support of Microsoft-based solutions. In parallel, Microsoft endeavors to transform sales and sales execution activity, particularly for SMC customers shifting more business online through Microsoft’s new commerce experience. This activity is facilitated in part by the Azure and AppSource Marketplaces and through the Microsoft Customer Agreement (MCA). Microsoft plans to operate in a manner whereby the MCA becomes the common mechanism for executing each offer type. During 2020, all Cloud Solution Provider (CSP) partner business transitioned to utilize the MCA. In the enterprise commercial group customer base, however, the Enterprise Agreement (EA) remains the dominant contract for executing software and cloud services.

SMC customers should continue to expect that their interactions with Microsoft are increasingly served by Microsoft’s inside sales function and CSP partners; those CSP partners being responsible for delivering first-line and second-line support on Microsoft’s behalf. While this network of CSP partners is extensive, Microsoft’s partners have widely varying expertise and scale, so despite a Microsoft competency program they may not deliver a consistent experience. In some cases, customers are choosing to migrate back to EA from CSP where partner standards have proven inadequate.

### Pricing Structure: Variable

<table>
<thead>
<tr>
<th>Pricing Structure</th>
<th>Weak</th>
<th>Caution</th>
<th>Variable</th>
<th>Positive</th>
<th>Strong</th>
</tr>
</thead>
</table>

The Variable rating for Microsoft’s pricing structure reflects the challenges with Microsoft’s consistent changes to volume license models, pricing and terms, which require substantial efforts to track and manage to be able to maintain compliance.

### Discount Trends

The achievable negotiable discounts Gartner sees within Enterprise Agreements are dependent on many variables, including cloud dependency, deal size, total user counts and commitments to strategic products of sales priority for Microsoft. Competition can certainly provide leverage and can result in more aggressive discounts, but Microsoft is happy to play the long game when it comes to pricing in this situation. Once clients are on board, they can see significant price increases at renewal time. Initial discounts achieved will typically revert back to list pricing at renewal, with incentives primarily based against net new strategic investments. We recommend clients always attempt to negotiate price protection to mitigate this risk, but significant leverage is required to successfully negotiate this type of concession.

Historically Gartner would see one level of discount applied to all products across all three years of an Enterprise Agreement. As Microsoft’s focus shifted to online services and now digital transformation, we...
started seeing fewer discounts being applied to on-premises licenses and more discounts being applied to online services. Then we started seeing discounts being applied only to online services, and the discount would depend on how strategic the product was for Microsoft. For example, we see higher levels of discount being applied to Microsoft 365 E5/Office 365 E5 than we do to Office 365 E1.

Over the past year Gartner has seen the discounting structure on most M365 E5 proposals start high in the first year and then scale down in Year 2 and Year 3. This seems to be a favorable discounting structure for Microsoft trying to upsell a customer to M365 E5. A “not to exceed” amendment would be rare, and likely only the largest enterprise customers would be able to negotiate for one.

The discounting structure that starts high and scales down year over year, while appearing attractive initially from a cash-flow perspective, can create future pricing challenges. Firstly, it sets the precedent that customers will now be used to annual price increases. Secondly, the customer ends the contract on the lowest agreed level of discount, which creates challenges in terms of negotiating a good level of discount at renewal.

Promotions

2020 was a year of promotions, to help minimize the impact of the global pandemic, while still growing Microsoft's digital transformation strategy. Initially, in March 2020, we saw Microsoft offer Office 365 E1 as a six-month free trial — because of the inclusion of Teams, to help with the increased demand to collaborate remotely due to organizations requiring employees to work from home. With this came increased demand to ensure employees working from home could collaborate securely, which created an opportunity for Microsoft to promote its premium bundle M365 E5 because of the inclusion of all of Microsoft's cloud security and compliance products. To that end, until the end of June 2020 Gartner saw several M365 E5 promotional SKUs, which were programmatically discounted (see Microsoft 365 Enterprise E5 Cloud Suite: Assess Its Business Value to Optimize Negotiations).

Continuing with the M365 E5 narrative, Microsoft released several promotions for other products that are based on a commitment to licensing all knowledge workers with M365 E5. For instance, the Security and Compliance promotion for Microsoft 365 F1/F3 users with a significant programmatic discount. This promotion comes with significant future license cost risks:

1. Microsoft has not allowed the promotional discounted price into the True-up section of the contract. This means net new users added midcontract are unable to take advantage of the promotional pricing.

2. Microsoft is unable to provide list pricing for this unique add-on bundle to M365 F3 because there was no formal replacement product at the time of the promotion.

3. Lack of price transparency and inevitable dependency on this subscription will create a risk of significant price increases at renewal if price protection concessions are not negotiated upfront. This is evident now as the formal replacement product was announced in February 2021 (Microsoft 365
F5 Security and Compliance) with a price point that is 236% higher than the promotional offer for the same product.

There was also a promotion for customers not ready to move away from Windows 7 whereby they could receive an year's free extended support. However, both promotions required a commitment to invest into either Windows E5, M365 E5, or M365 E5 Security subscription licenses.

On 1 April 2020, Microsoft redesigned the M365 E5 compliance bundle by adding more components and splitting the bundle into three minibundles. When Microsoft added new components to its bundles in the past there was a price increase to said bundle, but that didn’t happen in April 2020.

With more customers using Teams due to previous promotions and the need to work remotely, Microsoft is continuing to exploit the current climate to get customers using more E5 components, increasing customer “stickiness.” As soon as the Teams trial ended for the early adopters, on 1 October 2020, we saw Microsoft make available free promotions for both Audio Conferencing and Phone System components.

Promotions provide necessary relief from the current economic situation from a financial perspective, but enterprises can achieve a higher return on investment in the short term by leveraging promotions on services they truly intend to deploy during the promotion term. Enterprises should carefully evaluate which components to leverage in Microsoft's most expensive bundle, M365 E5. Promotional SKUs typically don’t stay on the price lists very long, so customers will eventually experience price increases at renewal if no price protection was negotiated beyond the standard contract term.

Business Applications

There was a significant overhaul of the Dynamics 365 (D365) licensing model (see Major Microsoft Dynamics 365 License and Pricing Changes Require Preparation to Mitigate Price Increases), and the restriction of entitlement for Power Apps within Office 365 and D365 subscriptions in October 2019. Consequently, there has been a significant focus on selling these subscriptions in 2020. Increased focus on Power Apps, which saw significant license model changes in October 2019 (see Microsoft License Changes Can Increase Customer Investment Into Power Apps), has caused price increases and compliance concerns. The discounts Gartner sees on Dynamics 365 and Power Apps subscriptions are considerably higher than those placed on Office 365 or other online service subscriptions. For example, on 1 December 2020, Microsoft announced promotional pricing for both available Power Apps SKUs running until June 2021, offering a 70% discount.

Technology/Methodology: Strong

<table>
<thead>
<tr>
<th>Technology/Methodology</th>
<th>Weak</th>
<th>Caution</th>
<th>Variable</th>
<th>Positive</th>
<th>Strong</th>
</tr>
</thead>
</table>

Gartner, Inc. | 3999372
Microsoft is rated Strong in technology/methodology. Microsoft has an extensive and sophisticated R&D organization, with development facilities concentrated primarily in Redmond, Washington, and other parts of the world. Microsoft’s R&D efforts continue to be organized around what Microsoft terms as its “three interconnected ambitions”:

- **Reinvent productivity and business processes**: Focusing on how the world works, learns and connects. This has been especially important during the COVID-19 pandemic.

- **Build the intelligent cloud and intelligent edge platform**: Ranging from Azure to Windows Server to GitHub.

- **Create more personal computing**: Including Windows, Surface and gaming.

Microsoft makes substantial investments in research and development — $19.3 billion in its 2020 fiscal year. Increases in R&D in 2020 were driven by investments in cloud engineering, LinkedIn, devices and gaming.

Microsoft uses acquisitions to supplement, complement or accelerate technology capabilities. In Microsoft’s fiscal 2020 (ending June 2020), Microsoft’s acquisitions totaled $2.4 billion (a 50% increase from fiscal 2019). Table 1 outlines Microsoft’s acquisitions for 2020.
Microsoft’s acquisition activities highlight the focus on the intelligent cloud and edge, developers, data, Microsoft applications, and its game portfolio.

Microsoft also supports a more generalized research organization — Microsoft Research — to invest in breakthrough technologies and technologies focused on contributing to the “greater good.” Table 2 highlights where Microsoft is focusing its research efforts.

Table 1: Microsoft 2020 Acquisition Announcements
Viewing partial table. Click here to view full table

<table>
<thead>
<tr>
<th>Acquired Company</th>
<th>Announcement Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affirmed Networks</td>
<td>March 2020</td>
<td>5G networking</td>
</tr>
<tr>
<td>npm</td>
<td>March 2020</td>
<td>Developer (GitHub)</td>
</tr>
<tr>
<td>Metaswitch Networks</td>
<td>May 2020</td>
<td>5G networking</td>
</tr>
<tr>
<td>Softomotive</td>
<td>May 2020</td>
<td>Robotic process automation</td>
</tr>
<tr>
<td>ADRM Software</td>
<td>June 2020</td>
<td>Data modeling startup</td>
</tr>
<tr>
<td>CyberX</td>
<td>June 2020</td>
<td>IoT/OT security</td>
</tr>
<tr>
<td>Orions Systems</td>
<td>July 2020</td>
<td>Dynamics 365 — smart vision</td>
</tr>
<tr>
<td>ZeniMax Media (parent company of Bethesda Softworks)</td>
<td>September 2020</td>
<td>Gaming</td>
</tr>
</tbody>
</table>

Source: Microsoft
### Table 2: Microsoft Research Focus Areas 2020

<table>
<thead>
<tr>
<th>Intelligence</th>
<th>Systems</th>
<th>Theory</th>
<th>Other Sciences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artificial intelligence</td>
<td>Data platforms and analytics</td>
<td>Algorithms</td>
<td>Ecology &amp; environment</td>
</tr>
<tr>
<td>Audio &amp; acoustics</td>
<td>Hardware &amp; devices</td>
<td>Mathematics</td>
<td>Economics</td>
</tr>
<tr>
<td>Computer vision</td>
<td>Programming languages &amp; software engineering</td>
<td></td>
<td>Medical, health &amp; genomics</td>
</tr>
<tr>
<td>Graphics &amp; multimedia</td>
<td>Quantum computing</td>
<td></td>
<td>Social sciences</td>
</tr>
<tr>
<td>Human-computer interactions</td>
<td>Security, privacy &amp; cryptography</td>
<td></td>
<td>Technology for emerging markets</td>
</tr>
<tr>
<td>Human language technologies</td>
<td>Systems &amp; networking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Search &amp; information retrieval</td>
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</table>

Source: Adapted from Microsoft

**Strategy: Strong**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Weak</th>
<th>Caution</th>
<th>Variable</th>
<th>Positive</th>
<th>Strong</th>
</tr>
</thead>
</table>

Microsoft is rated Strong in strategy, successfully leading the evolution of a broad portfolio of products into a cloud-centric, hybrid, highly agile market. CEO Satya Nadella simplified and expanded Microsoft's mission in 2015, to “empower every person and every organization on the planet to achieve more.” While mission statements can sometimes just be fodder for annual shareholder letters, Microsoft's mission created an important shift in its focus away from product centricity to empowerment. This mission shows itself internally in culture (especially a focus on diversity and inclusion). It shows itself in Microsoft's focus on “purpose” (expanding economic opportunities, digital skills and access; its
Defending Democracy Program; its $1 billion Climate Innovation Fund; and efforts on responsible use of AI). And it shows itself in how Microsoft is approaching its customers.

CEO Nadella has been promoting the theme that tech intensity is key to business resilience. For years, Microsoft had been providing digital devices and services to individuals and customers. Tech intensity is about customers building on those technologies to become technology companies themselves — and Microsoft’s role is to be a technology partner, and to help customers on their journey.

Microsoft continues to invest in a variety of product areas (applications and infrastructure; modern work and modern life; data and AI; Power Platform; business applications; security and identity; and gaming). However, Microsoft’s strategy to help customers on their tech journey requires working with customers where they are today, and making the journey easier in three specific ways:

- **Hybrid:** Customers have a mixed portfolio of technology requirements, so Microsoft invests in technologies to make “hybrid” easier (e.g., Azure Arc, Azure VMware Solution, Azure Stack).

- **Integration:** In order for customers to build their own innovative technologies, Microsoft reduces complexity by investing in integrations across its offerings (e.g., Active Directory, Power BI, Teams, security).

- **Industry Focus:** Microsoft invests across engineering, sales and marketing with partnerships that address specific vertical industry requirements (e.g., Microsoft Cloud for Healthcare and Azure FarmBeats).

Strategically, Microsoft sees itself as a transformative force, leveraging cloud and AI technologies to help organizations transform their businesses and operate more efficiently, intelligently and competitively. Microsoft’s technology strategy centers on cloud technologies as a platform for next-generation services and capabilities. Microsoft continues to generate a large percentage of its revenue from legacy noncloud products and services. However, its commercial cloud business has been the primary growth engine of the business, exceeding $50 billion in fiscal 2020 (see Figure 3).
Microsoft is also becoming a more aggressive competitor. Microsoft’s growth in cloud and its advances in technical capabilities have validated Microsoft's strategy and given it confidence to push harder. Customers are likely to find Microsoft becoming increasingly aggressive in driving cloud migrations and promoting its premium license editions. Microsoft will continue to partner with leading software providers, system integrators, consultancies, resellers and managed service providers. Customers engaging with Microsoft’s partners are likely to find these partners are closely aligned with Microsoft’s strategic priorities and outcomes.

Through 2021, Microsoft will build on its successes in cloud, and increase the focus on cloud-based solutions including artificial intelligence, edge computing, IoT, and advanced data management and analytics. Microsoft will continue to seek out and highlight transformative solutions based on Microsoft technologies. Microsoft will use the promise of true business transformation as a lever to drive adoption of its cloud offerings, and partner to produce transformational innovations.

Corporate Viability: Strong

Microsoft’s corporate viability is rated Strong. While the company continues to engage and sustain one of the largest installed bases of customers in enterprise software, it has also managed to continue to grow into new and high-growth-addressable markets. This has enabled an incredibly well-diversified portfolio of products and solutions across a diversified set of end markets, geographies and customers.
As Microsoft continues to grow and provide increased value to its customers, it is also evolving its business model to include a higher percentage of revenue that is annuitylike and recurring in nature. While in the past, the company may have been more tied to transactional revenue and cyclical demand from areas such as PCs and servers, today Microsoft has a much more stable demand pattern and visibility of future revenue has increased.

While it is common to see the law of large numbers impact the current and future success of very large vendors like Microsoft, we are seeing the opposite here. The company has been able to use its scale to improve its value proposition to customers via its platform capabilities and bundled services. Importantly, Microsoft has done well to direct appropriate investments toward research and development and inorganic growth that has sustained innovation for the company. We believe the strength of the current solutions, investments in the future and the company’s financial strength all position Microsoft to remain viable for the foreseeable future.

**Financial: Strong**

Consistent with last year, Microsoft’s financial rating is Strong as of the period ending 31 December 2020. This rating is based on Gartner’s Financial Statement Scorecard methodology, which measures growth, financial strength, liquidity and profitability (see Note 1 and Figure 4).

The company continues to achieve strong growth at significant scale, growing revenue at 14.2% year over year for the trailing 12-month period ending 31 December 2020. This compares favorably to the 13.3% growth for the same period a year ago, and marks 14 straight trailing 12-month periods of greater than 13% growth. Net income margin also increased this period, reaching 33.5% versus 33% last year.

The growth we are seeing also translates to strong and increasing cash flow from operations as a percentage of revenue. This ratio is 44.4%, significantly higher than the 40.3% from the same period last year, generating our highest score of 10 for this metric.

Finally, with cash and equivalents on the balance sheet of roughly $132 billion, outpacing total debt of $69 billion, Microsoft has no debt issues to speak of. With current assets significantly higher than current liabilities, the company has no liquidity issues either. Microsoft has sufficient capital to continue to invest to grow the business organically and via acquisitions, cover liabilities and return value to shareholders via share repurchases and dividends.
Microsoft Azure is a leading cloud infrastructure and platform services (CIPS) provider. In Gartner’s latest cloud market share report, Azure represented 23% of total spending on CIPS offerings, second only to Amazon Web Services (AWS). In 2019, Azure grew 51%, outpacing the overall growth of the CIPS market by almost 10 percentage points, putting it on track to continue increasing its share of the CIPS market (see Market Share: Enterprise Public Cloud Services, Worldwide, 2019).

Azure is a rich collection of services designed to support enterprise IT requirements. It includes support for artificial intelligence and machine learning, blockchain, data and analytics, edge computing, hybrid cloud, security and governance. The Azure platform is often preferred by enterprises looking to host traditional workloads using its extensive catalog of compute instance types. Developers use Azure to support the development of modern, cloud-native applications and support modern operations using Azure's DevOps tools and services. Azure has rich support for containers through its Azure Kubernetes Service (AKS) and supports the growing serverless movement with Azure Functions. Azure also provides a foundational cloud infrastructure platform, delivering hyperscale cloud compute, storage and networking services.
Organizations using Microsoft’s cloud offerings, including Office 365, Microsoft 365 or Dynamics 365, see Azure as a natural component. It is both a foundational collection of cloud infrastructure and platform services, including Azure Active Directory, and a platform that can be used to extend the standard capabilities of Microsoft’s cloud offerings. Azure’s support for Microsoft’s Power Platform, including Power BI, Power Apps, Power Automate and Power Virtual Agents provides a natural low-code/no-code extension of Microsoft Azure.

Microsoft extends the reach of Azure capabilities and management through its Azure Stack family of offerings. These offerings deliver Azure services to edge environments including on-premises data centers through Azure Stack Hub and Azure Stack HCI and dispersed edge environments through Azure Stack Edge. Microsoft extends Azure hybrid management to any infrastructure environment through Azure Arc, an agent-based management extension that connects the Azure management plane to non-Azure environments.

As a full-featured CIPS offering, Azure has a rich set of migration tools and methodologies in addition to cost management and optimization utilities. An extensive ecosystem of partners supports Azure from the initial stages of evaluation through purchasing, deployment and operations. Azure Expert Managed Service Provider (MSP) partners are validated to provide full support for Azure environments, which ensures organizations can find the support they need for Azure engagements.

**Data Center Infrastructure**

*Research by: Tom Bittman*

Microsoft’s data center and infrastructure offerings include a range of technology and products, including Microsoft Hyper-V Server 2019 (Microsoft’s virtualization hypervisor included in Windows Server and Azure), System Center and Azure Management (formerly Operations Management Suite), and Azure Stack HCI (hyperconverged infrastructure delivered as an Azure service). Windows Server continues to be the industry’s dominant server OS, with more than half of the overall server OS market — more than double the share of Linux servers. However, unlike Linux, the unit share of Windows has been declining; in fact, Linux passed Windows in unit sales in 2019. However, Windows’ revenue share has been increasing due to an enterprise shift toward higher-end Windows licenses (primarily used to support larger virtual machine [VM] hosts) and Microsoft’s shift to core-based licensing. While Windows is used in cloud IaaS environments (including Microsoft’s Azure, as well as IaaS offerings from AWS, Google, IBM and others), the use of Linux in cloud IaaS is growing faster.

Windows Server is the foundation of Microsoft’s data center and infrastructure strategy, and forms the foundation for other Microsoft data center offerings. It is also the largest source of revenue among Microsoft’s data center and infrastructure offerings.

Microsoft has standardized its virtualization for both cloud and on-premises environments onto Hyper-V. Hyper-V is the industry’s strongest alternative to VMware virtualization, but unlike VMware, it is much more focused on developers, new applications and Azure.
System Center 2019 provides a Microsoft-centric, consolidated management experience across on-premises systems and cloud, and is positioned as a hybrid management solution.

Internet of Things

Research by: Eric Goodness

Microsoft offers a broad catalog of software to build and manage solutions based on IoT architectures and design patterns for industrial and nonindustrial enterprises. While consumer use cases, such as home automation, can leverage the Microsoft catalog, it is not a core market segment for the company. Microsoft has demonstrated strong demand and success within commercial and industrial enterprises building IoT-enabled solutions and digital businesses.

The Microsoft catalog spans the IoT OS, IoT edge, IoT platform and IoT-centric applications. The core market-facing IoT-enabled catalog includes:

- Azure Digital Twins provide a representation of physical spaces or assets.
- Azure IoT Central offers new users SaaS-based applications to accelerate the adoption of IoT-enabled solutions.
- Azure IoT Edge establishes intelligence from the cloud at the edge of the network in close proximity to events that require actuation or administration.
- Azure IoT Hub connects and monitors IoT edge devices.
- Azure IoT solution accelerators provide solution templates for common IoT design patterns that provide some level of customization.
- Azure Sphere is a microcontroller unit (MCU) platform focused on the IoT device chip. This Linux-based operating system is intended to build and connect MCU-powered devices and IoT-specific secure cloud connectivity.
- Azure Time Series Insights provides analysis from time series IoT data.

The emergence of the Stack Hub broadens Azure IoT to extend higher-value outcomes from on-premises edge hardware, software and proximal data. The broader Microsoft catalog offers services that are a natural extension to the IoT products, such as:

- Azure Maps for applying geospatial context to IoT data
- Azure Functions to process events with serverless code
- Power BI for data dashboards and visualization
- Various ML services to embed intelligence across an IoT solution
Microsoft focuses on key market sectors and horizontal use cases, which include manufacturing, smart buildings and spaces, energy and utilities, and agriculture. Based on Gartner inquiries, Microsoft is emerging as a leading vendor for industrial IoT. As part of its IoT strategy, Microsoft has partnered with companies such as ABB, PTC, Rockwell Automation, Honeywell, GE, Schneider Electric, Siemens and SAP that also exhibit deep expertise and customer bases for industrial requirements.

Development Tools and Programs

Research by: Thomas Murphy

Microsoft’s Developer Division delivers languages and tools for a broad spectrum of developers and technologies. While the Visual Studio integrated development environment (IDE) continues to be a best-in-market toolset, the company has seen tremendous adoption of its open-source Visual Studio Code. The Visual Studio family has a broad variety of editions (Community, Professional and Enterprise) to fit various audiences, as well as Visual Studio for Mac. It continues to deliver solid developer productivity enhancements, including augmented development for C#, C++, Java, Python, TypeScript/JavaScript and XAML.

The company’s Azure DevOps Server offers a solid value stream delivery platform with services to support planning, continuous integration/continuous delivery (CI/CD), Git repositories, and tools for managing testing efforts. It can be utilized on-premises or in the cloud.

The greatest challenge is the transition of DevOps tooling from Azure DevOps to GitHub. Microsoft has been building out the GitHub platform as the successor to Azure DevOps, but it will take time to support the breadth of functionality and smoothly transition users. However, the GitHub platform has a very strong overall position and is seen as a more technology-neutral platform, fitting into Microsoft’s desire to position itself as supporting open technology stacks.

Modern Work and Modern Life

Client Operating Systems

Research by: Steve Kleynhans

The COVID-19-driven shift to remote work has refocused attention on the importance of PCs as a primary tool for work, learning, and entertainment. This has raised the profile of the Windows 10 OS both in the market and within Microsoft. Microsoft made executive changes in 2020 that increased the focus on the client version of Windows. While much of the work on Windows in 2020 was behind the scenes, the OS is poised for more significant updates in 2021 and beyond.

Even though it has been a strong year for Windows, it still faces challenges from smartphones, tablets and Chromebooks as it competes for user attention. Developers often develop first for the web or mobile platforms, rather than building Windows-specific applications. At the same time, Apple has made a strong showing with the latest macOS Big Sur and ARM-based Macs, further distracting developers. While none of these competitors are likely to break Windows’ dominance as the primary corporate user
device, without Windows-specific applications and services, and a commitment from developers, the OS is at risk of losing market share and relevance.

Microsoft continues to reinforce Windows in traditional markets (i.e., enterprise, gaming and markets with rich interaction needs) and is rapidly evolving the OS to suit other needs. Microsoft continues to extend Windows in new directions including cloud-based virtualized Windows instances (Windows Virtual Desktops). To counter the burgeoning threat from Chromebooks, we expect to see a lighter-weight device-centric Windows edition based on Windows 10X emerge for more traditional laptop form factors. Tying together the new Chromium-based Edge browser and access to the Microsoft Store, this product is expected to provide a more streamlined experience suitable for web-centric users. Microsoft also continues to invest in Windows 10 on ARM by adding support for x64 emulation (currently available in preview) along with overall improvements in compatibility and performance.

The move to remote work has also accelerated the shift to lighter-weight administrative tools, leveraging automation and the cloud to remove much of the effort associated with running Windows PCs.

Windows continues to define the PC experience for more than a billion users and will continue to be the dominant OS for business users for the foreseeable future.

Hardware

Research by: Steve Kleynhans

Microsoft's Surface product family had a strong showing in 2020, along with most other PC vendors. Catalyzed by the overnight shift to remote work, Surface found itself well positioned at the intersection of the consumer and commercial markets. Surface revenue was up 37% year over year and is now tracking for more than $5 billion per year. The products have gained credibility in the enterprise as an attractive premium family of mobile devices appealing to both IT and users. Surface Pro, the flagship product, is frequently selected for high-profile, highly mobile employees, and it has become synonymous with the detachable two-in-one form factor. Surface Laptop is similarly gaining traction with customers looking for a premium ultralight laptop.

Over the past five years, Microsoft has used the Surface family to showcase Windows, and launch new form factors and workstyles. Indeed, Microsoft's PC OEM partners have generally followed Microsoft's lead, delivering similar devices that, in most cases, offer broader feature sets and better pricing and, in turn, capture most enterprise purchases.

As in previous years, 2020 saw Microsoft expand the Surface family with refreshed models and new form factors. This year saw the broad release of Surface Hub 2 (meeting room form factor), HoloLens 2 (AR/VR head-mounted display [HMD]), and the new Surface Duo dual-screen handheld. Duo moves Microsoft into the already crowded Android smartphone market with an interesting folding device with some distinct ties to Microsoft applications and services. While Duo's reception has been mixed, it demonstrates Microsoft's continued focus on defining new form factors designed specifically for user
productivity. On the downside, Microsoft was forced to postpone its Surface Neo dual-screen Windows 10X device, refocusing on a more traditional form factor and lower price points.

The Surface devices — and indeed all of Microsoft’s hardware efforts — are often criticized as premium devices, too narrow and expensive for most corporate fleets, and lacking both midprice options and traditional desktop devices. In 2020, this situation improved somewhat with updated versions of the Surface Go tablet, and a new lower-priced Surface Laptop Go.

Content, Collaboration and Communications

Research by: Michael Woodbridge

Microsoft maintains a dominant offering for content, collaboration and communication with its Microsoft 365 suite. The 2020 Gartner Office 365 Survey conducted among 205 respondents from organizations that use Microsoft Office server software products or Office 365, shows 89% of respondents currently using Office 365, up from 35% in 2014 (see Infographic: How Tech CEOs Can Work With (or Compete Against) Microsoft Office 365). Although this is a self-selecting group, this level of interest is also reflected in the inquiries Gartner receives on these topics, where Microsoft is the most prevalent solution by far.

Clients regularly report that the most compelling aspect of Microsoft 365 is the breadth of the suite and its integrated nature. There are strong offerings in each of the following areas:

- **Content:** SharePoint is the underlying content repository and a Leader in the Magic Quadrant for Content Services Platforms. It also provides content collaboration capabilities via OneDrive and enterprise video content management via Microsoft Stream. As the first official offering from Project Cortex, Microsoft released SharePoint Syntex, a solution that uses AI and machine learning to automate content processing. In conjunction with Power Automate, it also provides a platform for team-level workflow.

- **Communications:** Microsoft positions Teams as its lead platform for collaboration, providing workers with a single place to access most tools in the suite and enabling developers with a platform to develop business applications. Teams has experienced massive growth across messaging, meetings, file management and calling. Microsoft’s previous offer, Skype for Business Online, will be decommissioned in 2021. The company has made numerous investments to enhance the communications service, including security and compliance updates, background replacement, quality and reliability performance improvements across meetings and calling, gallery view and live captioning. Finally, Microsoft continues to enhance its Teams offering for frontline workers with a feature set designed specifically for this market segment. Exchange and Outlook, the Microsoft 365 email offering, are rated as the most valuable services in the 2020 Gartner Office 365 Survey.

- **Collaboration:** This is a broad topic and there are many components within the Microsoft 365 suite that support collaboration and social interactions including Microsoft Teams, Microsoft Lists (a new collaborative work management solution launched in the summer of 2020) and Yammer. Microsoft
Teams is again the lead offering here with its workstream collaboration capabilities. According to the 2020 Gartner Office 365 Survey, Teams is now the most used service among Office 365 users (95%). This is by a small margin, narrowly edging ahead of email (Exchange/Outlook; 82%), SharePoint (91%) and the authoring applications (Word, etc.; 92%). Teams has taken on huge importance and, for most employees, is the entry point to Office 365 services. Direct competition for this new work hub market comes primarily from Google, which recently revamped and rebranded its cloud offering. Microsoft also faces strong competition from dedicated players in each of these markets, for example:

- Box, Dropbox and Egnyte for content collaboration
- Zoom, Blue Jeans and Cisco for communications
- Slack and RingCentral for communications

In almost all these cases, stand-alone vendors offer a best-of-breed option to the Microsoft components, ensuring a competitive market that drives innovation.

**Experience technologies (EXTech):** Microsoft recently demonstrated its intentions to play a larger role in the employee EXTech market with the announcement of Microsoft Viva, a collection of four applications based in Microsoft Teams and Microsoft 365. The four apps include Viva Connections (employee communications), Viva Topics (knowledge management), Viva Insights (workplace analytics) and Viva Learning (corporate learning). Viva Topics are the only applications available at the time of writing, but Microsoft plans to make the other three generally available over the coming months.

**Immersive Technologies**

*Research by: Tuong Nguyen*

Microsoft’s immersive portfolio spans a broader number of offerings (see Table 3) to empower the era of spatial computing. This next era of computing will need to be vendor-driven. Microsoft is well-positioned to do this. The following three components have helped establish Microsoft as a leader in immersive tech:

- Direct immersive offerings (such as HoloLens)
- Portfolio of adjacent and enabling technology offerings (such as Azure Cloud, Cognitive Services and IoT)
- Building and empowering an immersive ecosystem through Microsoft’s Mixed Reality Partner Program (MRPP)
The challenge for Microsoft and the broader industry is that immersive technologies are recognized as having enormous potential, but neither Microsoft, nor the rest of the industry, have yet defined a path toward wide-scale adoption and application. Current use cases are specialized and narrowly scoped. This has further limited scalability and adoption potential. While Microsoft has demonstrated the leading edge of technology with its offerings, it needs to provide the market with steppingstone solutions to define the path to the next era of computing.

Table 3: Microsoft's Immersive Technologies

<table>
<thead>
<tr>
<th>Immersive (Mixed Reality) Offering</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>HoloLens 2</td>
<td>Untethered, binocular, see-through, self-contained head-mounted display</td>
</tr>
<tr>
<td>Azure Kinect DK</td>
<td>Vision and speech-based IoT device</td>
</tr>
<tr>
<td>Azure Spatial Anchors</td>
<td>Managed cloud service and platform that allows for collaborative, persistent anchoring of digital content to objects in physical space while maintaining the same position and orientation</td>
</tr>
<tr>
<td>Azure Remote Rendering (ARR)</td>
<td>Managed cloud service to render large, 3D, interactive graphics on HoloLens and (potentially) other portable devices</td>
</tr>
<tr>
<td>Azure Digital Twin</td>
<td>Azure-based design process that can leverage HoloLens spatial computing experiences</td>
</tr>
<tr>
<td>Dynamics 365</td>
<td>Software product to support frontline workers on HoloLens 2</td>
</tr>
<tr>
<td>AltspaceVR</td>
<td>Social VR platform</td>
</tr>
</tbody>
</table>

Source: Gartner

Data and AI

Data Management

Research by: Donald Feinberg
Microsoft has a broad set of offerings in data management and analytics for usage both on-premises and in the cloud. Microsoft has strong integration among its data management and analytics products, making it easy to implement on-premises, in the cloud and hybrid. Microsoft continues to enhance its integration capabilities with Azure Synapse Analytics, a cloud data ecosystem (see Cloud Data Ecosystems Emerge as the New Data and Analytics Battleground).

Microsoft offers a large set of products in the data management space. On-premises these include the SQL Server DBMS, as well as data integration, data quality, data warehousing and master data management products. Cloud offerings include Azure SQL Database, Azure Data Lake and Azure Synapse Analytics (a seamless replacement for Azure SQL Data Warehouse), extending the wide variety of on-premises products to the cloud. Azure Cosmos DB (a globally distributed, multimodel, nonrelational database platform as a service [dbPaaS]) can be integrated with Azure Synapse using Azure Synapse Link.

Microsoft also announced an important step forward in releasing its data management portfolio in the cloud with Azure Purview, a cloud-based metadata catalog, including data governance and supporting data across on-premises, multiple clouds, and SaaS. Additionally, Microsoft has released Azure Data Factory, Azure Data Catalog, Azure Data Sharing and more.

Finally, Microsoft's Azure Arc (although early in its development phase) can be used to manage data services (Azure SQL Managed Instance and PostgreSQL Hyperscale) in a hybrid model, on-premises and multicloud environments.

Artificial Intelligence

Research by: Bern Elliot

AI is central to Microsoft's broader strategy, and Microsoft continues to invest extensively in AI research and products. The AI functionality is incorporated into many of Microsoft's own services and products, and Microsoft also offers a broad range of AI solutions to its customers. AI also plays a role in Microsoft's messaging of its Intelligent Cloud/Intelligent Edge approach.

As a result, Microsoft competes effectively as an AI services market leader in many areas, for instance Microsoft is a Leader in the Magic Quadrant for Cloud AI Developer Services, which reviews vendor machine learning, language technology and computer vision offerings. In some areas, despite equal or greater levels of investment, Microsoft must continue to promote its AI capabilities relative to its competitors in order to get the recognition it deserves. Though this year, it gained recognition in multiple areas including its cross-lingual transfer encoders (topped the XTREME benchmark in October 2020), and for its Microsoft AI for Good program.

Microsoft continues to enhance its ML portfolio, which now applies to multiple personas: data scientist, developer, and citizen data scientist. The Azure ML designer offers a visual flow design tool to connect datasets and modules to create, test, train, and deploy pipelines and ML models. These are all located with the Azure ML workspace, which contains additional resources. In June 2020, Microsoft announced
a technology and go-to-market strategic partnership with SAS, a leading provider of analytic software. This partnership is likely to help customers across dozens of industries and horizontals address complex analytic challenges. Microsoft continues to advance its partnership with Databricks, an open platform for data engineering, data science, ML and analytics, via Azure Databricks. Microsoft improved the ML model life cycle process by releasing a set of machine learning operations (MLOps) capabilities. Microsoft also expanded the range of ML applications possible by allowing ML models to operate within Power BI.

Beyond ML, Microsoft offers a comprehensive cloud solution set for vision, language, decision making and search, in many cases offering both an approach for advanced applications and one designed for easier use. For instance, for chatbot capabilities, it offers Bot Framework and Language Understanding (LUIS) for advanced applications, while also offering a low-code option with Power Virtual Agents and QnA Maker. Microsoft also continues to lead in the area of ethical and humanitarian uses of AI, believing that this will establish a foundation of trust and confidence related to AI with employees, customers and the general public.

**Power Platform**

**Analytics**

*Research by: Rita Sallam*

Microsoft continues its strategic commitment to the analytics space as an important driver of its cloud strategy. It continues to make improvements and quickly incorporates new market innovations to its integrated analytics and business intelligence, data science, and ML/AI product portfolio. Ongoing investments are making it easier to deploy these components in a seamless fashion along with Microsoft’s broader data management, Office 365 and Power Apps stack. In particular, there has been exponential growth in remote work as a result of the global pandemic, and more organizations are using Teams as their center for work and collaboration. Consequently, Microsoft has redoubled its efforts to make Power BI natively accessible in Teams and central to its value proposition. Microsoft Power BI content and data models are accessible in Excel and can be integrated with Microsoft Power Automate to incorporate analytics into a process. Microsoft Power BI is also natively integrated with Azure Synapse Analytics (formerly Azure Data Warehouse), which combines data analytics engines, such as Apache Spark or SQL, for use across structured and unstructured data, leveraging multiple existing assets for greater ease of use.

This approach, along with the growing participation in its user community and strong sales execution, is driving Microsoft’s growth in market penetration and market share. For analytics and BI, Microsoft offers a broad range of capabilities. Its Power BI suite is delivered via the Power BI cloud service and on-premises via Power BI Report Server at a compelling price point. This competitive price/value equation has been a driving factor in Power BI’s increased market momentum over the past year. In the face of global disruption, organizations have accelerated their consolidation of multiple analytics and BI (ABI) tools and are prioritizing price and value as key purchasing criteria. Power BI has gained market awareness and traction in a short period of time by building and serving a large community of
enthusiastic users, by delivering a competitive product and by Microsoft positioning Power BI as a well-integrated complement to most of its other Azure-based offerings.

Microsoft has developed digital workplace analytics capabilities that provide insight into individual and organizational productivity with MyAnalytics and Workplace Analytics. Both products are available in Office 365 and leverage the Microsoft Graph to track how people and organizations collaborate and spend time. Workplace Analytics leverages Office 365 collaboration data to deliver insights for enterprise productivity, including collaboration patterns across organizations that influence productivity and employee engagement. MyAnalytics provides statistics that help people understand how they spend their time individually and that suggest ways to work smarter and accomplish goals.

Microsoft enhances the value of its cloud information management portfolio with its continued focus on Power BI and its greater focus on integration with Teams, combined with Azure-based AI and ML that are integrated with its data management infrastructure investments and the MyAnalytics Workplace Analytics. It also serves as an incentive for customers to expand their usage of Azure cloud.

**Low-Code and Multiexperience Development**

*Research by: Jason Wong*

Microsoft’s Power Apps and Power Automate products for low-code application development and workflow automation have been beneficiaries of the COVID-19 pandemic. Since they are included in Office 365 and Dynamics 365 subscriptions, many Microsoft customers have turned to these low-code tools for creating new web forms and mobile apps. They are also used for automating paper or manual workflows in response to the needs of more remote and distributed workers (see Magic Quadrant for Enterprise Low-Code Application Platforms). IT organizations are also starting to proactively enable these citizen developers (i.e., business end users) on the Power Platform, and connect their work with IT workloads in Azure and with external systems. However, this could lead to unexpected rise in costs if not carefully planned (see Microsoft License Changes Can Increase Customer Investment Into Power Apps).

Microsoft also has Power Virtual Agents to provide low-code chatbot development capabilities to the Power Platform, thus making it a multiexperience development platform (MXDP; web, mobile and chatbot) with primarily a low-code approach (see Magic Quadrant for Multiexperience Development Platforms). Power Virtual Agents, Power Apps and Power Automate are all connected to Azure and Visual Studio for more sophisticated multiexperience development capabilities, such as Azure Bot Service and Xamarin. However, although Microsoft is one of the vendors more frequently evaluated for multiexperience development based on Peer Insights data, Gartner client feedback indicates that lack of packaging as a unified MXDP has led to the adoption of competing platforms. Power Platform also includes Power BI which — like the rest of the suite — aims to make business intelligence accessible to a broader audience.

**Business Applications**

**Business Applications**
Microsoft has solutions in the ERP and CRM markets primarily delivered through its Dynamics 365 offerings. Gartner market share research shows Microsoft as a leading vendor in each of its target markets based on revenue. The Dynamics 365 offering provides a broad suite of functionality targeted at specific use cases:

- Dynamics Customer Insights — 360-degree customer data platform (CDP), Customer Voice (voice of the customer [VoC])
- Dynamics 365 Sales — Sales force automation, product visualize (mixed reality)
- Dynamics 365 Customer Service — Customer engagement and Virtual Agent (chatbot)
- Dynamics 365 Field Service — Field operations and remote assistance (through HoloLens)
- Dynamics 365 Human Resources — HR solutions
- Dynamics 365 Finance — Manage and track financial operations
- Dynamics 365 Marketing — Customer demand generation
- Dynamics 365 Supply Chain Management — Manufacturing and supply chain operations
- Dynamics 365 Commerce — Shopping experiences across physical and digital channels
- Dynamics 365 Project Service Automation — Project management
- Dynamics 365 Business Central — Comprehensive business management for small to midsize businesses

Microsoft has an extensive partner ecosystem through which solutions based on Dynamics 365 are delivered to customers. Partner skills related to Dynamics 365 vary, so customers should exercise a thorough review process when selecting a Dynamics 365 partner.

Microsoft's business applications integrate with Microsoft's other major cloud offerings (Office 365 and Azure) and with Microsoft collaboration products (Teams). Common to all apps are several key capabilities: Power Platform (Power BI, Power Apps and Power Automate) and the Common Data Service (recently renamed Dataverse). Microsoft also delivers its AI capabilities through Dynamics 365 AI, as well as mixed reality solutions through Dynamics 365 Remote Assist, and Dynamics 365 Product Visualize.

Microsoft hosts many third-party applications in its AppSource marketplace that are certified to work with and complement Microsoft business applications. There are currently more than 8,000 partners providing Power Apps and/or Dynamics 365 services.
CRM

Microsoft competes strongly in the sales and service components of CRM. Almost three years ago, Microsoft introduced Dynamics 365 Marketing, which still has a relatively small market share and limited functionality. This offering is targeted at supporting B2B sales cycles and considered purchases. Its big-brand B2C marketing offering is provided through a strong strategic partnership with Adobe Experience Platform. In late 2019, Microsoft launched its own e-commerce offering, based on its own code used for its own e-commerce requirements. As a result, Microsoft now has a complete suite of CRM offerings that are a unified set of products on a common platform and data model, unlike many other vendors who have built products through acquisition.

Microsoft is one of the few vendors that provide hybrid deployment offerings with cloud and on-premises offerings that share a common codebase (although the cloud version is developed and released first and more frequently). Some features, such as Cortana and AI, reside solely in the Azure cloud, so on-premises users face some challenges with those capabilities.

ERP

Microsoft provides cloud ERP applications built on Microsoft Azure. The offerings support a diverse range of industries, including manufacturing, retail, distribution, services and public sector. Organizations can add users and business processes with a pay-as-you-grow model. Microsoft has a mainly indirect go-to-market model for ERP with partners being the primarily point of contact, support and implementation.

Dynamics 365 Finance and Dynamics 365 Supply Chain Management are used by organizations with 100 to many thousands of users within a single instance. Dynamics 365 Business Central is commonly used by smaller organizations averaging less than 150 users.

Microsoft exhibits a strong vision and solid technology capabilities for its cloud ERP offerings when compared with most other ERP vendors. The product takes full advantage of Microsoft technologies such as Power BI for real-time analytics and Power Apps, which allow partners and customers to access integration and citizen developer tools and to more closely tailor the application to specific processes and requirements.

Over the past year, Microsoft Dynamics has reset its human resources product direction to focus on core HR capabilities and away from previous initiatives, which focused on distinct talent capabilities such as recruiting and learning. This refocus makes sense given its main target segmentation and the availability of LinkedIn to replace native efforts for recruiting and learning with a more mature offering.

Security and Identity

Security

Research by: Neil MacDonald
Microsoft is becoming a very broad-based security company, offering products and services that protect customers and workloads on non-Microsoft platforms including other OSs and alternative cloud platforms. Its priorities are on protecting Windows, Azure and Microsoft 365 using threat intelligence from its large installed base of consumer and enterprise customers. Unlike Microsoft of a decade ago, it supports other platforms as peers. Microsoft has been steadily improving its set of security offerings, many of which are now market leaders. Its strongest offerings revolve around identity and access management (IAM) and adjacent areas. Microsoft leverages its dominant Active Directory and Microsoft 365 installed base to drive adoption of its cloud-based identity-and-access-management-as-a-service offering, Azure AD (see Magic Quadrant for Access Management). Another area of significant strength is in protecting end-user-facing endpoints (see Magic Quadrant for Endpoint Protection Platforms) and mobile devices (see Magic Quadrant for Unified Endpoint Management). Beginning with Windows 10, Microsoft introduced a capable endpoint detection and response (EDR) solution, making it one of a smaller number of endpoint vendors to offer both endpoint protection and endpoint detection and response. This capability, delivered as Microsoft Defender Advanced Threat Protection (ATP), is included with Windows 10 Enterprise Edition or when licensed via Microsoft 365 E5. Support for both macOS and Linux is available.

Microsoft is investing heavily in its cloud-based security capabilities, including those in Azure. Protecting workloads in Azure is a significant opportunity, and Azure Defender for VMs supports Windows and Linux workload protection (including support for container protection) with Microsoft-supplied cloud workload protection platform (CWPP) agents (see Market Guide for Cloud Workload Protection Platforms). With Azure Security Center (ASC), customers can pay extra for cloud security posture management and threat detection as a service with Azure Defender. Microsoft was the first of the hyperscale providers to introduce a distributed firewall (a scale-out, highly available, stateful firewalling service). It was one of the first hyperscale providers to offer a confidential computing offering based on Intel Software Guard Extensions (Intel SGX). In 2019, Microsoft announced its formal entry into the security information and event management (SIEM) market with its Azure Sentinel offering. This is a differentiator from AWS, which does not yet offer a full enterprise SIEM capability and instead chooses to partner.

With Microsoft 365, Microsoft provides a full set of capabilities (antivirus, anti-malware, anti-spam, data loss prevention [DLP], conditional access, cloud access security broker [CASB]-lite, anti-phishing and email attack simulation) so that, in most cases, third-party protection offerings for M365 are not needed. Richer capabilities are available with higher-price licensing levels. For non-Microsoft cloud applications, its CASB offering, Microsoft Cloud App Security, is strong (see Magic Quadrant for Cloud Access Security Brokers), and it entered the Leaders quadrant in 2019 and maintained this in 2020. Across all its offerings, Microsoft uses its enterprise licensing models to encourage adoption of an “all Microsoft” approach.

There are a few important areas of security that Microsoft does not yet address, such as secure web gateways (SWGs), remote browser isolation (RBI) and network intrusion prevention system (NIPS); although, a preview version of Azure Firewall Premium adds an intrusion detection and prevention system, URL filtering and content categorization. It avoids the managed security service market that
would help its understaffed midsize customers. It is working to unify its DLP strategy across endpoint, data center and cloud, and has made progress in 2020 — but gaps remain. Finally, its zero trust strategy is fragmented across multiple Microsoft offerings, and it has yet to position Azure AD application proxy as a general-purpose private access solution to compete effectively in the zero trust network access (ZTNA) market (see Market Guide for Zero Trust Network Access).

Identity and Access Management

*Research by: Paul Rabinovich*

Microsoft’s efforts in the identity and access management space focus on Azure AD, a SaaS-delivered access management solution. Although software-delivered Microsoft Active Directory remains the most widely deployed enterprise directory, the company plans to make only incremental security and operational improvements to AD, concentrating its IAM investments in the cloud.

Azure AD provides access to Microsoft 365 and Azure IaaS as well as to thousands of preintegrated third-party SaaS applications. Azure AD offers a rich set of single sign-on (SSO), multifactor authentication (MFA) and adaptive access capabilities. It can also be used to access on-premises applications and supports collaboration with partners and other external users.

Microsoft’s tools embrace the notion of hybrid identity and support deep integration between Azure AD and customers’ Active Directory installations. Azure AD also integrates with other Microsoft cloud-based security services to increase organizations’ visibility and control and to provide improved support for the zero trust access model.

Gaming

*Research by: Bruno Lakehal*

The next generation of Microsoft’s video game console was launched in November 2020: Xbox Series X (with 4K Blu-ray) and Xbox Series S (all-digital).

Microsoft continues to focus and extend into gaming with content, community and cloud through acquisitions of new studios and new partnerships (in addition to its extensive existing studio partnerships). Its latest acquisition was Zenimax Media, parent company of Bethesda Softworks, in September 2020. One of the largest gaming companies, it brings more AAA (higher-end) games to Xbox and Xbox Game Pass, Microsoft’s gaming subscription service.

On the cloud gaming part, Microsoft expanded the footprint of its gaming service Xbox Game Pass to be accessible from additional devices, including Android-based (iOS and Windows 10 support is expected in 2021).

Partners and Channels

*Research by: Mark Paine*
Microsoft’s momentum in extending the reach and competence of its partners to deliver solutions on the Azure platform continues apace. Over and above the Microsoft silver and gold competencies, Microsoft has 10 advanced specializations divided across the Azure and Modern Work and Security workloads. These advanced specializations not only cover Microsoft-specific products, but also Kubernetes, SAP and open-source Linux.

Microsoft is continuing its efforts in recruiting independent software vendors (ISVs) onto the Azure platform and into the Azure Marketplace and AppSource directory. ISV partner program features include the Microsoft Business Applications ISV Connect Program, which accelerates the ISVs’ path to market and eases publication of the app in Microsoft AppSource and the Azure Marketplace. A revenue-sharing model allows Microsoft sellers to gain quota relief for selling ISV apps. Technical, marketing and sales enablement benefits are gained when an ISV is accepted onto the Microsoft co-sell program. On the technical side, ISVs can take advantage of APIs for better and easier connectivity to Dynamics 365 and Power Apps. Once the ISV has published an application in one of the Microsoft marketplaces, it can take advantage of the updates and features, which include the following:

- ISVs can publish transactable offers across multiple customers.
- Marketplace pricing models enable monthly and yearly subscriptions.
- Customer pricing options, standard contracts and SaaS trials can be converted to paid arrangements.
- Marketplace rewards program for partners, letting ISVs earn rewards to unlock further benefits.
- Marketplace options allowing trials of software.

However, a recent survey of 47 Microsoft partners showed that there was concern over the value of Microsoft’s partner finder tools to customers. While these numbers are not a valid statistical representation of the overall population of Microsoft Azure partners, they do give us insight into the areas Microsoft will need to focus on to deliver a world-beating partner program. See What You Must Know When Partnering With Microsoft Azure for more details.

Although partner to partner (P2P) interactions and co-selling has happened for decades in the Microsoft ecosystem, Microsoft has recognized the importance of these interactions in delivering the “whole product” to customers. Consequently, Microsoft is making it easier for partners to interact and record joint collaboration with further features in their one-stop shop for partners — Partner Central.

Services and Support

*Research by: David Ackerman*

Microsoft services and support helps customers successfully adopt and use Microsoft offerings through consulting, design, implementation and support services. The Microsoft theme for services is focused on modern work with the use of digital transformation to empower employees, engage customers, optimize
operations and transform products. The Microsoft toolset includes Microsoft 365, Dynamics 365 and Azure. The adoption of the Microsoft ecosystem is predicated on new demands for productivity, collaboration and an effective employee experience. The FastTrack program is a Microsoft engineering capability being applied to help customers adopt Microsoft's cloud technology, free of charge. FastTrack is effectively a collection of resources, tools and assistance from Microsoft engineers to design and implement Microsoft technologies. Its purpose is to reduce the time to value for customers when using Microsoft solutions. FastTrack services are available for customers with eligible subscriptions to Microsoft 365, Azure or Dynamics 365. The FastTrack offering is proactive guidance to architect Microsoft products effectively. Specific to FastTrack for Azure, a globally distributed team of Azure engineers is focused by domains for core infrastructure, app development and data modernization. A key area of emphasis has been ramping up self-help from 14% usage to now being used 98% of the time.

Microsoft's Unified Support Services provides enterprise-level support coverage across the customer's entire licensing estate with proactive resolution and 24/7 coverage. This service is geared for clients with a $600,000 annual spend with Microsoft and includes proactive services directly in the base agreement. Unified Support addresses key areas that are challenging customers currently including: the need for effective training, architecting and governance in using Azure, Microsoft 365, Dynamics and related offerings; and providing expert advice to implement Microsoft security and compliance. This support can come via: (1) self-service, (2) as-needed personal advisory, and (3) use of service days.

Evidence

1 The 2020 Gartner Sourcing, Procurement & Vendor Management Survey: Results presented are based on a Gartner study conducted to identify the greatest challenges sourcing, procurement and vendor management (SPVM) leaders are facing today when negotiating with and managing technology vendors. This primary research has been conducted online in September 2020 and October 2020 among 279 respondents in North America (n = 130), Western Europe (n = 84) and APAC (n = 65).

Qualifying organizations span various industries except agriculture, construction, nonprofit, real estate and services. Organizations were screened for having annual revenue for fiscal 2019 to be greater than/equal to $250 million. Organizations were required to have formal SPVM resource(s)/team.

Respondents were required to be from corporate leadership, line-of-business leadership or SPVM functional area, and be CIO, CPO/head of procurement, sourcing director/manager, procurement director/manager, vendor manager, supplier relationship manager, contract director/manager or procurement category manager. Respondents were required to have involvement in technology/SPVM resource(s)/team.

Quotas were applied for countries/regions, organization size and function.

The study was developed collaboratively by Gartner's SPVM team and the Primary Research Team.
Q10. “For the following deal(s), please indicate the vendor with which you experienced the greatest deal of difficulty negotiating with.” — Microsoft second most difficult chosen by 18%. Top 5: IBM 21%, Microsoft 18%, Google 15%, Oracle 11%, AWS 8%; n = 154.

Q14. “For the following deal(s), please indicate the vendor with which you experienced the greatest deal of difficulty monitoring and managing.” — Microsoft second most difficult chosen by 21%. Top 5: IBM 23%, Microsoft 21%, Google 15%, SAP 11%, AWS 10%; n = 105.

2 Manage the Office 365 E1 Trial, Microsoft.

3 Microsoft Licensing Terms and Documentation as of 1 February 2021. See page 111, Appendix F — Promotion, Security and Compliance Promotion for Microsoft 365 F1/F3.


5 2020 Gartner Office 365 Survey: This survey was conducted online from 7 July 2020 through 16 July 2020 with 205 members of Gartner’s Research Circle — a Gartner-managed panel comprising IT and IT-business professionals.

Respondents come from organizations that use Microsoft Office server software products or Office 365. Qualified participants make or influence decisions regarding Microsoft Office server software products or Office 365 for their organization. Out of these, 182 respondents are currently using Office 365 and 17 respondents are planning to use Office 365 in the next 6 months.

The survey was developed collaboratively by a team of Gartner analysts and was reviewed, tested, and administered by Gartner’s Research Data and Analytics team.

Note: The results of this study are representative of the respondent base and not necessarily the market as a whole.

Note 1: Gartner’s Financial Statement Scorecard for Public Companies

Gartner’s Vendor Financial Statement Scorecard methodology measures a combination of growth, profitability and liquidity based on a company’s financial results from public financial statements according to generally accepted accounting principles (GAAP). Gartner uses a standard methodology to derive its Vendor Financial Statement Scorecard to provide a like-for-like view among a pool of more than 750 vendors using publicly available financial information. The four basic criteria are: (1) revenue growth (trailing 12-month year-over-year revenue growth); (2) profitability (trailing 12-month GAAP net profit margin) with net income as a percentage of revenue; (3) balance sheet liquidity (current ratio) as current assets divided by modified current liabilities (which adjusts for the presence of deferred revenue); and (4) cash flow based on the trailing 12 months of cash flow from operations as a percentage of the...
trailing 12 months of revenue. For companies with large amounts of net debt, a fifth criterion, net debt divided by trailing 12-month cash flow from operations, is incorporated. Gartner's policy is to use financials based on GAAP in calculating the ratios needed for the Vendor Financial Statement Scorecard (see Understanding the Methodology Behind Gartner's Financial Statement Scorecard for Public Companies).

Company Overview

Microsoft

Headquarters: Redmond, Washington, U.S.

www.microsoft.com

Microsoft is a worldwide provider of packaged software, cloud services, and hardware offerings targeting both consumer and enterprise audiences.

Overall Rating Definitions
### Strong
Is viewed as a provider of strategic products, services or solutions:
- Customers: Continue with planned investments.
- Potential customers: Consider this vendor a strong choice for strategic investments.

### Positive
Demonstrates strength in specific areas, but execution in one or more areas may still be developing or inconsistent with other areas of performance:
- Customers: Continue planned investments.
- Potential customers: Consider this vendor a viable choice for strategic or tactical investments, while planning for known limitations.

### Variable
Shows potential in specific areas though still variable in more than one of the required categories:
- Customers: Consider the short- and long-term impact of possible changes in status.
- Potential customers: Plan for and be aware of issues and opportunities related to the evolution and maturity of this vendor.

### Caution
Faces challenges in multiple required categories and execution is inconsistent:
- Customers: Understand challenges in relevant areas, and develop contingency plans based on risk tolerance and possible business impact.
- Potential customers: Account for the vendor’s challenges as part of due diligence.

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**Document Revision History**

- **Vendor Rating: Microsoft - 25 February 2020**
- **Vendor Rating: Microsoft - 15 March 2019**
- **Vendor Rating: Microsoft - 17 November 2017**
- **Vendor Rating: Microsoft - 24 March 2016**
- **Vendor Rating: Microsoft - 17 October 2014**
- **Vendor Rating: Microsoft - 8 August 2013**
- **Vendor Rating: Microsoft - 3 August 2009**

**Recommended by the Authors**
Help Employees Select the Right Microsoft Office 365 Tools

Office 365 Requires a Content Services Coexistence Strategy to Support Digital Business

Six Commonsense Practices to Help Employees Make Better Use of Microsoft Teams

Create a Culture of Digital Dexterity With the 'New Work Nucleus'

Quantify the Value of Microsoft Enterprise Mobility + Security Suite E3 and E5 in Microsoft 365

How to Cut Costs in Microsoft Enterprise Agreements When Your Organization Is Disrupted

Midsize Enterprises Can Gain a Price Advantage on Microsoft 365 or Office 365 by Mixing Subscriptions

Microsoft License Changes Can Increase Customer Investment Into Power Apps

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