# Who: Kirk Koenigsbauer, COO & CVP, Experiences and Devices Group

# Event: Barclays Global TMT Conference

# Date: December 8, 2021

Raimo Lenschow:

Hey, welcome to our next session. I'm really happy. We have Kirk Koenigsbauer from Microsoft on, very German name by the way, so I will be proud to talk to you. Kirk, you have a very long career in Microsoft and there's so many different areas we can and should talk about, and I'm looking forward to talking about. Maybe we start with a more broader question is, if you think about your time in Microsoft, you saw many changes, but if you think about the last two years, when it comes to what's going on there, how the pandemic has impacted all of that, how did that impact you and the Microsoft team?

Kirk Koenigsbauer:

Yeah. Well first, you make me sound old, but no, I think, the last couple years, there's no question it's been nothing short of extraordinary, and how it's super charged so much of digital transformation in the industry. It's just amazing. I've been in this productivity and collaboration space for a long time as you suggest, and whether it's how people are creating and innovating, marketing teams, sales teams, logistics teams, supply chain, supply chain tough right now as we all know, servicing customers, everything's just undergoing a really massive shift and it's been amazing to see.

Kirk Koenigsbauer:

I think from customers, what we're hearing pretty consistently, it's actually quite consistent across the board, are a couple of different challenges, and I think one is really around hybrid, which I'm sure you've been talking about, at the conference in other places, but hybrid is sort of going to be the new normal for us, and the interesting thing that we hear and that we find in our research, in fact, we do this, this survey called the Work Trends report, and it's about 30,000 employees across a bunch of different industries globally, bunch of different markets, big companies, large companies, small companies, mid-size, the whole gamut, and we found this really interesting paradox as we think about hybrid.

Kirk Koenigsbauer:

On the one hand, 70% of that population really love the flexibility that remote work has provided, and they want that in the future. They think that that's an important part of their job and what they want to go do, but at the same time, these same people, 67% of them actually want more in person time for collaboration and for creation. So we talk about this as this hybrid paradox, but this is the reality I think that we're all going to live in, people are going to want the best of both worlds. It's been two years doing this stuff and people aren't going to want to go back to the old ways, and so we're going to be in this hybrid environment, for sure.

Kirk Koenigsbauer:

Another trend that I'm sure you're seeing too, is what we talk about as the Great Reshuffle. Some people talk about as the Great Resignation, but I actually think it's a little more accurate to talk about it as the Great Reshuffle, where there are lots and lots of people that are sort of rethinking their place in the workforce. 41% of people that we survey are considering leaving their current employers, and a similar percentage are just thinking about doing something different. So, there's just a massive talent war that's going on, there's a massive refocus on the employee and the need to develop employees, and skill those employees, retain those employees. You're not going to hire your way out of this problem that we face, and it's changing leadership, it's changing a bunch of different dimensions.

Kirk Koenigsbauer:

And then I guess I would say, the last big trend that's pretty consistent across every customer I talk to, is security. Just the threat of phishing, and ransomware, and breach, and IP theft, and all this stuff, insider compliance issues and so forth, with all the change that's going on, companies are more than ever, really worried about their security platform and how to protect, from the endpoint right up through their cloud platform and their infrastructure, and all this stuff, and it's a very interesting time because it's so consistent across each of these dimensions, at least from what we're seeing in the space.

Raimo Lenschow:

Yeah, and it must be fascinating for you because you are like the overarching umbrella, you are kind of touching all of these actually in your job.

Kirk Koenigsbauer:

Yeah. It's a fun time to be in this part of the business, for sure. No question.

Raimo Lenschow:

Yeah, and in our conversation, I want to touch on a good few of the points you made already, to go dig a little bit deeper. Let's start maybe on the Microsoft 365 side, you moved successfully to the Cloud. I've been watching, obviously as a financial analyst I look at numbers, I look at the number of people that are converting or have converted, et cetera. How do you think about the opportunity for further seat growth? I mean, we are approaching now numbers where years ago, you would've said, "Yeah, no, that's it, that's converted", now you keep growing, there's a lot of new areas coming as well, how do you think about that volume growth?

Kirk Koenigsbauer:

Yeah, no, no question. Well, Microsoft 365 has been, it's amazing the momentum that we're seeing now, and as we've disclosed, about a third of our total Office 365 seats are now sold through Microsoft 365, and so broadening this value proposition beyond just productivity and collaboration, to all the management stuff that products like EMS provide, to all the security offerings that we provide, and then of course the sort of premium Windows experiences in the commercial piece, it's really allowed us to broaden the notion of what our Cloud productivity and collaboration service is, and it's kind of become this sort of de facto world productivity cloud, and that's great.

Kirk Koenigsbauer:

In terms of your question though, specifically, you're right, this sort of legacy or the history of our franchise around all things Office, and now evolving obviously to Microsoft 365, it's been largely centered on the information worker or the knowledge worker, but that's really changing with Microsoft 365. We do see new opportunities, new avenues to deliver these kinds of productivity and collaboration experiences that are going to drive seat growth. I think M365 is also an ARPU play, we could talk about that if you want to, but on the seat side, there's a couple of different vectors that I think are interesting.

Kirk Koenigsbauer:

One, that is really frankly gotten a lot of recognition over the last two years, going back to your first question, which is around the notion of the frontline or the firstline Worker, and this is a population, a set of the employee base that has kind of been left behind. These are your service professionals, your retail professionals, your manufacturing shop floor professionals, your healthcare professionals, folks that don't necessarily sit at a desk all day and type away like a lot of us do, they are on the firstline of everything, for sales, for service, for support, obviously transportation, safety, security, health, we've seen it over the course of the last two years and how important that is to the economy, and that population has historically been kind of left behind in terms of being connected to of the rest of the workforce, and so lots of CEOs, CIOs, business leaders that we talk to, are interested in lighting up and being able to connect that population to the rest of the employee base. To be able to lead with them and communicate in the mission alignment and all that, but that's also where a big chunk of digital transformation is happening, sort of in every one of these industries that I've been referencing, the firstline worker, the frontline worker experience is really getting digitized in a massive way, and that's a big seat growth driver for us.

Kirk Koenigsbauer:

Another one that I think is pretty important to us, which we've talked about in the past, is the SMB space, the small mid-size business space, but I would put a finer point on the very small business opportunity, the solopreneur up to say 10, 20, 25 seats, something along that line. We feel like that's a really big opportunity for Microsoft 365 also, and we have created a bunch of new SKUs over the course of the last few years with Microsoft 365, to put the power of the platform into the hands of small businesses, including these really small businesses, and that's been a big opportunity for us. In fact, just last week, we also announced a new SKU called Microsoft Teams Essentials, which is essentially a product specifically designed for this small business space, super competitive, four bucks a month, all in one sort of meeting and conferencing solution, and we think that that's a big deal.

Kirk Koenigsbauer:

I also personally get pretty excited about security offerings in the small business space. We can't forget that a lot of big companies, that's where a lot of the focus is, on ransomware, and phishing, and all that stuff, but it's happening in the small business space too, and frankly they don't have the tooling or the expertise at that level, they don't have big IT shops or partners supporting them on a day to day basis, so security's important there. And then the last one, I guess I would just say is around emerging markets. You know, we have served emerging markets of course at Microsoft broadly, but I would say our focus has been largely on the large sort of organizations in any given emerging market or developing market, and we think that there's a lot of opportunities in the breadth, the smaller organizations, those mid-size and SMBs again, and Teams is really our vector and our avenue there, because it just is changing the dynamic in such an important way. So I don't know, we see a lot of opportunity with M365 to drive seats going forward, and we've seen some good growth through both the FLW, the Firstline Worker piece, and the SMB space over the last couple of quarters.

Raimo Lenschow:

Yeah exactly, and you mentioned ARPU already, so I have volume and I have price. Well, oh yeah, I remember I made the mistake a few years ago, I said, "Price increase", and Amy kind of killed me on the call, so selling more value to customers. Where are we on the different SKUs there, in terms of adoption and opportunities?

Kirk Koenigsbauer:

Yeah. Well, I think you're right to articulate it. I mean, Microsoft 365 has the opportunity for seat growth, but also for ARPU growth as well, and I would say originally, frankly it was much more of an ARPU play initially, because we were converting these seats from on-prem, or the basic Office 365 workloads, to this broader M365 suite. But we see quite a bit of headroom ahead of us. Right now, and we disclosed this in the last couple quarters, the E5 offering that we have, think of that as our highest, and for folks who don't follow on the minutiae of our SKUs, it's the sort of highest premium tier for Microsoft 365, and that right now is only 8% of our install base, and so, we feel like we've got a lot of upside there, whether it's... I referenced security briefly in the SMB space, but a lot of organizations are looking to provide the kind of security and compliance and identity solutions that are required today.

Kirk Koenigsbauer:

There's a big chunk of management value that's there, there's a big chunk of what we call a phone system, or modern ways to do VoIP based calling and PSTN based calling, and so we think that there's quite a bit of headroom left in this E5 space. I do think overall there is a little bit of a balance, of course, as we drive more SKUs, right, more seats, and we'd raise ARPU. We have to think about the balance on either side there, but we see opportunity on both vectors.

Raimo Lenschow:

And where are we on that... I seem to remember a few quarters ago you talked about E3 as the hero SKU. Is there still like E1 to E3.

Kirk Koenigsbauer:

Yeah. That's a little... We have a number of different SKUs. Because we address large organizations, large enterprises, mid-size companies and small businesses, we have a host of different SKUs and we do use this nomenclature of E1, E3, E5, for some reason we don't like even numbers I guess, but we have them for the enterprise SKUs. We have a set of SKUs for the SMB side, and of course we have a consumer business too, with over 50 million subscribers. But yeah, our objective of course, is to penetrate into a market or a customer in some way, whether it's with an E3 SKU or whatever, and then expand the rooms of the house, as sort of an analogy that we use internally, to drive that higher ARPU with more scenarios, whether it's, maybe they're starting off with just the basics of productivity and collaboration, but then there's a really natural opportunity to attach security on top of it, or compliance on top of it, or a phone system on top of it, that's kind of the playbook.

Raimo Lenschow:

Yeah. Okay, and then on the... Talk a little bit about the Windows franchise, it doesn't get as much air time anymore, which is... I think it's unfair because it's a very big important product for you. What have you seen as you think about the pandemic, supply chain management constraints that are playing out there, what have been your observations there?

Kirk Koenigsbauer:

Yeah, for sure. Windows remains a huge anchor of growth for the company and it's a super important way that we service our customers, attract new customers and so forth, so we talk about it a lot internally and it's super important. The dynamics related to your supply chain point are a little different on the consumer side, we do see some supply chain impact, we see that show up sort of in the OEM piece, of course, as you'd see that. On the commercial side, it's a little bit different, we're a little bit less dependent there because a lot of what's happening in the commercial space, is companies are buying their PCs and then they're upgrading them to Microsoft 365 which includes the per user component of Windows, and so there we see actually a really strong ARPU opportunity for Windows Commercial by moving customers to Microsoft 365.

Kirk Koenigsbauer:

And there, what customers are doing are... not to sound like a broken record, but going back to the same point again, they want Windows to be more secure, and so for example, we have this offering called Microsoft Defender, which is essentially endpoint security solution, that is part of Microsoft 365, part of Windows, and that's one of the ways that customers are sort of upselling. I mentioned management infrastructure as another big part of it. How do you manage Windows, frankly multiple device types in this new hybrid world, where lots of people are remote. You've got to think about things like virtualization, we have a new offering called Windows 365, which is a virtualization offering, which we're really excited about, just came out recently, and then of course there is the natural upgrade cycle of machines, and we've seen lots of organizations, with the focus on employee experience, wanting to make sure that their employees have good devices so that they can get their job done, and so we have benefited from an upgrade cycle in the commercial space too. So, we're bullish on what we see in terms of Windows commercial value going forward, we think it'll continue to be a big growth driver for us.

Raimo Lenschow:

Yeah, and it's funny, just to give you some feedback, as I started going back to the office, all of a sudden I discover the ancient nature of my machine, and being like, "There needs to be an upgrade cycle there".

Kirk Koenigsbauer:

Yeah, for sure.

Raimo Lenschow:

Yeah, and let's shift gear a little bit again, the Teams has been one of the super success stories there for you guys over the last few years. Where are we in terms of adoption, but also adoption of the different subcomponents that are sitting within Teams?

Kirk Koenigsbauer:

Yeah. Well, in terms of broad adoption, we announced 250 million monthly active users of Teams, and as someone who has been on the Teams journey from day one, it's pretty awesome to see what that growth has been and no question the product was growing before the pandemic, and there's definitely been a lot of acceleration through it. One thing that I look at quite a bit is, we see broad deployments across big, big enterprises, and over 130 organizations have a hundred thousand seat or more deployments, which is a really good signal of what that adoption looks like, and then of course, there's a long tail of organizations that are deploying broadly too.

Kirk Koenigsbauer:

When you talk about within the subcomponents, just as a reminder for folks that may not be as steeped in it, Teams has core chat and messaging capability, collaboration capability, it's got this VoIP based calling service as well, that we call Phone System. It has Office integration, and of course there's a platform for third parties, ISVs, as well as business' IT departments to build their own line of business solutions into Teams, and really across the board we're seeing nice uptick on all this. Obviously meetings, as you might expect, has been a huge growth driver over the course of the last couple of years, but we really see growth across the board.

Kirk Koenigsbauer:

Just as an example, going back to our firstline worker conversation, we've seen just 150% increase in usage around these Frontline worker solutions inside of Teams itself, and so it's become a really nice host for us to birth new experiences. In fact, I'll tell you, I recently took over responsibility for one of our workloads called Yammer, and we've integrated Yammer inside of Teams, the growth of Yammer inside of Teams is so fast now, it's eclipsed the standalone part of the Yammer business. We have many, many stories like that, of new products that we're birthing, that are launching as a part of Teams and growing as a part of that growth. So it's been really exciting to see that.

Raimo Lenschow:

Yeah, and where are we specifically on video or voice? Because that's the... to me it's almost a hidden success story because the more conversations I have with people in the field, the more is like, "Yeah, this is really good. It's not the Skype anymore. This feels very, very good and powerful". Where are we on that realization and adoption?

Kirk Koenigsbauer:

Yeah. It is a bit of a sleeper, I guess. We have about 80 million monthly active users on what we talk about as our phone system solution. That essentially is again, our Voice over IP, sort of P2P calling, between like you and me. If you and I wanted to have a phone call, we could do that over Teams, and that has grown immensely, particularly over the last couple of years. You mentioned Skype before, we've completely replanted the backend infrastructure that manages all of our calling, all of our meeting and calling infrastructure essentially, and so we feel very, very good about our position there.

Kirk Koenigsbauer:

I think the interesting thing that's happened, is that the basic phone call is never going to be the same. I mean, people want to now see each other, whether they're using Teams or Zoom, or FaceTime or whatever, it doesn't really matter, there's a whole new standard for what a calling experience is, and so we feel really quite fortunate to be in a position where Teams in and of itself, is not just a voiceover IP solution, but it's a solution that can integrate in these great collaboration experiences, and deep integration with Office and so forth, whether you're doing a one on one or a Teams meeting, and so, we really feel that that's helped drive some of this, and it's really, I think, changing calling forever, and of course hybrid is going to be a big part of that.

Kirk Koenigsbauer:

So the other piece that's been important for us is we really have repivoted how we work with our operators. You talk about all these different markets, and working with them closely to build the PSTN component of the solution into this, has been a big part too, and so we feel really good about the broad traction of end user usage, as well as partners getting on board with us, with Teams.

Raimo Lenschow:

Yeah. That sounds really exciting, and as I said, I see it more and more, so it's really good, really good progress. Another thing, that I have to admit doesn't probably get enough air time on our side is Viva, and I do the German pronunciation, I hope that's correct. If I talk to Microsoft people, there is a huge level of excitement around that, it hasn't really come over to our side as well. Can you just talk to that a little bit?

Kirk Koenigsbauer:

Yeah, and I should tell you, I'm extremely biased here because I am on point for the company to drive our Viva business and run some of our products there. So, I would tell you, maybe even going back to where we started, this notion of the new hybrid work model, as well as this Great Reshuffle, has just put an incredible focus on the notion of, "What is the right employee experience?" As I referenced, you've got this massive talent war that's out there, employers have never, I think in the time at least I've been in this business, have never really cared so much, so deeply about the development of their people, their careers, their learning, their skilling, how they can advance. I think one of the things that's been a real lesson here for leaders over the course of the last two years, is you have to keep your folks motivated. They have to understand what your mission is because people today, they care more than just about getting a paycheck, and so there's been a lot of focus on creating a great employee experience, and to be candid with you, it's not been awesome for many, many people for a long time.

Kirk Koenigsbauer:

This is a space that's got... It's super fragmented. There's a lot of different ISV solutions in there. They're all good individually, but they're not interconnected, and I think what we decided to do is focus on this employee experience category, and we've introduced this thing called Viva. We just announced it in February, so it's not surprising that it's not super, super well known, but we are pushing it in a pretty big way, and we just actually hit within the last month, general availability for our first four core workloads, which are around learning, knowledge management, we have a workload that's around insights, so what's happening with the wellness and productivity of your employee base, and we have one called Connections, which is helpful to connect people to different employee experiences throughout an organization.

Kirk Koenigsbauer:

All of this, we have our own first party solutions, but we're opening it up to third parties as well, and we're really quite bullish on it. We've bought a company called Ally.io back in September or October. That's the service that provides OKRs objectives and key results, think goals and mission alignment up and down and organization, we're excited about that. So this is going to be a big area of investment for us, and our point of differentiation is we're building this right into Microsoft 365 and into Teams, and again, there are solutions out there in the marketplace today but they're isolated, they're point solutions. When was the last time anybody wanted to go to their learning management portal? It's not something that's very natural, so by building it into Teams where we can have nudges, and we can make recommendations based on our broad Microsoft graph of intelligence that we have, and build it into what we talk about as the flow of work, we think we're going to see much, much higher adoption and engagement, and frankly, that's what organizations need. They really need their employees using this stuff to get the development, to get the skilling, to get the insights that they need to be stronger employees and be able to contribute, and so that's a huge opportunity for us, we think, going forward.

Raimo Lenschow:

Just one more question? Is it somewhat linked? Where you have the learning experience platforms out there, and I would think it's somewhat might link with Dynamics as well to some degree like that. Yeah. Okay.

Kirk Koenigsbauer:

Yeah, for sure. We work really closely, obviously with LinkedIn, a big part of Microsoft, we have a very close set of integrations there, where our learning application that we built as a part of Viva, actually includes as a part of the service, a bunch of LinkedIn courses, and then it also offers the full LinkedIn catalog of over 20 or 30,000 different trainings and coursework that folks can do, and so we essentially have a very tight coupling there between those, but we also work with SuccessFactors and Pluralsight, and a bunch of other really well established learning providers, to be able to provide their content into our solution within Teams directly, and we think that's going to be a nice value proposition for people to grow.

Raimo Lenschow:

And you're coming from a different angle. You're coming from the employee productivity angle rather than the compliance HR angle, where it was always like forced on you.

Kirk Koenigsbauer:

Yeah, that's right. We're putting the employee first in this process, to make sure that they've got really great consumer grade, consumer ethos types of experiences, and we think that that'll, again built into Teams, built into the flow of work, will be really competitive.

Raimo Lenschow:

Yeah. I can see that, yeah. That sounds really exciting. Kirk, the last couple of minutes I want to talk about security. You've mentioned it several times already, but I think it needs its own little section here. So that's why I'm talking about it a little bit more. Can you talk a little bit about the evolution here? Because I remember, I published a big report on that, and I was surprised how much progress you guys have made and how comprehensive you've been, got the number wrong completely because it was actually a much, much bigger business than we modeled at the time, or thought at the time. Just, can you talk a little bit about the evolution there?

Kirk Koenigsbauer:

Yeah, no, it's been a great three or four years building out our security offerings. Obviously security been important to Microsoft for a while, it's a core part of the operating system, it's been a core part of Azure and M365, but we've really started to focus on it in the last three, four years, and it's great to have Charlie Bell on point, a new leader with Satya's group, who's running our security offerings all up, and wonderful to have him now at the company. But as I referenced earlier, this is a huge deal for every organization that we talk to. Cybercrime is something like a $6 trillion cost to the economy, and if you think about that for a second, that would actually make it, if it were a country, it would be the third largest country in the world after China and the United States.

Kirk Koenigsbauer:

So this is a huge, huge deal for every single CEO, CIO, CISO for sure, and the challenges they face today are things like fragmentation. They've got 50 plus systems, no joke, 50 plus systems for different types of security or compliance workloads in their company, and that creates just a ton of complexity, and it also creates risk in terms of how these are integrated together, and are they inter-operating as the way that they should, are they sharing signal and so forth to understand what this risk looks like? A lot of these services are still on-prem based, and so they're not as up to date, they're not able to take advantage of the power of AI, and the cloud compute that it can offer in the security space to sort of get a get ahead of this, as opposed to constantly being on defense, and going maybe a little bit back to the employee experience piece, every company I talk to can't hire enough, or fast enough, security experts, and so they have to rely on companies like Microsoft.

Kirk Koenigsbauer:

So, we have seen a big push here. Folks want to get to Zero Trust, they have to assume that breach is going to happen, and so how do you protect against that? And yeah, we announced recently that Microsoft is now a greater than $10 billion business in the security space, so it is a huge, huge deal for us and we're super committed to the category. So hopefully that gives you a quick overview.

Raimo Lenschow:

Yeah, totally. And I mean, one of the stuff that does come up on the earnings call is, is EMS, and you talk about the growth there. We have a seat number, and it does seem like a very big kind of penetration number as well. How do you drive growth there? What are the factors to consider?

Kirk Koenigsbauer:

Well, yeah, it's sort of two parts there. One is, you're absolutely correct. I mean, EMS, our Enterprise Mobility and Security suite, is absolutely the cornerstone of our security offerings in our Zero Trust approach. It is the thing that provides the identity plane inside of any organization with Azure Active Directory, and the management plane with something that we call Microsoft Endpoint Manager. These are both collectively so core to running a company's infrastructure, and running it securely. As you referenced, the growth of Azure AD is really strong, we have over 500 million monthly active users there, 300,000 paid orgs, I mean, it is a very, very big business for us, and a super important one, again is the sort of cornerstone for all of this. One thing, by the way that's not often talked about, is it's not just about protecting Microsoft commercial services, but also a host of cloud identity solutions for third parties too, and that's a very, very fast growing part of the business.

Kirk Koenigsbauer:

And then on the management side, I think it's a little bit underlooked sometime how important this is, the relationship between security and management, I mean, it's peanut butter and jelly essentially. You can't have a strong security infrastructure if your management isn't up to date, if isn't moving to the Cloud, if it isn't ready for hybrid, if it's not consolidating, and so that's why EMS is just so core to our security story all up.

Raimo Lenschow:

Yeah, and then, if you think about it, is there... and on one hand is a seat, it's like Amy on every conference call says like, "Look, you need to be careful, if you look at Azure, there's EMS in there and seats ". Are there any similar... the same factors that we should think about that we talked earlier, on the Office side in terms of further penetration there? Or what would be like other things to consider?

Kirk Koenigsbauer:

Yeah, we definitely see that there's room for growth with Azure Active Directory. I mean, I think there's still a lot of legacy on-prem out there. There's this push to hybrid as we've talked a little bit about, and making sure that organizations have a robust identity platform, given the fact that there's so much hybrid, so much remote work. There's going to be continued consolidation. We've talked about Passwordless, my God, what a hassle passwords have been for the last 30 years, and we've got to move beyond that, and Azure Active Directory, our identity solution, is moving in that direction to get rid of passwords, which we think will be key. Verified credentials, there's so many elements of this business that we feel are going to be real good growth drivers for us going forward, let alone the third party app piece that I mentioned too. Customers want... No one wants to move to a single vendor entirely of course, but you do want to remove a lot of the complexity that's in the environments today and this is one of the ways to do it.

Raimo Lenschow:

Yeah. Kirk, I see my time is up. I'm getting the flag here too, but I mean, it was so great talking with you. There's so many different areas we could have touched on top of that, but it was great having you, thanks for the conversation. Really exciting. It's great to have you here as well. Thank you.

Kirk Koenigsbauer:

Thank you very much. Appreciate the opportunity. Take care.

Raimo Lenschow:

Thank you. Happy Holidays.