New earnings report shows Microsoft’s shift to cloud and subscriptions is working

Enlarge / Xbox Series X, due in late 2020. It’s tall. And it has a modified controller compared to the Xbox One pad.

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The gauntlet of tech earnings reports has mostly come to a close, and there’s a wide range of performance. Almost every part of the tech industry has been rattled by COVID-19, but Microsoft managed to report accelerated growth and strong performance for all of its businesses. It’s a sign that the software company’s efforts to reinvent itself may be working—and that cloud and subscription services will define the company (and with it, customers’ experiences with its products) for years to come.

Microsoft’s Q3 2020 earnings report showed growth for all three of the company’s business segments, which hasn’t even always happened in a “normal” quarter. Productivity, which includes services like Office and LinkedIn, grew 16 percent year over year to $11.7 billion in revenue—that’s a small step down compared to $11.8 in the immediate preceding quarter. Cloud, which includes Azure and GitHub, grew 27 percent year over year to $12.3 billion. And personal computing—an umbrella that covers Windows, Xbox, and Surface—grew a more modest 3 percent year over year to $11 billion.

All told, Microsoft's revenue for the quarter was $35 billion, down $2 billion from the previous quarter but up 15 percent from last year's Q3. Even Xbox, which saw an 11 percent drop last quarter, grew by three points. Microsoft this week announced that Xbox Game Pass, a Netflix-like subscription for accessing about 100 games on the Xbox One and Windows 10 platforms, reached 10 million subscribers—more evidence that subscription services and the like are now integral to the company's strategy across all its businesses.

To that point, Azure grew 59 percent year over year, and it remains the biggest contributor to the company's growth. Azure's rate of growth has been slowing steadily over the past year, though.

While all this sounds promising, Microsoft cautioned that it may not be the end of the story. "The effects of COVID-19 may not be fully reflected in the financial results until future periods," the company wrote. It gave guidance to investors that it expects between $35.85 billion and $36.80 billion in revenue during its upcoming fourth quarter. If that ends up being accurate, it will have been the company's slowest growth quarter in a couple of years.

While Windows and Office still make for the heart of Microsoft's business, it has focused on growing subscription services out of those things. It recently announced a new, pseudo-Prime-like home user subscription service called Microsoft 365, it plans to launch a new game console called the Xbox Series X later this year, and it continues to compete fiercely with Amazon's AWS cloud service with Azure. That struggle was exemplified in the messy back-and-forth over the JEDI government contract, which has seemingly resolved in Microsoft's favor only recently.

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