

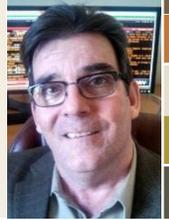
## Portfolio Management Business Development II

### Microsoft (MSFT)

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#### The Strategy

AAPL recently announced a digital payment system for the retail segment of the market using near-field communication, or NFC. AAPL has developed a leading position in the mobile market. AAPL can extend this leadership position by developing a secure, digital payment system for the retail industry.

Roughly, two-percent of retail deploys the equipment necessary for an AAPL like digital payment system. It's a capital expenditure concern for many retailers because retail typically operates with low margins. AAPL can easily solve this concern if it provides the appropriate incentives in the market. It has the balance sheet capital to put together a very attractive financing package for the necessary equipment. In other words, AAPL could make it real easy for retail to adopt this technology.

By adopting this technology, AAPL will develop a better understanding of the consumer, which will create significant value in the market. In fact, AAPL will probably partner with IBM, eventually. And the combination could provide a better front-end to back-end solution for a retail type of organization.

Currently, MSFT has a dominant position within the enterprise segment of the market. But an AAPL / IBM partnership could present a significant risk to the MSFT position within the enterprise segment.

To illustrate, the AAPL digital payment system will provide the organization with significant information on the consumer. It will allow AAPL to further develop an expertise on the consumer. IBM has the expertise on the back-end solution, managing big data. This could become a powerful partnership!

To counter this potential partnership, MSFT could cultivate its enterprise position and create a significant competitive advantage in the market. Using the retail example, MSFT could develop a back-end solution for

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a retail organization which included a direct connection to the consumer, including secure, digital payments. For a retail organization, it's about inventory management. A direct connection to the consumer creates significant value within the supply chain. Inherently, it creates efficiencies within the relationship: consumer and retailer.

A form of communication like NFC lends itself to a digital form of customer identification. This creates a digital connection to the consumer. And with digital customer identification, a retailer can more effectively manage and sell the inventory. Whenever the consumer enters the retail establishment, the retailer could discount excess inventory in real-time.

The key will be getting the consumer to enter the retail establishment. But once the consumer enters the retail establishment, the retailer can offer discounts as a function of current inventory levels throughout the supply chain. It's an effective strategy for the retail establishments trying to counter the growth of Amazon like suppliers. Inventory efficiency!

Likewise, it's an effective strategy for MSFT to connect a mobile strategy with a back-end strategy! In this retail example, MSFT provides a direct connection between the retail establishment and the consumer through a back-end solution (Enterprise / Industry / Retail & Consumer Goods) and a front-end solution (Phone, Tablet, PC and X-Box).

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Sincerely,  
Ken Copley  
Capital Executive LLC

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