

Will Google Docs kill off Microsoft Office?

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Google Docs offers similar features to Microsoft Office ... on the cloud and for free.

For years, Microsoft has stockpiled a large amount of cash from sales of its Office productivity software suite.

Yet over the past year, something peculiar happened. Microsoft ([MSFT](#)) has made it easier for consumers to access Office via the cloud and online downloads, regardless of what computer you're using. In the past week, Office even enabled real-time, collaborative document editing for its free offering, Office Web Apps.

Why the big push into making these offline money makers into cheaper cloud services? Blame Google ([GOOG](#)).

When Google Docs first launched in 2006, it was mostly a curiosity. Cloud-based services were not yet a way of life, and support with Microsoft's Office formats was minimal. But Google Docs has been improved upon bit by bit over the past few years and is now an extremely useful and increasingly popular collection of software.

Google Docs is no longer a curiosity. It's a legitimate threat to Microsoft.

Google's productivity tools may lack some of Office's advanced features, but are easier and simpler to use than anything Microsoft offers -- especially when it comes to the cloud-centric features.

Microsoft is still a huge player in this business of course. It claims that Office is installed on more than 1 billion machines. In 2012, Gartner estimated that Office had a 90% market share in the enterprise market.

If you focus on the cloud, however, the story changes.

The next decade looks like Google's to lose. Gartner estimates that in 10 years, there will be 1.2 billion people using productivity suite services ... but more than half of them will be using a cloud-based productivity suite of some sort. Gartner's research also shows Google quickly gobbling up market share in that space. It could be as high as 50%.

Google recently disclosed that there are 120 million accounts using Google Drive (which houses the Docs services), and 5 million businesses and institutions using the Google Apps platform (the latter is not a free service).

As of September, Microsoft has sold 2 million Office 365 Home Premium subscriptions, which allows the suite to be installed on 5 different devices concurrently. Separately, it says that 60% of Fortune 500 business have purchased

enterprise versions of Office 365. It also claims to have 50 million users for its Office Web Apps.

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But Google's suite is quickly becoming the standard for tech startups, small businesses and newer large companies. Demographics are on Google's side as well. Those who have grown up with the Internet don't really think twice about using something that is free, saves your work in a centrally accessible location, and makes it easy to share and collaborate with others.

Office is slowly losing its status as the software of choice. It's becoming something that people just use when they need specialized formatting ... or when they're dealing with someone who only uses Office.

Still, even that is changing. Google's 2012 acquisition of Quickoffice was made to help to bridge the format divide between the two services. And it's even possible to use Google Docs without an Internet connection.

According to a Google spokesperson, the goal isn't to match the Office suite feature for feature. While Google still wants to appeal to the vast majority of traditional Office users, the company is more keen on getting to the point where file format is no longer an issue.

Google can afford to give away software for free. Can Microsoft? Google makes money off its productivity suite by selling web ads. But there is a bigger goal as well. The company is offering services like Google Docs in order to keep users close to its other, more lucrative offerings such as Gmail, Search, Chrome and Maps.

But Office remains a cash cow for Microsoft. Office sales are about a third of the company's total annual revenue. It is not in a position to simply make Office free.

With Office 365, Microsoft is **charging \$100 a year**, which guarantees perpetual updates, and has produced modest, but encouraging rewards to the tune of \$1.5 billion a quarter. But it's awfully difficult to beat free.

And Microsoft doesn't just face competition from Google. Apple (**AAPL**) recently launched its own cloud-based version of its iWork suite. It's **giving the mobile iOS version away** for free.

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For now, Office is still the overwhelming leader. Still, the tides are shifting. Microsoft probably knows it can't simply rely on its existing install base sticking around just because Office is the standard. In fact, Microsoft should know that from experience.

Microsoft's web browser market share eroded when Firefox, and later Chrome, took center stage. On the enterprise side, its Windows Mobile platform has joined BlackBerry (**BBRY**) as a victim of Corporate America's embracing of iOS and Google's Android.

This war is far from over, but Microsoft has its work cut out for it. This battle is going to be fought and won in the cloud. And Google, with its years of experience offering consumer services in the cloud, has the home field advantage.

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