Art by Clark Miller; photos from Getty Images.

Artificial Intelligence

Microsoft Hopes Hastened AI Rollout, Price Discounts Can Fuel Office 365 Growth

CEO Satya Nadella reorganized who's in charge of buffing up the crown jewel software, which risks falling behind in the AI boom.

By Aaron Holmes

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On paper, Informatica, a Redwood City-based cloud software firm with 5,000 white collar employees, is exactly the type of company that should be gung-ho to pay up and buy Microsoft 365 Copilot, the version of the company's flagship Office software that comes with artificial intelligence features.

And more than a year ago, Informatica did test out 365 Copilot for a handful of its employees, according to CIO Graeme Thompson. But Thompson said he has passed on buying seats primarily because he hasn't seen uses for the AI that justify the price: at $30 a month per seat, Copilot roughly doubles the baseline cost of Office.

"It's easy for an employee to say, 'Yes, this will help me,' but hard to quantify how. And if they can't quantify how it'll help them … it's not going to be a long discussion" over whether the software is worth paying for, Thompson said.

The Takeaway

- Microsoft pushes Office 365 Copilot with price discounts and quality improvements.
- CEO Nadella reorganized leadership to accelerate AI feature development.
- Customers find Copilot adoption slow due to high cost and unproven ROI.

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Informatica, which plans to sell itself to Salesforce, a Microsoft rival in selling AI applications, isn't paying for 365 Copilot anymore. Instead, it has focused on other AI tools, including a chatbot it built using in-house software and OpenAI models.

For nearly 30 years, Office has been one of Microsoft's most prized crown jewels. The software accounts for roughly 30% of the company's overall revenue and it still sees considerable growth—some 13% last year, to $87 billion. But Nadella has lately become increasingly concerned that Office's growth could slow if Microsoft doesn't add better AI to the software and convince customers the AI feature is worth it. Right now, 365 Copilot routinely struggles with basic functions, like accurately filling in what comes next in an Excel spreadsheet.

In response, Nadella has in recent months made improving 365 Copilot's quality a top priority, executing a series of sweeping organizational and product changes meant to speed up development and rollout of the AI features. Meanwhile, Microsoft has been gradually reducing the software's price with more generous discounts on the AI features, according to customers and salespeople.

And Microsoft has fallen behind parts of Nadella's original timeline and is still working out kinks in 365 Copilot's more advanced AI features that it promised would soon be ready when it launched the product in 2023. Some features that it initially planned to ship earlier this year have been postponed.

For instance, the company was planning to release a feature this summer that would have allowed Copilot to generate PowerPoint presentations from Excel files, according to someone involved in the effort. But Microsoft teams developing the feature have struggled to get the AI models to read the Excel files reliably enough, leading the company to push back the feature's release to later this year, this person said.

And the company has nixed other AI Office features that it previously said would be coming this year, including features that would have let Copilot see what people in a Teams video call were sharing, answer attendees' written questions and summarize the content after the meeting. Those features were originally set to be released this summer but were postponed indefinitely, according to Microsoft notice sent to customers.

So over the past year, Nadella has held weekly check-ins on the state of 365 Copilot, where he presses his reports on how they're making it more effective. And earlier this year Nadella orchestrated a shakeup in the leadership overseeing Office and its AI features—promoting Charles Lamanna, Microsoft's corporate vice president of business applications, and Ryan Roslansky, who runs Microsoft-owned LinkedIn, to new roles overseeing the future of the products. Both men now report to executive vice president Rajesh Jha, and Roslansky is separately continuing as LinkedIn CEO—an unusual dual role within the company that highlights Nadella's urgency at finding new internal leaders to steer Office.

Microsoft's Ryan Rolansky will now both run LinkedIn and co-manage the group dedicated to the company's all-important Office365. *(Getty Images)*

At Nadella's direction, those executives have been moving hastily in recent months to make the Office AI features more valuable to customers. In one sign of that push, Lamanna has in recent weeks spearheaded an effort to swap out OpenAI's models for Anthropic's to power some of the more aspirational features in Excel and Powerpoint, according to two people involved in the effort. The move is noteworthy because it will be more costly to Microsoft, whose massive investment in OpenAI grants it the rights to reuse the startup's models. By contrast, Microsoft will pay for Anthropic's models via its cloud archrival Amazon Web Services.

At Microsoft, engineering leaders working on AI features in Office have complained that OpenAI's models weren't reliable enough to handle large amounts of data without making mistakes or hallucinating, according to two people involved in the effort.

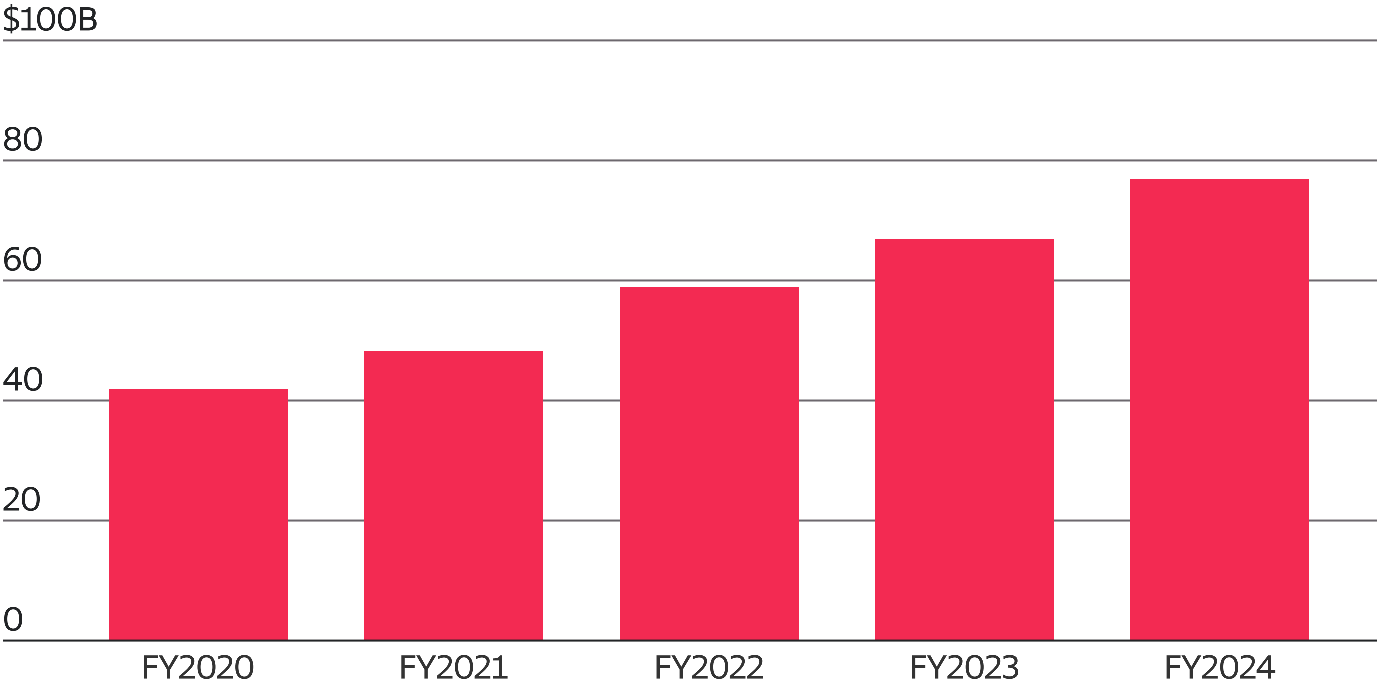
Encouraged by success with Anthropic's models, Microsoft is preparing a new wave of Copilot updates in Office before year's end to improve tasks such as complex Excel calculations and designing visually appealing PowerPoint presentations, according to two people involved in the effort. Some of those announcements could come as soon as Microsoft's Ignite conference in November, one of the people said.

Nadella has told deputies he wants 365 Copilot to work as effectively as an entire "coworker" that companies could "hire" to carry out roles like HR manager and junior salesperson, according to two people who heard the remarks.

Whether those changes will move the needle on customer adoption remains to be seen. Microsoft has notched some wins in selling the product, touting several large deals for 365 Copilot with brands such as Toyota, Barclays and PwC, all of which have purchased tens of thousands of seats of the software. But beyond that, the company has been tightlipped about how much the AI features are helping juice overall Office sales.

Office Makeover

Microsoft's Office commercial products have grown steadily, but there hasn't been a dramatic acceleration in growth since it debuted AI features in 2023.



Source: SEC filings

A Microsoft spokesperson said in a statement that “customers continue to adopt Copilot at a faster rate than any other new Microsoft 365 suite, with strong usage intensity, as shown by our week-over-week retention.” The spokesperson pointed to customers like UBS, which has said it will buy Microsoft 365 Copilot seats for all of its employees, and the Argentinian bank Banco Ciudad, which said it’s saving $14,000 per month by using Copilot to automate parts of its call center.

Equity analysts estimate that 365 Copilot is on pace to generate over $1 billion in annual sales, based on the assumption that around 1% of more than 430 million paying users of Office 365 have opted to spend the additional $30 per seat per month for the AI features. Microsoft hasn’t offered specific insights on how many companies are paying for the software.

Shareholders have largely looked past Microsoft’s secrecy around specific 365 Copilot revenue numbers because the company is benefitting so heavily from other AI areas. Its Azure cloud computing unit has notched billions of dollars in new revenue from OpenAI and other AI firms renting servers to run AI applications, as well as customers buying OpenAI’s models through the platform.

Still, shareholders say they’re starting to look for evidence that Microsoft can use AI features to convince customers to keep spending more on Office, which is facing increased competition from the likes of OpenAI itself, which is increasingly marketing its ChatGPT as a tool businesses can use to automate work and create documents.

“What Microsoft really has to get right is the integration within the broader suite to show that Copilot can work across companies’ data in an effective way,” said Jonathan Cofsky, a Janus Henderson portfolio manager who oversees two funds that hold a total of more than $800 million in Microsoft stock.

A Tough Sell

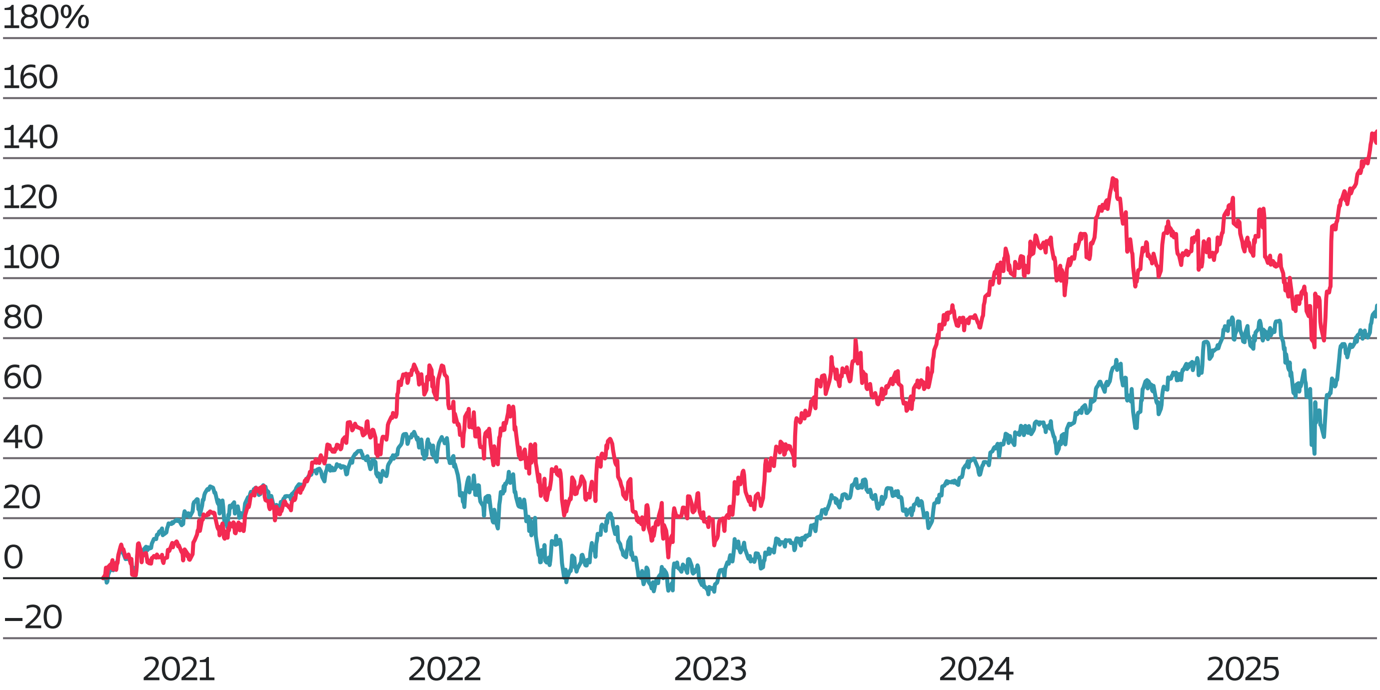
For corporate customers, one of the hardest-to-swallow aspects of 365 Copilot hasn’t been specific features or bugs—but rather the price tag.

Even customers who love the product say the cost of Office AI features can be hard to stomach. SHI, an IT consulting firm that resells Microsoft products, has purchased Microsoft 365 Copilot seats for more than a third of its roughly 6,000 employees, according to vice president Lane Shelton, who leads a team that advises businesses on software. But SHI hasn’t given every employee access because of the cost.

"The challenge for businesses is that there's this leap of faith moment where you try to justify it with the return-on-investment calculation, which is hard to figure out," said Shelton, who still made sure to note that he's a "Copilot fanboy."

Mighty Microsoft

The venerable tech giant's share have outperformed the broader market as AI mania has taken hold—and CEO Satya Nadella is eager to keep the good times rolling.



Source: Google Finance

In response to customer outcry, Microsoft has gradually softened its tone on 365 Copilot pricing, according to salespeople and software buyers. When it first launched the product in mid-2023, Microsoft would only let customers sign up if they committed to pay for 300 seats, and it was strict about offering discounts on 365 Copilot, requiring most firms to pay the $30 sticker price. But Microsoft dropped the seat minimum last year, and has in recent months been more amenable to discounting the product for customers who sign up for a large number of seats, these people said.

"They're starting to negotiate a bit more on price," said Adam Mansfield, a consultant with the firm UpperEdge who negotiates deals with Microsoft and other software vendors on behalf of several large companies, each with more than $1 billion in annual revenue. "But for most of the companies we're working with, they've been testing it out with a small group of employees over the past year but just aren't convinced that it's worth it to tack on a substantial number of seats and start spending more heavily."

From Copilot to Coworker

But staff building the AI Office features are optimistic they will make several leaps in quality before 2026 arrives.

After installing Lamanna and Roslansky to new roles in the unit, Nadella sent a memo to staff in recent weeks clarifying that Roslansky will oversee the specific Office products, while Lamanna will focus on the underlying software, including AI models, that powers the products, according to someone who saw the memo.

Recent advancements in the AI models that power the tools have also given Microsoft developers a fresh burst of optimism. For instance, Anthropic's latest Claude Sonnet 4 model is exceptionally good at working in spreadsheets, which is a primary reason Lamanna has spearheaded the effort to bring Anthropic's models into the Office products, according to one of the people involved in the effort.

Microsoft CEO Satya Nadella. *(Getty Images)*

Notably, Anthropic's model can "one-shot" difficult Excel tasks, meaning it can successfully carry them out without human supervision, according to one of the Microsoft employees who has evaluated the tools. (OpenAI's recently released GPT-5 model is also much better than its predecessors at certain tasks, but Microsoft is currently convinced that Anthropic is the best for these tasks).

Now, some of those Excel features are slated to be revealed publicly in November at Microsoft's Ignite conference, said the person involved in their development. The company is also planning to release improved Powerpoint deck creation tools powered by the Anthropic models, this person said.

Of course, whether they'll be enough to win over the many CIOs skeptical about Copilot's value remains to be seen.

"A lot of the CIOs I talk to still can't really voice the use cases for Copilot that are getting them a return on their investment," Mansfield said. "I think that speaks volumes."

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