

Microsoft Venturing Forth Again

By **M. Sharon Baker**

Microsoft Ventures is not the first time Microsoft Corp. has reached out to help startups – the new vehicle is just more formal, official and visible.

Since its founding, Microsoft's strategy has included reaching out to partners via product evangelism; it has invested in many companies, bought others and made several internal attempts to create incubators. Additionally, executives created Microsoft IP Ventures to help Microsoft Research find partnerships and homes for technologies developed by Microsoft Research.

Today, Seattle wouldn't have more professional software developers developing commercial code than Silicon Valley if it weren't for Microsoft, says serial entrepreneur Jeremy Jaech, who benefited from that talent pool and Microsoft's appetite for strategic acquisitions. "In software, we're very rich," he said.

Product evangelism has been at the core of Microsoft's business strategy since its founding. Executives reached out to software developers asking them to be early adopters and build products based on Microsoft DOS, Windows and subsequent operating system versions and other products.

A most notable example is the company's early success as a PC gaming company, which came at the hands of Windows game technology evangelist Alex St. John, who promoted Windows as a dominant graphics and media platform in the early to mid-1990s.

"Seeding the market with Microsoft developer tools was a key strategy for Microsoft to start getting third-party vendors to build on their stack. It's akin to what Microsoft has always done, so it's not a big difference," said Janis Machala, referring to Microsoft's products and operating systems. Machala, a Microsoft alum, is well known in Seattle for her extensive work with startups, and for founding several Seattle investor groups and firms.

Microsoft has been investing in companies since 1989, when it made its first investment in Unix software maker Santa Cruz Operation. Throughout its history, the software giant has invested its cash hoard in many venture funds; it has spent more than \$26 billion making strategic acquisitions, and invested some \$12 billion taking stakes in at least 45 companies. ([Here's Wikipedia's List of mergers, acquisitions, investments by Microsoft.](#))

Seattle-based Visio Corp. was one of Microsoft's most successful strategic acquisitions. Founded by Jaech in 1990, Visio, which made business graphics software, was bought by Microsoft in early 2000 for \$1.375 billion.

Jaech, who now leads SNUPI Technologies Inc., has watched Seattle grow into a hub of software development, largely because of Microsoft. Its growth brought talent to the area, workers that companies like Visio were able to attract when Microsoft's stock ebbed, he said.

"It's a neat parallel to think about just how much of the region and state's technology growth and reputation has ridden on Microsoft's shoulders just like it did for Boeing in years prior," Jaech said.

Microsoft IP Ventures



In 2003, Microsoft hired IBM's Marshall Phelps to manage its intellectual property or IP, coming from the billions being spent by scientists as part of Microsoft Research. Two years later, he created Microsoft IP Ventures and moved Microsoft beyond simply licensing and cross-licensing its technologies to using IP as a form of venture capital to form, partner with and seed startups around IP Microsoft wasn't incorporating into its own products. One good example of these efforts is Wallop Inc., a social networking technology developed by Microsoft Research that was spun out as a separate company in 2006.

IP Ventures remains a separate entity and will not be merged into Microsoft Ventures, a spokeswoman said.

Internal Incubation



In addition to IP Ventures, there have been several failed internal attempts at incubation efforts at Microsoft, said Machala.

While none of these internal incubator efforts proved successful, Microsoft has officially spun out several companies. Most notable is travel site Expedia, which was spun out into a public company in 1999. Expedia is joined by IP Venture spinoffs Inrix (2004), ZenZui – now Zumobi (2007), and Sabi Inc. (2008).

Whether Microsoft Ventures' work with startups will be successful remains to be seen.

"Microsoft has grown up so much now that they can be more proactive about tapping into more innovative startup structures," said Machala. "It allows them to see things that look promising because they haven't been able to do that internally."

Microsoft has always been a "fast follower" and known more for its product acquisitions than its internal innovations. Many of the company's product managers and executives are used to working on product development cycles that take two to three years, not a year or less, which is the difference between "being an web Internet-centered company and a big bloated software company," Machala said.

The software company tends to hire people right out of college or MBA programs and grows them with Microsoft's big company infrastructure. This has caused some in the venture capital industry to be wary of hiring or backing them at startups as they question whether these managers can survive at entrepreneurial ventures.

Innovation is a matter of perspective, added Machala. While there may be interesting ideas that some might grow a \$100 million company around, "Microsoft has to grow a Cisco every year," she said. "If it's not a billion dollar company, it's not interesting to them."

"The incubator concept doesn't necessarily spawn small businesses; it might spawn an add-on product because if you've grown up in Microsoft, you see how to fill gaps or holes in the product line," Machala said. "That doesn't really lead to something big."

Additionally, that potential small business would be burdened and overtaxed with the Microsoft infrastructure.

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