

The One that Started It All

Microsoft still has a huge impact on startup community

By **M. Sharon Baker**

Entrepreneur Nick Soman was understandably cautious.

Should his tiny social media matchmaking startup LikeBright dance with Microsoft Corp., the world's largest software company, a heavyweight with nearly \$78 billion in annual revenue and nearly \$75 billion in cash? He knew Microsoft could give LikeBright a huge leg up with resources, access to smart people and instant big-company validation.

"But I wasn't clear about how exactly they wanted to be involved," Soman said. He met with Rahul Sood, head of Microsoft Ventures, and was impressed that Sood and his team had been entrepreneurs and walked the startup path.

"We did an informal trial period with a few milestones and meetings, and they gave us specific and actionable feedback about how to improve our product while completely respecting our vision as a team," Soman said. "We got to know and trust them as individuals, and after a few weeks working with them, felt like it was a no-brainer."

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Seattle-based LikeBright was among the first investments by Microsoft Ventures, a new entity formed by Microsoft in late June to roll up several of its entrepreneur and startup outreach efforts. The small investment is a one example of the huge impact Microsoft has on Seattle's startup ecosystem.

Starting it all

The company was the first to put Seattle and the Puget Sound region on the map of top centers for entrepreneurship and innovation. Now based in suburban Redmond, Microsoft has created thousands of millionaires and a few billionaires and supplied the region with software talent, an avenue for company exit strategies, a handful of official spinoffs, and is the source of seed money for startups and angel investors.

For years, it served as the icon fueling every entrepreneur's dream – to become the next Microsoft. By some accounts, more than 500 tech and non-tech companies founded by Microsoft alumni have been created.

At least four venture capital firms were founded in Seattle by Microsoft alumni, including Vulcan Ventures, Voyager Capital, Ignition and Second Avenue Partners. Countless other former Microsoft executives serve as partners at other VC firms here and around the country.

Microsoft's "tendrils are invisible but touch everyone in Seattle," said Frank Catalano, a longtime Seattle-based tech industry analyst and observer. "It's like the fibers in the basket weave of Seattle entrepreneurship have come from Microsoft or its spinoffs."

Microsoft, now with some 97,800 employees worldwide, has long been the anchor tenant, a magnet attracting talent from all over the world. More recently, its Seattle presence has led other heavyweight software companies to set up shop in the area.

Google, Facebook, Salesforce.com and Zynga have opened offices here in the past two years, drawn largely by the talent pool, related technology services infrastructure and a startup culture that permeates the region.

"No longer in Seattle do you have a single animal compared to 800-pound gorillas in the Bay area," said Catalano. "Now you have Bay-area companies creating a presence in Seattle, which also feed the Seattle entrepreneurial ecosystem and plays off Microsoft."

Startup Outreach

Now the 38-year-old company is formalizing its recent practice of helping startups with the formation of Microsoft Ventures, a roll up of BizSpark, its accelerator efforts and its venture capital fund Bing Fund.

Combining the three efforts gives startups and entrepreneurs one point of contact for access to Microsoft's products, executives and capital, not only in Seattle, but in accelerators in Bangalore, Beijing, Tel Aviv and Paris. Microsoft will add accelerators in Berlin, Moscow and Rio de Janeiro, a spokeswoman said.

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Microsoft sees its startup efforts as a way to evangelize its Azure cloud computing efforts and improve its image rather than a way to grab emerging technologies for its product portfolio.

"We want people to see that Microsoft does care and really improve the perception we have in the startup space," Rahul Sood told the Wall Street Journal when Microsoft Ventures was announced at the end of June.

"Over the past few years Microsoft has become more purposeful with its engagement with startups," said Todd Bishop, co-founder of GeekWire, a technology news site and community that follows startups, Microsoft, Amazon and other Pacific Northwest companies. "Basically all these initiatives were acting independently and now they are giving them a more coordinated strategy."

Microsoft's most recent outreach to help startups through these programs has been impressive:

- More than 75,000 startups from more than 100 countries have received access to tools and resources through BizSpark, founded in 2008.
- 114 startups have graduated from Microsoft's accelerator programs since 2011.
- Microsoft owns and operates five accelerators, where it works with some 10 companies each, and is expanding to three additional international locations.
- When the Bing Fund began in 2012, Sood stated the fund would invest \$50,000-\$100,000 in early-stage startups, through standard convertible notes that convert to equity at Microsoft's option, according to an interview he did with VentureBeat.
- Four companies that have graduated from Microsoft's accelerator program have been acquired to date. One of those, MetricsHub, the company behind Archive Cloud Monitoring, was acquired by Microsoft in March.
- Since its founding in June 2013, Microsoft Ventures has already invested in six startups: Buddy, BuzzTable, LikeBright, Pinion, Selectable Media and Sonar.

For more on Microsoft's history with startups, click here. (link to sidebar).

Microsoft Ventures declined to reveal the size of its seed fund, which no longer carries the Bing name, but a spokeswoman said it amounts to "a very sizable investment."

While main rival Google Inc. launched its Google Venture fund in 2009 with \$100 million and has announced plans to invest \$5 billion in the next five years, Microsoft Ventures does not have a dedicated, external fund. Rather, the company invests off the balance sheet to make seed investments in startups that meet strategic objectives and investment criteria, said Aya Zook, senior program manager at Microsoft Ventures.

Baby Bills

Microsoft had no programs to help alumni leaving the mothership start their own companies in the 1990s or early 2000s. But the stratospheric 61,000 percent rise of Microsoft stock from its 1986 public offering to its peak in 2001 minted many millionaires and gave many veterans, who cashed in lucrative stock options, all the seed capital they needed to start their own "Baby Bills."

Waves of employees have left to form their own companies, with exoduses happening after major restructurings, long periods of flat stock prices, and as tenured employees sought more time with their families or got the itch to do something more exciting. A helping hand from Microsoft, though, wasn't available or even considered when many left.

No one seems to have a handle on how many alumni have started new firms after leaving Microsoft, including the 20,000-member Microsoft Alumnet, started by alum Tony Audino, who also co-founded the Seattle venture capital firm Voyager Capital and the Fulcrum Foundation. Several older press reports have pegged the number at 400 to 500, but Enrico Moretti, a professor of economics at the University of California at Berkeley put the number at 4,000 in his recent book, "The New Geography of Jobs."

Notable Baby Bills include Rob Glaser's RealNetworks, Brent Frei's Onyx Inc., Rich Barton's Zillow, and Naveen Jain's InfoSpace, all publicly traded companies located in the Seattle area;

Nathan Myhrvold and Edward Jung's Bellevue-based Intellectual Ventures, and Lily Kanter's

Serena & Lily, a Sausalito, CA lifestyle company with sales approaching \$50 million.

These larger, more established Baby Bills are joined by 2012 Seattle area alumni-founded startups, including Katie Thompson's Sigby.com, Jamen Shively's Diego Pellicer, and Illumagear, which counts Andrew Royal as a co-founder.

While many of the Baby Bills use personal connections and tap their own experiences to launch their companies, the new wave of tech startups – whether led by former employees or not – will directly benefit in ways earlier Baby Bills never did. (Non-tech startups have to travel the same lonely road as early Baby Bills as Microsoft is only interested in helping technology companies.)

Soman of social matchmaking service LikeBright isn't a former Microsoftie; instead he spent a year at Amazon, which he joined after graduating from Harvard Business School in 2010. "Working with Microsoft Ventures has been a force multiplier," he said. "The investment announcement alone drove so much traffic our way we had to drop everything and work on scaling."

For BuzzTable, another early Microsoft Ventures investment, Microsoft's endorsement has eliminated a large problem many startups face: validation.

"Being a Microsoft Ventures portfolio company has given our prospective and current restaurant partners some added 'peace of mind' -- considering one of the world's largest technology companies is supporting us from a strategic and financial standpoint," said co-founder and CEO Warner H. Siebert.

Both New York City-based BuzzTable, which has created mobile guest management software for restaurants, and LikeBright are working on what they called unique partnerships with Microsoft Ventures they couldn't disclose but said will provide huge benefits for their respective companies.

"Let's just say it will lower the barrier of entry for restaurants significantly," said Siebert, who has struggled to convince restaurants his software goes beyond a simple wait-list notification system to give operators a way to identify, engage, and retain guests.

"I can't talk much about what we're doing behind the scenes, but they have one-of-a-kind unique connections and data that will help us bring people together for meaningful relationships," added LikeBright's Soman. "They've been consistently supportive while we've worked through the early days to make our product both valuable and unique. Access to the broader resources of Microsoft has been a pure positive, which was a big pleasant surprise."