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BY SHAMEEN PRASHANTHAM AND GEORGE S. YIP

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At the Microsoft Accelerator in Beijing, engineers are developing new technologies that could transform industries as diverse as automobiles, mobile telephony, and e-commerce. They are doing so under Microsoft's wing, housed within the company's Asia-Pacific R&D facility. But they aren't limited to using Microsoft products: One of the more striking features of the facility is the presence of Apple computers on the desks of some of the roughly dozen startups working there. Microsoft is providing a coworking space, technical and business mentoring, and connections to prospective customers, partners, and collaborators, in hopes that if a startup's innovation comes to fruition, it will be a boon for both parties.

The Beijing Accelerator and others like it around the world represent the culmination of a strategy that Microsoft has pursued for about a decade. During this time, Microsoft has rolled out a series of ambitious partnerships with startups. The business case is clear: Engaging with startups enables a large corporation such as Microsoft to tap into exciting innovations just getting off the ground. And startups know that working with a company such as Microsoft will provide access to the resources, legitimacy, and scope they need to catapult them

into greater visibility and help them obtain new business opportunities.

But in practice, this type of engagement is challenging to implement. The asymmetry between large companies and startups, in terms of power, structure, and decision-making speed, makes it difficult to forge mutually beneficial connections and nurture them over

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time. Since 2006, we've conducted more than 100 interviews with Microsoft managers, startup employees, observers from other companies, and industry experts in diverse geographic settings, in order to better understand how these partnerships have evolved. Across industries, as more and more large companies look to these types of arrangements as a means of gaining access to cutting-edge technologies, Microsoft's experience can provide valuable lessons.

The Path to Partnership

Microsoft's startup engagement journey has been a long one, marked by considerable learning. Early on, the company developed expertise in partnering with independent software vendors. But like most of its peers at the turn of the 21st century, Microsoft did not have any system-

atic way to engage with startups. This period also witnessed the emergence of the open source movement, which provide software that users could freely alter and improve. A new reality had thus arrived: The availability of free open source tools meant that software companies — including, increasingly, smaller entrepreneurial firms — had an alternative to Microsoft technologies. For a company that relied heavily on other companies building software offerings on top of its platform technologies, this was no minor threat.

The second half of the 2000s featured a concerted response from Microsoft. It became clear that

merely tweaking existing partnership programs and extending them to startups wouldn't be sufficient. In 2008, the company launched an initiative called BizSpark. The program offered free software tools for a period of three years to startups that were less than five years old and that had less than US\$1 million in revenue.

Within a couple of years of its launch, thousands of startups around the world had signed up for BizSpark. From Microsoft's perspective, the rationale was straightforward: Typically, for every license sold of the startup's product, a license of the underlying Microsoft technology would be sold as well. And by working with startups, Microsoft could develop long-lasting relationships with exciting new companies.

A spin-off initiative called Biz-

Spark One, managed from Microsoft's Silicon Valley campus, was launched in 2009. It sought to identify the 100 most innovative startups from among Microsoft's thousands of BizSpark member startups. Each member of this select group received yearlong support, such as

ence in the new accelerator model these managers wanted to develop was that startups would be physically located in a Microsoft facility for the duration of the partnership. This would allow for more face-to-face interaction than was possible in the long-distance relationships of

original group, accelerators were launched in Berlin, London, and Paris — three of the most prominent startup hubs in Europe. The following year, Microsoft launched an accelerator in Seattle, its own backyard. Each of these accelerators provides its startups with four months of access to technological and business infrastructure, mentoring, and network-building opportunities, culminating in a demo day attended by Microsoft managers and partners, as well as external investors.

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strategy advice on the venture's business model; introductions to relevant technical teams within Microsoft; and promotion through marketing channels, including, in several cases, the creation of company mini-documentaries. All this support came from a designated portfolio manager on Microsoft's BizSpark One team.

By 2012, managers at Microsoft's research facility in Israel had recognized the potential for working much more closely with promising startups — and for a shorter period of time — than the BizSpark One program allowed. The major differ-

the BizSpark One program, saving valuable time for both parties. Managers in Microsoft's research unit in India quickly warmed to the idea, and joined forces with their Israeli counterparts to promote it to Microsoft's U.S. headquarters.

Accelerators were launched in Tel Aviv, Bangalore, and Beijing. Each was located in a strong Microsoft research facility, in a city with a vibrant or emergent startup scene. (The Bangalore Accelerator has since outgrown its space and moved into a separate building.) In 2013, after promising results from the

In parallel with its in-house programs, in May 2015 Microsoft launched BizSpark Plus, which enables the company to work with more than 200 of the world's leading startup accelerators. Through this program, Microsoft provides up to \$120,000 of credits to use Azure (Microsoft's cloud computing platform), technical support, and guidance from technical evangelists to help growth-stage startups bring their products to market.

Pushing Boundaries

To make its startup partnerships work, Microsoft employs a quality we find in the most innovative companies: creative realism. That is, it goes beyond existing norms in unconventional ways, but still operates within reasonable constraints.

Microsoft sets explicit guidelines and expectations for its startup partners, but keeps things flexible by looking for context-specific ways to add value. For example, the accelerators are technology-agnostic. Startups are not obliged to build their offerings on Microsoft technology (although they are certainly encouraged to do so through the offer of free software and cloud services). Microsoft recognizes that not all

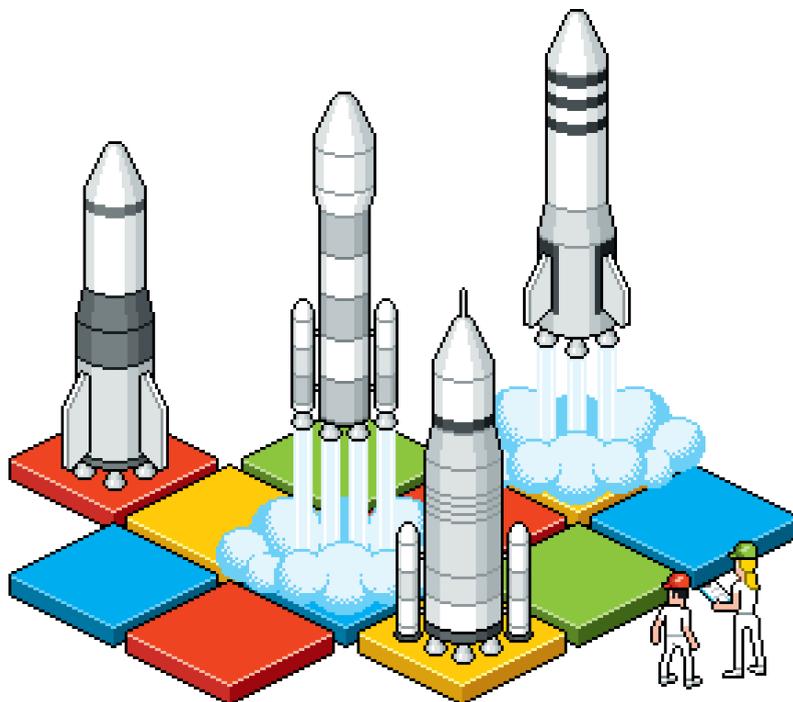


Illustration by QuickHoney

startups are sold on its platform technologies, and that the best startups are unlikely to be attracted to a partner program that limits them to working on a particular platform. Microsoft also takes no equity stake from startups in its accelerators.

Microsoft adapts its accelerator “curriculum” to local conditions. This is critical when rolling out a partnership program globally: Companies need to have some policies that apply across the board and others that recognize the challenges and opportunities unique to each location. In China, for instance, Microsoft works closely with national

with electronics company INESA and the local government.

Microsoft has looked for additional ways to embrace creative realism in its partnership model. For example, the company seeks to make the most of its global footprint by tapping into lessons learned from different groups. Managers at the London Accelerator told us that they had recently met some of their counterparts from Asia, whose accelerators had been in operation longer, and had benefited from the exchange of ideas. And the company has recognized that the startups that “graduate” may continue to benefit

paid off. In the U.S., StorSimple, a cloud storage company that was named the 2011 BizSpark Partner of the Year, was acquired by Microsoft in 2012. Testin, a Beijing-based startup that was one of the first graduates of the Beijing Accelerator, currently claims a valuation of more than \$500 million. A South African startup, WhereIsMyTransport, which has partnered closely with Microsoft since its conceptualization, relocated in July 2015 to the U.K., where it has established useful links with Microsoft’s British subsidiary. WhereIsMyTransport now has access to a more sophisticated startup environment — one with a more diverse set of potential partners and funding sources — as well as a stronger regulatory system for intellectual property protection, all of which lead to greater possibilities for it to launch into global markets.

As multinationals compete to build their own innovation ecosystems, understanding how to engage effectively with startups becomes critical. The next big idea may come from your internal R&D, but it is just as likely to be found outside, developed by the talented engineers and entrepreneurs spread among the world’s innovation hot spots. +

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and local government officials, who are the primary source of incentives and resources for entrepreneurship and innovation.

On a visit to the Bangalore Accelerator in February 2016, we learned that Microsoft had begun sharing its expertise with a strategic partner. It helped the India-based conglomerate Reliance Industries set up GenNext Hub, an accelerator in Mumbai. It is “powered by Microsoft” but not directly run by it, an acknowledgment of the resource intensity of operating an accelerator effectively in emerging markets. Given the breadth of Reliance’s business interests, it is not surprising that the technology-based startups in this accelerator represent a range of sectors, including healthcare, finance, and retail. In May 2016, Microsoft announced a similar arrangement in Shanghai — a new accelerator formed in partnership

from its support. In the Bangalore Accelerator, it created space that alumni could use on a first-come-first-served basis.

An Innovation Ecosystem

The Microsoft Accelerator and BizSpark programs constitute the bulk of the company’s startup engagement activity, which also includes M&A, app development programs, and industry events. Microsoft also recently established a new corporate venture group, Microsoft Ventures, which provides an additional channel focused on making equity-based investments in startups, augmenting its own product and technology efforts, harnessing emerging trends as early as possible, and placing both strategic and financial bets with early-stage companies.

Success stories among Microsoft’s startup partners around the world suggest that its efforts have

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