



Technology Flash...

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J.Gold Associates, LLC 6 Valentine Road, Northborough, MA 01532 USA
www.jgoldassociates.com +1-508-393-5294
Research, Analysis, Strategy, Insight

Microsoft Gets LinkedIn

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Microsoft announced it is acquiring LinkedIn for approximately \$26B. While a hefty sum and a significant premium to the market valuation, this is a win-win for both companies. Both should benefit greatly by the combination in the enterprise-focused arenas they both concentrate on.

Microsoft has not had a stellar record when it comes to acquisitions, especially when it's been involved in major hardware companies (e.g., Nokia, Danger). Of course it has made a number of relatively small acquisitions for selected technology that has been integrated into its products, but it's harder to measure the payback on these acquisitions. Yet its software acquisitions, particularly when targeted at its primary market of business professionals has been largely beneficial (e.g., Skype integrated into Lync, Great Plains Software providing the nucleus of Microsoft Dynamics). And its foray into on-line advertising, specifically to compete head to head with Google, did not work out so well (e.g., . aQuantive). But I believe this acquisition is a smart move on Microsoft's part.

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Let's take a look at why this makes sense and how Microsoft can leverage this new asset. First, LinkedIn's subscriber base is primarily business people, not consumers. And its users tend to be more mature and more focused, with purchasing power. This is not a typical consumer play where the majority of users are primarily there for a free ride. Even though currently less than 1% of LinkedIn's approximately 400M+ users are paid subscribers (approximately 2M), there is a huge potential to sell them on business related products, which LinkedIn alone could not do. Indeed, LinkedIn is highly complementary to Microsoft's Skype for Business, Yammer, and other such enterprise focused communications services, as well as Office 365, Microsoft Dynamics and Azure cloud based services.

But Microsoft does not only get a path to selling more product subscriptions. By owning LinkedIn and applying analytics tools it already has, Microsoft obtains a great way to keep a pulse on what business users are doing on the web and how they may use certain tools and products. This ability will give Microsoft lots of knowledge in what and how to deploy future products, and is a competitive advantage in building out a longer term strategy. This capability alone may make the entire purchase worthwhile if used effectively by Microsoft to execute more effectively in its key market segments.

Microsoft also gains other competitive advantages. LinkedIn is a major cloud based product and can be a primary driver for increased usage of Microsoft Azure. Additional services and apps can be delivered via Azure to LinkedIn users. This allows Microsoft to keep Azure fully utilized, and takes LinkedIn use and users away from other potential rivals in the cloud, particularly that may influence LinkedIn to sell their own business products (e.g., Google, Amazon, or possibly even Salesforce).

But LinkedIn not only provides for deep data analysis and Azure loading. LinkedIn is a very attractive platform for Microsoft to sell additional business services/apps, like its Microsoft Dynamics products and other business marketing and sales focused tools. It's also a natural fit to sell Office 365 services. I'd expect to see additional products from Microsoft offered very quickly on the LinkedIn platform - some for free but many at a premium. I expect many Microsoft products offered to LinkedIn users will include a "freemium" strategy that provides a base level for free and "upsells" for greater functionality.

Microsoft buying LinkedIn also is a defensive move. It keeps LinkedIn out of the hands of Google, Amazon, Salesforce and other potential business focused rivals. And it allows Microsoft to more effectively compete with cloud-based competitors for the enterprise market where there is far more revenue to be had than in consumer web.

And finally by acquiring LinkedIn, Microsoft gets a natural marketing platform that has as its primary subscriber base, key business users across virtually all market segments and ranging from small to enterprise size. Leveraged effectively, this could help Microsoft "lock in" business users for years to come, and generating a continuing revenue stream.

So what's the bottom line" While Microsoft paid a significant sum for LinkedIn (some have argued too much), it has a good deal of cash it can use if it chooses to, so this won't be much of a financial burden for them. Further, it provides Microsoft leverage in a market targeted at business users where its future primarily lies. Unlike problematic acquisitions in the past in hardware (most recently Nokia), this should provide Microsoft with a highly leveragable product base and qualified user base to market to. All in all, this should be a major positive for Microsoft longer term as it moves to be more of a services company than just a HW/SW company.

Jack Gold is the founder and principal analyst at J.Gold Associates, LLC., an information technology analyst firm based in Northborough, MA., covering the many aspects of business and consumer computing and emerging technologies. Follow him @jckgld

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