



## Microsoft and LinkedIn: Invitation to Connect Accepted

June 14, 2016

By: [Al Gillen](#), [Lisa Rowan](#), [Vanessa Thompson](#), [Mary Wardley](#), [Henry D. Morris](#)

### IDC's Quick Take

On June 13, 2016, Microsoft announced the \$26.2 billion acquisition of LinkedIn. This acquisition has broad implications for several of Microsoft's businesses, including Dynamics, Office 365, and Skype, and for its developer programs.

### M&A Announcement Highlights

Microsoft and LinkedIn [announced a definitive agreement](#) for Microsoft to acquire LinkedIn in an all-cash transaction valued at \$26.2 billion. The companies expect regulatory approval allowing a close this calendar year. This is by far Microsoft's largest acquisition to date — and its first large acquisition under Microsoft CEO Satya Nadella.

The deal is well timed, as LinkedIn's market cap/share price slipped recently on lower revenue projections for 2016. LinkedIn will retain its brand, culture, and independence. Jeff Weiner will remain CEO of LinkedIn, reporting to Nadella.

### IDC's Point of View

Combining the world's largest professional social network with Microsoft's vast information worker user base will give Microsoft unprecedented data and insights that can be used to extend and differentiate its Office and Dynamics offerings, build new revenue streams and, potentially, transform the way people source talent and collaborate in the gig economy and the extended enterprise.

Microsoft acquired Skype in 2011 to capture a large user base and Yammer in 2012 to capture the social graph of users inside a company. Both commanded significant multiples of trailing earnings.

With 433 million members in over 200 countries and territories, LinkedIn is Microsoft's biggest bet yet. Importantly, LinkedIn's pool of users includes people who leverage single sign-on from LinkedIn to access other popular services and who post to LinkedIn from apps such as Facebook, Twitter, Foursquare, and Swarm. That "corporate to consumer" connection is something that has eluded Microsoft in its Nokia acquisition and mobility business, with Yammer and Skype, and even with Xbox.

Supported by Microsoft's growing sophistication in big data and social graph [analysis](#), the combination should give Microsoft access to a Web of connections far larger than LinkedIn's 433 million members, perhaps making the approximately \$250/user it is paying relatively easy to justify.

### Financial Implications

Like others in its peer group, Microsoft is aggressively looking for revenue growth. In Microsoft's case, the company faces challenges with a flat to declining operating systems business, a key contributor to the company.

LinkedIn's solutions won't add much to Microsoft's top line: LinkedIn's \$2.9 billion in revenue represents just 3% of Microsoft's approximately \$90 billion in annual revenue, although LinkedIn's cloud revenue is attractive as Microsoft seeks to transform into a cloud and services company. LinkedIn is growing relatively quickly (up 35% year over year) and Microsoft expects to accelerate LinkedIn's run rate using its global distribution channel. Still, the value of this acquisition lies more in the strategic role that LinkedIn can play, bringing data and users together with Office and Dynamics to enhance the value of Microsoft's core offerings.

Longer term, leveraging LinkedIn's knowledge of users and their skills, experience, and abilities for secondary purposes is particularly interesting. It positions Microsoft to be a provider of employees and contractors for customers using its Office products. To justify the price, Microsoft has to come up with a variety of new products and services that it is able to sell to consumers and businesses or to use the LinkedIn data to enhance its current offerings.

### **Productivity**

With its dominance of the knowledge worker/productivity segment, Microsoft has to find ways to add value to Office subscribers and to build its Bing advertising business. LinkedIn can be the channel for this added revenue, though specific product offerings will take some time to evolve and experimentation will be needed to arrive at successful formulas.

Office 365 and, more broadly, productivity have been Nadella's main focus areas since he took over as CEO. The Office 365 team has doubled down on product vision, with notable enhancements such as Office Graph and hybrid cloud options.

Office Graph is the hub of contextual collaboration within Office 365. The aim of Office Graph is to provide a mechanism for surfacing relevant data, applications, and connections from within Office applications; this is visible for Office 365 customers in the application Delve.

By connecting the Office Graph with the LinkedIn user graph, Microsoft not only owns the network but also enables users to connect to the right colleague, customer, partner, or supplier at the right time, with the right information so they can make decisions, resolve exceptions, and ultimately get work done.

In the consumer space, LinkedIn acts as a showcase for professionals to highlight accomplishments, skills, and work history. Aside from the value of this data for advertising and other data-monetized businesses at Microsoft (e.g., Bing), it is conceivable that this "worker portfolio" showcasing could be included in consumer-level Microsoft Office offerings, a developer-level Visual Studio offering, or an IT ops-level System Center offering.

The power of community could become an important facet of Microsoft's value proposition. Adobe, for example, has successfully leveraged its acquisition of Behance, the leading online community for creative professionals, to help its customers efficiently identify and source talent and tap the vast pool of freelancers — adding value to a Creative Cloud subscription.

### **Talent Management**

LinkedIn's primary monetization comes from the recruiting space. Recruiting accounts for roughly 66% of LinkedIn's \$2.9 billion revenue. Of that \$2 billion of recruiting revenue, IDC estimates that

approximately \$800 million comes from job posting revenue. The job posting business puts LinkedIn in competition with the likes of Monster.com, Indeed, and CareerBuilder. The balance of LinkedIn recruiting revenue comes from subscription fees for its recruiting toolkit used by thousands of recruiters.

The other talent management play for LinkedIn is in online learning content from its April 2015 acquisition of lynda.com for \$1.5 billion.

Microsoft has not been a big player in the market for talent and human capital management capabilities. IDC estimates the revenue for the HCM portion of Microsoft Dynamics at approximately \$123 million in 2015, primarily from small and medium-sized businesses.

The strength of this acquisition will come from the sum of the parts being greater than the individual components. Notable synergies include making the lynda.com learning content available through the Office suite and enabling more targeted employee communication through access to LinkedIn profiles.

Together, the combined organization may look to tackle talent functions not addressed by either company today. Areas ripe for consideration include employee performance management and succession planning, whether built organically or acquired.

### **Developer Ecosystem**

The possibilities that the LinkedIn profile data and social graph can bring to developers are endless. Microsoft's developer ecosystem-building skills can be put to use here to promote the LinkedIn APIs along with Azure services designed to process the data cost effectively.

A treasure trove of assets can be unlocked for a talent and marketing ecosystem of developers that can be monetized in a variety of indirect ways, not least of which is data processing charges on Azure.

Combining this data with enterprise internal employee data may be a great value-add that no other company can provide. The key question that has to be asked, however, is that, if this was such a good idea, couldn't an amount significantly less than \$26 billion be applied toward an exclusive partnership to enable such sharing of data between the two companies?

### **Cognitive and Big Data Implications**

The acquisition brings a wealth of data about professionals, their skills, their jobs, and the organizations to which they belong. When combined with Bing and the Satori knowledge base, these data services potentially become one of the largest and valuable data repositories and services.

This data will also provide fuel for Microsoft Cortana's AI assistant capabilities both from a personal level and at an organizational level. For example, Microsoft can know and understand professional context so that it can do a better job helping find expertise and information related to one's work.

LinkedIn has also done a lot of work in developing and using knowledge graphs as well as developing software to support these tasks, such as Voldemort, Apache Kafka, and Apache DataFu. There is an opportunity for Microsoft and LinkedIn to share code and development resources here as well. LinkedIn could make use of Cortana and other cognitive services that could provide predictions and recommendations based on machine learning.

## **Microsoft Dynamics Product Family**

The LinkedIn acquisition provides three potential areas of benefit to Microsoft's enterprise applications offerings: a relationship platform, relationships, and content. All of these can be mined, repackaged, and leveraged as extensions to the Microsoft Dynamics offerings, particularly Microsoft Dynamics CRM. The Microsoft Dynamics product family houses the enterprise resource planning and CRM applications. Microsoft entered the ERM market with its acquisitions of Great Plains in 2000 and NavisionDamgaard in 2002. Its CRM offering is the one homegrown solution in this portfolio that it augmented in 2012 with the purchase of MarketingPilot upon which to base its Marketing Cloud.

This line of business has suffered from being disconnected in style, location, and market segment from the rest of Microsoft, particularly the ERM suites. In early 2015, Microsoft announced organizational changes that brought the Dynamics team and products under the Cloud and Enterprise team run by Scott Guthrie. IDC estimates that Microsoft's Dynamics business amounts to approximately \$3 billion in calendar 2015 and is seeing relatively low organic growth year over year. The line of business needs a significant competitive differentiation from Oracle, SAP, and Salesforce.

The reorganization, new cloud versions of the ERM products, a "cloud first" strategy in CRM, and now the LinkedIn acquisition provide the pieces and commitment to bring together the enterprise applications offerings, content, and relationships into a world based on business networks and relationships.

In the short term, the acquisition will benefit specific product areas. Within the ERM suites, the LinkedIn acquisition has the highest potential to impact the HRM products given that 60% of LinkedIn's revenue is from human capital resources (HRM) services. Both the sales and marketing automation components of Microsoft Dynamics CRM would immediately benefit from the ingestion of LinkedIn data.

For sales personnel looking for leads and tracking and following customers and prospects, LinkedIn provides a reliable and up-to-date data source. For the marketing component, first-party data can be analyzed and modeled with LinkedIn data providing "look-alike" audiences. LinkedIn has been long criticized for poor profile controls. With Microsoft's development talent and integration to Dynamics CRM through Outlook, Microsoft will have a significant competitive product to Salesforce's Data.com.

## **Conclusion**

Microsoft's acquisition of LinkedIn offers plenty of opportunities for new products and services. With LinkedIn, Microsoft is acquiring the world's largest professional database. As a standalone entity, LinkedIn was struggling to grow beyond the 100 million monthly active users it had engaged. For this deal to work, Microsoft must deliver on ways to engage customers through a combination of new incremental services that benefit Microsoft's 1 billion customer installed base. This will require deft handling of data and privacy but, if done correctly, could be a turning point in terms of relevance for Microsoft in the cognitive era.

*Additional authors:* Al Hilwa, David Schubmehl, Cushing Anderson, Kyle Lagunas, Robert P. Mahowald, and Melissa Webster

**Subscriptions Covered:**

[Cognitive Systems and Content Analytics](#), [Communities and Collaboration](#), [Content and Digital Media Technologies](#), [Content Management Software](#), [Customer Experience: Customer Service and Contact Center Solutions](#), [Customer Experience: Sales and Marketing Technology](#), [HR, Talent and Learning Strategies and Services](#), [Mobile and Cloud Software Development](#), [Operating Environments](#)

Please contact the IDC Hotline at 800.343.4952, ext.7988 (or +1.508.988.7988) or sales@idc.com for information on applying the price of this document toward the purchase of an IDC or Industry Insights service or for information on additional copies or Web rights. Visit us on the Web at [www.idc.com](http://www.idc.com). To view a list of IDC offices worldwide, visit [www.idc.com/offices](http://www.idc.com/offices). Copyright 2016 IDC. Reproduction is forbidden unless authorized. All rights reserved.