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## techView: *Analysis*

### **Microsoft (MSFT) - Acquisition of LinkedIn Problematic for Salesforce.com**

In spite of Salesforce.com's (CRM) appeal to the European Commission to review the LinkedIn acquisition by Microsoft (MSFT), the deal was completed last week. We believe Marc Benioff's concerns were justified on a competitive basis because the value of the LinkedIn data yields many advantages across the Microsoft platform.

The integration of LinkedIn Sales Navigator with Microsoft Dynamics 365 CRM is only one advantage. The blending of LinkedIn data across all Microsoft offerings including Skype for Business enhances Microsoft's credibility as a platform to enterprise customers. Microsoft has already demonstrated the power of the platform approach to winning business over Salesforce.com and other vendors.

#### **The EC Missed the Point**

In its press release dated December 6<sup>th</sup>, the European Commission focused on the potential restriction of trade by Microsoft including LinkedIn in start menus and bundling LinkedIn with Windows to the exclusion of regional professional networks such as Germany's Xing. The EC also considered the impact on larger CRM players such as Salesforce.com, Oracle Corporation (ORCL) and SAP AG (SAP), and the combinations effect on the display advertising market.

The EC approved the combination with the requirement that Microsoft allow OEMs to unhook LinkedIn from the start menu or users to substitute other professional networks for LinkedIn. It was judged that Microsoft is a minor player in CRM. Likewise, LinkedIn's impact on the fragmented display advertising market was judged to be minimal.

While the above conclusions are all valid, we believe the EC chose not to focus on the competitive advantage afforded Microsoft by LinkedIn data across all of its products and the power of its data in modern cloud based applications. We believe the LinkedIn data most assuredly gives Microsoft an incremental advantage over Salesforce.com in customer sales and service applications, but that it also gives Microsoft advantages in Universal Communications, Analytics, Artificial Intelligence, Training, and Search.

#### **The Power of Sales Navigator**

We believe that the professional social graph data contained in LinkedIn yields a very rich

resource for both selling and servicing customers. While the 450 million subscribers and most investors have focused on the recruiting business, the LinkedIn dataset yields significant advantages along two powerful sales vectors: Relationship Selling and Reference Selling.

- **Relationship Selling:** Most modern sales methodologies contain an element of relationship. Beyond features, functions and benefits, the personal connection between sales personnel and customers has been repeatedly demonstrated to drive sales success.
- **Reference Selling:** The single most powerful force, in our opinion, in technology sales is the ability to show prior success of adoption of the seller's products. If the salesman can demonstrate product success in similar industries by similar individuals as the current prospect, the likelihood of engagement with salesman is increased significantly.

LinkedIn management has historically failed to leverage this rich competitive advantage in the marketplace. Whether it was lack of strategic vision or a management decision to leverage the core recruitment business, LinkedIn never really exploited the power of the LinkedIn professional graph.

### **LinkedIn Data = Competitive Advantage**

In recent industry communications, Microsoft has positioned LinkedIn data as central to Windows, Outlook, Skype, Powerpoint, Sharepoint, Bing and Dynamics. We expect Microsoft to integrate LinkedIn notifications into Windows and integrate LinkedIn's identity system into the Office 365 suite so users will be able to see and use LinkedIn information in their workflow.

Satya Nadella issued the following near term strategic imperatives for LinkedIn integration:

- LinkedIn identity and network in Microsoft Outlook and the Office suite
- LinkedIn notifications within the Windows action center
- Enabling members drafting résumés in Word to update their profiles, and discover and apply to jobs on LinkedIn
- Extending the reach of Sponsored Content across Microsoft properties
- Enterprise LinkedIn Lookup powered by Active Directory and Office 365
- LinkedIn Learning available across the Office 365 and Windows ecosystem
- Developing a business news desk across our content ecosystem and MSN.com
- Redefining social selling through the combination of Sales Navigator and Dynamics 365

The blending of LinkedIn data across all Microsoft offerings enhances Microsoft's credibility as a platform to enterprise customers. Longer term we expect Microsoft Artificial Intelligence to bring analysis of LinkedIn relationships and activities to bear on Dynamics CRM lead scoring and marketing development programs.

### **The Power of the Platform**

Microsoft will now be able to expand its franchise well beyond Office and Windows. With LinkedIn, Microsoft now has the pieces it requires to build a data-centric platform to compete with Salesforce.com and others. Now that LinkedIn is part of Microsoft, the arms-length relationship with Dynamics is now a tightly integrated relationship with Office as well as Windows, Bing, and other elements of the Microsoft product portfolio. While Salesforce.com, Oracle and other competitors will continue to have access to LinkedIn data, we believe the Microsoft / LinkedIn partnership will drive new sales, marketing, and service opportunities for Microsoft customers.

## Conclusion

We believe the Microsoft / LinkedIn combination yields competitive benefits over Salesforce.com beyond CRM. The blending of LinkedIn data across all Microsoft offerings enhances Microsoft's credibility as a platform to enterprise customers.

Microsoft intends to integrate LinkedIn data into Office, Outlook, Skype, Sharepoint, Dynamics, Word, Excel, and Powerpoint. We expect LinkedIn data to be eventually available across Azure applications as well.

Microsoft has already demonstrated the power of the platform approach to winning business over Salesforce.com and other vendors, as software ecosystem participants have mentioned HP Inc. (HPQ) and General Motors (GM) as recent Microsoft wins.

In our opinion, investors may be underestimating the negative impact of the LinkedIn / Microsoft combination on the competitive outlook for Salesforce.com, as the developing platform initiatives at Microsoft could increase competitive pressure against Salesforce.com.

## Companies Mentioned

**Microsoft (MSFT), Salesforce.com (CRM), HP Inc. (HPQ), General Motors (GM), SAP AG (SAP), Oracle Corporation (ORCL)**

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