

By Daniel W. Rasmus



Uncertain Implications for Microsoft's Acquisition of Skype

Microsoft sometimes acts like a mature, patient Asian firm, willing to invest large amounts of money and then bide its time for the investment bear fruit. The Skype acquisition may be one of these times, and then again, it could just be another Microsoft acquisition where a year or two down the road we all wonder what happened to Skype.

At \$8.5B in cash, Microsoft may be paying a premium for Skype, and I think that is the only thing I can criticize about this deal. Although Silver Lake has told Forbes ([Silver Lake Defends Skype Acquisition Price](#)) that "Microsoft stands to make three or four times its purchase price if it manages the acquisition well" that kind of quick reaction is pure speculation. Although Microsoft has acquired many companies, not all have gone well. Remember Bungie? ([Microsoft, "Halo" maker Bungie split.](#)) The real deal here is probably based on a number that would just make the competition walk away. If Facebook, Google or Cisco wanted Skype, Microsoft probably just made it too rich for their blood. This will not do Microsoft any favors in the stock price department, because if they are patient, and long-term in this deal, then they run the risk of being out-of-synch with markets and the deal could end up as another wait-and-see deals for Microsoft: By the time people see the results, they won't be able to fathom that they actually came from the Skype acquisition. They also have the option of making some bold statements to the market about their dedication to a heterogeneous future by hiring more cross-platform developers and going deep into the open source and commercial Unix markets as rivals like Oracle have done.

For Skype to remain relevant to its core base, it must retain a consumer-focused, free product that can be incrementally upscaled with services. Microsoft could help Skype create a more rational service structure so that users can understand what they are buying and how long it will last under various circumstances. Unfortunately, Microsoft is about to enter the world of telephony and International carrier tariffs that isn't for the faint of heart. I think one of the reasons Skype has had trouble making money is that they expose this irrational underbelly of telephony on one hand and eliminate it completely on the other. People migrate in droves to the free service because it simplifies their lives. Microsoft may find itself in a strategic battle against phone companies on an International level. That is a strategic confrontation worth watching, and one that only a company like Microsoft could wage. The results could transform global communications. It will also introduce huge uncertainty into multiple markets, but given the complexity and irrationality of today's phone markets, both land and mobile, it is a battle that could end up with major benefits for consumer and businesses.

On a more practical level, Microsoft needs to keep the consumer orientation of Skype but very quickly link it to Lync, the real-time unified messaging platform. If they can tell a story of how people at work can call Skype clients via Lync by seamlessly clicking on their husband, wife or child's contact info, then they will get people's attention not only about technical integration, but about work-life integration. If they do this right it will be as much a thought leadership investment and a technology investment.

Microsoft can also, as it has done with free versions of Office, use Skype as a new platform for advertising, which could make its free clients more profitable with very little software engineering effort.

I worry about Tony Bates becoming the President of the Microsoft Skype Division. Microsoft doesn't do well with outside leadership talent. And in a division that spans between consumer and commercial products (not to mention mobility, services and entertainment), Bates will be torn by competing forces when it comes to integration priorities. Ballmer will need to step up and guide Bates through this transition with a clear set of priorities that empower him to deliver value quickly, and build internal credibility and alliances. If that doesn't happen, within a year, Skype could be subsumed by the Business Division (and Skype becomes part of Office) or it may become another product under Platform Products and Services Division (where it lives on as Microsoft Skype and never really integrates well with Office). It could also end up in the Entertainment and Devices Division where it becomes a mobile telephony app atop Windows Phone and gains some cool gestury features from Kinct.

Perhaps Skype's best fate is to demonstrate that cross-platform, heterogeneous software is Microsoft's future. Skype would connect various parts of the company to not only demonstrate the value of the acquisition, but to bring this new world view to Redmond. Skype could turn the world's largest software company into the world's most open software company. That, however, is a tall leadership order to fill.

The deal with Skype could range from a strategic juggernaut that reshapes the telephone industry, a sad story of a highly recognized brand disappearing into irrelevance inside the behemoth that is Microsoft or a product that finally creates Microsoft 2.0 by unshackling the company from its Windows-centric world view – and many shades in between. Anybody who says they know what this means, what Microsoft intends or how it will all turn out, needs to say they are just speculating. No one knows, least of all Microsoft or Skype. Many forces will be in play, internally and externally that will make this deal reverberate the uncertainties that surround it for years to come. In the end, the value of the deal will be counted in Euros and Renminbi and Dollars, but how those returns are generated is anybody's guess today.

Recommendations

1. Microsoft needs to continue to support free cross-platform clients. As the biggest software company, Microsoft needs to realize that software isn't something that just runs on Microsoft platforms. If they want to stop worrying about competitive platforms they need to embrace them in real way. Microsoft wouldn't be so worried about Open Office if they had a good Linux productivity solution. They usually reinforce their lack of cross-platform prowess by eliminating them from acquisition portfolios, as they did with Fast's Linux and Unix versions. With Skype they will be on every platform and the integration will be a failure if they concentrate only on added value under a Windows/Office configuration.
2. Don't abandon core free consumer customers. Skype has attracted customers through viral, customer-to-customer use. It doesn't make money because its growth is large, but locally organic (person-to-person). Microsoft needs to understand that viral model and not overwhelm it with marketing, embedded advertising and arbitrary limitations that are clearly aimed at revenue generation.
3. Microsoft should go out of its way to retain key talent from Skype and let the Skype retain its creative, customer-focused culture. Too often Microsoft dismantles acquisitions down to a few core technical talents and then shoehorns those people into existing units. Microsoft needs an infusion of outside perspectives that represents the wide reach of the Net. Skype can offer Microsoft key insights about the consumer and business markets that it can't garner from its own teams – but it has to keep people around long enough not only to let them talk, but to let them be heard.
4. Microsoft needs to create a story rapidly about the ability to call home from Lync through Skype. That business-to-personal life story will resonate with the increasingly choose-where-and-when to work younger cohort of workers.
5. Microsoft needs to keep Skype whole enough that it can keep pointing back to how it leveraged the deal to add value to the company, and value to its customers. Over integrate and lose Skype's identity and run the risk, even if the deal ultimately pays off, no one will be able to connect the dots.
6. Ballmer needs to both protect and empower Bates. Microsoft needs some reinvention, and so does its President. Perhaps this deal will be the event that helps them both evolve: Ballmer into the next generation leader that makes Microsoft exciting again, and the company, to embrace the heterogeneous world of consumer IT impinging on enterprise assets. If it does nothing beyond these two things, the \$8.5B will look like a bargain.