



APRIL 21, 2003

INFORMATION TECHNOLOGY

# Small Biz: Microsoft's Next Big Thing?

**With new software and an army of resellers, it's targeting 45 million companies worldwide**

Three years ago, Microsoft Corp. (**MSFT**) CEO Steven A. Ballmer huddled at the Renaissance Paris Hotel with then-sales chief Orlando Ayala and Group Vice-President Jeffrey S. Raikes. The goal: to come up with a big new growth market. And they aimed sky-high. Plotting into the wee hours, the trio hammered out a plan to sell run-the-business applications for small and midsize companies. With 45 million such businesses worldwide, this was perhaps the biggest untapped software market left. To unlock it, Microsoft would need to spend billions acquiring companies and hiring hundreds of new employees.

Only now is it becoming clear just how audacious their plan is. Not only has Microsoft assembled a complete suite of software to automate practically every aspect of a company's business, it's also creating a base layer of technology, including functions such as order processing and inventory management, upon which smaller software makers can build applications. Just as thousands of programs run on top of Windows, Microsoft hopes other companies will create hundreds of specialized applications for businesses with fewer than 1,000 employees such as architecture firms, doctors' offices, pharmacies, and insurance companies.

Raikes estimates that Microsoft will wring \$10 billion in revenue from this emerging market by 2010, up from just \$300 million today. That would create a business inside Microsoft bigger than its top software rivals, Oracle (**ORCL**) and SAP (**SAP**), are now -- and as large as its desktop Windows business is today. "If we do a good job, we'll build the next big growth business at Microsoft," Raikes says.

The giant is attacking this new market ravenously. It spent \$2.5 billion in the past two years buying two companies that make software for small and midsize companies, Great Plains Software and Navision -- the two largest acquisitions in Microsoft's history. It spent millions more developing customer-relationship management software from scratch. And on Mar. 5, the company took another big step, tapping Group Vice-President Ayala to run the sales effort. His job: to convince small and midsize companies that Microsoft has the answers for all of their software problems.

The opportunity is huge. Even though researcher Gartner Inc. predicts that small and midsize companies worldwide will spend \$420 billion on technology this year, less than 25% are using the kind of sophisticated applications Microsoft is now selling. The rest rely on basic accounting or tax packages or on programs such as Microsoft's own Excel spreadsheet -- which requires a lot of customizing.

But this new market, while rich, will be difficult to exploit. Microsoft needs to come up with new ways of connecting with potential buyers, since even with all its cash, it can't afford to send salespeople to call on all of them. And it has to deliver products that are as easy to use and administer as they are powerful, since these companies can't afford to employ armies of tech specialists.

The company also faces capable competitors. SAP, the Mercedes of big business applications, with more than \$7 billion in revenues last year, has launched a strategy aimed at extending its reach down into the small-business market. Meanwhile, Intuit Inc. (**INTU**), maker of the popular QuickBooks accounting software for small businesses, is rolling out products that target specific industries, as well as adding payroll and human-resources software. Add it all up, and analysts think Microsoft will be hard-pressed to hit its \$10 billion goal. "It would seem optimistic to me to think [that division] is going to be bigger than SAP in seven years," says Goldman, Sachs & Co. analyst Rick Sherlund. "That's an awfully ambitious goal."

Even if Microsoft doesn't hit the jackpot, the new business seems likely to boost overall revenues by more than \$500 million for the fiscal year ending in June, say analysts. And over the long haul, it could help boost the company's growth rate, which was 12% last year, by a couple of percentage points. "Microsoft is going to be one big gorilla coming in there," says Katherine Jones, managing director of enterprise business applications for Aberdeen Group.

The company's pitch to smaller companies is simple. It's promising them the same sort of productivity and efficiency gains that big corporations realized in the mid-1990s as they automated everything from manufacturing to human resources. "There's no reason why they can't compete like global companies," says Ayala. The software giant already boasts some happy customers. Nashville-based Gibson Guitar Corp. has 13 divisions scattered across the country, making everything from electric guitars to Baldwin pianos. Until just a year ago, each unit handled accounts payable, inventory, and sales-order processing separately. "To get a completely holistic view of what was going on was difficult," says Matthew Mullins, Gibson's vice-president and chief knowledge officer. After installing Great Plains software companywide, Gibson was able to cut in half the number of bills outstanding for more than 90 days.

Microsoft's strategy for reaching this class of company is akin to carpet bombing. The company plans to unleash an army of independent computer consulting companies, known as value-added resellers. Combined, Great Plains and Navision sold their software through 6,000 resellers. Microsoft plans to prepare 24,000 more that already sell other Microsoft software. That's the centerpiece of a \$2 billion investment over the next 15 months, which includes adding 300 sales managers to help educate and support resellers and customers. Microsoft used the same approach -- selling its software through resellers -- when it first began selling its server software to small and midsize businesses a decade ago. Its servers now dominate that market, with a 73% share, according to Gartner Dataquest. And the fact that most small and midsize businesses already use a wide array of Microsoft products, including Windows and Office, gives it a leg up on the competition.

The key to Microsoft's long-term success will be its base layer of small-business technology, which it calls the Microsoft Business Framework. Every company that makes business applications duplicates each other's work, creating such functions as sales-order processes or accounts-payable technology. Microsoft figures that if it creates that base technology, other software makers can focus on applications that cater to specific customer segments. "Too many people are working on the low-level stuff," says Doug Burgum, senior vice-president for Microsoft Business Solutions.

Some software companies welcome the idea. "We don't have to rewrite from ground zero," says Andy Vabulas, president of I.B.I.S. Inc., a Norcross (Ga.) software developer that has created specialized applications for mortgage lenders and legal-services firms, among others. Already, 160 software makers have signed up to develop specialized applications for Microsoft's customer-relationship management software.

Microsoft's larger competitors aren't likely to cede the core technology, though. "We think we can do that better than anyone -- and that includes Microsoft," says Steven Aldrich, general manager for new market development at Intuit.

Maybe so, but Microsoft is about to shake up the small and midsize business-software market like never before. When the dust settles, the software giant may well have found its next big business.

## STORY TOOLS

- ▶ Printer-Friendly Version
- ▶ E-Mail This Story

## RELATED ITEMS

Graphic: Why It Won't Be Easy

## INFORMATION TECHNOLOGY

Small Biz: Microsoft's Next Big Thing?

The Humvee of Laptops

APRIL

**TODAY'S MOST POPULAR STORIES**

1. Why Dell, Apple Declined
2. Will Toyota Make a Play for GM?
3. Betting Against Online Gambling
4. Retirement Guide
5. This Computer May Be Too Smart

Get Free RSS Feed >>

**MARKET INFO**

DJIA	10739.35	-107.00
S&P 500	1236.20	-6.09
Nasdaq	2037.35	-16.76

STOCK LOOKUP **GO**

**Stocks Slide as Global Worries Persist**  
 Create / Check Portfolio  
 Launch Popup Ticker

INTERNATIONAL EDITIONS  
 International -- To Our Readers  
 International -- Readers Report  
 International -- Corrections & Clarifications  
 International -- Asian Business  
 International -- European Business  
 International -- Information Technology  
 International -- Int'l Figures of the Week



**PREMIUM CONTENT**  
 MBA Insider

**BW MAGAZINE**  
 Get Four Free Issues  
 Register  
 Subscribe  
 Customer Service

**ONLINE FEATURES**  
 Book Reviews  
 BW Video  
 Columnists  
 Interactive Gallery  
 Newsletters  
 Past Covers  
 Philanthropy  
 Podcasts  
 Special Reports

**BLOGS**  
 Auto Beat  
 Blogspotting  
 Brand New Day  
 Byte of the Apple  
 Deal Flow  
 Economics Unbound  
 Fine On Media  
 Hot Property  
 Investing Insights  
 New Tech in Asia  
 NussbaumOnDesign  
 Tech Beat

**Working Parents**

**TECHNOLOGY**  
 J.D. Power Ratings  
 Product Reviews  
 Tech Stats  
 Wildstrom: Tech Maven

**AUTOS**  
 Home Page  
 Auto Reviews  
 Classic Cars  
 Car Care & Safety  
 Hybrids

**INNOVATION & DESIGN**  
 Home Page  
 Architecture  
 Brand Equity  
 Auto Design  
 Game Room

**SMALLBIZ**  
 Smart Answers  
 Success Stories  
 Today's Tip

**INVESTING**  
 Investing: Europe  
 Annual Reports  
 BW 50  
 S&P Picks & Pans  
 Stock Screeners  
 Free S&P Stock Report

**SCOREBOARDS**  
 Hot Growth 100  
 Mutual Funds  
 Info Tech 100  
 S&P 500

**B-SCHOOLS**  
 Undergrad Programs  
 MBA Blogs  
 MBA Profiles  
 MBA Rankings  
 Who's Hiring Grads

**BW EXTRAS**  
 BW Digital  
 BW Mobile  
 BW Online Alerts  
 Dashboard Widgets  
 Podcasts **RSS 2.0**  
 RSS Feeds **RSS 2.0**  
 Reprints/ Permissions  
 Conferences  
 Investor Workshops  
 Research Services

By Jay Greene in Seattle

Get BusinessWeek directly on your desktop with our **RSS feeds**. **RSS 2.0**

Add BusinessWeek news to your Web site with our **headline feed**.

Click to buy an **e-print or reprint** of a *BusinessWeek* or BusinessWeek Online story or video.

To subscribe online to *BusinessWeek* magazine, please **click here**.

Learn more, go to the **BusinessWeekOnline home page**

▲ **BACK TO TOP**