Microsoft's weapon in high-stakes cloud-computing battle with Amazon? Freebies

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DefinedCrowd, a Seattle software startup, had a choice to make when it was developing its first product last year: build on the cloud-computing foundation offered by the dominant Amazon, or Microsoft's upstart competitor?

For founder Daniela Braga, the competing services seemed about even in terms of features. On price, Amazon's tools were a bit cheaper than Microsoft's. And more developers were comfortable working with Amazon Web Services, or AWS, the cloud-computing pioneer and now the market's largest player.

But Microsoft held the trump card: an offer of $500,000 in credits to spend on Microsoft's Azure cloud services over three years, a benefit DefinedCrowd had earned by participating in a Microsoft startup program. That kind of sum can pay for the entire technology-infrastructure cost of getting a software company's first products off the ground.

"That was kind of hard to refuse," said Aya Zook, business-development manager with DefinedCrowd, which makes tools to train software how to recognize speech or images.

The startup would build its software on Microsoft's Azure.

Microsoft has staked its future on the cloud, the range of on-demand computing power and software services bundled into Azure and other products.

But Microsoft isn't banking on snazzy marketing or technical chops alone to make Azure a winner. The technology giant is also offering bargains and freebies, including discounts to large businesses, free trial offers to all comers, and grants of cash for startups and nonprofits that try the service.

The programs are part of a broader, companywide effort to gain market share. The bet is that discounts and free technical support today will make paying customers down the line, ideally bringing thousands of dollars a year to Azure and boosting awareness of Microsoft's offering in a highly competitive market.

It's an old tactic for a company that has long had plenty of cash to work with. Exactly where Microsoft has deployed that money to lure software developers offers a window into the company's shifting priorities over the years.

In the midst of its unsuccessful smartphone push a few years ago, Microsoft was shelling out a reported $100,000 (and up) to application makers who built tools for Windows Phone. Before that, Microsoft made similar deals to get developers and corporate partners interested in Bing, the fledgling search engine. And to a generation of technologists years ago, Microsoft offered ample support to get businesses to plug into the new Windows Server.

Those programs have yielded mixed results, said Michael Cherry, who worked at Microsoft in the late 1990s, and today tracks the company with analysis firm Directions on Microsoft.

Grants to use products don't tend to make a big difference on their own, he said. "But when you can add feet on the ground to help a developer that had a problem? They'll be loyal to you forever." For Microsoft, the cloud is the priority today.

It was the focus of the company's recent Build developer show in Seattle, where the company kicked off the proceedings by staking out a virtual claim to the city, and the market.

A promotional video showed the Space Needle topped by a flag with the Microsoft logo on one side, and "Cloud City" on the other. Never mind that Amazon, with a much bigger cloud-market share than Microsoft, has its headquarters just a few blocks away from the landmark.

When choosing between Amazon and Microsoft, Braga concedes she had a soft spot for Microsoft. A linguist and speech-software expert originally from Portugal, she had spent seven years at the company. Zook, her colleague, is a fellow Microsoft alum.

"We're ex-Microsoft people," she said. "It's an environment that we're comfortable with."

Still, she said, "There are a lot of incentives, and pressure, to go on AWS."

Amazon, which pioneered the business of selling software and developer tools delivered over the internet, built its lead in that market, in part, by touting an easy-to-use product that offered room to experiment without paying. Adding to the appeal, technologists say, was the absence of complex, negotiated software-licensing deals of the sort Microsoft relies on.

A free tier of AWS services, introduced in 2010, can add up to thousands of dollars a year, a benefit available to all customers regardless of size. The company has bolstered that in recent years with credits aimed at researchers and educators, as well as standard startup grants ranging from $15,000 to $100,000.

The combination, on top of a technologically impressive set of products, has given AWS an enviable list of customers at the cutting edge of technology, including Netflix, Airbnb and Slack. To counter AWS' lead, No. 2 Microsoft has brought to bear what some see as its greatest asset: a giant base of corporate customers, and a sales force of tens of thousands built to sell to them.

In contract talks with corporate customers of Windows, Office and other software, Microsoft recently has been offering discounts on those products in exchange for a commitment to buy thousands of dollars worth of Azure cloud-computing services, according to consultants who advise those companies.

The company has also lent customers its own engineers.

Mojio, a Vancouver, B.C.-based software maker, participated in a Microsoft program called BizSpark, essentially a boot camp for technology startups eager for Microsoft's counsel and connections. The program comes with complimentary Microsoft software, and, in the last two years, up to $120,000 in cash to use on Azure over two years (though some companies, including Mojio, have received larger grants).

Mojio, which builds software for connected cars, had just about run out of free Azure credits when it caught its big break: a deal with wireless carrier T-Mobile.

Mojio signed on to supply some of the technology behind the company's new car-mounted Wi-Fi hot spot and diagnostic data gathering tool. The product went live the Friday before Thanksgiving.

By Monday, Mojio was in crisis mode.

The stream of data being thrown off by the hot spots and into Mojio's systems - built on Microsoft's Azure - pushed them to the breaking point. So many customers were using the tools that the software built to digest it slowed to a crawl.

"It wasn't clear whether it was an architecture issue, whether it was a bug," said Mojio chief executive Kenny Hawk. "The volume came faster than any of us had predicted."

Hawk, worried that he was watching his startup implode, called in a big favor.

A friend, a former Microsoft board member whom he declined to name, agreed to put in a call to Microsoft Chief Executive Satya Nadella, asking for help on behalf of tiny Mojio, which then employed fewer than 15 people.

"Literally within a couple hours there were (Microsoft) people working on it," Hawk said.

The next day, Microsoft engineers arrived in Vancouver. They would work side-by-side with Mojio's staff for the next three days to retool the software to handle a larger workload.

Hawk is grateful for the help, but has no illusions: Microsoft isn't a charity.

The company, he says, is probably hopeful that Mojio, which outgrew its free allotment of Microsoft tools, would eventually become a major buyer of them.

"It wasn't just that we were nice people, or that we'd been a part of BizSpark," Hawk said. "They see how big the connected car market will be. Having a core customer in that space is strategic."

Corey Sanders, who leads a Microsoft team building Azure infrastructure services that compete with Amazon, wasn't involved with the Mojio rescue and hadn't heard the story. Still, the scale of Microsoft's response didn't surprise him.

In the competitive cloud market, "every customer matters," he said. "Every product is critical."

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