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Trouble is brewing in Microsoft-OpenAI collaboration, increasing acquisition likelihood

Article

The news: **Microsoft**'s partnership with **OpenAI** is becoming competitive.

- Microsoft instructed **Azure** sales staff to tell prospective customers that OpenAI's licenses are "great [for] experimentation" but have "limited enterprise-grade capabilities" and fewer "security/privacy features," per The Information.
- The tactics helped Microsoft gain a new client, software startup **Touchcast**, that was incentivized by the security and performance promises.
- At the same time, OpenAI hasn't been prompt about giving Microsoft access to its software for Azure licensing, including with its **Whisper** model, which it started selling March 1.
- OpenAI's delay in granting Azure **ChatGPT** API access allowed it to snatch up customers like **Snap** and **Instacart**.

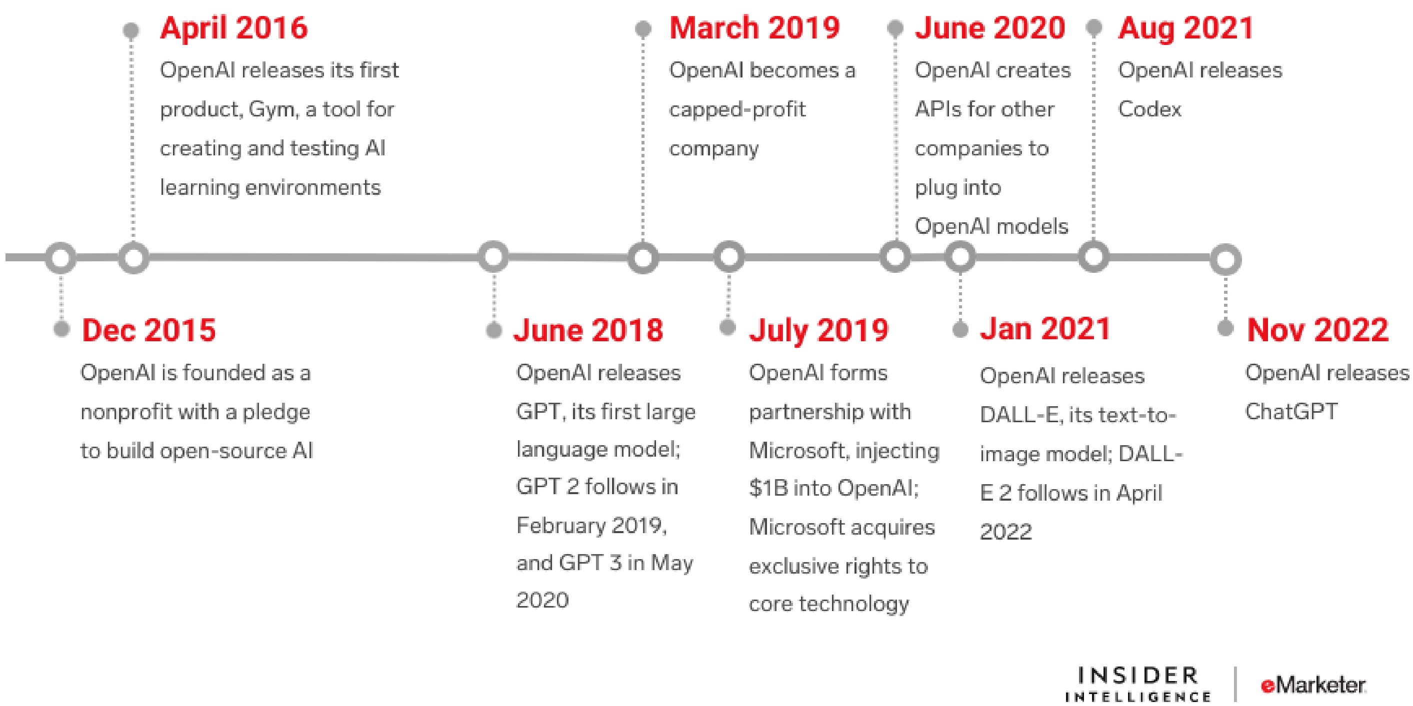
Getting awkward: Microsoft's billions of dollars' worth of funding in OpenAI helped propel the startup to stardom, but overlap in customer base isn't making for an easy collaboration.

- The tech giant's investment in the startup entails the right to sell OpenAI's software through its **Azure** cloud while OpenAI pitches directly to some of the same major enterprise customers under a profit-sharing agreement.
- Microsoft's generative AI sales approach involves leveraging the market excitement around OpenAI while also emphasizing the startup's limitations.
- Meanwhile, OpenAI uses Microsoft's cloud infrastructure rent-free while also giving itself a head start on client sales.

What's next? While the profit-sharing nature of the agreement would otherwise reduce a rivalry between the two companies, Microsoft's cloud ambitions could mean changes are ahead.

- Some customers are basing their decision between Microsoft or OpenAI on whether they're already Azure clients or are signed on with cloud competitors like **Google Cloud** or **Amazon Web Services (AWS)**.
- With **Microsoft** eyeing cloud growth as a key strategy **for increasing its topline revenue, it may come to view OpenAI's independence as a barrier** to gaining new cloud customers.
- **We expect that Microsoft will try to acquire OpenAI.** This is likely especially since any reputational protection Microsoft may have gained from keeping the commercial generative AI experiment at a distance is no longer relevant since it's selling the products directly.

OpenAI's Evolution



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