In 1981, Microsoft hired Charles Simonyi, the primary developer of Bravo, the first GUI word processor, which was developed at Xerox PARC. Simonyi started work on a word processor called Multi-Tool Word and soon hired Richard Brodie, a former Xerox intern, who became the primary software engineer.

Microsoft announced Multi-Tool Word for Xenix and MS-DOS in 1983. Its name was soon simplified to Microsoft Word. Free demonstration copies of the application were bundled with the November 1983 issue of PC World, making it the first to be distributed on-disk with a magazine. That year Microsoft demonstrated Word running on Windows.

Unlike most MS-DOS programs at the time, Microsoft Word was designed to be used with a mouse. Advertisements depicted the Microsoft Mouse, and described Word as a WYSIWYG, windowed word processor with the ability to Undo and display bold, italic, and underlined text, although it could not render fonts. It was not initially popular, since its user interface was different from the leading word processor at the time, WordStar. However, Microsoft steadily improved the product, releasing versions 2.0 through 5.0 over the next six years.