

Microsoft tablet risks alienating PC makers

PETER SVENSSON - AP Technology Writer - Associated Press

With the unveiling of the Surface tablet, Microsoft is heading into unusual territory: competing with its partners, the very same companies that make Windows PCs. But Microsoft has little to lose, since PC manufacturers have so far had very little success with their own tablets.

With the unveiling of its tablet this week Microsoft Corp. is taking up the competition with Apple Inc. and its iPad by borrowing a page from Apple's playbook. It is keeping both software and hardware development under the same roof.

"If imitation is the sincerest form of flattery, the compliments from Microsoft poured down like a torrential storm on Apple last night," said analyst Brian White at Topeka Capital Markets.

Even Steve Ballmer, Microsoft's famously tough-talking CEO sounded downright Zen and Apple-inspired as he introduced the Surface.

"We believe that any intersection between human and machine can be made better when all aspects of the experience — hardware and software — are considered and working together," he said at Monday's launch event in Los Angeles.

That's a new philosophy for Microsoft, a company accustomed to writing the software, charging loads of money for it, and letting others design the hardware. Microsoft has sold hardware before, most notably the Xbox game console, which is essentially a PC. But when it ventured into the game console market, it wasn't directly treading on the toes of the big PC makers who buy Windows from it. (The exception was Sony, which makes both PCs and PlayStation consoles.)

With Surface, Microsoft faces the challenge of selling the soon-to-be-launched Windows 8 to PC makers who want to make tablets, while at the same time selling tablets directly to consumers.

Rick Sherlund, an analyst at Nomura Securities said Microsoft's hardware partners "are no doubt unhappy" about the prospect of competing with Microsoft's tablets, particularly since Microsoft set a high bar with Surface.

Surface will come in two versions, both with screens measuring 10.6 inches diagonally, slightly larger than the iPad. One model will run on phone-style chips, just like the iPad, and will be sold for a similar price. Another, heavier and more expensive model, will run on Intel chips and be capable of running standard Windows applications.

Ballmer suggested that Microsoft is making hardware so it can kick-start Windows tablets and make sure they're competitive right from the get-go. But the company's

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long-term goals are unclear. Will Microsoft keep making tablets, or will it declare victory at some point and leave the field to its hardware partners?

One sign of limited long-term commitment to making its own tablets is that Microsoft will be selling the tablets only from its own stores and website. That might leave space for other manufacturers to sell Windows tablets through Best Buy and other electronics stores.

Google Inc. is in a similar position. It makes Android, the software that powers most iPad competitors. But it has also acquired Motorola Mobility, a company that makes Android tablets and phones, so now finds itself competing with hardware partners like Samsung and HTC.

But Google has made clear that it will treat Motorola as a separate, "arms-length" business, and that it made the acquisition to get hold of Motorola's patents, which will provide legal cover not just for Google, but for other manufacturers who make Android devices.

Microsoft's position is complicated by the possibility that consumers will favor its tablet over other Windows tablets for exactly the reasons Ballmer articulated: it's made by the same company that wrote the software. That puts an end to the old Windows PC support runaround, where PC makers blame Microsoft for product failures, and Microsoft blames the PC makers. If something's wrong with Surface, buyers will know who to call.

Ronan de Renesse, an analyst at Analysys Mason, said Microsoft can afford to alienate PC makers when it comes to tablets, because they've captured such a small share of the market. Samsung Electronics and AsusTek Computer Inc. are the only PC makers who have appreciable market share in tablets, and they only make up 10 percent or so, by his estimate. Other major competitors to the iPad are Amazon.com Inc.'s Kindle and Barnes & Noble Inc.'s Nook.

"Microsoft's move in creating its own tablet is the sign that PC manufacturers have lost the game," Renesse said. "The big question is, if Surface becomes as successful as the iPad, will Microsoft choose to stop licensing Windows on tablets?"

Microsoft's partners are mum. Hewlett-Packard Co. and Acer, both of which make PCs and tablets, had no comment on Microsoft's announcement. Samsung did not respond to requests for comment.

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AP Business Writer Ryan Nakashima contributed to this report from Los Angeles.

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