



## 3 reasons Microsoft's Surface is no joke

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**Many have scoffed at the idea that Redmond's tablet will succeed. But there are three crucial reasons to take the effort seriously.**

By Don Sears, contributor

FORTUNE -- Do not underestimate Microsoft's Surface tablet move. Its gambit to design and build its own hardware is a bold play to develop a thriving ecosystem of new products. It is centered on Microsoft's dominant property: the operating system. **Monday's flashy Surface launch** may have felt like an Apple event with its bright, pastel-colored keyboard, slick introductory videos and breathless hyping from little-known engineers. But, in fact, Microsoft's play is anything but Apple-like. The company is clearly trying to make tablets into hybrid PC-mobile devices, something its California rival has said is a bad idea. We don't yet know all of Surface's details -- battery life, pricing, official release dates are all to-be-determined for instance. But here are three important reasons Microsoft's Surface is likely to be anything but **dead on arrival**:



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### Reason #1: Microsoft can build an ecosystem

Microsoft (**MSFT**) has had success in the consumer market with the Xbox and most recently with the Kinect motion-control devices. The Xbox has become a household name with major brand extensions as an entertainment device. Microsoft disrupted gaming, and it can disrupt hardware.

Microsoft has serious engineering chops. Josh Topolosky, Editor-in-Chief of The Verge and not exactly a fanboy, was blown away by a visit to Microsoft's R&D in 2011. He **wrote of that visit**: "[MS] showed me a project ... which would allow you to create a virtual window from one room to another, utilizing a variety of display, motion sensing, and 3D technologies... dubbed ... the 'magic wall.' It was nuts. It was awesome. It was ambitious. The whole time, all I could think was: where has Microsoft been hiding guys like this?"

There are plenty of examples of failed elements, from the Zune MP3 player to the dismal Kin phone. But, overwhelmingly, Microsoft has proven it can create a vibrant and profitable ecosystem.

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### Reason #2: Microsoft will use its enterprise and developer bases

Microsoft certainly copied Apple's (**APPL**) playbook, but it won't be copying a consumer-only model for adoption. With \$59 billion in cash on hand and an install base of 1.25 billion Windows PCs you can bet your sweet Ballmer that every possible Windows channel and hardware reseller rock they can uncover will be leveraged for adoption. "The physical keyboard, the lack of a camera and the focus on the MS Office environment shows that Microsoft is targeting the business segment, where it can differentiate and take some share from Apple," wrote Francisco Jeronimo, of IDC Research in a June 19 note. "Microsoft's tablet will probably come with the best MS Office experience, the killer application of the device. The keyboard is also a very important accessory for professional usage."

If everything goes according to Microsoft's plan, this tablet will have morphed into a laptop. A fully functioning operating system that works with cloud applications *and* legacy enterprise software, and Windows-based smart phones that synchronize should perk the ears of CIOs. Same goes for independent Windows developers. Microsoft's certified developers reach in to the millions (with at least one estimate coming in at 8 million globally). With Windows 8 on the 4Q horizon, a new toy to develop for is likely a good thing.

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### Reason #3: Microsoft's targets are the laptop and Google, not just the iPad

Microsoft is setting itself up for lighter, more portable form factors. In 2012, the major hardware vendors have been pushing Intel-based (**INTC**) 'ultrabooks' -- the super light, high-end laptops modeled after the success of Apple's MacBook Air. The Surface will potentially push that even further. "Despite allusions to hybrid products that function as both tablet and PC, it's never been clear what Microsoft intended to do with Windows 8," **wrote The Verge's Topolosky**. "But the Surface seems

to solidify the message of Windows 8, and it puts the evolving OS into a package that makes sense."

Google (**GOOG**) is the third piece of this competitive equation. With Android, Google has multiple flavors being sold by a host of OEMs and mobile carriers, but hasn't bitten the iPad. Surface has a chance to compete with Google here, but not really the iPad. "We believe the RT-based Surface tablet will prove to be only a modest challenger to iPad - most specifically in the enterprise, given the device's support of Office," wrote analyst Bryan Prohm of Cowen and Company. "Moreover, because iPad has proven to be popular with end users despite lacking Office support, we believe RT-based tablets are most likely to cannibalize enterprise PC sales (not iPad sales). We expect the Surface will expand the tablet market more than Android tablets have to date."

The argument that what has kept Microsoft behind as a company is Ballmer's **[grip on the OS and it's a stranglehold](#)**, but this new direction for a full Windows ecosystem may end up being the success engine that keeps it thriving.

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