

Q&A: Microsoft CEO has no fears for Windows 8

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Windows 8 screenshot

This fall, Microsoft is embarking on one of its biggest series of launches ever, with new versions or updates of nearly all its products and services, from Windows to Windows Phone, Office to Windows Server.

On top of that, the company is debuting its first branded [computing devices](#): the Surface tablets.

[Microsoft Chief Executive Officer Steve Ballmer](#), who has called this year "the most epic year in Microsoft history," sat down for an interview with The Seattle Times last week to talk about the new products and services, the state of the company and the future.

Here is the interview, edited for length:

QUESTION: You've talked about this year being the most epic. Is there another year in Microsoft's history you could compare this to? Maybe the [launch](#) of Windows 95?

ANSWER: You know, Windows 95 was certainly the biggest thing in the last 20 years until now. I think [Windows 8](#) certainly surpasses it. It's a little hard to compare things like the founding (of the company) and the introduction of the first popular PC and the system that popularized it, but it's at that scale.

Q: Almost every major product and service is launching a new version or an update this year. Is that by design or coincidence?

A: I would say by deliberate coincidence. We didn't say everybody's got to ship at exactly the same time. We said: "Here are some principles."

We're trying to really re-imagine the world from the ground up with Windows 8. ... And then people orient their development schedules around Windows 8 and its new properties and attributes.

Q: What is Microsoft's plan if Windows 8 doesn't take off?

A: You know, Windows 8 is going to do great.

Q: No doubt at all?

A: I'm not paid to have [doubts](#). (Laughs.) I don't have any. It's a fantastic product. ...

People talk about: "How healthy is the PC market?" There's going to be close to 400 million PCs sold in the next year, which makes it a big market. And whether it's 405 (million) or 395 (million), it's a big market, and Windows 8 will propel that volume.

It also brings us into this world of much more mobile computing and more mobile form factors. I think it's going to be hard to tell what's a tablet and what is a PC.

Q: Microsoft has had successes with Xbox and Kinect and failures with Kin and the aQuantive acquisition. Do you see common patterns among those successes and those failures? What have you learned from them?

A: I think if you look at the pattern of success, it usually is a powerful, innovative idea formed and driven by a powerful sort of team with great innovators and great executors ... followed up by an incredible kind of - I won't say marketing because it's really more about how you tell your story than just how loudly you tell it.

Screaming loudly doesn't work very well in our industry. It really matters whether the product fundamentally captures people's imagination, and then you tell the story well around that.

I certainly see Skype sort of on that path. ... We'll have to see whether Surface is a success or not because we haven't shipped any yet. But it certainly has the elements of success.

Q: The iPad has the largest share of the tablet market, but its soft spot, it seems to me, is the price. With the Surface, are you planning to compete with the iPad on price or on features?

A: We haven't announced pricing. I think we have a very competitive product from the features perspective. ...

I think most people would tell you that the iPad is not a super-expensive device. ... (When) people offer cheaper, they do less. They look less good, they're chintzier, they're cheaper.

If you say to somebody, would you use one of the 7-inch tablets, would somebody ever use a Kindle (Kindle Fire, \$199) to do their homework? The answer is no; you never would. It's just not a good enough product. It doesn't mean you might not read a book on it. ... If you look at the bulk of the PC market, it would run between, say, probably \$300 to about \$700 or \$800. That's the sweet spot.

Q: Competition for young, top talent can be incredibly fierce. And you're competing directly with companies such as Facebook and Google that are perceived as fresher, more dynamic places to work. How does Microsoft compete with that?

A: I'm not sure you're right about that. I think Google is just another big company at this stage. I'm not saying they're bad. They're a good competitor for talent but it's not like they're some small startup.

We're a great company, good-sized, that's doing great work. Google's another big technology company. It's not like they have the charm of smallness or pre-IPO-ness with them.

Facebook's got a little bit more of the charm of small, but of course they're post-IPO now and that bubble burst, and burst pretty hard, for their employees. ...

But, you know, people basically decide what to do based upon the love of the work and the love of the environment. We've got a great environment and we're doing great, exciting things.

Q: How does the stack-ranking system (where Microsoft employees are placed into tiers of performance based on supervisor evaluations) fit into that competition for talent? The Vanity Fair article (in the August issue) portrayed it as very demoralizing because it basically pits employees against each other. Is that a hindrance to attracting top talent?

A: I think top talent wants to know that they're going to a company where top talent gets rewarded. ... And if you're not telling the bottom of the pack, you know, hey, get with it and having a little churn there, you're not creating new opportunities for top talent. ... I think you always want to have a system that has a chance to recognize people who are doing a great job, a good job, and helping people who are still doing maybe even a decent job, but they're not doing as good a job as the other folks. It helps to let those people recognize where they stand.

Q: The Microsoft stock price has gone up a little in the past few months. What do you think that says about how Wall Street's responding to what you're doing?

A: Never easy for me to predict. You always have three things going on: what's going on in the overall market. The overall market is up. So we should be up.

No. 2: Our earnings continue to grow. At least in the classic theory of life, that would mean the stock price should go up.

And No. 3, we've got a product cycle that people have enthusiasm about, people are nervous about. Investors are probably all over the place, right?

Until we've proven just how great Windows 8 is, which as I said earlier, I'm completely convinced of, people are going to speculate.

Q: Is it fair to say that much of Microsoft's struggles in the stock market can be attributed to sometimes negative perceptions of the company and its products?

A: In the long run, the two things are: Are you doing great products - people are buying them - and are you making money? ...

When you're in an early mode like Facebook, you're in a different stage. Amazon doesn't make any money, but people are hepped up on what their future looks like.

But in the long run, investors buy the stock because you build products that are great and know how to make money doing it.

Q: Microsoft has spent billions on advertising and marketing. Are you satisfied with what you're getting from those efforts?

A: I think we've done some pretty good work. There's stuff in hindsight I'd say it probably didn't work as effectively as we had wanted. ... Just yelling loudly in any business is never going to help. It's a combination of product, romance, volume. And we've done very well with Xbox. We sell a lot of Windows. We're running this campaign right now for (Internet Explorer 9). The campaign seems to be working both in terms of perception, romance.

Q: Another area that Microsoft spends a lot on is research and development. But there are other companies, particularly Apple, that get more credit for being innovative. I'm wondering how you can reverse that perception. How you can turn more of that research into commercial products?

A: We do a very good job of that. ... A lot of what we spend (on), and (where) we have a big business, (is) selling to enterprise customers. It's never going to be sexy.

Certainly on the consumer side, our R&D has really paid off in some ways. Kinect is a good example; what we've done with Xbox is a good example. Some of the innovations we see - certainly Windows 8, I think, is going to be a very, very good example. ...

At the end of the day, I feel pretty good about our R&D and its return. Some of these things we signed up for, we knew there were long-term battles.

Q: Can you share some of the broader story you want to tell when [Windows Phone](#) 8 rolls out?

A: New phones. With great new software. (Laughs and pulls out from his pocket a pair of Nokia Lumia 920 phones.)

We've got a big challenge in front of us. We're a very small player, but we have a different point of view in terms of user experience. We've got great cloud integration with the rest of the Microsoft world, which a lot of people participate in.

So I think our point of view on user interface, the great work that our hardware vendors are doing and the integration with Windows should help ratchet us up.

Q: Where do you see Microsoft's position in five years, 10 years?

A: First of all, I'd say: pre-eminent technology company. I think that in a back-looking view, people would say we were a software company. That's kind of how we were born.

I think when you look forward, our core capability will be software, (but) you'll probably think of us more as a devices-and-services company. Which is a little different. Software powers devices and software powers these cloud services, but it's a different form of delivery. ...

Doesn't mean we have to make every device. I don't want you to leap to that conclusion. We'll have partners who make devices with our software

in it and our services built in. ... We're going to be a leader at that.

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