

# Microsoft describes 2012 as 'epic,' but 2013 has its obstacles

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Microsoft CEO Steve Ballmer has been known to use hyperbolic adjectives, but was he on the mark when he described 2012 as "the most epic in Microsoft history"?

It was the year, after all, in which the company launched Windows 8, a radical revamp of its flagship [operating system](#).

It was also a year when Microsoft launched or previewed new versions of nearly all its products and services; debuted its first branded computing device, the Surface tablet; and announced it was moving from focusing almost primarily on software toward becoming a devices-and-services company.

So how epic did 2012 turn out to be?

"There's a term in aviation: V1. It's when an aircraft has reached a [velocity](#) at which it has to take off," said Wes Miller, an analyst at independent research firm Directions on Microsoft.

In 2012, Microsoft's efforts were all about achieving V1.

And now, "we're heading toward cruising altitude but we don't know how long that will take or how bumpy it will be," Miller said.

Here's a look at significant events in Microsoft's 2012 "epic," "V1" year, and some challenges that experts think the company faces in 2013.

**WINDOWS 8 LAUNCH:** The moment the entire company had been working toward for years came Oct. 26, when Microsoft launched Windows 8 and Windows RT (the version of Windows 8 designed to run on ARM-based chips - primarily mobile devices).

Reports have been mixed on how successful they've been so far.

Microsoft said 40 million Windows 8 licenses were sold in its first month, outpacing Windows 7 in upgrades.

While that seems to be a good start, given how much the company spent on marketing, 40 million is "modest at best," said David Johnson, an analyst at [Forrester Research](#).

Forrester found that interest in Windows 8 among large businesses was higher than expected.

Among consumers, Forrester found that buyers were reporting [confusion](#) with Windows 8 and problems with applications not working correctly, though once they got past the initial learning curve, many using Windows 8 on touch-screen devices seem to like it.

**SURFACE LAUNCH:** Microsoft built much buzz for the late-October launch of Surface, the company's first branded computing device.

But the buzz didn't necessarily translate into big sales or exclusively glowing reviews. In fact, the reviews were mixed, with most praising the hardware but, ironically, dinging the software.

Microsoft has not released sales figures for Surface, which initially had been sold just in Microsoft retail stores and online.

The company has since pushed up its schedule to produce more Surface

units, selling them now at big-box retailers such as Staples and Best Buy.

Al Hilwa, an analyst with IDC, says he regards Surface as an experiment to help Microsoft's hardware partners "imagine what Windows devices might look like" and "see how far down this path to go."

**WINDOWS PHONE 8 LAUNCH:** Microsoft launched the latest version of its 2-year-old smartphone platform at an October event designed to showcase how its tiled design and features can make it a very personalized device.

It's too soon to say, though, whether Windows Phone 8 will finally allow Microsoft to significantly increase its smartphone market share from about 3 percent in the U.S. and 2 percent worldwide.

Early signs show a bit of progress. In the 12 weeks ending Nov. 25, Windows Phone held 5.1 percent of global smartphone sales, compared with 1.7 percent the year before, according to Kantar Worldpanel ComTech. In the U.S., it held 2.7 percent in 2011 compared with 2.1 percent in 2012.

Will Stofega, an analyst with IDC, says he understands why Microsoft has been focusing on reaching consumers with its Windows Phone. But he thinks Microsoft needs to start pitching more aggressively to large businesses as well.

**WINDOWS SERVER 2012 LAUNCH:** Though overshadowed by Windows 8, the launch of Windows Server 2012 is "the hidden gem in the year," said Michael Cherry, an analyst with Directions on Microsoft.

Cherry calls it "an excellent release, chock full of improvements to the core services including networking, storage, virtualization and management."

The only downside he sees is a lack of documentation about how to implement the improvements.

**OFFICE 2013/OFFICE 365:** In September, Microsoft introduced the next versions of its Office productivity suites, to be launched in the first quarter of 2013.

The most drastic change: In addition to selling Office the traditional way - in a box or downloaded - Microsoft will be offering it via a subscription service.

Dubbed Office 365, this online version of Office had been available to small businesses for a while now. But with its [launch](#) next year, Office 365 will be available to consumers for \$8.33 a month (or \$99.99 a year), for use on up to five PCs or Macs.

From what he's seen of preview versions so far, Directions on Microsoft analyst Miller calls the next version of Office "really thoughtfully designed."

**DEVICE-AND-SERVICES COMPANY:** Ballmer spoke often in 2012 about Microsoft's transition into a devices-and-services company.

It made several significant steps in this direction, including focusing on Office as a subscription service and launching the Xbox SmartGlass application, which attempts to better connect the company's devices to the content offered through its Xbox console and Xbox Live service.

Really, Microsoft had little choice, given the shift toward [mobile devices](#) and connectivity everywhere.

"What we might have previously characterized as separate areas of competition - in devices, in content, in cloud services, in operating

systems - really are now one large competition among a couple of key players: Apple, Microsoft, Google and Amazon," said Charles Golvin, an analyst with Forrester Research.

That means the companies are battling for customer investment and loyalty to an entire ecosystem marked by the services and content the company provides, accessible via its devices.

**STEVEN SINOFSKY'S DEPARTURE:** Mere weeks after Microsoft launched Windows 8, its chief shepherd, Windows President Steven Sinofsky, left the company.

The announcement was sudden and largely unexpected. The consensus on the cause: that Sinofsky, though known for delivering products on time, was also an abrasive, controversial figure at a time when Microsoft needed a more collaborative approach both within the company and with its partners.

Two of his top lieutenants are now taking the reins in the Windows division. Julie Larson-Green, formerly head of program management for Windows, will lead all Windows software and hardware engineering. Tami Reller, chief financial and marketing officer for [Windows](#), will also take on business and marketing strategy for the division.

**MICROSOFT VS. GOOGLE:** Microsoft and Google have been fighting on a number of fronts, and the battles seemed to escalate in 2012.

The two companies fought over patents in courtrooms in several countries. They battled via ad campaigns over transparency and privacy practices. And most recently, Google tinkered with its mail, contacts and calendar syncing technology in a way that makes it difficult to be used with some Microsoft technology.

A large part of the friction comes from Google's inroads into areas traditionally dominated by Microsoft.

"The subtext is: What used to be a battle between the two companies in the consumer space has clearly bled over into the enterprise space as well," Forrester's Golvin said.

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