

Microsoft sees booming Asia as a chance to get ahead of rivals

June 6 2014



As Microsoft Corp. gets more aggressive in the device business, it's making decisions that may seem perplexing.

Take its abrupt decision to hold off on selling a smaller version of its Surface tablet computer. The mini-tablet was expected to be unveiled last month, matching Microsoft's Surface lineup to that of Apple's iPad, but it was reportedly canceled at the last minute. The company announced the third iteration of the Surface Pro instead.

Another head-scratcher came in February, at a big wireless conference in Spain.

Among the company's announcements was a deal to use the messaging app of BlackBerry - the ailing Canadian phone-maker - on Windows Phones.

Those who have watched Microsoft fall further and further behind Apple and Google in the device business may think the company has completely lost its way.

But the view's very different for Cesar Cernuda, president of the company's Asia Pacific business, selling software, services and devices in 39 countries and territories with 1 billion people.

Cernuda, 42, is an ebullient, globe-trotting Spaniard who took the Singapore job last year after leading Microsoft sales in Latin America and, earlier, its business-solutions software sales in Europe and globally.

He embodies the global reach and perspective of a company that's looking to make up for lost ground by increasing its focus on emerging markets, where most people are just entering the smartphone era.

Cernuda also has a vantage point from which it makes perfect sense for a Redmond, Wash., software company to put a Canadian messaging app onto phones developed in Finland.

"It's a different world - let me try to explain why," Cernuda says, smiling and leaning forward in a corner office, high up in one of the shimmering skyscrapers lining the harbor in downtown Singapore.

Gesturing with hands that have shook those of a thousand government and corporate-technology buyers over the years, Cernuda points toward Indonesia, which lies just across a narrow stretch of water beyond the window.

China and India may get the most attention because they are so large, but Indonesia is expected to become the fourth-largest economy in the world by 2050, Cernuda said.

"It's a reality to me but what is even more interesting to me is what is going to happen in the future and how they're really using technology," he said.

Indonesia is a young country - the average age of the population is about 28 - and enthusiastic about technology. Its people are among the world's prolific users of social networks, and they particularly like using BlackBerry's messaging app.

Microsoft's share of Indonesia's smartphone market is expected to triple this year, overtaking Apple, but still remain far behind Android, according to research firm IDC. With or without the BlackBerry app.

Indonesia is just one of the countries in Cernuda's territory, which extends from Korea to New Zealand but excludes Japan, China and India, each of which is large enough to have its own Microsoft subsidiaries.

Singapore is one of the smallest countries, but thousands of foreign companies take advantage of the prosperous city-state's generous tax laws, business-friendly climate and intellectual-property protections to make it their Asian headquarters.

"There is always a call for a small place that has an open environment, rule of law, safety and security, a financial center where your money is safe and you are safe, and you can be sure that if you invest it, the government's not going to take it away," said K. Shanmugam, minister for foreign affairs and law.

Singapore is also expensive, with limited area for housing and commercial growth. But, Cernuda said, the company needs a location that's close to customers and partners and has the best possible talent. Microsoft has about 1,000 employees in Singapore, where it opened its headquarters 10 years ago, and more than 7,000 in Cernuda's Asia-Pacific region, where it's been operating since 1983.

Microsoft has long and deep partnerships with companies that sell and support Microsoft software and with governments that use the company's products. He said Microsoft has a 20 percent market share for Windows Phone in Vietnam and more than 15 percent share for Windows Phone in Thailand.

"So when you talk about brand - our brand in many of these markets - we're positioned as quite positive because we have been really helping and embracing the country, helping them create a better country in terms of infrastructure, getting people to use IT," he said.

At this level, Cernuda is a statesman as much as a salesman, meeting with government leaders to discuss ways to increase their citizens' use of technology, limit theft of software and perhaps upgrade the government's infrastructure to Microsoft's latest platforms. He flew more than 300,000 miles last year.

During a busy stretch early this spring, Cernuda was in Brunei to sign a memorandum of understanding on privacy and security; next he was in Vietnam signing a similar pact with the finance minister; and the week after that he was in Indonesia signing an agreement on economic development and the protection of intellectual property.

This commercial diplomacy also requires Cernuda to tiptoe around regional tensions. A dramatic example came last month in Thailand, where Microsoft managed to finalize a deal with the beleaguered

government to provide Office 365 to every student in the country, which was completed the day before a military coup.

Growth in the region slowed over the past year, but still outpaced the rest of the world and remains a key driver of global growth, according to the World Bank. It expects the East Asia Pacific region to account for a larger share of global output than the U.S. by 2017.

As these countries and their industries grow, they'll spend more on technology.

Cernuda said the region is expected to spend \$8.6 billion next year on cloud services, though the uptake of cloud services by companies isn't as widespread as in the U.S.

"No, we don't see the same cloud adoption," Cernuda said. "However, the growth is bigger here than the growth that is happening in the U.S. right now."

Microsoft's new online version of Office is "a real breakthrough," Cernuda said, in part because it will help Microsoft reach more small businesses in Asia Pacific, where piracy of disc-based versions of Office has been widespread.

The region is already the third largest for mobile devices, behind China and the U.S.

"That gives you already a big sense of why I say Asia will be the engine of growth for us in the years to come, or really the place where we can be the picture of the devices and services strategy," he said.

Yet it's not wide open territory. Microsoft may never be able to catch up to Google's Android platform, which powers most of the smartphones

and tablets used in the region.

Getting BlackBerry messaging onto Windows Phones will help, but BlackBerry's influence in Indonesia is waning, especially since the messaging service became available on low-cost Android devices, according to Bryan Ma, IDC's Singapore-based vice president of client devices research.

Ma said Windows devices face a particular challenge competing with "white label" Android devices made in China, then rebranded and sold by local vendors in different Asian countries.

Tablets have been selling well in the Asia-Pacific region but the category's growth has slowed as people move toward "phablets" - jumbo phones with 5- to 7-inch screens. Ma said white-label Android phablets are selling for \$100 to \$200.

This sheds light on why Microsoft announced partnerships with a handful of Chinese device-makers in February, then announced in April that it would waive the cost of its operating system on devices with screens smaller than 9 inches.

They're likely to have better luck selling a low-cost Windows tablet in Asia than Microsoft would with a smaller version of its premium-priced Surface tablet.

"At least they're pointed in the right direction," Ma said. "They know they need to compete on the low price."

Microsoft also faces an uphill battle to raise the profile of its device brands in the region.

On the day the standard-sized Surface finally went on sale in Singapore -

in April, six months after the U.S. launch of the Surface 2 - a major electronics store downtown marked the occasion with a small kiosk deep in its computer section. Late in the day, a salesman said he had sold three units.

Cernuda acknowledged that the company has work to do raising the profile of its devices but said the acquisition of Nokia will help, since Nokia has an established brand in the region.

Microsoft also may be seen differently now that it has a chief executive, Satya Nadella, who was born in South Asia, but Cernuda declined to say whether that's any sort of advantage.

"The reality is we're not playing any of those (cards); otherwise I'd feel really guilty about having a Spanish person doing the Asian job. I really think the way to look at it is, we truly embrace diversity and inclusion in the [company](#)."

In most countries Microsoft has offices with locally hired representatives, he said. It also rotates people in from other countries, and sends employees from Asia to the U.S., Latin America and Europe where "they prepare themselves, they learn."

"It helps to be disruptive," he said, "and bring some different perspectives."

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Citation: Microsoft sees booming Asia as a chance to get ahead of rivals (2014, June 6) retrieved 26 April 2024 from <https://phys.org/news/2014-06-microsoft-booming-asia-chance-rivals.html>

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