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## Microsoft Re-Surfaces the Pro

*Rather than the speculated downsizing, Microsoft has announced a new larger format and more powerful version of its Surface Pro tablet. Its bigger screen size (12 inches), Windows 8.1 OS and full capability Intel Haswell processor makes it destined to be an enterprise play and not one targeted at the highly competitive consumer and/or BYOD market. This is a smart strategy, clearly differentiating Microsoft's product from other tablets and the best hope for Microsoft to finally have impact in this space.*

With the launch of the new Surface Pro 3, Microsoft has rightly decided its future is not at the low end of consumer tablets, where ultra thin margins and highly competitive vendors from the Far East have and will continue to dominate. Instead, it has concentrated on its key strength – business users who look at tablets as extensions and or replacements for full laptop capability. Further, Microsoft finally seems to understand it can not go head to head with Apple's iPad, and must offer a superior business device leveraging its installed base of infrastructure and applications, in particular the full Office suite. Surface Pro is not a general purpose tablet aimed in no particular direction.

Microsoft has equipped the new Surface with a bigger screen (12 inches) which is large enough to run nearly any business app, as well as allow full split screen operation so popular with many business users. It also includes Intel's 4th generation Core (Haswell) processor family with choice of i3, i5 or i7 ULV parts. It runs the full family of Windows apps and services. Microsoft is offering the power of a full blown laptop in the form factor of a tablet. This is where its customers have told it to concentrate. To that end, it has succeeded.

I have never been a fan of the reduced functionality Windows RT based Surface. It's not a full function device for commercial users (doesn't run full Office suite nor many other enterprise apps), and its seems to be targeted at the mass market – a space Microsoft can't win going against the iPad. But the full Windows version of the original Surface Pro had some legs, given total compatibility with corporate apps and Microsoft productivity tools. Offering a better screen (2K), greater battery life (8-9 hours) with extended charge cycle capability (up to 3X the charge/discharge cycles), an innovate kick stand that holds the device at any angle, an active pen to create more control and functionality that also offers instant access to OneNote without need to unlock the screen, SSD choices up to 512GB, and an enhanced attachable keyboard/touch pad, this device is clearly aimed at the high end of the commercial marketplace. This avoids competing with the plethora of lower end tablets coming to market with near zero margins and an undifferentiated Android OS.

Why did Microsoft go this route? It fully understood when weighing the design options of this unit that it couldn't compete directly against the iPad. Even with an Office version for the iPad, there was still a need to offer full corporate functionality that the iPad couldn't readily achieve. Directly targeting the high end of the enterprise market with full Windows compatibility across all apps is an area where Microsoft can win and it doesn't need to sell tens of millions of this device to be successful. Rather, it can sell a modest number (perhaps 2-3 M) and still claim major success in validating the viability of the Windows tablet market. Further, if successful, this device will stimulate the traditional OEMs to offer enterprise-class tablets running full Windows systems and powered by x86 chips, giving a major boost to Intel (and potentially AMD) against the ARM rivals.

There are clearly winners and losers with this new device. In the winners column we have Microsoft itself, who can now point to a device with which it can win in commercial accounts against the iPad, although it will still require a battle against the ingrained bias of many users towards Apple's ubiquitous device. Other winners include: users, who, although asking for portability and smaller size, still want to operate full corporate apps on the device and opt for laptops staying home when possible; Windows app developers and providers who now have a true tablet platform to deploy to without needing a full blown conversion effort; Intel, which has shown it can offer a competitive tablet chip with Haswell (at less than 15 watts), and corporate IT who looks at the Surface Pro as a device it can fully integrate into the enterprise infrastructure.

On the losing side we find: The ARM chip providers (e.g., NVidia, Qualcomm) who had hoped the newer device would continue to endorse their chips; Apple, who now has a more nimble and concentrated competitor going after the business class users; and Microsoft OEMs (e.g., Dell, HP, Lenovo) who now have a high end Windows-based tablet to compete against from their OS supplier (but who also are trying to compete in the broader, general purpose category with both Windows and Androids tablets).

With the launch of the new Surface, I believe there is no real reason for enterprises to look at the inferior capabilities of the Surface RT family of devices. I'd expect Microsoft and its OEMs to offer smaller devices (some already do) to provide for those users who must have more compact units. But I also believe that many users will be happy at the larger (12 inch) screen size that allows convenient viewing and full blown capability to run any Windows based enterprise apps. Although the price is still a bit high for many (the \$799 entry unit plus the required \$99 attachable keyboard is not what most will buy – I expect the "sweet spot" for enterprises to be the \$1299 i5 powered unit with 256GB), this unit is meant to be a high end device with full capability for corporate users where a premium price of a few hundred dollars is far outweighed by the productivity enhancing ability of this device. And despite the reluctance of many enterprises to deploy Windows 8.1 on primarily non-touch oriented laptops and desktops, it is actually a good experience on the tablet platform it was originally created for. Finally, many corporate users have chosen iPads as a default believing that the Windows tablets are far inferior. This new unit, given the potential performance available, may be enough to swing users its way, and will certainly be attractive to IT groups seeking to influence (or direct) such user choice. I expect this device to be successful for Microsoft, and to show that the new focus of Microsoft on markets where it can clearly differentiate and leverage its strengths can indeed pay dividends. Time will tell if enterprises and users see it the same way.

***Commentary written by Jack Gold, Principal Analyst.  
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