The Success of the “Surface Phone”

I have not been the biggest fan of Satya Nadella when it comes to the fullness of Micrsosoft’s efforts in mobile. However, I have always been a Microsoft fan more than I am a windows fan. Sure, I would love for Windows Phone to be on fifty million phones for quarter and one million apps to be in the Microsoft Store. Yet, looking back at the past, Microsoft’s cloud revenue being at 5 billion dollars per quarter is far more important.

It is easy to look at International Business Machine (IBM) and say that will be Microsoft’s fate. It is true that no one is excited about IBM, but for their stockholders. What is also true is that IBM still makes a boatload of money; 19.2 billion in revenue in their last quarterly report. Therefore, even if Microsoft becomes IBM, it will still make a lot of money.

People will say that the lack of a consumer present will leave the way open for Apple and Google to take the Enterprise. The recent example of Delta and General Electronics (GE)abandoning Microsoft seems to solidify that notion. However, a quick look at Microsoft’s recent quarterly report shows that Windows Commercial Products revenue grew by 7%. This is the Windows that is sold to the largest cooperate organizations in the world through Windows Volume Licensing. Your IT manager does care about what you are using, only what he thinks will make the users most productive. Windows is still the most Enterprise ready OS in the world and by a wide margin.

Oracle, Amazon Web Service, Salesforce.com, VMware, SAP, these are some of the biggest Enterprise Tech companies. None of these have successful consumer platform. Some might say Amazon.com has a successful consumer business, but AWS has very little to do with Amazon.com; no developer would use AWS because they love Amazon.com. Microsoft is an enterprise company and Nadella is an enterprise guy, through and through. He has driven growth of Microsoft enterprise offering tremendously since taking over. The lack of a real mobile presence since 2015 has not stopped that. Microsoft has spent 26 billion dollars on LinkedIn, which provides 1 billion dollars in revenue and about 100 million dollars in profits after amortization and other expenses related to the acquisition, per quarter. This should be proof of the lengths Microsoft will go to remain dominant in enterprise software, their bread and butter.

Enterprise is boring, but it also makes a lot of money and that revenue is highly profitable. The consumer side of tech is exciting, but only Apple, Samsung, Google, Facebook, Amazon, Ebay and Microsoft without phones make a profit from cratering to consumers. Selling to consumers is not the easiest thing for a tech company to do. It is easy to see, at least from a for profit business perspective, why Microsoft has gotten rid of Groove, Band, Windows Phone, Surface Mini etc.

Microsoft still has plays in the realm of consumer tech such as XBOX, Bing and to a certain expend the Surface line. All those have two things in common: they are profitable on their own as well having relatively high consumer mindshare. All these businesses had rough starts, but they were early enough or unique enough to justify the continued investment in Nadella’s eyes.

If the Surface Phone is to be successful in the long run, it does not need to sell five million units per quarter, but it must show how it is going stand on its own. There is good news for the Surface Phone, the Surface line already stands on its own. If the Surface line continues to be successful, the Surface Phone will be ok.

The Surface Phone is not being made to be profitable, therefore, it has to be exciting to the niche it is targeting and that will guarantee that the Surface Phone will be exciting. I would be excited for the Surface Phone, even if you do not intend to buy it or you do not trust Microsoft anymore.