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# Microsoft Faces the Post-PC World

*Now 25 Years Old, Windows Sales Slow as iPad Gains; Lowest Market Share in Two Decades—82%*By **NICK WINGFIELD**

**Microsoft Corp.** is confronting the biggest challenge to its Windows franchise so far: a world where mobile phones and tablets are handling more of the computing chores once only done on personal computers.

Windows may be 25 years old, but it is no less critical to Microsoft's future. The software generated \$19 billion in revenue last fiscal year and produced \$12.3 billion in profit—nearly half of Microsoft's operating income. But Windows revenue has declined in each of the past two quarters.



Microsoft is considering what a post-PC era looks like, given the rise of the iPad and other tablets. At the root of the question is how Windows and Office can continue to sustain the business, WSJ's Nick Wingfield reports. (Photo: AP Photo.)

Meanwhile, sales of smartphones running **Google Inc.**'s Android software and **Apple Inc.**'s iPhone have surged this year, giving both companies greater sway among independent software developers. Demand for Apple's iPad tablet is eating away at sales of laptops, most of which still run Windows. By one researcher's measure, Windows share of the PC market in the latest quarter was at its lowest level in two decades.

Microsoft partly blamed the weak Windows sales on a shift in PC demand to developing markets like China, from which Microsoft earns less money per PC due in part to high piracy rates.

The company's defense of its turf is likely to get even tougher as other tablets running Android software flood the market, and the touch-screen computers spread beyond consumers to take hold in corporations.

Microsoft is counting on the next version of Windows, dubbed Windows 8, to restart sales growth. But the operating system,



Illustration by Ray Bartkus

43% of smartphones sold in second quarter ran on Google's Android software.

61% of tablets shipped in second quarter were Apple iPads.

Microsoft's new software, Windows 8, isn't expected to debut until late 2012.

Sources: Gartner (smartphones); Strategy Analytics (tablets)

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### How big a player will Microsoft's Windows be in the future?

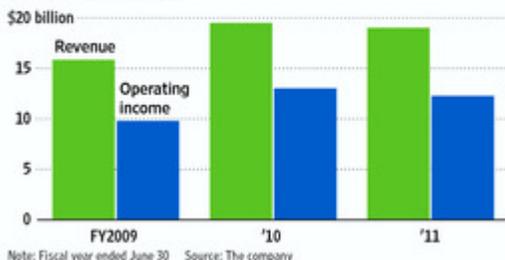
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### Foggy Windows

Revenue from Microsoft's Windows and Windows Live division dropped 2% in the past fiscal year.



which Microsoft has redesigned to run better on touch-screen computers, isn't expected until the autumn of 2012 at the earliest.

Windows 8 is slated for a milestone next month when the company hosts a conference for software developers, to whom Microsoft is likely to give early versions of the software.

The event is a critical part of Microsoft's effort to spur applications for Windows 8, and reinforce relations with programmers that have been a foundation of the company's success. But the rise of smartphones and later tablets is diluting the dominance of Windows as a programming platform, diverting the creative efforts of developers who once focused mainly on PCs.

**Roger McNamee**, an investor at Silicon Valley private-equity firm Elevation Partners, says it is "too late to revive Windows" in view of an irreversible shift in key computing chores toward devices such as iPads and smartphones.

"We are past the point where Windows can return to its former glory," says Mr. McNamee, who still believes Microsoft has a strong future in its Exchange messaging business and pending acquisition of Skype. "The market has moved on."

Mobile devices have also helped disrupt the distribution and pricing of software. The "app store" model, pioneered by Apple and emulated by Google and others, has given tablet and smartphone users speedy access to programs that are frequently free or cost less than \$5—undermining a model that grew up around stores selling disk-based PC programs that routinely cost \$40 to more than \$100.

The app store impact is cited by companies such as Evernote Corp., known for a free note-taking app. The Mountain View, Calif., company says it gets more than two times the new users a day for the iPad as a Windows 7 version. And it also claims 50% more new users a day from a version for the Macintosh—which also has an app store—despite the fact there are far fewer Macs in use than Windows PCs.

Phil Libin, Evernote's chief executive, says downloads of the Mac version app are about four times what they were before the store was launched at the beginning of the year. "Frankly, I think the biggest thing hurting Windows right now is the lack of an app store," he says.

Microsoft is expected to rectify that shortcoming with Windows 8, introducing an app store along with the product. Mr. Libin says he is excited by what he has seen of the software so far.

Steve Ballmer, Microsoft's CEO, first discussed plans for the next version of Windows in January, focusing on the fact that the software would for the first time work on chips from [ARM Holdings PLC](#)—the overwhelming choice in tablets—in addition to chips from [Intel Corp.](#) and [Advanced Micro Devices Inc.](#) The company gave the first public previews of the software in early June.

Frank Shaw, a Microsoft spokesman, declined to discuss further details about Windows 8 ahead of the developer conference known as Build, which will be held in mid-September in Anaheim, Calif. He acknowledged that the company has "work to do" in the tablet market, but said it expects to be a strong competitor in the business.

For now, the degree to which tablets are cannibalizing PC sales is a matter of fierce debate.

Microsoft and Intel have long argued they represent an expansion of the computing market, focusing on tasks such as watching movies and reading online magazines rather than the work-related chores handled by PCs.

Both say iPads have primarily hurt netbooks, the inexpensive notebook computers that rose to prominence but recently faded in popularity.

Others are less sanguine: Goldman Sachs, in a research report from April, estimated that tablet computers such as the iPad will remain "highly cannibalistic" to traditional PCs, stealing 35% and 33% of sales in 2011 and 2012, respectively.

### *New Look at Market Share*

Some research firms have even started to look at tablets as part of the PC market when determining market share, which significantly changes Apple's position.

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*You can spend your lifetime  
waiting for it to boot up.  
Microsoft products are not  
competitive with other  
operating systems yet they  
continue to patch the Edsel.*

—John Batty

Canalys Ltd., for example, now calls Apple the second-largest PC vendor, after [Hewlett Packard Co.](#) Adding in iPads as well as Macs—which only accounted for about 5% of global shipments, the firm estimates that Apple accounted for 13.6% in world-wide PC shipments in the second quarter, up from 8.2% a year earlier, and just a bit behind H-P's 15.7% share.

In all, Canalys puts the share of Wintel—the platform defined by Windows and Intel chips—at 82%, its lowest point in more than 20 years.

"If they can't get their arms around the mobile threat, then it puts the core Windows franchise at risk," Bill Whyman, an analyst at stock-research firm ISI Group, says of Microsoft.

The supremacy of Windows, particularly for business, isn't likely to go away anytime soon. While Apple has sold 28.7 million iPads since the product was introduced in the spring of 2010, Microsoft has sold more than 400 million copies of Windows 7 since the product came out in 2009, a record for the company.

### *Corporate iPad Demand*

But corporate demand for the iPad appears to be rising, though Apple has mainly marketed the product to consumers. The company said last month that 86% of Fortune 500 companies are deploying or testing iPads, up from 75% last quarter.

One user is Hospital Housekeeping Systems LLC, a provider of cleaning services to hospitals in Austin, Texas, which has purchased about 50 iPads for employees.

The company's managers use the devices to access Web-based technology from Salesforce.com Inc. that allows them to track the cleanliness of hospital rooms.

Executives at the company have also begun to use their iPads instead of Windows laptops for slide presentations because the devices turn on more quickly than PCs, says Steve Jourdan, Hospital Housekeeping's chief information officer.

"It seems like a small thing," Mr. Jourdan says. "In the flow of a lot of conversations, there's a big difference between one and two minutes to get prepared, versus you can turn it on and just show it to them."

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