



Marketing Plan

Microsoft Surface Pro

By:

Ritu Bidasaria

Tila Bregaj

Garrett Gilliland

Mehdi Toobaei

Namitha Shetty

Professor: Dr. Charles Weber

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Engineering Management & Technology, Portland State University

Table of Contents

0. Introduction	3
1. Company Analysis	4
1.1 Microsoft Overview	4
1.2 Microsoft and Tablets	4
1.3 Strong brand.....	5
1.4 Microsoft Company SWOT Analysis.....	5
2. Market Demographics.....	9
2.1 PC Manufacturers Market Share	9
2.2. Tablets.....	10
2.3. Target Market Selection	12
3. Technology Adoption Life Cycle	12
3.1 Surface Pro Adoption Life cycle	13
4. Market Segments.....	13
4.1 Survey Result	14
5. Market Needs.....	16
5.1. Customer Expectations	16
6. Value Drivers.....	17
6.1.1 Portability	17
6.1.2. Connectivity	17
6.1.3. Content Creation	17
6.1.4. Integration of Application	18
6.1.5. Individuality of Experience, Personalization and Sharing Experience	18
6.2. Value Proposition	18
6.3. Product Attributes	19
6.3.1 Addressing Portability.....	19
6.3.2Addressing Connectivity	19
6.3.3 Addressing Content Creation.....	19
6.3.4. Addressing Integration of Application.....	20
6.3.5. Addressing Individuality of Experience, Personalization and Sharing Experience	20
6.3.6 Compelling Reasons to Act (CRTA).....	20
6.4. Competition Analysis	21

6.4.1 Competition & Indirect Competition	21
6.4.2 Macroeconomic Forces	22
7. Marketing Strategy	22
7.1 Product.....	22
7.2 Placement & Promotion	22
7.3 Price	23
7.4 Competetiors Stratergy	23
8. Sales Forecast.....	25
8.1. Tablet Sales according to platform.....	25
8.2. Past Tablet and Laptop.....	25
8.3. Forecast of Windows Tablet Shipment.....	26
9. Conclusion.....	27
10. References.....	28

Executive Summary

This paper attempts to develop a marketing plan for the new Microsoft Surface Pro to be introduced into the market by Microsoft in the first quarter of 2013. Microsoft first had introduced the Surface RT in the 4th quarter of 2012, which had an ARM chip and did not contain Windows 8. Microsoft introduced the RT version so that they could have a product for the holidays. Now in the first quarter of 2013, Microsoft will introduce Surface Pro with Intel based processor and Windows 8. It is believed to be much more powerful and will be much more liked than the RT version. The paper introduces Microsoft in general and analyzes its strength and capabilities of developing such products. Afterwards, the study covers the market demographics by sizing the total market, and the segmentation of the available market. The analysts then drill down into the market needs and investigate the target customers who have pressing need for such product. Surveys and interviews were conducted to capture the customer's voice and the success of this product. The analysts then developed a marketing plan of the Surface Pro—which involved value drivers, CRTA, TALC, competition analysis, 4P's and sales forecasting.

Introduction

In the last few years we have seen great innovation and new devices enter the technological market, giving consumers many options to choose from and in a sense making choosing more difficult from the pool of so many options. We have seen that the PC market has been flat in the last few years, while the tablet market is increasing over 30% year after year. Here are a few key facts:

- Although still in its relative infancy, the Tablet market and associated ecosystem are developing quickly as OEMs are utilizing knowledge and relationships from previous mobile computing efforts.
- Tablet PCs and the mobile computing phenomena are threatening to cause a shift in industry leadership and dynamics in both the technology and telecom sectors.
- The notebook market is most threatened by the introduction of Tablet PCs and smartphones.
- Demand for Tablets is high in both the consumer and enterprise markets. Mobility, in combination with real-time access to content and services, are the major factors driving adoption.
- It is hard to imagine Tablet PCs replacing laptops or other mobile computing devices, but these platforms segments do seem to be moving toward each other creating the Hybrid PC.

Microsoft, one of the strongest companies has seen great change in the industry and great innovation, including new area of cloud computing, embraced mobility, redefining communication, and attempting to transform entertainment. In all that has been done, Windows is the heart and soul of Microsoft, the most flexible software ever created. Microsoft's old vision of every computer in an office or at home has slightly changed. With new Windows 8, the power of new generation of PCs is now been done in a forward looking way, designed for the world we now know with ability to create contest from anywhere anytime, without compromise to the user experience and productivity. Now Microsoft wants to add another bit of excitement to the Windows 8 story. It now required a new innovation of how to push hardware and software together, working together. This is why Microsoft believes that with its new software driven by people on the go that are productive while being mobile, it can give its consumers a great hardware device that would give an amazing experience. Thus, it introduces this

year, Surface Pro, a small lightweight device, driven by touch and Windows 8 that can convert from a laptop into a tablet whenever the consumer needs it.

For the purpose of this marketing plan, our team was just as excited to explore this new device entering the market. Our marketing plan as this paper unfolds includes a background research on Microsoft, market demographics of tablets and laptop world, market segmentation, customers, value drivers, positioning, competition, and future forecast. Interviewing savvy technology professionals and college students who use devices to be productive did our research. In the first interview phase we asked them questions in order to formulate our survey if Surface Pro is something consumers are ready for. We launched the survey and received a total of 93 responds. We figured out that the survey did not capture the voice of all. Then we conducted more interviews specifically to the Surface Pro right after it was introduced to the market.

In short, in order to satisfy the world that our consumers now live in, our value proposition for this marketing plan is:

"There's no need to buy two devices if you're in the Windows ecosystem and need portability: Windows 8 and the efforts from Intel on the CPU side will truly allow one device to rule them all, lightweight, durable, work and play at the same time."

1 Company Analysis

1.1 Microsoft Overview

Microsoft Corporation (Microsoft) is one of the leading providers of software and storage products and services. The company designs, develops, manufactures and markets software and hardware products [3]. It also provides consulting, and product and solution support services. Microsoft has long held its rank as the world's largest software company and an indisputable giant in the computing industry. Its products are seemingly more ubiquitous than oxygen, and a way of life for personal and business computing the world over. Primarily known for its market-dominating Windows operating system, MS also produces the popular Explorer browser, the Office suite of programs (including Word, Excel, Outlook, PowerPoint and Access), the Xbox game system and the Zune music player [4]. In addition, it offers business solution applications, information worker productivity applications and smart phone applications. Furthermore, the company designs, develops and sells hardware products such as Xbox 360 gaming and entertainment console, Kinect for Xbox 360 and PC hardware products. It also offers Internet search engine tools and cloud services. Microsoft is headquartered in Redmond, Washington, the US [3].

1.2 Microsoft and Tablets

Tablets and convertibles are designed to have people work hard and play hard by offering new levels of flexibility. Lightweight tablets are blazing fast with longer battery life to go where you go, do what you do, and never slow you down. Versatile convertibles give a person the style and mobility of a tablet, but can be quickly turned into a laptop so one can stay productive with the keyboard when need to [8]. Microsoft, once the most dominant software company in the world, recently entered the computer hardware business with its Surface tablet, hoping to veer away people from Apple's iPad and less expensive tablets that carry Google's Android operating system [7]. The Surface Pro is what customers were looking for in a Windows-powered tablet. Touch-enabled HD screens and ultra-

responsive performance give the optimal Windows 8 experience, and powerful graphics make movies and games come to life as never before [8].

1.3 Strong brand

The study, from market research firm Millward Brown Optimor, rated Microsoft as the third most powerful and valuable brand in the world, behind Google and GE. Apple came in at number seven, below Coca Cola, China Mobile, and IBM, and just above McDonalds [5]. According to the study, the Microsoft brand is worth nearly \$71 billion, while Apple's brand is well below that, at \$55 billion [5]. Microsoft is very good on clarity because it's very clear about what brand stands for in terms of values, proposition and positioning [6]. It is also clear about its target audience and customer insights. Microsoft scores high on commitment front because it is committed to be the best technology company in the world. The company entails in its employees a sense of commitment to be the best in its category. Microsoft is one of the world's first technology companies and across the time has come up with a lot of new technologies, which are patented, on its name [6]. There has not been a single case on Microsoft for infiltration issues in these years, which prove its originality and excellence [6]. Microsoft is highly responsive because it has always come up with something new and innovative product in order to changing market response. It has always tried to evolve itself as a leader and also tried to renew its technology. Microsoft is very good on authenticity because it has a very rich heritage and has always come out on top of customer's expectation. It has always given its customers a high degree of satisfaction. It is capable enough to deliver what customers want. Microsoft is the well sought after and most used operating system in the world. Its software is used for all purposes and by each segment of people. They are very effective in satisfying customer needs and desires [6].

1.4 Microsoft Company SWOT Analysis

1.4.1 Strengths

- **No.1 Operating System on Planet**

As of 2012, there are over 1.1 billion computers in the world, and 90% of them use Microsoft Windows [1][2].

- **Strong Brand Image**

Microsoft has developed a strong brand image since its inception in 1975. Microsoft is the third largest brand with a brand value of \$54,900 billion in 2007. Microsoft's brand image generates a large percentage of intangible earnings. Strong brand image makes Microsoft a preferred operating system over its competitors. In addition, strong brand image promotes greater trust in the company's product and services, which could boost the demand for the company's products [2].

- **Strong Returns**

Forrester predicts that by 2013, the global enterprise market will be worth \$68 billion. The major share will go to Microsoft. Microsoft makes in a single quarter what Apple makes in year from business hardware sales and services [1]. Microsoft has recorded strong returns in the last five

years. Its average return on assets, return on investments and return on equity during the five year period ending June 2007 were 14.3%, 18.5% and 20.2% respectively, higher than the industry averages of 11.7%, 16.5% and 19% for the same period. Also the returns generated by Microsoft were higher than some of its closest competitors such as Hewlett Packard Company (RoA: 3.9%, RoI: 6.2%) and International Business Machines (RoA: 7.16%, RoI: 11.2%) during the same period. Strong returns reflect the ability of the management to deploy assets in profitable avenues, which would enhance investor confidence [2].

- **Strong R&D Investment**

Microsoft maintains a strong focus on research and development (R&D) for introducing more innovative products. It invested about \$7,120 billion in R&D in 2007, an increase of 8.2% over 2006. The company's R&D expenses accounted for 14% of its revenue during 2007. Microsoft employed around 39.2% of its total employees in R&D in 2007. The investment in research and development by the company would pay off in the form of new products and technologies geared to meet the ever changing customer requirements [2].

- **Extensive Product Portfolio**

Microsoft develops, manufactures, licenses, and supports a range of software products for many computing devices. Its product offerings comprise five segments: client, server and tools, online services business (combined together form platform products and services division); Microsoft business (business division); entertainment and devices (entertainment and devices division). Its software products include operating systems for servers, personal computers (PCs) and intelligent devices; server applications for distributed computing environments; information worker productivity applications; business solutions applications; and software development tools. Microsoft's Xbox platform is now the top selling gaming console in the world [2]. With over 280 million users, Microsoft's Skype service continues to grow rapidly. 97% market share of MS Office [1].

1.4.2 Weaknesses

- **Geographic Concentration**

Microsoft has concentrated operations in the US. Microsoft has its business across the world and has offices in 103 countries. However, revenues from the US contributed to 62% of the total revenues of the company in 2007. While the other countries accounted for 38% of the total revenues in the same year. Heavy reliance on the US market exposes the company to adverse socio-political and economic changes in that region [2].

- **Decline in Search Engine Market Share**

Bing is currently the No. 2 search engine on the Internet. It's also, in the words of *Business Insider*, a "rat hole" where Microsoft's balance sheet goes to die. Microsoft has spent \$10 billion promoting and supporting Bing. But the result is not very good. It is still less than half of Google's revenues, and people still prefer Google [1].

- **Mobile**

Bill Gates unveiled the tablet PC to a crowd of over 12,000 people at COMDEX back in November 2000. Unfortunately, the market had zero interest in tablets at the time. Windows Phone is still struggling to make a dent in what has essentially become a two-horse race between iOS and Android [1].

- **Radical refresh**

Windows 8 is in many ways an even more radical change of Microsoft's core product line than Windows 95. While the new Windows operating system is more aesthetically pleasing than previous incarnations, the learning curve may keep many users from upgrading [1].

1.4.3 Opportunities

- **Launch of New Products**

With 4 million installations already, Microsoft's new operating system appears to be – at the moment, at least – defying analysts' dire predictions. A successful OS launch could translate to higher sales for Win8 phones and tablets [1]. Surface may not be an iPad killer in its current incarnation – Microsoft is still fleshing out its app ecosystem – but most reviewers agree that a Surface 2.0 would be a major threat to Apple's continued dominance of the tablet space [1].

- **Emerging Markets**

The Windows 8 UI is the first mobile interface that many consumers in **Brazil, Russia, India, and China** (BRIC) will ever see. This is likely to give Microsoft an edge in the developing world that its rivals currently enjoy in the developed world: The “Metro” UI will be the OS that BRIC consumers are naturally comfortable with, while iOS and Android will involve a learning curve [1].

- **Improved Monetization of Search**

Online advertising revenue grew 15% in Q1 of Microsoft's fiscal 2013, driven primarily by an increase in revenue per search, according to the company's earnings release for that period [1].

1.4.4 Threat

- **Intense competition**

Microsoft continues to face intense competition across all markets for their products and services. The company's competitor's range in size from Fortune 100 companies to small-specialized single-product businesses and open source community-based projects. Further, the Internet as a distribution channel and non-commercial software model has also reduced barriers to entry even further. Google and Apple are the biggest competitors of the company [2].

- **Open Source Model**

Microsoft's business model is based upon customers agreeing to pay a fee to license software developed and distributed by the company. However, in recent years, a non commercial software model has evolved that presents a growing challenge to the commercial software model. The proliferation of the noncommercial software model poses a significant challenge to Microsoft's business model. To the extent open source software gain market acceptance, sales of the company's products could be affected [2].

- **Security Threat**

Maintaining the security of computers and computer networks is a critical issue in the company's business. Malicious hackers tend to develop and deploy viruses, worms, and other malicious software programs that attack the company's products. The company has been investing in mitigation technologies protecting its customers from attacks. However, the cost of these steps could adversely affect the company's operating margins. Despite these efforts, security vulnerabilities in the company's products could lead some customers to seek to return products, to reduce or delay future purchases [2].

- **Threat of Piracy**

The company faces stiff threat of piracy of their software products. In fiscal year 2006, nearly 60 million PCs were sold with pirated versions of Windows, which presents a major revenue loss to the company. The impact on revenues from outside the US is more significant, particularly in countries where the laws are less protective of intellectual property rights. Similarly, the absence of harmonized patent laws makes it more difficult to ensure consistent respect for patent rights. Though the company actively educates consumers about the benefits of licensing genuine products and obtaining indemnification benefits for intellectual property risks, the threat of pirated products still persists [2].

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. No.1 in Operating System 2. Strong Brand Image 3. Strong Returns 4. Extensive Product Portfolio 5. Strong R&D Investment 	<ol style="list-style-type: none"> 1. Geographic Concentration 2. Decline in Search Engine Market Share 3. Mobile 4. Radical Refresh
Opportunities	Threats
<ol style="list-style-type: none"> 1. Launch of New Products 2. Emerging Market 3. Improved Monetization of Search 	<ol style="list-style-type: none"> 1. Intense competition 2. Open Source Model 3. Security Threat

Table 1: Microsoft SWOT Analysis

2 Market Demographics

Since the Surface Pro just launched in the second half of Q1 of 2013, it is crucial to overlook at the entire market demographics and market share for PC laptops, tablets, and convertible devices. The amount of electronic gadgets brought into the market has tremendously increased in the last few years. It is crucial to analyze each market individually.

2.1 PC Manufacturers Market Share

Market research firm Gartner paints a grim picture of the PC market in the year 2012 as shipments dropped more than 5% in the United States and stayed flat globally. HP remained the world's top PC vendor worldwide as shipments of HP desktops and laptops slid 12.1% to 13.04 million, and Dell dropped 11.5% to ship 9.35 million units. Asian vendors Lenovo, Acer and ASUS each showed growth during second quarter of 2012 [9]. In the U.S., every top vendor lost ground except for Apple, according to Gartner's numbers. Apple, the country's No.3 vendor, showed growth in the last quarter of 2012, with shipments climbing 4.3% to 1.91 million units. HP shipments slid 12.7% to 3.98 million units; Dell dipped 9.5% to 3.46 million. Worldwide Lenovo, Acer Group, and Asus are holding strong [9].

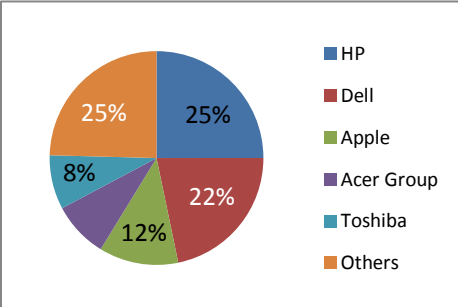
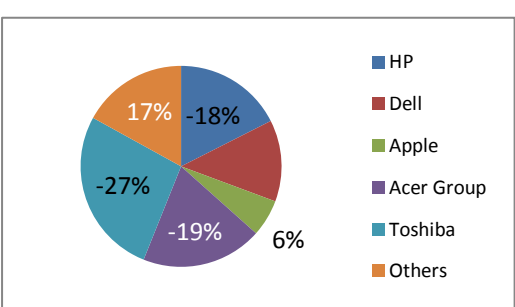
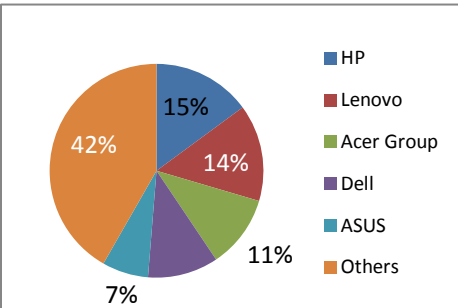
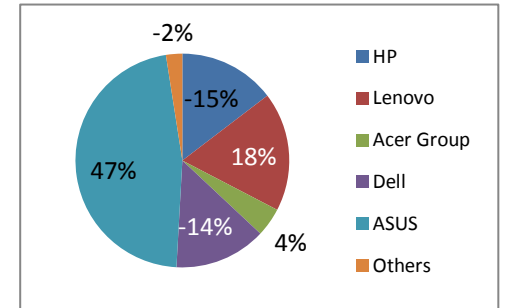
Market	PC Vendor Shipments For Q-2 2Q12	USA Market Growth (%) 2Q12-2Q11
USA	 <p>HP: 25%, Dell: 22%, Apple: 12%, Acer Group: 8%, Toshiba: 8%, Others: 25%</p>	 <p>HP: -18%, Dell: -19%, Apple: 6%, Acer Group: -27%, Toshiba: -27%, Others: 17%</p>
W.W	 <p>HP: 15%, Lenovo: 14%, Acer Group: 11%, Dell: 7%, ASUS: 7%, Others: 42%</p>	 <p>HP: -15%, Lenovo: 18%, Acer Group: 4%, Dell: -14%, ASUS: 47%, Others: -2%</p>

Figure 1. PC Market Analysis worldwide and in the U.S according to Gartner [9]

According to Gartner's analysts, some of the key influencers of slow PC shipment growth were uncertainties in the economy in various regions, as well as consumer's low interest in PC purchases. Consumers are less interested in spending on PCs as there are other technology product and services, such as the latest smartphones and media tablets that they are purchasing. This is more of a trend in the mature market as PCs are highly saturated in these markets. Despite the high expectations for the thin and light notebook segment, shipment volume was small and little impact on overall shipment growth. From a regional perspective, EMEA, Asia/Pacific and Japan registered low single digit-growth while all Americas markets posted year-over-year shipment declines.

2.2. Tablets

The idea of tablet computer was first presented to the public in 1950s. The concept of the tablet was based on the handwriting recognition as an interface instead of a key board. In 1980s several companies have started commercializing the tablet concept based on the pen computing technology. The pen computing technology is referring to a pen that used as a user-interface rather than other input devices such as keyboard or mouse. Since the 1980s the tablet was used for note taking. Also, it was used the health care sector for data capture in [10].

In April 2010 Apple launched its first iPad, the iPad was an introduction to the tablet market revolution [10]. In fact, iPad reinvigorated the tablet market with touch interface which differentiate the tablet from the traditional PC, and identify the tablet computer as new portable device platform. According to IDC report, Global tablets shipment reached 19.4 Million units in 2010 [10]. In 2011 the shipments have increased to 68.7 million units and it is expected to reach 200 million units in 2016 [10]. The large growth in tablets sale in 2011 was due to consumer's response to Apple's, Samsung's, and Amazon's tablets that has been launched in this year [10]. Also, tablets market has been drastically growing due to the features that tablets provided to their customer such as long battery lives, durability, apps, better display screen, and portability. The figure 2. Shows the Tablets shipment with respect to OS historical forecast from 2010 until 2016 in million units.

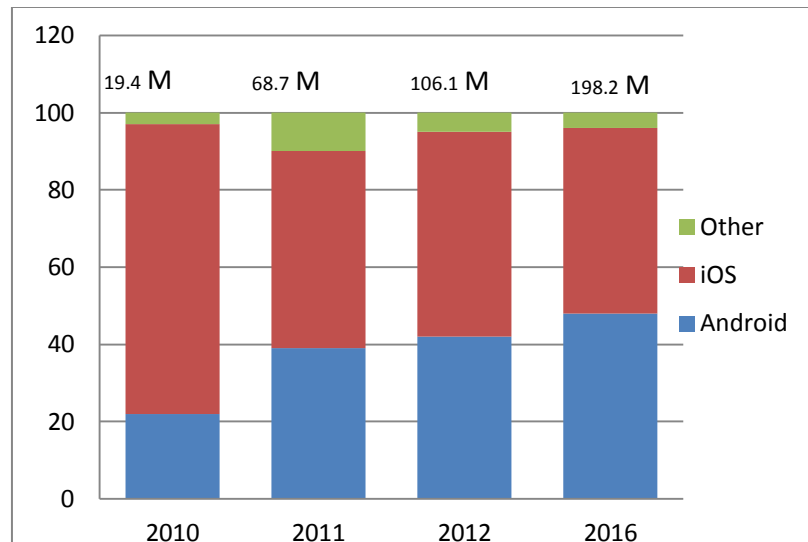


Figure 2. Tablets shipment with respect to OS historical forecast from 2010 until 2016 in million units [10]

- **Market share trend of Tablets**

The chart below (figure 3) depicts the historical market share trend for the last recent years based on quarter sales. The chart below shows clearly that Android is gradually gaining market share from Apple. Also, the chart shows that Apple has lost part of its market share in each consecutive quarter where there was not new iPad launched. In the second quarter of 2011 with launch of the iPad2, Apple was able to gain more market share, on the next quarter Apple partially lost some of its market share. Despite the rival competition between Apple and Android, Apple still has over %60 of the tablet market share. We believe that Microsoft wants to jump into this opportunity and grab a chunk from the tablet market share and become a threat to Apple.

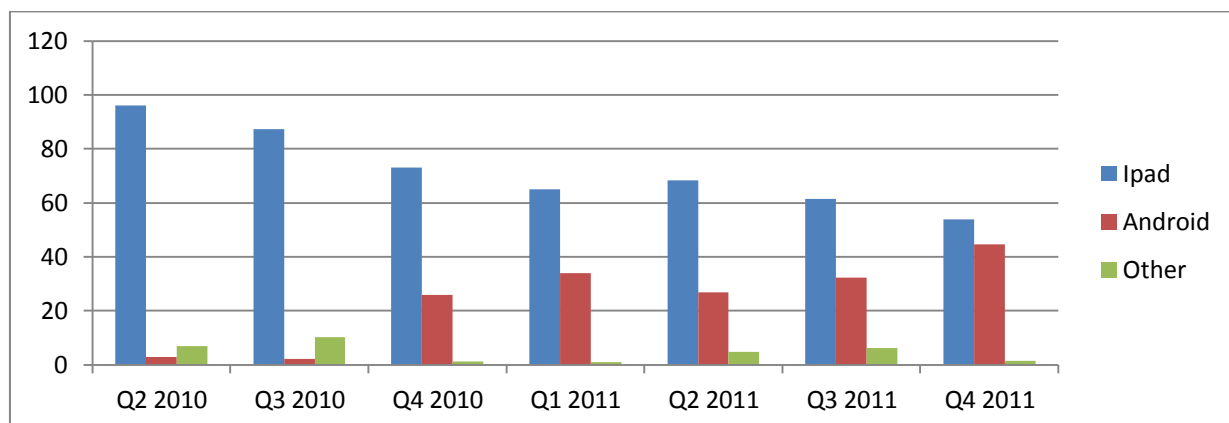


Figure 3. Market share trends of Tablets from Q-2 of 2010 to Q-4 of 2011 [10]

According to NPD Display Search by 2016 tablets are expected to surpassing the note book shipment, and by 2019 the ratio is expected to be 2 to 1 with tablets in the lead. Consumers who focus on mobile computing devices is shifts from note book to tablet PCs [11]. Also, it is hard to imagine tablets taking over notebook, but it seems that the two segments are moving toward each other to the Hybrid PC, which is considered a tablet, and notebook merged together. In fact, consumers is looking for a mobile platform PC to be integrated between a consumer product and a commercial product, with the following features lighter, faster, better battery life, and cheaper [11].

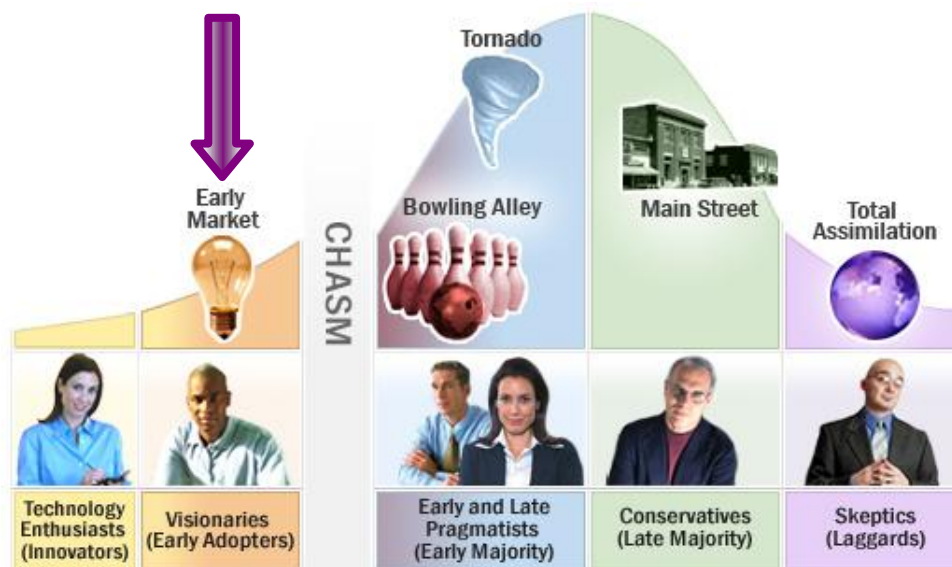
2.3. Target Market Selection

During the second half of Q1 in 2013, Microsoft announced a number of new markets for the Surface RT and Surface Pro tablet hybrids. The expansions were expected, and fit former leaks. For the Surface RT, the following markets are being added: “Japan, Mexico, New Zealand, Russia, Singapore and Taiwan.” Meanwhile, for the Surface Pro, the following markets are being added: “Australia, China, France, Germany, Hong Kong, New Zealand and the United Kingdom.” For the Surface Pro fans in the United States and Canada, irked at low supply, Microsoft claims that it is “focused on meeting demand in current markets” and that it is, yes I’m serious, “working super hard” to replace retail inventory. While the Surface RT has failed to meet internal sales expectations, the Surface Pro has been faced with constant, chronic inventory shortages. It appears that Microsoft has found a demographic for its larger, more capable tablet, the Surface Pro.

3. Technology Adoption Life Cycle

The idea of the convertible devices such as the Surface Pro (a convertible device is one that is transformed from a laptop into a tablet by removing the keyboard, and it can be used as both functions) is still pretty new. It has crossed the innovators stage and it is currently at the early market phase/early adopters. The market is not saturated yet, thus it has not crossed the chasm and has not passed through the early majority phase. Consumers do not yet have enough feedback and word of mouth promotion to understand the product and its usage.

Figure 4. Surface Pro Adoption Life cycle



4. Market Segments

Market Segment is the process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs, wants, or demand characteristics. The objective of market segmentation is to design a marketing mix that specifically matches the expectations of customers in the targeted segment. Companies need to identify a certain set of customer within a market and work towards satisfying them. Companies further need to understand the complexity of how this segment behaves and operates.

The idea behind the Microsoft Surface has been very attractive. The thinking behind this laptop/tablet identifies a couple of important things about the way people use computers and tablets that many other devices ignore completely. Most importantly, Microsoft understands that people really love to use their tablets, but they often wished they didn't have to haul around a laptop with them for when they actually need to get some work done.

But are the extraordinary ergonomics of the Surface Pro really the best solution for the tablet-laptop contrast? Does the Surface Pro bridge the gap in the most efficient way?

To answer this question and to better understand the market segmentation for surface pro we followed a five steps process:

- 1- Grouped the large and general market into smaller groups based on Age, Sex and Income and employment status.
- 2- Grouped customers according to the type of product they use. (Tablet, Laptop)
- 3- Grouped customers by lifestyle and usage pattern.
- 4- Interviewed individuals within each group to understand their need and expectations.

- 5- Identified the best way of grouping the market into smaller market segmentation for Surface Pro considering its features and pricing range.

In the first step we sent a survey of 14 questions to about 400 people. We received 75 responses back from the surveys, but then later we received a total of 93 responses (a response rate of 19%).

The survey goal was to understand what features are important to the end users. Our intent was then to find out why these features are important and what values they bring to the end users. This could help us to better understand the value drivers and compelling reasons to act.

78% of the respondents were male and 22% were female. About 50% of the respondents were professionals between the ages of 30 to 49 years old and an average income of \$3000 or more per month. The respondent's rates guided us through dividing the market by age, income and type of employments or activities (such as professionals, students, unprofessional, employed and unemployed). The survey also helped us to better understand the market willingness to pay for the extra features that are provided by Surface Pro. However, at this stage the market segments were not defined clearly. Figure 5 shows the results of the survey.

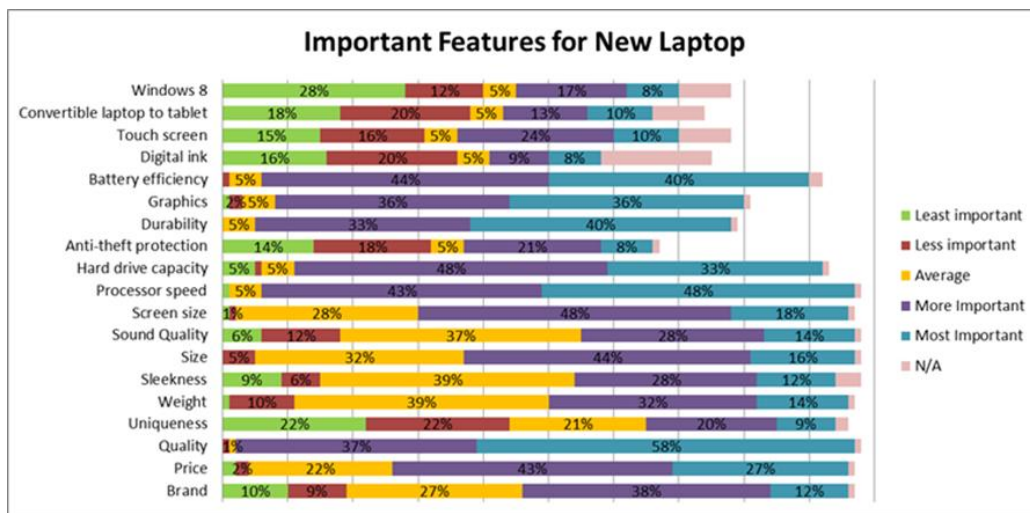


Figure 5. Survey Result

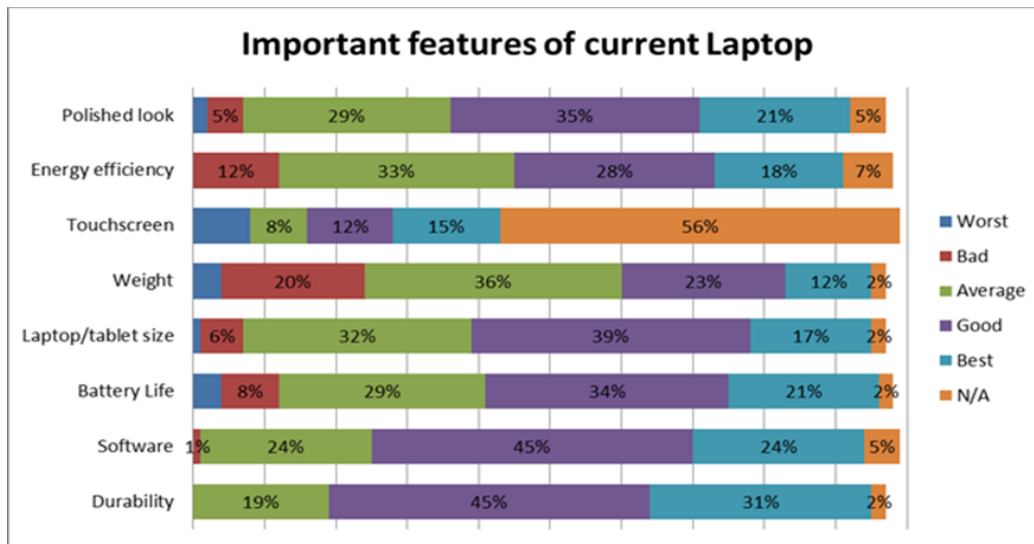


Figure 6. Survey Result

In the second step we interviewed 9 people based on the type of products they use. Four of the interviewees had only laptop, three had a laptop and a tablet and two had desktop at home and personal tablets.

We asked 7 questions during the interview:

- How important are weight, size and battery life to you?
 - Do you need All-Day battery life?
 - What are your ergonomic and size preferences?
 - ✓ Reviews suggest Surface Pro's battery life normally tops out around 4.5 hours that is not bad for a laptop, but not great if you're used to tablets that run all day.
 - ✓ In its tablet role, Surface Pro makes good use of this screen, which should be great for Web surfing, viewing photos or watching movies. However in its laptop mode, the 10.6-inch screen is not sufficient as the users are adapted to 15-inch.
 - ✓ The Pro is difficult to balance on one's lap, making it impractical to type on anything but a flat surface.
- What are your storage needs?
 - ✓ Surface Pro comes in only 64-GB and 128-GB varieties capacity which Windows 8 eats up around 45 GB of the device's storage capacity.
- Do you have access to Wi-Fi when you need it?
 - ✓ Surface Pro can only connect to Wi-Fi networks. For laptop users, this limitation might be acceptable but for tablet power users with 4G data plans, it would be a shock.
- Which Microsoft Office programs will you want to use?
- What kind of apps and software will you want to run in your device?
- What is your experience with you current device?

The interviews resulted in understanding the market expectations and strength and weakness of Surface Pro for satisfying these expectations. Some of the highlights of the interview's result are:

Surface Pro strength: The Microsoft Surface Pro provides a full ultra-book experience in a compact 10-inch tablet. It offers a comfortable interface and typing experience. The clean, crisp design and sharp 1080p screen rise above the competition.

Surface Pro weakness: The battery life is disappointing. The 64GB model barely has any free storage. It costs as much as a regular laptop, especially because the keyboard cover isn't included in the original price.

Satisfying customer expectations: The Surface Pro's design successfully reinvents the Windows 8 laptop by forcing an ultra-book experience into the body of a 10-inch tablet. Customers who are seeking a mix of tablet and laptop experience won't regret buying the Surface Pro, however, for the customers who are major laptop users or major tablet users this may not be as ideal.

Another interesting result of the interviews is that the majority of the interviewees were willing to pay for surface pro for three reasons: 1- Microsoft Brand, 2- Lack of compelling alternatives, and 3- Windows 8 support.

However, given the findings of the interviews and surveys we believe that the target customers are mid-age professionals who want to use their gadget for both work and personal related activities. Our team believes that Surface Pro is targeting the people who do not just 'want' a new tablet but actually need one. The device has the ability to compete with both laptops and fun tablets, with the ability of providing the functionality of both.

5. Market Needs

Windows 8 Surface Pro is a tablet that provides the power of a laptop. The Surface Pro is far more powerful than its RT version, and the iPad, and virtually all Android tablets. But, the tradeoff is an \$899 base price and battery life that is much more like a laptop than a tablet. Another tradeoff of the Surface Pro is around how thick and heavy it is, particularly now that the market and the end users are pretty spoiled in this regard, mainly by Apple and Samsung and what they've pulled off in slimming down their products. The weight and thickness of the Surface Pro is much closer to the 11-inch MacBook Air than to iPad and Android tablets. The biggest highlight of the surface pro is how it combines a traditional mouse and keyboard experience with touch screen and pen computing in a way that works naturally and integrates the value of all three.

5.1. Customer Expectations

As a result of the survey and all the interviews and some research that we conducted we believe that the customers will appreciate the features provided by surface pro and the fact that one gadget can do it all. However there are other expectations that still yet to be satisfied such as battery life, lighter

weight, type of connectivity to the internet and more importantly price. It seems like customer expectations are raising higher as the technology is growing which in fact creates opportunities for future markets.

6. Value Drivers

The human desires that underlie the compulsion for customers to purchase tablets apply to the Surface Pro as do the desires that compel customers to seek fully operational laptops. In combining these value drivers for two traditionally separate markets a set of unique value drivers were formulated. From this, the feature list of the Surface Pro could be attributed to an underlying value and thus provide CRTA.

6.1.1 Portability

The emergence of a “mobile renaissance” in electronic consumer goods has afforded increasing ability for customers to carry out computational activities without being tethered to a stationary terminal. Being able to create and carry content without restriction to location poses a traditional yet continuously important value to what has become termed the mobile market (including products such as phones, tablets, laptops, etc.). Our survey showed lower desire for portability. This was assessed as being so not because it was less important, but for a product in the mobile device market, portability, as much as tactile touch screens, was an expectation rather than the exceptional feature. Mobility remains as much a value driver of consumers seeking portable devices as it is an absolute expectation of products in the market.

6.1.2. Connectivity

Connectivity is a key value driver of the mobile marketplace as much as an intrinsic necessity of the modern hyper-connected environment in which we live. Existing with an unmitigated ability to connect to social, work, and information networks affords a degree of competitive advantage to those able to do so. Being able to instantly access information as well as share and diffuse knowledge through networking are better fit to adapt and exist in a fast-paced, social and technologically inclined environment.

6.1.3. Content Creation

The value driver of content creation manifests in the ability to express oneself in an unrestricted way. Currently this value is addressed by laptops running full operating systems but represents an underserved value within the mobile markets. Very few products comprehensively integrate disparate content creation functionality. To date, camera phones addressed this allowing people to capture and share their world experience in a way never before allowable with separate cameras and cell phones. This leads to the next two value drivers.

6.1.4. Integration of Application

This value speaks to a desire to minimize the number of physical tools to simultaneously increase the breadth of application. Creating an “all-in-one” “Swiss-army knife” product increases portability as well as addressing multiple consumer expectations and desires within a single platform. The true value of the utility of such a tool exists in the individuality of experience and the ability of the tool to be applied to a multitude of individual needs that are not uniform across market segments.

6.1.5. Individuality of Experience, Personalization and Sharing Experience

Perhaps among the more significant value held by potential Surface Pro customers, individuality of experience and personalization represent a deep human desire to actively shape, interact with and validate a world experience both individually unique and ubiquitously and easily shared through common media. Users of Facebook, for instance, build personalized profiles they then share with other Facebook users; Apple device users can communicate with and operate natively among all other Apple devices should one choose to do so. The common platform allows users to expand and grow a sense of individuality within the bounds of a specific media. The seemingly contrasting desire to be both highly individualistic but also intensely social within communities of the like-minded can be considered a causal relationship. Seeking social validation of those who share a world view is a deeply human need that follows a desire to create and shape that view.

Among those we interviewed, this was one particular commonality. The desire to use a singular tool with which to create, personalize and interface their “digital existence” in a way that is both suited to their individual needs and their needs to share and integrate that existence with their work/social/personal communities.

6.2 Value Proposition

Microsoft’s value proposition for the Surface Pro is that the Surface Pro provides everything one would gain from a Windows computer in the form factor of an ultra-portable tablet.

Furthering this value proposition, the device would serve both professionals and students who need a product they can create content on in a way that seamlessly integrates such tasks into a pervasive Windows infrastructure without the need for multiple devices. The tablet form factor combined with the breadth of functionality of a laptop running full operating systems unitizes the inherent value of both devices while creating new areas of value for users. The experience of content creation on a platform that removes the tethers of needing multiple devices frees up the consumer to realize a more personalized digital existence while simultaneously leveraging the existing Windows ecosystem.

6.2.1 Positioning

The Surface Pro is a platform innovation. The sequential architectural innovation in combining existing tablet technology with hardware more commonly seen in laptops provides a unique position among both distinct markets. The merging of both tablets and laptops is something new, but not

radically new. The Surface Pro is positioned to superficially compete with both markets due to the form and functionality considerations, but directly competing with tablets and laptops is not the primary focus of the positioning of the Surface Pro. Rather, the Surface Pro is ideally positioned to compete with the myriad “ultra-portable” notebooks (e.g. MacBook Air, Intel’s Ultrabooks) [12]. These in themselves are a substitution threat to standard laptops and tablets reducing the physical footprint of current laptops while increasing the overall functionality of the highly portable tablets. Many Ultrabooks are integrating tablet features ranging from touch screen laptops to convertible devices where the screen can be rotated to provide a tablet form factor.

Currently there is no one form that dominates all others; technology is allowing a flowering of architectural innovation and the market has not settled yet. The market the Surface Pro has been positioned in essentially competes with its own Windows customers as Intel-based, OEM-manufactured Ultrabooks ubiquitously run Windows 8.

In this, a strategy emerges. Given the Surface Pro’s entry and position into the “ultra-portable” market, Microsoft may very well be intending to provoke third party OEMs to develop windows-based tablets in the strategic vision they desire. Compared to “ultra-portable” notebooks, tablets are much more streamlined with fewer moving parts and are generally cheaper to build (\$320 for the Surface Pro compared to the upward of \$500 average for Ultrabooks [13]). In competing with its own customers, Microsoft has positioned the Surface Pro to essentially prototype future Windows-based tablets, attempting to force an industry standard as well as bring Windows 8 into the tablet market.

6.3 Product Attributes

The assessment of the value drivers inherent in the mobile market as well as the underlying human desires therein, the Surface Pro’s product attributes could then be evaluated as to how well each attribute addresses the values presented.

6.3.1 Addressing Portability

The Surface Pro is designed for ease of portability. Utilizing the ultra-mobile form factor of a tablet allows the Surface pro to provide a highly mobile experience.

6.3.2 Addressing Connectivity

The Surface Pro has standard connectivity hardware allowing it access Wi-Fi networks as would typical products in the mobile market. However, it lacks a 4G cellular network capability restricting overall connectivity to Wi-Fi hotspots. This severely limits the overall ability of the Surface Pro to address this value driver and furthermore, restricts overall portability.

6.3.3 Addressing Content Creation

The ability to operate the full spectrum of software available for Windows 8 allows users to fully create content previously only available to laptop users. This is confined only to the hardware limitations of the processor, memory and hard drive. The array of input methods (e.g. detachable

keyboard, touch screen, stylus) expands on the existing methods available in competing products. Combining the array of input methods with its software capabilities make the Surface Pro uniquely positioned to address content creation in a way unprecedented within the mobile environment.

6.3.4. Addressing Integration of Application

The Surface Pro is the latest “all-in-one” platform integrating Windows functionality, tablet utility, input variety and scope of available software. The functionality and portability of a tablet has been combined with that of a laptop.

6.3.5. Addressing Individuality of Experience, Personalization and Sharing Experience

The full range of connectivity features, input options, software capabilities and tablet form factor position the Surface Pro to distinctively address this value. Combining the Surface Pro’s capabilities in content creation and connectivity (albeit limited to Wi-Fi hotspots), potential users can uniquely create and interface with their “digital existence”. To do this, the Surface Pro leverages the prevalence of the Windows ecosystem and pervasiveness of Windows-based software use. This provides a standardized “tabula rasa” with which to create and integrate based on individual needs.

6.3 Compelling Reasons to Act (CRTA)

With the product attributes sufficiently addressing the value drivers (with the exception of comprehensive connectivity), the compelling reasons to act are as follows:

6.3.1 Merging Functionality

The Surface Pro combines laptop and tablet functionality in one compact device. For device conscious buyers, this would afford higher levels of portability and functionality with fewer separate devices. For the mid-ranged cost (\$900 -1100), Surface Pro buyers will not have to purchase two devices.

6.3.2 The Prevalence of Windows

The universality of the Windows operating system means there is no need to learn a new operating system. For potential customers looking to purchase a new device will face fewer hurdles or switching costs. For instance, Apple devices need specialized adapters to connect with the vast majority of non-apple devices on the market. In this light, switching to Apple requires customers to spend money on expensive adapters or replacements to either continue to interface with existing infrastructure or reconfigure themselves, entirely integrating into Apple’s “gated community”. A device that provides native interfacing without switching costs could be more attractive than switching.

6.4 Competition Analysis

6.4.1 Competition & Indirect Competition

Microsoft Surface Pro is a full-fledged laptop as well tablet, which can run the apps (e.g. Adobe Photoshop CS6, and Camera Bits Photo Mechanic), graphics-intensive games (e.g. Diablo), powered by Windows 8 operating system. It has a high performing processor, with Intel's Core i5 along with HD display that can power through any complicated work. Surface Pro will give a tough competition to current crop of A-listed laptops and tablets, like Apple iPad, Acer Iconia, Toshiba Excite 10, Asus Transformer Infinity, HP Envy, Acer W510, Dell Latitude 10, Lenovo ThinkPad Tablet2 and there are chances, Microsoft Surface Pro may as well win tablet cum laptop battle as well [14].

Direct competitor to Surface Pro is tablet cum laptop for example Lenovo's Yoga Pad targeting the Surface Pro's market. According to Sortable laptops Microsoft Surface Pro has much overall winner scoring 79 beating rival Yoga pad at 71. Microsoft Surface Pro is 2.2 (676g) times lighter weight, 50% (9mm) thinner, higher screen resolution (1366 X 768) powered with higher performance by Intel Core i5 processor than Yoga Pad [15].

Indirect competitors being laptops, Kindle Fire HD and Nook. It also beats the performance of most detachable laptops, which generally use Atom processors. Like the Surface Pro, many convertibles laptops with screens that slide, fold, or twist into a tablet but don't detach like Surface Pro. Powered with Core i5 processor, memory from 64 GB-128 GB, along with HD screens resolution. Microsoft Pro is a complete computing package performing all the functionalities of laptop along with browsing abilities like Kindle and Nook [17].

Listed below are few of competitors from iOS, android as well windows tablet in comparison to Microsoft Surface Pro [18] [19].

				
Competing Category with Microsoft Surface Pro	Core i5 Tablets	Atom Tablets	Arm Tablets	iOS Tablets/ Android Tablets
Brands	Acer Iconia W700	HP Envy Acer W510 Dell Latitude 10, Lenovo ThinkPad Tablet2	Windows RT	iPad (128 GB) Google Nexus 10
Strength of Competitors over Surface Pro	1.Mainstream power 2.Performance	1.Excellent battery life 2.Lower prices (\$500 -\$800)	1. Light weight 2. Lower price	1.Easy to use, 2. Numerous Inexpensive apps and media services
Weakness of Competitors over Surface Pro	1. High prices, 2.Shorter battery life	1.Weak performance	1.Higher Performance, 2.Battery life, 3.Screen resolution	1. Limited Productive 2. Familiarity with Windows O.S
Comments	Closest Competitors	Closet Competitors	Similar Looks with lower price	Popular in market.

6.4.2 Macroeconomic Forces

There are various macroeconomic factors which influences buying/selling decisions of a technology market. One of the most important factors is the political economy. Government exercises both direct as well as indirect control. Directly through control/encouragement of monopolistic or distributed competition through, credit, fiscal, and import/export policies. As well as Indirect influence on technology decision-making through product price policy which in turn leads to globalization, skill-biased technological change, labor mobility/productivity, capital, labor, and technology [31][32].

7. Marketing Strategy

7.1 Product

Microsoft's decision to build its own tablets changes the laptop/tablet market significantly. The Surface Pro's design successfully reinvents the Windows 8 laptop by condensing an ultrabook experience into a sleek 10-inch tablet, with new app store, decent performance and excellent build quality [N8]. It's a 64 Bit tablet PC powered with Intel Core i5 processor for performance and BitLocker, which encrypts your hard drive's data for security. Along with full HD display with 1080p resolution to provide high-resolution screen with a portable and detachable keyboard and digital ink. Hence is a Microsoft Surface Pro is a full-fledged laptop as well tablet with focus on business field as well as young tech savvy individuals [23] [24].

7.2 Placement & Promotion

Microsoft Surface Pro, is second in line Windows 8 tablet released by software giant Microsoft on February 9, 2013 [N9]. A strong case can be made that the Surface Pro is just an Ultra book without keyboard, and plus a pen. But Microsoft isn't marketing it as a PC or Ultra book, but as the Surface Pro. Naming and segmentation are important; because how a company markets a product indicates how it wants the world to see a product. If Microsoft says it's a tablet, then it must be a tablet and so customers who are shopping for actual tablets and not paying attention to the specs, will probably ignore the Pro, just because of its price alone. The launch of the Surface Pro was different than the RT model as Microsoft didn't take preorders this time. Surface Pro was launched in the US and Canada with minimal involvement of the channels in those regions, however, after the launch, the market has experienced low availability due to a combination of low supply and high demand [20][22].

Microsoft is trying to replicate Apple's consumer/marketing strategy by focusing on "Design, Presence and Message" philosophy [24].

- Design – App store, simplicity and ease of use of Windows 8 user interface has been the focal point of Microsoft Surface Pro
- Presence – In order to provide the customer the first hand experience of use and feel of products (Microsoft Surface Pro), Microsoft has launched its very own retail store called, Microsoft Store. Currently Microsoft has opened 31 stores worldwide and plans to open 75 new Microsoft stores in the next two to three years [25]. Surface Pro is also available direct sales from Best Buy, Staples, Future Shops Stores (Canada) and Online stores [26].
- Message - Target customers being young professionals, Surface Pro latest ads and hoardings are crafted to convey message of ease of use, fun, and design simplicity to appeal to its audience [24][26].

7.3Price

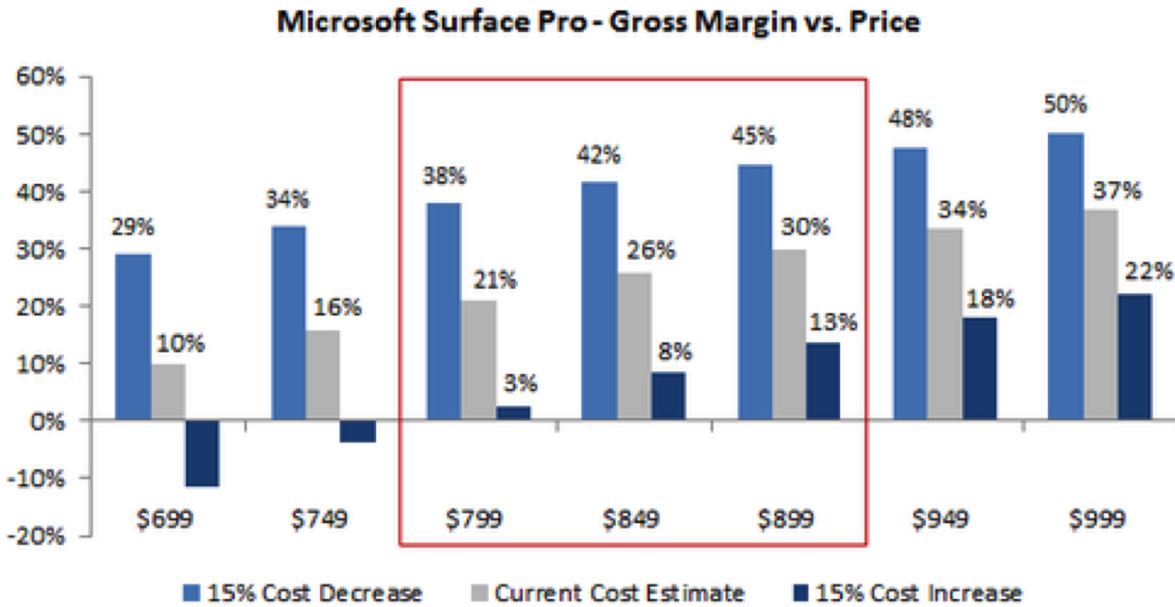
Microsoft's pricing decision is inclined towards their OEMs (Original Equipment Manufacturers) partnerships rather than its gross margin. Hence Microsoft would be under significant amount of pressure to price Surface comparable to tablets from its OEM partners. (It's also true that, OEMs would also have to pay a license fee of range \$60-\$100 for each x86 tablet to Microsoft).

Listed below is rough estimate for the Surface Pro major components bill of materials of major components like Core i5 processor, Storage, RAM, display, Battery. Including all Bill Of Material cost will provide a gross margin 45% of base price of Surface Pro (64GB) priced at \$899 [N14].

Considering the base price of Surface Pro (64GB) priced at \$899 (excluding the smart cover / type keyboard with additional price \$119/\$129) with a gross margin of roughly 25%-30%. Most mid-range x86 Windows 8 tablets are marked at more/ less at the same retail price (with higher gross margins), with high-end models (specs comparable to the Surface Pro) priced at \$1000 [30].

With the market experiencing low availability of Surface Pro, the 128GB Surface Pro is a rare commodity at the moment, which has, reflect eBay's asking prices. In fact, some sellers, with a stack of at least 10 Pros, are asking \$1,300 for the 128GB model alone. Other sellers are asking \$1,399 and even \$1,499 while the regular price is \$999 for the 128GB model [33].

Components Cost*	Microsoft Surface pro BOM (64GB)
Processor Cost (Intel Core i5)	\$204
Storage(64GB)	\$33.60
RAM (4GB)	\$41.70
Display Cost(Full HD)	\$33.47
Battery Cost(42 Wh)	\$8.58
Total (BOM Cost*)	\$321.35
BOM – Bill Of Materials	
• Excluding R&D costs, human resource costs	



Estimates by Tech-Thoughts ©

Source [27] Microsoft Surface Pro Gross Material cost vs. Base Price

7.4 Competitor's Strategy

Tablet market mainly consists of three major operating systems - Windows, Apple, and Linux/Android. With major players being Apple, Samsung, and Asus dominating the market. With Microsoft coming into the picture, has lead space between hardware and software consumer space has diminished significantly. Both Surface products have got good response from market thus providing Microsoft with a much-needed boost in tablet market to compete against Android and iOS tablets [28].

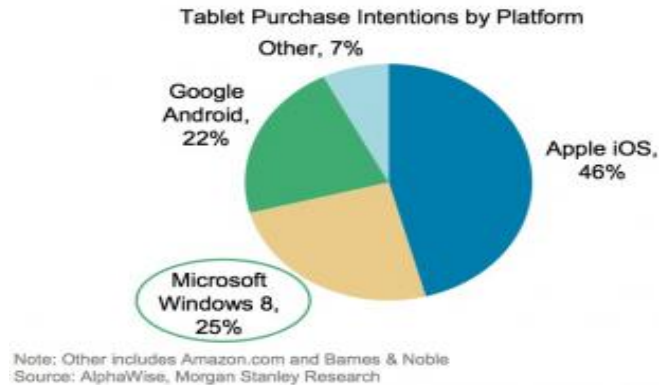
Hence to compete with Surface Pro, Apple has released a new iPad (Gen4) 128 GB on February 5, 2013. Priced at \$799 (Wi-Fi only) model and \$ 929 (Wi-Fi + cellular) model. With Large storage capacity and 300,000 iPad apps to choose from iPad Gen4 will compete to Surface Pro 128 GB neck to neck [30].

Sony is coming up a new version of a 10", much thinner (27% iPad) and light weight (24% iPad) android tablet named Xperia Tablet Z. Priced at \$499 for 16GB and \$599 for 32GB models. One of the drawbacks of the tablet would user interface as well as its not so fast processor (Snapdragon S4 Pro chipset from Qualcomm). Its expected to be released Q2 2013 in the market [29].

8. SALES FORECAST

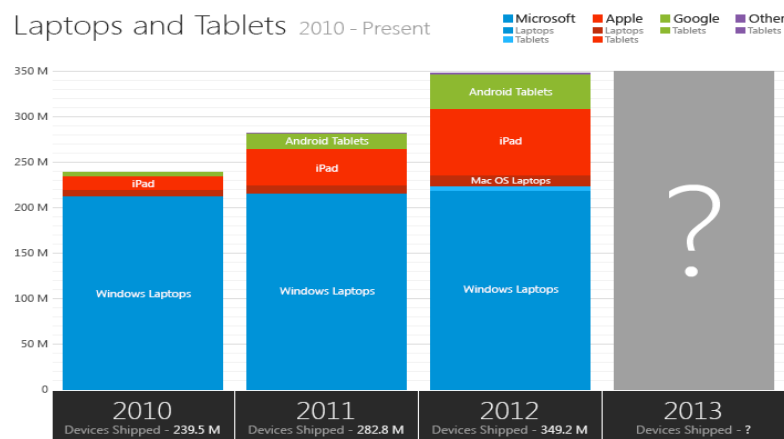
8.1 Tablet Sales according to platform

Microsoft Windows 8 with Office Could Become the Second-Largest Tablet Platform



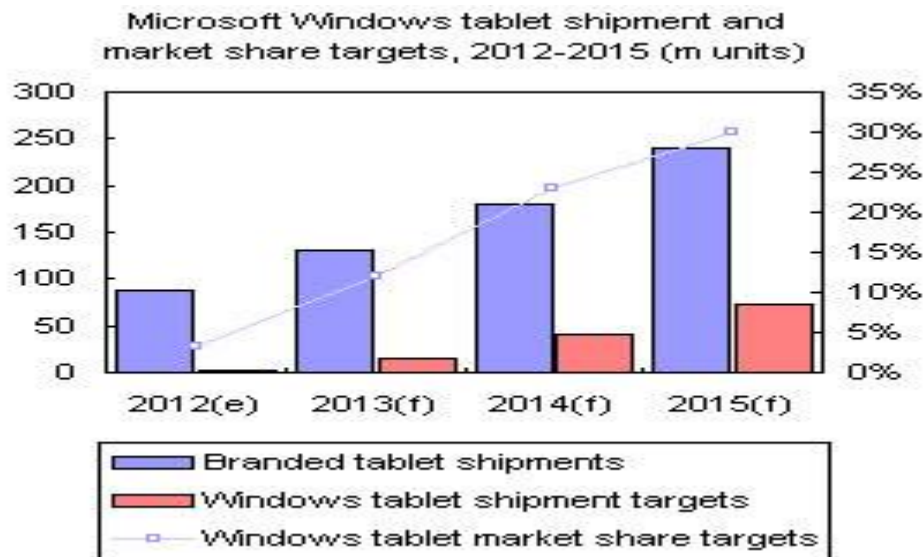
According to Morgan Stanley, Tablet shipments in the past two years have actually proved to be 20% higher. More significantly, the company's latest "Blue Paper" report to clients on the tablet industry includes a survey of "purchase intentions" that led the firm to update its forecast of tablet shipments much higher. Now the company says it expects 133 million and 216 million tablets will be shipped in 2012 and 2013 respectively - 57% and 122% higher than the original estimates [8]. It also says Microsoft has moved from "a challenged to a best-positioned company in the tablet market". MS Surface Pro coming out in Q1 2013, which will actually run any PC app, including such powerful pieces of software like Adobe Photoshop. It also believes that based on the expected acceptance of Windows 8 tablets due out later this year, Microsoft's ace in the hole will be the bundling of Office with Windows 8 tablets. Microsoft tablets have a chance to grab second place from Android behind the iPad, which currently has 62% of the market [8].

8.2. Past Tablet and Laptop



Since the new hybrid devices cover the same functionality as laptops, it is reasonable to expect that they will get a healthy portion of those 200M+ would-have-been-laptops sold in 2013 [35].

8.3. Forecast of Windows Tablet Shipment



Windows 8 will have two major impacts on the PC and tablet markets. Firstly, it will stimulate growth in touch screen devices. Projective capacitive touch panels are likely to become the mainstream touch technology on the basis of current trends, and their use will spread from mobile devices into PC products. Second, Windows 8 will expedite the uptake of ultra-thin systems like ultra books and tablets, and will therefore increase the penetration rate of SSDs (Solid State Drive) in Windows systems. SSD-equipped notebooks have already seen major breakthroughs in sales during 2012, with whole-year shipments surpassing 10 million units. Windows 8 tablets that use Intel CPUs will also use SSDs as their main storage devices, and are projected to ship around one million units in 2012 [36].

Surface Pro will be a full Windows 8 tablet capable of running all desktop applications and offering more power and features. Therefore we are assuming that users who are using Windows laptop till now will switch to Surface Pro. The sales forecast for laptops which is around 200M in 2013, it is expecting that Surface Pro will get a healthy portion of these 200M laptops.

Calling the Surface Pro "more promising," it can be seen as an alternative to the iPad among enterprises users. For Microsoft's fiscal 2013 the analyst estimates Surface sales of 2.5 million units. For fiscal 2014, forecasted sales will be as high 8 million [37].

9. Conclusion

The Surface Pro's design successfully reinvents the Windows 8 laptop by forcing an ultra-book experience into the body of a 10-inch tablet. Customers who are seeking a mix of tablet and laptop experience won't regret buying the Surface Pro, however, for the customers who are major laptop users or major tablet users this may not be as ideal. From our research of the interviewees we found that they were willing to pay for surface pro for three reasons: 1- Microsoft Brand, 2- Lack of compelling alternatives, and 3- Windows 8 support. We believe that our customers need connectivity, a need to interact with everybody, portability, and individuality of experience. They are customers on the go who need productivity at every moment of their daily life. They need something lightweight, easily transformable, and where they could get "lost into the experience."

As a result of the survey and all the interviews and some research that we conducted we believe that the customers will appreciate the features provided by surface pro and the fact that one gadget can do it all, as the features support the value drivers that would push consumers toward the Surface Pro. However there are other expectations that still yet to be satisfied such as battery life, lighter weight, type of connectivity to the Internet and more importantly price. It seems like customer expectations are raising higher as the technology is growing which in fact creates opportunities for future markets and hopefully Microsoft will fix those in the next versions of the Surface Pro.

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