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# The Case of Microsoft's Surface Tablet: Going Behind the Strategy with SWOT

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# The Case of Microsoft's Surface Tablet

## Going Behind the Strategy with SWOT

By [David R. King, PhD](#) and [Todd Peterson, MBA](#)

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Following its development at Harvard Business School in the 1950s, the SWOT framework became a frequently used decision tool.[1] While the complexity organizations confront in the modern business world has increased, SWOT provides an intuitive way to organize information into internal “Strengths and Weaknesses” and external “Opportunities and Threats.”[2] Another reason that SWOT remains relevant is its flexibility that enables integrating other analysis tools. It also encompasses multiple steps of strategy development to cover analysis, formulating options, and implementation.



The applicability and relevance of SWOT analysis can be demonstrated by showing how this strategy tool can explain Microsoft's Surface tablet. Microsoft faces increased competition from other technology firms and its core business of personal computer (PC) operating systems and software face declining demand, and a SWOT analysis helps to understand Microsoft's response. While performing a SWOT analysis, the quality of analysis depends on the underlying questions. Open-ended questions ensure thought is given to identifying underlying issues and not just their symptoms. In addition to the questions we develop, additional questions are provided in the Appendix.

### Strengths

Knowing the options available to an organization often begins with knowing what they do well. An objective analysis can often lead organizations to unrecognized strengths. For example, a subtle strength in a dynamic industry involves the ability to introduce products faster than competitors. Two questions help identify Microsoft strengths.

***What are the major sources of Microsoft's revenue and profit?*** Microsoft's revenues come from five segments. As listed in the 2012 Annual Report, a few divisions produce the vast majority of Microsoft's revenues and income. Earning \$23.9 billion, the Business division has the highest revenues, while the Windows Division, with 62 percent margins, is the most profitable.[3] This reflects a high market share with 91.7 percent of domestic and 83.8 percent of worldwide computers using some version of Windows.[4] This level of market penetration and familiarity make Windows

and Microsoft Office the standard for sharing files and reinforces adoption by allowing businesses to avoid training people to use computers running Windows.

***Does Microsoft have adequate reserves to launch new products?*** The word adequate may be subjective as it cost approximately \$3 billion to develop the second generation Xbox 360.[5] However, assuming moderate risk of moving into related areas Microsoft likely has funds to develop new products. Using information from Microsoft's 2012 Annual Report, its \$85 billion in revenue exceeded expenses of \$52 billion.[6] A firm's debt load also needs to be considered, and a current ratio of 2.8 suggests that Microsoft could fund existing operations for several months with cash on hand.[7]

## **Weaknesses**

When evaluated objectively, it is possible that areas considered strengths are actually a weakness if a firm becomes over reliant on a trait. While even competent companies have weaknesses, they become handicaps when a firm does not recognize and address them. Acknowledging weaknesses is not an admission of failure, but recognition of needed improvement. Independent analysis identifies innovation as a weakness for Microsoft.

***Has Microsoft demonstrated the ability to adapt to change?*** The simple answer is no, although the company regularly releases new versions of Windows with related products, Microsoft hardware is often not successful. For example, Microsoft Kin phones developed in 2010 for Windows 7 were pulled two months after their introduction.[8] As a result, Microsoft is considered to be playing catch-up in mobile devices. Still, in an attempt to become more innovative, Microsoft has reorganized how it turns products into reality and turned Bill Gates' old office into a research lab to "Do epic shit." [9]

***Can Microsoft survive a significant change in its major market?*** With the majority of Microsoft's revenues coming from its business division, it is vulnerable to the shift to mobile devices and consumer products. Prior to 2010, when the iPad was released, PC sales grew approximately 10 percent annually, but following the introduction of tablet computers PC sales have only grown by 2 percent.[10] While consumer technology is a smaller market compared to corporate spending, the consumer market is growing faster and Microsoft has less of a presence there.[11] Further, the dependence on revenues from selling software becomes a weakness as competitors offer software for free (e.g., Google's Android and Docs).

## **Opportunities**

All organizations have some external opportunities that they can pursue. These range from diversification to outsourcing non-core operations to a supplier. However, firms will have more opportunities than they can reasonable pursue. Identifying profitable opportunities that match the capabilities of a firm is the mark of astute management. Questions related to identifying opportunities clearly show Microsoft has an opportunity to enter the tablet market with a device able to use the Microsoft Office suite of software.

***Is there an important market Microsoft serves that is undeveloped?*** Microsoft continually finds itself in this situation, as companies continually design and develop new hardware and software. The biggest markets without a significant Microsoft presence involve search, smartphones, and tablets.

For example, in 2010, the iPad took the market by storm growing from insignificant sales numbers to more than 120 million sold by 2012.[12]

**Where are opportunities to extend Microsoft brands into new, related areas?** While Microsoft maintains a near monopoly on operating systems for PCs, they only have 4 percent of the mobile phone market and even less of the tablet market.<sup>4</sup> This suggests Microsoft could extend from its base of business customers to offer a tablet solution integrated with existing information technology infrastructure of servers running Microsoft software and businesses using Microsoft Office. This opportunity is reinforced by the fact that a popular iPad application is QuickOffice, an app that allows users to view and edit Microsoft Office documents.[13]

## Threats

The environment a firm faces is always changing, yet the severity of the threats a firm faces will often be unique to their industry. The technology industry changes as a result of the processing power available and the imagination of engineers. For Microsoft, industry changes require rethinking their existing products.

**Are industry sales falling and why?** Microsoft reaped the benefits of providing the vast majority of computer operating systems over the last 20 years, but they are unable to ignore a decline in sales. The cannibalization of the PC market by tablets reflects the long-term trend of increased computing power in smaller sizes and it represents a significant threat to Microsoft’s primary source of revenue and profit. For example, Microsoft cannot rely on continued sales to be driven by the purchase of new PC hardware. Therefore, a strategy that acknowledges declining PC sales is needed.[14]

**What changes in the industry are effecting Microsoft’s operations?** When considering change, differences in the people using products and not just product changes need to be considered. The newest generation of workers entering the business world brings new demands, as the Internet and cell phones were constant companions in their formative years. Communication and computing technology is generally viewed as a basic need, and it is reflected in expectations for businesses to provide smartphones and tablets. The more work done on Apple and Android hardware and software threatens Microsoft’s position as the default supplier of operating systems.

## Moving from Analysis to Strategy

Identifying attributes of a firm and its environment only touches the beginning of SWOT analysis.[15] Strategy requires jointly considering a firm’s internal and external environment to formulate alternatives for how an organization can improve. To avoid a tendency of focusing more on threats than opportunities, consider building a matrix that matches internal and external conditions to identify alternatives that relate to different options (Table 1).[16]

**Table 1:** Identifying Alternatives from SWOT

	<b>Strength</b>	<b>Weakness</b>
<b>Opportunity</b>	S-O strategy	W-O strategy

Threat	S-T strategy	W-T strategy
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Generating different alternatives can help determine an appropriate strategic approach. As alternatives are developed priorities will emerge that further directs the selection of the appropriate strategy that is suitable, feasible, and acceptable. Continuing the application of SWOT to Microsoft, it is clear that developing Windows software for mobile devices would be highlighted in multiple quadrants that represent distinct strategies:

- **Symmetric strategy (S-O)** aligns a firm's strength with a market opportunity. Rarely is using a firm's strength on an opportunity a bad idea. For Microsoft, strengths in software and the growing tablet market should identify alternatives representing a symmetric strategy. This approach is evident with the Windows 8 operating system leveraging strengths in software by integrating touch features needed for tablets.
- **Asymmetric strategy (W-O)** addresses a firm's weakness in order to take advantage of a market opportunity. A firm should have significant resources or the ability to absorb some losses while the opportunity should be rewarding enough to make the strategy worth the risk. For Microsoft, a weakness in new product innovation and the clear shift in the marketplace to mobile devices underlie an asymmetric alternative of developing its own tablet.
- **Offensive strategy (S-T)** applies a firm's strength to a threat in the market to reduce vulnerability. An established firm should use this strategy at the beginning of an emerging threat to prevent weakening its brand. As the reigning leader of operating systems with over 90 percent of the domestic market, any operating system Microsoft introduces will be adopted by a significant number of people. A tablet with features targeted at business professionals could allow Microsoft to leverage strengths in software to move with the market.
- **Defensive strategy (W-T)** aims to prevent a firm's weakness from being exposed to a market threat. This typically relates to less dominant firms targeting a market niche.

Additional explanations for Microsoft's strategy toward mobile computing can also be explored, but multiple positions outlined here show Microsoft responded to declining PC sales and increased competition created with Windows 8 and the development of its Surface tablet. The integration of touch capability into Windows 8 suggest a compromise position of using an established base of Windows users familiar with Microsoft's answer to mobile computing.<sup>[17]</sup> However, the compromises in Windows 8 satisfy neither PC nor tablet users. In the first quarter of 2013, Windows 8 failed to capture tablet sales and it contributed to a 14 percent drop in PC sales.<sup>[18]</sup> Still, the combination of using Microsoft Office programs with a suitable keyboard in tablet is something that can be predicted with SWOT analysis.

## Conclusion

Strategic shifts are rarely seamless and Microsoft has the resources to make adjustments. In responding to the iPad, Microsoft took two years to offer a Surface tablet with an abbreviated version

of Windows 8 that restricted users to limited versions of Microsoft Office without its Outlook e-mail program.[19] This kept the first iteration of Surface (RT) from being useful to business users and limited the ability to use corporate customers to gain a foothold in mobile computing. The Surface Pro fixes this shortcoming but in a larger package than competing tablets. However, these shortcomings contributed to Microsoft taking an \$900 million charge to earnings in 2013 that was followed by lower prices for its Surface tablet and a reduction in prices charged to computer makers for Windows 8 as Microsoft works on an update to the operating system.[20] While time will tell whether Microsoft will be successful in making a strategic shift to mobile computing, SWOT analysis can also help show what needs done in your business.

**Appendix: Additional Questions for SWOT Analysis**

<b>Internal</b>	
<b>Strength</b>	<ul style="list-style-type: none"> <li>• What does the firm do better than anyone else?</li> <li>• What process, policy, or procedure gives the firm an advantage over the market?</li> <li>• What are the major sources of a firm’s revenue and profit?</li> <li>• What unique or lower-cost resource does the firm own?</li> <li>• What are the firm’s effective marketing and advertising products/techniques?</li> <li>• Who/what increases employee morale?</li> <li>• How does the firm harness information technology most effectively?</li> <li>• How can the firm manage its inventories in the most efficient manner?</li> <li>• Has the firm demonstrated the ability to adapt and change?</li> </ul>
<b>Weakness</b>	<ul style="list-style-type: none"> <li>• How consistently has the firm brought new ideas and products to the market place?</li> <li>• How is the firm positioned to survive a change in its major market?</li> <li>• Do employees have faith in management?</li> <li>• Do the employees understand and support the firm’s mission?</li> <li>• What capabilities does the firm maintain to withstand sudden economic downturns?</li> <li>• Can the firm attract, develop, and/or retain needed talent?</li> <li>• What are the biggest expenditures/costs for the firm, or is a firm dependent on external suppliers?</li> </ul>

	<ul style="list-style-type: none"> <li>• How effectively can the firm raise money when needed?</li> <li>• What are the corporate governance standards and are they high enough?</li> <li>• What factors drive lost sales?</li> </ul>
<b>External</b>	
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>• What are the emerging trends in a firm's industry?</li> <li>• What are the new technologies that the firm can use to innovate or lower costs?</li> <li>• What opportunities exist to extend brands into related areas?</li> <li>• Where are inexpensive acquisition opportunities?</li> <li>• How can the firm use the Internet as a marketing channel to lower costs?</li> <li>• What other firms can provide a mutual benefit with an alliance?</li> <li>• Where can the firm expand internationally, or move up or down the value chain?</li> <li>• How can the firm establish better relations with customers stabilizing cash flow?</li> <li>• How can the firm leverage better prices from suppliers?</li> </ul>
<b>Threat</b>	<ul style="list-style-type: none"> <li>• Are industry sales falling, and why?</li> <li>• What changes in the industry are effecting operations?</li> <li>• What is causing the union or other activity to have an adverse effect?</li> <li>• To what degree can the firm's brand equity withstand price competition?</li> <li>• Why are international competitors gaining market share?</li> <li>• Why are qualified employees being attracted away from the firm?</li> <li>• What technological change is the industry experiencing?</li> <li>• What is the level of regulation in the industry, and is it changing?</li> <li>• Why is the firm falling behind competitor technology?</li> </ul>



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[David R. King, PhD](#), earned his degree in strategy and entrepreneurship from Indiana University's Kelley School of Business. After retiring from the U.S. Air Force, he joined academia and he is currently an Associate Professor in the College of Business at Iowa State University where he teaches undergraduate business strategy. Dave's research focuses on complementary resources, merger and acquisition (M&A) integration and performance, technology innovation, and defense procurement. An award winning researcher, his research appears in leading management journals.

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