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Microsoft's Paradigm Shift: Strategically Reinventing the Brand, Supporting its Vision for Growth, and Strengthening Its Competitive Position

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MICROSOFT'S PARADIGM SHIFT:
STRATEGICALLY REINVENTING THE BRAND, SUPPORTING ITS VISION
FOR GROWTH, AND STRENGTHENING ITS COMPETITIVE POSITION

By

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A capstone project submitted for
Graduation with University Honors


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“We've had great successes, but our future is not about our past success. It's going to be about whether we will invent things that are really going to drive our future. Our industry does not respect tradition – it only respects innovation.”

Satya Nadella, CEO of Microsoft

Executive Summary:

This paper aims to illustrate a strategic analysis of Microsoft's newfound paradigm shift has revitalized Microsoft's corporate culture, investor confidence and momentum to strategically capitalize on new windows of opportunity. This corporate analysis demonstrates a holistic assessment regarding Microsoft's shift away from its myopic thinking in order to capture emerging consumer trends that will drive future business outcomes. Furthermore, the research will assess whether the tech giant is a reliable company to invest in based on the firm's strategic vision and competitive positioning. The scope of this paper addresses three core factors regarding Microsoft's vision for growth, the company's financial performance, and the ability to drive innovation through research and development. These three criteria serve as an overarching framework to evaluate Microsoft's promising paradigm shift and investment opportunity for stakeholders. With declining trends in the traditional PC market, Microsoft is strategically shifting away from its myopic reliance on its software products and diversifying the firm's portfolio to meet consumer preferences. Microsoft's paradigm shift aims to capture emerging trends by leveraging new leadership and financial strength to drive growth. The new shift improves the company's ability to sustain its competitive advantage and deliver long term value to its shareholders. The paper utilizes comparative and statistical methodologies to assess market share, financial data and market trends to illustrate Microsoft's corporate strength. The guiding framework examines Microsoft's strategic position and its impact on the company's market value, brand image, and consumer relationships. The paper

signifies Microsoft's ability to reinvent itself through a diversified product portfolio and demonstrates the company's strength to retain its competitive advantage across time.

Furthermore, Microsoft introduction of the Surface Pro product line is aligned with its new paradigm shift to capture emerging consumer needs. Microsoft's new flagship Surface Pro product line examines how the firm has diversified its focus to develop a hardware product portfolio. The overarching framework of the Surface Pro analysis is directed by three guiding questions: How has the release of Microsoft's flagship hardware product impacted the firm's market share, against rivaling competitors? How will the product better cater to customer's needs to leverage customer satisfaction for sustained connectedness? What is the significance of this product on the entire corporation in regards to impact, influence and creating a turning point for the company's direction for future generations? The Surface Pro aims to advance the discussion on how Microsoft's paradigm shift ensured a positive transition away from its myopic thinking; pursued a strategic turnaround for diversified growth as a hardware provider. The guiding questions bridge an understanding of how global firms must consistently adapt to the market's dynamic environment to retain competitiveness across time.

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Table of Contents

Executive Summary	ii-iii
Acknowledgments	iv-v
1) Corporate Strategic Audit.....	1-20
Introduction	2-3
New Leadership Revitalizes Microsoft’s Trajectory for Growth.....	4-7
<i>Figure 1: Stock Prices Escalate with Satya Nadella’s New Leadership for Growth...5</i>	
Financial Overview	9-11
<i>Table 1: Microsoft’s Financial Data over the Past 5 Years</i>	<i>9</i>
Leveraging Research and Development.....	13-16
R&D Diversifies Microsoft’s Hardware Product Portfolio.....	13-14
Microsoft’s Focus Towards the Fastest Growing Sector, Cloud Computing.....	15
Surging Sales in Surface and Cloud Computing Drive Microsoft’s Growth	16
Recommendation.....	18-20
2) Paradigm Shift Ensures Positive Quality Assurance Improvements.....	21-23
3) Surface Pro 4 Diversifies Microsoft’s Product Portfolio.....	24-61
Surface Pro 4	24
Current Market Situation.....	25-34
Market Description	25-26
<i>Table 2: Versatile Surface Pro 4 Features for Various Market Audiences</i>	<i>26</i>
Product Review	26-27
<i>Table 3: Surface Pro 4 Product Features.....</i>	<i>28</i>
Competitive Review	28-33
Apple.....	29-31
Google.....	31-32
<i>Table 4: Competition from Existing Products within the Market</i>	<i>33</i>
Channels and Logistics Review.....	33-34
SWOT Analysis.....	35-40
Strengths	35-36

Reputable Brand Quality.....	35-36
Competitive Benefits Offer Substantial Customer Value.....	36
Weaknesses.....	36-37
Lack of Product Awareness	36-37
Late Entry into the Market Space	37
Opportunities	38-39
Appeal to Shifting Customer Needs	38
Growth in Emerging Global Market Economies	38
Cost-Efficiency and Effectiveness for Added Technological Value	39
Threats	39-40
Decreasing Trend in PC Market	39
High Market Rivalry and Competition	40
<i>Table 5: SWOT Analysis for Microsoft Surface Pro 4</i>	<i>40</i>
Objectives and Issues	41-44
Objectives	41-43
Issues	43-44
Marketing Strategy	45-54
Product Strategy	45-47
Pricing Strategy	47-48
Placement Strategy	48-50
Promotion Strategy.....	50-51
Positioning Statement.....	51-52
Positioning Strategy.....	52-53
Marketing Research.....	53-54
Action Programs.....	55-56
Controls	57
Conclusion: Significance of Microsoft’s Paradigm Shift.....	58-61
<i>Diagram 1: Interdependence on Agility to Sustain Competitive Advantage.....</i>	<i>60</i>
Appendices.....	62-63
Work Cited	64-68



In this analysis, we show how Microsoft's paradigm shift lead to an increased focus on quality assurance and the subsequent successes of the Surface Pro 4.

Introduction:

In 2013 the global leader in market research, International Data Corporation illustrated declining trends within the traditional PC market. This new change presented Microsoft an opportunity to reevaluate its business priorities as it could not afford to statically hold dominance in software services. The forecast prompted Microsoft to strategically shift away from its myopic reliance on its software cash cows and transition the company to pursue emerging consumer trends. Microsoft's new CEO, Satya Nadella has designed a vision for growth that aims to reinvent productivity and empower individuals to achieve more. The company's new mission is not simply a shared goal that the business aspires to reach, but has taken measured steps to ensure business outcomes that improve value for the firm and its stakeholders. Microsoft's rebirth for future success can be attributed to its financial strength, R&D's ability to drive innovative products, and new executive leadership that will enhance the company's competitive advantage.

First, Microsoft has established itself in the market through its robust financial performance for over 40 years. Strong reported earnings and ethical business engagements serve to illustrate the corporation's dedication to continually drive profit. The firm's proven financial history demonstrates its ability to take measured risks, to capture profitable revenue streams, but also signifies financial freedom to pursue new business opportunities for growth. Financial performance is the underlying crux of a company; fortunately for Microsoft it is the driving force that ensures flexibility to test new markets and maximize value in regards to its new paradigm shift.

Microsoft's financial strength sets the fundamental pillar for growth and drives its ability to promote research and development. The firm's large R&D investments

illustrates its initiative to recognize emerging trends which it aims to capture before competitors crowd the market space. Furthermore, R&D also improves prudent decision-making in which the company can assess the long term opportunity cost of selecting one project over another. Microsoft's investments have identified strong potential for hybrid laptops and cloud computing to drive profitable returns in the future; hence, supports the company's product diversification strategy to remain competitive within the marketplace. Microsoft has tactically transitioned away from its myopic reliance on its software products and is pursuing diversified growth that aims to capture market trends. The paradigm shift is vital for the company as it leverages its new leadership and financial strength to capitalize on new windows of opportunity. Microsoft's strategic turnaround illustrates its ability to reinvent itself through a diversified product portfolio and demonstrates how the company has dynamically adapted to the market to retain its competitive advantage.

Microsoft's paradigm shift has shifted the organization from its myopic thinking to capture new consumer trends. This strategic shift is driving future business outcomes and improving the firm's competitive position within the market.

New Leadership Revitalizes Microsoft's Trajectory for Growth:

From 2000 to 2014, Steve Ballmer served as the Chief Executive Officer for Microsoft. During his tenure, he contributed to the company's profitability in which annual revenues increased from "\$20 to \$70 billion and net income increased 215% to \$23 billion."¹ Under Ballmer, the company's cash cows, Windows and Office serviced as the business's financial powerhouse. Although, his leadership emulated a conservative approach of "protecting entrenched interests" which turned the company into a "graveyard for big ideas" that inspired tech giants like Apple and Google to thrive.² Microsoft's inability to shift directions to meet new consumer trends affected the stock to "hover the same price for a decade," as seen in Figure 1.³ Furthermore, Microsoft's innovative brand started to diminish as competitors such as Apple, Google and Samsung pursued a mobile revolution, while Microsoft "struggled to modernize."⁴ As Machiavelli suggests, Ballmer "always prospered by proceeding one way;" therefore, "he could not persuade himself to change" and adapt to the future (80). Unfortunately, Ballmer's leadership dismissed emerging technology that could have driven the company to achieve greater market penetration and profitability.

¹ Vance, A. (2012, January 12). Steve Ballmer Reboots. Retrieved February 02, 2017, from <https://www.bloomberg.com/news/articles/2012-01-12/steve-ballmer-reboots>

² Ovide, S. (2013, August 25). Next CEO's Biggest Job: Fixing Microsoft's Culture. Retrieved February 02, 2017, from <https://www.wsj.com/articles/next-ceos-biggest-job-fixing-microsofts-culture-1377474747>

³ Nazario, K. (2014, July 25). Steve Ballmer biography: The salary and career history of Microsoft's former CEO. Retrieved May 07, 2017, from <http://www.itpro.co.uk/strategy/leadership/22745/steve-ballmer-biography-the-salary-and-career-history-of-microsofts-former>

⁴ Rigby, B. (2013, August 23). CEO Ballmer retires as Microsoft struggles to modernize. Retrieved May 07, 2017, from <http://www.reuters.com/article/us-microsoft-ballmer-idUSBRE97M0K620130823>

MICROSOFT'S SHARES EMERGE FROM THE DESERT



Figure 1: Stock Prices Escalate with Satya Nadella's New Leadership for Growth

In 2014, Satya Nadella replaced Steve Ballmer as the CEO of Microsoft. Fortunately, Nadella's entrance presented him an ideal opportunity to exploit his technological prowess in order to save the firm from its myopic pitfalls. Understanding that Microsoft had already lost crucial time, due to its late entrance within the hardware market, Nadella quickly revitalized the company's direction for diversified growth through his vision to "take risks and move quickly when mistakes are made."⁵ He recognized that Microsoft needed to adapt to changing consumer preferences; therefore, he pushed a new mission to empower everyone through a "mobile first, cloud first" platform.⁶ Under Nadella's leadership, Microsoft transitioned from its flawed myopic approach to a strategic shift towards innovation and growth.


⁵ Weinberger, M. (2017, January 26). CEO Satya Nadella succinctly explained the secret of Microsoft's turnaround: 'No status quo' Retrieved February 02, 2017, from <http://www.businessinsider.com/microsoft-ceo-satya-nadella-on-how-he-approaches-growth-2017-1>

⁶ Novet, J. (2015, June 25). Satya Nadella unveils Microsoft's new mission: empowering everyone on the planet. Retrieved February 02, 2017, from <https://venturebeat.com/2015/06/25/satya-nadella-unveils-microsofts-new-mission-empowering-everyone-on-the-planet/>

Microsoft's paradigm shift aims to capture global trends by leveraging new leadership and vision to shape future organizational growth. The company's agility to reinvent productivity, through its "mobile first, cloud first" products, strengthens its ability to drive consumer connectedness and performance for investors. Microsoft's transition is significant as it achieves a key business objective: to sustain its competitive advantage and deliver long term value for its shareholders. Consequentially, Microsoft's paradigm shift towards innovation and diversified growth has enabled the organization to restore its competitive advantage, even after its late entry.

Nadella's strategic vision has strengthened Microsoft's corporate culture, improved stakeholder trust and provided new momentum to capitalize on new opportunities for growth. The organization's adaptability has successfully increased stock improved financial performance, with revenues increasing to \$85.3 million and net profit margins growing from 13.03% to 19.69%.¹⁴ Microsoft's organizational transition demonstrates a positive change for the business in terms of aligning corporate objectives with changing consumer preferences. Furthermore, the favorable shift has been positively received by investors as stock prices reached a record high due to an increasing assurance in the business's trajectory for growth, as seen in Figure 1. A comparison of Microsoft's five year cumulative total return indicates that the company has consistently matched or outperformed S&P 500 and NASDAQ indexes to deliver the best returns for investors, as illustrated in Appendix 1. Satya Nadella's new executive leadership has revitalized Microsoft's corporate culture, investor confidence and momentum to strategically capitalize on new windows of opportunity. Nadella's entrance marks a new paradigm

shift for the organization, as it aims to deliver long term value to its shareholders while also retaining its competitive advantage across time.



Microsoft is seeking to identify new business opportunities by leveraging its financial strength to drive research and development.

Financial Overview

Annual Date	June 2012	June 2013	June 2014	June 2015	June 2016
Scale	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)
Revenue	73,723	77,849	86,833	93,580	85,320
Profit	16,978	21,863	22,074	12,193	16,798
Net Profit Margin	23.03%	28.08%	25.42%	13.03%	19.69%
Stock Price	30.59	34.545	42.17	44.71	51.17
Growth Rate	5.4 %	5.6 %	11.54 %	7.77 %	9.68%

*Table 1: Microsoft's Financial Data over the Past 5 Years*⁷

Prior to Nadella's leadership Microsoft's revenue steadily increased over the past five years, from \$73,723 to \$85,320 million. The company's greatest cash inflow can be seen in 2015 due to the surge in Surface product sales.⁸ Even within a highly competitive industry, the positive revenue growth indicates the firm's ability to select profitable business ventures that consistently generate sales. The business also noticed an incline in profitability from 2012-2014; however, it saw a drop in 2015 due to the arrival of the new CEO. Nadella's first year was dedicated to reflect, re-evaluate and define a shared organizational purpose that would align the company with consumer market trends. After his initial year, profitability increased back to \$16,798 million. Mirroring a similar trend

⁷ Microsoft 2016 Annual Report (2016). *Microsoft*. Retrieved Feb 02, 2017 from, <https://www.microsoft.com/investor/reports/ar16/index.html>

⁸ Ibid.

the net profit margin escalated from 23.03% to 28.08%, prior to Nadella's entry.

Although the margins slightly decreased during the reevaluation year, they began to trend upward in 2015.⁹ The change in executives highlights Microsoft's proactive efforts to bring in an innovative leader, after the predecessor's conservative ten year reign.

Nadella is central to the significant organizational transformation that is transitioning the business away from an "atrophying, software license-based past" and towards a "thriving, mobile and cloud-based future."¹⁰ He is cleverly directing the firm's software legacy towards a new family of products that promote mobility and cloud accessibility. This new focus is becoming increasingly prevalent through the organization's attention on enhancing the Surface product line, improving Azure's cloud computing capabilities, and developing new devices for artificial intelligence. Nadella's leadership aims to interconnect the fabrics of the company and its products under three key pillars: to reinvent productivity, build an intelligent cloud platform to ensure mobility and create more personal computing. Nadella claims that "software is the most malleable insight that define experiences," in which he aims to combine Microsoft's software competencies to strategically drive "the future of intelligent devices."¹¹

From 2012-2016, Nadella integrated a strategic vision for growth within the organization. As a result, the company received positive shareholder attention in which stock prices consistently grew from 2012-2016 from an initial value of \$30.59 to \$68.78 in Q2 of 2017.¹² This is a key example in which the paradigm shift has resulted in

⁹ Ibid.

¹⁰ Cava, M. D. (2017, February 20). Microsoft's Satya Nadella is counting on culture shock to drive growth. Retrieved May 07, 2017, from <https://www.usatoday.com/story/tech/news/2017/02/20/microsofts-satya-nadella-counting-culture-shock-drive-growth/98011388/>


¹¹ Staurt, M. (2014). Microsoft CEO: "Mobile first, cloud first". Retrieved May 07, 2017, from <http://money.cnn.com/video/technology/2014/02/04/t-ts-microsoft-nadella-mobile-cloud-first.cnnmoney/>

¹² Yahoo Finance.

beneficial outcomes and restored shareholder confidence in the company's future.

Analyst Walter Pritchard observes that Microsoft reported strong Q2 2017 earnings “with an upside to all three major segments,” which improved the company's market capitalization to soar over \$530 billion—something which the firm has not observed in over 17 years.¹³ The steady price increases illustrate strong evidence for investment in which shareholders view Microsoft's consistent performance as an opportunity to gain a profitable return on investment (ROI). The increase in market value demonstrates added interest in the company's credibility and serves to present new business opportunities to drive growth. Table 1 also illustrates an improvement in growth rates during Nadella's leadership from initial values of 5.4% in 2012 to 9.68% in 2016. Microsoft's financial performance presents flexibility and freedom to continually seek new business ventures to ensure its long term competitive position.

¹³ Microsoft's market value tops \$500 billion again after 17 years. (2017, January 27). Retrieved February 02, 2017, from <http://www.reuters.com/article/us-microsoft-results-research-idUSKBN15B1L6>



Microsoft's strategic vision for growth is supported by diversified ventures through Azure's cloud computing and Surface product line.

I. Leveraging Research and Development

Research and development is a core competency for Microsoft as it utilizes the resource to identify new avenues for growth. Microsoft is recognized for its ranking as the 6th global leader for R&D spending.¹⁴ In 2016, Microsoft invested nearly \$12 billion in R&D which outperformed competitors such as Apple's \$8.1 billion and IBM's \$5.2 billion.¹⁵ With over 37,000 research specialists, the business is committed to leveraging research and development to seek new avenues to maximize growth, profitability and market penetration.¹⁶ In essence, R&D supports Microsoft's core purpose to create value for consumers by addressing their demands and preferences to drive revenue.

A. R&D Diversifies Microsoft's Hardware Product Portfolio:

Within fiscal years 2014-2016, Microsoft increased its R&D budget from \$11.4 to \$12 billion, which is approximately 13-14% of the firm's revenue.¹⁷ As the PC market was declining, Microsoft needed to shift its focus and better align its corporate resources to meet new demands. With the help of R&D, Microsoft was able to assess consumer preferences and create the Surface product line to satisfy consumers' need for "versatility, power, and productivity."¹⁸ The hybrid product line is the company's first stride towards developing a hardware product portfolio that appeals to consumers.

Without any new product updates in 2016, the Surface grew "three consecutive quarters

¹⁴ 2016 Global Innovation 1000 Study. Retrieved February 02, 2017, from <https://www.strategyand.pwc.com/innovation1000>

¹⁵ Ibid.

¹⁶ Financial Review. Retrieved February 02, 2017, from <https://www.microsoft.com/investor/reports/ar13/financial-review/business-description/employees/index.html>

¹⁷ Microsoft 2016 Annual Report (2016). Microsoft. Retrieved Feb 02, 2017 from, <https://www.microsoft.com/investor/reports/ar16/index.html>

¹⁸ Microsoft Promotional Ad

of 25% plus growth” leading the Surface product line to generate an annual revenue of \$4.3 billion.¹⁹ Furthermore, while Apple holds the largest market share within the tablet market at 33%, Microsoft’s Surface Book is closing the gap as it achieved a 25% market share, in Q4 of 2016.²⁰ Microsoft’s research has also tactically marketed the product to a targeted niche audience. This strategic approach has helped the business make inroads in Apple’s leading position, within the premium PC market. The Surface product line serves as the strongest evidence in regards to how Microsoft’s paradigm shift has leveraged its R&D expertise to appeal to consumer needs, while also finding the correct distribution channels to turn potential opportunities into profitable successes. During the former CEO’s leadership, Microsoft simply invested all its resources within its software products, Office and Windows, leaving minimal room for growth. However, under Nadella’s vision the company is coupling its software heritage to deliver intelligent devices that will power the future. The paradigm shift has revived Microsoft’s credibility as an innovative and creative company that is actively adapting to changing times and trends. In the process, the firm is increasing its market share as its products are connecting and appealing to a new generation of mobile consumers.

¹⁹ Niu, E. (2017, January 27). Microsoft’s Surface Lineup Is Now a \$4.3 Billion Business. Retrieved February 02, 2017, from <https://www.fool.com/investing/2017/01/27/microsofts-surface-lineup-is-now-a-43-billion-busi.aspx>

²⁰ Brandon, J. (2016, May 12). It’s official: Laplets like the Microsoft Surface Book are trumping tablets. Retrieved May 07, 2017, from <http://www.computerworld.com/article/3069953/computer-hardware/it-s-official-laplets-like-the-microsoft-surface-book-are-trumping-tablets.html>

B. Microsoft's Focus Towards the Fastest Growing Sector, Cloud Computing:

In addition to diversifying the company's hardware product portfolio, Microsoft is using its distinctive competency, in software services, to support growth in cloud computing. In 2017, Q2 financials reported Microsoft's Azure increased 93% and achieved a revenue of \$14 billion for

its cloud business, which is on track to meet its \$20 billion target for 2018.²¹

In addition, a recent assessment in

In 2014-2016, the return on research capital ratio (RoRC) illustrates an increase from 2.59 to 2.73 to confirm that Microsoft's R&D expenses are earning a return on investment.

Worldwide Public Cloud Services forecasted the cloud computing market to reach a potential of \$195 billion in 2020, in which the U.S. will be "the largest market, generating nearly two thirds of global revenue."²² Taking such information into consideration, Microsoft has assessed cloud computing as the fastest growing sector and aims to take advantage of this opportunity to deliver additional services for its corporate clients. Due to its high profit potential, the company has also allocated \$1 billion annually to cyber-security research to drive security and client satisfaction with Microsoft's Azure platform.²³ The increasing support to fund extensive research ensures Microsoft's promising vision to saturate new markets and sustain its competitive advantage within the industry.

²¹ Richter, F. (2016, July 20). Infographic: Microsoft on Track to Hit \$20 Billion Cloud Revenue Target. Retrieved February 02, 2017, from <https://www.statista.com/chart/5309/microsofts-commercial-cloud-revenue/>


²² Worldwide Public Cloud Services Spending Forecast to Reach \$195 Billion by 2020, According to IDC. (2016, Aug 10). Retrieved February 02, 2017, from <https://www.idc.com/getdoc.jsp?containerId=prUS41669516>

²³ Cohen, T. (2017, January 26). Microsoft to continue to invest over \$1 bln a year on cyber security. Retrieved February 02, 2017, from <http://www.cnbc.com/2017/01/26/reuters-america-microsoft-to-continue-to-invest-over-1-bln-a-year-on-cyber-security.html>

C. Surging Sales in Surface and Cloud Computing Drive Microsoft's Growth

Microsoft's R&D investments have helped identify positive business outcomes by developing the Surface product line and entering the cloud computing sector. The company's profitability has resulted in an increased sense of reliability and trust in Microsoft's ability to aggressively pursue new avenues for growth. The new sense of confidence justifies the exponential market capitalization growth and all time high stock prices of \$68. The company's adaptability, dedication to meet consumer needs, and agility to take measured business risks are driving reasons that identify its potential to become a market leader.

It is necessary to assess that Microsoft has entered the hardware market nearly a decade late, compared to its rivals that already control a large percentage of the market share. While the second mover advantage presents difficulties in Microsoft's path for dominance, Microsoft demonstrates new momentum, agility, and strong executive leadership to help the company outperform its rivals. The company must continually exploit its distinctive competencies to strategically cover lost ground and recapture market share, which it has successfully done with Azure and the Surface within a short two year period.



Microsoft is a strong investment opportunity, as the corporation's paradigm shift towards innovation, robust financial performance, and ability to leverage R&D ensures profitable business outcomes for long term growth.

Recommendation:

Microsoft is a strong company to invest in due to its ability to reinvent its vision, sustain strong financial performance and ability to utilize R&D to identify emerging trends. Microsoft's paradigm shift demonstrates a positive corporate transformation in which the firm is pursuing diversified growth to deliver innovative products for its consumers. As an investor, it is necessary to observe that Microsoft has shown development in three interconnected elements that address a holistic approach to revitalize the company for growth. The organizational vision has set the stage for a growth strategy; in which financial strength drives R&D investments to pursue new opportunities that will improve the company's revenue stream.

From an organizational vision to financial strength to practical success, Microsoft demonstrates the strengths and resources to address new opportunities that drive long term growth and improve its competitive position.

The company's financial performance provides a holistic perspective in terms of Microsoft's overarching ability to target a shared goal. CEO Nadella's leadership has successfully laid the fundamental framework to sustain the company's strategic competitive advantage and avoid myopic thinking. The organizational transition has caused a positive paradigm shift that has significantly improved the firm's agility to take measured risks for continued growth.

Leveraging its technological expertise and brand value, Microsoft's Azure and Surface divisions have seen impressive growth within a short time frame. The new family of products has sufficient market presence, ample resources and capabilities to challenge current market leaders. Microsoft has not only transformed the corporate culture to

replicate a think tank that innovates to consumer needs, but has also tested its products in the market. Among which the Surface and Azure ventures are positively contributing to the company's revenue stream. Microsoft's turnaround has benefited in regards to a raise in stock prices, drastic increase in market capitalization and has outperformed Wall Street's expectations in "seven of the last eight quarters."²⁴ Nadella's entrance has improved corporate culture, financial stability and provided a new approach for the company to enhance its strategic position within the industry.

Overall, Microsoft serves as a beneficial long term investment in which the company has undergone a holistic transformation in terms of new leadership, diversified product lines and consistent R&D to drive the excellence. Microsoft's new paradigm shift is striving toward new business opportunities through cloud computing and hardware products, instead of simply relying on its software cash cows. The justification that solidifies Microsoft as a strong investment is based on its projected future potential. Instead of simply investing in a company with strong finances, it is much more pertinent to select a company that has a detailed perspective of its current position and desired future destination. Microsoft is a strong company since it has assessed its weakness and constraints, due to its late market entry, and transformed those issues into opportunities for future improvements. With CEO Nadella's progressive perspective, Microsoft has a clear shared goal and purpose. Microsoft's executive leadership, strong finances and

²⁴ Microsoft's market value tops \$500 billion again after 17 years. (2017, January 27). Retrieved February 02, 2017, from <http://www.reuters.com/article/us-microsoft-results-research-idUSKBN15B1L6>

awareness for emerging market trends demonstrates long term profitability for the company; thus, greater return on investment for shareholders.

Vision for Growth + Financial Strength + R&D = Long Term Success for Microsoft

Paradigm Shift Ensures Positive Quality Assurance Improvements:

From the initial Surface RT, Microsoft has struggled to deliver quality hardware products. Throughout the product lifecycle, the company has missed opportunities to establish measures that minimize quality inconsistencies; thus, led to a \$900 million revenue loss.²⁵ Although after Nadella's entrance as chief executive officer, he cut 5,500 employees in an attempt to "flatten the organization" and "develop leaner business processes."²⁶ This is a very difficult decision especially since this stark organizational change can cause resentment for the new leader. Although, Nadella's strict business decision was intended to achieve a leaner and more agile company.²⁷ It is a startling moment for employees that receive the pink slip, as well as for those who do not, since it reminds staff to continually deliver value-added work. Nadella's decisions is aimed to realign the corporate structure for improved efficiency and productivity. While the decision was shocking, Nadella "is still backed by most of the employees" who still believe that the "company is heading in the right direction."²⁸ A source mentions that within hours of the news, the company went "back to business as usual."²⁹ Nadella's

²⁵ Grandoni, D. (2013, July 19). Microsoft's Surface RT Didn't Have To Be A \$900 Million Disaster. Retrieved February 18, 2017, from http://www.huffingtonpost.com/2013/07/19/microsoft-surface-rt-900-million_n_3624014.html

²⁶ Bort, J. (2014, July 10). Changes - And Possibly Layoffs - Are Coming For Microsoft Employees. Retrieved February 17, 2017, from <http://www.businessinsider.com/changes-coming-for-microsoft-employees-2014-7>

²⁷ Yarow, J. (2014, July 10). Microsoft's CEO Sent Out A Giant Manifesto To Employees About The Future Of The Company. Retrieved February 17, 2017, from <http://www.businessinsider.com/microsofts-ceo-email-2014-7>

²⁸ Popa, B. (2014, August 05). Microsoft Employees Still Like Their CEO Despite 18,000 Job Cut. Retrieved February 2, 2017, from <http://news.softpedia.com/news/Microsoft-Employees-Still-Like-Their-CEO-Despite-18-000-Job-Cut-453483.shtml>

²⁹ Bort, J. (2014, August 03). Source: Despite Massive Layoffs Most Microsoft Employees Still Like Satya Nadella. Retrieved March 16, 2017, from <http://www.businessinsider.com/microsoft-employees-still-like-nadella-2014-7>

targeted cruelty served as a difficult business decision, but was necessary to increase efficiency by flattening the organization. The significant organization change is intended to streamline the business in order to address necessary improvements in quality assurance.

The strategic decision is a leading example of the impact of Microsoft's paradigm shift. A more common route that a CEO could have taken is to simply hire additional employees to improve quality control for the products; although, Nadella reengineered his approach by cutting employees. Nadella's decision represents a significant change in which a new way of thinking is implemented. He is essentially restructuring the organization in a significant way which effects everyone on all levels, divisions, and offices across the organization; this is the core of the paradigm shift. Nadella's deviation from a mainstream decision alludes to the company's rebirth as it strides to reinvent its corporate culture, organization and business processes for increased efficiency and effectiveness. The decision to consolidate the broad product teams has allowed increased communication and agility within teams, while also aligning a cohesive organizational structure for the future. To Microsoft's advantage, this new change has resulted in favorable results in which a six year study by J.D. Power has concluded that "Microsoft topped both Apple and Samsung in customer satisfaction."³⁰ This remarkable result indicates that while the Surface is not as ubiquitous as the iPad, Microsoft still has a "winning brand on its hands."³¹ Coupled with Nadella's strategic vision, cohesive

³⁰ Siegal, J. (2017, April 06). Microsoft just topped Apple in a surprising satisfaction study. Retrieved May 07, 2017, from <http://bgr.com/2017/04/06/microsoft-surface-vs-ipad-satisfaction-survey/>

³¹ Ibid.

organizational structure and marketing dexterity, the Surface has the potential to outperform its competitors and reach a market leader position.

Surface Pro 4:

A prime example of Microsoft's transition away from its flawed myopic approach can be seen through the company's recent entrance as a hardware provider. The release of a new family of hardware products is aimed to meet emerging consumer demands for increased versatility, performance and portability. In hopes of leveraging the firm's market share and competitive advantage, Microsoft has introduced the Surface Pro product line to adapt to the industry's pressing need for a premium hybrid device that improve productivity, performance and portability. The product's compact design appeals to students, mobile professionals and creative individuals through value-based pricing and aims to position itself as a product that offers more for less. While Microsoft is entering the hardware market place a few years late, it will have to work efficiently to recollect lost market share and gain consumer connectedness. By diversifying the company's product portfolio, Microsoft will improve the company's lifecycle by developing a new product line that will provide ensure growth.

The Surface Pro product line is another byproduct of Microsoft's pursuit of its paradigm shift as it realigns its business objectives to strategically deliver intelligent devices to drive future growth. The product utilizes the marketing mix to increase consumer connectedness and market share, through the company's value proposition of reinventing productivity.

Current Market Situation:

A) *Market Description:*

Microsoft's Surface Pro line consists of customers and business users who prefer using a powerful, thin, portable, and long-lasting device which combines the convenience of a tablet with the performance of a laptop. Targeted consumer segments include students, mobile professionals, and creative individuals that need a device which ensures productivity and portability, as seen in Table 2. The overarching targeted audience incorporates individuals that are on the go and require a light-weight device that can handle long work hours, proficient storage space and quick processing speeds.

Microsoft's product line meets the core needs of adaptability and reliability among all target audiences. The product features provide powerful 6th generation Intel processors that can handle quick computations and efficiently utilize battery time, for longer lasting performance. The Surface's versatile design also provides consumers with a sleek portable device that can easily fit within a backpack or suitcase. While the product is efficient, it also offers an assortment of colored attachable keyboards. The new product design correctly portrays the product's personality as a trendy tablet that can replace your laptop.

Targeted Segment	Customer Needs	Corresponding Features/Benefits
Students	<ul style="list-style-type: none"> • More applications for productivity • Light weight and portable • Sleek, trendy design 	<ul style="list-style-type: none"> • Windows 10 Operating System 64 bit • Detachable display and keyboard • Color-Assorted styles for Keyboard designs • Integrated Office Suite Programs with cloud storage • Unlimited accessibility to download various applications
Professionals	<ul style="list-style-type: none"> • Perform multiple functions with speed and efficiency • On the go mobility and battery life • Power through the day 	<ul style="list-style-type: none"> • Compatible cloud Office Suite for syncing between different workstations • Lithium ion battery lasts 10 hrs. • Camera feature for online video chat meetings • Wi-Fi speeds 3G/4G for quick network connection • Voice detection for hands free operation • Fast core processors for increased computing speeds
Creative Individuals	<ul style="list-style-type: none"> • Hands on application for drawing, sketching, creating blueprints etc. • Applications for creative outlet • Flexibility 	<ul style="list-style-type: none"> • Palm Block Technology allows to rest your hand on the screen without leaving unwanted marks • Pen included to gain hands on interaction • 12.3” PixelSense Display for higher resolution • 5 MP Camera and 8 MP Video features • Powerful to run creative tools: Sketchbook, Adobe Creative Cloud • Built in adjustable kickstand for comfort and flexibility

Table 2: Versatile Surface Pro 4 Features for Various Market Audiences

B) Product Review:

Compared to its initially weak Surface RT model, the Surface Pro 4 has integrated several key improvements in mobility, software assurance, and performance to ensure the product meets consumers’ expectations, as seen in Table 3. These product modifications have successfully improved the Surface’s market presence and “increased the value of the Surface brand.”³² While the Surface has increasingly swayed consumers away from

³² Spence, E. (2017, January 29). Microsoft's Psychological Warfare against Apple. Retrieved May 07, 2017, from <https://www.forbes.com/sites/ewanspence/2017/01/29/microsoft-vs-apple-surface-vs-macbook/#6bc8299a67f5>

Macbook products, it still has not completely surpassed Apple's sales. Currently, Microsoft is positioned as a market challenger that has revitalized its market presence, through the Surface line, and can exert sufficient pressure to regain market dominance.

Microsoft has transitioned its focus towards a customer-centric approach as it aims to deliver a value proposition that appeals to consumer needs. The Surface targets a more for less value proposition and has successfully "changed the mindset of a consumer from an automatic Mac purchase to a considered purchase."³³ This psychological advantage has prompted consumers to evaluate their purchases more thoroughly to question if they are truly maximizing their value. This slight advantage in mindshare has proven beneficial for Microsoft as it can buy some additional time to drive product awareness and build strong consumer relationships.

³³ Ibid.

<p>Surface Pro 4 incorporates the following improved features:</p>	<ul style="list-style-type: none"> • <i>Dimensions consist of 11.50 x 7.93 x 0.33 in (292.10 x 201.42 x 8.45 mm)</i> • <i>12.3 inch PixelSense Full HD touchscreen display with 2736 x 1824 vibrant resolution</i> • <i>Light and portable device with weight under 2 lbs.</i> • <i>Solid State storage capacity of 128 GB, 256GB, 512GB or 1TB</i> • <i>CPU consists of a 6th Generation Intel Core Processor with 4, 8, 16GB RAM and built in Wi-Fi and Bluetooth</i> • <i>Incorporates a 48W battery supply that allows 9 hours of web browsing, categorizing it as an Ultrabook</i> • <i>Integrated two 1080-pixel HD cameras for front and rear-facing photos along with a built in microphone</i> • <i>Consists of multiple ports, which include USB 3.0, microSDXC card slot, Headset jack, Mini Display Port</i> • <i>Includes a Surface Pro pen which provides accessibility to write notes, sketch and mark up work with Palm Block Technology and a multi-point sensitive touchscreen</i>
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Table 3: Surface Pro 4 Product Features

C) Competitive Review:

Microsoft's decade late entry in the hardware market proposes a few challenges for the firm as it must realign its strategic focus to compete with rivals that control a significant share of the market. The decision to produce hybrid devices and compete in a saturated market will force strong pressure from Microsoft's key competitors, Apple and Google.

1) Apple:

Apple's major products consist of its iPad and Macbook devices which pose a strong threat to Microsoft's entry into the hybrid market. The popular iPad tablet has collected strong sales across the globe as it offers a thin, portable, and efficient device that allows users to browse the internet, watch movies, create documents, download applications, and even use camera functionalities. Apple's first mover advantage has allowed it to occupy a significant segment of the market in which global iPad sales reached record high sales of \$26.04 million during Q1 of 2014.³⁴ One of the company's strongest facet lies in its loyal consumer base that largely consists of early adopters who have helped ensure high inventory turnover for product releases. For instance in 2016, Apple had an inventory turnover rate of 84.49 which exceedingly surpassed the market median of 9.22.³⁵ Apple's ability to deliver innovative products for its diehard customer base serves as a key threat for Microsoft. Apple's iPad products have reached a maturity stage, within the product lifecycle; whereas, the Surface Pro 4 is steadily progressing towards growth. The differing positions require Microsoft to strategically market its new product to customers in an attempt to regain market share.

The crux of Microsoft's battle against Apple comes down to two key components. First, Microsoft needs to quickly exploit a gap within Apple's services and prompt consumers to question whether they are actually maximizing their value with iPad or Macbook products. Second, while Microsoft has been around for over 40 years its

³⁴ Apple: iPad Sales 2010-2017. Retrieved May 07, 2017, from <https://www.statista.com/statistics/269915/global-apple-ipad-sales-since-q3-2010/>

³⁵Green, Tim. Hoover's Online Database. Retrieved from <http://subscriber.hoovers.com/H/company360/competitiveLandscape.html?companyId=1412000000000&competitorId=1264400000000&competitorId=5910100000000#>

primary legacy was derived as a software provider. Now that the company has stepped into the hardware sector, it needs to aggressively invest in customer centric products to cultivate a strong rapport of connected followers. “Perception is crucial to the Surface family” in its goal to strengthen the brand and reputation.³⁶ While Apple holds the largest market share within the tablet market at 33%, Microsoft’s Surface Book is closing the gap as it achieved a 25% market share, in Q4 of 2016.³⁷ The support of R&D insight is empowering Microsoft to directly challenge Apple’s leading position, by strategically marketing the product to improve sales. The Surface product line is a strong contender in challenging Apple’s dominant position, especially due to its unique value proposition of reinventing productivity.

Under Nadella’s leadership, Microsoft’s paradigm shift has already shifted focus to deliver products that appeal to consumer trends; although it lacks market awareness and penetration to fully surpass Apple’s dominance. Microsoft has successfully identified Apple’s strategic focus in keeping desktop and mobile experiences separate; hence, the Surface Pro line exploits the potential market for consumers that would like to combine both experiences. Microsoft’s product vision aims to deliver a premium hybrid device that appeals to increased “productivity, versatility and mobility.”³⁸ The Surface aims to establish increased consumer connectedness by offering benefits of productivity and portability within a single device. It is interesting to assess that after Microsoft’s 2014 Surface improvements, Apple released the iPad Pro which copied the Surface design by

³⁶ Spence, E. (2016, October 24). Forget MacBook Pro Competition, Microsoft’s Surface Has Found Success. Retrieved May 07, 2017, from <https://www.forbes.com/sites/ewanspence/2016/10/23/microsoft-surface-book-success-continues/#33421ac05ebd>

³⁷ Brandon, J. (2016, May 12). It’s official: Laplets like the Microsoft Surface Book are trumping tablets. Retrieved May 07, 2017, from <http://www.computerworld.com/article/3069953/computer-hardware/it-s-official-laplets-like-the-microsoft-surface-book-are-trumping-tablets.html>

³⁸ Microsoft Promotional Ad.

adding a new keyboard and pencil. Post 2014, Apple's iPad sales have been tapering downward and it is important to notice that Apple mirrored Microsoft's product due to its positive reception among consumers. This indicates that while Microsoft has entered as second mover, it has strategically targeted the correct consumer trend to elevate its product's release.

Furthermore, Microsoft is directly marketing against Apple through promotional ads and campaigns to place increased pressure on Apple products. Unfortunately, Apple's latest Touch-bar Macbook Pro failed to meet consumer expectations. This prompted individuals to reconsider their purchases and seemingly provided Microsoft an opportunity to "switch more users from the Macbook lineup to its competing Surface line."³⁹ Microsoft's direct marketing pressure against Apple's product has revived its efforts to spread awareness in regards to how the Surface has more to offer than a Mac.

On the grand scheme of the global market, Apple certainly has a strong consumer base and credible products that have saturated a large percentage of the market. Although, Microsoft's diversified hardware focus aims to strengthen the Surface brand by empowering individuals to do more. Microsoft lacks the market share and dominance that Apple holds; although, under Nadella's leadership and new paradigm shift, the firm is investing billions of dollars to compete against rivals.

2) Google:

Google serves as a key competitor for Microsoft in regards to its ubiquitous brand value. While Google is more commonly identified as an online search engine, it has

³⁹ Hughes, N. (2016, December 12). Microsoft touts Surface success, claims more MacBook switchers than ever. Retrieved May 07, 2017, from <http://appleinsider.com/articles/16/12/12/microsoft-touts-surface-success-claims-more-macbook-switchers-than-ever>

extended its credible brand towards product extension such as its Nexus Android tablet which presents a strong threat to mainstream Windows and iOS operating systems. The Nexus offers users a slim and high-quality design that consists of an 8.9 inch screen with a 64-bit processor for quick multi-tasking speeds. The tablet allows users to watch, listen and play music with its unique HTC BoomSound speakers that produce crisp and clear sound quality. In addition to the entertainment value, the Nexus is equipped with an 8 mega-pixel front camera and 1.6 mega-pixel rear camera. The Nexus operates on an Android system and is popular since it allows users additional flexibility to customize the tablet according to their preferences.

In addition, Google challenges Microsoft with its \$149 Chromebook series. The product reigns as the lowest-priced computer in the industry, while still offering general features for Internet accessibility and long battery life. Google's strategy is two-fold as it aims to challenge Apple's premium priced Macs by attracting a budget conscious audience toward its low-cost devices. While also persuading consumers to use its Chrome operating system instead of Microsoft's Windows suite. In fact, Google's Chromebooks outsold Apple's range of Macs in the US as "Chrome OS overtook Mac OS in terms of shipments" for the first time in Q1 of 2016.⁴⁰ Google's compelling pricing strategy and reputable brand image poses a challenge to both Apple and Microsoft, as it strives towards market dominance.

While Microsoft's primary competition is directly from Apple and Google, its position within the technology sector presents strong rivalry from various companies to

⁴⁰ Warren, T. (2016, May 19). Chromebooks outsold Macs for the first time in the US. Retrieved May 07, 2017, from <http://www.theverge.com/2016/5/19/11711714/chromebooks-outsold-macs-us-idc-figures>

threaten Microsoft’s vision for growth. Table 4 below highlights a few different products and their relative advantage within the market compared to the Surface’s recent entrance.

Competitor	Model	Features	Price
Apple	iPad Pro	Sleek design offers a trend 12.9’ device with a new kickstand for user flexibility. Includes a fast A9X processor that allows quick internet speeds and agility to multitask without a delay in speed. Battery is suggests to last 10 hours of browsing time. The device also includes the brand’s iconic voice recognition system, Siri.	32 GB - \$799
			128 GB - \$949
Dell	XPS 12	A 12 inch core M5 device that supports multiple external ports, front and rear camera feature with a light design weight of 1.75 lbs. The thin design offers Windows based operating system that offers additional programs for productivity purposes.	\$999
HP	Spectre x2	The device offers avenues for performance upgrades to Intel Core processors with M3, M5, or M7 to integrate additional value to users that require speed. Storage options also include either 4 or 8 GB of RAM. The device has an aluminum design that offers the option to detach the screen and keyboard for portability needs.	\$799
Lenovo	ThinkPad 10	Offers high resolution with the integration of a 10.1 inch touch screen display. The device runs on an Intel Quad Core processor. In addition, the device presents front and rear camera features, while also supporting Wi-Fi 3G/4G allowing internet connection anywhere on the go.	2 GB - \$599
			4 GB - \$749

Table 4: Competition from Existing Products within the Market

D) Channels and Logistics Review:

Microsoft’s future Surface Pro products will be distributed through top electronic retail stores which include stores such as Best-Buy, Staples and Fry’s Electronics, since it fits within the retailers’ scope. The product will also be shipped to local retail stores such as Walmart, Target, Sam’s Club and Costco where the product will be promoted through a bundle type deals. In addition, since the product is open within 28 global markets, the products will also be offered in the online market space on sites such as Amazon and Newegg. This avenue ensures increased market penetration as global consumers will have the option to order online for improved accessibility. The channeling strategy is primarily focused on mass distribution, to ensure the product gains shelf space across

several retailers. This will help build product engagement and awareness to directly challenge market leaders.

With its current Surface Pro 4 product, Microsoft has accurately applied its research and development insights to generate an annual revenue of \$4.3 billion.⁴¹ As Microsoft embraces its increasing success, it must continually market directly against rivals to strategically position the product within the market. This tactic has proven successful in the past through promotional ads and marketing slogans; therefore, when the new Surface product updates are released Microsoft must reapply this approach to push the product's superior value compared to rivals.

⁴¹ Niu, E. (2017, January 27). Microsoft's Surface Lineup Is Now a \$4.3 Billion Business. Retrieved February 02, 2017, from <https://www.fool.com/investing/2017/01/27/microsofts-surface-lineup-is-now-a-43-billion-busi.aspx>

SWOT Analysis:

Microsoft's Surface Pro product appeals to a market audience that values the performance of a laptop and the mobility of a tablet into one hybrid product. As the product offers several strengths regarding product features, it also has some weaknesses in regards to its late market entrance and market awareness. While such weaknesses do present Microsoft certain difficulties, it does not limit the product's opportunity to become a market trend setter by introducing premium hybrid devices. Microsoft's multinational operations permit the firm to leverage its product in a global market by sharing the Surface's "cloud first, mobile first" platform to develop growth opportunities in neighboring markets. However, the Surface Pro line faces intense rivalry from competitors. The broad spectrum of product substitutes offers an increased number of alternatives for clients. Table 5 further outlines the product's internal strengths and weaknesses and external opportunities and threats that the firm should take into consideration.

A) **Strengths:**

1) **Reputable Brand Quality:** Microsoft has successfully served customers across multiple generations from 1975 to current times and has earned a trustworthy position within the prospect's mind. The Surface Pro series directly correlates to Microsoft's successful brand, as it offers innovative, quality products that align with the corporate's mission to "empower every individual and organization to achieve more."⁴² By extending

⁴² What Empowerment Means to Us. Retrieved May 07, 2017, from <https://news.microsoft.com/empowerment/>

Microsoft's credible brand towards the Surface Pro, consumers build trust and confidence regarding the product's excellence, value, and promise.

2) **Competitive Benefits Offer Substantial Customer Value:** Microsoft's progressive paradigm shift has directed its focus to provide customers a high performing product that offers greater convenience. The hybridization of a tablet and laptop has allows Microsoft's Surface Pro to be tailored to specific customer needs such as "versatility, productivity, and power."⁴³ The product offers several key features that provide customers a value-added experience. Microsoft's mission as a "mobile first, cloud first" tech giant attracts segmented markets that prefer using the cloud as a modernized approach to improving productivity on the go. By integrating cloud accessibility for students and mobile professionals, Microsoft has leveraged its hardware ecosystem through its cross platform strategy to create additional customer value. The Surface brand strives to cater to customer needs, in an effort to build profitable relationships that will sustain future business operations. Contrary to Ballmer's leadership, Microsoft's new consumer centric approach has beneficially cultivated consumer connectedness and improved the company's brand value to \$530 billion.

B) Weaknesses:

1) **Lack of Product Awareness:** Microsoft transitioned away from its myopic dilemma and filled a market gap by entering as a hardware vendor. While the business properly applied its R&D insights to create the Surface Pro series, the new device has disadvantages regarding product awareness. Other competitors such as Apple and

⁴³ Microsoft Promotional Ad

Samsung have a stronger advantage, since they entered the market early and hold a larger market share. Microsoft needs to utilize the brand's credibility and prior successes to increase consumer rate of adoption in order to quickly penetrate the market and outperform current market leaders, Apple and Google.

2) **Late Entry into the Market Space:** With the advent of the smartphone, Apple and Google shifted many personal computing task to a mobile and app-based platform.⁴⁴ While competitors started the mobile revolution and positioned itself in front of millions of users, Microsoft lingered to enter the hardware market due to the organization's previous myopic thinking. With time, Microsoft learned the importance of the hybrid hardware market as a profitable avenue for business; although, it experienced this epiphany nearly a decade late. As Ries and Trout mention in their book *Positioning*, the second player to arrive on the scene does not receive nearly as much profit and recognition as the first player, since the first business has "imprinted" a natural connectedness with the consumer early on. This presents difficulties for second organizations, like Microsoft, as it tries to redesign strategies to distract client relationships from other brands and attract loyalty to Microsoft's new product. Heavy usage of marketing communication will be required to address value-based product differentiation.

⁴⁴ Ward, J. (2017, May 10). With Windows 10 S and Surface Laptop, Microsoft takes aim at Google and Apple. Retrieved February 2, 2017, from <http://www.windowcentral.com/microsoft-takes-chromebooks-and-macbooks-windows-10-s-and-surface-laptop>

C) **Opportunities:**

1) **Appeal to Shifting Customer Needs:** The Surface Pro differentiates itself by combining perceptions of mutually exclusive features regarding performance and portability under a hybrid device. The decreasing PC and tablet market has forecasted new consumer demands; thus, the Surface Pro aims to align features from tablets and laptops into one of the most productive products ever designed. The new paradigm shift has positively influenced the device to cater to consumer preferences. In addition, Microsoft has started a market trend in which the “industry can start using tablets as laptops” without the lack of processing power, states director of data strategy, Keven Burden.⁴⁵ The increasing flexibility in preferences allows the Surface Pro’s “value proposition of being the most productive tablet to resonate” and build avenues for future growth and success.

2) **Growth in Emerging Global Market Economies:** As market trends are favoring new technological advancements for increased convenience and efficiency, Microsoft has the ability to expand and penetrate global markets in order to outperform its current rivals. By serving new world economies, Microsoft’s value proposition will create globalizing opportunities for the product’s success. By improving accessibility within such markets the Surface Pro will leverage itself to gain greater audience exposure; thus, reflect a word of mouth chain effect for increased product awareness and interest. This natural marketing appeal will dismiss Microsoft’s late entrance and strengthen the Surface brand to challenge market leaders.

⁴⁵ New Surface Pro 3 Ads Show Why Microsoft Still Doesn't Get Marketing. (2014, August 11). Retrieved October 19, 2015.

3) **Cost-Efficiency and Effectiveness for Added Technological Value:** With exponential increases in technological advancements, Microsoft's paradigm shift has presented additional focus on expanding its upstream supply chain distributions to minimize product costs and assure greater customer value. Due to economies of scale, complementary additions will be made for relatively lower costs and as a result improve product efficiency.ⁱ Microsoft's new focus allows it to implement such advancements to provide value-added effectiveness towards product differentiation, while still leaving room for profitable returns.ⁱⁱ An example can be seen through the Surface's inclusion of a stylus pen which ensures a product differentiation strategy by offering consumers more value for less. By leveraging current and future assets, Microsoft will be able to beneficially reconfigure its value chain, in hopes to appeal and increase the product's rate of adoption within innovators and early adopters.

D) **Threats:**

1) **Decreasing Trend in PC market:** According to Gartner, 2013 marked the "worst decline in P.C. history sales." The decline presents a double ended threat to Surface Pro's promotional budgeting and marketing development. With PC trends sloping downward, Windows can logically conclude that it will sell less software publishing licenses; hence, suffer setbacks regarding profits. As profits shrink, Microsoft will have to reassess its marketing budget in regards to promoting its new Surface Pro products. The marketing team will need to assess the budget for future resource allocation and how it will affect the promotional component of the Surface product line. Alternate resource possibilities must be assessed to promote the product and maximize its return on investment (ROI).

2) **High Market Rivalry and Competition:** The technology industry consists of intense competition from rivaling companies that provide additional options for increased “threat of substitution,” as Michael Porter suggests. Microsoft’s top competitors include Apple, Google and Samsung who entered the market prior to Microsoft and have built strong customer loyalty and engagement through prior product releases. To counteract this threat, the Surface Pro aims to propose a unique product promise of “reinventing productivity” to better serve everyday consumer needs. Microsoft will need to accentuate marketing communication to highlight product differentiation and present a value-based customer experience to outperform its rivals. By locking-in customer preferences with the Surface Pro, Microsoft will successfully sustain its profitable customer base.

<i>Positive</i>	<i>Negative</i>
Strength	Weakness
<ul style="list-style-type: none"> • Reputable product brand • Competitive product benefits and features: cross platform cloud computing 	<ul style="list-style-type: none"> • Late entry in market due to delayed product release in market space. • Difficulty keeping pace with various competitor products
Opportunity	Threat
<ul style="list-style-type: none"> • Appeal to changing customer needs • Leverage market growth in emerging world economies • Cost-efficient and effective technology • Market trend setter 	<ul style="list-style-type: none"> • Decreasing PC purchasing trends • High degrees of rivalry and competition

Table 5: SWOT Analysis for Microsoft Surface Pro 4

Objectives and Issues:

A) Objectives:

Microsoft's implementation and focus on strategic marketing is directed towards achieving a growth strategy that will help propel the business towards a lifecycle of maturity and strengthen the Surface's brand value. With its Surface Pro 4 release, Microsoft has successfully made improvements towards diversifying its product portfolio to build additional revenue streams. Microsoft must continually align its paradigm shift to integrate new features and innovative products through the Surface product line to retain consumer connectedness and sustain its competitive advantage against rivals.

For the new Surface Pro 5 product release, first year objectives consist of two key elements that will enable the product to penetrate the market. First, the product will aim to increase market share by combining upselling and cross-selling tactics to increase sales and revenues. Upselling will prompt consumers to purchase additional upgrades for an added cost, while cross selling will provide new avenues for supplementary accessories and software profits. Currently, the Surface Pro is not a market leader; although, it must emphasize promotional marketing in order to recollect market share. The International Data Corporation (IDC) concludes that the Surface Pro's initial emergence should expect growth, due to its updated product release and new Windows 10 operating system. Research director at IDC, Jean Bouchard suggests that 2-in-1 devices are experiencing growth and "represents a huge opportunity for the entire tablet ecosystem." The opportunity to exploit this market will improve sales volume and ensure support for Microsoft's strategic shift towards innovation and growth.

As the product's momentum builds up, it is necessary for Microsoft to reconsider and re-evaluate its progress to consistently keep improving towards its second year objectives. Once Microsoft gains traction and exposure, it must maintain its growth by increasing sales through market penetration. The firm is often criticized for its inability to deliver a coherent storyline that connects its network of products. Therefore, Microsoft needs to ensure an "emotional appeal" to its targeted audience by creating a story that highlights the firm's value, promise, and personality.⁴⁶ Allocating marketing resources towards improving the brand's competitive position will improve customer satisfaction and transform Microsoft's into a global power brand. Understanding the significance of product families, Nadella has identified three interconnected areas: reinventing productivity, building intelligent cloud platforms, and ensuring personal computing as the core vision for all its products.⁴⁷

Once the firm has acquired strong product placement, then it will be able to retain continual flow of customer engagement towards the Surface Pro's value proposition. Elevating the brand value is an objective that Microsoft must invest in to cultivate what Peter Drucker advocates as "creating and keeping" customers. The possibilities for reaching Microsoft's overarching projected market share of 17.5% by 2019 depends on its ability to sustain profitable relationships with customers and ensure them that value-added products are offered in terms of more for less pricing.⁴⁸ By promoting added

⁴⁶ Jasso, S. (2015, November 18). From Strong Brands to Global Brands. Lecture presented at UC Riverside.

⁴⁷ Satya Nadella unveils Microsoft's new mission: empowering everyone on the planet. (2015, June 25). Retrieved May 07, 2017, from <https://venturebeat.com/2015/06/25/satya-nadella-unveils-microsofts-new-mission-empowering-everyone-on-the-planet/>

⁴⁸ Brown, M. (2015, November 24). Microsoft Windows Tablet Market Share To Almost Double By 2019, At Android's Expense. Retrieved May 07, 2017, from <http://www.ibtimes.com/microsoft-windows-tablet-market-share-almost-double-2019-androids-expense-2197859>

benefits and features, customers may be incentivized to purchase the product sooner; thus allow Microsoft to maximize early sales and improve profits.

B) Issues:

A key issue that presents challenges for Microsoft to achieve its objectives consists of its relatively new product placement within the consumer hardware market. Naturally consumers are prone to create a product ladder by ranking various corporate brands and their products. Although due to the Surface's short market lifetime, it is not necessarily perceived as a first choice within the prospect's mind. While Microsoft is a reputable software brand, it still lacks the reputation as a hardware company, especially after its dying Windows phone venture.

Hence, Microsoft must ensure a smooth transition from the firm's initial perception as only software publishing to its recent support of both software and hardware operations. In order to enhance and integrate greater awareness, Microsoft must heavily invest its focus and effort toward marketing R&D to identify what characteristics of the brand cause misperceptions to drag on. The new information can be beneficially leveraged to promote aspects of the brand that are overlooked and ensure consumers' confidence in Microsoft's reliable products.

While Microsoft's initial inception of the Surface RT model resulted in nearly \$1 billion in losses, due to its lack of product awareness and quality assurance, its updated Surface Pro 4 release has improved marginal profit from losses to a positive turnover. As Microsoft gains sales it must objectively combine value added pricing to earn profits, instead of its flawed 2012 model of cost based pricing to simply attract customers. To fully understand "the right combination of quality and good serviced," Microsoft should

consider a break even analysis to determine how many products it must sell in order to meet production costs.⁴⁹ Once that value is identified, Microsoft can calculate the minimum price the product can be offered without negatively affecting its financial reserves. The minimum price serves as a budgeting benchmark in which all efforts must be optimized to prevent retail prices to drop below the floor price. Given the competitive landscape, Microsoft has flexibility to charge higher prices once it has strengthened its value proposition to earn increased marginal profits.

⁴⁹ Kotler, P., & Armstrong, G. (2006). Principles of marketing (11th ed., p. 294). Upper Saddle River, N.J.: Pearson Prentice Hall.

Marketing Strategy:

The overarching framework behind Microsoft's Surface Pro is to fill a market need with a device that offers compatibility between power and portability. Microsoft's marketing strategy will segment relevant target audiences to increase market share and creation of customer value. Developing an integrated marketing program will support Microsoft's paradigm shift by delivering added-value and building profitable relationships to sustain its competitive advantage. By implementing the marketing mix: product, price, place, promotion, and positioning, Microsoft will improve its competitive position within the market, by increasing market share, and cultivating customer connectedness and loyalty toward the brand.

Product Strategy:

The Surface Pro's strategic product strategy provides an avenue to promote the product's value-added benefits through product differentiation. The firm will enforce customer-centricity to "identify the best customers and win their loyalty by serving them better" than any other competitors.⁵⁰ Microsoft's customer driven approach will ensure that their products are derived from emerging consumer trends, rather than statically focusing on its corporate cash cows as Ballmer did. By adopting this strategic framework, customers will be able to effectively integrate the product within their lifestyle and build a greater sense of connectedness with the firm—rather than simply tolerating products. With an emphasis on customer oriented sales and value creation, Microsoft aims to cultivate consumer confidence, trust and loyalty toward the Surface brand.

⁵⁰ Ibid.

The firm's assessment of global trends has influenced its decision to pursue a felicitous position to fill in regards to exploiting a market gap that other competitors are not actively pursuing. The Surface Pro line aims to address customer preferences to create value; therefore, maintain profitable relationships for sustainable business operations.

Microsoft's marketing will be segmented towards distinct market groups with similar needs. The business's primary target market audience is directed towards "students, mobile professionals and creative users" who will be empowered with productivity benefits of power and performance in a single hybridized product. The product's features revolve around a framework for productivity and convenience as it portrays the role of a tool, unlike most tablets. By accommodating to such market needs, Microsoft is fulfilling its value proposition of reinventing productivity, through software and hardware ventures, to deliver customer satisfaction and value.

By "focusing on 1 or 2 effective segments with relevance," Meer indicates that market penetration will effectively build product traction among consumers for Microsoft.⁵¹ The Surface is shifting the product lifecycle curve towards a new phase for growth towards its new hardware ventures. Essentially, Microsoft is shifting away from its prior myopic weaknesses and developing new hardware operations that will allow the firm to retract from its declining lifecycle. The company is broadening its product portfolio for customers to gain all their needs from a single provider.

Microsoft's product packages productivity and convenience together to offer a complete hardware and software bundle. Although, Porter's 5 Forces suggests that

⁵¹ Meer, D. (2006). Rediscovering Market Segmentation. Harvard Business Review, (6). Retrieved from <https://hbr.org/2006/02/rediscovering-market-segmentation>

Microsoft is entering a market with high degrees of rivalry that competitively provide numerous product substitutes. Therefore, it is necessary for Microsoft to competitively promote product differentiation benefits in order to gain a strong company profits; thus, ensure a positive return on investment (ROI) for its shareholders.

Pricing Strategy:

Technology companies have proliferated across the market with numerous products, leaving consumers with high bargaining power and leeway to select cheaper substitute alternatives. Hence, Microsoft's pricing strategy is beneficial in which it resembles a "more for less" strategy that appeals to its audience by offering additional value for a lower price. The device aims to hide the power of an Ultrabook within the framework of a tablet and strives to ensure that it offers consumers two devices for the price of one. This guarantees that customers will be offered a winning value proposition. Once the product is purchased, Microsoft is also providing additional free software applications and cloud compatibility. This is a clever approach for the company as it uses its credible software reputation to push its new hardware ventures. The product's value proposition offers consumers to "do more at work, home, at school, and grant creativity;" thus, strengthens Microsoft's competitive advantage in terms of exploiting an unsaturated market segment.⁵²

While the Surface Pro cost is competitively measured, the business may face issues with late investors and laggards that wait longer periods of time, until prices drop before committing to purchasing the product. This is problematic as it can cause difficulty in terms of cash inflow and low inventory turnover rates. Especially in a fast

⁵² Microsoft.com

paced market, it is undesirable for devices to depreciate and become obsolete by simply sitting in storage. As Kotler suggests relative advantage is a driving force to help products fly off the shelves overnight. Taking this into consideration, Microsoft must promote its product towards innovators and early investor in order to build faster rates of adoption in order to reach its objective towards improving market penetration. The cost and value analysis that customers contemplate on during the buyer decision process must be addressed in a manner that advocates the Surface Pro as a productive, efficient, and innovative device that offers more for less.

Microsoft can utilize market penetration pricing, as an approach to enter the market space to appeal to a large volume of consumers early in the product lifecycle. By adopting this approach not only is Microsoft distinguishing its pricing strategy from other competitors, like Apple that fall into the market skimming model, but prices are initially low relative to the economic value for the customer (EVC). Lower prices also present a psychological advantage in which consumers are more inclined to select a product that fits their budgeting constraints, while also gaining assurance that they will be receiving “more for less.” Harvard Business Professor, Theodore Levitt claims that inexpensive reliable products are the “hallmark of corporate culture.”⁵³ By implementing lower costs while producing quality products, the Surface Pro will be better positioned to achieve its objective of increasing market share to 17.5% to reach \$59 million hybrid units by 2019.

Placement Strategy:

Microsoft engages in various distribution methods to channel their products to numerous geographic locations. Microsoft’s optimal channel strategy will utilize

⁵³ Levitt, T. (1983). *The Globalization of Markets*. Harvard Business Review, 92-102.

selective distribution through online retailers, like Amazon, and popular electronic retailers, such as Best Buy. These outlets provide alternative locations for consumers to view the product and initiate the purchase process.

In addition to relying on intermediary retailers to distribute the Surface Pro, Microsoft will also employ personal flagship stores. The firm recently opened new flagship stores in New York, Sydney and additional venues in Maryland and Louisiana.⁵⁴ These locations serve as selective experience shops that allow Microsoft to conduct business internally through specialized sales representatives. The sales staff serve as product brand ambassadors that have the most knowledge regarding the product features and aim to foster customer interest for the device.

Microsoft's retail stores beneficially develop customer engagement and build connectedness. Customers are able to experience the brand's value proposition and see a "manifestation of the brand."⁵⁵ It allows consumers to sense both emotional and physical attractions to improving purchasing traction and customer loyalty. Furthermore, these large flagship stores also serve as an effective intimidation tactic to competing rivals by exhibiting the brand's growing image.

By implementing both direct and indirect distribution methods, the Surface Pro will gain exposure in hopes to increase customer convenience and consequentially improve market share. In the Harvard Business Review article, *Digital Branding*, David Edelman mentions that "70-90% of money is spent on advertising yet most customers' impetus to purchase the product occurs during the evaluation process."⁵⁶ Hence,

⁵⁴ Microsoft Retail Stores Press Kit. (2014, September 22). Retrieved November 19, 2015.

⁵⁵ Bendapudi, N., & Bendapudi, V. (2005). Creating the Living Brand. Harvard Business Review.

⁵⁶ Edelman, D. (2010). Branding in the Digital Age. Harvard Business Review.

Microsoft's decision to open additional retail stores presents an opportunity for consumers to experience the product brand, in an attempt to build direct consumer relationships and thus sales. Consumer interactions within the stores are targeted to strengthen the brand's perceived value and cultivate a strong rapport of followers. The crux of this distribution tactic is directed towards creating superior customer value in order to establish strong profitable relationships.

Microsoft's product epitomizes a vertical distribution approach that provides a "global network of channeling partners providing vertical solutions" for customer convenience.⁵⁷ The flagship stores increase customer awareness and reduce cognitive dissonance by acknowledging Microsoft's innovative proposition of reinventing productivity through its Surface products.

Promotion Strategy:

As Microsoft begins to gain momentum, it must focus on providing aesthetic and technical values that differentiate the device from other mainstream products. Microsoft's large budget for its Surface marketing campaign is striving to build customer awareness and market presence. The company's partnership with the NFL, PGA Tour, NASCAR, and even Emirates provides channels to place the product in front of a wide audience.

While Microsoft understands the significance of marketing its products to regain market share, it is not a wise decision to make overzealous billion dollar investments without strategically targeting specific market audiences. The marketing team must reassess R&D insights in order to maximize profits and reduce ineffective marketing communication.

⁵⁷ Microsoft Financial Review Annual Report. Retrieved October 7, 2015.

To ensure successful exposure at minimal costs, Microsoft can utilize two key aspects: public relations and direct marketing to efficiently leverage the product's awareness within the market. Wharton University's Marketing Professor, Jonah Berger acknowledges that "virtual virality" can be sought through word of mouth and buzz marketing where costs are minimized and results maximized. Berger's central argument focuses on introducing "STEPPS", as social currency, triggers, emotions, public, practical value, and stories, as six pertinent elements that have guaranteed the repetition of contagious impacts. Public relations will require a proactive brand presence, through social media, press events and even corporate sponsorships to portray favorable publicity. Public relations are best used to continually build the brand, by strategically establishing a two way street for feedback between clients and the firm.

Direct marketing will also be employed as it accurately fits with Microsoft's segmented market audience. By maintaining direct connections with key clients, the company can beneficially remove superfluous costs by wasting time to attract uninterested audiences. By strategically marketing toward consumers that are interested in the Surface Pro it will increase consumer engagement and efficiently apply the budget toward the right users. When the company enters a user's interest bubble through an invitation, the consumer is more likely to build interest, trust and loyalty with the brand.

Positioning Statement:

To deliver value to students, mobile professionals and creative individuals, Microsoft's Surface Pro line offers a premium hybrid product that integrates productivity, versatility and power. The device offers power, performance and portability to mobile individuals that require greater applications for productivity "at school, work, home or

creative getaways.”⁵⁸ Competitors such as Apple and Google provide singled products that address either performance or portability; but the Surface Pro combines both by offering more for less. Microsoft will expand and infuse its business to encompass both hardware and software operations that provide “cross channel access” to build a 360 degree perspective for consumers.

Positioning Strategy:

Throughout Microsoft’s life span it has continually allowed the brand to resonate within the prospect’s mind. From Bill Gates’s mission of putting a desktop on each desk to Satya Nadella’s vision to empower everyone to do more, the firm has created customer value by reinventing productivity across multiple generations. The company has gained trust and respect from its clients and is ranked as the 5th most valuable company in the world.⁵⁹ Microsoft’s paradigm shift towards strengthening the brand and evading its previous myopic approach has positively set record high stock prices of \$68 with a market capitalization of \$530 billion, something which has not occurred in over 17 years.⁶⁰ Microsoft’s significant transition has revitalized Microsoft’s investor confidence and momentum as it has provided the company a strategic direction for the future. As the company is proactively aligning itself with the market, it must continually adapt to changing times in order to retain its competitive advantage and reap profitable business outcomes.

⁵⁸ Microsoft Promotional Ad

⁵⁹ Top companies in the world by market value 2015 | Statistic. Retrieved October 9, 2015.

⁶⁰ Microsoft's market value tops \$500 billion again after 17 years. (2017, January 27). Retrieved February 02, 2017, from <http://www.reuters.com/article/us-microsoft-results-research-idUSKBN15B1L6>

Microsoft should reflect on key questions such as which competitors it must surpass to gain their desired market leader position and how to allocate sufficient resources to sustain the position in the future. While the firm has strong monetary capital, it is necessary to consider that repeatedly changing its positioning strategy will be harmful. Therefore, Microsoft should be resolute and resilient when undertaking a long term marketing investment regarding the Surface Pro's entrance. It will certainly require "a major long term commitment" in order to gain a sustainable competitive edge over its competitors.⁶¹ Similar to successful global brands, Microsoft must strive for excellence regarding "the brand's price, performance, features, and imagery," while also "managing the brand's global symbol and perception."⁶²

Marketing Research:

Customer satisfaction will be assessed through feedback surveys and field trials through Microsoft's own research and development team. Feedback surveys and field tests will further provide insight to improve various product aspects such as packaging and functionality. The surveys will allow data to be aggregated in order to measure the product's reception among consumers. The satisfaction rates will measure features of productivity and performance to derive standard deviations of the market audience. If drastic differences occur and falter to deliver the product's core value proposition, the firm must reevaluate such issues to resolve customer dissonance. In addition, Microsoft may purchase third party data from social media sites to evaluate customer posts and comments about product reviews and criticisms. Gaining access to such data will allow

⁶¹ Ries, A., & Trout, J. (1986). Positioning: The battle for your mind. New York: McGraw-Hill.

⁶² Holt, D., Quelch, J., & Taylor, E. (2004). How Global Brands Compete. Harvard Business Review.

business intelligence applications to correlate the significance of numerical values to define future marketing efforts. By “knowing more” Microsoft will be able to “do more” to accommodate the company’s purpose to deliver value to both its customers and shareholders.⁶³ Marketing research will improve future product updates and prevent the device from becoming obsolete in the fast-paced industry.

⁶³ Ali, A. (2014). The innovative organization: Doing more vs knowing more. *Competitiveness Review*. Retrieved November 9, 2015.

Action Programs:

The 2017 action plan ensures that Microsoft's marketing plan continually drives sales and is fully addressed with diligence, accuracy and excellence to sustain its competitive advantage and deliver long term value for consumers and shareholders.

- 1) **June:** While the corporation heavily allocates monetary resources to promote communication and product exposure, the firm plans to strategically hit the ground running with a budget exceeding the previous year. Once strong product awareness and consumer loyalty is assured, the company can gradually ease off its marketing investments.
- 2) **July:** Proactively communicate through familiar social media sites and press events to build public relations. The Surface Pro campaign can be conducted through modern tech savvy channels of hashtags, Instagram contests, and Facebook giveaways to attract a larger audience. The campaign must be designed to target students and mobile professionals that appreciate the value of a hybrid premium device that offers performance and mobility. The campaign will use direct marketing to aggressively compete with other market rivals.
- 3) **August:** As public relations build momentum and gain further attention from prospect consumers, the data analytics team will assess live traffic flow from social sites and attempt to develop a portfolio of the diverse market audience. The data will be leveraged to build business intelligence systems to customize future promotional slogans, billboards, and commercials and tailor them appropriately for segmented market audiences.

- 4) **September:** While public relations are sustained, the marketing team will utilize data collected in August to build customer acquisitions. In an era of technological innovation, the firm aims to pursue digital marketing, while also customizing it toward individual preferences to express customer service on a personal level.
- 5) **October:** The release of the product's campaign will be publically presented through a national keynote presentation that will advocate the Surface Pro's benefits of an Ultrabook within the sleek design of a tablet, while also sharing the potential of similar product extensions. The event will be televised and broadcasted online, allowing the firm's event coverage to build social transmission and buzz marketing to increase product exposure and publicity.
- 6) **November:** The Surface Pro campaign will elevate its tactic to position itself against rivals, Apple and Google, by releasing a second video of its successful 1998 commercial "Where do you want to go?" Building a nostalgic feel to the firm's current products will associate a fabric of emotional capital which will position the firm for personal empowerment. It will also support an outlet for consumer loyalty and connectedness, which will providing Microsoft security from profitable relationships.

Controls:

The planning team will ensure strict controls that will proactively monitor customer connectedness and provides quality customer service. Using consumer feedback will serve as key indicators of any issues that may occur and require immediate solutions. Furthermore, an enterprise resource planning (ERP) system will periodically evaluate budgeted financial reports, customer levels of engagement, and cost-efficient supply chain management to ensure that progress is made. In addition, strong research development will be conducted to understand and predict the evolving nature of digital consumer preferences. These studies will build the firm's knowledge of present and future consumer trends; thus, enable Microsoft to deliver consumer experiences in a way that customer's want. These precautionary actions will serve to preserve Microsoft's brand position within the prospect's mind, while also penetrating the market for corporate profits. Microsoft's investment towards the future not only provides a strategic direction for the company but also revitalizes its competitive advantage and grants an opportunity to directly compete with market leaders.

Conclusion: Significance of Microsoft's Paradigm Shift

The significance of Microsoft's paradigm shift is its ability to provide the organization a strategic turnaround from its prior myopic thinking. While Ballmer successfully earned profitable returns during his leadership, he failed to provide a sense of direction for future operations; simply lead the company to meet quarter to quarter earnings. This lack of direction and strategic vision caused the company to become passive in its business undertakings. Although, under Nadella's leadership the paradigm shift has positively shaped Microsoft's new vision for growth, strengthened the brand, and improved its competitive position within the market. The transition has addressed three key aspects for the business in its stride to modernize with changing times to retain its competitiveness.

Microsoft's strong financial performance indicates that Nadella's strategic turnaround has successfully resonated with both consumers and shareholders. Unlike its former myopic approach, the new growth strategy has improved shareholder confidence and trust in the company as it assures that Microsoft is seeking out "generational opportunities" for the future. While quarter to quarter earnings are accounted for in the short term, Microsoft is in the market for the long haul as "a generational move will pay off every year for the next ten" as it identifies the larger global trend.⁶⁴

As the definition entails, a paradigm shift ensures a significant change in how a new way of thinking is implemented and impacts all levels, divisions and offices across

⁶⁴ Weinberger, M. (2017, April 27). Microsoft CEO Satya Nadella told an analyst that Wall Street thinks too small: 'That's not how it works' Retrieved March 14, 2017, from <http://www.businessinsider.com/microsoft-ceo-satya-nadella-augmented-reality-cloud-computing-2017-4>

the organization. Consequentially, by pursuing increased quality assurance, diversified hardware ventures and cultivating consumer connectedness through its “cloud first mobile first platform,” Microsoft has re-strengthened its overall brand. While the brand struggled to modernize during Ballmer’s reign, it is successfully pressing forward as consumers and Facebook’s CIO Tim Campos mentions that “Microsoft is cool again.”⁶⁵ In addition, Nadella has successfully lifted the corporate culture in which “workers are no longer afraid to fail” and are testing new innovative products to deliver products that appeal to consumers.⁶⁶ Microsoft is rebranding itself not only from its software to hardware transition, but is also delivering a vision to empowering everyone’s lives through intelligent devices. The paradigm shift has beneficially shaped a new vision for growth and strengthened the brand’s appeal among consumers and investors. These two interconnected factors help ensure Microsoft to retain its competitive advantage against rivals as it can leverage its brand and vision to reap profitable business outcomes.

Microsoft’s organizational agility is a fundamental characteristic that has allowed the company to successfully transition towards a vision for growth. Implementing a paradigm shift is very difficult as it requires a significant change across the entire organization. Although, the firm’s agility supported Microsoft to successfully execute the paradigm shift, instead of simply envisioning it. While competency, scalability and tacit knowledge are also beneficial factors that can help Microsoft retain a competitive advantage, they are useless without corporate agility. Agility ensures that the

⁶⁵ Facebook says Microsoft got its mojo back, is "cool again". (2016, July 15). Retrieved May 07, 2017, from <https://mspoweruser.com/facebook-says-microsoft-got-its-mojo-back-is-cool-again/>

⁶⁶ Smith, P. (2016, November 20). How Satya Nadella is making Microsoft cool again, and taking on Apple and Amazon without trying. Retrieved May 07, 2017, from <http://www.afr.com/technology/technology-companies/microsoft/how-satya-nadella-is-making-microsoft-cool-again-and-taking-on-apple-and-amazon-20161118-gssfb1#ixzz4gMei4NyP>

organization is continually adapting to emerging market trends and proactively driving results. Tacit knowledge, scalability and competencies are dependent on agility, as seen in Diagram 1, as it sets the overarching pace and purpose for the company. Microsoft's agility successfully supported its paradigm shift to engineer a strategic turnaround within a short time frame of 3 years.

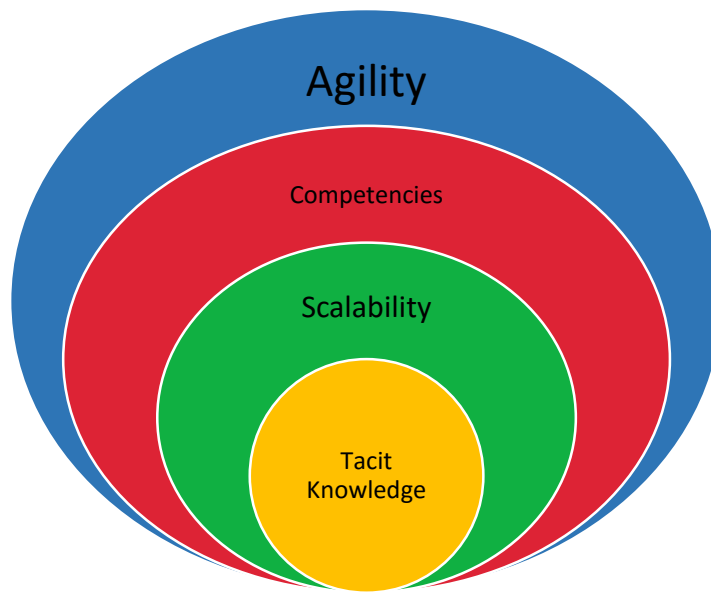


Diagram 1: Interdependence on Agility to Implement Microsoft's Paradigm Shift

Overall, Microsoft's paradigm shift illustrates a new strategic turnaround for the company in which it focuses on generational opportunities to drive future growth. The shift has ensured the company to diversify its product portfolio with the Surface Pro products and Azure's cloud computing, instead of simply relying on its software division. The impact can be beneficially observed through its financial growth, increased consumer connectedness, and rebirth of the brand. This pivotal transition ensures a strategic direction for the company as it builds momentum to exploit new windows of opportunity through its vision to empower everyone to do more. The paradigm shift has successfully

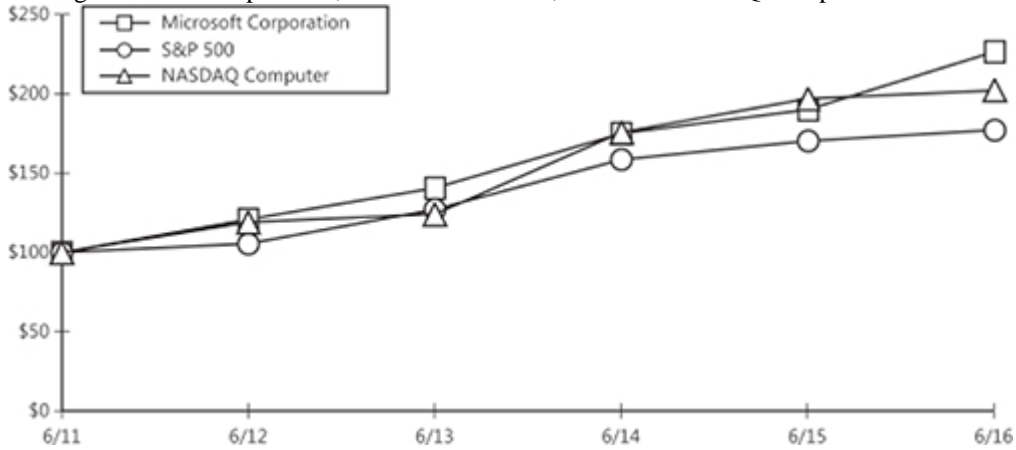
strengthened Microsoft's brand, supported its vision for growth, and improved its competitive position within the market.

Appendix

Appendix 1: Microsoft's 5 Year Stock Performance⁶⁷

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Microsoft Corporation, the S&P 500 Index, and the NASDAQ Computer Index

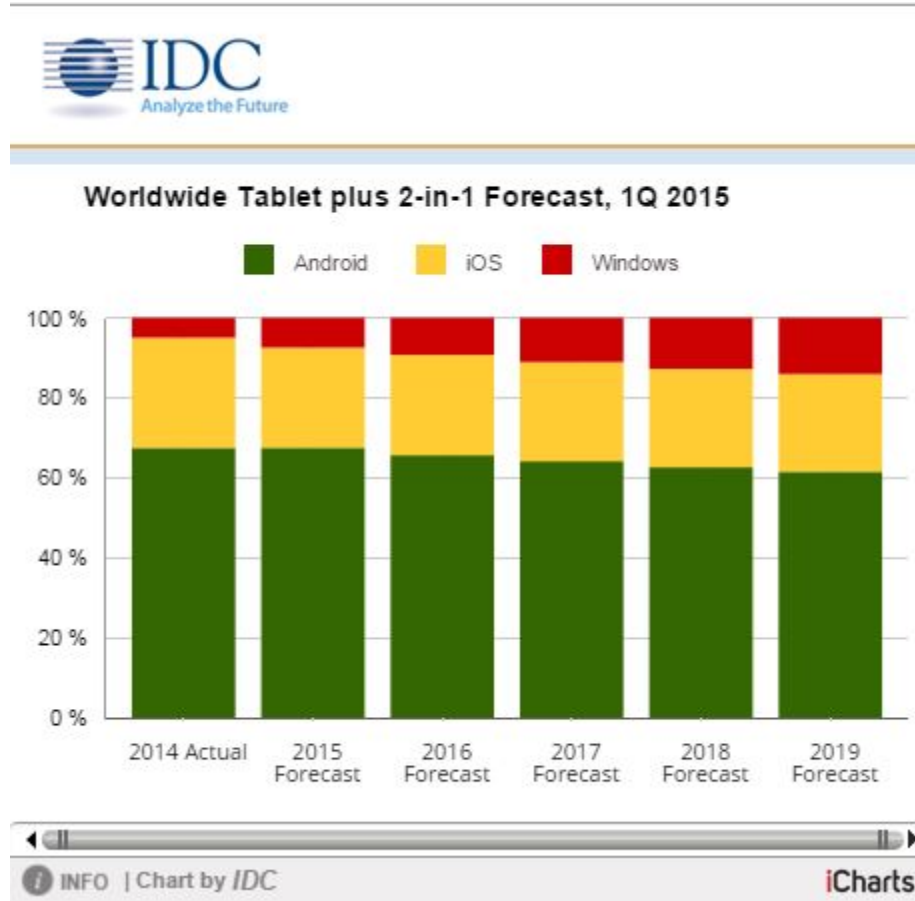


	6/11	6/12	6/13	6/14	6/15	6/16
Microsoft Corporation	100.00	120.87	140.66	174.80	189.96	226.29
S&P 500	100.00	105.45	127.17	158.46	170.22	177.02
NASDAQ Computer	100.00	119.00	124.01	175.51	196.72	202.04

* \$100 invested on 6/30/11 in stock or index, including reinvestment of dividends.

⁶⁷ Microsoft 2016 Annual Report (2016). Microsoft. Retrieved Feb 02, 2017 from, <https://www.microsoft.com/investor/reports/ar16/index.html>

Appendix 2: International Data Corporation's Worldwide Tablet Forecast⁶⁸



⁶⁸ Reith, R., & Bouchard, J. (2015, May 28). Worldwide Tablet Growth Will Continue to Slow in 2015. According to International Data Corporation. Retrieved November 12, 2015.

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ⁱ Efficiency is used to particularly define “operational excellence of productivity” by minimizing costs and increasing marginal profit.

ⁱⁱ Effectiveness is primarily used within the context of creating competitive advantage in this paper. Effectiveness particularly defines delivering sustainable business operations that continually leverage the return on investment (ROI) by offering a non-negotiable value proposition for customers; instead of simply relying on an external network of resources.