

Teardown: Microsoft Surface RT More Profitable than iPad

Written by Chelsey Drysdale
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EL SEGUNDO – The Surface RT model with min 32 GB of NAND flash memory and an optional black Touch Cover carries a bill of materials of \$271, according to a preliminary estimate from **IHS iSuppli**. When the \$13 manufacturing expense is added, the total cost to manufacture the Surface rises to \$284.

In terms of its size, feature set and pricing threshold, the Surface RT is designed to compete with the full-sized iPad, says the research firm.

At an estimated total BOM and manufacturing cost of \$284 and a retail price of \$599, the Surface RT generates hardware and manufacturing profits that are, in percentage terms, higher than the low-end iPad. Even at a price of \$499 without the Touch Cover, **Microsoft** will generate a profit margin that is greater than the low-end iPad, in percentage terms and on a per-unit basis, says IHS iSuppli.

With options like the Touch Cover or extra flash, a manufacturer can offer a low-end model at a base price that meets a psychological threshold – \$499 in this case – with the hope that consumers will opt for extra features or memory upgrades that generate major profits, says the firm.

IHS preliminarily estimates that the Touch Cover costs Microsoft \$16 to \$18 per unit. The Touch Cover accessory integrates a printed circuit board assembly with numerous chips, including a **Freescale** microcontroller and an **Atmel** touchscreen controller.

Samsung Electronics is the biggest design winner in the Surface, based on the IHS iSuppli teardown. Various divisions of Samsung supply components or complete subsystems for many of the most expensive portions of the individual tablet: the display, the NAND flash and the battery pack. However, most of these parts are available from multiple sources, and other suppliers are likely used in other individual Surface tablets.

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Another major winner is **Nvidia.**, which supplies the Surface's processor. The Surface RT is based on an Nvidia quad-core Tegra 3 processor, which uses the ARM architecture. The Tegra 3 costs an estimated \$21.50, accounting for 8% of the Surface RT's BOM.

Atmel supplies multiple touch controllers in the Surface itself, as well as in the Touch Cover.

Teardown assessments are preliminary in nature, account only for hardware and manufacturing costs, and do not include additional expenses such as software, licensing, royalties or other expenditures.