Competitive Strategies in the Computer Industry

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ABSTRACT

A firm’s competitive behavior is very important for its survival. Relevant stakeholders in an industry are interested in a firm’s operational as well as financial performance. In order to gain competitive advantage, a firm must remain steadfast during changes it goes through over time. This is true for the computer industry as well. The computer industry has been advancing very fast and firms in the industry are experiencing fierce competition for many reasons. This study examines the computer industry in terms of Michael Porter’s framework for analyzing the profitability. The authors conduct a critical analysis of the threat of new entrants into the computer industry segment, the bargaining power of suppliers in the industry, the bargaining power of buyers in the industry, the threat of substitute products or services, and rivalry among competitors in the industry. This study has implications for incumbent firms and new entrants into the computer manufacturing industry that evaluate competitive strategies in the industry.

Keywords: Competitive Strategy, Computer Industry, Laptop, Personal Computer, Porter’s Five Forces, Smart-Phone

1. INTRODUCTION

Today, computer use is all pervasive – household use to business use, among low income to high income population and from developed to developing nations. In the auspicious availability of myriad applications software even a layman finds a computer easy to use and useful. The availability of the Internet and its speed has made it possible for users to communicate and do business with others. Many companies have emerged over the last decade, with tools and Internet sites that make computer use inevitable and essential. The emergence of popular sites such as Google and Yahoo as search engines and email communication vehicles; social networking tools such as Face-book, Linked-in, Twitter and many online shopping sites, including Amazon.com have made computer use part of life for most people in developed nations and in increasing numbers in developing nations.

The International Business Machines (IBM) Corporation was the pioneer in introducing the personal computer (PC) to household and business users. IBM® has been a renowned high tech company for decades; hence, entrance of IBM in computer industry three decades ago has legitimizied the industry and expanded its growth (Moy & Terregrossa, 2009). However, IBM did not necessarily make all the components and parts in PCs on its own. The two

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major components of a PC are microprocessors and operation systems (OS), outsourced from Intel® and Microsoft® respectively. As part of their business model IBM decided to outsource these two key components. Given IBM has been a renowned business machine company for decades both Intel and Microsoft offered to join IBM in successful lunching of PCs to household and business users. Although IBM was the leading firm for high technology and computers for decades, it is no longer the leading manufacturer of personal computers. IBM’s one-time dominance of the computer industry has been diminishing in part to a software manufacturer, Microsoft, and in part to a microprocessor manufacturer, Intel (Waldman, 2008). Microsoft’s decision to align itself with IBM’s microcomputer project is one of the great business decisions of all time (Moy & Terregrossa, 2009).

Since IBM’s pioneering of the PC, a good number of computer manufactures have emerged over the years, including HP, Lenovo, Dell, Acer, ASUS, Toshiba, Sony, Samsung, Gateway, Apple, etc. During the last decade Taiwan, Singapore, Mexico, and China (Kraemer & Dedrick, 2002) also began to emerge as key players in the PC industry. The computer industry is now one of the fastest growing industries. The computer industry revenue in 2011 was $40.7 billion (IBIS World, 2011).

This article is organized as follows: Section 2 briefly discusses the theoretical framework and related work done in this area. Section 3 discusses the present state of the computer industry. Section 4 provides a critical analysis of the computer industry profitability in terms of five competitive forces proposed by Porter. Section 5 summarizes and concludes the paper.

2. THEORETICAL-FRAMEWORK AND RESEARCH APPROACH

Competitive strategy of a firm is thought to be of major importance in its success in the industry (Gatignon & Robertson, 1989; Goolsbee, 2001; Kumar et al., 2011; Lawless & Fisher, 1990; Mathews, 2002; Porter, 2008; Prahalad & Hamel, 1990; Tambe & Hit, 2012). These studies reinforce the importance of understanding different forces of competition. This is true for both incumbent and the new entrants. Bush (2012) asserts that developing an organization’s competitive strategies is instrumental in staying ahead of the competition. Research has shown that competitive strategies need to be assessed from the standpoint of the threat of new entrants (which matters to incumbents), the bargaining power of suppliers (true for both incumbents and new comers), the bargaining powers of buyers, the threat of substitute products (matter of concern for incumbents), and rivalry among competitors (Porter, 2008).

A number of empirical studies have examined certain aspects of the internal and external factors affecting competition in the computer industry. Goolsbee (2001) provides an insight in terms of online versus retail competition in the competitive industry. Kumar et al. (2011) studied the influence of market orientation on performance. Their analysis suggests that market orientation has a positive effect on business performance for both the short and the long term. Their study also suggests that the firms that have market orientation in the first place gain more in sales and profit than firms that are late in developing market orientation. Prahalad and Hamel (1990) suggest that a firm’s growth depends on top executives’ ability to identify, cultivate, and exploit the core competencies.

Zhou et al. (2005) study suggests that the market orientation of a firm helps in innovations that use advanced technology. This in turn offers greater benefits to mainstream customers (Ives & Learmonth, 1984). Firms in the computer industry must come up with innovations (Swanson & Ramiller, 2004) by taking market orientation into consideration. This is very much needed as the computer industry is competitive and customers do care about more and more computer features and user-friendliness. Heil and Walters (1993) present a conceptual model to analyze the strength of competitive reactions to new product introductions. This model could be used to generate insights before introducing computer products to the market. Computer products are
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