

Intel corporation background and history economics essay



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On July 18, 1968, Robert Noyce and Gordon Moore became the proud founders of Intel Corporation earlier known as N M Electronics. Intel Corporation is based in California and works in the computer industry and produces various computer related hardware products like microprocessors, Chipsets, Flash memory, Graphic chips, etc. According to the 2011 data, there are over 100, 100 employees in Intel which helped the company to generate a revenue of over US \$54 billion in the year 2011. Intel's faces tough competition from AMD. Intel is admired and trusted when it comes to buying microprocessors and therefore Intel owns 80% of the market of processors all around the globe as compared to Advanced Micro Devices (AMD) that owns 10% of the market.

In 1971, Intel introduced their first micro-processor that went public and Intel progressed towards developing a general purpose micro-processor in 1974. IBM developed its very first personal computer in 1980 and it chose Intel's microprocessors for its PC. The company witnessed a net income of over US \$1 billion for the first time. As and when the company progressed in making microprocessors, later on in 1993, Intel developed its very first Pentium series microprocessors also known as the fifth generation chips. The sales of the Pentium series microprocessors contributed to more than US \$5 billion of net income for Intel Corporation in 1996. Intel's progress and dominance in microprocessors began in 2000 when Intel introduced its very first 1-gigahertz processor (Intel Corporation History as cited in Pederson, 2011. Vol. 36)

Intel has been ranked 46 in Fortune Magazine, 2012 " Best companies to work for" with a job growth rate of 4%, not a good percentage but can be <https://assignbuster.com/intel-corporation-background-and-history-economics-essay/>

called a good one individually as AMD does not hold a place in the Fortune's magazine.

2. METHODOLOGY

The Final Project of Intel consists of information from the official websites of Intel Corporation that provides hefty information about the company. Intel Technology Journal is useful for detailed information on the types of processors and all about their manufacturing and pricing strategies.

Various online sources include Google Books, London South Bank University library services and various other online services that provide useful information about the company or knowledge about the principles that can be applied in order to explain the theory. Also, research can be carried out in the market of computers in order to know the market demand for Intel Processors.

The project will be supported by the use of economic theories that include Porter's five forces, SWOT analysis in order to emphasize on the strengths, weaknesses, opportunities and threats of the company. This can also give insights into a company's competition level, products & services and can also highlight the areas of improvement for the company.

3. OBJECTIVES

3. 1 ORGANIZATION AND MANAGEMENT MODEL

3. 1. 1 Management Approach

Intel has adopted a de-centralized management model where the management tasks are equally divided amongst the managers of Intel.

Frameworks such as the United Nations Millennium Development Goals (MDGs) help inform Intel's strategy and approach. Intel's Board of Directors are committed to being the leader on corporate governance matters. As mentioned in Intel's Corporate Responsibility Report, (2011) the Board oversees, counsels and directs management in the long-term interests of the company and their stockholders. This cannot be a good way of decision making because when the Directors carry out consultations with managers, they show lack of confidence in their own decision-making power. The task of the Board is to direct the company and the task of the managers is to manage their department as per the directions of the Board. Hence, counselling seems to be unimportant as not all minds are alike, and decisions of the Board and managers may clash, hence deciding upon one plan may get difficult.

While the board plays an active role in decision making, the Nominating Committee of Intel reports to the Board on sustainability issues at Intel. Intel has also formed various Management Review Committees (MRCs) consisting of senior executives who manage corporate issues across the organization.

3. 1. 2 Company Structure

Intel serves customers in more than 160 countries and had employed 100, 100 employees in more than 60 countries by the end of 2011. Intel's primary customers include Original Equipment Manufacturers (OEMs) and the Original Design Manufacturers (ODMs). Intel is not only focused on making microprocessors but it also manufactures data centres, tablets, Smartphone, automobiles, automated factory systems and medical devices. Intel's latest innovation is the Ultra-book computing systems. Intel has a variety of <https://assignbuster.com/intel-corporation-backgroud-and-history-economics-essay/>

segments that carry out different tasks. PC Client Group, Data Centre Group, Intel Architecture Operating Segments and various sub-groups that manage the entire mobiles and computing department, Software and Services Operating Segments also functions with sub-groups that manage various software related matters.

A very plain and simple organizational and segments division comprises of Intel's organizational model. Intel's CEO Paul Otellini, 62 is going to retire in May 2013. Paul had tried his hand in the mobile market but it did not work out for the company. According to the press release in Bloomberg, Paul decided to retire after he failed to make it large in the mobile industry (King, 2012). Intel now has to hire another candidate for the post of the CEO. Intel foresees a shuffled up management system and witnesses a push-down in profits and turnover.

3. 2 COMPETITORS AND MARKET ANALYSIS

3. 2. 1 Intel's Competitors

Intel has completed 40 years of innovation and has come across various competitors. Advanced Micro Devices (AMD) has been their primary and toughest competitor in the industry for microprocessors. Their platform with integrated graphics and chipset has faced a competition from NVIDIA Corporation's graphics processors. In the Smartphone and tablet industry, Intel faces competition from QUALCOMM Incorporated. In the Bloomberg press release, it's reported that QUALCOMM is the world's largest chip maker for phones (King, 2012). NVIDIA and Texas Instruments Incorporated are not anywhere in the dimlight when it comes to competing with Intel.

3. 2. 2 Market Structure in which Intel Operates

Intel Corporation Operates in an Oligopolistic Market which is characterized by high barriers to entry, few sellers selling homogenous products making it a case of pure oligopoly (Salvatore, 2012). One feature of oligopoly is non-price competition, but as per my experience I haven't witnessed Intel indulging into non-price competition. Intel's products, especially their microprocessors are highly demanded all around the globe and hence it has an inelasticity of demand on its products.

3. 2. 3 Market Analysis

The market where Intel operates can be analysed with the help of Porter's Strategic Framework. Michael Porter developed a strategic framework that can analyse the competition and profitability levels of an oligopolistic firm (Salvatore, 2012). The five structural dimensions are :

1) Threat from substitute products:

AMD is Intel's biggest competitor in the market of processors and Intel faces threat from AMD's processors. Intel owns 80% of the market of processors and if they shift their focus from the market of processors, AMD gets an immediate opportunity to take over the market. The result of their competition in mid 1980s was that and Intel processor would no longer work with an AMD based computer and vice versa. This signified non-substitutable products . In fact, QUALCOMM surpassed Intel in market value for the first time ever. Intel has a threat of substitute processors from AMD in the chipset market, and from QUALCOMM in the Smartphone market. It's best for Intel to rather stick to producing microprocessors instead of trying it's luck in a

market where it has to compete with other giants. Intel has already been investing more and more amount in R&D, figures totalling up to US \$8, 350 at the end of 2011 compared to US \$5, 653 in 2009.

2) Intensity of Rivalry among existing competitors:

As mentioned in point 1, Intel has been trying to enter the mobile market bringing in extra competition for QUALCOMM. According to the Bloomberg press release, Paul Otellini did not succeed in parlaying a position in computers as he wanted to stake in a rapidly growing mobile market. This only fetched them 1% of the mobile market. Hence, Intel should not try to jump into a market where it will not find any sales. They need to invest a hefty amount in R&D in the smart phones market. It's not even sure of what outcome it may have on their sales as well as next year's profits. Thus, Porter's 2nd rule can be explained by concluding that Intel faces tough rivalry from QUALCOMM in mobile market as well as AMD in the processors market.

3) Threat of entry:

Intel Corporation does not really face any threat of entry. This can be explained from the cross-license agreement signed between Intel and AMD in 1976 where both companies agreed to license each other all patents each company holds. IBM became the first customer of Intel on a condition to be provided with a 2nd source supplier which was later taken over by AMD. Thus, Intel terminated the agreement which began the ever-lasting legal dispute and competition between the two. This led to manufacturing of processors almost every 2 years which gave a " technological gap" to any <https://assignbuster.com/intel-corporation-backgroud-and-history-economics-essay/>

firm wanting to enter the market of processors. Intel and AMD together occupy more than 90% of the market which leaves very little space for any other firm to enter.

4) Bargaining Power of Buyers

Intel's buyers/customers are those who buy PC components and their other products through distributors, reseller, retail and OEM channels. Other customers include Hewlett-Packard (HP) who accounted for more than 21% of Intel's revenue at the end of 2010. As Intel is an important supplier of processors and chipsets to large computer manufacturers, buyers do not hold a bargaining power. From the customer's point of view, best in low price is their aim. Due to this, they hold a bargaining power between AMD and Intel.

5) Bargaining Power of Suppliers

Intel has a total of 75 suppliers at the end of 2011. They have set up a Supplier Management Process that manages the entire supply chain. This includes all possible threats associated with a supplier. I feel that a chain of 75 suppliers is not small, managing them can be very difficult. In fact, as there are so many suppliers, Intel does not get affected by the bargaining power of suppliers.

3. 4 INTEL'S PRICING STRATEGIES

Salvatore (2012) refers to price discrimination as "charging of different prices for different quantities of a product at different times to different customer groups or in different markets when these price differences are not

justified by cost differences". According to the observation, Intel follows a First and Third Degree price discrimination. First degree involves selling each unit of the product separately at the highest price possible. Intel believes in charging the highest possible price when it first launches its product.

Third degree price discrimination can be explained on narrow basis as Intel's processors are cheaper in the USA as compared to the rest of the world.

Gordon Moore, Intel's co-founder put forward the Moore's law which explains that performance of microprocessor doubles every 18 months, whereas the price halves. As Intel launches the next gen processor, the previous gen processors' price cuts down to almost half but remains more than Intel's marginal cost of production.

3. 5 DEGREE OF REGULATION OR DE-REGULATION

Laws & regulations govern Intel in every area of its business. Compliance with U. S. export laws and regulation govern the export of tangible and intangible articles. Intel Corporation is entirely regulated by the U. S. government. In fact, in 2009 European Commission concluded that Intel has violated competition laws in Europe and Intel is yet settling its disputes with the EC.

According to Salvatore (2012), the purpose of regulation is to protect the customers, business environment and workers and also to maintain the flow of R&D. Intel has been protected by patents and also has been approved for its new patent that can emphasize gaming experience for gamers. Intel has obtained patents in various countries and considers it as an important element of its success.

3. 6 RISK MANAGEMENT

3. 6. 1 An insight to the Global Financial Crisis/The Great Recession

Intel's first severe risk was faced back in 2008 while the global financial crises was doing its job. Intel said that the crisis could hurt the demand of personal computers that the banking systems were getting affected. Intel reported "insolvency of key suppliers" and "inability of customers to obtain credit to finance the purchases of Intel's products" a result of the global economic crises of 2008 (Bloomberg, 2008). Due to this, Intel had a limited visibility towards Quarter 1, 2009 forecasts. Intel Crisis Management (ICM) is an end-to-end response to crisis and major business disruption events. When its competitor AMD was busy cutting or laying off workers, Intel increased its R&D investment. Against expectations, the 1st three quarters of Intel turned out to be profitable.

3. 7 CAPITAL STRUCTURE & BUDGETING

Capital Budgeting refers to any investment carried out by the company that leads it to generate a higher revenue and return. Intel announced that 2010 has been its most profitable year and this has resulted Intel to expand its manufacturing sector. It would add a fourth chip factory to produce next-gen microprocessors. Intel's CFO Stacy Smith says that Intel has not only planned investments for the coming 2 years, but also for the generation after that. All of these investments are way more than what its competitor AMD is doing. Intel can be advised to hold on to its profits and concentrate more on its potential shareholders, as they are Intel's main source of finance.

Intel has carried out stock re-purchases in order to increase cash flow and due to this they paid out a dividend of \$0.21 per share. Why is Intel being so contradictive? It announces 2010 as a profitable year and then takes a major step of stock repurchase. Stock repurchases send a negative signal to the market about company's declining performance. This shows that Intel held on to its profits of 2010 and has decided to invest in its new chip producing factory. It can be understood then about Intel's decision of stock repurchases, in order to pay out dividends and retain its profits for its new project. Intel shows an initiative to growth by satisfying their shareholders interests.

4. CONCLUSION

Intel Corporation has faced ups and downs as many other companies but never gave up on R&D, even during the Global Crisis. Intel believes in re-investing and that's why it has seen success and global demand for Intel products. Great risk management strategies has helped Intel survive the legal issues, patenting issues and The Great Recession.

As the current CEO Paul Otellini has opted to resign Intel now hopes to have a new CEO from within the corporation. Care must be taken as CEO is the most important part of any company and the sole leader and any wrong decision could hamper the profits of this multibillion dollar corporation.