

Intel's "rebates" and other ways it "helped" customers



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Intel Corp. gave Advanced Micro Devices (AMD) in 2009, \$1.25 billion to settle a lawsuit AMD filed against it in 2005 (Velasquez, 2011). The reason of this situation is due to AMD accused Intel of being a monopoly. Intel Corp. is the world's largest manufacturer of personal computer (PC) "microprocessors", also called computer chips, microchips, or processors.

Intel Corp. is one of the most dominant and pervasive technology companies in the world (Simply Safe Dividends, 2016). This organization operates as a monopoly and has many competitive advantages that are practically impossible to replicate by most companies. According to many analysts, Intel's with about 80% of global market in PCs sold every year and virtually 100% of the market for servers that are built on PC chips, it has been maintaining the most advanced manufacturing process in the world. On the other hand, AMD as the world's second largest maker of PC is Intel's only real competitor, with about 20% of the PC processor market.

Intel also became largely responsible for making devices affordable yet more powerful than the units once used to launch rockets into space (Rothman, 2001). This effort, of course, did generate great name recognition, at the point that everyone wanted a computer with "Intel Inside". Then the combination with the domination Microsoft was attaining with its Windows system, the customers began referring to the duopoly driving the vast majority of all personal computers as "Win-tel".

It is difficult for other companies to get into the business of making PC microprocessors because of many "barriers entry" (Velasquez, 2011); it would be possible to say "legal barriers":

- Intel and AMD hold the patents for making microprocessors. Since Intel entered the chip manufacturing industry and with their innovative ideas, Intel decided to receive patents on their products to make their technology untouchable to other competing companies (Dipucchio and Pucetti, 2012). This allowed Intel to have an exclusive right over their memory chips making it difficult for other companies to compete and, of course, giving Intel important monopoly profit.
- It costs many billion dollars to build appropriate facilities for making microprocessors.
- Intel and AMD are so big that they are able to make microprocessors for a lot less than a new company could, so new companies could not compete in prices against Intel and AMD. Intel has a unique price and strategic barriers to ensure they stay a monopolistic company.

The continuous Intel's investments have allowed it to introduce the next generation of processors technology every two to three years (Simply Safe Dividends, 2016). The results of these constant improvements make Intel have more control over its performance, energy efficiency, and cost. Altogether, Intel's economies of scale are leading technology portfolio and lasted producing processes making a powerful system with high change prices costs for purchasers, early-mover advantage in PCs, and strong reputation for quality that has helped it monopolize the market for PC processors.

AMD has not been the only one that has accused Intel of using monopoly power to affect competition (Velasquez, 2011). The European Commission fined Intel for using monopoly power to unfairly block AMD from the market; New York Attorney General Andrew Cuomo sued Intel by using its monopoly power for harming consumers to keep computer makers from buying better AMD microprocessors; South Korea's Fair Trade Commission stated that Intel has used its monopoly power in violation of its antitrust laws; Japan's Fair Trade Commission ruled that Intel had violated Japanese antitrust laws by paying companies to buy most of their processors only from Intel. Although all those sue, AMD is convinced that Intel was using illegal and unfair strategies to block them out of the market, so they also sued Intel for abusing of their monopoly power.

The antitrust laws had deep roots in the American political tradition (Wells, 2002). Most in the United States took the antitrust laws for granted, considering them as part of an "American way" to preserve a measure of competition among even the largest firms. Many Americans concluded that big companies posed a dual threat; on one side, it took the majority of consumers and destroyed smaller competitors, on the other, it corrupted government and robbed of their autonomy, eroding political democracy.

The United States did very little about all those suits, toward the end of 2009, the U. S. Federal Trade Commission (FTC) sued Intel for "illegal monopolization", "unfair methods of competition", and "deceptive acts and practices" (Velasquez, 2011). They had found that Intel had changed the programs sold by software companies making them to not work well on computers using AMD's computer chip. Also, the FTC said that Intel had paid

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computer makers to boycott AMD's processors by giving them " rebates" although these payments required only that a company agrees not to buy AMD processors. A good example was the computer manufacturer Dell, Inc., whom Intel paid computer makers to boycott AMD.

In a press release, the FTC wrote, " Intel will be prohibited from conditioning benefits to computer makers in exchange for their promises to buy chips from Intel exclusively and retailing against computers makers if they do business with non-Intel suppliers" (Velasquez, 2011). Even though all those suits filed against Intel, have not affected Intel since they still lead the x86 processor market and AMD was again a trailing competitor.

Intel is still dominating the market, to me; they are still a monopoly with a lot of power and they use that power to manipulate strategies, innovations, consumers, and to shrink the possibilities to new companies to compete against them. The world has changed since Intel brought their products to the public 50 years ago. Today, computers are everywhere, and some new devices such as smartphones and tablets are beginning to reduce total demand for Intel's legacy. However, the corporate should trust alternative growth to stay competitive and it is already dominating in data center processors, but they are working to capture market share in mobile devices (Simply Safe Dividends, 2016). For many years, Intel had the total control of the market but certainly, its success is not guaranteed in gaining a strong and profitable market share in these emerging growth industries.

References

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