

# Htc company business analysis



Evaluate HTC's performance to date. What are its competitive advantages and vulnerabilities? Cher Wang's vision was to develop a hand-held computer like device and HTC eventually developed its first PDA, the iPAQ in 2000. HTC has always been behind the scenes by just selling high-quality, unbranded phones to cell phone manufacturers and wireless network operators.

Eventually, HTC was commissioned to be an original design manufacturer (ODM), which means that HTC only had little responsibility for sales, marketing, or inventory management as HTC manufactured smartphones for branded handset companies and it designed phones for service providers such as T-Mobile and Vodafone and it supported operators by helping them build unique value propositions and optimize their services. This helped them differentiate from other ODMs and the mobile phone operator business provided better profit margins.

Then HTC took the plunge and started its own brand operations by designing phones, which would be sold with the brand name of HTC. They wanted to differentiate it from competitors and have greater control over the company's future. They focused on high-end 'prosumer' (the overlap of professionals and consumers) market. Revenue had soared from \$1.1 billion to \$4.6 billion in a period of 4 years and the gross profit jumped from a mere \$212 million to a staggering \$1.5 billion dollars in the same time with sales in more than 70 countries.

In 2009, the global recession threatened to slow down consumer spending but since HTC had a diverse customer base and focused on a high-growth

market it expected to remain sales growth. Because price expectancies from a customer point of view were quite low, HTC had to lower its average sales price. It had to increase the share of common components to deliver significant improvements in terms of economies of scale. They tried to do it by using lower ASP, which could help reduce its dependency on operators.

They also lowered production cost by opening up a second production facility in Shanghai and moving manufacturing to Mainland China. As far as the competitive advantages are concerned, a dynamic CEO who had laid out a clear-cut vision led HTC. They started out with a PDA device that represented more than 80% of its revenue and they didn't stop at that point. The CEO was already thinking about the next growth platform, which was the mobile telecommunication market. The influence of the CEO who is driven to achieve stretchgoals has shown to be a big strength to the company.

Their advanced product innovation gave them the position to compete with big brands as Microsoft, Google and Vodafone. They became the first Taiwanese company to secure a 3G license. All of this led to HTC's share price to surge 1000% between 2003 and 2006. As far as vulnerabilities are concerned, as one analyst rightly predicted, mobile market is like "soup du jour: Today one brand is hot, and tomorrow its leftover". It means that the market is so volatile that a company to be successful, it has to do a lot of investment in R&D to be able to compete and drive product innovation which will eventually make the company stronger.

HTC was late to the already crowded mobile market, which could make it a less familiar brand name. The company hardly had any patents, which

means that they are bound to make high expenses on royalty payments to other companies. They were so used to selling custom ordered phones for niche market called prosumers and it could weaken the position of HTC due to high costs incurred by the company. Discuss HTC's Operating systems (OS) strategy. Going forward, should it focus on Android or develop new directions?

In 2009, the majority of Smartphones ran on one of five systems- Symbian, RIM's Blackberry OS, Apple's OS X, Microsoft's Windows Mobile and Palm. Despite of the high market share, the operating system of Microsoft, Windows Mobile, shows more disadvantages than advantages for HTC corp. The view of Windows Mobile does not fit with HTC anymore. HTC want to be seen as a firm with high-quality innovative products with attractive designs and function, where as Windows Mobile is seen by as customers as unfriendly with unattractive design.

The new Touch Diamond Smartphone of HTC received bad reviews because of Windows Mobile OS and its interface. In comparison, Google Android market is still young. Despite that it has no high market share yet, their share in the Smartphone OS platform market is likely to be doubled by end of 2010. Android phones contribute already more than a third of HTC's total sale, so this can only benefit both companies in a positive way and Android has no license fee in comparison to Windows Mobile. Creating an own operating system is a good possibility too.

Because of the increasing competition on smart phones, HTC needs to establish their brand name more than ever. With its high innovative power, it

can create the right system that fits with the view of the company; focusing on a high quality product that is affordable. Because creating an own operating system has major costs, HTC needs to drop Windows Mobile OS and save the operating fees that it has to pay for Microsoft. Having said that, it has to really create an OS that is very different than others and it's a very big challenge.

HTC might anger Google if it decides to create its own operating system and might have to face some trouble. So, there are a lot of pluses and minuses from both sides. Below are some of the advantages and disadvantages of creating a new HTC operating system

Advantages:

- The company is highly innovative and the product designs are excellent and have already proven that it could move fast in the rapidly evolving mobile market.
- Company embraces a culture of constantly experimenting with new ideas and technology.

So an own Operating System fits the company, its culture and their competencies.

Disadvantages:

- Owning an operating system will establish the brand name of HTC.
- It would cost a minimum of \$200 million to develop a new OS; double what HTC spent in R&D. Cost is a major disadvantage of creating operating system.
- The market for mobile OS is already very crowded. The HTC operating system will face severe competition.

What are your recommendations for HTC to help it become the leading Smartphone company in the world?

HTC has proved itself to be a good competitor in smartphone business and to become the leading smartphone company; it has to enter into developing

countries like China and India where 3G networks has just opened up and hardly 5% of its total mobile market owns a smartphone. Geographically, Taiwan is so close to both the countries and since it has already built production and manufacturing facilities in China, it can really make a big difference in supply chain management. If it can come up with a wide variety of smartphones that is affordable by middle class people, it could make a huge difference in its revenue and profit margins.

The immediate step to increase the sales would be to target the area where companies/customers are looking for alternatives. One of those target areas should be businesses professionals as currently the offering from RIM is receiving a big beating with its service and HTC could prove to be a better alternative for RIM if it could develop phones that could offer seamless service to customers by offering better compatibility to exchange, IM client and office integration apps.

This will make them build a strong customer base and also help HTC to build its brand value in the market place. HTC should also target the niche market with producing smartphones with greater processor speeds, better camera, big screen phones, phones with touch screens, phones with qwerty keypads, phones with better integration with gaming devices like PlayStation, Xbox and Wii, good integration with social networking apps like Twitter, Facebook, Linked In et al.

It could also partner with several companies and come up with hardware and software integration apps that are available as part of its OS but the same apps are available for a fee on other phones. An example would be to offer

free voice enabled GPS system on every HTC phone by partnering with companies such as TomTom or Garmin and sharing revenue with them. This would create an edge for its products and will be a better alternative for other company phones.