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Acer closes in on Dell's No. 2 PC ranking By Bruce Einhorn, BusinessWeek Tuesday, January 20, 2009 11: 33 AM Just a few years ago there was a clear pecking order in the PC industry, with Dell at the front and Acer way back in the queue. Dell and its U. S. rival Hewlett-Packard were the clear champions, selling far more desktops and laptops than anyone else. Meanwhile, little Acer, a Taiwanese company that had tried and failed in the 1990s to crack the U. S. market, was an also-ran, with worldwide market share in the single digits. As recently as 2003, Acer ranked just seventh in sales around the world.

Lately, though, the Taiwanese have been pushing their way ever closer to the front of the line. Market-share numbers published on Jan. 14 by research firm International Data show HP is still on top, with 19. 6 percent of all PC shipments, and Dell is No. 2. But Michael Dell has reason to worry. While Dell shipments fell 6. 3 percent in the fourth quarter, Acer's jumped 25. 3 percent. That not only puts the Taiwanese company solidly in the No. 3 position worldwide, it puts Acer less than two percentage points away from Dell, with 11. 8 percent share to Dell's 13. 7 percent. And Acer is likely to keep on closing the gap, say analysts. In the next two or three quarters, you will probably see Acer surpass Dell," predicts Daniel Chang, an analyst in Taipei with Macquarie. Gateway Was an Opening What accounts for Acer's rise? The company is benefiting from its US$710 million purchase of Gateway, announced in August 2007. At the time of the deal, Gateway was the third-biggest PC brand in the United States, and the purchase has helped Acer gain ground in a market that had long stymied the Taiwanese company. Shortly after that deal, Acer followed up with the acquisition of the Packard-Bell brand, popular in parts of Europe.

According to the latest IDC numbers, Acer now ranks third in the United States, with shipments of 2 million computers in the fourth quarter. That puts Acer ahead of Apple and behind only Dell and HP. Acer declined to make any executives available for comment. Even more important for Acer's market-share rise has been its focus on the hottest new segment in the computer industry, so-called netbooks. These pint-size laptops are light, simple computers that typically cost no more than US$500 and are based on a design that Intel first developed for schoolchildren in emerging markets.

The first to realize that the netbook could become a crossover hit in wealthier countries was Acer's Taiwanese rival Asustek Computer, which launched its Eee PC in late 2007. Acer quickly followed, and it soon grabbed the lead. Meanwhile, Dell, HP, and Lenovo hesitated before launching netbooks of their own. " They didn't start producing the mini-notebooks until late in the game," says Robert Murtagh, worldwide PC tracker research analyst with IDC in San Mateo, Calif. " That has given Acer a strategic advantage. " Low-Price Trend

With recession-weary consumers hunting for bargains, Acer's focus on inexpensive netbooks—and its longtime role as a lower-cost alternative to the likes of Dell and HP--have helped the company boost shipments. And while the competition in the mini-notebook business is bound to get tougher in 2009, Acer's head start should give it an important edge. " We believe Acer will continue to be the winner in the low-price trend and the netbook market," wrote Credit Suisse analysts Robert Cheng and Jill Su in a Jan. 13 report.

Moreover, one of Acer's weaknesses, its relatively poor position among corporate customers in the United States, has meant the company has suffered less than Dell and Lenovo, both of which have relied more on sales to businesses. According to IDC, Lenovo shipments fell 4. 8 percent in the fourth quarter; the company on Jan. 8 announced plans to lay off 2, 500 employees, 11 percent of its workforce. Tracy Tsai, an analyst in Taipei with market research firm Gartner, says Acer won't need to make the sort of layoffs that others have. " Acer has real tight management on its costs," she says, and it has just 6, 000 workers. " The smaller size f Acer puts it in a better position. " Still, Acer faces some headwinds. Credit Suisse estimates 2008 earnings rose 7 percent, to US$353 million, on sales of US$16. 5 billion. But this year profits are likely to fall 7. 5 percent, on a 6 percent drop in sales, the bank says. Macqaurie's Chang expects a slowdown, too, and he warns that Acer's focus on building market share distracts the company from a more important statistic: earnings. As competition heats up further in netbooks, he says, Acer will face pressure to cut prices even more, drawing would-be customers away from its laptops and hurting Acer's bottom line. Everybody's netbook looks very similar now," says Chang, so companies selling them " can compete only on price. " For its part, Dell argues against paying too much attention to market-share rankings. " When we reported our Q3 financial results, we said our focus in this challengingenvironmentwas--and continues to be--on positioning Dell for long-term profitable growth by improving our competitiveness and enhancing our leading product and services portfolio," Dell spokesman David Frink says via email. " We're in the midst of that now. "