

Trends in global laptop computer industry



Introduction

A laptop computer can be defined as a small, portable computer that is small enough to sit on a person's lap. Over the past 15 years, the increasing price performance ratio, consumer preferences for mobility as well as increased hardware life has resulted in higher growth of laptops than desktops since 2004 (Standard & Poor, 2008).

Source: (Standard & Poor, 2008)

Data monitor forecasts that the global PC industry is projected to grow at a compound annual growth rate (CAGR) of 5.4% in market value during 2007-2012 (Datamonitor, 2008) with laptops (a sub-segment) being the major contributor to its growth. This growth is down from the 7.6% CAGR for 2003-2007, in part due to the slowing economy.

Source: (Data monitor, 2008)

Moreover, the laptop segment is expected to face increased competition from both new devices and technologies. Smart phones and Mobile Internet Devices are starting to compete with laptops due to features such as gaming, internet access and enterprise applications.

Porter's Five Forces Framework

Source: (Porter, M. E., 2004)

The Porter's 5 Forces analysis deals with factors outside an industry that influence the nature of competition within it, the forces inside the industry (known as micro-environment) that influence the way in which firms

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compete, and so the industry's likely profitability is conducted in Porter's 5 forces model. A business has to understand the dynamics of its industries and markets in order to compete effectively in the marketplace (Harvard Business Review, 1979).

The Porter's Five Forces in regard to the Global Laptop Industry

The rivalry between existing sellers in the market

As a matured industry, the laptop industry is seeing a price downtrend in the long term, indicating that aggressive pricing will bring more consolidation in the industry to reduce development costs. Many forecasters suggest the concentration ratios for PCs (desktop & laptops) of (70)⁵ in the future from (50)⁵, (53)⁵ and (57. 2)⁵ in 2006, 2007 and 2008 respectively (Standard & Poor, 2008). Due to standardization among Windows PCs, switching costs are low and therefore competition is driven by pricing instead of product differentiation.

The power exerted by the customers in the market

Customers have large bargaining power over manufacturers, since a major part of the total PC sales is made up of large volume buying from businesses. In addition, consumers also have bargaining power in terms of dictating demand and buying preferences.

In addition, continued demand for cheaper costs lead to aggressive pricing as well as the creation of new categories such as net books. The power of customers is reflected in the change in buying behavior (Metafacts, 2009).

Installed Base is Increasingly Mobile. Source: (Metafacts, 2009)

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The impact of the suppliers on the sellers

The suppliers for all competitors are quite limited in terms of bargaining power due to increased commoditization of hardware components. Intel and AMD, the two major microprocessor suppliers, compete for increased market share. Most manufacturers use different suppliers for the same component, by sourcing their requirements from whoever is cheaper at that time. Thus, if the prices are not competitive, the suppliers risk losing out to their rivals. On the software side, Microsoft dominates with its Windows line of Operating Systems (OS) and therefore exerts considerable power over PC manufacturers.

The potential threat of new sellers entering the market

Customers have large bargaining power over manufacturers, since a major part of the total PC sales is made up of large volume buying from businesses. In addition, consumers also have bargaining power in terms of dictating demand and buying preferences. Consumer preference for mobility and wireless connectivity at low cost resulted in the growth of the laptop market compared to desktops. In addition, continued demand for cheaper costs lead to aggressive pricing as well as the creation of new categories such as net books. The power of customers is reflected in the change in buying behavior (Metafacts, 2009).

The threat of substitute products becoming available in the market

The laptop industry faces a significant threat from new trends such as cloud computing, which has high potential that can reduce the need for high computing power in portable laptops. Furthermore, the laptop industry faces

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PEST Analysis

“ The PESTEL Framework categorizes environmental influences into six main types: political, economic, social, technological, environmental and legal” (Johnson, G., Scholes, K., & Whittington, R., 2005, pp. 65).

Political Factors

The laptop and PC industry is expected to grow at a faster rate in developing countries compared to the developed countries. Therefore, changes in government policies in developing countries like India and China can affect the potential growth rates in their markets. For instance, the removal of import duties on laptops in India in 2005 was one of the factors that resulted in a growth of 94% in laptop sales in 2005. The additional testing and certification involved directly affect the supply chains for laptop and PC manufacturers, resulting in increased costs.

Economic Factors

The global economy influences various different factors that affect the growth of the PC industry. Since early 2008, the slowing global economy is one of the reasons for the decrease in business capital spending for small and large corporations, resulting in reduced demand for PCs. Gartner, Inc. forecasts a decline of 3. 8% in global IT spending, of which computing hardware spending is expected to decrease by 14. 9% in 2009. Though this decline in IT spending is likely to recover slowly during 2010, the global PC

market is expected to face declining growth rates in terms of market value, from an expected 5.4% growth in 2009 to 4.1% in 2012. Most laptop (and PC) manufacturers such as Dell, HP, Acer, Lenovo, and Apple generate sales throughout the world and therefore currency exchange rates are an important factor as well.

Social Factors

Social factors such as education, preferences, income levels, and other cultural factors influence demand patterns in the different regions and therefore affect how a company operates in each region. The education and income level of users affects the brand perception of the computer manufacturers. As shown in Figure 5, households with higher income have higher percentages of Apple computers. Such households are also more likely able to afford and want Apple computers (Metafacts, 2009). This has allowed Apple to continue its strategy of premium pricing and performance compared to Windows PCs, while at the same time increasing its market share of the total laptop and PC market (Martin, M., 2009).

Distribution of PC and Apple users based on income level. Source:

(Metafacts, 2009)

Moreover, cultural aspects of different regions affect the occurrence of seasonal sales, which significantly affect the performance of the computer industry as a whole. For example, in the U. S., the periods from November-December (Thanksgiving and Christmas event) and August (time to back-to-school) are significant earnings period.

Technology Factors

Technological advances over the past decade, such as increased processing power with reduced power consumption and reduced cost, or the standardization of Windows and Intel in laptops, are one of the main reasons for the increase in market share of the laptop segment compared to the overall PC industry. For instance, the net book category's Average Selling Price (ASP) of \$300 was made possible by the low cost Intel Atom microprocessor, released in 2008. New technologies, such as hosted virtual desktops (HVD), threaten to completely change the industry dynamic, due to the possibility of cheaper computers along with lower software costs (Hickins, M., 2009). HVDs involve centralized computing in which the processing is done on servers instead of individual clients. According to Gartner, Inc., the HVD market will grow in revenue from \$1.3 billion in 2008 to \$65.7 billion in 2013.

The Drivers of Change of the Global Laptop Industry

The research identified three drivers of change that influences the laptop industry on over the world.

Market Share Competitions

The global PC market, including the laptop (portable) segment, is dominated mainly by the five top competitors: Hewlett-Packard (HP), Dell, Acer, Lenovo and Toshiba in descending order (Lai, E. (2009), and together they constitute approximately 60% of the total market share (based on units shipped). In the top 10, Apple has been gaining market share compared to Windows PCs and laptops, mainly due to its positive brand reputation. In terms of global PC volume, HP is the leader, 18.9% in 2008, followed by Dell, which is 15.5% in <https://assignbuster.com/trends-in-global-laptop-computer-industry/>

2008. Due to the net book segment, Taiwanese companies such as ASUSTek and MSI have increased their market share tremendously over the past two years (DisplaySearch, 2008). In order to remain competitive, all of the top manufacturers share certain characteristics, or key success factors.

Efficient Production and Distribution

Efficient production and distribution capability is one of these key success factors. Due to the reduction in ASPs of laptops (and PCs), the industry is becoming more commoditized. Therefore the primary means to reduce production costs lies in process improvement from procurement to production and supply chain. This is possible by exploiting the benefits from mass production: more bargaining with suppliers, better global distribution networks, cheaper production facilities in foreign countries, etc.

Technology Innovation

Innovation and the ability to identify consumers' needs are key success factors as well. Moreover, the effect of these success factors has led to a consolidation in the computer industry, with the largest firms becoming bigger. For instance, the top five firms which represented 50% of the market share in 2007 now account for 60% in 2008 (Standard & Poor, 2008).

The biggest firms are getting bigger: 2007-2008. Source: (Standard & Poor, 2008).

The Life Cycle Model

Source: (Spencer, T., 2009)

The global laptop computer industry has already good reputation in computer market due to high performance and innovative design designed every year it produces variety range of product and services to all type of consumer and some concepts of cheap laptop will be success if they launch those products into the local and high end market such as India and China, being the working segment people who are most benefited out of it.

Scenario Analysis

Price Drop is Still a Weight

Reducing price has long been the main melody of laptop market, until now still no exception. In China laptop market, during the sales promotion period of last summer vacation, HASEE launched the lowest- priced laptop, only 3999 Yuan. In 2006, HASEE hit a fresh record low again to 2999 Yuan. Though there are such low prices, according to the investigation data from CCID, laptops priced between 6000 and 8000 Yuan are the mainstream of the market.

Using the Government Policies Advantages

Other factors like government policies also helped too. For example, almost government from many countries now allows duty free import of notebooks as personal baggage that has helped in increasing the notebook penetration with the people becoming more aware of these devices. Otherwise, convenience and flexibility could be other reasons why laptops are selling out fast in the Indian market. With the government focusing on IT infrastructure and bringing in technologies such as WAN, Wi-Fi, Bluetooth and others, there was an exigent need to fill the gap between technology

and people are using it. This was a role which was unfulfilled by desktop computers.

New International Market Distribution Development

Due to the constant need to offer the most technologically advanced product as cheaply as possible, the laptop industry has shifted and will continue to shift toward a more direct form of distribution. This is where laptop manufacturers will cut costs and be able to gain market share on their competitors. Clearly, this remains an area where there is a distinct first mover advantage. The firms that are able to identify high value added portions of the chain, and have the capacity to efficiently capitalize on the value added areas, will have a significant competitive advantage.