

The industry structure and the behavior of firms in the pc industry

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In this paper I will discuss the industry structure and the behavior of firms in the Personal Computer Industry. The personal computer industry has five leaders: Compaq Computer Corporation (CCC), Dell Computer Corporation, International Business Machines (IBM), Hewlett-Packard, and Gateway, (Industry Survey, Apr. 2000). The PC industry, as discussed in the paper, is comprised only of home/business use machines, not mainframes, databases, or any kind of servers or super-computers. The PC industry is a fast-growing, consumer-based oligopoly.

I will prove the latter through the use of industry characteristics and firm behaviors by giving an overview of each leading firm and their behaviors", then by combining them into an industry analysis. The companies will be addressed from top leader to bottom. Compaq Computer Corporation,(CCC) is the current industry leader. CCC boasts a 1999 market share of 12. 8%. However, this figure has declined slightly from its 1998 share of 13. 4%. The dip is due to Dell Computer Corp. " s heavy presence in the small PC market, (Industry Survey, Apr. 2000).

Compaq has a wide range of PC products from smaller, less expensive machines to more costly, high-tech systems. CCC has been most successful with their smaller machines, targeted to the home/familysegment, because they are able to sell large quantities. However, Compaq has been unsuccessful in retaining customers because most of them were pleased with their smaller machines and did not upgrade to CCC" s more expensive, high-tech systems,(Hamblen 1-2). Customer retention has been a problem for the forty billion-dollar company, (Hamblen 1-2).

It is my assessment that Compaq does still remain the leader because their products are very easy to buy for the uneducated consumer. You may simply walk into the WIZ or BEST BUY and there are five or so Compaq machines all competitively priced with a good range of attributes, usually not the best that a veteran user would require. For instance CCC" s newest product, the iPac, is a very simple-to-use, inexpensive machine. It is supposed to satisfy business workers" needs for a useful computer at low cost,(Wildstrom 1-2).

Another problem in CCC" s not-to-distant future is their distribution costs. With the use of the Internet, competitors have been able to reduce and even eliminate distribution costs. To follow suit Compaq plans to increase direct sales in the future, according to Micheal Capellas, CEO (Hamblen 4). The future for CCC is quite hazy. Despite the sales numbers and the heavy bottom line, CCC" s stock price has sat down in the low \$30" s,(Hamblen 1). Competition is increasing daily and Compaq needs to distinguish itself in the marketplace.

They" ve already experienced a decline in markets share, only they can change their fate. Dell Computer Corporation, the second leading computer manufacturer, began by selling PC" s directly to consumers. Their first customers ordered over the phone and Wold Wide Web. To this day Dell still has no brick and mortar retailers and does not distribute its product to resellers. In the business to business market Dell has excelled, but until recently, the profitable company was not so profitable in the home-user segment,(Industry Survey, Apr. 2000).

The company's new strategy, to gain market share, has proven very effective. Dell now posts a 62% gain in world wide PC shipments and a 2.6 share-point gain from 8.2% in '98 to 10.8% in '99, (Industry Survey, Apr. 2000). Recently Dell's presence has been felt in the growing PC market. This has forced competitors to be very careful about pricing in this highly elastic industry. Dell's profitability is also notable, since it has minimal distribution costs and does very little advertising Dell is extremely profitable. However, rough times may be on the horizon for Dell.

Analysts are worried because profit growth projections were cut at least 10% by CFO Thomas Meredith, who declared he is only trying to set more realistic goals and that the company will still post growth, (Burrows 1-2). Recently Dell has made some key moves that should boost revenues including beefing-up its web site and a joint venture with Internet giant AOL, (Money 1-2). Dell Computer Corporation is still a major player in the PC industry and will continue to be in the future. Unlike Dell and Compaq, IBM has not had extreme success in the PC market.

It is known that leaders at IBM never believed that the PC would be an important device and that only a small portion of the population would ever own a PC. Obviously, they were very wrong. IBM has not done a bad job catching up to the pack, though; it now has the number-three market share of 7.6%, (Industry Survey, Apr. 2000). IBM plans some new strategies after its low ranking in the PC market. This new strategy is to end all retail selling and go completely direct, IBM plans to sell its Aptiva system exclusively over the Internet in the near future, (Industry Survey, Apr. 000).

This will lower costs and possibly increase the bottom line for the computer giant. Like IBM, Hewlett-Packard made one mistake and cost itself billions of dollars in revenues. HP is a large electronics conglomerate. HP manufactures everything from calculators to top-secret government appliances. For HP the PC market is one of many. Originally Hewlett-Packard was the standard in computer electronics; however, this is not reality today. HP's reputation declined through the '80s and early '90s because of poor quality management.

To regain the respect they had lost the marketing and engineering departments at HP worked their fingers to the bone to create a new image for the company. This was very effective; today HP owns a modest 6.2% of the PC market and a very healthy reputation for quality PCs and peripherals, (Industry Survey, Apr. 2000). HP has had some growth in the past few years but has failed to match the industry growth rates. The company's years of poor quality put a considerable hurt on their future growth; while HP was busy filling in the hole it dug for itself, industry leaders like Compaq and Dell were basking in their success.