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Christina Nguyen

BA 4305.5U2

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International Business Machines (IBM)
Part 1: External Analysis

Executive Summary:

IBM is a part of the computer industry - SIC 3571 and is among the top leaders within it. The industry includes electronic computers, computer peripheral equipment, semiconductors, prepackaged software, computer storage devices, and computer terminals. According to figures from Dun and Bradstreet’s 2009 Industry Reports, the electronic computer manufacturing industry in the United States generated over $215 billion in annual revenues. The profitability of this industry is very high and will remain so due to the inability of imitation and the needs and wants that it fulfills. In the following paragraphs, Porter’s Five Forces will be furthered elaborated: the bargaining power of suppliers is strong, the bargaining power of buyers is low, and there are low threats of new entrants, almost no substitutes, and high rivalry among competitors.

Bargaining Power of Suppliers

Intel is “the world’s largest semiconductor retailor” based on their 2007 annual report revenue. They have created brand loyalty and trademark among their consumers and have strong competitive advantage. IBM, Dell, Apple, and Hewlett-Packard are electronic computer manufactures that all use Intel semiconductors. There is very little room for these industry leaders to negotiate costs because, though, these companies all do make their own microchips and conductors, Intel focuses primarily on research and development of processors and technology infrastructures that surpasses any other semiconductor competitors, such as their x86 processor (eweek.com). The architecture of Intel’s x86 chips would require companies specialized in creating electronic computers for consumers to put much more emphasis on their R&D, which could be costly to them. Also, it would be difficult to compete with an already established and trusted brand.

Bargaining Power of Buyers

 According to David Jenkins, Opinion Research Corporation conducted a survey that found over 76% of Americans own a computer, and a large percentage of these people also own other electronic devices. In this industry, computers are primarily sold to individual buyers. Each buyer contributes a small percentage to computer companies’ revenues. The bargaining power of buyers is relatively low, but consumers do have multiple options in laptops, PCs, tablets, and netbooks from various brands.

Threat of New Entrants

 The barrier to entry for the computer industry is low. There is almost no economies of scales and brand loyalty is low-medium, but the technology is not easily imitated and any new competitors will have to compete with companies, such as IBM, Dell, Hewlett-Packard, and Apple, who are the industry’s leaders. When purchasing a computer, consumers typically look at specifications (i.e. Intel Inside) and cost. Brand loyalty depends on reliability and functionality of the product for the most part (in comparison with the mentioned companies).

Threat of Substitutes

 As mentioned earlier, the technology require in the computer industry is hard to imitate and it continues to progress. Within the computer industry, such advancements and skills cannot be substituted like meat or vegan, wood or steel. Electronic products fulfill needs that are beyond what is physical. With that being said, technology innovation will be the determinate of any threat and sustainability, but could also serve as opportunities.

Rivalry among Competitors

 IBM, Dell, Hewitt-Packard, and Apple are companies that manufacture computers, laptops, tablets, and netbooks, among many other electronic products. IBM had owned at least 65% of the U.S. computer market from mid-1960’s through mid-1980, when computers cost approximately $4000-5000 (*Electronic Computers*). Since then, 3 out of 4 Americans own a computer and are able to purchase one between the price ranges of $600-1200, more or less because companies like HP, Dell, Oracle, and Apple emerged. Competition and advancements in technology has been the driving force for the computer industry. Consumers will pay for a substantially advanced technology and reliability, hence Apple’s iPhone compared to other companies who have produced touchscreen phones and have not been able to match to that of Apple’s.

Conclusion

 The strongest force for the computer industry is the rivalry among competitors. The computer industry encompasses and is based on technology. Innovative companies initiate technological advancements that lead way to more progressive economies, efficiency, and even positive social changes. Technology is continually progressing and failure to keep up with competitors will result in unsustainability and will happen very quickly. The weakest force is the bargaining power of the buyers. Majority of computer users are simply buyers and users, who do not have the skills or equipment to produce all that goes into an electronic product. Consumers (individuals – personal computers) in this particular industry are willing to pay what is set by the manufacturers. The special quality about the computer industry is technology and cloud computing infrastructures that are not visible to the eye. This industry is like the invention of the light bulb by Thomas Edison or the wheel back in the Neolithic Era.

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