

2013

[HTC CASE SYNOPSIS]



COMPANY HISTORY

HTC Corporation, stands for High Tech Computer Corporation, located in Taiwan, was founded by three members, Cher Wang (chairman), HT Cho (director and chairman), and Peter Chou (President and CEO) in 1997. HTC started as an original designer and equipment manufacturer that designs products such as mobile phones and PDAs (Personal Digital Assistant). However, HTC did not have successful products nor did it build a high reputation until the establishment of its leading position in PDA market by developing a product called iPAQ (pocket PC and personal digital assistant). Since then, HTC became the world's largest PDA original equipment manufacturer and its largest customers were HP and Dell (PhoneArena Team, 2008).

HTC gradually increased its industry awareness by signing a large number of orders with European telecommunications. In 2002, Microsoft announced a Pocket PCPhone Edition system which drew HTC's attrition. HTC had the idea of combining the system into mobile phones; it then developed the world's first PDA phone based on the system. Manufactures such as HP and Dell did not recognize the value of the new product, thus, no order was made. A European telecommunication called O2, however, was highly interested and signed orders. The unique feature of this phone created opportunities for HTC to become popular in Europe, and other European telecommunications started to become HTC's customers (PhoneArena Team, 2008).

In 2009, HTC began to develop its devices based on Android, and one year later, Windows operating systems. In 2011, HTC released its smartphones under its own brand name: HTC. In recent years, due to the pressure of competitive smartphone market, HTC developed a

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Touch series phones. This series has a nice appearance, and more importantly, the TouchFLO operating system which is more convenient and smarter than Windows Mobile.

HTC has achieved many industry firsts, including the first touch-screen smartphone (2000), the first 3G Microsoft Windows phone (2005), the first 4G smartphone launched in the U.S. (2010) and the first 4G LTE Windows phone (2012) (About HTC). Now, HTC is the world's top smartphone original equipment manufacturer and the largest manufacturer of Windows Mobile smartphones and it dominates about 80% of Windows Mobile smartphone market share.

CURRENT SITUATION

The current situation of HTC is quite unfavourable in mobile device market. It suffered a loss of US\$101 million for the third quarter of 2013 which is the first ever loss since its public listing in 2002 (Dou, HTC Posts Quarterly Net Loss, 2013). The stock price had dropped about nine-tenth since its peak in 2011 (Dou, HTC Shares Fall to New Low on Weak Revenue, 2013). The October sales are 13% less than last year and the fourth quarter revenue is forecasted one third less than the same quarter last year (Mishkin, 2013).

To make things worse, HTC is also facing a crisis in management. On August 31, 2013, three senior executives were detained by Taiwan authority on suspicion of leaking trading secrets. The departure of some other high level executives due to company's recent poor performance made the situation more difficult (Dou, HTC Executive Detained Amid Probe, 2013). Now the HTC chief executive has handed his duty to the chairwoman and began to focus on product development because of the heavy criticism for his performance (Bradshaw & Mishkin, 2013).

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Apart from the managerial problems, HTC is losing competitive advantage and is pushed aside by its powerful competitors Apple and Samsung. Although the global mobile device market is expanding, the company is losing global market share from 9.3% in 2011 Q1 to 2.5% despite the fact that the flagship model HTC One has become one of the most popular Android smartphones in the world (Dou & Poon, How HTC Lost Its Way With Smartphones, 2013). Lack of brand recognition and high end appeal are two main causes of sales decline. As shown in Table 1, the global smartphone market is dominated by Apple and Samsung whose market share combined makes up nearly half of the global share (Gartner, Inc., 2013). These two

competitors have very high global brand recognition among consumers in high end market while the low end market is highly

Table 1:

Worldwide Smartphone Sales to End Users by Vendor in 2Q13 (Thousands of Units)

Company	2Q13 Units	2Q13 Market Share (%)	2Q12 Units	2Q12 Market Share (%)
Samsung	71,380.9	31.7	45,603.8	29.7
Apple	31,899.7	14.2	28,935.0	18.8
LG Electronics	11,473.0	5.1	5,827.8	3.8
Lenovo	10,671.4	4.7	4,370.9	2.8
ZTE	9,687.6	4.3	6,331.4	4.1
Others	90,213.6	40.0	62,704.0	40.8
Total	225,326.2	100.0	153,772.9	100.0

Source: Gartner (August 2013)

Retrieved from: <http://www.gartner.com/newsroom/id/2573415>

fragmented and shared by many small competitors in emerging markets. How to establish a competitive advantage over its competitors to claw back the lost market share remains a pressing concern for HTC.

LANDSCAPE OF SMARTPHONE INDUSTRY

Rapid Growth

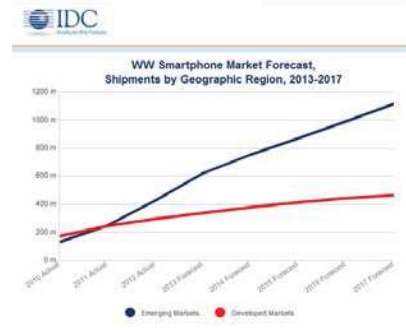
According to Gartner's press release, worldwide smartphone sales have increased by 47% in the fourth quarter (Q4) of 2011 compared to the same quarter in 2010. And the total smartphone sales in 2011 accounted for 31% of all mobile devices sales (Gartner, 2012). Moreover, the data released by International Data Corporation indicates that worldwide smartphone shipments have exceeded those of traditional phones by 2% in the first quarter of

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2013 (Smartphone Expected to Grow, 2013). Some analysts predict that by 2019, over 60%

mobile phone shipments will be accounted for by smartphone (Walkman, 2013). This trend will continue for years and is guaranteed by the demand for multi-functional mobile device in both developed and emerging counties. The HTC 2012

Figure 1:



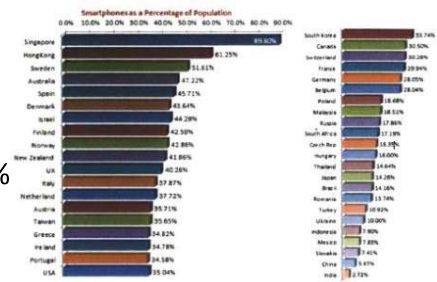
Source: Gartner, 2012

annual report points out that China has become one of the top consumers for smartphone with a 40% growth in Q4 of 2012 (2012 HTC Annual Report, 2013).

Regional Penetration Varies

Despite the rapid growth, smartphone penetration varies across regions. While the penetration rate can be as high as 50-60% in Europe and North America, it is only 10-20% in some countries. Mobile phone market is still dominated by traditional phones, which are featured with low prices, in some less developed regions (Ogunsanwo, 2012).

Figure 2: Smartphone user as a percentage of total mobile users

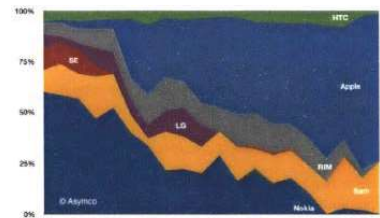


Source: Ogunsanwo, 2012

Top Leaders and Operating Systems (OS)

The competition in the smartphone industry is rather intense. Among the mobile phone vendors showed in Figure 3, HTC suffered from relatively low profit shares, especially in 2011. Meanwhile, Apple and Samsung together captured over 95% of total profits.

Figure 3: Profit share of eight mobile phone vendors



Source: Ogunsanwo, 2012

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Apple successfully earned 73% of market profits in Q4 of 2011 (Ogunsanwo, 2012). The distinct design advanced with full touch-screen and a web browser that displays complete pages ensured iPhone a significant level of market share when it is first launched. Also, the user-friendly iOS OS and its associated application store (“APP Store”) secured the existing market share for future iPhone generations.

Samsung is a top player in both smartphone and feature phone industries. It outperformed Nokia and became the largest global mobile manufacturer with 22% market share in 2012; and it won the first place in the smartphone industry with 32% market share, while Apple only accounted for 12%, in 2013 (Gartner, 2013). Also, Samsung continues to be the most popular smartphone brand in Asia since 2012, which makes Samsung a powerful competitor for HTC’s expansion to China.

Compared to its competitors, HTC offers customers a choice between Android and Windows OS products with affordable prices. The flexibility and stunning designs create an opportunity for HTC to capture the market and secure consumer preference. However, the lack of its own OS incurs considerable threats when HTC’s partners change their strategy. For example, the Google-Motorola acquisition and Microsoft-Nokia alliance push HTC to the edge of being marginalized (Ogunsanwo, 2012).

Low-End Competitors

Consumer price sensitivity promotes the growth of low-end smartphone companies, such as ZTE and Huawei. The experiences in transcending existed technologies combined with lower prices enable the low-end smartphone vendors to earn significant market share. In the third quarter of 2013, Huawei and LG Electronics together captured approximately 10% of

smartphone market. And the number is increasing constantly (Gartner, 2013). The development of low-end smartphone vendors further intensified industrial competition.

STRATEGIC CHALLENGES

Picking an Appropriate Business Level Strategy

HTC needs a more clear, realistic and consistent market positioning. It seems try to implement an integrated cost leadership/differentiation strategy, but is “stuck in the middle”. On the one hand, HTC still consider high-end smartphone market their strategic focus in spite the sad fact that their brand name has been surpassed by that of Apple and Samsung. HTC’s decreasing sales should partially attributed to their unwise marketing position; without having surpassing features and an equally powerful brand name, to price their HTC Onemax at a similar price as iPhone 5S and Galaxy Note 3 is very unwise (Tao, 2013). Obviously, HTC just does not have enough market power to support such a high pricing. On the other hand, HTC’s top management also lacks a consistent and integrated plan to guide them to compete in low-end market. Although their introduction of low-end smartphone HTC Desire C was considered quite successful in Chinese market, HTC does not intent to further pursue this cost-leadership strategy at a company-wide level because they thought their long-term strategic focus is to maintain their image of high quality in high-end market (Tao, 2013). Now, the low-end smartphone market is dominated by other cost-leader companies with a more aggressive pricing strategy (e.g. LG, Huanwei, ZTF, and Xiao mi) (Kelleher, 2013). Failing to maintain a strong brand name in both high-end and low-end market niches, HTC has to re-evaluate its business-level strategy.

Unable to Maintain Its Strategic Competitiveness as a Single Business

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HTC's business portfolio is too small to be competitive compared to its main competitors (e.g. Apple & Samsung). Both Apple and Samsung have diversified businesses. Except for smartphones, both of them have other flagship products under their own brands. HTC does need to diversify its business portfolio to increase its market power and to reduce revenue risks. For instance, in spite of the slow sales in maturing smartphone market, Samsung's rebound in its chip business acted as a strong profit driver which contributed a lot to its approximate \$9.3 billion profits in the third quarter of this year (Cheng, 2013). In contrast, being a specialist in smartphone market, HTC has nothing else to turn to when its core business takes a hit (Cheng, 2013). Moreover, HTC needs to diversify to gain enough strategic flexibility to be able to reallocate its resources internally to adapt to the highly competitive and rapid changing smartphone market. For example, Samsung's tactics to deal with intense competitive rivalry is to throw a large fortune into marketing and advertising (Cheng, 2013). As a single business, however, HTC does not have enough financial slack, resources and other capabilities to respond to its competitors' strategic or tactical actions.

Problematic Partnerships with Other Companies Could be a Challenge

Over the last 12 months, almost all news regarding HTC's partnerships were negative. Just in this September, its long-time partner Beats Electronics, a producer of audio products and equipment headquartered in Santa Monica, California, decided to end its partnership with HTC and buyout its investment of \$265 million (Reisinger, 2013). Then, HTC unwisely decided to throw significant support behind Microsoft. Compared to its Android phones, HTC's real strength is come from its Windows phones, which are co-developed with Microsoft. Ironically, however, HTC put its focus more on its higher priced Android phones (Pope, 2013). Just in this

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September, disappointed Microsoft decided to acquire Nokia's devices and services businesses; after this acquisition, 80% of current Windows phones' sales will in hand of Nokia (Pope, 2013). It is clearly that a Microsoft-owned Nokia would easily dominate the Windows phone ecosystem, just like Samsung dose with Android phones. In addition to Google-owned Motorola and Apple's flagship iPhones, by giving up to further develop a closer partnership with Microsoft, HTC really puts itself in danger. Followed up by the poor decision to partner with Facebook, HTC wasted its valuable and scarce resources by investing "unworthy" projects. HTC chose Facebook to co-develop Facebook phone called HTC Frist. However, the sales are way below what HTC expected because many smartphone users think HTC First is not innovative enough in that it does not have enough interesting and useful features to surpass iPhone and Samsung's Galaxy phones (Cheng, 2013). Obviously, HTC needs to enhance its ability and strategic insight to evaluate and develop strategic alliances with related companies.

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