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Case study for Chapter 9

PC sales

In November 2004, market research group Gartner reporting that it was cutting its sales forecast for new personal computers for the year, on the basis that the available products were lacking in "must have" features, which means that they will not be topping the Christmas wish-lists.

Although sales are expected to be up on 2003 by a predicted 11.4%, this figure is down on the earlier forecast of 13%. Sales for the last quarter of 2004 were expected to reach 51.9 million machines worldwide. Weak demand for desktop machines in the United States (possibly due to the weak dollar) accounted for some of the problem, as did poor sales of business computers in Europe: in the home computer market, strong competition from other electronic gadgetry meant that customers were spending their money elsewhere. Notebook computers remained buoyant, but since these only account for around 28% of computer sales the effect was insufficient to compensate for the losses elsewhere.

In Germany, France and the UK sales of notebook and laptop computers boomed during the summer of 2004, mainly due to falling prices: this led industry analysts to predict double-digit growth for personal computers during 2004 and 2005, especially considering the growth in business in China and India. However, the growth was slowed by the fact that nothing really new has come on the market to drive sales – on the software front, Windows XP was the last major innovation, some three years previously. Hardware has also only undergone incremental changes, although tablet PCs looked as if they might have the necessary innovative requirements to kick-start the market. Here, though, the cost of the hardware and the lack of really effective software for tablets slowed the market.

Gartner uses formal market research to develop its forecasts. The research process operates in four steps: firstly, the company conducts formal and informal surveys of the users and vendors in the industry. Gartner uses a panel system, i.e. the company uses existing contacts in the industry on a continual basis. As patterns emerge, Gartner's industry analysts formulate a set of strategic planning assumptions (SPAs) based on the new issues being presented. The third stage is to create what Gartner call a "stalking horse", which is a theoretical model (usually presented graphically) which is then used to stimulate debate among the firm's research network. Fourthly, the analysts seek out supporting information from the press, other analysts, and other Gartner research to refine the SPA.

Gartner rate the probability of their predictions from 0 (absolutely impossible) through to 1 (this has already happened, but people have yet to examine the implications). Gartner also revise the scenarios they develop, so that a Gartner prediction is a dynamic thing: the company avoids what they call "rear-view mirror" prediction, instead concentrating on producing real forecasts which reflect actual industry behaviour.

Of course, predicting the future is never straightforward. There are always uncertainties, and even Gartner admit this when they offer probabilities of their predictions coming true. However, as soothsayers go, Gartner have a very high success rate – and consequently are highly-regarded in the industry.

Case Study Questions

1. Why might a firm use Gartner rather than produce its own forecasts? *Gartner has the advantage of being impartial. Their predictions are as accurate as they can make them: they have no office politics to consider, and do not have to produce predictions which will*

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in themselves make the company look good. Accuracy is the only criterion by which they will be judged.

2. Why might a firm prefer to produce its own forecasts rather than use Gartner? *A firm's own forecasts would be better-tailored to fit the firm's circumstances more closely, and would therefore be of more overall use. In practice, most firms would use a combination of their own forecasts and those produced by Gartner or a similar agency.*
3. What is unusual about Gartner's use of secondary sources? *They use the secondary sources after using primary sources. It is more common to start with published (i.e. cheap) sources before going on to use primary sources to fill in the gaps. Presumably Gartner operate this way round because they already have substantial background knowledge of the industries they research.*
4. How might firms in the computer industry use Gartner's predictions? *Information like this is useful to salespeople and others in the industry because it allows them to direct resources. If the notebook market is rising, salespeople know that they have an opportunity to increase market share in that segment of the market: likewise, if demand is falling for desktops, the salesforce know that there is little point in putting much effort in, unless they feel that the market is shrinking sufficiently fast for a competitor to want to pull out altogether.*