Tablet war pushes PC makers to focus on R&D

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The tablet war is pushing personal computer makers to focus more on research and development and Web-based ecosystems to enable their products to stand out in an increasingly crowded market.

It's a marked shift for companies that have long relied on Microsoft Corp's Windows operating system and Intel Corp's chips - a partnership referred to as Wintel - in leading the way in the PC industry's core innovation.

"The situation is changing," said Acer President Jim Wong in an interview during the recently concluded Computex exhibition. "It's more open. ... No more Wintel. ... The industry is evolving."

The evolution was highlighted by IDC data released this week showing the PC market slowing down even at a faster rate than first expected. IDC cut its PC shipments growth for this year to 4.2 percent from 7.1 percent.

The decline has in part been blamed on the growing popularity of tablets, led by Apple Inc's iPad. This has prompted PC makers to roll out their versions of the device.

Wong compared the rise of tablets to the early years of the PC, which were marked by "many years a lot of innovation" before it led to "a very common design."

Wong said he sees innovation ramping up in the tablet and overall mobile space before the push to differentiate weakens as the market matures.

"It's just a cycle," he said. "So the industry just keeps going up and down. And that is the reason why our R&D is going to grow."

Analyst Shaw Wu of Sterne Agee said he sees a similar pattern of commoditization when it comes to tablets.

"We believe tablets are going to be a redux of PCs," he said. "Near-term spending is likely to go up as tablets are still a relatively new space. ... Google Android is the new Microsoft Windows, meaning there is still plenty of room for innovation for players like Apple who choose to play in the space their own way."

In fact, PC makers are emulating Apple's way, particularly the Cupertino, Calif.-based company's ecosystem, highlighted by the iTunes, which the company this week said it was expanding into what it calls an iCloud of services for its devices.

At Computex, Wong of Acer talked about a "personal cloud" that would enable users to connect their devices through the Web.

Analyst Tim Bajarin of Creative Strategies Inc. said that hardware innovation is "only one-third of the equation when it comes to a successful tablet program."

"It needs content and a lot of customized services to become a winner in a crowded market," he said. "And vendors using Android must innovate in content and services and not rely strictly on a generic Android ecosystem to deliver the products and services customers will want in the future."

But a key problem for many manufacturers is that Apple has a two year lead, he said. "And they are not standing still," he said.

And it will be a big shift for PC makers to make the investment in the cutting edge innovation to catch up with Apple.

"It's not just one invention but a whole portfolio that is needed to make a difference in this industry," analyst Roger Kay of Endpoint Technologies Associates said. "Apple spends a lot of money on a few areas to keep its edge. Companies that are innovating in the new 'high mobility' era include outfits like Qualcomm, which has as much cash as Intel, and HTC, which bet early and heavily on high mobility."

Kay added, "I don't know what sort of R&D spend Wong is talking about, but up through now, Acer has pretty much taken off-the-shelf technology and integrated it. I'm not sure he can make a fish fly."

Wu of Sterne Agee also noted that Acer entered the PC market "after it was commoditized," In the 1970s and 1980s, when the PC market featured such companies such as Apple, IBM, Dell, Compaq and Tandy, the research investments were much higher "as it was a relatively new space with more innovation."

"As Microsoft and Intel got more powerful into the '90s, the space got more commoditized," he said. "Ironically, that's what helped Acer become a big player in PCs."

Wong is optimistic about Acer's competitive position in tablets and mobile in general. He also argued that "Android tablets collectively" will eventually overtake Apple.

Some analysts are skeptical.

"I am not so sure that Android can eclipse Apple's position in the next two years and even then, we believe Apple will have at least 50 percent of the tablet market in 2014," Bajarin said.

Ticonderoga Securities analyst Brian White said in a note, "Tablet mania continues, but the iPad reigns supreme."

Of the more than 30 companies that demonstrated their tablets at Computex, he said, "We found nothing that is likely to be a competitive threat to the iPad 2."

"Essentially, Apple enjoys a vertically integrated digital ecosystem, economies of scale in purchasing power, unmatched aesthetics and a powerful brand, combined with the ability to control quality through the development of both the hardware and software," White said.

Software, said IDC analyst Crawford Del Prete, is key in the tablet war. This is also the reason why some device makers, including PC maker Hewlett-Packard, are focusing on their operating system.

H-P has said that it plans to use the WebOS, the operating system it inherited from its purchase of Palm Inc., to offer an integrated platform for new devices, including tablets.

"There are just too many seemingly small but very important usability features that must be addressed on new platforms in order to make customers happy. This is at the core of Apple's success, and why H-P and Research In Motion have invested so much in their own OS's," he said.

This is where Android based systems have struggled, he added.

In fact, Acer's experience with the Chromebook, the new laptops based on Google Chrome operating system highlight both the strengths and weaknesses of Google's cloud services.

Wong, the Acer president, spoke about how, with the Google cloud services, the Chromebook "will improve in performance constantly." But he also said Google's cloud services "is not pervasive anywhere you go."

That's why software integration is such a critical component, Del Prete said.

"For Android, this is a big reason why these devices are not selling - integration with other platforms," he added. "I argue that the biggest reason that the iPad has been a runaway hit is not only all of those apps, which were not native 12 months ago, but iTunes integration. The fact that Apple customers could quickly and easily buy movies/shows and music off of iTunes created compelling value from day 1. This comes from software development expense."

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