

## EXECUTIVE SUMMARY

The Department of External Affairs, Ottawa, Canada commissioned Peter Louch & Associates to study the Southwestern U.S. market for selected computer hardware and software products and to determine whether there could be a market for Canadian computer products manufactured by small to medium sized companies. This report will provide these companies with effective marketing information designed to assist them in selling their products in the Southwestern U.S.A. It is intended that the findings of this report and the market strategy provided should be used as an effective marketing tool and reference guide by those companies preparing to export.

The U.S. computer industry's growth rate slowed appreciably during 1982; shipments for both hardware and software during the year totalled \$34 billion resulting in an 11 percent increase. The industry is expected to recover in 1983 and to resume its average growth rate of 18 percent per annum with shipments estimated at \$40 billion. Industry analysts predict that the expansion rate will continue at this level into the 1990's. The U.S. supplies 60 percent of the world's total computer requirements, not including the substantial production contribution made by U.S. subsidiaries operating outside the U.S., including Canada. Current world production of computers is \$64 billion; this figure is expected to increase to \$200 billion by 1990.

In recent years there have been major product share changes in the computer industry. The most significant of these has been the phenomenal growth of the microcomputer industry and the software industry. Industry analysts predict a 55 percent increase in microcomputers between 1981 and 1986 and a 36 percent increase for software over the same period. During the last two years, there has been a major change in computer manufacturers' attitudes towards service and maintenance. Manufacturers have recognized that inadequate service and support in the industry could seriously impede growth and affect future business. A number of leading companies are now placing greater emphasis on service, technical support, and product training. These three points are part of the key to success for Canadian exporting companies.

1983 proved a dramatic year for the U.S. computer industry. The full impact of low priced microcomputers was felt for the first time. The Japanese computer industry doubled its exports during the year; the resulting price-war and scramble by leading U.S. computer manufacturers to undercut the Japanese with a new generation of low priced, sophisticated microcomputers severely affected the stability of the industry. A number of early leaders in the industry experienced severe financial problems; one major U.S. producer, Texas Instruments, totally dropped out of the computer industry. A number of U.S. companies continue to experience major problems.

The U.S. computer industry is concerned by the rising level of computer imports. Canada had previously been the largest U.S. export supplier but

has been overtaken by Japan. Canada's 1982 U.S. exports totalled \$510 million, an increase of 21.6 percent over 1981. The U.S. computer industry does not, however, see Canada as a major threat, secure in the knowledge that about 90 percent of all Canadian-U.S. exports are made by Canadian subsidiaries of U.S. companies. Total U.S. imports for 1982 were \$2.1 billion, representing an increase of 30 percent over the previous year.

The Southwestern U.S. is responsible for approximately 41 percent of U.S. national computer production and 24 percent of world computer production. 75 percent of this figure is manufactured in California alone. In the Southwestern U.S., computer consumption is estimated to be approximately \$6 billion (or 20 percent of the national total). The Southwestern U.S. market area is a sophisticated production center and a high volume consumer market.

During the course of the study, prospects for Canadian products were examined with hardware distributors, computer systems manufacturers, software manufacturers, turnkey systems companies, and retailers. It is apparent that there are markets in the Southwestern U.S. for many of the products manufactured by Canadian companies who provided initial input and lists of products for the study. Medium to high-end hardware and software products appear to be among the best prospects and many of the companies interviewed are actively interested in looking at new products from all sources. Southwestern U.S. companies generally have a good opinion of Canadian products and technology. Low-end products, however, do not look practical for Canadian companies because the industry price-wars of the last two years have reduced the prices of low-end products so much that Canadian companies would be unwise to try to compete unless they can provide a specific cost advantage for either hardware or software.

It is possible that many Canadian companies reduce their chances of marketing success because of ineffective advertising, literature, or presentation, and a lack of communication. Corporate identity and advertising programs should be carefully thought out and prepared by professionals.

The report provides a series of market strategies based on individual Canadian product types. Accurate evaluation of the potential market for new products and the provision of an effective market entry plan are key elements. The report examines a range of promotional activities for computer manufacturers. These include trade show participation, trade press advertising, seminar programs, and others. The report documents a number of leading trade shows held in the Southwestern U.S. and leading industry trade publications.

The results of the interviews conducted during the course of the study indicated that Southwestern U.S. end-users could be interested in:— 8 and 16 bit microcomputers, sophisticated graphic, scientific, and word processing software, impact and non-impact printers, video terminals (including CRTs), portable telex terminals, networking equipment, disk drives, Winchester back-up devices, and modems.