London Business School
publishing.london.edu

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CS-23-014
February 2021

Intel Case C: 1998-2019

On 21 May 1998 Andrew Grove stepped down as CEO of Intel Corporation, replacing Gordon Moore as Chairman. Two years earlier he had announced earnings of $5.2 billion on sales of $20.8 billion. Since he became CEO in 1987 Intel's average annual return to investors had been an astounding 44%. His predecessor's prediction in 1975 – which would become known as "Moore's law" – was that the power of a computer chip would double every 18 months. Under Grove Intel had achieved exactly that over the preceding decade.

By now Intel's microprocessors powered 80% of all the PCs in the world. Grove, however, was worried that demand for PCs might tail off, if not disappear entirely. Therefore, he declared that Intel should not just deliver microprocessors but also work on creating demand for computers. To this end, he had been talking to a range of companies, including content providers in Hollywood, Starbucks (about setting up video conferencing for customers), and to internet startups that wanted to create 3D interactive online worlds. In Grove's vision, as CNN reported, "We will use PCs to watch TV, to play complex games on the Internet, to store and edit family photos, to manage the appliances in our homes, and to stay in regular video contact with family, friends and co-workers … if Grove's vision comes to pass, Intel will thrive. If it doesn't, Intel's strategy falls apart."

1998-2005: Craig Barrett

Craig Barrett succeeded Grove as CEO of Intel. He decided to diversify and, among other initiatives, invested heavily in the communications and wireless businesses, spending about $10 billion on acquisitions and several billion more on R&D expenditures. PCs had increasingly been replaced by laptops, which people used as mobile devices, and Barrett also foresaw a future for cell phones and internet telephony.

Yet, by 2003, Intel was in an ambiguous situation. The dot.com bubble had burst, resulting in many internet companies losing most of their value. Intel's wireless communication and computing groups repeatedly reported large operating losses. While revenues were growing modestly by 1%, to $26.8 billion, gross margins were still a massive 50% and net income soared by 141% to $3.1 billion. In microprocessors Intel had also managed to increase its global market share to 82.5%. In the meantime, Barrett had started cutting costs and lowering staff numbers from about 90,000 to 80,000. The company declared that it expected future growth to come from the need of mobile phones and personal digital assistants for more processing power, further spurred on by demand from developing economies such as Russia, China, India and the Middle East.

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