Once-vaunted tech firms struggle against challengers' onslaught

December 27 2012, by Andrea Chang

Consumer electronics are among the most popular holiday gifts, but how many people really wanted a BlackBerry tablet, a Panasonic television or a Nokia smartphone for Christmas?

It's been a tough year for old-guard tech companies including Sony, Sharp, Panasonic, Nokia and Research in Motion, which not too long ago enjoyed widespread popularity. Now, for a variety of reasons - price, slow pace of innovation, lack of coolness factor and a cutthroat market - the former stalwarts are frequently becoming second-tier options among fickle consumers.

"There is a consolidation around just a handful of players," said Bob Bellack, chief executive of Newegg North America, an online electronics retailer. "There's going to be a handful of companies that have huge resources that are able to build a castle and a moat around it, and I think that's what you're seeing. It's actually very unfortunate for consumers in the long run."

As shoppers gravitate toward a smaller pool of brands for their big-ticket electronics purchases, the effects are being seen in sales of cellphones, tablets and televisions, with industry leaders Samsung and Apple leading in nearly all categories.

In the U.S. smartphone market, "the lion's share" of growth is concentrated in the top two brands, market research firm NPD Group said. The group found that Apple's iPhone took 31 percent of the market in the second quarter, followed by Samsung with 24 percent.

And that advantage is growing. Apple and Samsung's combined smartphone unit sales that quarter rose 43 percent year over year as sales for other brands fell 16 percent. BlackBerry and Nokia didn't even make the top five brands in the U.S.

Samsung is also gaining ground in the global cellphone market: The South Korean juggernaut is set to become the No. 1 mobile handset brand in the world this year, uprooting struggling Nokia, which has held the top spot for the last 14 years, market research firm IHS said.

For companies playing catch-up, the challenge is to create devices that are technologically superior, cheaper or otherwise unique in some way, and to work more closely with wireless carriers to promote them.

"It's a competitive market; it's always been a competitive market," said Grace Belmonte, a marketing director at Nokia, which has been touting its new phones running on Microsoft's Windows Phone operating system. "It's tough for the consumer because there's so many messages out there, and I think what becomes critical is that your message comes through. ... It makes all the manufacturers step up to the table."

Underscoring Apple and Samsung's elite status, the top five smartphone models sold in the third quarter were the iPhone 4, iPhone 4S, iPhone 5, Samsung's Galaxy S III and the Galaxy S II, NPD said.

Among tablets brands, Apple was even more dominant, with the Cupertino, Calif., company capturing a 55 percent share of the market based on worldwide shipments in the third quarter, according to technology market research firm ABI Research, followed by Samsung, Amazon and Asus.

Apple, which has maintained that lead for 10 straight quarters, is so prevalent that shopper Jen Polenzani, 42, said she didn't even know what other options were out there for tablets other than the iPad.

"Nothing has compelled me to look elsewhere yet. They haven't been marketed to me very well, obviously," the Los Angeles political consultant said recently after buying an iPad Mini for her parents at the Grove shopping center in L.A.

Many consumers said they opted to buy products from the same brand for a seamless experience between gadgets. That means companies with a complete family of apps and devices across multiple categories and price points come out on top - and that success often builds upon itself, making it difficult for other brands to break in.

The upside for mobile device makers, especially those utilizing the rapidly growing Android operating system, is that there are still ample growth opportunities in the relatively young smartphone and tablet sectors.

It's a more dire picture in the television market, which has been in a slump as budget-conscious consumers delay buying new TVs and use their tablets and other mobile devices to stream content.

In the third quarter, industry leaders Samsung and LG increased global flat-panel TV revenues year over year by 3 percent and 1 percent, respectively, remaining the top two brands overall. But the top three Japanese brands - Sony, Sharp and Panasonic - saw revenues decline at a double-digit pace from last year, according to data from NPD DisplaySearch.

"It is a little sad to see someone like Sony, who used to be a dominant leader in the TV business, to see them watch their market share fall," said Paul Gagnon, director of global TV research at NPD DisplaySearch. "It's a bit of a reality check."

Part of the problem, Gagnon said, is that Japanese TV makers operate with lower profit margins than their South Korean and Chinese competitors, making it "very tough" to compete on price.

"Unfortunately price has become the metric by which consumers judge TVs," Gagnon said. "When I look at a 32-inch LCD TV, generally speaking I can find a Samsung or LG or one of the other brands for 10 percent or 20 percent less than, say, a Sony or a Panasonic of a similar size."

That's especially bad news for Japanese TV makers heading into 2013, which is expected to be another sluggish year for the television industry. Global TV demand is projected to be flat, after shipments of all TV types declined by more than 4 percent in 2012 to 237 million.

For once-renowned tech brands, it's not just a consumer perception problem. As sales have lagged, their financial health has suffered.

RIM's woes have been well-publicized, with the smartphone maker seeing sales and market share drop as customers ditch the BlackBerry for flashier products from rivals. The Canadian company, which has weathered management shake-ups and layoffs, is betting big on its BlackBerry 10 operating system, which will debut in January after more than a year of delays.

Credit ratings have also taken a hit. Fitch Ratings last month downgraded the debt ratings of Panasonic, Sharp and Sony to junk status; all three companies have seen their stock prices plummet this year. Earlier in the year, Nokia - which said in June that it would slash 10,000 jobs worldwide by the end of next year, shut down several facilities and refocus the business - got its rating downgraded by Moody's Investors Service, the last of the three major credit ratings firms to drop the company to junk status.

Although industry watchers said they didn't expect any of the tech behemoths to disappear any time soon, they cautioned that many will have to rethink their position in the market. Some may have to become niche players that cater to a specific customer base or may have to exit some categories altogether.

That's the harsh nature of electronics brand loyalty, mused Hassan Michaels, 58, who said he used to almost exclusively buy gadgets from Japanese manufacturers. But when it came time to buy himself a tablet recently, the real estate investor from L.A. made a beeline for the Apple store.

"It's either Samsung or Apple. I don't pay attention to the other companies," Michaels said. "I go with the trend."

Citation: Once-vaunted tech firms struggle against challengers' onslaught (2012, December 27) retrieved 19 April 2024 from
https://phys.org/news/2012-12-once-vaunted-tech-firms-struggle-onslaught.html