

# Intel mobile chip strategy could prove costly

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Just when Intel Corp. finally is making real progress in the desperate push to get its chips into smartphones and tablets, the tech titan finds itself in a Catch-22.

With [personal computer sales](#) dwindling, it can no longer count on primarily selling PC chips to maintain its historical revenue growth. Yet some analysts caution that gaining a big foothold in the mobile market could leave it in a financial pinch, too.

That's because mobile chips sell for as little as a fifth of what PC chips command, they say. So even if Intel greatly boosts its [mobile sales](#), its revenue could stagnate or take a nose dive.

"It's something they have to navigate carefully," said Bernstein Research analyst Stacy Rasgon. "It's a touchy time."

Sales of PC chips accounted for about two-thirds of Intel's \$53 billion in revenue last year, while its [chip sales](#) for [mobile devices](#) was minuscule. But PCs are fast losing popularity with consumers. Manufacturer shipments of the computers are expected to drop nearly 11 percent this year compared with 2012, according to research firm Gartner.

By comparison, mobile-phone shipments are expected to grow by more than 4 percent and tablets by 68 percent.

Research firm IC Insights estimates that sales of cellphone chips this year for the first time will exceed those of PC chips - with the phone

type totaling \$63.5 billion, versus PC-[chip](#) sales of \$62.5 billion.

In the past, Intel primarily focused on cramming more energy-hungry [transistors](#) onto its brainy processors, so PCs could do more tasks. But a primary requirement for smartphones and tablets is that they have long [battery life](#), which means their chips must be highly energy efficient. And Intel's powerful [microprocessors](#) have long gobbled too much juice to make them practical for such devices.

As a result, power-stingy circuits made by companies using a design from the British firm ARM Holdings have dominated the [mobile market](#). But that is changing. By incorporating different materials and three-dimensional designs, Intel has cut its chips' power usage dramatically.

"It is remarkable," declared tech analyst Patrick Moorhead. "They've crossed the major mobility hurdle."

That was evident from a test last month by market advisory firm ABI Research, which compared a Lenovo [smartphone](#) running an Intel chip with several phones using ARM-based chips. It found Intel's product generally used far less energy than the competition's.

While Intel's chips couldn't compete with the ARM variety before, "it's a good race" now, said Jim Mielke, ABI's vice president of engineering.

The finding, which surprised many industry observers, has been widely regarded as a seminal achievement for the Santa Clara, Calif., chipmaker.

Intel spokeswoman Claudine Mangano said the company's chips already are in more than 20 tablets - including Samsung's new Galaxy - and 17 smartphones. She also predicted that more mobile devices will be fitted later this year with an Intel chip featuring what she called "an entirely

new low-power microarchitecture."

Because Intel will report its earnings in a couple of weeks and federal rules limit what companies in such situations can say about their finances, Mangano said she couldn't comment on the effect that Intel's mobile-device push might have on its revenue.

But Wall Street pays close attention to corporate revenue trends and some analysts fear Intel's stock price could take a hit if its sales falter. They're especially concerned given the volume of mobile chips they say Intel will need to sell going forward.

Despite the company's gains in tablets, "expected unit shipments are too small to offset declining demand in notebooks," JPMorgan analysts concluded in a recent note to their clients. They said the average price of a tablet chip is \$25 to \$30, well below the \$110 that Intel has been getting for notebook chips.

In a separate commentary on Intel's mobile strategy, Bernstein Research analysts said "the risk to this business model is extremely high" because Intel's [mobile chips](#) "are likely selling for a third to a fifth" of its notebook processors. Consequently, Intel "will need to sell huge amounts of them to achieve growth goals for the year."

Estimating that Intel now owns less than 2 percent of the [mobile](#) chip business, Nathan Brookwood of the market consulting firm Insight 64 said Intel may need to grab 10 to 20 percent to keep its revenue growing.

Asked if that was possible, he replied, "I think I would call it a challenge." And while acknowledging that Intel has met plenty of challenges since its founding in 1968, he cautioned that 20 percent might not be enough.

It all depends, he said, "on how rapidly the PC market erodes."

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