

Tablet wars intensify as prices tumble

July 11 2013, by Rob Lever



Nursery school pupils work with tablet computers in Haguenau, northeastern France. Tablet prices are plunging amid a flood of new devices and cutthroat competition for market share.

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Amazon has slashed prices of its Kindle HD tablets to as low as \$169 in the US and 139 pounds in Britain, while Barnes & Noble has cut the price of its Nook to as low as \$129, and has announced plans to

outsource production of its tablets.

"Since Hewlett-Packard launched its tablet, there has been a lot of pressure on prices," said Rob Enderle, analyst with Enderle Group.

HP sells its Android-powered seven-inch Slate for as low as \$139, helping make the paperback-size [tablet computer](#) an affordable commodity.

A Gartner survey suggests tablet sales globally will rise 67.9 percent to 202 million units this year, but analysts say the market is cooling after a couple of years of sizzling growth.

Gartner said the red-hot growth in tablets and smartphones will taper off as these devices gain longer life cycles. The report said many consumers are opting for "basic" tablets to cut costs.

"It looks like the market may be tiring of tablets and as makers get desperate, you may see more pressure on prices," Enderle said.

Some retailers are selling tablets for less than \$100, but Enderle said the flood of poor-quality devices may eventually backfire and turn off consumers.

Jitesh Ubrani, analyst at the research firm IDC, said many of the low-cost tablets come from small, sometimes unbranded "whitebox" vendors.

"The decline of the PC market makes it increasingly important for PC vendors to compete in the tablet space," Ubrani said

"As more top-tier brands introduce low-cost products, we expect to see a reduction in the number of whitebox vendors."



An employee demonstrates a Samsung tablet to Germany's Angela Merkel (R) at the CeBIT show in Hanover in March. Amazon has slashed prices of its Kindle HD tablets to as low as \$169 in the US and 139 pounds in Britain, while Barnes & Noble has cut the price of its Nook to as low as \$129, and has announced plans to outsource production of its tablets.

Even so, the analyst said, average prices for tablets is likely to drop further, and that tablet shipments are expected to overtake all PC shipments in 2015."

The market leader, Apple, has so far kept above the fray, keeping prices steady on its iPad line of tablets, although it introduced the lower-cost iPad mini last year at \$329, less than the \$500 for its full-size iPad.

"Apple does not look at the competitive marketplace to determine its strategy," said Jeff Orr, analyst with ABI Research. "They look at their

buyers. Because of that I would expect their price points to remain consistent for the foreseeable future."

Enderle said Apple is seeking to remain a "premium vendor" but faces a difficult choice—lowering prices, which can hurt its profits and worsen its share price declines, or giving up [market share](#).



A woman uses a tablet computer in Rennes, France on May 13. A Gartner survey suggests tablet sales globally will rise 67.9 percent to 202 million units this year, but analysts say the market is cooling after a couple of years of sizzling growth.

"Under Steve Jobs, when a product started to commoditize, they would come out with something new," Enderle said. "Apple needs another premium product. It is overdue for whatever the next big thing is."

Microsoft has also aimed at the high end of the market with its Surface,

which debuted with a starting \$500 price tag, but it has cut the price as low as \$199 for education buyers.

Orr said some of the manufacturers may be forced out of the market if tablets are not part of their "core" business.

"Every brand believes it has an audience which will be interested in their device to connect to their ecosystem," he said. "The reality is not every player can survive."

Amazon sells its Kindles near the cost of production, in an effort to direct the buyers to Amazon content and apps. The others, including Apple, Google and Microsoft, also want to keep their customers tethered to an ecosystem for advertising and sales.

But Orr points out "there is none of that brand loyalty that some of these vendors had expected." For example, an iPad user can still use Google, and Kindle users can buy from non-Amazon sellers.



A Panasonic 4K tablet with a 20-inch screen on show on Capitol Hill in Washington DC on April 16. Gartner said the red-hot growth in tablets and smartphones will taper off as these devices gain longer life cycles.

Enderle noted that Google, which makes a \$199 Nexus 7 tablet, "has a subsidized model in which advertising makes up the difference" of any lost profits from the device itself.

But he noted that Barnes & Noble faces an unusual predicament because it is primarily a brick-and-mortar bookseller, and needs to bring customers into its physical stores.

"Every Nook tablet sold causes them to lose a customer who might also go into the store," he said. "They may need to go fully online and compete with Amazon."

IDC's Ubrani said it may be difficult for players like Barnes & Noble to compete with Amazon by subsidizing the tablets.

"Not every tablet vendor can afford to utilize this business model," he said. "Yes, each can offer movies, music, apps, etc. to help subsidize the tablet, but none have the same scale and product selection that Amazon does."

Enderle said that even though it seems to be a good time to buy a tablet, he advises people to wait.

"We are just short of a refresh" for many tablet makers, said Enderle. He expects new versions of the iPad, Surface and several Android models. Amazon is also reportedly working on new tablets.

"We will see a raft of new products in August and September," he said. "Unless you find a really good buy. I would wait."

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