

Apple, HP, Intel may be hit by slowdown in smartphone sales' growth

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The smartphone business has generated staggering wealth for companies such as Apple Inc. and triggered a recent scramble by Hewlett-Packard Co. and Intel Corp. to try for a piece of the action.

But it now looks like its best days may be behind it, a troubling trend for companies that have hitched their fortunes to the smartphone juggernaut. Although smartphones remain wildly popular, their sales - about \$338 billion last year - are growing at a slower pace and their prices are dropping fast, making it harder to wring a profit from them.

That comes at the worst possible time for Intel, HP and other tech companies whose businesses heavily depend upon the personal computer. With PC sales dwindling, they've been urgently seeking ways to tap into the smartphone boom, but some analysts think they may be too late. Even mighty Apple is considered at risk because it gets the vast majority of its revenue from the iPhone.

"It's a huge problem for Apple" and "too little, too late" for HP, which recently introduced two smartphones to help compensate for its sluggish PC sales, said Bill Whyman of the International Strategy and Investment Group. For months, he has been predicting what he calls the "end of the great smartphone boom."

Some also worry about Santa Clara, Calif.-based Intel, which makes most of its money selling chips for PCs and is trying to expand into smartphones.

"By the time they gain meaningful traction" in the phones, said Mark Li, an analyst for Bernstein Research, "the market might have become so mature and low-margin that it isn't worth entering."

Smartphones have been around in various forms since the 1990s, but their popularity soared with Apple's iPhone launch in January 2007.

Today, about 55 percent of adults in the U.S. own a smartphone, compared with 37 percent in China, 21 percent in Mexico and 11 percent in Indonesia, according to Pew Research Center. That still leaves plenty of opportunity for sales, but the breakneck rate of purchases appears to be slowing.

While global smartphone sales in 2013 were up by 39 percent over 2012, they're expected to grow only about 19 percent this year, 8 percent in 2017 and 6 percent in 2018, International Data Corp. reported in February.

Moreover, the greatest growth is in relatively poor nations, where most of the demand is for inexpensive gadgets. That is driving down their price and "creating challenging environments in which to turn a profit," IDC concluded. It predicted the average smartphone price of \$335 in 2013 will drop to \$260 by 2018.

What that means for Apple - the world's second-biggest smartphone maker - remains unclear. The Cupertino, Calif., giant declined to comment on the implications for the iPhone, its biggest moneymaker, which reportedly generates huge profit margins. Nonetheless, iPhone's annual revenue - which had steadily soared after the gadget's launch - weakened in fiscal 2013.

Declaring that "Apple's penetration of the higher-end segment of the smartphone market is reaching a saturation point," JPMorgan analysts

concluded in a recent report that the business "has the hallmarks of the PC market - slowing growth, vendor consolidation and limited technology differentiation."

The trend also could prove worrisome for Samsung, the world's biggest smartphone seller, and for Google Inc., whose Android operating system is used by most smartphones. It also raises questions about HP's timing. Facing slowed demand for its PCs, the Palo Alto, Calif., colossus in January introduced two hybrid smartphones - incorporating some tablet features - for consumers in India.

"We see a growing market for the next generation of mobile devices - those that combine the size and capabilities of a tablet with the voice-calling options of a smartphone," HP spokeswoman Alison Graves said.

Several years ago, HP had briefly dipped a toe in the phone business, using technology obtained from its 2010 purchase of Sunnyvale, Calif.-based Palm. But it stopped promoting the devices after they flopped with consumers.

"Unfortunately, people with decision-making power screwed it up," said Ryan Reith, an IDC program director. Now that HP has decided to give the segment another try, he added, "they figure if we have to be playing catch-up, it's better than nothing at all."

Other companies that could be hurt by the global trend toward less expensive phones include suppliers of components for the devices, such as chipmakers, since less costly phones typically use fewer circuits than more advanced versions.

ARM Holdings, a British company whose chip designs are used for the vast majority of smartphones, disclosed in February that it has suffered a slowdown in chip sales for high-end phones.

That would seem to bode ill for Intel, which only recently started getting its chips into smartphones. But Intel officials say they're confident the business can be profitable.

"Cost decreases in computing devices are, and have always been, a fact," company spokeswoman Cara Walker said. "This is a good thing for consumers and for us as a manufacturing leader. We focus on what we can control, and that's innovating and leveraging our manufacturing advantage."

No one suggests the smartphone business will vanish - at least not anytime soon.

Experts say it's possible the devices could generate profits for years to come, by continually morphing into different forms. Some envision them as communication hubs, shuttling data to and from smart watches, heart-rate monitors and other computerized gadgets that will populate the so-called Internet of Things. Earlier this month, Apple announced that the iPhone's features will be built into myriad new car models.

Even the high-end [smartphone](#) business "is not going to go away," said Tina Teng, a senior analyst at NPD DisplaySearch, noting that some consumers are always "looking for the latest, the greatest in the market."

But the big boom in profits is probably over, warned Anshul Gupta, of the industry research firm Gartner. While overall sales are still rising, he said, the trend toward less expensive phones means "device manufacturers will continue to face lower profitability."

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