

Samsung's profit falls as smartphones get cheaper

April 8 2014, by Youkyung Lee



Visitors try out Samsung Electronics Co.'s Galaxy Note 3 at its showroom in Seoul, South Korea, Tuesday, April 1, 2014. Declining smartphone prices hit profit at Samsung for a second straight quarter. The consumer technology heavyweight said Tuesday that it expects operating income of about 8.4 trillion won (\$8 billion) for the January-March quarter, down 4 percent from a year earlier. (AP Photo/Ahn Young-joon)

Declining smartphone prices hit profit at Samsung Electronics Co. for a second straight quarter.

The consumer technology heavyweight said Tuesday that it expects operating income of about 8.4 trillion won (\$8 billion) for the January-March quarter, down 4 percent from a year earlier. Sales were flat at 53 trillion won. Samsung, the world's largest maker of smartphones, televisions and [memory chips](#), will release full quarterly results later this month.

The operating profit was in line with the median estimate by analysts surveyed by FactSet. Compared with the previous quarter, sales sank 11 percent while operating income inched up 1 percent.

The year-on-year profit decline shows the challenge for Samsung to maintain earnings growth as smartphone prices fall. The devices are its biggest cash cow, accounting for more than two-third of its income.

The average price of a Samsung smartphone this year will likely be \$275, down 9 percent from 2013, according to Chung Chang-won, an analyst at Nomura Financial Investment.

That is because smartphone sales growth is slowing in North America, Europe, South Korea and Japan while consumers in developing nations tend to buy cheaper handsets.

Chinese handset makers are also vying for customers in emerging markets. Samsung faces competition from a slew of handset makers in regions such as Southeast Asia where Lenovo and Xiaomi are expanding.

"In 2014, I expect that even more Chinese vendors will come in and they will put in greater investment in such emerging markets and they will pose a bigger threat" to Samsung, said Ryan Lai, an analyst at research firm IDC.

Latest data shows Samsung is fending off the threat at least in China.

The maker of Galaxy smartphones sold a record number of smartphones in the world's most populous country in February, according to Counterpoint Technology Market Research. Apple Inc. tied Lenovo for second even after the launch of the iPhone through China Mobile helped the company boost sales.

Declining prices of smartphones also put pressure on profit margins for components that go into mobile devices, such as memory chips and display panels, two other key products made by Samsung.

Samsung is attempting to cut costs in response to its business challenges. Earlier this year, a mobile business executive said the company will reduce the proportion of ads and promotional fees to revenues. Samsung spent over \$11 billion on advertising and promotions for handsets, televisions and other products last year.

Most analysts expected Samsung's bottom line to improve from the current quarter as the latest version of its flagship [smartphone](#), the Galaxy S5, goes on sale worldwide from Friday. It selling the phone for slightly less than the previous version.

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Citation: Samsung's profit falls as smartphones get cheaper (2014, April 8) retrieved 6 May 2024 from <https://phys.org/news/2014-04-samsung-profit-falls-smartphones-cheaper.html>

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