

Nearly all operating profit in smartphone business goes to Apple

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During the first three months of the year, Samsung sold a lot more smartphones than No. 2 Apple - 30 percent more - but reaped just \$1 in phone-related operating profit for every \$6 Apple did.

Record-breaking sales of the iPhone at an average of more than \$600 a pop have given Apple nearly all of the smartphone industry's profits. Specifically from January to March, Apple accounted for \$15.3 billion of the \$16.7 billion [operating profit](#) at leading smartphone makers, financial analysts at Canaccord Genuity said in a research report earlier this year.

Now, those analysts say the numbers could turn even better for Apple and worse for its competitors when the companies report their April to June earnings over the next couple of weeks.

"Despite the launch of a number of flagship Android smartphones from Samsung, LG, HTC and others during (the quarter), the larger screen iPhone 6 smartphones maintained strong high-end market share," Canaccord's Michael Walkley and Siddharth Sinha say in a new report.

Apple, Microsoft and China-focused sellers Xiaomi and ZTE were the only smartphone makers to experience worldwide market-share growth in the second quarter compared to the same period last year, they estimated.

The circumstances have led to pessimistic declarations.

Samsung last week warned that though its latest quarterly operating profit would be the highest in a year, the figure would come in 4 percent weaker than expected at about \$6 billion.

Samsung smartphones sell on average for about a third of the cost of Apple's, and a new expensive model had a chance to increase profit. But analysts said Samsung underestimated demand for the new curved-display Galaxy S6 Edge and lost out on sales.

Analysts who follow LG have predicted meager sales of the new G4 smartphone will cause earnings to slip by perhaps 50 percent compared to last year's second quarter, and the company's shares have fallen to their lowest price since 2007.

HTC, which had maintained at least tiny quarterly operating profits for the last year, last week announced that it appeared to have lost as much as \$291 million last quarter because of poor One M9 sales. HTC's share price has been cut by more than half this year, reaching its lowest value since 2004.

And Microsoft has announced it's scaling back smartphone development and no longer counting on selling Lumia phones to be a viable, standalone business. The company plans to write down about 85 percent of the \$9 billion spent to acquire Nokia's phone-making unit just over a year ago.

Feedback for Apple has been far more positive. Based on surveys, the Canaccord analysts estimated the iPhone 6 was the top-selling smartphone at Verizon Wireless, AT&T, Sprint and T-Mobile last quarter. A good number of people are upgrading from older iPhones while a greater number than expected are switching over from competing devices.

The trends should mean that over half a billion iPhones will be in use at the end of the year, including 232 million estimated to be sold this year, according to the research. That bodes well for products that interact with iPhone, such as the Apple Watch, Beats headphones and Apple TV.

Competitors haven't surrendered just yet. HTC still plans to release a new top-of-the-line smartphone in the fall. And Samsung could reveal its new Note smartphone in August, earlier than usual to upstage a new iPhone expected to go on sale in September, The Wall Street Journal reported last week.

But it could become increasingly difficult to innovate when Apple holds record cash stockpiles to invest in research and development. Consumer dependence on Apple won't help either.

U.S. adults who own an iPhone are more likely than Android smartphone users - 52 percent vs. 43 percent - to feel that they can't imagine life without a smartphone, a Gallup poll released Monday said.

"Although iPhone users report higher household income on average than Android users, and are slightly more likely to be female, these differences don't explain the higher attachment iPhone users feel toward their phones," Gallup said.

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