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HTC suffers 79% crash in quarterly profits

World's fifth biggest phone maker is squeezed by larger rivals Apple and Samsung

Juliette Garside and Charles Arthur
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Sales of HTC's One series are trailing off as Apple and Samsung spend four to six times more on marketing the iPhone 5 and Galaxy SIII. Photograph: Mandy Cheng/AFP/Getty Images

HTC, the world's fifth biggest phone maker, has suffered a 79% crash in quarterly profits as the popularity and marketing muscle of Apple and Samsung continue to squeeze out smaller rivals.

Third quarter net income plummeted to 4.9bn New Taiwan dollars (£104m) in the three months to the end of September, from NT\$20bn in the same period last year, according to unaudited results published on Monday night. Revenues were down 48% to NT\$70.2bn, well below analyst expectations of NT\$75bn.

Only a year ago the Taiwanese company was enjoying a record quarter with revenues of NT\$136bn, thanks to bestselling handsets including the HTC Desire and Sensation.

HTC will only comment when its audited results are published, but an email sent by the chief executive, Peter Chou, to employees in August urged staff to "kill bureaucracy". He complained: "We have people in meetings and talking all the time but without decision, strategic direction and sense of urgency."

Sales of HTC's flagship One series, which debuted in February, are trailing off as Apple and Samsung spend four to six times more on marketing to ensure the iPhone 5 and the Galaxy SIII dominate the market, while strongly subsidising their older models, according to the analyst Pierre Ferragu at the broker Sanford C Bernstein.

"HTC is entering a vicious circle of market share loss and gross margin erosion that reflects continued loss of traction with consumers," said Ferragu in a note. "We see a market where Apple and Samsung fight hard in terms of commercial and marketing execution to defend their respective positions, with both providing aggressive launch support for their flagship phones and strong distribution support for older models. These

distribution dynamics leave almost no room for HTC to remain visible in the market."

HTC's share of the global smartphone market by shipments fell to 5.8% in the second quarter from 10.7% a year earlier, according to Bloomberg. The company released its first Windows Phone 8 models in September, its most high-profile pre-Christmas launch, but Microsoft's operating system has yet to establish itself as a serious third player after Google's Android and Apple's iOS.

HTC's revenues, profits and handset shipments peaked in the third quarter of 2011 and began falling in the fourth quarter of 2011, when Apple and Samsung increased their efforts to control the US market.

"Samsung is the reason HTC is struggling," said Francisco Jeronimo at the research firm IDC. "HTC devices are good, the brand is strong and they keep on innovating, but Samsung invests significantly more at the point of sale compared with HTC."

HTC has seen falling average selling prices for its phones as it has tried to break into the fast-growing Chinese market. Approximately 30% of shipments go to China but price pressures mean they account for only 20% of revenues.

Carolina Milanesi, a smartphones analyst at Gartner, another research company, said HTC needed to concentrate on sales to big "enterprise" businesses where "bring your own device" (BYOD) policies were in place: "It seems to me that on the Android side, they tried to go for the low end to get [market] share, but that did not work much, and now they want to go back to their core. In Android I think they should become an enabler of BYOD – so focus on making Android a better platform to bring into the enterprise." Samsung has tried to do that but so far "not made much inroad", she suggested. "I believe that HTC would have a better chance at that, as this is where they started," Milanesi said. "They knew how to do it." HTC started out as a contract manufacturer making white-label smartphones running Microsoft's Windows Mobile software, and then created its own brand.

Milanesi suggested that now its Windows Phone models would not be its salvation: "The Microsoft [Windows Phone] phones are good, but they risk being swallowed in the Microsoft PR machine. HTC needs to push the envelope on innovation. It seems to me that on that side they have not had an industry first for a while. They used to lead with connectivity and integration, but have not done so in a while. They need to be more vocal about their brand, and consistent in their message – so they talk more about the company and the differentiation on their devices, building a story on who they are as a company."

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