

Shift to mobile hits tech giants' bottom line

July 27 2013, by Rob Lever



People look at their smartphones while waiting for a train at a BTS station in Bangkok, March 20, 2013. The latest earnings from the smartphone sector show that mobile is hitting the bottom line, either in positive or negative ways, at giants like Facebook, Microsoft, Google, Amazon and Apple.

With the shift to mobile Internet gaining pace, some of the big tech firms are adapting and others are not.

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Facebook's quarterly report this week showed how the world's biggest

social network profited from that shift, as it delivered earnings of \$331 million and drew 41 percent of its ad revenues from mobile.

Shares jumped 30 percent after the earnings, helping Facebook approach its price after its public offering in May 2012.

Analyst Jordan Rohan at Stifel Nicolaus said that based on Facebook's ability to leverage mobile users, "this is the type of quarter that makes an investor step back to re-evaluate his or her opinion of a company."

For Microsoft, it was a different story, as the shift to mobile devices hurt its core Windows franchise, and the Surface tablet hit the market with a thud, forcing an "inventory adjustment" writedown of \$900 million, limiting profits to \$4.97 billion.

Microsoft shares slid more than 11 percent after the news, which fueled concerns about its future in a post-PC world, despite its Windows 8 operating system designed for a range of devices.

The research firm Trefis said Microsoft "faces headwinds" in the tablet market, which is growing rapidly while PC sales are slipping.

"Since the competitive tablet industry has already established products such as Apple's iPad and Google's Android tablets, Windows 8 faces strong headwinds as it tries to increase market penetration," the firm said in a note.

Gerry Purdy, analyst with the research firm MobileTrax, said companies need to start thinking about mobile first, and that Facebook successfully did so.

"Mobile is becoming the center of the information technology world," he said.

"Many companies launch with mobile and then figure out Web and desktop. Mobile is a lead rather than a follower."

He added that Microsoft has not produced the best user experience in its tablets or in Windows-power phones.

"Microsoft has a long way to go to be a successful player in the pure mobile sector," Purdy said.



Facebook's quarterly report this week showed how the world's biggest social network has profited from the shift to mobile Internet services, as it delivered earnings of \$331 million and drew 41 percent of its ad revenues from mobile.

Google delivered mixed results for the past quarter, taking a loss from the Motorola handset unit it acquired last year and seeing slower growth from its mobile ads.

"We currently estimate that mobile search ads contribute approximately 32 percent to the firm's value," Trefis said.

But Google—which saw its profits rise modestly to \$3.23 billion—gets less on a "cost-per-click" basis, according to analysts.

Google shares took a modest hit as analysts questioned whether it can maintain growth.

"Google remains among the most innovative tech concerns, and the best digital advertising tool in our view, however Google's earnings have yet to materially expand beyond search," said Daniel Ernst at Hudson Square Research.

Amazon's shares recovered from initial weakness after the online retail giant reported a surprise loss of \$7 million, when most observers were expecting a modest profit.

The results showed Amazon investing heavily in marketing, technology and content as it seeks to expand its footprint and digital content offerings while promoting its Kindle line of tablets.

Daniel Kurnos, analyst at the research firm Benchmark, said Amazon's big investments are cutting into short-term profits but positioning the company for global growth with more digital content like ebooks and television shows.

"Amazon is still in the very early stages of international development," he said.

The results "highlighted what we view as the inherent leverage in the model as the sales mix also shifts away from physical and into digital content," he said.

"Amazon has also been quietly building out its digital library of ebooks, TV shows and movies, and boasts content agreements with all of the major networks and studios across its three distribution platforms.



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"The launch of a refreshed Kindle lineup internationally should also help leverage the mobile app platform."

Meanwhile Apple, which is the pre-eminent mobile company with its iPhones, iPads and iTunes, managed to beat Wall Street estimates with a profit of \$6.9 billion thanks to strong smartphone sales.

But many analysts look to the future and wonder whether its pace of

innovation will keep it ahead of rising competitors.

The California giant has been losing market share in smartphones and tablets, which threatens its ecosystem.

Nicholas Landell-Mills at Indigo Equity Research said he remains pessimistic about Apple.

"Its products are no longer cutting edge," he said. "It has failed to introduce sufficiently innovative product updates and services frequently enough (or) expand its limited product range."

He added that the "competition has caught up and product fatigue is setting, pressuring growth and margins.

"Apple is making similar errors to those previously made by Nokia and Motorola, including hubris."

But Ramon Llamas at the research firm IDC said he is "pretty patient" about Apple, and is waiting to see the "amazing new products" promised by chief Tim Cook, which could include wearable electronic devices.

"Maybe they will come out with a new product category, and raise profitability," he said.

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