

Iron Man Joins China's TCL to Challenge Apple Smartphones: Tech 2013-01-16 23:18:53.938 GMT

By Tim Culpan

Jan. 17 (Bloomberg) -- To take on Apple Inc. and Samsung Electronics Co. in the global smartphone market, China's TCL Corp. is enlisting a strong ally: Iron Man.

In a product-placement deal for Paramount Pictures Corp.'s third Iron Man movie, Robert Downey Jr.'s character Tony Stark will battle his latest nemesis, the Mandarin, using TCL's products. Some real-world features, such as handheld devices interacting with televisions, will be replicated on-screen.

TCL, which also makes camcorders and rice cookers, is doing whatever it can to move upmarket, a familiar path taken in previous decades by Japanese and South Korean electronics and car companies. Along with compatriots ZTE Corp., Huawei Technologies Co. and Lenovo Group Ltd., TCL is seeking to expand sales and brand credibility by convincing overseas consumers that their smartphones are just as advanced and appealing as those offered by market leaders.

"I think they are good enough for a certain segment of the market," Andy Hargreaves, an analyst at Pacific Crest Securities LLC in Portland, Oregon, said in an interview. "It's a pricing game, if they can come in with a lower price, they can probably gain share."

More than 1.2 billion smartphones will be sold this year, according to Gartner Inc., surpassing record sales of 821 million units in 2012. Consumers and businesses are increasingly opting for versatile and powerful handheld devices over personal computers, the Stamford, Connecticut-based researcher said.

Brand Awareness

Founded in 1981, Huizhou, China-based TCL is a seller of appliances, telecommunications devices and home electronics. Apart from its own brand, the company, which employs 60,000, manufactures Thomson TVs and Alcatel mobile phones, according to its website.

"I believe our new generation of products are as good as those from Samsung and Apple," Tomson Li, TCL's chairman and co-founder, said in an interview at the International Consumer Electronics Show in Las Vegas last week. "This Iron Man cooperation is very useful for us to promote the TCL brand in the global market, including the U.S. and China."

To support the marketing effort, Li sealed a deal last week to rename Grauman's Chinese Theater in Los Angeles as TCL Chinese Theater, buying naming rights for the cultural landmark

along the Hollywood Walk of Fame. Even so, movie magic and impressive technical specifications may not be enough to convince buyers and retailers to take a risk against more established names, according to Stephen Baker, an analyst at NPD Group Inc.

Track Record

“They don’t have a track record,” Baker said. “Consumers don’t know who they are, but also distribution channels don’t know who they are, or don’t trust them. If that’s what they think it takes to get trust and sales, then there’s a misreading of the electronics business in general.”

Lenovo, the world’s second-largest PC vendor, is another company trying to expand its global footprint with smartphones. While it’s the only Chinese enterprise to rank among the world’s top technology brands, the Beijing-based company still trails Apple, Samsung and Sony Corp., according to researcher Strategy Analytics.

Chief Executive Officer Yang Yuanqing is betting that Lenovo’s computing credentials will convince consumers to cross over to its mobile devices.

“We call our strategy a PC-plus strategy. When a phone becomes a smartphone, the voice conversation is not a key use,” Yang said at CES. “Surfing the Internet and checking e-mail becomes the key application, so that’s similar to a PC.”

Consumer Devices

Lenovo plans to increase its marketing budget this year with a focus on consumer devices such as its K900 smartphone and Yoga touch-screen laptop, Yang said. The Horizon Table PC, another product unveiled at CES, features a 27-inch (69 centimeter) touch-screen panel that enables multiple users to play games.

“We don’t have a strong brand,” Yang said. “Particularly with smartphones, you need to expand into the telecom channels, you need to spend money.”

Lenovo’s handsets will break even “soon” as they are introduced in markets outside of China, including Russia and Vietnam, he said.

For ZTE and Huawei, the world’s No. 4 and No. 6 mobile handset vendors, moving from low-end feature phones to high-end smartphones depends on convincing consumers and wireless carriers that their devices are just as good, reliable and functional as their more famous competitors.

“ZTE is one of the best in terms of quality,” Cheng Lixin, chief executive officer of ZTE’s U.S. unit, said at CES.

He estimates ZTE is ranked fifth with 5 percent of the U.S. market. "Our return rate at AT&T is below 1 percent."

Unique Features

More than 63 percent of ZTE's sales come from Asia, including 46 percent from China, according 2011 data compiled by Bloomberg.

At CES, Huawei's product demonstrations included Consumer Marketing Officer Richard Yu pouring water on the Shenzhen, China-based company's latest handset before dropping it on the ground to prove its hardiness. Another device sporting the world's largest smartphone display, at 6.1 inches, may help Huawei gain attention as it aims to become more competitive in the high-end market, Bloomberg Industries analyst John Butler wrote in a report.

TCL, Lenovo and ZTE's efforts have resulted in higher valuations compared with other Chinese companies. ZTE is trading at a premium of 123 percent, and Lenovo at 63 percent, over the Hong Kong Hang Seng Index, based on trailing 12-month price-earnings multiples. TCL carries a 88 percent premium over the Shenzhen Stock Exchange Constituent A-Share Index on the same basis, according to data compiled by Bloomberg.

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