


Tablet battleground heats up when the chips are down

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Traditional chip makers are pressured by advances in Chinese technology. **Photo: Bloomberg**

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Chinese chip makers are engaging in “bloody” competition that could accelerate production of cheap tablets, already one of the fastest-growing areas in the consumer electronics industry.

Designers of the chips used in many of the inexpensive Chinese-made tablets popular in emerging markets have in recent months slashed prices by around 50 per cent, according to analysts.

“The market is forcing all the supply chain to be very cost-sensitive,” says Joe Chen, vice-president of greater China for GlobalFoundries, an Abu Dhabi-owned chip manufacturer that recently agreed to start producing chips for Chinese designer Fuzhou Rockchip Electronics. In chips, he says, “it’s a very bloody market, meaning a pricing war”.

The tablet makers’ race to undercut competitors and reach a broader group of consumers has led the chip industry into a price war, said Mr Chen.

The steep fall in prices could boost the spread of the entry-level Android tablets, now popular in both emerging and developed markets, and could push foreign chip makers to lower their prices to pursue this fast-growing and ever more important market as sales of high-end gadgets such as iPhones start to slow.

Almost all the customers of Fujian-based Rockchip and its peer Allwinner, headquartered in Guangdong, have been little-known Chinese tablet makers willing to compromise on performance and battery life to make electronics cheap enough for emerging markets such as China and India. But as technology improves and sales of cheaper tablets grow, it is not just small companies that are buying from them to preserve margins threatened by the shift to the lower end of the mobile market. HP recently chose Rockchip to supply the processor for its newly released Slate 7 tablet, now selling for \$US140 (\$153).

In smartphones too, Chinese chipmaker Spreadtrum has gained significant market share by undercutting both Taiwan’s MediaTek, a leader in the low and mid-tier phone market, and Qualcomm of the US, the dominant chip designer for high-end phones.

Randy Abrams, an analyst with Credit Suisse, says improving engineering at the likes of Spreadtrum could become a concern for US and European chipmakers as it raises pressure on prices. “Can they [foreign chip companies] continue to protect their high-end market in developed markets, when the technology is getting pretty good in the China market?” he says.

Winning over customers

Groups such as Rockchip are trying to win over new and more demanding customers such as HP. So far, however, they have grown by offering chips that allow tablet manufacturers to use cost savings unheard of in chips sold to first-tier brands, according to YT Boon, a former engineer now working for Credit Suisse.

Some Chinese chips, for example, let manufacturers use second-hand memory salvaged from old PCs, rather than the memory designed specifically for mobile devices.

"That's why they can sell an iPad mini copy for \$50," he said of the Chinese manufacturers that are the designers' main customers.

The prices of chips from groups, such as Allwinner, are down by around more than half in the past few months, said Mr Boon, and their quad-core chips can now cost as little as \$8.

That is around a third what a comparable chip from a first-tier designer like Nvidia can cost, says Sravan Kundojjala, an analyst with Strategy Analytics.

Such pricing has helped these challenger groups to grow quickly. Led by Allwinner and Rockchips, Chinese designers had a 35 per cent share of the market for the key processor chips in non-iPad tablets last year. That rose to 37 per cent in the first quarter of this year, according to Mr Kundojjala.

Their success in the low-end market has drawn the attention and ambitions of foreign companies. Taiwan's MediaTek in May launched a new chip for tablets. That launch, analysts say, will steal significant share from the Chinese groups and could block them from moving beyond their traditional whitebox customer base. It will also accelerate the fall in tablet chip prices.

"These guys will undercut what MediaTek wants to sell at, to hold on to some share," said Mr Abrams.

"We've seen how aggressive they've been on price."

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