

## **Apple confronts challenge of low-cost tablets with launch of iPad Mini**

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*Apple has announced the introduction of the iPad Mini – a smaller version of its popular iPad tablet. The iPad Mini features a 7.9-inch multi-touch display, a dual-core A5 chip, FaceTime HD, 5-megapixel cameras, and WiFi& LTE connectivity. Pricing starts at \$329 for the 16GB WiFi-only version, rising to \$659 for the top-end 64GB LTE model.*



The introduction of a smaller iPad was much expected by the wider tech community. Ovum sees this as a defensive move by Apple to stave off competition from cheaper and smaller tablets introduced by Amazon and Google.

Apple faces a tough challenge with the iPad Mini. The market is moving toward low-cost tablets and its two main rivals have introduced products at extremely competitive prices. Google's Nexus 7 and Amazon's Kindle Fire both currently start at \$199. The companies achieved this price by keeping the bill of materials to a minimum and crucially adding minimal margin to the price of the device. Instead, they rely on content sales and greater consumer stickiness to make them profitable.

Apple has left room for its competitors by starting the pricing of the iPad Mini at over \$100 more than its equivalent Kindle Fire or Nexus 7 in this category of 7-8-inch tablets. This approach will also minimize the impact of cannibalizing sales of its bigger brother, the new fourth-generation iPad.

The iPad Mini's pricing also reflects the company's wish to maintain its position as a premium brand in the eyes of consumers, while simultaneously preventing significant dilution of the profit margin on its iOS devices. Apple's stock market valuation is in part based on the high average selling price (ASP) and high margin per device that it achieves. Introducing a low-cost device that matched its rivals risked lowering its ample device margins and crucially affecting its Wall Street valuation. Ultimately it's the consumers who will decide whether a repackaged iPad 2 starting at \$329 represents sufficient value to justify their custom.

### **The iPad Mini launch represents a change in company culture**

The iPad Mini announcement is the second product event held by Apple this year in which the details of the product were widely known prior to the announcement. Although this would be common for other larger tech companies, it marks a significant change for Apple – a company known for its ability to surprise. Either the company is no longer as good at keeping secrets as it used to be, or it has become easier to predict what moves Apple will make. This leads inevitably to the belief that these changes in corporate culture are a direct consequence of Steve Jobs no longer leading the company.

This announcement also sees Apple, for the first time in its recent history, responding to the market, instead of defining the market for others to follow. Apple created the current tablet market with the introduction of the iPad and did the same in the smartphone market with the introduction of the iPhone. However, the iPad Mini is certainly a response to a growing market trend towards smaller and low-cost tablets – even if it manages to sidestep Jobs' criticism of smaller tablets by opting for a middle ground.

### **Tablet market shipments will reach 349 million units by 2017**

Whatever Apple's motivations are in releasing the iPad Mini, the device is sure to attract more attention to the burgeoning tablet category. Ovum expects shipments of tablets and other portable smart devices to exceed 130 million units in calendar year 2012, rising to 349 million units in 2017. This equates to a compound annual growth rate (CAGR) of 22% across the period 2012–17, making this the fastest-growing category of consumer electronics ever.

Much of the early growth of the tablet market has been attributable to the Apple iPad; its sales represent 54% of the market in 2012 according to Ovum's estimates. The majority (35%) of other tablet shipments in 2012 will be of devices running variants of Google's Android OS. These two platforms will be increasingly challenged by Windows RT through the forecast period.

Ovum expects Apple's iOS to remain the leading software platform in this market until 2016 when shipments of Android devices will finally overtake those of Apple. By 2017 Android will command 42% of the total market, ahead of Apple on 40%. However, the brand equity of Apple's iPad combined with the shift to lower cost variants such as the iPad Mini will be enough to see Apple remain the biggest individual shipper of tablets throughout the period.

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