

Does it Still Hold True?



The laws of supply and demand are something everyone in this industry, particularly chip makers, electronics manufacturers and suppliers are all too familiar with. In order to succeed in today's high-tech business environment, semiconductor suppliers, for example, must look outside the realm of the chip market and make a determination on the direction of their products long before their OEM customers do because of the lengthy chip development process time. Trying to determine what that next big "killer" application will be and what consumers will be willing to pay for it, must be close to impossible. Not to mention the ever-changing economic climate. In 2008, the "wild card" continues to be the worldwide economy — the U.S. economy in particular.

And sometimes the market news can be misleading. For example, just this past week iSuppli Corporation released a report indicating that, based on what chip makers are telling it, iSuppli is cutting its outlook for revenue growth in NAND flash memory from the 27% (global market) it had expected for 2008 to "single digits." However, what's bad for memory makers may actually be good for a company such as Apple, the world's No. 3 buyer of NAND flash memory. Chip prices were already plummeting (4GB flash memory fell more than 73 percent since last August, according to IDG), and a memory glut could drive them even lower. Not only does Apple reap the benefit of a significant price decrease, the difference between the 8GB and 16GB is only \$11. Now I understand how Apple can afford to cut the price of the iPod shuffle from \$79. to \$49.

There is some blue sky on the horizon for chip makers — enter Sony's Blu-ray Disc (BD). Blue-ray is the name of a next-generation optical disc format jointly developed by the Blue-ray Disc Association and media manufacturers. The format was developed to enable recording, rewriting and playback of high-definition video (HD) as well as storing large amounts of data. Industry analysts predict sales of high-def Blue-ray players are expected to increase, helping boost sales for at least some chips makers. The question is how fast the consumer will embrace this technology, with its lofty price tag. The general consensus is that the market will have two growth spurts now that Blu-ray is the standard for high-definition DVD players. Initially there will be a minor windfall of people who were planning to buy DVD players, and there will be a major windfall in the second half of this year, when DVD makers start rolling out lower-cost Blu-ray players. I guess we will just have to wait

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to see.

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