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Computer Makers Prepare to Stake Bigger Claim in Phones

By ASHLEE VANCE
Published: March 15, 2009

The computer industry has hit upon its Next Big Thing. It is called a phone.



Minh Ung/The New York Times

Emboldened by [Apple's](#) success with its [iPhone](#), many PC makers and chip companies are charging into the mobile-phone business, promising new devices that can pack the horsepower of standard computers into palm-size packages.



A mobile internet device based on Nvidia's Tegra chip.

The companies are also shifting gears because their technological feats of the last two decades — smaller laptops with faster chips to deliver snazzier graphics — no longer impress consumers, who increasingly find their three-year-old computers adequate for everyday tasks.



Josep Lago/Agence France-Presse — Getty Images
A smartphone model called DX-900 by Acer.

“The action is really with the smartphones where everyone is competing to cram the most features into a phone,” said Linley Gwennap, a veteran chip industry analyst and head of the Linley Group. “I think of PCs as just kind of boring these days.”

The new smartphones promised by PC companies will, among other things, handle the full glory of the Internet, power two-way video conferences, and stream high-definition movies to your TV.

It is a development that spells serious competition for established cellphone makers and phone companies. Apple was the first to spot a sleepy industry, shaking up the handset category two years ago with the iPhone. Until recently, the handset makers were the ones reacting to the iPhone — and then with me-too products.

Now fellow PC makers are announcing plans for smartphones in a variety of sizes, shapes and abilities.

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Acer, the big PC manufacturer, has gone from offering no cellphones to selling eight new models, with more to come this year.

“The smartphone market is the natural direction of our long-term mobile strategy,” Gianfranco Lanci, chief executive of Acer, a Taiwan-based company, said as he announced the products at last month’s World Mobile Conference in Barcelona. “We’re just taking on another dimension.”

[Dell](#) has also worked on prototype phones but has not committed to making a new product. And Asustek, the company that was first to market ultraportable laptops known as netbooks, has new smartphones coming.

The suppliers to the PC industry have also started shifting to the new market. [Intel](#) announced a deal to supply the cellphone maker LG with chips for new mobile devices. [Nvidia](#), the PC graphics-chip titan, signed a deal to provide three smartphone makers — which supply handsets to brand-name manufacturers and carriers — with its new Tegra processor.

“The rise of the smartphone and things like graphics and 3D images weren’t important when the incumbents built this business,” said Michael Rayfield, the general manager of Nvidia’s mobile business unit. “This is a once in a lifetime deal where a huge market changes the things that are important to it.”

With smartphones and PCs taking on many of the same functions, there is certainly a fear among PC makers that if they do not get into cellphones, cellphone makers will start building PCs. Acer has characterized the smartphone business as a volatile battlefield, saying it needs to fire first and go after the cellphone makers before they come after it. Indeed, [Nokia](#), the world’s largest cellphone maker, has said it is weighing whether to get into the PC business.

The convergence of the two devices has long been predicted, but it took a confluence of industry changes for it to begin in earnest. For decades chip manufacturers rushed to leapfrog one another with faster processors, and computer makers scrambled to squeeze more functions into smaller boxes. But ever-faster chips eventually become impractical. Their blazing speed requires vast amounts of power and cooling.

The smartphones give the PC makers a chance to extend their newfound expertise in creating low-power products.

In particular, Acer hopes to ride its success selling laptops and netbooks into the mobile phone market through a mix of new software and wireless data plans.

It is working on software that will link all of its portable products together, synchronizing e-mail, contacts, media files and other information among the products. This could open up a way for carriers to sell more wireless 3G data services to consumers, since they could offer a single plan covering multiple devices.

It is an extension of the model that Dell and others are already trying, in which carriers essentially give \$400 netbooks away to consumers in exchange for two-year contracts to data plans. Such plans can cost as much as \$1,500 over their lifespan.

Deals that cover laptops as well as phones could prove troublesome for existing cellphone companies, as it would offer consumers a suite of products that were tightly integrated and supported. In addition, PC manufacturers come from an industry very familiar with low profit margins and tight cost structures, and would bring those pressures to bear on

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established cell manufacturers.

“Acer has learned to live and prosper on very thin margins,” said Aymar De Lencquesaing, the head of the company’s smart hand-held business group. “I think we bring this kind of experience to a market that has perhaps has not yet had to endure similar rigor.”

Both Acer and Nvidia have promised very low-cost smartphones, threatening the most lucrative part of the cellphone makers’ business.

At the same time, the phone market has been bombarded with operating systems from [Microsoft](#), [Google](#) and Intel.

There is a concern among longstanding players in the industry that operating systems and phone designs are becoming commodities, and that the barrier to entering the marketplace is lower than when mobile-phone manufacturers were building each handset from scratch.

This gives companies like [Motorola](#) and Nokia an entirely new set of problems besides falling sales and shrinking margins.

“It’s cataclysmic for the phone guys, who were used to playing golf on Wednesday afternoons,” said Roger Kay, president of Endpoint Technologies Associates, a research firm. “Those times start to look pretty good now.”

Not that such a move will be easy for the PC makers. The PC industry has a spotty record for expanding into consumer electronics. Dell stumbled with its MP3 player, and [Hewlett-Packard](#)’s line of televisions failed to catch on with consumers. Both products have been discontinued.

Also, the established mobile-phone makers have longstanding relationships with carriers, which remain reluctant to provide customer support for a wide array of devices from myriad manufacturers. Beyond that, traditional cellphone companies do not want to compete with the likes of Microsoft and Intel, which have grown over the years to dominate the PC business.

Perhaps most critically, traditional phone and mobile chip companies have expertise in making phones that work.

“It has to be a good cellphone first,” said Ed Snyder, an analyst with Charter Equity Research. “This is about as far away from PCs as raising elephants.”

A version of this article appeared in print on March 16, 2009, on page B1 of the New York edition.

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