

Gone in a Flash: iPod Memory in Trouble

By Jay Lyman
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"It's always been like that, particularly in memory," Gartner Research Vice President Martin Reynolds said. "iPod could increase the profitability of flash. It could also accelerate the time to the next downturn." Reynolds added, "When people figure out what to do with all that memory, the price goes back up."

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In their bid to keep up with Apple (Nasdaq: AAPL) iPod sales, flash memory producers such as Samsung have upped their output of the silicon technology used for memory cards, but a slowdown in sales of Apple's popular music player and related shuffle products may mean a glut of flash memory, which some speculate could depress prices nearly in half.

Recent reports indicate iPod shuffle sales may be lagging, or at least not keeping up with the furious sales pace of a year ago. The impact on the overall flash memory market is debatable, but there does appear to be one, according to analysts.

Semico Research analyst Jim Handy told TechNewsWorld that although iPod shuffle sales represent a small percentage of overall flash memory units shipped, the Apple music players use high-density chips that require more silicon wafers and come at a higher price.

"[iPod] did cause a shortage at a time when no one was expecting one," Handy said, referring to early 2005. "Now, the question is what happens if Apple's surprise need is taken care of, or if the need is tapering off. The end result is that prices [of flash memory] come down. Right now, it looks like need is tapering off."

Apple's Hit Single

Handy said Apple's iPod shuffle accounted for a relatively small part of the flash memory market -- around 1.8 million devices out of 707 million units overall. However, the players represent a premium revenue source for flash makers, despite being caught off guard by Apple's intense marketing and sales push with iPod last year.

Apple went from nothing in its flash demand to more than 40 percent of the market by February, Handy reported.

The analyst observed that flash manufacturers have been increasing their output since then in order to avoid being unprepared again.

"The last thing they want to do is turn away orders," Handy said.

However, it may be Apple that is turning away orders now that the company's iPod sales have cooled off. Handy said flash prices have been level -- indicating flash makers are caught up with the demand from Apple and other manufacturers.

iPod Sales Significant

Gartner Research Vice President Martin Reynolds told TechNewsWorld that Apple's iPod sales -- which stand near one billion per year including non-flash, hard-drive players -- could be significant to the flash memory market.

Reynolds said that, while it would not appear that iPod would impact the overall flash market considering the number of cell phones and digital cameras that also use the technology, a change in orders from Apple may still make a dent on flash producers.

"Slow iPod sales could hurt flash," he said.

Shuffle and Cycle

Reynolds added that, like other business reliant on silicon technologies, the flash memory market moves in cycles. When demand is low, he said, manufacturers do not change prices, but rather increase the amount of memory offered at their usual prices.

Just as Apple's high demand, bolstered by the increasing popularity of mobile phones and digital cameras, could drive up the price of Flash, Reynolds said, the lack of demand will of course contribute to lower prices.

"It's always been like that, particularly in memory," Reynolds said. "iPod could increase the profitability of flash. It could also accelerate the time to the next downturn."

The analyst added that a dip in the flash market has been expected, but not so much because of iPod sales. Instead, the reason is two-fold: there are not enough applications demanding the technology, and the memory capacity being offered by flash is higher than necessary.

"When people figure out what to do with all that memory, the price goes back up," Reynolds said.