

Sony's Exit From PDA Market Hurts PalmSource

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Sony's withdrawal from the personal digital assistant (PDA) market (except in Japan) leaves PalmSource with PalmOne as its only major vendor of Palm OS PDAs.

NEWS ANALYSIS

Event

On 1 June 2004, Sony announced that it will exit the PDA market, except in Japan.

Analysis

Other vendors will pick up the vast majority of Sony's shipment volume. As a result, by late 2004, PalmOne will likely account for about 65 percent of the revenue of PalmSource, which supplies the Palm OS. (Sony accounted for 14 percent of PalmSource revenue in 1Q04.) The loss of Sony and Acer has dimmed the hopes for PalmSource's licensing efforts. Further shaking confidence in PalmSource, PalmOne will likely begin supporting at least one other operating system platform by early 2005 — most likely by offering a version of the Treo based on Microsoft Smartphone (0.6 probability).

Sony has made a prudent decision. The company is restructuring and will redeploy resources to more strategic and profitable businesses. Sony manufactures the CLIE in Japan and put a lot of engineering effort into its devices, going so far as to develop its own CPUs based on an ARM core. These choices put Sony at a cost disadvantage. In addition, the Memory Stick impeded wide adoption of the CLIE. Other trouble spots for Sony:

- In 1Q04, Sony's share fell to about 8 percent of the overall PDA market and 20 percent of the Palm OS PDA market.
- Palm's Zire 71 and Tungsten T3 cut into the heart of the CLIE business, and other vendors attacked the niche Sony pioneered.
- Sony lacks the service and support infrastructure needed to satisfy enterprises.
- Sony launched innovative new models month after month in 2002 and early 2003. Some customers became annoyed when the models they purchased were superseded a few months later. As Sony's innovation slowed after mid-2003, other vendors closed the gap and beat Sony on price.

Conclusions and Recommendations:

- Sony probably cannot sustain a PDA business by serving Japan only. Sony has shipped over 3.5 million CLIEs since 2001, but sold only 160,000 units in Japan in 2003.
- Although Sony's exit relieves some competitive pressure on PalmOne, the growth prospects of the platform now rest on the shoulders of the Treo and other Palm OS smartphone licensees. Gartner believes that PalmSource can maintain its market standing if it attracts significant new licensees and can achieve or maintain a market share of about 33 percent in PDAs and 20 percent in smartphones by 2H06.
- Customers should factor in the financial health of PalmOne when evaluating the Palm OS platform.
- Several other PDA vendors will likely follow Sony out of the market by mid-2005, especially if Dell maintains its recent pricing pressure.

Analytical Sources: Todd Kort and Ken Dulaney, Gartner Research

Recommended Reading and Related Research

- "PalmSource and Microsoft Tie for 1Q04 PDA Market Lead" — The declining market share of the Palm OS platform is largely tied to declines in the consumer PDA market. **By Todd Kort and others**
- "Worldwide PDA Shipments Fall 5.3 Percent in 2003" — Many less successful vendors are reducing their commitment to the PDA business while the leading vendors seem as committed to this business as they have ever been. **By Todd Kort and others**

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