Pressure Mounts for Apple to Expand Its Horizons

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SAN FRANCISCO (AP) — Apple reshaped technology and society when Steve Jobs unveiled the iPhone seven years ago. Now, the trend-setting company is losing ground to rivals that offer what Apple has stubbornly refused to make: smartphones with lower prices and larger screens than the iPhone.

The void in Apple's lineup is a major reason why the company's quarterly revenue may be about to fall for the first time in more than a decade, much to the dismay of investors who are worried that Apple Inc. is losing its verve and vision.

Wall Street vented its frustration after Apple reported late Monday that it sold fewer iPhones than analysts anticipated during the holiday season. Apple compounded that disappointment with a forecast raising the possibility of a slight revenue decline in the current quarter. It would be the first time that Apple's quarterly revenue has dropped from the previous year since 2003.

Apple's stock shed $44, or 8 percent, to close Tuesday at $506.50, marking the company's largest one-day drop in a year. The sell-off leaves the stock about 28 percent below its peak of $705.07, reached in September 2012 when Apple's leadership in smartphones and tablet computers was still generating robust

revenue growth.

Since then, Apple has been relinquishing market share to Samsung Electronics Inc. and other companies that primarily make devices running Google Inc.'s Android operating system. Those competitors offer a broader selection of designs and prices than the iPhone and the iPad.

That trend is one of the reasons that Apple's revenue growth hasn't exceeded 6 percent in any of the past three quarters. By contrast, Apple's quarterly revenue was consistently increasing by at least 20 percent two years ago and even exceeded 70 percent during the 2011 holiday quarter.

Apple remains in stellar shape financially, coming off a $13 billion profit in its most recent quarter — more than all but a handful of companies make in an entire year. The Cupertino, Calif., company also is sitting on nearly $159 billion in cash.

But Apple's stock is unlikely to bounce back to its previous high unless the company's growth accelerates.

The challenges facing Apple have been most glaring in the smartphone market.

Phones in less affluent parts of the world are selling for less than $200. By comparison, iPhones sold for an average of $637 in Apple's most recent quarter. Even Apple's cheaper iPhone 5C is just $100 less than the high-end 5S.

Meanwhile, a variety of Android phones boast screens measuring 5 to 6.5 inches diagonally, while the latest iPhones are all 4 inches.

Apple's insistence on catering to the upper end of the smartphone market with only one choice of screen size is undercutting the company's growth, International Data Research analyst Ramon Llamas said.

"There is a gap where Apple is not playing, and it's clear that many users want some of these other things in a phone," Llamas said.

As a result, Apple's share of the smartphone market fell from nearly 19 percent at the end of 2012 to about 15 percent last year, according to IDC. Samsung remains the market leader with a 31 percent share at the end of last year, up a notch from 30 percent in 2012.

Apple tried to widen the iPhone's appeal with the cheaper 5C, which was essentially a recycled version of the iPhone's previous generation. To make the 5C look like something new, Apple dressed it up in a brightly colored array of plastic casings.

In Monday's conference call with analysts, Apple CEO Tim Cook made it clear that the 5C didn't sell as well as the company anticipated, though he didn't provide specifics. Cook hailed the 5S model as the star performer in the company's holiday quarter.

With the 5S leading the way, Apple sold 51 million iPhones in the fiscal first quarter. Even though that set a record for the company, it represented a letdown because analysts had projected 55 million.

Analysts suspect that many of those iPhones are being bought by repeat customers who love the mobile operating software and other services, as well as the cachet that comes with the Apple brand. Cook said Apple still attracts a "significant" number of first-time iPhone buyers.

Jobs carefully cultivated Apple's luxury image before he died in October 2011, and Cook has given no indication he will risk tainting it with an inexpensive smartphone sporting lower-quality parts.

"Our objective has always been to make the best, not the most," Cook said Monday.

He also said Apple will expand its horizons this year with new products that will push the company beyond smartphones and tablets. Most analysts expect an Internet-connected smartwatch and possibly a long-rumored television set that would run on the same software as the iPhone and the iPad.

Apple also is preparing to sell an iPhone with a 5-inch display screen, according to unidentified people cited in a report this month in The Wall Street Journal.

Apple declined comment Tuesday.

If an iPhone with a bigger screen is in the works, it would pose another test for the company as it tries to ensure the device retains the same high resolution and other features in earlier generations.

"There is clearly a standard that Apples has set for itself: Anything less than fantastic won't do, and no one is going to give them a pass if they don't live up to that," Llamas said.

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