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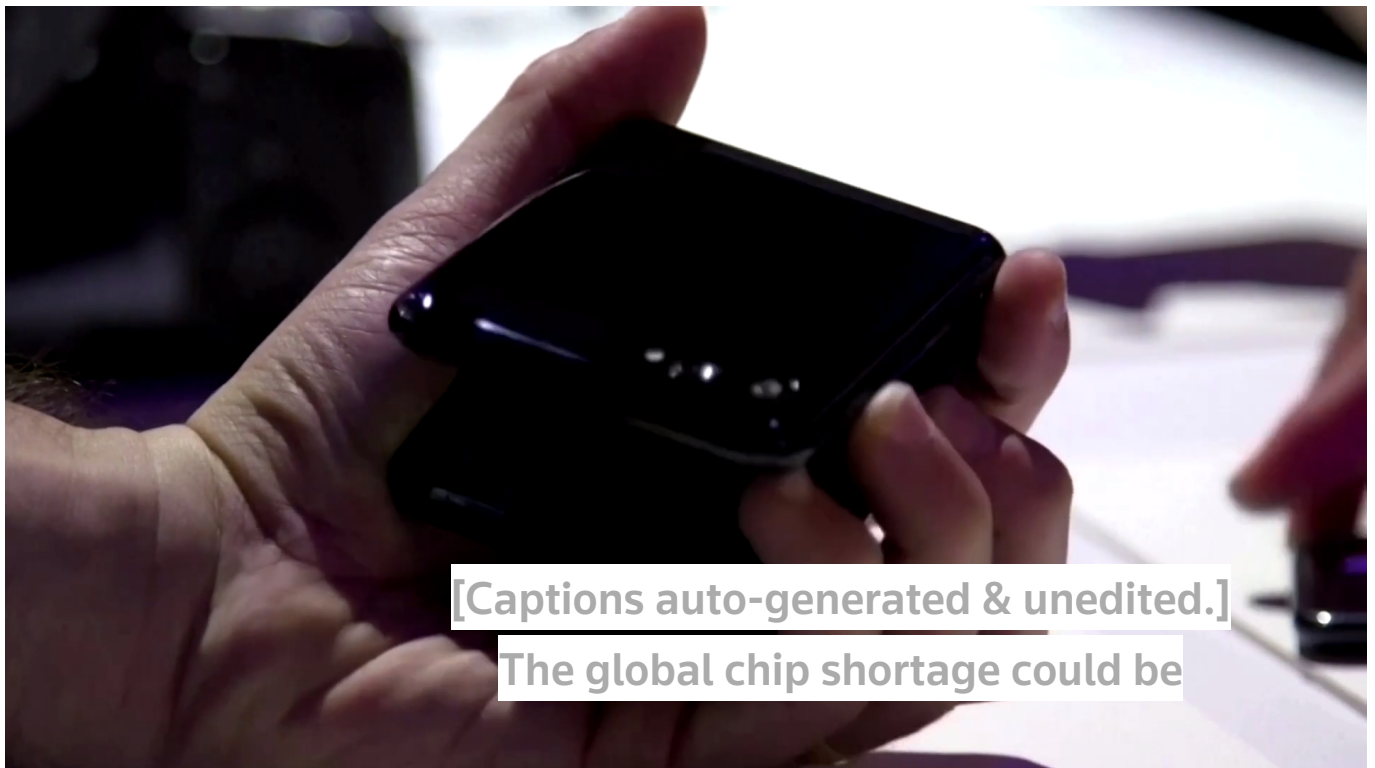
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Qualcomm struggles to meet chip demand as shortage spreads to phones: sources

By Stephen Nellis, Josh Horwitz, Hyunjoo Jin



SAN FRANCISCO/SHANGHAI (Reuters) - Qualcomm Inc is struggling to keep up with demand for its processor chips used in smartphones and gadgets, as a chip shortage that first hit the auto industry spreads across the electronics business, industry sources told Reuters.



Samsung Electronics Co Ltd, the world's largest smartphone maker, is experiencing a shortage of Qualcomm's application processors, the heart of smartphones, two people at suppliers for the South Korean giant told Reuters.

and for Qualcomm's chips has soared in the past months as Android phone makers seek to move away from customers abandoning phones produced by Huawei Technologies Co Ltd due to

U.S. sanctions. Qualcomm has found it hard to meet this higher-than-expected demand, in part due to a shortage of some subcomponents used in its chips.

One person at a Samsung supplier said a Qualcomm chip shortage was hitting production of mid- and low-end Samsung models. The second person, at another supplier, said there was a shortage of Qualcomm's new flagship chip, the Snapdragon 888, but did not say whether this was affecting the manufacturing of Samsung's high-end phones.

A Samsung Electronics spokesman declined to comment. A Qualcomm spokesman pointed to public comments by executives on Wednesday in which they reiterated they believe they can hit a fiscal second quarter sales forecast given in February.

Separately, a senior executive at a top contract manufacturer for several major smartphone brands told Reuters it was facing a shortage of a range of components from Qualcomm and would cut handset shipments this year. The executive spoke on condition of anonymity.

Last month, Lu Weibing, a vice president for Chinese handset maker Xiaomi, lamented the chip crunch. "It's not a shortage, it's an extreme shortage," he wrote on Weibo, China's Twitter-like social network.

A surge in demand for consumer electronics has driven a global chip shortage that has idled car factories. The shortage has so far centered largely on chips made using older technology rather than the advanced phone processors Qualcomm designs.

But Qualcomm's constraints show how problems in one area of the complex chip supply chain can bleed into others and how fast-changing market dynamics can trip up chip companies that must set mass production plans years in advance.

"We still have our demand basically higher than supply," Qualcomm incoming Chief Executive Cristiano Amon told investors during the company's annual meeting on Wednesday.

Qualcomm's flagship application processor, the Snapdragon 888, is still new. Key parts of it come from Samsung Electronics' separate chipmaking division and use a new 5-nanometer manufacturing process that is hard to scale up quickly.

FILE PHOTO: People visit a Qualcomm booth at the Mobile World Congress (MWC) in Shanghai, China February 23, 2021. REUTERS/Aly Song

A Samsung factory in Texas, which makes some of Qualcomm's radio frequency transceivers, was also forced to halt operations last month due to power shortages caused by winter storms, though it is unclear whether the effects of that stoppage have yet trickled down to smartphone makers.

OLDER TECHNOLOGY

Qualcomm's entire lineup of application processors contain power management chips made with older technology by companies including China's Semiconductor Manufacturing International Corporation and Taiwan Semiconductor Manufacturing Co.

"You need a full kit," said Stacy Rasgon, an analyst with brokerage Bernstein. "If you can't get them, you can't build whatever it is you want to build. Supply chains are global and very tightly integrated. It's set up for efficiency, but it's less resilient."



Qualcomm is directing supply of these power management chips towards its highly profitable Snapdragon 888 application processors to match what Samsung's foundries can build, but that is hurting supplies of lower-end Qualcomm application processors, sources said.

China's Xiaomi procures the majority of its chips from Qualcomm and Taiwan's MediaTek Inc.

PANIC BUYING

The chip shortage, which has prompted panic buying, is further squeezing capacity and driving up costs of even the cheapest components of nearly all microchips, industry experts said.

For instance, a commonly-used microcontroller-unit chip from STMicroelectronics originally priced at \$2 now sells for \$14, according to Case Engelen, CEO of Titoma, a contract designer and manufacturer.

Simon Wan, co-founder of the Chinese robotic vacuum cleaner brand Roborock, said the company's chip suppliers are asking for larger deposits on chip orders. He's paying to ensure stock.

"Everyone is placing orders like crazy, when in fact they can't even use up all their chips," said Wan, who declined to name his chip suppliers.

Smaller companies are hurting more.

Fabien Gaussorgues, who runs an electronics factory in the southern Chinese city of Dongguan, said supply issues have worsened since December.

His company was on track to mass produce a smart-home device designed by an overseas client before the Chinese New Year. But a shortage of key chipsets from Japan's Murata delayed the launch by three weeks, he said, forcing him to eventually use a slightly weaker chipset as a substitute. Murata did not respond to request for comment.

Meanwhile, some of his other clients have delayed projects indefinitely.

“We have seen components where we see a six-week lead time, and then the week after it’s ten weeks, and then a week later it’s one year,” he said.

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