

eReaders: Hanvon Loses the Plot

Written by Marco Attard
20 July 2011

How does a nice handwriting-input software company get into a mess like this?



Hanvon Technology developed software for handwriting-input pen in 1998 and expanded to include the Hanvon Pen series, the Graphic Tablet series, the OCR series and Intelligent Telephone series.

The first company in the world to incorporate Chinese handwriting recognition technology into PDA and mobile phone devices, Hanvon now owns a manufacturing campus, four advanced design centers, and operates over 5800 sales channels across China and in 20 countries across world. Hanvon Technology Co., Ltd became a listed company in 2010.

For Europeans, Hanvon might look like a cross between the Belgian OCR company IRIS and the well-known Japanese graphics pad company Wacom. Except Hanvon has the giant China market as its home base-- a market that has plenty of natural barriers to discourage foreign competition let alone many political ones.

Hanvon did well in China...and then saw the opportunity to take its graphics pad expertise (and supply chain) into the emerging eReader market. eReaders were a big success for the graphics

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pad maker, who followed that up with one of the first Windows tablets in Europe.

You may even have seen their good-sized stand at CeBIT this year.

Now Hanvon Technology predicts its losses for the first half of 2011 will widen to between 165 and 175 million yuan (about 18.6 million euro). The firm blames these losses on increased competition that forced a price reduction of its electronic readers, also creating lower gross profit margins for the company and an increase in R&D costs.

Hanvon lowered prices between 15-40% and seems to be liquidating its inventory of eReaders that today contribute a whopping 75.22% of Hanvon's total revenues. IDC estimates Hanvon market share at about 8%, a percentage that earns a 4th place in worldwide ranking.

Q1, that post-Xmas quarter that most CE suppliers hate, saw both tablets and eReaders take a nose-dive. The eReader market, says IDC, will see a decline in shipments to 3.3 million. Nonetheless the category's y-to-y growth was 105% as the devices continue their popularity.

IDC forecasts the eReader market will ship 16.2 million units this year worldwide, a healthy increase of 24% from 2010 figures-- if you weren't expecting 100% growth like some makers...

The Color Nook helped Barnes & Noble take the lead in eReaders for the first time. Amazon came second as the lack of a color Kindle cost the company its previous dominant position.

Only five companies now dominate the eReader market-- all the rest of the competitors fight for about 10% of the market. That's right...about 1.62 million units worldwide in 2011.

Hanvon sits on the bottom rung of the top 5, so it feels the teeth marks of the "rest" as they try to chew their way up the ladder...and Hanvon also feels the boot of the four bigger companies that want to keep their feet on the higher rungs.

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The company frankly may not have had the consumer market experience it needed to compete in a vicious retail fight...graphics pads and input pens don't butt up against the likes of Amazon and Sony. And Hanvon entered a market where the biggest retailers have chosen their own brands (amazon & Kindle, Barnes & Noble with Nook).

All this would still leave you to give a lot of credit to Hanvon whose market share is credibly close to Sony (although that may be like giving credit to a young boxer fighting a famous boxer at the end of his aging career).

Except there's one more bit of shocking news at Hanvon: the third-largest shareholder in Hanvon (Shanghai Lianchuang) sold shares equivalent to 4.98% of total equity between June 9th and 12th and previously sold 250 million shares between April 1st and May 31st.

The Board chairman of Hanvon, Ma Xiongming, happens to be an executive at Shanghai Lianchuang and even [Martha Stewart](#) would suspect that's a coincidence that could be the recipe for a public disaster.

The Chinese financial press are calling for a public investigation on this twist that's out of character for Hanvon...and as the plot thickens, we'll have to wait to see how Hanvon will write its next chapter.

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