Apple's services revenue, China to power third quarter: analyst

Apple Inc will likely see a surge in services revenue in the third quarter, charged by app store developer revenue and renewed growth in China, critical areas for the future as the iPhone maker faces a maturing smartphone market, Evercore ISI said.

Apple has been focusing more on its Services unit, which includes sales from iCloud, the App Store and other businesses, as smartphone sales show signs of slowing down.

The services business accounted for 20% of Apple's $58.02 billion revenue in the second quarter, up from 16% a year earlier. The App Store is a key driver of Apple's services segment, which brought in $37.1 billion in revenue last year.

Evercore analyst Amit Daryanani expects total App Store developer revenue to grow 18% to about $9 billion in the third quarter. Apple is due to report quarterly results on July 30.

"We think there is likely upside ahead when it comes to services revenues in the June-quarter, driven by a sizable acceleration in China-centric markets," said Daryanani, who has a 3-star rating for accuracy of estimates on Apple, according to Refinitiv data.

The iPhone maker earned nearly 18% of its revenue from Greater China in the quarter ended March. But, Apple still gets more than 50% of its revenue from iPhone sales.

Wall Street analysts expect consumers to hold off upgrading their iPhones until Apple's expected launch of a 5G-enabled smartphone in the second half of 2020.

Brokerage Rosenblatt Securities on Monday downgraded Apple shares to "sell" from "neutral", saying "new iPhone sales will be disappointing" leading to "fundamental deterioration" in the next six to 12 months. RTRS)

In this file photo, an Apple Watch sits on display during an Apple event at their main store in Chicago. Apple says it's fixing a security flaw affecting the Walkie Talkie app on Apple Watch. The company said July 12, that it has temporarily disabled a feature that could have allowed someone to listen through another person's iPhone without that person's consent. (AP)

Business Plus

Companies deal with issues like poor quality, missed production deadlines and legal disputes

Businesses find problems, pitfalls in making goods overseas

In this file photo, Achyut Patel, Director of Operations, Rudy Patel, Director of Business Development and Katrina Hart, business development coordinator pose for a picture at beyond Green, a maker of biodegradable bags in Lake Forest, California. (AP)

By Joyce M. Rosenberg

Danica Lause manufactured knitted hats in China for four years and struggled the whole time.

"I was unable to achieve the level of quality control our brand requires in any of the factories we worked with in China," says Lause, whose company, Peekaboos, makes hats with openings for wearers to pull their ponytails through.

To begin with, the factories were unable to make the hats on machines. Lause then had the hats knit by hand, but the sizing was often off or the openings were in the wrong place – problems she only learned about when shipments of the hats arrived.

> 'It's a vexing problem for anyone, but being small and offshore makes it harder'

Small businesses have been drawn to manufacturing overseas for the same reasons as Fortune 500 companies: Labor costs are lower than in the US. But there are downsides and complications to making goods overseas and owners have contended with these issues for years, long before the Trump administration's trade wars and tariffs added another layer of difficulty. Small businesses without the resources and bargaining power that larger companies have can struggle as they deal with issues like poor quality, missed production deadlines and legal disputes.

"It's a vexing problem for anyone, but being small and offshore makes it harder," says John Gray, a professor of operations at Ohio State University's Fisher College of Business. The disparities can start during the process of finding a manufacturer, Gray says, noting "large companies will get more attention from the suppliers."

Most companies soldier on and find solutions, but some end up moving their manufacturing to the US.

In 2016, Lause began moving the work to a facility in Germantown, Wisconsin. She found engineers who figured out how to get the hats knit on machines, and she discovered it's not as expensive as she thought to manufacture in the US.

When the owners of beyond Green began producing their compostable plastic bags three years ago, it was natural for them to manufacture in India. CEO Veejay Patel came from India and had already been involved in plastics manufacturing in his home country.

But by early this year, Patel and co-owners Rudy Patel and Achyut Patel had reasons to move their manufacturing to the US, says Katrina Hart, coordinator of business development for the Lake Forest, California, company.

"Quality control was not up to our needs," Hart says. Customers were complaining that bags, including those used to contain produce in supermarkets, had slits, making them unusable.

The Patels also realized they would save money by not having bags shipped from India to California and then sent to customers across the US. Cost aside, their shipping method wasn't as environmentally friendly enough for a company whose mission is to be green. They began production in Lake Forest early this year.

"This reduced our costs, allowed for a better handle on quality control, and now we are able to contribute to the business and economic success of the community that most of our employees grew up in," Hart says.

Problems beyond quality issues can crop up during the manufacturing process. A 2017 paper Gray co-authored studied some of the problems small and medium-sized businesses encountered overseas; it described one company that found out its overseas supplier had unilaterally decided to swap out one of the components in a product. In another case, a clothing company discovered to its surprise that a thinner fabric was being used.

"What you actually get as your final product doesn't exactly match what you originally purchased," the paper quoted one executive as saying.

Companies often end up negotiating with manufacturers to try to get products made as ordered. But sometimes they end up in legal disputes that are difficult to win.

"It's harder to get an accord across time zones and cultural and language differences," says Lee Branstetter, an economics professor at Carnegie-Mellon University's Heinz College.

While very large companies might have employees or representatives at overseas factories as a matter of course to monitor quality, small businesses owners without such help must operate on faith that the goods will turn out right.

When Aaron Muderick wanted components for his putty that's sold as a toy, he turned to a manufacturer in China. The first batch came out well, but the next two were defective. After arguing with the manufacturer about how to address the problems, Muderick, owner of Crazy Aaron's Thinking Putty, hired a representative to keep an eye on production.

"It helped things get better but it also reduced the cost savings because that person was getting a piece of the action," Muderick says.

A decade ago, Muderick decided to manufacture the putty itself at his headquarters in Norristown, Pennsylvania. He had searched for a Chinese factory, but grew increasingly anxious about the possibility that either the manufacturer or one of its employees would steal his formula and start selling their own putty to compete with his. That's the kind of intellectual property theft that has long been a point of contention between the US and China.

"It didn't feel right in my gut so we ended up going on our own path," Muderick says.

Manufacturing overseas can also mean time and travel commitments that are taxing to a small business owner. That added another burden to the manufacturing process for Lause, and helped persuade her to bring the business to the US.

"I did not wish to spend significant time in China away from my small children, husband, aging parents, and life back home," she says. (AP)

Get your budget under control and a regular savings habit established

Millennial money: Investing is well within your reach

By Sean Pyles
NerdWallet

NEW YORK, July 15, (AP): News headlines might lead you to believe that millennials are striking out on a growing list of financial accomplishments: homeownership, paying off student loans – not to mention summoning the will to resist high-end coffee or avocado toast.

When it comes to investing, they might have a point. Investment firm TD Ameritrade surveyed 1,519 people ages 21-37 in 2018 and found that only 50% said they invest – including in their retirement accounts.

But, surprisingly, investing is likely one of the easier financial goals to meet. In just a few steps, millennials can set the stage for investing, get their first investing accounts going, then look to bigger investing goals.

> 'Being ready to invest is a mindset, and it depends on what you want out of it'

■ Set the Foundation

Before you think about jumping into the stock market or other forms of investing, make sure your financial foundation is sound.

"Investing is great, but if you have something else that money could be doing to get your overall financial picture in shape, do that first," says Katrina Welker, a New York-based certified financial planner. "Get your budget under control and a regular savings habit established."

In this file photo, museum goers walk through the Phillip and Patricia Frost Museum of Science in Miami. After student loan payments, rent and the rest, millennials may feel they don't have enough money left to invest. But that doesn't have to be the case. (AP)

Get a handle on these three factors before you start investing:

High-Interest Debt Payments: Pay down high-interest debts, like credit cards or a payday loan. Consolidating debt at a lower interest rate can speed up payoff. You want the power of compounding interest to work for you, not against you. When you invest, you're earning interest on the money you put in, which raises the amount you have. Then you earn more interest on that amount. With high-interest debts, it's just the opposite.

Savings: Build up an emergency fund to cover unexpected expenses so you don't have to withdraw money from investments.

Education: Research different approaches to investing and how to best succeed at them. Also understand your timeline; any amount you'd need within five years may be better off in a high-yield savings account or CD. The rate of return won't be as high, but you're protected from locking in a big loss if you need to pull out of your investment to get your money when the market's in a slump.

■ Start With the Essential Investment

"Probably the easiest place to start investing is through your employer retirement plan," Welker says.

Take advantage of the decades you have before retirement. By investing 10% to 15% of your income into your retirement account over many years, compounding interest and market returns will likely generate a sizable nest egg.

Here are two common retirement account options:

401(k): Offered by many employers, money is taken directly from your pay and put into an account. Employers often offer to match a portion of what you contribute, which is free money.

Traditional or Roth IRA: An individual retirement account lets you contribute on your terms. The difference between the two is how and when you get a tax break. Contributions to a traditional IRA may be tax-deductible in the year they're made. With a Roth IRA, withdrawals in retirement are tax-free.

■ Next-level Investment

Whether you want to start investing spare change or want to dive into researching and trading stocks, know your goal – and how you want to get there.

"Being ready to invest is a mindset, and it depends on what you want out of it," says Heather Townsend, a certified financial planner in Scottsdale, Arizona. "Understand that if you do want to invest, you have to know that the market can have big upswings and downswings. Are you willing to take that risk for the upside?"

There are two main paths: DIY or with the help of a portfolio management service.

DIY: Do-it-yourself investing can take many shapes. Two common options are online brokers and apps. Online brokers require a more hands-on approach to managing a portfolio online, while apps do most of the work for you.

While there are a variety of apps that invest spare change, like Acorns, don't expect them to yield big earnings, Welker says. "Especially early on, if you want to set up an account and dabble and play, the apps are fine. But if you're more serious about it, find a portfolio you can invest it," she says.

Automated Portfolio Management: Often in the form of robo-advisers, automated portfolio management uses algorithms to build and manage your investment portfolio. You set your parameters, including timeline and risk tolerance, and the robo-adviser generally takes care of the rest. These tools can be a quick way to start investing without doing all the legwork yourself.