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Price cuts continue to hurt Intel

Intel, the world's largest chipmaker, has seen its fourth quarter profits fall 39% as its price cuts continue to hurt its bottom line.



Reporting its results for the last three months of 2006, Intel's net profit fell to \$1.5bn (£765m) from \$2.45bn a year earlier.

Meanwhile, its revenues fell 5% from the same time last year to \$9.7bn.

Intel and its main rival, Advanced Micro Devices, have been involved in a price war over the past year.

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This is a recent article on the results of a price war between Intel and AMD. AMD has been gaining **market share** on Intel at a huge pace thanks to a more superior processor. However Intel changed its architecture and is now selling its better products much cheaper than the competition. This is **penetration pricing** to a large extent. The price is far lower than AMD's X2 processors which are the main competition. The lower price is used to encourage people to take advantage of this and buy more of their good, resulting in Intel regaining the market share that it formerly lost to AMD. But this also has features of destroyer pricing, as the price are very low they have very low **profit margins**. And Intel has no intention of rising the price eventually, they will only lower it as new technology allowed them to increase yield, and make more processors at a smaller size to increase amount of goods that they can make out of the raw materials that are available to them.

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Beats market expectations

Despite Intel's sharp dip in profits, the fall was expected, and the firm's results came in slightly ahead of market expectations.

Wall Street analysts had expected a fourth quarter profit of \$1.44bn.

Intel now expects sales of between \$8.7bn and \$9.3bn in the first quarter.

A price war between Intel and Advanced Micro Devices' (AMD's) has proved to be bruising for both firms.

“ The competitive pressures with AMD were more severe than we had thought ”

Analyst Joanne Feeney

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Now that Intel is again increasing its market share at a very fast pace, it is expected that they will roll out newer products to compete with their competitors, and as a result of their better products at a lower price. They suspect that their quarterly sales will increase dramatically.