Apple, Nokia Weather Handset Slump as Spending Shifts (Update1)

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By Juho Erkheikki

Jan. 21 (Bloomberg) -- The mobile-phone market is moving away from mid-tier handsets as the global economic slump prompts some consumers to trade down to cheaper devices and operators feed demand for high-end phones by promoting them with subsidies.

Nokia Oyj, the world's biggest mobile-phone maker, is selling entry-level devices costing less than $50 and advanced phones with satellite navigation and e-mail as fewer consumers consider mid-tier handsets. Vodafone Group Plc offers **Research In Motion Ltd.**'s BlackBerry Storm for free with an 18-month plan in the U.K. and Sweden's TeliaSonera AB sells **Apple Inc.**'s iPhone 3G for 1 krona (12 U.S. cents) with a two-year contract.

The global handset industry is forecast to shrink for the first time in eight years, with Citigroup Inc. analysts predicting a 13 percent plunge as consumers are more hesitant to replace their phones. Espoo, Finland-based Nokia cut its industry outlook twice in less than a month in the fourth quarter and said in December the market will slide 5 percent or more this year.

"This year will reshape the industry quite a bit," said **Mikko Ervasti**, an analyst at Evli Bank in Helsinki.

The polarization of the market may squeeze those in the middle. Sony Ericsson Mobile Communications Ltd., **Motorola Inc.** and LG Electronics Inc. have struggled to come up with hit phones or stumbled in their attempts to widen their product offerings.

Market Dominance

Nokia, which ships 15 units per second, may boost its global market share to more than 40 percent in 2009, said **Geoff Blaber**, an analyst at CCS Insight in London. Nokia's third-quarter market share was 38 percent, more than its next three rivals combined.

"In this economic environment, we expect some, not all, consumers to trade down to less expensive devices," Nokia Chief Executive Officer **Olli-Pekka Kallasvuo** said on a call last month. "We are best positioned to take this tradedown opportunity."

Nokia also has an advantage in its network of suppliers and distribution. Nokia was ranked first globally in sourcing, logistics and distribution last year, ahead of companies like Procter & Gamble Co. and Toyota Motor Corp., according to ARM Research. Nokia's **size** allows it to demand lower prices for the 120 billion parts it buys from suppliers.

The Finnish company may tomorrow post a 47 percent drop in profit to 975 million euros ($1.29 billion), the median of 16 analysts' estimate compiled by **Bloomberg**.

Nokia rose 0.3 percent to 10.23 euros as of 1:49 p.m. in Helsinki.

iPhone Hype

“Nokia is set to be a winner on a relative basis, but they will be hurt too,” said **Martti Larjo**, an analyst at Nordea Equity Research in Helsinki. “Apple and RIM will also be winners in relative terms as the smartphone market will still continue to grow, albeit at a lower pace.”

Growth in sales of so-called smartphones with computer-like capabilities will be fueled by the addition of features such as Web browsing, e-mail and video to cheaper models.

Apple, whose iPhone is the industry’s most-hyped handset in the past few years, moved to third place in the smartphone segment last year. The advance of Cupertino, California-based Apple is set to continue as most new touch-screen products to be announced in 2009 by competitors are likely to disappoint given the high standard set by the iPhone, according to CCS Insight.

Later today, Apple may report a 19 percent decline in net income to $1.28 billion for the quarter through December, based on the **median of estimates** compiled by Bloomberg.

Catching Up

Nokia has trailed Apple in touch screen devices and started selling its first model in the fourth quarter, more than a year after the first iPhone went on sale. The Finnish company has said it plans to bring touch-screen models across the price range.

“Even as Nokia missed some of the trends, they could pick them up in six to 12 months, come back and really crush some of their smaller rivals,” said **Greger Johansson**, a Stockholm-based analyst at Redeye.

Research In Motion is well positioned to take advantage of the industry shift to smartphones, Co-CEO **Jim Balsillie** said last month, when the Waterloo, Ontario-based BlackBerry maker forecast sales in the fourth quarter ending Feb. 28 that topped analysts’ estimates. Sales have been buoyed by demand for the new Bold and touch-screen Storm models.

“Apple and RIM, they are almost niche businesses in a sense as they are focused on a very high-end segment, but it’s the segment that is going to see better growth prospects and healthier margins as well,” CCS’s Blaber said.

Samsung Outlook

Samsung Electronics Co. is poised to increase its market share and remain the second-biggest phone maker, Blaber said.

Suwon, South Korea-based **Samsung** reports earnings Jan. 23, when it may say fourth-quarter profit at the **unit** that makes mobile-phones fell 42 percent from a year earlier, while revenue increased 43 percent, as competition drove up marketing expenses, according to a Bloomberg survey. Samsung’s revenue from the handset business will probably rise 8 percent this year, with shipments increasing 3 percent, according to UBS AG estimates.

“This will pinch everybody,” Nordea’s Larjo said. “The weak will suffer the most and it will be even more difficult for companies with bad balance sheets and an inferior product offering to cope.”

Sony Ericsson, which has posted two consecutive quarterly losses and cut jobs, said last week it will refocus on pricier models. The venture between Sweden’s **Ericsson AB** and Japan’s Sony Corp. may struggle to return to profit this year as the market shrinks, Redeye’s Johansson said.

Seoul-based **LG**’s profit from handsets, including those from of overseas affiliates, probably fell 17 percent in the fourth quarter, while revenue slumped 40 percent, according to a Bloomberg survey. LG’s mobile-phone shipments this year may fall 4 percent and revenue from the unit may drop 5 percent, Morgan Stanley said this week. LG reports tomorrow.

Fall From Grace

Motorola, once the market leader, may disappear from the top five vendors. Last week, the

Schaumburg, Illinois-based company announced it would cut a further 4,000 jobs as demand languishes under the strain of the recession. Motorola shipped half as many phones in the fourth quarter as a year earlier, and reported a loss as revenue fell as much as 27 percent.

'By the end of this year there will one or two fewer players," Ervasti said. "It's easy to jump on the bandwagon when there's growth, but you need to achieve a position and status to weather difficult times."

Johansson at Redeye says companies should focus on "what they are best at" in a declining market.

"Sony Ericsson, for example, started to get greedy and wanted to get into the low-end segment and tried to increase market share and volumes," he said. "And that was a really a stupid idea."

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