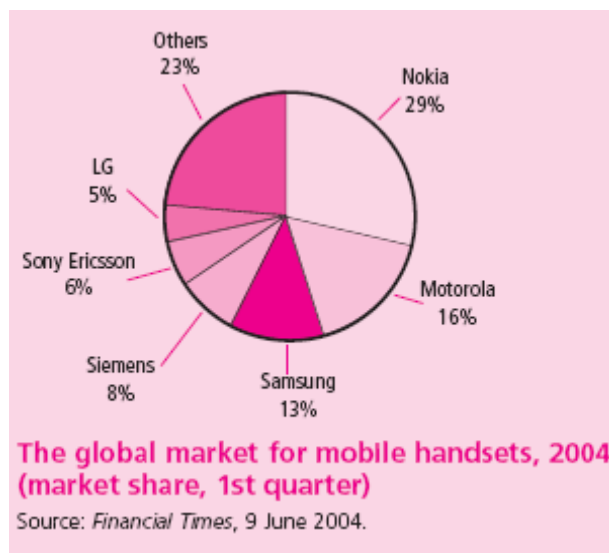


Changing global demand for mobile phones

Case taken from *The International Business Environment*, second edition (Palgrave, 2006), by Janet Morrison

The years 2000–2003 saw changes in demand for mobile phones which contained a mixture of gloom and optimism for handset manufacturers. On the gloomy front, global handset sales declined, with saturation in many Western markets – mobile phone penetration across Europe was over 70 per cent. Average selling prices also declined. Nokia of Finland, the leading manufacturer, which sells nearly two out of every five mobile phones made (see figure), saw falls in their average price from €144 to €135 in the course of 2003, triggering a drop of 15 per cent in its share price. Among consumers, there was scepticism about the benefits of the much-publicized introduction of revolutionary 3G phones, especially in light of the slow development of 3G networks. Questions over the safety of mobile phones were a concern, especially with their increasing use by children. While both handsets and masts emit radiation, research suggests that emissions from phones pose the greater risk, but the new 3G base stations have higher levels of emissions than their predecessors, which are subject to further research. Replacement phones represent the bulk of purchases in established markets, and consumers would need to be tempted to buy new phones amid generally sluggish consumer spending in European economies. The gradual introduction of new features and services, including colour screens and picture messaging – sometimes referred to as ‘2.5G’ – seemed to be the best way to spur sustainable demand.



Optimistic notes became more confident, but they signalled changes occurring in global markets. While sales had been flat in established markets, sales in emerging markets, such as China, India, Russia and Brazil, had been forging ahead. Strong sales in China helped manufacturers Motorola of the US and Samsung of Korea to increase sales and global market share. In the second half of 2003, the global market grew by 16 per cent to 470 million handsets, and sales are expected to reach 750 million in 2005. But will higher volumes translate into higher revenues? A cause of falling average prices globally is the growing proportion of phones sold in emerging markets, where prices are cheaper. Consumers now enjoy more choice than ever, in an increasingly segmented market. At the low end, handsets are becoming ‘commoditized’, where demand is for entry-level models, on which margins are low. This is the case in many developing countries, where landline infrastructure is poor and mobile infrastructure provides a substitute. At the higher end, mainly in developed countries, advanced handsets offer consumers features and functions, including camera phones, entertainment and business applications. The Asian manufacturers, with their strengths in consumer electronics, have been well placed to exploit new opportunities. Sony Ericsson is in a strong position to build on media expertise. Asian manufacturers’ new upmarket handsets, with colour screens and polyphonic sound, have proved to be popular with consumers. In the UK, Samsung’s market share rose from under 1 per cent to 10 per cent of the market in only one year, between 2001 and 2002.

Relations with telecommunications operators are an important element in the mobile phone market. Operators are keen to have their own brand on phones, and to feature models customized to offer their services. Operators are in a strong position to promote new models by offering subsidies to consumers who buy subscription packages. Does this imply that customer loyalty might lean more towards the operator than to the handset manufacturer? With links between operators, handset manufacturers and software companies, all hope to benefit. In the emerging 'smartphone' market, handphones are becoming multimedia devices, offering a range of functions, from gaming to music playing and digital cameras. Demand will depend heavily on whether the new services excite consumers, with prices to tempt them.

Sources: Brown-Humes, C. 'Nokia message has a ring of confidence', Financial Times, 23 January 2004; Brown-Humes, C. 'Nokia warning hits hopes of recovery', Financial Times, 18 July 2003; Budden, R. 'Industry hopes new models will ring the changes', Financial Times, 18 September 2002; Harvey, F. 'Turning point the wireless world', Financial Times, 28 October 2003; Budden, R., 'Safety of mobile phones 'remains open to question'', Financial Times, 15 January 2004; Nuttall, C., 'Mobile sales to hit 600m this year', Financial Times, 9 June 2004.

Case questions

How is global demand for mobile phones changing?

What are the implications for handset manufacturers?

@ Websites of mobile phone manufacturers are as follows: www.nokia.com, www.samsung.com and www.sonyericsson.com