Analysis - The Sweet Spot for Nokia

By Keith Mallinson Friday, January 1, 2010

Growth in the smartphone segment worldwide will secure Nokia’s position in face of its declining market shares at top and bottom ends of the market.

Smartphones are set to become the leading cell phone category globally. Among my various duties as mobile broadband track chair and panel session moderator at the GSM Association's Mobile Asia Congress in Hong Kong recently, I created a cell phone-response attendee survey. Twenty-eight percent of respondents indicated they expect more than 75 percent of phones sold worldwide in 2015 to be smartphones, whereas 86 percent of them expect the proportion to be more that 25 percent. Sixty percent expect average subscriber usage that year to exceed 5 Gbytes per month.

SQUEEZED AT BOTH ENDS

Nokia's position is eroding at the top and bottom ends of the cell phone market. Its share in smartphones has been dramatically reduced by the advance of iPhone, BlackBerry and Windows Mobile in Samsung, LG and other OEMs' phones. Android and Palm are also challenging.

With a $610 average selling price (ASP) and manufacturing costs around $200, iPhone is doing particularly well with aggregate gross profits approaching Nokia's $3 billion on 15 times the sales volumes with an ASP of just $87 last quarter. Nokia is also under significant attack at the entry level with prices around $30 and phones produced by a plethora of Asian OEMs based on MediaTek chipsets, including the so-called whitebox suppliers.

Apple has plenty of scope to expand distribution with competing carriers when exclusive deals expire. It sells iPhone in only about 80 nations so far. Corporate purchasing is only beginning to introduce iPhone, as is higher education. Apple claims more than 50 percent of Fortune 100 companies are evaluating iPhone for widespread deployment. However, iPhone remains a very high-end proposition.

As MediaTek moves into 3G, its addressable market and that of its OEM customers in China and elsewhere expands, but moving up-market increases complexity. Success will become much more dependent upon software, services and user experience than hitherto in 2G.

UNMATCHED CAPABILITIES

With double the market share of its closest rival Samsung, Nokia has major scale advantages. It is a clear leader in manufacturing costs, product range, brand recognition, complementary services such as Ovi Mail and distribution worldwide. Whereas Apple and Research In Motion (RIM) have succeeded with high price points, specialized billing such as iTunes, narrow distribution and product ranges, Nokia has an embedded base of 1.1 billion users across every demographic, income level, geography and carrier worldwide.

Apple's App Store, for example, is enormously successful in selling applications and disintermediating wireless carriers, but its iTunes payment platform has only around 100 million credit card-connected users. There are 30 times more people with 3 billion cellular users worldwide who have postpaid or prepaid billing with their wireless carrier. Most of them do not have credit cards. Many of the most populated nations worldwide, including all the BRIC nations totaling almost half the world's population, are predominantly cash economies in which cell phones are the only online payment method possible for most inhabitants.

Nokia's competitive position will improve as smartphones become the leading phone category. Today, most of
Nokia's sales are for its low-to-mid range Series 40 platform. Nokia predicts its Symbian platform will predominate in its product mix by 2011. If so, Symbian will most likely become the world leader in building a base of 1 billion smartphone users worldwide. This is the sweet spot for Nokia. Whereas high-end vendors, such as Apple, do not have the cost-competitiveness, distribution or product diversity to lead in the highest volume markets, Nokia is able to support many different form factors, price points and carrier variants with its Symbian platform.

MISSING LINKS
Nokia spoke with uncharacteristic humility at the recent Capital Markets presentations in Finland about its deficiencies and initiatives to improve the smartphone user interface that sits atop Symbian. Nokia is overhauling things with multi-touch capabilities, accelerated response speeds and simplifications to reduce the number of screen taps required. It is implicitly yearning to create a user experience including user interface (UI) and services that can match or exceed the gold standard with Apple.

There is a major opportunity worldwide for computing and Internet access via smartphones to those without access, with only shared or occasional access and those who have Internet-connected PCs who also value the convenience and efficiency of more pervasive usage. For example, at the Mobile Asia Congress, Manoj Kohli, CEO of Bharti Airtel, said mobile data and mobile broadband will be even more significant than mobile voice among India's 1.1 billion poorly Internet-connected inhabitants.

If Nokia can fix its UI and user experience, its strengths will provide an unassailable competitive position as the smartphone becomes the world's primary Internet appliance, providing personal access on a pervasive basis.


Rate Article:

0 COMMENTS