

Is Ningbo Bird's goose cooked?

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Ningbo Bird, China's top domestic mobile handset seller, is one of several firms facing intensified competition as the stakes have been raised in the country's high-tech market.

China is the largest mobile phone market in the world, in terms of subscribers. Approximately 27 percent of its 1.3 billion people, 350 million users, currently have signed up. According to state-run media, Chinese buying new or replacement handsets totaled about 100 million in 2004.

The Shenzhen Economic Daily said Monday one-tenth of the world's cell phone manufacturing took place in that city. It reported locally produced handsets account for a quarter of China's domestic brand names. The city also is an important original equipment manufacturer for foreign firms in the China market. Shenzhen Foxconn Co. produced more than 10 million units last year to meet demand from Nokia and Motorola, the newspaper noted.

Mobile handset exports from Shenzhen surpassed the 80 million mark in 2004, the paper said. The newspaper's statistics were based on new findings from International Data Group that China manufactured 35 percent, or 233.45 million units, of the 664.5 million handsets produced globally last year. Shenzhen already is home to eight of the 44 handset production licenses approved by the Chinese government's Ministry of Information Industry and its National Development and Reform Commission. The Shenzhen newspaper said three more local firms were expected to acquire manufacturing licenses very soon. Not only is China the largest handset market, it also is one of the world's most

competitive. Three years ago, local companies started to mount a challenge to foreign dominance in the handset sector, with companies such as Ningbo Bird appearing on the radar screens of industry observers. The firm, based in the Zhejiang province port city of Ningbo, near Shanghai, carved a niche in the low-end price range, grabbing market share from the giants by stressing massive production for economies of scale to drive down price, and focusing on smaller cities and emerging rural demand. Bird soared quickly in China's handset market, ranking third behind leader Nokia and number two Motorola in 2004. The company's latest earnings report, however, indicates it is starting to feel a series of competitive challenges. In a statement filed to the Shanghai Stock Exchange, the company said it was expecting to post a loss for the first half of the 2005, wiping out profits of more than \$3 million recorded in the first quarter. Bird reported a net profit of \$13.5 million in the first half of 2004.

Ted Dean, managing director at BDA, a Beijing technology consultancy, listed several problems all Chinese handset makers face. "In the key home market, new manufacturing licenses will cut into already razor-thin profit margins for existing companies," Dean told United Press International. "Meanwhile, Nokia and Motorola, companies with deeper pockets and marketing muscle, are now going after the low-end segment with 600 Yuan (\$72) handsets." Dean added, "Revenues from export sales are getting tougher as competition from Japanese and Korean firms heats up." He said despite its rough second quarter losses, Ningbo Bird was "reasonably good shape" and likely to be one of the companies to survive an anticipated weeding out of weaker Chinese firms in the handset industry.

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