

# Strong sales not leading to mobile profits

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Mobile-phone manufacturers are finding that global demand for handsets is almost insatiable, as consumers in wealthy countries flock to update their phones with the latest multi-functioning products, while those in poorer countries are eager to snap up their first phones. The problem for companies, however, is that strong sales aren't necessarily translating into higher profits.

When it comes to actual sales, though, there is no doubt that demand is strong and unlikely to falter any time soon. London-based research group Strategy Analytics reported Thursday that mobile-phone shipments increased by 19 percent to 810 million units last year, and it expects demand to rise 15 percent in 2006 to 930 million units. By 2007 the number is expected to exceed 1 billion.

"Booming demand in the southern hemisphere, in India and Africa, drove global mobile phone sales," said the group's analyst Neil Mawston in his report on mobile handsets.

Yet for manufacturers, strong demand has not always led to good news.

For instance, Nokia, the world's biggest mobile manufacturer, reported Wednesday that operating profits for the latest quarter ended Dec. 31 fell 6 percent from the same period a year ago to \$1.72 billion (1.4 billion euros) and net profits dipped 1 percent to \$1.24 billion (1.07 billion euros), even though sales surged by 9 percent on the year to \$12.65 billion (10.3 billion euros).

The Finnish mobile-phone giant that has more than 34 percent of the global market share in cell phones sold more than 84 million mobile phones in the three-month period, up 26 percent from a year ago, with demand in China and India being particularly strong. But precisely because demand was strong in emerging markets, Nokia's sales increase did not translate to profit as it was selling cheaper phones, even though they were selling more of them.

The average price of a mobile phone sold by Nokia fell to \$121 (99 euros) from \$125 (102 euros) charged in the previous quarter. In 2004, meanwhile, the average price was \$137 (111 euros). At the same time, some of the lower-end phones cost well below half of that of the average handset.

Meanwhile, investors were disappointed last week by Motorola even though the world's second-largest mobile manufacturer reported a record 44.7 million handsets being shipped in the fourth quarter and posted net earnings of \$1.2 billion. The results, however, were not as strong as hoped for by Wall Street analysts, leading to a sell-off in the company's shares the day after the earnings announcement.

The fact that markets turned against the company even though it reported a whopping 30-percent increase in sales from a year ago to \$6.5 billion illustrates just how high investors' hopes are for the mobile market and the sheer competitiveness of the industry as companies compete aggressively for both the high-end handset market as well as producing basic phones that are eagerly sought after in emerging markets.

Despite the competitiveness of the market, however, Nokia remained upbeat about the sector's outlook this year, stating that it expects sales to increase by 10 percent from the 795 million units reached in 2005.

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