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Nokia and Microsoft pin hopes on new handset as smartphone wars intensify

Apple and Motorola set to launch new phones as competition heats up ahead of the most lucrative Christmas yet



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The Apple iPhone 4s (L) and Samsung's Galaxy S III - a US jury found that Samsung had violated patents used in the iPhone and ordered the company to pay \$1.05bn damages. Photograph: Lee Jae-Won/REUTERS

In a warehouse by Manhattan's Hudson river next Wednesday, Nokia will fire up the most competitive Christmas mobile phone war yet.

Observers say the devices it will unveil, produced in collaboration with Microsoft, could be a last roll of the dice for Nokia, which has yet to make a hit touchscreen phone and whose keyboard models are losing popularity. The stakes are also high for Microsoft, which will slowly fade unless it moves from desktop to handheld computers.

Later on Wednesday, at New York's Gotham Hall, Motorola will beam the spotlight onto a new high definition handset in one of the biggest marketing events since the completion of its acquisition by Google.

For some, these are just preludes to the main event. Apple is expected to unwrap the iPhone 5, its first major rethink of the gadget in two years, in California on 12 September.

Capturing the imagination of consumers is crucial this year because the personal computing revolution is taking shape. Smartphones are replacing desktop computers as the easiest way of connecting to the internet. And to make those connections easier still, around the world, 4G networks with their superfast internet download speeds are being switched on.

Both Nokia and Apple's new models are expected to be compatible with European 4G networks – the UK could have its first taste of these faster download speeds before Christmas on Orange and T-Mobile services.

Apple will no doubt keep its biggest surprises under wraps until the launch. But according to leaks from the supply chain, the iPhone 5 or "new iPhone" as Apple may call it, will have a larger screen, a longer thinner body shape and hopefully a longer battery

life.

As Samsung, Apple and Google's patent warfare has demonstrated, the giants of the technology world are pouring unprecedented resources not only into developing and marketing new products, but into the expensive legal battles needed to protect them from imitation.

"Patent bullying is sweeping through the industry right now, but many are starting to realise it is the new normal," says Neil Mawston at research firm Strategy Analytics. "Companies are competing in a very crowded market where any edge, be it via competitive means or via legal means, is prized."

There are two battlegrounds. Some companies, such as Nokia, Samsung and HTC, specialise in making the hardware only. Others focus on software. Google has Android, which it licences for free to handset makers, including Samsung; and Microsoft licences Windows, for which it charges a fee. Apple straddles both camps by making and keeping both in house.

While more smartphones are likely to be sold this Christmas than before – research firm IDC forecasts a 32% increase to nearly 424m units in the last three months of this year compared with 2011 – few models are expected to reach the bestseller lists.

Even if Nokia's new phones prove popular, on the hardware front the new iPhone and Samsung's flagship Galaxy SIII, on sale since late May, will almost certainly continue to dominate this year. In software, Android will remain the most popular choice. Analysts at market researcher Gartner are forecasting 392m Android units in 2012, compared with 143m iPhones.

The joker in the pack is Microsoft. Gartner believes sales of Windows handsets could more than double from 2011, with 26m sold. Next year, they could even reach 85m.

September's new product launches are carefully timed to influence Christmas planning by mobile phone networks. Their decisions about which models to subsidise and showcase on the shop floor can determine the success or failure of new handsets. Playing on their minds will be the knowledge that on 6 December, a hearing is scheduled at which Apple can petition to have a number of Samsung's older models withdrawn from sale. And Apple looks set to let its legal attack dogs loose on the Galaxy SIII, or on any smaller handset makers that have adopted Android.

"It's another reason for operators and vendors to look at alternatives," says IDC analyst Francisco Jeronimo. "They don't want to invest in devices for the Christmas season that they will have to withdraw from the market. This will also speed up the product development for Windows phones for most manufacturers. It's cheaper paying a royalty to Microsoft than fighting against Apple, paying a huge fine and having their devices withdrawn from the market."

Microsoft is hoping Nokia will bring its software to popular attention, but it also needs support from the many fleet-footed Asian manufacturers, which besides Samsung and HTC include LG, Huawei, and ZTE.

The largest usually have a few models running on Windows – Samsung launched a new one last week – but these have tended to be their less advanced devices. Presented with a free alternative produced by an army of highly-trained programmers employed by one of the internet's biggest brands, the Asian manufacturers have made their flagship handsets run on Google's Android interface.

The \$1bn damages imposed on Samsung earlier this month by a US jury could help focus attention on Microsoft as a reassuring alternative. With \$11bn a year in profits, Samsung can afford to pay up. Smaller firms would find such a penalty devastating.

"\$1bn [for Samsung] is 17% of second quarter operating profit," wrote Benedict Evans at Enders Analysis. "However, for any other Android [manufacturer] it would be crippling."

He believes negotiations will eventually take the place of lawsuits, with new agreements

on the level of royalties companies will pay to use each others' technology. Google's chief executive, Larry Page, has reportedly already picked up the phone to Tim Cook, his opposite number at Apple. Apple itself settled with Nokia last year. The terms were undisclosed, but it is thought to have paid \$600m as a one-off fee plus a royalty of a few dollars per iPhone.

Royalties for Android phones will rise, making them less profitable. Because Android phones are popular as a budget alternative to Apple, this could force prices up. But with the average iPhone selling for \$650 (£410), and no Android phone selling for over \$350, Apple would have to extract large royalties to make Android as expensive as its own products.

While most industry watchers believe Microsoft and Nokia are still in the running, there is little confidence in the once-mighty Research In Motion (RIM), whose Blackberry is losing favour. RIM, which like Apple makes both the brain and the body of its devices, is updating its phones from email machines with keyboards to touch-controlled internet screens, but has suffered repeated delays.

With Google keeping its powder dry, and Microsoft rich enough to play the long game, the mobile phone wars will not be decided this year, but there could be some major casualties.

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