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# Mobile handset market awaits a challenger

By Daniel Thomas, Telecoms correspondent

Samsung became the dominant force in the mobile phone industry in 2012. It usurped ailing Nokia as the largest manufacturer by volume across all handsets and beat Apple in the race to be the biggest maker of high-margin smartphones.

Global sales data show the handset market is polarising like never before. Two clear winners – Apple and Samsung – are leaving almost all their rivals struggling in their wake, following the release of the all-conquering iPhone 5 and Galaxy SIII devices. These two titans are the only companies that will have commanded a double-digit share of the smartphone market in 2012, according to analysts.

## Vodafone to target buyers hit by the recession

Vodafone will target recession-hit but tech-savvy mobile phone buyers with a service to sell “nearly new” discounted second-hand smartphones as it seeks to expand its base of customers using data tariffs, writes **Daniel Thomas**.

The company will next week begin to sell smartphones in the UK that have been used before but restored and re-boxed to almost new condition for sale to cash-strapped consumers who want the latest gadgets.

Vodafone wants to increase the take-up of the mobile internet among the mass market. Average revenue per user for the company would also be boosted if Vodafone could move more of its customers to smartphones that could use its data tariffs, rather than low-margin voice and text services.

Vodafone has identified mobile

This separation of the pack will come as a disappointment in particular to Nokia and HTC, which both launched smartphone ranges last year that have been described as make-or-break by analysts.

Estimates so far for the full year show that neither have yet made a significant breakthrough, however. Both companies adopted Microsoft's much-hyped Windows Phone 8 platform, which has yet to take off in spite of heavy marketing. Sales of devices made by RIM have also struggled, with the number of BlackBerry subscribers dropping for the first time in the latest quarter to 79m.

Canada-based RIM is pinning its hopes on the next generation of BlackBerry. This upcoming handset, along with updated Android-based ranges from Asian manufacturers such as Sony and Huawei, will pose new competition in 2013. Nokia in particular will be looking to meet this head-on with its own new devices. It is seeking to build a range of Windows smartphones selling at different price points to replace the fast dwindling sales of its older Symbian-based phones.

Pierre Ferragu, analyst at Bernstein, said: “Apple and Samsung have consolidated their leadership in 2012 to the point that there is today no credible challenger. At first sight, it may seem that in 2013 nothing will go against their continued

internet as a main driver of future revenues as more people use their phones to access the internet for communication and entertainment.

The handsets, which include Apple's iPhone 4, Galaxy SIII and HTC One X, come with at least a 12-month warranty. The majority of second-hand smartphones are sold over websites such as eBay, but Vodafone hopes that its guarantee will open up a niche market.

The top smartphones can cost more than £400, although the average cost has fallen across the market in the past two years owing to cut-price new devices from Chinese manufacturers such as Huawei and ZTE, as well as lower-end handsets from Nokia, Samsung and RIM.

Vodafone said this scheme was designed to help customers buy a smartphone that would otherwise be out of reach. The services will also be available to monthly contract users in selected stores.

Vodafone UK said: "Nearly New is designed to make it even more affordable for people, especially those who prefer pay as you go services, to get their hands on a smartphone and start using the mobile internet."

success, but we should remember one thing: consumers can change their mind very quickly. We have seen that many times in the last decade, so 2013 might also be a turning point."

According to Strategy Analytics, Samsung made almost 57m smartphone shipments in the third quarter, or about 34 per cent of the total, which is more than twice the 27m shipped by Apple. Sony, [HTC](#) and Huawei trail behind with sales of 8.8m, 8m, and 7.6m, respectively, with Nokia now ranked ninth behind [RIM](#), LG and [Lenovo](#).

IHS iSuppli predicts that Samsung will have ended the year with a 29 per cent share of overall mobile shipments, up from 24 per cent in 2011, while Nokia's share has dropped a fifth to 24 per cent. This is the first year since 1998 that Nokia, with its once dominant position in lower cost handsets, has not shipped the most.

IDC data shows a similar pattern, with Samsung taking 24 per cent of the overall phone market by the third quarter of 2012, and Nokia with 19 per cent, as well as 31 per cent of smartphones against a 15 per cent share held by Apple.

"Besides Apple and Samsung almost everyone else struggled to grow or increase market share," says Francisco Jeronimo, analyst at IDC.

Samsung's success has cemented [Google's](#) Android as the world's leading operating system – and it is unlikely to lose its crown. Analysys Mason, the consultancy group, predicts that Windows Phone will become the fastest-growing operating system in the next five years – from 11m units in 2011 to 136m units by 2017 – but says that it will still only have a single-digit share of the smartphone market in 2017 compared to Apple's 23 per cent and Android's 58 per cent.

Christmas sales saw further gains for Android devices, according to operators, although the period is skewed towards cheaper pay-as-you-go phones bought as gifts rather than the more expensive devices normally sold under contract.

Changes in market share only tell part of the story; the movement in gross profitability over the past two years is just as striking. Gross profit margins at Nokia have slumped from 7 per cent in 2011 to 3 per cent in 2012, according to estimates by Bernstein, near to the 2 per cent margins at HTC and the zero profitability of RIM.

But those at Samsung almost doubled from 17 per cent to 30 per cent, while Apple's gross profit margins have risen from 33 per cent to 50 per cent.

Bernstein data also show that smartphones accounted for about 80 per cent of the total handset market value in 2012, up from less than half just two years ago, underscoring why these normally higher margin devices are now the key battle ground for the handset makers.

Even though Apple's share of the smartphone sales is less than Samsung overall, its latest iPhone 5 device has topped the charts since its launch in many of the Western markets, according to the large mobile operators. There are markets where Apple and Samsung are not as powerful, such as China, where the market is much more fragmented given domestic handset makers including Huawei and ZTE.

Samsung's Galaxy SIII has also spent most of the year since launch in either the number one or two slots in many developed markets. Meanwhile, Nokia's latest flagship devices failed to mount a significant challenge albeit with a selective distribution strategy and talk of supply constraints.

The prize on offer over the next five years is huge, according to analysts, and the rapid pace of technological innovation in a fickle, fashion-led smartphone market will mean that there is always a chance of challengers making a breakthrough.

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