Bitter Smartphone War Seen Pinching Vendor Margins

(Reuters) - An increasingly heated battle in the global smartphone market is set to weigh on handset vendors' profit margins for the rest of the year, analysts said on Friday.

All top cellphone vendors including Nokia, Samsung Electronics and Research in Motion are rolling out new smartphone models for the holiday sales-fueled fourth quarter.

"The smartphone market is becoming heavily congested as a host of players seek to boost margins. The reality in the second half is set to be very different," said analyst Geoff Blaber from British consultancy CCS Insight.

"The market will swell in volume but price erosion will inevitably result in casualties as value is captured by a minority rather than the majority," Blaber said.

Research firm Strategy Analytics said the ramp-up in supply will drive higher volumes, but this will pressure margins as vendors fight to outsmart rivals.

The world's three largest cellphone makers -- Nokia, Samsung and LG Electronics -- all saw smartphone rivalry hitting their profit margins in the April-June quarter.

"Each is in the midst of refreshing its respective product portfolio, with greater emphasis on smartphones during the second half of this year," said IDC analyst Ramon Llamas.

"Still, the upward pressure from vendors outside the current top five vendors, particularly Apple and Motorola, will provide tough competition in the quarters to come," Llamas said.

Samsung on Friday warned of weaker margins and profit growth in the second half after reporting telecom unit margins slumped to 7.2 percent as it boosted marketing spending in the absence of a strong smartphone model.

Samsung is making a big bet on its top model Galaxy S, which went on sale last month, while Nokia is counting on its upcoming N8 model to win a larger share of the high-end market.

Nokia has said its phone unit margin fell to 9.5 percent in the second quarter and was likely to slip again this quarter.

LG's phone unit made a loss last quarter and had a negative margin of 3.5 percent. It has forecast another loss for the business in the current quarter.

Market Growing Again

The cellphone market grew in April-June for the third quarter in a row, boosted by demand for low-end models in emerging markets and for high-end phones with touchscreens in mature regions.

Growth in the global cellphone market is set to slow slightly to 12 percent in the July-September quarter, but there are no signs of a major slowdown, Strategy Analytics said.

The researcher and CCS Insight both estimated the market grew 13 percent in the April-June quarter, while IDC saw the growth at 14.5 percent. Top vendor Nokia said last week the market grew 14 percent from a year ago.

The phone market saw a sharp downturn last year as the recession sapped consumer spending on new gadgets.

Canada's Research in Motion -- which broke into the No. 4 position in the global market in the first quarter -- held on to it, selling 11.2 million Blackberries in the last quarter, just ahead of Sony Ericsson's 11 million phones.

Both firms held roughly 3.6 percent of the global market.

Market shares of the top three changed little in the quarter, with Nokia holding 36 percent, Strategy Analytics said.

Samsung holds 21 percent of the market and LG 10 percent.

Source URL (retrieved on *05/21/2013 - 8:34am*):
http://www.wirelessdesignmag.com/news/2010/07/bitter-smartphone-war-seen-pinching-vendor-margins?qt-most_popular=0