

Gartner Says Global Economic Downturn Sparked Three-Way Battle for Third Position in Mobile Phone Market in Third Quarter 2008

- *Year-on-Year Growth Less Than Half That for Previous Year*
- *Japan Saw Year-on-Year Decrease of 28 Per Cent*

Egham, UK, 25 November 2008 — Worldwide sales of mobile phones to end-users reached more than 309 million units in the third quarter of 2008, a 6 per cent increase compared to the third quarter of 2007, according to Gartner, Inc. Growth dipped back into single figures, representing less than half the 16 per cent growth rate of the same period in 2007.

“The global economic downturn has triggered a three-way battle between Sony Ericsson, Motorola and LG for the third position in the worldwide mobile phone market, which has seen Sony Ericsson emerge as the winner in the third quarter of 2008,” said Carolina Milanese, research director for mobile devices at Gartner, based in Egham, UK. “It has also affected sales in both mature and emerging markets during the quarter. Replacement sales in particular were affected, while first time users continued to see the value of acquiring a mobile phone.”

Nokia sold 118 million phones in the third quarter of 2008 (see Table 1). It was the first quarter of the year in which Nokia felt the negative effects of the current economic climate. Lower replacement sales in mature and emerging markets impacted Nokia’s overall sales in the third quarter. Nokia suffered in what it called the “converged devices” segment. However, analysts said Nokia should be able to marginally improve its share in the fourth quarter of 2008 as its new devices come to market, and the holiday season helps to increase overall sales. Nokia remains best-positioned to deal with the current market conditions because of its economies of scale.

Samsung had a very strong third quarter as sales increased 26.3 per cent over the same period in 2007. It continued to take advantage of the popularity of its touch-screen devices — the Tocco and Omnia — as well as an enriched mid-tier device portfolio. Despite delivering a strong sell-in, the vendor was also able to burn inventory from the previous quarter. “Samsung is well positioned for the rest of 2008,” said Ms Milanese. “Although high-end products are under a lot of pressure, Samsung’s advantage is that its products appear to offer better value for money than its competitors.”

Table 1

Worldwide Mobile Terminal Sales to End-Users in 3Q08 (Thousands of Units)

Company	3Q08 Sales	3Q08 Market Share (%)	3Q07 Sales	3Q07 Market Share (%)
Nokia	117,978.9	38.2	110,117.8	37.8
Samsung	52,891.6	17.1	41,876.0	14.4
Sony Ericsson	24,847.7	8.1	25,391.6	8.7
Motorola	24,633.4	8.0	37,865.2	13.0
LG	24,069	7.8	20,499.1	7.0
Others	64,111.6	20.8	55,332.5	19.1
Total	308,533.0	100.0	291,142.2	100.0

Note* This table includes iDEN shipments, but excludes ODM to OEM shipments.

Source: Gartner (November 2008)

Sony Ericsson's rise to the third position during the third quarter of 2008 had more to do with the issues that Motorola and LG faced than Sony Ericsson's ability to turn around its business after a few difficult quarters. Sony Ericsson continued to suffer from the weakness in the high-end markets as well as the slowdown in replacement cycles in Europe. Despite an aggressive price strategy in Europe, the Middle East and Africa (EMEA), Sony Ericsson built some inventory in Asia/Pacific during the quarter, which left a much smaller gap between it and Motorola on sell-in numbers. There have been reports of component shortages for the Xperia X1, Sony Ericsson's long-awaited Windows-Mobile-based touch-screen device, so sales are likely to be challenged again. In addition, new products such as the Walkman W705 add to an already crowded music portfolio and might not be enough to win more customers.

Motorola's worldwide share dropped further in the third quarter of 2008 as sales fell to 24.6 million units. With no inventory left to burn from previous quarters and a portfolio that remains very weak, Motorola slightly built inventory during the quarter. "The economic environment is particularly difficult for Motorola because its lack of compelling products and competitors' aggressive pricing called for price adjustments that it cannot afford if it wants to please investors by retaining margins," said Ms Milanese. "We expect Motorola's issues to continue well into 2009, and are puzzled by recent product announcements like the Aura — a \$2,000 device — that seem to totally ignore current market dynamics."

LG's portfolio remains well-positioned to take advantage of the seasonality in the fourth quarter of 2008 as its pricing is more suited to the current economic climate. LG was able to burn some inventory it built up in the second quarter of 2008, and sales to end users reached 24.1 million units. However, sales were negatively impacted by the loss of a key contract in India, where LG valued profitability over market share and walked away from a deal that offered a very low average selling price. Sales in Western Europe and North America made up for the weakness in emerging markets and limited the damage.

"All eyes were on Apple's performance during the quarter as it ramped up the roll-out of its 3G iPhone from six to 51 countries, despite building an inventory of just over 2 million units," said Ms Milanese. "Apple was able to return in the top ten vendors ranking at No. 7, just under RIM. We expect that sell-in sales during the fourth quarter of 2008 will reflect this inventory level, especially given the current economic environment."

Regional Analysis

Sales of mobile handsets in Asia/Pacific increased despite economic pressure and weak consumer confidence, with sales of 116.7 million units in the third quarter of 2008, a 13.8 per cent increase year-on-year. However, replacement cycles increased from four to eight months, resulting in either a decline or almost flat sales in mature markets like Singapore, Hong Kong, Taiwan, Korea, and Australia where operators are moving away from subsidies and pushing for longer contract periods in an attempt to generate revenue. Sales in emerging markets like India and China rose due to strong sales to first-time buyers. "We expect the global economic decline and associated drop in disposable incomes to make sales in the region almost flat during the fourth quarter of 2008," said Anshul Gupta, principal research analyst for mobile terminals at Gartner, based in Mumbai, India.

Sales in Eastern Europe, the Middle East and Africa reached 57.8 million units in the third quarter of 2008, representing an increase of 13.1 per cent year-on-year. Several countries in Eastern Europe, including Russia, Hungary, Ukraine and Romania, were hit hard by the financial crisis toward the end of the quarter, but this did not translate into a large downturn in the devices market. "Emerging markets, especially in Africa, continued to display healthy growth," said Annette Zimmermann, senior research analyst for mobile devices at Gartner, based in Munich, Germany. "We expect the continued economic pressure to have a negative impact on handset sales in these regions in the fourth quarter of 2008, even though consumers will benefit from lower food and energy prices."

In Japan, sales to end users reached 9.4 million units in the third quarter of 2008, a decrease of 28 per cent year-on-year. This was exactly the same volume of sales reached in the second quarter of 2008. "Consumers showed little interest in upgrading their existing devices and when they did, they tended to purchase standard models rather than high-end ones with the latest functions," said Atsuro Sato, research analyst at Gartner, based in Tokyo, Japan.

Global economic uncertainties also affected sales of mobile handsets in Latin America during the third quarter of 2008, with volumes growing 5.5 per cent year-on-year. "3G promotions have contributed to subscriber growth, however equipment sales have been largely data cards instead of handsets. SIM-only sales have also increased significantly due to competition and regulation, such as Anatel in Brazil forcing operators to sell unlocked phones," said Tuong Nguyen, principal research analyst at Gartner, based in Arlington, Virginia, US.

The North American mobile handset market continued to grow. Sales to end users were 47 million units in the third quarter of 2008, a 4.5 per cent increase over the previous year. "Smartphones were a key driver of growth in the market, with models from Research In Motion's (RIM's) expanded portfolio and the 3G Apple iPhone proving especially popular," said Hughes De La Vergne, principal analyst for mobile terminals research at Gartner, based in Dallas, Texas, US.

The market in Western Europe reached 43.5 million units in the third quarter of 2008, but was below the 47.2 million units registered during the same quarter in 2007. Replacement sales slowed as consumers dealt with the higher cost of living and being locked into 18- or 24-month contracts. These longer replacement cycles had a negative effect on market performance and will continue to do so in the fourth quarter of 2008. "Holiday sales should help boost the market in the final quarter of the year, but there are some signs that will worry vendors," said Ms Milanese. "In the UK, O2 and T-Mobile are offering consumers money off their tariff if they postpone upgrading their handsets until January 2009. This is an attempt to reduce subsidy costs and defer them to a new budget cycle, which is bad news for vendors and retailers."

Ms Milanese concluded: "A combination of lower-than-forecast sales of devices in the third quarter of 2008, limited availability of key devices, and a general lack of compelling products leads us to believe that annual growth in the mobile device market will be about 8 per cent in 2008. It is too early to say how long the economic climate will impact the devices market, but we expect market conditions to remain challenging through at least the first half of 2009. We expect sales in 2009 to show a low single-digit growth contraction."

More information is available in the Gartner report "[Dataquest Insight: Market Share for Mobile Devices, 3Q08](http://www.gartner.com/DisplayDocument?ref=g_search&id=812815&subref=simplesearch)", available on Gartner's website at http://www.gartner.com/DisplayDocument?ref=g_search&id=812815&subref=simplesearch.

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