

New Phones Target Motorola's Rusty Razr

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Cell-phone makers want to make 2007 the year they finally cut **Motorola's (MOT)** Razr down to size.

Since its 2004 introduction, the world's best-selling handset has sold more than 50 million copies -- while remaking the entire mobile phone industry in its unforgiving skinny image .

But now, the Razr, which fetched \$600 in its must-have days, is moving into middle age as a freebie in promotional giveaways by cell-phone carriers. And with the Razr losing its icon status, some new models from rivals like **Apple (AAPL)**, **Nokia (NOK)** and **Research in Motion (RIMM)** are angling to become the next top seller among all cell phones.

If the buzz factor is any clue, **Apple's (AAPL)** heavily hyped, as yet unnamed iPod phone may have the best shot at taking the sales crown .

An informal survey of cell-phone industry insiders and analysts indicates that an iPod phone introduction, expected sometime in 2007, will generate the most chatter.

"The iPhone will certainly be a winner from a publicity point of view," says Charter Equity Research analyst Ed Snyder, referring to a commonly used term for the coming iPod phone. (Apple is apparently unable to use the name iPhone, since the term has already trademarked by **Cisco (CSCO)**.)

Still, Snyder notes that whether Apple can turn the attention into blockbuster sales is another question altogether.

"Internally, they are predicting 20 million phones will get sold in the first year," Snyder says. "That's going to be tough. Razr did 9 million in its first year. I think they might get 5 million to 7 million."

Indeed, knocking off the Razr is not going to be easy.

There's never been anything like the Razr in cell-phone history, say industry watchers.

Two years ago, after a seemingly endless series of blunders, Motorola had fell to third place in handset market share, behind Korean tech powerhouse Samsung.

Motorola CEO Ed Zander, then newly installed, made a big bet on a half-inch thick folding phone with an IM kidspell name. When it hit the market in time for the holidays, the Razr became a fashion accessory in its own right. With its record sales, it single-handedly lifted Motorola out of the doldrums.

Razr's success hasn't exactly expired yet. Variants like Krzr and Slvr may help sustain the legacy -- but the passion for Motorola's funny names, if not its thin phones, has decidedly cooled as fashion-fickle consumers look for the next hot thing.

Prices of Razrs have dropped to zero, and even the newer, heavily touted Krzr has had its price cut in half in some recent promotions. The pricing trends say a lot about slumping demand, say analysts. And while the small, or even free, price tags keep the sales volume up, it doesn't do much for the bottom line.

"Motorola would die to hear people say the Razr is getting old," says American Technology Research analyst Albert Lin. "But the total saturation and prices falling to free gives one a feeling of oldness."

The stage is set for a new star now that the Razr is dimming, and the timing for Apple could hardly be better.

Adding music to mobile phones seems inevitable. But easy-to-use music phones remain a rarity.

The trick for Apple, say industry analysts, will be adding a good phone to an already exceptional music player at an affordable price.

That's expecting a lot, say skeptics. But fans point to the 40 million or so iPod users who may be inclined to consider the iPod phone when replacement time comes.

And while Apple is stealing all the attention, the big phone makers aren't exactly folding up shop.

After watching Motorola take over the design leadership, Nokia has finally gone thin. The Finnish phone giant is expected to announce its N76 phone in January at the Consumer Electronics Show in Las Vegas. Analysts familiar with the phone say it is Razr-slim with a high-resolution screen and a 3-megapixel camera, for under \$300.

And speaking of consumer electronics, the cell phone joint venture between **Sony (SNE)** and **Ericsson (ERIC)** has already generated a lot of interest in its Walkman phones. Coming soon, an upcoming model will add a Sony Cyber Shot camera.

"I think Sony Ericsson's Walkman line will be the biggest story of 2007," says Sanford Bernstein analyst Paul Sagawa. "It's already selling well with a lot of momentum."

And if email phones finally have a shot at cracking the mass market, RIM's diminutive Pearl might be the gem to do it. Its big screen, thin body and camera pack a lot of appeal into a small form. Already a small hit with its controversial "sure-type" keypad that packs two letters on one key, analysts say plans are in the works for a crowd-pleasing qwerty-style keyboard.

Meanwhile, some are already saying reports of the Razr's demise have been exaggerated.

"We've already written Razr's obituary," says Charter's Snyder. "But it is still the best-selling phone -- especially at lower prices."

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