

Can the Cellphone Industry Keep Growing?

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Cellphone sales are falling, manufacturers have announced thousands of layoffs and wireless carriers are finding it harder to acquire and keep customers.

It seems like another tale of “recession bites industry,” but there are signs that this downturn is masking something more fundamental: that the cellphone industry’s best days are behind it.

Analysts and investors are beginning to ask whether the industry can continue growing. The challenge is both simple and daunting: how to expand when more than half of the six billion people on the planet already have phones. And even in developing countries where there are underserved markets, subscribers spend less on phones and services.

Craig Moffett, an industry analyst at Sanford C. Bernstein & Company, is one of the skeptics. “I don’t think anyone would argue that the salad days of the wireless industry aren’t over,” he said. He added that in terms of subscriber growth in North America, “we’re awfully close to saturation.”

“It’s not correct to call this a cyclical problem,” Mr. Moffett said. “To do so suggests that after the recession, growth rates will bounce back. There’s no reason to believe that’s the case.”

The industry’s tough news continued on Tuesday when [Motorola](#) announced its fourth-quarter earnings for 2008. The telecommunications equipment company, which is suspending its quarterly dividend, lost \$3.6 billion in the fourth quarter, versus earnings of \$100 million in the period a year ago. Sales were \$7.14 billion, down 26 percent, from \$9.65 billion in the fourth quarter of 2007.

Motorola sold 19.2 million cellphones in the quarter, down 53 percent from the period a year ago. It went from being the world’s second-largest maker of cellphones in 2007 to its fifth-largest.

Sanjay Jha, Motorola’s co-chief executive, said the industry would grow after the recession, but how much and how quickly is the interesting question. “While it may not be possible to return to the explosive growth we’ve seen in wireless, there will be good, sustainable growth as data applications become essential,” Mr. Jha said.

He said he believed that data — Internet and [text messages](#) — could assume the mantle of growth from voice communications. “Data can be similarly influential in changing people’s lives.”

Nobody is looking at the cellphone industry and making comparisons with Detroit. There is little doubt that there are tens of billions of dollars to be made selling phones and providing services, particularly those involving data.

The industry is pinning high hopes on a new generation of more powerful (and expensive) smartphones. [AT&T](#) activated 1.9 million iPhones in the fourth quarter, while [Verizon](#) added more than a million BlackBerry Storms.

Over all, these devices make up about 10 percent of the domestic cellphone market and are considered likely to grow in popularity, driving people to upgrade and pay for more data to do things like download songs and send text messages. In the fourth quarter, for example, AT&T’s data revenue for each subscriber rose 27 percent, to \$16.30, from about \$12 a year earlier.

Over the long term, the industry vigorously disputes the notion that it is anywhere near slowing down. “If there’s anything I can be extremely confident about, it’s that our customer base wants new phones,” said Denny Strigl, president and chief operating officer of Verizon, which owns 55 percent of Verizon Wireless (the [Vodafone Group](#) owns 45 percent).

Verizon and its chief rival, AT&T, each reported financial returns last week that hinted at challenges to sustained high levels of growth. Verizon Wireless gained 1.4 million subscribers, but that is down from 2 million a year earlier. AT&T gained 2 million subscribers, compared with 2.7 million in the fourth quarter of 2007.

SprintNextel recently announced plans to eliminate 8,000 jobs.

Some industry analysts say they believe the lure of data and the fancier phones that support it will not stop growth rates from falling over time.

Over all in the wireless industry, “there’s ton of money being made, but it’s not going to grow as fast as people have experienced or as quickly as they’re relying on it to in the future,” said Ed Snyder, an analyst with Charter Equity Research. “All this talk about data and other services bringing a renaissance of growth is wrong.”

One challenge for the long-term growth of smartphones is that they are expensive. The average selling price of the [Apple iPhone](#) is \$600 (without the carrier’s subsidies) and the BlackBerry from [Research in Motion](#) costs \$370, according to Broadpoint Amtech, a research firm.

By comparison, the average selling price of phones made by Motorola and Samsung (companies with fewer smartphones in their inventory) is around \$120. Analysts have

little doubt that this price differential will fall over time. But that still means the cellphone industry is depending on consumers to upgrade to a significantly more expensive product in the years ahead.

Smartphones are also smart in preventing their own obsolescence. As they are more dependent on software than hardware to stay up to date, a downloaded upgrade or new application (one that mobile carriers are eager to sell) can do for some of these new phones what used to require an entirely new device.

Apple's chief executive, [Steven P. Jobs](#), addressed this issue in 2007 when he introduced the iPhone, praising its adaptability when compared with more hardware-based competitors at the time.

"What happens if you think of a great idea six months from now?" he asked about the other devices. "You can't run around and add a button to these things; they've already shipped."

Smartphones notwithstanding, the number of handsets sold around the world has been falling in important regions — even before the recession. In Western Europe, around 191 million mobile phones were sold in 2007, a figure that fell to 171 million in 2008 and is projected at 165 million in 2009, according to Carolina Milanesi, an analyst with the research firm Gartner.

In the United States, people bought 176 million handsets in 2007, and 184 million in 2008. That number will probably remain flat this year, the Gartner analyst said. She said that Europe might provide some indication of where the United States was headed because, as highly populated as it is with phones, it is still slightly behind Europe.

The toll seemed to blindside handset makers in the last quarter. Motorola said last month that it sold half as many phones in the fourth quarter than it had the year earlier, and announced 3,000 job cuts at its cellphone unit.

In the fourth quarter, [Nokia](#) sold 113 million handsets, down about 15 percent from the period a year earlier. Samsung Electronics said worldwide cellphone demand might be down 10 percent in 2009.

Meanwhile, new and more numerous competitors are fighting over that demand. The industry did not have to contend with Apple until two years ago. This year may bring a resurgent [Palm](#) with its Pre smartphone, as well as Dell, which is reportedly working on its own mobile device.

"The macro environment is challenging and we believe will remain clearly so in 2009," Olli-Pekka Kallasvuo, Nokia's chief executive, said recently in a conference call with investors to discuss the earnings. He added that he believed Internet-centric phones and mobile services would drive a new generation of growth.

“It is clear that there is a tremendous opportunity to extend the value of the handset market through the integration of device hardware and Internet services,” he said. “This will drive the next wave of industry growth, and innovation will not stand still.”