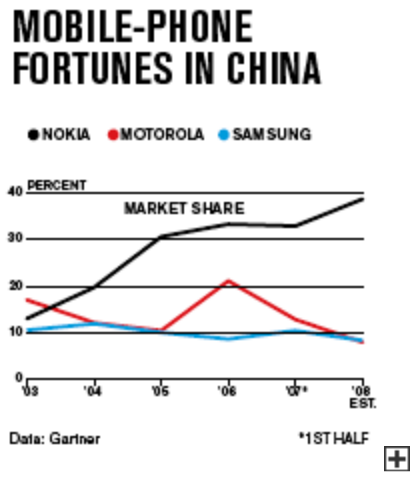
Motorola: Fading in China
Bruce Einhorn and Roger O. Crockett

Urban Chinese put a priority on cool-looking, reasonably priced phones Romain Degoul/Rea/Redux

The Ming smartphone was created for China



BEIJING - For years, Motorola has proudly displayed its corporate logo atop its China headquarters in Beijing. But Motorola rival Samsung Electronics was an official sponsor of the Olympics, and Chinese officials decreed that no other company could advertise cell phones during the Games. So, while Samsung plastered its ads all over town, Motorola couldn't even keep its sign on the building.

The advertising blackout was just the latest setback for Motorola in what has been a bruising two years in China, which was long a successful market for the company. For years, Motorola was No. 1 or No. 2 in the China mobile-phone market. But its share has plummeted from more than 21% in 2006 to an estimated 7.9% this year, according to market researcher Gartner (IT). In contrast, Nokia's (NOK) share has topped 38% of the market, while Samsung is likely to grab 8.3% this year to move up to No. 2.

Motorola can't afford to continue its nosedive. With 583 million cell-phone users, China is the world's largest mobile market. Chinese bought 176 million handsets last year and are likely to purchase 192 million in 2008, Gartner says. That compares with sales of 186 million phones this year in the U.S. and Canada. The drop in China is particularly painful for Motorola, because before the slide the fast-growing market had helped it narrow the gap overall with archrival Nokia. Motorola's "position in China was stronger than what it [was] globally," says Aloysius Choong, research manager in Singapore for market research firm IDC. "It was making a lot of the right moves." Motorola's sales in China totaled $2.6 billion in 2007, or 7% of its global revenues. That was down from $4.7 billion, or nearly 11%, in 2006.

What went wrong? To some extent, Motorola in China faces the same problem that plagues the company elsewhere: It failed to produce an encore to the popular Razr phone, launched in 2004. In China, coming out with new models is important because big-city consumers replace their phones frequently and put a priority on models that are cool-looking but reasonably priced. "They haven't come up with the next-generation product that replaces [the Razr]," says Mark McKechnie, telecom equipment analyst with American Technology Research. "The guys that replaced it were Nokia, Samsung, and even LG." Indeed, when rivals came out with similar models, Motorola's new entries were pricey multimedia phones that didn't connect with consumers. While the U.S. company developed a smartphone for China, the Ming, the touchscreen device did little to boost Motorola's overall market position.

The result: Chinese consumers have soured on the Motorola brand. Chen Xin, a 37-year-old Beijing resident who works for a local info-tech company, once bought five Motorola phones over a four-year span. But now he prefers Nokia and Sony Ericsson models, calling Motorola phones "ugly and not very easy to operate."

It hasn't helped that Motorola's competitors have been so good at tackling the China market. As an Olympics sponsor, Samsung associated itself with the feel-good experience that millions of Chinese enjoyed from the Games. The Korean company sells inexpensive models such as the Anycall CC03, a hit with first-time mobile users, as well as premium models. "We try to make sure Chinese early adopters are among the first to have our top-of-the-line phones," says Roh Ki Hak, senior vice-president.

For its part, Nokia remains comfortably ahead of the pack, thanks to its wide range of models. "Nokia has really covered every segment," says Dave Carini, an analyst in Beijing with Maverick China Research. Nokia also has been a leader in streamlining its Chinese distribution system, cutting out middlemen and working directly with retailers. The Finnish company's efficiency is one reason its handset operating margins run about 20%, while Motorola barely breaks even, says American Technology's McKechnie.

The news from China isn't all bleak for Motorola, however. The Schaumburg (Ill.) company has won important infrastructure contracts with Chinese carriers recently. In early August, Motorola announced it had landed $431 million in contracts to provide China Mobile (CHL), the market leader, with second-generation GSM equipment. That's up from $394 million for the same period in 2007. Motorola is also working with the other two cellular operators, China

Unicom (CHU) and China Telecom, says Simon Leung, president of Motorola Asia-Pacific. "We are the only ones with the technology to address the needs of all three of them," he says. As for its handset problems, "we took our eyes off the ball a little bit," Leung admits. But Motorola is launching new phones, including an updated and expanded line of Ming smartphones, according to Bruce Brda, senior vice-president for mobile devices.

Will that be enough to turn around Motorola's fortunes in China? "I would not write them off," says Sandy Shen, research director for mobile devices with Gartner in Shanghai. But given the depth of the problems, she adds, "I wouldn't hold my breath."

With Chi-Chu Tschang in Beijing and Moon Ihlwan in Seoul

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