Nokia swings into red, slips behind iPhone

JARI TANNER - Associated Press - Associated Press

Nokia Corp. no longer sells the most smartphones in the world.

The once-dominant mobile phone giant slipped behind Apple Inc.'s iPhone in the second quarter in terms of the quantity of smartphones shipped to vendors.

It's yet another unflattering milestone for the Finnish company, which on Thursday posted a €368 million ($523 million) loss in the second quarter as it continues to give up ground to its top rivals.

Apple was already making more money on iPhone sales than Nokia was on its N9 and other smartphones. Now it's also passed Nokia in terms of smartphone volumes, and analysts said South Korea's Samsung, which reports next week, may have pushed Nokia to No. 3.

"The results were very bad. Pretty much everything is heading in the wrong direction," said Neil Mawston of London-based Strategy Analytics. "Nokia has to move with lightning speed to upgrade their portfolio."

Still, markets found some bright spots in Nokia's report, like the €430 million it received in royalty income, following a legal battle with Apple.

The U.S. company last month agreed to pay Nokia a one-time sum to settle long-standing patent disputes as well as royalties for current licenses.

Also, Nokia said it was accelerating its cost-cutting plan to exceed the previously targeted savings of €1 billion in 2013. The reductions would be achieved through cuts in staff and outsourced professionals, facility costs "and various improvements in efficiencies," the company said.

Nokia's share price rose 5 percent after the announcement but then fell back and was up 1.5 percent at €4.14 in afternoon trading on the Helsinki Stock Exchange.

Chief executive Stephen Elop, brought in from Microsoft, has led the company into a partnership with the software provider to develop new smartphones using the Windows Phone operating system. Elop acknowledged that Nokia was facing greater than expected challenges in its strategy shift.

"However, even within the quarter, I believe our actions to mitigate the impact of these challenges have started to have a positive impact on the underlying health of our business," he added.

Nokia, which posted a profit of €227 million in the same period in 2010, said revenue fell 7 percent to €9.3 billion from €10.0 billion last year.

It shipped 88.5 million mobile devices in April through June, down from 111 million a year ago and 108.5 million in the previous quarter.

Its smartphone volumes fell to 16.7 million units, compared to Apple's more than 20 million iPhones sold in the same quarter.

Nokia rose to the top position in the cell phone business in the late 1990s when it overtook Motorola. Although it struggled in the U.S., it dominated almost everywhere else, primarily through mass sales of low- and mid-priced mobile phones.

Now, Nokia is being squeezed in the low end market by Asian manufacturers like ZTE and in the high end by the makers of smartphones like the iPhone and Blackberry devices. It remains the biggest mobile phone maker overall, but its global market share dropped below 30 percent earlier this year for the first time in more than a decade.

Nokia's share price has nearly halved this year, falling below €4 this month.

The Espoo, Finland-based company hopes to regain momentum through a linkup with Microsoft, whose Windows Phone operating system will replace Nokia's Symbian software. Symbian has been losing ground to Google's popular Android platform. Nokia expects to launch its first Windows phones later this year.

"While the tie-up with Microsoft is likely to yield results from 2012 onwards, Nokia is clearly in survival mode as it pushes ahead with a painful cost-cutting exercise," said Manoj Ladwa, a senior trader at ETX Capital in London.

Analyst Mikko Ervasti at Evli Bank in Helsinki found some positive news, in that the average selling price of a Nokia handset fell to €62, down from €65 in the first quarter. Elop earlier this year hinted that the company would start lowering its prices to compete with low-end rivals, particularly in China.

Ritter reported from Stockholm.

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