

Market outlooks simbrand

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PRACTICE ROUND European demand is already at a good level. The annual demand growth is estimated to be between 30 and 100% annually, depending on the segment. In the Asian market the demand level currently is low, but the growth is expected to be even higher than in Europe. In both Europe and Asia the growth will be fastest during the next couple of years, after which the growth is likely to slow down. In any case, the consensus among analysts is that the growth rates will be positive for several years to come.

The high-end segments in both the consumer and company segments play a major role in the first years. Later on, with market penetration, the low-end segments might well dominate the sales volumes. Because PDAs are still rather unfamiliar products especially among low-end segments, and since the companies are new and thus unknown, it is important to think carefully about advertising and channel investment decisions. Advertising and channel investments have a long-term effect on demand and therefore, it might be rather risky to neglect these areas of the marketing mix completely.

Finally, the group's financial officers as well as executives of the production company have emphasized the importance of accurate sales forecasts. Budgets are useless if forecasted sales are far from reality, which usually decreases the quality of decisions significantly. In addition, production facilities' output is preliminarily planned according to the forecasts. Large adjustments required in case of poor forecasts result in increased unit costs.

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ROUND 2 The total sales of PDAs in Europe are expected to grow hundreds of %. Growth will be fastest among the low-end segments. However, the price

elasticity of these segments is rather high and thus the availability of cheaper models with reasonable features has a significant impact on the realized growth.

The demand growth estimates for Asia seem even more promising than for Europe. In Asia, the market is still clearly dominated by high-end segments. By offering new high-tech models the companies can create more demand. Competence indices started to grow from the starting point of 100 but some analysts are waiting to see products with compactness and battery life ranging in between 105 - 110 this year. However, the production line cost of 3.5 M€ is high considering the rather small size of the markets at the moment. This will certainly limit the enthusiasm in launching new models with nice new features.

On the other hand, using the latest technology, that the R&D investments in the previous period have created, decreases the risk that products become obsolete rapidly. Therefore, new advanced products brought to markets now might turn out to be very successful in the long run. If companies decide to launch new products, they have to be sure that their products are not too close to each other in terms of features. Similarity causes the products to cannibalize each other. The financial market is turning cautious and more risk averse.

The interest rates for start-ups are skyrocketing to two-digit figures. Companies are hit as soon as they run out of equity. ROUND 3 The adoption of PDAs is still accelerating in both market areas. Most analysts forecast that the stage of rapid growth is going to last for at least a couple of years, but

later on the proportional growth will probably decrease. In addition, Asian growth figures are estimated to be constantly bigger than the European ones. PDA markets in Asia have undergone significant structural changes as low-end segments have gained a foothold in a relatively short period.

What is more, it seems that the growth of low-end segments is mainly attributable to the areas associated with the lowest standard of living in the world. Companies are able to produce the same products they offered last year at a lower cost. This is partly due to economies of scale. In addition, lower costs are a result of knowledge improvements, i. e. as competence indices increase the earlier models can be produced more efficiently. Even though the low-end segments have become more and more important, companies cannot afford to cut R&D investments considerably.

High-end segments are willing to pay more for innovative models and as a result they are going to be important especially in monetary terms in the future. The size of new PDAs is already very reasonable. Nowadays, the typical frontal area of a high-end device is largely covered by the display and further decreases in size will probably not be appreciated as much as previously. The components have also been pushed to very small sizes. As a result of rapidly growing PDA markets, the economies of scale factor has been decreasing the unit costs along with the increase in the technological know-how resulting from the R&D efforts.

Interest rates remain at high levels. Therefore, interest payments might become a significant burden for highly leveraged companies. ROUND 4 As estimated in the previous period, the PDA markets in both continents

continue to grow rapidly. Due to the vast population in Eastern Asia, the Asian households should grow to be the biggest segment even in global terms at the end of this period. However, the high price sensitivity of the segment will probably lead to low unit margins resulting in high growth at the expense of profit margins.

Moreover, the high-end segments seem to be rather saturated and the increase in sales is about to stall to the level of repurchases. The differences in the Asian segments seem to continue to be larger than the differences in the European segments. This holds for all the preferences. What is more, the price sensitivities of the Asian segments are very different. As the number of models available in the markets has increased, the design has become a more important determinant of demand. This trend is prevailing in Europe.

Comprehensive market research carried out in Europe revealed a challenging matter related to avant-garde design. High-end segments seem to appreciate avant-garde even more than before. However, some of the low-end customers reacted rather negatively to the design. Interest rates are at the same level as in the previous round. ROUND 5 As estimated, the growth of demand for PDAs has decelerated in both market areas. The deceleration of growth will turn into negative figures in high-end segments. However, the demand of low-end segments in both Europe and Asia might still grow at the rate of 100 %.

As demand growth among all segments has been above 70 % in the recent years, these pessimistic scenarios bring about new challenges for the management in the future. Advertising seems to have a bigger effect on

consumer segments than on corporate segments. The consumers' response to advertising is approximately twice the response of the corporate segments according to the latest consumer research reports. Central banks all over the world have decreased their steering rates in order to lessen the severity of a threatening recession. As a result the interest rate level has decreased significantly.

Moreover, the companies in the industry are now financially sound. The risk premium in the rates is decreasing. ROUND 6 The stage of rapid growth seems to be over in both Europe and Asia. Demand for PDAs is still growing globally but the growth rates are far from what they used to be. What is more, the long-term forecasts show that demand growth is going to slow down continuously as the markets mature further. However, the total size of both markets is rather large as a result of the rapid growth in previous years. Therefore, companies with satisfactory market shares should be able to earn nice profits.

The high-end segments seem to appreciate functions, perhaps more than expected. Therefore, an extensive set of functions is required from the most popular models. As a result, the importance of functions is expected to grow gradually among low-end segments as well. However, the cost of adding functions is estimated to increase as the demand for them increases globally and the specific components become scarce. Interest rates continue to decrease. However, the difference between current and last round's level is not very significant.

Excluding the function-specific components (digital camera lenses, headsets, 3G-technology etc.), the material costs should decrease as the most important manufacturers have managed to increase production capacity considerably. ROUND 7 The total demand for PDAs is still growing globally. The industry has clearly reached a stage of maturity and as a result, a significant growth in sales can only be achieved by increasing market share. Since typical devices are now characterized by large displays and advanced multimedia features, improving battery life and saving electricity consumption have become more challenging.

The state of the world economy is rather unchanged and the interest rates are at the previous round's level ROUND 8 Total Global growth rate is about the turn into negative figures, the competition for market share is expected to intensify. The number of products available has increased in both markets and as a result, the risk of similar products cannibalizing each other has become very real. Therefore, companies that manage to find new and innovative combinations of features might sell lots of devices at good prices.

The most important piece of news of this period relates to the components. New double-core technology introduced by the two biggest manufacturers is going to revolutionize the processing speed, size and power usage of the devices in the near future. Therefore, investments in R&D are expected to produce new competences more efficiently than ever before. What is more, the new components are cheaper to manufacture and as a result, production costs are expected to remain at the current level for the next few years and to decrease after this.

Economies in Asia are growing rapidly after the recent recession and thus, the interest rates might increase slightly. However, there are still many uncertainties in the world's economy, for example, high unemployment in the EU and skyrocketing debt levels in the USA. ROUND 9 Despite the expected economic upturn, unemployment is still at high levels in most of the European countries. In addition, both consumer and business confidence indices have reached a decade low.

Mostly as a result of these economic factors, the aggregate demand of PDAs in Europe is estimated to decrease for the first time in history. Households are the only segment that is associated with growth in demand. However, the price level has a large effect on the development and the realized demand might be somewhat different from these forecasts. In Asia on the other hand, the rapid economic growth continues and as a result, according to the analysts, the demand for PDAs continues to grow. The new generation of components has rapidly replaced the old ones.

Companies are expected to launch several new models with advanced features. According to recent market information, the high-end segments in Asia are highly appreciative of the latest technology. The component prices have decreased earlier than expected. The development is going to be reflected in the unit costs already in this period. Interest rates continue to increase mostly because of the favorable economic development in Asia. ROUND 10 As the markets have matured and competition has become ever tougher, especially in Europe market demand for PDA's has substantially decreased.

This put an increased emphasis on marketing, features and price of the product. The overall appreciation of entertainment and good looks is still strong among households as is security for the corporations. According to market analysts, the weak European market development will most likely continue next year and now would be the time to consolidate one's market position especially in Asia. Even though Asian market development was better than in Europe they too are expected to decrease more drastically next year.

Analysts also predict a further reduction in sales next year due to the fact that second hand products are expected to come available in masses. As the broader market becomes more stable, mainly due to the strict interest rate policies of the largest central banks, and as the size of PDA market decreases material prices reach a new low. The decrease in material and manufacturing prices partly offsets the decrease in sales figures. Central banks fearing market overheating in Asia have yet increased their interest rates creating some financial trouble for the highly levered companies.