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Why Apple and Google Reign Supreme in the Smartphone Kingdom

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We touched on telecom mergers last week, and the article prompted a question – who is the real device king in the smart phone industry? Nokia maintains the largest user base of mobile phones in the world, Research in Motion (RIMM) is first choice among corporate users, and Apple (NASDAQ:AAPL) and Google (NASDAQ:GOOG) have the hottest devices on the market. So who is number one? Read on to find out.

Nokia Corporation ADR (NYSE:NOK): Nokia still dominates the total number of cell phone units sold throughout the world, but is struggling in the lucrative high-end smart phone market.

Analysts and consumers widely agreed that Nokia needed to take the company in a new direction after the introduction of CEO Stephen Elop in 2010; the partnership with **Microsoft (NASDAQ:MSFT)** wasn't necessarily what they had in mind.

Share prices dropped 14% upon news of the announcement, and thousands of staff members reportedly walked out of offices. We agree with the public sentiment; Android would have been a much more attractive software platform to replace the archaic Symbian. Nokia's market share has fallen from 39% in 2007 to under 30% today, reflecting the weakness of the Symbian platform, and underlining how far Nokia has fallen from its dominant position of the last two decades.

Nokia does maintain some positives. Its scale (it still holds almost a third of the world handheld market) and manufacturing capability give it flexibility with pricing and cost structure. Its deep distribution channels in most parts of the world, including India and China, give it some room for growth. And it holds 50% of consumers in markets where entry-level phones are in demand.

But with the massive success of the Android platform, the steady strength of iOS, and RIMM's efforts to get back in the game, we don't see much room for Nokia to expand in the high-end market. The struggles of the Windows Phone 7 platform before the Nokia partnership (Windows Phone 7 only gained 3% market share since launch despite huge marketing initiatives) also don't inspire much confidence. As they say, two wrongs don't make a right. A Nokia-Google partnership could have helped Nokia reclaim its top status in the phone-manufacturing industry. With Microsoft, Nokia becomes a king of the past. Nokia trades at $8.61 at the time of writing.

Research in Motion Ltd.: The handheld device maker has been losing market share to Android and iOS, and it's not hard to see why. When you compare an iPhone or Droid with their gorgeous screens and intuitive interfaces side-by-side with a Blackberry, the Blackberry seems a thing of the past.

RIM's handhelds still maintain leading email and messaging functionality, but their multimedia browsing capabilities, so important in today's day and age, remain well behind competitors. RIM lost 4.6% of market share between November 2010 and February 2011, and has dropped to 27% of overall market share after controlling nearly 34% late last year.

Ed Snynder, an analyst with Charter Equity Research, wrote in a note to investors in April of 2010 that he expected RIM to maintain its lead in e-mail based smart phones, but that it had little chance of maintaining its market share, pricing, or margins long-term because of RIM's failure to address consumer appetite for touch-screen phones.

RIM CEO Jim Balsillie recently countered claims that RIM is faltering, stating that its slip in U.S. market share was because of a greater company focus overseas. The strategy explains some of the U.S. market share loss, as global unit sales were up 38.2% over the previous year, but not all.

Fourth quarter results of last year point out a distressing trend – RIM's global market share fell from 19.5% in the same quarter of the previous year to 13.7%. It means the loss of market share RIM experienced in the U.S. is beginning to happen globally as well. In order for RIM to have a fighting chance, it has to release a hit touch-screen phone – and soon. RIM maintains a large base of users, but that base could evaporate if current trends continue. Shares trade at $54.46 at the time of writing.

Apple Inc.: Apple just disclosed stellar second quarter results, with 83% increased revenue driven by increases of 126% in iPhone revenue growth, 32% in Mac revenue growth, $2.8 billion in iPad sales, 23% in iTunes revenue, 17% in software sales, and 23% from peripherals revenue. The only area that did not see growth was iPod revenue, which fell 14% due to iPhone cannibalization. Net income for Apple's second fiscal quarter was $5.99 billion, up 95% from $3.07 billion a year ago.

The phenomenal numbers were spurred by record iPhone sales, and mean Apple has overtaken Nokia to become the world's largest handset vendor in terms of revenue. According to Strategy Analysts' calculations, Apple sells the iPhone for an average of $638 each compared to Nokia's $87 average per phone.

All these numbers confirm what we already knew - Apple is indeed the king of tech devices. No one has innovated as much in the past decade as Apple, transforming itself from a niche computer company lagging far behind Microsoft into the consumer electronics and media juggernaut it is today. Apple has caused a revolution with each handheld product it has released; the iPod, the iPhone, and now the iPad. And that doesn't even include Apple's success with the Macbook, iTunes, and App Store. When you consider the leaps Apple has made in terms of innovation, revenue, and brand recognition, no one touches Apple. Shares trade at $351.07.

Google Inc.: If Apple is king, Google takes a unique position on our list. It doesn't actually manufacture handheld devices, but its Android software is the hottest thing in the mobile phone market, and the astoundingly successful operating system arguably wields the greatest influence in the smart phone market today. Using our medieval analogy, Google would be like the Church, extending its influence across all phone makers and shaping the future of the mobile market as we know it.

The first Android device released in late 2008, and the operating system took a modest 2% of market share in that year. It held just 7% market share as recently as January 2010 according to comScore, but Android has since exploded. The OS has nabbed about 31.2% of the US mobile subscriber market as of April 2011 according to comScore, while Nielsen places Android at 29%, still ahead of the 27% market share Apple and RIM maintain. The NPD group says Android has gobbled up as much as 53% of the U.S. consumer smart phone market, outselling all its competitors combined.

All reports indicate that Android is the number one operating system in the mobile market. Nokia's 14% drop in share prices when it didn't partner with Google speaks volumes about consumer and investor confidence in the Android operating system. Google posted 27% year-over-year growth last week, and shares currently trade at $524.91.