acquisition of Miami-based distributor Cellstar in March 2007. Cellstar's Miami office now acts as Brightpoint's gateway to Latin America. Taking into account these new ventures, Brightpoint expects to handle over 100 million handsets in 2008, up from a combined total of 64 million handsets handled by Dangaard and Brightpoint in 2006.

Trends in mobile distribution

Consolidation

Following the aggressive international expansion strategies employed by the large specialist distributors during 2005-2006, there has been a trend towards consolidation in the market. As handset prices are pushed ever downwards, large distributors are hoping the economies of scale afforded by their size will streamline supply chains and offer cost savings attractive to operators, retailers and dealers globally.

Value-added services

Distributors are moving on from offering just traditional sales, warehousing and transportation operations, as most now offer at least some value-added services. As the mobile value chain focuses more clearly on the needs of the end user, fulfilment services can significantly increase production costs for manufacturers in a market where customer demand changes regularly. In an environment where flexibility can be pivotal for competitiveness, outsourcing some of the final stages of the production process to a distributor can be central to the vendors' responsiveness to the market. Some advantages of value-added services are:

- **Handset personalisation and customisation –** loading proprietary or customised operating systems, operator branding, and packaging and labelling can all be undertaken closer to the point of sale. Handsets can therefore be efficiently targeted to their end market without involving the manufacturer in complex processes at their production sites.
- **Reduction in inventory and product obsolescence –** by keeping devices general until close to the point of sale, changing customer tastes are more easily accommodated. The supply chain is much shorter for the finished product reducing the risk of obsolescence.
- **Improving customer service –** customers may be offered products suitable to their needs in a shorter lead time but they can also receive better after-sales service. Returns and repairs handled by a dedicated distributor with local outlets may be more efficient for the manufacturer than having to set up operations to deal with minor logistical and repairs problems.

problems for manufacturers and authorised distributors and retailers. The grey market describes the legal, but often unauthorised, movement of new goods between markets in order to avoid high import duties and thus allow goods to be sold at lower than the normal market rate. Although the term is sometimes understood to include the distribution of second-hand goods, Informa Telecoms & Media uses it to refer to the movement of new goods exclusively. The grey market not only immediately affects manufacturers' and distributors' profits, but can also damage the product's reputation, and therefore its long-term success, as the manufacturer has no control over the way it is presented, the after-sales service offered or the price segmentation.

Africa

Africa presents particular issues for handset manufacturers and distributors. With such varied geography, delicate political situations and so many ethnicities and languages that, even within a single country, the challenge for marketing and distribution is immense.

The majority of handsets arrive in Africa from Dubai or China, with official distributors tending to receive devices directly form manufacturers plants or own trade hubs, such as China or Singapore for Motorola.

South Africa is the region's only official distribution hub although, in reality, most handsets are purchased on licence agreements in the country, but actually arrive in Africa from Dubai or China. South Africa is also the only market in the region in which operators are active in procuring handsets. Elsewhere in Africa, operators procure handsets only to support promotional campaigns and will generally do this through the parent company rather than directly with the manufacturer or distributor.

Import duty on handsets is a major reason put forward by operators as a barrier to entering the handset sales market. Informa Telecoms & Media understands that where import duties have been lowered, prices on the informal markets have also dropped simultaneously, thus fuelling increased growth but still remaining an obstacle for operators.

As in the Middle East, there is a large and influential grey market in Africa, is although it is declining in some markets where official distributors have established themselves with warranties, service and repair centres providing additional value to the handset customer. Despite this, most distributors and manufacturers state they cannot compete with the informal handsets importers, and this is likely to remain an issue in the African market for many years still to come. The grey market is thought to account for 70-80% of the total handset market in the region.

Bartering is a common trend within the informal sector as neither the distributors nor the operators offer a 'trade-in' option.

Trends in online mobile phone retail

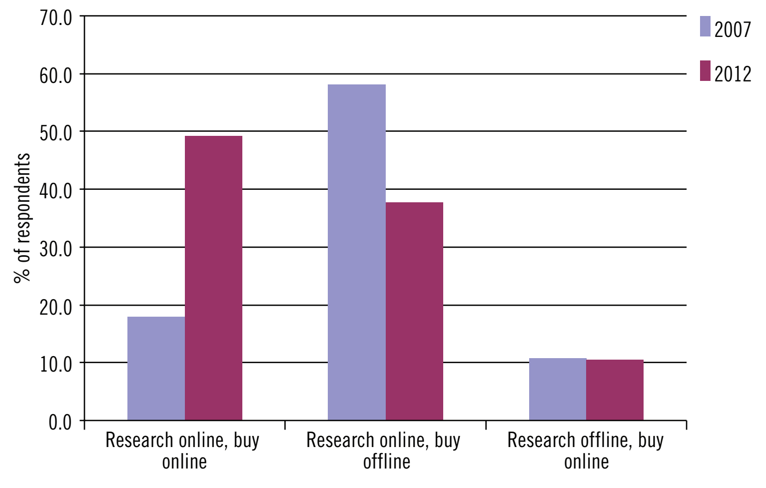
As part of Informa Telecoms & Media's *Mobile Distribution and Retail Industry Survey 2007*, industry experts across the world were asked their opinion on the use of the online channel to retail mobile phones. The results clearly point to an expectation in the industry that online retail will be a significant force in mobile phone distribution over the five years to 2012.

Survey respondents believed that, globally, the proportion of sales of mobile telecoms products handled over the Internet will almost triple over the forecast period, from 8% in 2007 to 21% in 2012.

More than 80% of survey respondents considered developing an online presence to be either critical or very important to mobile retail. When the same survey was conducted in 2006, only 65% of respondents believed the online channel to be critical or very important to the future of mobile phone retail.

Such burgeoning belief in online retail could be explained by a shift in the way respondents believe customers will use the online channel by 2012. 83% of respondents thought that, when customers used the Internet in 2007, they did so to research products before making any purchase through an offline channel. By 2012, survey respondents indicated that customers would be most likely to be using the Internet to both research and buy mobile handsets.

Figure 4.5: Industry opinion: How consumers use the Internet for purchasing mobile telecoms products, 2007 and 2012



Note: results refer to the percentage of respondents who believed customers would use the Internet in a certain way 'very often'.

Source: Informa Telecoms & Media's Mobile Distribution and Retail Industry Survey 2007.

The declining importance of the Internet as merely a research tool in retail is also reflected in respondents' understanding of why customers go online to shop. Respondents considered