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Declining sales in the UK newspaper industry
 Manufacturing remains in the doldrums
 The mobile phone market matures but Nokia retains its lead

A Manufacturing Base

UK must have a thriving manufacturing sector. We are not interested in attempts to pick winners or buck the market. But we need to get in place the long-term building blocks that will create a sustainable and prosperous manufacturing base."

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**Source: Digby Jones,
 The Head of the CBI
 8 March 2002**

STILL PLENTY OF TIME BEFORE RATE HIKES ARE NEEDED

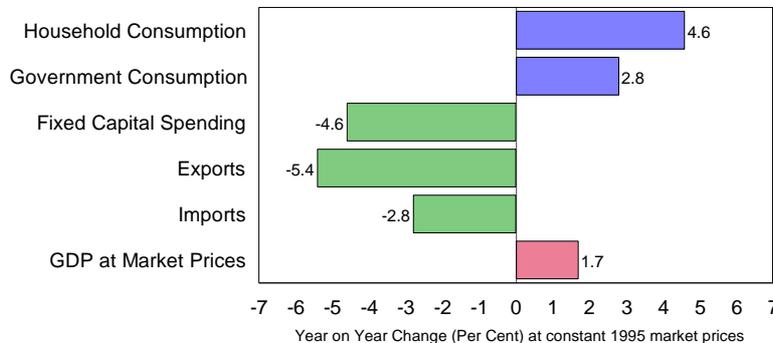
The [Bank of England](#) kept interest rates at 4.0% following their March meeting—base interest rates remain at their lowest level for 37 years. The decision was totally expected in the financial markets—a survey of economists by [Bloomberg](#) found unanimity with city broking houses all opting for now change in short term monetary policy. Nominal interest rates are expected to rise this summer. An early rate hike may come as early as May when the Bank of England next publishes its inflation report and quarterly forecast.

In recent weeks, we have seen several pieces of new evidence that the British economy is set for a cyclical upturn in the second half of 2002. Firstly the monthly report from the [Chartered Institute of Purchasing Managers and Supply](#) found that advance order books in both manufacturing and service industries are now signalling an increase in output in the coming months.

(Continued on page 2)

CONTRIBUTIONS TO AGGREGATE DEMAND

Source: National Income Accounts 2001 Q4



Special Report: Circulation Problems: National Newspapers Lose Their Appeal

Latest circulation data from the [Audited Bureau of Circulation](#) for the UK's national daily and Sunday newspapers confirms the long-term trend of falling circulations. However, some newspaper titles have bucked the trend to achieve significant growth. National newspapers face increasing competition from other media sources including digital TV, the Internet and a strong regional and local newspaper industry. How will they respond?

The tables on page 3 illustrate the long-term change in the circulation of the major UK national Daily and Sunday newspapers, comparing circulation at the start of the 1990s with the most recent data at the end of 2001:

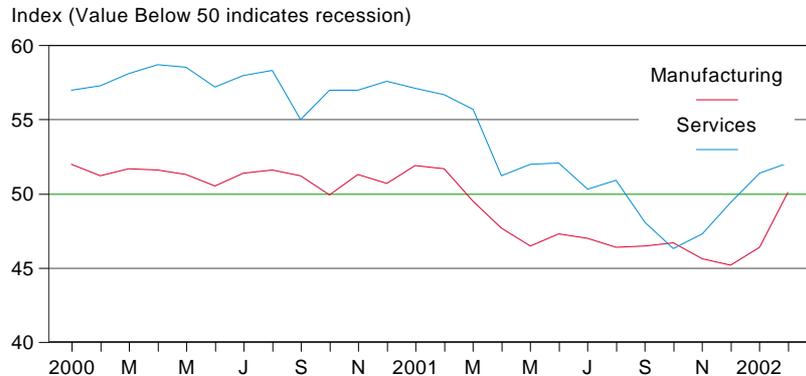
As the tables highlight, the majority of daily and Sunday papers have suffered declines in circulation over the last decade. However, there are some notable exceptions, suggesting that certain newspapers have a much stronger understanding of key segmentation issues and how to position a newspaper to exploit changing customer needs and wants.

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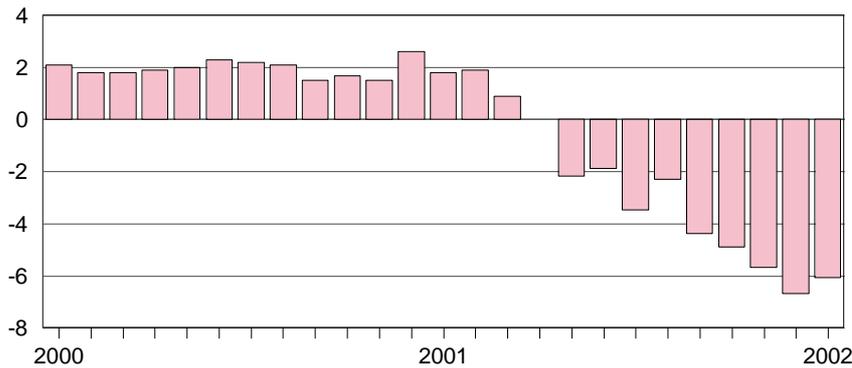
CHARTERED INSTITUTE OF PURCHASING AND SUPPLY

An index value of 50 signifies no change in the balance of orders coming into supply businesses, any value above 50 implies an expansion of activity, and a value below 50 indicates a contraction in demand for inputs. This index is a useful **lead indicator** of changes in domestic production going forward a few months. Notice from the chart above that the manufacturing index has been well below 50 since the early Spring of 2001 – a clear sign of the manufacturing recession. For the first time in over a year, the manufacturing purchasing index is now (albeit tentatively) above the 50 mark. And there are signs that the service sector is also picking up again (although the sector as a whole has avoided recession in the current cycle).



UK MANUFACTURING IN DEEP RECESSION

Percentage change in output on a year earlier



Not An Optional Extra

Manufacturing employs some 4 million people and contributes £155bn a year to GDP. Manufacturing is essential to a healthy economy, not an optional extra. Nobody should be in any doubt as to the importance of the sector. It employs some 4 million people and contributes £155bn a year to GDP. Manufacturing is essential to a healthy economy, not an optional extra."

Digby Jones (CBI)

Manufacturing industry remains in deep trouble according to the latest data from the Office for National Statistics. The year on year growth rate fell to -6.1% in February. In the last three months, there have been significant decreases in output of 5.9 per cent in the electrical and optical equipment industries, 3.3 per cent in the transport equipment industries, 3.3 per cent in the basic metals and metal products industries and 3.2 per cent in the machinery and equipment industries. The weakness of demand for mobile phones is a major cause of the sharp fall in output of the electrical and optical equipment sector.

The Mobile Phone Market Matures—But Nokia Retains Its Lead

Mobile phone handset manufacturers have suffered their first ever decline in worldwide sales according to latest data published by Dataquest. A slowing in new mobile phone subscribers across Europe – the main market – caused a 3.2 per cent decline in worldwide phone units to 399 million in 2001.

The Late 1990s—a Period of Rapid Growth

Few consumer products have demonstrated such impressive worldwide growth in demand as the mobile phone. Between 1996 and 2000, the worldwide market experienced a compound annual growth rate ("CAGR") of almost 60 per cent. Initially Europe led the surge in demand. By 1998, Europe accounted for 32.5 per cent of global sales, followed by the USA (17.1 per cent). Between 1998 and 1999, both the European and US markets continued to grow strongly, but they were eclipsed by even more rapid growth in Asia, Latin America and China.

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Daily Newspaper Titles	Jan-June	July - Dec	% Change
	1990	2001	
	Circulation	Circulation	
	(Avg per Day)	(Avg per Day)	
Times	432,453	719,861	66.5%
Financial Times	291,531	478,535	64.1
Daily Mail	1,670,036	2,476,625	48.3
Guardian	430,458	413,674	(3.9)%
Daily Telegraph	1,085,787	1,020,889	(6.0)%
Sun	3,936,692	3,472,841	(11.8)%
Evening Standard	517,372	430,023	(16.9)%
Daily Record	777,434	597,419	(23.2)%
The Mirror	3,129,890	2,187,960	(30.1)%
The Express	1,561,754	957,574	(38.7)%
Independent	414,357	230,633	(44.3)%
Total for Daily Newspa-	14,247,764	12,599,014	(11.6)%

Source: Audit Bureau of Circulation

Sunday Newspaper Titles	Jan-June	July - Dec	% Change
	1990	2001	
	Circulation	Circulation	
	(Avg per Day)	(Avg per Day)	
Sunday Telegraph	586,673	812,077	38.4%
Mail on Sunday	1,889,431	2,381,142	26.0
Sunday Times	1,186,667	1,384,233	16.6
Observer	566,854	473,521	(16.5)%
News of the World	5,036,019	4,030,283	(20.0)%
Sunday Mirror	2,910,867	1,836,413	(36.9)%
Sunday People	2,588,468	1,382,366	(46.6)%
Sunday Express	1,727,376	863,779	(50.0)%
Sunday Sport	451,951	202,938	(55.1)%
Total for Sunday Newspa-	16,944,306	13,366,752	(21.1)%

Source: Audit Bureau of Circulation

Price Cutting Boosts Circulation

The growth in circulation at The Times has been largely due to aggressive price cutting. News International (the owners of The Times and the Sun) began to cut the price of the paper aggressively in 1993.

This pricing strategy was intended to attract new customers who would develop loyalty to the newspaper and continue to purchase it once the cover price was raised towards the price levels of other "quality" newspapers.

This is a good example of a [penetration pricing strategy](#). The increase in newspaper circulation was not achieved without substantial cost and

The Times is still distributed throughout the UK at heavily discounted prices to newspaper retailers.

Focusing on the European Market

The increase in circulation at the Financial Times largely reflects expansion into European editions (including FT Deutschland - whose circulation is now over 75,000) and discounted prices abroad.

Growth at the Sunday Telegraph is largely the result of a discount subscription scheme.

Mid Market Segment Expands

Perhaps the most intriguing change in newspaper performance in the last ten years has been the increase in circulation of the Daily Mail and the Mail on Sunday - both newspapers operating in the mid-market segment.

The Daily Mail grew its circulation by 48% and the Mail on Sunday by 26% between January 1990 and December 2001.

Compare this performance with that of the Mail's main mid-market competitor. The Daily Express suffered a 39% decline over the same period and the Sunday Express a fall of 50%.

Dumbing Down?

The Mail titles appear to have succeeded by combining some elements of quality news and editorial with a move "downward" to include more content elements typically found in

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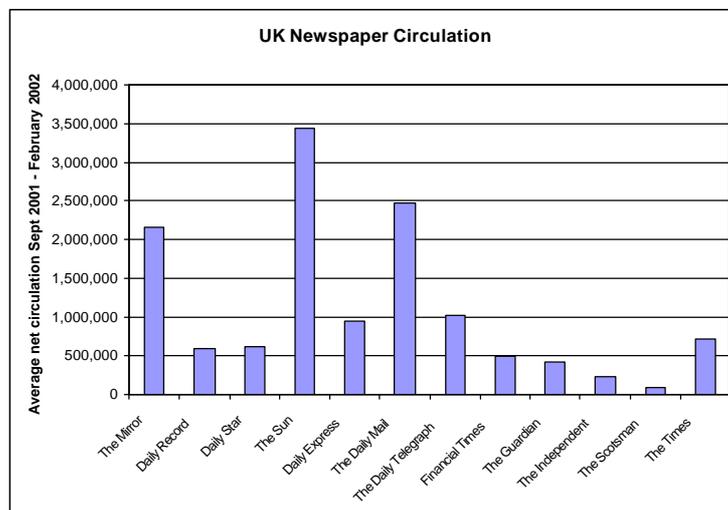
the popular mass-market segment (such as celebrity features). The Express titles have been hurt by the improved quality of the Mail on one hand, and by shifts towards the mid-market segment by mass-market tabloids. As a result, the Daily Mail now dominates the mid-market segment, responsible for 72% of mid-market circulations compared to 44% in 1990.

Factors behind the overall decline in national newspaper circulation

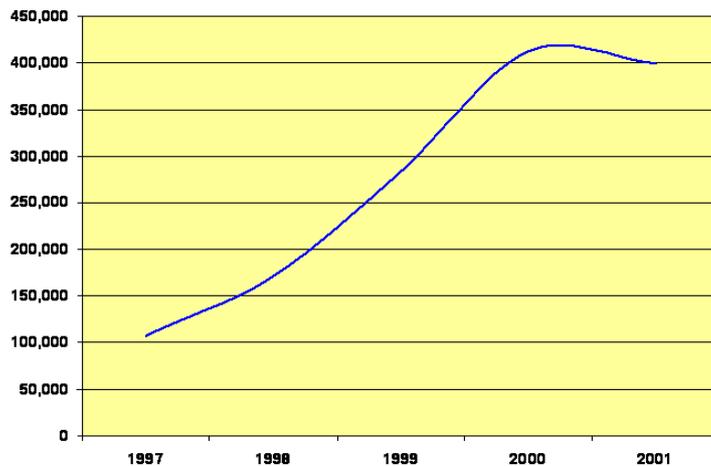
Several factors have impacted newspaper circulations over the last decade. These are summarised below:

In the industry as a whole, whilst circulation has fallen, the size of newspapers (measured by the number of pages) has increased along with cover prices. It has become necessary to offer the consumer more in terms of information and coverage - leading to more pages and an increase in the number of "supplements".

Factor	Comment
Consumer lifestyle changes	UK consumers have greater demands upon their time and, consequently, many consumers have less time to devote to reading daily newspapers.
Emergence of new news and extra information channels	<p>The increased penetration of Internet access and usage, together with new Digital TV channels (several dedicated to news) and the deregulation of UK radio market, allows consumers to obtain "news" and information at more frequent intervals and at a time that suits them.</p> <p>The Internet in particular allows consumers to define and filter their news requirements more closely and to obtain such information at very low / zero cost. The ability for consumers to "personalise" news and information is significant to daily national newspapers that have, traditionally positioned themselves as a "one-stop-shop" for news.</p>
Younger generation less likely to purchase newspapers	<p>For various reasons, including the two described above, the younger generation demonstrates significantly less enthusiasm for buying a daily national newspaper than older generations.</p> <p>The Daily Mail Group has responded to this change by successfully introducing a free morning newspaper (Metro) aimed at young, time-poor commuters in UK cities who would not otherwise buy a morning newspaper. This strategy has achieved a total UK circulation of nearly 830,000 per day by December 2001 making Metro the UK's sixth-largest daily newspaper.</p>



**Worldwide Mobile Phone Sales
Phone Shipments ('000 Units)**



Source: Gartner Group / Dataquest / Nokia

The unexpected decline in 2001 has been attributed to a number of factors:

(1) In 2000, global manufacturing capacity finally caught up with demand. In other words, the growth in actual mobile phone "shipments" can partly be explained by the major manufacturers increasing production to meet pent-up, excess demand in the major economies;

(2) Wireless application protocol ("WAP") failed to fire the imagination of mobile phone users. A much-anticipated take-up on WAP phones failed to materialise, particularly in the second half of 2000 when many WAP-enabled models were launched;

(3) Mobile network operators (e.g. Vodafone, Cellnet, Orange) began to switch their attention from straightforward customer acquisition (at any price) to focusing on generating greater revenue from existing customers. As a result, in 2001, the "pre-paid" mobile phone market suffered from the withdrawal of significant handset manufacturer discounts;

(4) In 2001, there was unexpectedly high demand from mobile phone users for Subscriber Identity Module ("SIM") subscriptions. These enable users to take their SIM subscription from phone to phone. As a result, a strong market for second and third-hand phones has emerged, reducing the demand for new units;

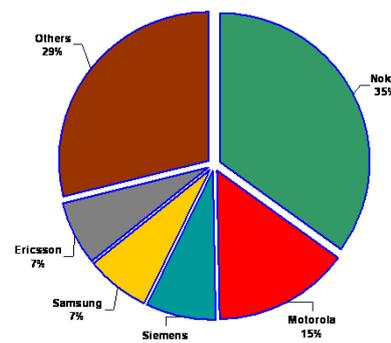
(5) Demand from retailers to the handset manufacturers was reduced by efforts to lower levels of unsold inventory (stocks);

(6) Consumers worldwide seemed reluctant to upgrade their mobile phones during 2001, choosing instead to wait for the emergence of so-called "Third Generation" (or "3G") technology in 2002 and later.

Despite an overall decline in global shipments, Nokia managed to increase its sales from 126.4 million units in 2000 to 139.7 million units in 2001. As a result, it increased its market share from 30.6 per cent in 2000 to 35.0 per cent in 2001.

Nokia first gained leadership of the worldwide mobile phone market in 1998 when it overtook Motorola. This followed the transition from analogue phones (where Motorola was strong) to those using digital technology. In 1998, Nokia's market share was 22.9 per cent.

**Worldwide Mobile Phone Industry
Market Share by Manufacturer**



Source: Gartner Group / Dataquest / Nokia

Nokia is now synonymous with the global mobile phone market. When it reports trading results (on a quarterly basis) they are taken as the bell-weather for the overall market. Favourable or negative signals from Nokia's performance impact stock market valuations of many other companies, particularly those businesses that supply components for inclusion in Nokia products, or retail businesses (e.g. Carphone Warehouse) dependent on consumer demand for mobile products.

Nokia itself has two main divisions – Nokia Networks and Nokia Mobile Phones. It also has a separate venture capital unit and corporate research and development organisation – Nokia Research Center – that employs about 35 per cent of its workforce. Interestingly, in a recent study of major international brands, the Nokia brand was rated the world's fifth most valuable after Coca-Cola, Microsoft, IBM and Intel. Despite its global reach and outlook, over 40 per cent of Nokia's workforce remain in its home nation – Finland.