SMARTPHONES: THE TIME OF DOUBLE-DIGIT GROWTH IS OVER. DEAL WITH IT!
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Introduction

Almost any recent analysis you read about the smartphone market will, to one extent or another, focus on doom and gloom around the subject of market opportunity. At the same time, many of those same industry watchers seem surprised that market growth is slowing.

Why the confusion? We think a careful look at the data is in order.

Let’s begin by looking at mobile phone penetration numbers in mature markets. In the US and Europe’s Big Five (EU5), penetration has reached 91%.

In urban China, that number is 97%! The numbers are very clear: nearly everyone has a mobile phone! And, if those numbers were not staggering enough – 65% of Americans, 74% of Europeans and 72% of urban Chinese consumers own a smartphone.

These regions represented roughly 45% of overall sales in 2015. With this kind of market penetration already in place, where will future sales come from? As is often the case, the answer depends on how you look at it.

From an overall smartphone market perspective, sales will come largely from:

• Convincing die-hard feature phone users that they need a smartphone
• Persuading current smartphone owners that they want and need the “next big thing”

Changes in smartphone OS market share, along with sales for the top two smartphone brands (Apple and Samsung), will mainly come from influencing users to switch from the competition.

Let’s take a look at these areas in more detail.

Die-Hard Feature Phone Owners

The first market opportunity for new smartphone sales lies within the current feature phone owners. In most mature markets, however, this opportunity is shrinking at a steady pace, as the number of consumers who do not already own a smartphone gets smaller every year.

Furthermore, those people still clinging to their feature phones will not easily be convinced they need to make the jump to a smartphone. If they haven’t yet felt the need – nearly a decade into the smartphone era – it’s unlikely that large numbers of them will change their minds anytime soon, though device manufacturers and carriers continue to push them in that direction.

In many mature markets, including the US, the range of feature phones stocked in the carriers’ stores has narrowed significantly. As availability decreases, feature phone owners are effectively being forced by circumstances to upgrade to a smartphone. Eventually, smartphones will be everywhere, but this “last mile” will likely take longer than previously expected.

Many feature phone owners simply do not want a smartphone. More than half of feature phone owners in the US who are intending to change their device in the next 12 months tell us they either are not sure or do not intend to upgrade to a smartphone. In the EU5, the largest barriers to upgrading to a smartphone cited by consumers are the price of the device (46%), that the device may be too complicated to use (31%), and that the additional features or capabilities may go unused (31%).

Price is clearly the biggest hurdle in getting feature phone users to upgrade to a smartphone. This point is illustrated by spending patterns. In Germany, 79% of recent feature phone buyers spent less than €60 on their device, while just 19% of smartphone users spent that same amount. Smartphone consumers spent a total average of €276, while feature phone buyers spent an average of only €57.

While smartphone market demographics have shifted over the past two years to include technology laggars, the die-hard feature phone user base remains virtually unchanged. Feature phone owners tend to be older, are more likely to be retired, and often have a limited income. In Great Britain, 52% of feature phone owners are over the age of 55, 47% have an income of under £30,000, and 27% are retired.

In Germany, 79% of recent feature phone buyers spent less than €60 on their device, while just 19% of smartphone users spent that same amount.
In comparison, just 19% of smartphone owners are over the age of 55, 29% have an income under £30,000, and 8% are retired.

While brands like Huawei, Wiko, BQ, and OnePlus have introduced phones that have done well for more price-conscious EU5 consumers, these phones still cost more on average than current feature phone owners are willing or able to spend. In Italy, only slightly more than a third (35%) of current feature phone owners plan to spend more than €150 on their next device. Current smartphone owners planning to change their device are clearly more willing to invest in their phones, with 52% of them indicating they are prepared to exceed that price threshold.

Considering all the major hurdles for upgrading to a smartphone, it becomes clear that feature phone owners across markets are challenged in finding smartphones that offer them what they consider good value for money spent. These owners are unlikely to upgrade to a smartphone until they can no longer rely on their current device, and are left with no other choice.

When we asked consumers about their intention to get a new smartphone within the next 12 months, the opportunity in the US and EU5 did not look too bad, where 46% and 48% of consumers (respectively) plan to replace their smartphone.

Replacement Cycles Are Getting Longer

The smartphone market has developed around both the devices themselves and the platforms they run on. This state of constant change has resulted in people always being on the lookout for the “next big thing.” Over the past couple of years, smartphones have all started to look the same, with technology innovation measured in steps rather than leaps. This trend, combined with widespread changes to contract structures offered by mobile operators, has caused consumers to think a little harder about whether they need to upgrade their device or continue to use what they have.

While looking year over year might not be enough to see a clear trend, examining the past three years makes it clear that smartphone life cycles are getting longer.

Bucking this trend is the heavily prepaid market of Italy, where a shortening of the life cycle was seen in 2015. Of interest during this same period is the fact that Huawei, with its more price competitive portfolio, was able to effectively triple its market share to become the second best-selling brand in Italy.

Urban China also counters the trend toward longer smartphone life cycles, getting shorter in 2015, compared to 2014. While there is no obvious change in carrier plans driving this change, it is worth noting that Huawei devices saw the largest drop in lifecycle length, from 18.8 months in 2014 to 13.9 months in 2015. Such a change may certainly have had an impact as Huawei’s market share grew from 11.6% to 22.4% over the same period.

When we asked consumers about their intention to get a new smartphone within the next 12 months, the opportunity in the US and EU5 did not look too bad, where 46% and 48% of respondents (respectively) plan to replace their smartphone. In urban China, however, it appears that the strong upgrade wave recorded in 2015 will dampen in 2016, with only 28% of consumers planning an upgrade.

**Smartphone Life Cycles by Country**
(Number of Months)

<table>
<thead>
<tr>
<th></th>
<th>USA</th>
<th>China</th>
<th>EU5</th>
<th>France</th>
<th>Germany</th>
<th>Great Britain</th>
<th>Italy</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>21.6</td>
<td>19.5</td>
<td>20.4</td>
<td>21.6</td>
<td>18.8</td>
<td>23.5</td>
<td>17.7</td>
<td>20.0</td>
</tr>
<tr>
<td>2014</td>
<td>20.9</td>
<td>21.8</td>
<td>19.5</td>
<td>19.4</td>
<td>18.2</td>
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<td>18.7</td>
<td>18.2</td>
</tr>
<tr>
<td>2013</td>
<td>20.5</td>
<td>18.6</td>
<td>18.3</td>
<td>18.0</td>
<td>17.1</td>
<td>20.0</td>
<td>18.6</td>
<td>16.6</td>
</tr>
</tbody>
</table>

Source: Kantar Worldpanel ComTech February 2016
Saturation in the High End of the Market Might Be Bad News for Hardware Brands More Than for Ecosystem Owners

If the slowdown in smartphone sales was not enough cause for worry for vendors in this space, there is more bad news. In mature markets, the profitable, high end of the market is saturated. In the US, the high-end segment – devices with an unsubsidized price of more than $500 – represented 48% of sales in 2015, growing a mere 9% over 2014. In the EU5, where the high-end segment represented just 27% of sales, growth was commensurately lower than in the US, coming in at 6%. What is growing in both regions is the mass-market segment, which, while representing only 18% and 24% of all US and EU5 smartphone sales, respectively, grew by 47% and 56%.

While the strong growth of the more affordable device segment might worry hardware vendors, it is not necessarily bad news when it comes to monetizing these users. Consumers choosing more affordable devices might be price sensitive, but are not necessarily less engaged users. They have characteristics that make for loyal customers, and offer the opportunity for vendors to increase revenue from services, content, and apps.

The Tug-of-War over Customer Retention and Acquisition

With smartphone penetration as high as it is in mature markets, and die-hard feature phone owners being increasingly hard to convince, success will come from retaining old customers and winning over new customers from competitors.

In the current market environment, there are two distinct battles over customer acquisition. First is a battle among makers of Android-based smartphones, and second is a battle between iOS and Android brands (largely a battle between Apple and Samsung). While much attention is being paid to the latter, we think the former may be more interesting, as it bears a wider impact on the overall market.

When it comes to ecosystem loyalty, as measured in consumers who own a device of a specific platform, iOS holds a lead over Android in the US (89% and 84% respectively), but the two operating systems were essentially head to head in the EU5, at 81% and 79%. Apple also boasts the strongest brand loyalty when compared with Samsung, the only brand that comes close to Apple’s 89% in the US and the 81% in the EU5, with 68% and 56% respectively. Within the Android ecosystem, Samsung had no rivals at the end of 2015, with its loyalty reaching 82% in the US and 71% in the EU5. The closest brand was Motorola, with a loyalty of 37% in the US and 44% in the EU5.

Percentage of users who perform a task every day or every few days

<table>
<thead>
<tr>
<th></th>
<th>Search</th>
<th>Music</th>
<th>Social</th>
<th>Video</th>
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<tbody>
<tr>
<td>US</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High End Device Owners</td>
<td>55%</td>
<td>16%</td>
<td>52%</td>
<td>19%</td>
</tr>
<tr>
<td>Mass Market Device Owners</td>
<td>44%</td>
<td>15%</td>
<td>40%</td>
<td>17%</td>
</tr>
<tr>
<td>EU5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High End Device Owners</td>
<td>77%</td>
<td>31%</td>
<td>62%</td>
<td>31%</td>
</tr>
<tr>
<td>Mass Market Device Owners</td>
<td>64%</td>
<td>21%</td>
<td>47%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: Kantar Worldpanel ComTech February 2016

2015 Android Smartphone Customer Flow, EU5

Source: Kantar Worldpanel ComTech February 2016
Looking at customer movement between platforms, it comes as no surprise that the largest exchange of customers happens between Apple and Samsung. Within the Android ecosystem, the picture is more market specific. In the US, brands that lose customers appear to be losing them mostly to Samsung, which has made its “Galaxy S” product family the device to have, particularly among high-end devices. In the low end of the market, Huawei is losing to ZTE, while ZTE is losing customers to Alcatel OneTouch. In the EU5, Samsung is mainly losing to Huawei. At the lower end, Huawei loses to Sony while Alcatel OneTouch loses to Huawei.

China is a very different market with regard to loyalty, as consumers tend to be more volatile and more readily change ecosystem and brand. The most interesting market developments are taking place within Android, where new brands are capturing customers from the more established ones.

Xiaomi, a name that has become very familiar to industry watchers and consumers alike over the past few years, was able to grow its share in China from 12% in 2013 to 26% in 2014. It did that partly by converting feature phone users to smartphones, but mostly by attracting existing smartphone users away from other brands.

Over the past few quarters, Huawei has been the brand capturing users from across the Android world, including Xiaomi, which ended 2015 with a share of 20%. Huawei and Xiaomi were the main destinations for customers leaving Samsung, Motorola, HTC, and Lenovo. Meizu, a relative newcomer on the Android scene, has also been gaining customers from Motorola and Xiaomi and, to a lesser extent, from Samsung and HTC.

The wide range of prices that different brands are able to offer within the Android ecosystem, especially in China, together with the portability of apps and ability of consumers to change devices without leaving the familiarity of the ecosystem, represent the underlying reasons for the movement we see.

What to Expect in 2016

In the EU5, 48% of smartphone owners are currently planning to upgrade their smartphone in the next 12 months. This number decreases to 46% in the US and 28% in urban China.

Apple and Samsung Are Still First Pick Among Brands

Stated consumer brand preference for their next device changes a little by region, but two names remain constant: Apple and Samsung. In the US, 40% of consumers planning to change their device prefer Apple and another 35% prefer Samsung. After these staple names, there is a large gap before we get to Motorola (6% preference) and LG (5%). In the EU5, the leadership position among preferred brands is reversed, with Samsung at 37% and Apple at 29%.

Like their American counterparts, European consumers do not seem to put their preference into any other names with quite the same strength, as Sony captures only 7% and HTC 4%. In China, the more dynamic nature of the market is reflected in brand preference, as well. Apple clearly leads at 33%, but Huawei holds the number two position at a relatively close 19%, with Samsung at 18% and Xiaomi at 16%.

Top Three Preferred Smartphone Brands for 2016 by Region

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>EU5</th>
<th>Urban China</th>
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<tbody>
<tr>
<td>1st</td>
<td>🍎</td>
<td>🌟</td>
<td>🌟</td>
</tr>
<tr>
<td>2nd</td>
<td>🌟</td>
<td>🍎</td>
<td>🍎</td>
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<tr>
<td>3rd</td>
<td>🍎</td>
<td>🍎</td>
<td>🍎</td>
</tr>
</tbody>
</table>

Source: Kantar Worldpanel ComTech February 2016
In China, visiting stores and getting advice from friends are the most important things for smartphone owners planning to upgrade – 51% mention the former, and 41%, the latter.

How Vendors Can Influence Consumer Preference

What can brands do to attract buyers and ensure that brand preference converts into actual sales? Understanding these choices and behaviors is critical. Before they make final decisions on which device to buy, most people do some research, though the type of research differs depending on the region and even by which brands they are considering.

In the EU5, 55% of consumers who prefer Apple, and 60% who prefer Samsung, would visit a retail store before deciding on a new phone. Viewing comparison websites is important for Samsung potential buyers (42%), while advice from friends matters to Apple’s potential customers (34%). In the US, visiting a store is even more common than in the EU5, with 72% of those who prefer Apple mentioning this option as their go-to research method, while 30% would ask a friend for advice. For those who prefer Samsung, going to a store is even more important (76%) while reading reviews and opinions on the Web comes in second at 29%.

In China, visiting stores and getting advice from friends are the most important things for smartphone owners planning to upgrade – 51% mention the former, and 41%, the latter. Friends’ advice seems to matter more for up-and-coming local brands, with 63% of the consumers who prefer Oppo, 62% of those who prefer Coolpad, 52% of those who prefer Lenovo, and 46% of those who prefer Xiaomi all mentioning it.

Knowing where buyers will look for information should influence vendors’ marketing strategies, helping to provide people the right information through the right channel. Knowing the difference between what they say they want and what they ultimately buy is the real key to success. Thanks to our longitudinal study, we can see what consumers say they want, what makes them happy or unhappy about their current device, and what influenced the purchase of their current device.

Examining the list of features current smartphone owners say they want in their next smartphone, it seems that potential buyers across regions are birds of a feather, rating phone durability and reliability, screen size, battery life, and camera quality as important factors in their next purchase. Chinese consumers, known for focusing more on technical attributes, also add storage and processor quality to their list.

Interestingly, all of those features are a mix of what consumers say they are happy and unhappy with under their current brand, but the list does not completely match up with what drove them to purchase their current device. In the US and EU5, many consumers also mentioned 4G LTE as a purchase driver.

Current feature phone owners are not very different from smartphone owners on what they look for in their next device – with battery life, and phone durability and reliability also making the list. Their list tends to be a little longer, because they often request features that experienced smartphone owners may take for granted, such as sound quality.
Conclusion: Going Beyond Hardware

You should not believe everything you read about impending doom in the mobile phone market.

Has the market for mobile devices changed? Certainly. Does significant opportunity still exist? Absolutely. To see the opportunity, however, we will have to get past a singular focus on market share growth driven by hardware sales.

For the foreseeable future, the smartphone will remain the device around which millions of people organize their lives. While market saturation means there are no longer tens or hundreds of millions shopping for their first smartphone, there are certainly hundreds of millions who will continue to carry it everywhere they go. The particular ecosystem they use will continue to be the focal point of much that they do in terms of communication, education, productivity, and entertainment.

With the changes we have discussed in this paper, a greater burden for future success falls on the smartphone vendors. Instead of counting on more and more users buying the newest device, they will need to come to terms with the fact that the pool of those without a smartphone is rapidly shrinking. And, that’s the easy part.

They will also need to figure out what is coming next – whether that means wearables, the Internet of Things (IoT), connected homes, virtual reality, health, or something else.

To move forward successfully, vendors will need to take a step back, and re-examine their businesses. Having millions or tens of millions of users is certainly not bad news. But, the changes we’ve discussed cannot be ignored.

To drive revenue merely through hardware, vendors will need to figure out how to get users to spend more money. They will need to continue spending significantly on innovation, creating the “next big thing,” and convincing users that they need it.

A new perspective is necessary, since the “next big thing” in devices may not be a device at all. It may be software or ecosystem enhancements, which are complicated for those in the Android space, since they do not control all the pieces. Plus, it is harder for vendors to sell what cannot easily be touched in the same way that a new gadget can.

We believe 2016 will be the year when those in the smartphone market must go beyond hardware to succeed. The industry has been talking about this for years, but the pressure to take that step is more palpable now than ever. Failing to do this will leave them with a smaller piece of a pie that is no longer growing as it once was.

A new balance is required. The smartphone market will never again see the growth of the past ten years. But, the opportunities to monetize from what has already been built are there for those with the vision to find and seize them.
**Methodology**

The data used in this report is based on longitudinal monthly surveys conducted in the US, Great Britain, France, Germany, Spain, Italy, and China. Our surveys are conducted online, and the consumers in our panels are no younger than age 13 or 16, depending on the country. The size of the panels is between 10,000 and 22,000 consumers, depending on the country.

Other countries that Kantar Worldpanel ComTech currently covers are: Brazil, Argentina, Mexico, Japan, Russia, and India. Kantar Worldpanel ComTech also tracks tablets and wearables, in addition to mobile phones.

**About Kantar Worldpanel**

Kantar Worldpanel is the global expert in shoppers’ behavior. Through continuous monitoring, advanced analytics and tailored solutions, Kantar Worldpanel inspires successful decisions by brand owners, retailers, market analysts and government organizations globally.

With over 60 years’ experience, a team of 3,500, and services covering 60 countries directly or through partners, Kantar Worldpanel turns purchase behavior into competitive advantage in markets as diverse as FMCG, impulse products, fashion, baby, telecommunications and entertainment, among many others.

Kantar Worldpanel is part of the Kantar Group, one of the world’s largest insight, information and consultancy networks. The Kantar Group is the data investment management division of WPP.

For further information, please visit: [www.kantarworldpanel.com](http://www.kantarworldpanel.com)

**About the Authors**

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As Global Chief of Research and Head of US Business for Kantar Worldpanel ComTech, Carolina Milanesi drives thought leadership in the area of consumer research and marries her deep understanding of global market dynamics with the wealth of data coming from our longitudinal studies on smartphones and tablets. Her mission is to deliver strategic insights to C-level executives in the areas of product planning, product marketing, go to market, and customer retention and acquisition.

As Head of the US operations for Kantar Worldpanel ComTech, Carolina is focused on growing the US client base as well as strengthening the relationships already in place. Carolina’s role as industry expert and commentator will continue as she regularly appears in publications such as The Financial Times, The Economist, The New York Times, and the Wall Street Journal.

**Lauren Guenveur**

Lauren Guenveur is a Consumer Analyst for Kantar Worldpanel ComTech. After graduating with her MBA at Stony Brook University, she worked in research at Ipsos for the financial services sector for 4 years. Joining Kantar Worldpanel in 2012, Lauren specializes in delivering trends and insights on the mobile phone market across 14 different markets including the USA, China and EUS.

**About Kantar**

Kantar is the data investment management division of WPP, and one of the world’s largest insight, information, and consultancy groups. By connecting the diverse talents of its 12 specialist companies, the group aims to become the pre-eminent provider of compelling and inspirational insights for the global business community. Kantar’s 27,000 employees work across 100 countries and the whole spectrum of research and consultancy disciplines, enabling the group to deliver business insights from every point of the consumer cycle. The group’s services are employed by over half of the Fortune 500 companies.

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