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Smartphone makers look to other products as saturation looms

By Daniel Thomas, Telecoms Correspondent Author alerts

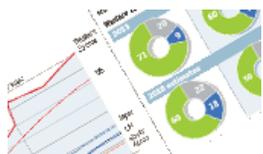


The growth of smartphone sales in developed countries is slowing or has even peaked, according to research, giving further impetus for strategic shifts by companies such as [Apple](#) and [Samsung](#) into services, content and products such as wearable devices.

The combination of already high smartphone ownership and a lack of real innovation means that fewer people feel the need to buy new handsets, making the once-crucial release of the latest models less important for telecoms executives.

Sales of smartphones have already peaked this year in Korea and Japan, according to IDC, the analyst group, while growth is slowing in western Europe as well as the US.

Smartphone saturation



Market share by operating system

“As penetration grows, smartphone shipments continue to experience slower growth and will even decline soon. Some European countries have already experienced declines in shipments,” said Francisco Jeronimo, research director at IDC.

“This will become a challenge for most top vendors as revenues will drop rapidly, and a problem for those vendors making no money. Their market shares will not allow them to compensate lower revenues and lower operating margins with higher volumes.”

While developed markets remain important – not least because the customers are more loyal and can often better afford premium products – IDC forecasts a flattening curve of shipments to these countries over the next five years.

This will mark a divergence between the volumes sold in developed and emerging economies, where sales of smartphones are still increasing rapidly as more people use mobile networks as their primary means of internet access.

Asia and Africa will generate a much higher share of global sales by 2020, which is why companies such as Apple have been keen on increasing customer numbers in such regions.

China will account for almost a third of smartphone shipments by 2018 according to IDC – making it the world’s most valuable mobile phone market – while shipments will more than double between now and 2018 in markets such as India, Indonesia and Russia.

However, these markets are also dominated by low-cost Android smartphones that offer similar functions as more expensive Apple or [Nokia](#) devices. This trend is also occurring in western markets, according to analysts, where a number of new vendors such as France’s [Wiko](#) have joined cheaper Asian brands such as [Huawei](#) and [ZTE](#).

“Given an already large installed base of smartphones and lengthening replacement rates, shipment growth is slowing in western markets and vendors are lowering price points in order to maintain volumes,” says Adrian Baschnonga, telecoms analyst at EY.

The shift in the market is having an impact on operator strategies in countries such as the UK, where smartphone handset sales through the leading mobile operators fell by a quarter in the 12 months to March, according to data seen by the Financial Times compiled by GFK.

Sim-only contracts grew 9 per cent, meanwhile, as more people moved from smartphone contracts to cheaper tariffs using existing devices.

Operators are changing their marketing to emphasise the quality of networks or competing on data allowances and services such as free TV and music streaming, according to one telecoms executive. He says that network operators no longer just want to be the carrier for another company’s devices.

“We are trying to make network quality and coverage the star,” he says, pointing out that the sort of advantage gained by O2’s exclusive sales contract for the first iPhone in the UK was no longer possible. “Not so long ago it was about getting the latest iPhone to someone’s hands.”

Mr Jeronimo pointed to the opportunity for a “second wave of smartphone adopters”, which is being driven by those consumers who do not need or want a smartphone but end up buying one because there are not many other options available.

Operators have told IDC that their customers care less about the brand if they can get a device at half the price with a good design, good performance and a good camera.

The shift in the market means that handset makers are faced with trying to develop a new “disruptive” concept or only adding incremental value by cutting prices. This, the executive says, explains why Apple, Samsung, Sony, LG, Huawei and others have developed or are rumoured to be developing portfolios of wearable devices such as smart watches.

“The hardware market is now open to anyone – the same quality of components are available at low prices – so now its about what you can build on top,” he adds. “Leading vendors such as Samsung are looking to diversify their product portfolios by tapping new waves of demand in related categories such as wearable devices and connected TV services.”

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