

How to keep on selling smartphones when we've nearly all got one already

The UK's mobile phone market is near saturation, and big hitters Apple and Samsung face cutthroat competition as Chinese manufacturers muscle in with low prices and good service



Charles Arthur

Follow @charlesarthur

Follow @guardiantech

The Observer, Sunday 27 April 2014



The price of smartphones is set to fall as the almost saturated market gets more crowded. Photograph: Alamy

How much are you paying for your latest phone? Whatever it is, your next one probably won't cost as much. Experts say smartphones in Britain are set to get cheaper, as saturation in the market fuels competition between operators.

Industry data seen by the *Observer* suggests that last December, typically the best month of the year, handset sales to contract and pay-as-you-go (PAYG) customers were down 10% on the same month a year earlier. The slump is understood to have continued into January, with double-digit falls year-on-year for both categories.

In each of the years from 2010 to 2012, about 9 million people acquired their first smartphone, but last year there were only 4.8 million first-time buyers, according to data from Kantar Worldpanel ComTech. And while there are now more smartphone owners, they will need more persuading to buy a replacement phone.

Apple has clearly recognised the need to boost sales: last month it introduced a budget version of its plastic iPhone 5C, with only 8GB of memory, half the previous minimum, in the UK, France, Germany, Australia and China. Those are countries where price sensitivity is growing as the market hits saturation or, in the case of China, competition is especially fierce.

With at least 90% of contract customers using smartphones, the UK is already close to saturation point: the remaining 10% will upgrade only slowly, if at all. Fewer PAYG customers have them, but they tend to replace their phones less regularly anyway.

"Cost is now a fairly small barrier to adoption for the remaining 14m or so feature [relatively basic] phone owners in Britain," said Dominic Sunnebo of Kantar. "The barrier to this group is mindset – they don't think they'll make use of the advanced features, or think they'll find it too complicated."

But Hugh Davies, a spokesman for the UK's smallest network, 3, 97% of whose 6 million customers have smartphones, says the pervasiveness of the internet means even these people are bound to switch in the end. "My sister recently got her first smartphone," he said. "She has friends all over the world, but realised that when she was working or travelling she wasn't able to keep in touch as well as they could."

But rather than buying a Samsung or Apple handset – as roughly two-thirds of people in the UK do – she bought a Motorola, costing just £115.

"We're probably at peak Apple and peak Samsung," said Neil Mawston of research company Strategy Analytics. "Once you get past 50% penetration, you move from rapid growth to maturity, and inevitable slowdown."

Figures from Apple seem to confirm that: the average worldwide price of an iPhone fell from \$636 in the Christmas quarter to \$596 in January-March as people opted for the older 4S or cheaper 5C models. Research firm eMarketer predicts that Apple will increase its share in the UK market – but only by a tick, from 29% in 2013, to 30.5% by the end of this year.

Phones using Google's Android system, with a wider range of prices, will account for 53% of UK smartphone users this year, eMarketer estimates, compared with 49.6% last year.

Mawston said countries such as Japan, where 97% of mobile subscribers had smartphones, were seeing the effects of saturation already: "Sales go up and down based on hot handsets," he said. "They get aggressive on pricing, and then when the excitement fades, they move on to the next hit."

For mobile operators, new top-line phones that launch from both Samsung and HTC this month should mean a welcome boost to sales, but price competition is eroding their advantages. This will increase as Chinese handset vendors such as Huawei, ZTE and Lenovo – which is buying Motorola from Google – start competing on price, according to Francisco Jeronimo of researcher IDC. "Prices are going down very quickly," he said. "The Chinese are coming in with no brand recognition, but a strong price proposition."

Mawston predicts a brutal struggle as handset companies attempt to differentiate themselves from each other. "Apple is a very strong brand, but even they aren't immune. It's going to be more about marketing and promotion." Samsung, too, will "have to run faster to stand still," he says.

For carriers, the competition will be about services – their price, speed, quality and amount. What nobody is quite sure of is which will matter most. "Can I say all?" suggests Richard Reeves, director of business strategy at EE, the UK's largest mobile network, formed from the merger of Orange and T-Mobile. EE said about 90% of its contract users (who make up 60% of its 26 million customers) had smartphones compared with 30-40% of PAYG users.

Reeves thinks 4G mobile internet will encourage PAYG users to upgrade: "And devices coming from the far east are driving the cost of smartphones down and down." But once people have smartphones, the networks will have to fight on quality of service, he says.

The carriers have seen saturation before – in the 1990s, when mobile phone ownership went from being rare to commonplace – but smartphones are different, Reeves says. "As people get bigger screens, they want to watch HD video. And customer service is harder now that people have a minicomputer in their pocket. The network tests are more complex too – typically, our engineers have to carry out 14,000 tests to check compliance with the network, compared with the 2,000 that a feature phone needed."

While Apple and Samsung have both introduced fingerprint recognition on their top-end phones, Jeronimo reckons that the simpler offering of faster 4G connectivity will be a strong incentive to upgrade. Smartphones sold in the UK before autumn 2012 can't connect to 4G services because they lack the correct radio chips.

"It's about faster networks, faster devices and a better user experience," he says. "For

instance, why do I have to pick up my phone to wake it up? Why can't I just operate it hands-free with my voice? If I'm to part with £500, I need more than just a better camera."

Even so, there may be one seam of potential buyers yet to be mined. "Is a BlackBerry a smartphone?" asks one industry observer. "You can argue it either way. I meet business customers grumpily trying to do work on them."

Older BlackBerry models can't get 4G, and their browsing and app capabilities pale against other devices. With the UK still one of BlackBerry's strongest markets – it has millions of users here – the struggling Canadian company could find itself shut out as the technology it helped pioneer becomes pervasive.



Get the Guardian's Zip file email

For all you need to know about technology in the world this week, news, analysis and comment.

[Sign up for the Zip file email](#)

More from the guardian

[LinkedIn under fire for censoring Tiananmen Square posts](#) 04 Jun 2014

[Rihanna Rogue perfume ad restricted due to 'sexually suggestive' image](#) 04 Jun 2014

[Forget these 'Trojan horses' – the real issue is faith schools](#) 07 Jun 2014

[The best folding bikes](#) 08 Jun 2014

[20 best Android apps this week](#) 09 Jun 2014

More from around the web

[This New Gmail App is Almost Too Good to Be True](#) (Evolving SEO)

[If you have Gmail, you need this trick](#) (The Good, The Bad & The Techie)

[iPhone 6: Is this the most hyped iPhone ever?](#) (uSwitch.com)

[3 Disturbing Trends Threatening the Average Sales Rep](#) (RingLead)

[The IT Tool You Should be Using](#) (VMware)

[What's this?](#)

© 2014 Guardian News and Media Limited or its affiliated companies. All rights reserved.