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Think smartphones are ubiquitous now? Just wait a few years

The iPhone has helped smartphones lead the mobile market, and soon many mobile users will have no choice but to own one



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Apple took 73% of mobile handset operating profits in the first quarter of 2012. Photograph: Park Ji-Hwan/AFP/Getty Images

Five years after the first iPhone went on sale, the sales of smartphones – loosely defined as phones that can run third-party "apps", and access the internet directly – now make up nearly two-thirds of mobile phones sold in western Europe and north America, although only about half of mobile users in both regions own one. (The difference arises because some early smartphone adopters have upgraded a number of times, while many "featurephone" users have not.)

Analysts predict that in two years, 90% of mobile users will have no choice but to own smartphones – even if all they want to do is call and text.

Yet the revolution has had its casualties, with BlackBerry-maker RIM expected to announce a second quarter of losses this Thursday, and the sector's former dominant player Nokia's debts downgraded to junk status. Some analysts wonder whether both companies will see the sixth anniversary of the phone that undermined them.

"The iPhone had three big effects," says Neil Mawston, executive director of the research company Strategy Analytics. "We moved from keyboards and keypads to finger-driven touchscreens; it meant a shift away from the painfully slow mobile phone browser to app stores; and it revolutionised the market by encouraging more use of data, beyond just text messaging." The fact that the first iPhone contracts offered completely unlimited data use transformed a market where mobile internet connectivity had previously been parcelled in per-megabyte allocations, to screens with tiny displays.

But the real agent of change was the arrival in late 2008 of Google's Android mobile software, which soon offered the same touch-driven experience, with multiple handset companies – including Korea's Samsung – vying for the top spot. "Android democratised touchscreens and app stores," says Mawston. "The iPhone was relatively expensive. Android brought smartphones in at low price points."

That brought in all sorts of other transformations – particularly the ubiquitous "apps", without which no company seems to be complete. Android phones now make up more than half of all smartphone sales globally (with Samsung's making up half of those on its own, outpacing [Apple](#)).

And Apple has grabbed a huge share of the profit in the mobile market: [according to Horace Dediu](#), who runs the Asymco consultancy, in the first quarter of 2012 Apple grabbed 73% of the handset industry's operating profits, Samsung 26%, and HTC 1%; meanwhile LG, Motorola, Sony, RIM and Nokia all posted losses.

Even so, the profit in the handset industry has grown enormously, from a total of \$5.3bn (£3.4bn) in the first three months of 2009 to \$14.4bn (£9.2bn) at the same time in 2012, Dediu points out. Apple has grown its profits hugely – in effect, sucking them out of mobile operators, which have seen their per-user profits diminish even as smartphone use has risen.

They're not alone in feeling the pinch. Nokia [has seen smartphone sales collapse](#) as it struggles to reinvent itself after abandoning its own pre-2007 Symbian software. Some analysts worry it could run short of cash before Microsoft's new Windows Phone software can revive it.

As for BlackBerry, Mawston says: "Arguably its new handsets in autumn are its last chance. If they're a hit it will be back on an upward track. Otherwise it will continue downward."

The economic crunch in many eurozone countries is already showing that the 50% of consumers yet to buy a smartphone will be very different from those who queued up five years ago. "In some countries such as Portugal, most iPhones are sold without a data plan," says Francisco Jeronimo, smartphones analyst for the research company IDC. "They're used at home or offices, where people connect to the internet via wifi, because in most European countries and the US – though not the UK – people have to pay extra to get internet data on their phone plan. But if you pay €50 per month for an iPhone, you don't want to be paying another €20 for the data."

Even so, Jeronimo sees the market becoming 90% smartphone-based by 2016 (Mawston puts it at 2015): There's no price point where carriers can make any money with them," he explains.

Now, Chinese manufacturers such as Huawei and ZTE have begun making smartphones for carriers using Google's Android for just £100 – an indication of how commoditised the business has become. "They'll just be used for voice and text," says Jeronimo.

At the same time, carriers are also trying to inch away from subsidising phone sales, because they make almost no money from selling them, even at the top end.

Ironically, the models on which carriers make the most money are RIM's BlackBerrys – and the prospects of an Apple-Android (or even Apple-Samsung) duopoly has them worried. What they are hoping is that Nokia will come back with a resilient showing – though it may be 2013 before that happens, on most analysts' reckoning.

Mawston, meanwhile, is certain that smartphones will almost see off other models, whether users want them or not. "In Europe, all the young and rich segments have purchased one already," he says. "The older and less wealthy won't have a choice – they'll have to buy them. But they'll tend to go for simpler versions. They'll use them for voice and text – and the app stores."