Don't Fret, Nokia; 'No Brand' Firms Can Save European Phones

Rodrigo Orihuela
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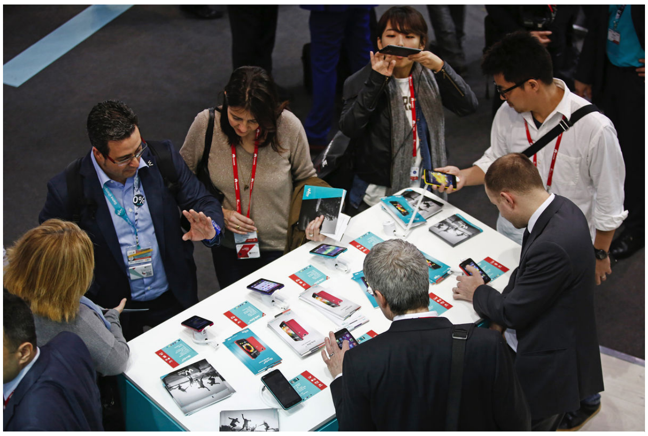

Visitors inspect Highway Star and Pure smartphones on display in the Wiko pavilion at the Mobile World Congress in Barcelona.
Photographer: Simon Dawson/Bloomberg

(Bloomberg) -- Years after ceding the mobile handset market to the likes of Samsung and Apple, Europeans are getting back in the game -- but they're not named Nokia, Ericsson, or Siemens.

A slew of startups such as France's Wiko and Spain's BQ have been gaining ground with smartphones that cost less than half as much as the flagship offerings of Samsung Electronics Co. and Apple Inc. As the newcomers grow in their home markets, they're plotting international expansion to win a larger share of western Europe's $62 billion in annual smartphone sales.

"The keys are technology, quality, design and price, and let the client decide," David Garcia, Wiko's international business development director, said at the company's modest stand at the Mobile World Congress in Barcelona. "We have grown very fast."

The new brands, also including Kazam in Britain and Archos in France, are aiming to emulate the success of China's Xiaomi Corp., which has risen from obscurity to become the leader of its home market in just five years.

"This is kind of an alternative to the model that Samsung and Apple won," said Benedict Evans, a partner at venture-capital firm Andreessen Horowitz. "You don't try to compete at the high end."

Wiko boosted its share of the French market five-fold last year, according to research firm IDC. BQ tripled its portion of the Spanish market. The companies' growth outpaced rivals by a wide margin, with bigger vendors such as Samsung losing share.

'Lean Operations'

Across western Europe as a whole, none of the upstarts hold more than 4 percent of the market. That compares with 35 percent for leader Samsung, which in Barcelona this week introduced its new Galaxy S6 -- a phone that will cost more than $900 in Europe when it hits stores this spring.

Wiko's most expensive model, the Highway Star, is priced at $350 while BQ's top of the line costs $346. The average price of phones sold by the newcomers is $181, versus $410 for the leading global brands, IDC says.

"We're seeing a surge in players with basically no brand," said Francisco Jeronimo, an analyst at IDC in London. "These companies are very lean operations."

Just how lean is immediately evident on the show floor at MWC. Samsung's spacious digs sit alongside the central avenue of the conference center, with huge screens showcasing company events and products.

Wiko, by contrast, occupies about an eighth as much space tucked into the less-trafficked Hall 6, and BQ's stand is about half the size of Wiko's. Archos has a tiny corner booth that looks a bit like a phone store in a mall, with a counter displaying a dozen or so phones.

Apple's Shadow

While Apple isn't a participant at MWC, there are vendors touting accessories for its devices and fueling buzz about products such as the iWatch that's set to be displayed at an Apple-only event on March 9 in San Francisco.

Like Apple, most of the European startups outsource manufacturing to China, and only develop the technology at home. Many also rely on Google's free Android operating system.

So far, their strategy has been to build a brand in their home markets, where each has seized share that far outstrips what they've managed to gain across Europe. Wiko had 17 percent of the French market last quarter, and BQ 9 percent in Spain.

Local Success

“Some of these local vendors can have success if they present themselves as a local brand,” said Roberta Cozza, an analyst at research firm Gartner in London. A strong identity in their home market helps differentiate their offerings from global competitors, Cozza said. “There is more chance of winning if you localize everything around your smartphone.”

Wiko, based in Marseille, generates most of its revenue in France, though it has also expanded to 20 other countries, Garcia said. The company boosted its European market share to 3.9 percent last quarter, helped by phones such as the $169 Ridge Fab, with a 5-inch high-definition screen and 13-megapixel camera.

The challenge will be expanding beyond their borders, which requires selling enough phones for global carriers such as Vodafone Group Plc to consider offering a vendor’s phones in multiple markets, IDC’s Jeronimo said. Few manufacturers have that kind of scale; even Xiaomi has yet to penetrate major European countries, instead focusing on China.

Lacking Subsidies

BQ, based in Madrid, has opened offices in Germany and France but has no partnerships with major carriers. That hasn’t been a problem as the company sells through retailers such as French electronics chain FNAC and has seen online sales that “are encouraging,” said Rodrigo del Prado, BQ’s deputy director.

The downside of not selling through carriers is that the phone makers lose out on subsidies from operators, according to Tim Coulling, an analyst at Canalys in London. Consumers in western Europe and the U.S. often pay a deeply discounted price upfront for a phone -- think of all those $1 or 1 euro handset deals -- with the carrier making up the difference over the course of a two-year contract.

Such subsidies are less prevalent in emerging markets such as eastern Europe, which makes the smaller brands more competitive in such regions, said Coulling.

“Wherever there’s less disposable income,” Coulling said, “there’s definitely a chance for smaller companies to make a name for themselves.”

To contact the reporter on this story: Rodrigo Orihuela in Barcelona at rorihuela@bloomberg.net

To contact the editors responsible for this story: Kenneth Wong at kwong11@bloomberg.net Ville Heiskanen, David Rocks