



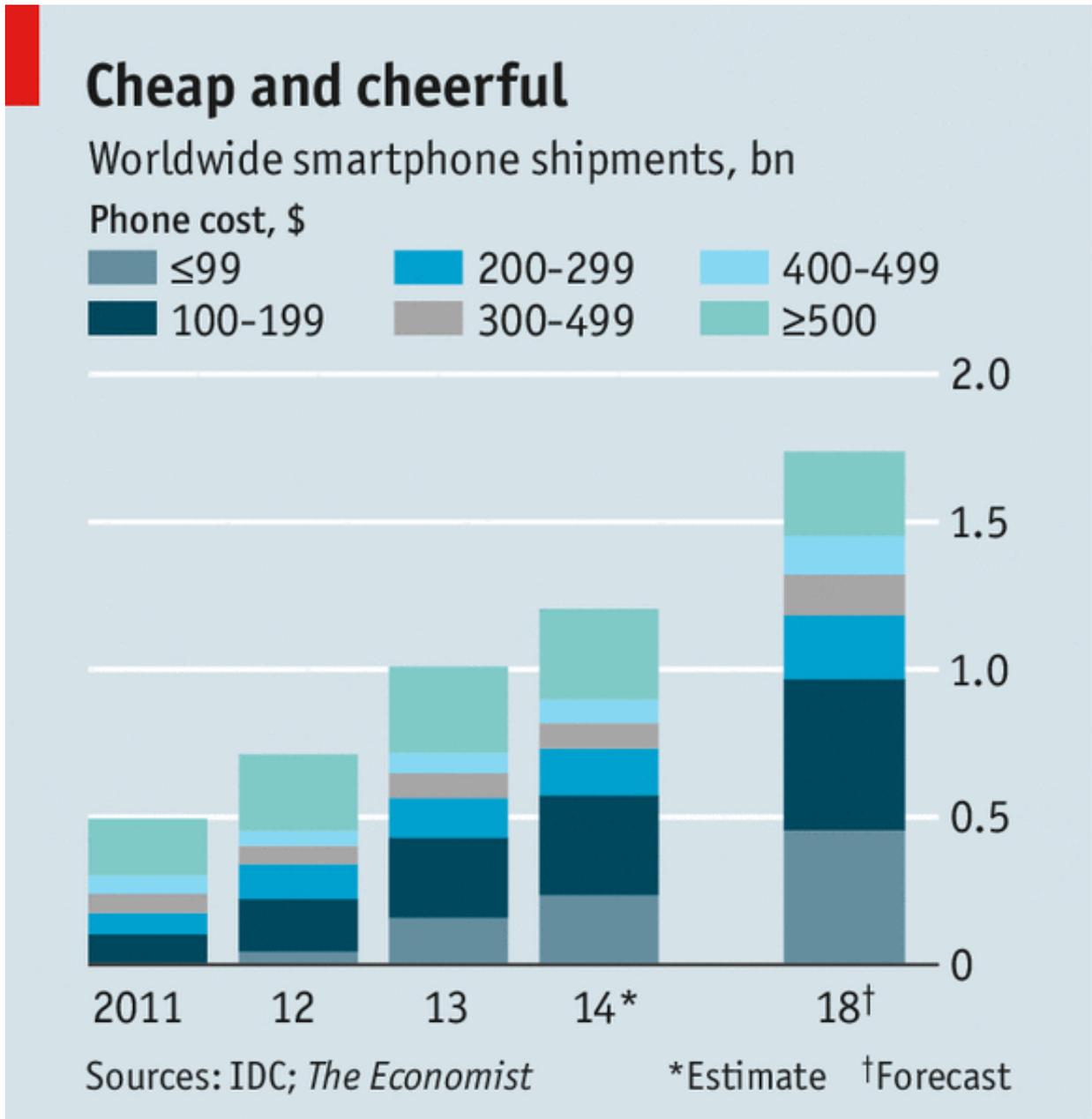
Mobile phones

The rise of the cheap smartphone

As smartphones reach the masses, a host of vendors are eager to serve them

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month Britons will have yet more smartphones to choose from, when devices from Wiko, a

two-year-old French company, go on sale. Wiko will be hoping that its phones, which in France start at around €70 (\$96), prove as popular across the Channel as at home. In 2013 nearly 7% of French first-time smartphone-buyers plumped for a Wiko, says Carolina Milanesi of Kantar Worldpanel, a research firm. In early 2014 the firm claims to have been the second-biggest vendor in France.

Wiko is not alone. In both rich countries and poor ones, cheaper smartphone brands are making inroads. Demand for pricey phones, mainly in developed economies, is slowing, but that for less expensive devices is booming. People buying their first smartphones today, perhaps to replace a basic handset, care less about the brand and more about price than the richer, keener types of a few years ago.

They are likely to pay less for a nice new smartphone than they did for their shabby old device, because the cost of making smartphones has tumbled. Vendors can buy standardised processors which chip designers such as America's Qualcomm, the market leader, and competitors such as Taiwan's MediaTek or China's Spreadtrum are scrapping furiously to provide in ever-rising quality at ever-lower prices. They choose cameras, screens and so forth to wrap around the innards, and have phones churned out in Chinese factories. Last year, says Francisco Jeronimo of IDC, another research firm, shipments of smartphones priced below \$80 more than quintupled. Devices at under \$100 made up one-sixth of the total (see chart).

At a global level, the market has fragmented: in 2013, says IDC, the share of smartphone shipments by vendors outside the top five was 40%, twice as much as in 2009. In national markets, local names unfamiliar elsewhere, like Wiko, are prominent. Micromax and Karbonn rank second and third in India, according to IDC. Symphony is thought to have more than half the market in Bangladesh; and Walton, an electronics firm, has branched successfully into smartphones, notes Holger Hussmann of Telenor, a Norwegian mobile operator with interests in Asia and eastern Europe.

The declining cost of making phones means that buyers are getting more for their money. In 2012, says Mr Jeronimo, 42% of phones priced at less than \$80 had a processor faster than 1 gigahertz; by last year 87% did. The proportion of cheap phones with screens more than four inches across went up from less than 8% to 38%. Two years ago the median price of a smartphone was \$325. Last year it was \$250. This year it may be \$200.

The cheapest phones will become cheaper still. At Mobile World Congress, an industry jamboree in Barcelona at the end of February, Mozilla, a non-profit company best known for Firefox, its web browser, announced that smartphones running its operating system, Firefox OS, on Spreadtrum chips would go on sale with a target price of only \$25. Mr Hussmann reports that the bill of materials is less than that. (Telenor is among the operators backing the new phone.)

It is not only at the bottom that competition is intensifying. In China, points out C.K. Lu of Gartner, another research company, OPPO and Vivo, two local brands, both increased their market shares last year despite focusing on phones priced at 2,000 yuan (\$320) or more. Fancy phones can also polish a brand. Huawei, another Chinese company, has been trying just that; Wiko's top-of-the-range smartphone costs €349.

All this is great for smartphone-buyers everywhere. It is less good news for the market leaders, Apple and Samsung—the only vendors making much money. Apple may be insulated by its operating system and apparently impregnable brand, although it has lately been selling cheaper (if scarcely cheap) iPhones. Samsung, which dominates the market for phones running on Google's Android operating system, may be more vulnerable.

The South Korean company suffered a decline in profits late last year. Granted, it makes cheaper devices as well as dearer ones, and it can afford some slimming of its margins. People in poor countries also covet global brands: it has taken share from locals in India. But its problem, Mr Jeronimo says, is that it carries lots of costs, in research and development and in marketing, that cheaper rivals do not. "They are able to provide much better devices, in terms of specs, for a much lower price," he says. "And this is particularly worrying in developed markets."

Samsung is doubtless wise to this. Hence its attempt to push beyond the smartphone, into smart watches and wristbands, connected domestic appliances and the business market. Mobile-phone brands have been brittle before: ask Ericsson, HTC, Motorola and Nokia. Samsung has spent bucketloads building its name. It will not want to be usurped by the Wikos of the world.

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