Smartphone market overview in india marketing essay

The smartphone market is poised to take off in India, with an urban market that is ripe for replacement from a feature phone to a smartphone and a keen younger population with high levels of technological awareness waiting to adopt new technology.

Smartphone: For the purpose of this paper, a smartphone has been defined as a phone with an operating system that can board or host applications, which essentially means that applications can be deployed on the mobile operating system of the smartphone. These operating systems provide a framework for the development of applications. Smartphones also have a more advanced user interface such as touchscreen technologies and other mobile computing features such as QWERTY keyboards.

THE SMARTPHONE MARKET

• There are many drivers for this market, with the concept of the convergence taking prime importance in the consumer mindset. The application development community plays a key role in subscriber adherence to service contracts and handset models, as a thriving content community forms an attractive value proposition for consumers who are constantly seeking applications, which allow them to interact with people and organize their life.

• With smartphone shipment in India growing year on year and 5. 4 million handsets expected to be sold in India in 2009, this market is set to experience steady growth . With the overall mobile market seen to be contracting , the smartphone market is likely to be the future growth engine.

• With the introduction of 3G in India, the smartphone market is expected to see an increase in the uptake, as consumers would adopt a smartphone to support the data-intensive applications that can be supported on a 3G network.

• It is expected that the replacement market will take off with a high number of consumers looking to trade up to smartphones from traditional feature phones.

• On the other hand, the Grey market is fading, with the window for the launch across geographies decreasing and more consumers adopting legal channels to access the applications and data plans on offer.

MARKET PARTICIPANTS

• RIM and Apple are making a foray into India to capture this emerging market by strategically tying up with the leading telecommunications vendors such as Airtel and Vodafone.

• Established participants in India such as Nokia, Samsung, and LG are expanding their product portfolios to include more smartphone devices and leverage their established presence.

BUSINESS MODELS

• There are two primary business models leveraged by participants in this market, namely an open market model and an operator leveraged model. These models determine the channel that is leveraged to reach the end user either through service contracts controlled by the operator or by retailing directly into the open market.

• This market is highly competitive with service providers looking to acquire subscriber share and handset manufacturers to increase sales, an end-to-end value proposition and a collaborative ecosystem are expected to emerge.

• There is a paradigm shift toward the adoption of an open source operating system (OS) in the global marketplace, with Google's muscle behind Android and the creation of the Open handset Alliance. The advantages of the Open ecosystem are expected to reduce the cost of smartphones and also create a content community around an OS that will accelerate its adoption in the marketplace, thereby increasing the market share.

WAY FORWARD

• The way forward for telecom service providers and handset manufacturers is to embrace the collaborative open ecosystem model and offer an end-to-end value proposition to the end consumer to generate subscriber loyalty by offering a single solution for their communication needs, which comprises the handset, the data plan, and access to an application ecosystem.

The Smartphone Market

CONVERGENCE: THE CONSUMER MINDSET

The concept of convergence is the emerging paradigm for the future evolution of the mobile industry, with both individual and enterprise consumers looking for a device that will help them stride the balance between work and their lifestyle.

Smartphone Market: Convergence – The Consumer Mindset (India)

• A single point of access and management of content is desired, and it drives the consumers of all segments to seek a device that converges a variety of their needs.

• Enterprises are looking at enterprise mobility to provide a seamless way of working, in order to increase productivity and enhance work-life balance.

• The growing popularity of applications tailored to consumer's needs, provides consumers with tools to interact with their environment and execute actions.

PARADIGM SHIFT TOWARD A COMMUNITY-BASED ECOSYSTEM

Individual roles and identities in the value chain are dissolving to form collaborations and communities.

• The smartphone ecosystem is moving toward collaboration, with communities built around application development and operating system development.

The Smartphone Ecosystem

• This form of ecosystem enables participants to:

• Develop a distinct brand in terms of collaborations, examples being the Apple App store and Blackberry's App World, thereby allowing end users to access the content at a single point.

• Bring costs down as by collaborating capital expenditure is converted into operating expenditure through subsidizing and revenue sharing

arrangements illustrated by the business models adopted (open market and operator leveraged).

• Form strategic tie-ups between handset manufacturers and service providers, which help leverage each other's expertise and increase device sales for the handset manufacturer and subscriber base for the service provider.

• Create an open system that supports a vibrant content development community that acts as a key in generating and maintaining subscriber loyalty.

THE SMARTPHONE VALUE CHAIN

TYPES OF APPLICATION DEVELOPMENT COMMUNITIES AND THEIR IMPACT (Business Model)

Let's consider 3 main sects of application development communities and analyze their business models:

HANDSET MANUFACTURERS

Handset manufacturers such as RIM (Blackberry App World), Apple (App Store), and Nokia (Ovi Store) host application portals that enable consumers to access information from third-party developers.

In Apple's case, every instance of the applications downloaded is charged a fee, which involves mostly a 70 to 30 percent split between the developer and the handset manufacturer.

Moreover, a registration fee is also charged by Apple for registering in the app store.

TELECOM SERVICE PROVIDERS

Airtel has made significant strides in this direction by forming the Airtel Open Developers Community (AODC), with Vodafone also having the Betavine community.

Service providers engage the developers in producing applications that are device independent, which is likely to be an important challenge.

Indian telecom service providers have revenue sharing arrangements where

their takeaway is over 60 percent of the revenues, with content aggregators and creators getting the remaining share

CONTENT DEVELOPERS / OPERATING SYSTEM PROVIDERS

Content developers are focused on creating content for service providers and corporations, Mauj Mobile and Oxigen Services are examples of content providers.

OS providers host development communities to increase adoption of the OS. This accelerates application innovation, the Android Marketplace being example of this.

Revenue-sharing arrangements in markets such as India were skewed to favor service providers, but with the advent of 3G and more data intensive

applications coming into play, content aggregators and content developers can generate premium content, thereby commanding a greater share.

BENEFITS OF APPLICATION DEVELOPMENT COMMUNITIES

HANDSET MANUFACTURERS

More loyalty, as customers tend to be loyal to their device, which hosts the applications they want.

A revenue generator with significantly less investment, as the application is developed by the third party.

For the third-party developer, an opportunity to leverage the reach and the brand of the handset manufacturers, allowing more user access to the application.

TELECOM SERVICE PROVIDERS

Service providers are able to engage the existing users and enhance user experience by providing premium content.

The developers can leverage the wide subscriber base for more downloads of their application.

CONTENT DEVELOPERS / OPERATING SYSTEM PROVIDERS

Through content portals, content developers can create a distinct brand identity for themselves and also more control over their applications and the revenue generated from them.

Similarly, with operating systems, encouraging developers to develop on them can increase adoption of the OS under consideration thus leading to greater market share.

The content developers are able to leverage four distribution channels, where revenue is generated through.

• Each installation or download of the application

• The usage of the application

On the other hand, consumers gain access to the applications at four different points of sales

• The handset manufacturer's application store

• The operating system provider's marketplace

• The service provider's application portal

• The content developer's portal

KEY PLATFORMS (OPERATING SYSTEMS)

The smartphone operating system is primarily divided into three categories:

• The proprietary OS – Apple and RIM primarily and the Windows Mobile proprietary OS

• The semi-independent OS – the Symbian foundation backed by Nokia

• The independent OS – the Open Handset Alliance backed by various members of the handset manufacturer fraternity

The overriding trend in smartphone operating systems is a significant move toward open source:

• With Nokia aiming to establish the independent, non-profit, Symbian Foundation, this includes the Symbian OS.

• Android being adopted by a host of companies under the Open Handset Alliance, a significant shift toward this model is expected.

TECHNOLOGY ADOPTION – GLOBAL

• A significant part of the world's population adopt smartphones as a lifestyle statement, early adopters of new technologies accelerate the rate of adoption of a new device coming into the market.

• The purchasing power of an average user in markets such as the United States is also considerably high with the prevalence of subsidized models that enable end users to procure these handsets at lower price points.

• The penetration levels in global markets are also extremely high, where users upgrade handsets at a higher frequency than the other markets.

TECHNOLOGY ADOPTION – INDIA

• In emerging markets such as India, price sensitivity is extremely high, which slows the rate of adoption among the larger population.

• With India's overall mobile penetration rate of 31. 1 percent, the addition of users in terms of penetration will be seen from the lower end of the demographic, which can be seen as a deterrent to the adoption of smartphones by new users.

• The lower price points in certain smartphone handsets are expected to drive more feature phone users to look at smartphones as an accessible option.

• With regard to the replacement market in India, the urban younger demographic is likely to become a key target segment to accelerate the rate of adoption.

• With a plethora of new devices with advanced technologies being released in the Indian market and the brand building that has been carried out by handset manufacturers, increasing consumer acceptance and faster technology adoption are being seen in the market.

Market Overview

SMARTPHONE MARKET DRIVERS AND RESTRAINTS

SMARTPHONE MARKET – CHALLENGES

SMARTPHONE MARKET – DRIVERS

SMARTPHONE MARKET – RESTRAINTS

SMARTPHONE MARKET – REVENUE FORECASTS

• Smartphones saw a significant growth in revenue over the past year. With the current economic downturn, sales are likely to grow but not to the great extents expected with a CAGR of about 19. 3 percent.

• The smartphone revenues in India was valued at Rs. 9680 crores at the end of FY 2009 and is expected to grow to Rs. 33, 223 crores by FY 2015 at a CAGR of 19. 3%, from FY 2009 to FY 2015.

PRICING TRENDS

• With the market getting highly competitive and new handset versions being witnessed every three months, prices for smartphones seem to experience a significant decrease, as newer versions are added to the product portfolio mix.

• The market is likely to see a diverse price range depending on the feature set that can vary from Rs. 12, 000 to Rs. 35, 000.

• The mid-range segment for the price range of Rs. 12, 000 to Rs. 18, 000 is expected to see many new entrants trying to make a foray into this relatively untapped price segment, in order to capture the growing replacement market.

• Over the three-year period of 2007 to 2009, Nokia's global ASP has dropped consistently from 83 Euro to 65 Euro.

• On the other hand, there are also devices in the high-end range that are driving the ASP for companies such as RIM which see an increase in uptake in devices in their higher end range.

IMPACT OF THE GREY MARKET

FACTORS DRIVING THE GREY MARKET

If the price differential is high, the grey market is preferred by consumers.

In key urban markets such as Mumbai, this price differential is likely to become higher due the increase in percent of value-added tax, which is expected to dissuade consumers from opting for the device through the legal channel and prefer the grey maket device.

FACTORS INHIBITING THE GREY MARKET

If the price differential is within a certain limit between 17 percent and 26 percent of the cost of the handset, consumers still prefer entering through the official channel, in order to leverage the applications and services on offer.

Department of Telecommunications (DoT) directive to all telecom operators of March 31, 2009, for the disconnection of phones without an International Mobile Equipment Identity can significantly impact the grey market and lead to more consumers buying through legal channels.

With increasingly more smartphone companies launching simultaneously across geographies, the window for the grey market has decreased and is seen to be ebbing away with only about 12 percent of the devices being sold through them.

IMPACT OF THE REPLACEMENT MARKET

• The Indian replacement market is estimated to reach about 32 percent of the total market by 2015, with a CAGR of over 78 percent.

• 15 to 18 months is the normal replacement cycle, especially among the younger demographic, this can be effectively tapped into as users are looking to trade up to a phone with a more advanced feature set than their existing one.

• As the market is still in the emerging stage, the mid-tier segment is expected to experience a transition to the higher end smartphones in the consumer segment, but a higher rate of replacement is likely to be seen by the enterprise users seeking to transit their middle level management to smartphones.

• Technology adoption by the younger generation is seen as a huge driver that accelerates the rate of replacement due to increased technological awareness and the need for usage of a variety of applications the technology can support.

The hike in value-added tax in the state of Maharashtra, where Mumbai is a key urban market for smartphones, is likely to witness a decrease in the replacement rate, due to the increased prices of handsets.

About 81 percent of Indian mobile users are in urban areas, which are driving the demand for high-end phones and form the main target segment of the replacement market.

3G MARKET

• The 3G subscriber base in India is likely to be 0. 01 million by the end of March 2009, and is expected to grow from 13. 8 million in FY 2010 to 189. 0 million in FY 2015 at a CAGR of 92. 5 percent.

• Smartphones will become very prevalent in such a market scenario as for leveraging 3G services a smartphone which can support data intensive applications is required.

• Currently, there is no real readiness evaluation undertaken by handset manufacturers to determine the readiness of a market for 3G. This leads to a presence of 3G-ready devices in the market even though the network support currently does not exist for them, once it does more people are likely to opt for a smartphone handset.

• With private companies coming into play and the government operators' 3G services seeing an increase in uptake, these 3G-ready devices will become more prevalent with consumers opting for them to support the services they need.

Competitor Profiling

FORCE FIELD ANALYSIS: KEY FACTORS INFLUENCING THE ECOSYSTEM

NEW ENTRANTS

Telecom Service providers – Increasingly more TSPs are entering this space with service offerings to acquire the potential smartphone consumer and enterprise base in the market.

Handset Manufacturers – PC makers are increasingly seeing themselves in this space. As they already have a focus on mobile computing transitioning to the smartphone market is something they see as a future. Acer has recently launched five models in India in the smartphone segment which indicates a significant stride being made in this area.

Operating Systems – A number of operating systems are entering the market, with the explosion of application usage globally, handset manufacturers (Nokia, Apple, RIM) and independent software vendors such as Microsoft are looking to leverage the smartphone market with more refined SDKs (Software Development Kits) for developers and enhanced user experience features for the consumer.

The Developer community – The barriers to entry for the application development communities are slowly decreasing, independent developers are expected to leverage various channels to reach the end consumer, which is leading to more developers being involved in this space.

SUPPLIER POWER

The Handset Manufacturer Ecosystem – This is highly prevalent in the global markets, with Apple and RIM establishing their application stores which have

evolved a distinct ecosystem. This retains loyalty of the end consumer while also offering the consumer a significant value proposition in terms of applications on offer. Endorsement of operating systems by handset manufacturers has also helped create alliances in the smartphone market, with Nokia backing the Symbian foundation and various members of the Open Handset Alliance (Motorola, Sony Ericsson, LG, and Samsung) endorsing Android.

The Content Developer Ecosystem – Content developers are also independently hosting content portals through which consumers can download applications. When this gains traction, it can act as a significant bargaining power for content developers while forming alliances with handset manufacturers or telecom service providers.

The Telecom Service Provider Ecosystem – In markets such as India, TSPs have a significant leverage in terms of reach and existing subscriber base and hence, the formation of application communities by the TSPs enable them to retain their subscriber base and attract more acquisitions through a variety of applications in their service portfolio.

BUYER POWER – End users have extremely high buying power, as the ecosystem is dependent on the choices made by them.

Handset Manufacturers – Brand building by the handset manufacturers is expected to play a key role in creating awareness among users. Consumers can be attracted by a wider product portfolio of smartphones, which are not expected to reach the higher segment, but offer enough features to satisfy

their requirements at a lower price. Nokia, by having an extensive product portfolio in this space, has a significant share in India.

Telecom Service Providers – The service portfolio on offer by service providers is expected to act as a key differentiating factor. The variety of applications offered by the service providers enables consumers to select the provider.

Application Communities – These need to be driven by the consumer need, as consumers can be loyal to a community that offers a variety of applications and caters to their needs.

SUBSTITUTE PRODUCTS

• Feature phones with enhanced features and a basic OS are expected to play a significant role in acting as substitutes for full-fledged smartphones.

• Netbooks can also be perceived as substitutes, due to their mobile computing ability.

• Browser-based applications on normal feature phones are likely to eliminate the need for sophisticated smartphones.

INCUMBENTS

• With the existing key companies opting for price cuts when new-generation devices are being unveiled (the Iphone being an example), there is a new budget-conscious segment of consumers interested in transitioning to a smartphone as their next phone that can be targeted, thereby expanding their reach into the consumer market.

• With price wars being imminent, there will be a war on two fronts one involving product innovation that attracts consumers and the other involving the price of the device.

CONTENT IS THE KEY

Content is expected to become a key differentiating factor with regard to smartphone offerings.

HANDSET MANUFACTURERS – Need to improve their delivery of content and build a cohesive ecosystem that streamlines delivery of content.

Pre-installed applications and an application store are the strategies that enable handset manufacturers to lock in loyalty of the customer by having an attractive value proposition.

SERVICE PROVIDERS – Need to provide attractive data plans that accelerate the usage of content, flat rate data plans and strategies like them would need to employ.

Content plays a key role in generating subscriber adherence to a particular service provider, and this is very important in a market where consumers are inclined to switch providers.

Attractive revenue sharing arrangements with content providers need to be negotiated.

CONTENT AGGREGATORS AND CONTENT DEVELOPERS – Need to identify consumer needs and deliver content accordingly.

With the adoption of smartphones and deployment of high-speed networks, content such as music downloads and streaming video are expected to gain extreme traction in the youth market, which are often the primary focus of content developers in India.

The content development space in India is growing at an accelerating rate, with the existing information technology expertise being leveraged to develop mobile-based content, an example being On Mobile, which is a spin-off of Infosys technologies.

Comviva technologies is another key participant in content development, offering end-to-end managed solutions for service providers, Airtel has tied up with this company for its value-added services.

CONTENT DEVELOPERS: KEY PARTICIPANTS TYPES OF CONTENT DEVELOPERS

Content Companies – Offering content in the whole spectrum of mobile applications and a managed end-to-end solution Example: Comviva Technologies

Area-focused Content Companies – Offer content in specific areas such as gaming or movie focused content Example: Zapak Mobile (gaming), Hungama Mobile (Bollywood-focused)

Independent Developers – Providing one-off applications

CHANNELS OF DELIVERY OF CONTENT

FUTURE STRATEGY ROADMAPS OF SMARTPHONE PARTICIPANTS

RIM (RESEARCH IN MOTION – BLACKBERRY)

Strategy

• Research in Motion is planning to expand the number and variety of applications and content available for BlackBerry smartphone users through BlackBerry App World and other partnerships.

Impact

• This is likely to play a key role in strengthening its application ecosystem, which creates an extremely attractive value proposition for the enterprise users as well as individual users.

NOKIA

Strategy

• Nokia is strategizing toward providing a combination of consumer Internet services, including maps, music, media, messaging and games, and the user interface, in terms of ease of discovery and use of such services and other functions in mobile devices that are likely to drive the company's volumes.

• It is strategically investing and making key acquisitions to create a leadership position in those five consumer Internet service areas and to make the user experience more personal and instinctive.

• Nokia has also entered into an alliance with Microsoft, with regard to the deployment of its Office suite , where it is seeking to tap the enterprise users market and make the office applications available on its ESeries of phones.

Impact

With its expertise in all forms of the application and service domain, Nokia can create a significant leverage in the mobile market to consolidate its position as the leader, which is being challenged by the likes of RIM and Apple in the smartphone segment.

APPLE

Strategy

• With its strong product innovation capabilities and an ever-expanding application universe, Apple with Iphone is looking to consolidate and increase its market share and penetrate newer markets.

Impact

• Apple has created a unique product in the Iphone, and with an emphasis on building a comprehensive application universe, the company is looking to engage the consumers on two main drivers, namely product innovation and an attractive application portfolio.

HTC

Strategy

• HTC is looking to partner with Indian service providers to introduce Android-enabled phones in the Indian market, with high-end product features and an open application ecosystem of the Android. The HTC Magic is one of its initiatives in this direction.

Impact

• The push toward being one of the first devices to introduce Android in India , HTC is looking to carve a space for itself and gain the first-mover advantage in the open ecosystem of Android, thereby gaining market share.

SONY ERICSSON

Strategy

• Sony Ericsson, being a part of the open handset alliance, is looking to develop Android-based phones and participate in the open ecosystem where its go-to-market time is significantly reduced and have a device portfolio that is highly consumer-centric.

Impact

• By leveraging on its consumer expertise, Sony is seeking to engage the consumers by building consumer centric devices and through the open handset alliance leverage on the Android marketplace.

SAMSUNG

Strategy

• Samsung is looking to strengthen its high-end line-up (touch/smartphone). Being a part of the Open Handset Alliance, Samsung is looking to leverage on the open source Android platform.

Impact

• Samsung is emerging as a strong contender in gaining market share with its wide product portfolio and strong brand building efforts in the Indian market.

LG

Strategy

• With a push toward strengthening the touch screen product portfolio, LG is looking to offer a rich user experience for its consumers.

Impact

• With its focus on touch screen phones at a competitive price, LG is expected to make inroads into the mid-range segment of the market.

MOTOROLA

Strategy

• Move from voice-centric to data-centric devices, by enhancing the existing product portfolio to include more smartphone devices

• Focus on enhancing the user experience by providing end-to-end solutions, leveraging the existing Java/Linux expertise

• The operating systems deployed on smartphones are expected to focus on

• Android (a Google-developed, license-free OS)

• Windows Mobile (Microsoft OS)

• P2K (a Motorola proprietary OS)

Impact

This strategy is likely to help Motorola make inroads into a growing market and gain some of its lost market share. Motorola is investing highly in revamping its product portfolio. Moreover, by adopting a multiple OS strategy, it can penetrate the market, thereby attracting different consumer segments.

Trends

TRENDS IN SMARTPHONE OPERATING SYSTEMS

With regard to operating systems, the smartphone OS market is expected to witness a transition into an open source operating system, with the launch of the first open source Android operating system promoted by the Open Handset Alliance. This is likely to result in more innovation and a more collaborative ecosystem, where the participants engage with each other for mutual benefit.

ANDROID

The open handset alliance is expected to drive Android adoption, with handset manufacturers joining up to take advantage of this open source

model. As it is open source, it has no license fee attached to it, which can reduce the price points to target the mainstream Indian market.

BLACKBERRY PLATFORM

Blackberry is adopting a strategy of interfacing extensively with the developer community to promote the development of applications on their platform. With the opening of the Blackberry App world store and by having easy plug-ins for developers Blackberry is looking to leverage its mobile platform as the go to platform for developers to develop applications on.

IPHONE PLATFORM

With its proprietary OS, Apple is looking to expand its application developer community by providing improved SDKs (Software development kits) and enhanced operating system support for these advanced applications.

WINDOWS MOBILE PLATFORM

Microsoft announced the Windows Mobile 6. 5 at the Mobile world congress, and this is expected to focus on customizable widgets and an improved touch screen interface.

SYMBIAN PLATFORM

Nokia is planning to move Symbian into the open source domain to further drive its adoption and accelerate innovation. With its recently announced Microsoft alliance, there are no plans for Windows mobile operating system devices yet, as Nokia has invested significantly in Symbian and is looking at the Microsoft alliance more from an application suite perspective.

WEB OS

Palm launched its own operating system, the web OS, which enables multitasking and gesture-based interactions and is based on standard Web technologies such as HTML, CSS, and JavaScript.

LIMO

Limo is planning to focus on middleware and build a community of developers around its completely open source platform.

Conclusion

• In India, the smartphone industry is poised to take off, with 5. 4 million units estimated to be sold in 2009 and an increasing penetration in the mobile market, smartphones are likely to become the converged device for the consumer allowing them the convenience of information and entertainment at a single point of access.

• Globally, the smartphone market is experiencing a paradigm shift toward the open source and collaborative ecosystem, with the emergence of the Open Handset alliance and the drive for more Android adoption.

• With