

MOBILE TELECOMS

Smartphone makers focus on region

As the mobile device markets of developed countries become saturated, the Middle East is becoming more important for handset makers, with its high disposable incomes and tech-savvy consumers

ELIOT BEER

The Middle East is rapidly becoming more connected, driven by consumers purchasing increasing numbers of smartphones and tablets, and integrating these devices more closely in their lives than ever before.

Smartphone sales in the Middle East rose 16.4 per cent in the second quarter of 2013, compared with the same quarter last year, according to US research firm IDC. It estimates that smartphones make up nearly 40 per cent of all mobile phones in use in the region.

While specific figures for many countries are hard to come by, the UAE's Telecommunications Regulatory Authority (TRA) recently released figures for June 2013 that showed 44 per cent of handsets in use in the country were smartphones. This figure should match smartphone penetration in other GCC countries to within a few percentage points, says Matthew Reed, principal analyst for the Middle East and Africa region at UK-based research company Informa Telecoms & Media.

Embracing technology

This uptake and embrace of internet-connected mobile devices has helped regional countries move up the rankings of technologically developed states.

According to the International Telecommunications Union's (ITU's) Measuring The Information Society 2013 report, which was released in October, the UAE, Lebanon, Oman and Bahrain are among the 10 most improved countries in its ICT Development Index rankings. Lebanon and the UAE have the highest and second-highest absolute increases in information and communications technology (ICT) development respectively.

However, the region remains divided between advanced markets such as the GCC, where smartphones now dominate sales, and developing countries such as Iraq and North African states, where feature phones (non-smart phones) are still in the majority. According to German research firm GfK, smartphone sales in the second quarter of this year

KEY FACT

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Source: IDC

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Simon Baker, IDC

accounted for 64 per cent of total GCC handset sales of 9.75 million, while in Egypt, smartphones made up only 19 per cent of the 3.73 million handsets sold in the same period.

Although these markets may lag behind in smartphone sales, the growth of the smartphone market is now picking up pace. Egypt's smartphone sales in the second quarter of 2013 were 223 per cent higher than a year earlier, according to GfK. This dramatic growth can partly be attributed to the increased availability of cheaper smartphones – although these models are also popular elsewhere, according to Paul-Henri de Quatrebarbes, business group manager for telecoms and consumer choices at GfK Retail and Technology Middle East.

"The introduction of entry-priced smartphones has been one of the real developments in the region lately, and we would expect this to be even bigger in some lower-income regions such as North Africa, for example," says De Quatrebarbes. "But we still see some quite big developments around these entry-priced smartphones in the rest of the region.

In the UAE, for example, in the second quarter of this year, smartphones costing less than \$100 [accounted for] a 20 per cent share of all smartphone sales. So there is definitely some demand for entry-level smartphones, even in countries with quite premium consumers, such as the UAE and Kuwait."

The regional mobile device market is notable for very extreme splits between developing markets on the one hand and some of the most advanced markets in the world on the other. The latter segment is primarily made up of the GCC states, which feature not only some of the world's highest mobile penetration rates, but also far higher sales of smartphones per capita than other, traditionally more developed markets.

GCC leads

"We've made some quite interesting comparisons between the Middle East, the UK and Germany about the sales of smartphones as a percentage of the population," says De Quatrebarbes. "These show countries such as Saudi Arabia, Qatar and the UAE at about 70 per cent, compared with 40 per cent in the UK, or 28 per cent in Germany. This gives an idea about how big the demand for smartphones is in these countries. Most consumers in countries such as Saudi Arabia and Qatar usually renew their device one or even two times during the year. In countries such as Germany, consumers hardly change their handset, renewing them every 24-30 months on average."

He partly attributes this trend to the fact that many GCC consumers use their smartphones as primary sources of entertainment. This is backed by a global survey conducted this year by internet search engine Google, which showed 88 per cent of smartphone owners in Saudi Arabia and 92 per cent in the UAE used their devices for entertainment. In Saudi Arabia, 95 per cent of smartphone owners watched videos on their devices, with 64 per cent watching videos every day. This compares with figures for UK users of 67 per cent and 14 per cent respectively.

“The introduction of [cheap] smartphones has been one of the real developments in the region lately”

Paul-Henri de Quatrebarbes, GfK

High-bandwidth applications such as video have been enabled by the growth in high-speed mobile data capacity. Relatively-fast 3G networks are now well-established across almost the whole of the Middle East and North Africa region, with only Iraq and Algeria lacking the technology. The next phase of development is the transition to 4G networks, based around long-term evolution (LTE) technology, which will boost maximum data rates to levels close to fixed-line broadband speeds.

“All the GCC countries now have 4G LTE networks live; the first ones in the region were launched almost two years ago,” says Reed. “The operators in the region have demonstrated they’re pretty keen to roll out those networks. But I should point out that take-up was pretty low until the past few months, when things began to change with the growing number of LTE smartphones.”

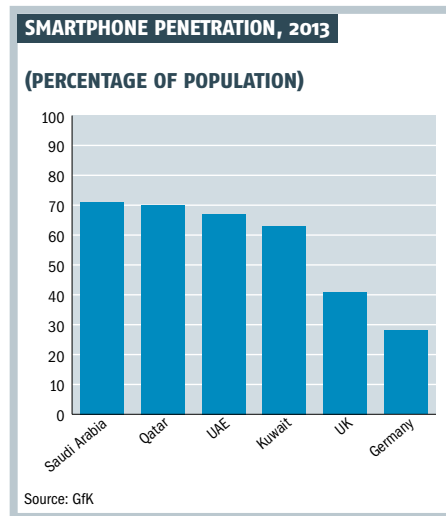
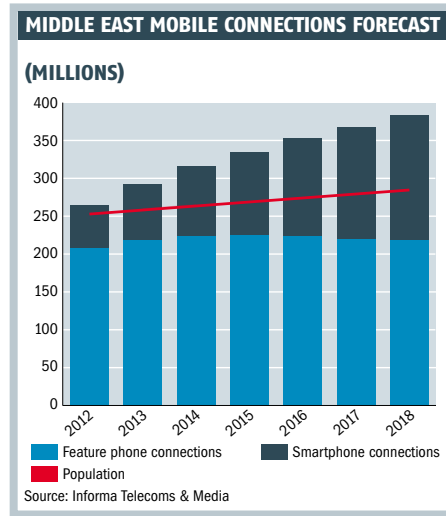
3G flourishes

“The LTE segment is pretty much the top-end of the market,” he adds. “There are lots of LTE devices available, but they tend to be at the premium end of the market. So the bulk of mobile broadband users are going to be on 3G, which is becoming commonplace.”

Figures from GfK suggest LTE-capable handset sales made up about 10 per cent of the market in the second quarter of 2013 across the Middle East. Kuwait and the UAE led the way with 18 per cent and 17 per cent respectively.

While many new premium handsets come with an LTE feature as standard, consumers at the higher end of the market are actively choosing LTE when they have the option, according to De Quatrebarbes. He cites an analysis of the Galaxy S4 sales by South Korea’s Samsung: where both LTE and non-LTE versions were available, regional consumers generally preferred the LTE model, despite its higher cost.

Telecoms operators are keen to push increased mobile data usage as a key revenue driver, and, as a result, are now creating their own versions of the handset-and-subscription



package that has long been common in Europe and other parts of the world.

“Traditionally in the Middle East, the operators were not really involved in the device market, unlike, for example, in the UK, where the norm is to get a subsidised phone on a contract,” says Reed. “But over the past couple of years, operators have been getting more involved in the device market and offering bundles and integrating the device into post-paid plans. They started with Apple’s iPhone and BlackBerry handsets, and now offer a larger range of smartphones.”

Unlike other markets, however, the handsets are still not generally subsidised. Instead, it is more common for operators to subsidise the data package, says De Quatrebarbes. For this reason, he sees lower-priced smartphones as a key opportunity for operators, as they can allow consumers to access mobile data without a large up-front outlay. The region’s mix of high-growth and very advanced markets

makes it an attractive prospect for smartphone vendors themselves, especially because the Middle East is much more fragmented than other regions in the world. A good example of this is BlackBerry, which still commands the number two position in the regional smartphone market – albeit well behind Samsung, which controls nearly half the market, according to IDC’s second-quarter figures. The research firm also shows Finland’s Nokia, with 11.8 per cent of sales, moving ahead of Apple, on 11.4 per cent – although IDC attributes the latter’s decline to consumers at the time waiting for the new iPhone models to be launched.

Middle East target

“As the smartphone markets of the developed world become saturated, the Middle East is becoming more important to handset makers, as it encompasses countries with high disposable incomes and a hunger for the latest mobile technologies,” said Simon Baker, programme manager for mobile handsets at IDC Central Europe, Middle East and Africa, in a press release announcing the figures. “As such, we expect to see vendors increasing their marketing activities in the region and expanding distribution.”

This activity is evident in the number of major launches this year from vendors including Nokia, Samsung and Japan’s Sony, and in BlackBerry’s opening of a flagship retail store in Dubai in June. BlackBerry recently issued a press release affirming its commitment to the Middle East, even as the company itself has been put up for sale.

Alongside smartphones, tablet computers such as Apple’s iPad and Samsung’s Galaxy Pad and Galaxy Note models have become a major segment of the mobile device market. Despite initial fears that tablets could compete with smartphones, tablet sales have been at the expense of laptops rather than mobile phones. Figures released last month by IDC for the Middle East and Africa showed tablet sales overtaking portable computer sales for the first time in the region.

“While it is clear the tablet segment is experiencing growth, we do not believe that it is having an impact on the success of the smartphone market,” says Hayssam Yassine, head of telecoms at Samsung Gulf Electronics. “Tablets and smartphones serve very different purposes and as consumers become more tech-savvy and the demand for technology on the go continues to rise, so too will the number of connected devices, be they tablets, smartphones or even wearable technology.”