

Local brands, low prices to drive China smart phone growth

➤ By 2015, more than 40% of smart phones in China will be priced below US\$200

Shanghai, Palo Alto, Singapore and Reading - for immediate release

According to the latest forecasts published by analyst firm Canalys, China will account for more than a third of the global increase in smart phone shipment volumes in 2012 (over 2011). The country is already the largest smart phone market in the world. Canalys points to entry-level devices driving this growth and expects sub-US\$200 models to represent more than 40% of the market by 2015, up from just over 25% this year. Local brands are playing an increasingly important role, particularly at the lower price points. The recent entry into the smart phone market of leading Internet companies, such as Alibaba and Baidu, is also expected to increase competition at the low end.

'Price erosion is accelerating,' said Shanghai-based Nicole Peng, Canalys Research Director for China. 'New low-cost models, such as the Lenovo A65, have come to market at around RMB700 (US\$110). In Q4 last year, devices with a similar specification were priced around RMB1,000 (US\$158).'

Chinese mobile operators publicly outlined new minimum hardware specifications for smart phone procurement, these are one of the key reasons behind prices being driven down further. For example, from early 2012, China Unicom required its RMB1,000 smart phones to have at least a 4-inch display and 1GHz processor. This is up from a 3.5-inch display and 600MHz processor in Q3 2011.

'We are also seeing more local brands enter the smart phone arena and they represent a growing force for competition against international vendors,' Peng added. 'Established mobile phone makers, such as Yulong, Gionee and K-Touch, have the advantages of strong operator relationships and channels. In addition, emerging vendors, like Xiaomi and Green Orange, are building a reputation quickly in the youth market.'

Local Internet companies in China are also attempting to gain more prominence in the mobile space. In addition to Baidu and Alibaba, several others have recently announced or launched smart phones by partnering with domestic handset brands. These include Qihoo 360 (one of the largest security software vendors), NetEase (one of the largest Internet portals) and Shanda Interactive (a leading online games operator).

'Comparisons to Google may be somewhat premature, as these Internet companies are still at the stage of experimenting with different business models, working with various hardware vendors and channels,' said Rachel Lashford, Canalys Managing Director for APAC and Mobile. 'But the involvement of these big players in China will further increase pricing pressure, particularly at the entry level, as they use advertising and service revenues to subsidize smart phones. Online retailers will also become more important as these Internet players seek to leverage their strong online marketing capabilities to promote their devices.'

Canalys expects international vendors to remain strong at the high end of the market though. 'Vendors such as Samsung, Apple and HTC should continue to dominate in the space above RMB2,500 (US\$400),' said Peng. 'This segment will still account for almost two-thirds of shipment value in 2016. Leading local tier-one brands, such as Huawei and ZTE, are diversifying beyond the entry level by launching a number of high-profile, flagship smart phones, but it will require significant marketing and brand investment to deliver a significant return and this will take a long time. Product innovation is the best route for local brands seeking to increase share in higher-value segments, and we are yet to see the radical moves needed here.'

Canalys analysts are attending Mobile Asia Expo in Shanghai this week. Please contact your nearest Canalys office if you would like to arrange a meeting.

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