

Small tablets drive big share gains for Android

➤ Android overtakes iOS with 53% market share in tablets

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Over 34 million tablets shipped in Q2 2013, a 43% year-on-year increase. Tablets now account for 31% of worldwide PC shipments. But Apple's performance faltered. Its tablet shipments declined 14% on Q2 2012 and its market share dropped to 43%. The chasing pack of Samsung, Amazon, Lenovo and Acer each grew annually by over 200%, driven by increasing demand for small-screen tablets. Canalys estimates that 68% of tablets shipped in Q2 had a screen size smaller than 9". 'Consumers have been evaluating tablets and the results are now in,' said Tim Coulling, Canalys Senior Analyst. 'With touch-screens contributing to a high proportion of the build cost of a tablet, small-screen products can be priced very aggressively.'

Worldwide tablet shipments					
Market shares Q2 2013, Q2 2012					
Vendor	Q2 2013		Q2 2012		Growth
	shipments	% share	shipments	% share	Q2'13/Q2'12
Total	34,204,000	100.0%	23,940,000	100.0%	42.9%
Apple	14,617,000	42.7%	17,042,000	71.2%	-14.2%
Samsung	7,371,000	21.6%	1,867,000	7.8%	294.8%
Amazon	1,550,000	4.5%	424,000	1.8%	265.5%
Lenovo	1,477,000	4.3%	354,000	1.5%	317.1%
Acer	1,457,000	4.3%	444,000	1.9%	228.1%
Others	7,732,000	22.6%	3,809,000	15.9%	103.0%

Source: Canalys estimates, © Canalys 2013
Note: Tablet shipments are for branded vendors and include Windows slates and hybrids

Apple's decline in shipments and share has been partly attributed to its aging portfolio. But Canalys believes that new product launches will have less impact on its shipments in future. 'When Apple does decide to refresh its iPad range it will not experience the buzz of previous launches,' said Canalys Analyst James Wang. 'Tablets are now mainstream products and hardware innovation is increasingly difficult. With branded Android tablets available for less than \$150, the PC market has never been so good for consumers, who are voting with their wallets.' The move to smaller tablets has sparked a price war that has real consequences for the entire supply chain. These products generate little absolute margin for channel partners, vendors or component manufacturers. Content, applications and accessories (especially cases and keyboards) are now even more important to boost margins - areas where Apple remains a leader.

In addition to disappearing margins, inventory management is emerging as a major challenge. If a vendor overcommits at the product planning stage, unsold inventory can play havoc with a company's balance sheet, even with other hit products in a portfolio. The market for full-sized tablets has stalled and even Apple has found it harder to sell its larger iPads in recent quarters. 'Microsoft's inventory issues with the Surface have been well publicized,' said Coulling. 'Heavily discounted Surface RTs will fly off the shelves.'

Expect prices to continue to fall though, as the starting price of \$350 is still too expensive to spark an HP TouchPad-style buying frenzy.'

Despite its 53% share, Android still lags far behind iOS in the availability of fully-optimized tablet apps, and tablet app downloads from the Apple App Store dwarf those from Google Play. But Android is expected to continue to close the ecosystem lead iOS has in tablets and increase share in coming quarters. 'Developers can and will quickly switch their priorities as different opportunities evolve and improve,' said Canalys Senior Analyst Tim Shepherd. 'We expect to see a substantial increase in the quantity, as well as the quality, of apps built or optimized for Android tablets over the next 12 months, as Google brings more attention to them through improvements to the Play store, and as the addressable base of devices continues to soar.'

While it is true that Apple is losing its stranglehold on the tablet market in terms of volume, it will remain its most profitable vendor for years to come. Apple has already faced a similar battle in the smart phone market, and it now looks increasingly likely that it is readying a product that can address lower price tiers and high-growth markets in that space. If this is indeed the case, Apple could replicate a similar portfolio play in the tablet market. It will be in no rush - after all, the launch of the iPad mini was designed to address this segment. But its hand could be forced if competitors' prices continue to plummet. The margin models in the smart phone and tablet markets are very different. It will still make good margin on a cheaper iPhone but will struggle to do so with a cheaper tablet, and would instead need to rely increasingly on accessory sales and, likely, subsidy from apps and content purchases.

About Canalys

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