

Apple dominates in Japan with 56% share as market falls 3.8% in Q4 2018

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Smartphone shipments fell 3.8% year on year in Japan to 9.9 million in Q4 2018, marking a fourth consecutive quarter of shipment decline. In terms of shipment numbers, Japan came fourth worldwide, behind China, the US and India. 32.5 million smartphones shipped in Japan in the whole of 2018, 1.9% fewer than in 2017.



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The performance of the Japanese market has been adversely affected by the notoriously high mobile tariff costs and increasing device costs, especially for iPhones, given mobile operators are given

lower subsidies, capped by the MIC and JFTC. This has slowed the replacement cycle, especially as 48-month contracts have been introduced by the major operators. On the other hand, this has given a boost to lower-cost SIM-only contracts and the secondhand smartphone market.

Despite a sharp 10.5% decline in Q4, Apple still enjoys a dominant position in Japan, its full-year market share exceeding 50% for the first time in 2018, up from 48.0% in 2017 and 48.2% in 2016. Sharp, in a distant second place, only accounted for 11% of shipments in 2018. Competition is becoming more intense for Android vendors. Local names, such as Sharp, Sony and Kyocera, which used to account for a sizeable share of the market, are being increasingly challenged by Samsung, Huawei and Google, which have pushed in with aggressive spending on marketing.

Canalys forecasts a modest 2.7% year-on-year decline for Japan in 2019, as it is further affected by the lengthening refresh cycle. A changing market dynamic is forthcoming in 2019 – a price cut in mobile subscription costs of up to 40% is imminent due to pressure from the regulators. Premium handset and local vendors, such as Sharp and Kyocera, whose sales rely on subsidies and operator promotions, are expected to be dealt an even heavier blow. There will be growth opportunities for mid-to-low-end handsets via MVNOs and open channels. Moreover, Rakuten, which is due to launch its own network in October 2019, will become Japan's fourth operator, further adding to channel competition. As Japan aims to be 5G-ready in 2020 for the Tokyo Summer Olympics, operators have rushed to launch the first commercial 5G network. But the big three operators may find it hard to fund investment amid the impact of further mobile cost regulation on their revenue.



Vendor highlights

Apple dominated in Japan with a 56.0% market share in Q4 2018, down from 60% in Q4 2017 as shipments fell sharply by 10.5% year on year, more than the overall market. The iPhone XR contributed 39.8% of Apple's shipments in Q4, helped by aggressive subsidies from major operators to offset the lower demand for its XS series due to the high prices. The flagship XS and XS Max performed poorly compared to the earlier iPhone X during their launch quarters, shipping only 1.4 million units in aggregate, which inevitably dragged down Apple's overall ASP to US\$744 from US\$794 last year. At the lower end, the iPhone 6S increased shipments due to Docomo's "Docomo with" plan, which comes with much lower subscription costs aimed to attract lower-income users. The biggest challenge for Apple in 2019 is to retain its dominance amid downward pressure on operator subsidies, the rising secondhand market and increasing competition from vendors such as Huawei.

It has been tough for the Japanese vendors on their home turf. **Sharp, Sony, Kyocera** and **Fujitsu** continued to struggle in Japan, suffering declines of varying degrees in Q4 2018 due to a lack of competitive products. Despite being constantly challenged by foreign vendors, the four local vendors retained a combined market share of 25.2% this quarter due to traditional strong ties with the major operators. But the outlook remains bleak for local vendors in 2019.

Being the only top five vendor that achieved positive year-on-year growth of 10.1%, with nearly 680,000 units shipped, **Samsung** owes much of its success to the strong performance of the S9 and S9 Note compared to their predecessors. Samsung also grew 168% quarter on quarter due to a boost from its Galaxy Feel 2, which is specially designed for Japanese consumers. Being Samsung's only mid-range device in Japan, the Galaxy Feel series has been instrumental in creating volume growth for the vendor. But Samsung will start to feel the pressure as Chinese vendors, such as Huawei and Oppo, continue to grow in Japan.

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