

Is the Entry-Level Smartphone Doomed?

The entry-level smartphone market is a moving target and one that seems to exist to some degree on perceived simplicity. Devices like the recently released Pantech Marauder are aimed at migrating the customer base caught in the now "revenue-less" world of voice and texting, to the more data-dependent world of the smartphone. AT&T and Verizon have already signaled their intent to push more people to smartphones with \$30 monthly per-device fees for feature phones set forth in their new data shared plans.

I say the low-end smartphone space is a moving target, because the criteria for "entry-level" changes about every 6 months, making last year's high-end handset this year's antique. What this means in theory is that this year's new entry-level device is often in competition with more quality devices that have been reduced in price by Apple, Samsung and Nokia ahead of the launch of their new models. And that's the rub for this market segment.

I have a review unit of the Marauder that I've been playing around with the past few weeks. On the whole, the specs are decent enough. The LTE-capable Marauder, available from Verizon Wireless for \$50, packs a 1.2 GHz dual-core processor with 1GB of RAM, 4GB of internal memory and support a 32GB microSD card. There's a 5-megapixel rear-facing camera, and VGA front-facing camera for video calls. Overall, you're looking at a pretty vanilla Android handset that will get the job done for most late adopters and teenagers. The quality is passable but it's no iPhone or Lumia for sure.

There's nothing wrong with a phone like the Marauder but there are areas where the phone definitely falls short. For instance, video streaming apps like Netflix and Hulu aren't available on this phone, which is probably a result of those services choosing not to support

the lower-tier handsets. Verizon isn't the only carrier pushing the low end. Among others, T-Mobile currently offers the HTC Amaze, Samsung Galaxy S 4G, and T-Mobile MyTouch by LG for under \$50. Sprint is pushing the WiMax-cable Samsung Conquer 4G for \$50, while AT&T primarily offers the LTE-capable Nokia Lumia 900 for the entry-level price of \$50.

It's that last one that is representative of the challenge for the "entry-level" smartphone going forward, at least in the United States. Say what you will about Window Phone 7.5, the Nokia 900 is a quality high-end smartphone that might be just the ticket for the "entry-level" audience. Not convinced? Windows Phone isn't going anywhere? Consider that the going rate for the iPhone 4 is \$99 on contract. The iPhone 4 is arguably one of the easiest-to-use phones on the market. It's also a quality phone. Not into iOS? You can always pick up the Android-based HTC One X,

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Published on Wireless Week (<http://www.wirelessweek.com>)

a cutting-edge, high-end superphone for \$99 on contract at AT&T.

So who is buying these entry-level phones here in the United States? Answer: Not many and those who are probably not the most informed customers. The entry-level market here in North America is based on perceived simplicity because in fact the Lumia 900, iPhone and HTC One X are higher-quality phones that are in actuality probably much easier to use than the Marauder. Still, a late adopter might buy a Marauder because it's called "entry-level," and they feel like they should probably start out on an "entry-level" device despite the fact that in terms of ease-of-use there's nothing entry-level about a phone like the Marauder. Also, the carrier probably favors pushing the late adopter onto the Marauder for its lower subsidy.

It's an Emerging Market Thing

In the end, the entry-level smartphone is admittedly not as suited for the U.S market as it is for emerging economies.

Kevin Burden, director of mobility for Strategy Analytics, says the entry-level smartphone segment hasn't exactly taken off in North America. Strategy Analytics pegs shipments in this category at a paltry 1.2 million for North America in 2012.

That said, Burden suggests the future brightens a bit for the barebones handset. "According to our numbers, by 2017, this segment is going to represent 27 percent of the total smartphone market globally, or roughly 350 million units," Burden said.

Most of those phones will be Android, but Strategy Analytics expects some OEMs will put forth devices running Windows Phone or Windows 8 in this segment as well.

Burden pegs late adopters and the younger cash-strapped consumers as the prime base for these phones here in North America. "This is all still very much for emerging Asian markets for sure, but if it hits this market, where we love our premium phones, then you know something's happening," Burden said, noting that Strategy Analytics' projections put shipments of entry-level smartphones at 22 to 23 million in North America by 2017, with an average selling price of those devices decreasing from \$96 in 2012 to \$77 in 2017.

Filling a Diminishing Niche

So is anything less than the best doomed in North America? Maybe not. It's possible that an entry-level or feature phone device paired with a cheaper data plan could be a sweet spot for those who really don't want to do much more than check their email and weather, and who certainly don't want to watch Netflix on their phone.

Tom Zeran, senior director of product development and management at Alcatel Mobile Phones believes there's still room for simple, cheap quality phones in North America.

Alcatel recently launched the Alcatel One Touch Premiere, a feature phone that looks an awful lot like a smartphone, with a BlackBerry-like qwerty and a smaller

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2.8-inch capacitive touch screen. It features a few pre-loaded apps—email, social media, weather, maps, navigation, calendar and web browsing—along with Wi-Fi. It goes for \$29.99 (after rebate) at U.S. Cellular.

Zeran admits that the per-device fees currently favored by Verizon and AT&T in their new shared data plans don't help the feature phone market, but he says not everyone has adopted the shared data philosophy. After all, T-Mobile just announced the return of its unlimited plans, and most of the regional carriers are still pushing more traditional family and individual plans.

"The shared part of these plans seems like a really good idea...but this per-device fee, at the end of the day, seems to erode any, if not more than any, savings or value that it creates," Zeran said in an interview, noting that he believes that families that don't have any smartphones will cling to their old plans as long as they can.

Zeran isn't in denial that the feature phone market is shrinking but he says there's still a niche to fill.

Alcatel collaborated with U.S. Cellular on the Premiere to create a phone that was as simple as any feature phone but expanded just enough to give the users a few extras like email and social networking without forcing them into an expensive data plan. U.S. Cellular is actually bundling the One Touch with a \$15 monthly data plan because the device doesn't have a lot of applications that will eat up a ton of data.

"It's a device that can live in a 250MB per-month kind of a budget," Zeran said.

To be sure there will always be all kinds of people, wanting many different types of phones.

The question is how hard and fast the carriers are willing to push their customer base towards the inevitable all-IP world. Verizon appears to have taken a more aggressive approach, requiring that users who upgrade to a new device switch to the new plans. On the other hand, AT&T says its Mobile Share plans are just another option and isn't requiring that customers switch.

At the moment, consumers in North America still have choices like the Marauder and the One Touch Premier, as well as shared data and traditional plans, but one wonders how long the operators will be able to afford to offer small-data options in a time when fewer and fewer customers are willing to actually pay for voice and SMS.

For the time being, perhaps they figure that more options are better than more churn.

Source URL (retrieved on 06/11/2013 - 6:53pm):

<http://www.wirelessweek.com/blogs/2012/08/entry-level-smartphone-doomed>