

## Podcast Transcript - Operator Promos Drive US 5G Smartphone Prices Under \$150

**Maurice:** [00:00:16] Hello everyone. And welcome back to the Counterpoint Podcast. My name is Maurice Klaehne, and I'll be again, your host for this episode. And today we have a really interesting topic on our hands. We're talking about the U S market, a market that, you know, I'm one of the primary analysts on, and with me, I have Jeff Fieldhack, who is the director of North America. Hey, Jeff, how's it going?

**Jeff:** [00:00:41] Hello, Maurice all's well

**Maurice:** [00:00:42] Awesome. So, I mean, we cover the North America market, you know, in a lot of detail by channels, we look at all the promotions that are happening and, you know, we cover everything from connected devices smartphones pet trackers you know, the, the connected golf equipment as well. So, I hope we have a pretty good session on what we can, you know, kind of show the audience today.

**Jeff:** [00:01:05] Yeah. It's exciting times. And with 5g and lots of moving parts yeah, certainly a lot of things to talk about.

**Maurice:** [00:01:12] Yeah. And to kind of set the stage you know, with the pandemic 2020 was a pretty tough year and for all of us really for the smartphone market as well. But however, in Q1, you know, we're really seeing some recovery in the market again. And you know of course this is a kind of a high bump because Q1 2020 was a pretty low month. But Q1 2021 . Yeah. It looks to be about you know, between 15 and 20% a year over year growth. So there's actually some tremendous rebound in this market coming.

However you know, what, a lot of other things that are happening too, such as component shortages, LG's exit from the smartphone market and even, you know, how 5g is going. So there's a lot to talk about here. So let's get right into it. And first I kind of want to touch upon this, this high-end segment that we have in the market in the U S market.

So apple and Samsung clearly dominating the market with their high end flagships, iPhone 12, coming out as 21. What do you think are the key drivers for this premium segment for the U S market?

**Jeff:** [00:02:14] Yeah. So in kind of back step to Q4, which is usually normally dominated by flagships, it was even more so dominated by Apple and Samsung and the flagships, the U S market was.

Down year over year in Q4 you know, high single digit percentage yet apple was up 15% and Samsung was up 5%. And I think the driver was a pent up demand on the iOS side for a 5g device. You also had S 21 and, you know, Samsung flagships, and then Samsung introducing a 51, a [00:03:00] 71. So. Galaxies 5g trickling down into lower price tiers then on the carrier and channel side all carriers, knew 5g iPhones were coming end of the year. So they plan their entire years and marketing spend around this event. So all of them had great deals out the gate. You know, iPhone 12 is free or nearly free. Big trade in plans. And they, they all

went very aggressive, so that really helped premium, really helped Apple Apple gain their, their highest market share ever in the U S market.

And then there were also carriers AT&T went very aggressive. They weren't just doing the normal, Hey, come to AT&T and switch. And then we'll give you this special promo. They were doing it for the base. The base got the same deals as switchers. So this was a bit of a change, a very aggressive change and a AT&T went from a very low upgrade percentage to a much higher upgrade percentage.

So this really drove sales and. Finally I'd add that the premium segment was helped by media bundles. T-Mobile has Netflix, Verizon Disney plus AT&T HBO max. And they all want to lock in subscribers into premium. Unlimited plans with these media bundles and during the year COVID, you know, the U S still not fully open for travel in that. So these bundles with media were very popular since we're still you know, sitting around watching a lot of TV.

**Maurice:** [00:04:43] Yeah. I know. I'm for sure doing that right now. And, and just to touch on one other thing And you mentioned earlier this pent up demand. We not only saw that in Q4, but even early on in Q1.

I think this, this, you know, contributed to some of this growth that we had in, in Q1, even in January and February, where we saw Apple's market share and volume still being maintained because pent up demand spilled over from Q4 into Q1.

**Jeff:** [00:05:10] Yeah, exactly. I think a couple things. It was the later launch November, December.

So some of it's spilled over, but also it's clear. The iPhone 12 is a strong upgrade and will be a strong year yeah, throughout the year. And yeah, as you said, Q1 off to a good start and then. Well, good comps to March started kind of the decline of in 2020. So yeah, year over year, Q1 is very strong and we've already seen that Verizon up five ish percent AT&T up, you know, 30 ish percent with their very aggressive promos during the first quarter.

**Maurice:** [00:05:49] Right. And let's, let's switch to the, the prepaid segment now. You know, we talked a little bit about the premium and when we talk about that, it's generally the postpaid segment. But when we talk about more mid tier devices or even budget devices, so anything really below \$250 you know, around \$200 What has demand been like there?

And are we seeing any aggressive promotions? You know, of course the us has a tax season right now, so it's a big you know, it's a big driver for growth particular in prepaid. Can you talk a little bit more about that?

**Jeff:** [00:06:20] For. Speaking about Q4 and then maybe early into Q1, I think prepaid struggled a bit. You know, and this is very different from the norm. Usually when there's a struggling economy, high unemployment there is usually a shift from postpaid to prepaid lower end service plans, but this was different. This goal around when we've had, you know, a struggling Condamine high unemployment.

And I think it's first, it started with the carriers and broadband providers of forming the keep America connected plan where they wouldn't drop consumers, if they hadn't played or they missed missed a payment or to sell that kept subscribers on. Postpaid plans. And then we also found a, when the stimulus checks hit the market, people use it to buy mobile devices and mobile services.

So you know, this somewhat help started to help the low end of the market. And then as you mentioned tax season, it was a little later this year, end of February and into March. That's when we really saw. The low end of the market then really rebound and we saw aggressive promotions iPhone se at \$50 many you know, \$250, \$200 devices for free.

Or yeah, very, very low point of sale pricing. So this really helped the prepaid market snap back. And one other comment I'd make about the prepaid [00:08:00] market. It is, it is looking more like the postpaid market in that in the past. Prepaid devices were not subsidized. So they were bought, you know, on its own merit.

And, you know, the, the, the price tiers were, were very diverse and spread out, but it really focused on like below \$99. And now with the big promos for the switchers in these switch devices are higher end devices there. 200 to 250 they're like the LG stylos and the iPhone se. And so what we're seeing is kind of a, a higher end lift to the prepaid market.

And I think this will continue as the prepaid carriers want to add you know, 5G and move the prepaid base to 5G devices.

**Maurice:** [00:08:51] Yeah, that's actually a perfect segue to my next question, because I kind of want to know a little bit more about 5g devices and how they're moving down these price tiers.

Right? So in the beginning, when 5G first launched, we have these devices over a thousand dollars, the S10 5G they've slowly moved down price tiers, right? And we, we had devices like the A51, A71 that, that helped drive down. Prices. And, and even now I think you know, I'm just on the T-Mobile website right now, there are three devices that are actually sub \$300.

So the OnePlus and 10 5G, the the new Samsung A32 5G, and also the a modal device, the Moto 5G ACE. So these are all moving down. Really these price tiers. What is really the, the lowest you've seen though speaking with like promotions and things that are happening in the market.

**Jeff:** [00:09:45] Yeah. That's interesting. It's not quite the China market where we see many. 5G devices at like the 170 or 175 price, but certainly coming down into the three hundreds. And the thing about the US market is it's a promotion marketing all in markets. So we do see promos. You mentioned the Moto One 5G ACE.

It's at \$130 on the AT&T prepaid website. So I think that's the low Mark, \$130, but there are so many promos for switchers to get on a 5G device. And you also mentioned the Samsung Galaxy A32. That is T-Mobile's big push with their 5G lead to get lots of switchers. I think

they're going to offer that one at very low price or even free for switchers maybe throughout most of 2021.

So even though maybe, you know, the US markets mainly in the three hundreds is kind of the low level. There are always promos that are much lower for 5G devices.

**Maurice:** [00:10:56] Yeah, certainly. We're, we're seeing a lot of that uptake. I agree. And You're touching on something kind of somewhere again, with, with more of this lower tier \$250 smartphones that we're seeing.

You know, recently we had a big announcement from LG and it announced its formal exit from the smartphone market. The Huawei sanctions had a big impact on, on things as well for the, for the US market. What are some OEMs, do you think that could fill that space now of that LG has, has left with what this sub \$250 segment, you know, the, the Stylo 6, the K51.

We're really big, big drivers, not only for LG, but also the prepaid market. So who do you see? Taking that gap?

**Jeff:** [00:11:38] Yeah. In, within the prepaid channels. So this kind of sub. \$250 price point. You mentioned if Samsung wants to go for a land grab for market share, which I highly suspect they will do. I think Samsung can take 40 to 50% of this, a LG void, but there are lots of others that are primed and really focused on this.

This space that also will take a significant share, but not as, probably as much as Samsung. And these are players such as Motorola. OnePlus TCL ZTE and then probably to a lesser extent blue, which is seen in national retail. And we'll look to be picking up some of the, the, the LG skews there.

One, one other point I would make about LG and their loss of the market is yeah, most of their volumes were dominated in the prepaid and lowered. Tier price tiers, but they were a valuable partner to the operators in the post-paid channels because they were always early with technology.

They were early OEM bringing technologies through the years, wifi calling carrier your aggregation, and then more recently 5G millimeter wave that we're early test partner of. To us carriers, a valued partner in that part will be a big void, even in the higher end where, you know, their volumes. Weren't great, but they were still a very valuable partner.

**Maurice:** [00:13:15] Right. And I think, you know, a combination actually of who can provide the first, you know, sub \$250, a sub \$200 5G device with this type of partnership, potential could really you know, make it big in the market, basically.

**Jeff:** [00:13:29] I agree. And also LG, you know, they brought in marketing money. So they're like big enough that where they did that. And also for these big promos in the prepaid, which is our big volumes, when you have a free switch device or something, LG was able to ramp volumes and be a sufficient supplier.

But I think so far the answer is very tight, but rarely affecting overall sales. And by what I, what I mean by that is Apple Samsung premium. The supply seems a good, I think they're

such a valuable large player. They got their share of components and had their, their orders in and are sufficient to date and through the first half of, of the year, the prepaid, the low end.

Of the market is where we are seeing already shortages and empty pegs. And this is because the 4G SoCs there's the shortages of that many OEMs knowing there were shortages. Yeah, they went with 5G devices over lower margin 4G devices and then yeah. The second, third tier players that are playing in the low end.

Yeah. They're the ones that are hit first. But what I mean by overall sales haven't been affected is the low end of the market and the prepaid channels. They're, they're less brand and model loyal, whereas the iPhone 12 or Galaxy S21 Person that wants to upgrade. They know what they're going to upgrade to and they're waiting on it.

If there was a shortage on the high end, they would probably defer the purchase. But on the low end, there are other choices. There's another low end device that's on promo. So if the Stylo 6 or some, a series that have been in a serious shortages. They'll just simply choose another device that could change if you know things get worse.

But as of now yeah, it's very, I would call it, call it very, very tight, but not yet affecting overall sales.

**Maurice:** [00:15:34] Interesting. So, actually wanted to pick your brain on something else. You're actually, I didn't mention this in the book, but you're really a, the go-to person that we have for the refurb market as well.

So you do a lot of research on what's happening for refurbs. And of course, like you mentioned before a lot of these carriers sweetened the deals with trade-ins for, for the new iPhones and even S21 devices that we're seeing which has created a lot more A lot more customers trading in a new device or old devices to get new, new 5G phones.

Can you tell us a little bit about how the market, the refurb market actually performed in 2020 and how things are looking now in Q1? And also some, one of the questions that we often get is like, well, with this component shortage does this create opportunity for the reefer market?

**Jeff:** [00:16:24] Yeah, the refurb market's super interesting space in itself during COVID all used markets seem to get much of higher demand.

So housing market used cars used RVs all were very strong. During 2020, and in know this COVID world, it was same on the smartphone side for refurbished and secondary market. However, so the demand was really high. Since new device sales were down 10%, the supply of secondary markets was low. So overall the refurbished market suffered with in 2020, not because of demand, but because of supply kind of fast forward to Q4 and Q1 of 2021 high-end devices have been really selling well, there's lots of iPhone 12 purchasers that hand in an old iPhone, same on the Samsung side. So going through the system there's a large supply coming into the secondary market, but we need to wait to Q2 and Q3 for those secondary devices to, to really enter. The secondary market. So the short answer is it's the secondary

market suffered in 2020, but it's really picking up here and especially we'll pick up in the second half of 2021

**Maurice:** [00:17:50] Interesting. And you know, looking again into the future now No with every year, we have seen some spec upgrades. You know, we this I mean last year really was, was a year of higher refresh rates that we're seeing 5G being included. Included of course for connectivity. What types of other key trends are you seeing in terms of specs, like, you know, battery capacity, flash storage, display size, or anything else that we're seeing continued trending in the US market right now?

**Jeff:** [00:18:19] Yeah. First of all, I'd mentioned that this trickle down of specs from the high-end to the low end has accelerated. It used to take two to three years for a high-end spec to trickle down into the entry space. And now it's dropping to 18 months and even for some specs one year, so it's much, much faster adoption throughout the portfolio.

I would bring up. First is the camera technology. That's been a very fast to trickle down through all price tiers. And this is moving from single to now double triple quad cameras. The low light improvements both on the hardware side and the software side AI use to improve camera functionality.

Of zooming capabilities as a big brag within marketing. So I would say that is the first spec that I see very interesting on the display side at the beginning of 20, 20, 40% of smartphones sold, had a display under six inches. Now, fast forward to today, that figure is only about So 6 plus inch smartphone.

Larger display. That is the norm. That's been a huge trend that's been going on for years, but it's really significant now that such a, a high percentage of devices are now larger than a six inch displays. And there's also this conversion continues more old LED's into the market, much more expensive, higher end displays.

The other item I'd mentioned. That's interesting on the spec side is batteries. Of course, larger. Larger displays larger footprint, larger batteries, but equally is the impact of fast charging this 50% charge in a matter of minutes, you know, 20, 20 15, 20 minutes that has been a game changer and has been really the uptake of that from consumers.

Yeah. Very very promising and. Finally I'd mentioned on the, the memory, the, the Nan of low prices OEMs have chosen to spec up the memory configurations on devices. And yeah, I think a trend of less. SD cards and just more onboard memory has been a trend, you know, supporting videos and photos in that.

And yeah, we've seen that trend continue and now we're getting into terabits, so we expect that to continue much higher memory configurations and onboard memory through 2021.

**Maurice:** [00:21:06] Yeah. I think, you know, one of the standouts for me was, was really this, this fast charging and how that really changes the consumer's behavior with a smartphone.

So you don't need to charge your phone overnight anymore. You can literally plug it in in the morning. You know, as you make your coffee, do your breakfast and you have enough charge for your day. So it really, I think. Changes the way that we interact with our devices. And I, I hope to see more of how this behavior change can, can affect things in the future as well.

**Jeff:** [00:21:34] Yeah. And for years we've been talking about cheap charging mats desks and Starbucks and libraries and on buses. And you know, yeah. We've been talking about it for 15 years, but it's expensive. It's not as efficient and with these fast charging boy that I think it's yeah, changing the focus of OEMs because it's so compelling to get a charge, you know, in 15 minutes. So yeah, it's changing user behavior too. Right.

**Maurice:** [00:22:04] And Jeff, I know we talked to a lot of topics and we could go on and on. I just had one more thing particularly because right now it's it's earning season. All the carriers are announcing all the OEMs are announcing their earnings.

Can you talk to us a little bit about what operators are doing currently? What's happening on their side? How's 5G shaping up. And anything you can mention out of the, the news that we've seen so far.

**Jeff:** [00:22:32] Yeah, 20, 21. Certainly now 5g battle is on. And the, the highlight is T-Mobile is leading.

They have this nationwide 600 megahertz. They also with the sprint merger, got sprints 2.5 gigahertz spectrum. So they're basically the only mid band carrier in the U S they also have some millimeter wave assets. So they have this. Lead through 2021 on coverage and performance with this mid band spectrum.

And look for them to be super aggressive. We already mentioned this free 5G upgrade in the Samsung A30 to look for that to continue pretty much through the entire year, but Verizon AT&T just. Sitting around, they, they do have their low band of via dynamic spectrum sharing that they have in they're also doubling their millimeter wave of assets, especially attacking the NFL cities and then their aggressive the C band.

They were both huge purchasers of C-band. But that will be a 2022 story before they get that spectrum up and ready. But there, that, that will be more of a battle than you know, talking 2022 when, when that mid band spectrum is available. But the other item I'll end with is with this 5G capacity, all.

Of the major US operators are focused on fixed wireless access. Now they will use their mid band and millimeter wave assets as a new option for broadband and really try to monetize the billions of dollars they've spent on spectrum. So that will be an under other interesting area. Fixed fire lacks access that we're, we'll be tracking here through 2021.

**Maurice:** [00:24:30] Yeah, these are all certainly topics. I think we could go in depth and in another episode, perhaps but for now, Jeff, I want to thank you for coming onto the podcast. This has been super informative and yeah. Hope to see you again. Hey, thanks Maurice, of

course. And thanks everyone for listening again, as always, you can find this podcast on our website, [counterpointresearch.com](http://counterpointresearch.com).

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