

## Podcast Transcript - Global Smartphone Market: Musical Chairs

[00:00:16] **Maurice:** Hello everyone and welcome back to The Counterpoint Podcast. Today, I have a super interesting topic lined up where we're going to be talking about the rapidly changing dynamics of the smartphone market. And we're going to be talking about original equipment manufacturers or what we call for short OEMs globally, and also what they're doing in different regions.

Now a lot has changed over the last couple of years. Especially with Huawei sanctions happening, LGs exit from the smartphone market, the COVID lockdowns that we're seeing, and also these global component shortages, which have really been impacting the market. And there's so much more here as well.

Now, as a result, what we're seeing in the market is that the top smartphone vendors are changing rapidly in terms of rankings. Who's number one, who's number two, who's number three. And this is especially also across different regions and different manufacturers are gaining in some, while others are losing ground in others.

So to talk about this, I actually have two analyst colleagues on this podcast with me today. Harmeet Singhwalia and Aman Chaudhary. Welcome guys, how is it going?

[00:01:10] **Harmeet:** Hey, Maurice it's good to be back.

[00:01:11] **Aman:** Very Well Maurice, Thank you for having me at the podcast.

[00:01:14] **Maurice:** Excellent. Let's get right into it. And like I said before we'll start off on the global level and then we'll drill down into different regions.

Now, starting off on the global level, Samsung has been the top smartphone vendor globally for the past few years now. But, in April 2020, Huawei briefly surpass Samsung to become the top smartphone maker. And again, in June, 2021, we've seen, Xiaomi actually become the top smartphone vendor globally. Now, what can you tell me about this rapidly changing environment of the number one, spots being taken over by some OEMs.

[00:01:50] **Harmeet:** That's a very interesting question Maurice. So if you see Samsung has indeed been the top smartphone vendor globally for the past few years, but that is one on an annual basis. There's Quarterly analysis of the top players. If one sees that the results are not necessarily as uniform as one may expect.

So there are certain quarters which are definitely strong for Samsung, but not necessarily all for example, in Q4s with bulk of the impact of Apple's iPhone launches being filled in that quarter, Apple in most of the recent quarters, in fact, if we see between 2015 and 2020 in four of those six quarter four's apple has been number one smartphone region globally, and Samsung has been number two. And as you

mentioned in April, 2020, and in fact, Q2 2020 entirely, what we saw was Huawei coming on top and you've seen again this year, briefly in June, where Xiaomi took over as the number one OEM.

But one has to see why this normally happens. One, yes, there are certain quarters which are where certain OEMs performed better than others, but one also has to see what's happening with Samsung in this quarter. While Xiaomi's growth is definitely not accidental, its rise to the absolute top at the end of Q2 2020 was also definitely a result of the production difficulties that Samsung faced, where its factory in Vietnam being temporarily non-operational due to COVID induced lockdowns.

This is also in the quarter when Samsung historically is seen as being slightly, relatively weaker. It's the shipment share for that matter is actually a little bit lower, for example, in Q1s, which is when Samsung has its flagship lunches and therefore it's its strong quarter in Q1 you'd see Samsung's shipment share well over 20%, sometimes up to 24, 25% of all shipments be coming from Samsung. But in Q2, it usually is just above or just below 20%, sometimes as low as 18% percent. And so in that quarter four, Xiaomi to take over as the number one OEM towards the end of that quarter does not necessarily mean that OEM dynamics are going to permanently change.

What that does mean, however, is that Xiaomi is just doing better, which is in the back of Huawei's exit from the market, as you mentioned that the sanctions and that is also because Xiaomi has been clever enough with its channel strategy. It has a strong online presence, which definitely also helped Xiaomi in regions, where we saw COVID induce lockdowns and people gravitated towards online shopping.

So will this be a permanent push towards Xiaomi taking over? Not necessarily, they will certainly be certain quarters where Xiaomi will possibly do well, perhaps even better than Samsung, possibly in Q2's, but generally speaking, given the fact that Samsung is a strong global player with strong supply chain with product in most price bands are extremely cheap to high higher price brands than Apple's. That will definitely ensure Samsung being able to continue doing well.

[00:04:54] **Maurice:** I see, and, just to go back again I wanted to ask you a little bit more about these production issues regarding Samsung production difficulty in Vietnam and now some of these Chinese OEMs showing some more strength because of the manufacturing in China. So and anything you have to add there in terms of the dynamics that we're seeing are OEMs kind of shifting things around in terms of their production.

[00:05:18] **Harmeet:** Samsung has had a difficult production issues because earlier it had difficulties in its Texas Fab factory that happened early in this year. And again, later we saw locked lockdown in Vietnam.

Plus again we are seeing certain difficulties back in Vietnam. So Samsung definitely has been facing a lot of issues from that point of view. And we'll have to see how it manages that in the slightly longer term, whether it prioritizes the manufacturer of

certain higher end products. For example, it has been trying to prioritize certain products from its Korea factory. So we'll have to see how that turns it on for Samsung and the Chinese OEMs you mentioned.

[00:05:55] **Maurice:** Yeah, that's right. We've seen some of that happened actually in the US market as well.

[00:05:59] **Harmeet:** In fact I was also slightly curious as US is such an important market, but it's also very consolidated market Apple and Samsung dominating quite completely, but we've recently seen the exit of LG, which has created possibly certain opportunities for other OEMs, such as Motorola HMD then we also see the entry of OnePlus among the top players in the US so what's going on there?

[00:06:22] **Maurice:** Yeah. I can add some color to that. So just in terms of like the overall smartphone market, I think for those that don't know, the US market is pretty heavily dominated by Apple and Samsung making up 70, 80% market share in a lot of quarters. The rest of that market share that's left over is really divided up between historically in the past, you know, Motorola, LG, OnePlus, Alcatel Nokia and, and some other brands. Now, if we want to dissect that further, actually in the market is also broken up also in postpaid prepaid and unlocked sales.

So postpaid sales being from bigger carriers, maybe heard of Verizon or T-Mobile prepaid crickets, Metro by T-Mobile boost. And then the unlocked market is essentially, you know, the, the free market it's national retail market. What we're seeing here are very different dynamics playing out, especially because of LGS exit.

And also because of a company called Vince smart a Vietnamese manufacturer that had entered the US market with about 2 million device production for AT&T. But then also pulled out of the the market quite abruptly this year so there are a lot of dynamics happening and because of LGs exit now LG has historically had around, let's say 12, 14 million smartphones in a year in terms of shipments.

Now that leaves a huge gap, but it's not where you would usually see the gap. In, in the high-end where LG sometimes has a stronger foothold in other markets that market mainly just Apple and Samsung. It's post-paid higher end where LGs exit is being felt is in the prepaid market. So prepaid market is usually around a \$200 ASP.

There was a big void that's left were we're old G really had some market share 30% or so in sub \$100, a hundred to \$200 market. And the dynamics there have shifted towards Motorola, really gaining because of their Motorola G Stylus that they have, which is very similar to what LG had as the Stylo 6 device title five device that they've been having, which had a lot of success in the market.

Now, Motorola has gained from that, but on the other side OnePlus as well has gained. So OnePlus not only makes high-end devices in the market for the U S but also lower end and with the N 200 device, it's a 5g device that was being aggressively promoted by T-Mobile and Metro by T-Mobile as a free 5g phone for switchers.

So there are a lot of changing dynamics that are happening really in this lower end market, this 20% share that's kind of being rearranged between different OEMs. And not only that we're seeing some shifts happening in terms of the shortages that you've talked about globally, Samsung has had some issues getting into some A series devices, the A32 5g, for example.

And one other thing that I wanted to point out is that the US market, unlike other markets also has millimeter wave 5g, which isn't really available in a lot of other places. And so Verizon is really pushing for that. So what we're seeing in that instances. Verizon's actually looking towards more OEMs to provide millimeter wave devices, especially at lower price points.

So there's a recent partnership actually made with an Indian manufacturer Dixon for a \$350 millimeter wave device. Which is unusual there, they're not a lot of sub \$350 even sub \$400 millimeter wave devices, but we're also seeing this keep getting pushed by Verizon because of the emphasis on millimeter wave.

That's kind of, you know a big or rather a general overview of what we're seeing in terms of what the US market is in particular in how the ranks of have been changing over the past couple quarters. But I wanted to ask you now switching regions to Europe. So I think Europe is also another very interesting region, especially because of some of the brands that are one of the brands that I mentioned OnePlus being in there and be quite popular.

But in a sense, I think Europe also has had a lot of success in terms of the, the apple 5g iPhone. And now that Huawei has fallen off the Europeans market share. There has been an excellent opportunity, I think, for other Chinese OEMs. For example, Xiaomi to gain some market share.

And I think this is especially true for countries if we include Russia and the Commonwealth of independent states or CIS into the whole Europe picture. Now, that being said, we have OPPO OnePlus realme who are also involved in this market. So there's a lot happening here. Can you make sense of this market for me, based on what I just said .

[00:11:14] **Harmett:** Certainly, so the mean headline from this Q2 from Europe was, Xiaomi taking over as the number one OEM there, which it indeed did. As you mentioned with the caveat of including Russia and CIS within Europe as many would think it right. But if one divides Europe into Western Europe, Eastern Europe and divides Europe into also the Scandinavian countries and so on once sees a slightly different dynamics there. So for example if one excludes Russia & CIS, Samsung is still the number one OEM in Europe and if one sees from that point of view Europe at the top level, it had been quite stable that Samsung taking the top spot in most quarters, except Q4 when Apple would lead them. But what we had started seeing recently in Europe was for example, in the middle of 2018, in Q2 & Q3, and once at the beginning of 2019, the first quarter, while we took the number two spot which had previously, if not by Samsung in occupied by Apple. So as you said, you know, when

we left the market, while we lost its market share there, and that left a great deal of opportunity for other Chinese OEMs.

And some of those OEMs that definitely did take advantage. If you see market segments affordable and premium, affordable phones. And so. The affordable segment was taken over by Xiaomi OPPO and OnePlus while the premium affordable, taken partly over by Samsung and Xiaomi. And so Xiaomi was a beneficiary of Huawei's exit from multiple points of view, which definitely helped it emerge as the top OEM this quarter.

But if one also sees Xiaomi slightly, historically, it had been a part of the top five OEMs in Europe for several quarters, but it had been earlier towards #4, #5 and it had recently come to, #3, which had occupied for a significant period of time. And till as recently as Q1 21. So from Q1 to Q2 2021, it jumped from #3 to #1. And again, one has to say the fact that Huawei left, definitely had shown me, but also this particular quarter, Samsung not being able to ship as many devices as perhaps there was a demand for, in Europe, also helped Xiaomi.

So Xiaomi, definitely benefited from that point of view, you also mentioned OPPO and OPPO's sister slash subsidy OEM, such as OnePlus and realme. They definitely benefited.

So OPPO has been creating a huge amount of brand recognition in Europe. And it's difficult to miss, for example, its sponsorship of Wimbledon, Euro 2020, etc. that definitely got some eyeballs for OPPO, and OPPO definitely benefited as a result of that. And in fact subsidiary OnePlus entered the top five in order for the first time and a OnePlus does very well with the Scandinavian countries. It also does well in Germany. Germany is one of its biggest markets for that matter OPPO too does very well in central Europe.

It does in Germany, for example, it does well in the UK. And it's among the top players in Switzerland and Denmark and Belgium, some of the German technicians. So OPPO & OnePlus have also done very well. realme too entered the top five for the first time in Q1 21. And it's still among the top players in Europe, hopefully it will also be able to benefit from being in that region for a little bit of time.

Yeah. So that's what mostly has been happening in Europe. And I think it's interesting how Xiaomi tried to take advantage of having just into the top. Most likely Samsung would have been able to come back and stay there, but it's again, facing some production difficulties. So we'll see how Xiaomi takes advantage of it. If at all.

[00:14:56] **Maurice:** Yeah, I think that's an excellent point that you made regarding some of that weakness that we're seeing from Samsung and hopefully we can have a podcast on this if there are more developments on that, now let's look at Asia next. And you know, it's a big region, so hopefully let's try to focus it a little bit more and specifically look at two of the biggest markets in the world or in Asia really also in the world, China and India. Now in China, I know that Huawei's void has been again absorbed by the likes of vivo, OPPO & Xiaomi, and there has been a really tough

fight, I think, between OPPO & vivo for the number one spots or the top spots as some listeners and as you know HONOR has been actually making a comeback because it's spun out of Huawei. So Aman what's happening there. Can you give me some little more insights about those dynamics that I just mentioned?

[00:15:52] **Aman:** Yeah, sure Maurice. Well, China is like one of the biggest markets for smartphone globally, and we have witnessed significant shift in power in China smartphone market in the last, like four to five quarters.

For example, Huawei which was the market. Until Q2 2020 which almost controlled more than 30% of the China smartphone market is not only contributing around 8% of the country's total smartphones shipment because of the tough sanctions from the US. So this has completely changed the dynamics in the China's smartphone market and because of which the OEMs took advantage. And they try to increase their market share.

For example, vivo now controls 24% of China's total smartphone market because of a couple of reasons. First is they have a very strong 5g portfolio across price bands for example their Y-series and the relaunched S series which is available as low as like \$200 in China. So they had a very strong hold within the 5g market in China. Second is I think vivo, was able to maintain a very strong and very consistent supply of smartphones in China. I mean, they have prioritized China in order to cope up with the global crisis of chipset shortage.

So that's, I think the two factors which really help vivo to attain and reach and maintain their number one sport in China. Coming to Xiaomi there've have been really trying hard to establish their offline presence in the country and because of which they also participated in the recent 628 shopping festival where they offer like create discounts right from the high-end Mi 11 series to the mass market, K series, which really had the brand to reach the highest ever market share of around around 18%. Apple comes at number four. Interestingly HONOR became the fifth biggest player in China in the last quarter.

They managed to reach the market share of 9% which is more than the market share of their parent brand Huawei. I think again, couple of reasons I would say is first is because of the channel sales and their mid-range Play 5 series which been launched in the last quarter.

Again, HONOR 50 series which was launched in the last week of June really hit the brand to regain their confidence and market share in the Chinese market. Another factor, which I think which really helped HONOR is their brand image and their R&D capabilities which they inherited from their parent brand Huawei. Because of which, HONOR really managed to attract Huawei's like loyal customers who did not switch to other brands, like Xiaomi, OPPO & vivo in the last 8 to 12 months. So these are like two factors which really helped to comeback in the Chinese market. I think another well important reason, which I think is their Magic 3 series, which they launched recently.

They are trying to compete in the premium segment with Apple's iPhone Samsung S series. And Huawei Mate and P series. So HONOR's come back and Xiaomi's focus on offline channel, is really making the Chinese smartphone market competitive, and it's going to be a and it's going to be interesting to see, I mean, between vivo OPPO & Xiaomi who's going to lead the market in the coming quarter.

[00:19:23] **Maurice:** Interesting. Do you by chance know if you know, consumers recognize honor as, as a brand of Huawei and they're rallying behind that brands a little bit now?

[00:19:34] **Aman:** They do. I mean, they have a big respect for Huawei, so they have some loyal customers which still wants Huawei, right. And a lot of people think that HONOR is still a part of Huawei. So HONOR is trying to grab the eyeballs of those loyal customers of Huawei.

[00:19:53] **Maurice:** I see. So there, that'd be interesting to see you know, what, what kind of the switching behavior is for consumers? If they, if there are going from Huawei to Honor or other OEMs. Awesome. Well, let's, let's look into India next then. So I know that in India There is a tough fight going on between Samsung and Xiaomi overall. Now on top of this, you know, we have realme who is one of the fastest growing brand. But also vivo who is really focusing and has a good strong hold on the, the offline market.

Now, I also know that there are some dynamics that are rapidly changing really with geo to who who's partnering with Google to create a new affordable Android smartphone. And that will really have an impact on the low end. I believe it's like sub \$100, right. For, for that smartphone. Can you also shine a little bit of light onto this market.

[00:20:51] **Aman:** So India is another very interesting market and again, the world's second biggest smartphone market. And we have witnessed a strong consumer demand and sales momentum after lifting of the restrictions during the deadly second wave, which happened in the month of April and May in the second quarter. Xiaomi retained it's number one position with around 28% market share, which was primarily driven by a Redmi 9 series and Redmi Note 10 series. The brand also entered the ultra-premium segment with the launch of the latest and Mi 11 series. Again Xiaomi's budget sub-brand Poco, which performed really well. Also Xiaomi managed to leverage their online sales strategies and channels better during the second wave lockdown which happened in the month of April and May.

To meet the local demand in India Xiaomi also expanded its manufacturing base by partnering with the local EMS players in the last couple of quarter. So Xiaomi, I mean, they expect the huge demand coming up from the, from the local ended market.

Whereas Samsung market share has been declining a lot from the last five to six quarter. It reached to around 18% in the last quarter partially because of, again, I'm in which we talked about the production disruptions, which happened in Vietnam factory

because of the lockdown. Samsung also lost its market share to different Chinese brands with like online sales channel, like Xiaomi an OPPO.

Although they were aggressive on their online strategies in the last couple of quarters and they try to build their portfolio across like different price bands by like Q4. Coming to vivo they have been the third largest player in the country since 2019, however, their market share has been declining and that declined by over like 1% because of COVID a second wave and we will vivo's high exposure to the offline sales channel.

I mean, they're the biggest in terms of offline sales channel market share which really hampered their shipment in quarter two. realme, they managed to retain their number four spot. They have been quite consistent since 2018 and the brand is considered to be as one of the fastest growing brand in the Indian market, because of wide range of 5g enabled smartphones across different price bands.

They have been trying to increase their offline, reach and cater to tier two, tier three Indian cities and realme for example, they also capture more than 22% of India's total 5g market, which is great. I think all because of their great penetration, great product portfolio at different price level OnePlus is also one of the fastest growing brand this was driven by their latest OnePlus 9 series. And they are also the leader in the premium market with, with around 45% market share. I also believe Maurice is that India's second wave no, we have taught brands the importance to balance out between online and offline sales channel. I mean we witnessed, I mean, how much Xiaomi gained the market share and how much vivo lost the market share because of the different strategies, when it comes to online and offline.

With Jio launching the most affordable Android smartphone in India, we will definitely witnessed a lot of migration happening from feature phone users to smartphone users JioPhone they are definitely going to capture those stagnant entry level smart market in India.

Since it's going to be the most affordable 4g smartphone in the country. And another thing is Jio they are going to bundle their different services when they launched their smartphone in a country, for example, . Along with other offerings from Google. So this might push other telecom players, such as Airtel and Vodafone to come up with their low cost 4G smartphones as well.

[00:25:00] **Maurice:** So one more thing I wanted to ask you as a follow-up because I think it's really interesting the, the Indian government had this whole initiative called making India, right? It's still ongoing where they invited OEMs to set up manufacturing plants in India. Do you think that that helped certain OEMs gain market share over others?

[00:25:21] **Aman:** Definitely. I mean, they have managed to save a lot when it comes to production costs. So a lot of OEMs are passing those costs to consumers. Which is helping the brands to gain the market share. So it's definitely working in favor to all the OEMs.



[00:25:38] **Maurice:** Cool. Well, before we wrap up I wanted to briefly touch upon two other regions really. Now the Southeast Asian region has been getting a lot of attention. Not just for being an up and coming smartphone market in terms of consumers wanting products, but also because it's turning into production hub, really for a lot of OEMs looking to expand or rather have a more diversified supply chain.

And so that's one region I wanted to ask about and the other one is the middle east and Africa. So there I know that there's a big percentage of the population still has feature phones. And we're, we're seeing companies like TECNO putting in a lot of efforts there to you know really promote their brand.

Can you kind of now as the last question, talk me through kind of these different regions and what, what the competition is like?

[00:26:32] **Harmeet:** Sure Maurice, I can take that briefly. So if I look at the Southeast Asian market yes, it has been coming up as a major manufacturing hub. If one sees the top players within Southeast Asia, Xiaomi OPPO vivo because they're Chinese OEM so bulk of the shipments actually still does come for the phones that are being sold within SEA from China. And the major thing that we see happening in the Southeast Asian region and it's not very different from what has happened in other regions, especially for example, Europe is and that Xiaomi has taken over as the number one OEM there which is extremely interesting. And yeah, but Xiaomi has overtaken OPPO to become the number one OEM in SEA, unlike in Europe it took over Samsung. So Xiaomi has definitely been doing very well in multiple regions. What happened with OPPO is that it had been focusing too much on marketing, which definitely did help it in Europe, as I mentioned and got the eyeballs because it was not really well known, so that definitely have that there, but within SEA was a major player.

The marginal benefit of added marketing effort did not yield the sort of results that it may have done in Europe. And what Xiaomi did on the other hand was it had to be a balanced approach. Online versus offline focused, which helped it during the lockdown when people gravitated towards online shopping and show me definitely benefited from that in Southeast Asia.

Also what we seen in middle east in Africa is that middle east and Africa is one of the most stable regions that we've seen And in that Samsung has been the number one OEM for the last 33 quarters. But what we wants to see is as you mentioned, TECNO has been doing well, TECNO as part of the Transsion Group, which also includes iTel and Infinix has been doing incredibly well.

Its market share from the same time last year, it has risen from 20 to 32%. And if it goes back all the way into Q1 2015, it was only 8%. And the Transsion Group has been able to do this with added focus on the regions that are up and coming with huge potential, but large populations, such as Nigeria and TECNO is the biggest player there with over 40% of the share. So that's definitely been helping it. What one wants to sees is that the whole market is sort of being consolidated and maybe Aman, can speak a little more about that.

[00:29:05] **Aman:** Yeah, I think top 10 brands their market share has been increased to around 79% as to what we witnessed in the last year where they were contributing to around 69%.

So all these is happening because. I mean, smaller brands are finding it really difficult to respond to like price wars, which is happening between OEMs. There's a supply chain disruption, which happened because of COVID 19 lockdown in, in the last year and again, the sale. And also I mean, a lot of smaller OEMs went back to it because of the global component shortages. So it's all these three factors are really making it difficult for small OEMs to play in the market. So I mean, and all of these shares are going up to the big, bigger place. So we we are witnessing a lot of consolidation happening in the entire region.

[00:29:57] **Maurice:** Interesting stuff, guys. I think we covered quite a bit on this podcast and hopefully maybe we can drill in a little bit deeper in the next ones. Especially if you go into different regions. Cause I think there's a lot there to unpack. But for now I think we'll call it here and I just wanted to thank you both for joining me on this podcast again.

[00:30:19] **Harmeet:** Absolutely. Thank you for having us.

[00:30:22] **Aman:** Yeah, it's been my pleasure, Maurice. I would like to thank you again for inviting us to be a part of this.

[00:30:29] **Maurice:** Thanks again, everyone for listening and tuning in as always, you can find us on Apple Podcasts, Spotify Tune In and Google podcasts. We'll have this up on our website, counterpoint research.com under our podcast section.

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