

Podcast Transcript – Will 5G Offset Macroeconomic Weakness in SEA Smartphone Market?

[00:00:12] **Tarun:** Hello, everyone. Thank you for tuning in to yet another episode of “The Counterpoint Podcast”. I’m your host Tarun Pathak, and today I have two analyst colleagues joining me to discuss the smartphone market in the world’s most promising region, which is Southeast Asia. We have with us two senior analysts Febriman Abdillah joining us from Jakarta Indonesia.

Hi Febriman. How are you doing today?

[00:00:36] **Febriman:** I am fine. Thank you, Tarun. Good to see you again. So how are you too?

[00:00:40] **Tarun:** Great. Great. Doing great. So second we have with us, Glen Cardoza, joining us from Mumbai, India. Hey Glen, how are you doing?

[00:00:48] **Glen:** Hi, Tarun. Nice to be on this podcast. Thanks for having me.

[00:00:52] **Tarun:** Great. So let’s get into the discussion straight way.

This is one of the most interesting topic and we have recently come out with our latest Southeast Asia smartphone channel share tracker for Q2 2022, where we have discussed the smartphone shipment trends and how it has declined in line with the global trends we are seeing, but not only just the shipment trends, there are other noticeable trends that are happening in this market.

So straight away, I think my first question to you, Glen, is we have seen the shipment decline. The numbers have been more or less consistently with our expectation. What are the main reasons for the decline in these countries? Do you see this trend happening in the coming months, especially when we are going into the holiday season and very important Q3 and Q4.

[00:01:42] **Glen:** Yes Tarun. So the Southeast Asia region overall has been through a very volatile transition because of many macroeconomic factors. So the war in Ukraine, the resultant trade inconsistencies,

inflation in multiple countries in the region. All these are very big factors leading to changes.

They have affected the Southeast countries in an adverse manner. Inflation is one of the main aspects which is affecting these countries. If you look at the main countries of Indonesia, Thailand, Philippines, Vietnam, all of them are facing some level of inflation. Due to inflation, there has been a big hit on consumer sentiment demand has gone down. Tourism has reduced, and there was no way of recovery after COVID because of these macroeconomic headwinds. These are some of the main factors which have affected Southeast Asia, as a region.

[00:02:42] **Tarun:** Interesting. So Glen, you had mentioned about inflation and let's talk about one of the biggest market in this region, Indonesia, which is like contributing to almost like 45% of the shipments. So Febriman, I wanted to like know from you, are you looking at the similar trends in one of this biggest market where a lot of eyes are there in terms of growth rate, in terms OEM strategy, all the players who are looking into this market since you are based out of there.

[00:03:10] **Febriman:** Yes, Tarun. So first, if you look at what happened last year in 2021, where online activities has been boosted up due to the pandemic restriction regulation, then at that moment, the need for the internet connectivity is origin and so are smartphone. But now the condition has been different, restriction has been loosen up.

So the urgent need for the new or upgraded in smartphone is no longer feasible as it used to be. Second, the domestic economic situation as well, the increase in the price of some commodity products and also this makes people very careful in shopping right now. The most hit is the low-end smartphone.

This low-end is the one of the most selling phone in Indonesia. We are expecting similar trend for the next three or four months ahead. We can expect an increase in the Q4 this year and maybe Q1 next year. As people may want to upgrade their phones.

[00:04:17] **Tarun:** Interesting. So, one of this trend, if you look at, everyone is talking about the base effect, right? We are comparing it largely on year-on-year numbers because last year the pent-up demand was very high. And out of all the categories, we look at smartphones very closely because there is some kind of resilience that has always been

there in this segment. And Febriman, I think you mentioned a very important point, consumers are holding onto their devices. Does this mean the upgrade ratio normally we have seen happening in particular time of the year changing significantly.

And if that happens, I'm sure like the brands will be keeping a very closer eye on this trend because it is more like a volatile situation right now that can drive the shipments at different parts of the year.

So, Glen my question to you is how are brands navigating this trend? Because now it is very difficult for them to understand when consumers are going to upgrade. And what are those trigger points? Are you seeing any change in the strategy of brands? Looking at this overall trend?

[00:05:26] **Glen:** Yes, Tarun. Febriman mentioned a very important point. I mean, the main decline in shipments is seen more at the lower range smartphone level. And as you mentioned earlier consumers are holding on tight to their wallets. They are not willing to spend on discretionary items like smartphones. So OEMs have been trying to track this market and trying to understand the trend in this volatile situation. Since the start of the year, supply constraints have been consistently one issue that OEMs were worried about. But that is transitioning into something else as we move into H2 2022.

While we go into the second half of the year, consumers have been affected by these macroeconomic factors and the demand has taken a little bit of a downturn and they're holding onto their wallets. They might not buy their smartphones right now, but there's a big potential in Q3 and most definitely Q4 for the wallets to open up. OEMs have firstly struggled with supply constraints, but now they're trying their level best to make sure inventory does not build.

They're trying to make sure that there are consistent offers, promotions discounts on the fast-moving models. They're trying to make sure that the shipments for most recent launches are being sold in the main markets of the region. Right now they are very much trying to understand the potential of Q3 and Q4 big brands like Samsung are able to sustain their shipments much better than the top Chinese brands like Xiaomi, OPPO, vivo, and all of the brands are, are able to somewhat maintain shipments, but the levels on a year on year level it's quiet.

So that is something that the brands are seeing as a major challenge, how to increase demand and how to maintain a proper shipment and distribution throughout the channels.

[00:07:19] **Tarun:** Okay. With that I believe with different strategies, there are other things that are happening. There might be more financial schemes coming in to push consumers to open up the wallet or the equated monthly installment that can happen.

So there are a lot of things that can open up, especially in this important time of the year. Febriman. What's your view on the same question? Like, are you seeing any changes in the brand strategy?

[00:07:44] **Febriman:** Yes, Tarun, I think I want to add a comment from Glen as well. So I very agree with Glen mentioned about that, but on the promotion.

So what we see especially in the first month of this quarter, which is the Ramadan. So we see that most OEMs intensifies consumer. Price promotion like cash back bundling program, price reduction, threat in scheme, installment, or using a pay later for the online purchase and also free delivery.

So this kind of promotion impacting the demand of the consumer. So that's, that's something that OEM can look at later on when they want to increase the demand attrition, other than that brand also needs. Better understanding about what consumer wants from a smartphone or why they need to upgrade because smartphone, we see earlier on that has been used more frequently.

So some spec like RAM, ROM, battery life, screen size, and etc. Understanding this can help brands to strategize model shipment and inventory. Shipment can focus on certain models that are trending. We saw that one OEM having around 15% as to 20% shipment of one model out of total monthly shipment for a period, and then suddenly change or renew the model afterward.

It seems to work well to keep both supply and demand to be attractive.

[00:09:25] **Tarun:** Okay. Interesting. So out of all these strategies, I'm sure that will make the overall channel play very interesting going into the Q3 and Q4 because especially in this countries and our research in

fact shows it, the share of online channel has been increasing since the pandemic as well.

So how you see these both channels, either competing with each other or they are likely helping each other for the OEMs to reach out to them more and more consumer, because it's a diverse geography. You have like set of islands and reaching everywhere is not easy. So, from the channels perspective, Glen if you can help me with online side of the story, how online is shaping up with spec? So we'll focus mostly on the smartphones as a category and Febriman, maybe after that, you can add on some flavors into the offline side of it since I believe you have been into the offline markets very often and access that trend over there.

So, Glen I'll start with you from the online perspective.

[00:10:32] **Glen:** Yes, Tarun. So online has been coming. Slowly and steadily in the last couple of years. First started off with the COVID after effects and online has consistently maintained a good say, 15-24, 25% shipment share across different countries.

In the region, a country like Vietnam would show something about 13, 14, 15% online share. Whereas a country like Thailand would show more than 22, 24% online share, and they have been more prevalent towards the end of the year. So we expect that to come up in Q3, Q4. As of now, while there are headwinds and macroeconomic issues online channels are trying their best to do with whatever limited promotions and offers they can, they can give at this point they are trying to make a way with stocks for models, which have launched in Q1 of the year as well.

And online has always been active, especially with the active digital transformation in all of Southeast Asian countries. So, right now, the big players in online, it is mostly Shopee, Lazada, in Indonesia Tokopedia and Thailand we have JD, unlike countries like India, where there are two main players like Amazon and Flipkart Southeast Asia has a potential for many other online players to make a good base among the consumer.

So while Shoppe and Lazada trying their level best, the other players like Akulaku, Bukalapak and Kim Stores in Philippines, and many others are able to come up and we should see the next coming months you know, rise with online share of shipments and sales for smartphones.

[00:12:21] **Tarun:** Cool. And Fabriman are you seeing a similar kind of like expansion in the offline as well? Are distributors increasing onto the reach. How, how does it look in the offline side of things?

[00:12:34] **Febriman:** Yes right Tarun. So I've been seeing in the market for the retail, especially for the smartphone. So actually that online platform has been used more since the pandemic people are getting used to do online shopping, especially for the daily need, likes foot, and beverage, and toiletries etc.

But. At the end online will not replace offline. It is adding point of sales. So in quarter four or December is one of the shopping season. We don't expect that this year to be different, but to make online, shopping more enjoyable by customer, customer must see advantage of online over offline.

Will it secure work for the money product affordability. The most important thing is the, on the originality and the shipment trends and if we compare what happened in the offline retailer, actually what happened is that some offline retailer also opened their online channel. So it's become omnichannel at the end.

So one of the offline channel also receive purchase or order through online. So it's a combination of both offline and online. So we see that more and more coming into that. But one thing that really matters. So why offline is still in the market because of first people need to ensure the originality of the product.

So we found that so far cases that the smartphone is fake when, they receive it is losing the trust. That first, the second one is because the Indonesia has a five big island throughout the country. So what really matter for the consumer and the offline and the online channel is how the shipment to be done, because it will create more investment in that as well. So that's something that OEM or maybe the marketplace or eCommerce need to consider the originality, the worth for the money and how the product will be shipped to the customer.

[00:14:44] **Tarun:** Got it. So for our listeners, I believe the omnichannel strategy is here to stay going forward in the region rather than one way of online vs offline.

So that's interesting moving on. I think let's talk about 5G. There has been a lot of talks about some of the operators starting 5G much earlier than the rest of the developed markets in the world. And we are seeing a very interesting mix from the operator side. There has been some consolidation in few countries in the region.

So what I would like to understand Glen from you is on the devices side, how we are looking at the smartphone vs 5G perspective, has it really diffused towards the lower price tiers or not?

[00:15:27] **Glen:** Yes, 5G has been slowly and steadily increasing its share in overall smartphone shipments in Southeast Asia. All of these countries are quite different right now at different stages of 5G. You know, initiation and commercialization, it is very important to understand, like for example, Singapore, Thailand such countries who are a little bit more mature to do with 4G penetration and 5G infrastructure increase, whereas countries like Indonesia and Vietnam are going slowly and steadily.

The difference is a lot to do with consumer demand as a consumer who would want a 5G phone in Thailand, Philippines and Malaysia would actually look for, 5G as a consideration factor. The connectivity would be there. The consistency would be their packages and a lot of 5G options.

Whereas in Indonesia and Vietnam, the expansion of 5G is limited. It's slow. The government and industry is gauging how the demand is coming up for 5G. The consumers in these countries like Indonesia, Vietnam might not actively look for 5G, but if they're getting it, they will take it.

That's the reason 5G has been in demand. And that's the reason 5G has been increasing, for example in Vietnam. And in Indonesia, we are looking at increasing 5G shares Indonesia more than 20% Vietnam surprising in more than 35% as 5G Thailand is almost reaching 50% of shipment share being 5G smartphones.

So while overall volumes might decrease Tarun, the 5G share is something that is bound to grow steadily from here on and the expansion of the infrastructure use cases, industry level usage, everything is bound to increase, especially while the economies in this region recover.

[00:17:25] **Tarun:** Yeah. and even more awareness from the users as well from 5G devices. And I think if not for the component shortages, the

diffusion of 5G towards the lower price tier could have been even faster. And that is more from the device perspective. Febriman you have your background working with the telcos as well, right? How are you looking at 5G plans and 5G use cases in the region from the operator's perspective?

[00:17:50] **Febriman:** Yeah, sure. Tarun. So if you look at, in the case of Indonesia, mobile operator right now are focusing on the 4G optimization as they just finished migrating all the 3G to 4G. 5G, on the other hand, it's developed very carefully. We are seeing operators are promoting 5G advantages or its superiority to customer & enterprise through some national event like earlier on we see, we saw that there are Formula E, this Motor GP and maybe in the upcoming G20 conference in Bali.

So in those cases to inspire stakeholder to create relevant demand or use case for 5G, one of the possible use cases that can breach enterprise with customer is using Metaverse for marketing promotion or, even for the product trial in use cases will be customized depending on the needs and requirement of the enterprise. Here telco operator seek collaborating with enterprise to generate use case telecom cell, for instance, has initiated a reset platform with campus or university and they also create incubation platform. Do collaborate with tech startups or IoT-based company and smart city developer this have been done.

So hopefully there are some relevant good use case that can be brought out for the 5G development later on the smartphone side, frequency compatibility of either 5G or 4G, because we see the 4G now is become the backbone of the consumer across Indonesia. It's mandatory, because all operator have different band range, majority of the customer in Indonesia are prepaid subscriber, which make them easily change operator and thus frequency, smartphone coverage or spectrum be preferred.

So what I know so far is only iPhone that has all of the range of the spectrum. Hopefully other OEM, as well could be followed that path.

[00:20:04] **Tarun:** Yeah, that is interesting because the use cases is another thing that varies from region to region. And in one of our studies, we, found out like most of the regions will have a very different use cases as well.

Maybe in Southeast Asia gaming can be another one. And, I think we have published a great blog a couple of weeks back highlighting the potential of gaming in this region of Southeast Asia.

Now, moving on to the last section of our podcast Glen and Febriman, I would like you to highlight the outlook for H2 2022. In fact, a lot of our listeners would want to know from you what's the outlook, what, what we are going to expect in 2022. So Glen I'll start with you. Are you optimistic? Are you cautiously optimistic? Or do you think that market will take some time to recover on this? Yes.

[00:20:58] **Glen:** Cautiously optimistic would be the right point here. Tarun because at this point, OEMs are trying their level best to have some kind of growth in this year, while H1 was very slow Q3 as well, seems to go a little bit in line with how Q2 has gone in the year. Shipments would tend to be a little bit lower. It depends on many factors. For example, countries like Indonesia, Vietnam, Philippines, Malaysia, all capable of bouncing back in a much better manner.

Exports have improved. Tourism is increasing. The governments can protect consumers from extreme price rise. This is also possible in Thailand, but the economic situation, for example, in Thailand is a little bit more volatile. It might take a little bit more time to recuperate. Over here, we see the Q3 shipments and outlook to be a little bit on the lower side.

H2 of this year, we'll most probably try to make up for the volumes in Q4. There is there's quite possible. An outlook that pent up demand combined by the overall opening of the market's improvement of inflationary situations. It all might have a very good season for OEMs in Q4 of the year. It's quite possible that we might even see a flattish growth because of the bounce back in Q4.

But this again will depend on many factors and for different countries, these factors are different on different levels. So consumer sentiment, the demand over here Tarun is the main factor.

[00:22:38] **Tarun:** So in our possibility, the optimistic scenario we are looking is flattish or less negative, but it will not grow year on year.

So Febriman, do you think the same you have the same views on that.

[00:22:50] **Febriman:** Yes. I'm very agree with Glen in this case. So we will see in this Q3 it can be flat trend, but we don't expect in Q4, at least in December, because December is the shopping season for most of the people in Indonesia.

And, if government's will to accelerate digital transformation, especially for the small micro and middle enterprise. So the need for smartphone will be there always, but we can see that. If you look at the life cycle of smartphone, it will be end of six month to one year.

So if people buy in the quarter one, so we expect that in the, next two quarter or three quarter will be upgrading. So we are optimistic like Glen, we are optimist that, the market will recovery, but of course it's depend on the microeconomic in that country as well.

So whether the regulation, the politic and also the macroeconomic become better. So we will expect that there is some spike later on in this year, hopefully. Yeah.

[00:23:57] **Tarun:** Got it. Great. Thanks a lot. Glenn and Febriman for this interesting discussion, I guess we have touched on most of the pointers and the summary here. The macroeconomic headwinds is definitely there. The conditions are challenging, but there is, we can expect a light at the end of tunnel. If consumers will start spending driven by those new launches and some of the aggressive offers, maybe a 5G can provide them much needed uptake in that. But we are not seeing a massive ear on year growth.

Like we used to see in the previous years. So, thanks guys. Thanks a lot for this interesting discussion.

[00:24:36] **Glen:** Thank you very much for having us on call Tarun.

[00:24:38] **Febriman:** Thank you, Tarun for this, having this discussion.

[00:24:43] **Tarun:** Okay. Great. And thank you for our listeners for tuning in. You can listen to our previous podcast on your favorite podcasting platforms, such as Spotify, Apple Podcasts, Google Podcast, and more.

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