

Podcast Transcript: 2023 China Smartphone Outlook - Reading Between the Top Lines

Rick 00:10

Hello everyone. Welcome to Counterpoint's first Chinese podcast. I am the host of this podcast, Rick, and today we are very happy to invite friends from Counterpoint, two analysts from the Chinese team. Hello Archie, how are you?

Archie 00:23

Hello everyone, I am Archie, an analyst at Counterpoint based in Beijing.

Rick 00:26

Next, we also invited Shenghao, our analyst based out of Shenzhen.

Shenghao 00:29

Hello Rick, hello everyone, I'm Shenghao.

Rick 00:31

Great, a great welcome to you both. So, we recently held an offline customer-sharing meeting in Shenzhen. In the meeting, we discussed many topics of common concern. I would like to take this opportunity to bring you the development trend of Chinese smartphones, especially the recent heated discussion about high-end smartphones by Chinese mobile phone manufacturers. We hope to bring you some thoughts and inspiration through this podcast and welcome everyone to leave a comment and share their views on this topic.

First of all, there is a topic that everyone is very interested in. What is Counterpoint's prediction for the future of the Chinese smartphone market? We first ask Archie to share.

Archie 01:06

Thanks Rick. Counterpoint has been paying attention to the Chinese mobile phone market. Everyone knows that in 2022, due to the impact of the epidemic in China, the sales of smartphones as a whole were still not satisfactory. At the seminar in Shenzhen a few days ago, we also received many manufacturers asking us questions in this regard.

In fact, judging from this year's sales data, we actually saw that Chinese smartphones had a rapid rebound process in January and February during the Chinese New Year. This process actually confirmed the overall sales

of smartphones in China. In fact, it has already stepped out of the shadow of the impact of the epidemic in December last year.

Since entering March, we have actually seen a certain downward trend in the vector of the main axis, but if we pay attention to the year-on-year growth, it is still in the process of gradually narrowing. Since the beginning of the month, many cities across the country have entered such a state of epidemic control, so the bottom of the entire bottom of Q2 last year was relatively deep.

Therefore, based on the high-frequency data in the past few months, we currently expect that the overall Q1 smartphone sales in China will continue to decline, but the overall decline will still be narrow compared to the decline in the third and fourth quarters of last year.

Looking at the whole year, we still maintain our previous view that Chinese smartphones will achieve a weak positive growth this year. This is the first time that Chinese smartphones have achieved positive growth since 2016.

Rick 02:49

Thanks Archie, we actually look at the data report of Counterpoint, and we will find that the sales volume of the Chinese market in 2022 will be the lowest in 10 years. The question we all care about is whether the overall Chinese market will improve in 2023? What are the main influencing factors? Next, we ask Shenghao to share this topic with us.

Shenghao 03:08

Thank you Rick. The reasons for the sluggish sales of China's smartphone market in 2022, I think, are the following aspects. First of all, smartphones in China are an extremely competitive, and it is quite a saturated market. New models include some new technologies that have been emerging, but in fact, consumers' demand for upgrading their mobile phones is not as strong as before.

There is also a background of the epidemic in 2022, which actually had an impact on consumers' willingness to buy, which eventually led to a decline in the sales of consumer goods such as smartphones.

Another point is that the average selling price of smartphones is currently showing a trend of gradual increase. This trend will affect a consumer's decision for some low- and mid-priced products.

In 2023, I think there are several factors that will affect the sales of smartphones. First of all, at the macro level, domestic economic growth has a great impact on consumers' purchasing power and confidence. If economic growth slows down, consumers' willingness to buy and confidence will decline, which will affect the sales of smartphones. There are also some national policies. In fact, the support for industry innovation will affect the investment of manufacturers and enterprises in new technologies and new products, and in turn will affect the overall market size.

The second point is consumer demand. In fact, we believe that the current update speed of smartphones may slow down. Consumer demand and purchasing power are actually the core factors that promote the development of the overall market. Consumers' purchasing decisions are influenced by price and brand, including factors such as product features and services.

In fact, if consumer demand and purchasing power change, it will directly affect the market structure and market size of the mobile phone market. We believe that another important factor that will affect the overall mobile phone industry in 2023 is technological innovation. That is to say, the development of the smartphone industry is inseparable from technological innovation. The functional performance and appearance of smartphones need continuous improvement. In fact, only in this way can consumers' needs and expectations be met.

For example, we have also seen some AI technologies such as folding screens, including the introduction of resource chips. I think these will bring new opportunities to the smartphone industry as a whole.

Another point is the stability of the supply chain. In fact, the supply chain is a key factor in the smartphone industry. For China, it is the largest smartphone manufacturer in the world, and there are many important supply chain manufacturers and manufacturers. For suppliers, if there are some problems in the supply chain, such as the shortage of some raw materials, it will directly affect the development and market performance of the overall industry.

In fact, based on the above factors and our expectations for the current market, we predict that in 2023, the sales volume of the overall Chinese smartphone market will not rebound significantly, but there will be a slight recovery. We expect the growth rate will be less than 2%. In fact,

we need further attention and follow-up on the performance of a specific market.

Rick 06:18

Thank you Shenghao for sharing. We have found that major mobile phone manufacturers have released some flagships in recent months, and the average selling price has also reached new highs. At present, we see that the average wholesale price of domestic smartphones is around US\$390. We predict this average price may continue to rise in the future. So we have a question to ask Archie. In the current market, why do all mobile phone brands value the high-end market?

Archie 06:42

Okay, thank you Rick. In fact, we can see that this is still a strategic choice of various manufacturers. This is also a very natural strategic choice in a down market. In the context of the ever-increasing mobile phone replacement cycle, is there any way to preserve the sales of future manufacturers?

The proportion of decline is slightly smaller. In fact, impacting high-end and increasing the average sales price of mobile phones and smartphones is actually a work that various manufacturers can do. If we look at this time point, there are still such things in China. A space for consumption upgrades. In the future, we can expect to see more Chinese high-end smartphones occupying a higher proportion in the market. Therefore, combining the current strategy with the long-term strategy, it will actually hit the high-end. Raising the average sales price of smartphones is actually a natural choice for various manufacturers.

In the future, smartphones still have a lot of room for improvement. For example, we can see that various manufacturers are working hard to improve their image quality, and at the same time use a lot of technologies to provide more smartphones. In the future, smartphones also play a very important role in smart life. Look at other such smart and networked terminal products that can be carried around.

In fact, to be honest, we haven't seen an emerging product that can replace smartphones to play these roles in our lives. Therefore, combining these three points, I personally think that hitting high-end in the future is actually homework that everyone must do.

Rick 08:18

We all know that the competition in the domestic high-end mobile phone market is very fierce. We have also seen that many mobile phone manufacturers are actively releasing folding screen products. We want to know why mobile phone manufacturers are so keen on releasing folding screen smartphones.

Archie 08:32

Under the current background, we can look at the specific market segment data. In the high-end field, Apple has firmly occupied the high-end segment market share. In terms of market, Apple may occupy more than 80% of the market share. Under such a background, if you still compete with Apple in the same direct screen track as Apple, it is actually very difficult for many manufacturers to challenge Apple. Such a dominant position at present.

Looking back at the mobile phone industry itself, many players in the industry say that now we can only belong to a state of micro-innovation, and the state of micro-innovation is mainly developed in these dimensions, including our possible I will talk about it later, for example, including computing power, for example, including mobile phone images. In the past two years, a technology that has emerged in the past two years is a technology such as a folding screen that has appeared on the screen. The popularity of folding screens is actually in the context of mobile phone micro-innovation, such a technology may be able to bring users the most differentiated experience.

We can see that Samsung has now released a lot of small folding screen products, which can actually evoke our experience of the original clamshell mobile phone. At the same time, it has released some large folding screen products, such as the mobile phone that we fold left and right, it can make your audio-visual entertainment experience more immersive, and at the same time, the large screen can carry more display content, unlocking the imagination including using mobile phones for office work.

Therefore, under such a background, folding screens have actually become a natural choice for everyone, using such a technology to impact high-end market share.

Rick 10:13

Thank you, Archie, for sharing with us. Next, I would like to ask Shenghao to share some questions about the data. We want to know how big the market size of folding screen mobile phones will be in the global

and Chinese markets in 2022. For 2023, folding screen and What about a forecast for the mobile phone market?

Shenghao 10:30

Okay, thank you Rick. Based on our tracking of the folding screen mobile phone market, we can see that the overall size of the Chinese market in 2022 will be around 2.9 million, and the global overall market will probably exceed 13 million. An order of magnitude, which includes small up and down folds, large left and right folds, and outer folds. For 2023, we expect the global folding screens to grow by 60% in 2023, and the overall volume is expected to exceed 20 million. Well, in the Chinese market, we expect that the number of folding screen mobile phones will double or even exceed double, and the overall will reach an order of magnitude that is expected to reach 7 million. In the mobile phone market, more manufacturers will participate in a subdivided field such as folding screens at the global level.

Well, for manufacturers that have launched folding smartphone, there may be a trend that they will launch more abundant folding machines of different sizes. For example, some manufacturers have only launched horizontal books in the form of left and right before. For folding, he may launch the remaining small folding machines this year, so some manufacturers may increase their size, and manufacturers are also expanding their product categories, which are also applicable to folding machines.

Rick 11:43

Okay, thank you Shenghao for sharing. Now we can actually see people using folding screen products on the street, on various means of transportation, and on the subway. However, compared with the overall smartphone market volume, folding screen phones still belong to It is a niche product, but it also faces some challenges. Could you ask Archie to share some room for improvement of the current folding screen mobile phone from the perspective of the product.

Archie 12:06

Well, in fact, according to Counterpoint observations, everyone has the following concerns about the core of folding screens. The first particularly important point is that the price of folding screen products is still relatively high, and many large folding screen products are often expensive. It is more than 10,000 Yuan. Although some manufacturers may achieve around 8,000 Yuan, the affordability of many consumers is still higher than that of consumers.

On the other hand, we can see that, in another form of small folding screen products, its price has dropped a lot compared to when it was first launched, but it still belongs to the high-end product series. In fact, the current high price of folding screen products has a lot to do with the low production yield of some components in the new product category.

An example of these parts inside is the hinge. In fact, the hinge itself looks like a lot of people got the dismantling pictures of the phone. In fact, they are very curious. If you see that there are more screws inside, the whole component is just some metal parts, in fact, its hinge and its precise processing structure are still relatively complicated, and there are more components assembled, so its production yield is still relatively low at present, and its overall assembly cost is still relatively high of.

However, with the popularization of folding screen products, we expect that the production cost of hinges will gradually decrease in the future, which may be further improved to help the price of folding screen products penetrate downward.

Another comparison is also a factor that everyone considers a lot about foldable products. The current weight issue actually has a lot to do with the hinge mentioned just now. We have also seen that many manufacturers are also working hard to update the design structure of the iterative hinge, using more diverse materials, such as carbon fiber materials, to reduce the weight of the hinge itself, which can also help foldable screen mobile phone products to reduce weight.

There is another concern. Consumers are now observing that they are talking a lot about the durability of folding screen products. In fact, after many people buy folding screen mobile phones, they don't want to say that it fell to the ground and broke. I might change it. The body costs 3,000-4,000 Yuan, which is not the degree of durability of the mobile phone products that consumers want to buy. This is also a lot of homework that manufacturers need to do.

The last point is the current application development of folding screens. The small folding screen is actually a clamshell folding screen. In fact, when you open it now, its user experience is still relatively close. Now we are currently using straight-screen mobile phones. The entire application ecosystem Migration is relatively easy.

For large folding mobile phones, which are book-type folding mobile phones that unfold left and right, the development of the application ecosystem of large screens still needs to be perfected. In fact, we have also seen that many manufacturers have done a lot of homework in this area.

For example, some manufacturers have added the function of free hovering to the folding screen. With the floating apps, they have developed many very interesting applications. For example, with some apps the video playback website, for example, the part of the screen where the upper part can play videos, and the part of the lower part placed on the desktop can be used as a controller, for example, the PPT playback demonstration developed for hovering. The functions are very good and have received very positive feedback from consumers, but the current joint development. In fact, because the current shipments of folding screens are still relatively small, joint development is not enough for the consumption level, but with the folding screen. With the increase in shipments, we believe that the application ecology will become more and more perfect.

Rick 16:04

Okay, thank you Archie for sharing. Although we see that there is still room for improvement in the screen, we believe that folding-screen mobile phone products will definitely get better and better in the future. Then our next question would like to ask Shenghao, folding screen. What impact will this new track have on the future smartphone market? Then what kind of development trend do we think the folding screen mobile phone will have in the future?

Shenghao 16:26

Well, in fact, let's take a look at the history of the development of folding screens. Since the first folding screen was born in 2019, it has actually been the fourth year since the folding screen. In terms of the proportion or penetration rate of smartphones, it is still relatively low as a whole. Even in the past 2022, folding screens have achieved an overall shipment in the past 4 years. Even so, its penetration rate is only less than 2%.

That is to say, the proportion of folding screens in all smartphones is still relatively small. We also expect that the growth of folding screens in the future will be more obvious. We also predict that in terms of penetration rate, It will also increase gradually.

As for the future trends of folding screens, we think that, especially based on our tracking of the market, there are currently more models with large folding screens, that is, large horizontal folding screens on the left and right sides, especially in the Chinese market.

Compared with the small folding models that fold up and down, there are more small folding models. We expect that there will be more models such as small folding up and down in the market in the future, and the overall proportion of small folding will be one Improvement, we also expect that with the further improvement of technology in the future, whether it is the mechanical structure level or the screen display level, then the folding machine may have some progressive development, such as changing to a three-folding or curling. A product in a different form.

As far as the product level is concerned, we also expect that with the continuous maturity of technology, the overall starting price of folding machines will show a downward trend. Then in the next few years, the overall folding machines, whether large or small folding, its selling price will have a trend of gradually dropping.

Then at the product level, I think from the perspective of last year in 2022, the overall trend at the product level is that products pay more attention to the light and thin texture of the folding sheet, which was relatively weak in the past, especially the large folding sheet, so in the past there will be It gives people a relatively heavy feeling, so now we can see that there are large foldable products that are lighter and thinner than some candy bar phones on the market, and as rt said just now, reliability is also a trend of improvement in the future , Then there is a higher IP protection level.

At the same time, we have seen that especially in the large folding, we used to think that such products may not pay much attention to the imaging function, so what we can see now is that in the future, the imaging function of the large folding will be improved. There are some improvements, and this is also a development trend in the future.

Rick 19:01

Ok, thank you Shenghao. The topic of folding screen mobile phones is really hot, but because of the limited time, we will talk about the topic of folding screens here first, and then we will look at the overall situation of flagship mobile phones. Our next question is to ask Shenghao to help us answer it. We found that Some flagship mobile phones have been launched recently, can you share some technical innovations?

For example, we all know that imaging is an indispensable highlight. Almost every flagship mobile phone needs to talk about imaging. Apart from imaging, are there other areas that can create product differentiation?

Shenghao 19:35

As we can see mobile imaging is indeed a hot topic that everyone continues to participate in and jointly promote and discuss. I think that even the current Android manufacturers have given consumers a very good choice in terms of image-related hardware. The overall photography performance on Android smartphones is also very good. Using current hardware, OEMs are also using dedicated chips to enhance photography and videography.

Well, at the same time, I see that the display technology is always being updated and iterated. We see that after consumers take better photos and videos with better devices, if there is a better display technology, it will bring consumers to a better audio-visual interactive experience.

As for the audio-visual experience, we currently see that Apple and domestic Android manufacturers have technologies such as local and HDR, and the video field has also launched a compatibility with Dolby audio effects. These are some current innovations. Well, we have also seen that big companies such as Google have begun to develop a unified format for HDR photos, so that all devices can display photos of this high point in the future. , so I am very beneficial to the popularization of audio-visual technology.

Then at the level of software, I think there will be innovations in the interconnection of multiple devices, including some fields of health monitoring. Then we also see a point where resource chip manufacturers are making efforts. In fact, I think in the end, it still needs to be implemented to improve the experience of consumers, and recently there is another point that the overall application of AI technology at the smartphone level is also very hot. Manufacturers may pass related applications like ChatGPT in the future. A cooperation with other applications to improve some user experience.

I think that while improving the user experience, it is also very important to protect the user's privacy. This is also an innovation point, and it is also a place where we can make a difference in the future.

Rick 21:41

Okay, thank you Shenghao for sharing, we would like to ask you that we see that many mobile phone brands are currently making high-end flagship phones, so can you share which research and development directions these brands are focusing on?

Archie 21:54

In fact, just like what Shenghao said just now, in fact, everyone has more or less plans for several major directions of progress. For example, in terms of computing and imaging, for example, in terms of self-developed chips, these aspects Shenghao just now As I have already said, I will not expand on this aspect. In fact, one of my side thinks that it is very likely to be a future development direction, which is our application of AI.

Now the topic of AI is very hot recently. In fact, for smartphones, AI has never been absent, and everyone is no stranger to AI. For example, when we talked about computational photography just now, in fact, a lot of AI aspects are used in it. Technology, such a technology of multi-lens image fusion algorithm for pictures, to generate and help users generate more beautiful photos with just one click.

In fact, we can see the rise of AI in the future. For example, many of our listeners and friends may have already used ChatGTP, which can help us greatly improve our office efficiency.

In fact, in the future, I personally think that running AI large models on the mobile phone side is actually a very important trend in the future. We have also seen that some mobile phone manufacturers have also started some layouts in AI in advance, and have begun to develop with related companies. some cooperation.

We may also see and imagine that for the current AI, many things are open source. In fact, for data privacy and security considerations, these considerations are actually relatively black boxes for users. In fact, in the future, will we have such a demand for models such as AI for full-end testing?

In fact, we also saw that at the just-concluded MWC Barcelona trade show, Qualcomm has actually released a solution in this regard. In fact, it has launched such a total-site optimization technology that can make AI fully integrated on Android phones run sideways.

In fact, you can pay attention to a report of our Counterpoint Research in this regard, this is one point. In fact, it is equivalent to opening a brain hole for everyone. Another point is actually very important, and it is a very important aspect for high-end, that is, the value of a brand. In fact, when many users buy high-end smartphones, what they pray for is a high-end smartphone case, which can help to display their personal image. In fact, it is equivalent to satisfying the emotional value of users themselves.

Rick 24:36

Ok thanks for sharing. Today we invited two analysts to share the trend of China's smartphone market from various aspects. In particular, our relatively large space today focuses on the layout and measures of various brand manufacturers in the high-end market, especially in the folding machine market. Hope There is some help and inspiration for everyone's work.

Of course, we still have a lot of content to share. If you want to know more, you can also visit our official website, or follow our WeChat official account Counterpoint Research. If you have any questions about our data and services, please feel free to contact us. Thank you very much for listening today, and thank you to the two analysts, Archie Shenghao.

See you next time.