

Research on the Smartphone Market 2009

~To be a key driver for the sluggish mobile phone market~

➤ **Research Outline**

Yano Research Institute has conducted a study on the smartphone market in Japan according to the following research outline.

1. Research period: From July 2008 to March 2009
2. Research targets: Mobile communication carriers in Japan, mobile phone manufacturers in Japan, overseas mobile phone and smartphone manufacturers, overseas EMS companies, overseas PC manufacturers and overseas PND (Personal Navigation Device) manufacturers
3. Research methodologies:
Face-to-face interviews with relevant personnel were primarily employed, being supplemented by interviews via telephone and e-mail as well as literature research

<What is the smartphone defined in this study?>

In this study, the smartphone is defined as a communication terminal device that 1) is expandable and customized in function by installing application software, 2) comes with universal operating systems, 3) has voice communication functions and internet browser, 4) interacts with PCs and mobile phones and 5) is based on an open platform for application development.

➤ **Key Findings**

◆ **Total shipment quantity for Japanese domestic market in 2008 is 1.58 millions.**

The shipment volume of the smartphone for Japanese domestic market in 2008 was 1.58 million units, 68% increase compared to the previous year. As well as the series of new product introductions by overseas manufacturers, the major growth factor was the aggressive introduction of smartphones by communication carriers who intended to develop new business opportunities, which was motivated by the saturated market demand for the third-generation (3G) mobile phones.

◆ **Smartphone market in Japan shows gradual growth and expected to reach 3.65 million units of the market scale by 2012.**

While the overall mobile phone market is in tough situation, it is projected that the smartphone shipment is increased to 2.07 million units in 2009, which is 31% increase from the year before, with widened variation in product lineup and is forecasted to grow further to 3.65 million units in 2012 backed by the expected improvement in telecommunication environment and in performance of terminal devices.

◆ **Global smartphone market is sharply growing, leading the "mobile internet" market.**

Total global shipment of smartphones was 136.725 million units in 2008. In particular, European market and US market have made remarkable growth thanks to a wave of introduction of products including the one that deals with "push mail" service and another one with unique design, etc. Although the year-on-year decrease of the total mobile phone shipment should be unavoidable, global smartphone shipment in 2009 is estimated to be 151.93 units, 11% increase from the year before, based on the assumption that the manufacturers focus on the smartphones as the growth field, and introduce brand new products with various operating systems and interfaces and low-priced products.

➤ **Report format:**

Published report: "World Smartphone, UMPC, PND Market 2008 to 2009"

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Format: 305 pages in A4 format

Price: 200,000 yen (10,000 yen of consumption tax will be additionally charged for sales in Japan.)

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➤ **Research Summary**

1. Background and overview of the market

In spite that the growth of the world mobile phone market in 2008 suddenly slowed down due to the "synchronous global recession" occurred in the third quarter of the year, total global mobile phone shipment marked the best record in total quantity. On the other hand, the mobile phone shipment for the Japanese market largely decreased because there were few factors that encouraged consumers to replace their mobile phones, and the replacement cycle was made much longer as a result of changes in manufacturers' sales methods and systems of the mobile phones. Under such circumstances, the "smartphones" have been attracting a lot of attention as the new growth product category.

2. Trends of the Japanese market

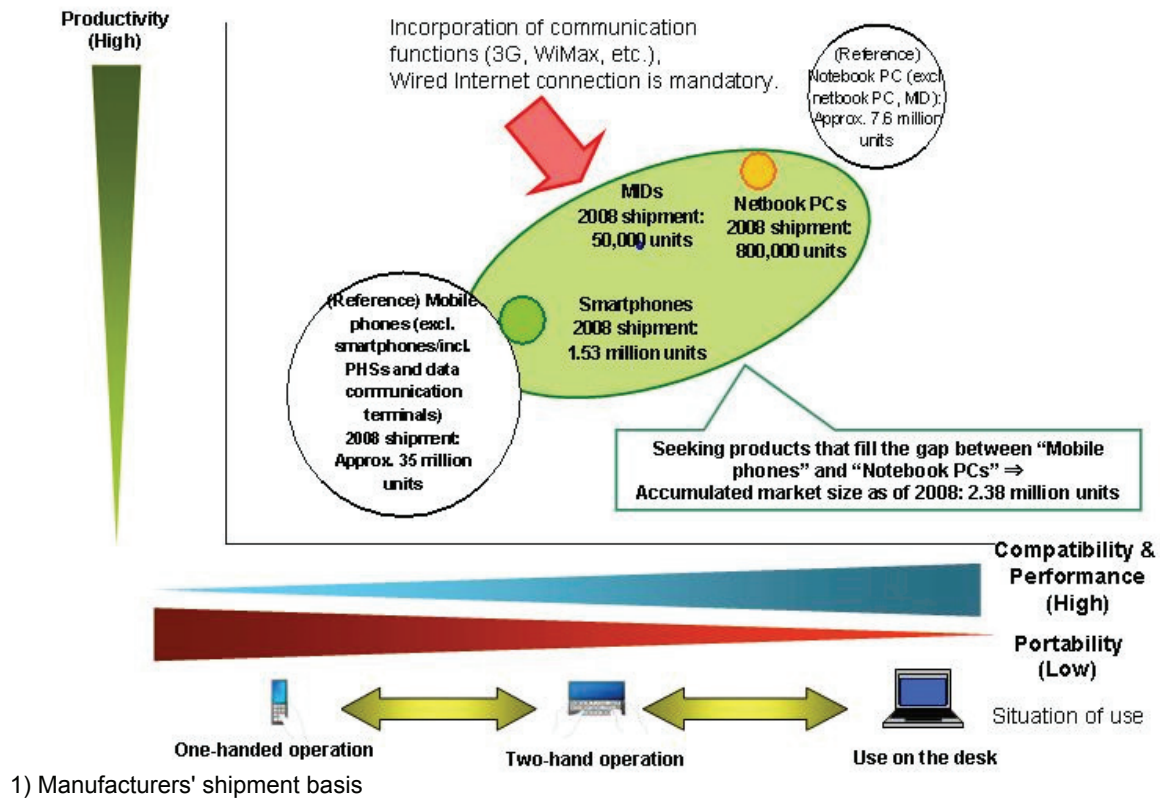
2-1. Market size in Japan

Total shipment of smartphones for Japanese market in 2008 was 1.58 million units, 68% increase from the previous year. (Shipment in 2007: 0.94 million units) As well as the series of new smartphone product introductions by overseas manufacturers while conventional mobile phone market is stagnant, the major growth factor for the smartphone was the aggressive introduction of smartphones by communication carriers that intends to develop new business opportunities. Furthermore, introduction of some globally popular smartphone products into Japanese market was widely reported in the media, which contributed to heighten consumer awareness of the smartphones and worked positively for the market growth. The market in 2009 is expected to grow to 2.07 million units in shipment volume, 31% increase from 2008, due to wider range of product lineups and promotion for users' replacement of mobile phones that are highly anticipated. The market is forecasted to further grow to 3.65 million units owing to promotion of communication environment improvement, performance improvement of mobile communication terminals and maturity of products.

2-2. Position of the smartphones in the Japanese mobile phone market

Smartphones are generally expected to be the products that should fill the gap between notebook PCs and mobile phones. In 2008, shipment of other mobile phones than smartphones for Japanese market decreased drastically to approximately 35 million units (including PHSs and data communication terminal devices) on one hand. On the other hand, what happened in the PC market include that the shipment of netbook PCs (miniature PCs), which are low-priced and superior in portability, suddenly emerged sharply grew, and registered 0.8 million units of shipment and that a new type of products called MID (Mobile Internet Device) that is even smaller than netbook PCs in size was introduced in the market. In 2008, total shipment of PCs except for netbook PCs and MIDs was estimated at 7.6 million units.

Fig. 1: Positioning of Mobile Devices in Japanese Market and Market Size for 2008



2-3. Future perspectives of the Japanese market

Although the mobile phone market is saturated, netbook PCs have been steadily becoming popular by offering package deals that include subscription to data communication access, which increased the selection of mobile devices connectable to the Internet as a result. For the smartphones, mobile phones, netbook PCs and MIDs should be the competing categories of products in the market. In order for the smartphone to differentiate itself from competing products and to ensure its existence value, it is quite important to consider how it could incorporate and provide unique value-added in the way that diversified users' needs are adequately satisfied. While mobile internet services have been firmly established in Japanese market, smartphones are based on global platform, which is the biggest feature and advantage of the products. Also, the most effective way of differentiation from competing products like netbook PCs and MIDs may be to realize most appropriate interfaces for mobile communications while making performance difference closer to the foregoing competing products. Although those new types of devices may be competing with each other, it is highly anticipated that each of them will establish its own position in the market depending on lifestyle of users.

3. Global market trends

3-1. Global market size

Total global shipment volume of the smartphones in 2008 was 136.725 million units, 52.1% increase from the year before. (Shipment in 2007 was 89.875 million units.) While the total shipment of mobile phones will record the year-on-year decrease in 2009 due to serious economic downturn in the market of advanced countries, globale smartphone market is forecasted to grow steadily to 151.93 million units in shipment volume, 11% increase from 2008.

3-2. Future prospects of the global market

The smartphones that deal with "push mail" service or the ones that have unique design enjoyed wide popularity in 2008. The smartphones have already been playing a major role for the prevalence of "mobile internet services" in overseas countries since the communication carriers have been aggressively promoting the sales by offering rebates.

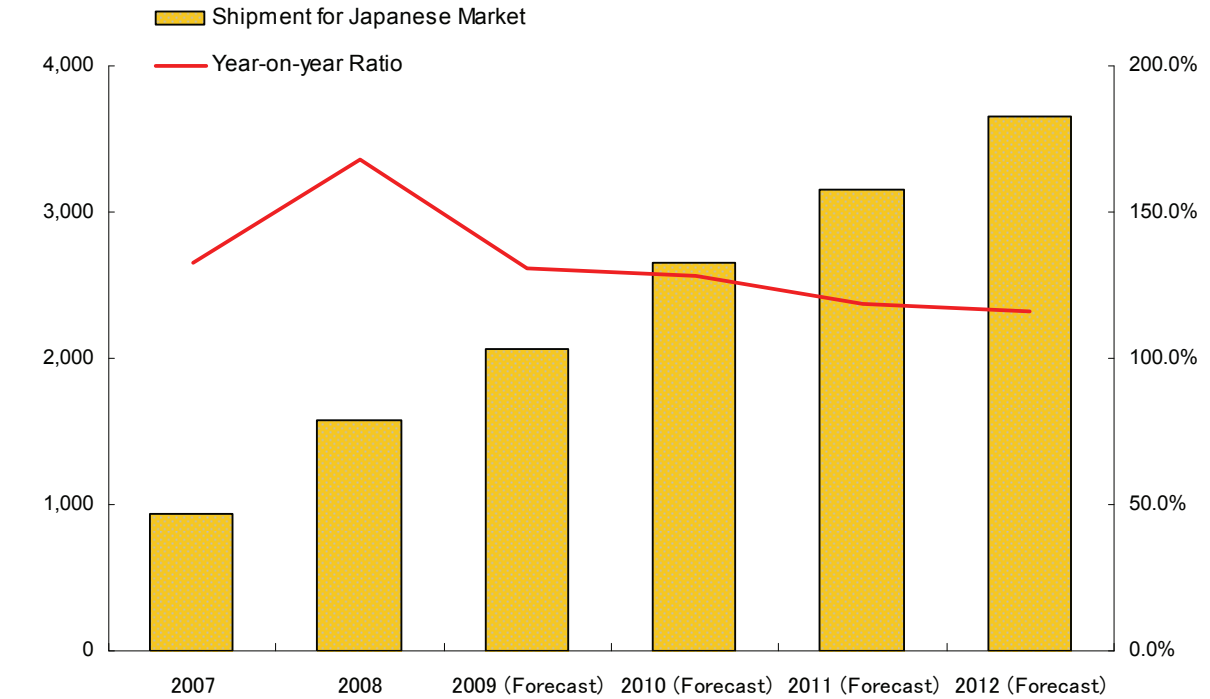
The market in 2009 is expected to be much more competitive because the leading manufacturers are anticipated to aggressively launch new products to regain market share and there may be new entrants from other businesses and some other manufacturers who intend to increase their market share by offering low price models, although only new start-up manufacturers demonstrated the presence in 2008.

The five remarkable product trends for smartphones in 2009 should be 1) improvement of the user interfaces by incorporating "touch panels", 2) performance improvement by using high performance processors and 3) progress of polarization between hi-end and low-end owing to the development of low cost platform, 4) retention of terminal device manufacturers and application developers by making the platform open and 5) promotion of vertical integration by major manufacturers, which makes it possible for them to also offer contents services to be integrated into terminal devices.

Looking at the market trends by geographical area, continuous demand is expected also in US market and European market, where the mobile phone sales are sluggish. In developing countries, 3G services (the third generation mobile phone services) based on W-CDMA (UMTS) standard have started in one country after another, and many new markets are going to emerge.

Furthermore, it is highly likely that the approaches by the major manufacturers who try to regain market share or the companies who intend to newly enter the market may have a major impact on the market structure as many of those companies adopt the "multiplatform strategy" where multiple numbers of operating systems can be used.

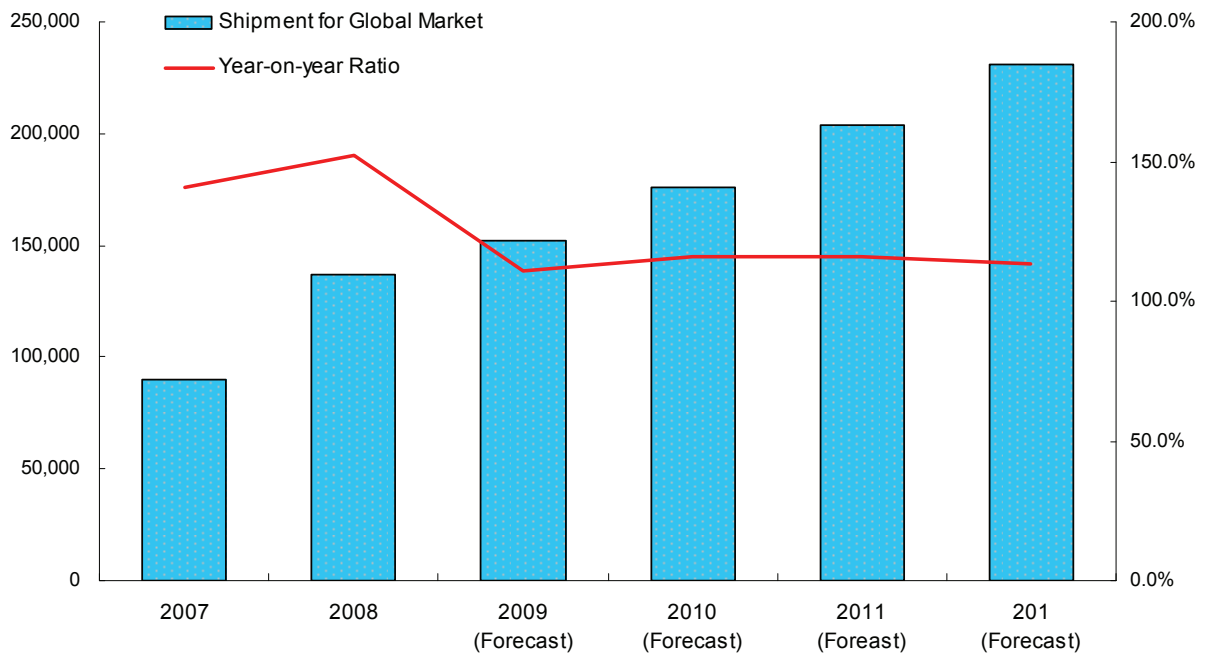
Table & Fig. 1: Market Size for the Smartphones (Japanese Market)



	2007	2008	2009 (Forecast)	2010 (Forecast)	2011 (Forecast)	2012 (Forecast)
Shipment for Japanese Market	940	1,580	2,070	2,660	3,150	3,650
Year-on-year Ratio	132.4%	168.1%	131.0%	128.5%	118.4%	115.9%

2) Manufacturers' shipment basis

Table & Fig. 2: Market Size for the Smartphones (Global Market)



	2007	2008	2009 (Forecast)	2010 (Forecast)	2011 (Forecast)	201 (Forecast)
Shipment for Global Market	89,875	136,725	151,930	176,000	203,500	230,800
Year-on-year Ratio	141.0%	152.1%	111.1%	115.8%	115.6%	113.4%

3) Manufacturers' shipment basis