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Actually, The US Smartphone Revolution Has Entered The Late Innings

Henry Blodget | Sep. 13, 2012, 9:23 AM | 1,927 | 4

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To listen to some mobile industry executives and investors tell it, you would think the smartphone revolution was just beginning.

In the United States, however—one of the more mature smartphone markets—we're actually already entering the later innings.

Specifically, smartphone penetration in the U.S. has reached the point where market growth will begin to slow rapidly. And in a few more years, the U.S. market will be almost fully penetrated.


The maturing of the U.S. smartphone market, combined with the less-attractive financial demographics of future new users (most affluent Americans already have a smartphone), mean that the growth rate of the U.S. smartphone ecosystem—gadgets, apps, ads, mobile commerce, and mobile web usage—will also likely slow over the next few years.

Executives and investors who still regard the U.S. smartphone revolution as being in its early stages, therefore, should take heed.

The U.S. Smartphone Market Is Already More Than Halfway Penetrated

Recent data suggest that the U.S. smartphone market is already more than halfway penetrated. This is important, because the growth rate of most technology markets tends to

Henry Blodget



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slow rapidly once the halfway point has been reached.

Let's put some numbers on this.

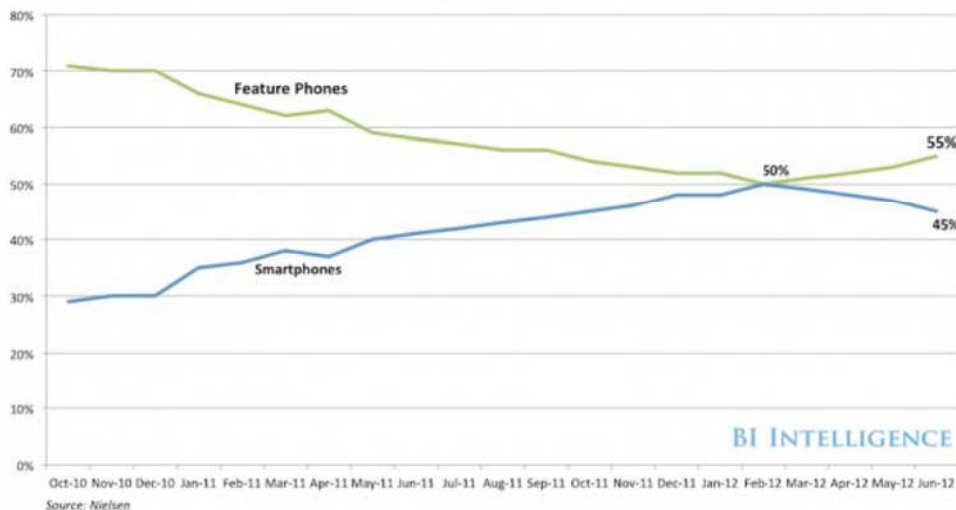
- There are approximately **310 million** people in the United States.
- Of these people, approximately **250 million** are over the age of 14.
- According to Comscore, **about 235 million** of these Americans use mobile devices
- It seems likely that **almost all of these folks** will eventually have smartphones.
- This creates a "total addressable market" for smartphones of about **225 million** people in the U.S.

Several recent data points suggest that this market opportunity is at least halfway penetrated.

- Comscore says **114 million** Americans used smartphones in July, 2012
- Flurry reports that there are at least **165 million active Android and Apple iOS devices** in the U.S. and that they are used by 78% of the adult population (age 15-64).
- Nielsen reported that **two-thirds of of handsets sold in Q2 2012 were smartphones** and that the market is now 55% penetrated (see chart below)
- **The vast majority of the primary smartphone market, U.S. adults between 18-54, already have smartphones.** The demographics of those who don't yet have smartphones, meanwhile, are older Americans and those who make less than \$50,000 per year.

No matter which of these numbers you use, the conclusion is that the U.S. smartphone market is now more than 50% penetrated.

U.S. Smartphone Penetration



(BI Intelligence subscribers can access all the charts used here as well as the underlying data used to create them. Sign up for a free trial of BI Intelligence here.)

So if the U.S. smartphone market is already more than 50% penetrated, what does this mean for the future growth of U.S. smartphone sales--as well as app sales, advertising sales, game sales, and all the other sales that depend on smartphone growth?

To answer this question, it makes sense to look at the typical "diffusion" curve for new technologies.

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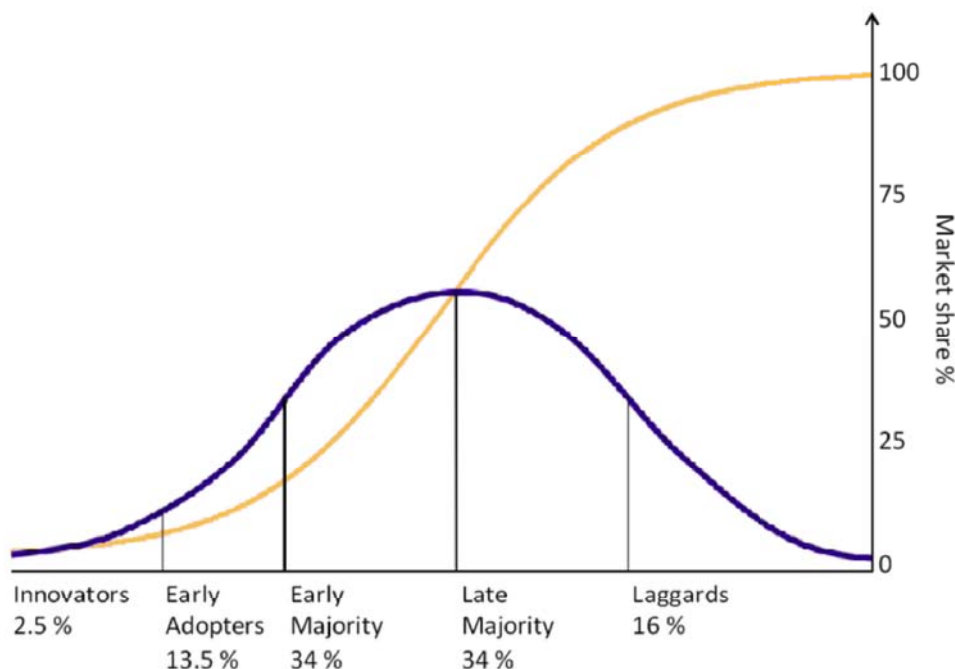
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As described by sociology professor Everett Rogers in a 1962 book *Diffusion of Innovations*, new technologies tend to follow a standard adoption curve. The curve can be broken down into five distinct user segments when mapped against time:

- **Innovators** (2.5% of market)
- **Early Adopters** (13.5% of market)
- **Early Majority** (34% of market)
- **Late Majority** (34% of market)
- **Laggards** (16% of market)



Wikipedia, Everett Rogers

As the chart shows, the peak of market growth in terms of annual unit gains occurs around the halfway mark. Shortly after the halfway point is reached, the number of incremental new users each year begins to decline. And soon, when the market becomes saturated, unit growth flattens.

The year-over-year growth in the number of new smartphone users in the U.S. has grown rapidly in recent years. As the chart below illustrates, it grew from about 10-15 million new users per year to a peak of about 35 million in the fourth quarter of 2011.

Although real-world data rarely follows a curve as smooth as the textbook diffusion curve above, it seems reasonable to conclude that 2011 and 2012 will mark the peak years for smartphone growth in the U.S. Hereafter, as we enter the "late majority" and "laggards" phases of market development, growth of new smartphone users will rapidly slow.

The new iPhone.



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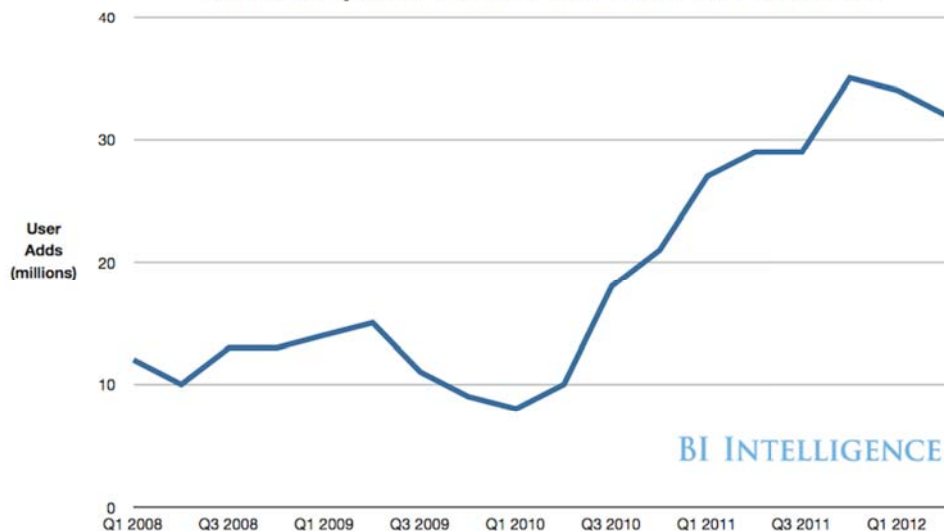
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U.S. Smartphone Market: Year-Over-Year Net Adds



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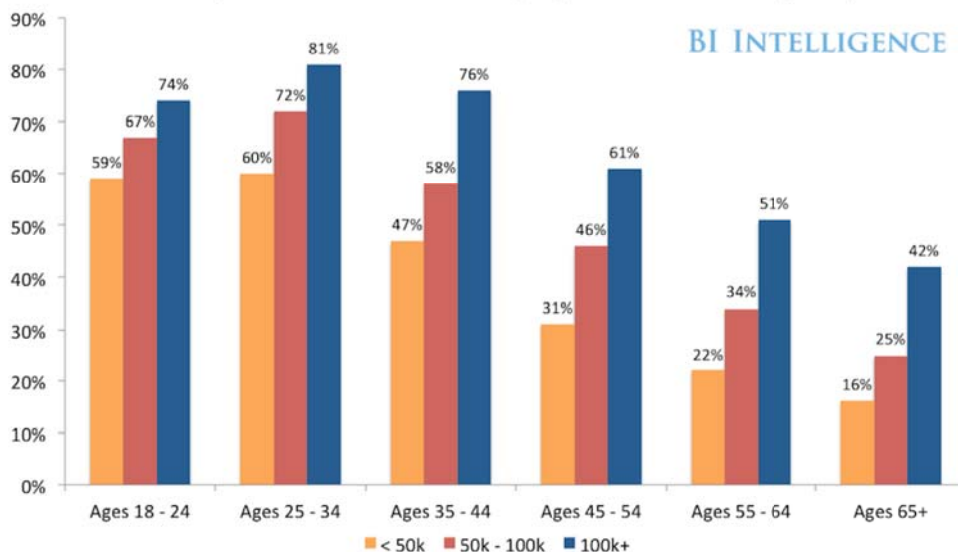
Source: comScore, Nielsen, BI analysis

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And there's another factor to keep in mind: The demographics of Americans who already have smartphones as compared to the demographics of new users who will buy them over the next few years.

Specifically, as the following chart shows, **most affluent Americans aged 18-54 already have smartphones**. The Americans who don't have smartphones, meanwhile, tend to be those who make under \$100,000 per year and are older than age 55. The least-penetrated segment of the U.S. population--and, therefore, the segment that will likely see the most new-user smartphone growth in the next few years--are Americans aged 65 and older who make less than \$50,000 a year.

Smartphone Penetration By Age And Income (U.S.)



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Source: Nielsen Mobile Insights, Q1 2012

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What does this mean?

It means that the as-yet unpenetrated segment of the U.S. smartphone market--the "late majority" adopters who will likely buy smartphones for the first time over the next few years--

are older and poorer than the Americans who already own smartphones.

All else being equal, **these new users will likely spend less on smartphones and apps, and be a less-valuable demographic for advertisers and commerce companies, than the Americans who already have smartphones.**

The Implications

So, what will happen as the U.S. smartphone market matures?

At the most basic level, the U.S. smartphone market will soon lose one of its primary growth engines--the rapid growth each year in the number of new users.

Thus, as the market matures:

- **Smartphone sales in the U.S. will increasingly become driven by replacement and upgrade sales rather than new-user sales.** This will lead to a sharp slowdown in the growth rate of smartphone sales.

Similarly, the "smartphone ecosystem" will also lose one of its growth engines. As it does, sales growth will become far more dependent on "same-store sales"--additional sales to existing users--rather than sales to new smartphone users.

Specifically:

- **App sales, smartphone advertising sales, game sales, smartphone web-usage, smartphone commerce, and other major smartphone ecosystem markets will increasingly be driven by additional sales to existing smartphone owners, rather than sales to new smartphone users.** This will likely lead to slower growth across the ecosystem.

Importantly, this does not mean that there will be no growth in the U.S. smartphone market and smartphone ecosystem over the next several years. The replacement and upgrade market is alive and well, and there are still more than 100 million Americans who don't yet have smartphones that will ultimately have smartphones. Also, as wireless data speeds increase, new generations of phones arrive with ever-sexier features, and new apps increase the utility of smartphones, existing users will likely continue to drive additional growth.

But the growth rate of these markets will likely begin to slow sharply, for two reasons:

- **The number of new smartphone users added in the U.S. each year in the future will be fewer than the number added in the past couple of years**
- **The next 100 million U.S. smartphone users--many of whom will be older people and people with lower incomes--will have less disposable income and spending power than the 110+ million who already have smartphones.** These new users will be more likely to buy cheaper smartphones and spend less money on apps and commerce than existing smartphone users. They will also likely be a less valuable demographic for advertisers.

Importantly, now that tablets have created a whole new gadget market--and now that tablets in many cases provide similar functionality as smartphones--the "mobile" market is now much bigger than just smartphones.

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So the maturation of the smartphone market should not be confused with maturation of the

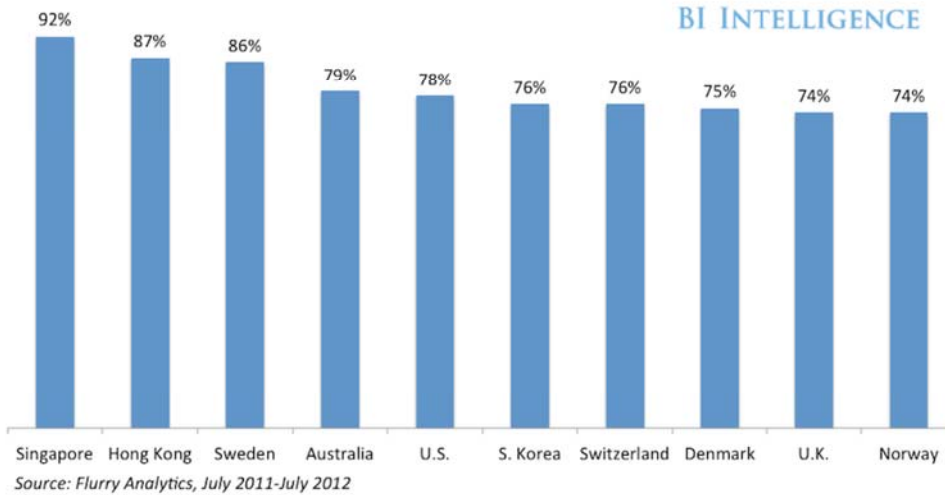
"mobile" market as a whole.

How about the rest of the world?

The good news for those banking on a global smartphone revolution is that the U.S. is one of the world's more mature smartphone markets. There are an estimated 6 billion mobile handsets in the world, and only about 1/5th of them are smartphones. Over the next several years, most of these handsets will be replaced by smartphones.

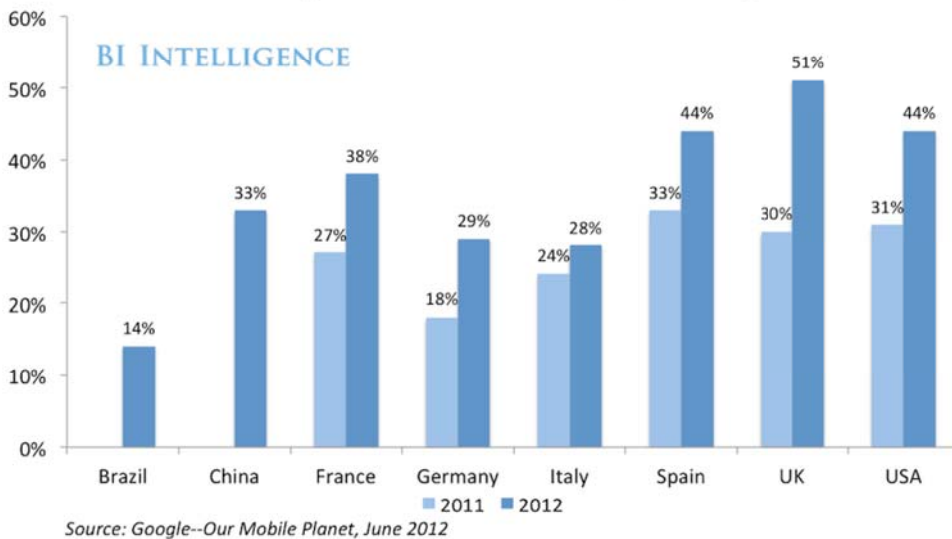
In terms of the developed world, U.S. smartphone penetration is in the middle of the pack. (These numbers are from Flurry Analytics, which shows higher smartphone penetration in the U.S. than Comscore does.)

Countries With Highest Smartphone Penetration (Among Adults, 15-64 Years Old)



Some of the world's biggest markets, however--China, India, and Brazil, for example--are still less penetrated. These are poorer countries than the first-world countries above, but they should still see explosive growth in the years ahead.

Smartphone Penetration By Country



So, globally, the smartphone market still appears to be in the "early majority" phase. And the number of new smartphone users will likely continue to increase each year for at least a couple of more years.

The Bottom Line

- The U.S. smartphone market is now more than halfway penetrated
- The growth of most technology markets slows rapidly once the halfway mark is reached
- The most attractive smartphone demographic for gadget-makers, advertisers, retailers and app-makers--affluent Americans aged 18-54--is already highly penetrated
- The "late-majority" and "laggard" segments of the U.S. smartphone market will likely be more price-sensitive and spend less than existing users.
- As the U.S. smartphone market matures, gadget sales will depend more on "replacements and upgrades" rather than new users. Similarly, ecosystem sales--apps, commerce, ads--will depend on "same-store sales growth"--the sale of more stuff to existing users.
- Thus, the growth rate of smartphone sales in the U.S. will likely slow rapidly over the next few years, as will the growth rates of smartphone commerce, advertising, and app-sales.
- The global smartphone market is still in the "early majority" phase and will therefore likely see increasing new-user growth for at least a couple more years

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Opps! on Sep 13, 9:35 AM said:

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The cycle is down to 11 months ! Do you really need a new phone every 11 months isuckers? And if you do ask yourselves why. Herd mentality !

Announced:iPhone (January 9, 2007) iPhone 3G (June 9, 2008) iPhone 3GS (June 8, 2009) iPhone 4 (June 7, 2010) iPhone 4S (October 4, 2011) iPhone 5 (September 12, 2012)

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Louie Adame on Sep 13, 11:21 AM said:

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This is one reason that a fragmented os will be at a disadvantage, the selling point will be the quality of the apps, integration and reliability. Google knows this thats why there will be an adjustment this year and standardize the hardware even the screensize to remain relevant. Apple will take advantage of this to increase market share. Nokia/Windows will have opportunity since they are in the middle of both platform. Windows open for oem to use the os and controlled and oem will benefit by building quality hardware in line with the OS.

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sweetdoug on Sep 13, 12:11 PM said:

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Ummm...

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I kind of wandered off when I saw that this was from "BI Intelligence".

You know, oxymoronic...

•Δ•
V-V

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André Kenji De Sousa on Sep 13, 9:47 PM said:

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The Brazilian Market is not so far from maturing, by the way. And people takes huge attention to price. I only see Androids when I'm riding the subway in São Paulo.

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