Scenario of Handheld Phone Market in India

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*[**Abstract**: Chinese companies have established their dominance over handheld handsets in India, relegating the Indian players to the position of minor players; and, one of the Chinese companies has even ended the supremacy of the South Korean giant, Samsung. There continues to be a lucrative market for feature phones in India, which foreign-based companies are not producing in a big way. Indian companies have an opportunity in this segment of the market by providing additional features in the feature phones and making them compatible to 4G reception. Despite the coming up of 40 new handset manufacturing and 30 accessory units, value addition has been less than 6 per cent in an indigenous production worth Rs 90,000/- crore in the year 2015–16. There is a case for incentivizing the industry by according it tax credits for increasing value addition.]*

Over the past two years, India's smartphone vendors have lost about 35 per cent of the market share to Chinese companies. Just two years ago, local players had more than 54 per cent share in the smartphone market in India. In the quarter ending June 2011, Chinese players had surpassed 50 per cent of the market share for the first time since their entry into India. The resultant outcry from the Indian smartphone vendors is an admission that they could not fight against Chinese brands. To understand how it all happened, one has to look at the history of the phone business in India.

A decade ago mobile stores in India were filled with feature phones, and the smartphone in its present form(s) was a few years away. In China, the production of feature phones was slowing down where the manufacture of smartphones had begun. Around that time, the Indian mobile phone industry decided to manufacture its own feature phone and graduate from the status of being vendors of manufacturers like Nokia, Motorola, Sony Ericsson, LG, etc. Micromax, Spice, Lava and Jaina group (later to be rebranded as Karbonn Mobiles) made their foray into becoming OEMs (Original

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Equipment Manufacturers) in partnership with Original Design Manufacturing (ODMs) towards white-label deals. Under these arrangements, ODMs will design and manufacture phones and the Indian companies would put their own labels on these products.

Two distinctive features of the above arrangement were: (1) the product would be at record low price, and (2) newer models at short intervals would be available for marketing. The outcome was a tough competition for established companies like Nokia, Motorola, and other international brands. Resultantly, the market share of Indian companies soared. However, the Indian companies neither invested in R&D nor developed a variety of manufactures.

By 2010–11, there was a demand for smartphones in the market. Indian companies leveraged their relationship with ODMs and started to offer low-cost smartphones in the country. The phones sold well. The share of Indian companies grew from 10 per cent in 2010–11 to 50 per cent in 2015. Chinese smartphone market had become saturated. In order to maintain the growth, the Chinese companies targeted India directly instead of remaining ODM partners of the Indian companies. They had all the insight on the Indian market as well as the added advantage of having years of experience in China where smartphones were becoming commoditized and their specifications a game. Besides, the Chinese companies had deep pockets. Chinese companies thus were able to build different designs through different manufacturers, i.e. products of different companies had differing features and were not identical. Contrary to that, Indian players did not show capability of original design as they were unwilling to look beyond what they did in the past.[1]

In the second quarter of 2017, Chinese brands covered over 50 per cent of India's 109 million unit annual smartphone market. Only a year ago, their combined share was less than 15 per cent. Indian companies accounted for nearly 40 per cent of

[1] Singh, M. (2017), "How Indian Smartphone Makers Lost the War Against Chinese Companies," Gadgets 360, NDTV, September 07. Available at: https://gadgets.ndtv.com/mobiles/features/how-indian-smartphone-makers-lost-the-war-against-chinese-companies-1747112

the Indian market and that share slid to less than 15 per cent.[2] In the 3rd quarter of 2017, Chinese company Xiaomi moved up to occupy the number one spot in market share along with the South Korean Samsung.[3]

Indian smartphone makers adopted, a simple strategy—buy cheap phones from Chinese manufacturers and sell them in India. This factor grossly underestimated the growing sophistication of their potential user base. They fell into the trap of subscribing to the myth that the Indian consumer goes for the cheapest option in the market. In reality, customers in India wanted the best value-for-money phones. The Chinese companies read this smartly and came equipped with smartphones that incorporated high-powered cameras with high resolution and larger screens. Chinese brand OnePlus markets its premium smartphone One Plus5 (above $400 or roughly Rs 26,000) in India and its share in that segment of the market has already touched 28 per cent and is among the market leaders in the premium segment.[4]

One aspect that differentiates the Indian handset market from all others in the world is the big feature phone segment. Unlike in the US and China where the market is dominated by smartphones, the progression from basic entry-level feature phones to smartphones has been relatively slow in India with 136.1 million units of feature phones being sold in 2016. Interestingly, even though the feature phone market has been on a decline since 2013 when sales peaked at 213 million units, it still accounted for over 55 per cent of all mobile phones sold in India in 2016. There is a big gap between smartphone and feature phone prices. It will take some time before smartphones stifle feature phones.

As China has already become a smartphone market, most Chinese vendors do not wish to be a part of the feature phone market. This opens up an opportunity for

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[2] Banerji, S. (2017), "India-China Smartphone War: Micromax, Karbonn are Losing Against Xiaomi, Oppo," *Business Today*, August 27. Available at: http://www.businesstoday.in/magazine/from-the-mag/a-one-sided-race/story/257815.html

[3] Economic Times (2017), "'Xiaomi Now Shares No. 1 Spot with Samsung Here' IDC Gives Both a 23/5% Share in Smartphones, but Other Phones have Xiaomi a Little Behind," November 15. Available at: https://www.pressreader.com/india/the-economic-times/20171115/282054802321224

[4] Khanna, S. (2017), "Is the Indian smartphone market ripe for a new leader?" *Livemint*, July 12. Available at: http://www.livemint.com/Technology/aUldb393VHWYYW17XYmQhL/Is-the-Indian-smart-phone-market-ripe-for-a-new-leader.html

Indian handset makers[5]. Feature phones that incorporate features such as the ability to access internet but lack the advanced functionality of smartphones, surprisingly account for the larger share of the billion plus mobile phones currently in use. The first and foremost contributing factor to the popularity of feature phones is their price which appeals to the income-strapped population in Tier II and Tier III cities and rural areas. Another key feature that contributes to the prevalence of feature phones is their battery life—a boon for people who live in areas with erratic power supply. Feature phone users do not miss out much by not using a smartphone. They can still access the internet and use essential apps like Facebook and Whatsapp. Feature phones have been enabled to do money transfers digitally. Thus, feature phones accord the users with all the functionality of a smartphone minus a large touchscreen and a noteworthy camera. Also, since most Indians still use prepaid mobile connections, using a phone that does not passively consume bandwidth is welcome. The popularity of feature phones is observable in many of the world's emerging markets. Countries like America and South East Asia have reported a surge in feature phone shipments over the past few years.[6] Thus, India would do well to begin reinventing in what the rest of the world is thinking is a done-and-dusted piece of technology. Even HMD global, a Finish company operating in India has realized that there is hectic action in feature phone market, especially after Jio launched its new 4G internet device, priced at Rs 1500. Nokia is set to make a fresh push in this category as the company prepares to make a dash for the low-cost 4G device business, targeting telecom companies such as Reliance Jio, Airtel, and Vodafone. HMD Global (India) perceives feature phones as a critical category and sees mobile operators as partners. It is estimated that there is a sizable volume in this segment—roughly 10 million devices monthly.[7]

Thus, this might be an era of smartphones but India's mobile phone industry is not writing off the feature phone. Brands in this segment have been focusing on

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[5] *Op cit*. 2

[6] Mittal, T. (2017), “The Unexpected Comeback of Feature Phones,” Your Story, April 14. Available at: https://yourstory.com/2017/04/feature-phones-unexpected-comeback/

[7] Dovall, P. (2017), “After Jio’s Onslaught, Nokia Eyes 4G Feature Phone Market,” *The Times of India*, Business News, September 26. Available at: https://timesofindia.indiatimes.com/business/india-business/after-jios-onslaught-nokia-eyes-4g-feature-phone-market/articleshow/60845693.cms

innovation, with newer enriched features that are relevant to present day users. In India, consumers are constantly looking for new and fresh offerings. With a population where most are first time users, it is for the brands to provide innovative devices with high-end specifications at affordable prices.

The shipment of smartphones and features phones in the Indian market over the years has been healthy and promising. In the last two years, 40 new handset manufacturing units and 30 components/accessory units started operations in India. Indigenous production of handsets has gone up from 11 crore units valued at Rs 54000 crore in 2015–16 to 17.5 crore units valued at Rs 90,000 crores in 2016–17. The numbers are big but the total local value addition done is small—less than 6 per cent at the end of 2016. The total value of mobile phones sold in India was about $12 billion (cost to manufactures) on a retail value of $16 billion. Of this, only $650 million worth of value addition was done locally. That comes to 5–6 per cent. Vietnam has value addition of 35 per cent, Brazil 17 per cent while China has more than 70 per cent. To be fair, local value addition has gone up from 3.6 per cent in 2014 to 5.6 per cent in 2016. The import bill of components quadrupled to $6.8 billion in 2016 from just $1.4 billion in 2014.

It has been suggested that tax credits need to be given based on local value addition to create competition among local players to add more value in order to get more tax benefits.[8]

[8] Aggarwal, V. (2017), "Phones 'Made in India', Cash Registers Ringing in China," *The Hindu*, Business Line, May 12. Available at: http://www.thehindubusinessline.com/info-tech/phones-made-in-india-cash-registers-ringing-in-china/article9696082.ece