



Smartphones now account for half the world's mobile connections

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The global smartphone installed base has grown rapidly over the last two years to account for half of all mobile connections (excluding cellular M2M) at the end of 2016, driven by operator subsidies and promotions as well as price competition among device vendors. GSMA Intelligence forecasts this to increase to two thirds by 2020, with the developing world as the growth engine; this region will add 1.6 billion smartphone connections over the period, or 84% of total net additions in the world. Led by India, China and Indonesia, smartphone adoption across developing markets will increase from an average of 47% in 2016 to 62% four years later. Although this provides a huge potential opportunity in terms of increased data usage, operators in the region must focus on establishing an ecosystem that encourages smartphone usage, as well as pricing strategies that mitigate against potential cannibalisation of traditional mobile services by over-the-top (OTT) applications.

The developing world is the future growth engine

Global smartphone adoption (as a percentage of mobile connections) reached 51% as of the end of 2016, with levels of smartphone connections greater than basic and feature phone connections in all regions except Sub-Saharan Africa. At 65% in 2016, the developed world has reached a mature level of smartphone adoption. Assuming there will continue to be some residual demand for basic and feature phones as well as data-only devices, we expect only incremental smartphone growth in this region from 2018.

Although the market for new basic and feature phones persists in some developing countries, others have witnessed rapid migration to smartphones. Attractive subsidy plans from operators combined with better-designed voice and data packages and targeted campaigns for young users have stimulated smartphone adoption. Fierce competition among handset vendors and component manufacturers has also resulted in an increasingly affordable and wider range of smartphone models in many markets. Furthermore, many first-time phone users have “leapfrogged” basic and feature phones and adopted smartphones. We expect these trends to spread to other developing markets.

As a result, growth in smartphone adoption in many developing countries will be much more aggressive than anything seen in the developed world over the last few years. Between now and 2020, we forecast that 1.6 billion smartphone connections will be added to the current base in the developing world. India will lead the growth with around 350 million net smartphone additions. Across the region, smartphone adoption will increase from 48% of all connections now to 62% by 2020. Growth will then begin to slow, as has been observed in the developed world.

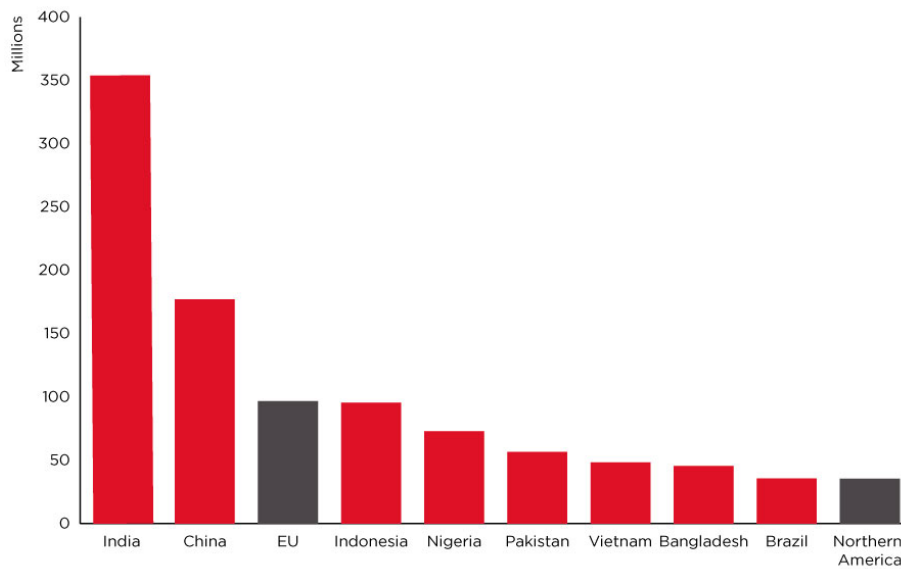


Figure 1: Net additions, smartphone connections, 2016–2020

Source: GSMA Intelligence

Operator strategies must keep pace with smartphone adoption

The GSMA Intelligence Consumer Survey 2016 investigated mobile usage trends for both feature/basic phone and smartphone users across 56 countries. The results show that despite smartphone adoption being lower overall, smartphone owners in developing markets are equally as likely to use IP messaging apps ahead of SMS as those in developed countries. As the network effect of increased smartphone adoption and IP messaging takes hold in developing markets over the coming years, operators in the region will therefore face a similar or potentially greater threat to their voice and SMS revenues as those in the developed world have witnessed.

To mitigate against this threat, operators in developing countries must look to offer smartphone content that is both accessible and relevant to local consumers and revenue-generating. With limited infrastructure in place in certain sectors, many developing countries hold considerable opportunities for value-added services that target the underserved. According to our survey, the average frequency at which smartphone owners in the developing world access digital services such as online shopping, government services or mobile banking is around half that of the developed world. By focusing on the development of a smartphone ecosystem combined with a data-centric pricing strategy, operators can stimulate mobile data usage and generate sustainable revenues from their early investments in mobile broadband infrastructure.

MTN has been a pioneer of this approach in its operations in Africa and the Middle East. For example, in the group's 2016 half-year report, it noted that for MTN Ghana, "Data revenue grew by 68.0% [...] benefiting from superior data network quality and increased smartphone penetration [...] Digital revenue showed healthy growth, underpinned by attractive lifestyle content bundles and good momentum gained in mobile financial services." This approach was also summed up by Rajeev Sethi, then-CEO of Grameenphone in Bangladesh, who observed in the operator's Q3 2016 earnings call that "we also know that on smartphones, the consumption of digital services, the experience of internet is much better than on a feature phone. So, it is a responsibility to ensure that this ecosystem develops very fast [...] From the last three months or so, we are only focusing on building the smartphone ecosystem."

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