

Less is More: The Worldwide Emergence of Low-Cost Android Smartphones

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Executive Summary

There is no question that there is much at stake for companies competing in the smartphone business. Not only are smartphones taking away market share from computer sales, but perhaps even more importantly, smartphones are the means through which a billion people without computers will access the Internet. The ability to profit from this enablement could spell billions in profits for those companies that are positioned correctly.

While some companies profit by selling smartphone hardware, and others profit by licensing their hardware or software designs, Google has built its business on making money from advertising. Google provides its Android operating system (OS) for free to hardware manufacturers, and in exchange, the company makes money from mobile advertising by controlling mobile search results and presenting ads to mobile users based on their interests. Google also makes some money by taking a 30% cut of applications sold in the Android Mobile Marketplace, but some of that has gone to mobile operators. And Google stands to make money from other mobile ventures, such as mobile payments.

To date, Google has been very successful at getting Android into the hands of customers, and after just a few years, Android is now the top OS in smartphones purchased. Google made about a XX profit from Android in 2010. But in many parts of the world, the typical Android smartphone, selling for \$400 to \$500, is out of reach for many consumers that currently have feature phones or perhaps no phone at all. For these customers, the smartphone price must drop pretty sharply to be considered.

These potential smartphone owners currently only have one choice in the low-cost, under-\$150-smartphone category, and that smartphone runs Android. Still, there are many barriers ahead that could spell trouble for Google. When Google started withholding the source code for Android 3.0 from some of their hardware partners, it got these partners thinking about a plan B. Then Google announced that it would purchase Motorola Mobility, further worrying these same hardware partners.

Google's partners started looking more seriously at Windows Phone and other low-cost operating systems that they could use should problems with Google arise. And Microsoft, for its part, has said that it aggressively wants to pursue the low-cost smartphone market. Samsung, the largest Android phone manufacturer, has its own OS called Bada that is being used for low-cost smartphones as well.

Problems with Google aren't the only challenges that hardware manufacturers face with Android. Patent fights have been very costly to Android hardware manufacturers, with Apple, Microsoft, and others all wanting a piece of the Android pie.

HIGHLIGHTS

- The low-cost smartphone area is just starting to emerge, and Google has almost all of this market to itself.
- XX million low-cost Android smartphones are forecast to ship in 2011 and XX million in 2015.
- The low-cost smartphone area is Google's to lose, but this market could get much more competitive, especially if Google doesn't play its cards right.

Still, even with the problems, there is no question that Android is successful, and low-cost Android smartphones are becoming very successful in emerging areas as well. In-Stat forecasts that more than XX million low-cost Android smartphones will be shipped in 2011, and by 2015, that number will reach XX million smartphones, over a third of all smartphones shipped that year.

Report Summary

The growth of smartphones has been nothing short of phenomenal, but their spread has been rather uneven, with the majority being used in North America, Western Europe, Japan, South Korea, and parts of China. But in Latin America, Africa, India, and developing areas of China, cellphone use is quite widespread, but smartphone use is not. In these areas, smartphones are just too expensive for most to afford.

Getting smartphones into the hands of those who have never had a smartphone before is what is behind the push for low-cost smartphones. National governments want their citizens to have smartphone technology, because such technology can allow its citizens to access the Internet and have more prosperity. Wireless operators want their subscribers to have smartphones, because this means an added revenue source from new wireless services. Smartphone manufacturers want new markets for their products, as the growth rate of smartphones in developed areas starts to slow. And Google wants to get its Android smartphones in the hands of people worldwide, so that it can gain revenue from mobile applications and advertising.

This report looks at the background of the low-cost smartphone market, and how we got where we are today. It looks at Android in-depth, and the problems that Google faces as it marches ahead into the low-cost arena. The obstacles are explored in detail, as are the markets in the regions where low-cost Android smartphones will dominate.

This Report Contains:

- Smartphone, Android, and low-cost Android forecasts through 2015 by region
- A discussion of “gray market” smartphones
- Examination of the costs that go into a smartphone, such as components, labor, shipping, and patents
- A look at lawsuits and patent fights affecting the smartphone industry
- A discussion of each version of Android
- A country-level view for China, India, Africa, and Latin America
- Discussion of BOM costs
- A listing of some low-cost Android smartphones on the market

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