SmartPhone 2006: Whose Definition Is It Anyway?

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Executive Summary

The number of Smartphones sold grew dramatically in 2005 and in the first half of 2006. The unit sales in 2005 nearly tripled over 2004. Unit sales for the first half of 2006 are up almost 50% over the same period in 2005.

There are two reasons for caution, in spite of these spectacular results presented in Table 1. The first is that many Smartphone users still hesitate to rely on the full capabilities of the Smartphone. Many carry the very devices that Smartphones are meant to replace. Most Smartphone users also carry a PDA and many carry a mobile phone. Also, users have been slow to add new applications to their devices.

Part of this hesitation is the result of ambiguity over what constitutes a "Smartphone." This is the second reason for caution. When the industry is unclear, the inevitable reaction is that some consumers hesitate.

In-Stat uses the definition that a Smartphone is a device that uses a defined operating system. As with the other definitions for Smartphones, this is imperfect. The original concept for a Smartphone was as a combination cellular phone and PDA.

HIGHLIGHTS

- SmartPhone unit sales almost tripled from 2004 to 2005 and increased by 50% in the first half of 2006 over 2005
- A significant portion of the increase can be attributed to Linux-based phones. However, these phones are SmartPhones by definition only. Their ability to run third-party applications is limited to Java applications.
- US SmartPhone customers were about evenly split between Windows Mobile, BlackBerry OS, and Palm OS. Windows Mobile gained the most market share in 2005. However, the average customer only downloaded 2 applications.

Many Smartphones sold in 2006 serve in the role as a combination phone and PDA. Others have sufficient power and performance that they are comparable in capability to many laptops. This can remove the need to carry portable computer for some users.

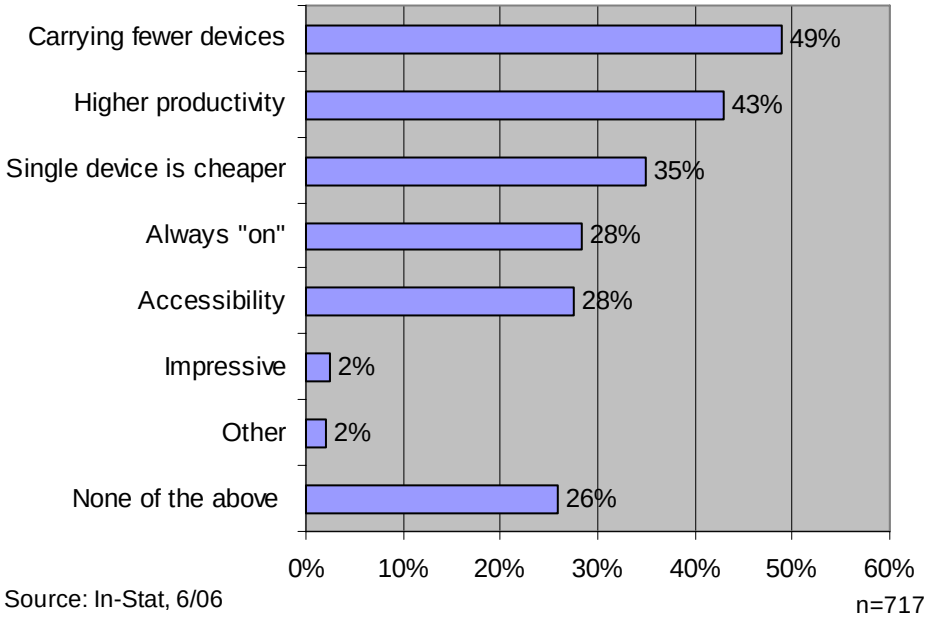
Table 1. Worldwide Smartphone Shipment Forecast by OS (Units in millions)

Handsets	2004 Est.	2004 Share	2005 Est.	2005 Share	2006 Fcst.	Share
Symbian	14.400	77.8%	33.990	62.5%	49.665	62.3%
Palm OS	1.146	6.2%	1.838	3.4%	2.084	2.6%
RIM	1.178	6.4%	3.352	6.2%	5.455	6.8%
Microsoft	1.596	8.6%	3.020	5.5%	6.727	8.4%
Linux	0.176	1.0%	11.600	21.3%	15.657	19.6%
Other	0.020	0.1%	0.618	1.1%	0.100	0.1%
Total	18.516		54.418		79.688	
y/y growth			193.9%		46.4%	

Source: In-Stat, 9/06

This is because Smartphones offer users significant value in a number of ways. Even many non-users understand that there is significant value within Smartphones.

Figure 1. Perceived Benefits of Smartphones among Non-users of Smartphones

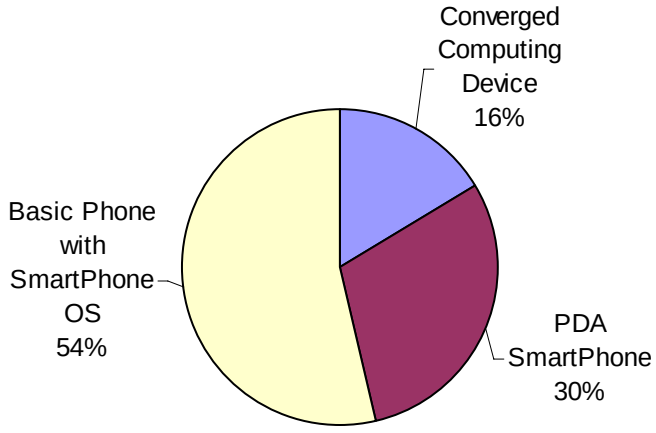


Source: In-Stat, 6/06

n=717

Figure 1 shows that non-users of Smartphone recognize that these devices offer value in a number of ways. As will be seen later in this report, users are even more enthusiastic. A significant majority of current users expect to upgrade to another Smartphone in the future.

Figure 2. Breakout of Smartphone Types by Intended Application Sold in 2005



Source: In-Stat, 8/06

At the other end of the application spectrum, manufacturers can use a Smartphone OS on a wireless device, but not offer the user any more capability than is available on a basic wireless phone. Figure 2 shows that this last approach is the most common Smartphone sold in 2005.

Most of these "Basic Phones with Smartphone OS" use the Linux Operating System (OS). Linux as an OS on wireless devices has made great steps forward recently. However, a "true" Linux Smartphone, meaning one that would allow users to download applications that can run on all Linux platforms, is still years away. Furthermore, the rush to offer proprietary implementations while using the open-source kernel will complicate matters. The resulting confusion may ultimately doom this approach.

The other Smartphone OS's also grew in 2005, but each in its own direction. Microsoft's Windows Mobile grew dramatically and took market share from Research In Motion's (RIM) BlackBerry OS and ACCESS/PalmSource's Palm OS. RIM was distracted by an expensive lawsuit that threatened a service shutdown. BlackBerry consumers proved to be loyal, but only to the point where the solution would become unavailable.

ACCESS/PalmSource's Palm OS shipments also grew. This is in spite of the surprise announcement that PalmSource was putting its efforts into using Linux. Fortunately for ACCESS/PalmSource and Palm, the marketplace shrugged off the possible interpretation that the Palm OS is an "orphaned" platform without a future. Either people understood PalmSource's plan to support Palm OS application on Linux or the availability of applications overwhelmed the fear of pending obsolescence.

Symbian continues to grow robustly, but most of this growth is in Europe. While Sony Ericsson is gaining a foothold, most Americans regard Nokia phones as low-end devices. Unless Nokia can enhance its image in the US, Symbian will also struggle in the US. This geographical anomaly for Symbian has not kept it from being the most used Smartphone OS.

For a number of reasons, the nature and applications of Smartphones varies regionally. Linux dominates in Asia in the same way Symbian dominates in Europe. Both Palm and BlackBerry are carried outside the US, but most sales are in North America. Microsoft's Windows Mobile is the most global of the Smartphone OS's.

Going forward, Smartphones will become an increasingly influential. They offer value to user and enable new applications. Their success relies upon the wireless industry, and its sales channels, to address obstacles to adoption, including the confusion about the definition of a Smartphone.