Swipe Right:
Four strategies to unlock value in the future smartphone market
There are four highly promising strategies that smartphone providers can pursue to grow profitably in the years ahead. But the window of opportunity to do so won’t stay open indefinitely. Now is the time to pick a path and lean in.

The broad challenges facing smartphone providers are clear. Market demand for smartphones declined by 10.5% in 2020, and although a return to growth is expected in 2021 (riding in part on the rise of 5G), significant barriers—growing market saturation and the steady commoditization of hardware among them—remain. Sales figures in 2021 and onwards show growth that is almost flat. (See Figure 1)

Behind these challenges—and indeed, shaping them—are three dominant trends: the rising importance of customer experience, the push-pull dynamics of emerging technologies, and the increase in supply chain disruptions.

Figure 1: Slow Growth Ahead

Global shipments of smartphones are expected to grow only slowly through 2024.

Source: Gartner. Charts/graphics created by Accenture based on Gartner research.
The first trend influencing the industry’s evolving landscape is customers’ rising expectations around experience.

As the COVID-19 pandemic grew, consumer experience dropped on CEOs’ lists of priorities. But think back: in 2019, Apple garnered 66% of the smartphone industry profits with just 13.9% of shipment share by delivering an unparalleled consumer experience, backed by a peerlessly strong ecosystem.

As 2020 unfolded and consumers became increasingly dependent on digital channels for business and social activities, the need to focus on consumer experience became clear once again. Ultimately, in a field where hardware isn’t difficult to replicate, experience is the stand-out differentiator. Consumer interest in software and ecosystem features, choice of apps, and personal assistants continues to rise. (See Figure 2)

The second trend—the push and pull of advanced technologies—is effectively a virtuous cycle that puts a lot of pressure on smartphone providers.

Companies including Google, Amazon, Xiaomi, and others are allocating significant resources towards integrating artificial intelligence (AI), machine learning (ML), and research into neural networks. As a result, smartphone providers can increasingly adapt their devices to meet users’ individual needs and preferences. These innovations are leading to an explosion in the market for connected products and devices.

Meanwhile, 5G can more readily support connected products and devices that deliver new and better user experiences than previously possible, including those enabled by virtual reality (VR), augmented reality (AR), mixed reality (MR), and extended reality (XR). These new technology needs are driving the demand for products that can access and capture the growing digital ecosystem, pushing companies to build ecosystems that will advance and aggregate the power of connected products and devices.

Figure 2: What Consumers Want
Rising consumer interests on software and ecosystem features of smartphones

<table>
<thead>
<tr>
<th>Feature</th>
<th>Q2, 2017</th>
<th>Q2, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>OS</td>
<td></td>
<td>78%</td>
</tr>
<tr>
<td>App store richness</td>
<td>62%</td>
<td>71%</td>
</tr>
<tr>
<td>Personal Assistant</td>
<td>40%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Source: UBS Report
The third trend encompasses the disruption of supply chains across the globe.

Geopolitical trade issues are one driving force behind this trend. For example, the US-added tariff of 25% on $50 billion worth of Chinese high tech products—and China's counteractions—increased the cost of smartphone components and finished devices. This has led companies to consider pursuing a "China Plus One" strategy in which they seek suppliers based not solely in China. US restrictions on Chinese access to US-based technologies have also weakened some vendors.

COVID-19 also hit supply chains hard in the industry. There was an initial shortage stemming from the impact on manufacturing. This was followed by a massive increase in demand for some consumer electronics, which in turn produced a shortage of semiconductor chips. In the US, the shortage of chips was exacerbated by a lack of domestic production capacity and heavy reliance on manufacturing in Asia.

And while other markets do offer lower labor costs, their pools of skilled workers are limited, capping their potential for scaling to meet the increased demand. As a result, the cost of labor increased significantly in China. Smartphone providers are therefore under pressure to rapidly shift their supply chain configurations.

How can smartphone providers adapt to these trends and position for profitable growth and resilience? Accenture's recent research suggests that the key will be focusing in on a distinct strategy (or strategies) in the new industry landscape. We see four such strategies as having the highest potential to serve companies well.
Four strategies to drive growth and profitability

The trends outlined affect all smartphone providers. They frame the industry’s challenges and shape its greatest opportunities.

In a world where industry boundaries are increasingly blurred and markets are increasingly converging, a prior Accenture study found that “traditional industry-level approaches to value creation are not working in at least two-thirds of industries.” As a result, companies need to reconsider their focus, and determine where in their industry’s evolving ecosystem they are best suited to add value. Our analysis has identified four strategies that smartphone providers can pursue to grow in the future.

These four strategies are not mutually exclusive. A company may choose to go all-in with one strategy, or combine elements of two or more. Smartphone providers need to be clear about the strategy that best suits them. Based on this strategy, executives must agree on their key priorities that will ultimately influence their decision-making regarding resource allocation, workforce deployment, and performance measurement. Firm-wide alignment on their strategy will position a company to drive resilience, growth, and profitability.

- **Strategy #1**: Content and services provider
- **Strategy #2**: Technology leader
- **Strategy #3**: Connected products platform provider
- **Strategy #4**: Efficient operator

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Strategy #1

Content and services provider

This first strategy leans in on personalization. It calls for the company to build—and build on—expertise as a curator.

Central to this strategy is the firm’s ability to connect with its users beyond the device, and deliver across a broad content spectrum that includes music, news, video, and gaming, as well as other cloud-based services. Winners in this space will have a firm grasp of their customers’ experience, online behaviors, content preferences, and interaction journeys with their platforms. This requirement suggests significant investments in data mining and analyses. Another priority will be to build in-house customer experience design teams, whose work will drive consumers to the platform, increase stickiness, and grow subscription-based revenue streams.

Rising customer expectations for an enhanced experience include services based on a convergence of industries, including auto, health, and payment. Customers are increasingly demanding compelling cross-industry experiences that integrate with their on-demand and personalized engagement. Smartphone providers should think more broadly outside of their core businesses to meet these growing expectations.
Another crucial element of this strategy is seamless maintenance of the integrated platforms that host and deliver content, including support for media partners and over-the-top (OTT) streaming media outlets. The additional opportunity to become an original content provider exists as well. Finally, this strategy isn’t about quick wins; companies pursuing this strategy will need time to grow services and content and expect a steady rather than a speedy ROI. Since hardware-focused organizations and those in the content and services space are often competitors, the key is to focus on long-term profitability. Firms must also keep in mind that creating and delivering broad-based content offerings will require substantial investments in base software platforms and reliance on networks to deliver it.

To create an appealing value proposition for users, prospective media, and content and services providers, hardware-focused companies will need to articulate their brand strength and bargaining power. In addition, these hardware companies must provide an easy way to integrate their partners content, software and services into their platforms.
Hardware features have declined in importance to users overall, as the draw of software and ecosystem features have grown. However, there remain significant numbers of users who consistently thirst for the newest and best in hardware. Over time, these users have a significant effect on which of today’s new features will become tomorrow’s standards.

By prioritizing R&D, technology leaders seek to shape demand for features and must-have componentry. As other providers play hardware catch-up, the technology leader moves ahead. As an explorer\(^1\), it can broaden its product offerings to encompass different sets of features and price points to grow its market share. Meanwhile, its R&D teams are constantly seeking and setting the next round of table stakes.

One example of such a leader is a large Asian electronic manufacturing company that has for many years led the way as a technology “explorer.” They have historically been several years ahead of major competitors; for example, they launched dual cameras in their phones in 2007, while other providers only launched this feature in 2014. This same firm launched phones with OLED screens in 2009, while other firms took until 2016 to launch similar features.
One key to competing successfully as a tech leader is understanding when to shift to the new technology.

Tech leader companies’ R&D divisions must include sophisticated market intelligence/sensing capabilities, not only to assess shifting consumer preferences, but also to keep tabs on other players’ hardware advances. Sophisticated, comprehensive launch teams are also integral to a tech leader’s success.

Another key success factor is a tech leader’s ability to forecast what consumers will value, and whether these forecasts support its ability to deliver a device at margins that justify the investment. Companies that introduced foldable screens, for example, may not recover their go-to-market investments, given flat sales. Leaders in this space with product lines besides smartphones have been able to infuse transferable technologies more readily and efficiently, spreading the spend on R&D across multiple lines of business.
Strategy #3

**Connected products platform provider**

Connected products platforms encompass a proliferation of smartphones, wearables, smart speakers, thermostats, appliances, streetlights, energy grids—the list continues to grow. All of these devices rely on platform providers to offer an integrated ecosystem, including data hosting and connectivity.

Typical platform providers are basically networkers, relying more on their ability to host and share data than their ability to manufacture and market devices. By embedding platform access into their own devices, as well as those of other providers, they can develop multiple revenue streams. Online marketplaces such as Amazon and search engines like Google have transformed themselves into content ecosystems for harvesting, storing, analyzing, and providing data—and from there have grown and taken to market their own device ecosystems. These ecosystems have allowed them to make money by selling hardware on top of their platform, creating a genuinely lucrative cycle of economic value made possible by connected devices. (See Figure 3)

**In four years, the number of identified Connected Products Platforms has more than doubled.**

However, since the smartphone is a direct door into the connected products ecosystem, it provides an obvious opportunity for smartphone providers.

Ultimately, a smartphone provider’s successful shift to being a connected products platform provider would rest on developing an extensible AI-based platform, then working with partners who can integrate into the platform to offer a wide set of products to consumers.

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**Figure 3: The Connected Products Platform Explosion**

![Image of the Connected Products Platform Explosion](source: IoT Analytics Research)

2015 2016 2017 2019

- 260
- 360
- 450
- 620

"IoT Platforms" (2015-2019)
Central to the connected products platform is an AI core that is consistently fueled with rich data, and upon which are running machine learning algorithms that are focused on usage patterns. (These elements, in addition to being critical to the company’s own ventures, would also enable it to create datasets that it can sell.) This AI core must be hosted within a cloud-based platform. The AI core must also be extendable to support natural language processing and machine-learning functionality focused on consumer behaviors.

The power of a cloud-based AI core can only be unleashed when other providers can integrate into and interact with it—whether through voice, text, or machine-to-machine. These capabilities must be extensible via APIs, enabling distributed micro services-like architectures. Naturally, firms must cultivate and maintain strong partnerships with third-parties (e.g. app developers and makers of smart devices) in order to broaden the products available to consumers.

Finally, smartphone providers need to develop expertise in, and focus on, security and consumer privacy. The risks associated with security breaches are significant and include getting caught up in geopolitical issues related to free speech, tariffs, and global trade issues. (See Figure 4)

Figure 4: Security Is Not Optional

Almost half of consumers say they would abandon a company or service in the event of a data breach or misuse of data.

<table>
<thead>
<tr>
<th>Reaction</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I would change my password</td>
<td>59%</td>
</tr>
<tr>
<td>I would no longer use the company or service</td>
<td>48%</td>
</tr>
<tr>
<td>I would more carefully read privacy policies/settings</td>
<td>29%</td>
</tr>
<tr>
<td>I would contact the company for more information</td>
<td>24%</td>
</tr>
<tr>
<td>I would sign up for a credit/identity monitoring service</td>
<td>17%</td>
</tr>
<tr>
<td>It would have no impact on my behavior</td>
<td>5%</td>
</tr>
</tbody>
</table>

How would a data breach or data misuse change your mind towards a device brand?

Source: Accenture Consumer Pulse Survey 2016
Efficient operators are masters of multi-tasking. They develop and deploy different strategies to target various markets that offer both high-end and entry-level devices in a broad “house of brands.”

Often, their target markets are underserved and low-end. For example, in emerging markets, there is frequently a need for entry-level commodity hardware. This need drove a Chinese mobile phone company to actively pursue the African market, where it provides smartphones that are streamlined and customized for African consumers. For example, their devices have an operating system and apps that work well in areas of limited, unstable bandwidth. Priced under $100, these phones are very popular: the company claims to have over 50% of the mobile phone market share in Africa.

This strategy requires clear focus and insights into which market segments to target, and how to maximize profitability in those segments. Efficient operators are keenly focused on minimizing costs; they don’t invest heavily in R&D, and they almost always act as fast followers.
They also strive to keep operations as simple as possible, relying on partnerships at each stage of the value chain and in each market to build and deliver their products. In doing so, these firms can purposefully avoid the pressures imposed by global trade policies, and keep both sourcing and marketing close at hand. This model hinges upon maintaining very lightweight, low-cost, and flexible operations, as well as delivering localized omni-channel customer journeys. This strategy enables the ability to offer more products to more people, capture a larger share of budget-conscious customers, and build market position.

Note that because they lack proprietary or sufficient differentiating content (music, movies, apps, or other purchase drivers), efficient operators are all-in on mass-market purchases. They cannot offer a strongly differentiated experiential value proposition.

Those pursuing this strategy will always risk falling too far behind even as they attempt to follow fast. As such, they often lack the resilience needed to adopt a new strategy or transform their business model to meet shifts in consumer behavior.
Core capabilities

Regardless of the strategy that a smartphone provider chooses to pursue, there are several core capabilities that it must develop. These capabilities will be essential to build and maintain position as an industry leader.

From a brand perspective, companies should provide a customer experience that differentiates them from the competition. Customers demand compelling experiences not just when using the product, but also when interacting with the smartphone provider. These experiences must revolve around a digital omni-channel platform, which provides customers with cohesively linked online and offline interactions. Companies should be able to provide the ability to discover, purchase, and request support for their devices via physical and digital channels. Companies can choose to take this goal a step further by pivoting to an as-a-service business model, but how much they pursue this goal will involve tradeoffs from the strategy they intend to pursue.

Given the on-going disruptions to global supply chains, firms are quickly realizing how critical resilience within their supply chain operations is, in order to maintain business continuity. No matter which strategy they want to pursue, firms must build supply chain operations that are resilient to continued disruptions, intelligent and flexible enough to support rapid reconfiguration, and transparent in order to maintain trust. These capabilities will be a critical factor in determining which firms will thrive and which will ultimately struggle for survival.

Lastly, consumers are increasingly basing their purchasing decisions on how much they believe the firms producing their products are being purposeful about sustainability. Most firms publish annual sustainability reports highlighting their purpose towards governance, environmental impact, community safety, and social responsibility. Firms must embed these values within their organizations’ cultural fabric in order to maintain a meaningful commitment to sustainability. These values are critical not only from their customers’ perspective but also from employee engagement and purpose. Only by building demonstrably sustainable operating models will firms continue to be able to capture share of mind and wallet in the market.
5 steps to fast track success

Leaders must follow these critical steps to navigate forward and capture the market.

1. The first step is to define the organization’s vision and strategy. Which of the four strategies do they wish to pursue? Or do they want to combine elements of multiple strategies, considering how the combination will help them achieve their target vision?

2. Once they are clear on their vision, organizations must define how they will work. What will their structure and operating model need to be in order to succeed in the future? How will they build in governance and manage risk, while enabling innovation and agility?

3. To achieve their target model, leaders must then define their transition roadmap. How will their organization build new systems, work in new business processes, and manage change for their people? How will they build a culture that is willing and able to support the change?

4. Organizations must then understand how to embark on this pivotal journey to transform themselves into their future state. This transformation must be carefully executed, balancing the imperative to change while managing their current business and maintaining shareholder returns.

5. Finally, after establishing a baseline operating as their target strategy, organizations can not stand still. They must continuously disrupt themselves, innovating and scaling in order to continue growing and capturing market value.
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