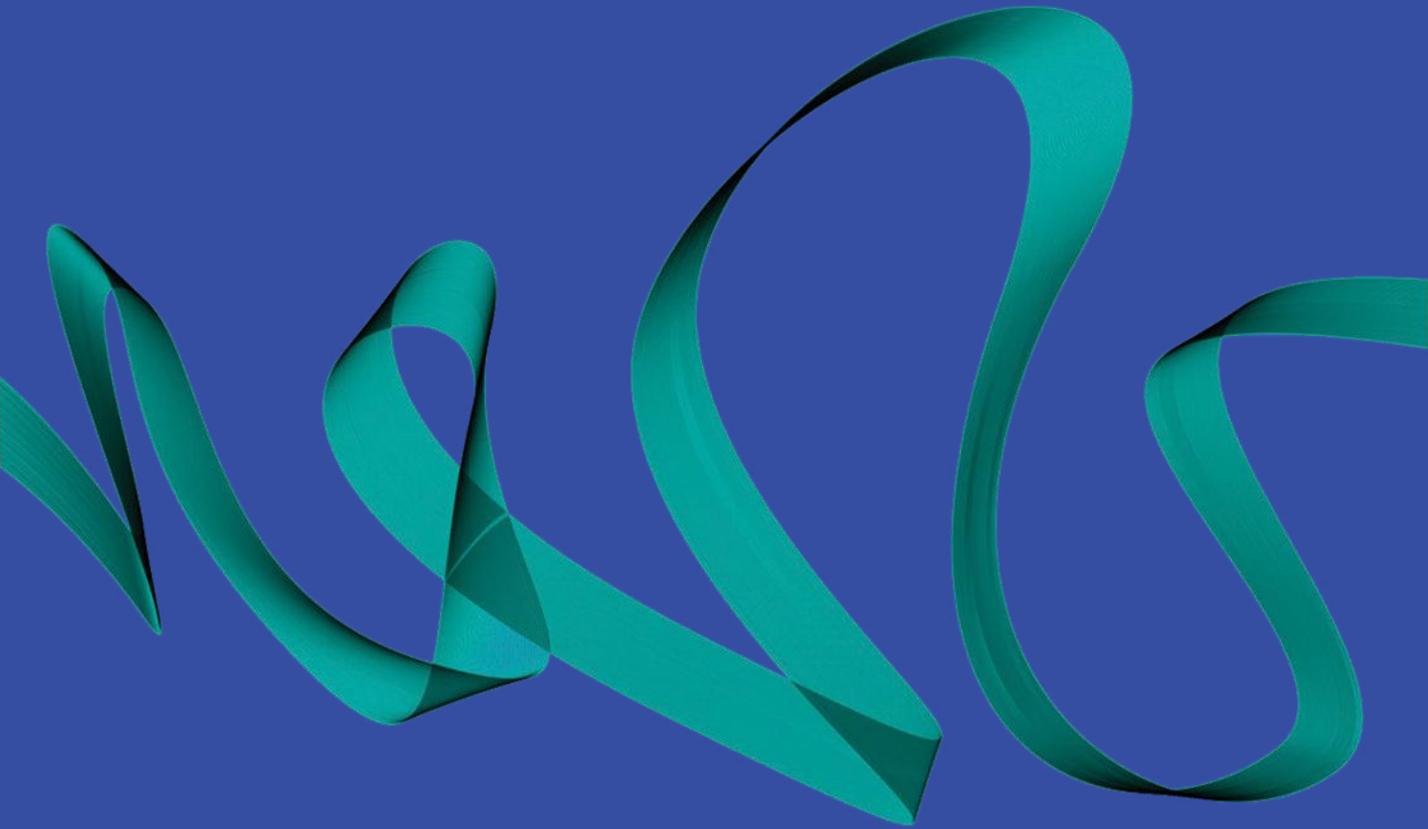




# India's Mobile Phone Market



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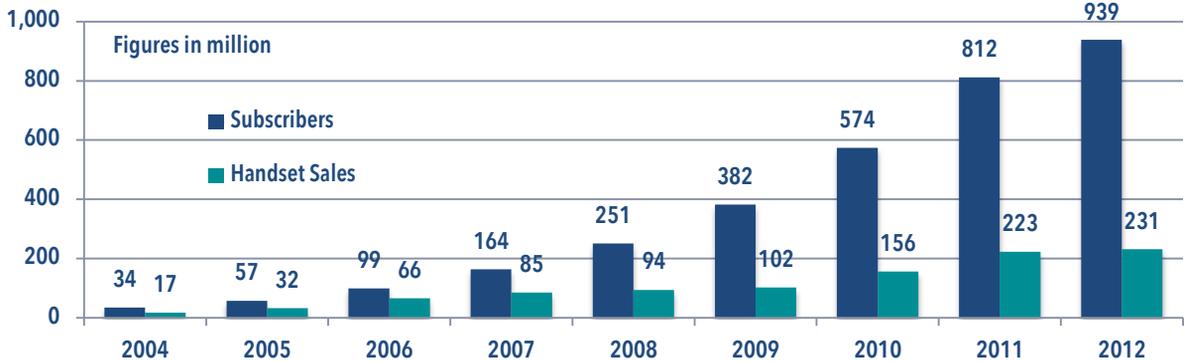
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# India's mobile phone market

India is home to one of the fastest growing mobile phone markets in terms of penetration thanks to tectonic shifts which have taken place within the market over the past decade. Mobile subscribers grew from 2 million in 2000 to 939 million in 2012. Handset sales increased from 17.5 million in 2003-04 to 221 million in 2012. Cellular Operators Association of India (COAI) forecasts the handset market will reach 1.24 billion – one mobile phone for every person living in the country – within 2015.

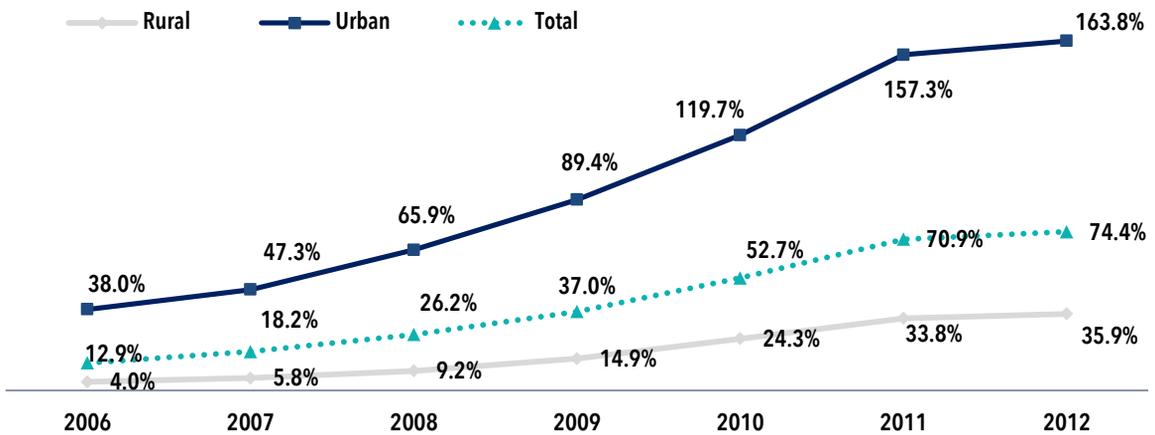
Figure 1: Subscribers and handset sales



Source: TRAI & Ipsos Business Consulting

Wireless teledensity – the number of telephone connections for every hundred individuals – in India has grown significantly in recent years, rising from 13 per cent in 2006 to 74 per cent in 2012. This growth was driven by increasing mobile penetration in both rural and urban areas. Telecom operators have expanded into rural markets by launching affordable price plans and attractive promotions tailored to the needs of rural users.

Figure 2: Teledensity in India



Source: TRAI & Ipsos Business Consulting

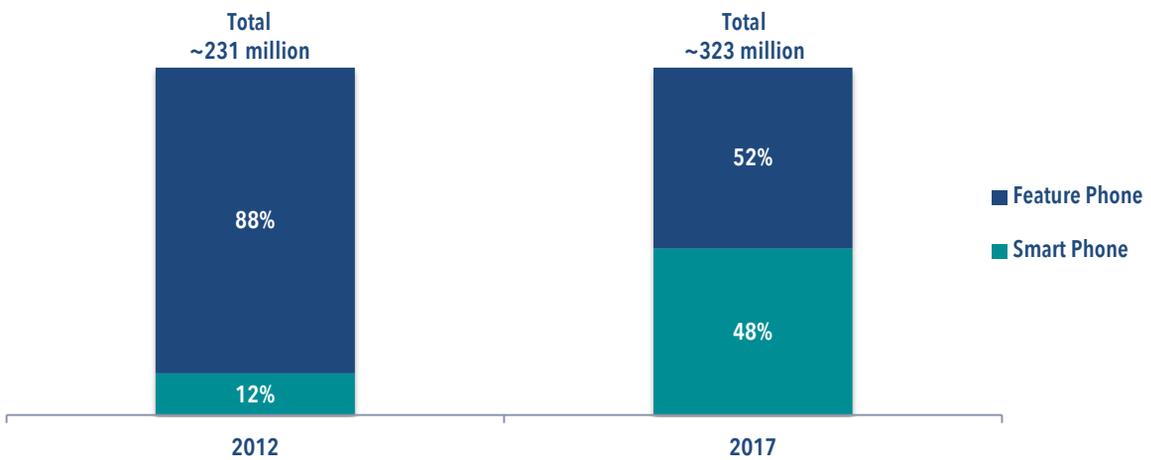
# India's handset market

India's handset market, one of the largest in the world, continues to grow strongly every year. Back in the early 2000s, mobile phones were typically only found in key urban centres and primary cities due to the low number of models in the market, high handset costs, expensive tariffs and limited network coverage.

The situation has changed over the past few years with the entry of more global brands and the emergence of homegrown manufacturers in the handset market. Wider availability of more affordable handsets, including smartphones, and significantly lower call rates has catalysed growth in the market, most notably in rural areas. Competition within the crowded market is intense with more than 50 device manufacturers now selling their products. Most of these companies focus on low cost feature phones.

While feature phones have dominated the market for some time, their position is being eroded by the emergence of better value smartphones, a trend which is seeing a greater number of manufacturers focus on producing more sophisticated devices.

Figure 3: India's handset market

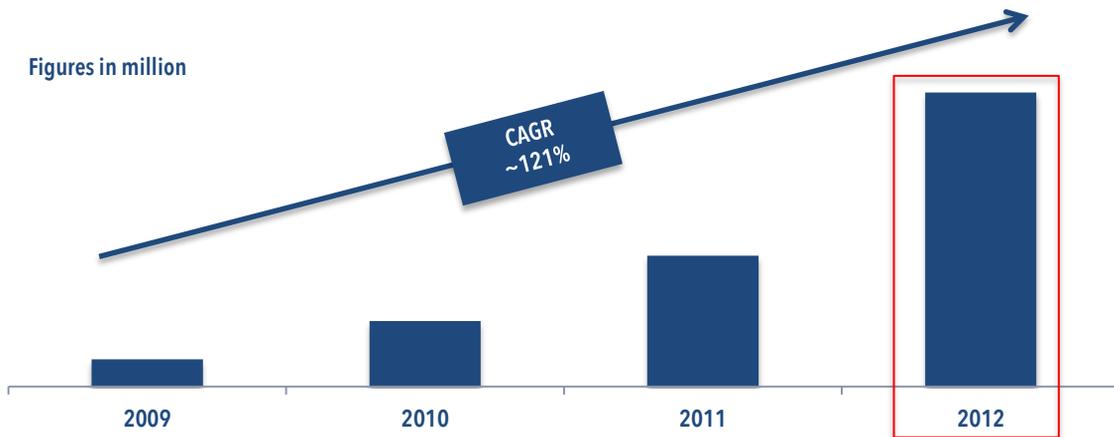


Source: Ipsos Business Consulting

## Smartphone segment

Smartphones penetration in India's mass market has accelerated with uptake rising from 2.5 million handsets in 2009 to about 27 million in 2012. Previously the preserve of wealthier users, smartphones have become popular on the back of greater technology usage and lower costs. Smartphone sales grew 35 per cent in 2012 when they accounted for 10-12 per cent of the total handset market. This share is expected to rise to half of the market's total expected sales of 156 million units by 2017.

Figure 4: Smartphone growth

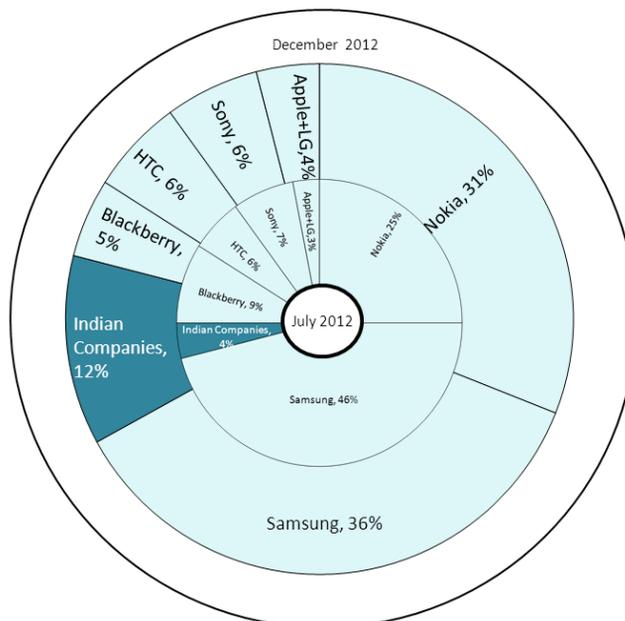


Source: Ipsos Business Consulting

## Emergence of domestic handset players

Domestic players have diversified their product lines and introduced a wider range of models with price points targeting different market segments. Domestic firms such as Micromax, Karbon, Lava and Intex have launched handsets costing as little as half the price of a Samsung, Sony or HTC model. As a result they have significantly increased their share of the handset market. These domestic players have become household names partly through their advertising and marketing campaigns and sponsorship of sports events.

Figure 5: Smartphone market dynamics

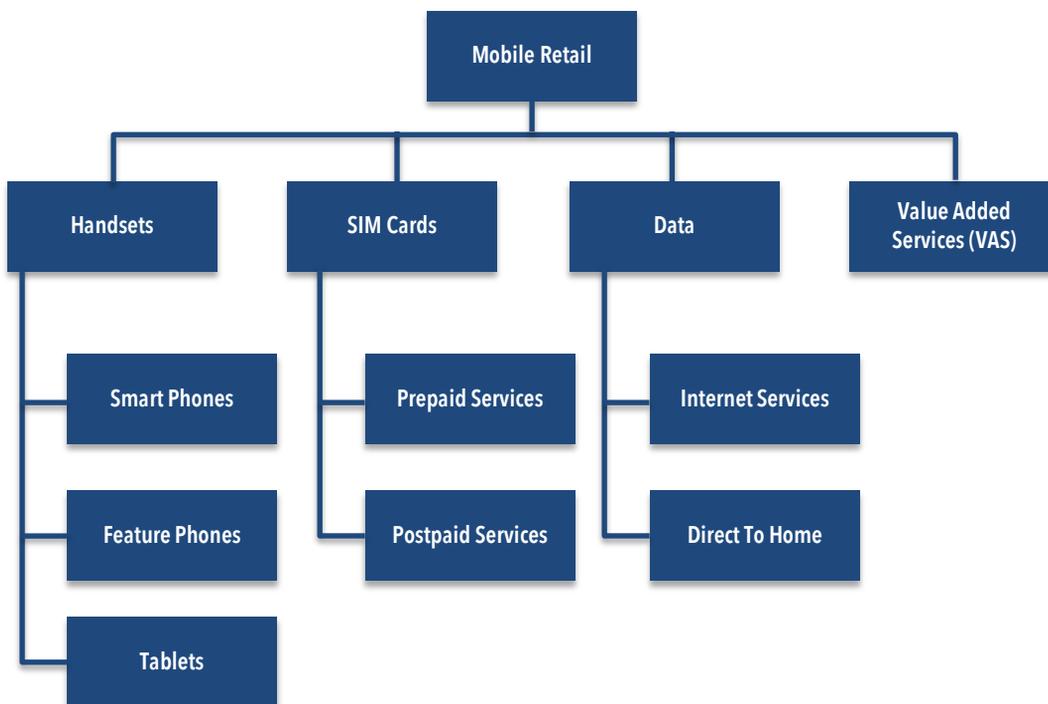


Source: Ipsos Business Consulting

# Understanding India's mobile retail market

Mobile retailers have undergone similar transformations as other parts of the retail sector. Their business has evolved beyond the traditional model, where handsets were sold through tried and tested channels and small unorganised sole operators, to utilising more modern retail channels which also sell related products and services to end customers.

Figure 6: Mobile retail classifications in India



Source: Ipsos Business Consulting

Handset and SIM card sales still account for the majority of the mobile retail business, but recent demand for more diverse products and services has seen retailers offer more accessories, handset covers and after sales options.

Significant increases in data usage have generated new business opportunities beyond traditional voice services for telecom operators who now provide prepaid and postpaid mobile internet services that can be combined with voice packages or sold as standalone products. Operators such as Tata docomo, Airtel, Reliance and Vodafone have their own data cards.

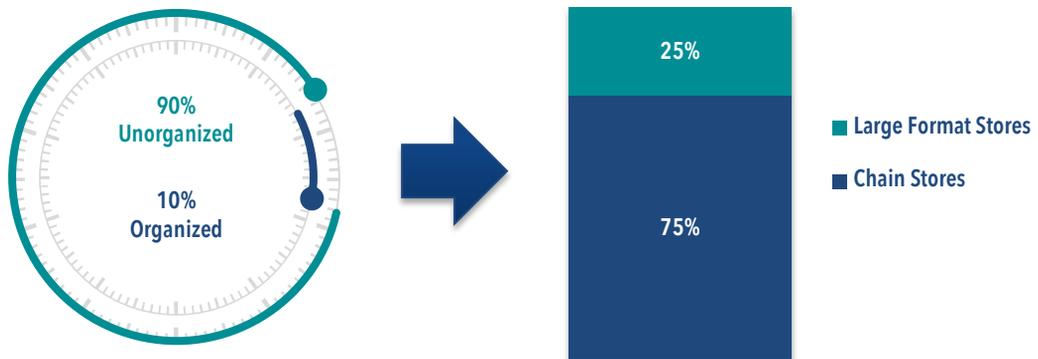
Telecom operators providing Direct to Home (DTH) satellite television in India are expanding their offering by combining top-ups with mobile-targeted offers through their galleries and stores.

Value-added services have taken the Indian mobile market by storm, with demand for new applications increasing almost on a daily basis. Traditional retailers have tried to meet consumer demand by providing value added services at the store level. These retailers have gone beyond selling handsets and SIM cards to customers to meet demand for anti-virus software and other applications.

The provision of such services at store level marks a significant change within the mobile retail market. Traditionally handsets were sold through well known electronic stores in select cities. Now devices are available almost everywhere from high-street stores and supermarkets to small general shops in the suburbs. As a result, organised retailers only account for one-tenth of the mobile market. Large-format electronics chain stores such as Croma, Reliance Digital and Lotus, control one quarter of the segment with the rest occupied by smaller chains like Mobile Store, Univercell and Spice Hotspot.

This segment is forecast to grow by 10-15 per cent over the next four to five years.

Figure 7: India's organised and unorganised retail markets

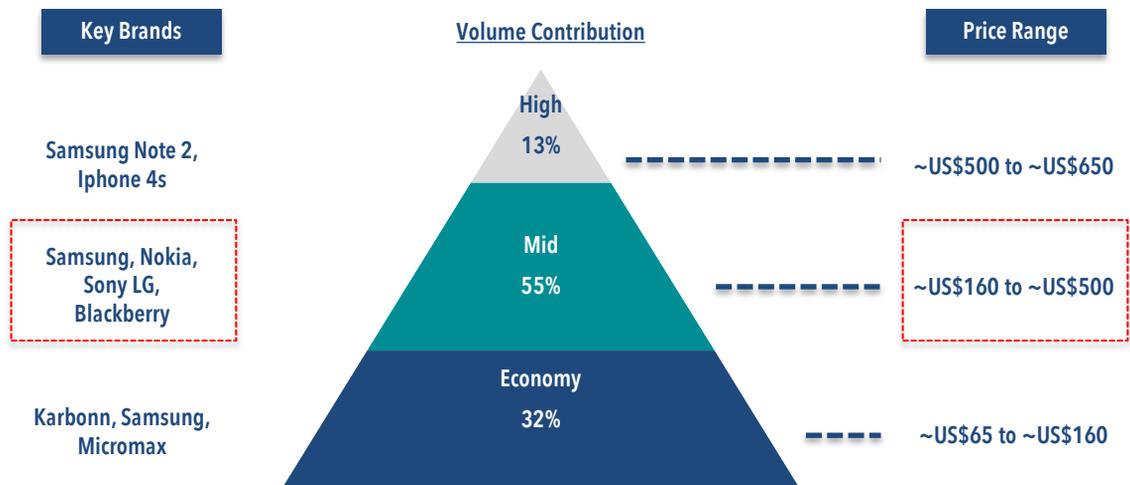


Source: Ipsos Business Consulting

## Large-format retailers (LFR)

Large format stores are typically sized between 600-1,000m2. They carry a large product portfolio comprising of all types of consumer durables such as televisions, refrigerators, washing machines and air conditioners.

Figure 8: Sales dynamics in large format retail stores



Source: Ipsos Business Consulting

Smartphones account for 80-90 per cent of mobile handset sales at large-format retailers where the average price of a mobile device ranges from US\$160 to US\$250.

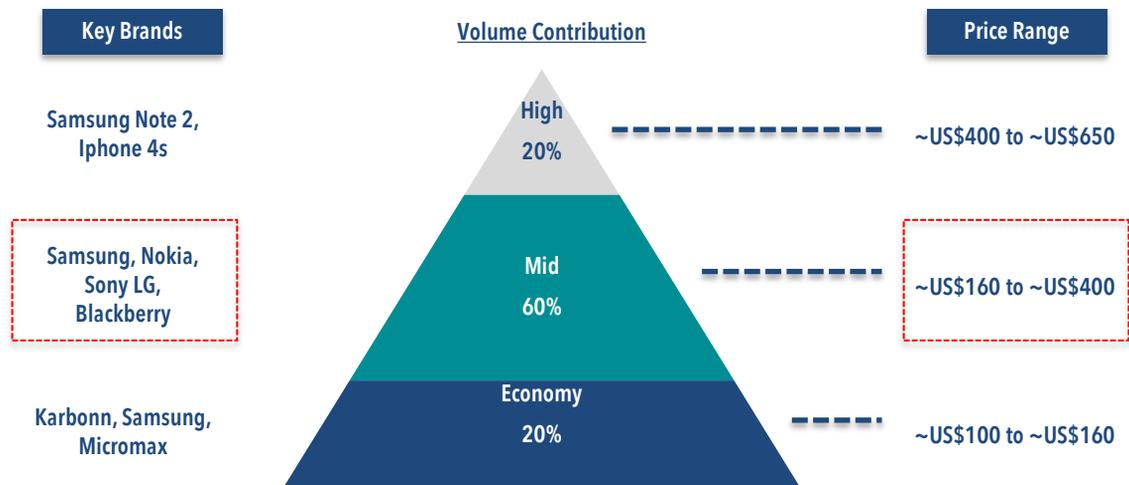
Key store features:

- Wide variety of handsets on display
- Handsets categorised by price
- Customers can touch and try handsets

## Chain Stores

These retailers focus solely on handsets and mobile phone related products and services. They have recently expanded their footprint from primary cities into secondary and tertiary cities in response to customer demand. This segment includes both small- and large-format stores which have average areas of 20m<sup>2</sup> and 120m<sup>2</sup>, respectively.

Figure 9: Sales dynamics in chain stores



Source: Ipsos Business Consulting

Smartphones account for about 80 per cent of handset sales in these stores, which also sell a wide range of high-margin mobile accessories.

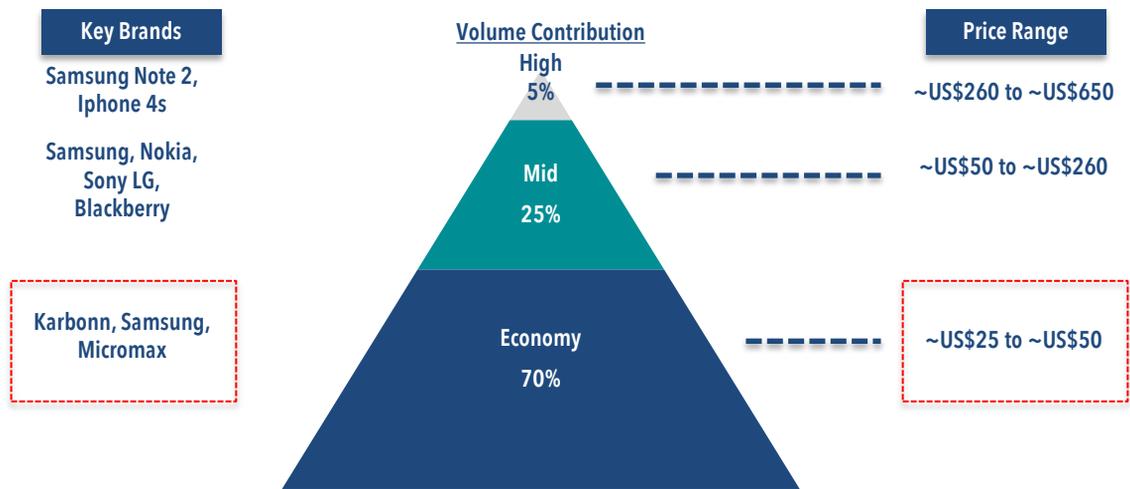
Key store features:

- Customers can touch and try handsets
- All top brands available under one roof
- Value-added services (insurance, extended warranties etc)
- After sales service

# Traditional channels

Traditional channels dominate the mobile retail market. However, this dominance is being eroded as organised chains expand their presence across the country.

Figure 10: Sales dynamics in traditional retail stores



Source: Ipsos Business Consulting

These channels, which have traditionally focused on cheaper feature phones and smartphones, only account for one-quarter of the segment's handset sales. Traditional retailers also try to push sales of high-margin accessories to generate more income.

## SIM cards

Sales of SIM cards have surged in recent years driven by growth in both the prepaid and postpaid segments. Twin-SIM devices, which allow users to operate two phone numbers through the same handset, and mobile number portability, which enables a customer to change mobile networks while keeping the same phone number, have further increased demand for SIM cards.

SIM cards are a vital part of the mobile retail trade. Telecom operators have tried numerous ways to enter the market and target different customer segments. Prepaid SIM cards are sold through general retailers and convenience stores where the product only accounts for a small portion of their business. Prepaid customers currently account for about 90 per cent of India's mobile users.

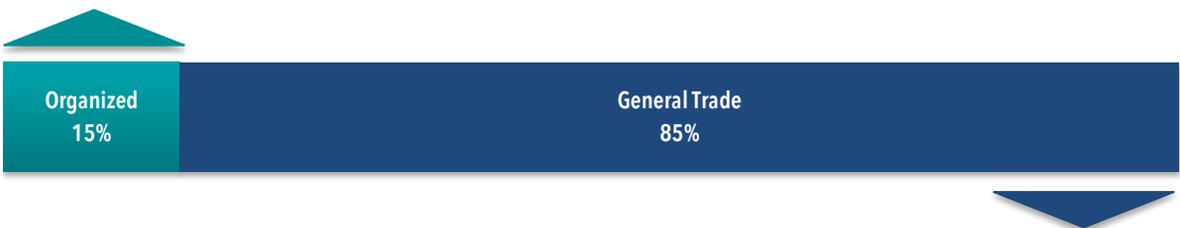
Figure 11: SIM card subscribers in India



Source: TRAI & Ipsos Business Consulting

Figure 12: SIM card sales in India

Typical Type of Stores	
Categories	Characteristics
Operator Flagship Stores, COCOs and FOFOs	Work in association with operators and primarily address the postpaid market requirements such as bill payments, enquiries, number portability, etc.



**General Trade Channel Associates**

- Primarily addresses to prepaid customers and allied activities associated with prepaid services such as top-ups and recharges
- The general trade business is controlled by operator managed distributors who handle the wide spread retailer network

Source: TRAI & Ipsos Business Consulting

## Organised retailers

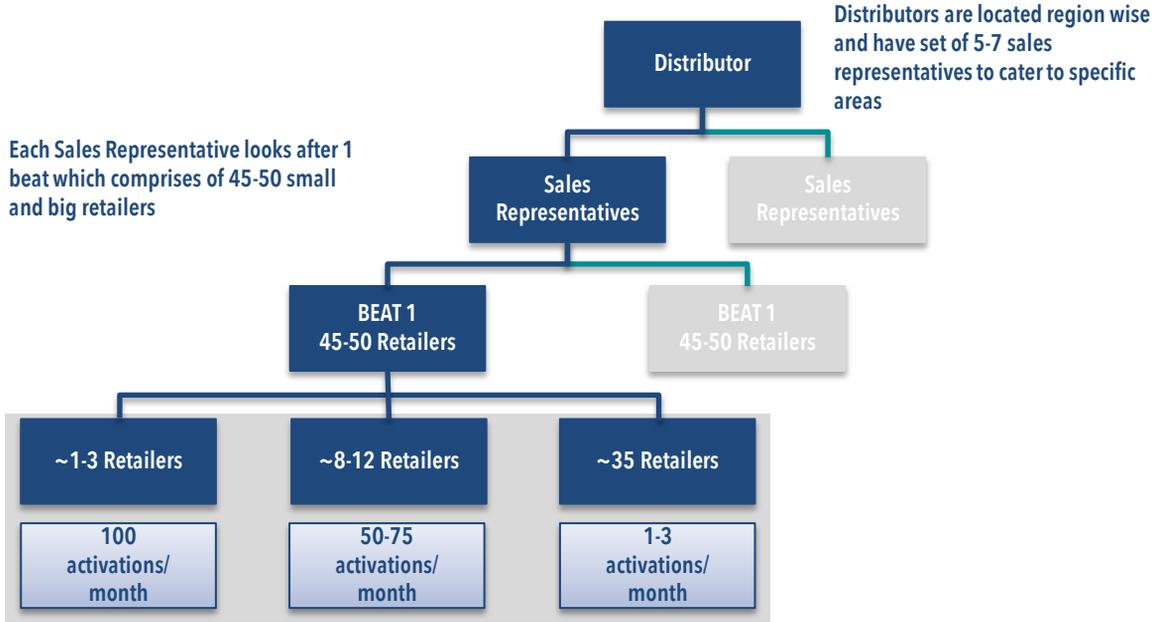
This channel accounts for about 15 per cent of SIM card sales. These stores are either owned and operated by the company or owned and operated by the franchisee. They include large and small outlets and provide the following range of services:

- SIM activation
- Bill payments
- DTH services
- Broadband services
- Mobile top-ups
- Customer complaints/services

# General trade

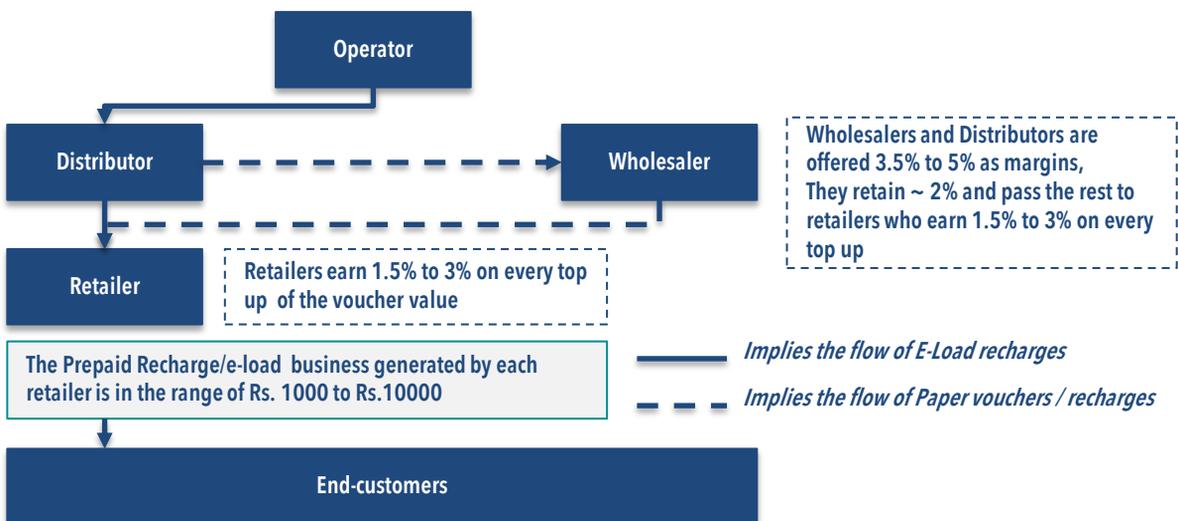
General trade accounts for about 85 per cent of the SIM card market. These retailers primarily sell prepaid SIM cards and top-ups, as well as providing related services such as SIM card activation. Such operators have extensive distribution networks.

Figure 13: Value chain for SIM card activations



Source: Ipsos Business Consulting

Figure 14: Value chain for mobile top-ups



Source: Ipsos Business Consulting

# The way ahead

## Expansion of chain stores into secondary and tertiary cities

Chain stores such as The Mobile Store, Univercell and Spice Hotspot are facing intense competition from large-format stores in metro areas and primary cities. They have adjusted their strategy by expanding their networks into secondary and tertiary cities to tap growing demand from smaller towns where large format stores have only a minimal presence.

These stores have introduced monthly payment plans and other options to make it easier for consumers to purchase products.

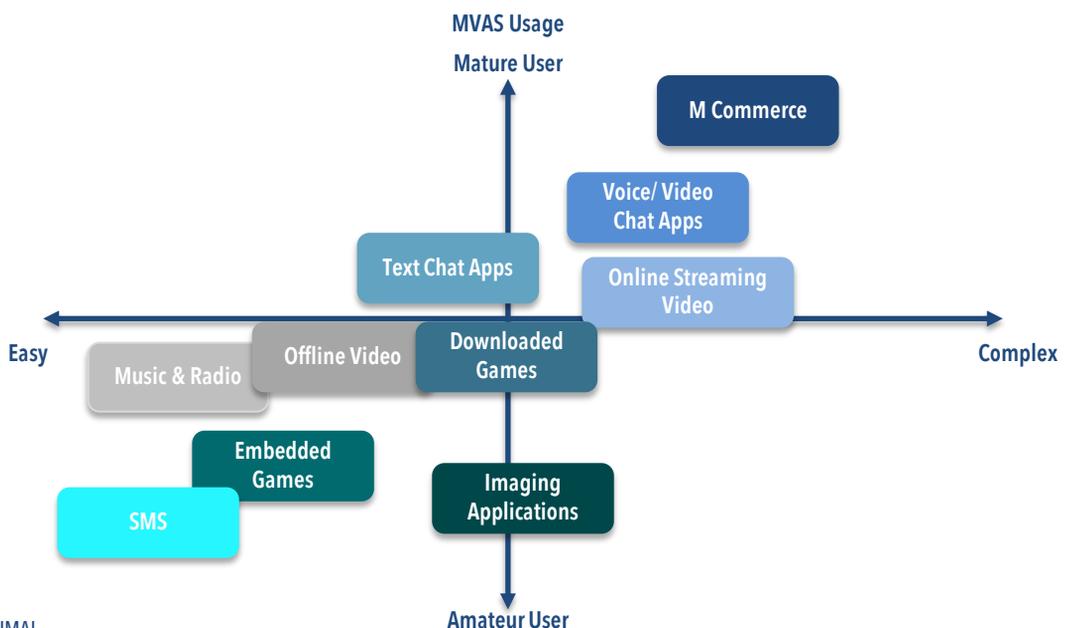
## Unorganised retailers trying to keep pace with modern stores

Unorganised retailers have increased their inventory of handsets and now offer a range of devices for different price segments in metro areas and primary cities. In smaller towns retailers focus more on low priced handsets from Samsung, Nokia and local brands. They also provide valued-added services such as anti-virus and other mobile security applications in order to offer consumers a more comprehensive and satisfying customer experience.

# Applications driving the handset market

Mobile apps are becoming a key mechanism for driving non-voice revenue. Samsung App Store and Google Play Store are already competing within this space. Samsung India's team is also developing market-specific apps and content. Vodafone India revised its revenue-sharing policy in favour of app developers and content providers to encourage increased market-specific app development within India. Increasing use of social media, internet, mobile banking, gaming and other such data rich services are key drivers of on-going growth in sales of applications, which are rising both in terms of value and volume. Application-focused stores are now being developed to tap this growing market.

Figure 15: Mobile value-added services among Indian users



Source: IMAI

# Conclusion

Organised players, comprising both large format stores and chain retailers, will expand their presence from metro areas and primary cities into secondary and tertiary cities across the country. Regional chain stores, having consolidated and stabilised their position in local markets, will drive their business by expanding into other states.

Unorganised stores will continue to play a key role in the market, which is still dominated by low-cost handsets. Indian brands targeting mass-market consumers are focussing on this channel. Prepaid mobile users will continue to dominate the market, as they do in most developing nations, with mobile top-ups being a key driver of this segment. Average top-up values remain very low and are available through unorganised stores. Due to market dynamics it will be difficult for organised operators to gain control of the prepaid SIM card and top-up business.

Online handset sales have picked up recently thanks to the expanding presence of companies such as Flipkart selling these products at discounted prices. Chain stores have also developed online channels. E-top-ups are also available online through operator websites which has resulted in declining demand for such services through traditional channels, especially for high-value top-ups.

Organised retailers are expected to gain greater market share in the coming years, however, the characteristics of India's mobile market will see traditional retailers and smaller stores continue to dominate the business. The expansion of modern retailing to smaller towns will see organised players benefit from tapping these lucrative other markets.

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