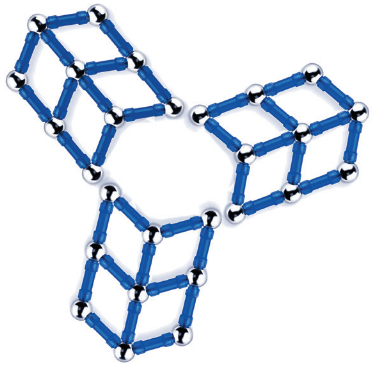
Deloitte.



One became many: the tablet market stratifies

Deloitte predicts that in the first quarter of 2014, the installed base of compact tablets (with screens smaller than 8.5 inches) will surpass the base of classic tablets (8.5 inches and larger) for the first time. By the end of Q1 2014, we expect the base of compact tablets to be 165 million units, slightly ahead of the classic tablet base, with 160 million[40]. Compact tablets will have taken segment leadership within about 18 months of the first mass-market models (with sales of at least five million units) coming to market, and within four years of the launch of the modern tablet category. The surge in compact tablet sales is accompanying a stratification of the tablet base, similar, but possibly ultimately more profound to that experienced in the smartphone market in the last two years[41].

In 2014, the tablet market is likely to comprise an ever more diversifying range of devices, with key differences aside from size, being weight, processor speed, memory capacity and price. Each tablet model's combination of attributes will determine the likely users and patterns of usage.

Differences in screen area have major implications on the usability of content: a 10-inch tablet has 50 percent greater screen area than an eight-inch tablet, and may have double the screen area of a seven-inch tablet[42]. Most web pages designed for access on a PC render well on a 10-inch tablet, especially ones with a high resolution screen.

As of year-end 2013, the majority of websites are designed for PCs, and PC web page views represented the majority of page views in most regions, including those with high tablet and smartphone penetration. However the same page may be hard to read when viewed on an eight-inch screen, and is even more challenging to read on a seven-inch screen.

Screen size becomes particularly critical for applications that require form filling such as e-commerce, and has implications for watching video, with smaller standard-resolution devices less suited for long-form video.

Screen size also has a bearing on the weight of tablet models. The median weight of the installed base of 10-inch tablets is about a third heavier than for eight-inch devices, and about double the weight of a typical seven-inch device[43]. The weight, as well as the size, influences how devices are likely to be used[44]. Smaller, compact devices are more likely to carried around; the classic tablet, while perfectly portable within homes, venture outdoors less frequently. Weight also affects the suitability of each tablet model for different genres of games. Smaller and lighter tablets may be better for games that use motion sensors, and require moving the device around.

40 The installed base volumes for compact and classic tablets are estimated based on existing knowledge, conversations with industry players and publicly available information. For more information, see: IDC Forecasts Worldwide Tablet Shipments to Surpass Portable PC Shipments in 2013, Total PC Shipments in 2015, IDC, 28 May 2013: http://www.idc.com/getdoc.jsp?containerId=prUS24129713; IHS Boosts Tablet Panel Shipment Forecast as White-Box Products Storm the Market, HIS, 2 July 2013: http://press.ihs.com/press-release/design-supply-chain/ihs-boosts-tablet-panel-shipment-forecast-white-box-products-storm; Forrester: Tablet "Hyper-Growth" Will Push Global Installed Base Past 905M By 2017, Up From 327M In 2013, TechCrunch, 6 August 2013: http://techcrunch.com/2013/08/06/forrester-tablets/

41 For more information on the diversifying base of smartphone users, see: Deloitte TMT Predictions – Smartphones ship a billion but usage becomes simpler, Deloitte TMT Predictions, Deloitte Touche Tohmatsu Limited, January 2013: http://www.deloitte.com/assets/Dcom-Shared%20Assets/Documents/TMT%20Predictions%202013%20PDFs/dttl_TMT_Predictions2013_SmartphoneShipBillion.pdf

42 The screen areas are also dependant on the aspect ratios: the wider the screen, the smaller the screen area. A 4:3 aspect ratio 10 inch screen has a greater surface area than a 10-inch model with a 16:9 screen.

43 The 9.7 inch iPad 2 is 601 grams for the Wi-Fi only model. The 7.9 inch iPad mini weighs 308 grams for the Wi-Fi only model. The 7.02 inch Nexus 7 weighs 290 grams for the Wi-Fi only model. The Wi-Fi plus cellular models for all devices are slightly heavier. For example the cellular model of the Nexus 7 weighs nine grams more.

44 For a comprehensive view of the weights of tablets by screen size see: Comparison Charts by display size, Tablet PC Comparison, 2013: http://www.tabletpccomparison.net/comparison-charts/display-size-chart

Figure 3: Tablet specification by price band

	< US$100	US$100-199	US$200-299	US$300+
Connectivity	Wi-Fi only	Wi-Fi only	Wi-Fi only	Wi-Fi & cellular, with 4G
Weight	Up to 300g	Up to 300g	Up to 300g	Up to 350g
Screen resolution	800 x 480	1024 x 600	2048 x 1536	2048 x 1536
Internal memory	4GB to 8GB	8GB to 16GB	16GB to 32GB	16GB to 128GB
Chipset	Single core at 1.2GHz	Dual core at 1.2GHz	Dual core at 1.5GHz	Quad core at 1.5GHz
Rear facing camera	None	3MP	5MP	5MP
Average battery life	Up to 5 hours	Up to 8 hours	Up to 9 hours	Up to 10 hours
Replacement rate	Medium to Low	Medium to Low	Medium to High	Medium to High
Frequency of usage	Low	Medium	High	High

Source: Deloitte, December 2013.

Note: The specifications refer to popular models in each price band

Larger devices may tire the user out, but their larger screens are more suited to board and strategy games. Smaller, cellular-equipped tablets may also be more apt for enterprise e-mail usage: they add less weight to an already congested briefcase or bag.

Compact tablets are generally lower-priced, as vendors of smaller tablets are likely to have different business models than those selling larger tablets[45]. Retailer-branded tablets are likely to be sold at or near cost, with monetization resulting from product sales generated by the device[46]. The lower price of compact tablets is a principle driver of their adoption. But a lower price also implies lesser specifications, and along with that a more limited capability. For example, processor speed also affects ability to play graphics intensive games[47]. Figure 3 provides an indication of what each level of spend offers.

The growing range of tablets is leading to a diversifying ownership profile. Owners of the first tablets tended to be relatively prosperous, that is individuals who could afford a $500 tablet in addition to a laptop computer. These individuals tended to have a higher propensity to purchase online[48]. More recent owners of tablets include those for whom the tablet replaces an existing device, such as a handheld games console, or a netbook computer. These owners may be far less likely to use e-commerce, and in some cases may rarely use their tablets to go online, as the device's primary function may be to play games.

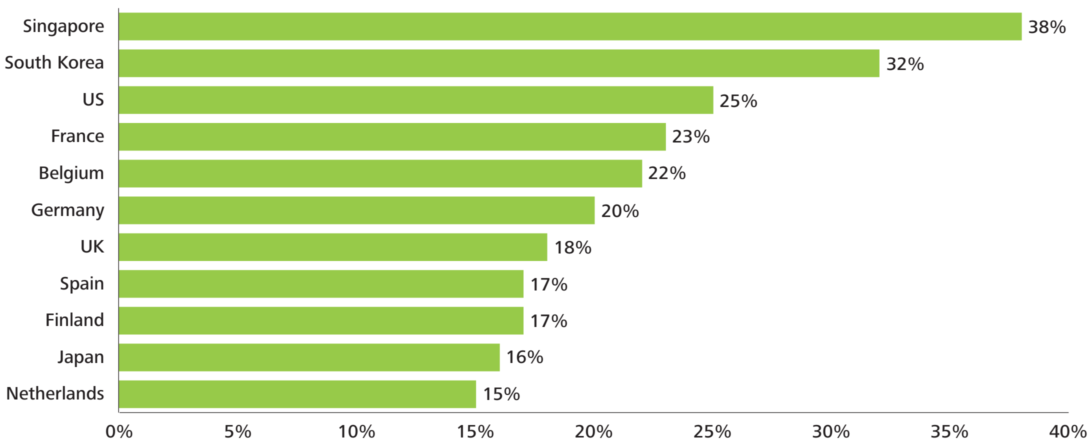
Owners of lower-priced compact tablets may be much less inclined to buy apps and content, and make other purchases via their devices. The inclination to engage in these activities may be limited by lower levels of user literacy with digital devices, and perhaps age – many low-cost compact tablets are purchased for children as substitutes for dedicated portable games consoles[49].

The widening array of tablet form factors and price may also encourage ownership of more than one tablet. In developed markets, on average 20 percent of consumers own both a large and a compact tablet (see Figure 4). Whilst some of these are early adopters who would typically sample any exciting new product, many more have two tablets for a reason. Oftentimes the second, smaller tablet – being more portable – is used on the move, whereas the larger device stays at home, used for more visually demanding tasks such as games and video. In other cases, one device is for work, the other for personal use. In still further cases, one device is shared with other family members, the other is uniquely personal.

Figure 4: Medium tablet owners that own or have access to a large tablet

Question: Which, if any, of the following portable devices do you own or have ready access to (tablets)?

Proportion of medium tablet owners having a large tablet



Source: Deloitte Global Mobile Consumer Survey, Developed countries, May-June 2013

Weighted base: (Medium Tablet owners): Belgium (183); Finland (90); France (182); Germany (203); Japan (134); Netherlands (386); Singapore (443); South Korea (228); Spain (430); UK (609); US (263).

45 For examples of retailer-branded tablets, see: 'World's cheapest tablet' lands in the UK for just £30, Guardian, 16 December 2013: http://www.theguardian.com/technology/2013/dec/16/datawind-ubislate-india-aakash-tablet-android

46 One analyst house estimates that Kindle (tablet and eReader) owners spend $1,233 per year on Amazon compared to $790 per year for Amazon shoppers who don't own one of the company's e-readers or tablets. See: The Amazon Kindle Numbers That Jeff Bezos Must Really Care About, AllThingsD, 12 December 2013: http://allthingsd.com/20131212/the-amazon-kindle-numbers-that-jeff-bezos-must-really-care-about/

47 For a ranking of Android based tablets from a games playing perspective, see: The fastest Android gaming tablets, CNET, 9 December 2013: http://reviews.cnet.com/8301-3126_7-57581030/the-fastest-android-gaming-tablets/

48 For more information, see: Apple's iPad driving e-commerce as market shifts from desktop-based purchases, Apple Insider, 26 November 2013: http://appleinsider.com/articles/12/11/27/apples-ipad-driving-e-commerce-as-market-shifts-from-desktop-based-purchases

49 Could Tablets Overtake The Console?, Forbes, 20 February 2013: http://www.forbes.com/sites/danieltack/2013/02/20/could-tablets-overtake-the-console/

Bottom line

Tablets have gained popularity with extraordinary speed, and manufacturers will have to work hard to stay on top of the evolution of the market. There appear to be more users and use cases for tablets than many had imagined. Getting the balance of form, function and price right will likely be a moving target during 2014, especially at the lower end of the market. Whereas the large tablet market has generally been highly lucrative for manufacturers, the surge in smaller low-cost models may dilute levels of income and profitability. Manufacturers should research usage carefully, so as to understand users' needs and expectations across the whole category, and design devices that comprise only the components that are necessary. A first time buyer is more likely to become a repeat purchaser if their first device performs well in terms of battery life and screen quality, even if that comes at the expense of integrated GPS or a massive hard drive.

Apps developers and website owners need to research in more detail how users of different types of tablet interact with content, and which legacy features frustrate. They should note that there is a substantial variance in screen size, which will impact interface design. As more web access moves to the touch screen, the size, shape and function of HTML links, buttons and other features will likely need to adapt.

Mobile carriers need to identify which models of tablet are most likely to be used over a cellular network. The compact premium tablet may be the most suited to a cellular subscription in 2014. Their size makes them more likely to be carried around and used on mobile networks; their owners are more likely to be able to afford an additional mobile data subscription. In some markets, tablets could be added to pooled usage tariffs, with various devices using one monthly data bundle. For Wi-Fi only tablets, owners could be encouraged to pair these with their smartphone's tethering capability. This is not as elegant as having integrated mobile broadband, but it works, even if it can drain the host smartphone's battery. For everyone else, mobile operators with hot-spots could offer access to their network.

Fixed operators with no mobile coverage could also target Wi-Fi only tablet owners by offering them access to their Wi-Fi hot spot networks, either as a separate subscription, or as a feature within existing fixed line services subscriptions. Tablets are often used when stationary, and Wi-Fi capacity should be located wherever people tend to linger, such as shopping malls and train stations.

Marketers should consider how to vary strategy by tablet model. In some regards, advertising on smaller tablets is harder. When the average screen size for a tablet was over nine inches they generated around $7 advertising income, per device, per annum[50]. As the average screen size falls, display ad revenue may be impacted, but not necessarily negatively, as the greater portability of compact tablets may increase hours spent with these devices.

Content providers should focus specific attention on where, when and why different form factors are used. Larger devices lend themselves to movies, video and television; smaller devices tend to be used more commonly for text such as the web, books and magazines. As the tablet becomes more mainstream and widespread, entirely new content formats may be warranted; but as a basic minimum, optimizing existing formats for different form factors will likely be required.

Enterprise CIOs should assume that falling prices and increasing capabilities of tablets mean that they are more likely to be used in a work capacity[51]. The right approach depends on each company's specific context. For some, the right answer may be to block access by any device not provisioned by the IT department. For other companies installing strong authentication solutions and partitioning tablets to have separate professional and personal areas is the solution.

Companies with field force departments should also constantly review the growing range of tablets launching on the market, to assess whether a combination of a consumer-oriented device, combined with a robust case, costing a few tens of dollars, may be sufficiently resilient to be suitable for use for staff working outside of office environments (for more information, see the 2014 Prediction: Ruggedized devices at $250: reinventing the business case for mobile field force).

Limited storage means less room for apps and content, and lower processor speeds often means apps running slowly, or not at all. Low screen resolution often means pixelated video and poorly rendered images and text. While some consumers, especially younger ones, may have low expectations and will be satisfied with such performance, for many consumers, the low-cost tablet will represent a false economy.

50 "Mobile" advertising is dead. Long live tablet and smartphone advertising, Deloitte TMT Predictions, Deloitte Touche Tohmatsu Limited, January 2013: http://www2.deloitte.com/global/en/pages/technology-media-and-telecommunications/articles/tmt-telecommunications-predictions-2013-mobile-advertising-dead.html

51 For more information on tablets used in the work place, see: Tablets, Mobile Malware Heighten BYOD Security Concerns, CIO, 19 November 2013: http://www.cio.com/article/743476/Tablets_Mobile_Malware_Heighten_BYOD_Security_Concerns; The Ruggedized Computing Blog, MobileDemand, 27 September 2012: http://www.ruggedtabletpc.com/blog/bid/82570/Rugged-Tablet-PCs-Replacing-Laptops-and-Handhelds-in-Field-Services

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