

Used smartphones: the \$17 billion market you may never have heard of

Deloitte Global predicts that in 2016 consumers will sell outright or trade in approximately 120 million used smartphones generating more than \$17 billion for their owners, at an average value of \$140 per device. This is a marked increase from the 80 million smartphones traded in 2015 with a value of \$11 billion, or an average value of \$135³²⁸.

The value of sold or traded-in smartphones will likely be about twice that of wearables and 25 times the value of the virtual reality (VR) hardware market³²⁹.

Worth \$17 billion in 2016, and with 50 percent year-on-year growth in units, the used smartphone market is forecast to grow four-five times faster than the overall smartphone market. A total of 1.6 billion smartphones are expected to be sold in 2016, an 11 percent increase on the prior year³³⁰. Used smartphones represent an increasing share of the market: about seven percent of the total smartphone sales by units in 2016, up from five percent in 2015 and four percent in 2014.

We predict at least 10 percent of premium smartphones (\$500 or higher) purchased new in 2016 will end up having three or more owners before being retired, and will still be used actively in 2020 or beyond.

We would expect trade-in value per device to vary by model and market, but across the 120 million used smartphones that are likely to be sold in 2016, we estimate that the average value per device will be about \$140.

About half of these devices are expected to be traded in to manufacturers or carriers in exchange for credit toward a new smartphone. The remainder will likely be sold online privately, to retail shops or to second-hand device specialists.

We expect the practice of selling smartphones could well accelerate through 2020 as both consumers and suppliers increasingly embrace the practice of selling or acquiring second-hand smartphones.

For consumers the primary incentives to sell a device – rather than keeping it as a spare, giving it to a family member or throwing it away – will likely be driven by the ease of doing so, the luster of owning a latest model device and the trade-in value on offer.

We expect the market for acquiring second- (or third- or fourth-) hand devices to become steadily more organized. A decade back, those wishing to sell their old phones would often use online auctions or marketplaces, which could be far slower and uncertain relative to being quoted a trade-in value at the point of sale, or simply swapping one phone for another with a leasing plan.

Specialist companies may emerge which forecast trade-in values after one, two or more years of ownership, similar to the equivalent service providers in the automobile industry.

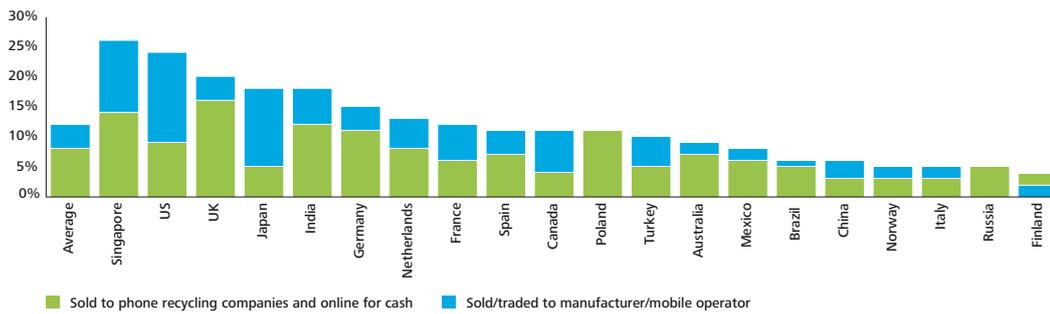
In many developed markets the range of options for selling a device is steadily growing, ranging from companies specializing in acquiring second-hand devices to manufacturers offering leasing options³³¹.

We expect there to be significant variation in the practice of trading in smartphones by market. Deloitte member firms' research in 20 markets found that as of mid-2015 approximately 12 percent of all consumers sold their smartphones (see Figure 16). Of these two-thirds sold their smartphones outright, and a third traded them in with an operator or device manufacturer. In Singapore, about a quarter of smartphones were traded in; in Norway, Italy, Russia and Finland, only five percent were sold or exchanged. Deloitte Global would expect that over time, most markets should see a steady increase in trade-ins.

328. Deloitte Global analysis based on a number of publicly available sources including Gartner Says Worldwide Market for Refurbished Smartphones to Reach 120 Million Units by 2017, Gartner, 18 February 2015: <http://www.gartner.com/newsroom/id/2986617>
329. The value for the wearables market is expected to reach \$8.862 billion as of 2016. See Wearable device market value from 2010 to 2018 (in million US dollars), Statista, as accessed on 12 December 2015: <http://www.statista.com/statistics/259372/wearable-device-market-value/>
330. Using the assumption that smartphone sales, including used smartphones, were 1.5 billion in 2015, and expected to reach 1.6 billion in 2016.
331. For information on upgrade programs, see ZTE Introduces New Lease-to-Own Option for Smartphones and Mobile, ZTE, 14 October 2015: <http://www.zteusa.com/news-zte-introduces-lease-options/>; Samsung said to plan smartphone-leasing program, CNET, 20 September 2015: <http://www.cnet.com/news/samsung-said-to-plan-smartphone-leasing-program/>; iPhone Upgrade Program, Apple, as accessed on 7 December 2015: <http://www.apple.com/shop/iphone/iphone-upgrade-program>. iPhone, iTunes, Apple Pay, Apple TV, Safari are trademarks of Apple Inc., registered in the U.S. and other countries. Deloitte Global's TMT Predictions 2016 is an independent publication and has not been authorized, sponsored, or otherwise approved by Apple Inc..
332. Apple's super-sticky iPhone leasing plan is a hit, *Fortune*, 1 October 2015: <http://fortune.com/2015/10/01/apple-iphone-upgrade-hit/>
333. Verizon Announces Yearly Upgrade Program for iPhone Users, MacRumors, 24 September, 2015: <http://www.macrumors.com/2015/09/24/verizon-yearly-iphone-upgrade-program/>
334. According to Deloitte member firms' Global Mobile Consumer Survey (GMCS), 46 percent of all smartphones in Germany have been bought from a retailer other than a mobile phone operator or shop that specialises on selling phones. For more information, see: <http://www2.deloitte.com/deloitte/pages/technology-media-and-telecommunications/articles/global-mobile-consumer-survey-20151.html>
335. Device manufacturers are pushing back, and trying to control the trade in and refurbish markets. See Apple Canada tells Ingram to stop selling used iPhones to Wind, The Globe and Mail, 4 August 2015: <http://www.theglobeandmail.com/report-on-business/apple-canada-tells-ingram-to-stop-selling-used-iphones-to-wind/article2583792/>
336. The article states 20 GBP to 108 GBP, which is converted to USD at a 1.53 exchange rate. See Join in the great recycling gold rush, Mobile News, 21 November 2014: <http://www.mobilenewscwp.co.uk/2014/11/21/join-in-the-great-recycling-gold-rush/>
337. iPhone 6 resale value higher than previous models, analyst says, CNET, 24 June 2015: <http://www.cnet.com/uk/news/iphone-6-resale-value-higher-than-previous-models-analyst-says/>
338. How to tell whether a phone is supported by your network: UK mobile operator frequency bands, PCAdvisor, 10 February 2015: <http://www.pcadvisor.co.uk/how-to/mobile-phone/how-tell-whether-phone-is-supported-by-your-network-3597426/>
339. There may also be issues with emerging services, such as Voice over WiFi (VoWiFi), support for which varies by operator and handset.
340. Your Old Smartphone's Data Can Come Back to Haunt You, PCWorld, 11 July 2011: http://www.pcworld.com/article/235276/your_old_smartphones_data_can_come_back_to_haunt_you.html
341. Statistics That Will Make You Want to Recycle Your Cell Phone, S. C. Johnson and Son, 15 February 2015: <http://www.sjohnson.com/en/green-choices/Reduce-and-Recycle/Articles/Article-Details.aspx?date=12-02-15&title=Statistics-That-Will-Make-You-Want-To-Recycle-Your-Cell-Phone>

Figure 16: Respondents who sell or trade in their previous smartphone

Question: What did you do with your previous smartphone when you last upgraded?



Weighted base: Respondents who own or have access to a smartphone: Australia (1,582), Brazil (1,547), Canada (1,414), China (1,729), Finland (726), France (1,407), Germany (1,491), India (1,729), Italy (1,589), Japan (952), Mexico (1,623), Netherlands (1,639), Norway (846), Poland (1,602), Russia (1,462), Singapore (1,850), Spain (1,755), Turkey (860), UK (3,039), US (1,458)

Source: Deloitte member firms' Global Mobile Consumer Survey, May-July 2015

The US and Canadian markets in particular are seeing a shift from subsidized smartphones on two-year contracts to a one-year lease/upgrade program: one survey found that a fifth of new iPhone device purchasers in the US intended to lease it³³². The four largest US wireless carriers offer smartphone leasing options that allow for annual trade-ins, which are expected to capture a large part of the post-paid market³³³. In Germany consumers are increasingly being required to purchase devices outright³³⁴. A trade-in for the old smartphone would reduce the net sum handed over at the point of acquisition of the new device.

We would expect emerging markets to be net acquirers of second-hand smartphones. Some consumers may prefer to buy refurbished, used premium models in lieu of new budget brands, possibly cannibalizing sales of new devices from those budget manufacturers³³⁵.

Rising trade-in values may be a further incentive. In the UK market, the average price of a used handset increased from \$30 in 2007 to \$165 in 2013³³⁶. Some models may retain 70 percent of their value nine months post launch³³⁷.

For smartphone vendors the direct benefits of a thriving second-hand market are three fold. First, encouraging an annual replacement cycle among a growing number of users may increase annual sales. Second, the availability of a formal second-hand market could make their devices more affordable to customers with smaller budgets, without having to create less profitable, budget variants of their devices. Used, refurbished premium smartphones may be more appealing than brand new unbranded devices. Third, there would likely be a margin in processing used phones, similar to that earned by car dealers.

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Bottom line

The smartphone is the primary consumer electronics device by revenues and units: over \$400 billion in sales and 1.6 billion units expected to sell in 2016. Its second-hand market is a significant market in its own right and likely to grow over the coming years.

The biggest potential implications are for handset vendors, who are likely to become more and more aware of the residual value of their devices. The forecast future value of their products is also likely to become an increasingly important factor in the purchase decision. This may affect not just consumer sales, but also those made by enterprises, for which total cost of ownership should factor in the expected resale value once smartphones are returned.

A possible consequence of a more organized second-hand market is the potential for cannibalization: some consumers may elect to buy second-hand, rather than new, as is the case with the car market. However, some of those that purchase a second-hand device may then decide to purchase new next time round, and they may also purchase new accessories and apps for their used smartphones. Furthermore, familiarity with a used device may act as a brand 'gateway' and encourage the purchase of other devices from the same vendor.

Carriers in developed markets could increase their offer of refurbished premium smartphones. Customers on tight budgets with a refurbished premium device may generate more network traffic, or opt for a large monthly data bundle, than those with a brand new mid-range or budget device. Carriers could offer superior trade-in rates and simple trade-in procedures to lure users from other networks, or to encourage contract extensions. They should consider how best to flex contract length, or offer shorter terms.

Any entity (for example a carrier or an enterprise providing handsets to employees) providing leased handsets should evaluate the tax implications. In some markets, the depreciation in the value of the asset may be tax deductible while in some markets the provision a handset may be treated as a form of income and taxed accordingly.

Carriers in developing markets should also analyze closely the merits of offering a wider range of refurbished, second-hand premium handsets. Consumers across the world aspire to premium brands, and many may well prefer a used aspirational brand, ahead of a new device from a second-tier brand. The ideal \$100 handset does not necessarily need to be a new one.

Insurance companies should consider what opportunities this trend may present for them. One of the risks of leasing devices is uncertainty over the condition of the handsets when returned. Vendors or carriers offering leased devices may oblige consumers to take out insurance so as to mitigate risk. Insurance companies should evaluate the robustness of each smartphone model, and also how well each device may be treated.

The growth of a second market could lead to consumer confusion. Some smartphones are locked to specific networks. Customers unaware of this may end up purchasing a device that they cannot use on their current network. Furthermore, there are multiple variants of each device, which may not be obvious to consumers. Each 4G model, for example, supports different frequencies of 4G, with the earliest 4G phones supporting relatively few frequencies. So someone purchasing a 4G phone may find that this phone is not compatible with the 4G frequencies owned by their current operator³³⁸, especially for phones that are being resold in different countries or regions³³⁹.

Consumers selling smartphones should ensure that data stored on their devices is erased before selling on. While professional buyers of phones delete data as part of the service, private buyers would not do so. In one small US study, five of 13 used phones still had customer information on them³⁴⁰.

The trend to resell old hand-me-down phones may be better for the environment: 140 million mobile devices were thrown away, ending up in landfills in the US in 2012 alone³⁴¹. By 2016, and globally, the number would likely be over 250 million, with some portion of those previously discarded phones now being resold.

One category that may lose from this market is children, seniors and charities, who have become accustomed to receiving hand-me-down phones for free. If trading in becomes lucrative, the flow of gifted devices may become interrupted.

CIOs can now dispose of old smartphones more effectively, or offer refurbished devices to more junior employees. Companies purchasing smartphones for their staff should evaluate how long they should own their phones to optimize the total cost of ownership. It could be that replacing (and trading in phones) after two years is more financially attractive than keeping them for three, for example

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