



Devices:

Growth on pause, for now

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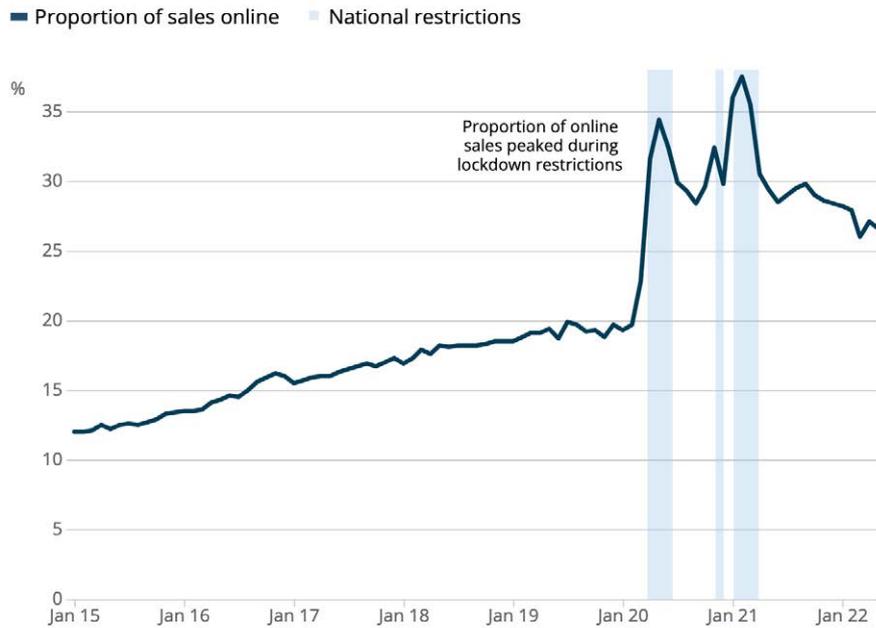
Growth in ownership levels of most device categories softened markedly over the year to April 2022. This was the case for personal and household devices. This plateau followed strong uplifts in penetration in our previous survey period, from mid-2020 to mid-2021, during which time the majority of the UK population was in some degree of lockdown for a significant period, a constraint that shaped behaviours considerably.

Device adoption rates have barely changed in the last year, but growth should resume in the medium term

The sequence of lockdowns distorted behaviours in three main ways. First, it required consumers to seek out alternatives when mixing was constrained, and when travel abroad was limited. A common reflex in many households was to upgrade their at-home entertainment, commonly by acquiring new devices, such as smart TVs. Second, the temporary shifts to remote schooling and working from home, as well as reliance on devices for video calls with friends and family, triggered a scramble to purchase new computers and tablets. And finally, as wealthier consumers were unable to spend on going out, they shifted spend into updating their homes which included connected home devices ranging from smart speakers to smart video doorbells.

The relaxation of lockdowns saw behaviours revert to pre-pandemic norms. Spend has returned to holidays, live entertainment, gyms or simply meeting people in person. The leap in e-commerce's share of all retail is steadily returning back to long-term growth patterns (see Figure 1). As a result, the appeal of spending a few hundred pounds on a new TV or computer has become less important relative to taking the family to a concert or going on a short break.

Percentage of retail sales made online, by seasonally adjusted value



Source: Office for National Statistics – Monthly Business Survey – Retail Sales Inquiry

Figure 1. Pre-pandemic purchase norms slowly return

(Source: ONS¹) - Accessed on 2022-08-05

In addition to spend being diverted to services, Deloitte’s Consumer Confidence survey has found falling consumer confidence since the third quarter of 2021.² Digital Consumer Trends was fielded in April and May of 2022, since which point confidence will likely have deteriorated further.

Figure 2 shows the demand for personal devices over the period 2018-22. It captures the spike in growth for some categories during the pandemic and then minimal change in penetration in the 2021-22 period. (Note that a modest change in adoption rate between years may simply be down to polling error, which is a feature of any survey. For this survey, the expected confidence interval is +/- 1.5%.)

Which, if any, of the following devices do you own or have ready access to?

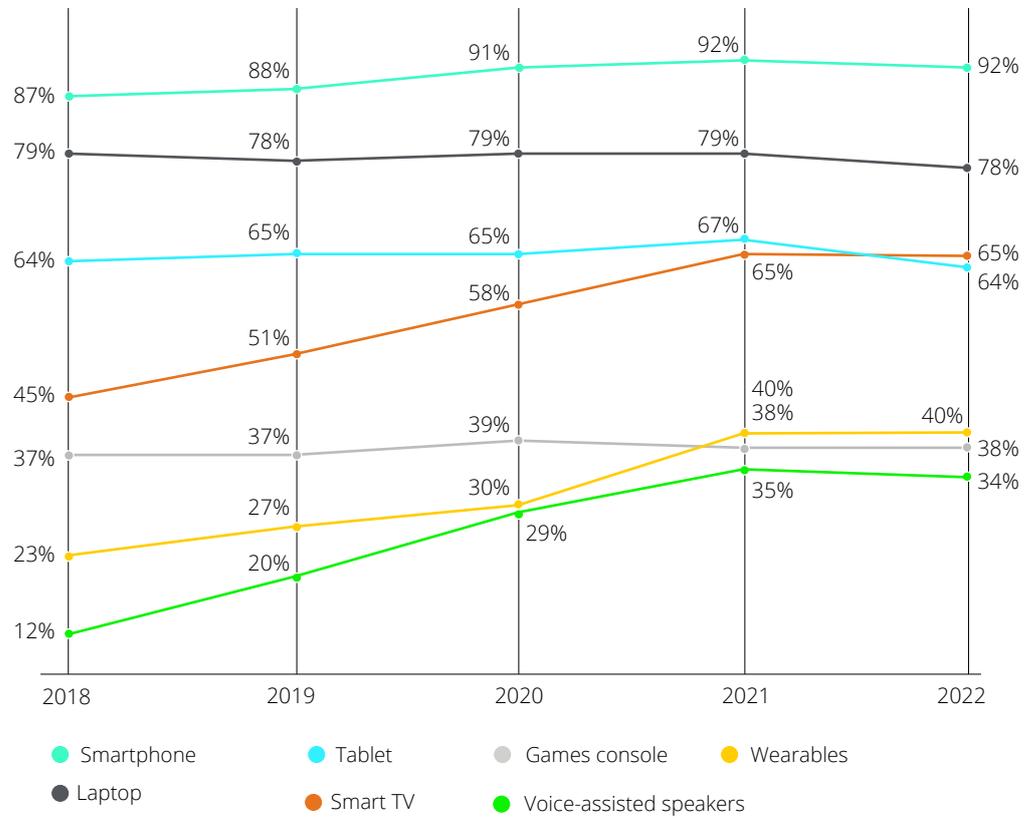


Figure 2. Access to the most popular devices has plateaued

Weighted base: All respondents aged 18-75, 2018 (4,000), 2019 (4,000), 2020 (4,009), 2021 (4,015), 2022 (4,011)

Source: Deloitte Digital Consumer Trends, UK Edition, April 2022 - May 2022

Figure 3 shows adoption of connected home devices over recent years. This chart shows how growth surged in 2020-21 but moved little over the next 12-month period.

Which, if any, of the following devices do you own or have ready access to?

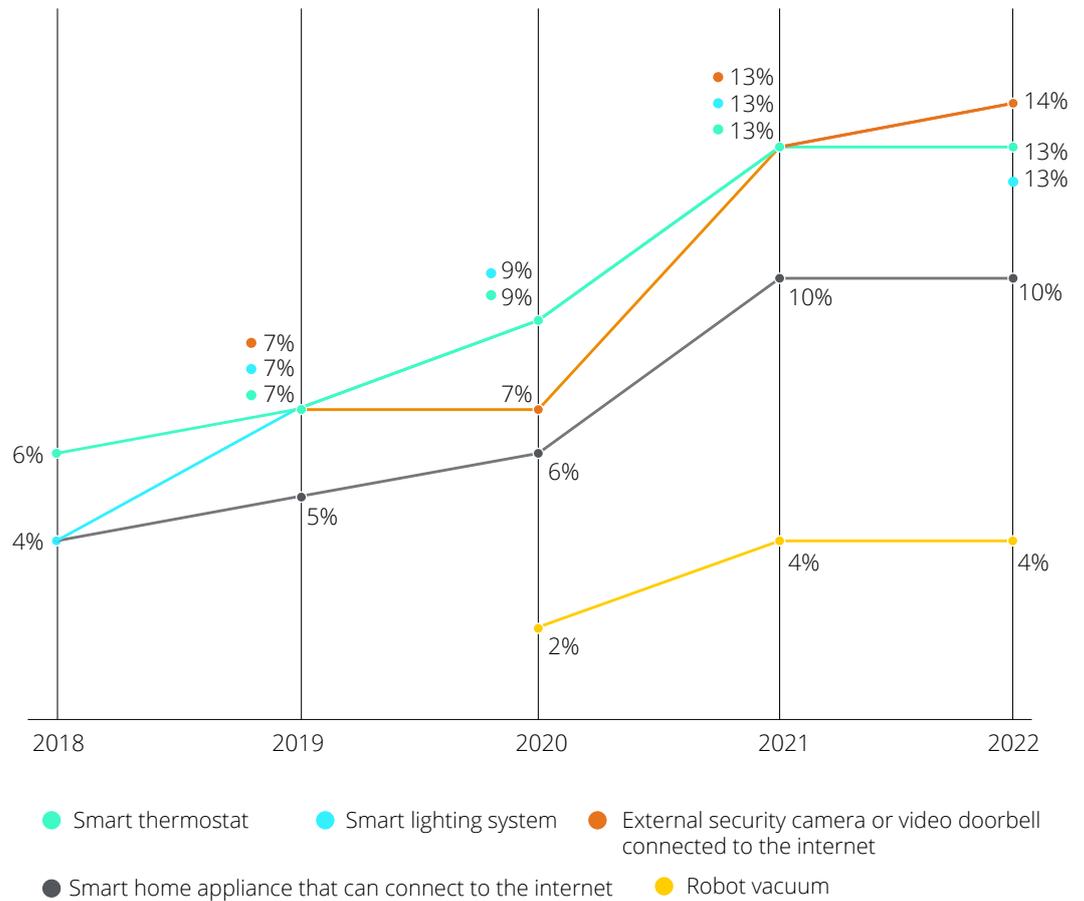


Figure 3. A smart home is a lower priority as the pandemic subsides

Weighted base: All respondents aged 18-75, 2018 (4,000), 2019 (4,000), 2020 (4,009), 2021 (4,015), 2022 (4,011)

Note: "External security camera or video doorbell connected to the internet" not asked in 2018; "Robot vacuum" not asked in 2018, 2019

Source: Deloitte Digital Consumer Trends, UK Edition, April 2022 - May 2022

While penetration rates have not changed over the last year, the device replacement market remains significant

The stagnation in growth in adoption across a range of devices may look worrying, but the replacement market in many categories remains vibrant, and is also enabling a growth in service spend.

For example, the number of people in the UK replacing their smartphones this year will be in the region of 18 million.³ Smartphone penetration has barely changed over the last three years, but at 92% adoption among 16-75-year-olds, there is little scope for further growth. Globally, smartphone shipments are forecast at 1.31 billion units this year, despite significant supply chain challenges.⁴ Each year's new smartphone models bring new capabilities which are the foundation for new and existing services. Ostensibly, the games console, with 38% adoption and little change over the past two years, has stagnated. But over that period, most console sales will have been of the latest generation. In total, the base of latest generation consoles in the UK was 8.1 million as of end-2021.⁵ The majority of new consoles are likely to generate substantial content and subscription revenues over the coming years, with the console industry's share of revenues shifting to 80% content and subscription, from the current 75%.

Adoption of smart TVs had surged from 59% to 65% in the year to mid-2021 but failed to grow further over past year. However, the average number of video on demand subscriptions each respondent has access to, that are partly enabled by smart TVs, increased from 2.33 to 2.46 over the past year.

In the health monitoring market, smart watches appear to be substituting for fitness bands. The smart watch was one of the few categories which surged in 2020-21 (13% to 23%), and grew further (23% to 25%) in the year to April 2022. Since the smart watch category took off in 2014, its application has shifted from jewellery to fitness measurement and most recently to health tracking. As the addressable market for general well-being is likely larger than for fitness, adoption of smart watches should continue to grow, with one application being tracking movement that is unconstrained by lockdowns.

Emerging devices, including virtual reality headsets, remain emerging

A question we are perennially asked is: what is the new smartphone? This year, as in prior years, the answer remains that there is no competitor looming, at least as far we can see (and we may, of course, lack adequate peripheral vision).

In our view, there is no device which has the same combination of processing power, connectivity, screen, user interface and security that has even a remote possibility of displacing the smartphone. For the foreseeable future, what is likely to displace the 2022 model smartphone will be someone's next smartphone, which will be arriving sometime between 2024 and 2026 for the majority of users. One device that has regained prominence in the last year due to interest in the metaverse is the virtual reality (VR) headset, which is one way of accessing a virtual world. It is possible that at some period VR will be the predominant way in which we access the online world. However, based on our latest survey data, it may take a while before that happens. Other research data, including IDC's forecast of 13.8 million VR headsets sold globally in 2022, suggests that the market remains specialist.⁶ According to the Deloitte Digital Consumer Trends Survey, claimed ownership of VR headsets was 8% in 2022, which was the same as the prior year, and indeed for the last four years. The reported frequency of usage of VR headsets has increased year on year, with 18% of those with access to one using it daily, a four-percentage-point increase on the prior year. But this usage frequency is far lower than for most other devices. By contrast, 91% of smartphones, 64% of laptops and 61% of smart speakers are used daily. VR owners who were using their devices less than monthly principally attributed this to not having the time (47%), motion sickness (19%) and lack of content (15%).

When was the last time you used each device? [Last day]

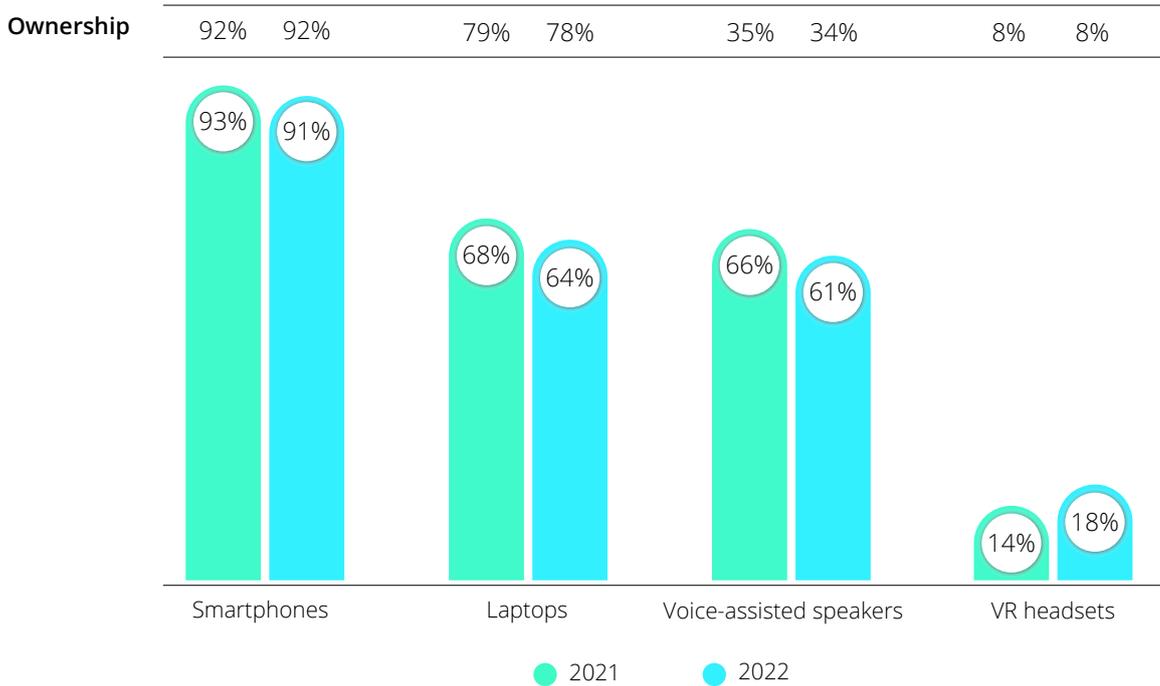


Figure 4. Consumers are using their devices less often

Weighted base: All respondents aged 16-75 (2021/2022) years who have access to smartphones (3,815/3,811), laptops (3,293/3,227), voice assisted speakers (1,44/1,431), VR headsets (327/350)

Source: Deloitte Digital Consumer Trends, UK Edition, April 2022 - May 2022

What next for device adoption?

The lack of growth in adoption of most devices in the year to April 2022 may disappoint and might suggest that we are now in post-growth territory. But this is likely temporary. Most behaviours over the last year should be analysed in the context of anomalous behaviours moulded by lockdowns that lasted long enough to give the impression that temporary habits had become permanent. But in the long-run consumer behaviours are largely inelastic, and consumers are likely to return to long-run adoption curves.

Looking ahead for the next 12 months, one major influence on demand for devices is likely to be consumer confidence. If fuel prices remain elevated, particularly as the winter months set in, and if food prices also remain high, then funds for devices may well remain scarce.



The income squeeze is set to intensify. Energy bills are forecast to rise another 60%–65% in October, to about £3,200. Activity and business confidence are softening, and unemployment is likely to edge higher next year. What does this mean for consumer spending? Spending snapped back quickly from the pandemic, but that recovery is over. Consumption probably declined in the second quarter, and we expect it to drift lower to the middle of 2023. It may not be till the second half of next year, with inflation materially lower, that consumer spending rises.

Ian Stewart, Chief Economist, Deloitte LLP

In the longer term, one shift that the industry needs to prepare for is longer replacement cycles. Consumers are slowly but steadily shifting to a three-year ownership cycle for smartphones, for example. As this happens, vendors may well need to develop a suite of services, from storage to content. This shift will require a new set of skills and partnerships, some of which may become exclusive to a single device vendor.

AUTHORS



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ENDNOTES

¹ ONS, <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/articles/howourspendinghaschangedsinceendofcoronaviruscovid19restrictions/2022-07-11>

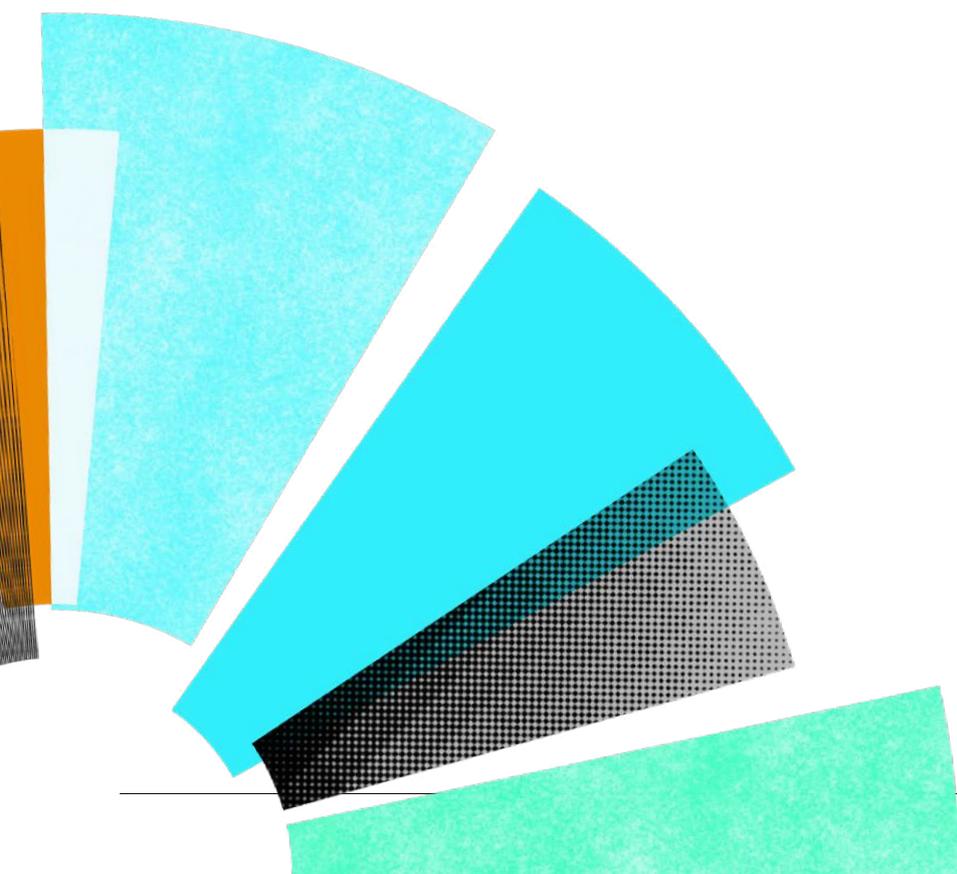
² <https://www2.deloitte.com/uk/en/pages/consumer-business/articles/consumer-tracker.html>

³ Canalsys, <https://www.canalys.com/analysis/smartphone>

⁴ IDC, <https://www.idc.com/getdoc.jsp?containerId=prUS49226922>

⁵ Omdia, <https://omdia.tech.informa.com/OM006587/Games-Hardware-Database>

⁶ IDC, <https://www.idc.com/promo/arvr>



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