SCB Economic Intelligence Center

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Mobile phone retailers to step up their game as competition intensifies

Highlight

- Today, mobile phones have increasingly become an integral part of every day's life with an impressive growth of smartphones sales over 10% annually in the past 3 years. Yet, mobile phone retailers are facing an opposite trend due to intensifying competition coming from mobile operators, online and other types of retailers. Apart from this, the smartphone sales growth is expected to slowdown in the long run as the market becomes more mature.
- EIC recommends mobile phone retailers to learn from a case study from abroad and develop a new business model to grow sustainably.

In the past, mobile phone retail business has been an up-and-coming area around the world. However, multiple sales channels and aggressive promotional campaigns from mobile operators have dampened the outlook for this business. Phone 4U, a large mobile retailer in the UK with over 600 branches, closed down in 2014. RadioShack, another large mobile and IT retailer in the U.S., also filed for bankruptcy in early 2015 because they could not compete with cheaper online options and various discount campaigns from mobile operators. In Thailand, there have been signs of slowdown in this business. In particular, revenue of several mobile retailers grew by only 0-3% annually in the past 3 years, much lower than the 25% growth during 2010-2012.

A survey on mobile purchasing behavior by EIC in March 2016 indicates that only 15% of consumers are likely to buy from mobile phone retail stores in the future, down from the current 18%. The trend is in contrast to the share of consumers buying from mobile operators (AIS, DTAC, and TRUE) and brand stores (e.g. Samsung and Apple) that will increase from 65% to 72% in the future. Promotional and discount campaigns from these stores are the key drivers for the shift as they are more attractive than other mobile phone retailers. Examples of such campaigns include a 6-day free trial period of mobile phones, a discount for customers that switch from pre-paid to monthly bills, and free 3G-compatible mobile phones for 2G customers.

EIC suggests that mobile phone retailers take an international experience as a case study to adjust their strategies. Particularly, Best Buy, a large IT retailer in the U.S., rolled out a strategy called "Renew Blue" that brought back high profit growth. The slowdown in sales growth forced Best Buy to come up with survival strategies. Prior to the implementation, Same Store Sales Growth (SSSG) of the company declined by 1.5-2.0% during 2011-2012. EIC identifies 3 key success factors from the Best Buy's case as 3P: Partnering, Pioneering, Productivity-enhancing. Details are as follows:

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1) Partnering with related businesses to improve service standards. For example, Best Buy joined force with Samsung, a well-known mobile phone manufacturer, to set up mini-stores called "Samsung Experience Shop" in more than 1,400 Best Buy locations. Such store does not only provide shelf space for Samsung, but also provides other services aimed to impress customers with valuable experience. Available services include product demonstrations, help desk service, and technical troubleshooting from well-trained Best Buy and Samsung staff.

2) Pioneering online sales channels. Initially, Best Buy has revamped its website to be easier to navigate. It then offers product recommendations based on the preferences of each customer similar to other leading websites, but with a guaranteed lowest price online. Best Buy's online store also takes advantage of its countrywide network of brick-and-mortar stores to quickly deliver products from the closest branch. Apart from this, Best Buy has partnered with several mobile online shopping apps, such as TrackIf, ShopSavvy and RedLaser, to reassure customers that they are getting the best deals.

3) Productivity-enhancing through cost management strategies. Examples of such strategies include closing unprofitable branches, maximizing space utilization within stores, improving delivery systems, and managing damaged and returned products via reselling on its outlet website.

The above strategies brought back Best Buy's SSSG in 2015. Its net profit growth rose 80% annually from 2013-2015.

Expanding into other related businesses is another strategy adopted by foreign businesses to maintain sales growth during a fragile market environment. In Japan, mobile phone retailers act as sales representatives for mobile operators and earn commissions. However, the industry's competition in Japan continues to intensify, while the mobile phone market has reached maturity with mobile phone penetration rate at 120% for two consecutive years and the mobile phone sales have been shrinking around 1% annually. Japanese mobile phone retailers therefore turned to other related businesses. For instance, they are offering training and IT consulting to large corporates, providing internet services to SMEs and retail customers, and developing platforms for online translation and conferences. These related businesses help support revenue of companies like T-GAIA and Hikari Tsuhin, the two largest mobile phone retailers in Japan. They were able to maintain their revenue at the same level as in the previous year, mainly propped up by income from IT services as their mobile-phone sales were shrinking 5% annually.

Implication

- In addition to learning from foreign companies, Thai mobile phone retailers must also study consumer behaviors to best tailor their sales approach. For example, they can develop products that take advantage of customers' frequent changes of mobile phones[1]. A model used by retailers in the U.S. is to offer 1-year mobile phone leasing contracts. Under this model, customers pay monthly rents and can change their phones more frequently as demanded at a cheaper cost. Used phones can be refurbished for reselling in the second-hand market.

- Merger and acquisition can be another solution to expand customer base amid intense competition. M&As allow retailers to gain a larger market share, reducing operating costs through economies of scale. In addition, M&As are not only limited to the same business, but also include M&As between related businesses such as mobile app

[1] Survey by EIC in March 2016 shows that more than 46% of consumers change their mobile phones every 1-2 year.

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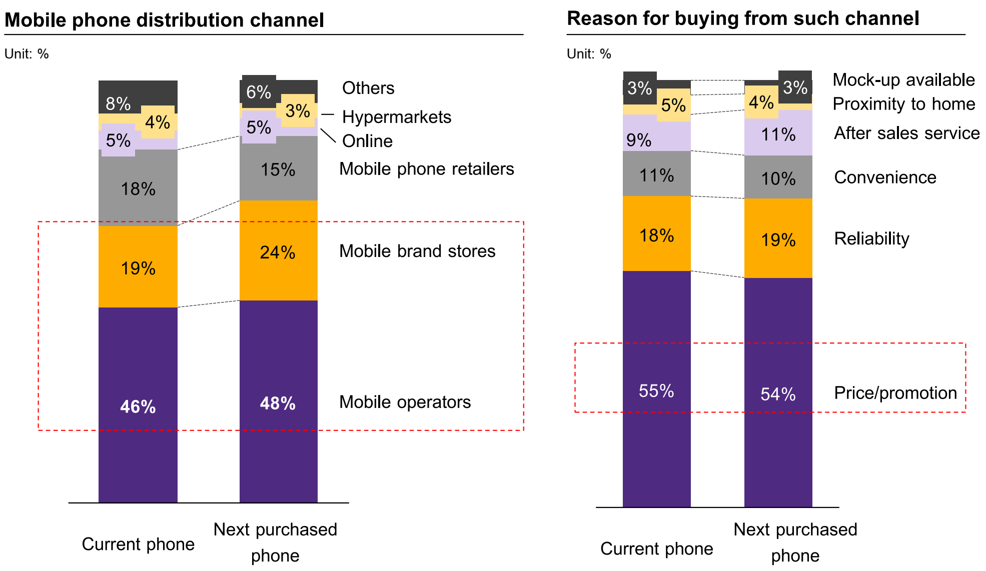
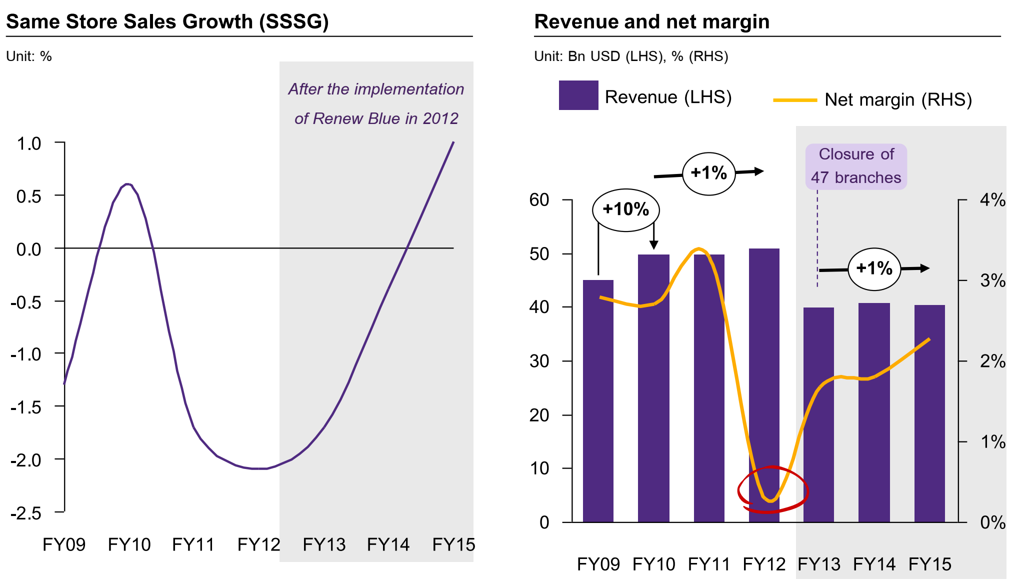
companies or online websites to create synergies.

Figure 1: Consumers are shifting towards buying from mobile operators and brand-specific stores, due to lower prices and promotional campaigns.



Source: EIC analysis based on data from a consumer survey on mobile phone purchasing behavior, 27 March 2016

Figure 2: Best Buy's sales improved as it followed the "Renew Blue" strategy.



Source: EIC analysis based on data from Best Buy and Bloomberg

By: Issarasan Kantaumong (issarasan.kantaumong@scb.co.th)
Economic Intelligence Center (EIC)
Siam Commercial Bank Public Company Limited
EIC Online: www.scbeic.com

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