Press release

Contract SIM-only continues to surge in Q317 in GB

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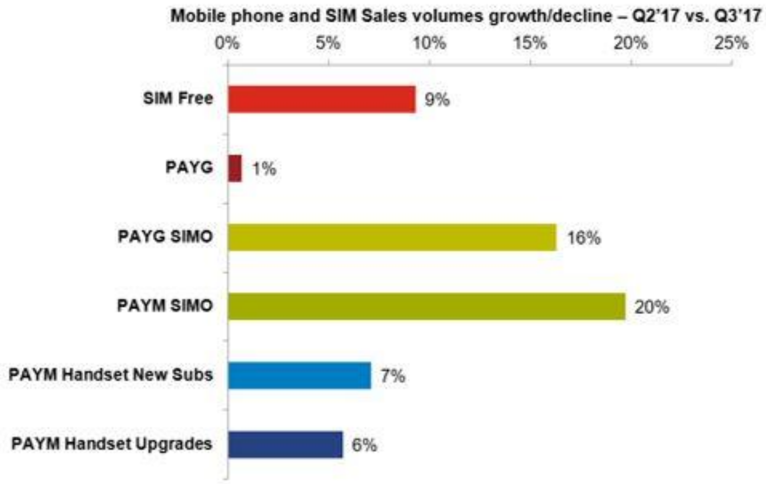
- **Continued trend of contract handset and PAYG customers moving to Contract SIM-only**
- **Evidence that customers are beginning to de-couple their tariff purchase from their handset purchase**
- **Customers still favour "good battery life" ahead of new handset features like water resistance**

GfK's latest Point of Sale (PoS) and quarterly Tech Consumer 360 data on the mobile phone market reveals that the Contract SIM-only (SIMO) category was the strongest performer in Q3, up 20% on the previous quarter. The total market was up by nearly 900,000 units on the previous quarter, and Contract SIMO was responsible for nearly half of this growth. With this category outperforming more traditional ones, we can see how challenging the UK mobile phone market has become.



Source: GfK Point of Sale data

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SIM-only is now the largest category in the mobile phone market in terms of sales

Contract SIMO accounted for 29% of the mobile phone market this quarter, making it the largest category. Key to its success has been its ability to attract customers from both PAYG and Contract handset tariffs, while maintaining appeal with those already on Contract SIMO tariffs. Once customers move to Contract SIMO many tend to stay, further proof of changing consumer behaviours.

An analysis of the way customers behave on different types of mobile phone contracts reveals interesting differences that help explain why this category is seeing the strongest growth. Contract SIMO tariffs have something for everyone. Despite Contract SIMO consumers on average being less heavy users of their mobile devices when compared to Contract handset customers, the chance to reduce the cost of their monthly bill, appeals to both heavy and light mobile phone users. Everyone it would appear, likes to save money on their monthly bill.

Imran Choudhary, Director of Technology at GfK, says, “SIM-only contracts are specifically designed to offer customers value for money. Once they switch to Contract SIMO, a sizeable portion tend to remain with this type of contract for their next purchase. In fact, of all Contract SIMO acquisitions this quarter, 44% came from an existing SIMO tariff. Even when consumers are ready to buy a new handset, many will buy a SIM-free device. This suggests customers are beginning to de-couple the handset purchase from the tariff purchase and choosing to buy both separately.

We’ve seen this trend emerge in the US over the last five years. It is now commonplace for US retailers and operators to provide tariffs and handset deals separately, or as part of “split” tariffs where the handset element is distinctly separate to the tariff element. Traditional contract handset sales are the bedrock of most mobile operators’ and retailers’ business models in the UK. If this de-coupling continues to gather momentum over here, many will have to re-evaluate their go-to market strategies.”

Why aren’t customers switching network more often?

PAYM handset new acquisitions, of which network switchers make up a sizeable portion, made up only 13% of sales in Q3. In such a competitive and largely saturated market, operators need to retain customers for as long as possible. Upgrading existing customers early, before they reach the end of their contract is increasingly commonplace, and this tactic is proving successful. Inevitably some people do choose to move to new service providers.

In Q3 2017, we saw customers aged under 35 making up a greater share of those switching network when buying a PAYM handset compared to the previous quarter. This quarter’s results also reveal that older age groups are less likely to switch network due to the perceived effort involved in changing operator, with younger consumers more willing to put in the effort to switch provider.

When looking at switchers, our research shows that recommendations from friends, family and colleagues is the main driver, followed closely by price. The perception of better value for money and faster data connections are equally appealing to switchers. Next comes customer service, followed by consolidating products as consumers begin to see the benefits of having their mobile from the same provider that offers them broadband and pay TV.

“A good battery life” tops the list of most popular phone features

The key to growing the handset market is constant feature innovation – it both stimulates demand and ensures consumers return for a new device at contract expiry. For handset buyers in Q3, the most important feature when buying a handset was “a good battery life”. With 50% of Q3 handset purchasers citing this as the most important feature, poor battery life is clearly a real pain point. The second most important feature is price (42%).

The handset manufacturers are trying to bring new innovations to consumers to generate demand and the launch of the iPhone 8 and iPhone X reminds us of this. Consumers are being made aware of features like Face ID and animojs, but GfK’s research shows consumers are still most drawn by the prospect of having a longer battery life. When asked about the new Apple devices specifically, consumers respond similarly, stating a “longer battery life” and “wireless charging” as the stand-out features for both devices. Both these aspects make life easier for consumers. Face ID and animojis did generate excitement particularly within Apple’s existing base of customers and this interest is likely to grow as consumers begin to understand how these work in more detail over the coming months.

Looking at the new features offered by devices over the past 18 months, key pain points like poor battery life aren’t being addressed by manufacturers as well as they could be. We believe this could explain why consumers are less willing to buy the latest handsets. For example, water resistance has become a feature of many devices over the last 12-18 months, but this doesn’t even make the top 10 of most important features when buying a new device.

Most important features when choosing a new phone	
1	Good battery life
2	Price
3	Easy phone for me to use
4	Uses preferred operating system
5	Good Camera on the back of the phone
6	Large amount of storage
7	Large screen
8	Screen quality and resolution
9	Brand
10	Attractive design
Source: GfK Tech Consumer 360 Q3 2017	

Imran Choudhary says “The GB mobile phone market is challenging and saturated, operating against a backdrop of stagnant device sales, rising prices and falling consumer confidence. In addition, we’re seeing competition increase, not only from Sky and BT who are likely at some stage to promote combined mobile, broadband and TV packages, but from new sub-brands like Smarty and VOXI aimed at the SIMO market.

Despite the mild performance so far in 2017, analysis of the Q3 results suggests there will be pockets of real growth when we look to Q4 and beyond. In the final quarter of the year all the focus shifts to Black Friday and Christmas which offer the hope of a much-needed late surge from shoppers to end 2017 on a high. The release of the new Apple devices is likely to impact consumer behaviour positively, and to give retailers and networks renewed reasons to engage with them."

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EDITOR'S NOTE: Please source all information to GfK.

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About Tech Consumer 360

GfK Tech Consumer 360 is the largest study of its kind providing quarterly analysis of market landscape, market dynamics, purchasing and consumer information for the UK mobile, mobile broadband, landline, home broadband, Pay TV and multiplay/quadplay markets. Each quarter 50,000 nationally representative consumers aged 16+ are interviewed. The data shown is for calendar Q3'17. Acquisitions trends work alongside GfK's PoS data providing clients with the most accurate and actionable insights.

About GfK PoS

We have the world's largest retail panel. We track products and deliver insights based on both retailer and reseller actual sales data. Using this intelligence, we can help our clients align product availability with expected market demand, as well as optimize product assortment, distribution and pricing strategy.

About GfK

GfK is the trusted source of relevant market and consumer information that enables its clients to make smarter decisions. More than 13,000 market research experts combine their passion with GfK's long-standing data science experience. This allows GfK to deliver vital global insights matched with local market intelligence from more than 100 countries. By using innovative technologies and data sciences, GfK turns big data into smart data, enabling its clients to improve their competitive edge and enrich consumers' experiences and choices.

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