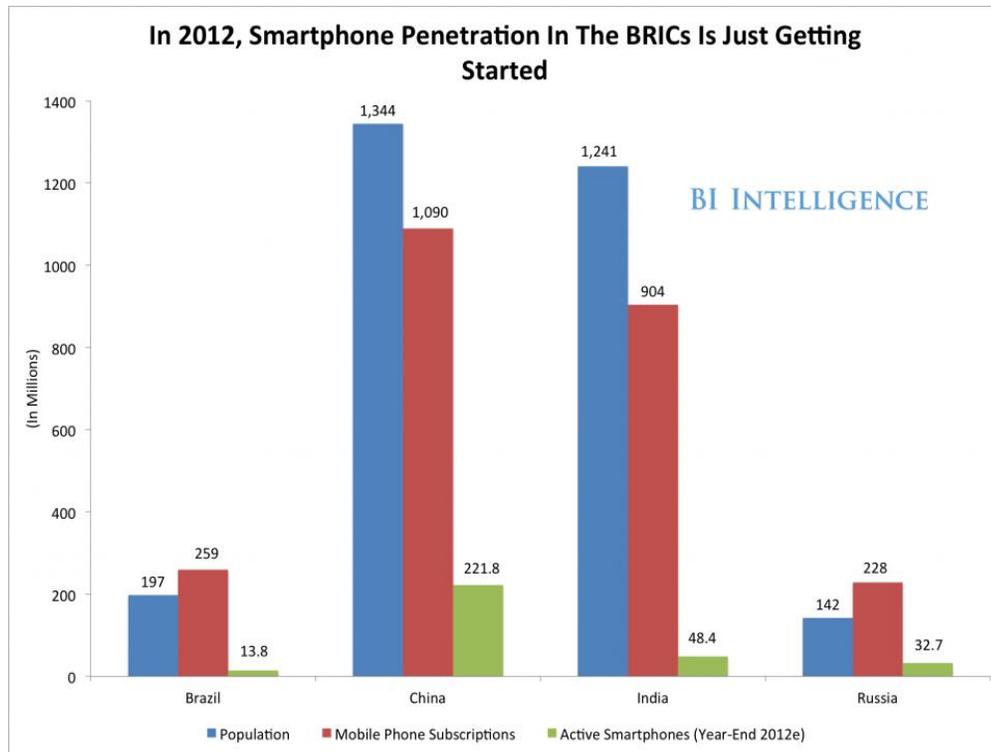


# Looking Beyond The U.S. And Europe: Mobile Explodes In The BRICs

Marcelo Ballvé | December 19, 2012



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Many emerging markets are already mobile-first economies where mobile phones are more ubiquitous than either land-line telephones, PCs, or fixed Internet connections.

Here are a few eye-opening statistics about mobile in the BRICs — Brazil, Russia, India, China.

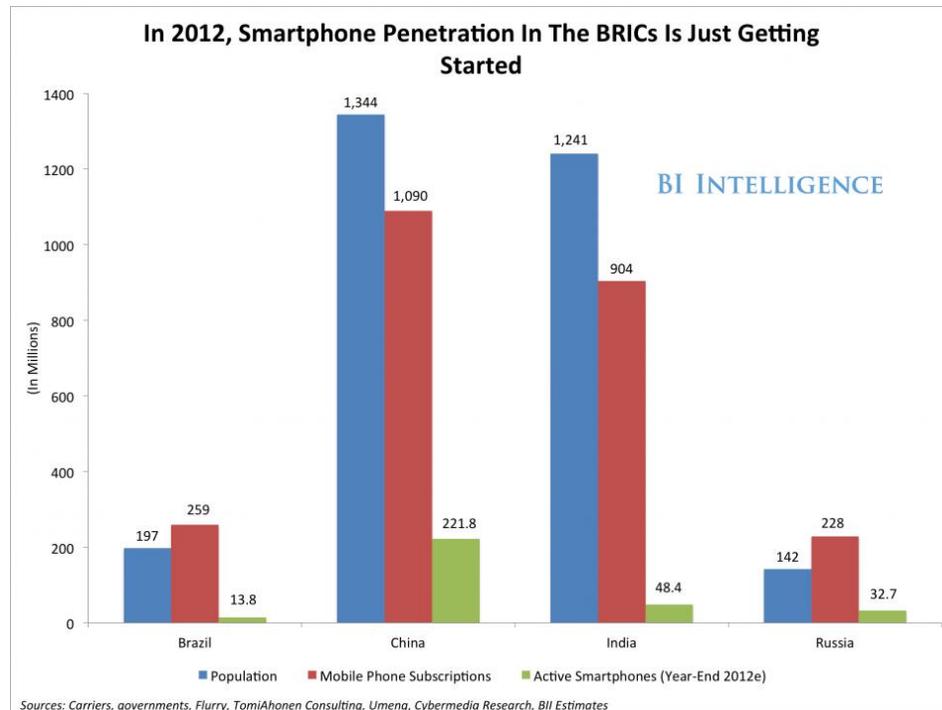
- China [is poised](#) to overtake the United States as the world's largest smartphone market, and new Chinese app data suggest it has already done so.
- China already ranks as the world's second-largest app market for downloads.
- India boasts any number of apps with user bases in the tens of millions.
- Russia and Brazil are among the top six fastest-growing app markets globally for revenue. App revenues expanded 115 percent in Russia, and 83 percent in Brazil between May 2011 and May 2012, according to Distimo.

We were able to isolate four lessons that cut across the BRICs and are essential to any mobile project in these countries.

- Work with carriers.
- Don't ignore the feature phone.
- Follow the rollout of low-cost smartphones and tablets.
- Understand Android's dominance and its limitations.

We'll consider each of these lessons in turn, and end this report with a case study of Saavn, a music streaming service focused on Indian and Bollywood music.

[Click here to download all the charts and data associated with this report in Excel](#)→



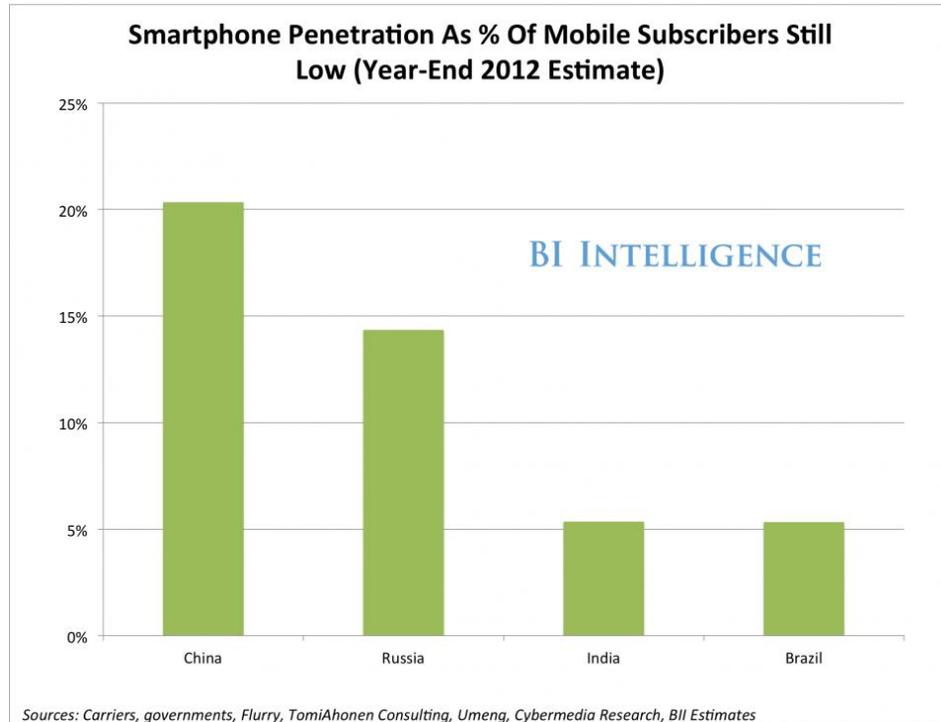
## Feature Phone Fun

Market-leading apps in Asia are still keeping one foot in the feature phone market, and for an important reason: That's where the numbers are.

China has more than [1 billion cell phone subscribers](#), but only some 167 million Android and iOS tablets and smartphones as of October 2012, according to mobile analytics firm [Flurry](#). Umeng, a Chinese app analytics company, pegs the number of iOS and Android devices in

October at 200 million, and of iOS and Android smartphones at 185.5 million.

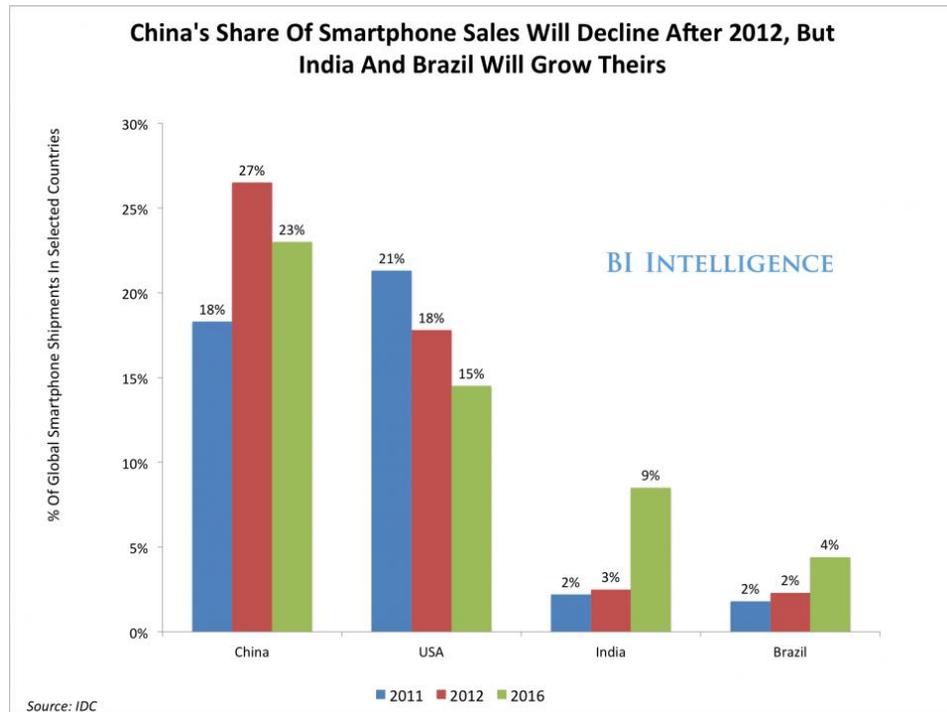
If Umeng's numbers are right, China has already surpassed the United States as the world's top smartphone market. comScore [estimated](#) there were 121.3 million U.S. smartphone owners in October.



In any case, even accounting for Symbian's and BlackBerry's small market share, smartphone penetration among Chinese mobile subscribers won't end the year higher than 20 percent, according to BI Intelligence estimates. (See chart above.)

India, meanwhile, has 904 million wireless subscriptions, but by the end of this year, only 5 percent of them will be smartphone connections.

Shipments of smartphones in India for 2012 will be about 24 million, [according to Jayanth Kolla of Convergence Catalyst](#).



Penetration is being driven by young, middle-class, English-speaking, urban consumers, says Soumyadeep Roy Chowdhury, an analyst with [Netscribes](#) in Calcutta.

"In rural India, which is 70 percent of the population, it's pretty much nil," he says.

Not surprisingly, some of the most notable app success stories in India have been driven by feature phone users.

[GupShup](#), a social messaging service with 60 million users in India, launched in 2007, and built its success on the back of a feature phone version, though it now also has Android, [iPhone](#), and BlackBerry apps.

GupShup CEO and co-founder Beerud Sheth says he believes in being where consumers are, rather than trying to get too far ahead of them.

"Let's reach them on whatever platforms and devices they have right now," Sheth says. "As they migrate to smarter devices we'll migrate services along with them."

Facebook, for one, has done exactly that, pushing a free feature phone version in emerging markets, [Facebook Zero](#).

## Carriers Are Your Friends

Carriers are worth working with in the BRICs, says Thomas Clayton, CEO of Singapore-based Bubble Motion, which runs social voice messaging platform, [Bubbly](#).

Bubbly has some 20 million users, with India, Indonesia and the Philippines as its top three countries, in that order.

"The carriers are still a very vital part of the ecosystem," Clayton says. "It's probably easier to work with them in emerging markets than it was in developed markets 10 years ago, or now."

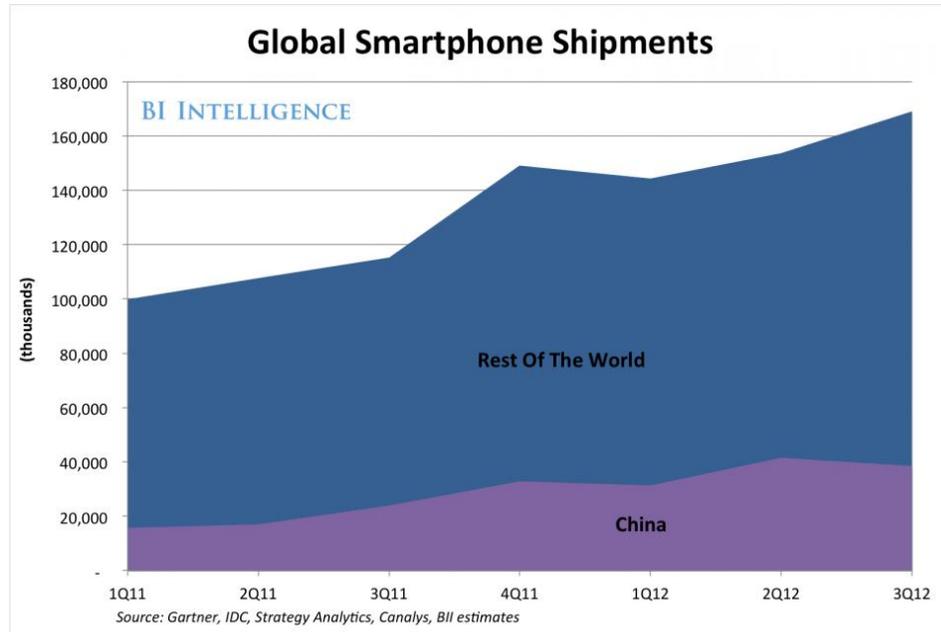
Emerging market carriers hold the keys to two important aspects of the mobile business — network effects and billing.

"If you want to make money you have to bill users, and if you want to bill users you have to work with an operator," adds Clayton.

Billing is a challenge in emerging markets. Credit card penetration is low. Only carriers have the reach, systems, and technologies to draw payments from prepaid and postpaid mobile consumers.

Brazilian carriers "own the users in terms of the capacity to charge them," says Eduardo Henrique, of mobile app company, [Movile](#). "The best way to charge users is carrier billing."

For example, [Vostu](#), a Zynga-like Brazilian social game company, monetizes its games via SMS messages that users send to buy game currency.



The same route to monetization prevails in China, where mobile games dominate app revenue, much [as they do globally](#), according to Chris Shen, manager of mobile business and vice president at [The9](#), a gaming company.

"In China, the most convenient payment system is still carrier billing," he says. "It's very convenient for the users. If you want to pay one RMB for an item, you just need to push a button."

(One RMB, or renminbi, equals 16 cents of a U.S. dollar.)

Any app with a social component, from social games to messaging, relies on the [network effect](#) to scale.

But it's difficult to create a network effect in some large emerging markets, India in particular, without including feature phones.

Carriers are important gatekeepers to the feature phone world. Developers may need access to carrier-controlled voice and text

messaging. And even if developers build [WAP](#)- and [Java](#)-powered Web apps for feature phones, they may still need the carriers. For example, developers may want to strike deals for their apps to be pre-installed on feature phones and share the resulting data revenue with carriers.

Also, carriers — with their sprawling retail networks and constant contact with hundreds of millions of customers — are essential marketing partners.

*(See section below, "Saavn: U.S.-based, Success In India," for more on how one app has partnered with carriers.)*

## The Sweet Spot: \$100

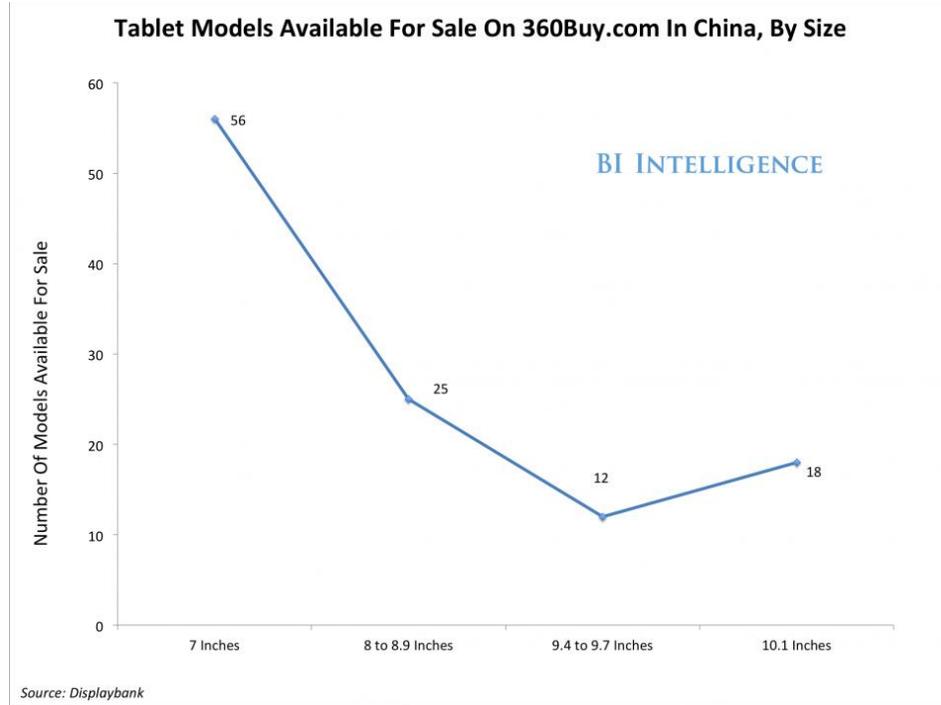
Falling hardware prices — not just of smartphones, but of tablets too — are driving a massive emerging markets adoption wave.

Since many devices in these markets are purchased for prepaid plans without the help of carrier subsidies, price cuts instantly make tablets and smartphones more accessible to consumers.

Roy Chowdhury, of Netscribes, says smartphone prices in India have fallen 30 to 35 percent in the last three years.

"For the Indian citizen, value for money is very important," he adds.

Local handset manufacturers like Indonesia's Cross, India's Micromax — [the number three handset maker in India](#) — and China's Lenovo and [Xiaomi](#) are targeting the low-price end of the smartphone and tablet markets.



What's considered low price in these markets? In China, the threshold seems to be [1,000 renminbi](#), about \$170, while in India it's 6,000 rupees, or slightly over \$100.

Once you go below these price levels, opportunities expand since the "[middle of the pyramid](#)" in these economies, where true scale exists, is in the lower middle class.

Other populous markets, [like Brazil and Indonesia](#), are importing low-cost Chinese and Indian smartphones. Micromax's handsets were priced as low as [\\$94](#) for Brazil.

How good are these low-price devices? The answer, according to Naren Gupta, [co-founder of India-focused Nexus Venture Partners](#), is that they deliver a basic smartphone experience to a population that's likely to be new to Internet technology.

"I would say they are good enough for what people are going to do initially with smartphones," he says. "The performance is reasonable."



***HKC's New Tablets***

A lingering question is whether Apple will ever release a [low-cost iPhone handset](#) geared to emerging markets.

Meanwhile, competition is heating up on the tablet side.

There's a boom in 7-inch Android tablets in China, at pricepoints between \$63 and \$145. Consumers are using the mini tablets to view videos on popular streaming sites such as [Tudou](#), [iQiyi](#), and [Youku](#), according to [analyst Stone Wu, at Displaybank](#). Among the manufacturers driving the Chinese mini tablet boom are [Onda](#), [HKC](#), and Lenovo.

In India, tablet sales have [tripled](#) since year-end 2011 thanks to tablets priced below \$200, according to Convergence Catalyst.

Eduardo Henrique, of Movile, believes mobile advertising in Brazil will be revolutionized as low-price Android phones penetrate a large feature phone base.

"We'll have a boom," he says. "I believe we will achieve 60 million Androids in late 2013. We will have three times more inventory than we have today. And mobile advertising interactions will grow exponentially." Right now, Henrique says, "there is no mobile advertising market in Brazil, because there is no smartphone market in Brazil."

## Android Rules

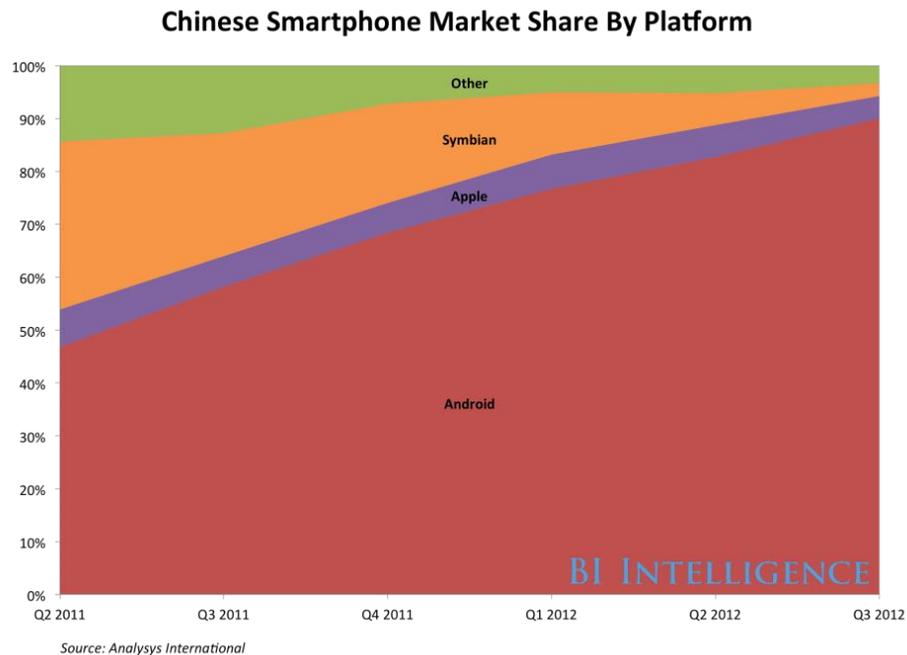
In fact, Android is the leading mobile platform in all the BRICs, not just Brazil. Here's the Android share in the BRICs and Indonesia:

- China: [90 percent](#).
- Brazil: [57 percent](#).
- Indonesia: [52 percent](#).
- India: [48 percent](#).
- Russia: [63 percent](#).

Symbian still captures roughly a quarter of the market in Brazil, Russia, and India, but Apple's iOS is basically a niche player, with a 10 percent or less market share.

"Apple's products are not very affordable," says Soumyadeep Roy Chowdhury, of Netscribes. "It's not even something a middle class [Indian] family could go for."

Android's overwhelming advantage in Chinese smartphones, and the corresponding iOS platform share of 4 percent, requires some qualification, however. Our source of data for the figures is [Analysys International](#). (See chart below.)



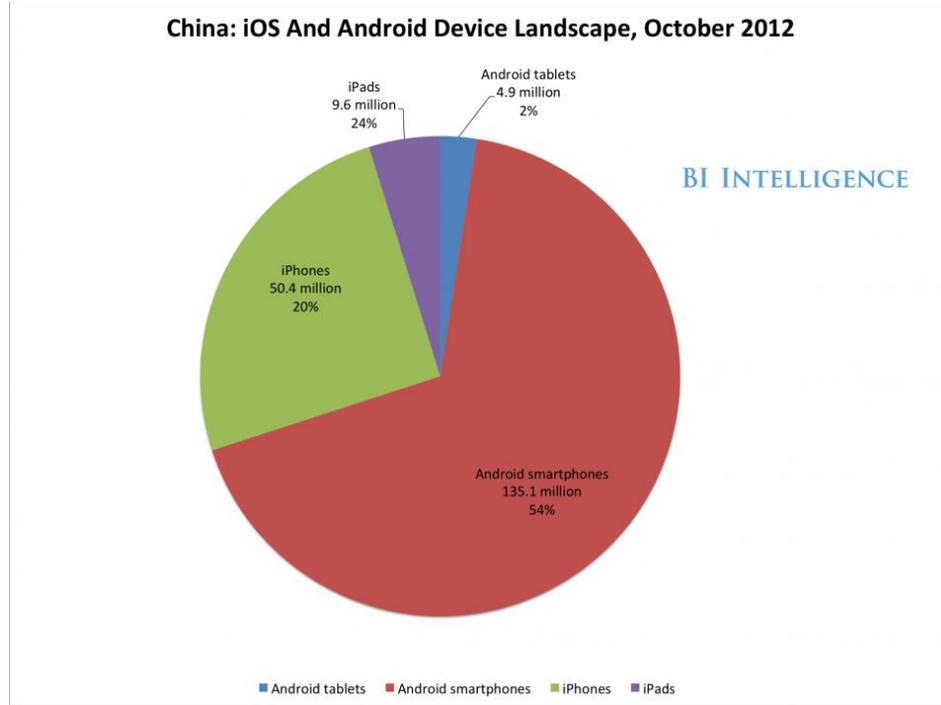
But *Analysys* doesn't account for unofficial iPhone imports such as so-called grey market devices routed via Hong Kong.

*Umeng*, based on actual usage on the apps it tracks, estimates there are [60 million iOS devices](#) in China, including iPhones and iPads — accounting for 30 percent of the total mobile platform market.

iOS tablets appear to have the advantage in China, with 9.6 million active iPads compared to 4.9 million Android tablets, according to our own analysis of [recent Umeng data](#). (See chart below.)

According to MTS, Russia's largest mobile operator, Android doubled its share of the Russian OS market [from 31.3 percent in the third quarter of 2011 to 62.6 percent](#) in the third quarter of this year.

Interestingly, MTS decided that it would not distribute the iPhone 5 in Russia, although it had signed agreements with Apple to sell previous iPhones. China Mobile, the world's largest wireless carrier, has also declined to carry the iPhone 5 so far.



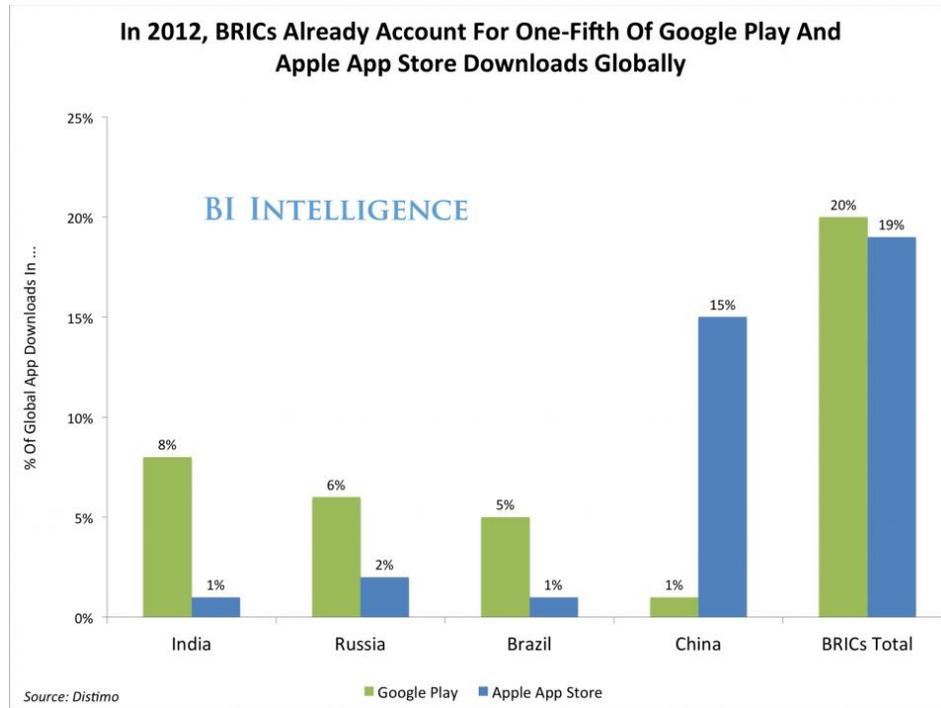
The fact that China and Russia's largest carriers are turning away from iOS phones points to a difficult future for Apple in emerging markets.

What does Android dominance mean for the rest of the mobile ecosystem?

For app developers and publishers, it's a challenge since the Google Play store, the main Android app store, has not proved an easy route to monetization in emerging markets.

In fact, iOS worldwide app revenues [historically dwarf Google Play revenues](#), despite Android's clear advantage in global market share. The recent [App Annie Index for October 2012](#) put iOS revenues at four times Google Play's.

In China, there is very limited support for Google Play. Worse, app store fragmentation on Android is an even more serious problem than it is elsewhere.



"The Chinese mobile market is very fragmented," says Shen, of The9. "There are more than 200 app stores in China."

A possible solution across emerging markets is for Google Play to team up with more emerging market carriers in order to facilitate carrier billing for app monetization. Google has [already done exactly that](#) in markets such as Spain, Japan, and Korea. It's likely that it will expand these efforts.

Even for Apple's App Store, which demands a credit card for registration, monetization is more of a challenge in emerging markets, according to Gert Jan Spriensma, data analyst at [Distimo](#). In the United States, consumers downloaded 19 free apps for every paid iPhone app in November. In China, he says, the ratio was 115 free apps for every paid app.

## Saavn: U.S.-Based, Success In India

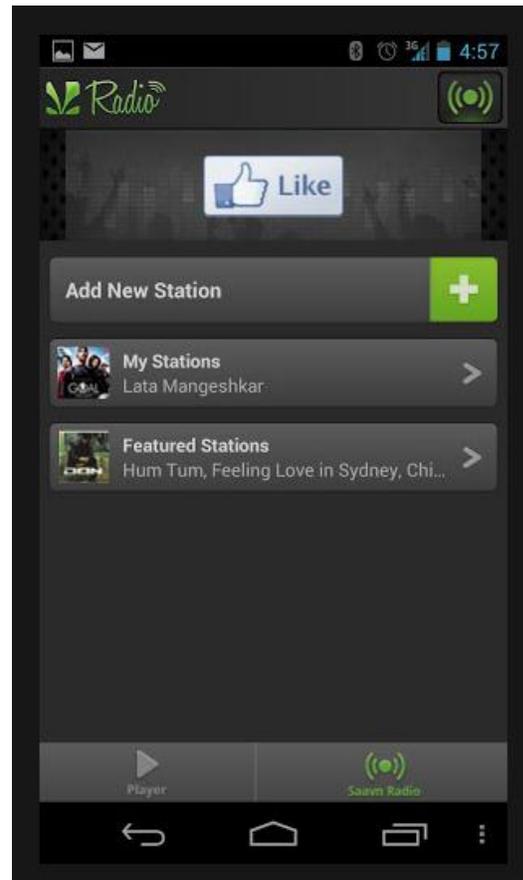
Saavn, a music streaming service with a focus on Indian and Bollywood music, has decided to focus on mobile as it builds on its current user base of 10 million.

The Saavn website launched in 2010, and one of its early successes was being chosen by Google to power its music search results in India. At the time, says Saavn co-founder Paramdeep Singh, Google executives were excited about the Android platform and its future in India, and they persuaded Saavn that an Android app was a good idea.

"They were actually the first ones to influence us to build an application," says Singh, who's also Saavn's executive chairman.

The Android app was launched in January 2011, an iPhone app followed six months later, and engagement skyrocketed. Saavn continued to market its website too, and refine its service for the narrow-bandwidth Indian environment.

Saavn also closed a deal with Facebook and [debuted integration on the social network in December 2011](#).



But, rather than remain focused on high-end consumers with premium smartphones, Saavn has developed a version of the service for WAP and Java-powered feature phones.

"That's really getting us deep into the feature phone base," says Singh.

It has also cultivated carriers. India has four carriers with over 100 million wireless customers, and Saavn has courted them as billing and marketing partners. Saavn has pushed for its app to be pre-loaded on Android handsets, and for the service to be promoted on new phone packaging.

It has also negotiated a deal for a carrier to market an "unlimited music" data plan, which will allow wireless customers to stream unlimited music from Saavn for a monthly data fee.

"Most of the Indian population is not clear on what data is and why they need it, and number two — what kind of plan should they be on," he says. "A use-based case will help carriers migrate users from voice to data."

Saavn is New York-based, and [funded by well-known U.S. venture capital and asset management firms](#), but most of its user base is in India.

Spriensma, analyst at Distimo, points out that messaging app [LINE](#) has enjoyed explosive growth in dozens of countries. The app was developed in Japan by an affiliate of Korea's NHN Corporation. LINE has reached number one in the free app category in countries as diverse as Spain, Russia, Thailand, and Malaysia and now has [over 70 million users globally](#).

App developers are now striving for global audiences, rather than audiences in a single market. Although language barriers and government regulations still play a role in limiting app growth, the app economy is increasingly globalized.

"Today, in the top Chinese app stores, one can find American, French and Japanese companies alongside Chinese companies [vying] for a top

share of revenue," [writes](#) Peter Farago, vice president of marketing at mobile analytics firm, Flurry.

Meanwhile, Chinese app developers are going global too. According to [Umeng](#), 43 percent of new game developers in China in the third quarter of this year ventured into the international market with their apps.

## THE BOTTOM LINE

- The app economy is now global: China already accounts for 15 percent of iOS app store revenues, according to Distimo.
- By 2016, roughly 40 percent of the world's smartphones will be sold in the BRICs, but feature phones will hang on for a while yet in these markets.
- Android's lead in the BRICs appears insurmountable, especially as low-price Android handsets flood the world. For app store-based monetization, iOS still has an edge.
- Mobile advertising will grow exponentially in emerging markets. [Consumer brands are beginning to understand that mobile](#) represents their first opportunity to reach many emerging market consumers in the digital medium.

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