nielsen

THE NEXT BIG(GER) SCREEN

A Shift Toward Phablets

A NIELSEN TELECOM PERSPECTIVE
August 2015

UNDERSTANDING THE PHABLET TREND

A look at the emergence of phablets and their impact on the broader smart device industry

What's so special about phablets?

Following the debut of the Samsung Galaxy Note in 2011, smartphones have grown steadily larger in size over the past four years, blurring the lines between phone and tablet. This steady screen size creep has been complemented by a rapid rise in market share, as consumers eagerly embrace the larger screen size.

As the trend looks here to stay, this analysis will take a detailed look at the emergence and market share growth of Android+* phablets, defined as smartphones with a screen size of 5.5 inches or larger. The paper will analyze the driving trends behind phablet performance, its past and current impact in the marketplace, and opportunities for future marketing and development.

Questions addressed include:

- How have phablets fared since entering the marketplace? Who is buying them?
- What is the impact on regular sized phones and tablets?
- How do people interact with phablets relative to smaller phones?
- What are some important factors driving marketing ROI?
- Are some markets more effective to market the phablet in than others?
- What can manufacturers and carriers do to effectively market new phablet devices?

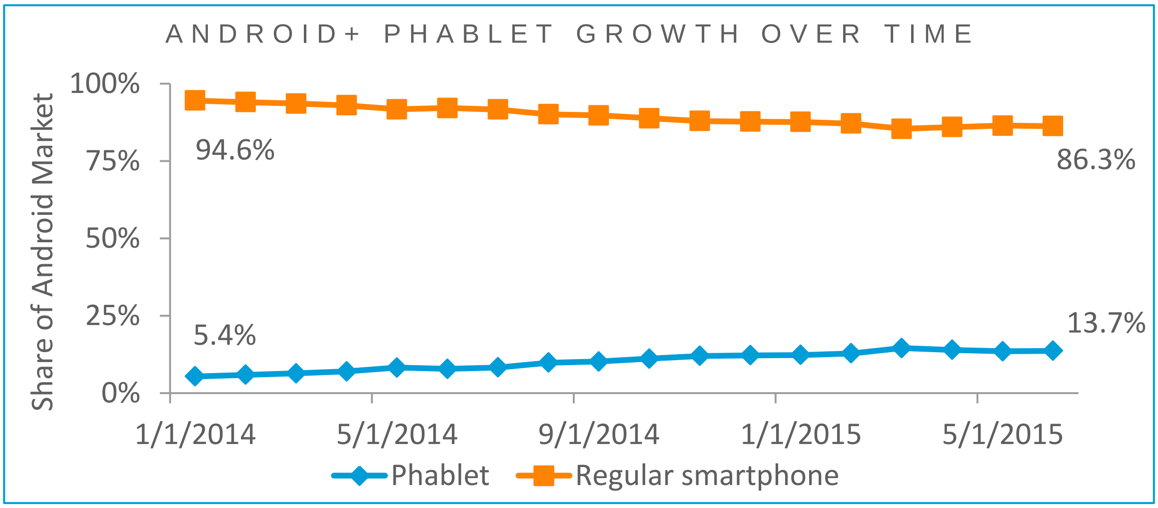
*Android+ is inclusive of Android, Windows, and Blackberry OSes.

BIG SCREENS, BIGGER MARKET SHARE

Phablets have more than doubled in market share in the last year

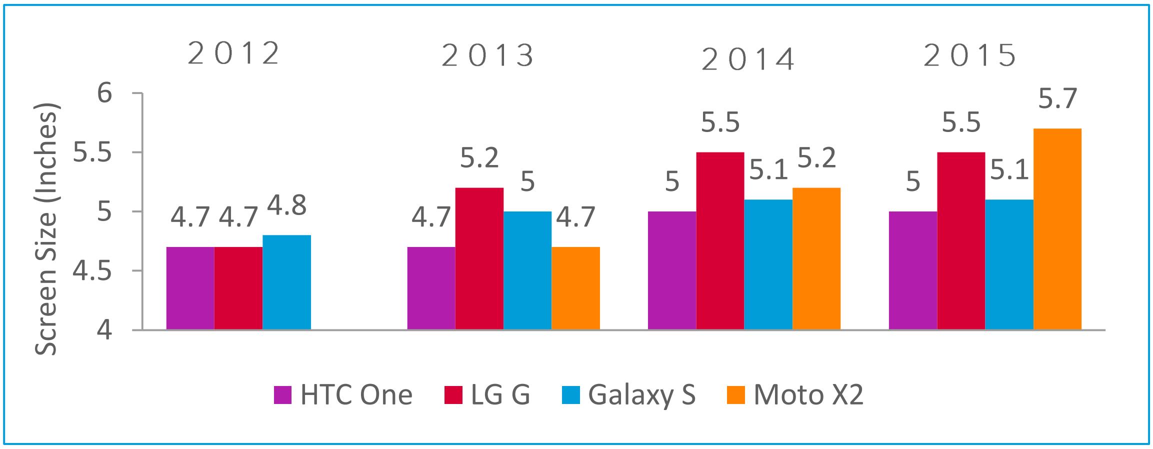
The Year of the Phablet

2011 saw the introduction of the first-ever phablet, the Samsung Galaxy Note, and its success led to more than 10 phablets from a variety of manufacturers launch in 2014. Market share stood at a just nascent 5.6% of total Android+ phones in January 2014 and quickly grew to 13.7% just 18 months later. Much of this growth was captured by Samsung, which comprised almost 70% of total phablets in the market in June 2015.



Flagship Phones are Growing Larger, But Phablets are Unique

Bigger is better if the increase in flagship devices is any indication. From 2012 to 2014, the size of major flagship lines grew steadily larger. However, with the exception of the Moto X, other flagships' screen size remained unchanged from 2014. Phablets appear to be a distinct offering separate from traditional flagships.

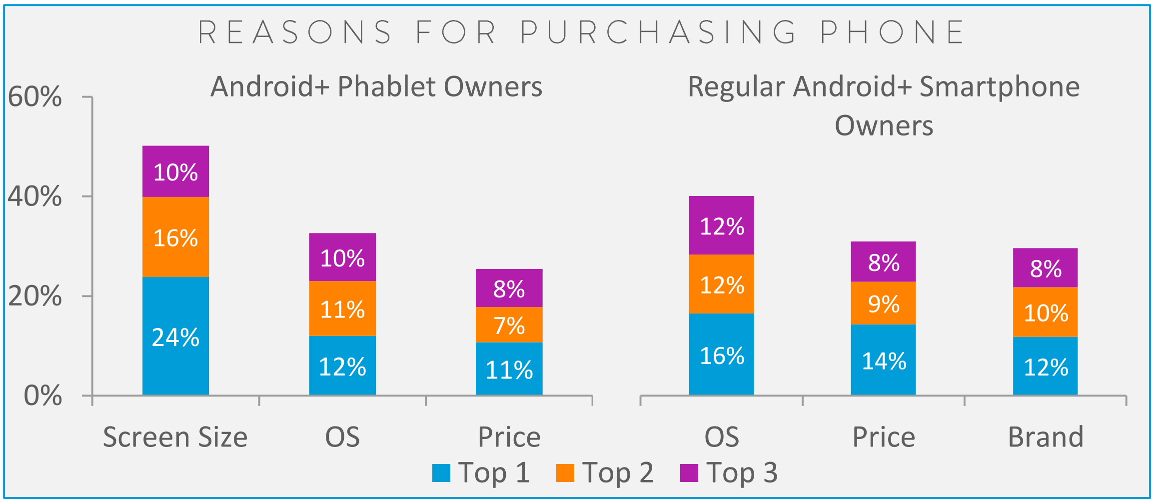


Base: U.S.; Smartphone installed user base
Source: Nielsen Device Share, 2015.
*Android+ is inclusive of Android, Windows, and Blackberry OSes.

WHAT'S DRIVING PHABLET SALES?

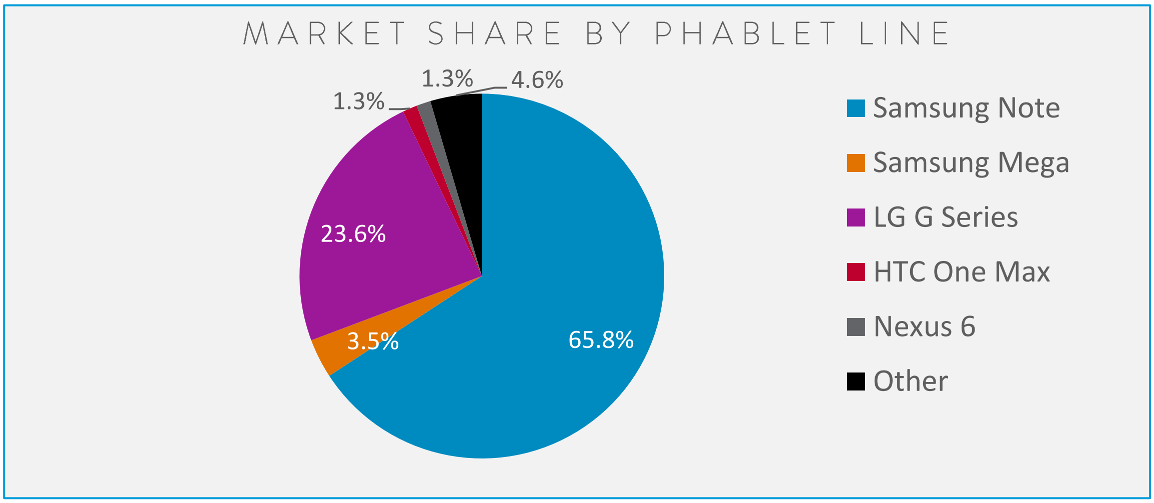
It's All About the Screen

Phablet owners are buying specifically for the size, with 50% of owners citing it as a top 3 reason. 24% list it as their #1 reason, compared to just 11-12% for brand or operating system.



Given that most phablets' specs are comparable to smaller flagships, screen size is the overwhelming factor for choosing a phablet, not hardware or processing power.

High-End Phablets Dominate the Market; Mid-Low-Tier Spec Phablets Haven't Gained Ground



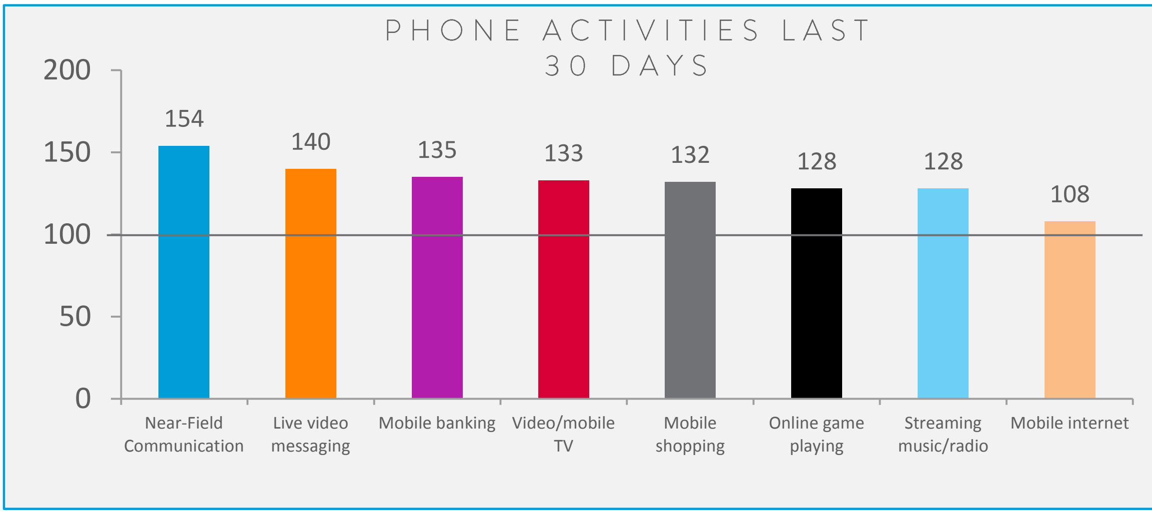
High-end phablets are dominating the market, with Galaxy Note series alone commanding two-thirds of it. Given that screen size, not specs, drives phablet purchases, mid-tier phablets have considerably under-performed. With some increased marketing focus, there may be opportunities for mid-tier players to gain back market share from the top-end Samsung phablets.

Source: Nielsen Mobile Insights Q2 2015. Sample size = 4,106 (phablet), 31,301 (non-phablet), 35,406 (total smartphone). Android, Blackberry, and Windows OS only.

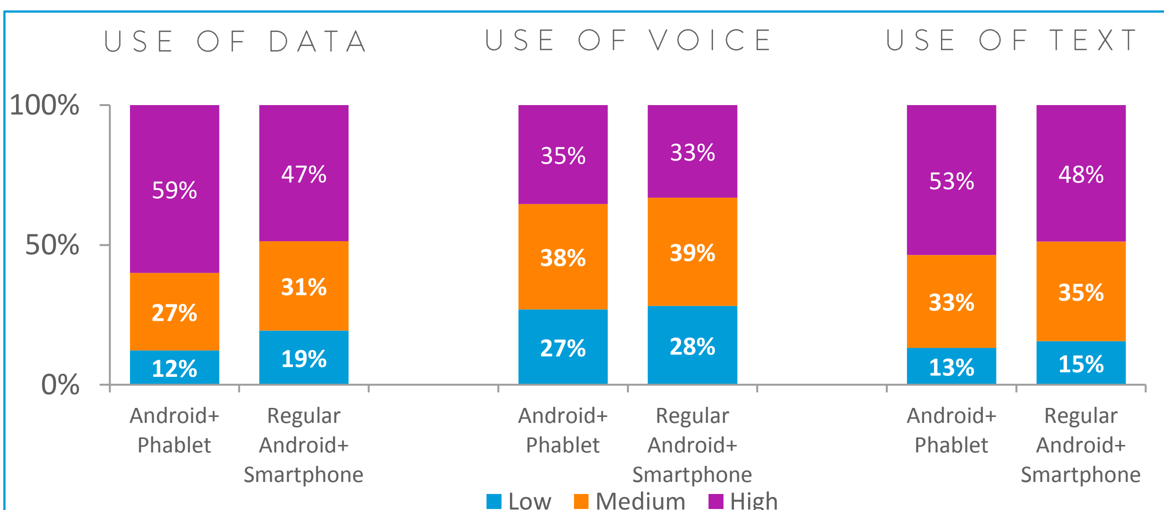
HOW ARE CONSUMERS USING PHABLETS?

Phablet Owners Consume More Media

As many tablet owners have found out, a bigger screen lends itself to a better viewing, gaming, and internet surfing experience. Compared with other smartphone owners, phablet owners are more likely to use their device for media consumption and shopping.



Phablet owners' self-reported use of voice and text on their phones is largely comparable to that of regular smartphone owners'. However, phablet owners are much more likely to report high data use, likely due to their higher media consumption.. Upgrading customers to phablets could likely lead to an increased spend on data.



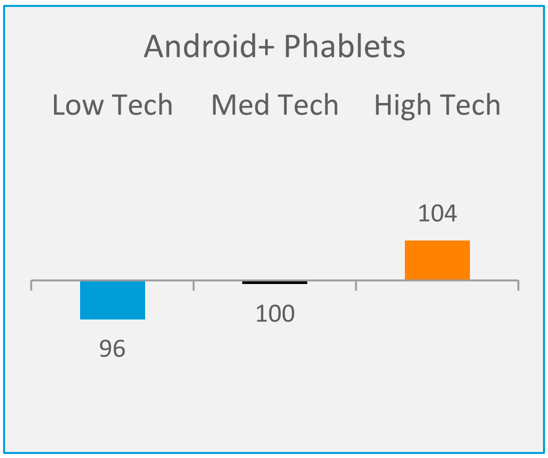
Source: Nielsen Mobile Insights Q2 2015. Sample size = 4,106 (phablet), 31,301 (non-phablet), 35,406 (total smartphone). Android, Blackberry, and Windows OS only.

WHICH CONSUMERS ARE BUYING?

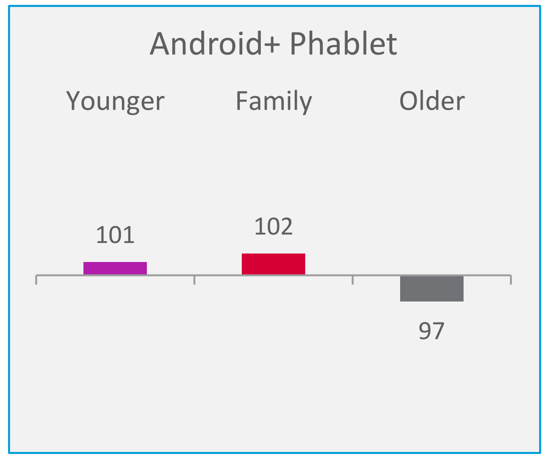
Phablet Owners Are Younger and High-Tech

Unsurprisingly, given that phablets are a relatively new trend, phablet owners are slightly more likely to be high-tech adopters. Phablet-owning consumers are also less likely to be older than the average Android+ smartphone owner.

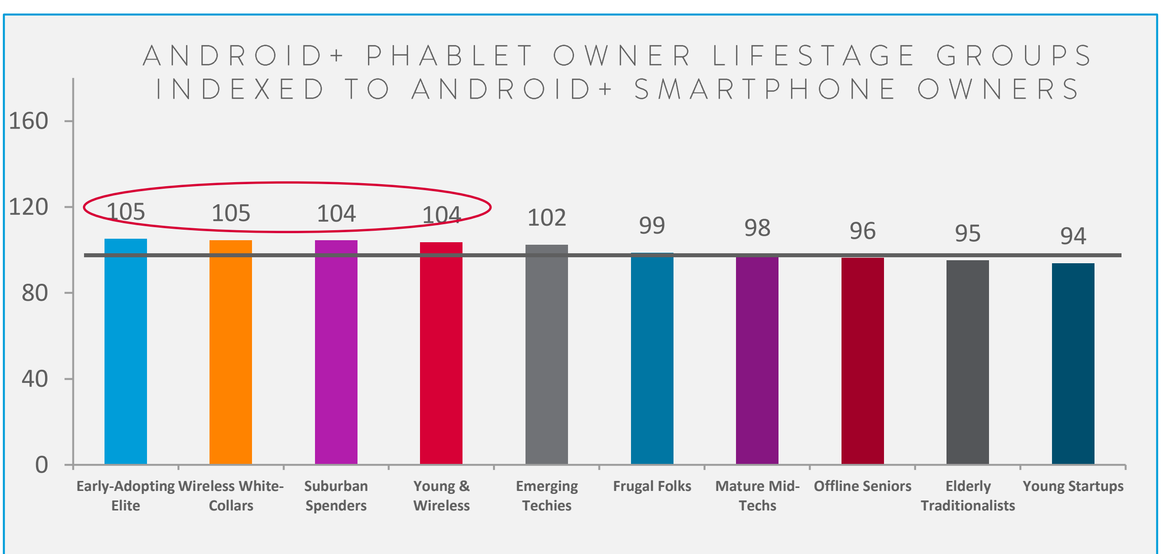
ANDROID+ PHABLET OWNERS INDEXED TO TECH ADOPTION



ANDROID+ PHABLET OWNERS INDEXED TO LIFE STAGE



Using ConneXions, a Nielsen segmentation system based on demographics and tech behavior, it is apparent that certain consumer groups, like the “Early-Adopting Elite” and “Wireless White” Collars, are adopting phablets at a preferentially higher rate. Ownership is lowest among Young Startups and older, low-tech segments like Elderly Traditionalists.



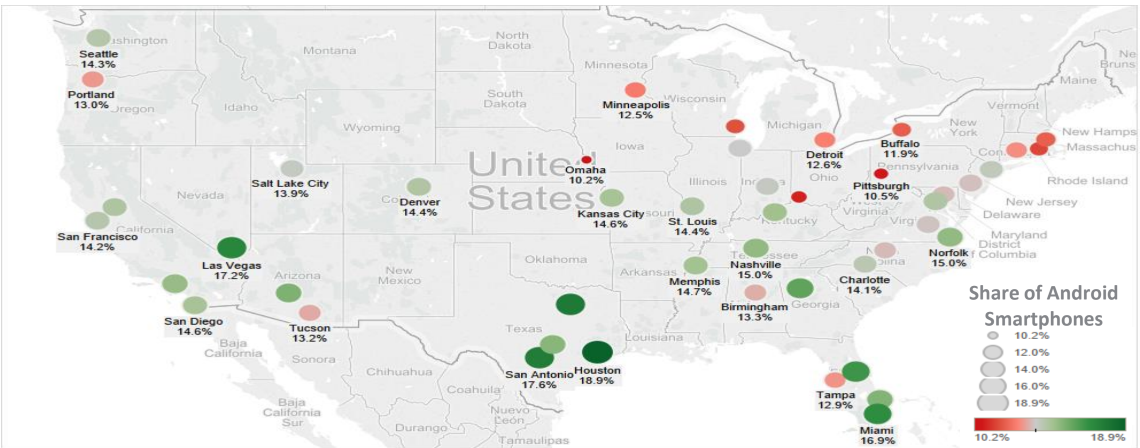
Base: U.S.; Smartphone installed user base
Source: Nielsen Device Share June 2015

WHERE ARE PHABLETS SUCCEEDING?

Adoption Varies Heavily Based on Region

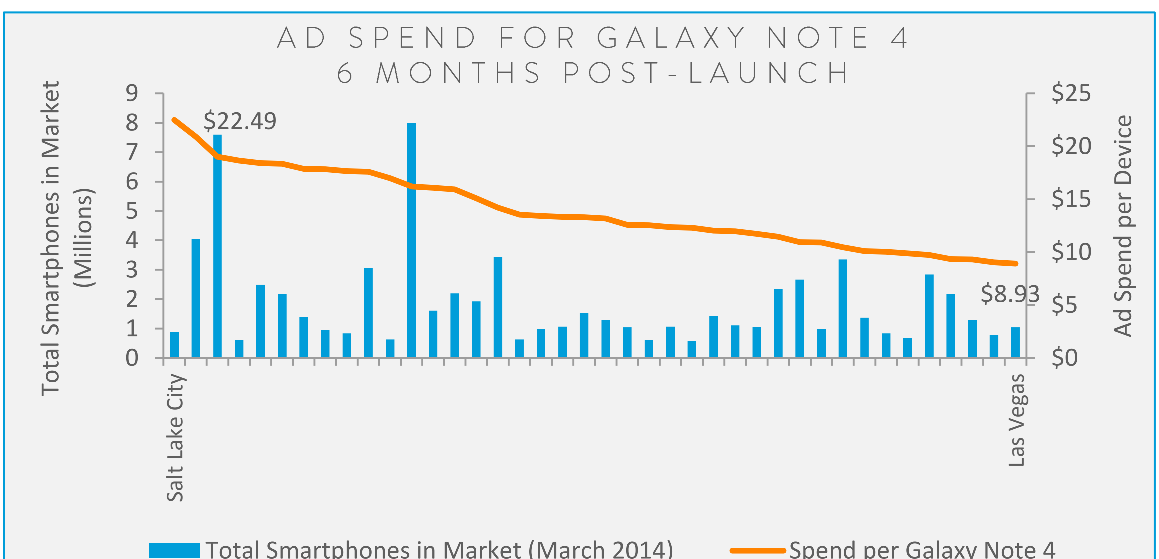
Markets vary widely in phablet penetration. Phablets have enjoyed considerable success in several Texas markets, with high adoption rates. However, some cities, particularly those in the Northeast and Great Lakes region, have been difficult to crack.

PHABLET MARKET SHARE OF ANDROID+ PHONES



Not All Marketing Dollars are Equal

Marketers should be careful where they invest precious ad spend, as not all markets respond similarly. For instance, Samsung's Galaxy Note 4, the most successful phablet to date, saw much higher return on marketing six months post-launch in Southern cities like Austin, and Atlanta at under $10 per device. However, some major markets, like Chicago, Los Angeles, and Philadelphia, cost up to twice more.



Base: U.S.; Smartphone installed user base
Source: Nielsen Device Share Jan 2014 – June 2015, Nielsen Ad Insights January 2014 – June 2015

FINALLY…WHERE CAN PHABLETS GROW FROM HERE?

With the recent release of flagship phablets Samsung Galaxy Note 5 and Galaxy S6 Edge+, and rumors of more from other manufacturers, competition for the phablet market is poised to heat up. To most effectively capitalize on the trend, with limited marketing budget, marketers should focus on three groups most likely to be in the market for a phablet:

1. **High-tech adopters:** As previously shown, existing phablet owners are more likely to be at the forefront of tech adoption.

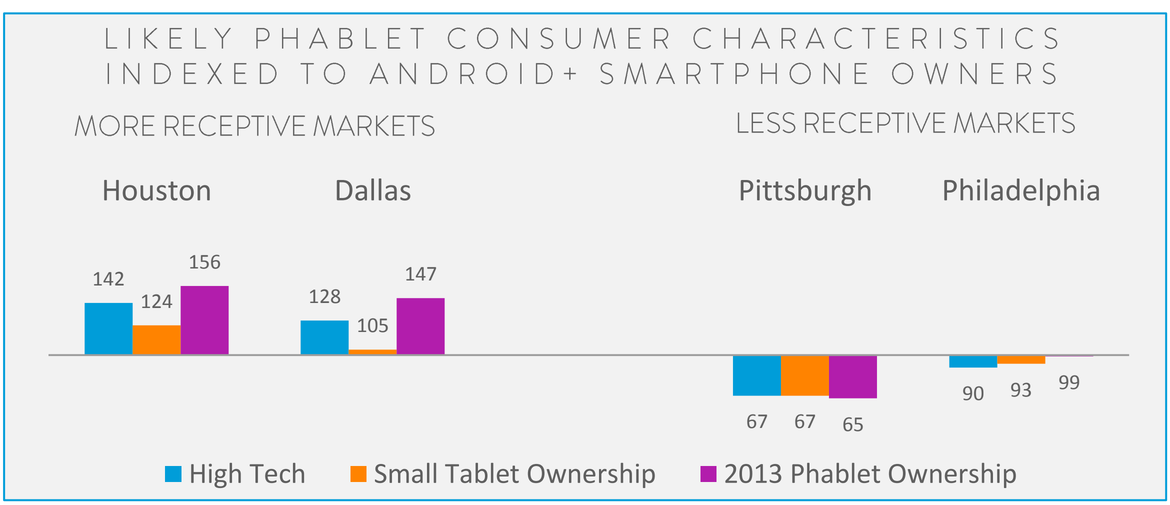
2. **2013 phablet owners:** Markets that jumped on the phablet trend in 2013 have already demonstrated an affinity for phablets, ensuring an easy sell to new consumers and 2013 phablet owners looking to upgrade.

3. **Small tablet (>8.5in) owners:** Android+ tablet owners with Android+ smartphones are 23% more likely to own a phablet. With similar specs and screen size, consumers may find that a phablet will do just as well.

Putting Analysis Into Action: Texas vs. Pennsylvania

By evaluating the different markets on this criteria, we see significant differences between the top and bottom markets. The greatest contrast is clearly visible in comparing markets in Texas versus in Pennsylvania.

Texas, which already has high phablet penetration, will continue to be a prime location for marketers to continue to target. Texan markets have exceptionally high tech adoption rates, with high penetration of both 2013 phablets and small tablets.



On the other hand, Pittsburgh and Philadelphia will be tough to crack, as its Android owners are unlikely to be high tech adopters or own phablets or small tablets.

Base: U.S.; Smartphone installed user base
Source: Nielsen Device Share June 2015. Nielsen Mobile Insights Q2 2015. Sample size = 4,106 (phablet), 31,301 (non-phablet), 35,406 (total smartphone). Android, Blackberry, and Windows OS only.

MARKETING PHABLETS IN A COMPETITIVE MARKET PLACE

Marketing Android devices is hard in the current marketplace, where few top players have access to most marketing dollars. Marketers seeking success in the niche phablet market need to take a targeted approach for marketing phablets, as opposed to broad reach campaigns used for standard flagship phones.

1

IDENTIFY YOUR MARKETS

Success with phablets will be unevenly distributed within various markets. Understand not only markets, but even the zipcodes within those markets where your dollars will deliver the most return.

2

ACTIVATE THE RIGHT CONSUMERS

Phablet owners are a niche but growing group. Understand who these customers and potential customers are. Isolate behaviors and usage patterns that apply specifically to this group, create the precise message for them, and deliver it to them when it matters the most.

3

MEASURE YOUR PERFORMANCE AND OPTIMIZE

Measure the impact of your targeted marketing plan and optimize on the fly. Continuously refine and execute to make the most of the crucial launch period.

DATA SOURCES

FOR THIS ANALYSIS, NIELSEN USED 3 DATA SOURCES

1. Nielsen Device Share , 2015

Revolutionizes market share monitoring for the mobile industry. With Nielsen's first-of-its-kind measured data covering 60 million unique devices weekly, clients can deep dive into market share by model, market and consumer segment for the first time.

2. Nielsen Ad Insights, 2015

Tracks ad spend and creative messaging for wireless carriers and device manufacturers across TV, radio, print, out-of-home, and online.

3. Nielsen Mobile Device Insights, 2015

Nielsen's largest survey of mobile subscribers (360,000 respondents annually), Mobile Device Insights is a deep dive on smartphone owners, measuring their device behaviors, attitudes, preferences, purchase drivers and motivations.

About Nielsen ConneXions Segmentation

Nielsen ConneXions is a household segmentation system that groups consumers into 53 segments based on voice, video and data consumption, as well as consumer technology adoption, or Nielsen Technodoption. The 53 ConneXions® segments fit within 10 Lifestage Groups based on the combination of technology adoption, age and family structure. More information about ConneXion segments and Lifestage Groups can be found at http://www.claritas.com/MyBestSegments/Default.jsp.

ABOUT NIELSEN

Nielsen Holdings N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence, and mobile measurement. Nielsen has a presence in approximately 100 countries, with headquarters in New York, USA and Diemen, the Netherlands

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