

Podcast Transcript - How Trade-ins, Sustainability & Awareness are Driving Refurbished Smartphone Growth

[00:00:12] **Maurice:** Hello everyone, and welcome back to The Counterpoint Podcast. I'm your host, Maurice. And today we have a really exciting topic. I want to be talking about the Refurbish market or what people also call the second-hand smartphone market. And with that, I have two of my colleagues with me, Jeff Fieldhack and Glen Cardoza. How are you guys? How's it going?

[00:00:31] **Jeff:** Hello, Maurice. All good.

[00:00:33] **Glen:** Hey Maurice

[00:00:34] **Maurice:** Well glad to have you guys back to talk about this. I know we've done some podcasts in the past about this, but we've just come out with the latest report on the refurbished market. So we were looking into 2021 really, and what this referred smartphone market has been doing. I believe sales increased 15% year over year. There's a lot of growth coming for a lot of key regions, and certain countries such as India and Latin America, especially also just as a region, as a whole has been showing a lot of growth. So a lot of interesting things to pick out here and I really want to dive in and kind of get your guys' insights on this.

So to start off let's, let's go with Glen. Why don't you tell us a little bit on the referred market and how it performed in 2021. And what were some of the key takeaways that we've shown in this report.

[00:01:17] **Glen:** So the refurb industry has gone through a lot of changes in 2021. There's a lot of the supply and demand aspects. We've seen a lot of difference in that we've seen an increase in supply, which was pending right from 2020 because of COVID and you know, continuous resurgence. The market was not exactly performing at its peak. So once the Covid effects started reducing those lot of inventory that was available in the markets. The awareness has increased as well. The entire refurb industry for smartphones, it matured quite a bit in 2021. As the awareness grew as the new players came up in the market and current player started strengthening their position in the market. So this again was complimented by the government initiatives in many countries and

industry bodies taking notice of how the secondary market can do much better when it comes to supplies and the entire sustainability aspect.

Online channels, this is one more point that has worked for the secondary market. So that has really helped in people getting to know a lot more being aware and in many cases, choosing secondary market smartphones for their next usage.

[00:02:30] **Maurice:** Yeah. So one thing I just wanted to ask on that. So you said the supply increased. So is that just because there are more traded programs happening or what's driven that increase in sales?

[00:02:41] **Glen:** Exactly. Maurice. So there are a lot of trends that have happened over last year, much more as compared to any of the previous years OEMs refurb players, and many other such players in the market have taken as much benefit out of trading programs as they could. Many of the offers schemes discounts online were related with trade-in and offers. Let's not forget the entire supply. Was also driven by the demand because of the work from home study, from home and now currently hybrid models of working and studying. So even while people started getting in touch and realize how important it was to stay connected.

Even people trying to switch from feature phones to smartphones would consider owning a pre-owned smartphone. So that has all helped in this, this entire growth in the industry.

[00:03:33] **Maurice:** Right. That's I think a really good summary in terms of where we are in the market and a couple of the drivers especially refurb really picked up because also we had a shortage of new devices, right.

So people were really trying to just get any type of smartphone they could in order for them to be connected during these times. But, but Jeff, so moving on I know that there's some other factors that contributed to this growth. Can you highlight some of the other ones that we haven't touched on?

[00:03:58] **Jeff:** Yeah, for sure. I guess in 2021 one of the major factors was these trade-in platforms. A lot of startup money growth outside of France, into other EU countries and into the US a lot of money and marketing thrown use devices. So I think this really helped the secondary market.

I think Glen hit it on the head also on you know, it's the biggest funnel for the secondary market is the new market and new device sales in 2019. You know, we're very strong, 2020 COVID down significantly. And then they rebounded globally 7% in the US 14%. So I think the biggest funnel for the secondary market is always the new market size of mature markets they're handing in old devices and what we saw in Europe and the US are carriers offering these incentives to get consumers to upgrade to 5G by offering overpaying for used devices in the US any device twenty-five dollars or more, you get thrown, you know, 700 to a thousand dollars for a new flagship.

So of course that really helped the secondary market's supply. And in the past, these promotions would go away, you know, they were only in Holiday black Friday ads and grads, and now they pretty much last you know, they just don't really go away. Maybe they're slightly reduced, but they're on more than off.

[00:05:32] **Maurice:** Let's move on to something that's I think been on our minds here with all this geopolitics that's happening brands trying to reduce dependencies on China. We've not just seen it with the new smartphone market where OEMs are trying to move away manufacturing from China and diversifying in other countries, but what's happening in the refurb market there. So what are the key players doing to ensure low cost operations?

[00:05:59] **Jeff:** Yeah, I think it started even pre COVID as China became a bit more expensive for manufacturing. OEMs, we're looking to diversify manufacturing in Vietnam, India, Philippines, but then it's kind of turned to just not only manufacturing. It is components and the component supply chain diversification.

So that's really happened too. The other, I think major point specific to the secondary market is China is not the huge channel absorbing secondary market devices. Like it was five years ago. And then I think there's a few reasons for it. The China ports mainly due to some of the friction with the United States are more scrutinized today in this means higher costs, tariffs for secondary market players.

Also all through COVID and even, you know, today with the resurgence of COVID in Asia and China. There's limited travel between Hong Kong and Shenzhen, which was the big thoroughfare for getting devices into Shenzhen, for repair and then shotgun through the world. So again getting

through the tariffs has made costs higher and then just the costs of components have gotten higher in Hong Kong. So I think all OEMs and secondary market players have attempted to reduce their dependency on China because it's just does not absorb as many devices as it has. Let's say, five years ago.

[00:07:34] **Maurice:** Now coming back to you, Glenn. Let's take a deeper look into who the leading OEMs are in the reefer market. You know, is it the same compared to the new smartphone market? Or is it, or like, can you tell us a little bit more about that and where do you see different brand shares across the globe? Is it similar or do certain regions have preferences.

[00:07:55] **Glen:** Absolutely. So Apple, as you mentioned, is the front runner among all the OEMs, Apple knows this and everyone in the market the main players in all the supply chains across regions well aware of this consumer demand is highest aspiration value being the highest for Apple iPhones . Apple has been a leader in the market and the secondary market for years now. And that seems to be continuing it is actually interesting to notice how Apple share keeps changing. This is happening also because there are preferences in some regions for Android devices that are some preferences with regards to a change in aspirations. So apple, iPhone iOS is not the only aspirational brand out there for different regions.

So for the US in EU and other mature market apple is still is the highest. And we also see other regions where there are the brands coming up. Samsung has always been a distant second, but it's flagship still have one of the highest values in the secondary market. But of course, Apple is is one of those bands. The only brand actually that can sustain its value the most in the secondary market.

[00:09:03] **Maurice:** Yeah, it's always interesting seeing Apple being mentioned as an aspirational brand. It's a lower barrier to entry for many consumers who can't buy the latest and greatest of Apple. So they go to the refurb market and that's how Apple can acquire a new users for iOS.

[00:09:20] **Glen:** Exactly. Yeah.

[00:09:31] **Maurice:** Now, again, moving back to you, Jeff is there any type of insights on this right to repair movement or increase in repair that's especially happening in the US and the EU. And do you have any

type of data on which components are the ones that need the most repair? Is it really displays or is it batteries? What, what can you tell us about.

[00:09:42] **Jeff:** Sure. Yeah, the right to repair starting with the U S that's gaining a lot of steam. There are now 16 states that have laws on the books that OEMs must contribute parts to repair and repair shops. Got to read the fine line, lots of details of getting certification, but at least its happening and helping the secondary market and giving consumers better options that are lower cost for repair.

There are actually only eight states with nothing planned and nothing on the books, but likely this is going the way of other states where I'm trying to help consumers and lower costs. On the EU side yeah, they're actually much ahead of the US lots of different laws in place, and they're actually trying to even handset OEMs to make devices more easy to repair. They're giving them like ratings on how easy is this device to repair? How often do they support or for how long do they support software upgrades, for example? So I think it's happening. It really moves slowly but at least it's going in the right direction as far as repairs it's still the top ones are display replacements of battery camera and then charging ports.

And I guess the only changes here, our camera's actually moving up in repairs. Now that cameras are so important for devices. And now we're moving to double triple quad camera modules. That repair seems to be in higher numbers, but it's those four things that are repaired. The most. One other thing I will add about repair is with a higher percentage of OLED displays versus LCD's it is actually making repair more difficult. OLEDs are expensive, many layers, very complicated. Sometimes they have you know, within the layers other components it's built as a module or these curved, or 2.5 Angled displays make repair harder. So it's a bit of a give and take. Now that we're moving to more OLEDs they are more difficult, more expensive to repair, but I think as we get these right to repair laws and more options for consumers, even OLED replacements will come down in price.

[00:12:14] **Maurice:** That's really interesting. But I think I wanted to follow up on one thing. Do you think that if these right to repair movements come to fruition will we see different models for different regions? You know, ones that can be repaired when one's not, or do you think OEMs will make one universal model?

[00:12:29] **Jeff:** I think OEMs will have to make one universal model. They just having another Yeah, factory line. I think it would be too expensive. However, what we are seeing is a change where in the US very, very high percentage of original parts are used. Whereas in China, it's the opposite. It's very small percentage of the original parts being used, and it's a replacement parts that are fractional the costs.

And I think what would be best for the market as if there's some sort of middle ground there where that would really drive more competition. In the secondary market parts of area to where we could see some, yeah, better costs for even re player players in the U S that maybe have very high costs with original parts or are getting certification to make a repair.

So I think it will take some time, but eventually over the next five years, the cost should come down considerably, which will help the secondary market.

[00:13:36] **Maurice:** Nice. That actually brings up another thing I want to touch on. We've seen stuff related to like eco ratings or sustainability initiatives from brands. If you follow any of the new Samsung announcements or Apple announcements, all of them have this focus on sustainability. And recently Samsung announced that it will sell spare parts to make repairs easier. So for the S20 Series S21 Series and in particular for the US market. Do you see more brands adopting this type of strategy for their key models? Or is this Samsung just kind of, you know, being a one-off.

[00:14:10] **Glen:** So yes eco rating is a one of those initiatives that have been a long awaited. And it's one of the few overdue aspects of the circular economy, which has mainly started in countries like France. Where are at this point, they already have a good synergy alliances between telecom operators the government bodies, consumer bodies, and OEMs as well. Even OEMs feel the need that they need to join up an ally themselves with these movements because they will in a manner dictate how production sourcing usage and even post usage stages for for these devices will go on in the future. So equal rating is something is currently happening in mature markets, but it is spreading its swings across markets like even LATAM right now sustainability is that one umbrella that it's getting into bed equal rates. All brand related initiatives under this particular umbrella. And right now, Apple and Samsung two big contenders in this space. Apple is making sure that it's advertised at all the aspects with regards to right from sourcing all the way to usage and

post usage that is some of the other initiative which with support sustainability. All the other brands are as well at this point, trying to showcase this.

And that is something that will change the industry. Maybe not immediately, but we see a certain standardization that might come in the coming years as a result of these initiatives.

[00:15:46] **Jeff:** Yeah. I agree with Glenn these eco ratings are important but I think they will take a lot of time because in the end, the OEMs they want to make thinner, more elegant, more durable, better devices. And if that means making a lot of the key components of module that are harder for repair or harder for sustainability circular economy, that's an afterthought for them. Their first thought is we have to drive sales and the other kind of conflicting segment here for the OEMs are they don't want consumers to hold onto their devices four to six years, or, and then, you know, two more years in the secondary market, they want to really drive upgrades. So they're just doing their best to add features and you know, create devices that will really promote upgrades, which really isn't terrible for the secondary market, but it conflicts a little bit with you know, eco ratings and sustainability.

[00:16:54] **Maurice:** Nice. Those are some really interesting comments on that. And, and, you know, before we wrap up we've talked a little bit about what, what will happen in the future, but let's just have one last final thing on, you know, which regions or which countries you think will be poised for growth. In the coming years Particularly for the refurb market.

And if you have any, you know, last comments or recommendations for OEMs that you've like seen you know, doing during this research and really digging into this topic. Yeah, please go ahead.

[00:17:22] **Glen:** In the coming years, we see some of the regions which are still developing. There's certain markets out there that are still maturing. So two of them would be India and Latin America. These two have a high promise in the secondary market. It's not only for smartphones it's for other related devices as well in the ecosystem. So they've seen a lot of pent up demand show up in a very positive manner in these markets in the last one year's time itself.

And many of these markets in India, LATAM Southeast Asia. Africa as valid to a certain extent, they have a big proportion of unorganized sector. And one thing that is dynamic is the addition of the new entrance into the ecosystem of these countries so that the new players come in and helps the unorganized sectors volumes become more transparent in the value chain. So we see a lot of growth coming out of these regions in the coming years.

[00:18:21] **Jeff:** Yeah, I'll just add two areas that I see ready for growth Japan. One there are government initiatives to bring the cost down of both service and equipment. And in Japan is unique in that the carriers do not buy spectrum for billions of dollars like they do in a lot of other regions. So the government has a little more force behind them by trying to get costs down. And there are also movements by MVNO's in Japan. And I think just a lot of awareness around the secondary market. So one, I look for Japan's a secondary market to grow.

Latin America. We've been talking about Latin America for a long time, but they love flagships there. It's just you know, for the bulk of consumers, you know, thousand dollar devices, too expensive. So enter secondary market flagships that come in at a lot lower of price point, I think Latin America is an area that's right for a lot of growth in the secondary market.

And Maurice you mentioned brands. I think following what Apple, Google, Samsung have done with repair. I think that's important for other OEMs making repair more available, more access, better costs that they don't have to mail in devices back to the manufacturer and be without a device for 2, 3, 5 days. I think. That is a competitive advantage for apple, Samsung and Google.

And I think other OEMs have to partner and do the same and also offer software upgrades up for a longer period of time as the device flows into the secondary market both very important for OEMs to be successful in the secondary.

[00:20:13] **Maurice:** Well, thank you guys. That was great. I really appreciated those insights and I'm sure our listeners did as well. Thanks for being on the show once again.

[00:20:21] **Jeff:** Thank you, Maurice.

[00:20:23] **Glen:** Thank you.

[00:20:24] **Maurice:** Yeah, no problem. And for everyone listening this of course will be up on counterpointresearch.com under our podcast section, but you can also find us on Apple Podcast, Spotify, TuneIn and Google Podcasts. Make sure to listen, comment and subscribe. Thanks a lot. And until next time take care.