

INSIGHT SPOTLIGHT

Apple has announced a vast geographic expansion of its services businesses – including its App Store and Apple Music – to a range of developing countries, principally in Africa and Asia. On the face of it, this could be seen as puzzling considering many of the countries have exceptionally low incomes and therefore low purchasing power for paid-for services, let alone an iPhone. This is, though, an attempt by Apple to

establish its brand and mindshare among mid- to high-income consumers already plugged in to mobile, even if they are not in Apple’s ecosystem – and most will not be. Apple is targeting the mostly youthful and non-English speaking populations within these markets to future-proof its services footprint (which now accounts for 15% of revenue) and accelerate the development of local content.

Analysis

Seeding growth in Africa and Asia

The strategic rationale for Apple’s move reflects the ongoing shift in the balance of power in the internet economy. The smartphone markets have long since saturated in the US, Europe, China, Japan and other high-income Asian countries, reaching more than 90% of the population. Apple has driven and capitalised on much of this growth over the last 10 years. However, global smartphone unit sales peaked in 2016 and have since been on a downward trajectory, with net annual declines each year to 2019. This has affected all device manufacturers, though Apple was hit particularly hard by China’s economic slowdown (pre-Covid-19), leading to a profit warning in late 2018.

In contrast, smartphone ownership still has significant room for growth in India (52%), Africa (39%) and populous Asian countries such as Bangladesh (40%) and Pakistan (37%). Of the top 10 countries for additional smartphone users over the five years to 2025, eight will be emerging markets in Asia and Africa. Smartphones in such markets are the primary – in many cases, only – gateway to the internet in the absence of significant fixed broadband infrastructure. The expansion list for the App Store (20 countries) and Apple Music (52 countries) reflects this distribution, with a great number in Sub-Saharan Africa. Data from the GSMA Intelligence Consumer Insights Survey supports this projection of latent demand: in Senegal, Mozambique and Algeria (three of Apple’s expansion markets), music is streamed on at least a monthly basis by 42%, 57% and 48% of those surveyed respectively. Although smartphone penetration averages only 40%, as this inevitably rises so too will content usage.

A prelude to a lower cost iPhone?

The services expansion coincides with the announcement of a lower cost iPhone SE, which will retail for less than \$400. Apple has long resisted calls to move into price brackets below its long-term ASP of \$600–700 on the grounds that it would undermine its premium brand ethos and sales of higher end models. This position has, however, become increasingly difficult to sustain in the face of a declining smartphone sector in established countries and the reality of low incomes in the countries where expansion could come from.

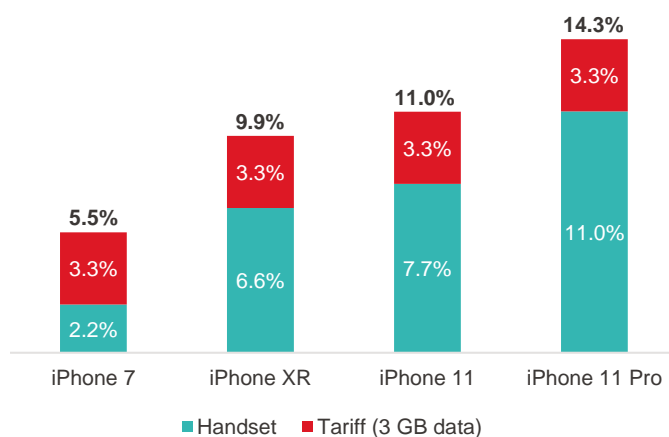
Taking tariffs from MTN in South Africa as an example, the lowest cost iPhone available (iPhone 7) has an implied cost to the consumer of ZAR4,800 (\$253) if paid in instalments over a 24-month contract. On a monthly basis, this equates to more than 5% of average monthly income in combination with a mid-level data plan of 3 GB. For all other iPhone models, the total cost per month is 10% of income or higher, with the iPhone component 2–3× that of the tariff cost. For context, equivalent ratios are 2–3% in Europe.

In short, the cost of an iPhone is prohibitively expensive for all but the highest income segments in Africa. Moving to an even lower cost model would inevitably involve trade-offs that are beyond the scope of this analysis, but the new iPhone SE could portend such a move down (potentially under \$300), considering that the alternative – waiting for incomes to rise – will take much longer.

Source: MTN, IMF, GSMA Intelligence

Even the cheapest iPhone still costs more than 5% of monthly income – MTN South Africa example

Percentage of monthly income



Note: Figures expressed as a share of GNI per capita per month. Handset and airtime tariff costs based on MTN South Africa website as of 22 April 2020 and amortised over a 24-month contract.

Implications

Governments and international donors

- **Giving the unconnected a reason to connect** – The implications of Apple’s move could be profound – not just for the company but for other ecosystem players and the wider digital inclusion agenda. Almost half the world’s population are not using the internet, yet 85% of this offline population live in an area with mobile broadband (3G and 4G) network coverage. This usage gap reflects affordability constraints, literacy and skills levels, and a lack of relevant content.
- **Boosting non-English representation** – As demonstrated in the GSMA Mobile Connectivity Index¹, the availability of locally relevant content is a key barrier to closing the digital gap, particularly in South Asia and Sub-Saharan Africa. These two regions account for 37% of the global population, yet of the 4.5 million active mobile apps currently available on the Apple App Store, Google Play and other app stores, they are responsible for developing only 5% of them.² Apple’s expansion should be seen as a stimulant for the development of local content – much of which still requires finance from governments and development organisations to get off the ground.

Content developers

- **Harnessing platform scale** – The commercial opportunities that Apple’s expansion affords to content providers is clear: it provides them with a platform to develop and scale services in large and growing markets. In Sub-Saharan Africa, content companies accounted for only around 5% of the overall economic value of the mobile ecosystem in 2019 (including operators, handset manufacturers, infrastructure providers and retailers), compared to more than 25% in North America.³
- **Seizing the opportunity** – The hope is that Apple’s investment will help markets in South Asia and Africa drive the broader rebalancing trend in mobile content. Five years ago, 85% of mobile apps were developed in high-income countries in North America, Europe and East Asia. They now account for less than 75%, with growth especially strong in emerging Asian markets such as Vietnam and Indonesia. To continue this shift, local developers should act now to get ahead of the smartphone wave.

Mobile operators

- **Increasing usage** – The availability of more content should drive growth in the volume of users and data. Survey evidence from GSMA Intelligence shows that instant messaging and social networking are the most popular online activities in low- and middle-income countries, as these are the most readily available.⁴ Furthermore, the use of social media among mobile internet users is on a par with high-income countries. This underlines the latent demand that will be amplified as internet penetration and subsequently usage rise to the 75–85% levels observed in advanced countries.
- **Preparing for e-commerce** – Use of e-commerce across emerging regions is low, at less than 30% of smartphone users. Apple’s scale will likely attract further entrants to the payments space, potentially posing a new source of competition for operator mobile money platforms. However, partnership opportunities will also become available, with operators able to offer scale, mindshare among the merchant economy and strong brand value.
- **Enabling distribution through educational efforts** – Should Apple introduce further lower cost iPhone models, operators will be required to assist in the marketing effort through advertising and in-store support. The latter could prove more important than in Apple’s traditional sales heartlands given that digital illiteracy remains high in much of Africa and South Asia.

¹ www.mobileconnectivityindex.com

² Source: GSMA Intelligence analysis of Appfigures data

³ Source: GSMA Mobile Economy 2019 series

⁴ Source: State of Mobile Internet Connectivity 2019

Related reading

[State of Mobile Internet Connectivity 2019](#)

[Future of Devices : 5G and the China effect](#)

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