



Focus Growing on Residual Value in the Smartphone Circular Market

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A cornerstone of the second-hand smartphone market has always been the residual value of a device. This is where the margin is made to sustain the industry, and Apple's strength in this area has played a major role in its success.

This is such an important pillar of Apple's business that it has been featured in its iconic keynote presentations to launch new phones, with speakers highlighting that the "iPhone holds its value longer than any other smartphone". Several factors have contributed to this success, including Apple's brand strength and commitment to software updates for up to seven years. Consumer demand has played a significant part, too, as those who can't afford a new iPhone but want to be part of the Apple ecosystem can buy one at a lower price, even if that means buying second-hand.

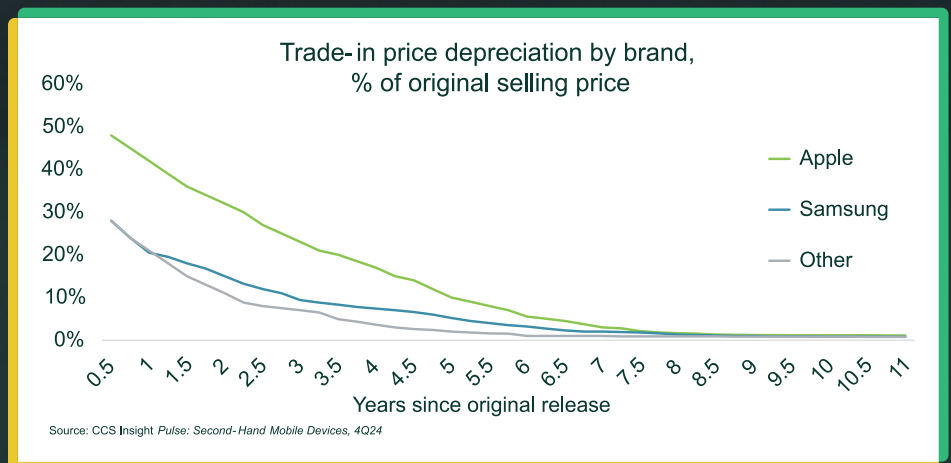
For Apple, it makes sense on numerous levels. A strong residual value goes some way to reducing the risk of purchasing an iPhone, as customers now understand that when they invest in one, they'll probably have some value left when they upgrade. That could be an attractive trade-in offer or a bit of cash from selling the device to the

numerous companies involved in the secondary market or through another channel, such as a peer-to-peer sales site.

Apple is in a unique position because the iPhone is a gift that keeps on giving. Unlike rival phone-makers, Apple continues to generate revenue from an iPhone long after its first sale, thanks to its broad portfolio of services, such as iCloud, the App Store, Apple Music, Apple Fitness and Apple TV. Whether the iPhone is on its second, third or even fourth owner, it still contributes to the firm's bottom line.

Apple's competitive advantage in residual value is stark, as the chart from CCS Insight's Circular Markets research shows.

After one year, the average trade-in price for an iPhone is more than 40% of the original purchase price. In contrast, a consumer can expect to get just over 20% for a Samsung device, and prices depreciate even more quickly for other Android devices.



This is why Google and other leading Android manufacturers, most notably Samsung, are relentlessly focusing on improving the residual value of their smartphones. As consumer consciousness of the second-hand value of phones has risen dramatically, Samsung has realized it needs to address this to de-risk the purchase of a new phone.

Early steps have primarily focused on extending the duration of operating system and security patch updates, with almost all Android phone-makers now providing at least five years of support for devices worth over €500, and up to seven years in some cases. But this alone is not enough.

Acutely aware of the challenge, Samsung has started quietly rolling out a new Galaxy Club programme. This started in Korea and the US and is now being piloted in the UK. This “exclusive upgrade and rewards programme” offers several benefits, including two years of its accidental damage protection, known as SamsungCare+ (worth £179 or \$216), 0% finance over 24 months based on a 10% deposit, and in the UK, a £50 voucher for any mobile device worth £150 or more on Samsung’s website. However, the most eye-catching element of the Galaxy Club is its offer of a guaranteed 50% return of the device’s retail price when a consumer upgrades between 12 and 15 months.

This is a bold move by Samsung, and arguably a positive development for the broader circular market if it helps to lift residual values for Android devices across the board. There is little doubt that other

smartphone-makers will follow suit, and the goal will be to gradually narrow the gap with Apple. CCS Insight expects that Google will be the first to follow Samsung with a similar programme for its Pixel devices, and the leading Chinese players are unlikely to be far behind.

At first glance, targeting upgrades after 12 to 15 months may seem too soon. But Samsung is tapping into a lucrative group of users, and in doing so, securing a supply of younger, more attractive devices to resell. Samsung expects these returned devices will be backed by a “Samsung certified” second-hand device programme, allowing approved third-party sellers to offer pre-owned devices at a significant premium over current used Samsung devices.

At CCS Insight, we believe this is very good news for the broader circular market, which is currently hugely dependent on Apple devices. If rivals can narrow the residual value gap, Android devices will become a more credible second-hand offering, broadening the market for everyone. It also sets the stage for approved certification programmes from the likes of Samsung, Google, and possibly Apple in the future, which could raise the bar on devices offered back into the market.

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