

Smart phones seem to be recession resistant

December 31 2008, By Steve Alexander

As consumers pull back on spending, at least one tech product is staying hot enough that it could defy the recession: smart phones. Overall handset sales are slowing, and some of the biggest makers of the devices are ratcheting down sales projections for 2009.

But a growing number of cell phone users such as Alexis Walsko of Minneapolis are trading up to smart phones, which offer Internet, e-mail, texting, music, video and sometimes touch screens. Smart phones have accounted for nearly 90 percent of the growth in the number of U.S. cell phone users over the past year.

Walsko loves her BlackBerry Pearl so much that she thinks everybody will eventually want one.

"You can't stop checking them, because it's like having the world at your fingertips," she said. "I wake up in the middle of the night to check e-mail."

Brian Ulrich recently upgraded from an ordinary cell phone to a BlackBerry Storm because he thought it was cool - and because, as a finance manager for UnitedHealth Group Inc., he needed remote access to his corporate calendar and e-mail. His wife got a BlackBerry Pearl with a conventional keyboard at the same time.

"Now she's doing Web, e-mail and text and doesn't know how she got along without it," Ulrich said. His only major complaint: Updating the BlackBerry's software online can be time-consuming.

The migration of smart phones from the corporate suite to the home is helping to take the sting out of slowing cell phone sales. Manufacturers are expected to ship 177.2 million phones in 2009, down from a projected 186.5 million in 2008, according to Strategy Analytics of Boston.

From October 2007 to October 2008, smart phones went from 5 percent to 10 percent of U.S. cell phones, according to market research firm ComScore Inc. of Seattle. And Apple's iPhone just dethroned the venerable Motorola Razzr as the top-selling consumer handset in the United States, according to the NPD Group.

Some experts believe that as cell phone prices continue to decline, the percentage of smart phones will continue to rise. Strategy Analytics projects that 30 percent of cell phones will be smart phones by 2012.

That's great news for cell phone companies, which can charge more for data services and Web surfing.

"There's really been an advertising push to get consumers on these more sophisticated phones," said Jaimee Steele, a ComScore spokeswoman. "That makes sense for cell phone service companies because they get more revenue if consumers use more online content."

Although smart phones aren't cheap - they cost about \$100 to several hundred dollars and have higher monthly subscription costs for data service - that doesn't appear to dampen consumer enthusiasm.

Nearly 30 percent of cell phone owners now report paying more than \$100 for a phone, Steele said. Another ComScore study showed that many iPhone customers make between \$25,000 and \$75,000 a year. That category grew 48 percent from June through August, or three times the growth rate of iPhone buyers earning more than \$100,000 a year.

As a result of that popularity, analysts expect smart-phone sales to continue to grow in 2009, although at a slower rate, while overall cell phone sales will decline slightly.

It seems that even the aggravating small flaws of smart phones don't vex customers. Billy Beson, a Minneapolis businessman, says smart phones are convenient - he can answer e-mails as they arrive rather than have 20 pile up - but the touch-screen keypad on his iPhone 3G isn't for people like him, who have big fingers.

"I had to learn that I should type to the left of where I wanted to be," Beson said. "But I finally got it down, and it's nice that it fixes my mistakes. If I type 'bunchy,' it knows I'm trying to say 'lunch' and corrects itself."

But while use of smart phones is growing, there is also potential for another end of the cell phone spectrum: the prepaid cell phone that offers basic service on a pay-as-you-go basis. The New Millennium Research Council, which is sponsored by the telecommunications industry, says 29 million U.S. consumers use prepaid cell service - more than use smart phones today.

While prepaid phones would seem to have appeal during a recession, the percentage of prepaid cell phone users has not grown as much in the United States as it has in other nations because the little-promoted prepaid option is less well understood here, the report said. Only 16 percent of U.S. consumers use prepaid cell phones compared with 35 percent in France, 66 percent in the United Kingdom and 90 percent in Italy, the report said.

Consumer Reports recently reported that there are at least 25 million potential prepaid customers in the United States who don't realize they could save money with those phones.

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