



**FASHION AND STYLE
IN THE MOBILE HANDSET INDUSTRY**

ARC CHART

Fashion and Style in the Mobile Handset Industry

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About ARCchart

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Disclaimer I:

The concept handset designs for Diesel and Jaguar presented in this report are the creations of Ocean Observations. These designs have not been sanctioned by either Diesel or Jaguar and neither company has been involved in the design of these phones or contributed to the production of this report. These concept designs are meant solely to serve as examples of how a fashion or brand company can leverage their brand values and styling idioms onto a mobile handset. We do not suggest that these are actual designs these companies will take to market.

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Executive Summary

There was a time when companies such as Nike, New Balance and Reebok produced 'running shoes'. Now, these pieces of footwear sell in fashion boutiques, and vintage lines can trade for huge market premiums. Will we one day see mobile phones being sold in fashion boutiques? We are already there. In the space of 15 years, the mobile handset has moved from a niche telephony device, to become the most ubiquitous item of personal consumer electronics worldwide. This has made it an obvious tableau for the expression of an individual's fashion tastes and style.

The handset is a fully mobile device: it travels everywhere with its owner and is visible to others. To make a call it is placed to the side of the head. To compose a text, the device is held out in front. It is laid out on tables in office meeting rooms and school canteens, beside you in restaurants, and at the bar. The handset can act as an ideal canvas for an outward and visible statement of the owner's tastes and values.

Fashion is the ever-changing pattern of consumer tastes, driven by a wide range of random events. Events such as war, a shift in house prices, the introduction of a new technology, or the emergence of a new musical sound, can influence the consumer taste curve. In practice, fashion is something more specific. It is a set of seasonally driven colours, styles, and motifs that are combined and mixed in a huge variety of ways by a wide range of parties in order to appeal to targeted consumer demographics. This is not restricted to designers sending dresses down the catwalk, but also includes car manufacturers, furniture producers and mobile handset manufacturers, among many others.

A fashion handset is one where the consumer's purchase decision is based primarily on the aesthetics of the device. The aesthetics include both the styling of the device as well as any brand associated with it. Today, the primary conduit for fashion and style into the handset market are the handset vendors themselves. As a result of the increasingly commoditized conditions in the handset industry, the return on technology innovation is falling. In an age of standardised handset platforms, it is increasingly difficult for Tier One vendors to differentiate their products from that of low-cost, Asian ODMs by simply adding enhanced technology features.

For the consumer faced with a range of seemingly identical devices from a technical perspective, fashion and styling allow a reasoned, value-driven consumption decisions to be made. The aesthetics of a device can generate an emotional response by consumers, to which they will ascribe a value and for which they will pay a premium.

The result is that fashion and styling are playing an increasingly important role in the profitability strategies of the handset manufacturers as they strive to distinguish their products in the market. This has been, and will continue to be, a key driver of fashion into the mobile handset market. The report examines the fashion and style strategies employed by the major handset vendors in the market today. These strategies fall into four groups, consisting of: the incorporation of fashion and styling elements across a handset portfolio; co-branding collaborations with fashion brands; formation of a sub-portfolio of handsets geared specifically at the fashion and style conscious market; and the establishment of independent, fashion focused handset subsidiaries. Nokia is the only vendor adopting all four strategies, while Sony Ericsson employs just one.

Four case studies are presented, analysing fashion and style ventures executed by handset vendors and mobile operators. These include Siemens' Xelibri, the Siemens ESCADA venture, Nokia's Vertu and the Vodafone range of Ferrari handsets. For each, we look at the rationale behind the project, the benefits achieved by both the fashion and technology partners, and we provide a critique of these projects' successes and failings.

There are clear benefits for the mobile operators in distributing fashionable and branded handsets through their channel, including opportunities for customer retention, customer acquisition, ARPU growth, enhancement of brand values and subsidy removal. However, there are also a number of difficulties for operators in becoming involved with these devices, and much of these issues revolve around conflicts of brand.

It is the holy-grail for handset manufacturers to sell more than one handset to each mobile subscriber. A user might have a daytime handset for power use, and a sleek evening handset with fewer functions, but a more fashionable form factor. Vertu and Xelibri were more about creating fashionable and stylistic handsets, but multiple handset ownership was the side-effect in some cases. While the mainstream consumer market has not widely demonstrated a desire for multiple handsets, the report examines how fashion handsets will drive the market for secondary phones.

Fashion brands have entered into partnerships with Tier One vendors to produce co-branded fashion handsets, however, none have taken the next step: independently producing their own-designed phones, outside of an operator or vendor collaboration. We contend that the mobile phone market has matured to the extent where a portion of the market will derive 'utility' from the device's styling and branding. This is an audience to which fashion brands can deliver more value than the current handset vendor brands who are tied into their technology and engineering roots. The report outlines the type of fashion, brand and lifestyle companies for which there is a handset opportunity and discusses the factors which will incentivise these companies to enter the market, as well as the barriers which will restrict some of them.

The report presents two specific examples of how fashion and brand companies can leverage themselves within the handset market. We look at two companies, Diesel and Jaguar, providing a background of these companies and details of their brand position. We then present concept designs for handsets which these companies could launch and target at a fashion and brand conscious market. Created by design firm, Ocean Observations, these concept designs are based heavily around themes and idioms closely linked with the brand, and cover the design of both the external form factor and the graphical user interface. A discussion of how these example companies might go about retailing their fashion phones within the market place is also presented.

We believe that the global wrist watch market is an effective example of how the global handset industry could mature. An overview of the watch industry is presented, highlighting the fashion, style and brand components of this market and drawing parallels with the commoditizing handset industry. We believe that consumer behaviour in watch purchasing will be mirrored in handset purchasing when the mobile phone market has matured sufficiently. By mapping the consumer purchasing segmentation of the watch market onto a future, mature, handset market, we determine a measure of future demand for fashion handsets.

As the market matures and consumers' handset tastes become more sophisticated, demand for fashion phones will increase. We estimate that, by 2010, sufficient consumer demand will exist to support the sale of 23 million fashion and luxury fashion handsets. While this will account for just 2% of all handsets shipped worldwide, the sale of these phones will constitute 12% of handset retail revenue.

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1 Introduction



Image 2 - Gucci mobile phone luxury lanyards

Fashion will become as important for consumer electronics as it has become for the wrist watch and sneaker (trainer). There was a time when companies such as Nike, New Balance and Reebok produced 'running shoes'. Now, these pieces of footwear sell in fashion boutiques, and vintage lines can trade for huge market premiums.

As of 2004, 1.52 billion people, a quarter of the world's population, owned a mobile phone. Will we one day see mobile phones being sold in fashion boutiques? We are already there. In the space of 15 years, the mobile handset has moved from a niche high-end telephony device, to become the most ubiquitous item of personal consumer electronics worldwide. This has made it an obvious tableau for expression of an individual's fashion tastes and style.

Image 1 - A boxed Siemens ESCADA SL65 handset



Today, the mobile handset fashion market divides into two categories; the market for the phones themselves, and the growing market for accessories with which users can personalise their handsets: from \$300 Gucci straps to \$5 fascias. Whether you are in Tokyo, New York or London it is difficult to avoid kiosks selling brightly coloured accessories to help consumers differentiate and express themselves through their mobile handset.

Definition: Fashion Handset

In this report, we define a 'fashion handset' as any mobile phone purchased by a consumer where that consumer's purchase decision is based *primarily* on the aesthetics of the device. The aesthetics include both the styling of the device as well as any brand associated with it.

As the market matures and consumers' handset tastes become more sophisticated, demand for fashion phones will increase. We estimate that, by 2010, sufficient consumer demand will exist to support the sale of 23 million fashion and luxury fashion handsets. While this will account for just 2% of all handsets shipped worldwide, the sale of these phones will constitute 12% of handset retail revenue.

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