

**Mobile consumption in
a post-growth world**

Deloitte Global Mobile Consumer
Survey, Middle East Edition 2019



Foreword



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Welcome to the Middle East edition of the Global Mobile Consumer Survey where we will zoom in on the digital trends of consumers within the Middle East. This report is based on responses from 2000 respondents in the Kingdom of Saudi Arabia and the United Arab Emirates.

Twelve years ago the mobile phone ecosystem experienced a radical shift with the dawn of the age of the smartphone. Since then, the smartphone has gone from niche to the most indispensable device in the growing ecosystem of our digital lives. Features and functionalities have blossomed as technological and manufacturing advances have allowed the smartphone to adopt the features of previously specialized and standalone devices. In turn, apps have become the window of the new digital realm, governing how we communicate and interact with the world around us.

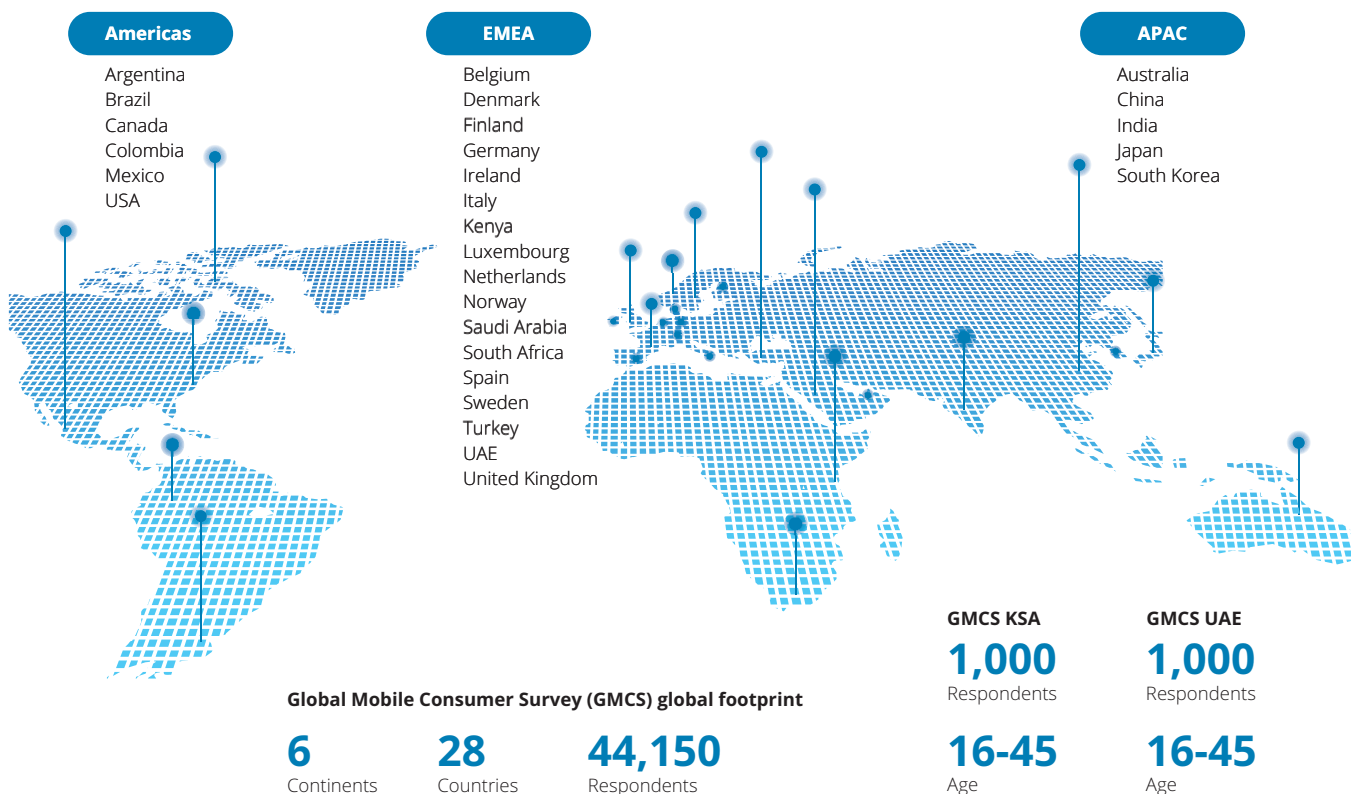
With its young, tech savvy population and a growing base of expat workers eager to maintain communication links across the world, the Middle East has proved to be a fertile soil for smartphone usage. Combine this with network operators keen to remain at the forefront of technology and it is no surprise that the Middle East shows one of the highest smartphone penetration in the world at 97%. This report highlights some of the major elements and trends of the smartphone economy observed in the region. We note the growing market for smartphone accessories as users continue to look for ways to enhance the functions and longevity of their phones. We have also taken a closer look at the rise of mobile gaming, as close to a universal use of the

smartphone as there is in the region. We close with some insights into how users select their smartphone operator and the intense anticipation felt due to the imminent arrival of 5G.

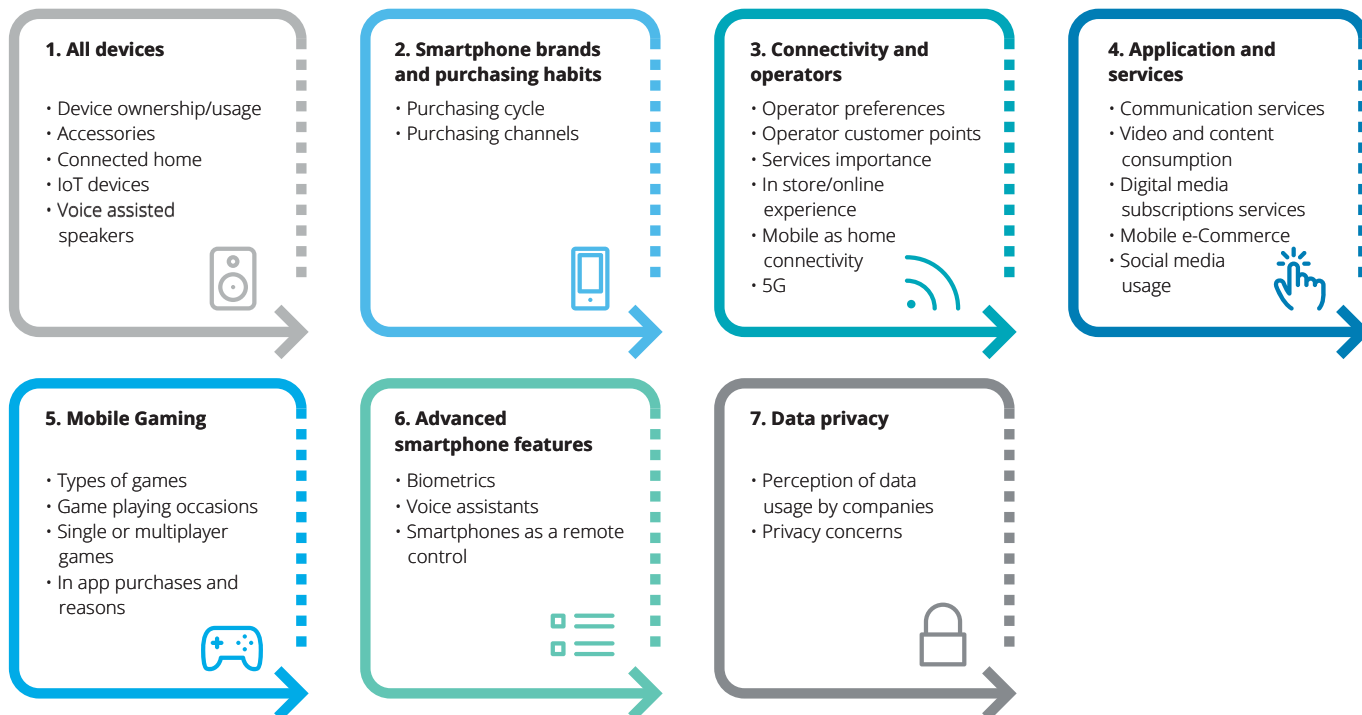
As we stand on the cusp of the 5G era, we note that although there has been a great deal of clamor and hype over 5G, we expect the effect in this first year to be very limited. Limitations in devices and the app ecosystem are likely to remain for some time. In the short term consumers are likely to mostly observe 5G as being an incremental (though substantial) evolution to the existing 4G networks. In particular early adopters will likely see more benefit as a result of reduced network congestion than they will the lofty early promises made of 5G.

Overall and despite the plateauing of device penetration, the market for smartphones and its associated ecosystem remains strong. With the rebound in smartphone purchases expected in 2020 associated to 5G and evolving consumer behaviours around new services particularly mobile financial services, we foresee great prospects for the overall mobile ecosystem in the Middle East over the next couple of years. The revolution of the smartphone has come and gone, but with advancing hardware, content and infrastructure it is about to be born again.

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GMCS 2019 - Themes covered



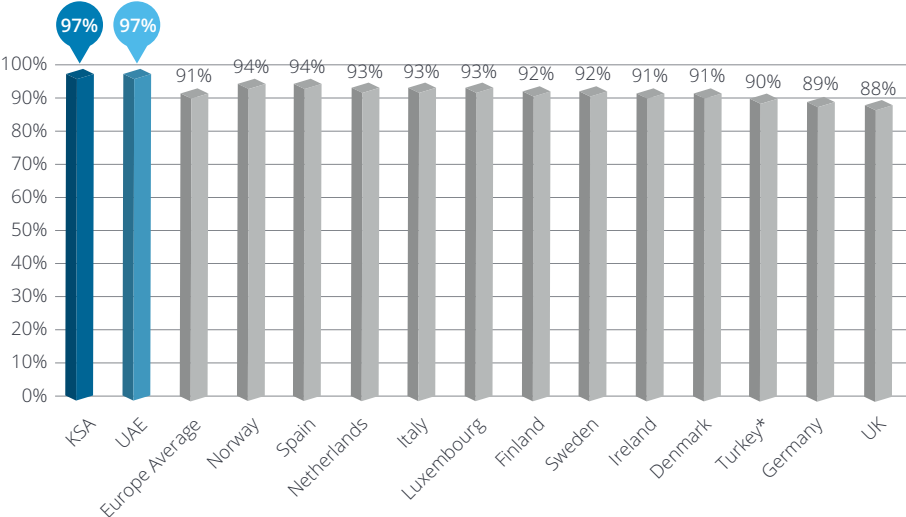
Smartphones are now in a post-growth world

Within the connected device ecosystem, virtually all devices have plateaued in the last 2 years. In KSA and UAE penetration increased this year (marginally) to reach 97% overall. Accordingly there is not much room for further expansion for smartphones in terms of market access and both countries lead all European countries surveyed.

Smartphones are likely to retain their place at the top of the device pantheon for years to come, as there is at this time no challenger device lurking beyond the horizon. Rather smartphones have continued to innovate in their feature set, allowing them to devour the marketshare of other devices- think over the years, MP3 players, compact cameras, hand-held GPS navigation and fitness trackers to name a few. While in KSA and the UAE smart watches have seen a progression overall from 16% to 25%, their fate should more likely mirror the adoption curve of tablets (currently plateauing in KSA and UAE at about 42%) rather than the one of smartphones.

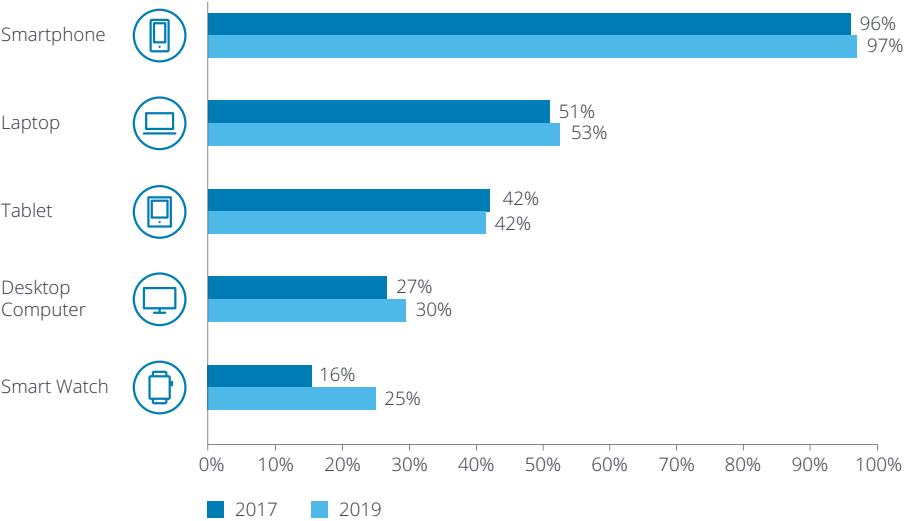
Despite two years of negative growth rate globally, the massive market for smartphones – over 1.4 billion are expected to be shipped in 2019 - should ensure that considerable investment continues to be poured into further enhancing its role and mission to become the ultimate jack of all trades device for the foreseeable future. In particular with the commercial launches of 5G in 2020, the smartphone market should go back to positive growth next year.

Smartphone penetration across European countries, 2019



Source: Middle East and European editions, Deloitte Global Mobile Consumer Survey, May-Jul 2019
 Base: All respondents aged 18-75 years (21,002) in 13 European countries: UK: 4,000, Germany: 2,000, Netherlands: 2,000, Finland: 1,000, Norway: 1,000, Italy: 2,000, Spain: 1,000, Turkey: 1,000, Ireland: 1,000, Luxembourg: 1,001, Sweden: 2,001, Belgium: 2,000, Denmark: 1,000, KSA: 1,000, UAE: 1,000
 *Turkey sample is for the urban population aged 18-50

Access to devices at work or home



Source: Middle East edition, Deloitte Global Mobile Consumer Survey, May - Jun 2017, May - Jun 2019
 Base for 2019: KSA (1,000), UAE (1,000). Base for 2017: KSA (1,000), UAE (1,000)

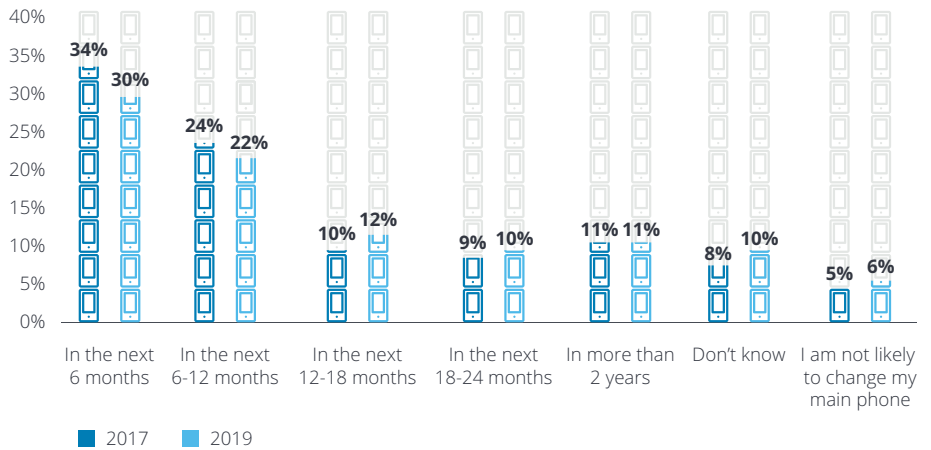
The two year purchase cycle is still holding but gradually increasing

KSA and the UAE are mirroring the global trend with an increased holding time for phones between upgrades. This has been driven by the increased cost of devices, commoditization of attractive smartphone features as well as the lack of killer differentiating features between smartphone generations. Among the owners of smartphones, just over a quarter of them purchased their devices in 2019, with 31% of them in 2018. In total, 21% of phones were purchased prior to 2017, making them well over two years old.

To this point, in KSA, only 30% of respondents expect to change their main phone in the next six months, a drop of four percentage points over two years. The appeal of the latest model is also eroding - while the release of a new model still prompts a change for 28% of respondents, this proportion has significantly reduced over the past two years.

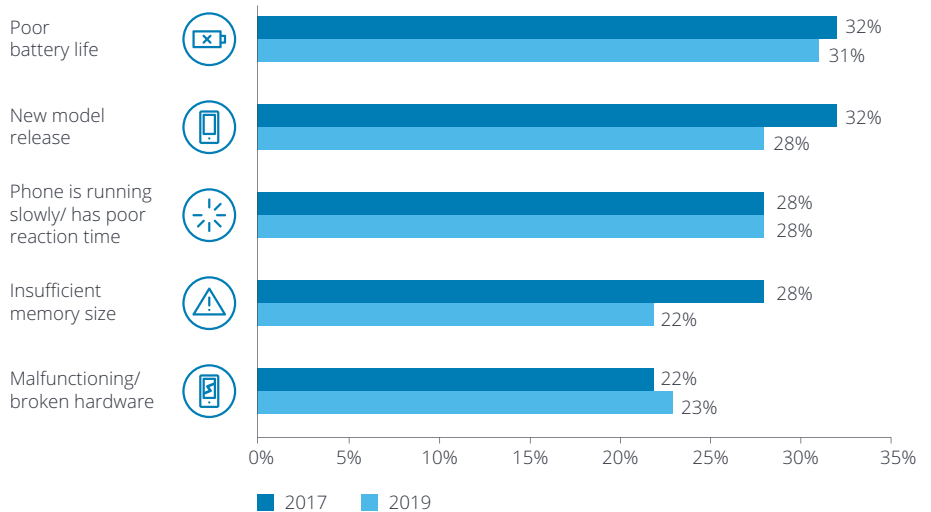
While the market appears to have reached some level of consistency with regards to device purchases, there is always the potential of a disruption in the market to spur new device adoption. One major factor this coming year affecting the purchasing cycle will be the speed of rollout in the region of new 5G networks and service offerings.

Mode of purchase of phone (KSA)



Source: KSA edition, Deloitte Global Mobile Consumer Survey, May - Jun 2017, May - Jun 2019
Base: All respondents, 2019: 1,000, 2017: 1,000

Reasons that prompt to change main mobile phone



Source: Middle East edition, Deloitte Global Mobile Consumer Survey, May - Jun 2017, May - Jun 2019
Base for 2019: KSA (1,000), UAE (1,000). Base for 2017: KSA (1,000), UAE (1,000)

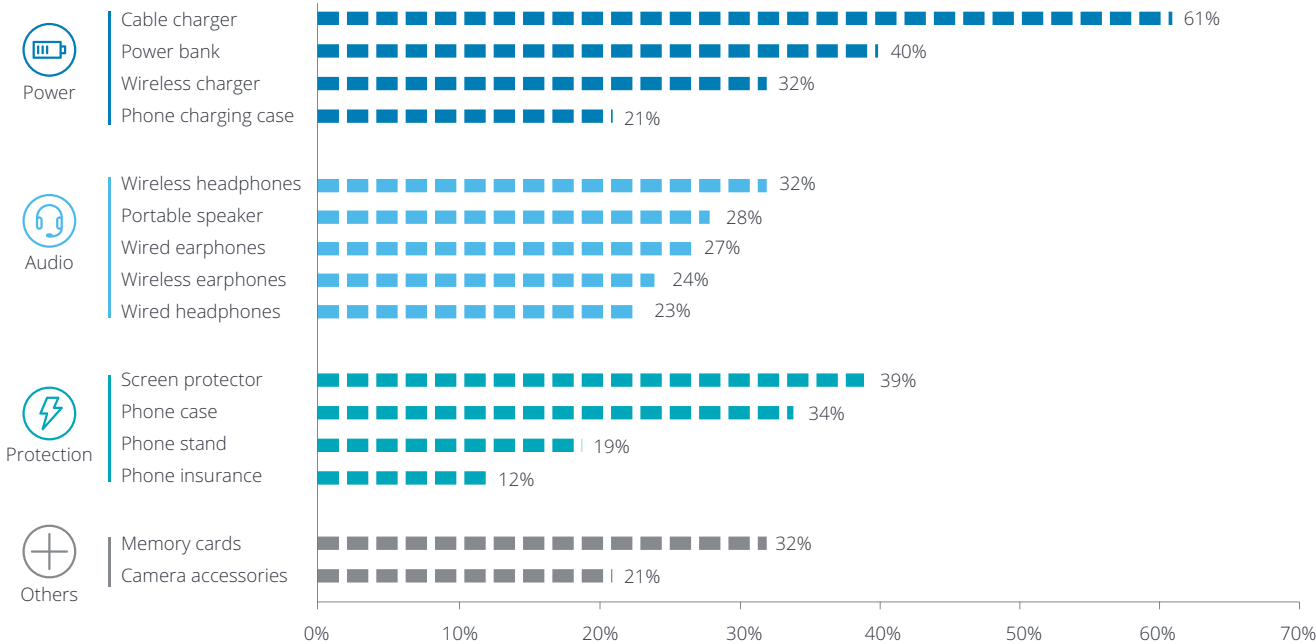
Accessories – at the heart of the “smartphone multiplier”

Though the number of smartphone users have plateaued, the smartphone ecosystem has been evolving. The phone is now at the centre of a significant market of associated hardware, content and services. This ecosystem or “smartphone multiplier” is estimated at about half a trillion dollars in 2019. The accessories’ market on its own is close to US \$80 bn per year. Users are increasingly opting to enhance the functionality of their devices through the purchase of additional accessories suited to their needs. This can be either for extra functionalities as with the purchase of audio accessories such as wireless head/earphones or to augment the phone’s capabilities in the case of power banks. On average, in KSA and in the UAE, users across age groups purchase separately close to 5 additional accessories for their smartphones. The propensity to purchase or receive smartphone accessories (as a gift) is also higher among Android as opposed to iPhone users.

The three main categories of products are power, audio and services. Accessories in the power and audio categories are the most popular and best positioned to see continued growth over the medium term, particularly driven by changes in standards and new innovations. For instance, in power, the gradual migration to USB-C will require a retooling of users’ existing suite of charging devices. On the audio front, while wireless headphones have already proven to be very popular among respondents in UAE and KSA, we foresee an inexorable migration towards wireless earphones in the longer term as “cutting the cord” will become the new norm. In addition, technological innovations in the earpod space (e.g. better audio quality, noise cancelling etc.) is likely to drive the market further and provide opportunities for manufacturers to better segment the market (e.g. the launch of Apple Pro AirPods).

The “smartphone multiplier”: on average in KSA, users purchase separately close to five additional accessories for their smartphones.

Accessories/services purchased separately and/or received as a gift



Source: Middle East edition, Deloitte Global Mobile Consumer Survey, May - Jun 2019
 Base: All respondents aged 16-45 who own or have access to a smartphone or a feature/basic phone: KSA (973), UAE (971)

Media consumption: social media usage dominates but access to subscription services is on the rise

As perhaps the key device in the daily lives of residents of KSA and UAE, smartphones plug into every aspect of the day from the moment we wake up to the final hours of the night before we go to bed. From how we record our daily lives, to how we share it, from how we remain aware of the world to how we entertain ourselves within it. The results of this year's survey show that smartphones continue to play a key role in our daily lives. In the top 10 usages of smartphones in KSA and UAE, it is not a surprise that seven are linked to consuming or sharing content on social media, directly or indirectly (e.g. using photo filters). By a good margin, the preferred activity of mobile users in 2019 was watching videos, stories and posts – almost half of respondents in the UAE and KSA admit doing this regularly on social media while another third

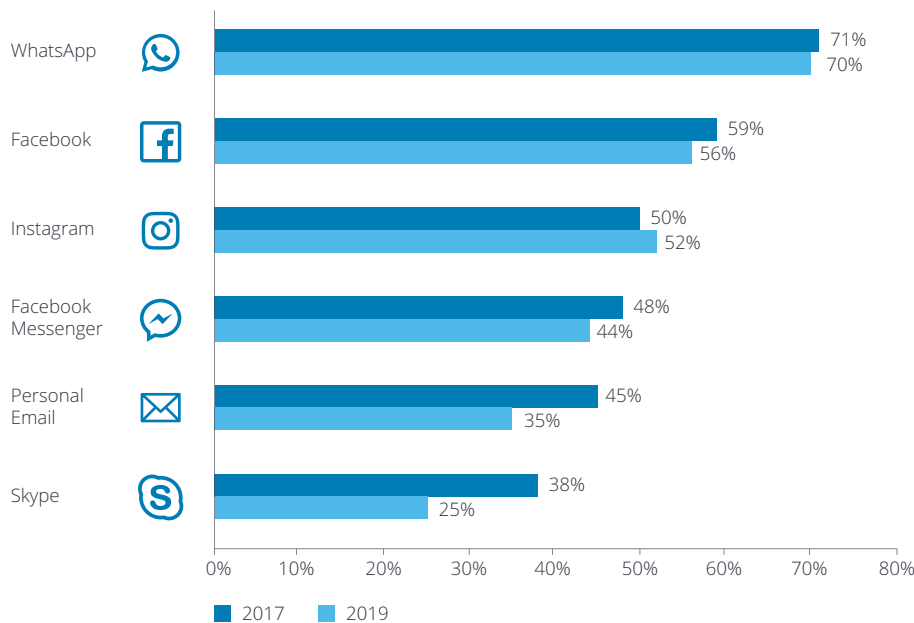
regularly consumes videos on instant messengers (Whatsapp etc.). In the UAE, across all types of mobile social media and media consumption activities, we are noticing a strong gender bias with women consuming significantly more regularly than men. Across other usages, we see active social media and communications behaviours (either posting or sharing pictures/ videos) consistently strong with more than a third of respondents doing these on the regular basis. By way of comparison, consumption of professional content (streaming, live TV, podcast etc.) falls beyond these top spots.

In terms of professional content, the adoption of SVOD and music streaming services seems on par in the UAE and KSA with other mature markets surveyed. More than a third of consumers in

UAE and KSA has access to a SVOD subscription services, primarily Netflix, while at least a fifth has access to a music subscription service. Interestingly, more than a third of respondents who have access to Netflix access it regularly on their smartphones.

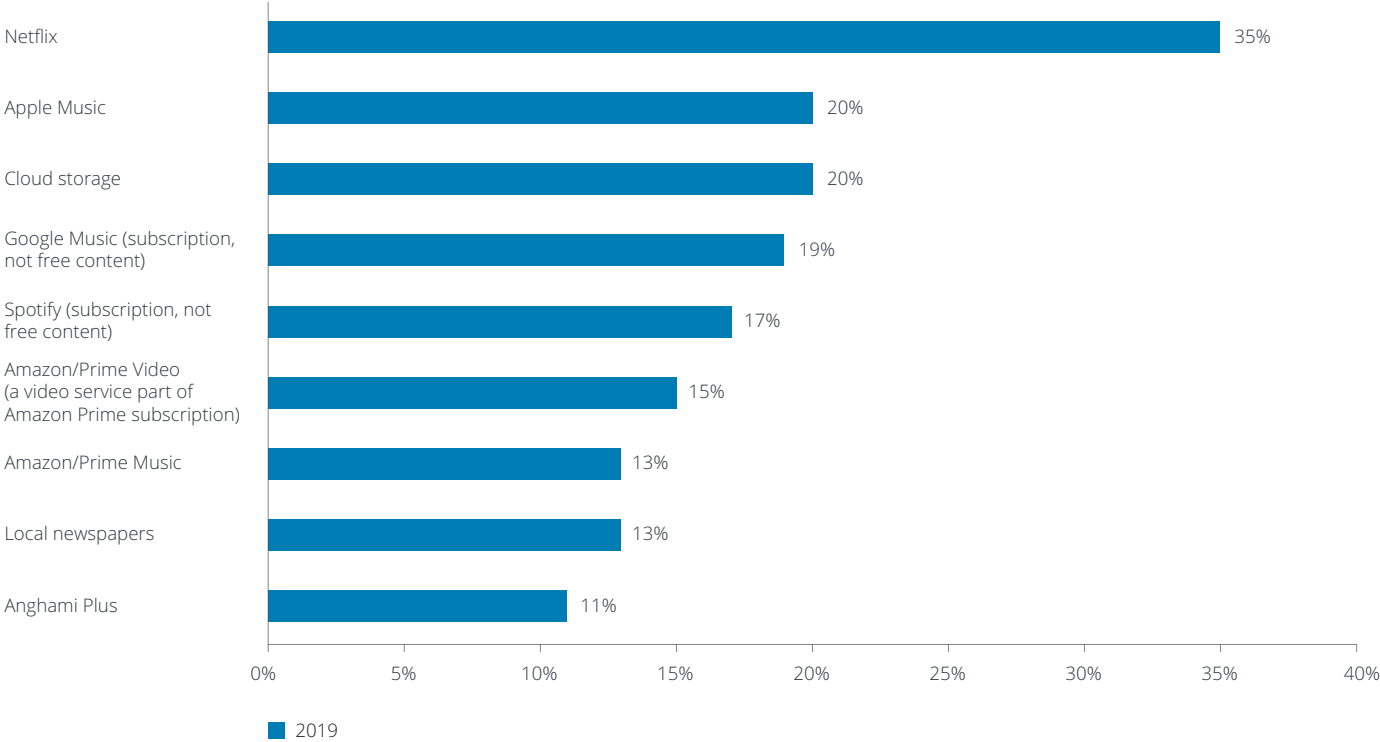
Finally, usage of communication tools in KSA and the UAE shows clear dynamics in terms of age demographics. Overall, Whatsapp remains the overwhelming favourite platform of exchange with over 70% of the users regularly accessing it. However, younger demographics (16-24) significantly privilege Instagram and to some extent Snapchat (in the UAE) over more traditional platforms including Facebook and Whatsapp which in turn are strong favourites in the 25+ age segments.

Daily app usage



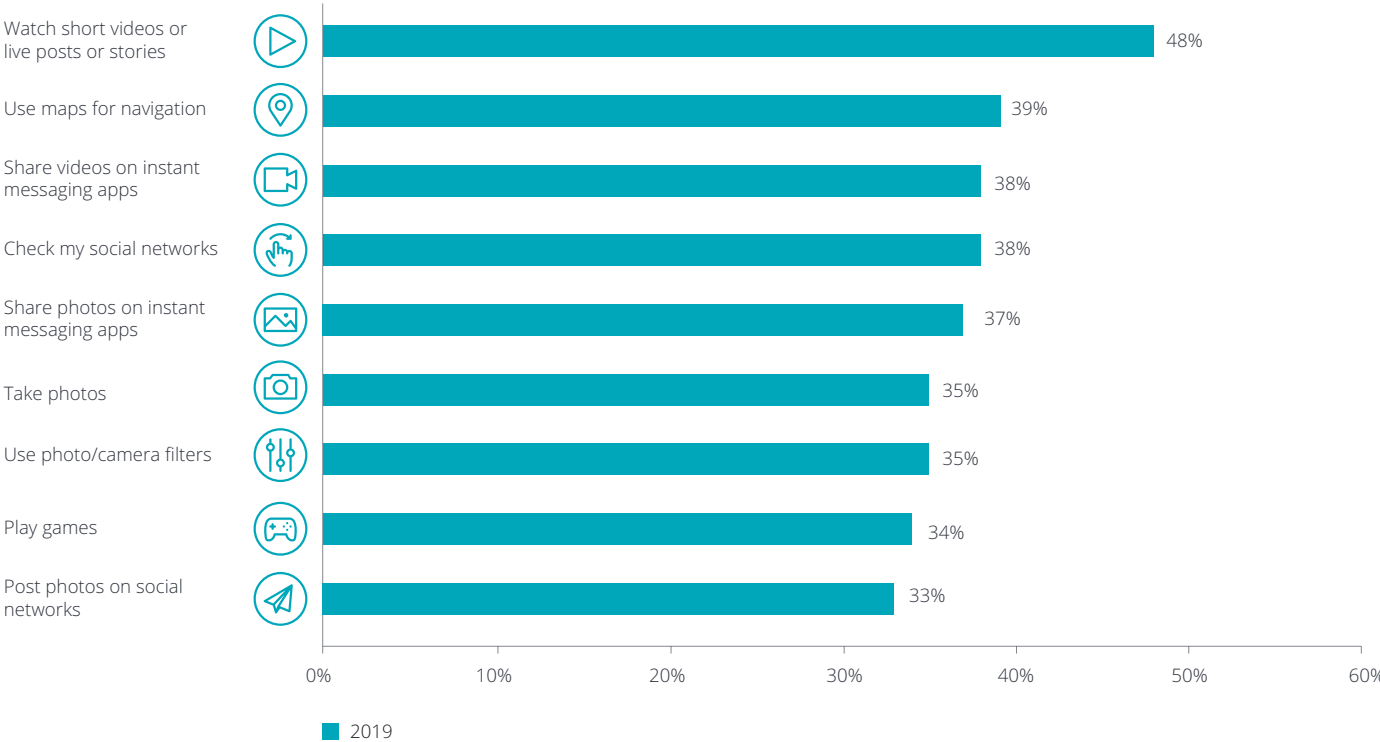
Source: UAE edition, Deloitte Global Mobile Consumer Survey, May - Jun 2017, May - Jun 2019
 Base: All respondents, 2019: 1,000, 2017: 1,000

Access to subscription based services



Source: UAE edition, Deloitte Global Mobile Consumer Survey, May - Jun 2019
 Base: All respondents, 2019: 1,000

Regular uses of phone



Source: Middle East edition, Deloitte Global Mobile Consumer Survey, May - Jun 2019
 Base for 2019: KSA (1,000), UAE (1,000).

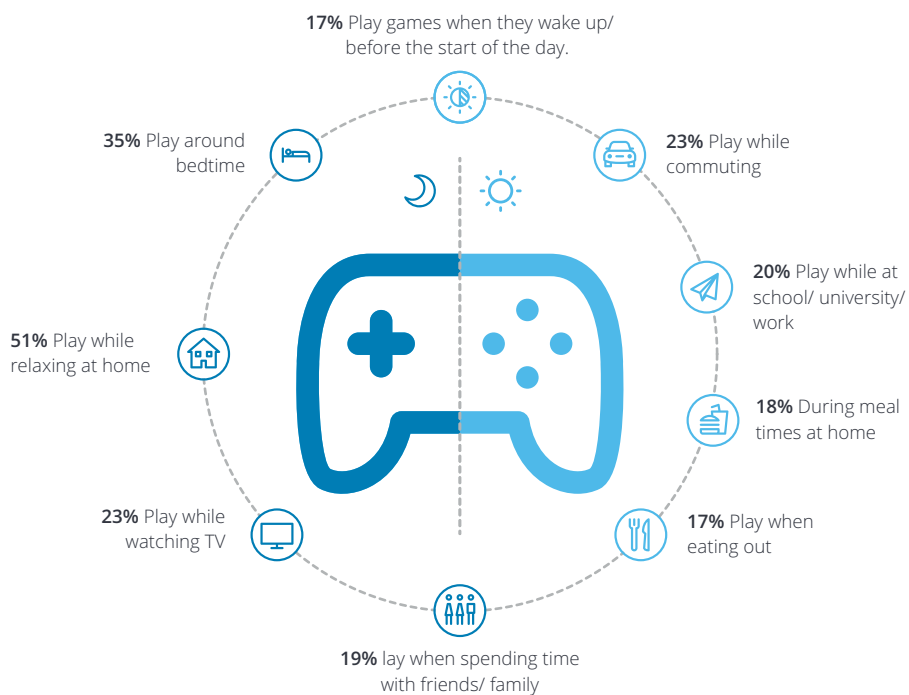
Mobile games: mainstream and at home

Although only 34% of surveyed respondents indicated that they regularly played games on their phones, when considering less frequent gamers, the population of smartphone owners that play in some form climbs to over 90%. While younger age groups do show a higher propensity to play games, it is not significantly higher than among older users, making gaming as close to a universal pastime as we have seen. Some 17% of users play games as soon as they wake up and almost a quarter of gamers play during their commute. However, the most popular times for gaming remains surprisingly while relaxing at home.

Women were found to be the keenest group, with their highest preference being for casual/puzzle games, followed by action/adventure. Ultimately we have found that within the smartphone ecosystem there are games for all tastes, allowing mobile games to target the majority of the smartphone using market. Worldwide, mobile gaming has proven an attractive market, reaching for instance US \$1bn in the UK this year. The case is no different in the Middle East where mobile games generates healthy revenues generally using a freemium business model. Within the freemium space a minority of spenders, particulars large spenders, account for the majority of revenues earned by game publishers. 39% of gamers in KSA and UAE reported never having made an in-app purchase. But these users are in effect subsidized by the large spenders, the 8% spending over 100 AED or SAR per month. In addition to in-app purchases by players, advertisements are also a critical source of revenue for publishers.

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When do you tend to play games on your mobile phone?



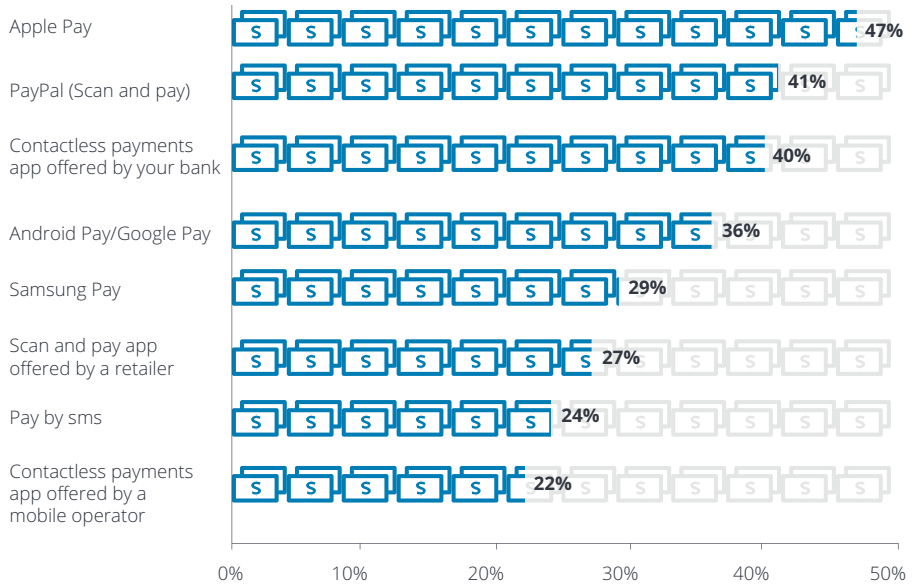
Source: KSA edition, Deloitte Global Mobile Consumer Survey, May - Jun 2019
 Base: All Who Own Or Has Access To A Smartphone And Play Games On Their Phone: KSA (807), UAE (798)

Mobile Financial Services: a heated battlefield

Mobile Financial services, from in store payments to money transfer are a fast growing segment across a variety of players in the value chain – telcos, banks and fintech players all jockeying for leadership in their respective markets. Smartphones are increasingly becoming a tool of choice for making in-store payments in KSA and the UAE. Over 20% of respondents utilized their device for in-store payments, with Apple Pay leading a diversified pack that includes major international providers such as PayPal (41%), Google (36%), Samsung (29%) as well as solutions offered locally by retailers, banks and mobile operators. With the recent launch of mobile payment solutions from telcos in the region, the use of contactless payment apps from mobile operators is appearing in the top ten methods of in store mobile payments.

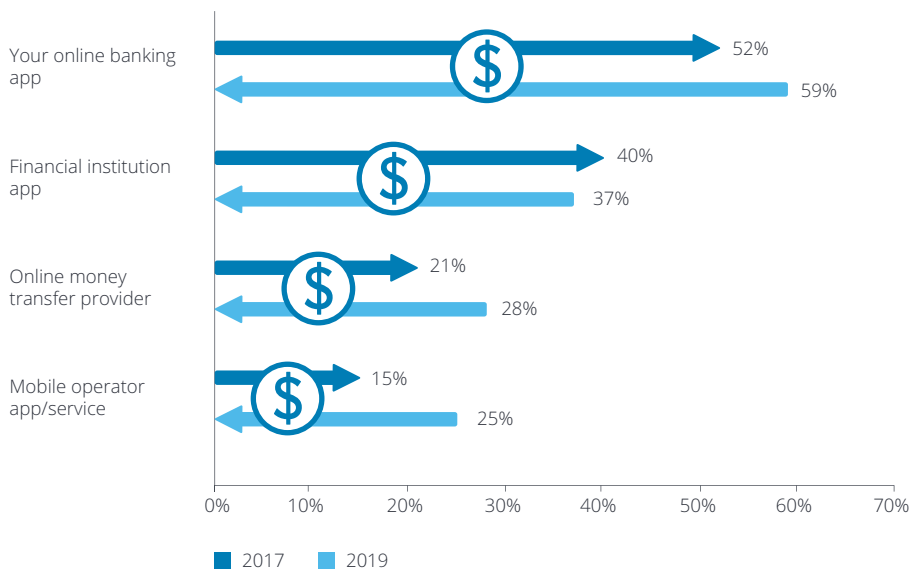
Another financial service where mobile phones featured heavily is money transfer, an extremely important service given the large number of foreign workers in the Middle East. While two years ago online bank/financial institution apps were far at the forefront of providing this service, today it is increasingly being provided by other means including social payment apps, Facebook and apps provided by mobile operators. These alternatives have grown significantly over the past two years and we expect to continue seeing robust growth within this space.

In-store mobile payment solutions



Source: Middle East edition, Deloitte Global Mobile Consumer Survey, May - Jun 2019
 Base: All respondents who use their phone to pay for a product/service In-store: KSA (204), UAE (209)

Ways for money transfer using mobile



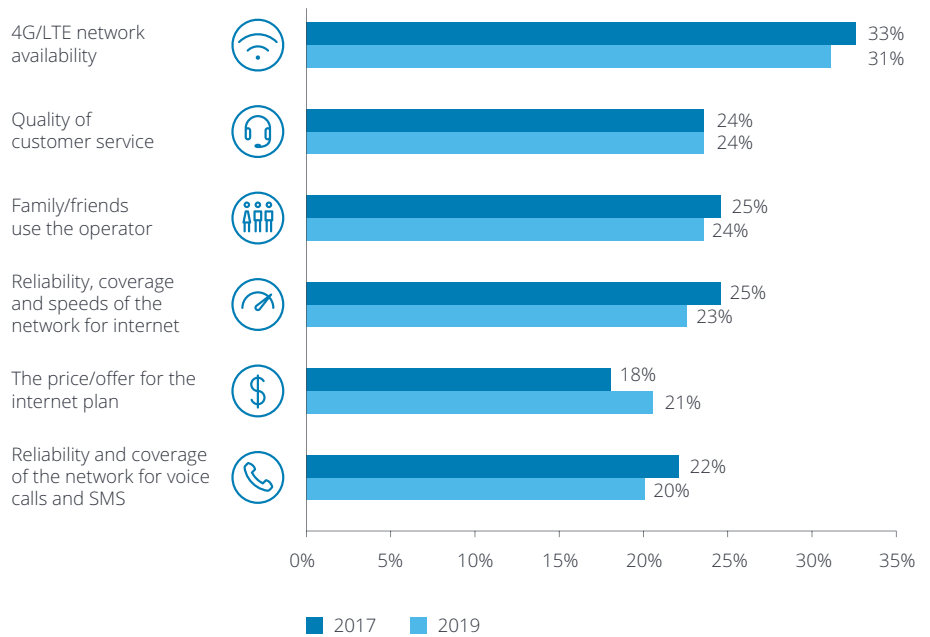
Source: Middle East edition, Deloitte Global Mobile Consumer Survey, May - Jun 2017, May - Jun 2019
 Base: All respondents who use their phone to transfer money, 2019: KSA (310), UAE (308); 2017: KSA (302), UAE (230)

Mobile operator choices driven by data services

With so much of a user's experience dependent on the quality of network and service reliability, it should come as no surprise that these factors consistently rank as the most common reasons for selecting a mobile operator, as well as key reasons in determining whether to switch operators.

Responses from users also reinforce the new normal within the space, that data is the new king; users more consistently cite factors associated with data compared to voice calling/SMS. We also noted a small increase in the importance of pricing of data plans to users as compared to previous years. As mobile networks reached a level of parity with their LTE/ 4G rollouts, and with increased competition from telcos, particularly in KSA, price is an increasingly differentiating factor. But of course, a new technological arms race is on the horizon with 5G, it is highly likely that quality again becomes the standard by which an operator is judged.

Reasons for choosing current mobile operator



Source: Middle East edition, Deloitte Global Mobile Consumer Survey, May – Jun 2017, May - Jun 2019
 Base for 2019: KSA (1000), UAE (1000). Base for 2017: KSA (1000), UAE (1000)

With growing communication from telcos in the region on 5G benefits and recent commercial trials (e.g. in the UAE), the anticipation around 5G has shown to be generally much higher in KSA and UAE than in most other markets.

Attitude towards 5G

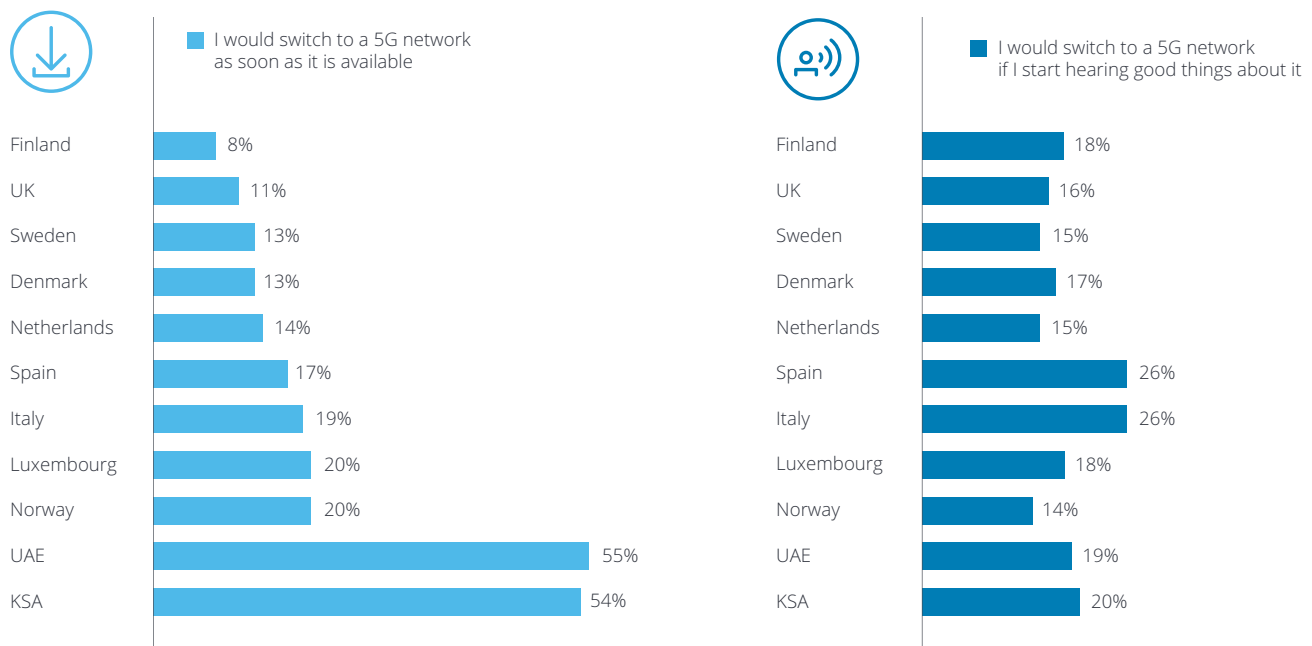
With apps, and consequently users, becoming ever more ravenous for data, the emergence of 5G is also top of mind for mobile users. With growing communication from telcos in the region on 5G benefits and recent commercial trials (e.g. in the UAE), the anticipation around 5G has shown to be generally much higher than in most other markets. Over 50% of respondents in both the KSA and UAE indicate a willingness to switch to 5G immediately; this is well over double the response rate seen in Western Europe.

Much of this can be attributed to the aforementioned marketing and hype given to 5G, and these countries well articulated goals of maintaining a leading

edge technological infrastructure. It is worth noting that while 5G will eventually deliver benefits, at this time the ecosystem in terms of both devices and apps optimized to make full use of 5G are both largely immature. As such the benefits to consumer now and through most of 2020 will be but a fraction of what it can eventually be.

Although it is still early days for 5G, the response from users should be reassuring to network operators who are undertaking significant investments required in order to meet the demand.

Willingness to switch to 5G by European country



Source: Middle East and European editions, Deloitte Global Mobile Consumer Survey, May-Jul 2019
 Base: All respondents (16,272) in 10 European countries who have access to a phone or smartphone: UK, Germany, Netherlands, Finland, Norway, Italy, Spain, Turkey, Ireland, Luxembourg, Sweden, Belgium, Denmark. All respondents: KSA (1000), UAE (1000)
 *Turkey sample is for the urban population aged 18-50

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