In China, cheap and cheerful phones outsmart Apple

Melanie Lee, Reuters

(Reuters) - In China's booming smartphone market, which is set this year to overtake the United States as the world's largest, a host of little-known local firms are primed with cheap phones to squeeze market share from U.S. giant Apple Inc's iPhone.

In the latest local challenge to the iPhone, Xiaomi Technology on Thursday launched the successor to its popular MiOne (MI) smartphone. The MI2 has specifications that exceed those of the iPhone 4S and sells for less than half the price.

Smartphones from Xiaomi - founded only two years ago but already worth more than Blackberry maker Research in Motion, according to private market valuations - have proved so popular they sell out in minutes after going on sale online. The company, founded by CEO Lei Jun, said last month its first-half revenue was close to $1 billion as it sold more than 3 million phones.

Mirroring Apple's annual worldwide developers conference (WWDC), where devotees would pay to listen to Steve Jobs showcasing new products, the informally-clad Lei charged Xiaomi fans 199 yuan ($31.30) to attend the Beijing launch, with the proceeds going to charity. Over 1,000 people flocked to the event.

While iPhone sales will increase in China [1], Apple's market share may stagnate or even dip as the market's changing demographics mean the iPhone flourishes in just a handful of wealthy Chinese cities, analysts said.

Industry researcher IDC estimates that in China last year, smartphones costing less than $200 made up 40 percent of shipments, while devices costing $700 and more accounted for 11 percent of the market.

"The sweet spot of affordability in China is 800-1,500 yuan ($130-$240)," said Michael Clendenin, managing director of Shanghai-based consultancy RedTech Advisors. "The 'Lao Bai Xing', or man in the street, is going to go for these mid-tier phones."

Li Xing, 35, lauding the Xiaomi phone's signal capabilities at the launch event, said: "I preferred not to use Apple because I didn't want my phone to be a luxury product, it's just a phone."

The MI2, which goes on sale in October at 1,999 yuan ($310), has a quad-core processor, 8 mega-pixel camera and a voice-assistant similar to Apple's Siri.

"Other phones are just phones, but a Xiaomi phone is very human-friendly," said

Chen Zhen, 31.

Apple releases a single iPhone model a year at a price - around $800 - equivalent to about two months pay for an urban Chinese, who make up half of China's 1.3 billion population. Analysts say the real growth in China is in cheaper smartphones where a wide variety of models at different prices appeal to first-time buyers.

"Apple isn't going to rule China, simply because of the limited models they have and the price points they target," said TZ Wong, an analyst with IDC. "Based on these two factors, we do not think Apple will be the No. 1 smartphone player in China."

Apple ranked second in January-March smartphone shipments in China, with 17.3 percent market share, trailing Samsung Electronics' 19.2 percent, according to research firm, Gartner.

IOS TO SLIP TO 3RD

Apple's market share by volume has been on a downtrend, and the share of the market commanded by its iOS mobile operating system is expected to slip to third place by 2016 from second earlier this year, according to Gartner analyst Sandy Shen - below Google Inc's Android and Microsoft Corp's Windows.

Apple's iPhone sales in China, its second-largest market, stumbled in April-June on inventory adjustments with the launch of the iPhone 4S. That extra inventory meant resellers didn't need to buy as many iPhones during the quarter, and the expected launch later this year of the iPhone 5, with enhanced Chinese language capabilities, also likely held back orders.

"Apple's market share is pretty stable. It will be flat over the next five years. Although volume-wise it's increasing, that's because the total market is growing," Shen said.

Research firms IDC and Gartner predict China's smartphone shipments could hit 140 million this year, topping those in the United States.

HIGH-SPEC, LOW-COST

Growth is driven largely by smartphones made by ZTE Corp, Lenovo Group and smaller private firms such as Xiaomi, Gionee and Meizu Technology.

Meizu phones, which sell in China and Hong Kong for 1,500 yuan, are feted by Western technology blogs for offering high-end smartphones at bargain basement prices.

Offering even cheaper models, Alibaba Group, Shanda Interactive and Baidu Inc have all this year launched smartphones for under 1,000 yuan. Baidu's phone, made with partners, retails at 899 yuan ($140), while Alibaba's waterproof smartphone, made with Haier Electronics Group, costs 999 yuan.

"For those with an iPhone or Samsung ... it's just a replacement cycle. But for many people who haven't got their first smartphone, those are the people who will get cheap smartphones," Shen said. ($1 = 6.3625 Chinese yuan)

(Additional reporting by Jane Lee in BEIJING; Editing by Kazunori Takada and Ian Geoghegan)

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