

**THE SURGING
MARKET FOR
SMARTPHONE
RE-COMMERCE:
HOW CAN
EUROPEAN
TELCOS RIDE
THE WAVE?**

by Stefano Sorrentino, Guido Jung, Luca Guccione, Lisa Longoni

CONTENTS

EXECUTIVE SUMMARY	3
THE EVOLUTION OF THE SMARTPHONE RE-COMMERCE MARKET	4
HOW ARE TELECOM OPERATORS CURRENTLY MANAGING BUYBACK PROGRAMS?	7
GROWING HUNGER FOR USED DEVICES	8
WHAT IS IN IT FOR MOBILE OPERATORS	9
HOW CAN MOBILE OPERATORS IMPROVE THEIR TRADE-IN PROPOSITION?	10
CONCLUSION	12
AUTHORS	13
ABOUT VALUE PARTNERS	14

EXECUTIVE SUMMARY

The market for used smartphones is rapidly growing in Europe on both a consumer supply and demand level and mobile operators are best positioned to play a leading role and capture a significant share of the underlying value pool.

Despite their centrality in the smartphone-customer relation, mobile operators are still struggling to generate high volumes and conversion rates through their trade-in programs. As a matter of fact most carriers still fall short in assigning their trade-in programs the strategic relevance they deserve considering their high potential for supporting customer acquisition and retention, driving sales of new-devices and post-paid subscriptions and securing large stock of high-graded used devices to fulfill internal needs.

There are many areas that mobile operators could address to strengthen their trade-in programs' effectiveness, including re-evaluating their role and operations across the reverse logistics value chain and re-designing the program's value proposition to deliver a seamless and compelling customer journey.

This perspective provides an overview of the smartphone buyback market's recent evolution and complexity while highlighting the key areas we believe mobile operators should focus on to improve the commercial effectiveness of their trade-in programs and unlock value from a rapidly growing market.

There are many areas that mobile operators could address to strengthen their trade-in programs' effectiveness.

THE EVOLUTION OF THE SMARTPHONE RE-COMMERCE MARKET

The European market for used smartphone buyback or trade-in (i.e. a consumer's sale of his used phone for cash or discounts on new devices or monthly installments) has gone a long way since pure-online consumer electronic players started launching buyback programs about 10 years ago (in 2010 reBuy.de, a leading European electronic re-commerce platform, launched its online trade-in service for mobile phones and Recommerce Group rolled-out its first trade-in solutions, ...).

In this early stage the market for used smartphones was however still limited in volumes, dominated by online marketplaces supporting peer-to-peer spot transactions and most of all, lacking both interest and structured value propositions on the part of the players already owning the smartphone customer relationship (i.e. OEMs, consumer electronic retail chains and mobile network operators).

Things however started changing in 2015, when Apple rolled-out its iPhone trade-in program in Europe, which to date is still regarded as the best-in class customer experience benchmark in the market. As consumer awareness and trade-in volumes started rising, mobile operators scrambled to introduce their own PoS and online trade-in solutions, mainly by adopting white-label platforms and outsourcing operations to specialized third-party providers managing the end-to-end program, from device evaluation and return processing to refurbishment and device resale [Exhibit 1].

EXHIBIT 1
Value chain and key activities performed

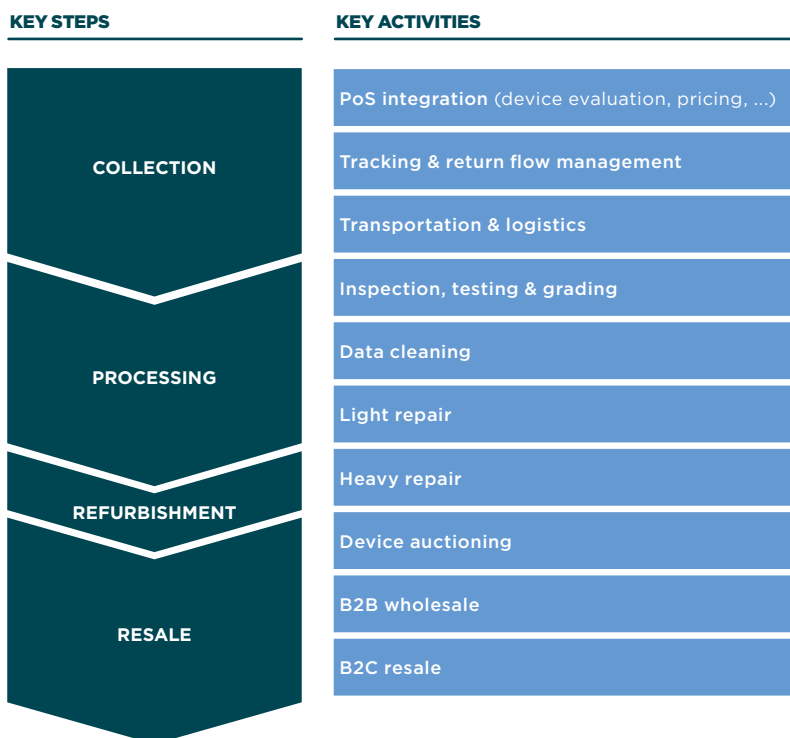
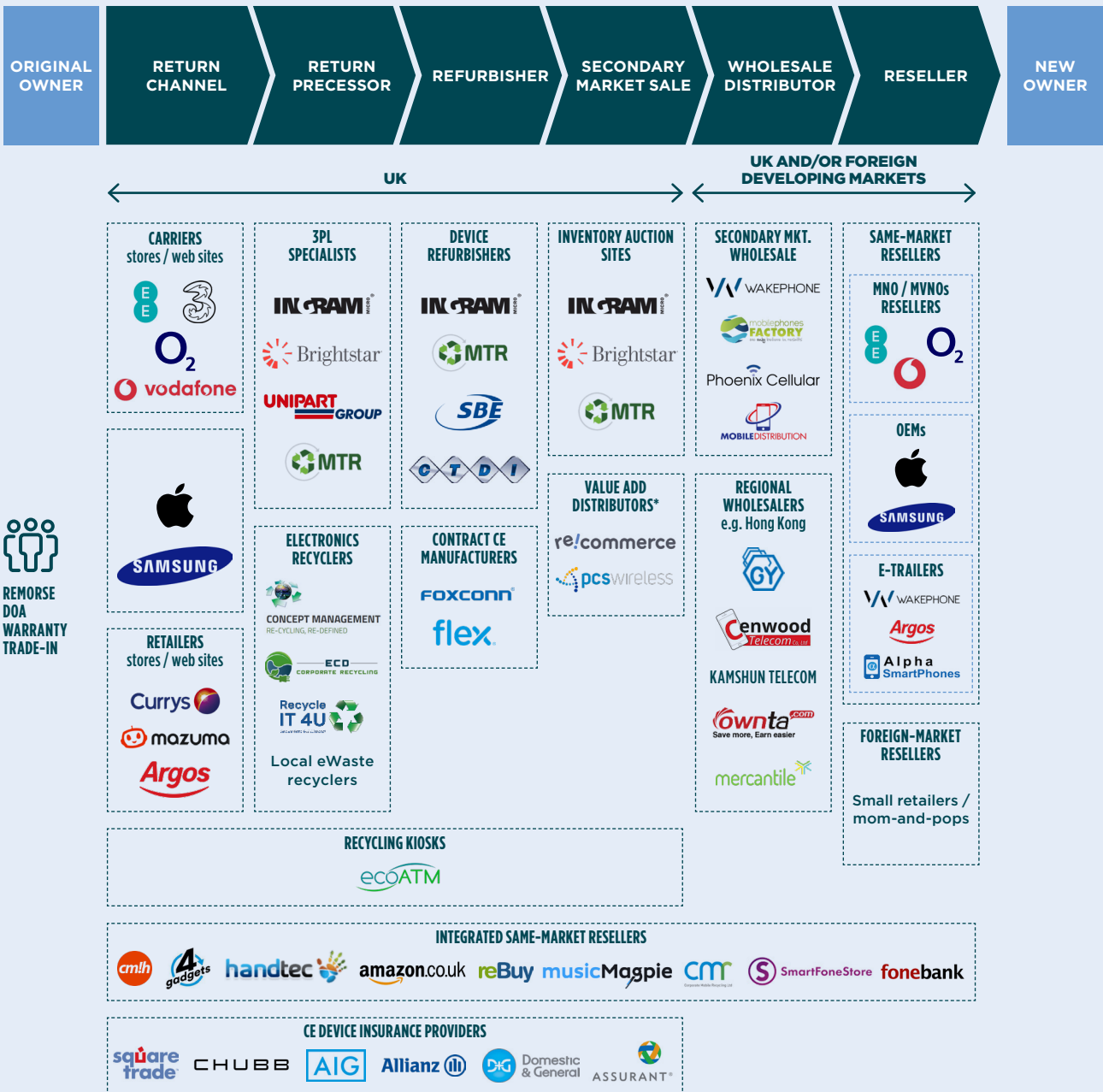


EXHIBIT 2
Example of a smartphone reverse logistics ecosystem: the UK



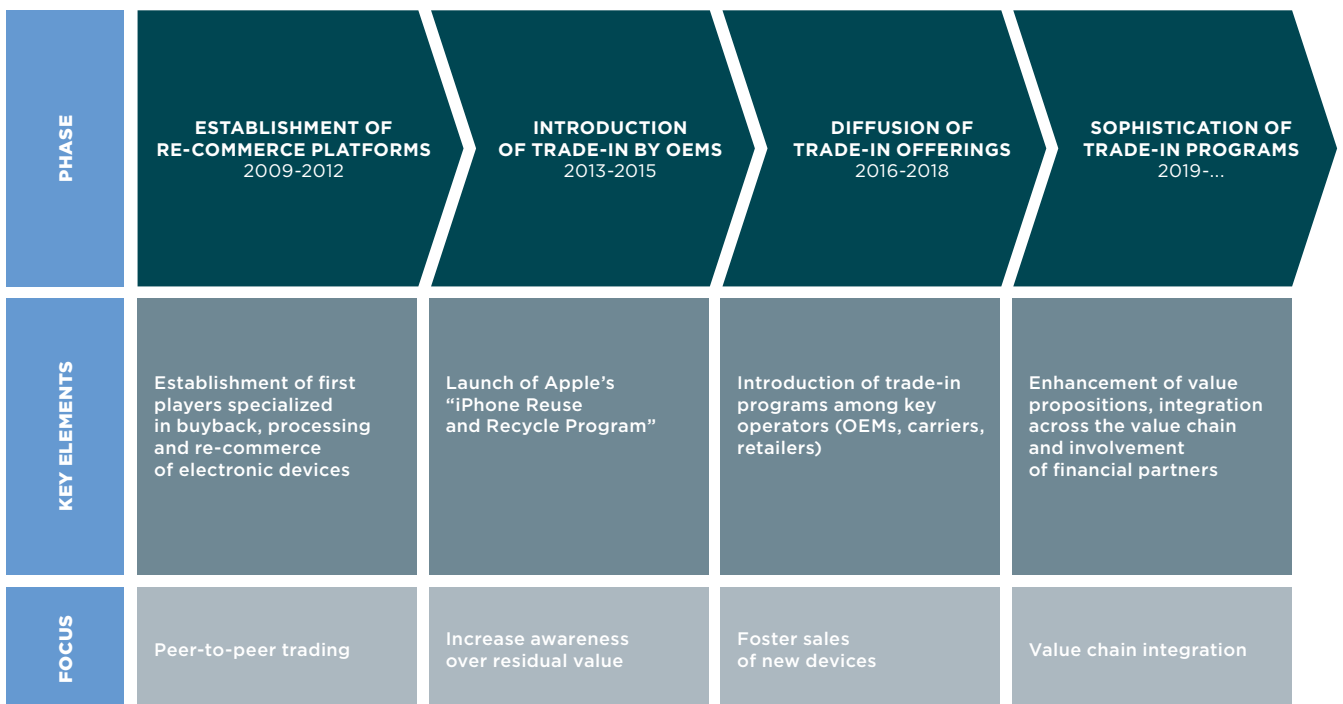
Note: Illustrative logos shown, some players may span multiple segments; Value Add Distributors serve as both refurbishers and wholesale distributors. Logos are intended as illustrative examples and are not exhaustive.

Leading European mobile operators signed agreements with different local partners for specific services across the value chain, leading to highly complex and fragmented local ecosystems that will most likely face significant consolidation in the upcoming years [Exhibit 2].

Nevertheless, mobile operators are still struggling to generate high trade-in volumes and conversion rates.

Today the potential of trade-in programs has grown substantially [Exhibit 3]. Smartphone penetration has peaked above 70% in most European markets, customer awareness towards residual value of devices is rapidly increasing, and premium smartphones display sufficient residual value to cover processing costs and allow their resale in Europe.

EXHIBIT 3
Trade-in market evolution



HOW ARE TELECOM OPERATORS CURRENTLY MANAGING BUYBACK PROGRAMS?

Very often mobile operators have launched trade-in programs with the plain objective of completing their service portfolio with a buyback proposition, without dedicating it the strategic relevance they deserve considering their potential for supporting customer acquisition and retention while driving sale of new-devices and post-paid subscriptions. By assessing the market in the United States and in Europe and conducting tens of interviews with industry executives, we have identified three key points of attention that, if addressed, could enhance mobile operators' value generation through trade-in programs.

Firstly, mobile operators still rely on heavy outsourcing to many specialized players across the trade-in value chain, from program structuring to operations management. This hands-off approach has led to low visibility on the operations of third-party logistics providers (3PLs) as well as to a lack of transparency on pricing models, asset value recovery and in general on the economics across the value chain.

Secondly, mobile operators tend to contractually engage with 3PLs through a traditional buy-and-sell model, in which it is the 3PLs who are actually purchasing the used devices from customers. This model implies a potential conflict of interest and pricing risk, as the 3PL will want to purchase the device at the lowest possible cost to increase their profit pool, while the mobile operators would want to recognize their customers a higher trade-in value to increase satisfaction and conversion rates.

Thirdly, most trade-in offerings are still structured and managed on both a marketing and operations level as spot transactions with limited effort in building customer awareness, compelling value propositions and seamless customer journeys.

For these key reasons, buyback programs have not yet fully succeeded in receiving the right level of strategic focus from mobile operators. By shifting perspective on trade-in programs, mobile operators might however capture a significant opportunity and value pool going forward.

By shifting perspective on trade-in programs, mobile operators could capture a significant opportunity and value pool.

A GROWING HUNGER FOR USED DEVICES

Mobile operators have always relied on the sale of new smartphones to push mobile subscriptions and value-added services. Sales of new smartphones in Europe have however been plateauing in recent years, mainly due to the high penetration rates reached, limited hardware innovation and a progressive shift towards less visible software innovations. At the same time, prices for new smartphones have been steadily increasing year after year [Exhibit 4].

It therefore comes to no surprise that the industry for used smartphones has been growing at fast pace. Compared to the United States, where the market is at a more developed stage (the volumes of used smartphones are 34% of new ones in 2020), Europe has only recently started to experience a surge in volumes (the incidence to new smartphones is only 11%) [Exhibit 5].

Several leading mobile operators have also started to include refurbished phones in their product portfolio, such as Deutsche Telekom in Germany, Orange in France, Vodafone in UK and Movistar in Spain. Mobile operators will therefore need to source increasing volumes of high-rated used devices for serving their pre-owned offers, as well as for fulfilling customer claims from growing warranty and device-insurance programs.

On the consumer's side, the growing demand as well as supply for used devices is mainly driven by the increasing sensitivity towards sustainability and circular economy and the perception of decreasing technical gaps between device generations, often not justifying the high price differentials. While OEMs tend to remove previous phone generations from the market to sustain high prices of new releases, refurbished devices represent an opportunity for mid-budget customers as two-year-old premium smartphones are comparable in design and features with newest mid-range phones, with the additional benefit of a prestigious brand image.

EXHIBIT 4
EU new smartphone shipments and average selling prices, 5-years trend

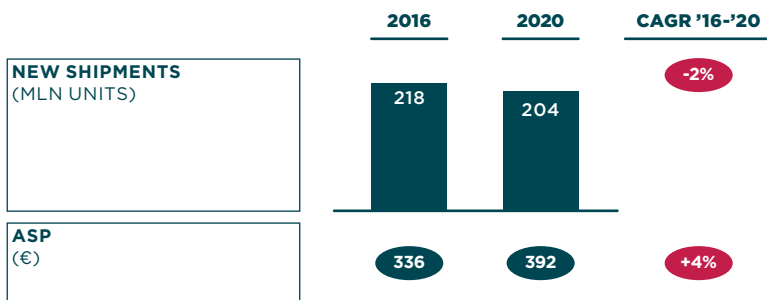
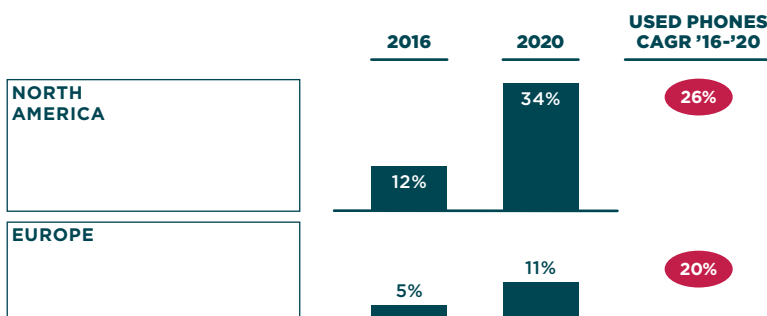


EXHIBIT 5
Used smartphones sales as % of new shipments North America vs. EU, 2020, 5-years trend



WHAT IS IN IT FOR MOBILE OPERATORS

To sustain their business model and foster sales of both new devices and subscription plans, telecom operators must continuously develop distinctive propositions and innovative solutions to increase affordability for customers.

A well structured trade-in program might be a win-win solution for mobile operators to:

- Favor the transition towards new smartphone generations and higher-paid 5G subscriptions by increasing product-service affordability

- Benefit directly from the growing marketplace for used devices by internalizing the margins from used device intake and resale
- Gain direct control over valuable stock of high-graded used devices to fulfill growing internal needs from pre-owned offers as well as customer warranty and insurance claims [\[Exhibit 6\]](#).

EXHIBIT 6 Smartphone intake channels

RETURN TYPE	BUYER'S REMORSE	DOA / DEFECTIVE	WARRANTY COVERAGE	INSURANCE / EXTENDED WARRANTY	BUYBACK
REASON FOR RETURN	Change of mind by customer over purchased product	Due to defect within 30-days	Due to manufacturing defect within warranty period	Due to defect or eligible damage	Includes all sorts of buyback offerings promoted by operators
SOURCE OF USED DEVICES FOR MNOS	✓	✗	✗	✗	✓

HOW CAN MOBILE OPERATORS IMPROVE THEIR TRADE-IN PROPOSITION?

There are several key areas that carriers could selectively address to strengthen their trade-in value propositions and improve the effectiveness of underlying operations, including:

REDUCING THE POWER OF SUPPLIERS

To increase the transparency and competitiveness of 3PLs processes, mobile operators could consider introducing dual source strategies. Companies like French Orange and Spanish Telefónica (as well as Apple on the OEM's side) have already adopted this model to extract additional value from their reverse logistics partners by increasing their competition for services and share of wallet.

ENHANCING THE CUSTOMER JOURNEY

Current trade-in customer experience often discourages clients from following-through with the transaction, both at the PoS and online (where most operators run trade-ins on external platforms with burdensome processes and a poor look and feel).

To increase adoption rates, players should fully integrate trade-in in a seamless and omnichannel customer journey, for instance by including a device quotation option directly into the clients' basket. For example, Vodafone UK has recently launched a trade-in offering on its mobile app which ensures an integrated journey and direct customer engagement on its proprietary platform.

INNOVATING OFFERING

Instead of simply offering a traditional trade-in service often resulting in one-off "opportunistic" transactions, operators should focus on promoting innovative offerings that succeed in "locking-in" the customers for the long term, for instance by embedding the device residual value in monthly installments that oblige clients to return devices in good conditions. Forward trade-in programs represent an interesting solution as they increase device affordability for the customer while ensuring his retention by subscription-based contracts. Some mobile operators are also introducing innovative device upgrade programs that allow the customers to switch to the latest smartphone models as soon as they hit the market, enabling a strong customer engagement with no additional device-swap fees.

According to our recent study in US and EU, a simplified and seamless device upgrade experience would improve program attach rates up to 3x and trade-in volumes up to 70% in the first year.

This would also result in a stronger intake of high-graded devices to be used for internal fulfillments or B2C resale.

INSOURCING ACTIVITIES

To increase control over trade-in operations and underlying margins, mobile operators could insource several high value-added activities currently managed by external parties. Several digital technology players already offer innovative software solutions enabling mobile operators to automate and internalize critical activities across the reverse logistics value chain, including accurate and immediate device evaluation and pricing.

REVERSING THE OWNERSHIP MODEL

Mobile operators could consider reviewing their engagement model with 3PLs. Historically, they didn't want to have returned devices on their balance sheet and opted for a buy-and-sell model. Contractual arrangements for trade-ins still see 3PLs directly purchasing devices from customers with mobile operators having at most a first right of refusal. To directly control stocks of high-graded devices and internalize margins on returned smartphones, mobile operators could shift to a service model in which they maintain ownership over the used devices and pay 3PLs a processing fee for their reverse logistics services. This model is already starting to be adopted by carriers and retailers in the United States with significant improvement on their retained margins.

PROMOTE B2C "AS-NEW" OFFERS

To maximize returns from their buy-back offerings, mobile operators could launch a well structured B2C pre-owned program for used smartphones. Having access to high-quality used devices from trade-in programs, they could generate new revenue streams on mid-range customers who might additionally enroll in operators' mobile subscriptions. In addition, they could leverage on their second brands to sell lower-graded used devices. Doing so, they would increase value retention by internalizing the price difference between final retail price and trade-in value net of processing costs on a significantly higher volume of phones. Customer persuasion about device quality would be strongly supported by the embedded trust with operators' brands.

CONCLUSION

The market for used smartphones is starting to gain significant traction and is receiving increasing attention due to its rapid growth and expected potential. While trade-in programs in Europe are still in an early development stage, they are expected to be the main driver of the refurbished phone market growth moving forward.

Mobile operators are best positioned to play a leading role in this market by pushing trade-ins to trigger sales of new devices while feeding their pre-owned device offerings. They are however often competing in this segment with outdated operating models which don't enable them to differentiate their proposition, lock-in their clients in long-term mutually beneficial relations and fully tap the underlying value pools.

Mobile operators should review their approach towards trade-in, by considering it as an additional strategic tool for achieving their commercial and business development targets. Several areas could be addressed to improve the effectiveness of trade-in operations, including gaining more visibility and control over the value chain, by reviewing sourcing strategies, internalizing key activities and processes with the support of new technology partners, or reshaping the trade-in paradigm by adopting a service-based model.

The structure and value proposition of current programs could also be enhanced or re-designed, for instance by introducing innovative solutions (e.g. forward trade-in and "anytime" upgrades) and by improving and fully integrating the customer journeys. Finally, carriers should actively promote their trade-in to secure large volumes of high graded devices for fulfilling internal needs while profiting from the resale of excess stock.

Value Partners has developed a distinctive expertise in the smartphone reverse logistics industry and is well positioned to support mobile operators in navigating through the industry's complexities to enhance their program's proposition, operating model and commercial effectiveness.

A well structured trade-in program might be a win-win solution to sustain the business model of mobile operators and foster sales.

AUTHORS



STEFANO SORRENTINO

Partner
Hong Kong office

Stefano.Sorrentino@valuepartners.com



GUIDO JUNG

Senior Engagement Manager
Milan office

Guido.Jung@valuepartners.com



LUCA GUCCIONE

Associate
Milan office

Luca.Guccione@valuepartners.com



LISA LONGONI

Business Analyst
Milan office

Lisa.Longoni@valuepartners.com

ABOUT VALUE PARTNERS

Value Partners is a global management consulting firm with a proven track record in the Telecoms, Media, and Technology (TMT) industry. We have worked for the vast majority of TMT players around the world over the past 25 years, including regulators, government agencies, industry associations, service providers, consumer electronics players, and strategic investors.

We have supported leading TMT players globally, on projects that span the full universe of telecom & media technologies – fixed, wireless, broadband, satellite, broadcast – and range from value proposition enhancement, to product launch, market entry, strategic alliances, and M&A.

In addition to Management Consulting, our Digital Technology team is also well equipped with the most advanced knowledge of the technological developments and opportunities in the consumer electronics space, thanks to our recent engagements for clients in various industries covering a broad range of topics in both B2B and B2C segments.

We serve our client worldwide from our offices in **Milan, Turin, London, Rio de Janeiro, Shanghai, Hong Kong.**

For more information on the issues raised in this note please contact the authors.

Find all the contact details on valuepartners.com

**The surging market
for smartphone re-commerce:
how can European telcos
ride the wave?**

Published by
Value Partners
Management Consulting
Piazza San Marco, 1
20121 Milan
Italy

January 2021

Written and edited by:
Stefano Sorrentino
Guido Jung
Luca Guccione
Lisa Longoni

If you would like to subscribe
or to be removed from our
mailing list please write to:
subscription@valuepartners.com

Copyright © Value Partners
Management Consulting
All rights reserved