THE TABLET MARKET: ACT 2

By John Rose, Dominic Field, Ameeth Sankaran, and Mike Chao

In the third article in our series on the post-PC era, we look at recent research conducted by The Boston Consulting Group that reveals how emerging usage patterns among consumers and business buyers in the U.S. and China are shaping the tablet market as it enters a new phase of growth and segmentation.

With the launch of Amazon.com’s Kindle Fire, the curtain rises on the second act in the rapid evolution of the tablet market. If Apple’s iPad, launched just 18 months ago, pioneered broad functionality and a wide range of features in a portable package, then the next generation of devices will likely be designed to meet a growing desire among consumers and businesses for choice in functionality, price, and supporting ecosystem.

Employing its own take on Google’s Android operating system, the $199 Kindle Fire is optimized for reading, watching, and listening on a seven-inch screen. Amazon is betting that there is a large segment of users who want primarily to consume content, are satisfied with WiFi and limited local storage, and do not want to pay the iPad’s $499 entry-level price. Like the Kindle Fire, Sony’s entertainment-oriented Tablet S and Cisco’s business-focused Cius are tablets designed with specific user segments in mind.

More than any other tablet introduced since the launch of the iPad, however, the Kindle Fire is built around an ecosystem—of books, music, and movies—and is thus aimed directly at Apple’s competitive edge of locking in users. In an adaptation of the time-tested razor-and-blades strategy, Amazon appears to be willing to swap some profit margin on the device for the longer-term revenue to be generated from the rest of its ecosystem. As Jeff Bezos, Amazon’s CEO, puts it, “We don’t think of the Kindle Fire as a tablet. We think of it as a service.”

Tablets sales are expected to reach some 370 million units in their first five years, a much faster ramp-up than any other
consumer-electronics or mobile device. The iPad has powered this growth, of course, and its general-purpose design strives to meet the needs of all kinds of users. As consumer and business demand for tablets starts to diverge from a one-size-fits-all model, however, different devices will become attractive at different price points. Exhibit 1 shows how consumers are already tailoring their usage, especially in content consumption. Our research found that on a given day, the average tablet user spends 35 percent more time on all of his or her devices than the average nonuser of tablets does—with especially significant increases in watching videos, gaming, listening to music, and e-reading. And that’s before grievances such as inadequate battery life are fully addressed.

We believe that these usage patterns will continue. When BCG asked respondents whether they plan to shift the various activities that they now perform primarily on desktops and notebooks to other devices, more than half said that they intend to move such functions as personal e-mail, videoconferencing, and e-reading to tablets or smartphones in the next two years. (This survey is part of a broad, ongoing research effort into tablet usage, a comprehensive update of which will be available soon.)

Our research indicates that tablet ownership by U.S. households will more than double by 2013. This finding is consistent with industry projections of worldwide tablet shipments rising from an estimated 55 million in 2011 to 102 million in 2013, with volume split almost evenly among the U.S., Europe, and Asia.

We estimate that some 75 percent of U.S. tablet volume in 2013 will constitute new sales; the remainder will cannibalize existing devices—principally netbooks, which have suffered plummeting sales since the launch of the iPad.

Thirty entrants are releasing more than 100 devices in 2011; clearly, they will not all succeed. (See Exhibit 2 for information about some of the new devices.) Although the consumer market has already claimed one major victim in Hewlett-Packard’s TouchPad, the new devices give users a variety of choices—with a wide range of price points and capability combinations.
It’s only a matter of time until we see low-cost single- or dual-function tablets designed for specific user segments, as well as increasingly powerful devices that seek to outperform the current iPad in areas such as professional content creation and business document creation and communications, targeting users for whom performance trumps price. More than 40 percent of tablet consumers in the U.S. desire a tablet that runs Windows; and the interest rises to 53 percent of the market when nonusers of tablets are factored into the equation. (This result is strikingly similar in China, where 44 percent of consumers would prefer to have Windows on their tablets.)

Cisco’s Cius aside, the enterprise market has yet to be effectively tapped. Although vertical applications of tablets have been trumpeted in health care, field service productivity, and even in general management, product offerings and related usage remain sporadic. More often than not, business tablet usage is led by employees who bring their personal devices to work. Companies such as Salesforce.com are pioneering customer-relationship-management applications; new apps are offered almost daily for computer-aided design, film, and video production; and big companies are directing their IT departments to develop business-specific apps. One key to accelerated acceptance will be a high-capability professional machine that is geared to run productivity applications and facilitates content creation as well as consumption—a product that does not yet exist but doubtless is on the way.

Apple has established the dominant consumer-oriented ecosystem so far, but others are staking their claim—Google, Amazon, and Microsoft among them. At the same time, smaller, more focused ecosystems could well spring up around devices designed for a specific function, geography, or user segment. In places such as China where the landscape is dominated by local players, an ecosystem that outfoxes the worldwide giants and caters to local needs could easily form.

Although tablet penetration of the total device market won’t hit double digits for another couple of years, technology players and media companies need to be agile since the market is evolving swiftly. The winners will be those companies that understand how to address rapidly changing consumer behavior and embed their offering in an effective ecosystem.
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