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Dedicated Devices Aren't Dead

Exploring the Demand for Apps vs. Hardware

MAY 2011

INTRO

BACKGROUND

- Abalta investigates the popular assumption that the smartphone apps are completely cannibalizing dedicated device (hardware) sales
- Abalta commissioned a study to support a white paper on the topic using two recreational sports segments – golfing and running – as a proxy for the argument.
- Abalta chose these two segments for the following reasons:
  - Popularity of golf and running apps within app retail
  - Availability of dedicated devices with specialized features for running and golfing
  - Size as a portion of the overall population
  - Alignment with Abalta's location-based app/device focus

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INTRO

SURVEY OVERVIEW

- The survey was conducted in April 2011 to gauge the appeal of dedicated devices versus smartphone applications.
- Sample Overview:
    - All smartphone owners
    - Size – 244 respondents
    - Run for exercise and/or golf
    - Age: Over 25; average 44
    - Panel provided exclusively by Survey Analytics
- Survey Format:
    - Online –50 questions
    - Mixture of multiple choice and multipoint scale ratings

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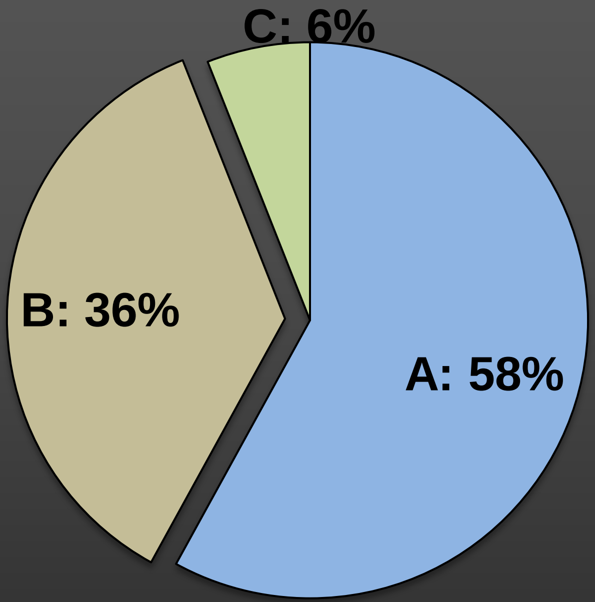
CONVERGENCE

36% STILL WANT DEDICATED DEVICES



A – I prefer all my electronic needs in one smartphone device
B – I prefer other devices that could provide a better experience than a smartphone/app can provide
C – I agree with neither statement

All runners and golfers who own smartphones.
Preference for the statements above.

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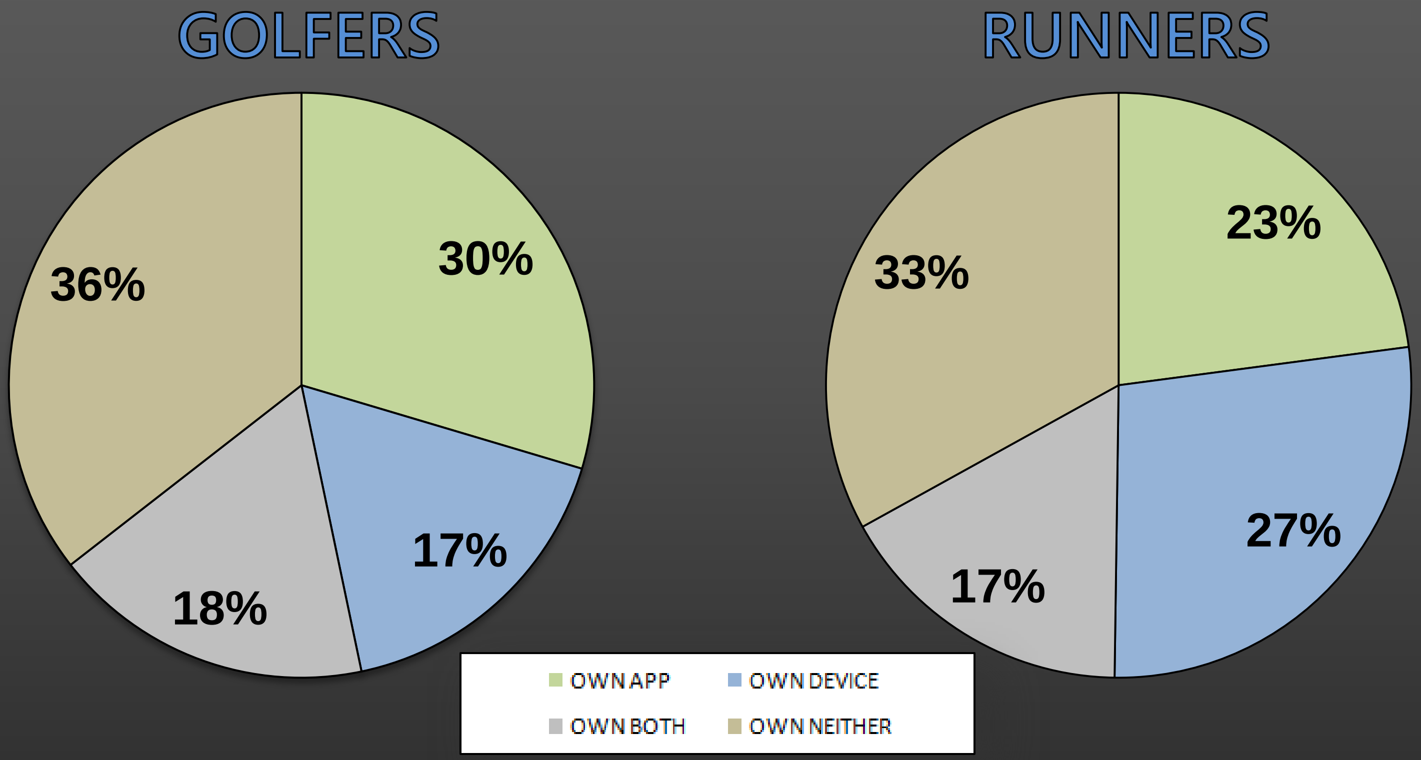
OWNERSHIP

WHAT THEY OWN



All runners and golfers who own smartphones.
Preference for the statements above.

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APPEAL

WHAT THEY PREFER

Differs greatly
based on the activity

58%
RUNNERS

30%
GOLFERS

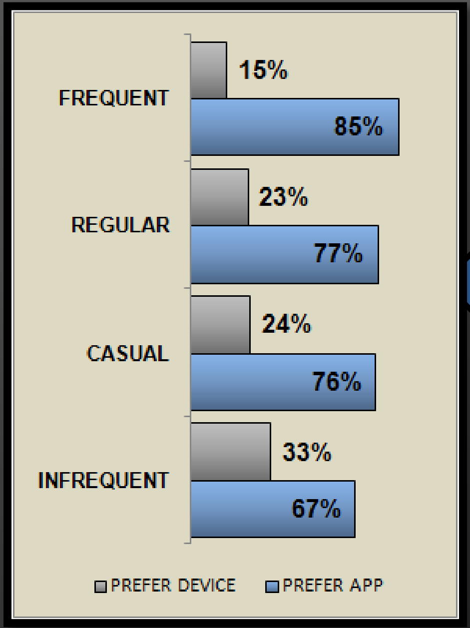
PREFER DEVICES OVER APPS : NON-OWNERS

All runners and golfers who own smartphones,
but <u>do not currently own an app or dedicated device</u>
Stated preference for app or device.

WHAT THEY PREFER

APPEAL

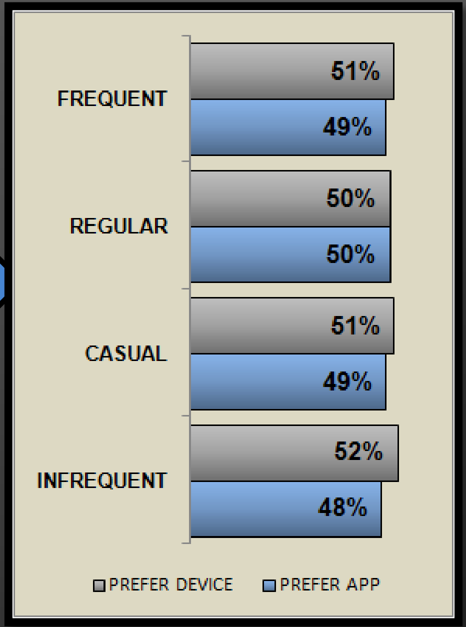
GOLFERS



PREFER APP

EQUAL APP-DEVICE

RUNNERS



All runners and golfers who own smartphones
by participation level
Stated preference for app or device.

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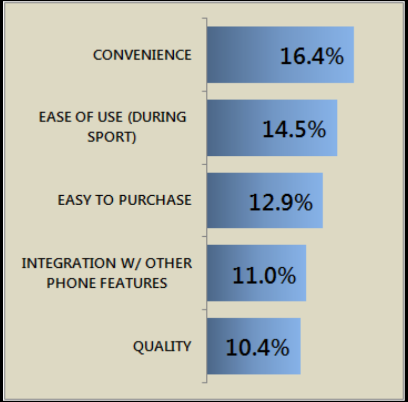
PURCHASE DRIVERS

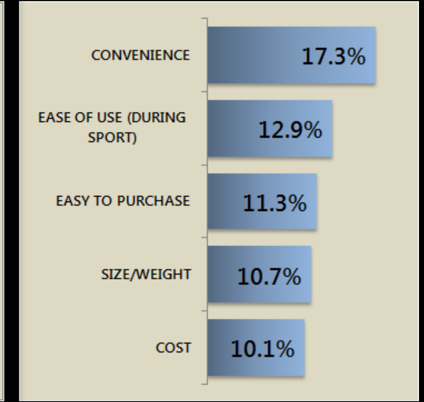
WHY THEY PREFER IT

APPS

RUNNING

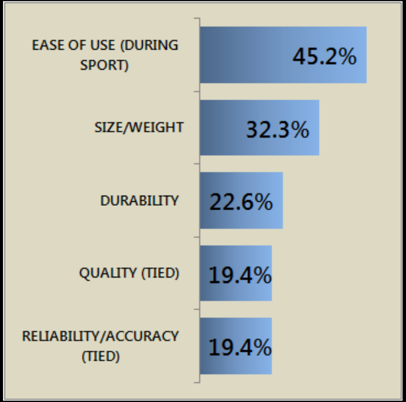


GOLF

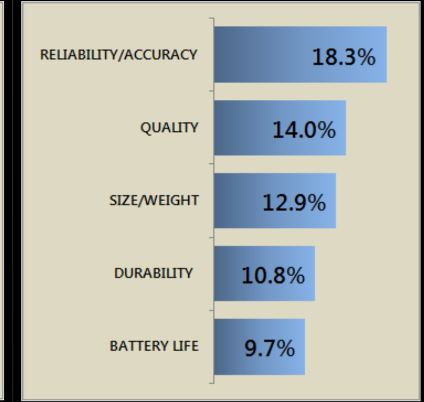


DEVICES

RUNNING



GOLF



CONVENIENCE VS. QUALITY

All runners and golfers who own smartphones
Reasons for purchasing device/app – multiple answers allowed.

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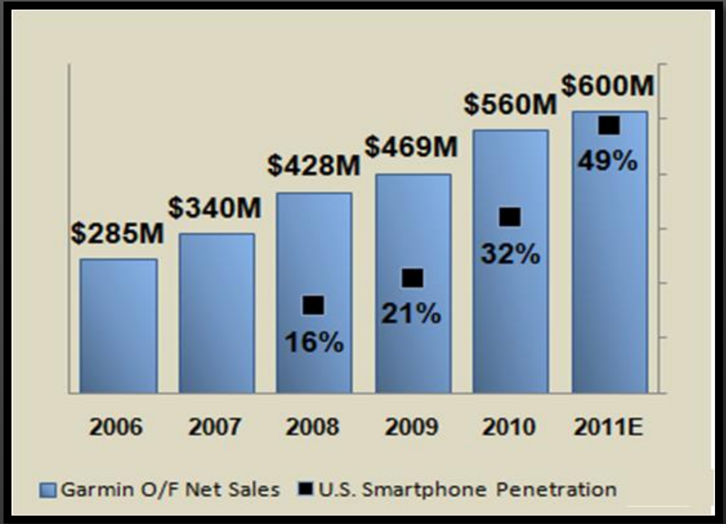
GARMIN & NIKE

MARKET EVIDENCE

GARMIN OUTDOOR AND FITNESS STRONG GROWTH



Garmin Ltd. Financial Statements FY2010
Outdoor & Fitness Net Sales vs. U.S. Smartphone Penetration Rate

NIKE DEVICE AND APP PORTFOLIO

Nike+ App
Nike+ Sportwatch
Nike+ Sportband

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CONCLUSIONS

- The availability of apps will substantially increase the overall market for GPS devices.
- Apps cannibalization will likely affect entry-level devices given disparities in purchase drivers and lack of relative value in the quality of the experience.
- Companies who want to provide the greatest coverage of consumer needs should support a portfolio of apps and devices.
- Device manufacturers need to innovate to provide compelling experiences beyond what an app can offer or risk cannibalization.
- Differentiation is possible given the data provided by the study.
- Device manufacturers should focus their marketing messages on quality and reliability to combat app pressure. App developers should focus on convenience and integration.
- Given the disparity in appeal between different activities, both developers and manufacturers need to understand the use cases for their customers to better gauge the acceptance of apps over devices.

Full white paper available at
www.AbaltaTech.com or http://bit.ly/mvXhY8

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ABOUT ABALTA

WHO IS ABALTA?

Founded in 2003, Abalta Technologies is an innovative technology company focused on designing and developing location-based software solutions. Since our inception, we have supported over 50 different brands globally across a multitude of platforms from automotive to consumer electronics to smartphone apps. The company provides solutions, services and advisory support across five main verticals – Automotive, Outdoor, Sports & Fitness, Consumer Electronics and Enterprise. Abalta combines unrivaled technical ability with deep market knowledge in our domain to bring additional value to each and every customer we support. Abalta Technologies is privately-held and is headquartered in Torrance, California.

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