

ECONOMUSE

What's the smart way to buy a smartphone?

With the iPhone 7 here, it's time to upgrade

This week saw the second anniversary of the launch of the iPhone 6 – many buyers of that phone are coming off their two year contracts now. Before they go on to another postpaid contract to acquire the iPhone 7 on sale tomorrow, they should consider their options carefully. In my view, buying the phone yourself and adding a SIM card is the best way to go for the canny buyer [note: this column is based on [research](#) for amaysim].

You have four options for your next smartphone:

- A. Buy it bundled in a postpaid plan (the contract is usually on a 2 year term)
- B. Buy it yourself and add a SIM (usually recharged monthly)
- C. Buy a used phone and add a SIM (lots of iPhone 6s will become available)
- D. Buy a phone with a prepaid plan (term contract, but it won't be the new iPhone)

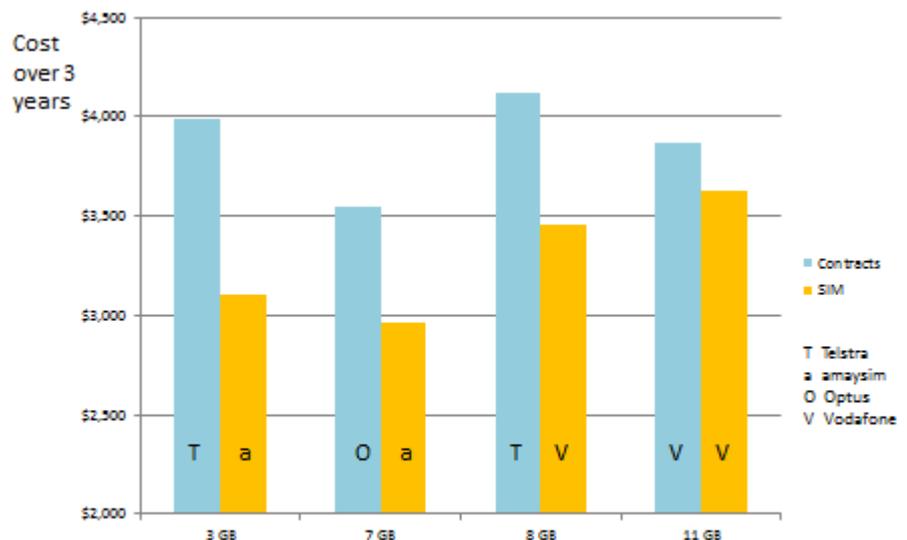
We are used to thinking that handsets are heavily subsidized. That's not true now.

For example, Vodafone offers the iPhone 7 (32GB) on a contract for \$6 per month with a \$90 mobile plan providing 11GB of data a month. That's \$144 (\$6 x 24 months) in handset fees. With the iPhone 7's RRP of \$1,079 it looks like you're getting a subsidy of \$935 on the phone. But, there are hidden costs; which we can uncover by looking at BYO phone costs.

Vodafone also has 11 GB per month SIM only plans available either month-to-month or for 24 months costing \$60 and \$53 per month respectively. That means the \$90 contract plan includes a contribution to the cost of the phone and so the true subsidy is \$215 or \$47 over two years respectively.

And, don't fall for getting a new phone every year on a contract. Let's suppose you get the iPhone 7 (32GB) now on a two year plan and decide to move up to the iPhone 7 Plus (32GB) with its bigger screen next year. You will pay a transfer fee up to \$149 and return the current phone (don't lose it or damage it!) next year and also sign-up for another two years.

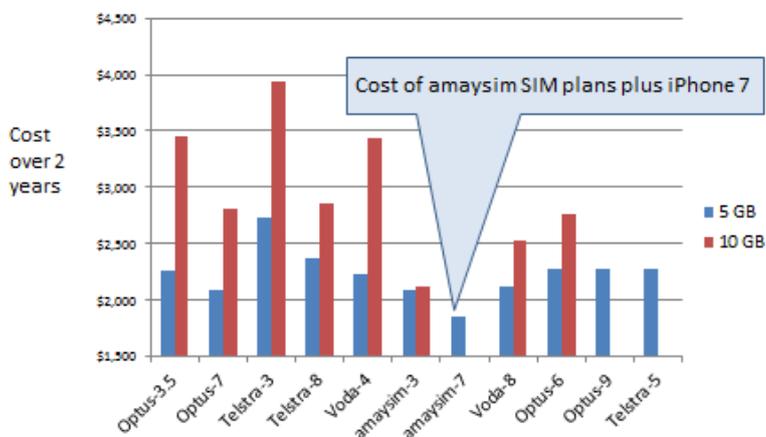
This chart compares the contract option above with buying the iPhone 7 now for \$1,079 and selling it on ebay in a year for \$627 (based on the resale value of an iPhone 6 after 2 years) which you put toward the purchase of the iPhone 7 Plus at \$1,269. Over three years, you add SIM plans to your two phones (with the freedom to move between providers in that



time). The difference between the Telstra and amaysim options over three years for 3GB per month is over \$800.

Then there is “bill shock”. Two years ago, the average charged download over a mobile phone was less than 0.5 GB per month. But over the two years to December 2015 the average paying download trebled. Popular new platforms, games and content such as Snapchat, Pokémon Go and 360-degree photos and videos have increased the daily demands on data and streaming video on mobile has become a regular occurrence. [OVUM](#) expects mobile video traffic to account for 75 per cent of 4G traffic by 2020.

As you will be paying \$10 for every GB over your contracted monthly data cap, that can amount to hundreds of dollars for excess data usage – the difference between the red and blue in the chart below.



Providers and monthly data caps.

Three million Australian smartphone users aged 14+ (19% of them) often go over their mobile data limit, according to [Roy Morgan Research](#). If they are on a SIM-only plan they cannot go over budget. That’s important. The [ACMA](#) found that one in five pre-paid customers “often go long periods with no phone credit”.

In fact, budget conscious customers should consider pre-loved smartphones. The iPhone 6 (16 GB) that cost \$860 in September 2014 can be bought today on ebay for around \$500 – nearly half the

cost of the iPhone 7. A quarter of mobile-only internet users are aged 18-24 with another quarter aged 25-34. These are the age cohorts that might find it difficult to get or manage a contract. They should consider buying a used iPhone 6 – there should be plenty around shortly!

Also, now that the telcos have opened up 4G access to wholesale partners, there will be greater competition across MVNOs; which means better deals for bargain hunters. Being handcuffed to a contract for two years means you would miss out on these kinds of deals.

Two years is a long time in the mobiles world. A lot has happened in the last two years and even more will happen in the next two years with both applications and pricing. If you don’t hang a two year contract around your neck, you will be better placed to take advantage of the opportunities that will arise.

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