

Why you should buy a phone and add a SIM card separately

John de Ridder

12 September 2016

This research was commissioned by amaysim.

What is the issue?

With the new iPhone 7 here, it's time to think about how you upgrade.

You have four options:

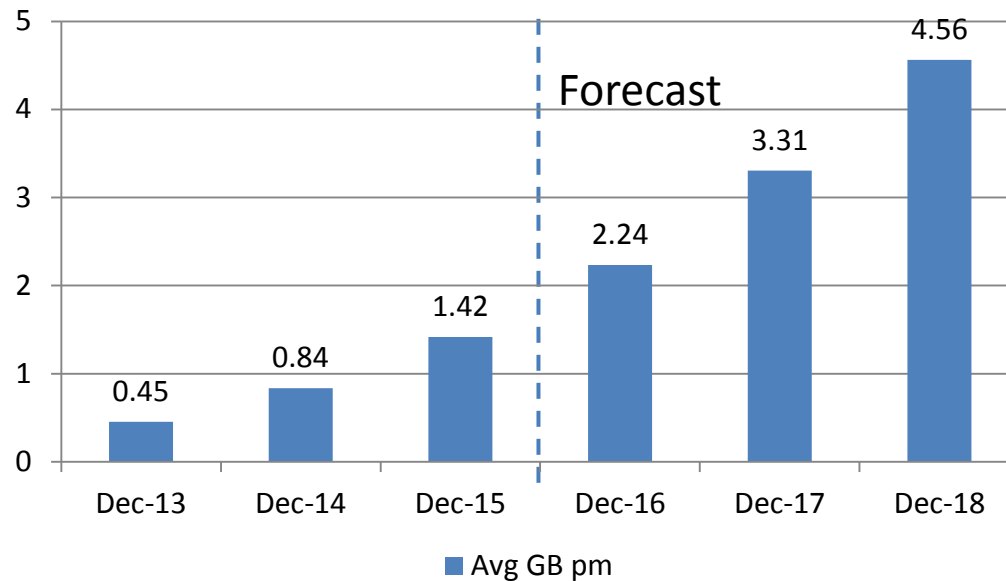
- A. Buy it bundled in a postpaid plan (the contract is usually on a 2 year term)
- B. Buy it yourself and add a SIM (usually recharged monthly)
- C. Buy a used phone and add a SIM (lots of iPhone 6s will become available)
- D. Buy a phone with a prepaid plan (term contract, but it won't be the new iPhone)

My advice for canny buyers is either B (new phone) or C (used phone).

In the examples below, pricing is at 10 September, 2016. Not included are any discounts you might receive for buying other services (such as landlines) from the same provider, or limited-time offers like bonus data.

Australians love using their smartphones

Two years ago, the average charged* download over a mobile phone was less than 0.5 GB per month. But over the last two years average downloads have trebled. And, I think that in the next two years it will double.



The Australian Communications & Media Authority (ACMA) forecasts that average usage will increase 4.5 times between 2014 and 2020. That forecast is a year old and conservative. My forecast is a 7.5 times increase over the same period.

* Actual downloads will be larger as these numbers include neither data downloaded over a WiFi/Hot Spots nor free data downloads.

What is driving the growth in data usage?

Who is driving mobile data growth? At May 2015, 74% (13.41 million) Australian adults were using a smartphone compared to 67% at May 2014 and 64% at May 2013.

What are they using? All sorts of emerging content and applications (apps). Common examples are mobile phone or computer apps that provide messaging (for example, Facebook Messenger, iMessage), voice call services (for example, Skype, Facetime), and video or audio services not provided by the mobile provider (for example, Netflix, YouTube channels, Pandora and Spotify).

OVUM: “Mobile video traffic (excluding Wi-Fi) will increase tenfold during the five years to 2020 accounting for about 75% of total 4G traffic, up from just 15% in 2016”.

Where can they use their smartphones? Over 90% of Australians can access 4G mobile networks with almost 80% of online adult Australians accessing the internet over their mobile phone (up from 76% last year).

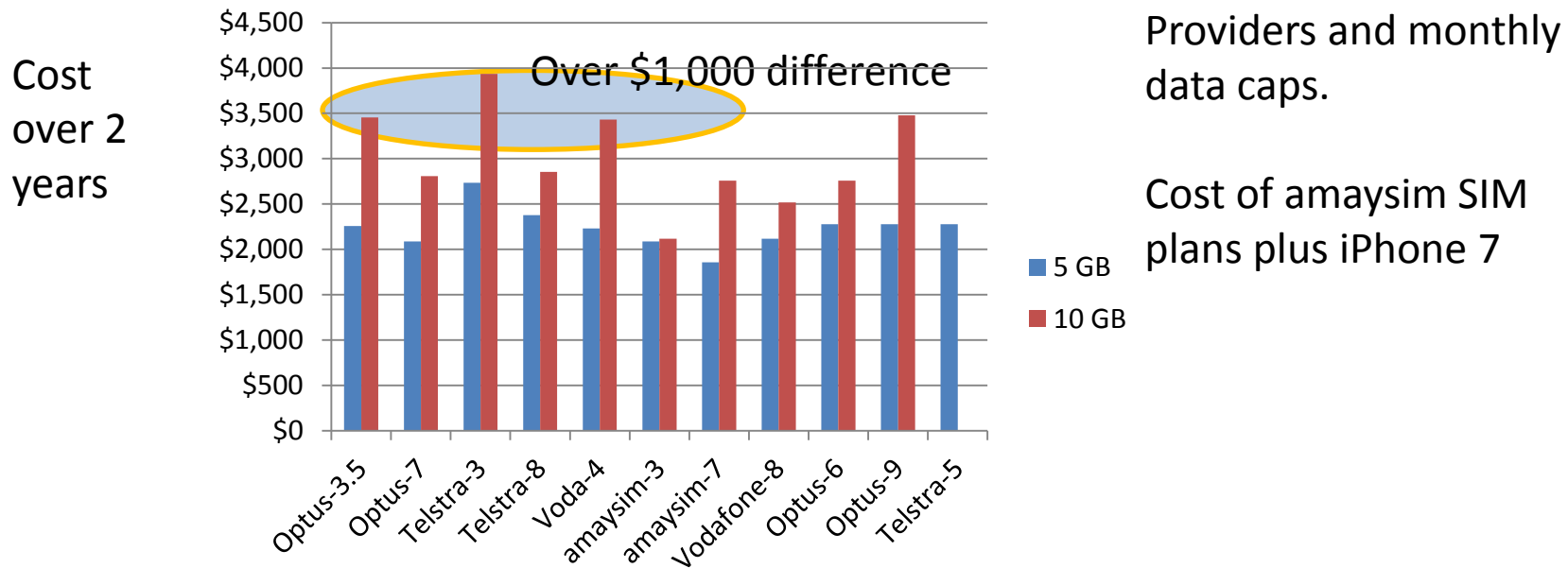
More Australians are using smartphones with more social media applications in more places.

The 8 reasons to buy a phone and add a SIM

1. Avoid “bill shock”
2. Change your plan when it suits you
3. Control your budget
4. Consider a used phone plus a SIM
5. Change your phone when it suits you
6. Don’t touch those yearly upgrades on contract
7. Contracts don’t heavily subsidise new phones
8. If the network fails, you can move to another quickly

1 – Avoid bill shock

It is easy to underestimate usage. You can be seduced by easy and exciting data-driven apps. But you will be paying \$10 for every GB over your contracted monthly data cap. On SIM only plans, you can move to the right plan at any time.



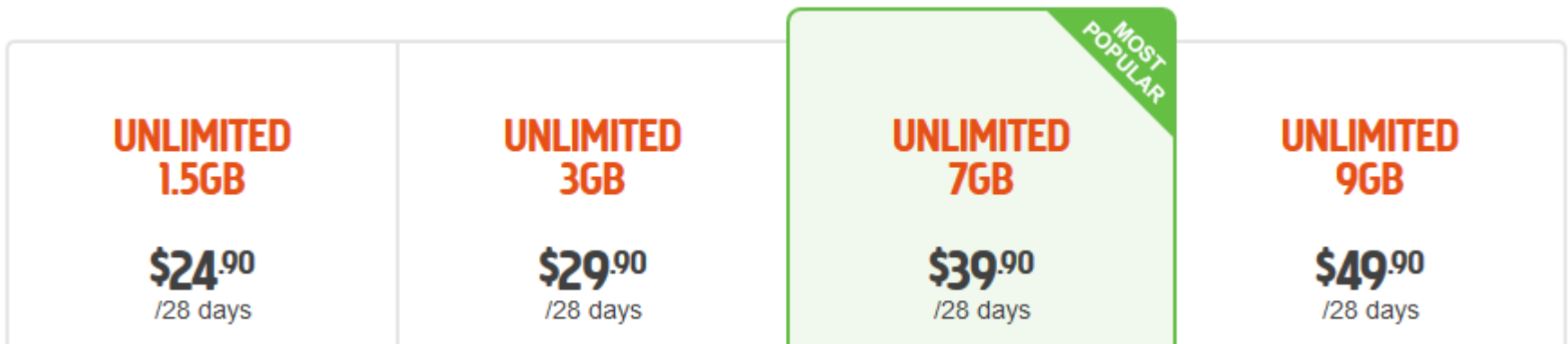
Three million Australian smartphone users aged 14+ (19% of them) often go over their mobile data limit, according to Roy Morgan Research (September 2016)

Excess data charges can cost hundreds of dollars on a contract.

2 - Change your plan when it suits you

During [2014-2015] the ACCC observed that “average monthly data inclusions for pre-paid plans increased from 1.4 GB to 2 GB, with a top available allowance increasing from 5 GB to 7 GB. For post-paid plans, we observed an increase in the average monthly allowances from 2.1 GB to 3 GB, while the top available option in premium post-paid plans increased from 6 GB to 20 GB”.

That’s good. But with a contract you have to be sure of your usage over the term of the contract; usually two years. That’s a big guess. If you can adapt after any month – as you can with SIM only plans like the one below – that’s a major benefit to you.



SIM plans available at amaysim, September 2016

Why guess? The opportunity cost is too high. Go SIM-only

3 – Control your budget

Choice magazine:

“Some people are better at budgeting with a routine, while others are more likely to use their phones sporadically and will find it costs more to be locked into a contract than they might otherwise use on a need-to-buy basis”.

The Australian Communications Consumer Action Network (ACCAN):

“It may be cheaper to purchase a handset outright and then look at the different month to month deals that are available, rather than signing up to a 24-month contract. Month to month plans are more flexible and don't lock you in. They give you the freedom to shop around and find a plan that better suits your needs if your usage changes over time”.

The Australian Communications and Media Authority (ACMA):

“it's much easier to overspend on a post-paid service.... unlike on a prepaid service, where if you run out of credit you simply can't spend anything until you top up....Our survey of pre-paid Aussie customers found that about one in five often go long periods with no phone credit.”

Consumer advocates all seem to like pay-as-you-go (SIM only) plans.

4 – Consider a used phone

A quarter of mobile-only internet users are aged 18-24 with another quarter aged 25-34; the age cohorts that might find it difficult to get or manage a contract.

A contract is expensive because it includes a new phone. Why pay nearly \$1,000 for a new smartphone (even if it is bundled into a contract) when you get a second hand smartphone for half the cost?

Just add a SIM and you have a great deal.

And with the launch of the iPhone 7, a lot of good used iPhone 6s will come to market - so you can expect a lot of good deals using this option!

Grab a bargain. Buy a used iPhone 6 and add a SIM

5 - Change your phone when it suits you

You may feel trapped with a contract – exit fees can be high. Take the freedom that comes with buying your phone separately.

Nowadays you don't have to sacrifice cool phones by going prepaid or SIM only. And, you can off-set the cost of the new phone when you sell the old one. That iPhone 6 (16 GB) that you paid \$860 for in September 2014 can be sold today on ebay for around \$500.

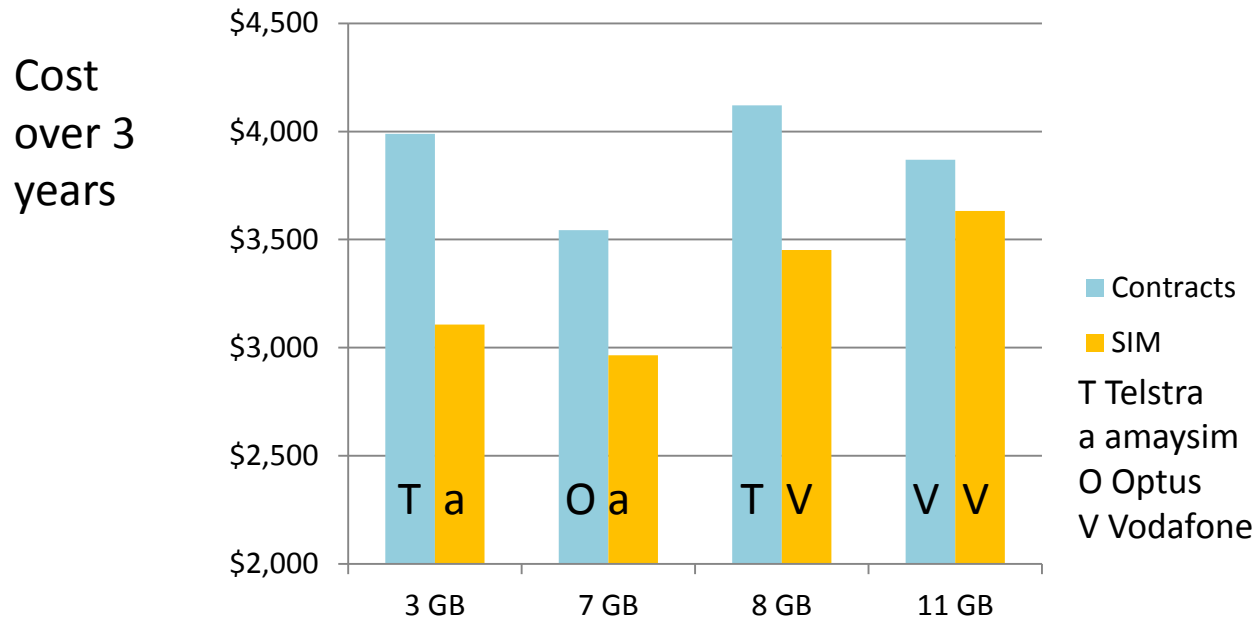
You can upgrade your phone every year (or quicker) without penalty with the help of your old phone.

When you own the phone, you are free to make more choices.

New for old, as often as you like.

6 – Don't touch those yearly upgrades

The three carriers now offer a new phone half way into your contract for a small fee and a new 2 year contract. Suppose you move from the iPhone 7 to the iPhone 7 Plus. How does that look over 3 years?



For the same GB per month, the upgrade will cost you between \$200 and \$900 extra compared with going SIM only.

Assumes SIM only user sells current iPhone 7 for \$627 after paying \$1,079 for it.

7 – Contracts don't subsidise phones

There is a myth that contracts heavily subsidise handsets. That's not true.

Vodafone offers the iPhone 7 (32GB) on a contract for \$6 per month with the \$90 mobile plan giving 11GB of data a month. $\$6 \times 24 \text{ months} = \144 , and with the iPhone 7's RRP of \$1,079, it looks like you're saving \$935 off the retail price of the phone.

But Vodafone also has 11 GB per month SIM only plans available month-to-month or for 24 months costing \$60 and \$53 per month respectively. That means that on a contract you're effectively saving only \$215 over 24 months against the monthly SIM and \$47 against the 24 month SIM !

Do not be fooled by the myth of handset subsidies

8 -If the network fails, move

We have all heard about the major network outages at two of the three mobile carriers in recent times. It drove their customers to despair – and to other networks.

If you had a SIM with your own phone, you would not have suffered as you could simply have swapped your SIM for another from a network that is not having problems. Then, if you like, you can go back to your first choice later.

Don't be hostage to any network – buy your own phone and Go SIM

If you bought your prepaid phone from Telstra, you'll pay an \$80 unlocking fee within the first 6-months. If you wait a little longer, the fee is reduced to \$25 from 6 to 24-months. After two-years, you can unlock the phone for free.

Notes & sources

Slide 3: -- While the Australian Communications and Media Authority (ACMA) notes that it is difficult to accurately predict the growth in mobile broadband traffic, modelling it has commissioned predicts mobile data traffic in Australia will increase by around 4.5 times between 2014 and 2020. [ACMA, Beyond 2020—A spectrum management strategy to address the growth in mobile broadband capacity: Discussion paper, 2015, pp. 15–17]

My forecast is a 7.5 fold increase in the same period.

<http://www.huawei.com/en/news/2016/8/HW-and-OVUM-Jointly-Release-The-Evolution-of-Big-Video>

Slide 4 -- ACMA 2015 Communications Report <http://www.acma.gov.au/theACMA/Library/researchacma/Research-reports/australians-are-going-over-the-top>

Slide 6 -- Cost of iPhone 6 at <http://www.apple.com/au/pr/library/2014/09/09Apple-Announces-iPhone-6-iPhone-6-Plus-The-Biggest-Advancements-in-iPhone-History.html>

<http://www.roymorgan.com/findings/6948-australians-who-go-over-their-mobile-phone-data-allowance-june-2016-201609050906>

Slide 7 -- https://www.amaysim.com.au/mobile-plans?icid=homepage_nav:mobile-plans:compare

Slide 8 -- <https://www.choice.com.au/electronics-and-technology/phones/phone-plans/buying-guides/mobile-phone-plans>

<http://accan.org.au/hot-issues/977-our-top-tips-for-buying-a-smartphone-this-christmas?highlight=WyJidXlpbmciLCJtb2JpbGUiLCInbW9iaWxliiwibW9iaWxIJ3MiLCJwaG9uZSIslidwaG9uZSIslInBob25lJ3MiLCJwaG9uZSciLCJtb2JpbGUgcGhvbmUiXQ>

Slide 10 -- [http://www.ebay.com.au/sch/Mobile-](http://www.ebay.com.au/sch/Mobile-Phones/9355/i.html?Brand=Apple&Model=iPhone%25206&LH_ItemCondition=3000&rt=nc&LH_PrefLoc=1&trksid=p2045573.m1684)

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