

Samsung Smart Phones

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Introduction

Samsung Telecommunications is one of five business units within Samsung Electronics, belonging to the Samsung Group, and consists of the Mobile Communications Division, Telecommunication Systems Division, Computer Division, MP3 Business Team, Mobile Solution Centre and Telecommunication R&D Centre. Telecommunication Business produces a full spectrum of products from mobiles and other mobile devices such as MP3 players and laptop computers to telecommunication network infrastructure. Headquarters is located in Suwon, South Korea.

In 2007 Samsung Telecommunication Business reported over 40% growth and became the second largest mobile device manufacturer in the world. Its market share was 14% in Q4 2007, growing up from 11.3% in Q4 2006. At the end of November 2011, Samsung sold more than 300 million mobile devices which was a close second after Nokia with 300.6 million mobile devices sold in the first three quarters of 2011. As of Q3 2012, Samsung is the largest manufacturer of devices running Google Android with a 46% market share.

Initial Stage (1977–1993)

In 1977 Samsung Electronics launched the Telecommunication Network, and in 1983 it initiated its mobile telecommunications business with the hope that this would become the company's future



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growth engine. In 1986, Samsung was able to release its first built-in car phone, the SC-100, but it was a failure due to the poor quality. In spite of unsuccessful result Ki Tae Lee, the then-head of the Wireless Development Team, decided to stay in the mobile business. He asked the company to buy ten Motorola mobile phones for benchmarking. After 2 years of R&D Samsung developed its first mobile phone (or “hand phone” in Korea), the SH-100 in 1988 (Wikipedia, 2013). It was the first mobile phone to be designed and manufactured in Korea. But the perception of mobile devices was very low and although Samsung introduced new models every year, each model sold only one or two thousand units.

Changing Times (1993–1996)

On June 4, 1993, Al Almonte, the then-chairman of the Samsung Group during the meeting with top executives of Samsung in Tokyo got the report about ‘Management and Design’ at Samsung. This report came as a shock to chairman Lee, and forced him to reexamine his efforts to improve the company’s system of quality management.

On June 7, 1993, in Frankfurt, Lee gathered 200 Samsung executives and pointed out every problem that Samsung had and emphasized that Samsung needed a turnaround and declared a new management initiative “Samsung New Management”. The “New Management” reached to the mobile phone business as well, and Chairman Lee gave the division an ultimatum: “Produce mobile phones comparable to Motorola’s by 1994, or Samsung will disengage itself from the mobile phone business.”

Samsung expected that branding would change customers’ perception of Samsung’s mobile phone and build up their trust. Aggressive marketing campaigns started as well. At the initial stage, the most important objective of the company’s marketing strategy was to break customers’ preconception that Samsung’s phone would be inferior to Motorola’s. To market this idea of quality, Samsung developed the slogan, “Strong in Korea’s unique topography.” As a result of all the

extensive marketing efforts, the Korean market share of Samsung mobile phones soared from 25.8 percent in October 1994, to 51.5 percent in August 1995. In the same period, Motorola's market share dropped from 52.5 percent to 42.1 percent.

CDMA era (1996–1998)

Samsung developed its first CDMA mobile phone in March 1996, to coincide with the launch of CDMA service. It later partnered with KTFreetel and Hansol PCS to provide PCS phones. The design was targeted at the younger generation because they had emerged as a large and growing customer base. For the CDMA cellular market, it emphasized the phone's new functions, for example, its voice recognition feature. For the PCS market, the company coined a new slogan, "Strong in small sounds," to emphasize the mobile phone's capability to capture delicate sounds.

Samsung eventually achieved a 57% market share in the CDMA cellular market and 58% in the PCS market.

Global Market and GSM Era (1998 on)

Samsung made its first foray into the global market in 1996, when it exported its PCS phones to Sprint, an American CDMA carrier. After this Samsung expanded into Hong Kong (Hutchinson, CDMA) in 1997, and Brazil (TELESP and TELERJ, CDMA) in 1998.

In 1999, Samsung secured the number one position in the worldwide CDMA market where it accounted for more than 50% of market share. To achieve further growth, Samsung penetrated the GSM market.

It was difficult to hurdle the high entry barrier, which the then "Big 3" Nokia, Motorola, and Ericsson had built for years. The development team realized that a simple change in the circuit system wouldn't work in the European market. Thus, it decided to look more closely at the customer's point of view. Samsung was granted the "Best Manufacturer" award twice by the Mobile News Awards, an award that was previously given to Nokia and Ericson.

Samsung Mobiles

Samsung Electronics (Mobile Division) operates in one of the most competitive markets of the world. According to the US Federal Communication Commission 67 new Smartphone devices are introduced every year. Samsung traditionally had a conservative image that focused on low-price products for the economy segment of the market. With low prices it was able to compete in the economy segment whereas in the premium market it had lesser penetration. To penetrate the premium market Samsung had to focus on innovation perceiving a higher brand value.

Samsung now has mobile phones catering to all the segments of the market. It has positioned itself as a brand which reflects the user's lifestyle. With the introduction of Samsung Concept Store, creating the market and sub segments in small town, and developing a Wider Care Network, Samsung has branded itself as a synonym for quality and has created a unique brand image for itself as a high end value driven brand.

Entry to India

The advent of Samsung with its first mobile in India was in the year 2004. In 2008, Samsung Electronics' Telecommunication Business declared its new business strategy focusing on consumer and marketing. Samsung mobile phones are divided into 6 major categories – Style, Infotainment, Multimedia, Connected, Essential and Business.

Smart Phone Market – An Indian Overview

India's cell phone market is still a 'new phone' market, where feature phones contribute to the bulk of shipments. India registered 221.6 million mobile handset shipments for current year (January-December) 2012. During the same period, 15.2 million smartphones were shipped in the country (Cyber Media Research CMR, 2013). Since then, the mobile handset market is expected to show steady growth through 2016 when end user sales will surpass 326 million units.

The smartphone market has become increasingly competitive in India. There has been a strong momentum in the sales of smartphones with Samsung ruling the roost, where it captured close to 50 percent market share in India in 2012. Nokia followed Samsung with 13.3 percent market share, with Sony displacing BlackBerry for the third spot at 8.2 percent of total smartphone shipments in the year. Indian Vendors have been making inroads into the smartphone segment, Indian Players Micromax and Karbonn are catching up with their global peers, with Micromax having 19.3% market share, and Karbonn having a 8.6% share in the first quarter of 2013

Interestingly, India's smartphone market will increase by over 100 percent in 2013, crossing 44 million units by the end of the year. It is also estimated that sub-\$200 smartphones will contribute over 60 percent of the smartphone market while Apple and Samsung will be the leading players in the over USD 450 segment with over 80 percent (volume) share between them (BGR, your mobile 2013).

It has been predicted that India will become the world's third largest smartphone market by 2017 after China and U.S. There are 67 million smartphone subscribers, which is 6% of the total subscribers in India, growing at the rate of 52% YoY (kpcc internet trends, 2013). Samsung leads the smartphone segment in India. The market share of smartphone manufactures in India is depicted below:

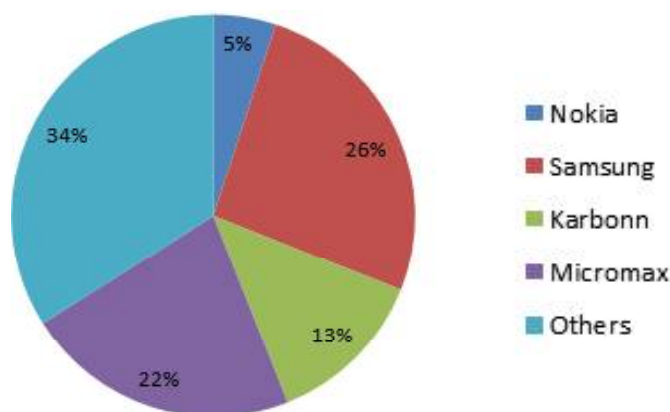


Figure 1 : Market Share of Smart Phone Manufacturers in India

Competitors

Nokia

Finnish manufacturer Nokia, once the undisputed leader of the mobile market, has suffered a mighty fall from the pole position it once enjoyed. Despite encouraging sales of Lumia series, Nokia has slipped to the tenth position in the smartphone market.

Nokia has phones catering to all the segments in the market, thus has a huge variety of phones across both feature phones and smartphones. Nokia's affordability has a huge impact in the rural markets. To meet the urban demand for the smartphone it also has phones priced at the premium range. It has a wide distribution network a strong service care network. (Nokia, 2013) Nokia uses a variety of techniques for promotion of the products, including sales promotion strategies with leading consumer durables and automobiles. Nokia even promoted the Lumia series by showcasing the product in movies (Wmpoweruser.com, 2013)

Nokia's smartphones accounted for 80.2% of all Windows Phone devices in May 2013, ahead of HTC at 13.7% and Samsung with just 4.5% (BGR. Com, 2013). Nokia recently launched its Lumia 1020 smartphone, which boasts a 41-megapixel camera, which is another attempt to take on rivals Samsung and Apple in a fiercely competitive smartphone market. So-called "smart feature phones" like those in Nokia's Asha range have limited smartphone capabilities such as Internet and email access and touch screens but are cheaper than the likes of Samsung's high-end Galaxy models or Apple's iPhone. They are crucial to Nokia's future as it defends its leading market share in emerging economies such as India and Africa, while struggling to keep up in the smartphone race.

Although Nokia's Windows Phone sales have sequentially improved, reaching a volume of 5.1 million units, Nokia is yet to see high growth in the smartphone segment. Nokia's position in the smartphone market dropped to No. 10 in the first quarter of 2013, from No. 8 in the fourth quarter of 2012 all over the world. (Reuters.com, 2013)

In early September 2013, Microsoft the producer of windows operating system for the Nokia phone announced its intent to buy Nokia's hardware business, which accounts for the feature and smartphone businesses. The deal which was priced at \$7.2 billion was not unexpected since Nokia was already selling smartphones which were powered by the Windows operating system. The deal comes at a time when both companies were facing stiff competition. Microsoft operating system though had surpassed the BlackBerry OS, Google's Android and Apple's iOS acquired a huge market share in the Mobile Operating System Arena. Nokia on the other hand which was once a leader in the feature phone segment was losing its sheen in the Smartphone segment.

Microsoft (Forbes.com, 2013) was forced to buy Nokia since no other device manufacturer was using Window OS and Google's Android open sourced the mobile phone operating system would soon be bleak for Microsoft. Microsoft now gets to enjoy the patent rights of Nokia and also access to markets which are virtually untouched.

The following figure illustrates the fast downfall of Nokia in a span of few years.

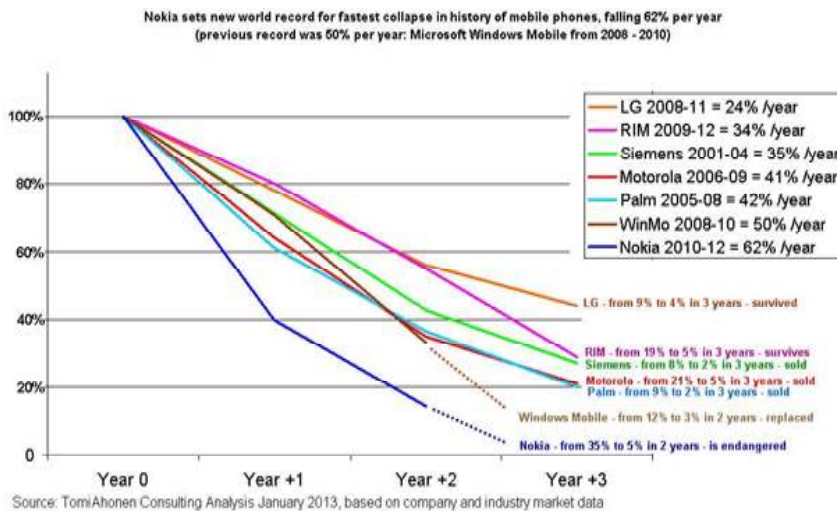


Figure 2 : Seven Fastest Collapses of Market Share in Mobile Handset History

Sony

Sony Mobile Communications AB (formerly Sony Ericsson Mobile Communications AB) is a multinational mobile phone manufacturing company headquartered in Tokyo, Japan, and a wholly owned subsidiary of Sony Corporation. It was founded on October 1, 2001 as a joint venture between Sony and the Swedish telecommunications equipment company Ericsson, under the name Sony Ericsson. Sony acquired Ericsson's share in the venture on February 16, 2012.

Sony Mobile Communications has research and development facilities in Tokyo, Japan; Chennai, India; Lund, Sweden ; Beijing, China and Silicon Valley, United States. Sony Mobile is the world's 10th-largest mobile phone manufacturer by market share in the first quarter of 2012. It is the world's third-largest smartphone manufacturer by market share in the third quarter of 2012.

While Samsung and Apple are fighting it out to get the biggest cut of the global market share pie, there has been a surprisingly quiet entry in the global smartphone makers list. Sony, which has made no bones about the fact that it wants to come back to the top global smartphone list, has in 2012 made some solid moves towards that wish. Sony Mobile Communications may abandon the low-end smartphone market and focus primarily on high-end devices as it seeks to reestablish its mobile brand. The company is putting a great deal of emphasis on the "premium" experience aspect of its devices, as exemplified by the Xperia Z.

Clocking revenues of \$72.3 billion, Sony's operating income stood at \$2.4 billion. The net income stood at \$458 million till March 31. This is a clear turn-around for Sony, which has been seeing consistent losses for the last four years. And a part of that revenue comes from the success that the Xperia series is seeing in the market. The first thing Sony has done is unified the set of offerings that it is bringing to the market. The Xperia range has registered revenues of \$7.8 billion in the market. That accounts for around 11 percent of total group sales. (Tech2.in.com, 2013).

Apart from its flagship smartphone, it can be seen that the company has positioned at least two phones in almost every price category. If you look at the smartphone price categories, for every Samsung Galaxy offering, you have a Sony phone as well.

Overall, by having a product in each price category, it looks like Sony has got a clear plan for its smartphone category. The major point that is going for Sony is the brand value that is associated with the company name. After being in the market for years, it is for certain that mobile users still hold the company name in good regard.

BlackBerry

Research in Motion Limited (RIM) is a Canadian telecommunication and wireless equipment company founded by Mike Lazaridis and Jim Balsillie in 1984. RIM is best known as the developer and manufacturer of BlackBerry Smartphone. RIM is headquartered in Waterloo, Ontario, Canada. Currently the company has around 9,500 employees and has a total revenue of US\$ 16.435 billion.

The BlackBerry market can be defined as a Business 2 Business market segment as well as a consumer market segment. BlackBerry initially targeted only business professionals but now it is diversifying, targeting younger generation who are addicted to social networking sites & use various applications for entertainment.

BlackBerry cell phones are a device that has taken convenience to another level for business travellers. These phones allow easy access to email accounts, and all the functionality of a cell phone. The BlackBerry has become more than a business tool though. As the price has dropped to make them more affordable, individuals are purchasing BlackBerry phones for their own personal use as well.

While Android, Windows Phone and iOS enjoy a larger share in the market, BlackBerry in USA had a 4.6 percent market share at the end of May 2012, however this year this has dropped to a disastrous 0.7 percent in 2013. It's a similar story elsewhere, as in the UK, 12.6 percent

has turned into 5.3 percent, and in Europe overall, 7 percent has become 2.5 percent (Digitaltrends.com, 2013).

iPhone

Apple Inc., formerly Apple Computer, Inc., is an American multinational corporation headquartered in Cupertino, California, that designs, develops, and sells consumer electronics, computer software and personal computers. Its best-known hardware products are the Mac line of computers, the iPod music player, the iPhone smartphone, and the iPad tablet computer.

The iPhone was unveiled by Steve Jobs at the Macworld 2007 convention in San Francisco. Before the release of the iPhone, handset manufacturers such as Nokia and Motorola were enjoying record sales of cell phones based more on fashion and brand rather than technological innovation. However, the iPhone fundamentally changed the industry, with Steve Jobs proclaiming in 2007 that “the phone was not just a communication tool but a way of life”.

The iPhone attracts users of all ages, and besides consumer use, the iPhone has also been adopted for business purposes. The first generation of iPhone and others like iPhone 3G has been discontinued. The company now sells only 3 varieties of iPhone, iPhone4, iPhone4s, and iPhone5.

Consumers can buy the iPhone through the virtual store or through the exclusive apple retail store, iPhone consumers are passionate about the phones and there is frenzy during a product launch all across the world and people queue up in front of the stores to be the proud owners of the iPhone. The passionate reaction by people led the media dubbing the phone as “Jesus Phone”. (Couldnt retrieve)

While Apple holds the top spot in the United States, its South Korean rival sells most phones worldwide, moving more than 70 million smartphones in the first quarter of 2013. Together, the two companies account for all of the profit in the smartphone segment.

The figure below shows market share data for the last four years. The trend is unmistakable, as legacy platforms like Symbian and Blackberry have been practically wiped out. Android has continued to extend its dominance and now accounts for nearly 75% of smartphone sales. The iPhone's market share declined to ~18% (compared to ~23% in Q1 2012). The iPhone's growth slowdown has been driven by increasing cyclical sales as its target market has become more saturated. Finally, Blackberry and Windows Phone just managed to grab 3% and 3.5% of Q1 smartphone sales (Tech-thoughts,2013).

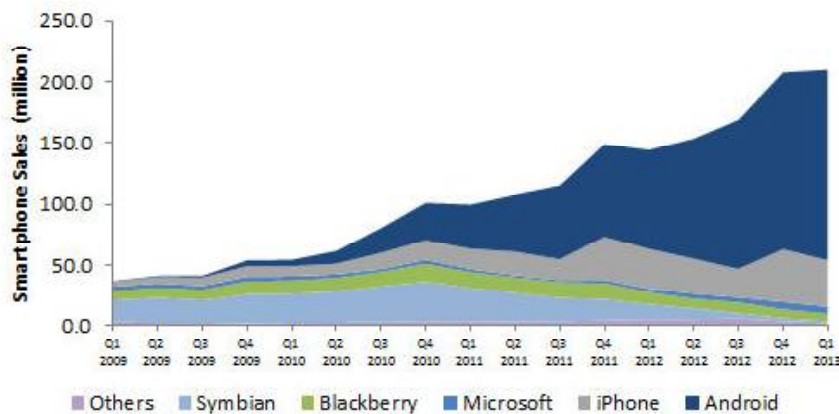


Figure 3 : Global Smart Phone Sales - Gartner

Over the last two years, its market share has been between 13% and 22%, depending on the release of newer models. With the varying market share, iPhone has always enjoyed the highest profits in the smartphone market.

The Advent of Local Players

India's smartphone market surged an impressive 74 percent during Q1 2013, with sales of low-end Android devices driving the nation's ongoing adoption of sophisticated mobile devices. Smartphone sales in India during Q1 2013 reached 6.1 million units, with Samsung maintaining its lead in the country. The South Korean device maker had a market share of 32.7 percent. Despite its continued success,

statistics indicate that Samsung will face increasing competition from local manufacturers.

Whereas in 2012 domestic makers accounted for only 3 percent of the market, they now account for about 30 percent. Local manufacturer Micromax sits behind Samsung with 19 percent of total unit shipments, followed by Bangalore-based Karbonn Mobiles with 11 percent.

At present, the success of local players does not bode well for international heavyweights that hope to relive former glories in emerging markets.

Micromax's market share rose from 1.7 percent from Q1 2012 to 17.1 percent during Q1 2013. Karbonn grew from 0.7 percent to 8.4 percent. Meanwhile, Nokia's market share tumbled from 25.5 percent to 5.6 percent, while BlackBerry dropped from 12.3 percent all the way down to 1.2 percent. Apple sits outside of the top 5 in terms of shipments for the quarter, as IDC states the Cupertino-based firm has always been a "niche player" in India. (Tech-thoughts, 2013)

No doubt the fast pace of mobile hardware development and the low production cost of mass manufacturing has helped Micromax launch products with more regularity and thus helped it climb the positioning ladder faster. But Micromax isn't the only runner in the race to the top for Indian manufacturers. The likes of Lava, Xolo and Karbonn are top contenders too, not to mention others like Maxx, iBall and Intex, who are also in the running but are trailing the pacesetters. Each of these has big ambitions, given the size of the smartphone pie and the growth potential of the market. Intex wants to sell 2 million phones this year and Lava is aiming for 1.5 million handsets sold by end of 2013.

The Road Ahead

With the changing market conditions, it is time for Samsung to strategically orient itself towards the changing dynamics. Some of the key factors of Samsung's success in the urban market of India can be attributed to the android operating system, and a smart positioning

of the brand through effective media communication. At a time when the market is flooding with innovation, Samsung has been focusing more on marketing strategies. In the initial stages with lesser player and a lesser degree of innovation, the differentiation was through branding and promotion. With the advent of local players like Micromax, and Karbonn whose primary focus is on speed to market and effective pricing, Samsung needs to relook on its mobile portfolio in India.

Android, the operating system which drives most of the smartphones, including Samsung and the local players like Micromax and Karbonn, has the lion's share in the mobile operating system. Hence Samsung can no longer differentiate on the operating system, a factor which it used to enjoy over the Window, Symbian and BlackBerry operating system.

Local players on the other hand have to brand aggressively to compete with the likes of Samsung and Apple. Apple which is always seen as a niche player in the Indian market is unfettered with the new entrants. Samsung's growing concern would be to inhibit the growth of these players or increase the size of the market to retain its market share.

Market Dynamics

The potential for growth of smartphones in India is tremendous. With the average selling price of smartphones in India set to fall below \$200, a new breed of products may emerge which will cater to this rising opportunity. Mobile phone companies like Karbonn and Micromax are providing smartphones in the range of \$100-\$250 and companies like Samsung offer the products in the range greater than \$ 250. With the changing dynamics of market companies like Samsung which is currently the market leader have to seriously rethink their positioning. While local players have been able to provide the same offerings at a lesser price, Samsung has been able to enjoy the market leadership due to its promotion and brand equity. But with dynamics shifting towards lesser priced models, technology is no longer the differentiating factor. With the growth of telecom sector in urban

India stagnating, service providers are constantly slashing their prices with reference to usage rates and are offering higher bandwidth to attract more customers. With service rates falling customers involuntarily upgrade from the feature phone to the smart phone segment, the transitionary phase is of prime importance to industry players since catering to this segment will eventually decide the market leader. The focus also lies on introduction of high end services in semi urban and rural India which are akin to the urban India. The transition from feature phones to smart phones in these sectors is also imminent, and companies which are already well equipped with the distribution in the rural India stand to gain in the long run. Indian players like Karbonn and Micromax have already roped in Bollywood actors to create a brand presence in rural India. The challenge for Samsung now lies in targeting the rural and transition segment efficiently to retain its market leadership.

Questions for Discussion

- 1) What strategies do you recommend for Samsung to maintain leadership position in smartphone category?
- 2) How should Samsung counter the competition from local brands like Micromax, Karbonn, Lava, etc.,? Discuss.

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