

Apple takes role of invader in Samsung-loyal South Korea

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South Korea's technology czar was meeting with reporters a few weeks ago when talk turned to smart phones and the choice faced by tens of millions of tech-savvy consumers here: whether to buy Apple Inc.'s iPhone 4 or Samsung Electronics Co.'s Galaxy S.

Hwang Chang-gyu admitted that he owned both phones. Then he dropped a bombshell: He actually preferred his iPhone, calling it "more convenient" than its homegrown competitor. "The reason we couldn't make a smart phone like iPhone is that we don't know how to shoot ahead," he said.

Hwang's comments were seen as a heresy in a country that considers itself an international leader in consumer electronics. Not only does he oversee government research and development, but he also is a former chief executive of [Samsung Electronics](#), which makes mobile phones. After a buzz in the local media, Hwang issued a retraction stressing Samsung's competitiveness.

The reaction speaks volumes about South Korea's high-stakes smart-phone war, one that Samsung - and some say the South Korean government itself - has no intention of losing.

The northeast Asian nation is among the phone industry's most fertile markets, with 45 million cellular users among a population of 49 million. Although [smart phones](#) - devices that can be used to surf the Web and play games and video - represent a relatively small share of mobile

phone sales, analysts say the growth potential is enormous.

As the world's largest technology company, Samsung is accustomed to waging relentless assaults on foreign markets. What it is less used to, analysts say, is fending off a bold offensive by a foreign competitor invading its lucrative home turf with a breakthrough product.

Apple rolled out its [iPhone 4](#) here last September and by the end of the year had sold 1.8 million units, nearly catching up to Samsung's Galaxy S, which launched more than two months earlier and has tallied 2 million in sales, according to South Korean news reports. Industry analysts say Apple's reputation for innovation has established the device as the newest must-own gadget among young consumers here, some of whom wait weeks for an iPhone because of a backlog.

"Apple is an iconic logo and people worldwide want to be part of its coolness," said Brian Marshall, an analyst with the research and investing firm Gleacher & Co. "While Samsung has long dominated in [South Korea](#), that has started to change."

Samsung is the world's No. 2 maker of mobile phones, behind Finland's Nokia Corp., and rates fifth in sales of smart phones - rankings that give the firm a runner-up, "We try harder" mentality, even at home.

Within hours of Apple's unveiling of the iPhone 4 last June, Samsung heralded its new Android-based Galaxy S, promoting its speedier processor for multimedia functions and its larger, brighter touch-screen display. The phone was the result of a 40-member task force the company launched three years ago - about the time Apple launched the first generation of iPhones - to devise strategies to corner the \$163 billion global industry.

Critics say the corporate battle has taken on nationalistic overtones in a

country nicknamed the Samsung Republic for the political clout wielded by family-owned conglomerates. The company has benefited from government intervention and critical South Korean media coverage that may have stifled Apple sales, analysts say.

In an e-mail response to questions, Samsung officials called the sales war a sign of a healthy market. "Ultimately, consumers have a lot to gain from fiercer competition, be it in markets at home or abroad," spokesman James Chung wrote. "Such competition is what keeps companies on their toes to create better products."

Apple also seemed pleased with its performance here. "We're thrilled with the customer response to iPhone in South Korea and we look forward to even more success with both iPhone and iPad in the future," spokeswoman Natalie Harrison said.

But industry insiders say Apple was waylaid for two years by South Korean import regulations before it could introduce the first iPhone here in 2009. Last June, Apple Chief Executive Steve Jobs temporarily excluded South Korea from the iPhone 4's release, citing delays in government approval.

Trade officials here deny using such tactics. "Korea has now opened up its trade," said Jang Ho-geun, a spokesman for the Korea International Trade Association. "We got rid of the barriers to protect domestic companies like Samsung."

Not everyone agrees. "Samsung enjoys a protected home market," said an industry observer familiar with South Korea's regulatory climate, who asked not to be named because of the sensitivity of the issue. "The press here loves to infer the worst motives behind everything Apple does."

The U.S.-based company was summoned last fall by South Korean

lawmakers to answer questions about its iPhone service policy, which supplies refurbished used phones to customers with faulty devices. "In its history, the National Assembly has summoned foreigners to testify on only 15 occasions," said the industry insider. "Apple has appeared twice. The reason is that it's become too successful."

In a strange twist, analysts say, Samsung is both a competitor and supplier to Apple, with the assembly of up to one-third of the iPhone's components outsourced by Apple to the South Korean firm. This year, Samsung is projected to earn \$7.8 billion from its relationship with Apple, more than half from the iPhone.

South Korea has a history of erecting trade barriers to discourage predatory imports, often as a defense against U.S. political and military pressure to buy American-made goods.

For years, many U.S. companies stressed the American military presence in South Korea as an argument to sell U.S.-made fighter jets and rice. "They overplayed their hand way too many times to make sure Korea bought U.S. goods," said Tim Shorrock, a former newspaper reporter who covered U.S.-South Korean trade. "It created a lot of resentment, which exists even today."

A major assault against [Apple](#) has come from the Korean press, which promotes the Galaxy S as the "iPhone killer." An article about alleged service problems with the iPhone was headlined "Tasting Apple's bitter fruit." After Jobs suggested that government bureaucracy slowed the release of the iPhone 4 here, one paper ran the headline "Jobs lied, didn't he?"

Industry watchers acknowledge that Samsung, one of the nation's most powerful advertisers, might be behind the stories. "It may be true that they released some misleading news," said Kim Ji-hyun, the author of a

book on South Korean telecommunications. "But this kind of marketing did work domestically."

Some bloggers have come to Apple's defense, criticizing the negative press coverage. "In this Republic of Samsung, they are trying to drive the whole battle of smart phones as patriots (Galaxy or Korean-brand phone users) vs. traitors ([iPhone](#) users)," one wrote.

Ultimately, Samsung's challenge will be winning over consumers who don't view buying local as an act of patriotism, analysts said. "If you're a 20-year-old buying a cell phone, you don't care about all that corporate stuff, much less nationalistic responsibility," said Michael Breen, a newspaper columnist and author of "The Koreans."

"In a developed country like South Korea, there's no need to hunker down and make financial sacrifice for the good of national economy when Samsung is doing very well, thank you."

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