

# Apple, Samsung battle for hearts and wallets of phone users

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Last fall, college sophomore John Castro did what was considered the unthinkable among his friends: The devoted Apple fan bought a Samsung Galaxy S3, the closest thing to an iPhone killer.

The San Jose State University engineering student's conversion reflects the growing muscle of South Korea's [Samsung Electronics Co.](#) The company's array of fast-selling smartphones, from inexpensive low-end models popular in the developing world to its showcase Galaxy devices, have propelled it to become the global leader, with a 29 percent share of the worldwide smartphone market in the fourth quarter of 2012 - up from 8 percent in 2010. Apple trails in second place with 21.8 percent.

Samsung's gains, fueled by innovative engineering and an [aggressive marketing](#) campaign aimed at young people, present Apple with its greatest competitive threat in the mobile era. But Samsung's drive to put itself in the same class as Apple - the world's undisputed leader in consumer electronics innovation - could be short-lived if it can't keep pace with the company that has repeatedly upended the industry with disruptive devices, from the iPod to iPad mini.

Samsung's success so far has impressed analysts and raised alarm bells in Cupertino, Calif. On the eve of Samsung's recent unveiling of its Galaxy 4S, Apple marketing chief Phil Schiller gave rare media interviews, during which he criticized Android's "fragmented" software and Samsung's devices.

The battle between the two tech giants is likely to grow even fiercer, analysts say, because the high-end smartphone market is nearly saturated, meaning new growth for companies will come from stealing customers away from one another.

Apple and Samsung are slugging it out on multiple fronts. In the fourth quarter of 2012, the two tech giants were nearly tied for [global market share](#) for smartphone, tablet, desktop and [laptop sales](#) worldwide - a category research firm IDC calls "smart connected devices." Samsung held a slim lead, with 21.2 percent of the market compared with Apple's 20.3 percent, up from 15.1 percent in market share from the third quarter - a surge fueled by the fall release of the iPhone 5 and iPad mini.

"Samsung is very dangerous for Apple," said Clyde Prestowitz, author of "Three Billion New Capitalists: The Great Shift of Wealth and Power to the East" and a former counselor to the commerce secretary in the Reagan administration. "Samsung has a lot of money. It has the willingness to invest aggressively."

[Samsung Electronics](#), a longtime components supplier to Apple, doesn't fit the Silicon Valley model of a giant slayer. Unlike Apple, started by risk-taking entrepreneurs Steve Jobs and Steve Wozniak, Samsung Electronics is part of the conglomerate Samsung Group, the largest of South Korea's massive family-run Chaebols that were the foundation of the country's emergence as a powerhouse Asian economy. The group sells everything from insurance to refrigerators - and even semiconductor chips that power iPhones.

"They are pretty nimble for a huge company," said Daniel Sneider, a researcher at Stanford University's Shorenstein Asia-Pacific Research Center. "Samsung Electronics is the star of the Samsung Group."

Now Samsung is daring to try what many companies have failed to do: match the innovative magic of Apple.

While Korean companies don't have the culture of unconventional thinking found in Silicon Valley, Samsung has many of the credentials needed to challenge Apple, said Tim Bjarin, president of Creative Strategies. It has the technological sophistication to make the critical components of mobile devices - such as chips and screens - as well as manufacturing capabilities, which Apple farms out to companies like Taiwan-based Foxconn, he said.

A few years ago, Samsung "locked all its executives in a building" to hammer out a strategy to take on Apple, said ABI Research analyst Michael Morgan, who sees Samsung as a growing threat to Apple.

The new Galaxy S4, which goes on sale this month, embodies the company's ambitions to directly take on - and overtake - Apple. The device comes with a 5-inch screen, gesture recognition and eye-tracking software - the kind of enhancements Apple should be doing, he said.

"Samsung has moved the bar," Morgan said. "Apple could have done this. Why didn't they?"

Samsung Semiconductor, meanwhile, is spending millions of dollars to build a new San Jose campus and is recruiting local engineers with the aim of expanding cutting-edge research.

"They realize they are fighting a battle of innovation," Morgan said.

As impressive as Samsung's rise has been, the company still is not in Apple's league: Its devices lack the seamless integration Apple is known for, said Carolina Milanesi, a consumer-device analyst for research firm Gartner. As expectations for the Galaxy rise, consumers will eye Samsung's products more critically, she said.

Samsung is also losing the battle of profits. Apple accounts for some 70 percent of all smartphone profits, Morgan said, while Samsung has most of the rest.

Also, Samsung users don't show the loyalty for the brand that Apple enjoys from its customers.

The Yankee Group, which regularly analyzes consumer attitudes, said its recent survey of about 16,000 Americans revealed that 5 percent of iPhone users said they plan to jump to one of Samsung's many models of smartphones for their next smartphone, whereas 14 percent of Samsung owners were planning to buy an iPhone as their next device.

"What you are seeing in all this is a single phone model - iPhone - creating more loyalty than entire competing ecosystems of (Android) phones, or the 37 different models of Samsung smartphones," said Carl Howe, a researcher at the Yankee Group.

"People in focus groups say things to us like, 'If it's from Apple, I will buy it,' " said Alan Nazarelli, CEO of Silicon Valley Research Group. "I don't sense that Samsung has that today."

Castro, the convert, underscores Samsung's precarious position: Though he chose a Galaxy S3 over an iPhone 5 in the fall, he has not been completely won over by Samsung. His Galaxy lacks the software and app ecosystem of Apple, its messaging capabilities are not as "fluid" as the iPhone's, and the device lacks the support system Apple offers at its retail stores, he said.

"They are on Apple's heels," Castro said. "But I don't see them ever catching up."

His next device purchase? It will probably be the next [iPhone](#).

## **SAMSUNG: A BRIEF HISTORY**

Samsung Group, based in Seoul, is South Korea's largest business group. The multinational conglomerate contains numerous subsidiaries and affiliated businesses, most of them under the Samsung brand.

Here are key dates in the company's history:

-1938: Samsung is founded by Lee Byung-chull as a trading company.

-1953: After the Korean War, Lee forms profitable Cheil Sugar, which is followed by textile, banking and insurance enterprises.

-1960s: Despite a political coup, charges against Lee of illegal profiteering and a 1966 family scandal of smuggling, the company grows by diversifying into paper products, department stores and publishing.

-1969: Lee, with the help of Sanyo, establishes Samsung Electronics. It produces inexpensive TVs, microwave ovens and other consumer products for Western companies such as Sears and General Electric.

-1970s: Under a government policy of rapid industrialization, Samsung launches a number of enterprises in shipbuilding, petrochemicals and aircraft engines.

-1980s: The company is exporting electronics under its own name.

-1983: Samsung begins production of personal computers.

-1987: Lee's son, Lee Kun-hee, assumes control of Samsung.

-1988: Samsung Semiconductor and Telecommunications merges with Samsung Electronics. Its core business focus is home appliances, telecommunications and semiconductors.

-1990: Samsung becomes a world leader in chip production.

-1994: Samsung Motors is formed.

-1996: Lee Kun-hee is involved in a corruption scandal and gets a suspended sentence for bribery.

-1998: Samsung completes the development of flat-screen televisions and begins the first mass production of digital TVs. Samsung Motors delivers its first cars.

-2005: Samsung develops the first speech-recognition phone.

-2007: Samsung Group is accused of political bribery and influence-peddling throughout the South Korean government, judicial branch and

the media.

-2012: Samsung Electronics becomes world's largest mobile phone-maker by unit sales, overtaking Nokia, the market leader. U.S. jurors rule Samsung must pay Apple \$1.05 billion in damages for violating six [Apple](#) patents on smartphone technology. Later, a judge reduced the amount and ordered a new trial on damages after finding parts of the jury's decision improper.

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