

Possible China deal could pep up iPhone sales

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A woman holding a toy sword walks past an advertisement for the iPhone in Beijing Monday, Dec. 16, 2013. Apple Inc. might have a chance to pep up cooling iPhone sales in China if it finally can reach a deal with the world's biggest phone carrier. (AP Photo/Ng Han Guan)

Apple Inc. might have a chance to pep up cooling iPhone sales in China if it finally can reach a deal with the world's biggest phone carrier.

Once China's must-have gadget, the iPhone has seen its explosive

popularity squeezed as the market filled with lower-priced rivals from Samsung to ambitious local brands. Some analysts say anybody who wants an iPhone and can afford it already has one.

That might change if Apple can gain access to China Mobile Ltd.'s network and a new pool of potential customers.

After a yearslong courtship, there are signs the two corporate giants might finally be edging toward a deal. The Wall Street Journal said it could be announced as early as this week, though China Mobile spokespeople have said the companies were still talking.

On Monday, China Mobile's website was taking orders for a mystery phone called "Ming Xing," or Bright Star. It showed a handset silhouette like that of an iPhone but gave no brand name.

The timing looks right. Just as Apple's sales growth in China cools, China Mobile received approval Dec. 5 to start operating the world's fourth-generation network and needs to market it.

State-owned China Mobile has more than 750 million mobile accounts. But its new 4G system—based on China's homegrown TD-LTTE standard—is unfamiliar to demanding Chinese customers.

The iPhone's glamor might help to win them over.

"Leveraging this brand, China Mobile could build a reputation for their network," said analyst Jane Zhang of Gartner.

For its part, Apple would gain access to a bigger, more robust network. It has faster data speeds and suffers fewer complaints about dropped calls than those of two smaller state-owned rivals.

"They need China Mobile more than China Mobile needs them," Zhang said.

How the benefits shake out for each side will depend on what deal the two giant companies, each with powerful leverage, can strike on how to split the costs of iPhone handsets. And on how Apple copes with intense competition from Samsung and other brands.

Forecasts of additional iPhone sales in China vary widely, from 10 million to as many as 40 million units. That would be on top of the 50 million iPhones analysts estimate have been sold in China in the past 2½ years.

Apple already has agreements with China's two smaller state-owned carriers, China Telecom Ltd. and China Unicom Ltd. They have 180 million and 275 million mobile accounts, respectively. Almost anywhere else, that would make them the biggest national carrier. But together they are barely half of China Mobile's total.

Customers responding to a survey by Bernstein Research cited China Mobile as their favored carrier. But they said that, due to its lack of iPhone support, they use the smaller companies for data service.

Customers who already own iPhones might switch to China Mobile for data as well as voice service, Bernstein said. That would mean a surge in business for China Mobile but little payoff for Apple.

"We could see an initial surge in iPhones following availability at China Mobile, but weaker sales going forward," Bernstein said in a report.

Apple could use the boost. Two years ago, eager buyers in Beijing waited overnight in freezing weather for the iPhone 4S. But that excitement had dissipated by this year's September release of the latest

update, the 5S. Customers who bought earlier iPhones said it offered too few improvements.

That is especially problematic because China is a key part of Apple's growth plans. CEO Tim Cook told the official Xinhua News Agency in January he expects China will surpass the United States as its biggest market.

Other manufacturers are making inroads into China's smartphone market, squeezing Apple's leverage with carriers.

South Korea's Samsung sells one of every five smartphones in China, followed by Lenovo Group, according to research firm Canalys. Apple's sales are growing but it was in fifth place in the latest quarter, with a 6 percent market share.

For the mass market in a country with an average annual income of about \$4,000 per person, less than one-tenth the U.S. level, newcomers such as China's Xiaomi offer smartphones that run Google Inc.'s Android system for as little as 799 yuan (\$125).

A key obstacle to an Apple-China Mobile deal is likely to have been how to share the benefits.

Carriers usually subsidize sales of iPhone handsets, hoping to make back their money by attracting more users. China Unicom and China Telecom took that deal to gain an advantage in their uphill fight with dominant China Mobile.

China Mobile, by contrast, has such a huge customer base that the added iPhone business would be much smaller in percentage terms. That might have made it less willing to trade profit for more users.

In any deal, China Mobile's giant size would give it leverage. It could demand a bigger share of profits or press Apple to bear the cost of a customized iPhone for its China-only 4G standard.

The baseline would be whether China Mobile matches Unicom's terms, Zhang said.

Unicom pays 2,500 yuan (\$410) of the iPhone's 5,499 yuan (\$900) cost in exchange for a customer signing a two-year contract to pay a minimum of 186 yuan (\$30) per month.

If China Mobile matches that, "it will drive sales dramatically," said Zhang. "If not, then it doesn't make sense."

One quirky asset in China Mobile's favor: Classic phone numbers.

In China, mobile numbers with the prefix "139" were the first issued in the 1990s. Today, they suggest the user is well-established enough to have been a customer back when a mobile handset cost several months of a laborer's wages.

Mobile numbers are assigned in blocks to carriers. Only China Mobile, the first carrier, has the "139" group.

A dealer who trades "139" numbers via a website and would give only his surname, Wang, said he is selling one to two a week for up to 10,000 yuan (\$1,500) each. He said they carry such a powerful cachet that people are believed to answer calls from them more readily.

"People buying those numbers are office workers or businessmen," Wang said in a phone interview. "They take 139 numbers as a symbol of social status."

Buyers who want both an iPhone and a classic number would have only one place to go: China Mobile.

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