

Samsung Note 7 nightmare puts firm's brand on trial

October 11 2016, by Giles Hewitt



A burnt-out Samsung Galaxy Note 7 smartphone photographed in Gwangju, South Korea

Samsung's new smartphone was launched with the expectation of scaling new heights in a highly competitive, rarified market. Instead it has left the company staring into the abyss.

What initially seemed to be a technical glitch in a few devices swiftly

turned into a full-blown crisis that looks set to inflict incalculable damage on the South Korean electronics powerhouse in a market where brand confidence and loyalty are paramount.

So serious did the problem become with the Galaxy Note 7 and its exploding batteries that Samsung finally bit the bullet Tuesday and announced it was scrapping the model entirely.

The move could have devastating consequences given that the large-sized Note series, along with the Galaxy S smartphones, are Samsung's flagship bearers in the fierce battle with arch-rival Apple's iPhones for supremacy in the high-end handset market.

The world's largest smartphone maker announced a global recall of 2.5 million Note 7s on September 2—a decisive move that initially seemed to have limited the damaging fallout.

But the wheels came off the whole recall process as reports emerged of replacement phones also catching fire, prompting a number of major global distributors to halt all sales and exchanges of the device.



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'Worst-case scenario'

"This is the worst-case scenario for Samsung," said Jan Dawson, chief analyst at Jackdaw Research.

"To paraphrase Oscar Wilde: To lose one version of a product to a battery issue may be considered misfortune; to lose two begins to look like carelessness," Dawson said.

Analysts have suggested the recall disaster could end up costing Samsung more than \$10 billion, but the larger concern will be the long-term impact on its overall brand.

Samsung Electronics' mobile division may have driven its global rise, but the vast company is extremely diverse with a product line ranging from memory chips and display panels to washing machines, TVs and fridges.

Its success has been built, in large part, on its ability to marry cutting-edge technology with large-scale output to produce reliable, high-quality goods across a wide price range.

The initial recall of the Note 7 alone was always bound to have some brand impact, but it would have been limited if the problem was perceived as an exception.



An advertisement for Samsung's Galaxy Note 7 device in Seoul on October 11, 2016

Damaging pattern

But analysts said the issue with the replacement devices hinted at a pattern rather than a one-off—a far more damaging problem from a brand perspective.

"To be in a situation where you claim to have identified the issue and solved it, only for the exact same issue to pop up again, is not a good look for a company of Samsung's size," Dawson said.

"The perceptions that flow from this may well spill over into other parts of their product portfolio," he said.

The crisis has raised questions over Samsung's management and decision-making abilities at a time when the family-run conglomerate is negotiating a delicate generational change of leadership.

Lee Kun-Hee, the head of Samsung Electronics as well as the parent Samsung Group, has been bedridden since suffering a heart attack in 2014.

So the pressure and the spotlight are very much on the 48-year-old vice chairman and heir apparent J.Y. Lee, son of the older Lee, who was nominated to the Samsung Electronics board just days after the initial Note 7 recall was announced.



Samsung, the world's largest smartphone maker, announced a global recall of 2.5 million Note 7s on September 2, 2016

Apple pressure

Greg Roh, an analyst at HMC Investment Securities, said the management—with all eyes on the imminent launch of Apple's iPhone 7—may have miscalculated in offering replacements with the recall.

"I think Samsung rushed into handing out new phones when it should have taken more time for a thorough investigation," Roh said.

"It was under too much pressure to dominate the market before the launch of iPhone 7," he added.

The nightmare scenario for Samsung now, Roh said, would be Note 7

owners taking the refund offered by Samsung and swapping to the iconic Apple handset.

"The reason consumers prefer brands like Samsung and Apple is because of product reliability.

"The impact of the Note 7 will carry on to Samsung's next smartphone model. Overall, brand damage is inevitable and it will be costly for Samsung to turn that around again," he said.

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