WSJ Article Review

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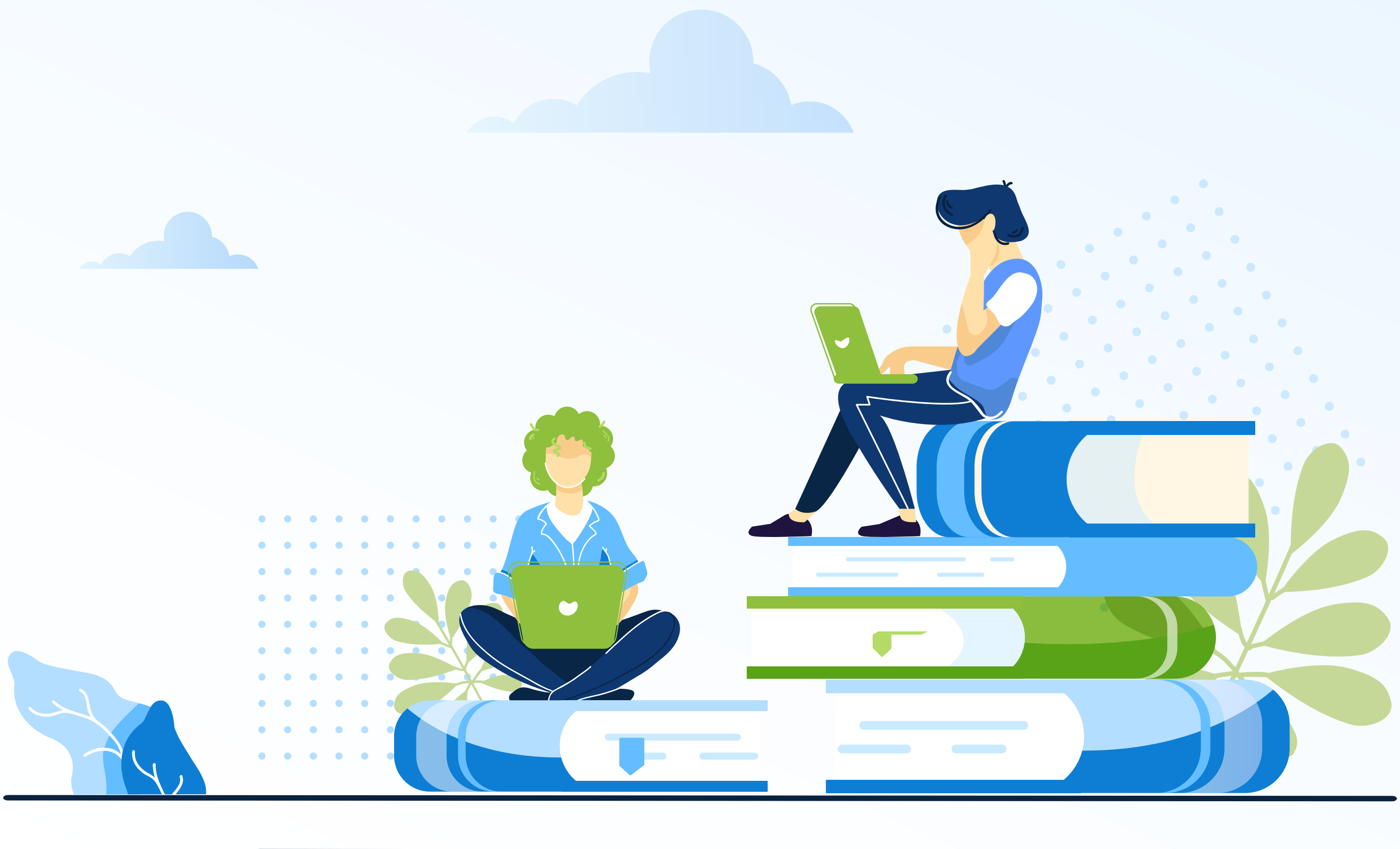

WSJ Article Review

LG Brings the Fight to Samsung's Door – (915)

Samsung, Apple Lose Ground to China Smartphone Makers – (630)

Total number of words in the WSJ articles – (1545)

Chapter Topic: The Five Generic Competitive Strategies (Cost leadership, product differentiation, and focus strategy)

Key Points

- **The Popularity of Chinese Smartphones and Stiff Competition from LG Electronics** – Chinese manufacturers of low-cost smartphones are continuing to undercut the industry giants.

- **Reshorings** – Soaring wages in China, as well as cheap energy costs and wage stability in the United States, are making Apple reconsider production locally, hence, making it more competitive in the United States.

- **Achieving Sustainable Profitability** – In response to economic slowdowns and global shocks, mobile phone manufacturers are considering cutting costs to sustain their dividends.

- **New Entrants** – New entrants, including LG, Motorola, Google, and particularly Xiaomi, position themselves in the same crowded tablet and smartphone segments. They produce competitive gadgets with affordable prices and influence Apple and Samsung's price point decisions.

Analysis

Despite their domination in the high-end smartphone market segment, Apple Inc. and Samsung are facing stiff competition from Chinese companies. While Samsung continues to battle Apple Inc. in terms of pricing, it also confronts cutthroat competition in its backyard (Luk & Wong, 2014). The underlying market trend that haunts Apple Inc. is that Android-based phones continue to gain popularity as they have the most affordable mobile platform. Furthermore, low-cost phone makers in China are increasingly cutting the market share of both Apple and Samsung in Asia. For instance, in the third quarter of 2014, Apple and Samsung's markets share in Asia fell to 12.3% and 24.7% from 13.4% and 35% respectively (Luk & Wong, 2014). On the contrary, Xiaomi Inc., a Chinese company, gained a 5.6% share from 2.1% (Luk & Wong, 2014). Xiaomi was trailing Samsung, Apple, and LG Electronics. The popularity of this company is attributed to the fact that Xiaomi prefers low-cost web-based distribution channels to brick-and-mortar approach. Companies capable of positioning themselves are likely to reap profits when the financial markets are even worse through generic strategies, including differentiation, cost leadership, and focus. The low-cost positioning protects entities from influential buyers because lower production or operation costs mean that entities can adjust or offer lower prices within their industries (Lee, 2014). As a matter of facts, price and costs are not dependent on the low-cost strategy. Nevertheless, the approach puts much emphasis on operational costs to achieve a position that can be exploited to create a competitive advantage or increase profitability.

Xiaomi also employs social media platforms to grow its popularity (Luk &

Wong, 2014). However, it faces challenges gaining consumers overseas. Samsung is losing market share in the premium segment to Apple and in the middle market to Huawei and Xiaomi. At the bottom tier, it continues to lose to Lenovo and local brands such as Mito from Indonesia and India's Micromax. The latter is becoming a threat to Samsung because it has ventured on producing various product categories such as home appliances and TVs (Luk & Wong, 2014). Samsung and LG compete in almost identical product categories and global markets. However, Samsung strategically engages in competition with its rivals in mid and low-price cell phones. Apple Inc. also recognizes the cost advantages of manufacturing at home, decades after sending its production to low-cost areas in Asia and Mexico. Full-scale reshoring is not expected, but cheap energy and wage stability in the United States may create competitive advantages for Apple. Manufacturing locally would lower shipping costs and make its supply chain predictable. In the same context, Apple would keep a close look at quality control and protection of intellectual property rights. Imitation and theft of intellectual property or product designs is prohibited in China and the United States. Thus, culprits found guilty face immense fines and restrictions on their operations (Lee, 2014).

Given that quality plays a vital role in creating stronger customer relationships, Samsung should foster a culture of discipline, responsibility, and accountability (Lee, 2014). Low-quality products would expose China's low-cost phone manufacturers to regulatory scrutiny. In addition, low quality affects consumer trust and brand loyalty due to the lack of transparency and accountability. As much as the imitation of Chinese smartphones boosts the visibility of their product in Asia, the whole activity is not only immoral, but also illegal. Manufacturers facing stiff competition in their segments should differentiate their products or implement focus strategy. Unlike the low-cost and differentiation strategy, the focus strategy emphasizes narrow market segment or competitive scope. In this regard, firms adjust their strategies to meet the needs of a market segment more efficiently than their competitors conducting their business on a broader scope. Focus strategy would be suitable for online merchants that cannot secure premium prices or do not have a meaningful cost advantage (Lee, 2014). Evidently, firms that implement differentiation strategies attempt to create unique services or products from their competitors. However, this should not be marked with imitation and theft of product design. To regain consumer trust, the leading manufacturers should use advanced tools to identify and flag fake smartphones in the market (Luk & Wong, 2014).

Observably, Samsung is currently the dominant smartphone manufacturer in the world (Lee, 2014). Nevertheless, Samsung and Apple still share a considerable portion of the market, but the sales of the latter lagged Samsung and the global smartphone market. One of the reasons for the underperforming sales is because Apple Inc. no longer offers its products at price points that are attractive to the smartphone segment of the market. A few years after the launch of iPad and iPhone, Apple led the related market segment in both product price and product quality. The iPad and the iPhone were much better than the prevailing competitors' products because they were affordable. Despite the fact that Apple still has an edge in product quality, outside the United States, its products are relatively more expensive than the low-cost alternatives from China. Arguably, these alternatives, including Google, Samsung, Xiaomi, Amazon, Lenovo and many other manufacturers are getting better with time (Luk & Wong, 2014).

If smartphones were not in a platform market, the trend would not have been a threat to Apple. Unfortunately, they are and the more Apple loses its market share to Brazil, China, Japan, India, Taiwan and other emerging economies, the less likely it will sustain its dominance as a leading platform. The solution for Apple is not to manufacture low-end products, but to exploit its profitability as a competitive advantage. In other words, Apple should sell some of its products, not the greatest or the latest ones, at prices that are competitive with the market alternatives (Luk & Wong, 2014). For example, Apple could sell iPhone 5 series at a lower price point. Similarly, the company should sell other recent models of iPad at competitive prices. Noteworthy, this policy would cost the company a considerable portion of its profits, but it has enough to spare.

The emergence of new entrants and their approach to creating and implementation of product, branding, and marketing strategies give the market an insight into the strategies that should be adapted to stay competitive or survive global shocks. Samsung is one of the companies that imitate Apple's strategies rather than invest in their innovation as their principal strategy. They also learn from their rival's experience to keep up with the industry leaders in the major profitable markets. Xiaomi offers low-cost Android smartphones in Asia. The company is also targeting the growing affluent Chinese consumers, thereby, increasing its market share against Samsung and Apple. The company has become the third leading smartphone manufacturer and brand in Asian markets.

Under the low-cost strategy, a manufacturer aims at producing more low-cost products in comparison with its rivals. Typically, an entity that implements cost leadership approach operates on a broad competitive scope. Successful implementation leads to profitability amid strong competition. Manufacturers implementing cost-reduction strategy hope that the move will counter the industry's vulnerability to global shocks. Economic slowdowns and increase in the cost of wages in Asia have increased the production costs in the industry, especially in China (Luk & Wong, 2014). Therefore, the profitability linked to cost reduction is expected to reward investors with sustained dividends even under worse economic times. The cost leadership strategy in the current competitive high-end smartphone segment of the mobile phone industry needs an aggressive investment in efficient and effective facilities, tight overhead and cost control, rigorous cost reductions, and circumventing marginal customer accounts. In addition, manufacturers would minimize their cost in such areas like sales force and marketing. Consumer awareness has increased more than ever, hence, shifting power to the consumers. In other words, consumers are more aware of product features, quality, and price, thereby giving them the power to choose among alternatives. In this regard, success depends largely on the ability to offer low-cost and differentiated products. Firms that implement the differentiation strategy run their activities within a broad competitive scope. However, they focus on manufacturing a product or offering services that consumers not only value but also consider distinct. Under the differentiation strategy, a company such as Apple Inc. benefits from the exclusivity linked to its products and services because customers will be willing to pay premium prices for them (Luk & Wong, 2014).

Conclusion

Samsung is losing its market share at almost all price points, especially to new entrants and low-cost smartphone manufacturers in China, India, Indonesia, and Taiwan. The loss is largely attributed to high cost of production that translates to high product prices. To respond to this, the company should strive to find economical ways of cutting production cost without compromising quality. Entities that have successfully implemented low-cost strategies always have lower costs than their competitors do. Therefore, a company can use the strategy to offer affordable prices, thereby increasing market share, or maintain its premium price and increase its revenue as compared to its rivals.

Apple and Samsung's market can also be sustained through product differentiation. Consumer loyalty can be used as an indicator metric for measuring the success of differentiation strategy. Under differentiation, consumers should be willing to pay premium prices in exchange to the offered goods or services. By manufacturing innovative products, the company stands to compete with Apple in the premium segment, and LG and Xiaomi in the middle tier. In terms of differentiation strategies, Samsung is improving the design and interface of its lower-end devices to sustain its market share. The low-cost strategy would protect these mobile phone giants against powerful suppliers because low production costs promote the flexibility of the entity to mitigate any increasing costs.

If Apple Inc. continues to implement its present pricing and optimizes short-term profit strategy, the company may sustain its profits in the United States for the next few years. Nevertheless, the company will continue to lose ecosystem and platform share in other parts of the world. The strategies and lessons of Samsung and Apple demonstrate new economy dynamics of how companies address competition using experience strategies. New entrants must learn and implement innovation, new business value as well as disrupt.