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### Beginning of the New Smartphone Era

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**A decade ago, computers were made for work and productivity.**

Portable laptops were beginning to become mainstream, and cell phones were about as personal as a wallet. Today, smartphones do everything a laptop can do while also functioning as a personal connection to the rest of the world. In 2016, global smartphone sales reached \$1.5 billion even though the market did not exist in 2006.

Apple's iPhone ignited creation and rapid expansion of a previously nonexistent market. Smartphone sales have risen since the release of the original iPhone in 2007. In 2007, Apple's stock was worth \$12. Creation of the smartphone market increased Apple's stock to a peak of \$227 in 2018. Other firms, such as Samsung and Huawei, have benefited from the same expansion over the past decade.

However, total sales of smartphones decreased in 2017 for the first time since the market opened. To keep the market alive, Apple will need to identify the problems in the current market and adapt to the changing need for smartphones going into the next decade.

### Apple Misses the Mark

“The bigger you are, the harder you fall” represents Apple’s misfortunes in 2018. In 2018, Apple’s total revenue dropped 15% from 2017. The decline in sales occurred right after Apple introduced the 2018 iPhone models, iPhone XS and iPhone XR. These models are incremental upgrades on the prior year’s model, iPhone X, and Apple brought over a negative aspect from the 2017 model, the price. Apple increased the price of the iPhone in 2017 for the first time. When adjusted

for inflation, the prices of each iPhone have remained consistent for each release with exception to the iPhone X and iPhone XS. Consumers were outraged at the proliferated price in 2017 and did not change their minds in 2018. Higher prices have caused consumers to avoid buying the new iPhone models.

Apple’s performance in China is even more unsatisfactory. The Chinese yuan declined 5.7 percent compared to the US dollar in 2018. Deflation of Chinese yuan has caused iPhone prices to be massive in China because Apple sells the iPhone in US dollars. Massive prices in China detour Chinese consumers from purchasing any iPhones. In addition, Apple faces huge competition from Huawei in China. Huawei sells smartphones specifically tailored to Chinese consumers’ needs at a much lower price than Apple. Apple

sells their smartphones by promoting iPhones as status symbols rather than demonstrating the practical use. A lack of features tailored to Chinese customers along with massive prices has caused Apple to lose in China. Apple’s lack of a foothold in China has severely hindered total sales because China is a large and expanding market for smartphones.

Recently, Apple has modified their prices in China to better fit the market. iPhones have had a small increase in sales as an effect.<sup>8</sup> Other problems Apple has yet to address are battery replacement issues and other accessory issues. Competing firms offer cheap accessories for their smartphones and repair options for broken batteries, screens, etc. The lack of these options moves consumers to brands other than Apple. As a result, Apple is expecting revenues of \$55 billion in 2019 as compared to \$61 billion from 2018.

more customers. Samsung’s decrease in Q4 sales continued into 2018: “The Company posted KRW \$59.27 trillion in consolidated quarterly revenue, down 10 percent from a year earlier, and KRW \$10.8 trillion in quarterly operating profit, down 29 percent.” Industry leader Samsung reporting decreased sales is not good news for the smartphone market.

China’s smartphone market is also experiencing a significant decline. Chinese smartphone sales dropped 10.2 percent and have been on the decline since the second quarter of 2017. China is a perfect market for smartphone manufacturers because of its large population and growing number of people leaving poverty. These conditions should generate massive smartphone sales, but the industry is not seeing the expected growth.

For the foreseeable future (and unless a major change in the industry occurs), smartphone sales are predicted to be sluggish. Apple and the other prominent firms in the industry need to identify the current problem and make the necessary changes to increase sales again.

### Customers are Satisfied

The decline in smartphone sales is not marking the beginning of the end of mobile computers. People will still be streaming videos from the palm of their hand a decade from today. The number of people who have smartphones is also going to continue to rise even

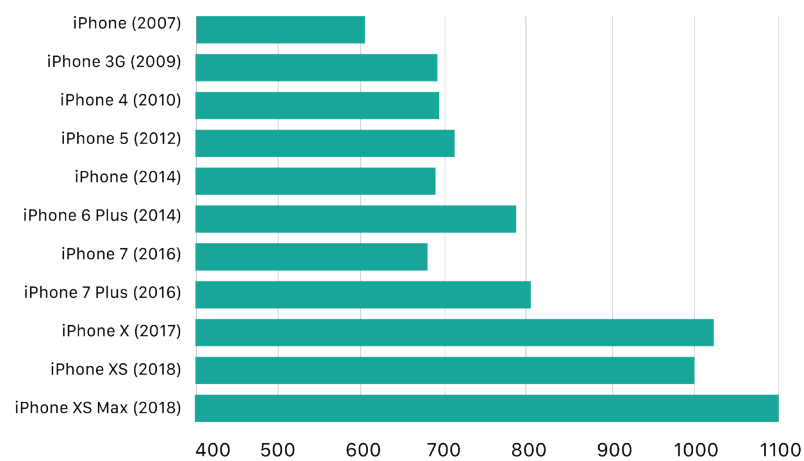
**To keep the market alive, Apple will need to identify the problems in the current market and adapt to the changing need for smartphones going into the next decade.**

though total smartphone sales might have already peaked. Smartphones are not a finished fad. The problem is that today’s iPhone is the same as tomorrow’s iPhone.

Total smartphone sales are declining because current users are not buying more phones. For the past decade, every year’s new iPhone was a notable upgrade from the prior year. The first upgrade of the iPhone was the iPhone 3G. The iPhone 3G was released one year after the first iPhone and came with massively upgraded specifications. Included in the new iPhone was a larger battery, a 3G signal,

larger storage, new operating system, and a standard 3.5mm headphone jack. Owners of the original iPhone quickly bought the iPhone 3G as well as new customers who did not previously have an iPhone or smartphone. In contrast, the differences of the two most recent iPhones released are as follows: iPhone XS has (1) slightly more RAM and (2) a slightly faster processor. Consumers who have the iPhone X do not feel a need to spend \$999 on such a small upgrade. This same pattern is occurring with all other smartphone manufactures and results in a decrease of overall demand.

**Figure 1: Cost of Various iPhone at Launch (adjusted for inflation)**

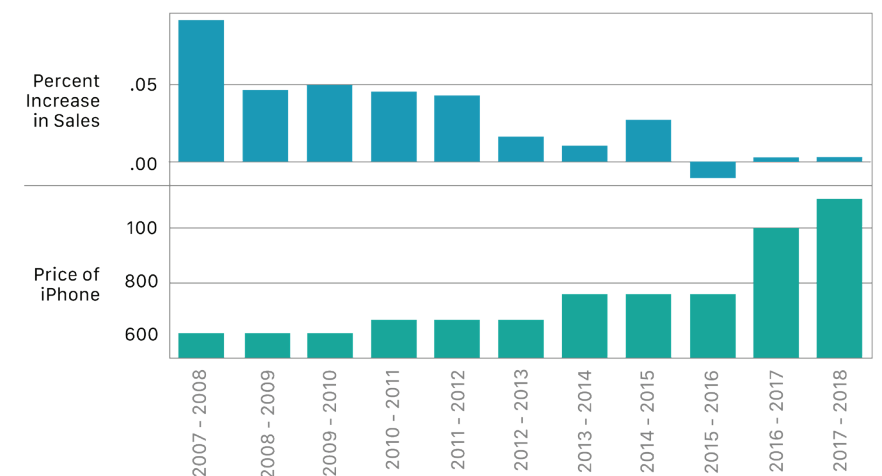


Data source: u/zonination, The cost of each iPhone at launch (adjusted for inflation), (reddit.com, 2018)

### The Other Guys

Apple is not the only firm reporting decreases in sales recently. Samsung has been the global leader in smartphone sales for the past few years. In Q4 2017, Apple overtook Samsung in the number of smartphone sales, but Samsung reclaimed the title once the Galaxy S9 was launched in 2018. Samsung usually has higher sales than Apple because Samsung has more influence in other foreign markets than Apple. Apple overtaking Samsung in number of sales is shocking because Samsung has

**Figure 2: Increases in iPhone Sales vs. Price of iPhone**



Data source: Statista.com editors, Unit Sales of the Apple Worldwide from 2007 - 2018 (in millions), (statista.com, 2019)

Going forward, Apple needs to give consumers more of the functionalities they want while also lowering the price tag just like Jobs did in 2007. Jobs' innovation is what has led Apple to success.

"Without new demand, the smartphone market has come to a turning point," said Huang Wei (Deputy Director of the Research Department of Integrated Circuits and Software, Institute of Integration of Informatization and Industrialization China Academy of Information and Communications Technology) told Beijing Review. Without an incentive to upgrade, consumers are waiting longer to upgrade. Several years ago, users were upgrading on an average of every 15 months instead of the current average of every 22 months.

Kit Hong Wong (Department of HealthBusiness Administration, Fooyin University, Kaohsiung, Taiwan) ran a study to determine the rational benefits people gain when they choose to switch smartphone brands. From his study, Wong determined people put more value on the functionality of the device rather than the brand of the device. Since consumers buy new smartphones when they believe the new device delivers more benefits than their current device, consumers are not buying as many phones in 2019 as in 2009, because most smartphones offer the same benefits as the device they already own.



Source: Chris Smith, *Huawei Mate X*, (bgr.com, 2019)

Apple's high prices also play a role in decreasing the benefit from upgrading. As Apple continues to attempt to establish itself as a luxury brand, Apple believes it can charge high prices for iPhones to make up for decreasing sales revenue because people will pay for the status symbol. However, when costumers buy smartphones, they are looking for function, not style; therefore, this pricing strategy does not work. "Apple will exhaust that strategy," says David Yoffie, a professor of international business at Harvard Business School who also sits on the board of HTC. "When Apple is at an average selling price of \$800, and the rest of industry is at \$300, you can only defy gravity for so long." Apple is going to see more revenue plunders if they continue charging extra for a feeble status symbol.

### The Next Big Innovation

Smartphones have started to become "bezel-less wonders" (increasing screen-to-body ratio), which is not bad, but selling bezel-less wonders is not enough to keep the market at the same momentum. As Apple and other firms push smartphones to be luxury products by increasing prices and decreasing bezels, consumers are less likely to purchase new devices. When someone breaks their phone screen they do not buy a new phone, they buy a new screen because a new phone is far too expensive. If Apple would make new devices with far superior features, then people would be motivated to purchase new devices and sales would ramp up.

Two solutions to Apple's dry innovation are forthcoming: (1) foldable smartphones and (2) 5G wireless signals. Apple's competitors, Samsung and Huawei, have both introduced foldable phones that will go on sale in 2019. Foldable smartphone technology is a fresh take on smartphones and is exactly what the industry needs to reinvigorate the market. However, both phones are sporting a \$2000 price tag. Consumers are not willing to widely adapt new foldable smartphone technology until the price shrinks. 5G wireless signal is the more likely market buster. Mobile World Conference 2018 and 2019 were both dominated by firms showcasing their 5G technology and how they will embrace it in their products. Again, Apple's competitors have

demonstrated 5G technology in their upcoming devices.

Apple has not introduced a foldable iPhone or a 5G iPhone to compete with the competition. Apple will need to introduce these features into their upcoming products or else their customers will move towards the competition. The first 5G iPhone will be a greater sales pusher than the first foldable iPhone based on Apple's past performance. The first 3G iPhone was able to convince current iPhone users to purchase the new device and the first 4G iPhone did the same. When Apple introduces the 5G iPhone, iPhone sales will increase dramatically.

### Conclusion

The smartphone boom is not doomed to end here. Apple can return sales to where they were five years ago by innovating the phone again. Steve Jobs famously introduced the iPhone as a revolutionary device that is a combination of a phone, iPod, and computer. Jobs created an affordable product with functionality in mind which is why consumers were drawn to it. Going forward, Apple needs to give consumers more of the functionalities they want while also lowering the price tag just like Jobs did in 2007. Jobs' innovation is what has led Apple to success.

To recreate Jobs' formula for success in 2019, Apple should introduce 5G and foldable screen technology into the 2019 iPhone models at half the cost of the competition. The iPhone XS's

successor should have a 5G wireless signal in the base model without raising the price tag. Alongside the 5G iPhone, Apple should also release a second model with a foldable screen. At the expense of foldable screen technology being cutting-edge, this iPhone will be expensive. The first folding iPhone will be a stepping stone for Apple to perfect the design for the 2020 iPhone model. The 2020 iPhone model will have both 5G and a foldable screen while costing the same price as an iPhone today. By recreating Jobs' formula, Apple will survive in the new smartphone era. 🚀



### Notes

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