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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 13% from 2017. The decline in sales occurred right after Apple introduced the 2018 iPhone models, iPhone X 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 since 2017. 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 much lower price than Apple. As a result, Apple is expecting revenues of $55 billion in 2019 as compared to $61 billion from 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 overtook Samsung in number of sales is shocking because Samsung has 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 form 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 X5 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 manufacturers and results in a decrease of overall demand.

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 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.
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 (Departmental Deputy of the Research Department of Integrated Circuits and Software, Institute of Integration of Informationization 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.

**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 smartphone technology when the price peaks. 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 5G 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 cut-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.

Source: Chris Smith, Huawei Mate X, (36kr, 2019)

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**Notes**

5. Leonid, “The cost of each iPhone at launch (adjusted for inflation),” reddit, June 2018.