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## MATIÈRE International Marketing

What is the situation of Apple on the Chinese smartphone market?

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The two articles provided, which are recent, demonstrate that Apple's situation on the Chinese smartphone market is getting worse. While Apple is performing good in the US and in Europe (usually not above top 3), in China, it is only 5<sup>th</sup> in terms of smartphone shipments. In comparison to 2015, 12% less iPhones have been sold in May 2016, despite the release of the iPhone SE, a cheaper version of Apple's best-seller. Local brands such as Oppo or Huawei have even increased their shares. Despite Apple's CEO optimism Greater China saw the largest decline: 26% less sales and unprecedented bad records since 2003.

In addition to that, Apple had to deal with justice, losing a patent case, and with government since the Californian company had to close two of its services and had seen its app store monitored more closely.

However, all hope is not yet lost for Apple: it had dominated the premium smartphone market which is growing much more faster than the regular one. This is a big asset.

What are the main reasons that explain this situation? 5

To explain those bad numbers, Apple first blamed the "slowdown" of China's economy, which can't be the only culprit since other brands still grew, as well as other US companies in the region. In this case, I think that Porter's five forces apply really well:

→ Bargaining power of buyers: it is said that "only super rich" clients are buying iPhones, despite the iPhone SE attempt to catch a more modest clientship.

It is clear to me that the masses prefer to buy cheaper local phones, under \$200 vs iPhone SE's \$399.

→ Threat of substitutes: as explained above, local brands respond much better to customer's expectations than Apple. The industry rivalry is very strong.

→ Threat of new entrants: new brands such as OPPO or its sister One Plus, despite their young age, have understood China's smartphone market better than Apple, hence a higher growth.

→ Bargaining power of suppliers: not really relevant here, but I read that Apple had troubles producing the iPhone 7 Plus because of the double optical lens.

→ Government policy: very important in China. Google failed to succeed in China because of it. The "Great Firewall" is pretty surprising for those brands used to

US free internet, not to mention a much looser regulation on trade marks and patents.

Finally, there are other important factors such as Apple's lack of innovation and Apple's reluctance to lower their prices, which are still too high for the masses.

How could Apple increase its market share in China?

First of all, Apple could lower its prices for the iPhone SE, targeted to more modest people. However, I don't think they will ever do this since they have the same problem in India and Tim Cook stated that he could not go any lower. Another option could be to sell refurbished units in Apple stores and their authorized dealers.

Apple should also release a smartphone with real innovations, with something that Android's smartphones would be unable to do. Siri was great at the time, but now Google Now has completely caught up, and there's nothing that makes an iPhone truly unique in my opinion.

Maybe Apple should not focus on smartphones only. For example, Xiaomi makes almost everything that's connected: smartphones and tablets obviously, but also connected alarms for the house, IP camera, weather stations... Apple could make such products for a lower price, but this is clearly not the company's philosophy.

Not having access to iTunes Movies and iBooks services does not allow customers to enjoy Apple's complete ecosystem, which can be quite frustrating considering the price paid. Apple should find a way to collaborate with Chinese government to have all its platforms available. Without services, Apple's profits in China could be badly hindered.

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## MATIÈRE International Marketing

1) When we see Apple on the Chinese smartphone market, we can say that they are struggling, they have a lot of difficulties. Apple is a strong leader in the world, but on Chinese smartphone market they are only at the fifth place. Their sales are not as good as the previous year. For example, they made up 10,8 percent of devices sold in May 2016, whereas they did 12 percent the previous year, in May 2015. Their sales on the market decreased. They also met political issues, which are directly linked to their sales. China released rules that affected the App stores, and services provided by Apple.

We see, now, that only wealthy Chinese can buy Apple products, we are not it's not accessible to everyone. In China the middle-class prefers buying mid-tier phones where the price is below 250 \$. To target these people, Apple produced iPhone SE, but it failed, it was too much expensive: 399 \$. In 2015, with the huge success of iPhone 6, Apple largely dominated the premium segment of smartphone market. By the way, Apple customers remain extremely loyal to the company. However, iPhone 7, met some difficulties on the premium market. Wealthy Chinese preferred keep iPhone 6. We'll explain the reasons in the next question.

2) We saw that Apple was facing some difficulties on the Chinese market. We can explain it, there are different reasons which justify this situation.

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Firstly, Apple products are mainly designed and produced to target the premium Chinese market. The products are made for wealthy Chinese class. However, the big majority of the population in China is not wealthy, and they can't afford them to buy Apple products. They prefer buying middle-tier smartphone like the concurrence in China is really strong.

They tried to create a middle-tier smartphone, iPhone SE, but it was still too much expensive, and Xiaomi, Huawei are very strong and experienced on this middle-tier. Apple just can't face them on this sector. Local constructors are well known.

For the wealthy class, in China, Apple is suffering because their iPhone 7 wasn't enough innovative to convince wealthy Chinese people to change/upgrade their smartphone. Apple didn't managed to bring real new design, or functionalities.

Furthermore, Government policy was not in favor of Apple. The company lost a patent case against a concurent and they were forced to shut down iTunes Movies and iBooks Services.

I tried to make an analysis of the market with Pestel, SWOT, and 5 forces, even if I didn't ~~try~~ talk about it. But we can see the

different parts of these tools. (ex: For Bstel, there's legal, technical and social aspect. For 5 forces we see the threat of new entrances and Government policy....)

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3] If I should give some advice to Apple, it would be:

Firstly, I think that Apple, in China should focus on premium market segment. Apple is a high quality company, and the concurrence on mid-tier Chinese smartphone is very strong.

Apple should try to innovate as much as possible on their better product: iPhone: New design, new functionalities, bring real innovations, not only some <sup>new</sup> little "things".

They could even try to develop other high quality products like Apple Watch. If Apple wants to concurrence Xiaomi, or Huawei with a mid tier smartphone, I believe that's a bad idea because they're not specialised in this tier, whereas it's the case for the local producers: iPhone SE has probably the same performances as a smartphone which is 100 or 150\$ less expensive. (Honor 5C of Huawei is one of the best price/quality smartphone).

In my opinion, Apple should make an iPhone 8 with new design and functionalities, and only focus on wealthy people. They have to revolutionate smartphone market, to know a huge success, as they did for iPhone 6. But I'm not worried, I heard some good news about iPhone 8, which should have a large screen, on all the surface of the smartphone!

Happy new year!

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