BATTLE OF THE GIANTS: THE PRICE WAR BETWEEN APPLE & SAMSUNG

A Managerial Economics Project by Group 3

A PROJECT REPORT

ON

Battle of the Giants: The Price War Between Apple and Samsung

Managerial Economics

A report is submitted in partial fulfilment of the requirements of MBA Program of

IBS Hyderabad

Submitted by:

Enrolment number	**Names**	**Seat number**
23BSPHH01C0406	N. Aditya	10
23BSPHH01C 1511	Kunal Pandey	12
23BSPHH01C1256	Sonali Prusty	25
23BSPHH01C 0879	Shravani Singh	1
23BSPHH01C1327	Suparna Pradhan	9
23BSPHH01C1584	Rohan Pal	8
23BSPHH01C1259	Shruti Mishra	21
23BSPHH01C0430	Anisha Gupta	41
23BSPHH01C0780	Reeshmika G	7
23BSPHH01C1318	Abhishek Puri	38

Submitted to:

Dr. Dr V. Padmavathi

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Chapter 1 – Justification of the study

Problem being discussed:

The problem being discussed in the above matter is the impact and dynamics of pricing wars, competition, and market dominance within the smartphone industry, particularly focusing on the rivalry between Apple and Samsung. The matter also touches on various economic principles and strategies involved in this competition.

Scope:

The scope of the discussion covers several key areas:

- **Pricing Wars and Competition**: The discussion delves into the concept of pricing wars in the smartphone industry, where competing companies aggressively reduce prices to gain market share. It explores the advantages and disadvantages of such price wars, including their impact on consumer welfare, market size, and market share.
- **Market Dominance and Oligopoly**: The matter highlights the dominance of a few major players, such as Apple and Samsung, in the smartphone market. It discusses how these companies use strategies like product differentiation, non-price competition, and pricing tactics to maintain or expand their market share.
- **Innovation and Technology**: The discussion emphasizes how competition between Apple and Samsung has led to innovations in smartphone technology, product features, and services. It mentions the influence of innovation on customer choice and market dynamics.

Objectives:

Based on the content provided in the matter, the objectives of the discussion can be identified as follows:

- **To Analyze Pricing Wars**: To examine the impact of pricing wars on the smartphone industry, including their effects on consumer prices, market size, and market share.
- **To Explore Market Dominance**: To understand how Apple and Samsung have achieved and maintained their market dominance in the smartphone industry through strategies like product differentiation and non-price competition.
- **To Highlight Innovation**: To emphasize the role of competition in driving innovation and technological advancements in the smartphone market.
- **To Provide a Comprehensive Understanding**: To provide readers with a comprehensive understanding of the complex dynamics and economic principles at play in the smartphone industry, with a focus on the rivalry between Apple and Samsung.

Chapter 2 – Review of Literature

Introduction to Price War

A pricing war is a fiercely competitive situation in which competing businesses within a certain industry aggressively reduce the costs of their goods or services. A succession of price cuts is used in this tactical move, with businesses continuously undercutting one another's rates in an effort to draw clients. Price wars can result in both good and bad things, but they also have a number of potential advantages.

The huge savings they provide to customers is one important benefit of pricing wars. Prices are reduced as a result of these fierce price wars, enabling people to buy goods and services at much more reasonable costs. In a pricing war, for instance, costs may fall by 10–20% or even more. These cost savings increase customers' purchasing power, raising their overall standard of living in the process.

Price wars can also spur more intense rivalry in the market. Companies are forced to innovate and look for ways to lower their operating costs as they compete to offer the lowest prices. This innovation is spurred by rivalry and results in notable improvements to the products, the technology, and the consumer experience. For instance, businesses could spend a lot of money on research and development, which leads to the introduction of innovative features or technology.

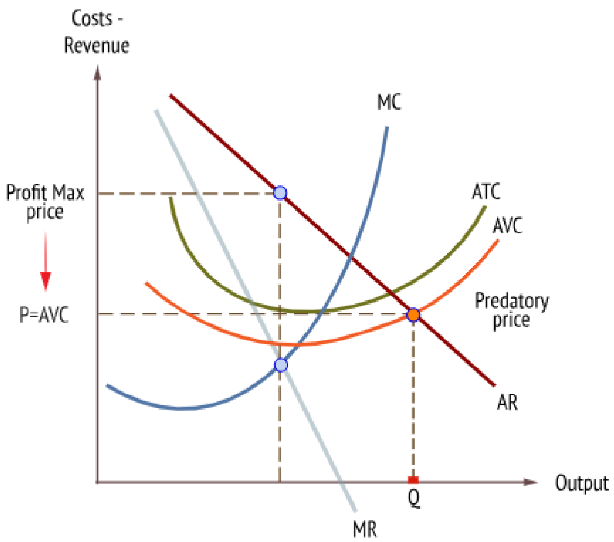

Figure 2.1: Price Competition Graph

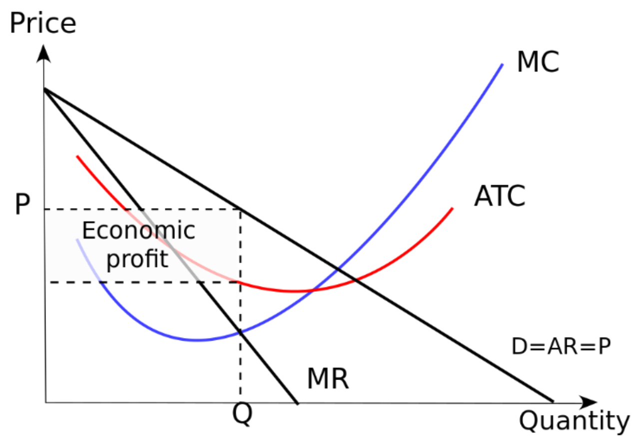

Figure 2.2: Non-Price competition Graph

[1] **Price Competition**: a strategy that implies reducing prices to compete with rivals
[2] **Supply and Demand**: the economic relationship between the price of a product, its availability and the buyers' demand for it
[3] **Market Structure**: refers to how different industries are classified and differentiated based on their degree and nature of competition for services and goods
[4] **Consumer Welfare**: Price wars benefit consumers by lowering prices and enhancing their purchasing power, aligning with microeconomic concepts of consumer welfare.

Price wars that result in lower prices have the potential to increase demand and, as a result, the size of the market. Long-term benefits for firms include additional clientele and increased income possibilities brought on by this growth. Due to the consequences of price wars, market sizes might grow by 5–10% or even more. Companies that successfully handle these price conflicts may get a larger market share, thereby strengthening their position as market leaders. For instance, during a price war, a company can see a rise in its market share from 20% to 30%.

Additionally, in order to remain competitive, price wars frequently force businesses to streamline their processes, reduce wasteful spending, and improve efficiency. Through increased efficiency, operational costs can be lowered by 15% to 20% or more. As a result of these efficiency improvements, businesses adopt improved operational procedures and experience long-term cost reductions, making them more resilient and sustainable.

Price wars do carry some risk, though, as is important to recognize. These dangers include declining profitability, possible brand reputation damage, and worries about a competition for the lowest possible product quality. As a result of the pressure to cut costs, profit margins may contract by 5–10% or more, brand reputation may suffer, and quality issues may surface. In order to avoid becoming involved in a pricing war, firms must carefully weigh the advantages and disadvantages of doing so, as well as the long-term effects on their industry and personal viability. A challenging yet essential task that businesses must handle carefully is striking a balance between preserving product quality, offering competitive price, and ensuring long-term survival.

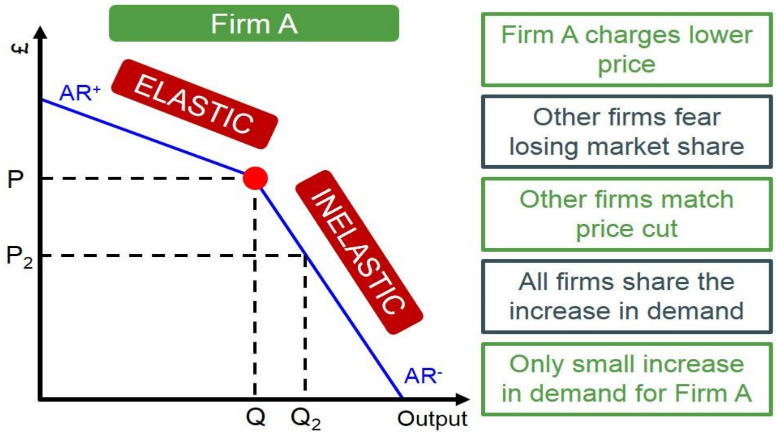

Figure 2.3: Kinked demand curve

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[5] **Market Share**: Firms aim to capture a larger market share as a measure of competitive success.
[6] **Innovation**: the development and application of ideas and technologies that improve goods and services or make their production more efficient
[7] **Efficiency**: an economic state in which every resource is optimally allocated to serve each individual or entity in the best way while minimizing waste and inefficiency
[8] **Profitability**: a measure of an organization's profit relative to its expenses
[9] **Long-term viabilities**: long-term survival and the ability to make a profit year after year

History of Price War between Apple & Samsung

The competition between the digital behemoths Apple and Samsung has grown over time, including a complicated history of legal disputes, marketing initiatives, and business maneuvers. This competition affects all facets of the global tech industry and goes beyond just making and selling smartphones. Samsung's entry into the smartphone market in 2009 with Android-powered smartphones, putting them in direct competition with Apple's iPhone, heightened the rivalry. Co-founder and former CEO of Apple, Steve Jobs, famously threatened to launch "thermonuclear war" on Android, which Samsung later adopted as its operating system. The ensuing legal fights and patent wars highlighted the financial risks associated with not protecting intellectual property and market share.

Apple first suggested license costs of $30 for smartphones and $40 for tablets for Samsung, which could have brought in a sizable profit for Apple. However, Samsung's legal team declined the offer, claiming that Apple owed them money for infringing on their patents and that Samsung should have received it instead. When Apple filed various lawsuits against Samsung for patent infringement, demanding $2.5 billion in damages, this legal dispute reached a breaking point in April 2011. Samsung promptly countersued in retaliation, alleging Apple had violated patents covering wireless and data transmission technology. The two IT behemoths then engaged in a court battle that highlighted the financial ramifications of defending intellectual property and gaining market domination.

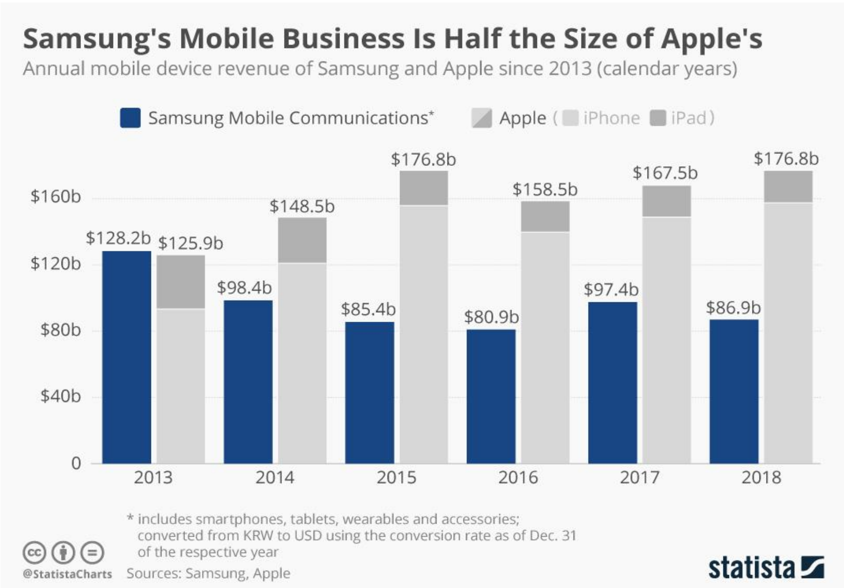

Figure 2.5: Annual Revenue Graph of 2013

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[1] Market dominance: is the control of a economic market by a firm. A dominant firm possesses the power to affect competition and influence market price.

[2] Profit maximization: is the short run or long run process by which a firm may determine the price, input and output levels that will lead to the highest possible total profit

[3] Opportunity costs: is defined as those values or benefits that are lost by a business.

As market demand and outside events like the COVID-19 epidemic changed over time, Apple and Samsung both suffered microeconomic swings in smartphone shipments. Samsung shipped 54.2 million smartphones in the same quarter of 2020, a considerable decrease from the 75.5 million handsets shipped in the second quarter of 2019. In contrast, Apple, which is renowned for its cyclical sales patterns, shipped more than 90 million iPhones globally in the fourth quarter of 2020, demonstrating the microeconomic influence of their rivals on sales figures.Samsung Electronics had a market capitalization of $510.5 billion USD in 2021, while Apple's market capitalization reached $2,252.3 billion USD. These numbers highlight these corporations' economic importance and their dominance of the world market.

Market competitiveness, market valuation, patent controversies, price tactics, demand swings, seasonal sales patterns, supply chain dynamics, market share, and the impact of innovation on customer choice are some of the economic principles at play in this conflict. These ideas work together to influence not only Apple and Samsung's strategy but also the larger technology industry landscape, which in turn shapes the dynamic connection between them.

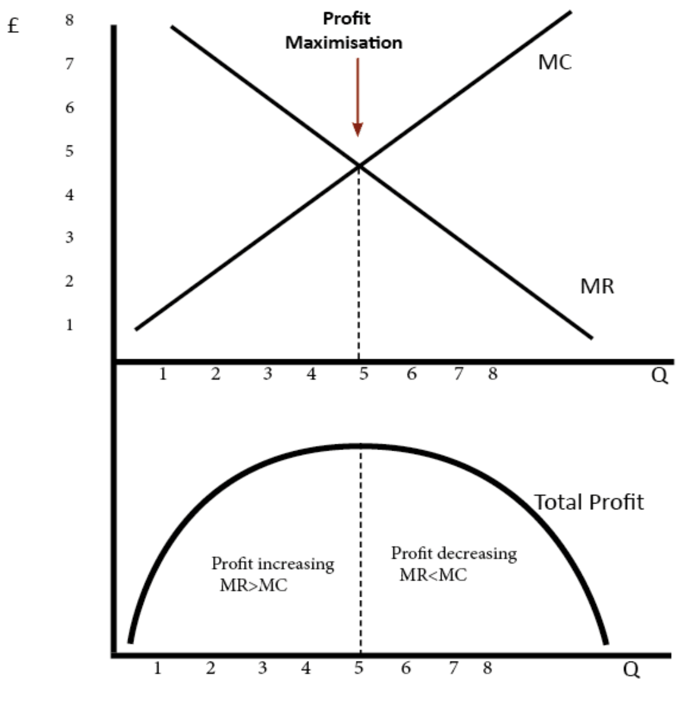

Figure 2.6: Profit Maximization Graph

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[4] Market power: refers to a company's relative ability to manipulate the price of an item in the marketplace by manipulating the level of supply, demand or both.

[5] Resource allocation: is essential in project management as it allows you to plan and prepare for project implementation or achieving goals.

[6] Market valuation: also known is the price an asset would fetch in the marketplace, or the value that the investment community gives to a particular equity or business.

[7] Pricing Strategies: takes into account segments, ability to pay, market conditions, competitor actions, trade margins and input costs, amongst others.

[8] Demand fluctuations: The degree to which price changes affect the product's demand or supply is known as its price elasticity.

Smartphone Market Share

The market for smartphones exhibits oligopoly in the following key ways:

Not many dominant players: Companies like Samsung and Apple are market leaders in the smartphone and tablet space. Although there are a few other rivals, these two businesses frequently stand out because of their huge market shares.

Oligopolistic businesses frequently use product differentiation to set their offerings apart from those of rivals. In this instance, Apple and Samsung continuously innovate and add new features to their products in an effort to draw users.

Price Wars and Competitor Strategies: Oligopolistic businesses closely monitor the pricing tactics used by their competitors. Others will probably follow suit in order to preserve or increase market share if one company reduces its prices or gives discounts. Price wars may emerge as a result.

Non-Price Competition: Oligopolistic businesses also participate in this type of competition. Instead than differentiating themselves only on the basis of pricing, they also use features, design, branding, and customer service. The introduction of services like Apple Pay and Samsung Pay, which you highlighted in your section, is evidence of this.

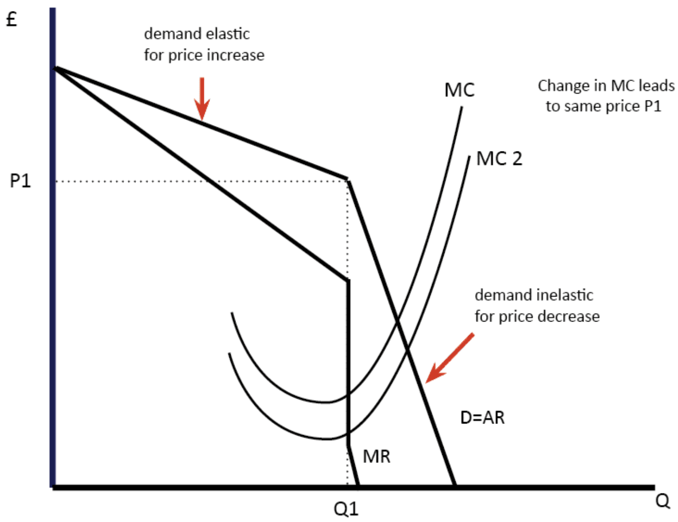

Figure 2.7: Oligopoly

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[1] Oligopoly: When just a few big companies dominate a market.

[2] Market Concentration: How much a market is controlled by a few big players.

[3]Non-Price Competition: Firms compete by offering better products or advertising, not just lowering prices.

[4] Price Wars: Companies keep dropping prices to beat each other, which can hurt their profits.

Oligopolistic enterprises actively watch the pricing strategies employed by their rivals. Price wars and competitor strategies. If one company lowers its pricing or offers discounts, others would likely follow suit in order to maintain or grow market share. Price wars could ensue from this.

Non-Price rivalry: Businesses that operate in oligopolies also engage in this kind of rivalry. Instead than relying solely on pricing to set themselves apart, they also leverage features, design, branding, and customer service. This is demonstrated by the emergence of systems like Apple Pay and Samsung Pay, which you noted in your section.

Oligopoly's effects include the following:

Limited Consumer Choice: Oligopolies can limit consumer choice because a limited number of companies control the market and their products may be quite similar.

Oligopolistic rivalry can spur innovation as businesses compete to introduce the newest tools and services.

Collusion Risk: There is always a chance that oligopolistic businesses will band together to control prices or restrict competition. The majority of nations consider this to be unlawful, and regulatory authorities actively regulate it.

In conclusion, the smartphone business is a prime example of an oligopoly, in which a select few significant companies—like Samsung and Apple—control the market. This market structure's interdependent decision-making, emphasis on innovation, and absence of price competition are its primary features, which have an effect on both businesses and consumers.

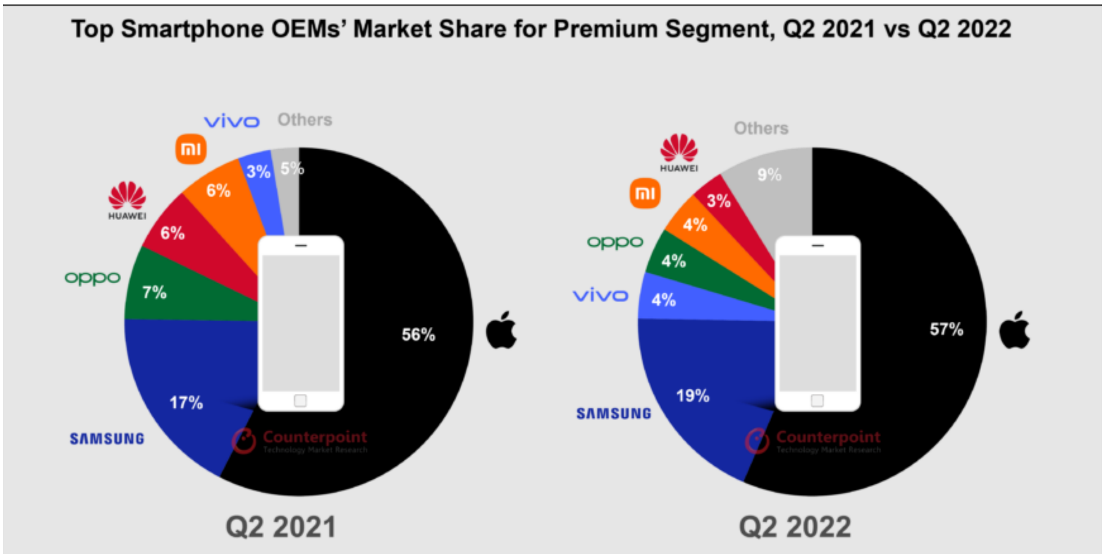

Figure 2.8: Smartphone Market Share

[5] Collusion Risk: The chance that companies might secretly work together to limit competition.

[6] Interdependent Decision-Making: Companies' choices depend on what their rivals do.

Chapter 3 – Sampling, Data Collection and Tools of Analysis

Apple's Strategy

The characteristics of Apple's target market before discussing the key marketing methods for Apple products. The middle-class and upper-class consumers who can afford to pay more for items that offer them a fantastic user experience make up Apple's target market. This indicates that these customers are more affluent and are prepared to spend more on expensive goods like those sold by Apple. Apple's marketing approach combines user-friendly goods with effective user experiences, advertising campaigns, distribution, and price.

Simple Marketing and Product Design: Apple is renowned for its straightforward marketing strategies and product designs. They advertise using straightforward language that makes technical details understandable to the general population. Apple's minimalist approach to product design extends to the user interface, which is created to be simple and easy to use. Utilizing ideas like complementary items and network effects, they also develop a cohesive product environment to entice users to use several Apple products. In line with microeconomic conceptions of premium commodities, their branding places a strong emphasis on status and luxury. Apple makes significant investments in R&D, which is in line with the microeconomic premise of developing a competitive edge. In order to operate a global supply chain effectively, economies of scale must be used. Protection of intellectual property coincides with principles of competitiveness, and strategic alliances prioritize collaborative competition.

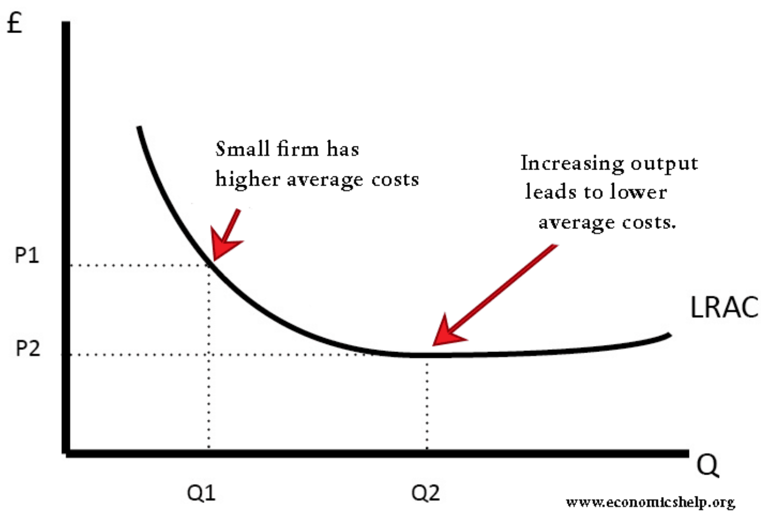

Figure 3.1: Economies of Scale

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[1] Complementary Products: Enhance each other's value when used together.

[2] Luxury Goods: High-quality, non-necessity items for prestige.

[3] Economies of Scale: Cost per unit decreases with increased production.

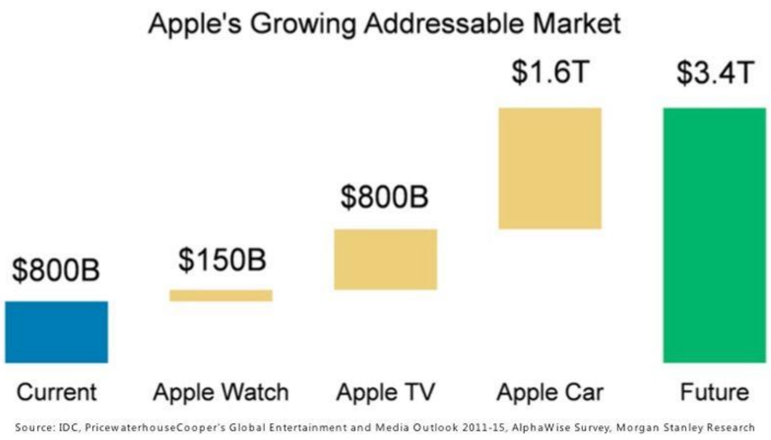


Figure 3.2: Apple’s growing market

Future Outlook:

Apple is poised to continue its trajectory of innovation and market dominance. The company's strategic direction includes further integration of hardware, software, and services, with a focus on enhancing user experiences across their ecosystem. Potential opportunities lie in expanding into emerging markets, such as India and China, and diversifying revenue streams through services like Apple TV+ and Apple Arcade. However, Apple also faces threats, including increasing competition in the smartphone and tech industry, regulatory scrutiny, and supply chain vulnerabilities. Navigating these challenges while maintaining their commitment to innovation will be crucial for Apple's future success.It shows how Apple's marketing strategy is influenced by economic concepts and factors relating to customer behavior, pricing, market dynamics, and competition positioning. It also demonstrates Apple's strategic success.

[4] Target Market: Specific interested consumer group.

[5] Consumer Behavior: Study of purchase decisions and preferences.

[6] Market Dynamics: Factors influencing market behavior.

[7] Collaborative Competition: Industry rivals cooperate and compete.

Samsung's Strategy

Samsung's Strategy:

1. Samsung is a leading smartphone manufacturer that uses various strategies to compete in the market. Some of these strategies are:

- Innovation: Samsung makes significant investments in R&D to produce new features and products that satisfy consumer demands and expectations.
- Price skimming: When releasing new items with the newest technology, Samsung pursues a high price approach before lowering the price when rivals release comparable products.
- Diversification: To appeal to various market sectors and tastes, Samsung offers a wide selection of smartphones under various sub-brands, including Galaxy S, Galaxy Note, Galaxy Z, and Galaxy A.
- Promotion: To promote and hype its products, Samsung employs a variety of marketing channels, including commercials, content marketing, sales promotions, event experiences, and digital campaigns.

2. Samsung's chief strategy involves capitalizing on the weaknesses of its rivals. As such, Samsung awaits competitors to launch products before making its product that is essentially an improvement of the competitor's product (Kang, Chang & Song 2013). Previously, this approach has enabled Samsung to avoid investing heavily in research since the move may appear to competitors as a rather sleazy tactic.
3. Nevertheless, Samsung is currently investing more resources in research to create its unique technologies. This plan is expected to remedy its reputation as a "copycat" (Kang. Chang & Song 2016). Nisen (2013) observes that Samsung filed numerous patents in the US in 2012, coming only second to IBM.
4. This observation demonstrates the company's changing approach from being a follower to being a leading innovator.

Figure 3.3: Samsung's struggles

5. Samsung's management understands that a formidable reputation for the company will depend on its ability to produce new products that are differentiated from those of its competitors.
6. Samsung for its part has relied on the red ocean strategy where it improves the already existing technology in the market.
7. Samsung will focus more on 5G smartphones in 2023, increasing the share of revenues from 5G smartphones from 61% in 2022 to 75%, as it looks to consolidate its market leadership in revenue terms this year.The company plans to introduce 1.6 times more 5G smartphones than what it had last year. In other words, the company is trying to play to its strengths rather than engaging in a race to the bottom.
8. Before the iPhone X's release date, Samsung released a new commercial that is totally aimed at criticizing Apple.Samsung always comes up with innovative ways to mock Apple, but this time, it elevated its concept to a different level.
9. Samsung's marketing communication mix includes a variety of channels such as print and media advertising, sales promotion, events and experiences, and public relations. Samsung Electronics employs these channels in an integrated fashion.

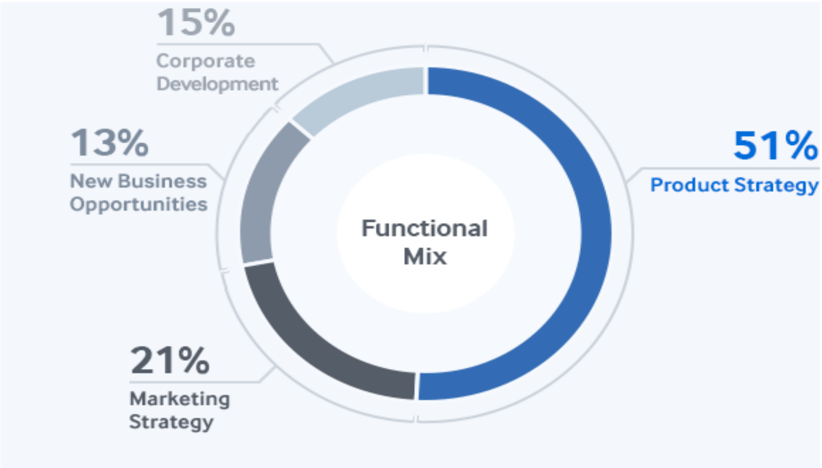


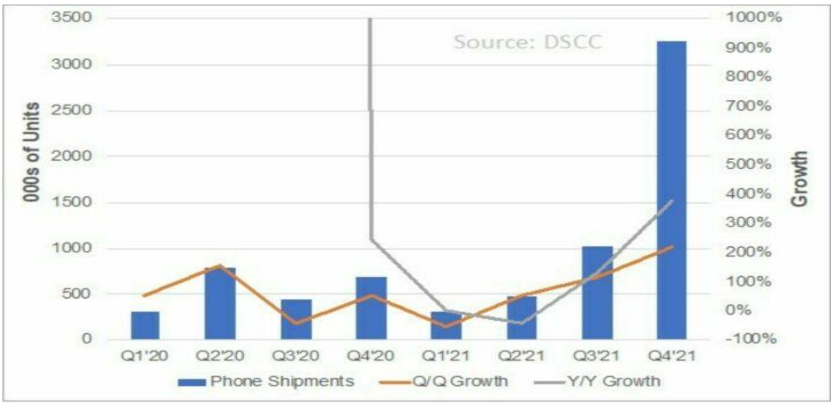
Figure 3.4: Functional mix

Samsung’s social Media Marketing Strategies:

- They are continuously working to maintain their popularity, and they must work really hard in order to do so. When it comes to social media marketing, they use Instagram, Facebook and YouTube to help them in generating good earnings as well as making a big influence on users and followers.
- Samsung social media analytics can help businesses to track, measure and analyze social media conversations and activity to better understand what customers are saying about their brand. It can also help businesses to identify social media influencers and to track social media campaigns.

Samsung's Bold Strategy:

- Samsung's goal is to be the best at everything it does. Its profit strategy is to charge slightly more than its competitors for smartphones in order to maximize profit margins. Furthermore, it has a competitive growth strategy, which focuses on the development of new and innovative products to stay ahead of the competition while retaining its customers.
- Samsung's foldable phone growth graph is shown below which got many customers' eyes.



Scenario of Price Wars in Smartphone Industry

Indian smartphone manufacturers have lowered their prices as a result of growing demand and fierce competition from international brands. This has sparked a fresh round of price competition between MNC phone manufacturers.

Samsung and Apple hold a combined 23.3% of the worldwide phone market, with Apple holding a 14.7% share. Both businesses have established price tiers for their smartphones, with flagship models rising in cost with each new generation. The price points of the iPhone 8 and iPhone X, which cost over $1,000, have approached those of laptops. Despite the escalating costs, Apple devotees still purchase these phones. High-end Android phones made by Blackberry haven't had a big impact on the market share of their rivals. Samsung purposefully sets its phone costs competitively, citing Apple's pricing as a model for others to imitate.

Samsung and Apple have held a two-horse race for market share domination in the phone sector for a long time; the other lesser competitors have only moderately succeeded in grabbing market share, largely from one another. Samsung presently holds a 23.3% market share worldwide, while Apple, its nearest competitor, holds a 14.7% share. Because of their market dominance, market leaders typically control the most essential aspect of the industry's dynamics: product price. Apple typically appeals to a wealthy demographic of people who are also passionately brand loyal and don't seem to mind the company's ever-rising prices.

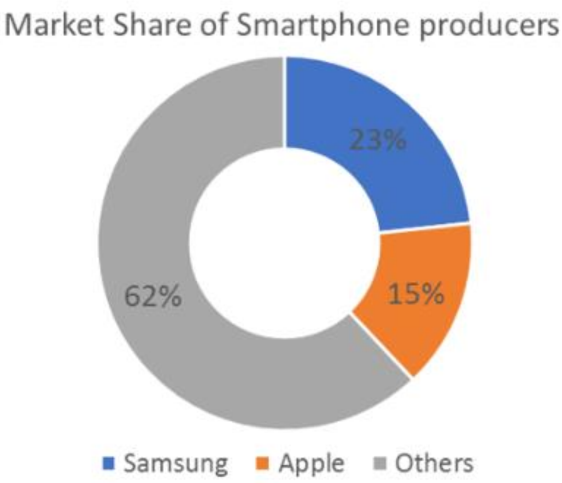


Figure 3.5: Market Share of Smartphone Producers

[1] Price competition: Rivalry among businesses to attract customers by offering lower prices for similar products or services.

[2] Price Tiers: Different price levels for the same product or service, often based on features or quality.

[3] Price Elasticity of Demand: A measure of how sensitive consumer demand is to changes in price.

[4] Market Dominance: When a company or firm holds a significant share of a market, allowing it to influence market conditions and pricing.

Samsung, on the other hand, produces phones for people of all income levels and financial situations. All social classes are served by a combination of the high-end Galaxy S series, the mid-range A series, and the low-cost J series. Due to their respective market shares, both businesses are establishing pricing tiers that other businesses can follow. With each succeeding generation, there is a clear tendency toward more expensive flagship models. Last year, several price levels and memory capacities were available for the iPhone 8, iPhone 8 plus, and iPhone X. Apple devotees are buying the $1000+ iPhone X as if the price doesn't matter, even though it has entered the price range of laptops.

A consumer backlash would have resulted from a non-dominant competitor in the phone industry raising the price of its flagship model to $1,000. For instance, Blackberry has created some highly coveted, but pricey, high-end android phones over the past two years, but they haven't been able to compete with their rivals' market share.

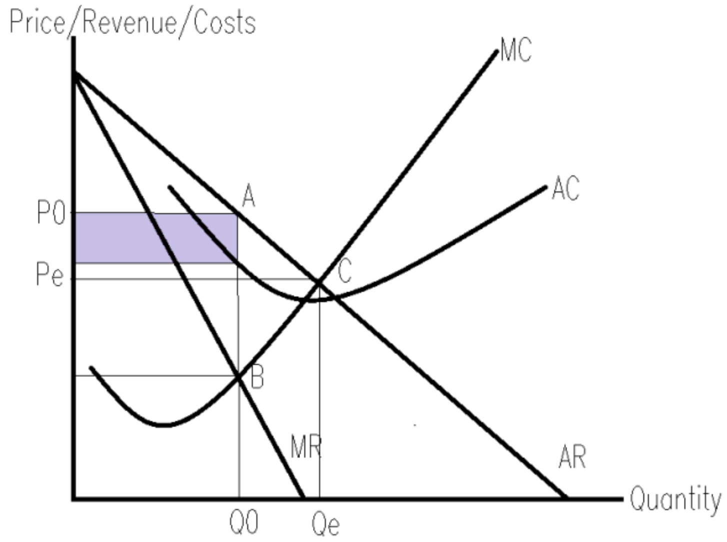


Figure 3.6: Market Dominance

[5] Consumer Behavior: The study of how individuals and groups make choices about what to buy, use, or consume.

[6] Product Differentiation: The process of making a product distinct from competitors through features, branding, or quality.

[7] Market Share: A company's portion of the total market sales in a specific industry or product category.

Chapter 4 – Results and Discussion

Price Wars and Market Share

The struggle for market share dominance in the phone sector has long been between Samsung and Apple. Samsung presently holds a 23.3% market share worldwide, while Apple, its nearest competitor, holds a 14.7% share. Samsung purposefully sets its phone costs competitively using Apple's price as a benchmark, despite having the largest global market share. As a result, while setting their pricing, the competition compares them to those set by Samsung.

Because of their market dominance, market leaders typically control the most essential aspect of the industry's dynamics: product price. Apple typically appeals to a wealthy demographic of people who are also passionately brand loyal and don't seem to mind the company's ever-rising prices.Samsung, on the other hand, produces phones for people of all income levels and financial situations. All social classes are served by a combination of the high-end Galaxy S series, the mid-range A series, and the low-cost J series. Due to their respective market shares, both businesses are establishing pricing tiers that other businesses can follow.

Below is the comparative pricing analysis of Apple and Samsung.

5 Apple Price Tiers	7 Samsung Price Tiers
IPhone X - $1000	S8 - $720
IPhone 8 - $990	S7 - $550
IPhone 7 - $750	S6 - $500
IPhone 6s - $620	S5 - $450
IPhone SE - $540	A3 - $410
	J7 - $320
	J5 - $290

From the prices above it can be observed that Apple increased their prices from the SE to IPhone X within the range of (1.01% - 32%).

Samsung on the other hand has an increase of (7.41% - 10.34%) for the J series, (22.64% - 29.27%) for their A series and finally (10% - 30.91%) for the flagship S series.

Comparing Apple to Samsung: If the prices of similar products are compared among the brands one will notice that Apple is more expensive across board.

IPhone X vs S8 = Apple is 38.89% more expensive.

IPhone 8 vs S7 = Apple is 80% more expensive.

IPhone 6s vs S5 = Apple is 37.78% more expensive.

IPhone SE vs J3 = Apple is 100% more expensive.

From the data above we can conclude that to have pricing power one does not necessarily need to be number one in market share, however, it is definitely important to be among the market share leaders, at least in the electronics industry.

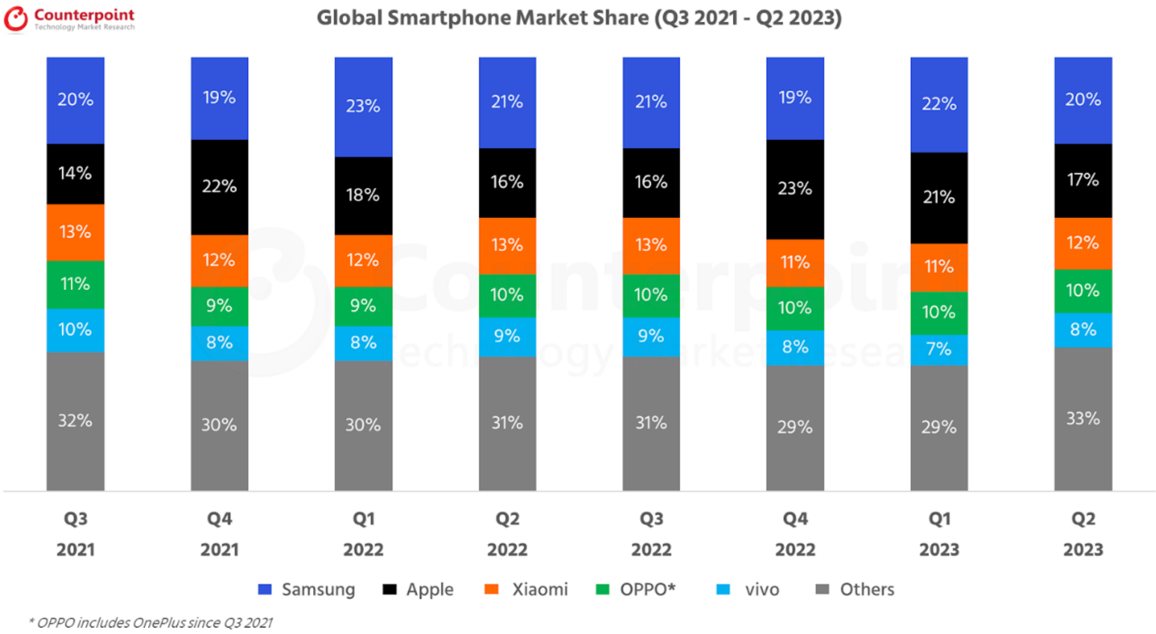


Figure 4.1: Global Smartphone Market Share

Global smartphone market share Q2 2023 highlights:

- The global smartphone market declined by 9% YoY to reach 268 million units in Q2 2023.
- Samsung retained its position as the top smartphone player in Q2 2023, as Apple saw cyclical decline.
- Among the top five brands, Apple experienced the least YoY shipment decline. Among the top 10 brands, Tecno and Infinix, part of the Transsion Group, saw double digit annual growth.
- In terms of regional performance, Middle East and Africa (MEA) exhibited the only annual shipment growth while North America experienced the highest decline.
- The top 5 brands contributed to almost 80% of the total 5G shipments in Q2 2023
-

[1] Pricing Strategies: Approaches used by companies to set the prices of their products or services in the market.

[2] Market Decline: A situation where the overall demand or sales in a market decrease.

[3] Cyclical Trends: Repeating patterns or fluctuations in market conditions that occur over a defined time frame.

[4] Regional Performance: The assessment of how well a company or market is performing in specific geographic areas.

[5] Price Increases: Raising the cost of a product or service, often to improve profitability or reflect increased costs.

[6] Consumer Behavior: The actions, decisions, and choices made by individuals or groups when purchasing or using products and services.

[7] Brand Loyalty: The degree to which consumers consistently choose and remain loyal to a particular brand over others.

[8] Market Structure: The organization and characteristics of a market, including the number of firms and their influence on pricing and competition.

Price Wars and Profit Margins

The price war between two market leaders, Apple and Samsung, is driving a significant transition in the smartphone sector. Consumer preferences and market dynamics have significantly changed, which is what is driving this transition. 37% of all smartphones delivered in 2012 were under $250 in price, a significant rise from 27% in 2011. Notably, the market for cellphones between $75 and $100 had a startling 750% increase over this time.

Apple, known for its expensive iPhones, is currently under increasing pressure to reduce its traditionally high profit margins. The once-status-symbolic demand for expensive smartphones is beginning to wane. Apple is forced to change their approach in response and release a cheap iPhone. According to projections, this strategy change will cause Apple's profit margins on high-end iPhones to drop from about 50% to about 38%.

Samsung, a rapidly growing smartphone manufacturer, on the other hand, is pursuing a diverse strategy. The Galaxy and Note series serve as examples of its high-end models, while the Galaxy Mini is an example of a more affordable alternative. This dual strategy fits the current fad of meeting a wide range of consumer wants and financial capabilities.

The explosion of less expensive cellphones is mostly due to emerging markets. By providing reasonably priced smartphones with necessary functions like social networking and email connectivity, manufacturers are purposefully focusing on these regions. Due to its affordability, emerging nations offer a significant possibility for expansion, potentially changing the global smartphone market.

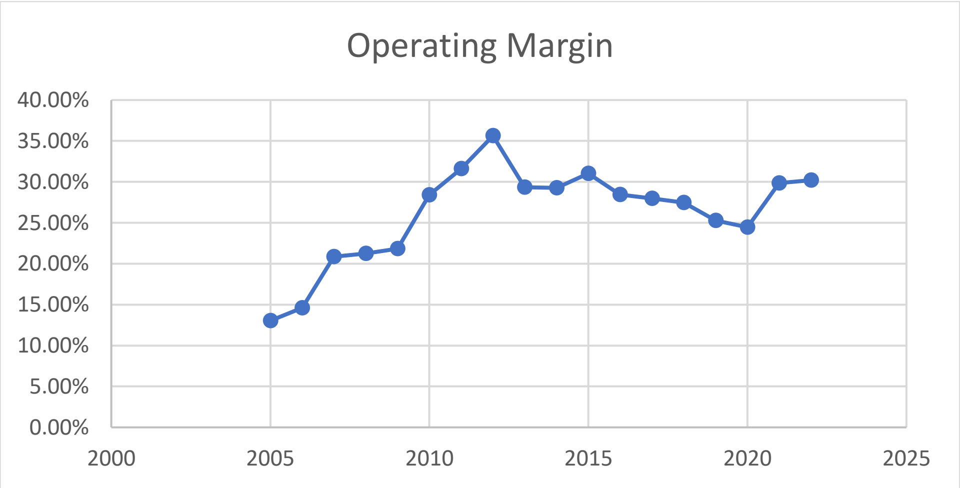


Figure 4.2: Profit Margin of Apple

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[1] Price Elasticity of Demand :- Price elasticity of demand is the ratio of the percentage change in quantity demanded of a product to the percentage change in price.

[2] Profit Margins:- Profit margin is a common measure of the degree to which a company or a particular business activity makes money.

[3] Consumer Preferences:-Consumer preference is the subjective taste of individual consumers that is measured by the satisfaction they derive from an item after they buy it. It is often expressed through utility.

This sector's metamorphosis is similar to the development seen in the desktop computer sector a decade ago. The "good enough" factor is becoming more prevalent in expensive cellphones as feature saturation levels are reached. To stay competitive, manufacturers are shifting their attention to forging connections with carriers.

Significant players like Apple and Samsung are significantly impacted. The established business model of luxury smartphones commanding huge profit margins is under pressure. Both businesses are rethinking their approaches to deal with a market dominated by less expensive devices. Low-cost smartphones have an impact that goes beyond emerging nations and is progressively affecting mature markets.

The market for expensive smartphones will likely continue to exist, but it is expected to cohabit with a growing mass market for less expensive devices. Unabated development of more affordable smartphones continues to be a persistent threat to their more expensive competitors.

This case study sheds light on the evolving smartphone market and emphasizes the necessity of innovation and adaptability in this fast-paced market.

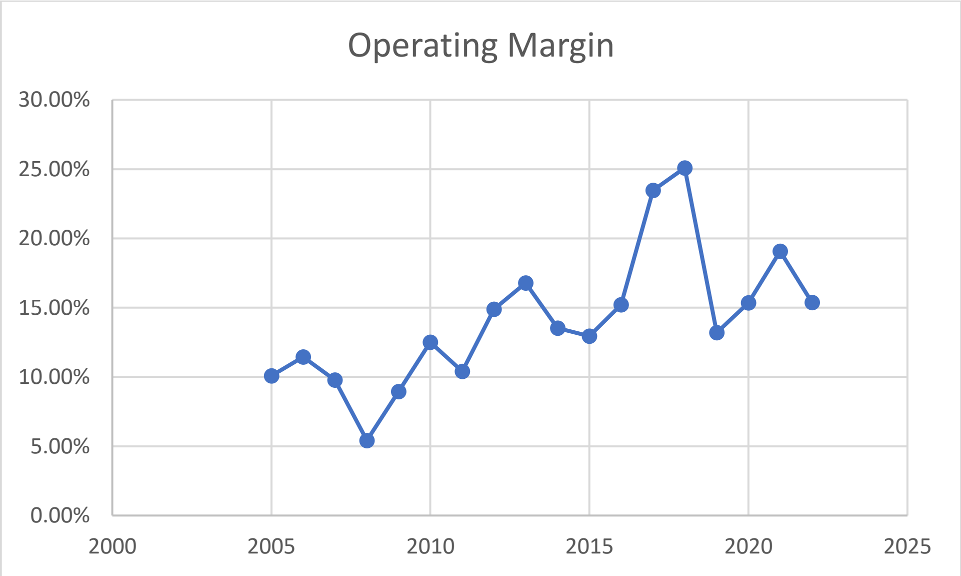

Figure 4.3: Profit Margin of Samsung

[4] Emerging Markets:-An emerging market is a market that has some characteristics of a developed market, but does not fully meet its standards. This includes markets that may become developed markets in the future or were in the past.

[5] Market Segmentation :-Market segmentation is the practice of dividing your target market into approachable groups. Market segmentation creates subsets of a market based on demographics, needs, priorities, common interests, and other psychographic or behavioral criteria used to better understand the target audience.

[6] Competitive Behavior:-Competitive Behavior includes the actions and steps taken by a firm to build or reduce the competition and to increase the market ration. Generally competition is done in order to increase the strength, wealth or may be personal gains and it may be among companies, enterprises, industries or individual.

[7] Market Structure:- Market structure, in economics, refers to how different industries are classified and differentiated based on their degree and nature of competition for goods and services.

Apple vs Samsung: The Price War Continues

The smartphone market underwent a huge change in Q4 2021 as Apple's iPhone market share increased and may have surpassed Samsung, signaling a turning point in their long-running competition. Even if several brands were affected by supply problems, Apple's success persisted thanks to strong holiday sales and the introduction of the iPhone 13, which saw 51.5 million devices shipped in Q3 2021. This strengthened market rankings and elevated Samsung, Apple, Oppo, Xiaomi, and Vivo to a position of prominence.

Due to their dedication to producing top-notch hardware and software, Apple and Samsung, the market leaders in the $484 billion smartphone market, continue to compete with one another. Apple shipped 56.5 million smartphones in the first quarter of 2012, while Samsung shipped 74.5 million, highlighting their continued rivalry.

Steve Jobs and Steve Wozniak created Apple in 1976, and since the iPhone was first released in 2007, an astounding 2.8 billion handsets have been sold. In contrast, Samsung, which was founded in 1938, entered the smartphone industry in 2009 and sold over 2 billion units.

		SAMSUNG
TICKER	APPL	005930
STOCK PRICE	US$144.87	US$44.35
MARKET CAP	US$2.3t	US$304b
GLOBAL SMARTPHONE MARKET SHARE	18%	23%
TOTAL RETURN SINCE LISTING	38,308%	1,406%
SMARTPHONES UNITS SOLD EVER	~2.8b	~2b
DATE FOUNDED	1976	1938
REVENUE (USD)	$365b	$233b
IPO DATE	1980	1975
CURRENT EMPLOYEES	154,000	287,000
HEAD OFFICE	Cupertino | California | United States	Suwon-si | South Korea

Data as of 12/07/2022.

Figure 4.4: Apple Vs Samsung

[1] Market ranking: is the assessment of companies or products within a market, determined by criteria such as market share, revenue, and performance metrics.

[2] Historical market: entry analysis examines a company's past strategies in entering a market to assess their impact on its performance.

[3] Market responsiveness: gauges how swiftly and efficiently a market adapts to shifts in supply and demand, reflecting its capacity to adjust prices, quantities, or other factors in response to external influences.

[4] Supply: The quantity of a product or service that producers are willing to provide at different prices.

[5] Demand: The quantity of a product or service that consumers are willing to buy at different prices.

[6] Product differentiation is a strategy where businesses make their offerings stand out by emphasizing unique features or branding to gain a competitive edge.

[7] Competitive pricing is when a business sets prices to match or beat rivals, aiming to win market share and customers through affordability.

The secret to Apple's success is its commitment to engineering, product design, and a vertically integrated supply chain that guarantees smooth iOS integration and total device control. The core elements of Samsung's strategy include market responsiveness, quick feature replication, competitive price, and intensive marketing.

Their rivalry has been exacerbated by legal disputes; Apple settled a $2.5 billion patent infringement lawsuit with Samsung in 2018 for $539 million dollars.

Apple and Samsung continue to have unrivaled influence in a sector that is continuously changing, with more than 5 billion smartphone users worldwide. This influence drives innovation and shapes consumer technology usage patterns. Their steadfast competition keeps the bar for quality high in the market, influencing how we use technology.

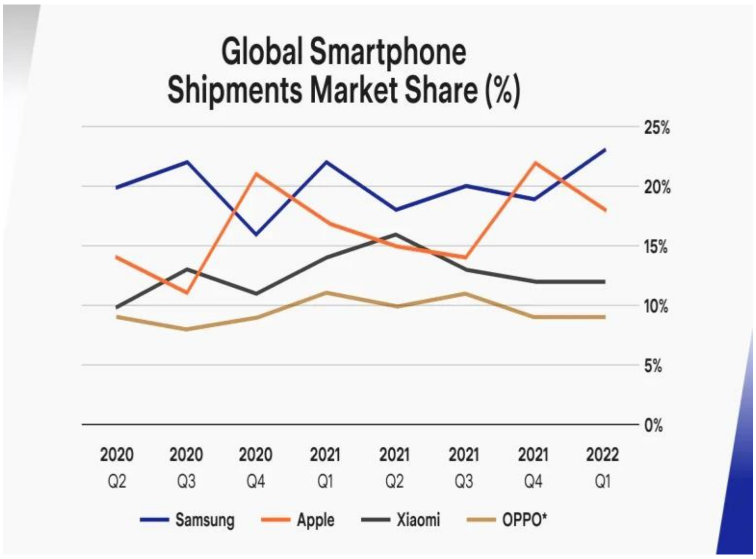

Figure 4.5: Global Smartphone Market Share

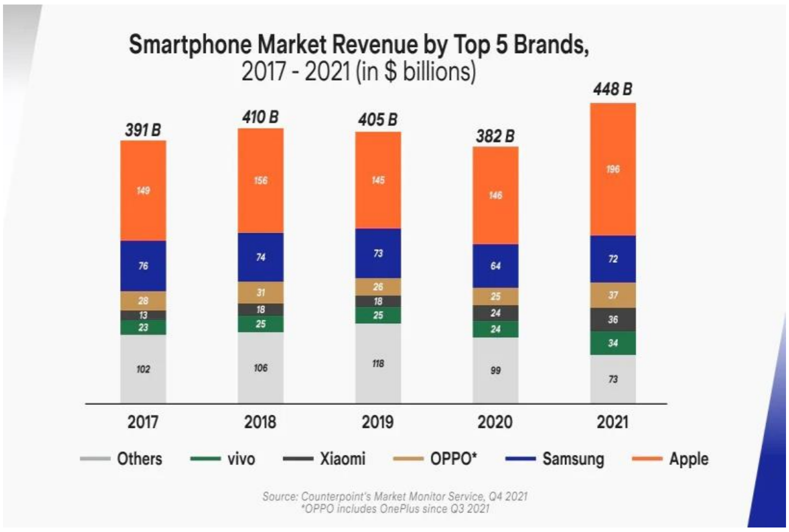

Figure 4.6: Smartphone Revenue

Chapter 5 – Summary and Conclusion

The Future of Price Wars in the Smartphone Industry

Amid the COVID-19 outbreak, the global smartphone market faced a decline in 2020, as projected by the International Data Corporation (IDC). The IDC's forecasts indicated a 2.3% decrease in worldwide smartphone shipments to 1.339 billion units in 2020, down from 1.372 billion in 2019. However, a rebound was anticipated for 2021, with a 6.3% increase in volumes Samsung stood out by launching an aggressive price war in 2019, continuing into 2020, aiming Scenario of Price Wars in Smartphone Industryto defend its market share against competitors like Infinix, Xiaomi, Tecno, and Huawei.

Despite the conventional wisdom that price wars are not favorable in commodity businesses, the smartphone market's nature has led to considerations of whether it truly qualifies as a commodity. Samsung's strategy focused on not just building superior phones, but on building them more efficiently and sustainably, offering a competitive advantage. Xiaomi, on the other hand, had innovated in its business model, focusing on online sales and leveraging social networks for marketing, while keeping retail prices low.

Samsung's price war was well-timed due to the economic challenges posed by the pandemic, leading to lower market expectations and a greater sensitivity to price among consumers. The strategy was designed to weaken competitors' positions, exploiting Samsung's stronger business model. By engaging in a price war, Samsung created a lose-lose situation for competitors, forcing them to either engage and potentially compromise profitability or declare the war "irrational" and risk losing market share.

Top 5 Companies, Worldwide Smartphone Shipments, Market Share, and Year-Over-Year Growth, Q2 2023 (Preliminary results, shipments in millions of units)

Company	2Q23 Shipments	2Q23 Market Share	2Q22 Shipments	2Q22 Market Share	Year-Over-Year Change
1. Samsung	53.5	20.0%	63.1	21.9%	-15.2%
2. Apple	44.5	16.6%	45.4	15.8%	-2.0%
3. Xiaomi	33.2	12.4%	39.5	13.8%	-15.9%
4. OPPO*	25.4	9.5%	27.4	9.5%	-7.5%
5. Transsion*	25.3	9.4%	18.8	6.5%	34.4%
Others	86.0	32.1%	93.3	32.4%	-7.8%
Total	268.0	100.0%	287.6	100.0%	-6.8%

Figure 5.1: Top 5 companies smartphones comparisons

[1] Competitive Advantage: A unique edge that helps a company outperform its rivals.

[2] Innovation: Creating new, valuable ideas, products, or processes.

[3] Efficiency: Achieving goals with minimal resource waste.

Samsung's decision to pursue a price war was strategically shrewd. Notably, the timing took advantage of its competitors' relative inefficiencies, aiming to deliver a knockout blow before they could catch up. This could ultimately raise the bar for competitiveness in the mobile industry, challenging competitors to match Samsung's efficiency and sustainability. As the price war continued, Samsung hoped that some competitors might even consider exiting the business altogether. This strategy played out against the backdrop of an industry undergoing significant shifts due to economic pressures and changing consumer behaviors.

Whereas, Apple isn't likely to lose the price war to Android Smartphone Manufacturers due to two important factors.

1. Apple users have unparalleled brand loyalty and are long-term members who love the Apple ecosystem.
2. When Android manufacturers introduce price cuts, they cut into the market share of other competing android manufacturers, and not Apple, because Apple doesn't even try to compete with most of the Android manufacturers, barring perhaps Samsung, Google, and One Plus.

The numbers show that the smartphone market will continue to grow globally as prices of phones decrease and wages increase. It is expected that by 2026 the number of smartphone subscriptions will surpass 7.5 billion, which signals massive profits for Samsung and Apple and benefits for consumers. As more people globally buy smartphones, the prices will decrease and features on the Samsung (Android) and iOS systems will improve. Although both systems will benefit from the increased global sales, consumers and investors should take note that Android and iOS will face the future differently.

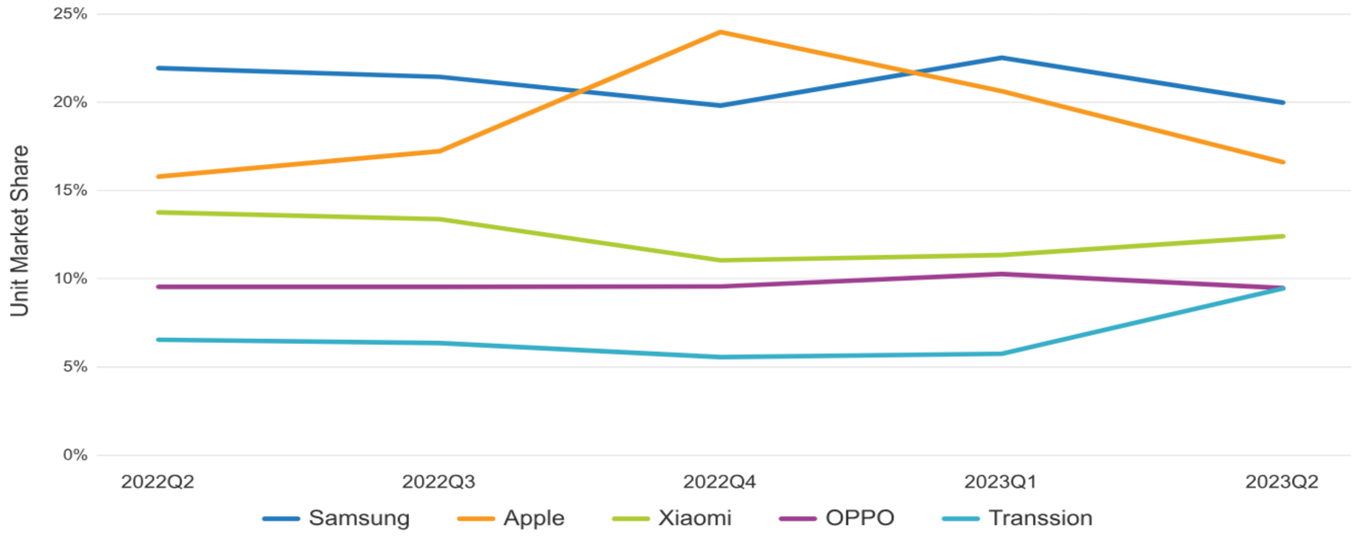

Figure 5.2: Unit Market Share

[4] Exit Strategy: A plan for leaving or selling a business.

[5] Consumer Behavior: Study of how people make buying decisions.

[6] Industry Shifts: Significant changes in a specific industry.

[7] Long-Term Profitability: The ability to sustain profits over time.

Conclusion

In summary, the price war between Apple and Samsung in the smartphone industry serves as a compelling example of the complex and strategic manoeuvres undertaken to secure market dominance. These industry giants have adopted divergent approaches to compete and safeguard their positions in a fiercely competitive market. The price war itself is indicative of the heightened rivalry within the smartphone industry, where major players such as Apple and Samsung are relentlessly striving to gain a larger share of the market. This intense competition has driven a keen focus on pricing strategies as a means to attract and retain consumers.

Both companies have employed distinct strategies in response to the price war. Apple has relied on the strength of its brand loyalty and premium image, enabling it to maintain relatively higher prices despite competitive pressures. In contrast, Samsung has pursued an aggressive pricing strategy, coupled with a dedication to operational efficiency and sustainability, aiming to appeal to cost-conscious consumers.

Consumer preferences have played a pivotal role in this price war, with Apple's devoted customer base highlighting the enduring power of brand loyalty, while Samsung strategically targets price-sensitive consumers. The impact of this battle extends globally, as the smartphone market is a worldwide industry, ultimately benefiting consumers through more affordable options.

Looking ahead, both Apple and Samsung are poised to remain formidable contenders in the smartphone market due to their substantial resources and market presence. The price war has the potential to reshape the competitive landscape and spur further innovations and cost efficiencies within the industry. This strategic rivalry, underscored by considerations of commodity versus differentiation and adaptability in response to evolving market conditions, serves as a testament to the dynamic and ever-evolving nature of the smartphone industry. Ultimately, the outcome of this ongoing price war will be shaped by the effectiveness of each company's strategy and its ability to adapt to changing consumer preferences and market dynamics.

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