A REPORT ON

PORTER’S FIVE FORCE ANALYSIS OF SMARTPHONE INDUSTRY IN INDIA

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1.INTRODUCTION

Smartphones have been taking the world by storm. The smartphone commercials now-a-days make it evident. In the beginning smartphone commercials talked only about product, but now they paint a picture of society. Younger generation taunting technologically- challenged older people for not being aware of how to use smartphones. People order food online instead of getting it directly from the restaurant. They have changed the substance of society and given a new definition to social status.

This situation is widespread in India. It is one of the fastest-growing smartphone market in the world. India frequently accounts for nearly 30 million smartphone purchase every quarter, and this numbers keeps increasing several times a year. According to IDC and the Ericsson Mobility Report, mobile subscription in India are expected to increase to 1.4 billion by 2021.

Data collection for this report was done from various sites like www.statista.com and www.idc.com.

The significance of the whole report was to analyse how various porter’s forces affect and influence the smartphone industries.

The report is majorly divided into four parts.The first part explains the porter’s five force analysis. The second part gives a brief insight about the current situation of the smartphone industry in India. The third part relates the porter’s analysis with the various changes in the smartphone industry.The fourth part consists of conclusions based on the report.

2.PORTER'S FIVE FORCE ANALYSIS

Porter's Five Forces is a model that distinguishes and investigates five focused powers that shape each industry, and decides an industry's shortcomings and qualities.Porters model is mainly used to identify an industry's structure and make sound future plans.

They are :-

(1)Competition in the industry:The significance of this force is the quantity of competitors and their capacity to compromise an organization. Large number of competitor companies which produce equivalent goods and services weaken the firms.Buyers and suppliers search out an organization's opposition on the off chance that they can't get an appropriate arrangement.

(2)Threat of New Entrants Into an Industry:An organization's capacity is likewise influenced by the power of new participants into its market. The less time and money it costs for a competitor to enter an industry's market and be a viable competitors, the more an organization's position might be essentially weakened.

(3)Power of suppliers: This force tells us how easily suppliers can change the price of goods.It is influenced by the number of providers of key parts of goods, how important these aspects are and the amount it would cost an organization to change from one provider onto the others.The less the quantity of providers, and the more an organization relies on a provider, the more power a provider holds.

(4)Power of customers: This mainly deals with the capacity of customers to drive the costs down. It is influenced by how many customers or buyers an organisation has, and how important each customer is, and how much it costs a customer to change from one organisation to the other. The lesser and more powerful a client base, the more power they hold.

(5)Threat of substitutes: Competitor substitutes that can be utilized instead of an organization's products or services represent a danger. For instance, if clients depend on an organization to give a tool or services that can be substituted with another tool or service and if this substitution is genuinely simple and of ease, an organization's capacity can be weakened.

3.OVERVIEW OF SMARTPHONE INDUSTRY IN INDIA

India is the fastest growing smartphone market in the world. IDC India's (International Data Corporation) Quarterly Mobile Phone Tracker indicates cell phone organizations transported a sum of 33.5 million units to India amid the second quarter of 2018 (2Q18), bringing about a healthy 20% year-over-year (YoY) growth rate.

The top five vendors, Xiaomi, Samsung, Vivo, Oppo, Transsion made up for 79% of the smartphone market in 2018.[1]

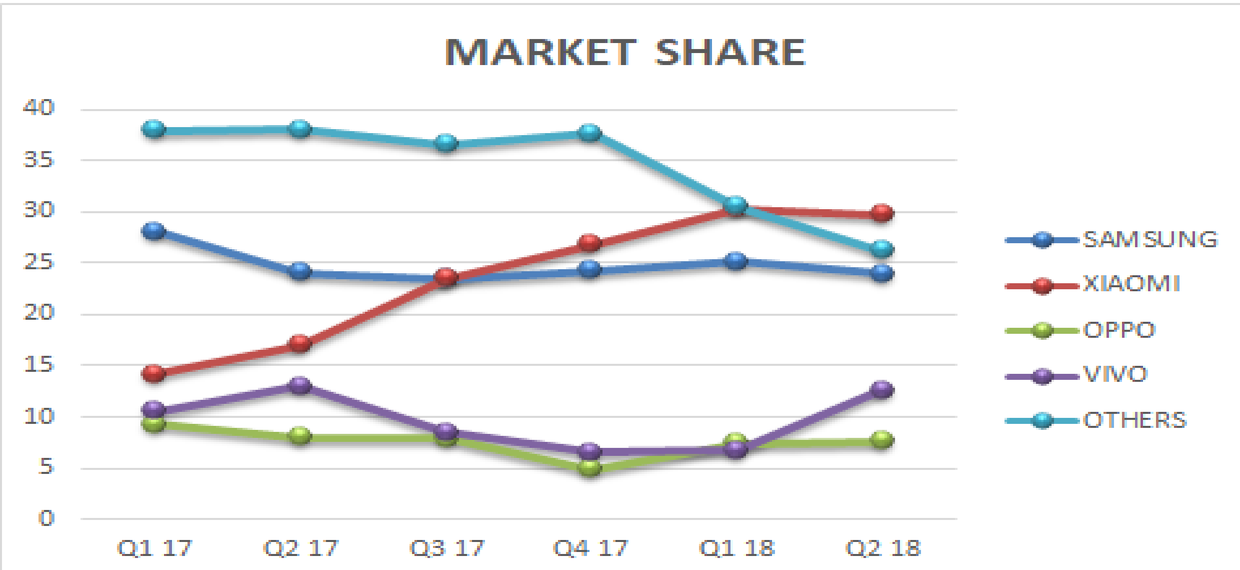

Fig 1.Percentage of Market Share of Various Smartphone Firms in 2017-18[1]

The above figure illustrates the market share of the leading smartphone companies in India in the years 2017-18. Xiaomi had the largest share of smartphone market in Q2-18, overtaking Samsung.

Samsung retained the 2nd spot in smartphone ranking by maintaining a constant annual growth in the first quarter of 2018. Oppo rose to the 3rd position driven by the success of its upgraded mid-ranged A series. Vivo shipments declined by 29.4% in 2018 (quarter 1) leading to its fall to the 4th position.

[1]Hussain, Shabi(2018, August 13), India Smartphone Market sees a healthy growth of 20% in Q2 2018. Retrieved from November 20, 2018:https://www.idc.com/getdoc.jsp?containerId=prAP44210918

4.ANALYSIS

The report now analyzes the effect of the porter’s five forces on the market share of leading smartphone industries.

4.1. COMPETITION IN THE INDUSTRY

Rivalry amongst the existing smartphone firms is intermediate. The smartphone market lies between monopoly and perfectly competitive market. Competition leads various smartphone companies to introduce new and improved features at a comparatively lower price range. Xiaomi has applied this strategy wherein it pledged to cap its profit margin at a meagre 5%[2], which allowed it to gain the first position on the smartphone market share and overtake samsung.

Vivo and Oppo, on the other hand, strategically placed bets on offline markets in India, allowing them to steal some of the market share from Samsung. Xiaomi, mainly relies on online sales, helping them to reduce the intermediate costs involved and manufacture smartphones at lower prices.

4.2. THREAT OF NEW ENTRANTS INTO THE INDUSTRY

The threat of new entrants in to the industry is relatively low. This is mainly due to high cost associated with patents, production , licensing and large economies of scale. High R&D costs further prevent the entry of new firms. For instance, Samsung's R&D spending for the year 2018 amounted to a whooping 15.3 billion USD .

The year 2017 faced 9 entries and 13 exits of smartphone industries, whereas the figures were 5 entries and 10 exits in the year 2018. The major devastating effects of new entrants was suffered by three major indian companies - Micromax, Intex and Lava, that fell off in 2015 due to the increasing dominance of Xiaomi in India.··

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[2] Lucas, Louise (2018, April 25), Xiaomi pledges to cap profit margins at 5% ahead of IPO. Retrieved from November 20, 2018: https://www.ft.com/content/150e3d34-4875-11e8-8ee8-cae73aab7ccb.

4.3. POWER OF SUPPLIERS

The suppliers in smartphone industry have major power as they are low in numbers and the switching costs associated are high. For instance, the chipset market is controlled by three major players-Mediatek, Qualcomm and Spreadtrum. The structure of the smartphone is heavily based around the chipset, and switching it may invite heavy changes and costs.

Hence, a small change in the price of suppliers can cause a chaotic situation for a smartphone industry.

4.4.POWER OF CONSUMERS

The consumers of smartphone industry in India rests heavy power in their hands, as changing a smartphone does not invite any major hassles. This encourages the smartphone firms to constantly keep up with the changes in technology whilst maintaining reasonable prices.

Some smartphone industries like Blackberry and Nokia Lumia, which were unable to keep up with the changes and improvements, were rejected by the people and were forced to shut down.

On the other hand, Xiaomi was able to keep up to with the requirements of the smartphone industry along with introducing new features such as fingerprint sensors at a reasonably low prices. This was greatly appreciated by the consumers and hence Xiaomi was able to move its way up to the top.

4.5. THREATS FROM SUBSTITUTES

The smartphone industry as a whole faces low threat from other substitutes, as they specialize only in some certain functions. Whereas a smartphone is a combination of many of them. For instance, camera, calling services, internet browsing are some features available on a smartphone. Also the high switching costs make it less favorable.

The following table summarizes the influence of the porter’s five forces on the smartphone industry.

Table 1: Influence of the porter’s five forces on the smartphone industry

FORCES	LOW	MEDIUM	HIGH
COMPETITION IN THE INDUSTRY			√
THREAT OF NEW ENTRANTS INTO THE INDUSTRY	√		
POWER OF SUPPLIERS			√
POWER OF CONSUMERS			√
THREAT FROM SUBSTITUTES	√		

5.CONCLUSIONS

- ➢ The growth of a smartphone industry can be clearly seen through porter's five forces model.
- ➢ Smartphone market is controlled by few major smartphone firms.
- ➢ Entering as a new firm in the Indian smartphone industry is relatively tough.
- ➢ Consumers play a major role in the growth of smartphone industry.

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