

# Mobile Battlefield

*Will China's smartphone brands ever catch up to Apple?*

■ By Janine Coughlin



Smartphone makers around the world are now in an ‘arms race’ of sorts as they compete to grab market share across the globe. That’s because the smartphone market is booming, both in the developed world and in developing markets. The numbers are staggering: there were an estimated 1.75 billion smartphone users worldwide by the end of 2014, according to a report by emarketer.com. Meanwhile the International Data Corporation reports that 420.7 million smartphones were shipped to China in 2014 alone, and expects this number will increase by nearly 10% this year. According to a report in *Xinhua*, China already had more than half a billion smartphone users by the end of last year.

In some ways, smartphones are similar to bottled water – they all offer the same basic functionality: making and receiving calls, surfing the web, and taking photos. What really sets them apart from each other is design, pricing and brand image.

Apple and Samsung appear to be dominating the developed market. However Chinese companies such as Huawei, Xiaomi and Lenovo are also big players, particularly in China, where Apple has, for the moment, displaced Samsung as the dominant foreign brand. Many small Chinese upstarts, such as One Plus, Oppo and Meizu (Alibaba pumped US\$590 million into it this February), are also making waves. Despite the fierce competition, the mobile sector continues to attract entrepreneurs. Is there still room for newcomers in an already crowded market? Who will still be standing in the next five to ten years, and who will be the next Nokia or Blackberry? Will Chinese brands ever be able to dethrone Apple?

“Mobile has been very hot for entrepreneurs over the last two to three years and it’s an area that receives a lot of investment from VCs (venture capital),” says CEIBS Assistant Professor of Entrepreneurship Yan Gong. “Even though there are a lot of players in the market, I still think that there are opportunities for newcomers.” This is because the time it takes to move from start-up to big bucks has become much shorter.

“It used to be that it required a very long journey for a company to go from start-up to having a valuation of US\$1 billion or US\$10 billion and scale up to a global presence. But that model has significantly changed, especially because of the mobile Internet,” says Prof Yan. “Some newcomers just need two to three years to get to this scale. It’s the power of connectivity and the mobile Internet that powers these start-ups. Look at both (the taxi app) Uber and Xiaomi – within four to five years both companies went from \$0 to over \$40 billion in company valuation.”

The reason for the rapid evolution in the mobile sector, he explains, is that capital, technology and infrastructure, which were significant barriers to entry in the technology sector during the dot com boom, are now relatively easy to access.

“Back in the 1990s, in order for a company to build a simple website it required infrastructure such as servers,” he says. “Now we have the Cloud so there’s no need for companies to have to acquire infrastructure. Technology is also widely available; and at a fraction of the price that it was in the past. Today, the only barrier for the current wave of entrepreneurs in the mobile sector is the founders themselves – it’s talent. Talent is





Prof Yan Gong



Prof Chiang Jeongwen



Prof Seung Ho (Sam) Park

now the key factor that makes or breaks a start-up.”

Parkland Chair Professor of Strategy at CEIBS Seung Ho (Sam) Park agrees. “The sustained advantage of a company requires continuous innovation in firm products and service as well as capabilities,” he says.

The major costs for Apple and Samsung are in innovations, he stresses. As with many products, so far the advantage that Chinese companies have in mobile is their ability to make cheaper devices. Many are still seen as “copycat” products.

“Xiaomi has been doing well in the domestic market but, as we’ve already observed, the challenge comes when it goes international. It will be a harder test to prove Xiaomi is more than a copycat

in international markets that apply a higher standard of intellectual property rights (IPRs) than China,” says Prof Park. “Xiaomi has taken things a step further by applying a unique business model. There is little innovation with the product itself, but its online business model and customer-involved development process are new.”

He notes that Xiaomi has been aggressively investing in foreign companies. Through this type of strategy, he said, the firm likely hopes to innovate through acquisition: they’re buying design and technology innovation.

When looking abroad, Professor of Marketing Chiang Jeongwen suggests that most of the Chinese mobile phone manufacturers would likely do better in developing markets such

as India and Africa, which are more price sensitive and focused on lower-end devices.

“Among Chinese brands, I think Huawei might have a better chance to eventually compete against Apple and Samsung abroad,” he says. “This is because Huawei has its worldwide presence and network for its telecommunications equipment and the capability of developing its own technology (chip design). The latter core competence is very important. Both Apple and Samsung have that. To succeed, phone makers need to work closely with the telcos (telecoms companies), like China Mobile or Verizon. Huawei has been a major telecommunications equipment supplier for telcos in many countries. It’s conceivable for them to push their smartphone to those telcos.”



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In China, Apple has benefited significantly from its partnership with China Mobile, says Prof Chiang. Unlike previous versions, the iPhone 6 is compatible with China Mobile’s 4G system, opening up the phone carrier’s 700 million subscriber base to Apple. “Just a small fraction of that number can give Apple a big boost,” he explains.

Though Xiaomi currently has the strongest momentum in the Chinese market, its position is by no means secure. “There’s nothing that warrants any type of sustained advantage for Xiaomi even in the local market,” says Prof Park. “Given the lack of unique competence, Xiaomi is, and will continue to be, easily challenged by other local companies. Most of these, including Lenovo and Huawei, already launched a similar business model in part of their operations. For these local companies, once the competition heats up and the margin becomes thin, it becomes difficult to survive. This has been the same process in many other sectors. I just hope it’s different this time.”

He believes Chinese mobile companies still have a way to go to prove their long-term sustainability. “Ultimately no company can have sustained

high performance without unique competencies and technologies. Moreover, it should have the dynamic capability to be able to repeat coming up with unique advantages,” he explains. “Are Xiaomi or the other local phone makers in this category? Not quite yet. At least they have not yet convinced those who have a lot of doubt about their sustainability.”

So how do China’s smartphone brands stack up against Apple on their home turf? Apple currently has the premium market to itself, says Prof Chiang. He expects it will retain this position for quite some time. “Xiaomi seems happy to position itself as a mid-to-lower priced phone at a price point that is about one-half to one-third of the iPhone’s price,” he says. “All the other strong local brands – Huawei, Lenovo, TCL, are all considered low-end phones, below RMB 2,000.”

He adds, “In my view the iPhone 6 and 6Plus are the better products which fans have been wanting for a long time. Having China Mobile as its strategic partner is also very big. Wider and deeper spread of market reach via official and unofficial channels also

matters. Lastly, rival international brands have faded fast while Chinese domestic brands are not yet close to challenging Apple in any meaningful way. Chinese elites have no choice but to select Apple.”

Prof Chiang doubts Apple would consider growing its market share in China by introducing a lower-priced option. “The iPhone 5C did not work out for Apple in China. I doubt they would make the same mistake again,” he says. “Samsung has faded away very rapidly because they offered too many models too rapidly, which diluted their ‘prestige’ image. Some also say the quality and customer service are deteriorating as a result. At any rate, Samsung is in trouble in China.”

Prof Yan says the market is too dynamic to be able to predict who the winners and losers will be in the next three to five years. “In my opinion this is the best time to be an entrepreneur, both in China and Silicon Valley. Even with the boldest predictions, my take is that the mobile sector is going to evolve in the next few years at a speed well beyond people’s expectations,” he says. “It’s not comparable to any other time in history, even the industrial revolution.”