Industry Analysis of Samsung Smartphone Marketing Management

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Group 5

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Introduction
Samsung Electronics unveiled Samsung Galaxy S6 and S6 Edge as the successors to the Galaxy S5 at Mobile World Congress on 1st March, 2015. The new models sold 6 million units in the first month but failed to break the record set by the S4 model in the same time period. Consequently Samsung reported a 4.2% decline in earnings for Q2 2015 as compared to the same period the previous year. This is the seventh consecutive decline in quarterly profits for Samsung. Also in the same period Samsung has seen diminishing market share as a result of strong performance of Apple iPhone 6 and also due to increased activity of manufacturers like LG, Sony and Motorola in the premium segment.

The reason for the diminishing earnings has been attributed to the sales figure of the S6 series. The price difference between the S6 model and the S6 Edge model is roughly $100. The management had estimated a demand for the S6 and S6 Edge in the ratio of 4:1. But after the launch of the product it was ascertained that the actual demand is in the ratio of 1:1. It resulted in a huge inventory pile up of the base S6 model and a corresponding shortage in the S6 Edge. There was huge demand for the S6 Edge model but a shortage in the market. As a result many of the prospective buyers of S6 Edge ended up purchasing the S6 model as a result causing a reduction of $100 in the earnings per unit sold.

Marketing Objective
To deal with the challenge of diminishing earnings, decreasing market share and rapid technological changes.

The last real flagship from Samsung that had the potential to be a market leader was the S3. It was both cutting edge and was full of innovation both on the hardware and the software front. The subsequent iterations of the flagship model in the form of the S4 and S5 have not been able to push the boundaries set by the S3 model. The initial excitement for the flagship models of Samsung has been diminishing over time as the consumers have found the products to only have some marginal incremental improvements as compared to the S3. This has resulted in both the diminishing earnings and decreasing market share for Samsung.

In comparison to the previous models the S6 has a high degree of engineering and innovation. It has a unique design and is loaded with features that make it leaps and bounds ahead of the previous flagship S5. There was high excitement and demand for the new product but still the
results in terms of revenue and market share have been far from satisfying. The marketing objective for Samsung shall revolve around addressing the above mentioned issues with the help of S6.

**Situation Analysis**

Smartphone industry is a market driven by constant environment changes. The profitability and efficiency of a company depends on its operations and ability to bring new products to market earlier than their competitors. Many consumers look for smartphones which can replace many other electronic devices that they carry (such as watch, pedometer, etc.). Hence number of features in a smartphone becomes vital for consumers to make purchase decision.

**Economic Factors**

During the recession, economy had tripped, leading to increase in unemployment and reduced purchasing power of the customers. The consumer became more and more cautious about spending their disposable income and their spending on luxury items such as smartphones declined rapidly. As a result many of the smartphone manufacturers exited the premium segment resulting in the domination of Samsung and Apple. Post recession, as economy recovered, consumer fear decreased which stimulated consumer spending. As a result, new competitors emerged in market, which lead to strong competition for Samsung’s premium smartphone industry. The increased purchasing power of the consumers and also the availability of a variety of products is resulting in a decreasing trend in the market share of Samsung worldwide.

**Legal Factors**

The smartphone industry is governed by number of product regulatory, consumer protection, environmental & safety laws. Hence companies are required to develop policies to abide by such regulations. Also, majority of industry’s leader hold patents on numerous part of their smartphones (hardware, software, etc.), which creates potential for infringement lawsuits. During 2011, Samsung and Apple Inc. were involved in more than 50 infringement lawsuits against each other across globe over product patent, with billions of dollars in damages being claimed between both the companies. While Apple Inc. won a ruling in its favour in USA, Samsung won rulings in South Korea, Japan and the UK. Hence, it is imperative for a company like Samsung-one of the leaders in smartphone industry, to comply with product regulations.
Technological Factors

A smartphone industry is characterized by constant changes in technology. For instance, a wireless equipment manufacturer would like to invest in supplier who is capable of providing multiple technologies for use in end-products (e.g. a phone which can provide more features than just handle calls & messages). Since consumers constantly switch to new smartphones, companies should focus on developing smartphones with innovative features such as faster network speed handling capacity, waterproof smartphones, capability of recording ultra-high definition video, noise-cancelling technology, and long battery life. Such innovative devices is key to a company’s market growth.

Porter’s five Forces

Porter’s five forces present an analysis of strategies with respect to the five essential elements:- Supplier Power, Buyer Power, Threat of Substitution, Competitive Rivalry and Threat of New Entry.

- **Competitive Rivalry** – The competitive rivalry is **high** with lots of high end models from big players like Apple, Sony, LG, HTC.
- **Threat of New Entry** – Threat of new entry is **low** because of factors such as high R&D costs for such products, setting up the distribution network and the supply chain in emerging market like India.
- **Buyer Power** – Buyer power is **low to medium** because the effort and money involved in buying S6 is significant as this is turning out to be a specialty product whereas on the other hand, the numerous choices to consumers give them leverage for switching.
- **Supplier Power** – Supplier power is also **low to medium** as the two most important parts, the processor and screen are supplied by Samsung itself & with the presence of a large number of suppliers to Samsung but the difficult to replace an established supply chain in this market.
- **Threat of Substitution** – Threat of substitution for S6 is **low** because of the useability, various not so easily replaceable functionalities and dependency of consumers on S6.

SWOT Analysis
**Strengths-** Being such a widely accepted smartphone brand it has consolidated its position in the market because of its following strengths:-

- **Software/technology-** Superior technology allows Samsung mobile to better meet the needs of their customers in ways that competitors can’t imitate. Smartphone has hardware integration with many open source operating integration and software.
- **Geographical reach-** Samsung has the geographical reach, i.e., it has expanded itself in numerous cities and countries and can be easily available.
- **Low production costs-** Samsung has marginally low production costs as compared to other companies in the same range.
- **Highest market share-** Samsung has the highest market share in smartphones category so it is easier for it to promote a new product.
- **Product portfolio-** Samsung has the most diverse product portfolio and provides numerous options to the consumers.

**Weaknesses-** Following are the few weaknesses of Samsung :-

- **Lacks its own OS-** Samsung smartphones lack its own operating system and software so they have to depend upon others for new software.
- **Low profit margin-** It has a low profit margin as compared to other big players.
- **Declining R&D-** The R&D is constantly designing. So recently it has failed to come up with any innovative features.
- **Perception wrt apple-** Some customers still perceive Samsung as a cheap substitute of Apple which affects its brand value.

**Opportunities-** Analysing the present situation, there are few opportunities for Samsung to capitalise on. These are:-

- **Growing smartphone market-** The smartphone market is increasing at a very high rate and there is still great potential in India.
- **New market platform-** Samsung is still lacking in its online presence and can efficiently use E-market platforms for its marketing.
- **Strategic collaborations-** Samsung can go for strategic collaborations with other players and can also look to obtain patents through acquisitions.
- **Tizen Operating System:-** Samsung has been developing the Tizen OS to replace android and develop its own application environment

**Threats-** Following are some threats that it is facing or can face in following years:-
- **Price wars**: It faces an intense price war with other big players such as Sony, HTC, Apple.
- **Technological change**: There is a rapid change in technology going on with respect to smartphone industry.
- **Declining margin**: The margin on hardware productions is declining at a constant rate which poses serious threat of maintaining the profit margin.
- **Counterfeits**: There is a rise in counterfeit products which is very cheap as compared to the originals and affects the overall sale.

**Segmentation and Target Market**

The market for Samsung Galaxy S6 Edge can be segmented based on demographics. The segmentation done below is based on the amount that people are ready to spend on the purchase of a smartphone. By segmenting on these lines we also implicitly capture segmentation based on income, economic situation lifestyle and social class as all of these are reflected on the amount the customer will be willing to pay. The segmentation is gender neutral.

**a. < Rs. 10,000**:  
This is a market segment that is populated with a host of phones providing basic to moderate features. There is a presence of both keypad and touch based phones. The consumer is at a tight budget and is generally looking for options where it can get maximum benefits with minimum outlay. This is generally the entry point for consumers in the smartphone segment. There is a lot of competition towards the end of the price band. The products in these categories are highly price sensitive. Margins are very low. Economies of scale is required to be sustainable. Volume targets for a manufacturer are driven by sales in this category.

**b. Rs. 10,000 to Rs. 20,000**:  
There is a lot of competition in the lower bandwidth of this segment. The customers get to choose from a variety of heavily feature rich smartphones priced competitively. New products from Motorola, Asus, Lenovo, Xiaomi, Huawei are competing in this sector. This segment is already heavily populated. This is a very bottom heavy segment with competition and also products thinning as we move upwards of the bandwidth. This segment generally represents the first purchase or first upgradation of the consumer. Samsung has a good presence in the mid and upper bandwidth of this segment.

**c. Rs. 20,000 to Rs. 30,000**:  
As we move up this market segment we find that the number of competitors has highly reduced. In this segment the products are generally the medium range products of
companies like Samsung, LG, Sony, HTC etc. or the older flagship models of these companies available at a discounted price. The consumers are generally late entrants. Samsung has a very strong presence and dominates this sector.

d. **Rs. 35,000:-**

This segment is the profit driver for smartphone manufacturers. There are limited numbers of manufacturers in this segment and all showcase their flagship products. These products have a high price tag because it is a showcase of the research, development and innovation done by the manufacturer. Apple and Samsung dominate this segment. Also the consumers purchasing in this segment are early movers and innovators. They are prepared to pay extra money for a new product. The sales volume may be comparatively lower but the profit margin is significantly higher. The performance of flagship models is also taken as a bellwether indicator for the future performance of the products and the manufacturer. Also it is evident that in case a customer is provided with added features he is ready to pay extra and move upwards in the price band. There is always a demand for new products and also brand loyalty comes into significance.

This is the segment that Galaxy S6 Edge was launched in and it should continue to focus on this segment. The customers in this segment are generally people with high net worth, working professionals and businessman. They are a target customer base which gets covered by this larger segment. Samsung already has a significant base of loyal customers. Samsung should look at a concentrated marketing strategy and differentiate it from the marketing strategy of its other products to create a niche and a novelty factor for this product.

**POSITIONING**

**Positioning Statement:** To cater young professionals, businessmen and high net worth individuals who need to be updated with ever changing technology, Samsung is the ultimate solution that gives them user friendly, cost effective, stylish and innovative product to stay connected with the fast moving world. It makes life easy and more effective.

**Value proposition:**

- **Design and Construction:** The design is one of the best. Aluminium cover provides much more premium look and feel. The sleek and curved edges look classy.
- **Display:** It has a super AMOLED smartphone display. Independent testing shows that they are now highly colour-accurate and have outstanding brightness and contrast.
• **Performance:** It provides plenty of power for both general processing and for heavy multitasking when and if required. Samsung has taken an unassailable lead over the iPhone in multicore performance.

• **Camera:** It has been equipped with high mega pixel camera and is capable of shooting images of very high resolution. This is supplemented with optical image stabilization, a fast autofocus system, and an LED flash.

• **Ease of use:** The features like wireless charger and sideways touch swipe has been added which has enhanced the ease of use.

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**Current scenario** - As shown in the perceptual map, right now Samsung is a high priced, generic inclined smartphone where it faces intense competition with other big players like Apple, Sony and LG due to which it has got a very limited area to grow. So, the market growth of Samsung has recently been stagnated.

**Future Strategy** - The high priced, business oriented segment of the market can be a better place for Samsung to enter into as there is almost no competition. The decline in the market share of blackberry and low price of Microsoft phones has provided Samsung a great segment to position itself into as a market leader. The potential for future growth is also very high.
Product

The Samsung Galaxy S6 Edge comes under the category of a speciality product. The consumers are willing to make a special purchase offer. It is evident from the fact that there are huge number of pre-orders and advance bookings. The customers have strong brand preference and there is low price sensitivity. As a result it requires a targeted promotion and also widespread distribution.

S6 edge scores highly in the core customer value provided and the augmented product sectors. There is an area of improvement in the Actual product sector. There is a need for improvement in the following areas:-

a. Product Attributes:-

The introduction of wireless charging is a good innovation but the addition of waterproof abilities is a must as it is becoming a standard feature in this segment. The quality of the product is top-notch but still there are some manufacturing issues with the curved edge. It is important to solve that problem.

Another development in the high end smartphone segment is that there is a plateau in the hardware innovation and development. As a result almost all the products in this range have very similar hardware specifications. So Samsung should look at innovations in the software sector for differentiation because generally android operating system dominates the smartphones in this segment. Samsung is going in the right direction in this regard by investing in Tizen operating system as its future platform. Also the market research shows that as high as 51% of the respondents are prepared to switch to a new OS if they get all their desired features.

So until the time Tizen attains its full potential Samsung should look at developing its own apps for android to give a unique user experience to its customers. Also the feature to use the curved edge of the smartphone has not been fully exploited. Samsung should look at making the curved display more functional and also provide more controls and notifications. If the curved edge feature is optimally utilized it can result as a big differentiator just like the stylus acted for the Samsung Galaxy Note series.

b. Branding:-

Branding is one thing that acts as a big differentiator in this segment. Galaxy S series is a very strong brand in itself but still it is seen by many as a cheaper alternative to Apple. So Samsung has to put in a lot of effort to change this perception. The previous strategy to introduce a number of products in various price bands and the decision to launch various variants of the same product (mini, duos, grand, neo, Etc.) led to confusion in the mind of customers and cannibalization for Samsung. So to increase the brand value Samsung should look at reducing the products in the product line. Samsung should project this smartphone as one that is suitable for businessman. Samsung can go for greater collaboration with Microsoft Outlook to provide an incentive to its customers.

c. Packaging and Labeling:-

The packaging and labelling can be used to show the seriousness of Samsung towards the environment. The packaging should stress upon recycling and also have information about how much of the material used in the smartphone is sourced from recycled products.
and also it can have a value of the carbon footprint of the smartphone. This will send a positive message to the customers and also help improve the brand perception.

**Product Line Decision**

Samsung has launched the S6 and S6 Edge as two flagship models. The S6 Edge is around $100 more expensive than the base version. Samsung should do away with the S6 variant because it is again resulting in duplicity, cannibalisation and confusion in the mind of the customers. Also Samsung should look at phasing out the previous Galaxy S series smartphones because that would result in greater visibility and faster market penetration for the S6 Edge.

**Premium Segment Pricing Strategy**

Samsung faces tough competition when it comes to premium segment from companies like Apple and HTC. Samsung has about 46% market share (latest quarter June 2015) followed aggressively by Apple at about 42%. However these market shares keep on changing as per the new launches as well as Aggressive Promotion. Hence we suggest a Skimming Pricing Strategy and a value based approach for the Premium Segment Smartphones

**Skimming Pricing Strategy and Value Based Approach:**

In this segment we will always follow a value based approach in pricing. This segment contributes maximum to the bottom line of the Samsung mobiles and hence the perceived value of the Product is high as Samsung invests heavily on marketing every new launch in this segment. The idea is to increase the buzz and boost initial sales of the product. The following are the key takeaways

- Price the Product upwards of Rs 50000 for the base version and stretches upto Rs 60000 for the top end.
- Pre Book Prices and Retail Prices remain the same for almost 4 months. This will ensure huge volume as well as exclusivity for the consumers. Also the initial buyers will have the premium category advantage if the Prices are not dropped during that time. The company’s Profitability is increased as well.
- As competition increases from rival launches and the ultra-premium market is saturated the skimming model comes to play in the form of cashback, discounts and special payment options like emi, zero down payment and bundled offers
- As competition intensifies and the product cycle is about to get over the company slashes the price to around sub Rs 35,000 levels to cash in aspirant buyers.

**BuyBack Model**

In order to help high end consumers to switch from one smartphone to another we will have to launch a buyback scheme for old smartphones and offer them prices higher than what they would usually estimate. This strategy is to be used after the product has reached the maturity stage. By offering them cash back of Rs.12, 000 we would essentially be giving
away the New S6 series phone in the range of 34k-36k. This will have a two fold effect on the consumer as well as on the Company

Benefits of this additional Pricing Strategy:

- Firstly we would have an entire new target SEGMENT opening up if the effective prices are around 36k. A lot of consumers would be shifting to the new smartphone.
- The company would still be keeping the sticker price same, thus the premium branding is untouched.
- The resale value of the old smartphone will result in effective discounts of around 3000 for the company, hence impacting minimum in their profitability.

Place (Distribution)

Target Distribution Market – The target market for Samsung Galaxy S6 Edge is gender neutral higher income group with affluent lifestyle in tier I, II, III and IV cities.

Channel Marketing Concept - Modifying the traditional Channel Marketing Concept, we see that Samsung Galaxy S6 Edge’s distribution is mainly concentrated on three fronts – Sales & Service Dealers (Exclusive Stores), Modern Retail and Distribution & E-retailing.

Distribution Strategy – According to our market research, we conclude that Samsung should not limit S6 Edge to one marketing channel or distribution intensity, rather should indulge in different strategies for different types of retailing. Out of the 214 respondents to our survey, we found that 98 preferred online purchase, 77 Exclusive stores and only 39 from Retailers or Distributors.

1. **Exclusive Stores** – With about 36.2% of respondents opting for exclusive stores, this is a major area that Samsung should look into. The exclusive stores should use an Intermediary market channel with an exclusive distribution intensity, limiting the Samsung World stores only to highly densely populated areas in metros and very few in tier III & IV cities. It will give the customers a feel of uniqueness and will allow Samsung to concentrate its efforts in the form of offers and trained resources in these stores.

2. **Modern Retail and Distribution** – The modern retail concept has been on the decline with only about 18.3% respondents willing to go to third party retailers. The marketing channel used should again be Intermediary and very diluted form of intensive distribution concentrating mainly on modern retail like Croma, reliance digital and Vijay sales. Two reasons, first in Indian market, mass distribution is the
long term strategy for a company which has more than 1 type of target markets and second, having phones like S6 edge in public display makes an impression of highly engineered product in people’s minds about Samsung and creates a future potential consumer when he/she moves into the target segment.

3. **E-retailing** – The initial banning and subsequent losses and market capture by other brands has forced Samsung to enter into an agreement with Amazon and Snapdeal by providing exclusive portals for its mobiles. Our research clearly suggests the changing trends and preferences of the target market to switch to convenient shopping with e-retailers with 45.5% respondents preferring e-retailing as buying option. This gives Samsung the opportunity to indulge in Direct use of marketing channel with Selective distribution to allow its presence on maximum 3 websites. This saves the interests of its wide distribution channel and maintains their presence.

**PROMOTION**

The promotion techniques used by Samsung play a vital role to achieve the market domination. Presently, market share of Samsung in smart phone sector is 21.4% by the end of quarter 2 of 2015. It has decreased from 24.8% to 21.4% when compared to 2014 quarter 2. The marketing communication for the S6 should be based on the **PULL** strategy. The promotion strategy should be focused on the innovations and new features of the S6 edge that will make it more useful for the users. It should also reinforce the image of the S6 Edge as a smartphone meant business purpose due to its multitasking abilities, features and premium looks.

The market survey shows that 39% of the respondents have recollection of the recent advertising campaign of Samsung. Also from the survey we see that 48.6% and 39.2% of respondents have a recall of ads seen in television and internet. So renewed efforts should be given to increase advertisement in these mediums. Extensive promotion in print and media is also required but its recall is very less. The use of celebrities like Amir Khan also has a positive impact on the sales and market penetration of the product.

**Indirect Marketing:** Samsung can also set up charging stations and free internet at the airports to increase awareness about the brand and its products amongst the consumer. Test drive of the Galaxy S6 Edge for 30 days for just 1$, is one of the techniques to create awareness about the brand.

All the above marketing communication tools come together and work for as the Integrated Marketing Communication for the Brand thus building brand equity.
Conclusion
From the analysis done above one thing becomes very clear and it is that Samsung has to discontinue the S6 model and focus only on the S6 Edge model. Also Samsung has to reduce its product line and product offerings to create differentiation and to reduce cannibalization. The S6 Edge is a huge leap for Samsung in the technology front and hardware front but if it does not concentrate on positioning the smartphone for the business segment the product may end up not fulfilling its potential. Also to create a differentiation from other products running on android OS Samsung has to invest on creating its own app store and also introduce Tizen in a phased manner. Samsung can regain its market position with the help of S6 Edge but it requires Samsung to make some tough decisions in the pricing and place and promotion section. If Samsung is able to make these changes the S6 Edge will end up beating the records set by the S3 model and help Samsung regain its position and also hopefully surge beyond Apple.
Figures and Exhibits

Figure 1

![Price of Phone Currently Used](image1)

Figure 2

![Advertisement Place](image2)
Count of Which is the most recent advertisement of a smartphone brand that you can recollect?

- Samsung: 39%
- Microsoft: 26.2%
- Apple: 14.8%
- Micromax: 11.9%
- Motorola: 4%
- Lenovo: 1.9%
- Nokia: 1.8%
- LAVA: 1.7%
- XIAOMI: 1.6%
- Xiaomi: 0.8%
- Panasonic: 0.1%

Figure 3

Count of Where do you like to purchase phones?

- Online Retailers: 45.5%
- Retailers: 36.2%
- Exclusive stores: 18.3%

Figure 4

References