

Samsung's Smartphone Sales Woes Continue in Q2

Even after the release of its latest flagship Galaxy S6 phones in April, Samsung is still looking for a way to turn its fortunes around.

Samsung is still trying to figure out how to continue to hold its shrinking lead in the global smartphone market in a competitive atmosphere that has seemingly placed a target on Samsung's corporate back.

In its second-quarter earnings report, released July 30, the news for Samsung wasn't great. Revenue in the latest quarter fell 7 percent to \$41 billion from \$44.5 billion one year ago, and net profit dropped 8 percent to \$4.9 billion from \$5.3 billion in the second quarter of 2014.

The company's mobile products revenue, which includes smartphones, fell 6.86 percent in the second quarter to \$21.7 billion, down from \$23.3 billion one year ago. Samsung does not break out individual numbers for its smartphone and tablets sales. The mobile products unit's operating profit of \$2.36 billion fell 37.6 percent from \$3.79 billion for the same period one year ago.

The news was tough again for Samsung, which has been hit by a string of disappointing earnings reports for some time now as its chief competitor, Apple, continues to rake in huge revenue and profits from its popular iPhone 6 and 6 Plus smartphones. In April, Samsung released its latest flagship smartphones, the Galaxy S6 and Galaxy S6 Edge, to battle back against Apple's phones, which came out in September 2014.

To counter sluggish smartphone sales and try to fire up the market, Samsung said it "plans to firmly maintain its sale of premium smartphones by flexibly adjusting the price of the Galaxy S6 and S6 Edge," while launching another model with a larger screen.

Earlier reports said that Samsung's sales of Galaxy S6 Edge smartphones, with their innovative displays that wrap around both front edges of the handset, were hampered due to supply issues because the company had underestimated consumer demand of the S6 Edge model and didn't order enough of the devices. Those supply problems have now been addressed, according to the company, but the question remains whether those sales opportunities have now been lost as consumers might have moved on to other devices.

In the meantime, Samsung's IT and mobile communications division "is expected to face a difficult business environment" going into the rest of the year, the company stated. "New middle- and low-end models will also be introduced, and the IM Division will continue to work on improving efficiency of expenditures."

Things have been going so badly for Samsung lately that it announced earlier in July that it will unveil the new editions of its flagship mobile devices at a special Samsung Unpacked 2015 preview event on Aug. 13 at Lincoln Center in New York City, about a month before its normally scheduled September launches so that it can try to beat Apple in the marketplace, eWEEK reported recently. Most likely to be touted will be the latest version of its Note phablet, probably to be called the Note 5, as well as an even-larger version of the Galaxy S6 Edge, just introduced in April with its standard Galaxy S6 stablemate.

For Samsung, the stakes of these product announcements remain big as the company continues to battle for market share, revenue and profit in a smartphone marketplace that has been turned upside down in recent years by arch-rival Apple.

So what can Samsung do to reverse its declining fortunes?

Samsung's main problem today is that while Apple has the iOS device market all to itself, Samsung builds and sells Android phones in a market that is getting extremely crowded, especially with devices from Chinese companies that are competing in big ways with low-priced devices, said Charles King, president and principal analyst of Pund-IT.

"It seems like hardly a month goes by when more small companies, particularly from China, don't jump into the Android market," King told eWEEK. Worse for Samsung, that downward trend can continue unless the company has products that are fresh and different, he said.

To Samsung's credit, they actually have such a product with the Galaxy S6 Edge smartphone, but its error in not making more of them has been costly, said King. "I think that points out that there's a sizable group of consumers out there who want a unique phone. I think [Samsung needs] to come up with more products like the Edge. Rather than ape the iPhone; they seem to do better when they are thinking on their own and are trying to come up with products that are unique in the market."

Tuong H. Nguyen, a mobile device analyst with Gartner, said Samsung's position as the global leader in smartphone sales "naturally subjects them to share erosion" to rivals, but it is also hurt because many consumers are seeing fewer reasons to upgrade their existing devices quickly. "If you're looking at mature markets like the U.S., the U.K. or Germany, it's fair to say that most people who want a smartphone have one," Nguyen told eWEEK. "Therefore, it's much more difficult to convince the average consumer to buy the next greatest device based on one or a handful of features that they see as incremental upgrades."

Richard Guppy, a competitor intelligence analyst for Strategy Analytics, said Samsung's precarious position "is like the end game of a movement that Google put in place when it launched Android and made it more or less open-source."

That decision by Google, said Guppy, took away the inherent value of the operating system and "put [a system] in place for the conditions that led to the commoditization of smartphones."

For years, Samsung used that mechanism to build better smartphones, but today any company can use Android and drive innovations to make their own wonderful smartphones, said Guppy. "Technologies and components have become largely available across the world, making it harder for Samsung. The only game in town that's different from that is Apple. So now Samsung is competing with a whole slew of lookalikes, whereas Apple has a differentiated product."

Samsung has been hit hard in recent years by lower sales of its mobile phones, which have been losing ground to cheaper phones from Chinese handset makers, and from stiffer competition from Apple and other competitors. Much of the recent sales slump likely was due to consumers who were waiting to see the then-new iPhones and Samsung's own replacement for its earlier Galaxy S5 phone.

PHOTO (COLOR)

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By Todd R. Weiss