Samsung Covets Low-End of Smartphone Market, Too

By Yun-Hee Kim And Eric Bellman

 [@EricBellmanWSJ](http://www.twitter.com/%40EricBellmanWSJ)

 Eric.Bellman@wsj.com

 [Biography](http://topics.wsj.com/person/A/biography/1258)

** Eric Bellman**

**** [**@EricBellmanWSJ**](http://www.twitter.com/%40EricBellmanWSJ)

**** Eric.Bellman@wsj.com

**** [Biography](http://topics.wsj.com/person/A/biography/1258)

March 21, 2013 6:56 p.m. ET

[Samsung Electronics](http://quotes.wsj.com/KR/005930) Co. [005930.SE -0.99%](http://quotes.wsj.com/KR/005930) [**005930.SE**](http://quotes.wsj.com/KR/005930) **in** Your Value Your Change Short position 's quest for dominance in the cellphone market is expanding beyond its high-profile, high-end devices: It now wants to own the bottom of the market too.

Despite the buzz surrounding its Galaxy smartphones, which cost hundreds of dollars, the South Korean giant has been quietly launching a greater number of cheaper handsets with little fanfare. Among the eight handsets unveiled so far this year by Samsung, only the Galaxy S 4 is a high-end device. Its low-end phones, typically with price tags of less than $100, are meant for emerging markets such as Indonesia and India—its growth markets in the future.

The strategy is in contrast to [Apple](http://quotes.wsj.com/AAPL) Inc., [AAPL -2.20%](http://quotes.wsj.com/AAPL) [**AAPL**](http://quotes.wsj.com/AAPL) **in** Your Value Your Change Short position which has focused on its high-end iPhone, priced at more than $500 for the latest model. Samsung's approach is helping it gain more market share and scale not only against Apple, but also against [Nokia](http://quotes.wsj.com/FI/NOK1V) Corp. [NOK1V.HE +0.85%](http://quotes.wsj.com/FI/NOK1V) [**BB.T**](http://quotes.wsj.com/CA/BB) **in** Your Value Your Change Short position Samsung pulled ahead of Apple in the smartphone market last year with a 30.4% share and it has leapfrogged Nokia to become the biggest mobile handset maker by shipments with 25.1% of the market, according to research firm Strategy Analytics.

"We are quite active in the low-end smartphone market and we will continue to compete in this area," Samsung Co-Chief Executive J.K. Shin said in a recent interview. "In markets like Indonesia, consumers are switching from feature phones to smartphones and the low-end market is developing quickly."

Some analysts warn that, in the long run, an aggressive push on low-price phones—which can squeeze profit margins—could hurt Samsung's bottom line and brand. "Pushing too hard on cheap smartphones could cheapen the Samsung brand," said Neil Mawston, executive director at Strategy Analytics. "And the cheaper smartphones get, the smaller their profit margins usually become."

Samsung declined to comment on the impact on its margins from selling cheaper models, though a Samsung executive said low-end devices are still a profitable business for the company.

Mark Newman, an analyst with Sanford Bernstein in Hong Kong, estimated that Samsung derives about a 12% operating margin from low-end smartphones, compared with 28% for high-end smartphones and 2% to 3% for feature phones.

The battle for buyers of low-end phones is raging in Jakarta's ITC Kuningan Mall. The shopping center has two sprawling floors crammed with more than 500 stalls selling cellphones. Two years ago, most stands were plastered with BlackBerry signs, but today Samsung's blue logo has captured more storefront real estate. An occasional iPhone can be found, but Samsung is the best-selling brand today, say shop owners.

Apple's iPhone has less than 1% of the market in Indonesia. Samsung's share of the smartphone market has surged from only 2% in Indonesia in 2010 to close to 50% last quarter, according to research firm Canalys. The secret to its success, analysts and consumers say, has been its diverse portfolio of price points. At ITC Kuningan for example, there are Samsung phones for as little as $20 and as much as $600.

"Samsung is better because it has lot of choices and not everybody has a lot of money," said 26-year-old Anindhitya, a Samsung customer who bought her low-end phone at ITC; like many Indonesians, she goes by only one name. "The iPhone is cool but expensive. The BlackBerry is outdated and slow."

Last month, Samsung unveiled the midrange "Galaxy Young" and "Galaxy Fame" line of smartphones; the Android-based handsets come with smaller screens, less memory capacity as well as lower-resolution cameras. Later in February, Samsung unveiled four new feature phones under the REX brand. The phones cost between $50 and $100 and are mainly sold in emerging markets such as India, the Middle East, Eastern Europe and South America.

"REX phones are selling extremely well [in emerging markets], but we don't have plans to launch them in the U.S.," said Mr. Shin.

But competition in the low end of the market is heating up. Since last summer, Nokia has intensified its efforts to sell more sub-$100 devices with touch screens, which it markets under the Asha brand name. These phones sport smartphone-like functionality and come with popular social-media apps, such as Twitter, preinstalled. Nokia's renewed push with more affordable Asha devices has kept the company's mobile-phone business in decent shape in the last few quarters. Its Asha phones have been outselling inexpensive devices running [Google](http://quotes.wsj.com/GOOG) Inc. [GOOG -0.73%](http://quotes.wsj.com/GOOG) Android operating system, such as Samsung's Galaxy Mini and Galaxy Y models in some developing markets.

Last month Nokia unveiled its cheapest phone yet, the Nokia 105, which costs $20 excluding taxes and carrier subsidies. Nokia's feature phones, which it defines as devices below $100, accounted for 90% of the company's total phone shipments last year.

Samsung is expected to rise to the challenge, analysts say, as making more phones lowers its cost-per-phone and it looks to start a relationship with the emerging market consumers who will hopefully upgrade to better handsets and power growth over the next decade.

"Samsung needs the low-end to drive volume and scale leadership," said Mr. Newman.

—Sven Grundberg in Stockholm contributed to this article.

http://online.wsj.com/news/articles/SB10001424127887324373204578373843533049824