There are several groups of players in the smartphone market, and their patterns seldom coincide. The least important from the perspective of this analysis are the network operators that have to market the handsets to their customers. Judging by their recent share prices, some are better at this than others, but the best that the international groups have been able to manage during 2018 has been to keep on an even keel, whereas some like Vodafone have suffered badly.

Across the entire sector, revenues have typically risen during 2018, but profits have fallen heavily.

To all intents and purposes, only two operating systems need be examined – iOS (Apple) and Android (most of the other vendors). Market share is not all that important when a market is growing rapidly as even a static share represents a significant increase in shipments, but if market growth slows then equipment vendors will be forced to compete to maintain market share and avoid a reduction in shipments.

According to Strategy Analytics, total smartphone market shipments were 350.4 million in 2018Q3. iOS accounted for 41.3 million, equivalent to a market share of 11.8 per cent, whereas the leading Android vendor, Samsung, accounted for 71.5 million, equivalent to a market share of 20.4 per cent. So, no question as to the winner – except that the equivalent market shares in 2017Q3 were 11.4 per cent and 22.1 per cent, respectively, of a market totalling 260.4 million shipments. But if Apple increased its share in a declining market, whereas that of Samsung fell markedly, Apple must surely be deemed to be the winner.

Furthermore, given a combined Apple/Samsung market share of 33.5 per cent in 2017Q3, but only 32.2 per cent in 2018Q3, there must have been other vendors that managed to grow in spite of the market shrinking overall. During the period prior to 2017, it had already become apparent that the vendors responsible for the growth of Android were much smaller concerns, including Huawei, the little-known Xiaomi (which had 90 per cent of its sales in China) and Korea’s LG. Furthermore, in the market with arguably the greatest potential for future growth, India, the market leader was the even less-well-known, locally based Micromax Informatics.

Between 2017Q3 and 2018Q3, the combined market share of Huawei...
(up a massive 4.8 per cent), Xiaomi (up 2.7 per cent) and OPPO (up 0.4 per cent) rose from 25.3 per cent to 33.2 per cent. The other vendors saw their combined market share fall from 41.3 per cent to 34.6 per cent. What is of particular interest here is that Huawei has raced past Apple into second place, more than halving the difference in market share between itself and Samsung in the course of a single year. This could be accounted for in particular by the success of Huawei (and to a lesser extent, other home-grown vendors) in China and India – especially in respect of Huawei’s mid-range Nova models – but also by Apple’s inability to strike the balance between technical innovation and high prices that generates a larger market share.

Additional contributory factors would appear to be significantly reduced operator subsidies, longer replacement cycles, the building up of inventories in some regions and a lack of the sort of hardware innovation that had previously underpinned market growth. After a boom period during which customers swapped their feature phones for smartphones in huge numbers, the high-end smartphone market has become saturated and it has become increasingly difficult to find new “must have” features that will kick-start the next upgrade cycle. As such features are extremely costly to build into handsets that are already stuffed with complex technology, there is an inevitable tendency for handsets to become bigger and pricier, but where this will take vendors in future years is another matter, given that the overall market looks to be in something of a recession.

It is not easy to assess how the above is affecting vendors as, for example, Samsung is a massive conglomerate, covering many sectors, and Huawei is not listed on any exchange allegedly owing to pressure from the government. Apple, of course, is quoted, although it is hardly representative of the overall market. In practice, Apple – ultimately dependent on the sales of handsets – has been thriving by more than its modest market-share growth might indicate. Having opened 2018 with its share price at roughly $170, it suffered a bad patch, with a decline to $150 in early February before surging to $234 in early October. During September, it became a trillion-dollar company, although it is currently worth a mere $973bn.

What is clear is that at the end of October, shares in technology companies suffered an exceptionally bad week – in effect, a sharp reversal from the trend that had driven stock markets to record highs earlier in the year. The main drivers appeared to be higher interest rates, trading disputes with China in particular and a volatile political climate in the context of the mid-term US elections. The outlook accordingly does not look particularly favourable for 2019, and tech companies are likely to suffer disproportionately, not simply because of their very high valuations that have long been somewhat detached from reality but because consumers will inevitably cut back on such expenditures as replacing their handsets.

The consequences for Apple specifically are somewhat confusing. On the one hand, in September, it reported better-than-expected sales growth. On the other, it was obliged by the European Commission to repay €14bn of illegal state aid to the Irish Government – admittedly not that large a sum for a company with Apple’s massive cash reserves – and the announcement that it was no longer going to provide sales figures specifically for iPhones, which provide at least 60 per cent of its revenues, caused its share price to drop like a stone.

Annoying shareholders is not smart as events elsewhere in the app-provider sector have demonstrated. In September 2018, for example, the departure of its chief strategy officer caused followers of Snapchat to conclude that its founder, Evan Spiegel, who had overseen its flotation at $17, was not up to the job after missing a string of earnings projections, partly because of a botched redesign of Snap and the introduction of tightened privacy laws in Europe. As a result, the share price continued its inexorable decline from $21 in early February to $6 eight months later.

Still, even this is not comparable to the experience of Facebook, which lost $120bn of its market capital in a single day – a world record. Facebook had not seriously lost headway for five years and its share price sat comfortably at $190 on 1 February 2018. After an unusual dip to $153 at the end of March that was triggered by the Cambridge Analytica data-mining scandal, it recovered to a record $218 on 25 July. However, on 26 July, it fell to $176 after failing to hit its earnings forecasts and subsequently bottomed out at $139 at the end of October.

Twitter suffered a similar fate during July, leading many commentators to predict that the prominent position occupied by ad-funded social media companies was likely to be much reduced as they struggled to overcome a toxic combination of ever-tightening regulation and prospects of a looming recession, not to mention their lack of knowledge about how to manage themselves after a long phase of seemingly eternal growth.

All in all, therefore, no matter which sector of the smartphone market is under consideration, the auguries for 2019 are strongly negative. Naturally, this does not preclude success stories. Not only has it become increasingly difficult for European and US vendors to trade in Asia but the reverse flow is also becoming more marked. For example, OPPO launched its second major high-end handset in Italy in November 2018,
-priced at $600. Meanwhile, the likes of Huawei and Micromax in the two largest markets, and locally based vendors in general, are likely to succeed in keeping out the incursion of Apple, which must rely on its cheaper handsets and price them competitively. Recent history suggests that Apple and Facebook will continue to be highly profitable, but their best days may not recur for some time to come. Meanwhile, vendors have nothing to look forward to but internecine competition.

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