

COLUMNS

What is wrong with Apple?

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Howard Yu is professor of strategic management and innovation at the IMD business school

By **Howard Yu**

To industry pundits and casual observers, it came as a shock this week when Apple projected that growth for its iPhone sales would hit the slowest pace since 2007, the year of the iconic phone's release.

At the same time came the first forecasted decline in Apple's revenue in the last 13 years.

Dial up and down

Currency fluctuation and the cooling of China's economy notwithstanding, Apple's predicament is a reflection of tough times across the board in the mobile phone industry.

Back in 2011, a Beijing startup mobile phone maker named Xiaomi developed a social media platform to engage millions of Chinese, turning young consumers into casual programmers to enhance its mobile phone's operating system.

In less than four years, Xiaomi saw its revenues soar, surpassing Samsung and Apple's market share in China. It became the country's largest mobile phone maker, and the world's third.

Yet in 2015, Xiaomi's short-lived glory was snatched up by Huawei another telecoms giant in China that historically billed itself as a low-cost provider.

Why so much turbulence in the mobile space?

Two underlying forces modularity and digitalization have been the main cause, and they are, it turns out, also affecting other sectors.

Modularity

Ever since Western companies began outsourcing manufacturing to Asia in search of low wages, engineers have been devising clever ways to standardize components.

From microprocessors and memory chips to LCD panels, components have become interchangeable and have been for the most part made in the Far East markets of South Korea, Taiwan and Singapore.

A mobile phone today is highly modularized, and compared to 15 years ago, has become far cheaper and more flexible to manufacture. Consequently, the barrier to enter the industry has dropped.

Xiaomi, unlike Apple and Samsung, does not run a single factory. All of its assembly and component fabrication are outsourced.

Digitalization

What destroyed Kodak and Polaroid is not confined to photography. Digitalization also inflicted mortal wounds to

Sony (Walkman), Toshiba (CRT TV) and Hitachi (video recorder).

As our computing power improves apace, product features are increasingly driven by software. Hardware has become commoditized.

The seamless consumer experience delivered by iPod has little to do with cutting-edge hardware technology those were off-the-shelf by third parties but cutting-edge software design.

Again, it was this influx of the two interwoven forces modularity and digitalization that contributed to the displacement of old timers. Out went Nokia, BlackBerry and Motorola, in rushed Samsung, Google (Android) and Apple.

THE COMING onslaught of the Internet of things will only further speed up digitalization and information transfer to the cloud.

Services and offerings are becoming ever more modularized as new industry standards emerge.

The speed of change and toppling of industry leaders we have observed in the mobile space will naturally spread elsewhere.

Now, is your industry next? Are you ready?

*Howard Yu is professor of strategic management and innovation at the **IMD** business school, Lausanne, Switzerland. Reach him at howard.yu@imd.org.*

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