

Is apple entry into the mobile telephone sector marketing essay



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According to Michael Porter (1979), industry is being influenced by five forces. The strategic business manager planning to develop an advantage over rival firms can use this model to better understand the industry plans in which the firm operates.

Since iPhone is only offered by single networks such as O2 in UK and AT&T in US, customers of other networks will have to wait until their contract expires, or pay an early cancellation fee (typically \$200). The average duration of a cell phone contract is 2 years, which means that 25% of consumer's plans will expire in the next 6 months. Since a \$200 switching fee makes the iPhone very expensive.

Apple introduced the device at high price for early adopters to earn abnormal profits and it slashed down iPhone price by 50% for rest of market segment. For Reference, In US When it reduce the price from \$599. 99 to \$399. 99 consumer were force to deal with the mobile carrier AT & T mobility, in service package ranging from \$59. 99 to 99. 99 per month. But in UK, low amount of inclusive minutes was not competitive. For reference, O2's iPhone deal allowed 200 inclusive minutes for pound 35 versus competitors that offers of 750 minutes in addition to a free phone. Apple reduces its prices or introduces new models for price-sensitive consumers, and its sales could expand considerably.

Barriers to Entry/ Threat of New Entrants

Ultimately the iPhone is going to face the most competition from imitators who can sell a similar or comparable device at a lower price. Most of these threats are going to come from established players in the cell phone industry

(such as LG and Samsung) rather than companies trying to enter the cell phone market. Software companies such as Google and Microsoft may pose a credible threat at entering the cell phone market.

Apple not only had to face a number of barriers to entry in the development of the iPhone but they must also worry about potential competitors (Google, Microsoft) overcoming them as well.

Economies of Scale

Apple already had pre-existing experience in manufacturing mass-market consumer electronics devices, many of which share components of the iPhone; so Apple was not adversely affected by this barrier. New entrants, however, may not have that luxury and the cell phone market is almost defined by its mass-market (which requires mass production and consumption) nature.

Product Differentiation

The iPhone is significantly different than its competitor's product. Apple also has a certain amount of protection through the strength of its brand identity. iPhone launch was extremely different technology from other mobile companies. But to keep product differentiation consistent in long run would be challenge for Apple.

Capital Requirements

Apple enjoys a slight advantage here, though it's an advantage that may be quickly lost. The other cell phone manufacturers have a lot of experience making cell phones, but not necessarily software. So, to most effectively

compete with the iPhone they will need to invest significantly in certain areas. And Apple also has a lot of experience making hardware and software, which gives them an advantage to some extent over their competitors. In this sense, Apple itself did not face much problem with this barrier because of their experience creating both software and hardware. Future competitors looking to enter the cell phone market are less likely to have that advantage.

Distribution Channels

The iPhone will be only available at Apple and single network stores and it is only supported by the Single network such as o2 in UK. They are not able to sell iPhone in cell phone market and also they are making it difficult for people to even purchase the phone. A future entrant into the market may be able to make their product available for multiple carriers and multiple retailers. For instance, iPhone was available through 1300 Apple, O2 and Carphone warehouses shops in UK.

Supplier Power

The iPhone software that brings all features together and allows the user to interact with the phone in a compelling way. And Apple, of course, developed and owns the software. A producing industry requires raw materials - labour, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits.

But in case of Apple, The Software, Hardware, component is developed and owned by Apple itself. Hence, they have less threat from powerful suppliers.

Buyer Power

Here you ask yourself how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the importance of each individual buyer to your business, the cost to them of switching from your products and services to those of someone else, and so on. Although the iPhone's functionality would be attractive to business users, its price is considerably higher than that of Blackberries . This makes enterprise purchases unlikely, since businesses are typically price sensitive.

However, the iPhone's compelling mix of features makes it attractive to a broad set of cell-phone consumers. The iPhone's market is limited by two factors: 1) the high price (\$499 for 4 GB) and 2) Apple's exclusive US carrier agreement with Cingular (For example AT & T, O2). In case of Apple the buyers of the iPhone are somewhat more powerful. Given the relatively high price of the iPhone it remains to be seen whether consumers will pay a high price for Apple iPhone features when their needs may be equally met by cheaper alternatives.

Threat of Substitutes

A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose.

The iPhone mainly distinguishes itself from competitors over its software's and hardware's which are driven by a multi-touch screen. Apple claims

various patents relating to this technology. However, it is still likely that other players in the market will soon be able to deliver similar products. Synaptics and LG have already disclosed details of coming products which feature touch-screen interfaces, as well. Software companies such as Google and Microsoft may pose a credible threat at entering the cell phone market.

Evaluation

Being aware of huge competition in mobile phone market, I decided to use porters five forces model to do analysis and based on analysis, I found that there is tough competition for mobile operators who act as both substitutes and new entrant. In the next 3-5 year if we see the industry would be more competitive than today. So many firms will be competing in the market and new firms will be try to come in the market for taking the advantage of profitability, which would reduce the profit of the firms. Consumer will have more choice because of substitution, and they can force the companies to reduce the prices of their product. And the supplier will have the power to raise the price of the raw material because of the high demand on the same time.

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