

Research paper on apple samsung rivalry

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Apple vs. Samsung: A Financial Perspective.

Apple vs. Samsung: A Financial Analysis.

Introduction

Apple Computer was established by Steve Jobs and Steve Wozniak in 1976 in Cupertino, California. In its early days it was primarily a personal computer manufacturer, producing and selling Macintosh and Power Mach's. During late 90s it went through a huge financial stress as a company and under the leadership of Steve Jobs rebounded as an innovative company. It returned to the market in a grand way with the launch of its iPhone, iPad, iPod and iTunes portfolio. Apple has market revenue of \$156 billion (2012) and market capitalization well beyond \$500 billion making it the biggest company in the world in terms of market capitalization.

Lee Byung Chull started Samsung as a trading company in 1938. Samsung ventured into shipbuilding, construction and electronics during 1960s and 1970s. After the death of Lee Byung Chull in 1987, the group got divided into 5 different companies. Samsung is the largest company in South Korea and contributes almost 17% of the GDP of South Korea. Samsung is the largest information technology company in the world with almost \$180 Billion (2012) in revenue.

Apple's rise in the last decade was meteoric. It surprised the world with world class products year after year. The creativity, simplicity and innovation in the apple products made Apple the largest company in the world by market capitalization. Apple operates in few market segments with products unmatched by its rivals. It had been enjoying this position in the market for

almost a decade till Samsung entered the electronics top end market and ended Apple's monopoly at the top. Samsung, unlike Apple, is diversified in many business segments. Apart from leading the business of information technology it also enjoys the second spot in terms of revenue in shipbuilding business.

The rivalry between these two came into open when Samsung started selling its Galaxy line of mobile phones and tablets to challenge iPhones and iPad.

For the first time in over a decade Apple seriously felt threatened. Apple accused Samsung of violating copyrights in the design of galaxy phones which was patented to Apple. It triggered a worldwide lawsuit battle between the two companies. Apple won in some countries and lost in few others.

However, the battle in the market intensified. Samsung launched Galaxy SIII which beat the sales numbers of iPhone 4s and in reply Apple came up with iPhone 5 which is currently dominating the top end smartphone market.

Samsung is soon to launch Galaxy S IV with non-breakable screen. The battle continues.

Overall Financial Analysis

Apple in 2012 posted revenue of \$156 billion with an operating profit of \$55 billion. Apple is growing at a rate of 40% on a year on year basis and at the current rate will cross Samsung within next two years in terms of revenue.

Apple has retained earnings of more than \$140 Billion which is larger than the next ten biggest companies in terms of retained earnings put together.

Apple has no debt and is in extremely sound health from pure financial perspective.

Samsung, on the other hand, has posted revenue of \$180 billion in 2012 with

an operating profit of \$25 billion. It is growing at an annual rate of 19-20%. Samsung, unlike Apple, has a huge debt in the market and continues to borrow from the market for new ventures.

Profitability Analysis

Note: All Figures are taken from Investing. businessweek financials.

It needs no financial brain to understand that Apple is still the market leader in all profitability parameters and sets the benchmark for the industry.

Samsung, on the other hand, has average profitability figures in the electronic industry. The profitability figures are high for Apple mainly because apple sells product only at the top end of the segment and enjoys a very healthy margin upon all the products sold. On the other hand, Samsung sells mobiles in Asian markets priced as little as \$15(Samsung Guru) with very little margin. It sells smartphones in US market priced \$600 with much bigger margin. Samsung operates in volume market as well as value market so the profitability figures are worse than that of Apple.

One thing that will most probably happen in coming years is that the profitability ratios of Apple will get worse. As Samsung and other players enter the top end of the market with products similar to that of iPhone or iPad, Apple will be forced to reduce the price of its products to maintain sales. However, Apple can maintain its profitability in coming years only by introducing a product which Samsung or any other will not be able to match and it will exceed customer expectations.

Margin Analysis

Note: All Figures are taken from Investing. businessweek financials.

Clearly both the companies have a very good gross margin of 42% and 38% respectively. However, Apple's EBITDA margin is way better than that of Samsung as it has very low SG&A cost compared to that of Samsung. Apple has a model of delivering products still unmatched by anyone in the industry. Even if both Samsung and Apple operate and sell the same products with the same margin, Apple will make almost double the money Samsung will be able to make.

Asset Turnover

Note: All Figures are taken from Investing. businessweek financials.

Both the companies have a total asset turnover ratio which is superior to the industry average and that shows how efficiently both the companies work.

However, in fixed asset turnover and inventory turnover Apple is by far better than Samsung. Apple's inventory turnover figures are so good mainly because of huge demand of all its products in the market.

Samsung, on the other hand, floods the market with a multitude of products from very low priced ones to premium ones and carries a lot of inventory and hence its inventory turnover figures are not as impressive.

Short Term Liquidity Analysis

Note: All Figures are taken from Investing. businessweek financials.

Short term liquidity ratios for both the companies are good which shows both have enough working capital and cash or cash equivalents to take care of its

short term liabilities. It indicates good financial health and operational practice for both the companies.

Long Term Solvency Analysis

Note: All Figures are taken from Investing. businessweek financials.

Apple is a debt free companies whereas Samsung has a very high debt/equity ratio of 12. 3. In the market generally two types of companies have high debt/equity ratios. The first kind is the companies which are in financial distress and the second kind or Samsung kind is the ones which are in rapid growth path and have needed a lot of funding in recent past.

Long term solvency ratios show how strong financially Apple is. Samsung is highly leveraged and at this point in time cannot afford to perform poorly in the market. Few years of underperformance by Samsung in the market can actually put it under severe financial distress. On the other hand, Apple can almost afford few years of hibernation with its huge cash reserve and no debt structure.

Stock Performance

Even after performing better in almost all financial parameters Apple stocks are on a free fall from last October and although Samsung is worse in financials of the two, is seeing constant increase of share price. It indicates that something which is not captured in the pure financial figures is driving the market.

Market is often emotion based and speculative and a trend which is expected by the market regarding a company in coming future often reflects in its stock price today. As per the market emotions it seems that market expects

Samsung to do better in coming future due to its robust product portfolio, diversified market presence and its changing Avatar from “ Quick Follower” to that of an “ Innovator”. Apple, on the other hand, had a monopoly on words like creativity and innovation in electronic industry for almost last one decade. Things seem to be changing. Market thinks Apple is no longer innovating products as it used to and will lose its unique position in the market as the segment creator and high end product innovator. These negative sentiments are driving down the stock value of apple.

Forward Looking View

Apple did well in the last and continues to do well. The problem for apple is that it will not be easy to maintain that high level of performance. Apple is known to be a company that innovates and in last few years the market has not seen any new product line coming out of Apple except the upgrades of existing products. After the sad demise of its iconic leader Steve Jobs, Apple seems to have lost direction. The company leads the market in number of tablet sales and also leads the market in total number of smartphones sold in US, still the share price of the company went down to half from its all-time high in last 6 months. The company needs to come up with a market beating product otherwise even if it does decent job in managing the current market portfolio, there is a high chance that it will not do as well as it was performing in last 5 years.

Samsung, on the other hand, is a company that has done well in last few decades. It is a company that has been there for a long time and seen many ups and downs in world economy and survived it. Samsung follows three simple rules to survive in the market. Firstly, Samsung reduces its market

risk by diversification. It has many different business divisions which complement each other in good and bad times. Secondly, Samsung is a quick follower in the market and if it sees any opportunity in any market segment it has the ability to quickly come up with a better product in that segment. Thirdly, it is becoming a company that can innovate. The newest Galaxy S IV product line which comes up with unbreakable screen shows that Samsung can also come up with Apple like innovative product. The future looks bright for Samsung.

Conclusion

In pure financial terms Apple is in very sound financial condition. Although in recent months it started losing some ground in smartphone business due to Samsung phones and Google operating system but it is too early to say Apple will be another Nokia story in few years. That is definitely impossible as Apple is sitting on a cash pile of \$140 billion and which is ready to go into some unique product innovation. If that happens successfully, Apple will be back in no time. Apple has money, people who can innovate and an ongoing sound product portfolio. It is only a matter of time before it comes up with something totally out of the world and sweeps us off our feet like it had done so many times in the past.

Samsung is on a high growth trajectory and is doing well in all segments in which it is in. It is a company which has a huge task of competing with a company like Apple in smartphone and tablet market. It will not be easy for Samsung if some of its early products do not fare well in the market.

However, Samsung has a broad product portfolio and a loyal customer base in Asia. Even if its smartphones are not doing well it can always fall back on

its base phone markets or other electronic segments like television or home appliances. Samsung is in very good shape in terms of product offerings and diversification which reduces lot of risk for Samsung as a company.

In current business world both Samsung and Apple can co-exist. They will continue to rival each other's products and continue to find ways to move forward. In this process we consumers will only benefit.

Reference

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