IPhone appeal dims as Samsung shines

PETER SVENSSON - Associated Press - Associated Press

The latest iPhone looks much the same as the first iPhone, which came out more than five years ago. That hasn't been a problem for Apple — until, now.

The pace of iPhone sales has slowed, Apple revealed last week. Part of the problem is that the competition has found a formula that works: thinner phones with big screens that make the iPhone look small and chubby.

For a dose of smartphone envy, iPhone owners need to look no further than Samsung Electronics Co., the number-one maker of smartphones in the world. Its newest flagship phone, the Galaxy S III, is sleek and wafer-thin.

By comparison, the iPhone "is getting a bit long in the tooth," says Ramon Llamas, an analyst with research firm IDC.

Apple has become the world's most valuable company on the back of the iPhone, which makes up nearly half of its revenue. IPhone sales are still growing, but the question of how fast they're growing is of keen interest to investors. The iPhone certainly has room to grow: only one in six smartphones sold globally in the second quarter had an Apple logo on its back.

When Apple reported financial results for its latest quarter last week, a new phenomenon was revealed: Buyers started pulling back on iPhone purchases just six months after the launch of the latest iPhone model.

Apple executives blamed the tepid sales on "rumors and speculation" that may have caused some consumers to wait for the next iPhone, which is due in the fall. But in the past, iPhone sales have stayed strong nine months after the new model is launched, then dipped as people began holding off, waiting for the new model.

In the April to June period, Apple sold 26 million phones, 28 percent more than it did in the same quarter last year.

Most other phone makers "would kill" for those numbers, says Stephen Baker, an analyst with research firm NPD Group.

The exception is Samsung, which has solidified its position at the world's largest maker of smartphones. Analysts believe it made just over 50 million smartphones in the second quarter, or nearly twice as many as Apple. (The company doesn't release specific figures.) Its smartphone sales have nearly tripled in a year.

Most of Samsung's sales comprise cheaper smartphones that don't compete directly with the iPhone. Its flagship phones, though, have emerged as the iPhone's chief rivals.

Samsung and Apple have a complicated relationship. They're rivals in the smartphone and tablet-computer markets, and are set to square off in a high-profile trial over mobile patents in San Francisco this week. Samsung is one of Apple's largest suppliers of chips and displays, and Apple is one of Samsung's largest clients.

Though Apple is known as a relentless innovator, the iPhone's screen has been the same size — 3.5 inches on the diagonal — since the first iPhone came out. It was a big screen for the time, but among the competition, screen sizes have crept up.

Samsung has increased the screen size of its Galaxy series with every model since it debuted in 2010. The Galaxy S had a screen that measured 4 inches diagonally, and was followed by the S II, at 4.3 inches. The S III, the latest model, measures 4.8 inches. The screen is nearly twice as large as the iPhone's. Yet the Galaxy is thinner and lighter than an iPhone.

Samsung has also achieved surprising success with an even bigger phone, the Samsung Galaxy Note. Its 5.3-inch screen makes it somewhat awkward to hold to the ear, but customers don't seem to mind, or perhaps they value the large screen and included stylus more.

Aside from design, Apple is inflexible in another way: by releasing a new phone only one per year, it lets the competition create new phones with features the iPhone doesn't have and lets them go unchallenged, at least until the new iPhone comes out.

"Apple's schedule leaves the other ten or nine months of the year wide open for everybody else," says Llamas.

For instance, the newest Samsung phones can use the latest high-speed data networks in the U.S., and talk to payment terminals in stores, so they can act as smart "credit cards."

Samsung times its product launches to take maximum advantage of the lull in iPhone sales that usually precedes the launch of a new model. The S III went on sale in Europe in May and in the U.S. in June.

The rest of the competition is in disarray, and hasn't been able to capitalize in the same way on Apple's rigid release schedule and conservative design. Nokia Corp., until recently the world's largest phone maker, is in sharp retreat and is conducting a complete revamp of its smartphones. Research In Motion Ltd. is stuck with outdated software for its BlackBerrys at least until it launches a new operating system next year. HTC Corp. of Taiwan is suffering from marketing missteps in the last few years. LG Electronics, another Korean company, hasn't been able to keep up with Samsung when it comes to high-end phones, or with cheaper manufacturers on the low end.

Together, Samsung and Apple make half of the world's smartphones, and since

competitors are losing money or breaking even, account for nearly all of the profits in the industry.

"Samsung is the only company that didn't really buckle under the weight of the iPhone 4S. Good, solid devices and good, solid marketing behind them," Llamas says.

Analysts now expect the new iPhone to arrive in September or October, probably with a slightly bigger screen. Sticking to one screen size has served Apple well, Baker says, but he sees the company moving with the times, as it's done many times before.

"When they have the reputation and the brand loyalty that they have, you don't have to be the first to market" with new features, Baker says. "You don't have to take that risk."

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