Samsung's challenge: keep the customer

Jeremy Wagstaff, Asia chief technology correspondent, Reuters

(Reuters) - Samsung Electronics has built global leadership in mobile phones, but in a fickle industry looks more vulnerable than its nemesis Apple Inc without an 'ecosystem' - software, services, content and customer support - to keep its users loyal.

"They need to move out of that mentality of just selling people a device," says Rachel Lashford, Singapore-based managing director of mobile for Canalys, a consultancy. "They need to get their head around the idea that they're no longer just a hardware company."

The ecosystem standard has been set by Apple: offering mobile users downloadable programs and content - such as iTunes for music and the App Store for programs - which are best, and often only, accessible via and across Apple devices. This binds users to Apple and makes them more likely to buy another Apple device - an iPhone user buying an iPad [1], say.

"Apple's greatest achievement beyond the design of the device has been the development of its ecosystem," said Scott Bicheno, UK-based senior analyst at Strategy Analytics.

While Apple has been slow to make some of these services available in some parts of the world - it only recently unveiled its iTunes Store across much of Asia, nine years after its U.S. launch - it is still ahead of rivals.

Samsung's efforts to build something similar have been at best halting.

The latest version of Music Hub, a service combining downloaded music and streaming, is only available for users of its new top-end phone, the Galaxy S III. Early reviews are mixed. It is also building an ad network via a partnership with OpenX, a service that Mar Pages, Singapore-based principal at Delta Partners, likens to Apple's iAd. These services allow application developers to embed adverts in their software.

Samsung said Music Hub, which is available in close to three dozen countries, will be expanded to other markets and also be available in more smartphones as well as Internet-enabled televisions and computers.

"Samsung is doing our best to offer best content and services to our customers... We are in partnership with leading global developers to cooperate in content and application development and plan to further improve our offerings," it said.

DILEMMA

But there's only so much Samsung can do to build on top of Google's open platform Android operating system, which already offers users well-established services such as Dropbox, which moves files seamlessly between devices and users.

"I wonder what Samsung could do which would offer conspicuous value over the likes of Dropbox," said Strategy Analytics' Bicheno, noting Apple's ecosystem is largely a way to sell hardware. "This is the dilemma they face."

It wasn't always so. In 2010, Samsung launched its own mobile operating system called bada, and wooed developers and users with tools and an app store. Bada has steadily gathered users but accounts for less than 3 percent of devices shipped, according to technology consultancy Gartner. Android accounts for nearly two thirds.

The company's efforts to make bada more popular were hampered by its own focus on hardware sales, said Karthik Srinivasan, who worked as a product manager at Samsung's Media Solutions Center in Bangalore. His team would submit proposals for services and apps only "to be stumped when the question came back from Korea: How many more devices can you sell next year based on these services?" he told Reuters.

Samsung has not abandoned bada, but its emphasis on Android alienated its fan base and developers. "The top management may have had focus," said Srinivasan, who quit the company last year, "but it was dispiriting to see the company was making very good Android devices and promoting them more than bada ones."

Samsung said in January it planned to merge its operating system with Tizen, an open source platform promoted by Samsung and chipmaker Intel Corp. It hasn't issued a press release about bada since November 2011.

OLYMPIC SPRINT

Samsung can be fast and decisive where it senses an opportunity that fits its broader strategy of brand building.

When Bangkok-based start-up Fingi turned to Galaxy smartphones for its hotel concierge service this year, Samsung's local operation was quick to help. Fingi's software allowed a Thai hotel to offer guests a Galaxy on check-in which they could use to open doors, control air conditioning, lighting and TV and order room service.

When Samsung's UK operations heard about Fingi they decided to use it to help promote the Galaxy S III at the London Olympics [2], said Carl Rubin, Fingi's vice president of business development. Within weeks, he said, Samsung had struck deals with hotels and helped set up the technology to make it work. "They turned on a dime and got this done," he said.

The Fingi initiative made use of the near-field communication chip inside some Galaxy devices, a hint of where Samsung sees more opportunities. Delta Partners' Pages says Samsung recently hired one of Visa Inc's mobile payments executives

and patented the words "Samsung wallet."

SAMSUNG STORES

But its efforts to build a direct and binding relationship with users in the way Apple has done have been less convincing.

It has flagship stores in several countries which share Apple's light tones and open invitations to play with devices, but a recent lunchtime visit to Singapore's main store saw only a handful of visitors and a couple of staff. A cleaning woman was mopping the floor.

Singapore has also pioneered improved customer service where staff will pick up an errant device from the user and offer a loan unit while it's under repair. But a member of staff at one of the two service centers said loan units weren't always available.

Similar issues can be found online. An important part of keeping mobile users happy is ensuring their device's core programs are up to date. The most popular feature on one Samsung fan website, SamMobile, is a twitter feed alerting users to when such software updates are due. It has 20,000 followers and is updated more than a dozen times a day. Samsung's official equivalent feed has only 3,307 followers, and was last updated in December.

The owner of SamMobile, Rotterdam-based Danny Dorresteijn, says he has tried in vain to forge a closer relationship. "Samsung is not a big fan of us," he said. But he's hopeful. "Everything takes time."

Indeed, there are signs that Samsung is learning it needs to use social media better. When two Indian bloggers flown by Samsung to a technology show in Berlin last week complained online that they had been stranded because they refused to wear a Samsung uniform and tout Galaxy phones, the company was quick to apologise.

Last month, Samsung hired Damien Cummings, Dell's former Asia online director, for a new social media marketing role. In a blog post, Cummings said he aimed to "help transform Samsung into a digital powerhouse."

BRAND LOYALTY

Samsung does appear to be slowly winning people over.

Surveys of users in Britain and the United States by Strategy Analytics concluded that while 51 percent of Apple users would replace their Apple device with an Apple device, they were only slightly less likely to switch and buy a Samsung.

A bigger problem for Samsung, says David Mercer, the co-author of the Strategy Analytic surveys, is that there's little sign that user loyalty to Samsung phones translates to buying other Samsung products. A Samsung phone user may buy another Samsung phone, "but they won't automatically buy a TV," he says.

Given that Samsung is the world's largest TV maker, that's a significant miss. "That indicates those important branches of the company have continued to do their own thing," says Mercer.

It also raises questions about Samsung's efforts to build an ecosystem beyond mobile phones to embrace other parts of its consumer electronics business, especially so-called smart TVs - Internet-connected TVs that can work more like computers, running apps, storing and downloading content and, crucially, interacting with other consumer devices.

It's not that Samsung isn't busy working with TV stations and other service providers to build smart TV services. In the past week, it has announced deals with TeliaSonera and France [3] TV in Europe, and Alt Media Sdn Bhd in Malaysia. The problem, Mercer says, is that consumers need to be convinced its useful. "Once they have it, they love it," he says.

At the heart of Samsung's challenge is to weave these products together with content and services that make it hard for users to jump elsewhere when they tire of their devices. While Samsung has long mastered engineering, it's only recently woken up to the fact that users want something more.

"Samsung will start to realise, if they haven't already, that they have to lock people in with some kind of ecosystem," said Napoleon Biggs, head of digital integration for Asia at Fleishman-Hillard. "How else will you keep people's loyalty?"

(Reporting By Jeremy Wagstaff, with additional reporting by Miyoung Kim in SEOUL; Editing by Ian Geoghegan)

Source URL (retrieved on *05/20/2013 - 12:46am*):
http://www.ecnmag.com/news/2012/09/samsungs-challenge-keep-customer

Links:
[1] http://www.reuters.com/subjects/ipad
[2] http://www.reuters.com/london-olympics-2012
[3] http://www.reuters.com/places/france