

The disruptive decade of the iPhone

The smartphone has been a game-changing, even life-changing, invention. In the month of the tenth anniversary of the iPhone, **Martin Guerrieria** of **Kantar Millward Brown** examines the rise of the iPhone, its competitive market set, and the future for mobiles

This month (June 2017) marks ten years since everything changed: the way we communicate, the type of communications we engage with, and the power to access information at the touch of a button in the palm of our hand. June 2007 was the first time that consumers – in the US at least – got their hands on an iPhone, which quickly became the standard by which all mobile devices are judged.

The iPhone has been a major contributor to the success of Apple. According to the annual BrandZ™ Top 100 Most Valuable Global Brands study from WPP and Kantar Millward Brown, Apple's global brand leapt in value by \$203.7bn between 2007 and 2016, reaching an eye-watering \$228.5bn in 2016 – an increase of 824%.

We often talk about the role and importance of 'disruption' in delivering brand success; brands that challenge market leaders with new, albeit often minor, innovations



stand a better chance of growth. Data from WPP's BrandZ database proves that even perceptions of innovation are a significant contributor to improving brand value, whether actual innovation is delivered or not. What makes the iPhone stand out is the delivery of 'disruption' in the truest sense. Apple established an entirely new category within a category, namely the smartphone, beginning a seismic shift in consumer expectations for communications. For the first time, consumers could access the internet anytime, anywhere. The impact of this innovation on existing key players was colossal and even insurmountable for some.

Of course, the iPhone had a critical weapon in its arsenal from the very beginning – the Apple brand. Apple was already a long-established thinker in the world of tech, driven by the large-scale success of the iMac and iPod. The Apple brand's point of difference and desirability was already established and secure. Even before the iPhone was launched, consumers knew it would be different, and the experience of early adopters around the world confirmed this. Looking at several key markets from Kantar Millward Brown's global analysis (US, UK, Brazil, Mexico, Germany, France, Italy, Spain, China, India, Japan, Korea) back in the year of iPhone's release in 2007, Apple was already perceived as extremely different. Apple's Average Difference index was 175 compared to 100 for the average brand.

However, the brand was not well known when compared to competitors such as Nokia and Motorola. The brand challenge for the iPhone was to build salience while maintaining perceptions of difference, in order to drive demand. Though this head-start on difference was a big advantage, over the past ten years the brand has extended its lead on differentiation even further by delivering on its promise of a game-changing, even life-changing, experience for users.

Globally, Apple has improved its Difference score by 40% over ten years to index at 245. This pattern has been repeated in each region, with the Americas at 249, Europe at 255 and Asia at 228. This proved that not only was the iPhone expected to be different as a result of being an Apple product, but the product itself delivered differentiation exceeding even those high expectations.

The effect has been twofold:

- **Huge demand:** iPhone's global Power Score (consumer demand based on strength of brand equity) improved from a global index of just 69 in 2007 to 236 in 2016.

● **A justified premium:** iPhone's global Premium Index peaked at 130 globally in 2016 – the brand was able to support a price point 30% above the average.

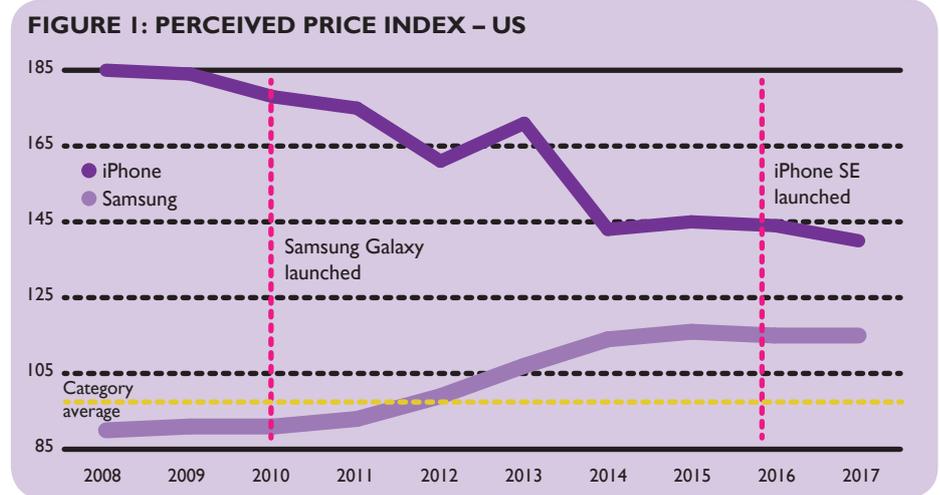
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By contrast, the impact on many competitors – and Nokia in particular – was devastating. Nokia's long-established global point of difference was decimated. Nokia started with a very strong Difference Index of 145 in 2007, spiralling to just 84 in 2016. The impact in the Americas and Europe was particularly pronounced, settling well below par at 77 and 79 respectively by 2016.

Nokia suffered not only diminished demand – power globally fell 60% from a whopping 374 in 2007 to 151 in 2016 (just 66 in the US) – but its ability to charge a premium also fell. Premium dropped from a global average of 133 to 102 – a decline of 23%.

By vanquishing its rivals and disrupting the existing status quo, Apple has transformed its brand. In a decade, it has moved from being perceived as a Specialist brand, to being classed as an Iconic brand – one that dramatically stands out on the three key BrandZ criteria of Meaningful, Different and Salient – in markets like the US, UK, China, Japan, Brazil and Mexico. Other iconic brands include Google and Nike in the US and British Airways and IKEA in the UK. In markets such as Italy, Apple has become a Star brand – one that stands out in terms of Meaningful, Different and Salient – still a strong position though not quite an iconic one. Other Star brands in Italy include Ferrari and Prada.

No brand, however, exists in a vacuum and many challenges have certainly emerged for the iPhone, the largest of these in the form of the Samsung Galaxy series. First launched in 2010, the Samsung Galaxy sparked huge growth in the global handset marketplace for Samsung, as evidenced by BrandZ data. Looking at an average of the same global markets, Samsung's Power Score jumped from an already high 155 in 2007 to a towering 300 by 2016, mainly influenced by growth in Europe and Asia. This was driven by greatly improved Difference and Salience



indices globally for the brand, peaking at 138 (+32) and 178 (+71) respectively. But it's in Meaningfulness that the battle between the brands gets really interesting. iPhone grew in Meaningfulness globally by +14 between 2007 and 2016 to reach a score of 118, whereas Samsung grew by +41 to reach a massive 157 over the same period.

So while Difference is clearly iPhone territory, Samsung is generally much more Meaningful to consumers. One reason for this is comparative pricing and the range of Samsung handsets. There is a perceived price difference between iPhone and Samsung in the handset market, with Samsung perceived to be the 'cheaper' of the two overall, thus potentially meeting the needs of a larger number of consumers by providing a great product at a more acceptable price point.

Taking the US as an example: in the year after release, iPhone had a Perceived Price Index of 185, meaning consumers believed the price point far exceeded the category average. This was more than double Samsung's 90, which nudged to 91 the year after the Galaxy launched in 2010. There have been some clear changes in the perceptions of price in the intervening period, however. In the US, between 2008 and 2016, Samsung's Perceived Price Index rose from 90 to 116 whereas iPhone's fell from 185 to 145 (Figure 1).

The data shows that while Samsung's offer is premiumising, the iPhone's premium has been reduced, although a perceived 31% price differential remains – Samsung is better able to meet the need of relative affordability in the smartphone market. Samsung's top models are as expensive as the iPhone but Samsung also offers models at lower price points. This is likely to be the reason why Samsung is the more meaningful of the two.

Samsung's recent travails over the recall of the Galaxy Note 7 do not seem to have caused long-term damage to the brand's financial performance, suggesting a strong brand with a loyal following. The recall was no doubt a costly exercise and PR disaster at the time (September 2016) but seems to have happened early enough in the rollout to prevent long-term damage to the user relationship with the brand. The recall affected mainly early adopters before the device had fully reached the mainstream user.

MAKE WAY FOR CHINA

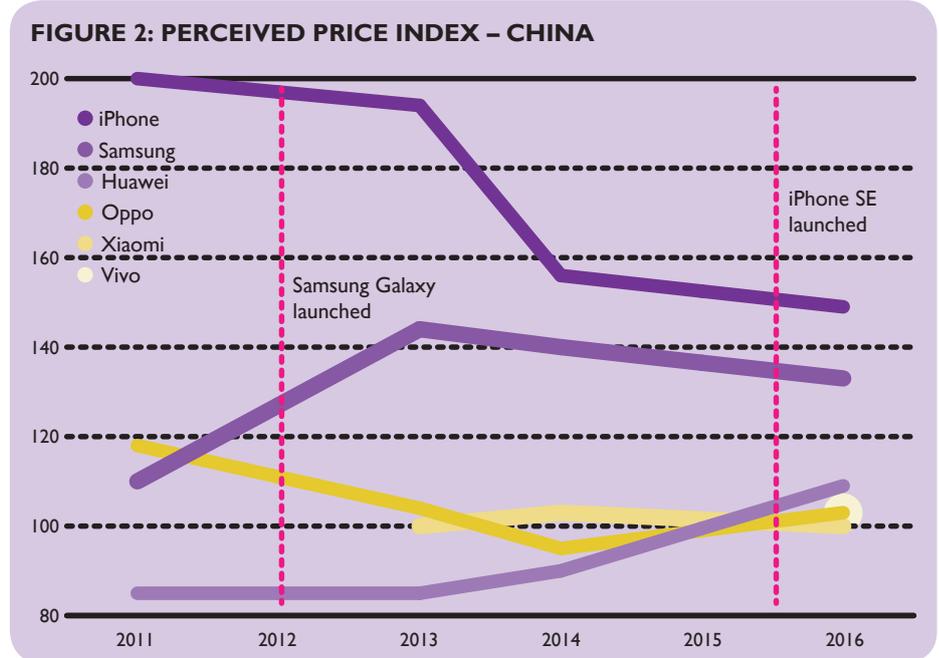
The challenge to the iPhone has not been limited to Samsung, however. A new group of Chinese brands now offer similar functionality at a much lower price. Brands like Huawei, Xiaomi, Vivo and Oppo represent a new breed of rivals. According to BrandZ, in 2016 the average perceived price across markets for these brands ranged from 80

to 103, though demand remained relatively low outside China (Power Score averages between 53 and 81). Within China, however, both Xiaomi and Huawei are now very well-established offerings at comparatively low price points. Huawei is also investing heavily in global marketing, boosting the brand's presence and influence (Figure 2).

Because these entrants now offer good-quality handsets for much less, both iPhone and Samsung are weakening in their ability to justify a higher price point in China. Consumers are thinking twice about whether they really need to splash out on an iPhone or Samsung device (Figure 3).

Apple's response was to launch the iPhone SE in early 2016, the brand's first attempt to deliver a 'budget' offer in a smaller size (still at a comparative premium but around 40% lower than the 6s). This represents an attempt to prevent iPhone customers on lower budgets being attracted to newer offers from lower-priced competitors.

The next six months should be quite interesting. The recent launch of the Samsung Galaxy S8 in March is likely to be followed by the iPhone 8 in September, and both releases come at a time when the market has a general feeling of stagnation for many. Globally, all players in the smartphone market are struggling to excite consumers. Incremental improvements to screen sizes and cameras just don't generate a high level



of curiosity and certainly don't offer the same opportunity for differentiation that they once did.

The battle is increasingly being fought by embedding consumers into the brand ecosystem. A consumer with an iPad, iMac and iPhone, who accesses music through iTunes and stores and accesses photos via

iCloud, is much more likely to upgrade to the iPhone 8 – unless a competitor can offer a very compelling reason to move elsewhere.

The biggest threat to the continued success of the iPhone is the next game-changing innovation – the next 'iPhone level event' (iLE). Right now, there's an intense focus on software, with artificial intelligence the likely route to ever-greater and increasingly effortless user interaction. Augmented reality offers another tantalising opportunity, as evidenced by the global hysteria last year surrounding the success of Pokémon Go.

'Think different' remains one of Apple's most memorable slogans and encapsulates the purpose of the brand for consumers all over the world. On the iPhone's ten-year anniversary, there's never been a better time for Apple to reapply that particular mantra and truly disrupt once more. The race for the next iLE is on. The question is, who will deliver it?

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FIGURE 3: PRICE PREMIUM JUSTIFIED BY BRAND EQUITY – CHINA

