



The Chinese are coming. Samsung is steady. Apple's iPhone 7 has to impress

This week's launch of Apple's latest smartphone comes in an unfamiliar period for the company - one of falling sales and declining revenues

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Wireless-only headphones? Dual rear cameras? Pressure-sensitive sensors? This year, as every year, the Bill Graham Civic Auditorium in San Francisco will be crammed to the rafters with press and Apple well-wishers waiting for the pomp, circumstance and technical revelations of another iPhone launch. But this one, on Wednesday, is more important for Apple than it has been for a while.

After the huge success of 2014's iPhone 6 - which introduced a completely new design with larger screen sizes, attracting more people switching from rival Android phones than ever before - 2015's iPhone 6S has been a bit of a damp squib in terms of consumer buzz. And encroaching competition from China means Apple faces arguably the most competitive market conditions it has ever seen.

Not that sales have been anything to sniff at. Apple still shipped millions of iPhones over the last two years - more than 225m last year and more than 230m expected this year, according to analysts Gartner. But enthusiasm for the 6S has been at a level markedly below the model it replaced. Overall iPhone sales have been down by between 5m and 10m a quarter year-on-year since the 6S launched, despite the contribution of the newer, smaller iPhone SE, which has been popular in Europe.

That was in the face of the overall smartphone market increasing in size by 200m devices, reaching 1.4bn phones sold to end users in 2015.

As a consequence, Apple's share of the smartphone market fell in the last three quarters to 11.7%, according to data from analysts IDC. Apple's arch-rival Samsung, the world's largest smartphone manufacturer, stayed relatively constant with a share of roughly 23% in the same period; it was the likes of China's Huawei, which jumped from just over 5% to closer to 8.5% year-on-year, that saw the gains.

IDC's Francisco Jeronimo says: "The biggest challenge facing Apple is the decline in the smartphone market we're going to see as device penetration hits 80-85%." At that point, he says, it's not about attracting buyers who are purchasing their first smartphone - "it's about convincing existing users to upgrade and attracting buyers from other brands".

The rising stars of the Chinese smartphone industry, including Huawei, Oppo and Xiaomi, have turned from making cheap and cheerful products to producing desirable phones featuring refined functions found on much more expensive rivals. It is these companies, many contend, that are eating into Apple's bottom line.

Apple is not alone in being undercut by comparable devices costing as little as one-third the price: Samsung has managed to maintain pace, but previously big-name Android manufacturers such as HTC, Sony and LG have struggled to stay competitive.

Jeronimo says: "I wouldn't be surprised to see Apple overtaken by Huawei as the second-largest smartphone manufacturer in the world in the next two years. Apple is just not investing as much money at the point of sale as Samsung in the face of Huawei's rapid rise."

Perhaps market share isn't the be-all and end-all, but it has affected Apple's bottom line: the company has posted two straight quarters of year-on-year declines in revenue.

So what does Apple have in response to the growing competition? Reports indicate the company will be more or less sticking to the tried-and-trusted iPhone 6 design externally, with an aluminium back, curved sides and glass front. The 6 and 6S were almost indistinguishable when placed side by side, and if rumours are to be believed, the same will be true of the iPhone 7 (or whatever it ends up being called).

Instead, Apple is expected to improve the technology inside the device - as it and everyone else does every year. The iPhone's familiar home button may see its first big change since the introduction of a fingerprint sensor in 2013 by becoming pressure-sensitive, according to Bloomberg.

Dual rear cameras have also become relatively common in the last year, with manufacturers such as Huawei and LG launching several phones sporting two lenses on the back. Apple could do the same, providing extra functions and improving low-light performance.

Perhaps, though, the rumour that has caused the most commotion is that Apple will be ditching the long-lived headphone jack. The ubiquitous 3.5mm socket, which is common to smartphones, tablets, computers, games consoles, televisions and hi-fis alike, could be going the way of the dodo, leaving only Apple's Lightning port in its place - and rendering almost any set of older wired headphones obsolete without an adapter.

Jeronimo says: "For Apple, it's about managing the expectations of its massive installed base - no one in the industry has larger - and encouraging them to spend more within the Apple ecosystem and on services, as people upgrade more slowly and smartphone innovation becomes more and more incremental."

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