Samsung's plan to strengthen its weaknesses

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The world's No. 2 handset maker is focusing on improving its weaknesses—low-priced phones and high-priced smartphones.

The global cell phone business has been in a funk lately, with handset sales off 11% this year—a serious downshift from the double-digit expansion of recent times. Samsung Electronics, though, has bucked the trend, boosting sales 7% in 2009 without denting its 10% profit margins. That has helped the Korean giant increase its worldwide market share to 19% and cement its position as the No. 2 player globally, behind Nokia (NOK), with 38%. Samsung's reaction to the good news? "We have a long way to go," says J.K. Shin, the company's new handset business chief.

Sure, there's a big dose of traditional Korean modesty in Shin's fretting. But while Samsung is the top brand in the U.S., Shin is worried that the company remains a laggard in two key segments: high-end smartphones and ultracheap models for developing countries. In smartphones, Samsung has just 3.5% of a world market that's likely to grow 31% this year, according to researcher Strategy Analytics. At the low end, Samsung still trails Nokia badly. In India, its share is less than 10%, vs. Nokia's 58%. And of the 150 or so new models Samsung will introduce this year, only a half-dozen cost less than $100.

Cool factor

To make sure those shortcomings don't balloon into real problems, Shin has crafted a two-pronged strategy to make Samsung a player in both segments. In the crowded field of smartphones, Samsung aims to boost its cool factor with the Jet, a touchscreen model unveiled in June that looks a lot like the iPhone. And taking a page from Apple (AAPL), in a few weeks the company plans to introduce its own "app store" in Europe, where it will offer programs designed to run on the Jet and other smartphones. Over the next few months, Samsung will roll out similar Web sites for other regions. While manufacturing remains a top priority for Samsung, "our focus is shifting toward software," says Shin.

The Jet has a lot going for it. It's faster and has a sharper display than Apple's handsets but will be priced at least 20% cheaper than the latest iPhones. The problem lies in the software available for the Jet. The iPhone's app store, where third-party developers offer thousands of nifty programs, gives Apple a huge advantage. Although half of Samsung's researchers are software engineers, the company has long refrained from selling content or applications "to avoid creating friction with mobile operators," says Kwon Kanghyun, head of Samsung's content service team. Now that Apple has broken the carriers' monopoly on content for phones, Samsung is prepared to offer similar wares, Kwon says.

Risk to earnings

At the low end, Samsung faces a different set of issues. There, the emphasis is on efficient production and distribution, which allow manufacturers to eke out a profit even on supercheap devices. In this area, Samsung has shown decent progress. Over the past two years, the company has expanded its retail networks and introduced simpler models made in new, low-cost factories the company has opened in Brazil, China, India, and Vietnam. In China, where it spent heavily on ads during the 2008 Beijing Olympics, Samsung's overall market share rose to 22.4% in the first half of this year, from 17% a year earlier, according to German researcher GfK Group. And its market share in Africa soared to 17% in 2008 from 6% two years earlier, Strategy Analytics says.

Still, Samsung faces high hurdles before it can even think about unseating Nokia. Despite Shin's ambitions, Samsung's record in software is far from stellar. And its chances of attracting anything close to the number of developers who are working on applications for the iPhone are slim. With its aggressive pricing and marketing push, meanwhile, Samsung risks cutting into earnings. Nevertheless, the Samsung phone chief isn't deterred. Says Shin: "We'll make noticeable progress soon."

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