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Apple and Samsung's symbiotic relationship

Slicing an Apple

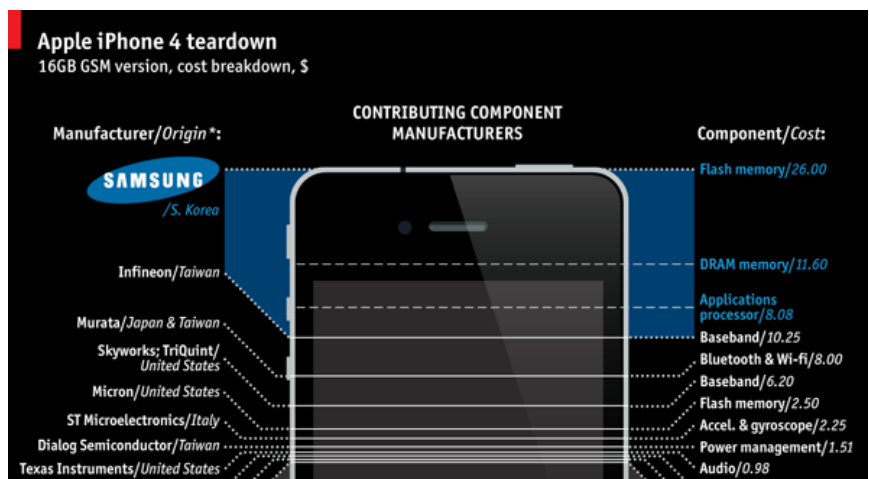
Aug 10th 2011, 15:04 by P.K.

How much of an iPhone is made by Samsung?

APPLE doesn't make the iPhone itself. It neither manufactures the components nor assembles them into a finished product. The components come from a variety of suppliers and the assembly is done by Foxconn, a Taiwanese firm, at its plant in Shenzhen, China. The "teardown" graphic below, based on data from iSuppli, a market-research firm, shows who makes what inside the iPhone, and how much the various bits cost. Samsung turns out to be a particularly important supplier. It provides some of the phone's most important components: the flash memory that holds the phone's apps, music and operating software; the working memory, or DRAM; and the applications processor that makes the whole thing work. Together these account for 26% of the component cost of an iPhone.

This puts Samsung in the somewhat unusual position of supplying a significant proportion of one of its main rival's products, since Samsung also makes smartphones and tablet computers of its own. Apple is one of Samsung's largest customers, and Samsung is one of Apple's biggest suppliers. This is actually part of Samsung's business model: acting as a supplier of components for others gives it the scale to produce its own products more cheaply. For its part, Apple is happy to let other firms handle component production and assembly, because that leaves it free to concentrate on its strengths: designing elegant, easy-to-use combinations of hardware, software and services.

Stranger still, Apple sued Samsung in April over the design of its Galaxy S handset (a smartphone that bears a strong resemblance to an iPhone) and its Galaxy Tab tablet computer (which looks rather like an iPad), claiming that they copied hardware and design features from Apple products. Samsung retaliated by counter-suing. In the latest twist, Apple has just gained injunctions to prevent

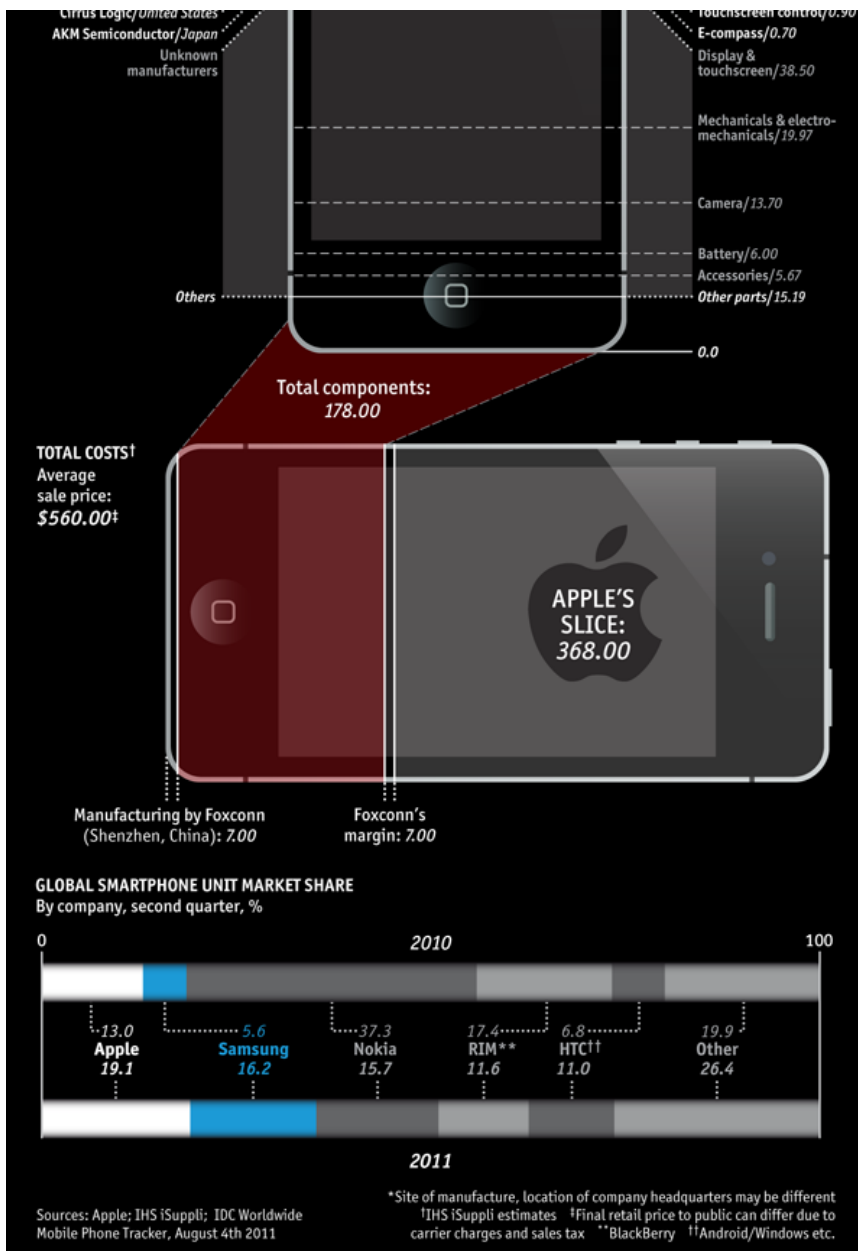


the sale of Samsung's Galaxy Tab in Europe and Australia. But the two firms' mutually beneficial trading relationship continues.

The second part of the graphic shows that, beyond manufacturing and component charges, the lion's share of the iPhone's \$560 price tag goes to Apple, though just how much it spends on software development, R&D, marketing, shipping, packaging and so forth is unclear. But Apple now commands the largest slice of the handset industry's profit share (http://www.economist.com/blogs/dailychart/2011/02/mobile-phone_market), so its margins are still impressive even when these costs have been taken in account. Apple also became the world's largest supplier of smartphones in the second quarter (see chart), with Samsung in second place. And on August 9th, the same day as its victory over Samsung in the European courts, Apple even briefly surpassed Exxon Mobil to become the world's largest company

(<http://www.economist.com/blogs/schumpeter/2011/08/american-business>) by market capitalisation. So although Apple does not actually make the iPhone, it certainly makes a lot of money from it.

Read on: **Fourteen years after teetering on the brink of bankruptcy, Apple briefly becomes the world's biggest public company** (<http://www.economist.com/blogs/schumpeter/2011/08/american-business>)



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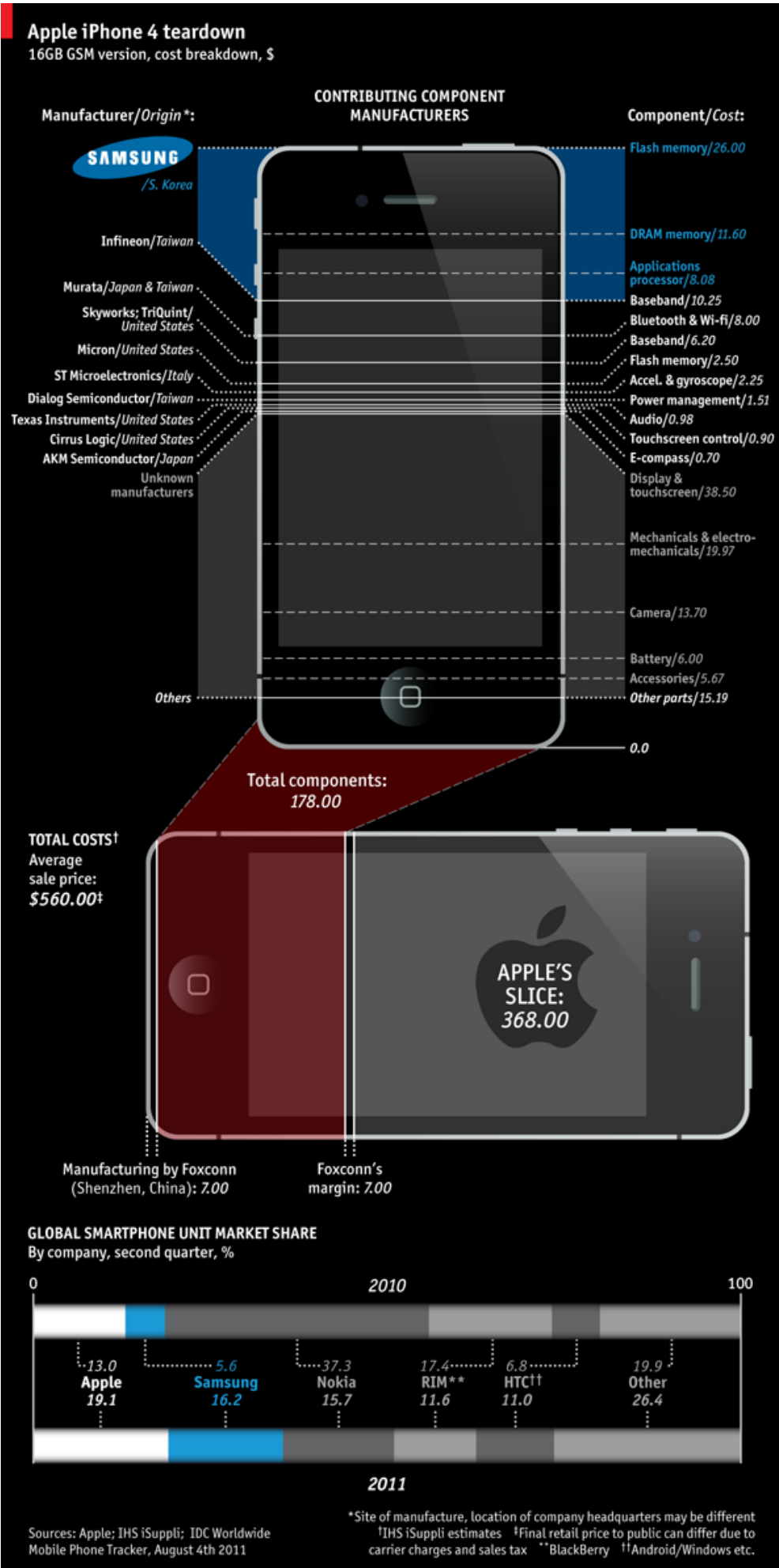
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