Who benefits when you buy an iPhone?

by Scott Tong
Marketplace for Wednesday, October 28, 2009

TEXT OF STORY

Kai Ryssdal: If you think sales of the iPhone have been strong so far — they have. There are more than 20 million of 'em in circulation. You ain't seen nothin' yet. The iPhone goes on sale in China on Friday. Talk about expanding your market: half a billion Chinese use cellphones. You might think China's already seen some of the benefits of the iPhone phenomenon. Factories there actually make the thing, after all. But that's just the first step in a very long iPhone supply and profit chain. Our man in China, Scott Tong, has more.

SCOTT TONG: When you buy an iPhone, who in the world profits? Let's start by ripping the phone open and looking inside.

KYLE Weins: So the first thing you do is remove those two screws.

Kyle Weins takes apart gadgets for a living. His California company iFixit sells spare parts for computers and cellphones. Weins peeks inside at what he considers the coolest piece of the iPhone: the touchscreen.

Weins: And that is a whole bunch, and by a whole bunch I mean hundreds of thousands of little capacitors that are baked into the back of the glass.
The touchscreen digitizer costs Apple an estimated $27 each. It's made by Sharp, from Japan. And that country is one of the winners in Apple's global supply chain.

So we pause for a Japan moment, courtesy of this Japanese hit song at the Apple iTunes store.

Another Japanese firm, Toshiba, supplies the iPhone flash memory chip.

Here's Syracuse business professor Jason Dedrick.

**JASON Dedrick:** The underlying technology and knowledge and innovation is much more concentrated in Japan because you have companies that have been leaders in a lot of these fields for a long time.

Exactly how much suppliers get paid from Apple is a secret, but Dedrick tries to make estimates.

His best guess is Japanese firms rake in somewhere around 14 percent of the total profits. That's about one slice out of eight in the apple pie.

**Weins:** And now I can see what is on the board itself.

Electronic dissector Kyle Weins is now in the inner sanctum of the the iPhone: the motherboard. He's looking at a chip with a code number on it.

**Weins:** K2132. And when I see that number a little chime goes off in my head, because I know that K2 marker at the beginning means that it's a Samsung chip.

Samsung from Korea.

Jason Dedrick at Syracuse thinks Korea gobbles up one or two slices of the profit pie. And the one place we haven't talked about yet is China.

That's where all the iPhone components around the world come together and get assembled. And it turns out Chinese factory workers only get a few crumbs.

**Dedrick:** Well, China mainly just gets the wages. And that's really not much, that's probably a few dollars per phone.

About $4 for every iPhone that sells for $300 or more, which leaves a whole lot of the pie for the biggest winner: California-based Apple.

Dedrick estimates it gets as much as half the profit for every gadget it sells. That's because Apple creates and designs things -- that's where the real money is. And the best jobs.

**Dedrick:** High level management jobs, engineering, R and D. Apple tends to be very U.S. centric, so a lot of their high-value activities, they tend to keep pretty close to their home base.

From China's perspective, here's the moral of the iPhone story: the dominant players in the global economy are the inventors and the brand owners: whether it's electronics, or cars, or clothing.

Zheng Chen Ai owns a garment factory in the Chinese city of Wenzhou. He says the Chinese need to move up the ladder in the global economy.
Zheng Chen Ai: So the next step for us is to build our own brands. But we face challenges. We need more talent, good designers, and more innovation. It doesn't come overnight.

That reality hits home Friday, when the iPhone hits the Chinese market. And most of the spoils go to the U. S. of A.

In Shanghai, I'm Scott Tong for Marketplace.

RYSSDAL: Tomorrow on the Marketplace Morning Report: the Chinese factory workers who put the iPhone together.

About the author
Scott Tong is a correspondent for Marketplace's sustainability desk, with a focus on energy, environment, resources, climate, supply chain and the global economy. Follow Scott on Twitter @tongscott

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forrest preston - Nov 9, 2009

You want the American public to 'prosper' from the manufacturing of the iPhone? Lower the US government mandated wages/benefits to be the same as workers in China. Of course the administration that does that will be voted out. Bottom line: World economy; US can no longer support 'economically worthless people'.

Chuck Allanson - Oct 31, 2009

"Japan and Korea produce parts, China assembles, and Apple designs."

Just to add heft to Mr. Sticklen's point, those Japanese (Toshiba) and Korean (Samsung) parts weren't just produced. They too were designed and engineered.

Francisco Barreto - Oct 29, 2009

"And when I see that number a little chime goes off in my head, cuz I know that K2 marker at the beginning means that it's a Samsung chip."

Cuz? Come on, Marketplace! If you're going to provide a transcript, the least you can do is ensure that it's in proper English.
Jon Sticklen · Oct 28, 2009

This story on the "pie" making up an iPhone is a stunningly good example of how the playing field in engineering has changed. Japan and Korea produce parts, China assembles, and Apple designs. And Apple reaps the lion's share of the proceeds. American engineering is still about design (as it always has been) but it is increasingly not about material product production. As an educator in a college of engineering, I feel both a responsibility and an urgency to take part in a rejuvenation of undergraduate engineering education that takes into account the new reality of the global economic world. The "winers" in this new, very global world will be the designers and the integrators. Broad engineering understanding and problem solving skills are needed. Apple definitely understands the need for "Renaissance men and women" in engineering.