

Identify Globalization Challenges Based Smart Phones Industry From China : Case Studies Samsung

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ABSTRACT: *The study of this case study is to identify strategies of Samsung products of the mobile market in the face of competition and challenges from China. Base on observations from the case Samsung will identify constraints and recommendations of the strategy Samsung which were derived from this analysis according to market trends. This case study found that Samsung set the strategy for facing challenge competitors who are players in the same industry that mobile device manufacturers are cheaper in the segment of the same products from china. Samsung must face competition when its products face competitors like China that offer mobile products cheaper to compete in the international business arena. In international business, firms always have to deal with unexpected challenges. Some challenges are manageable, while other may badly affect the company. Uncontrollable events like natural disasters and political turmoil are difficult to forecast and avoid. The three main challenges that international firms may encounter are physical, social and competitive challenges. Finding in case study Samsung according smart phone challenges from China is competitive challenges. Finally, suggestions for portfolio strategy Samsung will be explained in conclusion.*

Keywords: *International business, globalization, challenges, concept paper*

I. INTRODUCTION

Samsung Electronics Co., Ltd. is a multinational electronics company in South Korea. Through relentless innovation and research, the company continued successful growth and enhance the brand image in the global market, ranking 7th in the best global brands Interbrand 2014 Samsung Electronics aspires to create a new technology that inspires the world. To generate this innovation, the company operates more than 30 R & D centers around the world. In 2012, it invested US \$ 10.8B in R & D, with more than 60,000 employees worldwide dedicated to developing future technologies. (Philips, 2013) It is the largest information technology company in the world. the company achieved a net income of US \$ 26.2B in sales of US \$ \$ 268.8B in 2013. Its main products are the users, IT & Mobile Communications, and has production plants and sales network in 80 countries and more than 370,000 employees worldwide.

Samsung has recorded huge growth in sales and profits it after entering the era of smart phones. Samsung is able to compete with global suppliers such as Apple, Samsung also emphasizes the development of high-end products to its product portfolio in the segment of affordable. This successful strategy to increase revenue and market share of Samsung in the early stages. However, the emergence of China as a vendor in the global mobile device market led to Samsung have struggled to maintain its market share in the market of the device. Samsung has been invaded by cheap Chinese appliances segment was attacked affordable Samsung. Samsung's strategy to use economies of scale and the halo effect of the initial model is not effective to compete with Chinese price competitiveness. Samsung to build new sustainable portfolio strategy and portfolio of integrated services platform begins when the dynamic aspects of competition and the growing importance of the platform.

In June 2010, Samsung's early smartphone portfolio strategy launching the Galaxy S (19000), Samsung started to develop its Android smartphone portfolio in earnest. Samsung also had Symbianbased PDAs and smartphone lines before introduce android. However, the Galaxy S was launched as a flagship model in 2010. Sales of Galaxy S surpassed 10 million units in seven months. Cumulative sales are 25 million units. The Galaxy S2 broke that record in five months to reach 10 million sales units and 40 million cumulative sales. The third one went beyond record. Launched in May 2012, the Galaxy S3 sold 10 million units just in 50 days and surpassed 20 million sales in 100 days only. It took seven months, less than a year, to reach sales of 40 million. The next generation still recorded the shortest time to reach 10 million sales but overall sales growth has slowed.

II. FINDING

Strategy to Expand Mid And Low-End Smartphone Segments

Samsung's strategy to expand its smartphone portfolio to a range of low and mid-end also contribute to increase its market share as well as revenue and profit. However, as consumer electronics such as mobile devices become commodities, increased price competition and lower margins. After launching the Galaxy S in 2010, mobile devices have increased their share of revenue and profit in Samsung internally (up 60.7% and

67.8% of revenue and profit, respectively), and also in terms of the absolute amount of money. Galaxy Mini and Y were launched in the first and second half of 2011, respectively. It targeted the entry market where feature phone users moved to the smartphone segment for the first time. These products had a smaller display size around 3.0" and basic features for Android OS to match its affordable price. This strategy of expanding its portfolio was so successful that Samsung took the first position in the smartphone market against Apple from 2011. While Apple sold its iPhone series only in the premium product segment, Samsung provided various products with a wide range of prices and specifications. With this product portfolio strategy of providing a wide range of models, Samsung could keep its momentum in the mobile devices market from the second half of 2011.

Strategy to Provided A Wide Range Of Smartphones With Various Specifications And Prices

The other Samsung's strengths is large and diverse manufacturing base. (Loo, 2015) Samsung occupies several affiliates related to components of mobile devices unlike competitors who outsource most components to third parties. It has 6 manufacturing plants only for mobile devices around the world, including Korea, China, Vietnam, India and Brazil. These factors allow to Samsung establish economies of scale and control costs. Samsung outperformed with good quality and price competitiveness by R&D investment and mass production system at product maturity stage rather than leading innovation at the early stage. It provided a wide range of smartphones with various specifications and prices. Samsung launched the "Mini Series" in 2012. Galaxy III Mini was a sub brand of Galaxy S III. It had a similar platform and design identity as the flagship model, but had lower specifications such as smaller display and lower camera resolution. It was aimed to take a halo effect from the flagship model. This strategy that utilized derived products applied a strong brand image and power of expansive products to less expensive items. This lower price product was targeted to make consumers have same image and expectations as the Galaxy S III by utilizing a powerful brand image. It was aimed at satisfying two consumers' expectations: price and product functions.

Challenges from Chinese Vendors Provide Hardware Specifications At Affordable Prices

The main reason for Samsung's loss is its inappropriate strategy in the mid-endsegment. Compared to the Chinese local vendors' products, Samsung provided lower specifications at higher price in China market. Chinese vendors started to provide premium hardware specifications at affordable prices using improved technology and with cheaper local supply chain of components. Therefore, Chinese consumers started to choose higher specifications. Samsung is trying to recover its market share by launching mid-priced smartphones such as the Galaxy A Series. However, these products are still positioned in a higher price range than local products.

The fierce competition in the mid and low-end smartphone segment would be expected to lead Samsung to a chicken game of losing its own profit, like in the semiconductor industry. Therefore, the success of lower price range smartphones depends on creating other added values besides prices. (Song, 2014) Samsung's operating margin of the IM division in 2014 dropped significantly to 13%, compared to 18% in 2013. The main reason was lower sales records of the Galaxy S5 and the rise of mid-priced smartphones in China. (Song, 2014) The Mini Series was also affected by poor reputation of the flagship model. It showed that losing the leading position in mid-priced segment brings about a loss of profits.

In addition, the increase in Chinese companies in the market have intensified the price war in the market for entry-level devices. In addition, major manufacturers in China has been developing mobile communications technology to compete with multinational players such as Samsung and Apple. Samsung has been struggling to maintain its market share in the market, faced with the challenge of Chinese competition. As a result, revenue and profit share of IM decreased to 19% and 42% in 2014, respectively, compared to the previous year, and the ratio of the income and profit IM accounts in Samsung fell to 54.2% and 58.2%, respectively. The recent crisis in the business of mobile device that has been the core business units are profitable for Samsung indicates that it is time for Samsung to find new strategies for sustainability. Use the "Insert Citation" button to add citations to this document.

Chinese companies have been successfully targeting the Chinese market on the basis of their competitive advantage as local companies. The Chinese companies could take advantage of good relationships with Chinese carriers, offering well-customized products with low cost of material and labor based on domestic production. They have a relatively high brand awareness and better distribution channels than multinational competitors in China. Moreover, they overcame their technological weaknesses against Samsung and Apple because the market's main demand in China was for mid and low-end range, not high specification smartphones. China is the No.1 smartphone producing country and has the most suppliers of components. Therefore, Chinese vendors can supply most the components in local. In addition, China has high competitiveness in components that require relatively low technology such as battery, case, speaker, etc. The Chinese government has expanded its supporting policies and investment for the mobile device business and communication technology. China has decided telecommunication and information industry as the main industry to enhance competitiveness in the

global market. It organized the "IMT-2020 Promotion Group" in February 2012 in order to develop 5G technology. (Kim, 2014)

Emerging Market Strategy

As the matured market is saturated in developed countries, the emerging market is becoming a target group for higher margins and volumes. Mobile device manufacturers have paid attention to the emerging market with more potential customers as a new target group because demand in developed countries is becoming more restrictive to grow. According to Counterpoint and Hana Daetoo Securities Research Center, the penetration of smartphones in developed countries is reaching to almost 88% while the penetration in developing countries is below 70% of the global average. (Kim, 2014) The developed market is depending on replacement demand for sales. Therefore, the emerging market is becoming the main driver in smartphone sales growth. Even though the Chinese market is expected to show slower sales growth in the long run, the country's vast population will generate volume growth. (Golovko, 2014) In China and in India, mainly with a younger generation, a significant number of feature phone users are trying to upgrade to the smartphone segment. Several vendors are targeting this consumer group who are interested in the latest technology but with a low budget by providing various models at a cheaper price. (Pandey and Nakra, 2014)

From 2012, the global smartphone market has been deployed with competition between Samsung and Chinese vendors include Apple are in hot pursuit. Sales and profits of earlier champions such as Nokia or HTC are slumped while Chinese vendors show a steady growth trend. Huawei, ZTE, Lenovo, and Xiaomi have come to the front in the global market. The rapid increase in low-end smartphone sales has driven the growth of these players. According to Gartner's findings in 2014, Samsung sold 73.2 million smartphones worldwide during the third quarter of 2014; shipments were down from the 80.4 million in the third quarter of 2013. While Samsung is struggling, Xiaomi's sales record has risen to 15.8 million units from 3.6 million during the same period. They secured fourth place with 5.2% market share worldwide in the fourth quarter of 2014. (Reisinger, 2014) Chinese vendors, Huawei, Lenovo, and Xiaomi have expanded global market share at around 5% which is a similar level as LG. However, this expansion is based on the growth of the Chinese domestic market. According to CCS Insight, in 2013, the Chinese market increased 76% than in 2012, from 168 million to 296 million. The Chinese smartphone market occupied around 29% of the global market in 2013, increasing from 23% in 2012.

III. CONCLUSION AND RECOMENDATION

Samsung has occupied the No.1 position in the global market just after its transition to the smartphone portfolio. However, the smartphone market saturation is causing a shift towards low cost competition. From the recent successful case of Xiaomi, Samsung needs to spread its own ecosystem to consumers to confirm its competitive edge with attractive product marketing strategies. Samsung needs to find a new strategy to sustain its revenue growth. Upon the same operating system which is open for everyone, Samsung should attract more customers by very limited differentiating points.

The structure of Samsung Electronics is based on the balance of each division, such as semiconductor, mobile phones, and digital home appliances. The business fluctuations in the IT industry are so unpredictable that it seems risky to put all the resources of the company into one singular item. From this perspective, Samsung has the comparative advantage to spread the risks by diversifying their businesses and to cooperate with each other. (Jiwon Han, 2004).

Recommendation for Samsung's product portfolio strategy, Currently more than hardware sales, contents and services are becoming the main source of big revenue and profit. (Loo, 2015) As in Apple's success, controlling software is a key factor of the company's success these days. Many successful companies in the IT industry possess platforms in the eco systems like Google and Apple. Apple has established a concrete ecosystem to seize power over content and services in the applications market.

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