

# Business issues: samsung in china



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To identify and understand the international business issues recently faced by Samsung in China and how do they react as well as to remain competitive against its competitors over the years through the use of international marketing strategies based on different factors which would influence the movement throughout the globe.

Design/methodology/approach: The approach is used to study and illustrate the real world situation where organizations being in the electronics industry face high intensity and problems as it impacts the market as a whole.

Findings: The main findings are based on the various tools to identify and evaluate the different strategies, factors, and conditions for going abroad in order to capture a larger market scale and segmentations.

Practical implications: The tools used have different characteristics that explain into different forms which can be used to study the strategic movement and what gives Samsung a competitive advantage.

Originality/value: The paper is specifically focused on the evaluation of business strategies based on the different tools for long-term growth and sustainability.

Keywords: Globalisation, competitive advantage, innovation.

Paper type: Research paper.

## **2. 0 SUMMARY**

Samsung Electronics Company is a company operating in the electronics industry for consumers' goods, one of which is mobile devices. Furthermore,

they have made successful comebacks in terms of their mobile devices where it accounted a high percentage of users that uses Samsung brand that comes with many different models. In the past, Samsung may not be the best-selling brands for mobile devices unlike the Nokia, and Sony Ericsson because they were not as competitive in terms of quality, product innovation, and features that able to meet the needs of consumers.

Apart from that, China has been a large market for electronics and Samsung is able to capture a wide market scale in China by investing into research and developments to enhance in electronic products such as LCDs and other home appliances, moving away from being just a mere manufacturers for OEM or in other words, producing products out from component parts bought from other companies. On top of that, information technology changes rapidly and they would need to follow the pace based on consumers' preferences to achieve long-term goals and sustainability.

However, there are international business issues which recently faced by Samsung in China due to the allegations that child labour were used and Samsung have been accused for exploiting younger workers. Therefore, this would affect its reputable image and brand yet along being sued recently by Apple for infringement of its patent.

### **3. 0 INTRODUCTION**

Samsung Electronics Company has one of the best-selling phones in the world amongst other electronic hardware where it has made its way globally throughout various markets by having an established supply chain and manufacturing plants in China and many other countries. Furthermore,

Samsung has made its effort by marketing its product with the initiatives to capture a larger market share. However, countries that have different political regulations and stability, cultures, factors and conditions, and so forth would affect the strategic movement for Samsung, for instance in China which were accused for using child labour and violating human rights.

Based on the issues as per above mentioned, China market can be analysed through the use of these management tools that comprises of the Michael Porter's PESTEL Analysis and Porter's Diamond to determine the external environment, the Five Forces for the industry, Competitor Analysis, Marketing Analysis, as well as Internal Analysis through the use of SWOT and Hofstede's Dimensions. These tools were essential to understand the environment from all aspects in another market as well to identify its competitive edge against its competitors and other markets globally.

On top of that, Samsung has applied its innovation into its technology and the human capital would be a major aspect in terms of potential capabilities to perform (Anwar, 2007). This is to enhance its brand recognition in terms of product development and innovation for sustainability.

#### **4.0 COMPANY BACKGROUND**

Today, Samsung Electronics Company manufactures electronic products which include mobile devices whereby Samsung was first founded by Lee Byung-chul back in year 1938 in Taegu, Korea. Samsung was first started out as trading company which exports groceries products to China and has become a multinational corporation today. In 1958, Samsung expanded into industries such as ship building, chemicals and so on throughout the 1970's

before moving on through the decades to year 1969 whereby Samsung Electronics was formed to create business opportunities by acquiring business establishments such as the insurance company, hospital, department stores as well by producing electronics which includes mobile devices which what Samsung is famous for (Murat, n. d.).

Next, the successes Samsung had from its technological aspects in the DRAM industry for computing experience throughout Samsung Electronics has made a higher growth and sales in terms of product development and by marketing them out in massive quantities to other countries which made way for expanding abroad. On top of that, Samsung has an excellent method of quality and product development which controls and innovates new products whereby Samsung also hires the finest workers that hold a PhD and that's no surprise because Samsung's company assets is accounted about \$300 billion (Lero, 2008). Up to today, Samsung retains the status of "world's best" technology that provides constant improvement to contribute to the society as qualified workers would also play a major role for excellence in their respective fields (Murat, n. d.).

However, there are problems which Asian economic crisis and how do they survive as well as the recent lawsuits for the infringement of intellectual property and the allegations of child labour used whereby the current chief executive officer (CEO) of Samsung, Shin Jong-kyun embattled with its competitors.

## **5. 0 EXTERNAL ENVIRONMENT ANALYSIS**

### **5. 1 Michael Porter’s PESTEL analysis**

#### **5. 1. 1 Political**

In political factor, Samsung have to take cognizance of policies regulated in different countries. For instance, some governments may protect their local brands in the electronics industry and therefore impose a higher tariff or restricted quota for importing abroad. This is because some competitors may have government contracts and Samsung has to distinguish its products to compete with competitors. However in China, the China Labor Watch is taking initiatives towards the allegations of child labour below 16 years of age and exploiting younger workers seriously whereby it would affect Samsung’s image and branding as well of its suppliers which were accused as well (Arthur, 2012).

#### **5. 1. 2 Economic**

Next in economic, Samsung have suffered from the Asian economic crisis back in year 1997 which resulted in a negative net profit even though Samsung made \$16 billion out from sales and the dismissal of 29, 000 employees (Quelch & Harrington, 2008). Therefore, consumers’ spending was affected as well due to a lower disposable income which resulted from a high unemployment rate in some countries. On top of that, the economy recession in countries such as in the U. K. has made an impact on Samsung being in the electronic industry as U. K. is one of the modest countries that follow the up-trend technology. Apart from that, the market in China is huge whereby the Asian economic crisis have made a high impact towards Samsung.

### **5. 1. 3 Society**

In society, more people which includes the younger generation even demand for a smartphone thereby increasing the sales. Thus, people in developing countries would have a higher demand and Samsung would have to segment certain groups of consumers based on the applications available through the product. Therefore, Samsung have to take this advantage to continuously innovate and develop its product to remain in the competitive market.

However, there are allegations in China that younger generation were also being exploited to work more 100 hours overtime in a month and that would violate human rights and it could result in consumers' boycotting on Samsung products (Arthur, 2012).

### **5. 1. 4 Technological**

This is one of the most important factors in the electronics industry as it demands for new features and specifications that meet consumers' needs. For instance, Japan being one of the most advanced country would seek technological improvements for convenience and thus able to make their lifestyle into perfection. Besides that, wireless networks and data transfers improvement are one of the most basic needs for consumers which Samsung could take advantage in countries that has a high bandwidth wireless connection.

### **5. 1. 5 Environment**

Next in environment, Samsung would need to foresee its weather in certain countries because it may affect its manufacturing plants. Furthermore, Samsung would need to take the society and natural environment into consideration due to the pollution and the emission of fumes from factories.

In China, the weather and pollution index is bad which would result in society protesting towards more manufacturing plant in China that would be detrimental to their health.

## **5. 1. 6 Legal**

In legal, more and more companies are seeking to protect their intellectual property rights such as Apple Inc. that recently sued Samsung for infringing its design and other features. On top of that, human rights have to be protected whereby a woman in China has brain cancer due to the fact that she was exposed to toxic chemicals for half a decade in her employment. Therefore, it could tarnish Samsung's image for profit rather than people's concern as allegations has been made towards Samsung in China for exploiting workers (Globalization Monitor, 2012).

## **5. 2 Michael Porter's Diamond**

### **5. 2. 1 Firm Strategy, Structure and Rivalry**

Taking China as an example for expanding abroad, Samsung is able to capture a large market in China as China is well populated thus it's cost-efficient due to shipping costs and close proximity. In the other hand, Samsung joint ventures with Corning in regards to the new Chinese LCD facility so that Samsung can understand the Chinese cultures and compete with its competitors (Matt, 2012).

### **5. 2. 2 Demand Conditions**

In the demand conditions, consumers' disposable income has to be monitored and the Chinese may have a higher disposable income due to the growing economy in China. On top of that, Samsung have to forecast



consumers' preferences based on their cultures to fit into the products, for instance home appliances that fits into their homes which are used to be much smaller in size unlike in the western homes.

### **5. 2. 3 Factor Conditions**

Samsung have accounted a huge percentage of consumers based in China and it gives an advantage in terms of logistics and human capital. For instance, South Korea ports would give cost efficient for shipping products and have the policies to trade with China. In the other hand, Samsung is able to save cost through cheap labour and the hiring of knowledgeable candidates from universities from a larger market in China (Dilipnaidu, n. d.).

### **5. 2. 4 Related and Supporting Industry**

The supporting industry such as Tesco has given share partnership to Samsung as they are mutually beneficial in the retailing industry. On top of that, Samsung has lots of OEMs in Asia and infrastructure support in China which is at an advantage in terms of resources and logistically in specific geographical locations.

## **6. 0 INDUSTRY ANALYSIS**

### **6. 1 Michael Porter's Five Forces**

#### **6. 1. 1 Buyers**

The bargaining powers of buyers are high due to the fact that consumers can easily change to other competitor's products. Therefore, Samsung strive to keep cost low at bay as much as possible and by doing so, they are able to capture a larger market share as China is well populated. However, switching cost can be high because some consumers may want to change to a newer

phone whereby the old ones are still under contract. Thus, people in China would tend to always have the latest gadget due to high disposable income which would also result them a high switching cost unlike the home appliances where people have a longer time frame of using them but there are many other competitors producing them as well.

### **6. 1. 2 Suppliers**

The suppliers have a low bargaining power in the sense that Samsung itself is the suppliers for component parts such as DRAM computer chips and so forth. Therefore, they have a cost advantage and able to retain its originality. However in the electronics industry as a whole, the bargaining powers of suppliers are high due to other parts required to produce its other electronic hardware (Huvard et al, 2011, p. 8).

### **6. 1. 3 Threat of Substitutes**

The threat of substitutes is high as there are many other smartphones available that could perform the same features and applications. For instance, Apple and Nokia smartphones could perform as similar to Samsung's and they are competing in terms of quality and innovation, thereby they would look like the same. However for older generation users, the threat of substitutes would be much higher because most of them are not IT literate and would spend less to get cheaper phones which would be a threat to Samsung as well. In the other hands, substitute products for home appliances amongst others are high as well. Not to mention about China phones whereby China used to imitate products into a different brand thus resulting to a higher threat of substitutes.

## **6. 1. 4 Intensity of Rivalry**

The intensity of rivalry is high because there are many other competitors in the market such as Apple Inc. in the smartphones industry as well as Sony in the home appliances products (Huvad et al, 2011, p. 9). On top of that, the market structure of Samsung is monopolistic competition whereby they do not compete in price with the competitors, but compete in terms of innovation, product development, and which performs better with one another because consumers tend to get the one that performs best for them. Thus, the rivalry is strong in China because it's a large market whereby all competitors have expanded there.

## **6. 1. 5 Threats of New Entrants**

The threats of new entrants are very low because a very high initial investment is required for research and development to compete with the existing competitors. Today, Samsung have made a great achievement in product development and it's very difficult for new entrants to keep up with the pace as well of issues for protected intellectual property. Furthermore, consumers' loyalty would form a stronger barrier of entry and thus difficult for new entrants to compete (Chan et al, 2011, p. 12).

## **7. 0 COMPETITOR ANALYSIS**

In order to compete in a large market such as in China, Samsung have to analyse its competitors in order to understand their objectives, strategies, assumptions, as well as the resources and capabilities to perform in China and other countries (NetMBA, 2012). Thereby, competitors in the mobile industry one of which is Apple Inc. and Sony for other electronic appliances

has created a high intensity for Samsung to keep pace with the moving technologies before they are left behind.

## **7.1 Competitor's Strategy**

Thus, it's important to understand their strategies and to keep track with latest updates. For instance, competitors tend to advertise to promote its products and Samsung has to understand its strategies out from it. However, Samsung has made good strategy in terms of advertisement whereby they use Korean pop singers and dancers in music videos to advertise its products. Furthermore, China is keen to Korean stars and therefore would be influenced to Samsung smartphones which would be a competitive advantage as well.

## **7.2 Competitor's Objectives**

All competitors have different objectives in which to capture a larger market share particularly in China. For instance, Apple Inc. has an objective to develop the best computers and software to meet the needs of consumers even in future as well to align with the rapid change of technology (Apple, 2012). Therefore, Samsung have to take initiative to plan and develop its product for distinguishing itself than its competitors.

## **7.3 Competitor's Assumptions**

It's important to assume certain movement on competitors to keep pace with the market. For instance, Apple Inc. have recently marketed its new iPhone 5 that comes in with better specifications for four cores processors due to the fact that the previous model has only two cores and the rumours for Samsung's smartphones have a slightly wide screen. Therefore, Samsung

would be able to foresee the coming strategies for Apple Inc. in terms of product development in which Samsung could develop a much better smartphone. However for Sony in terms of other electronic appliances, Samsung have to determine the household needs for consumers to market its products.

## **7. 4 Competitor's Resources and Capabilities**

In terms of competitor's resources and capabilities, Sony for instance may have resources by venturing into China market and the capabilities to produce highly technological products for developments because Sony is originated from Japan which is known as an advanced technology country. Therefore, Samsung has to compete in terms of its capabilities and to understand the extent they would pursue.

## **8. 0 MARKETING ANALYSIS**

### **8. 1 Market Segmentation**

#### **8. 1. 1 Geographic Segmentation**

Samsung have segmented its market geographically in China particularly in urban areas due to the population density and the need for consumers to use smartphones for their daily routine. Therefore, there would be high demand for smartphones and other electronic products which would result of Samsung exploiting workers to work more than 100 hours per month over time to meet the higher demand of consumers (Arthur, 2012). However, Samsung do not really segment markets in rural areas due to the fact that most people are not IT literate and therefore do not need smartphones, except for home appliances that may be useful.

### **8. 1. 2 Demographic Segmentation**

In demographics, Samsung targeted young generations in particular and working adults for smartphones as well as housewives for home appliances. This is because the younger generations regardless of its gender, and occupation, there are likely to get themselves a smartphone for some reasons. Furthermore, Samsung also segment its market based on an average or high income level because its products are priced at a certain level whereby some groups may only able to afford them.

### **8. 1. 3 Psychographic Segmentation**

Based on the consumers' activities and interest in China, they are active in their daily lifestyle and the smartphone would works best for them that made tasks easier and convenient for them to organize plans. Hence, their lifestyles are turning into one of the advanced country as well as the economy of China is growing which more people are moving forward towards information technology.

### **8. 1. 4 Behavioralistic Segmentation**

This is referring to consumers' behaviour in China based on the design, pattern, outlook, as well as the features available from the electronic products of Samsung. Thereby, Samsung would have to take this matter into consideration to gain a larger market share in China and other countries. On top of that, brand loyalty is indeed important as part of its competitive advantage over its competitors if they are able to distinguish its product and to meet consumers' needs. However, the allegations made to Samsung regarding the use of child labour and the exploitation of Chinese employees

in Samsung would create a bad image amongst the Chinese and would be detrimental in the long run if this matter persists.

## **8. 2 Marketing Mix Gap analysis**

### **8. 2. 1 Product**

Samsung has many different products and models based on the different categories such as smartphones, home appliances, televisions and so forth. These products were designed specifically to meet the needs of consumers but however the products target a wide range of market as a whole and may not focus on certain market niches. This is to avoid additional costs in terms of operations but Samsung have to keep pace with the competitors as IT is a trend that grows rapidly. Next, one of the best-selling products in Samsung was the smartphones whereby the recent news has reported that it has sold about 20 million Galaxy S III smartphones over months of marketing it globally (TheStar, 2012). Hence, this may cause the result for allegations made against Samsung by China Watch Labor for using child labour as well of exploiting employees in China for producing products in a higher capacity to meet the high demand for consumers.

### **8. 2. 2 Price**

In price, Samsung tend to lower its cost as well as prices of consumers' goods to remain competitive in the market. This is because consumers tend to look for products and features available in smartphones or other electronic appliances but they are likely to be similar to the competitor's. Therefore, Samsung have to take advantage in terms of price regardless of the physiological fact that higher price constitute better product unless the quality can proof for a better product. On top of that, Samsung is able to <https://assignbuster.com/business-issues-samsung-in-china/>

take advantage of its price by collaborating with service providers based on the contracts whereby consumers are able to apply for a phone line while having the product for a cheaper price.

### **8. 2. 3 Place**

Samsung has its manufacturing plants and suppliers within the supply chain all over the world in many different countries in order to go global. By doing so, they have an efficient flow in terms of resources and logistically. In China, Samsung has many suppliers to adapt to the broad geographical locations and to meet the high demand of consumers. On top of that, countries that have a growing economy would in turn be beneficial to Samsung for home appliances due to the fact that property prices would increase and there will be a higher demand for home appliances as well. Thus, Samsung is able to capture a higher market share due to the growing economy such as Australia and particularly in China.

### **8. 2. 4 Promotion**

In promotion, the Samsung had invested about billions of dollars into advertisement to promote its brand and products. For instance, Samsung used the Korean pop stars through music videos to promote its product due to the fact that Korean pop music videos are one of the most viewed on Internet due to its popularity regardless viewers being in Asia, Europe, and the Western countries. Thus, this would influence the consumers for the products based on the advertising strategy and on top of that, Samsung also had made great effort into corporate social responsibility to promote a better welfare of the society, apart from the allegations being made against Samsung recently in China.



### **8. 2. 5 People**

The people are referring to the staff and employees Samsung has throughout the globe and particularly in China. In China, Samsung is able to hire the skilled employee, for instance PhD holders from universities and on top of that hire cheap labour into manufacturing plants which able to save costs. Furthermore, there are many suppliers as they established a stable supply chain in the market.

### **8. 2. 6 Gap Analysis**

Based on the marketing mixes as per above mentioned, there are gaps in between its marketing strategy. One amongst others is the product and prices strategy whereby Samsung does not focus on low to no income level whereby young students were not targeted. This is basically important because they are influenced by the up-trend and they are likely to get its product. Thus, Samsung may be able to produce smartphones that may have the similar but less features and functions at a lower price for low to no income level in which their parents may afford one for their children. This is to capture a larger market scale and to establish consumers' loyalty as well to strengthen its brand.

Next, its promotional strategy whereby advertisements were meant to capture young to working adults' market groups but however elderly groups may not be influenced by these promotional strategy. Therefore, Samsung should have mixes of advertisement to show concerns for the older generation as they are part of the market group whereby they start using smartphones regardless of knowing how to use them or otherwise. This is

because they are following the up-trend from their children in terms of communication and the features available that make their life convenient.

## **9. 0 INTERNAL ANALYSIS**

### **9. 1 SWOT analysis**

#### **9. 1. 1 Strengths**

In strengths, one of which is the brand whereby Samsung have a strong brand recognition throughout the globe. Hence, almost everyone knows what Samsung is and what do they produce. Furthermore, the brand they had can be reinforced through the use of its quality and product innovation such as smartphones, and electronic appliances. On top of that, by venturing in China, there is a growing market in demand for smartphones in particular as well as other electronic products produced by Samsung. Therefore, Samsung is able to capture a larger market scale. Hence, not to forget about the diplomatic relationship China had with the capital city of Korea, Seoul which could be at an advantage at political regime (Anon., 2009).

#### **9. 1. 2 Weaknesses**

There are several weaknesses for Samsung such as the increased cost for investment into research and development which reduce the net profits for Samsung. Thereby, this could result in Samsung in hiring child labour as well to exploit employees in production facility based on the allegations made against Samsung recently. On top of that, Samsung may not be able to protect its product because China have imitated and produced its similar products with a different brand name in China, yet along market them out globally as well although the quality may not be as strong as Samsung's.

Furthermore, Samsung basically focuses on the whole market rather than market niches and may not fit its products with certain market groups.

### **9. 1. 3 Opportunities**

There are opportunities in China whereby it accounted a large market for consumers' goods and electronic products. Thereby, Samsung is able to gain its competitive advantage by venturing into China due to geographic location and the use of cheap and skilled labour. In geographic location, Korea is located near to China and therefore would give shipping and port advantage which would result in cost efficient which would be profitable due to the fact that China is a huge market and it's well populated. In the other hand, the use of cheap and skilled labour enable Samsung to save cost although they are allegations made towards the use of child labour against Samsung. Furthermore, skilled and knowledgeable employees can be hired through universities in China for their convenience.

### **9. 1. 4 Threats**

There are several threats in the industry one of which is the existence of its competitors. Samsung's rival such as Apple Inc. and Sony would be the biggest threat to capture a larger market in China. Therefore, in order to remain competitive, these parties would try to save cost so that they could have a larger investment into research and development to produce better products in terms of quality and innovation. Thus, this resulted in Samsung exploiting workers to meet demands of the market and was accused for using child labour and it will definitely affect Samsung's image and branding which would give an advantage for its competitors. On top of that, Samsung being the late mover in the industry would be a threat as well due to the

high intensity in the market inclusive of the Chinese competitors which accounted of a huge percentage of the market.

## **9. 2 Hofstede’s Dimensions**

Hofstede’s Dimensions were used to determine the cultural differences between two countries based on the 5 forces such as the power distance, the individualism versus collectivism, the masculinity versus femininity, the uncertainty avoidance, and the time orientation. Hence, the forces as per above mentioned can be determined by using the BRIC Geert Hofstede Scores to study the different cultures before going abroad. Thereby, this report is to study the cultural differences between Korea, and China for competitive edge.

### **9. 2. 1 Power Distance**

In power distance, the Chinese in China have a higher power distance compared to the Koreans BRIC Geert Hofstede Scores and this shows that the Chinese are aware of the higher authorities that make decisions knowingly that the higher positions have more experience and knowledge. Thus, their organizational structures would seem to be bureaucratic and the lower level employees may not make any decisions. Thereby, Samsung being a Korean company have a small gap between the scores in relations to the power distance and they are able to joint ventures with Corning in China.

### **9. 2. 2 Individualism versus Collectivism**

Next on individualism versus collectivism, both scores for China and Korea are relatively low and have the slightest gap between one and another BRIC Geert Hofstede Scores. Therefore, it can be seen that both countries are

collectivism whereby they used to make decisions collectively in a group. Thus, Samsung would be able to adapt with the Chinese culture to make decisions in a group without taking risks for making decisions individually.

### **9. 2. 3 Masculinity versus Femininity**

In masculinity versus femininity, the Chinese would be referred as masculinity whereas the Koreans are referred to femininity based on the BRIC Geert Hofstede Scores. This indicated that the Chinese would like to have more recognition in terms of respect as well to dominate its decision-making in the organization for higher income. Therefore, the subordinates are expected to follow their superior orders whereas the Koreans are less emphasized to the importance of its status but are relationship oriented in terms of social norms.

### **9. 2. 4 Uncertainty Avoidance**

BRIC Geert Hofstede Scores, there is a huge difference between the Chinese and Koreans whereby the Chinese can be identified as risk taker whereas for the Koreans, are much likely a risk adverse. The huge gap in between indicated that the Koreans would take due diligence and care in decision-making before taking initiatives. However, if Samsung is venturing into China, there would not be a problem because the decision-maker lies with Samsung and therefore could make its decisions diligently before going into any agreement to joint ventures with Chinese companies whereby China are likely to take risk in this case as long profits could be made regardless of being in a short or a longer-term.

### **9. 2. 5 Time Orientation**

In time orientation, the Chinese would be taking a longer-term for decision-making unlike the Koreans that would take a shorter time based on BRIC Geert Hofstede Scores. Furthermore, this is because of the time needed to make decisions collectively but however Koreans are would take a shorter time even though they make decisions collectively as well. Thus, the Koreans are likely to gain oport