

# Samsung sales strategy flashcard



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Mobile device is the most important communication tools in the modern world. In Hong Kong, each person has over 1.5 mobile phones in average and monthly mobile sales quantity is around 400k. The position of mobile is not a communication tools only, it is a fashion. People will swap a new models even though the existing one still in a good condition. Base on the large market demand, many companies are fighting with the revenue and market share.

Samsung is one of the mobile brands that success in these years. Compare with 2010, Samsung mobile sales quantity is triple in this year and achieves HK market share number 1 in the 3rd quarter, defeated the tradition brand Nokia and the new mobile brand Apple. Facing on the large increment of demand in the market, the stock supply and the logistic system of Samsung Mobile must be under a high challenging situation; especially mobile is one of the fast moving products with a short product life cycle.

Hence, I would like to study how Samsung Electronics Hong Kong (SEHK) using the pricing strategy on the logistics and supply chain management among each stage of product life cycle, to maximize the profit and sustain the number one market share situation. Operation feature of SEHK SEHK, mobile team does not need to produce the product by herself while just need to place stock order from headquarter (HQ) in weekly basis. After placing order to HQ, the stock will be delivered to SEHK warehouse after one month.

The core business of SEHK is selling products to end user. Since there is no any brand shops and online purchase service, SEHK need to rely on the third parties to sell the goods. Most of the selling points in Hong Kong are open

channels, operators and individual shops. Therefore, SEHK need to work with these channels with different strategies and to keep the good relationship with them to maintain the contingency sales. For every business, the final target must relate to the company profit & revenue.

At least, need to keep the company survive in the industry. Many actions in the firm should link with the profit. In the supply chains, managing demand and supply is the basic but important tool to increase supply chain profits; Altering inventories and capacity can change available supply, to secure the contingency stock supply to the market, reduce the loss of profit; Advertising and marketing can be used to spur demand by shorten the growth stage and extend the maturity stage.

Besides of these business tools, pricing strategy is also an important lever to increase supply chain profits by matching supply and demand. In every product life cycle stage, SEHK will apply different pricing strategy to increase both supply and demand. Product Life Cycle The Product Life Cycle (PLC) concept had been introduced for many years, describing the product with introduction, growth, maturity and decline stage. In Samsung mobile, it is similar with the product prelaunch, product launching, sustaining and product go into end of life (EOL).

Some scholars also point out the other view on this theory, Chen et al. (2006, pp. 65-76) mentioned that PLC could play two roles. When use PLC as the planning tool, it could describe the possible product policies, forecasting the demand and supply in different stages of PLC; when use it as the control tool, it helps the company to compare the product with the similar product in

the market, forecasting the performance of the products that would be introduced to the market.

In Samsung Mobile, there are many best practices to modify the product life cycle to match both supply and demand of the product in high quantity, and hence increase the revenue of the company and keep the inventory in a safety level. In every stages of product life cycle, SEHK would have several logistics and supply chain planning to make the sales in line with the forecast, by applying the theories of “ 7 R”, getting the right goods, to the right place, at the right time, in the right quantity, in the right condition and at the right price.

Shortened the introduction stage and growth stage Shortened the introduction and growth stage is the major task for SEHK to increase the revenue by boosting up both supply and demand in the short period after the product introduced. “ When a new model is introduced, margins are high but demand is highly uncertain. A responsive supply chain is the best way to serve this situation” Chopra (2010, p. 33). However, for SEHK, the stock request is in weekly basis but there would be 1 month logistic times which may result significant lose of sales.

As mobile is a short life cycle product and need to shorten the introduction stage and growth stage to increase the profit by increase the selling figure in a short period. Normally, launching a new product with large amount of advertising support could shorten the introduction stage and push the PLC into the growth stage. For SEHK, beside of advertising, they have a best practice to push the introduction stage before the product launched and

shorten the growth stage when the product launched. The first action is using internet to draw the market attention.

When there are many mobile exhibitions in the world, many new coming models information will be released. SEHK will share this information in the internet because many people are interest in those hero products to see which models they may target as their next phone. Open many new discussion and voting topics in the famous discussion forums can draw the end user attentions and also collect users' feedback in the first phase. For example, which models you prefer to buy, Iphone 4 or Samsung Galaxy S II? How much for Samsung Galaxy S II when launch?

Secondly, SEHK will work with many business partners to work out an experience workshop before product launched, to introduce the product to potential customers to tie up the sales before started sales and provide a good support environment to the channels. Also, 1 week before the product released to market, SEHK will start preorder in the street level, to capture the future purchase chance. These actions could shorten the introduction lead time by increasing the market demand before the product launch. And once the product introduced, the sales may go to the peak level within 2 to 3 weeks.

In this case, the introduction stage would be advanced to 2 - 3 months before the product launch day and shorten the growth stage to just few weeks by increase the desire level of the products in the market. Under this result, the next action for SEHK is how to set the optimal price for every model and order the stock from HQ to match with the market demand. Set a

skimming price at introduction stage Higher quality can be a reason for higher price and the result to cause a higher cost. At the same time, quality and price influence demand and profits.

Forsyth P. (2009 p. 45) mentioned that by using the skim pricing to set the top acceptable price range to the product at the introduction stage, the lower volume sales in result and make the product more vulnerable to less advantageous economic condition. However, the obvious lever effect of price introduce by (Dolan & Simon, 1996) has pointed out that if the price has increased by 1%, the net profit of Coca Cola would increase by 6.4%, Fuji Film increase by 16.7%; Nestle would by 17.5%; FMC would increase by 26%; Philips would increase by 28.%. Base on this obvious, Suo, Chu, and Jin (2004 pp. 3184-3186) also mentioned many enterprises changed their focus from the market share to maximization of industrial profit. In normal thinking, if the price is setting too high, the demand will be low and after the product introduce to the market for several months, price drop may be need to keep the market demand. However, dropping price would cause revenue drop and the PLC will become short. Therefore price drop is not good for the short PLC product, especially at the beginning period.

The best case is setting a price that is matching with the market expectation and the price could keep constant for a long time. Start from 1999, Samsung apply a position strategy for electronic products as a higher-quality and higher-priced brand. After four years, the profit increased from \$1.5 billion to \$5.0 billion at 2003 after this changing. Best (2005, p. 205). Although the marketing funding should need to spend more, the price of Samsung

products would be set higher than the competitors with the better product feature.

And SEHK also make a best practice to set a skimming price for their Hero product to compete with other competitors' product for a good result. In 2011, Samsung main competitor, Apple, is one of the brands introduced the product with a very long PLC, have the highest price level and seldom to have price drop in its PLC. Iphone 4 had been launched in HK since 2010 July. When there is a down trend in 2010 December, then Iphone 4 White color was introduced to boost up the sales back to the peak level. And within this 1 year and 4 months, Apple adjusts the selling price 1 time only that before Iphone 4S launched.

Base on the product features, many products are better than Iphone 4 but only Samsung Hero product, Galaxy S II (GSII) has a higher selling price. Using a higher selling price, GSII was posited as the phone that is better than Iphone 4 and provide another choice for the customers. Similar with Apple, SEHK is doing the same things to keep the sales trend without price drop. Launch a white color after launched for 4 month when the sales trend is dropping and adjust the selling price also 1 time only when Apple adjust the selling price of Iphone 4.

Selling price of Apple is one of the indicators for SEHK to set price to compete with it. When people can accept the selling price of Iphone 4, they can also accept GSII which selling price is higher than Iphone 4 with a better product feature. Finally, Although the price of GSII is in the top tier price level, the product still become the best selling model in SEHK in this year,

around 30% of SEHK total sales. Base on the result, it is suggested that Forsyth P. should modify his skim pricing strategy as a high price may not discourage the sales figure. Match the demand and Supply by pricing

Nowadays, there are over 20 Samsung mobile models are selling in the market, SEHK need to set different pricing of each models to target wide range of customer segment in order to maximize the awareness and sales. When there will be a product introduced, the most easy way to set the price is using the existing models as reference. Base on the product features, just need to put the price in one of the product lists but it may not the best case for each of the models, especially some hero products that the price is high and the target sales forecast is high too.

To secure the supply and demand, the pricing position for the new model needs to apply exactly. " To achieve the competitive strategy that targets one or customer segments and aims to provide products and service that satisfy these customers' need, there are three basic steps, understanding the customer and supply chain uncertainty, understanding the supply chain capabilities and achieving the strategic fit" Chopra (2010, p. 22). To well know the market feedback on the launching models, SEHK would use several types of directions to estimate the price they set is optimal with their sales forecast.

If the price is setting too high, sales quantity will be low, alternatively, price too low may affecting the models which Samsung is selling now. The best situation for SEHK is launching a new model to the market but will not affect the existing model they are selling now. Base on the price range provided by



HQ, SE would collect the feedback from 3 steps. The first one is end user, SEHK would hold focus group before the product launched 2 months before, to gather end users' feedback on the product in which price range the potential customer would prefer to purchase.

Secondly, they will share the product to every business partners to collect their professional feedback on which pricing could apply on the products. By using historical data to analysis the product suitability among each distributor and discuss with the main business partners about the planning. Thirdly, the price of the competitor models could be another indicator for SEHK to set their price. " By using the competition-based pricing, companies should considering the prices set by competitors in the marketplace and then deciding whether to set prices above, below or at the same level as competitors' product. Forsyth (2009, p. 43) For SEHK, they separate the product into different price segments. For the toper tier price product, as the example compare with Apple before, they would set the price above the competitors' product. For the middle range price product, they would set the prices as the same level with competitors to target the price sensitivity customer type. For the low end product, they would set the price below the competitors' products, to gain the market share at low tier segment.

Extend the Maturity Stage without price change Base on the relationship of inventory, pricing and the product launched period, Rajan et al. (1992) developed a deterministic model for optimal pricing and inventory policies for a product whose value decreases with time. Then Smith and Achabal (1998) also developed clearance pricing and inventory policies for situations where sales rates depend on time, inventory, and price. The model considers

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the actual demand with the optimal price path is determined at the beginning of the planning.

In mobile industry, PLC is short so if which products can have a longer PLC mean the product is more success with others and the company could gain more. In the maturity stage, to keep the sales quantity in the constant trend, SEHK is facing many challenges from competitors. Roger J. Best claims that “ Pricing is a critical part of customer value and business profitability. In competitive markets where product differentiation is feasible, changes in price affect both volume and margin. A price decrease that grows volume and sales revenues but results in a decrease in total contribution adversely impacts a business’s profit. Best (2005, p. 265) Sales down trend may be caused by low season or competitors launch a competitive product. To prevent the surplus of stock in warehouse, one of the effective ways to keep the sales trend would be decreased the selling price to attract the customers to buy it. However, decrease the selling price means the margin of the company also drop. In more serious case, if SEHK always decrease the selling price when there sales figure drop, it may provide a norm for end user that no need to buy Samsung mobile too early as it would decrease selling price in a short time.

In order to prevent down pricing that affecting the margin and sustain the sales volume, SEHK contribute two actions. The first action is launching a promotion to add value to the product. By using the attractive premium and advertising, it can recap the market focus on the target product. It is a better way to shift the cost in price drop to marketing funding. The second action is

launching a new color to increase the market segment coverage and create the market needs to the market.

These actions could help to keep the price and maintain the sales. Keeping the stable sales trend and maintain the margin is the most difficult handling process and who can success in this stage could decrease the inventory crisis. Clear Inventory in Decline Stage with penetration pricing Normally, when there will be a substitution product coming out, the existing product will come to end of lifecycle. When people know that there will be a new launched after 3 months, the demand for the existing models would be dropped.

This is the right time to decrease the stock 3 months before the new models introduced, the stock ordering will decline until zero inventories. Therefore, it is the best case for a model goes into the EOL. However, we know that the unpredictable market situation would make the model have a great sales drop in a short time or SEHK had a wrong sales forecast in the beginning of selling the model. Under the management decision, the products may need to fade out in a short period. In the result, there would be a surplus of stock in both the warehouse and retailers' shops need to clear.

Under this situation, SEHK will provide an extreme high GP to one of the channels and have a great discount in selling price to clear the model. Different with the skim pricing apply at introduction stage, penetration pricing should be usage at the decline stage under this situation. It is opposite with of skimming by setting a low price with the aim of gaining maximum market penetration as quickly as possible. Therefore, low price,

high volume. Forsyth P. (2009 p. 46) mentioned that it is unlikely to have the desired effect if the product has a short life cycle.

However, SEHK applied this concept on the product which the product goes into EOL but still have large amount of inventory compare with the sales figure. If the market could not demand for the product in a price range, large range of price drop should be made. One of the examples is Samsung Nexus S launched in 1st half of 2011. After launched for 2 months, the sales quantity of Nexus II had a large different with the forecast and keep dropping for every week even though promotion, retailer incentive, price drop were applied.

At last, SEHK management team confirmed Nexus S should be EOL. After that they worked with Broadway, one of the main retailers in HK and the bank to launch a promotion, provide the great GP to Broadway and a great discount, around 30% off on the products to attract end user to buy it. At last, the stock of Nexus II was clear within 1 month. Although the profit may be negative, this is the solution to clear the stock in a short period. And SEHK can reduce the spending if did not take actions in a short period to prevent more inventory cost.

It is suggested that Forsyth P. should also modify the theory that penetration pricing could be also use at the decline stage, not only for the introduction stage. Conclusion Being an international company, Samsung set the Supply Chain Management be the most important KPI for each subsidiary. The pricing strategy of SEHK, is keeping all models in the right pricing position, to

maximize the market demand of each models and reduce the consider period of customer to purchase the product.

To sustain the market leader position, it should have a well plan in the stock forecast, in both new product launch and sustain period to prevent the large discrepancy with the market demand. In fact, forecasting is never the same with market demand. By applying the pricing strategies in each of the product life cycle stages and modifying the time length of the product life cycle, it sees that Samsung mobile is quite successful in this year. Thus, organization able to balance the forecast and market demand with the pricing strategies is one of the key successes nowadays. ?