

# Case write up: samsung electronics

[Business](#), [Employment](#)



## The Memory Industry

### 1.) Analysis of the Five Forces

The Five Forces is very important in the industry analysis. These forces determine the industry's profit potential as well as its growth and development in terms of industry's operations. These factors include the following: threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of new products, and rivalry among competing firms.

In the case of Samsung electronics, their main problem is their tough competition with Chinese competitors in the memory industry (see exhibit

3). However, in order to examine the status of Samsung electronics in all aspects, the analysis of the five forces should be employed.

#### Threat of New Entrants

Given the fact that Chinese Competitors do not really have difficulty in financing their manufacturing semiconductor-products because they are being supported by outside bodies, Samsung Group has the reason to be worried about their market status in semiconductor industry. Because of a large pool of capital, Chinese competitors have the guts to compete in the market even if they are not really earning high profits. Thus they can sell their products in cheaper prices than other firms just to have greater share of market.

Also, the fact that other semiconductor firms and companies are also helping them in penetrating the market by having strategic alliances, joint ventures, and partnerships, these could really make Chinese competitors beat Samsung Electronics. They are really learning from those firms and

companies about new technologies, superior designs, and competitive strategies in order to cope up with the change in the environment (i. e. customers' demand).

All in all, it can be inferred based on the given situations that there is a high threat of new entrant in the semiconductor industry, particularly in the memory industry which Samsung should really consider in order to maintain their market status.

### **Bargaining Power of Suppliers**

With regards to the bargaining power of suppliers by Samsung Electronics, it can be said that Samsung has still the power over the suppliers since its brand has already gained high-value in the market hence suppliers would not easily cut its supply with Samsung.

Yet, suppliers have the tendency to supply most of its products to other companies or firms if ever these firms would buy those products in relatively higher price than Samsung does. As mentioned in the case, China can really afford to sacrifice profit-earnings just to penetrate the market industry. Thus, it is not impossible that they would really try to buy most of the suppliers' products.

By examining this force, Samsung has a high rate with regards to the bargaining power of suppliers given the fact that it has already established a great relationship with its suppliers. Nonetheless, if Samsung would really want to increase its relationship with its suppliers or secure sufficient supplies, it may consider increasing its orders from its suppliers or much better if it would do backward integration by acquiring its suppliers.

**Bargaining Power of Buyers**

As cited above, Samsung has already made its brand acquire high value. This means that buyers would really consider buying its products than other brands. This would also mean that they do not have to make much promotion hence there is a less cost in their marketing strategy.

Taking the point of view of a buyer, one would literally be hesitant to shift from one brand to another especially when his old brand satisfies him (i. e. good quality of products) even if the new brand is relatively cheaper than the old one. Samsung has been very good in producing high quality products. And its buyers do not really have complaints against its products' prices. Thus, Samsung has still a high competitive edge against its competitors in terms of its buyers.

**Threat of Product Substitute**

There is a high probability that customers would try to consider purchasing products that have cheaper or lower prices. Nevertheless, if their purchased products do not really satisfy their taste (i. e. poor quality), then it is most likely that they would return to their old brands that indeed satisfy them even they are in higher price as compared to other brands.

Samsung still holds a high competitive advantage over its competitors, primarily China, since their products are high quality, and, at the same time, its brand is known, popular, and well-tested by its customers. Samsung has already started manufacturing DRAM-products. There would only be a high threat if its competitors would be able to maintain high-quality products while marketing them in cheaper prices.

**Rivalry among Competing Firms**

Obviously, there is a high intensity of competition among Samsung and Chinese competitors. The fact that Chairman Lee is really going through a serious planning of new strategies for the Samsung Electronics, entails that there is really a tough rivalry against Chinese Competitors.

**2.) Samsung Strategy**

a. Based on the given facts and information in the case, low cost of production is the principal advantage of Samsung Electronics against Chinese competitors. As presented in exhibit 6, in 2003, Samsung was enable to sell its manufactured more popular and more advanced memory chip which is 256Mbit for as low as \$4. 65 while the products of those new generation companies which also produced memory chips cost as high as \$19. 04. It is to be noted that such memory chips were even outdated (16Mbit chips). In addition, it even produced the 512Mbit chip and sold at low price. Read also about S amsung competitive advantage

On the other hand, Samsung has also the competitive advantage against its competitors in terms of differentiation wherein it also prioritizes its customers demand and is able to adjust with its customers' requests. In exhibits 10a-10c, it shows how Samsung was able to innovate and advance the design of their memory products according to the demands of its customers.

As mentioned in the case, the low production cost of Samsung has really a great advantage to them because they can sell their products at low prices and at the same time earning reasonable profits. Yet, in 1994, Lee

discovered the degeneration of the quality of their products. And so he ordered the burning of those low-quality products in front of the employees. He stressed that more than anything else, it is important that the company maintains the production of high quality products. Thus, in 1995 to 2003, Samsung became the one of the most reliable companies for their high-quality products. Popular cellular phone companies such as Sony Erickson and Nokia asked Samsung to be their supplier of flash memory chips. Read also under what circumstances should a company's management team give serious consideration

In short, Samsung was able to use cost-leadership strategy as well as differentiation strategy. Nevertheless, it prioritizes the manufacturing of high quality products and the production of products based on its customers' requests.

b. Tracing from their history, Samsung has only one Research and Development site which is also the main R&D facility of Samsung Electronics. This really lessened their cost of facility constructions while other competitors have high cost of constructions because their facilities are dispersed across the globe. Samsung has able to save an average of 12% on the construction of its facilities, as shown in exhibits 7a-7e.

In addition, the set-up of residence for research engineers and production engineers are also cost-strategized. They are settled in a place wherein they can still talk and discuss about their work. Yet, Samsung ensured that their workforce in their R&D site is properly treated.

Regarding technology, and design, Samsung was able to adapt and learn the technology for producing and manufacturing memory chips with higher and advanced conditions as compared with other competitors. Hence they did not have to make transactions with other firms for technology. They had also purchased the designs directly from Micron which adds to the high quality of their products. Due to superior Research and Development that Samsung has, it was able to design and develop DRAM products such as laptops and game players that could maintain the demand for DRAM.

Samsung had produced numerous product architectures on every production line. This greatly made the increase of production. Moreover, Samsung had really an efficient and effective workforce which really contributed to the growth of its profits and earnings.

Samsung invested on its employees. It hired and trained people who can easily and effectively function to the nature of the semiconductor industry. It supported and financed the studies of some of its employees who have great potentials. Samsung produced employees with MBA and Ph. D. degrees. Furthermore, Samsung attracted and welcomed different people from different regions of the world by applying a strategy called Samsung's Global Strategy Group. Samsung did not promote singular culture within the workplace. As long as a person can effectively contribute to the development and growth of the company, the management is open to recruit and employ foreign employees and even place them on top managerial positions.

In 2003, Samsung attracted more skilled employees because of its high salary as well as several benefits and rewards that motivate employees. The average salary was \$44, 000. Moreover, Samsung employed Performance-

Based Compensation System in which the company gives incentives to the employees who show high technical skills. This really motivates the employees in doing their best on their works and tasks. Project Incentives were given to the project teams who performed excellently (\$1 M per project team). Also, it promotes Productivity incentives which give 300% increase of annual base salary. Lastly, it has Profit Sharing Program which rewards 50% increase of annual base salary. Thus, Samsung was able to develop and maintain an effective workforce.

### **Dealing with the Threats of Chinese Entrants**

a. 1. The strengths of the Chinese competitors include its high source of capital which enables them to pursue market share even if they do not really obtain high profits. Also, they were able to acquire technology and design and other manufacturing techniques by making strategic alliances, joint ventures, and partnership with other firms and companies. This gives them more knowledge on operating a semiconductor industry. Another advantage of Chinese competitors is that they have the support of their government which motivates them greatly and gives them more confidence in making business transactions across the globe. Lastly, in connection with the first competitive advantage, Chinese competitors attract high number of customers since their products' prices are relatively low than other firms.

a. 2. The weaknesses of Chinese competitor include its limited scope of marketing. It is given in the case that United States and Taiwanese governments disallow the entry of Chinese products in their countries thus China loses potential buyers. Another disadvantage is that although Chinese had gained the technologies of other companies still such is insufficient to



support their operation with the semiconductor industry. Lastly, by the fact that they are only new to the semiconductor industry, it is quite difficult for them to attract customers without selling their products in lower prices. Plus the fact that other brands have already gained high value, they are actually starting from scratch. Hence if they fail to acquire sufficient technologies in improving their products into high-quality products then their market career would not last that long.

b. Chinese competitors are seeking for more advanced technology which can make their production lower in cost but manufactures high-quality products. This is their major goal in order to attract and maintain a larger pool of buyers. Only when they established a solid reputation in the semiconductor industry that they can really dominate the market.

c. The most feasible options or alternatives for Samsung Electronics include the consideration on increasing the production of Flash Disks memory since it poses a high demand in the market.

Second, in maintaining the market sales of DRAM, Samsung can also increase the production of DRAM products so that it could create high demands for DRAM. The Flash memory market was expected to grow at a double-digit rate for at least another five years. That growth was expected to keep Flash prices quite high relative to DRAM prices.

Third, Samsung can apply Differentiation Strategy since it has enough capital to support the improvement and advancement of the quality of products - that can really ensure large market sales. And since Samsung has the advantage over technology, it can easily adapt itself in creating more

advanced and more innovative products which can attract more number of buyers. By doing so, Chinese competitors will lost competitive size of buyers which could lead to their exit.

d. For Chairman Lee, here are some recommendations in order to counter the threat of the Chinese competitors:

- 1.) Samsung should maintain the production of high-quality products,
- 2.) it should increase its promotion across the globe,
- 3.) improve its relationship with its suppliers,
- 4.) improve its technology so that it can create more efficient cost of production,
- 5.) encourage the creation of innovative products that suit their company strategy, and
- 6.) attract, develop and motivate an effective workforce by hiring applicants who have high technical and conceptual skills, by maintaining a performance-based compensation system, and by maintaining a good relationship with his labor force.

Work Cited:

Siegel, Jordan and James Jinho Chang. Samsung Electronics. President and Fellows of Harvard College, 2005.