

Example of report on samsung in china

[Business](#), [Company](#)



Executive Summary

Samsung is the largest company in the world in the Electronics segment. It has a hugely diversified product portfolio. However, the smartphone and mobile division accounts for the maximum profit and revenue of the company. It traditionally has dominated the Asian and East-Asian market with low cost to high cost range of mobile products. However, in recent times, Samsung is witnessing an increased difficulty in most of the markets. In China, it is losing market share to the domestic players like Xiaomi. In India, it is losing market share to Micromax and in Indonesia, to Mito.

Introduction

For a period of more than 70 years, Samsung is involved in diverse businesses, including semiconductors, skyscraper and plant construction, advanced technology, fashion, petrochemicals, hotels, medicine, finance, and more. Samsung's flagship company, Samsung Electronics, is a leading organization in the sphere of high-tech electronics manufacturing and digital media. In 1993, Samsung, under the leadership of Lee Kun Hee, altered its business strategy from cost saving efforts to innovation. Determined to be the best in the industry of home electronics and wireless devices, Samsung, in the period between 1994 and 2000, started investing in hiring the design firm IDEO in the USA, implementing the Innovative Design Lab of Samsung, and hiring designers to pursue the trends in fashion, cosmetics and design consultancies, and stay on top of the market trends. The shift from cost-saving business strategy to innovation helped Samsung earn a slew of awards in the USA, Europe and Asia and increased its revenue and net

income steadily from 2003 until 2012. The net profit margin of the company has always remained impressively above 7% with the average hovering around 9.02%. In recent times, Samsung's market share, however, has decreased from 35% to 25% owing to the intense competition posed by a number of cheap vendors like Xiaomi (Olson, 2014). Especially in the Chinese market, Xiaomi with its model of innovative and stylish products at a significantly cheaper price than Samsung has emerged as a big threat to the company. This paper will discuss the problem Samsung is facing in the Chinese market and how it can improve the situation by adopting new measures.

Overview

Xiaomi was founded in 2010 by the entrepreneur Lei Jun with a vision that high-quality technology should not pinch a hole in your pocket. In order to make smartphones available at a competitive cheaper price, Xiaomi brought smart people together from Microsoft, Google, Yahoo, Kingsoft, Motorola and many other reputed internet and tech firms from around the globe and with their help, created outstanding software, hardware, and internet services. It has developed phones that are not only fast and stylish, but also significantly cheaper than the phones of Samsung. Within seven months after its launch, Xiaomi has become the fifth most recognized handset device in China (McKenzie, 2012). With over 18 million handsets already sold in China in 2013, and a few products launched in Singapore, Hong Kong, Taiwan, India, Philippines, Indonesia, and Malaysia, Xiaomi is all set to go global.

Samsung, which is the largest smartphone manufacturer in the world, witnessed a decline in its third-quarter net profit by 49%, because less

expensive Xiaomi has posed a threat to the number one position of Samsung in China (Nasdaq, 2014). Within just three years after coming into the market, Xiaomi has emerged as the third largest smartphone vendor in China, only next to Samsung and Apple. As per the report of Strategy Analytics, Xiaomi contributed to 6% of all 320 million smartphones shipped during the third quarter of July-September 2014, pushing LG to the fourth slot with a 5 % market share (Olson, 2014). Apple, which is the third largest smartphone manufacturer, has also witnessed a dip in its market share from 13. 4% to 12. 3% (Xiaomi, 2014).

Problem

The problems facing the smartphone industry are galore. First of all, the smartphone has a short product life cycle. With rapid changes in technology, competitors are always trying to outdo one another in terms of technological offerings. Moreover, chances of imitation are higher. If today, Samsung releases a product technologically more advanced than the competitive products, tomorrow, the competitors will imitate the features and designs of the product of Samsung and launch substitute products into the market at a cheaper price, thereby undermining the profit of Samsung. There is also a particular demography of customers who avoid using smartphones. The older generation aged above 65 years avoid using smartphones because of features, too complicated for them to handle, and people belonging to the lower income strata, for whom, smartphone is too costly. Though intense competition among the existing companies and brand loyalty among the customers pose an entry barrier to a newcomer, the trend of the market, however, is such that a chunk of customers always shifts to low-cost

products that have the same features of the high-priced Apple and Samsung products. Due to these problems, companies always try to remain ahead of the competition in terms of technological offerings, current trends, and consumer demands so that they can grab the maximum market share.

Objectives

In order to overcome the problem of rapid technological changes, organizations ought to put their primary attention on innovation and research and development in accordance with the changing customer demands and needs. While dealing with the issue of the decreasing new user market base, organizations can produce smartphones keeping in mind those demographics that are not currently in the smartphone market. For example, those aged more than 65+ do not use the smartphones much, because of the technological barriers as they feel that smartphones are too complicated for them to handle (Cheng, 2014). Besides, those with an annual income below \$50, 000 and a high school diploma or less also do not use smartphones much because of economic issue. In order to solve the matter of the large presence of imitations and substitute products, companies need to make switching costs higher. For example, Apple has developed its products in such a way that all the program features and operating system are exclusively Apple's own and not of any outside party. All the iPhones use Apple's own iOS Operating system, app store, and software programs that are exclusive to Apple products. Therefore, anyone planning to switch from iPhone to any other substitute product would have to make a considerable sacrifice. Though there are many entry barriers, the rapid growth of the

market offers a huge opportunity for those companies that have adequate capital and innovation resources to enter the smartphone market.

Competitive Analysis

The smartphone industry is competition-intensive. In order to survive amidst this highly competitive market, companies need to constantly introduce new products, conduct research and development to come up with newer innovation as per the changing trends of the market and consumer demands. The demand for smartphones, to a large extent, is driven by the convenient use of wireless communication services. The smartphone buying decision of consumers is driven by a lot of factors. Consumers' buying decision is largely influenced by the features that help consumers get all the services of various electronic devices in the smartphone so that they do not always need to carry a laptop around (Nasdaq, 2014). If they want to check Gmail or send a mail by using Outlook, they can easily do so through their smartphone without logging into the laptop device. Hence, the number of features and technological advancements constitutes an important factor for consumers to decide which smartphone to buy. Some of the characteristics of smartphones that consumers take into account include software, hardware, design, wireless service options, aftersales service, functionality, and definitely the price. The top three brands preferred by the consumers are Xiaomi, Apple, and Samsung.

Apple

Though Apple is one of the top three companies in the smartphone market globally, it has lost a significant market share in China in recent years,

because the retail price of the flagship Apple products is priced above \$700, whereas in China, the middle-class section prefers smartphones within the range of \$300-\$400 (Nasdaq, 2014). Apple is only interested in providing products for the top-end of the smartphone market. It does not come up with any product from medium to low price range. Apart from iPhone, it does not have any other variant of smartphones. It keeps innovating the iPhone features, software applications, apps stores, and cloud services and comes up with upgraded versions of the iPhone to provide premium quality product experience to the iPhone users.

Xiaomi

The World Luxury Foundation conducted a research in 2012 on luxury market in China and came up with the finding that 86% of the Chinese consumer are unwilling to spend their money after buying luxury products labelled as 'Made in China, owing to the country's huge market of cheap goods (Xiaomi, 2013). Added Value released a research report that stated that only 9% of the Chinese luxury customers prefer buying Western brands. These psychology and preferences of the Chinese customers help Xiaomi obtain an enormous success with its smartphone product within a matter of three years and earn the third spot in global smartphone shipment in the third quarter of 2014 (Olson, 2014). Xiaomi uses the same operating system as Samsung, Android, which is an open source operating system, and therefore, costs nothing. It also offers stylish looks and designs comparable to the product of Apple. In fact, the Android play store has more applications than the Apple app store. All these features Xiaomi offers at a price significantly cheaper than Samsung and Apple. The MI-One, the first and the

only model of Xiaomi, is priced only at \$313, which is \$470 cheaper than iPhone 4S in China (McKenzie, 2012).

Samsung

Recently, Samsung has started focusing its attention on green technology and digital health market in order to bring differentiation in its products. Launched in April, 2014, the new Samsung Galaxy S5 has an integrated heart rate sensor that by coordinating with its S Health application creates a unique personal fitness tracking experience for the consumer (Cheng, 2014). The S Health application has a pedometer that constantly tracks the consumers' health condition, calories burned off, walking distance, speed, and activity duration. It is an outstanding technological offering for any consumer looking for more unique features from the smartphones. In the modern day, customers want their smartphones to be a product of mixed services that aside from offering the basic texting and music would enable them to surf the internet, play games and track on their personal health targets.

SWOT Analysis

Rivalry within Industry:

- The smartphone market is experiencing increased competition due to a number of domestic and international players in the smartphone market.
- Many Chinese domestic mobile parts suppliers are now entering the smartphone market.
- Local players are willing to sacrifice profits to gain the market share.

Suppliers

- Suppliers are becoming more concentrated, and so their bargaining power is increasing.

Threat of Substitute

- In the near future, there seems to be no big threat coming from any similar product that can substitute smartphones.

Power Shift

Traditionally, Samsung has dominated the East and Southeast Asian markets in the smartphone segment; Nokia has dominated the European market, and Apple, North American market. However, things have changed in the last few years. Samsung, which operates in every segment of the mobile phone industry, is losing market share in almost every front. It is losing market share for its medium range mobile phones to Xiaomi, the top end Galaxy range smart phones to Apple in China. Apart from China, Samsung is also losing market share in India to Micromax and to Mito in Indonesia (Nasdaq, 2014). Xiaomi, Micromax and Mito sell their products at a low price point. Those companies have a B2C business model where they avoid any cost incurred through a third party selling mechanism.

Xiaomi, which is becoming a nemesis for Samsung in many markets, sells its products using a flash sales strategy where products are given to the customers at a deep discount for a few days (Xiaomi, 2013). This way, Xiaomi produces and sells its products in batches within a matter of few days, without keeping a high level of inventory for a long time.

Strategies and Tactics

Samsung should employ the below strategies to diversify its portfolio and the risk of losing market share simultaneously in many markets.

- It should develop a software platform, which is unique. This will help Samsung distinguish itself from other players.
- It must use flash sales strategy, and e-commerce strategy with new models and cheaper models will help beef up the sales. This will help reduce the inventory carrying cost and will improve the marketing process.
- It should shuffle its management team and introduce more aggressive managers in the sales and marketing team as well as the top management.
- It should gain market share in China by creating a separate low cost mobile device strategy. It should create and implement two different strategies; one for its high end Galaxy S range of phones, and another for its low cost mobile range.

Conclusion

Samsung is one of the most successful players in the world in the mobile smartphone market. However, in recent times, Samsung is facing huge competition in many markets and losing market share quickly. Especially China, which is the largest mobile market for Samsung, it is losing market share every month to local competitors. Samsung should change the way it does business. Introducing an e-commerce and flash sales model to sell its new and cheap phones will help increase the free falling market share of Samsung. The way Apple created a total ecosystem of product and services for its customers, Samsung should also create a total ecosystem. Currently, Samsung is lacking something into its product and services portfolio, which

can differentiate itself from others. Creating its own operating system certainly can help the company improve its image. It will also create a differentiation. Integrating biosensors within its products can certainly help improve the product feature of Samsung smartphones. Young generation is becoming more and more health conscious across the world, and if smartphone features can help track upon daily health condition and wellness management, then Samsung will be able to tap the health freak customers. Thus, it will be able to not only increase its smartphone sales but will also improve the sales of its accessories like health band and watches.

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