

# Analysis on business strategies of smart phone department

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## Analysis on Business Strategies of Smart Phone Department of Hawaii Technologies

### Introduction

Hawaii Technologies built a new brand Ascend to enter high-end smart phone market. In this business analysis, we consider smart phone department a strategic business unit (SUB), do external environment investigation through PORTAL and Porter's five forces models and analyze the internal strategic capabilities through VIRGIN model. After integrating all the resources, we determine the most favorable business strategies for Hussein's smart phone department on the basis of a STOW analysis.

**Company Background** The head quarter of Hawaii Technologies was located in Sheehan, Gudgeon province in 1987. And Hawaii is a private enterprise producing and selling communication devices. The main fields the Hawaii involved are switching network, transmission network, wireless and wired network, handsets and wireless end products. Brian Law (2007) mentioned that Hawaii technology is now the largest telecoms vendor in China. The sales revenue for Hawaii is 3.54 billion dollars equal to 22.02 billion ARM which is 7.97 percent increased comparing to last year.

And operating profits of Hawaii is 3.0 billion dollars equal to 1.99 billion ARM which is 7.39 percent increased comparing to last year. Hawaii has expanded its international markets to developing countries like South-East Asia, Central Asia and Latin America, Middle Eastern nations, and developed nations including the I-J, USA, Sweden and The Netherlands. Table 1  
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Annual financial situation of Hawaii Technology Items 2012 ( USD million)  
( ARM million) 2011 Compared rate (%) Sales revenue 35, 353 220, 198 203,  
929 7. 97 Operating profits 3, 204 19, 957 18, 582 7. 9 Data Vela ten annual  
report AT Wheel Investment nagging co. , I paid expansion of worldwide  
smart phone terminals, Hawaii sold 127 million units of the hand phone  
including the 32 million units for smart phone which is 60 percent increased  
comparing to last year. Hawaii issued its smart phone brand, Ascend series  
where the Hawaii turned its traditional BIB sales model into BBC sales model.  
And up till now, Hawaii has applied around 41. 948 thousand patents in  
China, around 12. 453 thousand patents of international PACT and 14. 494  
thousand patents overseas accumulating to 30. 240 units of patents.

In this report, we focus on the phone department of Hawaii Company. Macro  
Environment Analysis PEST model is used to analyze the macro environment  
of a company which consists of political, economic, technological, social and  
cultural factors. And now, PEST has been extended to be PESTLE model.  
Thomas (2007) wrote that PESTLE is an extension of PEST analysis, taking  
more account of environmental and legal issues. In political factors, Chinese  
domestic political environment is sustained. Since China joined the WTO,  
the restriction China put on export and import reduced gradually.

However, Middle Eastern may have some political unstable issues affecting  
the operations of Hussein's subsidiary. And EX. has strict protection methods  
like that the products without ROSS, WEE and REACH permission, will be  
forbidden to enter the EX. market which means the telecommunication  
products will face these new trade barriers. China has friendly diplomatic

relations with other countries and the government implements the proactive fiscal policy and prudent monetary policy which stimulates the expansion and development of the Hawaii enterprise.

According to encouragement of the state council for software enterprise, new information technology application, cloud computing, Internet of things and mobile 3G network will be the key focus of development. The Telecoms enterprises gradually realize separating the enterprise management from government intervention, and the government direct procurement seems to reduce. The domestic patent protection law stays sustained without many changes. In a word, political factor is positive to Hawaii. As to economic factors, the value of ARM rises continually which increases the overseas sales revenue and decreases the net profits at the same time.

The GDP figure of China grows rapidly and the employment rate remains sustained. The disposable income of people increases and the minimum wages also increases. Meanwhile, the product prices fall continually and the life cycle of a product is shortened. The inflation rate rises and the competition of rivalry increases for the globalization of China and international economic depression. The gap of income and consuming habits between eastern and western part of China becomes greater. And flow of capital and labor moves frequently. In a word, the economic situation is not favored to the development of Hawaii.

As to the social and cultural factor, the population of China is around 1.3 billion which ranks top one around the world. People have higher request on the after-sale services and consumer demands come personalized. As the

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improvement of domestic education, people become literate and rational preferring cost-efficient and well-designed products. And with the popularization of the internet and wireless network, the mobile phone and related business grows rapidly. Customers are more and more focused on the brand and the quality. The value of communication products is well acknowledged by communication products like phones.

But people in America think that Hawaii may be a spy hired by government and it will do harm to their national safety. In that way, Hawaii still has many barriers to enter American markets. In a word, the market for Hawaii is board but the cultural barriers still exist. When it comes to the technological factor, the global technology industry is dominated by several big enterprises and fewer chances are left for emerging enterprises. The rapid development of technology increases the quality of products, reduces the cost of manufacture and also shortens the life cycle of the products.

There are many patents remained in the patent database for no one finds them and makes them profitable. The cost of independent research and development is so high and the revenue is not returned in equal way.

Although the risk of technology investment is high, the technology is a symbol of company strengths. Regarding to the fact that Hawaii has the largest number of applied patents in China compared to other companies in the same industry, it can continue its independent research and development on technological updating which will make Hawaii outstanding and unique in the market.

When it comes to the environmental factor, the green and environmental friendly thoughts are widely accepted around the world. People are paying more attention to the environment protection nowadays. The environment protection airier started in 1972 by the United Nations issuing declaration on the human environment. In China, there is a ministry of environmental protection observing and controlling the pollution and emission of every industry. And the International Environmental Protection Organization Association was found in 2007 supported by the United Nations.

In this part, Hawaii put the low-coal consuming and environmental thoughts into the life cycle of products. Hawaii improve its manufacturing technology to decrease the emission of greenhouse gas and wastes. Finally, we will talk about the legal factor including the safety registration and antitrust registration. In China, there are the consumers' rights and interests protection law issued in 1993, anti-unfair competition law issued in 1993 and the labor law issued in 1994 which protect the consumer, other competitors in the industry and the staffs in the enterprise. Besides, WTFO and GATE both launch some regulations on anti-dumping issues.

Hawaii claims that they advocate the fair competition, obey the anti-dumping laws issued by many countries. The labor union in Hawaii is the largest shareholder of the company. So the labor right is assured with life insurance, diseases insurance, medical insurance and accident insurance. In a word, the domestic law environment is looser compared to the foreign countries. Industry Analysis Peter (2009) wrote that with industry competitors as the central box, and potential entrants, suppliers, buyers and

substitutes as the other four boxes placed around it, the Porter's five forces model is so elegant.

For the threats of potential entrants, the manufacture investment for the telecommunication devices is great and the system from producing, operating and services should be completely supported by the enterprise which raises the barrier for entrants. With the telecommunications hanger drop, the market request for faster services capacity, efficient cost competition power of the telecommunication company will improve. Although the Ministry NAS a promising Torture, ten potential Tort new entrants Is quite small.

Ho threats of substitutes, the main products like the router, switches, security gateway and wireless network card of Hawaii Technology are not easy to be substituted. The quality and prices of Hussein's products have a great advantage. But the smart phone of Hawaii is facing the substitute threats from tablet computers which have bigger screen and larger storage space. The tablet computers with clearer screen resolution cost 2000 ARM in China which is a little higher than the price of Hawaii smart phone, but the tablet computers don't have the phone function like making a phone call or sending a text message.

For the bargaining power of suppliers, Hawaii has cooperated with 800 suppliers from more than 30 countries. The resources of suppliers for Hawaii are abundant and the labor cost and manufacturing cost in China is low. So the bargaining power of suppliers is not high. The bargaining power of customers for Hawaii telecommunication devices is low because Hawaii

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focuses on technology innovation and development. However, the bargaining power of customers for Hawaii smart phone is high. At the started period of a new phone launch, the price of Hawaii smart phone is quite sustained.

But within a month, the price will drop for the competitors also launch new phones. As to the competitive rivalry, there are foreign brands like Samsung, Motorola Sony and phone and domestic brands like ZIT. ZIT only has advantages on selling telecommunication devices domestically, while Hawaii has expanded its sales overseas. When it comes to the smart phone market, Hawaii is weaker than foreign brands for foreign brands have better screen design, larger consumer groups and greater smart phone system support.

Internal Analysis As we discussed above, we consider smart phone department of Hawaii Technologies a strategic business unit (SUB). In order to determine the business strategy of this SUB, we first describe its strategic capabilities from two aspects: resources and competences. Classification

Resources	Competences
Physical Machines, buildings, raw materials, products, patents, data bases, computer systems	Ways of achieving utilization of plant, efficiency, productivity, flexibility, marketing
Financial Balance sheet, cash flow, suppliers of funds	Ability to raise funds and manage cash flows , debtors, creditor
Human Managers, employees, partners, suppliers, customers	How people gain and use experience, skills, knowledge, build relationships, motivate others and innovate

Table via Johnson, Whetting and Schools, Exploring Strategy (9th Edition), Pearson Education Limited 2011 These strategic capabilities, including threshold capabilities and distinctive capabilities, ensure Hawaii Technologies to meet

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the necessary requirements to compete in the market and achieve competitive advantages.

Threshold capabilities are those that an organization must meet in order to compete in a given market and achieve parity with competitors in that market. Distinctive capabilities are those that critically underpin competitive advantage and that others cannot imitate or obtain - 'Winners'. We often use four key criteria to distinguish distinctive capabilities from threshold capabilities - value, rarity, maintainability and non-substitutability (VRIO model), through which capabilities can be assessed in terms of providing a basis for achieving sustainable competitive advantage.

(Barney, 1991) Value of strategic capabilities During the first half year of 2013, Huawei Technologies overtook Ericsson in sales revenue and maintained the position of Top 2 telecoms equipment manufacturers in the world. And the compound annual growth rate of Huawei Technologies' sales revenue in 2012 is 16% compared to a year earlier. The turnover of smart phones ranked second of the home-made cell phone market in the first three quarters of the year. These upwards tendencies are beneficial to funds accumulation, cash circulation and R investment in smart phone department.

Telecoms equipment industry is unlikely or slightly affected by economic recessions. Thus, the powerful financial strength provides the potential to address the opportunities and threats that will arise in the market. Rarity Rare capabilities are those possessed uniquely by one organization or by a few others only. Huawei Technologies intend to improve their smart phone department/  
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products from both hardware and software to exceed Chinese brand and to catch up with the industrial chain as phone and Samsung have.

Additionally, in 2012, Hawaii Technologies promoted a new brand - Ascend- to expand the high-end market, not only in China, but also in Western Europe and Japan. This act reflects Hawaii Technologies' ambition to convert BIB business mode to BBC. The products launched with a new title of Ascend reflect the revolution of quad core processors and have a good reputation among customers. What's more, doing centralized purchase and sharing suppliers with telecoms equipment department ensures smart phone department to acquire a more favorable price.

Last but not least, Hussein's Service Business Group, Business Support System and Service Database are really competitive. Boatload, a characteristic service offered by Hawaii Technologies is adventurous and innovative because reforming the smart phones by themselves is attractive to young customers. Maintainability Inimitable capabilities are those that competitors find difficult to imitate or obtain. They are more likely to be found in competences and the way competences are linked together and integrated.

Established in 1988, Hawaii Technologies have made great achievements for all to see. Their success can hardly realize without the wisdom of top management. In R&D aspect, they refuse the price war and vicious intention. They ensure high R&D investment, encourage innovation and carry out cooperative R&D projects in more than 50 Chinese famous universities, such as Distinguish University, Peking University, Shanghai Jotting University and

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Nana University. They also obtain advanced technology through international strategic alliances.

After Ericson stayed out of the mobile phone market, no one smart phone manufacturer has the solid foundation in Integrated Product Development, Mobile Broad Band, Optical Transmission Technology and Rich Communication Suite Service as Hawaii looseness's 00. I nose Vance telecoms technologies are In support AT the intelligent terminal, a major technology producing Hussein's flagship smart phones. In marketing aspect, Hawaii Technologies establish a marketing network combining product chain and customer chain.

The employees in marketing department are divided into two types: ones takeresponsibilityof maintaining relations with customers while the others are in charge of introducing specific products. De-localization is applied in human resources allocation in order to build company relations, rather than personal relations, which is beneficial to improve reparation profile. Hawaii Technologies carry out the tutor system to make new employees familiar with company operations as soon as possible. Experiences are effectively transferred inside the company.

Non-substitutability Smart phones are hardly substituted by other electronic products such as tablet PC's andmusicplayers, which do not possess the basic functions like phoning and texting. And the potential market of immobile telephones is limited. Thus, the substitution effect in the whole smart phone industry is relatively low, not Just in Hawaii Technologies. As

argued above, we can safely make a classification on the threshold capabilities and distinctive capabilities of Hawaii Technologies.

Threshold Capabilities	Distinctive Capabilities	Physical Resources
Machines, buildings, raw materials, Android system	Strong technical support (Quad core processors, Intelligent Terminal), patents	Physical Competences
Cooperative R projects, two-type marketing employees	Financial Resources	Fast-growing turnover and sales revenue
Strong power and considerable profits of telecoms equipment department	Financial Ability to raise funds and manage cash flows	Human Resources

Managers, employees, partners, customers Centralized purchase (together with telecoms equipment department) Human De-localization, tutor system

Business Strategy Analysis After integrating all the strategic capabilities, we can determine what business strategies are most appropriate for Hawaii Technologies' smart phone department with the help of STOW Analysis.

Strengths: (1) Strong technical support (2) New brand - Ascend (3) Advanced marketing system (4) Cooperative R&D projects (5) Strong financial foundation (6) De-localization HARM (7) Tutor system (8) Low bargaining power of suppliers and customers

Weaknesses: (1) New entrant (2) Low coverage on high-end market (3)

Subject to Android SO (4) Customer preference on imported smart phones

(5) Forced price cutting Opportunities: (1) Pined WTF0 (2) Government's encouragement on IT industry (3) Broad potential market Should do: (1)

Maintain all the competitive advantages (2) Launch differential products (3)

Maintain the low-end market share and expand the high-end market in China

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(4) Consider the flexibility of exporting Hawaii smart phones Business strategy recommended: The Strategy Block (1) Enhance brand image and company image 2) Maintain the low-end market share and expand the high-end market in China (3) Focus more on independent R, especially on the software (4) Launch differential products to relieve the fierce price competition Business strategy recommended: Threats: (1) Substitutes like tablet computers (2) Competitive rivals (3) Trade barriers in other countries (4) Rapid technological innovation (2) Pay more attention on market trends C competitors Touch (4) Maintain Independent R capabilities (5) Do a thorough market research and determine the target market to export (6) Effectively handle the five forces Cooperative strategy, Game Theory (1) Pay more attention on market trends (2) Maintain Independent R capabilities, both in hardware and software (3) Enhance brand image and company image (4) Launch differential products to relieve the fierce price competition (5) Maintain the low-end market share and expand the high-end market in China (6) Effectively handle the five forces Smart phone department of Hawaii Technologies concentrated on low-end market before 2012 because of its role as a new entrant and customer preference on imported products. They launched low-price products and rapidly gained a footing in Chinese mobile phone market.

Their competitive advantages at that time were low input costs and economies of scale. However, in 2012, Hawaii Technologies established a new brand and developed quad core processors technology to enter high-end market. Thus, what generic strategy they use for now is the Strategy Clock, specifically, maintaining low input costs, providing differential

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products and to be more market-focused. Besides, Hawaii Technologies can make flexible adjustments on the portions of low-price strategies and differentiation strategies, which is obviously beneficial to maintain the competitive advantages. We recommend to continue the Strategy Clock in smart phone department of Hawaii Technologies.

The second business strategy they use is interactive price and quality strategy, that is, price and quality of Hussein's smart phones are interacted with those of competitors and vast-moving environments. The graph above illustrates that when Hawaii Technologies are confronted with competition, they always make radical cuts in price but sustain the perceived quality. For example, Ascend PA was launched in June 15th with ARM 2, 535, but descending to only ARM 1, 659 three month later. Cutting price is a general strategy to increase sales volume, however, Hawaii can do something to postpone this process, namely enhancing product differentiation. We recommend Hawaii to abandon the interactive price and quality strategy and improve their R&D capabilities.

As we have accused to Porter's Tale of Tortoise model, smart phone department AT Hawaii Technologies gains competitive advantages in the five factors (suppliers, buyers, rivals, entrants and substitutes): Hawaii has the discourse power when negotiating with suppliers; although buyers has multiple choices when purchasing a smart phone, there is still a large quantity of customer, especially low-end market, avian brand loyalty to Hawaii; Hawaii Technologies pay special attention in cooperating with rivals and they have ever built cooperative relations with Siemens, Infinite, Texas

Instruments, Motorola, Microsoft, Intel, Sun Microsystems, com, NECK, Panasonic, MM, Lucent Technologies and etc (Ghana, 2007); smart phone is a high- profit, high-threshold industry because of the high costs of R&D and machines; the substitution effect is not significant in the whole smart phone industry. Since advantage may not always be achieved Just by competing, sticking to cooperative strategy is favorable for Hawaii Technologies. Besides, we recommend that Hawaii Technologies should consider Game theory business strategy and pay more attention on competitors' likely moves. Hawaii can do an annual review of their rivals in smart phone industry, identifying the common characteristics of top 20 companies and investigating why they make or lose money.