Phillips strategic analysis

This section will consider an analysis of the global LCD industry and the factors within the strategic environment which will have an impact upon the industry. In order to analyse the environment, this section will make use of a PESTLE analysis which considers the relevant political, economic, social, technological, legal and environmental factors. Having conducted the analysis, the paper will then present an action plan as to how Phillips may maintain its market share in the industry.

Political

Political factors may be seen as having a large impact upon the global LCD sector and have had an impact upon both the market and manufacturing aspects of the industry. On the whole, recent decades have seen political moves to essentially open up world markets allowing producers such as Phillips to both retail and manufacture its products in a wider range of countries than previously (Griffin and Pustay, 2010, Krugman et al, 2012). Such political changes often relate to emerging markets such as China, Russia, India and Brazil all of which have taken significant political steps in recent years to attract investment from producers such as Phillips. Despite such reforms, manufacture such as Phillips also need to be aware that reversals of policy are still a possibility, this may be seen as all the more of a risk in these economically turbulent times when there may be sudden appetite on the behalf of political leaders for protectionist measures which favour domestic producers and protection of the jobs of voters.

Economic

Since 2007 it may be seen that the world economy has overall suffered from slow levels of economic growth referred to as the global economic downturn.

In addition, the future outlook, especially within Western Europe and the UK would seem to remain bleak with the prospect of a double dip recession forecast by many (BBC News, 2012). For the global LCD sector this may mean that producers have had to focus upon a strategy of cost leadership and providing customers with a value for money based proposition rather than looking to develop value added differentiation based strategies. However, despite the global economic downturn which has affected many countries badly, the results have not all been negative. One consideration is that while countries such as the UK and US have been heavily hit, others such as China and the emerging economies have still seen rising levels of wealth and growing middle class (Ravillion, 2010). As such, this would seem to suggest that strategic planners must focus on investing in markets which have been least effected by recent economic events.

Social

One key issue which many countries have come to see is an ageing population, a trend seen in both the UK and Western Europe (Parliament UK 2012) but also in the emerging economy of China as a result of the long term effects of the one child policy (Hutchings, 2001). However, one interpretation of such social trends is that this could benefit the global LCD business as aging populations come to look for higher quality home entertainments and other sources of diversion which do not require mobility. Other social changes however have seen changing consumer attitudes towards issues of CSR and the environmental impact of products and consumerism in general (Parsons and Maclaran, 2009). In this case, the consumer electronics sector may be seen as facing both challenges relating to current manufacturing practises in Far East locations (Duhigg and Baboza, 2012) but also an opportunity to create additional products and services linked to developments in green technologies and manufacturing practises.

Technological

The global LCD market itself may be seen as the product of an innovation in technology and replacing earlier technologies based around the cathode ray tube. However, investment in the technology on the behalf of television and consumer electronics producers represents a risk for companies such as Phillips. On the one hand, while direct investment may reduce supply risks, equally there is a consideration that there is a wide level of uncertainty as to how long LCD technology will be the dominant force in the market (Di Serio et al, 2011). Other issues relate to technological developments of complimentary products, or products which make use of LCD technology besides the core television product such as computer monitors and other consumer electronics. One consideration is that LCD producers and users may choose to invest in the development of technologies not associated with LCD production directly but in order to develop a new generation of complimentary products which make use of existing LCD technologies.

Legal

In order to develop and improve LCD technologies, there is a requirement for significant investment on the behalf of producers such as Samsung, Phillips, Sony and others in the market. However, one issue in the innovation process is that if such investments are to continue then investors must have their intellectual property protected (Tidd and Bessant, 2009). However, at present, it would appear that such legal protection is applied in an inconsistent way on a global basis. While producers enjoy rather comprehensive protection in developed economies such as the UK, Western Europe and the United States, protection in key emerging markets such as China and the Far East can often be somewhat lacking in substance, this is despite efforts on the behalf of the WTO and other bodies to improve legislation (Griffin and Pustay, 2010, Panitchpakdi and Clifford, 2002).

Other legal issues relate to those of the HR perspective, in this case global manufacturing can often see that legal regulations a much lower in emerging economies such as the Far East and Latin America. However, a key question remains so to whether producers should necessarily take advantage of the lower legal regulations of these emerging economies. In some cases, doing so has in the past resulted in negative publicity for those in the consumer electronics sector, with Ravillion's (2010) analysis of Apple proving the point.

Environmental

Recent years would seem to suggest that the supply chains of those operating in the global LCD sector have become more international in nature with greater outsourcing of operations and the marketing of products in a wider range of international markets (Di Serio et al, 2011). While this may benefit the sector allowing firms to reduce costs through taking advantage of the comparative advantage of nations (Porter, 1998), a spate of recent incidents have shown that environmental factors have recently had a negative impact upon the international supply chains of many companies both within and out with the sector. Such examples include the devastation caused by Hurricane Katrina in the Southern USA, earthquakes and tsunamis in Japan which had shock waves in the supply chain of Toyota as far afield as the UK and flooding in Thailand and Pakistan (Kollewe, 2011). All in all, recent decades would seem to suggest that environmental factors present significant challenges for industries such as the LCD sector which have become increasingly internationalised in recent years.

Action Plan

Based upon the above analysis it would appear that the global LCD industry faces an uncertain environment with both significant opportunities and threats. As such, the report recommends the following action plan for a producer such as Phillips in order to maintain market share.

Cost Strategy: Given the current economic climate and the general attitude of consumers it is recommended that Phillips should focus upon a low cost based strategy. In order to achieve thus the company will need to ensure that costs are reduced at every opportunity so as to see that not only is the company able to offer consumers the lowest priced product, but also so that such a strategy may be maintained in the long term (Johnson et al, 2008).

Market Selection: A key to maintaining market share for Phillips may be to consider the amount of effort put into individual markets. In this case, the company may choose to target geographic markets which have shown a greater level of resilience in the context of the current global financial downturn (World Bank, 2012). For example, Phillips may choose to develop an emerging markets strategy targeting key high growth markets such as China, India, Russia and Brazil in order to compensate for poor performance in the US and Western Europe.

The classical approach or approaches of strategic development may be best summarised by Whittington (2001) who brings together a number theories and theorists who take a ‘ top down’ rational approach towards strategic development. In other words, business level strategies are devised by those at the strategic apex of an organisation and are then implemented throughout the organisation. As Whittington (2001) points out, such approaches towards strategy are often suited to larger companies in mature and stable markets as opposed to emerging industries with a dynamic set of competitors. Having considered the classical perspective, the paper will now make the following business level strategic recommendations on behalf of Phillips in relation to the future direction of the company.

In selection an overall business level strategy, firms such as Phillips are presented with a plethora of prescriptive options, many of which are based upon a price v quality based assessment of strategy. Porter (2004) for instance offers three generic strategies based around cost leadership, differentiation and market focus. On the other hand, Bowman (1995) offers eight possible strategies based around differing levels of price and product quality based propositions. In this case, given the nature of the external strategic environment and the current position of Phillips and its strategic resources, the report recommends that Phillips should make uses of an overall cost leadership strategy attempting to offer consumers LCD televisions in the market which represent the lowest possible price. From the perspective of Bowman’s (1995) strategic clock this could result in one of three possible strategies including a no frills, low price or hybrid strategy. Considering these options, it may be the low price strategy which is of most relevant with a low price coming to meet average product quality and perceived benefits on the behalf of the consumer (Johnson et al, 2008). However, if such a strategy is to be enacted successfully, then Phillips must become the cost leader within the segment.

Having identified an overall business level strategy in the form of cost leadership, the next question is what steps must be taken to implement the strategy on the behalf of Phillips. In the first case, classical perspectives on strategy such as those put forward by Chandler (1962) advocated the expansion of businesses and the increasing of the levels of vertical integration. In this case, from a strategic perspective, classical theorists argued that larger vertically integrated companies were able to benefit from larger economies of scale and economies of scope than there smaller counterparts (Johnson et al, 2008). For this reason, the first recommendation of the report is that from a strategic perspective, Phillips should consider expanding the business not through a program of market based expansions but through a process of backwards vertical integration. In this case, Phillips may choose to acquire key suppliers of related components such as LCD panel producers, alternatively the company may choose to expand in such a direction through a process of organic investment in such in house production. Such a strategy would also seem to be consistent with the desire to reduce the power of the buyer and increase barriers to entry within the industry, key parts of Porter’s (2004) five forces analysis, a model associated with the classical school of thought on strategic management. This would seem to be desirable for Phillips at the moment given the high level of reliance which the company has on key input material providers such as Samsung (Di Serio et al, 2011).

Other possible sources of a strategic competitive advantage for Phillips may be to consider further ways of increasing the volume of sales within the business thus helping to create further economies of scale and scope and in doing so aiding the sustainability of the low cost strategy (Johnson et al, 2008). One issue to consider is that of the product range to be offered by the firm, in general terms, larger volumes of production often result in the development of a lower cost base through economies of scale and a reduction in the allocation of fixed costs (Arnold, 2008). However, not all increases in volume based production may be seen as equally as beneficial. For example, in expanding the breadth of the range of products offered by Phillips, those product additions which share common parts and components are likely to reduce the overall cost base of the company on a volume basis. However, introducing new product lines with few common components is likely to add complexity and hence cost to the business model (Slack et al, 2009, 2010). As such, the report recommends that in the future, Phillips should follow a strategy of increasing the width of its product range through related diversifications with the aim of increasing the volume of existing parts and components bought or manufactured within the company.

In summary, this section has presented a view in line with the classical planed approach towards business strategy in which Phillips should apply a low cost prescribed business strategy in order to best align the core recourses of the business with the needs of the external environment. In this case a number of recommendations have been made in order to facilitate such an approach including an increased level of vertical integration and in increasing of the breadth of the product range. From theoretical perspective, both of these strategies should help Phillips to reduce its cost base through the generation of further economies of scale and scope, thus supporting the business level strategy.

At its most basic level, the decision to outsource production is often considered in terms of a short to term cost analysis exercise with a considerable motivation coming from the prospect of being able to reduce costs and thus pass on the benefits to the end user or consumer. However, as Di Serio et al (2011) article considers, while this is true, the application of a number theoretical frameworks including the resource based view of the firm and transaction cost analysis may provide a more comprehensive framework for analysis. In the first instance, the resource based view of the firm considers that firms generate a competitive advantage by taking advantage of sets of unique and internal resources to develop a superior offering from either the cost based or product based perspective. As such, the decision to outsource of in house production is a key one for firms given that this will often be linked to the available strategic resources of the organisation, hence the decision is strategic as well as operational in nature.

Transaction cost theory on the other hand considers that there are costs associated with conducting transactions in a market context, in other words there are additional costs of outsourcing production which are not included in the delivered price of a product (Di Serio et al, 2011). Such costs include the risks involved in buying from a market context as well as more practical costs such as those of monitoring suppliers and planning the process of material acquisition. In other words, the application of transaction cost theory may act as a rebuttal to the instant attraction of manufacturers to an outsourcing strategy, highlighting a plethora of problems and costs which may not have been considered otherwise.

One key issue which is raised in specific relation to the LCD market but may be seen as applicable to any outsourcing decision is the opportunity for suppliers to behave in an opportunistic fashion (Di Serio et al, 2011). Such opportunistic behaviour can include making demands for excessive price increases or failure to supply altogether. Such a situation is more likely in markets where there is a limited number of suppliers and hence the power of the supplier is relatively high. In the case of the LCD market, this context would seem to exist with Samsung being almost the sole supplier of key components of the product. Exacerbating the problem is the fact that Samsung is not only a supplier of the product but also a competitor of Phillips in the consumer electronics sector (Di Serio et al, 2011). As such, one key issue for Phillips to consider in the outsourcing decision is to understand the significant risks being taken with regard to security of supply.

Other issue which relate to the outsourcing model consider the issue of flexibility, in this case the total impact of the decision upon a company from a strategic perspective is somewhat debatable. On the one hand, the outsourcing of production should see that firms such as Phillips have a greater level of flexibility of production output based upon the fact that capacity is increased and decreased through a market based procurement decision. In times of low demand, this is beneficial for the company in question given that it does not have to bear the cost of maintaining the fix costs associated with in housed manufacturing operations. On the other hand, in times of high demand, in theory firms such as Phillips should be able to simply buy in the additional capacity needed. However, while this is true in theory, the Di Serio et al (2011) case would seem to suggest that there can be a struggle to gain supplies from an outsourced provider during peak periods in the business or product lifecycle. Such a risk was materialised for Phillips during the course of the Football World Cup when the company struggled to obtain sufficient suppliers from outsourced operations.

Other strategic considerations for outsourcing operations come from the perception of risk of investing in technologies associated with every shortening product lifecycles. As the Di Serio et al (2011) case indicates, many in the LCD sector including Sony, LG and Phillips chose to outsource operations or create joint ventures in relation to component production simply due to a belief that investment in in-housed production represented a significant risk due to the short term nature of products in the consumer electronics sector. As such, the outsourcing decision may be seen as a mechanism for transferring such risks from manufacturer to supplier.

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