

Porter generic strategies and samsung essay



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This case study deals with Samsung Electronics and its evolvments thorough the years of activity. The semi-conductor industry in which Samsung participate is highly competitive and very dynamic. Thus, in order to analyze the case properly, we must know first the ropes of the industry, and afterwards dig in the company itself. Porter's 5 forces - Industry Analysis:

1. Threats of new entries:

The main threat on Samsung is the growing Chinese market that enjoys a government support and attracts outside financing. Moreover, the Chinese are willing to endure loses for several years in order to increase their market share and gain profits in the future. However, we must note that the semi-conductor industry has rather high entry barriers due to significant primary costs, R&D investments and economy of scale, so the threat of other new entries in not that high.

2. Bargaining power of suppliers:

Samsung is one of largest firms in the industry, hence its bargaining power facing suppliers is fairly strong. Additionally, U. S and Taiwanese governments' boycott on Chinese new entrants gives an additional bargaining power to Samsung, especially facing suppliers from those areas. On the other hand, the amount of suppliers is also limited, due to the increasing complexity of technology. This fact gives a significant bargaining power to the suppliers that cannot be ignored.

3. Bargaining power of buyers:

The memory industry contains powerful suppliers and price-conscious customers. Therefore, negotiation became more common and thus affects the firms, including Samsung. The “ clients” in the semi-conductor industry are often also firms trying to make profits (B2B), so the bigger the firms which buy from Samsung, the stronger the bargaining power it obtains.

4. Threats of substitute products:

For the time being, Samsung has minimal threats of substitute products. Due to several advantages comparing to their competitors: Samsung is the cost leader, it enjoys the newest technology and the best quality in the market, whereas Chinese firms are still way behind. Actually, it is more possible that if a substitute product enters the market, it will be a product designed and developed by Samsung itself. However, Samsung always has to be on the safe side and pay attention to any development of new ideas.

5. Rivalry among competing firms:

The industry in question is very dynamic and evolving rapidly. Thus, the rivalry focuses on getting the newest technology first. Samsung’s advantages in that area are the variety of DRAMs they can produce and the strong high invested R&D department, which allows them to keep their technological lead. In addition, because defective memory is hard to detect, OEMs are willing to pay upwards of a 1% average price premium for a reliable supplier, and Samsung proved to be fairly reliable for the past few years.

6. (A force that Porter didn't identify) Available compliments: The market contains numerous compliments that use Samsung's memory products and depend on them. The large growing number of such compliments benefits Samsung and similar firms in the semi-conductor market.

Samsung's Business-Level Strategies

As taught in class, different generic strategies on the business level can lead to competitive advantage in the same industry. Samsung uses a mixed strategy of cost leadership and differentiation as well.

Low cost strategy

Samsung's low cost strategy implemented in lower cost structure - main R&D facilities are located in a single site, which helps solve problems in short time and affects directly on costs. Due to its size and as mentioned in the Porter's five forces section, the firm has highly bargaining power (this fact can assure low costs). Moreover, it has higher yield than its competitors and its products share a common core design.

Differentiation

Samsung is a technology leading firm; it's investing significant amount of money in R&D and creating a comfortable platform for innovation. Its strategy based on encouraging its employees by granting bonuses for high achievements. Moreover, it is preserving a high brand value do to its product reliability. In that field, we would like to mention that margins are much higher for differentiated products because they don't negatively affect overall cost-structure.

Additional strategy related ideas

Due to the high capital costs and learning required in the semi-conductor industry, Samsung sets high barriers for entrants. The firm strategy emphasis its importance in developing in human resources, due to high investment in employees and recruiting experts from all over the world. Moreover, the firm uses DRAM by supporting design firms, and in this manner creating new uses for its main product.

The Chinese Entrants and the advantage they are seeking The Chinese firms are using mainly the low-cost strategy and seeking for the price as their advantage. Moreover, the Chinese are willing to sacrifice immediate profits in order to increase their market share. They were able to do that thanks to easily raised money from local and international sources and talented engineers. The Chinese firms struggled at the beginning suffering mainly from lack of necessary organizational experience and tacit knowledge required, but the financial back helped and still helping them to pass the first period of evolvement. The Chinese firms have already succeeded in applying their strategy and entering few low-cost products to the market. However, they have still a way to go becoming the price leader and a rival to Samsung, mainly due to Samsung's efficiency and technological dominance.

Samsung's reputed performance As we've noted earlier, Samsung take a mixed strategy of low cost and differentiation. If quantify is needed, we believe that 60 percent of their reputed performance based on its low-cost advantage, while the other 40 percent derives from the differentiation. The fact that Samsung's products are not only low-cost, but also very reliable is

in fact what built their reputation among buyers and other firms. The emphasis on quality and the massive burning of flawed products back in the 90's gave Samsung a massive credit and positioned the firm as a trustworthy, creditable supplier.

Samsung's low cost advantage and the Chinese threat on cost As mentioned earlier, Samsung's low cost strategy implemented in lower cost structure - main R&D facilities are located in a single site, which helps solve problems in short time and affects directly on costs. Due to its size and as mentioned in the Porter's five forces section, the firm has highly bargaining power (this fact can assure low costs).

Nevertheless, the firm is worried about mainland Chinese companies that we're beginning to attack it in the same way that the firm itself attacked the Japanese companies 20 years earlier. It is important to remember that Chinese companies enjoys a high level of support by its government, which subsidizing all infrastructure needs, providing cheap credit and lands and provides tax incentives that are crucial for the firms. Samsung is facing a dilemma with regarding to the rise of Chinese semi-conductor firms: it can choose to collaborate actively with Chinese partners, or it can increase its investment in cutting-edge memory products, particularly for new niche markets. The first option suffers from a major risk: due to unprotected intellectual property rights, collaborating with the Chinese may lead to the partner becoming a rival someday.

On the other hand, Samsung can choose not to teach the Chinese its professional secrets, and instead cede the lower end of the market to the

Chinese while trying to develop more high-value niche products. We believe that choosing the second alternative would be more profitable for Samsung, leaving its competitors behind. In our opinion, adopting this strategy can assure Samsung withstand the Chinese threat on cost.