

# International trade of samsung electronics economics essay



International diversification is very important for an international enterprise, it is a corporate strategy. It is designed by higher sales of new products and new markets, and increase profitability. Diversification can occur at the business unit level and corporate level. In this essay, we will focus on the advantages and disadvantages of international diversification for the company. At present, many companies are international based which developed their business to the different countries and regions, of course, they also facing a lot of risks and opportunities, in the following, I will analyze the advantages and disadvantages of exploring business internationally. This process involves different strategies. For the different sectors of the business, the different countries must be developed and implemented. The management of the high capacity of these strategies must be developed, the huge opportunity to enter new market of business regardless of the implementation of the big challenges and difficulties, cross-border diversification to attract the company's long-term growth, and growth in existing business on the market in other countries.

## **Introduction**

International diversification is a basic and the most important principles in the business world. In the past decade, the impact of the value of corporate diversification has become the focus of attention of the research significantly. The vast majority of this article has focused the industry on this issue. Diversification is a strategy to increase profits for selling the new products in new markets of a corporate. In fact, all strategy has its advantages and disadvantages, one of the company's management staff will be used to achieve different purposes of these advantages and

disadvantages. Diversifying internationally is a concept to enhance the value of the corporation, which is a source of foreign direct investment (FDI).

Enterprises to invest overseas, the use of company assets transferred abroad, reached the economies of scale and the economies of scope.

Through the operational flexibility associated with a multinational corporate system, value creation from international operations can also be created.

Now a day, international environment is really uncertain, an internationally diversified network can gives the opportunity to the firm to exploit market conditions. Diversified corporate marketing, it can be used in a developed market, the establishment of new enterprises, so as to increase the profits of the company. Also, it can be used to diversify the investment of the company's assets, in order to prevent the downturn in the market of their country. There are two type of diversify, the first one is the internal development, through the internal expansion and diversification of production, creation of different products and brands. It can be achieve the perfect internal development. On the other hand is the external development, external expansion through acquisitions or strategic alliances to enhance the visibility of the enterprise in the global market, to expansion of profits and achieve the international standards. In the following, consumer electronics giant Samsung Electronics is taken an example to illustrate the advantages and disadvantages of international diversification.

### **Case study – Samsung Electronics**

Consumer electronics giant Samsung Electronics is an international corporate, It is the flagship subsidiary of the Samsung Group. Samsung Electronics the largest electronics industry in South Korea, engaged in LCD,

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semiconductor, mobile phones, digital media business, it is the biggest sales of the electronics industry manufacturers in the world. “Inspire the World, Create the Future.” is the vision of Samsung Electronics. In the mobile phone market, Samsung Electronics is the number one of the market share in the world, successfully beat a traditional mobile phone manufacturers such as: Nokia, Motorola, Sony. Sights on future market trends to the touch smartphone, Samsung also compete to launch the products corresponded to the competitors, such as Galaxy S2, to compare with the biggest competitor Apple’s iPhone.

### **3. 1 International trade of Samsung Electronics**

International trade across borders the transactions of goods and services, general import and export trade, therefore, it also call import and export trade. International trade directly affect the gross domestic product (GDP), it is very important for many countries; it can adjust the economic structure of the country and increase the fiscal revenue.

In order to reduce the production cost, Samsung Electronics using global procurement, they looking for the potential suppliers, is committed to enhance product development, corporate culture, and contributions to the global society. Samsung Electronics and Suppliers as well as the manufacturers can cooperate to make the best product. Global procurement not only can reduce the production cost, it also can enhance the productivity. Samsung Electronics has an absolute advantage over another in producing a good in Korea and the other country. It can produce that good using fewer resources than another country. Samsung Electronics can enjoy the absolute advantage when they conduct the international trade. In <https://assignbuster.com/international-trade-of-samsung-electronics-economics-essay/>

additional, Samsung Electronics conducted international trade, which also produced of foreign direct investment (FDI), FDI is direct investment into production in a country by a company in another country, Samsung Electronics investment in China or the other country, the both countries have brought some Advantages.

Now, we can talk about what is the advantages and disadvantages of Samsung Electronics when the corporation diversifying internationally.

## **Advantages of a corporation diversifying internationally**

### **Economic of scale**

Economic of scale is the expansion of production scale and increase the economic benefits. It is to reflect the relationship between the concentration factors of production and the economic benefits. Economies of scale help producers to lower their cost by producing large amount of output at lower costs. Samsung Electronics has realized economies of scale in semiconductor production. Semiconductor devices can perform a variety of control functions in electronic equipment, such as Samsung touch smartphone. Through the continuous improvement, Samsung's semiconductor production successfully extended the R & D centers and production lines to China and other countries, and the products can sell around the world, via mass production to reduce the costs. This is the cost advantage

### **The advantage of the economies of scale of Samsung:**

Can be achieve the harmonization and standardization of the products

high quantity of raw materials, reduce the purchase cost

Easily to control the quantity and quality of products

Conducive to management and technician specialization and professionalization

It can has strong competitiveness in the national market

### **Economic of scope**

This is also a cost advantage to make the cost lower to produce a range of related products than to produce only one of the individual products on one company. A company can expand its range of products to take full advantage of the value of its existing capacity. Samsung produces various electronic products, such as LCD TV, LCD panel, semiconductor (DRAM, NAND Flash), mobile phones, digital cameras, LCD monitors, printers and other related electronic business, production of these products can use the same or similar of raw materials, for example , produce the TV and the computer can use the same type of LCD screen, it can also be carried out in the same factory, and the workers all have same knowledge, produce different products to reach international diversification, fully to take the advantage of economies of scope.

## **Spread the risk**

**Diversifying internationally through acquisition or alliances can increase the market power of a corporation, to strengthen the competitiveness in the international market. At the same time, it can spread the risk of investment by avoid having all eggs in one basket. Enough reserve to respond to market decline. Samsung Electronics has acquired the related business companies, such as British semiconductor designer Cambridge Silicon Radio Ltd, merger with Seagate Technology (USA), its market forces continue to expand and greatly enhance the visibility and competitiveness. In addition, in order to diversify their investment and risk. Samsung Electronics set up their headquarters and plants all around the world.**

## **Learn from advanced technology**

If a corporate diversifying internationally, for example, which part of the products to their alliance's company responsible for, it can learn the expertise and technology from the alliance. Samsung Electronics maintains good relationship with their partners, to learn advanced and unique technology in all of the production process, also, they hardly to study all of the knowledge and skills from the other country, such as the electronic technology from Taiwan and the scientific knowledge from USA. Learning knowledge from difference country can enhance the quality of staff, greatly to help the long-term development of the company. In addition, it also can enhance the core competitiveness of the corporation in the world.

## **Experts of expertise**

When access a new market in other country, except to learn from advanced technology, Samsung Electronics also gain the experts of expertise, combine different professionals through merger and acquisition. For example, Samsung Electronics access to the advanced country, such as USA or UK, it can gain the experts in the locality, to understand their professional science and technology. In addition, China's population is more than 1.3 billion, it boasts to have larger human resources than other countries. As the increasing of population, China will have the greatest number of professionals.

## **Low labors and resources cost**

Samsung Electronics can enjoy the cheap labors from their country and all developing country, for example, China has 1.3 billion people and widely of the labor force, compared with the pay of workers in other countries will be lower, so, to set up factories in China or merge with Chinese companies, it can enjoy the low-cost labors and production as well as the resources and the raw materials are also relatively cheap. In addition, the lands and rent are the most put in of the funds, China has well Infrastructure, now, it investing in the outsourcing industry. Like the city Chengdu are already planning to have a high-tech zone in areas that are spanning upwards of 1 million square meters. China has the cheaper lands and low rent for build up the factories, so Samsung Electronics can save more money on this part.



## **Enhance competitive power**

Foreign competition can be encouraged to enhance the company's productivity. Doing business in the international market, the companies will continue to improve the quality of their products, in order to gain a market competitive advantage. The face of powerful competitor: Apple Store, Samsung Electronics continuous innovation and reform the products, for example, Samsung Electronics produce the smartphone , such as Galaxy S2, S3, Notes, to compare with the biggest competitor Iphone from Apple Store, in order to occupy a strong position and strengthen competitiveness in the world market.

## **3. 3 Disadvantages of a corporation diversifying internationally**

### **Increased management costs and complexity**

Samsung Electronics realized International diversify may add complexity of the enterprise. Merger or alliances will make management costs rise, thereby increasing the cost of production abroad. To entry into the new market, the biggest barrier is the huge capital requirement, for the established of headquarters and factories, recruitment, procurement, management etc. In addition, it have more management challenges related to structural complexity with the new administrative structures, it may increase the information processing when access the new market in the global.

### **Language problem**

Actually, the language barrier is a serious problem, the coordination, communications and motivation issues are very important when access to a <https://assignbuster.com/international-trade-of-samsung-electronics-economics-essay/>

new market. Samsung Electronics is an oversea company, when they wants to set up factories or headquarters in China or the other country, foreigners do not understand Korean, miscommunication may occur, affecting the company's operations. They need to recruit some language expert to solve the problem, also, they can recruit the translators or local agents to manage, but it will increase the management cost.

### **Quality problem**

Globalization made enterprises want to be entry in the major countries globally. To response the growing need of competitiveness in the world, many enterprise want to outsourced some of the productions in China, in order to enjoy relatively cheap production cost, Samsung Electronics outsourced parts of its production to China like the battery and the case of Samsung smartphone, actually, China is still at its early stage of being in the outsourcing industry. the quality may not be guaranteed, especially in China, although China has labor resources stronger than the other country, but the low academic qualifications and lack of skills of the workers may be affected the quality of the product. However, it can be improved by training and the technology.

### **Economic risk**

Economic risks, such as exchange rates, government regulation, decline in per capita gross domestic product (GDP), inflation and capital flight. In recent years, inflation in China is very serious, inflation reflects Samsung facing the business crisis, and company may need to save the manpower and raw materials, affecting the yield and quality of its products. In the current financial risk, Samsung Electronics encountered a serious impact on the <https://assignbuster.com/international-trade-of-samsung-electronics-economics-essay/>

global business, it has a lot of economic problems, such as inflation, rising unemployment, these factors will directly affect the business of Samsung Electronics.

### **Cultural risk**

This is a risk, because you will not know whether there will be changes, before entering each country, Samsung Electronics must understand the culture of the country, such as people's preferences, habits and the consumer behavior, it all arising from cultural differences. Western companies are lack of understanding of Chinese culture. There is also a perception of corruption and bureaucracy in China. Samsung Electronics is located in Korea, far away from China, geography and time differences may require staff to adapt their business practices.

### **Political risk**

In fact, a lot of investors, businesses entering a new market are facing the risk of political risk. Political risks including systemic risk, procedural risk, distributive risk and catastrophic risk. Such as fiscal, monetary, trade, investment etc. Rather than the risk of market factors including industrial, income, labor and development, or related to political instability, such as terrorism, coups, civil war, riots, rebellion event. Samsung Electronics is also facing of these problems, China has just started with implementing rules on security and intellectual property rights, they are still considered to have poor protection. This becomes a problem especially when manufacturing of products are outsourced to their country. Political uncertainty may also bring unexpected costs, which can be substantial. In addition, in their own country,

South Korea and North Korea is still having a problem, in a tense  
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confrontation, it may conflict at any time, affecting the operation of the enterprise.

## **Exchange risk**

International trade may cause delays in payments, for example, Samsung Electronics sell the products to other country, it may delays in payments when the goods trade between the trading companies, also It has the foreign currency problem, such as RMB and HKD, the rate is difference from Korean, affecting the cash flow of the corporation. In addition, the exchange rate of foreign currency may not stable, exchange rate fluctuations and the inflation also are the existence risk. However, in recent years, RMB rising also is the significant risks faced by Samsung, deterred many of the intended development of foreign-funded enterprises in China. RMB appreciation, rising costs of labors, raw materials and lands, all is the currency and exchange risk factors.

## **Market risk**

In different countries have different regulations and standards, the corporation need to comply with the new standard when access a new market. It may have some factors to change, in order to facilitate restructure of the company, it is necessary to training or retraining of the management, for example, in the production process, the input and packing, thereby generating additional costs. In order to access to USA market, Samsung Electronics are facing the big problem which is intellectual property of the biggest competitor Apple Store. Earlier, Apple sued Samsung and its Galaxy series smartphone copied the design of the iPhone smartphone, Samsung has the hefty fines to Apple Store, thereafter, Samsung sued again to U. S. <https://assignbuster.com/international-trade-of-samsung-electronics-economics-essay/>

International Trade Commission and complaint the Apple Store, referring to Apple guilty of Samsung patent such as 3G, wireless technology, prohibit Apple iPhone, iPad and iPod devices sold in the United States. Plagiarism and infringement of the war, Samsung and Apple compete with each other; there is a certain degree of difficulty in entering the U. S. market. This is the risk of Samsung Electronics.

## **Recommendations**

Samsung Electronics is a leading consumer electronics brand in the world, is committed to satisfy consumer's need and reach the international standard, Samsung Electronics realized international diversification, Samsung Electronics only has the Authorized Partner shop in Hong Kong. To further enhance the customer services and the quality of products, it is recommend to build up the flagship store and more retail trader all around the world, it can be expansion the sales network and strengthen the market power. In addition, in order to prove the quality of products, it is recommend Samsung Electronics to make the adjustment of the warranty period of products. In addition, in order to solve inflation and the potential risk of China, it is recommended that the plant can move to the other place, such as Vietnam, this is a developing country, the price of raw materials and the cost of labors and lands are also cheaper than China.

## **Conclusion**

Undeniable, international diversification is accurate flexible and efficient for Samsung Electronics. International diversification both have advantages and disadvantages, but relatively, the advantages outweighs the disadvantages,

Samsung reached in economies of scale and economies of scope, due to <https://assignbuster.com/international-trade-of-samsung-electronics-economics-essay/>

their constant improvement and innovation, successful in the international electronics market accounted for an important position. However, Samsung Electronics are facing a lot of risks, such market risk and the exchange risk; many of the unknown factors exist. In the long run, Samsung must have a comprehensive plan to deal with these problems.

## **Appendix**

[http://wpcontent.answcdn.com/wikipedia/commons/thumb/3/38/Economies\\_of\\_scale.PNG/330px-](http://wpcontent.answcdn.com/wikipedia/commons/thumb/3/38/Economies_of_scale.PNG/330px-Economies_of_scale.PNG)

[Economies\\_of\\_scale.PNG](http://wpcontent.answcdn.com/wikipedia/commons/thumb/3/38/Economies_of_scale.PNG/330px-Economies_of_scale.PNG)

### **(Figure 1) Economic of scale**

[http://www.samsungmobileb2b.com/images/en/main/v2/featured\\_GalaxyS3.jpg](http://www.samsungmobileb2b.com/images/en/main/v2/featured_GalaxyS3.jpg)

### **(Figure 2) Samsung Galaxy S3**

It's our business to make yours more productive.

### **(Figure 3) Samsung products and slogan**

Samsung Flagship Store

### **(Figure 4) Samsung flagship store in Singapore**