

External environment and value chain analysis of samsung



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1. External environment of Samsung electronics with Five Porter's Five Forces Model

Level of Rivalry in the Industry:

Competitive Rivalry: Since Apple present smartphone “ iPhone” in 2007, the market of mobile phone is decreasing. The primary differentiating factor between mobile phone and smartphone is technological innovation which is the reason why smartphone dominate the market. Smartphone contain lots of function such as telephone capabilities, MP3 players, large screen and cameras. Therefore, smartphone has advantages compare to mobile phone in the market.

In cell phone showcase fragment, Samsung contends with a wide scope of providers, for example, Apple, LG, Lenovo, ZTE, Huawei, OPPO and others. Samsung has had the capacity to keep up authority position in the worldwide scale throughout the previous six years.

The smart phone market seen extreme challenge on account of the substantial number of contending brands and their size and money related quality. From LG to Apple, Apple, SONY, Toshiba, there are a few brands that are going after piece of the overall industry. It is likewise why section for new brands ends up troublesome. These extensive players are outstanding brands with a built up brand picture. Technological development turns into the essential separating factor. In general, the dimension of aggressive competition in smart phone market stays high.

Bargaining power of suppliers:

Raw material such as screen, RAM or other relevant items is the component of smartphone. Lack of any of this item will lead the failure in the process of production, it demonstrates the importance of supplier on Samsung external environment. In the case of Samsung, its supplier's bargaining power is low base on several important factors. First, the size of suppliers is usually small which make their bargaining strength is low. According to the Samsung Sustainability Report(2016), Samsung has 579 suppliers globally and the company's supply chain includes over 2, 700 suppliers in various industries across the world. 1

Second, these suppliers are dispersed all over the world so Samsung can easily switch to new supplier. Due to these situation, it makes Samsung become the ruler and the major source of income for the suppliers. In order to maintain high quality of product, Samsung makes the rules that the suppliers are required to follow and conduct regular check to see if the suppliers are fail to achieve the standard.

Lastly, from work welfare to item quality and supportability, the suppliers are required to pursue the set standards in every one of these regions. Hence, you can see that every one of these elements keep the general bartering intensity of suppliers limited. In the event that a portion of the suppliers can practice some dealing force, at that point it is a direct result of their size and budgetary clout.

Bargaining power of buyers:

Technology has led to a continuous rise in the bargaining power of the buyers in 21st century through Internet. The bargaining power of buyers is moderately high in case of Samsung. Internet allows buyers compare brands and read feedback from other player, so they can easily switch to any of the competing brands. Brands are putting a great deal in showcasing and promoting to draw in new clients. Each contending brand is so forceful about showcasing to hack into its opponent's client's base. Every one of these variables mean higher bartering intensity of the clients. Samsung has to consider the following components include the market image of a brand, quality of product and financial clout in order to increase bargaining power.

Threat from substitutes:

In the smartphone market, it contains high threat to the Samsung brand. There are several competitors in the market such as Sony, LG and Apple which allows buyer to purchase other substitute product if Samsung can't satisfy the need of the customers. Apart from these there are other local and international brand that can consider as competitive threat for Samsung. Therefore, Buyers have several options to choose base on the variety of substitution. It is important for Samsung to create a good brand image if there are no big technology improvement compare with other competitors.

Threat of new entrants:

The risk of new contestants is low for Samsung. Building such a vast brand isn't simple. There is a lot of financial investment plus marketing and a need for highly skilled human resources. In this way, the boundaries to section are

high. Although there is opportunity to enter a smaller scale and raise a local brand, but it will be difficult to compete with the well-known brands. In addition, lawful and administrative weights likewise act to raise the obstructions to section.

2. Using the concept of core competence and value chain analysis, analyse what the strengths and weaknesses of Samsung are in comparison to Apple.

Core Competence:

A core competency is a hypothesis of management theory presented by C. K. Prahalad and Gary Hamel. In a simple explanation, core competence is the combination of specific skill and production techniques that distinguish the firm in the market place. Hamel and Prahalad believe reevaluate the idea of the corporation itself – “ from a portfolio of businesses managed and optimized independently, to a portfolio of competencies spanning across individual businesses and delivering real and sustaining competitive advantage.” (DENISE LEE YOHN, 2010) The concept of core competence also helps the organization access a wide variety of markets.

In this case, the core competencies of Samsung are speed, cooperative energy through assembly and technological innovation. The following has listed the strength of Samsung in detail:

- Competence in creation of speed: Samsung has their own management system which is clear, fast and stable, allows them to seize opportunities. Set up ambitious goals, create an atmosphere of

urgency, delegation of authority, well staff training and conduct preemptive large investment to seize opportunities. It outlines the four important principles of Samsung management system which is foresight, act fast, preemption and seizing opportunities first. Base on the principles, it takes less time when it comes to decision making. The approval process taking three steps or less with Samsung internal management, create competitive advantage in the competition.

- Cooperative energy through assembly: Driven by the proprietor administrator and arranged by the CSO, the groupwide participation offers Samsung gigantic adaptability. The firm has an entire value chain of electronics under one rooftop. This allows Samsung unified marketing network, product diversification and digital convergence of product and service. It provides advantage for Samsung in financial, labor and product market. The collaboration between different department can create product diversification. For example, successful in smart phone based upon advancements at Samsung display and TV by collaboration. Also, adoption of shared knowledge and information can help with significant cost reduction especially for the HR department.
- Existing Technological innovation: Samsung has exceeded expectations in essentially enhancing existing innovations, while less in making new age of advancements. Instead of innovating a new technology that might not theoretically exist, Samsung try to extend their knowledge and skill base on their existing technology. For example, Samsung will be considered to innovate a new display and interaction technology since the touch-screen has exist in smartphone.

Samsung also looks for outside knowledge through innovation authorizing, hiring foreign experienced engineers and reverse engineering. Samsung also collaborate with university to seek new innovation idea from current university student by offer them an internship program.

However, the advantage of Samsung's internal environment also carries out the weakness that reduce business capabilities during capturing the opportunities.

- Increase rival in the market: Samsung has conducted more electronics product base on their product diversification. This diversification rises a new rival as there are other larger companies in other market.
- Lack of innovation: Although Samsung has innovated a new technology base on their existing technology. However, the new technology wouldn't be leading the new generation because it couldn't impress the customer. For example, Apple is the first company which present the smart phone in 2007, as a result, Apple earn lots of profit and reputation through this technology.
- Failure expectation: Speed always create a big advantage for Samsung when seizing opportunities. However, if the decision didn't achieve the goals or expectation, Samsung could have serious money lose.

3. Drawing on the concept of competition pricing strategy, critically evaluate the Samsung's pricing strategy

Apple and Samsung applied different pricing strategy in their smartphone market. Apple exploit premium pricing as their main pricing strategy

whereas competitive pricing strategy are used by Samsung. In order to outline the concept of competition pricing strategy, we have to understand the concept of premium pricing strategy.

Apple utilizes a premium pricing strategy when they need to charge more expensive rates than their rivals for their items. The objective is to make the discernment that the items have a higher value. Advertising supervisors need customers to trust that the brand name without anyone else's input is sufficient to guarantee them that the item is superior to another brand item in the market. An excellent estimating technique has the upsides of delivering higher net revenues, making harder for their competitor, and expanding the brand's incentive for all the Apple's items. No doubt, Apple become one of the famous and profitable organization since they present their first smartphone in 2007 with premium pricing strategy.

However, premium pricing strategy isn't suitable for Samsung in the smartphone market. Samsung is confronted with surprisingly competition via others in the market like Apple, HTC, and Microsoft amongst others. To curb this competition and in order to be competitive, Samsung has to select a right pricing approach which the price should base on the product position in the market. Samsung has now not been so popularly in the previous but have undertaken approach in advertising and marketing to expand its popularity in the Smartphone market.

However, competitive pricing strategy isn't the only strategy plan Samsung has applied in the market. The structure of Samsung pricing strategy can identify in two part with the first is skimming price and the second is the

competitive pricing. “ Skimming pricing is used when a product, which is new in the market or just launched, is sold at a relatively high price because of its uniqueness, benefits to customers or its current Wow factor.” (Asmita Gupta, 2017) In the product life cycle, there are four stage which is introduction, Growth, Maturity and Decline. When Samsung present the new smartphone to the market, it sold at a relatively high price because of its uniqueness, benefits to customers. The price will remain high in introduction and growth stage. When the time get passed, the product price will drop, and the product is brought at competitive pricing. The price start to decrease in decline stage. Skimming allow Samsung to increase the market share of the product by lower the price. Price decrease can attract more customers even market saturation has conduct.

Nowadays, Samsung has become more competitive and successful in the smartphone market using the combination of pricing strategy. Samsung also understand the need of different level people in this society by observe customer purchase behavior. In the perspective of wealth people, “ fashion” is one of the key elements to consider when purchase luxury good whereas normal people will consider price first. According to IDC research, Samsung led the smartphone market with a share of 21. 2% compared to 22. 3% in 2015. And it still leads the smartphone market in 2017 with shipments of 79. 8 million units in 2017, a rise of 1. 4%compared to 78. 6 million units in 2016. (Asmita Gupta, 2017)

4. Critically evaluate the relationship-based Asian governance system

As we know Samsung is one of the major manufacturers of electronic components in the world. Even their competitor such as Apple, Sony are also purchasing the component from Samsung which lead Samsung become the largest manufacturer of smartphone. However, unlike other organization, Samsung Electronics and sister companies and subsidiaries form the organizational structure of the Samsung Group. Therefore, Samsung Electronics are shedding light on the system of corporate governance known as “ Chaebol” governance.

Before the financial crisis in 1977, Korea’s corporate governance system operated poorly because of the absence of functioning institutional settings. Many businesses want to build great conglomerates to compete on the world stage. The board member of conglomerates tended to make decision on their own and often failed to monitor or advise management which make the conglomerates absorbed more and more capital investment. Eventually, excess debt led the conglomerates to face failures and takeover. At the same time, government also failed to overlook the illegal behaviours of controlling shareholders.

“ Samsung Motor was sold to Renault at a significant loss. As of 2010, Renault Samsung is 80. 1 percent owned by Renault and 19. 9 percent owned by Samsung.”(Wikipedia, 2019) Although Samsung survived after the 1997 Asian financial crisis, Samsung had suffered a great loss from the crisis. Two problem were identify from this loss. “ Solo” decision always been made in 1977 because the lack of monitoring system. The board member tend to purse high-risk project to increase the rate of return. The shareholder’s portion of the success of the project will increase without limit whereas the <https://assignbuster.com/external-environment-and-value-chain-analysis-of-samsung/>

investor only loss their investment if they are involved in legal liability. The characteristics of Chaebol is member try to control of multiple subsidiaries through the assistance of family members and family-owned channels to interlocking the ownership of the company. Another issues is external. Chaebols are very close to the government because they have to rely on regulation and government loan in order to achieve their goals.

An example of the limitations of chaebol-style governance can be viewed in recent incidents involving Samsung Electronics. In the wake of a global recall of Galaxy Note 7 smartphones due to battery explosions, Samsung's management structure is additionally being known as into question. As mentioned, chaebol senior managers can every so often exhibit a lack of danger administration ability in the absence of top management's direction. Indeed, in the Samsung case, the difficulty with the Galaxy telephones happened at some stage in a duration of absence for Samsung chairman Lee-Kun Hee. Some analysts characterize the management at some stage in this duration as clumsy, and it may additionally also have triggered serious hazards for traders and shareholders. Samsung's response with substitute telephones was additionally viewed to be haphazard.

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