Samsung case essay

aseSamsung Case Write-up Student: Guilherme Filho Penn ID: 85730403 1. What are the sources of Samsung's competitive advantage? Validate your arguments regarding competitive advantage with evidence from the case. Differentiation – There are two main sources of competitive advantage that increase the WTP for Samsung customers. The first one is the Product Mix. Samsung offer to its customers a huge variety of products, ranging from the cutting-edge technology to more basic products. It also offers customized products to focus on niche markets.

With this strategy, Samsung is able to compete in a broad range of segments in the market, usually offering superior products. In 2003 for example, Samsung offered over 1, 200 different variations of DRAM products. Given that DRAM products were conventionally thought of as commodities, the ability to produce 1, 200 different varieties was unprecedented in the memory industry. If we analyze the table with the DRAM Production volume by product line in 2003 (Exhibit 5), we can see that Samsung is the only company with a significant volume in all the products categories, while the competitors are more focused on only two or three product lines.

Another factor that differentiates Samsung from its competitors is the quality of the products and the ability to offer customized solutions. The company routinely won key industry competitions for reliability. Many customers, even rivals of one another, named Samsung their supplier of choice. For instance, the company simultaneously developed a new Flash memory chip for Sony Ericsson and a Flash memory chip customized for Nokia. The fact the Samsung was famous for its superior quality had a direct impact in their customer's WTP and allowed Samsung to charge a higher price.

If we compare the price of a DRAM 256Mb (Exhibit 7a) for example, we can see that Samsung charges 12. 7% more than the weighted average price of its competitors. Low Cost – The fact that Samsung concentrated all of its industrial and R&D activities in a single site is a tremendous competitive advantage. With the benefit of collocation and scale of fab investment, Samsung was estimated to have saved an average of 12% on fab construction costs. It was much more effective to have all the engineers from different areas working together on a daily basis, making it more easy and fast to solve issues involving production and product design.

Samsung was the only company that worked with this strategy, while its competitors were much more inefficient, with facilities spread all over the world. It is also worth to mention, that Samsung had one of the best model to offer incentives for its employees to increase their productivity. The average salary was the lowest compared to its competitors (average salary at Samsung in 2003 was $44, 000; the comparable figures for Micron, Infineon, Hynix, and SMIC were estimated to be $54, 000, $72, 400, $24, 600, and $10, 800), but the rewards were higher.

Productivity Incentives rewarded employees for performance at the division level (for example, the Memory Division), but could be modified for each department or team in the division on the basis of its performance and contribution. The Productivity Incentives paid up to 300% of annual base salary. With the strategies described above, Samsung was able to have a lower cost in all products lines when compared to its competitors. If we analyze the cost breakdown of a 256Mbit DRAM in 2003 (Exhibit 7d), Samsung cost is $4. 5 while the competitors average cost is $5. 61. The fact that Samsung had a lower cost and at the same time the highest price of the industry allowed them to have a very solid competitive advantage. They operated with an operating margin that was significantly higher than any of its competitors. In the example that I was describing (256Mbit DRAM), the operating profit for Samsung was 18. 4%, while all the competitors had a negative operating profit. 2.

What recommendation would you make to Chairman Lee regarding Samsung's response to the threat of large-scale Chinese entry? Before I talk about what I think the Chairman of Samsung should do, I would like to talk about what I think he should not do. For me, it is very clear that the idea of joining forces with a Chinese partner is definitely not a good option for many reasons. There are innumerous cases of companies from all over the world that tried to use this strategy and the result was completely different from what they were expecting.

Just to give an example, there is a company from my country (Brazil) that is one of the largest bus manufacturers in the world, called Marcopolo. In 2005, they decided to create a joint-venture with a local player in China, because they were facing challenges that were very similar to those that Samsung is suffering. After they have taught all the secrets of their technology to its Chinese partner, the Chinese decided to quit the partnership and become a competitor. If Samsung decides to use this strategy, there is a high risk that they might have the same outcome.

The second reason is that I believe that moving the entire production to China or creating a new plant there can be a threat for their business model based on the concentration of activities in Seoul, which is one of their most important source for competitive advantage. My recommendation for Samsung is to use their expertise and their tradition to offer premium products for high-value niches, maintaining a competitive strategy based on quality and innovation that will generate a differentiation hard to be replicated by the Chinese.

This strategy will enable Samsung to focus on clients with high WTP, which will have a positive impact on the profit margin. With this approach, Samsung would allow its Chinese competitors to focus on the segments that do not demand a high level of differentiation and the entry barrier is lower. This way, Samsung will avoid to enter in a price war with the Chinese for the lower end segment and will maintain a leadership position in some of the most profitable segments of the market.