

BUSINESS 478

Section D400

CASE SYNOPSIS FOR:

SAMSUNG



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INTRODUCTION

History

In 1938, Samsung was founded by Byung-Chull Lee as a small export business in Taegu, Korea. At the beginning, Samsung focused primarily on trade export. Samsung acquired several companies in the following years, and Samsung-Sanyo Electronics was established in 1969. In the 1970s, Samsung started to invest in the heavy chemical and petrochemical industries, which laid strategic foundations for the company's future growth. During the late 1970s and early 1980s, Samsung entered the global market with its core technology businesses diversified. High-tech businesses were faced with great challenges in the early 1990s, and Samsung captured the opportunities of mergers, coalitions, and global transactions. In the mid-1990s, Samsung was dedicated to making world-class products that were high in quality, and provided total customer satisfaction. The digital age came in the 2000s, and Samsung responded with advanced technologies, competitive products, and constant innovation.

Samsung has successfully become one of the world's largest electronics companies today, and the world's number one manufacturer of CDMA mobile phones, LCD and CRT monitors, DRAM memory chips, and microwave ovens.

The Organization Today

Samsung is currently the world's top android vendor. However, it wants to achieve more as it announces that it would be making a major push into the enterprise world with the launch of its KNOX enterprise security suite. Today, Samsung does not see itself only as a mobile phone company, but rather a technology company that manufactures a wide range of products.

Samsung achieved amazing growth in sales and profits in 2012 due to the market leadership in their core businesses, such as smartphones and TVs. Other new businesses, such as the LSI and OLED, are continually improving. Samsung's TVs are the world's top selling brand for seven consecutive years, and was the most profitable in the industry. In terms of Samsung's memory businesses, despite the fact that the prices were declining, Samsung maintained the highest profitability in the industry. Samsung's

OLED business achieved significant growth and improved profitability by employing a differentiated strategy.

In 2012, Samsung had record sales of KRW 201 trillion, which is an increase of 22 percent from the previous year. The operating and net profit doubled, reporting KRW 29 trillion and KRW 23 trillion respectively.

Mission

The company's stated mission is:

Making life better for consumers around the world.

Inspire the World, Create the Future.

By taking advantage of key strengths in new technology, innovative products, and creative solutions, Samsung is committed to inspire its communities. At the same time, Samsung also aims to create new value for its core networks. Samsung expects to help build a better world for consumers worldwide.

Goals and Objectives

In the short term, Samsung plans to reach total revenues of \$400 billion by 2020. In addition, it also aims to become one of the world's top five brands by that same time.

In the long term, based on previous accomplishments, Samsung expects to explore new territories in health, medicine, and biotechnology areas. It looks forward to creatively lead the new markets and truly becoming a number one business going forward.

Industry Analysis

Bargaining Power of Suppliers

Samsung suppliers have low bargaining power, as Samsung owns most of the suppliers. They use the backward integration strategy to improve cost efficiency and profit margins, allowing them to sell phones at a lower price compared to their closest rival, Apple.

In the phone market, Samsung and Apple hold the biggest market share for units sold of about 50 percent. This means that the suppliers have low power even if Samsung did not own them, as they will most likely supply to either Apple or Samsung. However, there is always demand for electronics in the market. This means that power of suppliers in the industry is high, as suppliers will always be required to make any electronic product.

Bargaining Power of Buyers

The purchasing power of buyers is very high. The reason for this is because of the Internet, and the knowledge that consumers have because of this. They are able to switch from one product to another, depending on the reputation of the company.

Buyers could also have an average amount of power because of two factors. One is the fact that consumers usually choose between Samsung and Apple smartphones if they can afford it, as they are the two biggest cellphone companies in the world. The other would be that Apple might still be the market leader ahead of Samsung, but Samsung's phones are lower priced and have equal features to Apple's iPhone.

On the other hand, users who are already using Samsung might have low bargaining power as there is a high switching cost if they plan to use another phone. Some examples are phone plans, and becoming familiar with a new operating system.

Threat of New Entry

Threat of new entry is low because there are many players in the market already, and many of them own their own supply chain, which reduces cost. They have already established themselves in the market with loyal customers, and contracts with dealers.

There is also a large capital requirement to enter the market. Most of the capital will be mainly spent on research and development (R&D), and marketing. In addition to R&D and development, a considerable amount also needs to be invested into manufacturing of the products, and brand positioning

in the market. Finally there are lots of existing barriers in the industry, such as patents and rights. We see this in the recent lawsuit between Apple and Samsung, as Samsung starts to move into Apple's phone market.

Threat of Substitute Products

The threat of substitute within industry is low. This is because there are no real substitutes for cellphones. Tablets and public phones could be used but they are very inconvenient. However, a tech article shows that tablets may be replacing cellphones in the future. Another possible substitute would be the iPod. With Internet connection, iPods can also function like a cellphone using special applications.

Industry Rivalry

There is intense industry rivalry, especially between Samsung and Apple. Samsung has been playing follow the market leader with Apple, as they did with Sony. The advantage of this is that Samsung owns its distribution channel and suppliers, allowing them to lower cost and maintain product quality in comparison to Apple.

Samsung also incurred huge advertising expenses to get its product into the market. A recent article that details the relationship between the amounts of advertising and sales showed that the more advertising Samsung did, the more units they sold.

Strategic Challenges

1. Security of its phones: Due to rising concerns and anxiety from employers, Samsung has been developing security features that are geared towards consumers who want to use their Android devices for work purposes. This is a market that is Blackberry's strength, as it is more experienced, and offers significantly more security policies. Time will tell if companies are able to trust Samsung's new venture into the business world.

2. Focused on following instead of leading: A representative from Samsung claims that the company is happy entering existing markets, instead of creating new markets for its products. However, in today's turbulent economy, following may be a recipe for disaster.
3. Maturing of market: International brands saw stagnating and declining demand as global markets matured. While Samsung was successful in the introduction and growth phase, the market is now shifted to late adopters who are generally from a lower income bracket, and less knowledgeable about global brands.
4. Growth vs. Profit: Last year, Samsung shipped more phones than Apple, yet its profits were lower.
5. Value-added services: This is Samsung's major challenge going forward, as it looks to refine its software and service. One area that it is looking to improve is its music department, as rival Apple has a strong iTunes program that enables users to have music, movies, and more in one central location.