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### Case 1: Huawei

1) Analyze the smartphone industry. How attractive is the industry? How will its attractiveness change in the future?

- The smartphone industry was extremely attractive for a large market because of its high functionalities:
  - Advanced operating system (OS), Personal digital assistant (PDA), a global positioning system (GPS), multimedia player, digital camera, sensors (e.g. sports, heart rate—and now, measurements, steps), other services (Xiao 1).
- These features act as an attractive all-in-one gadget for many people, no matter what they are looking for due to its high-functionality ranges. <sup>1</sup>Although “phones, desktop PCs, laptops, tablets, smart TVs, game players, cameras, multimedia players, bank cards, as well as wearable devices such as smartwatches” can substitute smartphones, smartphones are a “strong substitute for these products” as well (Xiao 15).
- When the smartphone was first introduced to the tech world, it was extremely attractive from both buyers’ and sellers’ points of view. Sellers wanted to join this new booming trend and buyers wanted to get their hands on this smart device.
- Starting from 1993, the world of smartphones has expanded beyond our imagination. However, the growth rate of this industry is slower than what we have seen in the past. <sup>2</sup>According to *Gartner’s* Newsroom Press Release article, smartphones have overall increased in the market share by 6 percent in 2021. While in 2020, there was a 12.5 percent decline in smartphone sales. We can issue faulty on the world-crisis pandemic (Covid-19) for this diminishing sale, and it should also be noted that demand was still high during this time—the issue being shortages in the supply chain. Based on what I have stated so far, the attractiveness of this market will undoubtedly diminish for sellers and increase for buyers as features also innovate during a crisis. The reason for this is market saturation where sellers can only profit from innovating their current products. In today’s society, people can say they have experienced this saturation as smartphones have only added interesting features every year—for over a decade.
- Huawei’s case illustrates how far the smartphone industry has come from the very beginning of its’ emergence in 1993. Although there was an exponential growth rate of 43.82 percent from 2009 to 2015, growing from 173.5 million units to 1.433 billion units, the saturation in the market has made the smartphone less attractive in the demand market—going from 75.62 percent growth rate in 2010 to a mere 10.08 percent in 2015. Due to meeting the market’s maximum, their growth rate predictably declined. Based on the Exhibit 5 graph from the Huawei case for smartphones (2009-2015) and *Gartner’s* Table 1 data sheet (2021), it is clear to see that there is a major and ongoing decline in the smartphone market.

Table 1: Worldwide Smartphone Sales to End Users by Vendor in 2021 (Thousands of Units)

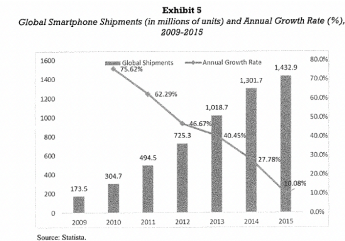
Vendor	2021 Units	2021 Market Share (%)	2020 Units	2020 Market Share (%)	2021-2020 Growth (%)
Samsung	272,327.5	19.0	253,025.0	18.7	7.6
Apple	239,239.1	16.7	199,847.3	14.8	19.7
Xiaomi	189,305.4	13.2	145,802.7	10.8	29.8
OPPO	138,242.1	9.6	111,785.2	8.3	23.7
Vivo	136,011.3	9.5	107,388.2	7.9	26.7
Others	458,733.9	32.0	533,988.1	39.5	-14.1
<b>Total</b>	<b>1,433,859.4</b>	<b>100.0</b>	<b>1,351,836.5</b>	<b>100.0</b>	<b>6.0</b>

Source: Gartner (March 2022)

<sup>1</sup> Xiao, Yangao, et al. “A Dark Horse in the Global Smartphone Market: Huawei’s Smartphone Strategy.” *Harvard Business Publishing Education*, 27 Feb. 2017, <https://hbsp.harvard.edu/product/IN1324-PDF-ENG?Ntt=huawei>.

<sup>2</sup> Sakpal, Manasi. “Gartner Says Global Smartphone Sales Grew 6% in 2021.” *Gartner*, <https://www.gartner.com/en/newsroom/press-releases/2022-03-01-4q21-smartphone-market-share>.

- Based on the numbers, the smartphone industry is just simply meeting its block from market saturation. Although there was a massive growth in the beginning, as smartphones are becoming more accessible and common, there are fewer revenue advantages companies can create for themselves. Furthermore, <sup>3</sup>smartphones are becoming unbelievably expensive ranging from 500-1500 U.S. dollars even though production costs are at most 600 U.S. dollars. If another company (allegedly) mimicked their model and sold products at a cheaper price, the market would be in trouble and would cause tension.



- Identify five competitive forces (industry rivalry, potential entrants, suppliers, buyers, and substitutes) that could pose threats to Huawei's revenues or profits.
  - Global industry rivals: **Apple, Samsung**, Nokia, BlackBerry, and HTC
  - Domestic industry rivals: **Lenovo, ZTE, and Xiaomi**
  - Suppliers: U.S. and U.K. - software, hardware chips, and 5G
  - Buyers: **U.S. Government chain reaction**; trade war
  - Potential entrants due to the U.S. government banning Huawei
  - Substitutes reason for overthrowing Huawei: Huawei's weaknesses are "OS and applications, limited control in the industry chain, rising manufacturing costs", etc (Xiao 15).
- Explain why they are formidable threats to Huawei.
  - The U.S. government is a formidable threat to Huawei. <sup>4</sup>As the 5G era grew, with Huawei creating this new revolution and taking a notable lead in the 5G era, domestic and international competitors were not pleased due to high possibilities of losing their potential and existing markets. The U.S. government took the trade war between them and China into their own hands and banned 5G smartphones—notably listing Huawei and ZTE smartphones, listing their products as a "severe national security threat" and was added to the U.S. Commerce Department's Entity List (Ofek and Masko 1-7). The U.S. even went as far as to meet with their allies' intelligence chiefs—Canada, U.K. Australia, and New Zealand—to urge them to ban Chinese smartphones, specifically naming Huawei and ZTE. <sup>5</sup>According to Huawei on *The Conversation*, the raised question on Huawei's security was due to political reasons rather than actual data concerns. After the U.K. stated that their lab tests showed "shortcomings" in Huawei's hardware and software, the company's potential and existing market areas started to plummet. After this, other countries started to raise their eyebrow at Huawei's legitimacy.
  - Countries that have banned or barred Huawei:
    - U.S.A. (2018)
    - United Kingdom's largest telecom group, BT Group (2018)
    - Australia (2018)
    - New Zealand (2018)
    - Japan (2018) - banned Huawei and ZTE

<sup>3</sup> Do, Tuan, et al. "The Real Production Costs of Smartphones." *TechWalls*, <https://www.techwalls.com/production-costs-of-smartphones/>.

<sup>4</sup> Ofek, Elie, and John Masko. "Huawei and the U.S.-China Trade War." *Harvard Business Publishing Education*, 16 Aug. 2019, <https://hbsp.harvard.edu/product/520017-PDF-ENG?Ntt=huawei>.

<sup>5</sup> Frank J. Cilluffo Director, and Sharon L. Cardash Deputy Director. "What's Wrong with Huawei, and Why Are Countries Banning the Chinese Telecommunications Firm?" *The Conversation*, 22 Dec. 2021, <https://theconversation.com/whats-wrong-with-huawei-and-why-are-countries-banning-the-chinese-telecommunications-firm-109036>.

- Taiwan (2018)
  - Countries that are taking action against Huawei:
    - France's telecom company Orange will no longer be using Huawei (2018)
    - Germany is reviewing Huawei
    - Czech is warning their citizens against Huawei (2018)
    - Polish government arrested Huawei employee for "security reasons" (2019)
  - Losing both the U.S. and U.K. was incredibly detrimental for Huawei as they received about 67 percent (1/3) of their software, hardware chips, and 5G from these countries.
  - Along with the U.S. skepticism with Huawei's security systems, Apple and Samsung are also Huawei's biggest competitors due to their sheer presence in the smartphone market field. Due to being allied countries and Apple being unable to take down Samsung, Apple and Samsung will prevail as the top 2 titans for smartphone technology—remaining as major threats to other smartphone companies.
  - Given the chain reactions that occurred after the U.S. made its allegation against the Chinese brand, Huawei's company seems to be losing its shares in the global marketplace. With the sudden loss of countries to market too, Huawei is in even bigger danger of losing its presence. As competition rises, Lenovo and Xiaomi—which aren't named in the ban—could potentially rise if they adopt Huawei's market plan.
  - <sup>6</sup>According to *Statista*, as of 2021, Huawei is no longer in the top 5 for smartphone global market share, being replaced with their domestic competitors. Chinese brands such as Xiaomi (taking 12.4% of the market share), Oppo (8.3%), and Vivo (7.8%) took Huawei's place in the top 5 in 2021.
- 4) How sustainable is Huawei's competitive advantage in the smartphone industry?
- Pillars of Huawei's smartphone strategy: "cloud-pipe-device" (Xiao 11).
    - Cloud: massive data storage
    - Pipe: expanding from telecom to other channels and using 5G
    - Device: create brands for certain types of users using high-level development, manufacturing, and marketing
  - After reading recent news, it seems that there was a **chain reaction** after the U.S. banned Huawei from its market—similar to an avalanche that plummeted Huawei's market presence. Given the chain reactions that occurred, Huawei's company is in extreme survival mode. In September 2021, Huawei was still facing accusations from powerful countries due to their ties with the Chinese Communist Party. In the past, Huawei's high-quality device and services" were great attributes for the company to stand out. Now, due to political enemies and questions on data collection legitimacy, the company will continue to face a hard fall in its revenue. Based on Exhibit 4a and 4b (Ofek and Masko 10) and *Statista*'s data for 2021, their market share has been plummeting since the third quarter of 2018—during the time the U.S. started raising questions on Huawei's legitimacy with privacy concerns. Based on the data and the recent news regarding Huawei and

Exhibit 4a Smartphone Worldwide Unit Market Shares, 2015-2019 First Quarter (%)

	2015	2016	2017	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1
Samsung	22.7	21.2	21.8	23.5	21.0	20.3	18.8	23.0
Huawei	7.4	9.5	10.5	11.8	15.9	14.6	16.2	18.9
Apple	16.2	14.6	14.6	15.7	12.1	13.2	18.3	11.8
Xiaomi	4.9	6.3	8.4	9.5	9.5	6.7	8.9	8.9
Vivo	—	5.3	—	5.6	7.9	8.3	6.9	7.4
OPPO	—	6.8	7.6	7.4	8.6	8.4	7.9	7.4
Others	48.8	42.7	39.2	27.6	25.0	25.7	25.1	22.7

Source: Casewriter, compiled from Melissa Chau and Ryan Reith, "Smartphone Market Share," IDC, June 18, 2019, <https://www.idc.com/promo/smartphone-market-share/vendor>, accessed August 2019; "Global market share held by leading smartphone vendors from 4th quarter 2009 to 2nd quarter 2019," via Statista, accessed August 2019; IDC data, via Eric Ofek, Tian Tao et al., "Huawei: How Can We Lead the Way?" HBS Case No. 318-071.

Exhibit 4b Smartphone Europe Unit Market Shares, 2017 1<sup>st</sup> Quarter-2019 1<sup>st</sup> Quarter (%)

	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1
Samsung	33.8	36.4	35.5	27.1	35.9	32.4	33.7	32.0	34.5
Huawei	11.4	13.5	14.0	14.7	16.6	24.8	16.3	15.2	17.3
Apple	28.1	23.9	25.2	33.0	27.2	22.5	24.7	30.3	27.3
Xiaomi	0.1	0.1	0.3	0.6	2.1	3.8	3.5	3.9	4.8
Wiko	3.2	3.3	4.8	3.6	2.5	3.0	—	—	—
Others	23.4	22.8	20.2	21.0	15.6	13.5	21.8	18.6	16.1

Source: Casewriter, compiled from IDC data, via Vlad Savov, "Despite being shunned in America, Huawei is flourishing in Europe," *The Verge*, August 22, 2018, <https://www.theverge.com/2018/8/22/17768966/huawei-xiaomi-idc-smartphone-market-europe-statistics>, accessed August 2019; "Mobile Vendor Market Share Europe," Statcounter, GlobalStats, <https://gs.statcounter.com/vendor-market-share/mobile/europe>, accessed August 2019.

<sup>6</sup> Published by S. O'Dea, and Feb 7. "Smartphone Market Share 2021." *Statista*, 7 Feb. 2022, <https://www.statista.com/statistics/271496/global-market-share-held-by-smartphone-vendors-since-4th-quarter-2009/#:~:text=Huawei's%20market%20share%20reached%20top%20five%20vendors%20by%20shipments>

other companies adopting and innovating Huawei's business model (e.g. 5G, luxury quality), the company, currently, does not have a competitive advantage that would sustain them in this market.

5) How should Samsung Electronics grab the opportunities in the midst of the rising tension between the U.S. and China?

- Although Samsung is a South Korean company, the U.S. is allied with South Korea which makes it less likely for the U.S. to attack South Korean company legitimacy.<sup>7</sup> However, even South Korea's presence among the U.S. might be in danger as U.S. policymakers are urging South Korea to take part in the U.S.-China Trade War. This is difficult for South Korea as China is one of the country's largest trading partners.
- Based on what I have stated so far, Samsung Electronics will only have its competitive advantage if it complied with U.S. demands. Due to the U.S. and South Korea being allies since 1953 under the Mutual Defense Treaty, the U.S. cannot harm South Korea's biggest smartphone company's reputation. However, joining the feud between the 2 massive countries would be harmful to South Korea as it may rub off the wrong way. Furthermore, China is one of South Korea's largest trading partners. By taking part in this feud, South Korea and Samsung would potentially lose one of their biggest suppliers. However, this is not a sure thing since politics and revenue necessities don't always come hand-in-hand.
- On another note, Apple and Samsung are the two largest smartphone companies.<sup>8</sup> That being said, Apple has notably tried to sue Samsung for imitating their new and improved smartphone products, creating a legal battle between the two. Although Apple won a 1.05 billion U.S. dollar verdict against Samsung, causing Samsung to stop making hardware chips for Apple—yet still making screens for their phones and computers—there was not enough evidence to prove that Samsung took part in “causal nexus”. The good news for the companies is that both companies do not need each other to create their massive revenues.
- Considering all of the facts, Samsung should grab opportunities by expanding their supplier and buyer chains to more neutral countries and even try to expand to other notable foreign companies that follow their ideological views. This would act as a safety net if there was a case of conflict due to China and the U.S. trade war.
- Furthermore, due to Huawei's pain points being their questionable data collection, Samsung should do its best to market data privacy and user privacy. Being as transparent as possible, even notifying users about possible data-sharing beforehand, and not just stating it in the “Terms and Conditions,” could ease users into trusting the brand even more. Although South Koreans may have more knowledge of where their data goes, this is not as apparent for foreign countries.
- Lastly, Samsung should expand their current security software supply chain with more or better protection units—perhaps even partnering with companies from different countries with common (or many) allies. Due to using its own supply chain, Samsung has many advantages and disadvantages. By making partnerships with foreign allied countries, competitors, countries, and consumers would have less of a reason to question Samsung's legitimacy. This could also expand their market due to the opportunities that would open up for foreign companies.
- Getting better features for their smartphone is only a short-term model as competitors could always replicate and innovate what was brand new—and attractive—in the first place.

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<sup>7</sup> Hananel Director, Sam, et al. “The China Difference in the U.S.-South Korea Alliance.” *Center for American Progress*, 20 Dec. 2021, <https://www.americanprogress.org/article/the-china-difference-in-the-u-s-south-korea-alliance/>.

<sup>8</sup> Levine, Dan. “Analysis: Apple Bid for Samsung Sales Ban Faces Skeptical Court.” *Reuters*, Thomson Reuters, 7 Jan. 2013, <https://www.reuters.com/article/us-apple-samsung-appeal-idUSBRE9060QT20130107>.

