

Notes from Samsung Electronics Case

From Dess, McNamara, & Eisner *Strategic Management*

Notes on the Case Itself

- Internet of things a return to Samsung's digital home concept
- heavy competition in IoT markets
- IoT necessary because of profit pressure, high competition from low-cost competitors in smartphone area, tablet area
- Analysts indicated problem was relying on hardware instead of offering valued-added, exclusive software
 - "customers are actually Google's not Samsung's"
- Execs believe strengths in diversity of product lines
 - TVs, cameras, laptops, home appliances, smartphones
 - 2/3 profits from smartphone market
 - most components for products made in-house -> lower cost would allow profits even as margins decline
- in 2014, created Tizen OS as software for variety of platforms (TVs, cameras watches)
 - could be used for IoT software eventually

Discarding a Failing Strategy

- Major changes started in 1996 with new CEO
 - company was low-cost competitor at the time, and supplier of low-cost components to other mfgs
 - Shift in strategy away from competing on price
 - Major changes after 1997 recession

Developing a Premium Brand

- Company moved toward strategy of developing own products instead of replicating those of other firms
 - focus on impressing consumers with design & tech

- aim at making Samsung premium brand to charge premium prices
- new managers, engineers hired for new capabilities
- new products designed to make big impressions with consumers ("wow products")
- new marketing guru
 - shift to single ad agency
 - removal of products from discount stores like Walmart, K-Mart, add to stores like Best Buy, Circuit city
 - worked closely with retailers on identifying consumer needs
 - built relationships with wireless carriers

Speeding Up New Product Development

- Focused on being able to push new products to market faster than rivals
 - reduced red tape obstacles
 - leveraged digital tech with investments in semiconductors and LCD displays
 - heaviest investment in R&D compared to competitors
- used internal competition against external firms to speed up innovation
- reduced new product rollout to 5 months from more than a year previously
- targeted quality, cost, and delivery time improvements in earliest stages of product dev
- able to keep up with market trends with great speed

Perfecting a Design Process

- focus on attractive designs
- focus on being able to eventually link all devices via internet
- substantial research, drawing from worldwide experiences and cross-industry knowledge
- aim at leading consumer electronics in design and innovation
- analysts questioned if they could be a trendsetter like Apple

Creating a Sustainable Model?

- Vision 2020 aimed at becoming a top 10 global company ($\geq \$400B$ revenue)
 - take market share from competitors across product lines
 - reorg to refocus businesses across 3 divisions (consumer electronics, IT & mobile comms, device solutions)
- Chairman suffered heart attack in 2014, casting doubt on future company performance
 - Need to identify new leadership:
 - put smartphone and appliances under B.K. Yoon
 - keep 3 co-CEO team (one per division)
- new advances in hardware continue
- VR devices
- chip technology / semiconductors (big supplier for other firms, so added power from future

investment in the tech)

Available Exhibits

- Income statement
- Balance Sheet
- 2014 Smartphone sales worldwide
- 2014 Global Market Ranking (Consumer electronics)
- 2014 Smartphone sales in China
- Designers employed 1998-2014 (by 2s)
- Samsung Milestones (Timeline)

Possible Problems

What are the problems / strategic issues here?

- how to organize best for the future?
 - existing divisions (consumer electronics, IT & Mobile Comms, Device solutions)
 - something else?
- who to put in charge of organization & divisions?
- What markets to focus on?
 - IoT
 - hardware
 - semiconductors
 - VR

Key Issue

What is the key issue at hand?

- What should Samsung's strategy be in order to achieve the Vision 2020 goal of being a top 10 global company?

Analysis

- Organizational goals and objectives
 - The vision is already set, focus needs to be on strategic objectives, possibly the mission statement
 - While trying to achieve the vision, need to make sure strategic objectives include satisfying shareholders
- External environment

- heavy competition from both established players and new, low-cost entrants (threats)
- IoT may take off substantially, offering openings for new market share and profits (opportunity)
- Semiconductors will remain critical for big tech players, and innovation in this area offers chance to control significant part of supply chain (opportunity)
- Internal environment
 - substantial base of designers, researchers, and engineers to continue to develop cutting-edge products (Strength)
 - substantial base of existing technologies such as hardware, semiconductors, to improve upon / innovate (Strength)
 - unclear if org structure is optimal to achieve Vision 2020 goals (Weakness)
 - May need a single leader instead of 3 (Weakness)
- Intellectual assets of the firm
 - significant existing assets in personnel and IP toward improving existing products and expanding into new IoT & VR markets
- Business-level strategies
- Corporate-level strategies
- International-level strategies
 - Should look at how existing and emerging markets worldwide play into possible new strategy
- Organizational design
 - Need to decide if current structure will suit the Vision 2020 goals
 - Need to decide if 1 leader or 3 is best
- Corporate entrepreneurship
 - continue to promote world-class product design and innovations across the organization

Alternative Solutions

1. Keep current division structure and 3 co-CEO model
2. Change division structure and align under B.K. Yoon, combining smartphone and appliances division toward IoT strategy
3. Focus strategy toward semiconductor dominance

Recommendations

Hybrid of 2 & 3. Invest heavily in both IoT and semiconductors to become leader of both. Semiconductor dominance will provide negotiating power over competitors using Samsung components. IoT will maintain and expand design and innovation capabilities that already exist. Appliances and smartphone group merge will ensure integration of those capabilities toward seamless customer experience. Single CEO will allow unified vision to be pursued.