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Samsung Electronics: Emerging Market Strategies

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Degree

- PhD, Harvard University
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Books and articles

- The evolving impact of combinatorial opportunities and exhaustion on innovation by business groups (2013), *Management Science*, vol. 59 no. 5, p 1142-1161
- Business groups in Taiwan, *The Oxford Handbook of Business Groups* (2011). P 180-209
- Where can capability come from? Network ties and capability acquisition in business groups (2011) *Strategic Management Journal*, vol.32, p 820-848
- Diversification and performance: Evidence from East Asian firms (2007) *Strategic Management Journal*, vol. 28, no.2, p 101-120



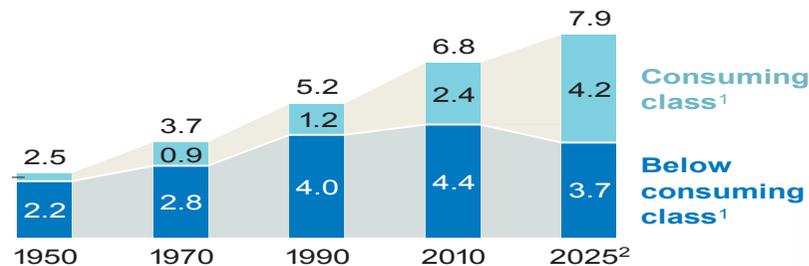
***Emerging Markets
Are Vitally Important
For Samsung***

A \$30 trillion Opportunity by 2025

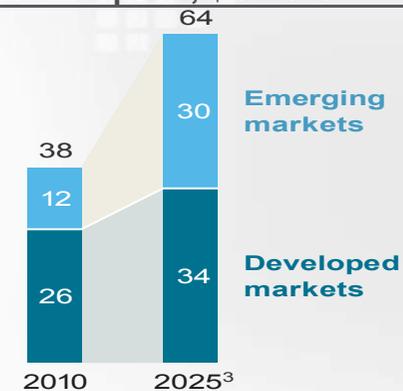
“The Biggest Growth Opportunity in the History of Capitalism”

By 2025, the consuming class will swell to 4.2 billion people. Consumption in emerging markets will account for \$30 trillion – nearly half of the global total.

World population, billions



World consumption, \$ trillions



¹Consuming class: daily disposable income is \geq \$10; below consuming class, $<$ \$10; incomes adjusted for purchasing-power parity.

²Projected.

³Estimate based on 2010 private-consumption share of GDP per country and GDP estimates for 2010 and 2025; assumes private consumption's share of GDP will remain constant.

Source: Angus Maddison, founder of Groningen Growth and Development Centre, University of Groningen; Homi Kharas, senior fellow at Wolfensohn Center for Development at Brookings Institution; McKinsey Global Institute analysis

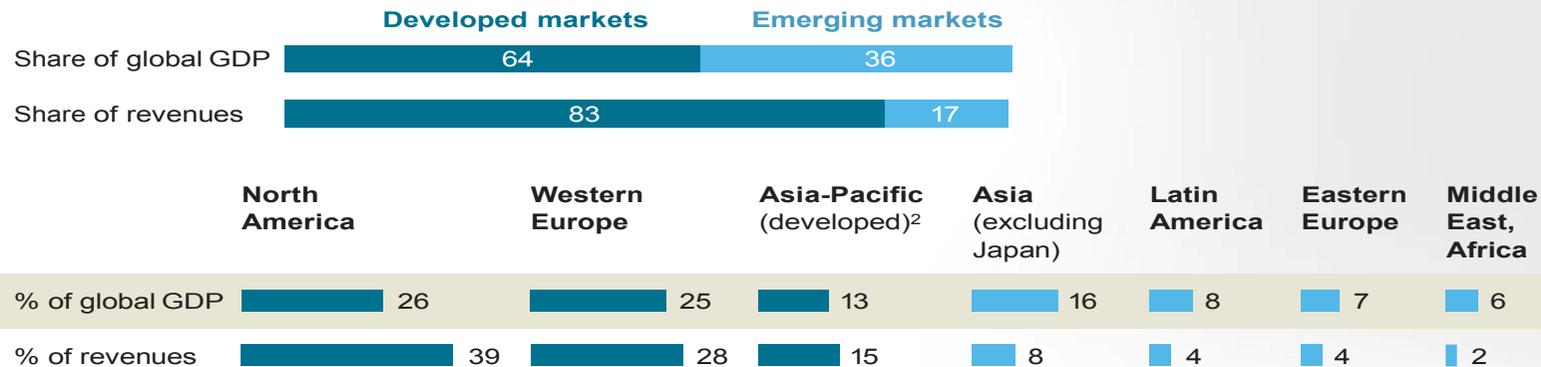
Source: Atsmon, Child, Dobbs, and Narasimhan, "Winning the \$ 30 trillion decathlon: Going for Gold in emerging markets," *McKinsey Quarterly*, August 2012

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... but most MNCs are doing a Poor job of exploiting these Opportunities

Leading companies in the developed world earn just 17% of total revenues from emerging markets, even though these markets represent 36% of global GDP.

Markets' contribution to global GDP vs leading global companies' share of total revenues¹ from given markets, 2010, %



¹ For 100 of the world's largest companies headquartered in developed economies; figures for GDP do not sum to 100%, because of rounding.

² Asia-Pacific (developed) includes Australia, Japan, New Zealand, and South Korea.

Source: Company financials; McKinsey analysis

Is Samsung an anomaly?

- **Those who succeed often do in either developed market or in emerging markets—not in both markets**
 - Nokia is powered by feature phones in emerging markets
 - Apple is driven by smart phones in developed markets
- **Does Samsung defy the trend?**
 - Samsung has overtaken Nokia to become the no.1 seller of mobile phones in India's major urban areas (31.4%)
 - No. 1 in smart phone is Western Europe (42% vs. Apple's 23.5%)--No. 2 in smart phone in the US (29% market share vs. Apple's 39%)

1. Why Samsung has “succeeded” while others have failed?

2. Is it possible to be successful in both emerging markets and developed markets at the same time?

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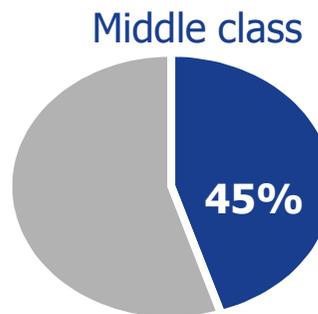
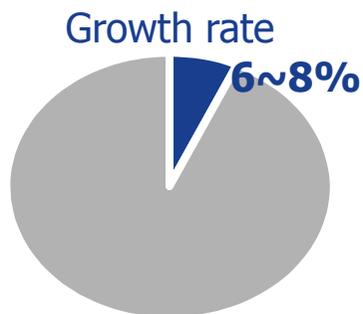
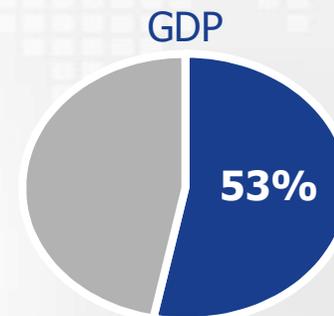
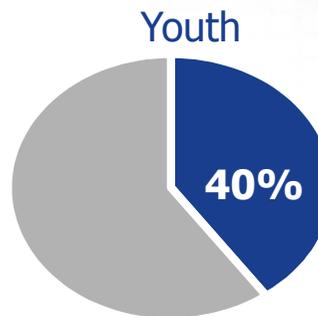
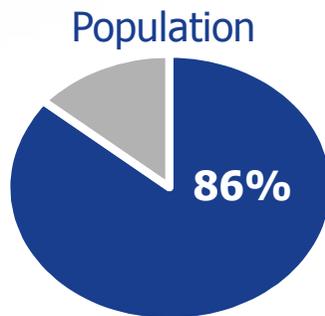
**Focus of this
presentation**



4. SAMSUNG'S EMERGING MARKET STRATEGIES

The New Frontier for Growth – Emerging Markets

Potential of Emerging Markets



New Management and Samsung's Emerging Market Strategies

- **“Internationalization” was one of the three pillars of “New Management”**
 - Chairman Lee said, “We need to establish Global Samsung.... We also need to develop business models that suit local environments and we need to develop together.”
 - “In order to develop “Global Samsung”, we need to develop global competitive advantages against global rivals, and to enter emerging markets such as India and China.”
- **After establishment of GMO, Samsung identified 10 emerging markets and allocated strategic funds to penetrate the emerging markets**

Samsung has extensive presence across emerging markets

▪ Manufacturing

- Brazil (1995), Mexico (1988), China (1992), Russia (2008), Egypt (2012), India (2007), Indonesia (1991), Malaysia (1989), Thailand (1988), Vietnam (1995)

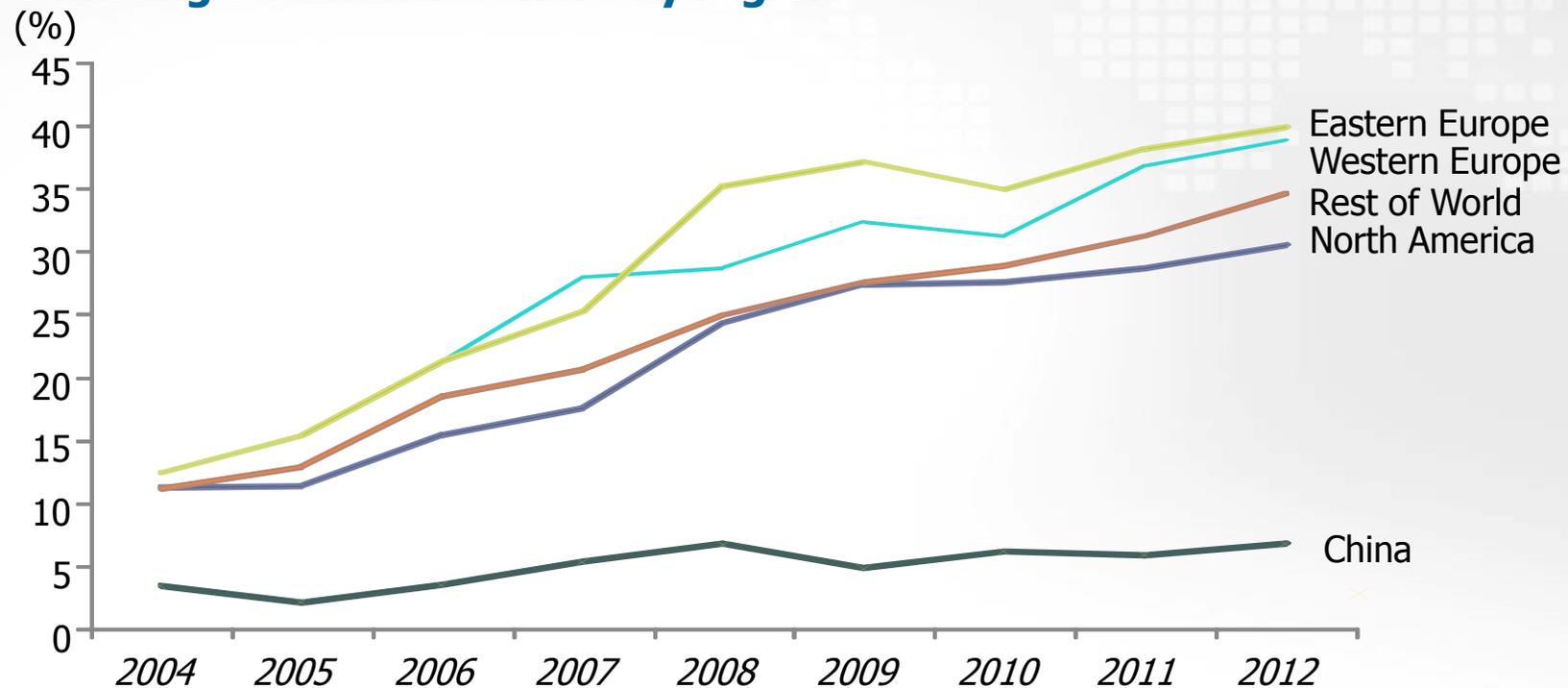
▪ R&D

- Brazil (2011), China (2000), Russia (1993), Bangladesh (2010), India (1996)

***However, performance varies across regions
as well as across products***

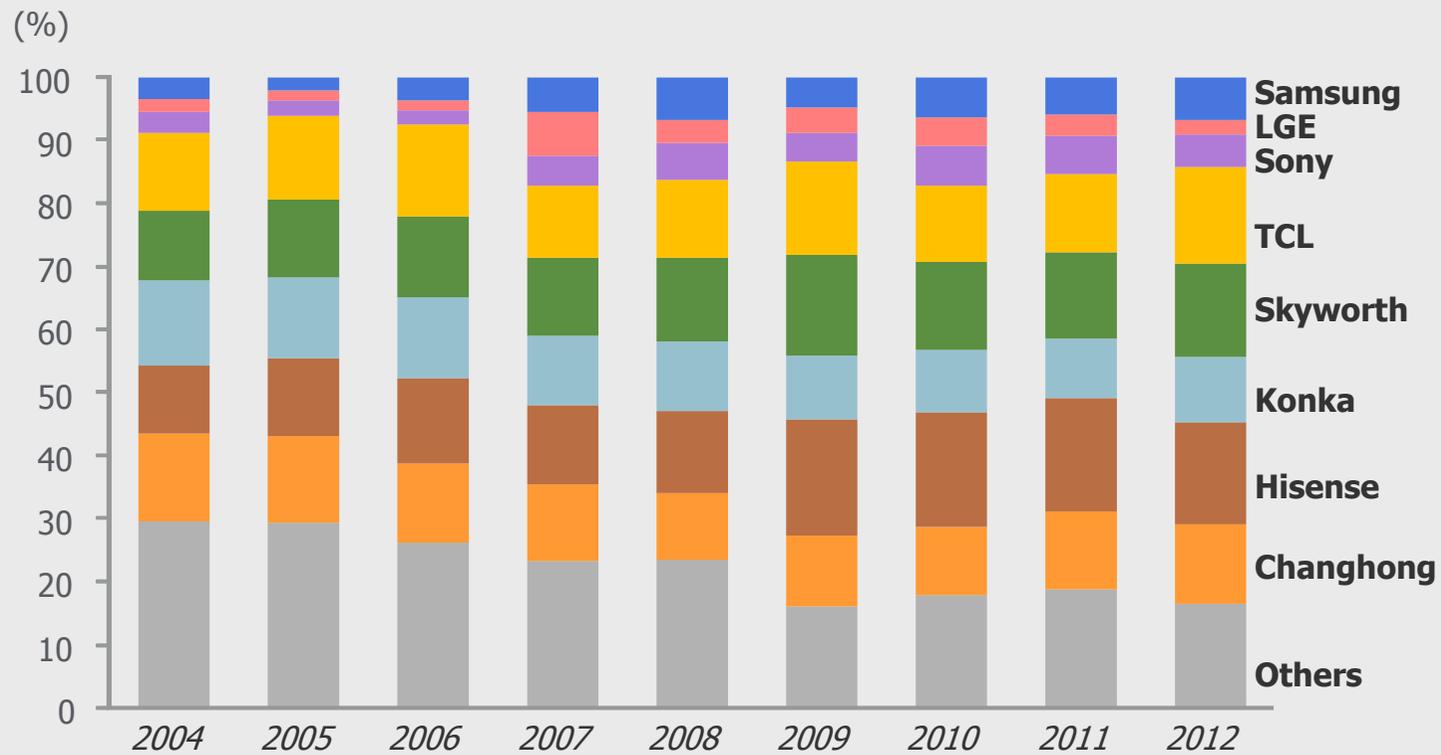
No. 1 in 70 countries but No. 6 in China

Samsung's TV market share by region



Source: Display Search, revenue-based market share

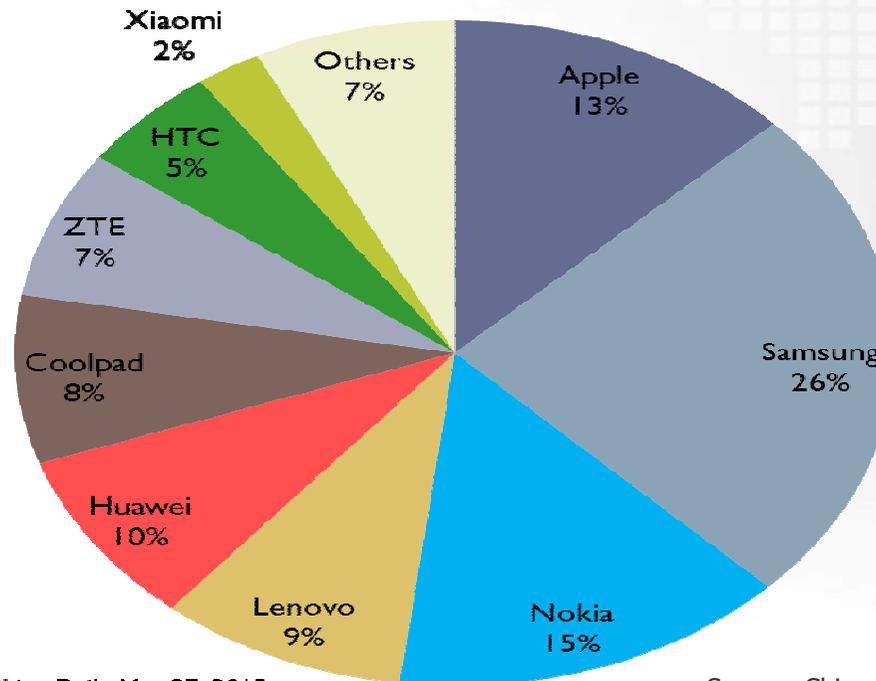
Local firms dominate TV market in China



Source: Display Search, revenue-based market share

Local firms are also catching up in smart phone markets in China

Smartphone market share in China (1Q, 2013)



Source: China Daily May 27, 2013

Source: China Daily May 27, 2013

What drives the difference in performance across different markets or across businesses within the same market?



Exploration in the context of emerging markets

The ability to use local innovation to come up with multiple new products fast (localization)

Exploitation in emerging markets

The ability to scale up the winning products and quickly withdraw the rest (business delivery system)

Challenge: How to combine both?



***5. TALES OF THREE EMERGING MARKETS—
CHINA, BRAZIL, INDIA***

Samsung's performance in China is more mixed

- No. 1 market share in smart phones (26%), followed by Nokia and Apple, but local firms are catching up fast in smart phones
- No. 1 in TV in terms of value (if confined to major 100 cities in China) but a distant No. 6 in terms of volume
- In consumer electronics such as freezer or washing machines, Samsung has been losing money



Success in smart phones in China will determine Samsung's success in smart phones globally

- **China is the largest single market for smart phones**
 - Smart phones sales globally are soon expected to overtake, for the first time, those of feature phones this year
- **Good News:** Samsung remains No. 1, capturing 26% of the market share in China for smart phones in the first quarter of 2013
 - A good distribution network with retailers
 - China-specific applications such as SMS messengers, games, restaurants recommendations, and railroad timetables
- **Not so Good News:** Samsung is being closely followed
 - Huawei (10%), Lenovo (9%), CoolPad (8%), ZTE (7%), and Apple (13%)

Can Samsung succeed in stopping its rivals from using China as a base for global expansion against Samsung?

Exploration: Weak localization

- **Limited local innovation**

- “Overall, Samsung does not have many China-specific products, it has only global products. There are some "Made for China" products, by taking out some features customers do not appreciate. However, it does not save much cost. So, it does not work.”

- **The role of local R&D**

- “The role of Chinese R&D is to complement the R&D operation in Korea. It helps to develop some modules or conduct research on some specific areas where work can be done better or cheaper at China.”
- “Beijing R&D works on local modification, local software solutions and B2B solutions. R&D lab in China is strong in some areas such as handwriting recognition.”

Exploitation in China: Aggressive local competition

- **Strong local firms compete at all price points**
 - Among local firms, Oppol/BBK and Gionee are in the high price range.
 - ZTE and Huawei are in all range. K-Touch is selling a smart phone at US\$ 50 (RMB 400) unbelievable prices. 2.2" Dual Sim phone is selling at RMB 150...Samsung is also selling 8" tablets at RMB 4000. Shanzhai (low cost local) firms can offer tablet at RMB 1000.
- **Samsung enjoys 30% premium over its local rivals for the phones with the same feature**
 - RMB 500 local phone has similar spec. (4" screen) with Samsung's RMB 2500 phones. If Samsung lowers the price, then it will affect the price point of Samsung's 5" phones. A response to a low end segment, therefore, can result in overall profit drop in Samsung. So, Samsung cannot move even though it can make a very cheap phone.
- **Samsung's current strategy is to scale up by moving beyond T3 and penetrate T4 and T5 markets**
 - Local firms such as Hisense have 20,000 shops in T4 and T5 markets. Samsung opened 1200 shops last year and will go up to 1800 shops this year

Samsung is No. 1 in smart phones & PC in Brazil

- No. 1 in smart phone market share in the first of quarter of 2013 (39.7%)
- overtaking HP in 2012 to become the largest PC brand in Brazil
- No. 1 in TV market share in 2012 (31.3%)



Local R&D in Brazil

- Samsung has a research center in Brazil whose objective is to develop applications localized for the Latin American market, especially Brazil.
- Samsung works with local content providers in Brazil to develop applications tailored for Samsung TVs and mobile devices.
- The center does not develop products entirely independently and gets help from headquarters.
- It also checks and tests whether products developed by headquarters can be applied to the local market .

Soccer mode TV



Exploration and Exploitation in Brazil

- **Exploration using local innovation to come up with new products**
 - To meet the needs of soccer-holic customers, Samsung has put a world's first built-in 'soccer mode' in its premium TVs. When watching soccer games, the mode provides the optimized picture and sound quality, making them feel as if they are in the stadium.
 - Samsung relies on local contents providers to develop apps for Samsung tablets in Brazil
 - In audio, Samsung has introduced "psyche lighting" and vividly-colored designs to appeal to the music loving Latin Americans
- **Exploitation by quick ramping up of investments**
 - Utilizes planned production for some products, and system developments to enhance visibility for logistics.
 - Brazil's distribution/marketing team is not just selling the product to retailers, but supporting & caring them to do a proper promotion

Samsung seems to be doing relatively well in India

- Samsung has overtaken Nokia to become the largest seller of [mobile](#) phones in India, as consumers lap up its new feature phones and its [smartphones](#) continue to do brisk business
- Samsung is number one in commercial displays as well as hotel TVs



A novel value proposition

“When we came to India in the early 200s, Nokia has been the leader for more than 10 years, enjoying 70-80% market share. In people's mind, Nokia = mobile phone. **So, we wanted to come up with a different proposition by making people think of Samsung=smart phone.** However, the price of smart phone was still very high for the majority of the people. **In order to increase our market share, we wanted to come up with something that would give people with limited affordability the opportunity to enjoy some of the benefits of smart phone at a price fit for feature phones.** In 2007, we came up with the full touch screen phones. We were the first company in India to offer full touch screen feature phones. These full touch screen phones were not smart phones but they looked very much like a smart phone. By launching these series, we were able to see some light at the end of the tunnel... ”

Innovative products that add value, not features

▪ **Samsung Rex:**

- The Samsung Rex is a mid-range mobile of the type still used by most customers in emerging markets
- Its cost is moderate yet it includes many features of more advanced smartphones with flash lights, high quality speakers, single touch speaker phone, triple sim (active-dual sim with hot swap)
- “The Rex series has been developed in India and will be introduced across a number of the world’s fastest growing markets from India.”

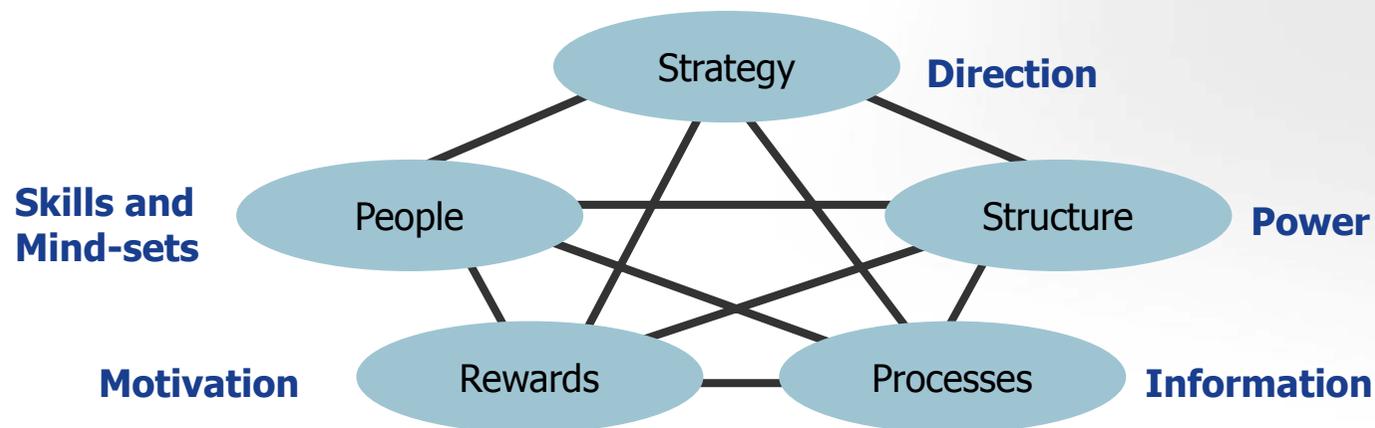


The critical role of local R&D

- **From design to commercialization, the entire process has been done in India**
 - All R&D for feature phones globally are taken care of by SNMC at Noida. While the Bangalore lab (SISO) develops specific solutions, Noida integrates them into a platform.
- **Could Samsung achieve this success without its labs in India?**
 - “When HQ set the cost of feature phones at \$10, the engineers in HQ said it was impossible. At that time \$10 was like a dream goal, but we did it by starting from scratch, redid all the coding and reduced unnecessary codes. We provided the same features with half the memory...”

Not easy...Nokia tried to do in India but with limited success

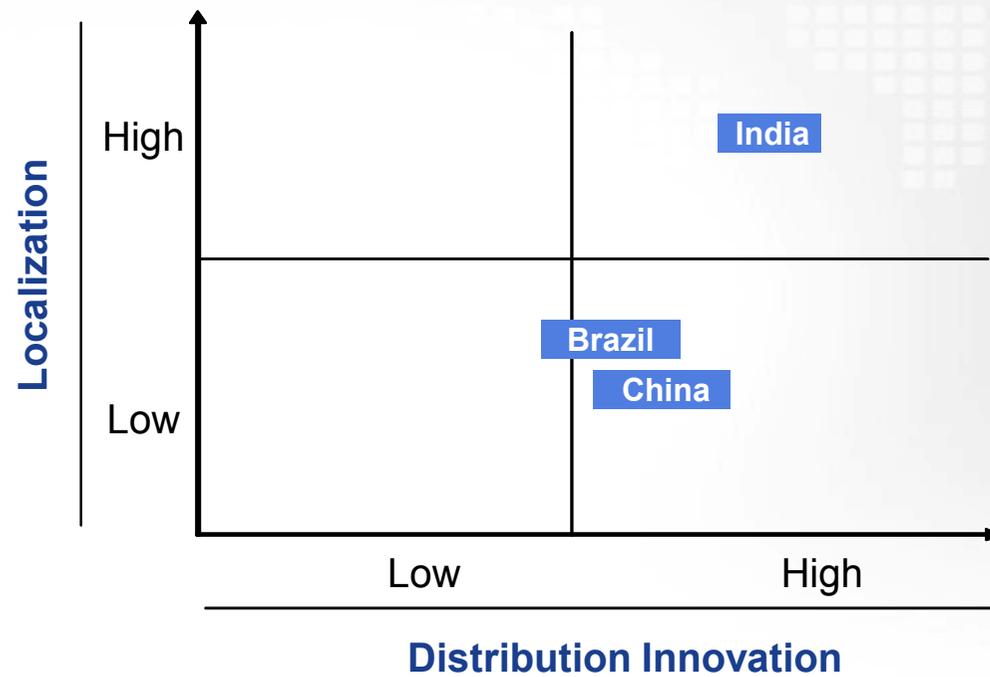
- **SEL India's strategy is complemented by a mutually reinforcing aspects of people, structure, process, rewards:**
 - People (best engineers who want constant new challenges)
 - Process (similar process but different cultural style –slow but robust)
 - Structure (local ownership; all the team leaders are Indians, Koreans are there to support), and
 - Rewards (individual bonus that rewards initiatives and risk taking)



Samsung's success in India is driven by dual capabilities

- **Exploration capability: The ability to use local innovation to come up with multiple products that add value, not features**
 - In SEL India(SNMC), Samsung simultaneously proceeds with three kinds of feature phone platforms (MMP,SGP,SNMP). Based on these platforms, Samsung develops about 25-26 models per year-- and many variations
- **Exploitation capability: The ability to ramp up investment in selected winners and quickly withdraw the rest**
 - "It's because we do a customer segmentation, and the phone market changes very quickly. We withdraw the line when the performance is not good.
We decide/execute our action very quickly."
 - DMS could be a reason for the "speed", because of the day-by-day monitoring system, Samsung can take a very quick response. "Our belief is that, once our retailers make decent profits, they themselves will go for new markets, we don't need to create it by ourselves.

Comparison of India vs. China and Brazil



Comparison of India vs. China and Brazil

- **Why did India do well relative to China or Brazil?**
 - Local Innovation is key for coming up with multiple models fast
- **To ensure future success Samsung needs to focus on both product innovation and go-to-market innovation**
 - **China**
 - Samsung is trying to create direct sales stores to circumvent the power of local distributors who act like landlords; “they collect fees without doing anything.”
 - Product innovation, resulting from strong local R&D, can help competing along price points to combat local rivals
 - **Brazil**
 - Demand driven supply chain management can be complemented by innovative distribution to overcome poor infrastructure
 - **India**
 - India is doing well on the product side but innovation might be needed in the business delivery system as a majority of Indians still live in rural areas



6. FUTURE CHALLENGES OF SAMSUNG

Future challenges of Samsung

- How to navigate in the future as a leader? Which direction it should take in the future?
- How to boost creativity of workers? Are internal exploration or internal competition sufficient?
- How to retain talented foreign work forces? How to tap their talents? Maybe more overseas M&As?
- How to defend its position against upcoming competitors from emerging markets?

Call for more externally driven exploration

Problem- oriented



Opportunity-driven

Searching for data



Generating data

Internal focus



External focus

Korean talents



Global talents

Internal development



Overseas M&As

Competition



Collaboration

Need shift in mental models



Thank You !