Samsung Strategic Analysis Report

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# Samsung’s Corporate Environment

## Company’s Background

Byung-Chull Lee, who started his first business in Taegu, Korea in 1938, founded Samsung. 1951 saw the birth of The Samsung Corporation, a business mainly focused on trade exports such as vegetables, fruits and fish. The company soon ventured into the insurance sector for a brief time. In 1969, the corporation entered into the business of electronics as Samsung-Sanyo Electronics. The first electronics product manufactured by the company was a black and white TV that carried the brand name Samsung-Sanyo (Vision).

From humble beginnings as a small Korean company, Samsung has become a global brand that deals in myriad of electronic products and has lately ventured into other Asian markets to introduce its low-cost variants to capture the market especially in the mid-range segment. This has given a huge impetus to the company in terms of financial gains and global reach. But at the same time, Samsung has been accused of imitating some world-class products – primarily Apple offerings like the iPhone and iPad. Because of this, the company has been associated with low-cost variants and has lost the leadership in terms of innovation and differentiation (Vision).

The long-term vision of the company is “Inspire the World, Create the Future." This vision is in line with the company’s mission of achieving maximum market share in the technology products and thus defines the future. The company wants to focus on value creation as well as innovation by making sure that it reaches to every consumer at a best possible price (Vision).

## Company Identity

Samsung is known in the media primarily for its mobile technology such as smartphones, tablets, and smart watches, comparative to such competitor companies as Apple. Instead, the company is in the business of providing innovative green technology to personal, business, and health IT sectors, including B2C as well as B2B sales. Smartphones and other mobile devices represent only a small component of this venture. Coupled with technological innovations, green technology for the purpose of a more sustainable future is Samsung’s overall focus and this is best fulfilled by being present in otherwise seemingly unrelated sectors (2014).

## Corporate Governance

The total ownership structure at Samsung electronics is divided as follows: Foreign: 55 % ; major Shareholders: 15 % ; treasury stocks : 12% ; Domestic Institutional 14 %  and Domestic Individual: 3 %. The shareholding structure is divided into major stockholders through common stock and preferred stocks. Major stockholders of Samsung are Kun-Hee-Lee, Samsung Corporation, Samsung Welfare Foundation, Samsung Foundation of Culture, Ra-Hee-Hong, Jae-Yong Lee, Samsung Life Insurance, Samsung Fire and Marine Insurance and Oh-Hyun Kwon (Overview).

The corporate governance at Samsung work to enhance company’s decision-making and the supervisory process is based on the highest standards of governance, transparency and accountability. Currently, the Board of Directors is comprised of four executive and five independent directors. The independent director guarantees the board’s independence and transparency and established the decision-making process by taking inputs from outside experts. Independent directors meet separately from executive directors. The directors are prohibited from engaging in business activities within the same industry. This also prevents the conflict of interest as per Korean Commerce Act and the Company’s Articles of Incorporation (Overview).

The directors are elected according to Article 24 or Article of Incorporation in Korea and according to that, the company should have 3 to 14 directors who are appointed in general shareholders’ meetings. The Independent Director Recommendation Committee recommends independent directors. The independence of any directors is established by Korean Stock exchange listing standards (Overview).

## SWOT Analysis

See Appendix 1 – 1

## Porter’s Five Forces Analysis

See Appendix 1 – 2

# Works Cited

2014 Samsung Electronics Annual Report. Web. 21 Sep 2015. <<http://www.samsung.com/us/aboutsamsung/investor_relations/financial_information/downloads/2015/SECAR2014_Eng_Final.pdf>>.

Overview. Samsung. Web. 15 Sep 2015. <[*http://www.samsung.com/us/aboutsamsung/investor\_relations/corporate\_governance/boardofdirectors/IR\_BoardComposition.html*](http://www.samsung.com/us/aboutsamsung/investor_relations/corporate_governance/boardofdirectors/IR_BoardComposition.html)>.

Vision & Mission. Samsung. Web. 15 Sep 2015. <[*http://www.samsung.com/us/aboutsamsung/corporateprofile/visionmission.html*](http://www.samsung.com/us/aboutsamsung/corporateprofile/visionmission.html)>.

# Appendices

## Appendix 1 -1

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Strengths | Weight | Rating | Score | Comments |
| Vertical Integration | 18% | 4 | 0.72 | Realized Synergies from different lines of business |
| Diversification | 10% | 2 | 0.2 | Realized Synergies from different lines of business |
| Green Technology | 11% | 3 | 0.33 | They are supposedly focused on this, but not necessarily great in all respects |
| Research and Development | 25% | 4 | 1 |  |
| Corporate Social Reliability | 9% | 3 | 0.27 |  |
|  |  |  |  |  |
| Weaknesses |  |  |  | Comments |
| Diversification | 10% | -2 | -0.2 | Impedes growth and agility |
| Advertising | 8% | -2 | -0.16 | Not focused on differentiation innovations |
| Focus on competitors and their technology | 9% | -4 | -0.36 | Perception that they copy their competitors |
|  | 100% |  | **1.8** |  |
| Opportunities |  |  |  |  |
| Customer Churn | 18% | 5 | 0.9 | When customers go through upgrade cycles they can select other manufacturers. This is a way of continuing growth in a saturated market |
| Green Technology | 6% | 2 | 0.12 | Green technology is growing in many industries |
| Growing market for Healthcare IT vendors | 10% | 5 | 0.5 |  |
| 4k TV Standard and evolving Entertainment Technologies | 13% | 3 | 0.39 | Presents opportunity to increase market share if capitalized on properly |
|  |  |  |  |  |
| Threats |  |  |  |  |
| Customer Churn | 13% | -4 | -0.52 | When customers go through upgrade cycles they could select opponents phones instead of ours. |
| Market oversaturation | 15% | -5 | -0.75 | Core businesses are heavily saturated in developed markets. |
| Lawsuit from Apple | 16% | -2 | -0.32 | Due to the perception that they are copying opponents, Apple has already won over 1.2 billion in damages and is continuing to sue Samsung for other infringements - Samsung is appealing to Supreme Court |
| Other infringement lawsuits | 6% | -1 | -0.06 | TiVo has recently sued Samsung. In the IT industry, it is easy to infringe on another patent somewhat unintentionally. |
| Potential Security Breaches | 3% | -1 | -0.03 | A breach across Samsung's devices could cause significant legal liability. |
|  | 100% |  | **0.23** |  |

## Appendix 1 – 2

Porter’s Five Forces Analysis for Samsung

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Intensity of competitive rivalry | Intensity |  | Scale is 1-5 |  |  |  |
| Number of competitors | 5 |  |  |  |  |  |
| industry growth rate | 4 | Industry growth is slowing in Developed markets |  |  |  |  |
| product differentiation | 4 | Low Differentiation leads to high pressure: minimal differentiation that isn't as effective |  |  |  |  |
| Storage Costs | 5 |  |  |  |  |  |
| Strategy Differentiation | 5 | Low Strategy Differentiation leads to high pressure |  |  |  |  |
| Exit Barriers | 4 |  |  |  |  |  |
|  | 4.5 |  | 90.00% | (Extremely High) |  |  |
| Threat of New Entrants |  |  |  |  |  |  |
| Cost Advantages | 1 | High cost advantages with scale lead to low pressure of new entrants |  |  |  |  |
| Customer Brand Preferences | 2 |  |  |  |  |  |
| Government Restrictions | 5 |  |  |  |  |  |
| entrants proprietary knowledge | 1 |  |  |  |  |  |
| Access to Raw Materials | 3 | Some countries may favor new companies with improved access |  |  |  |  |
| entrants access to government subsidies | 1 |  |  |  |  |  |
| entrants control of distribution system | 5 |  |  |  |  |  |
|  | 2.57 |  | 51.43% | Moderate |  |  |
| Threat of Substitute Products |  |  |  |  |  |  |
| Variety of subsitute products | 1 |  |  |  |  |  |
| substitute products quality | 1 |  |  |  |  |  |
| cost of switching to a substitute product | 5 | Low cost leading to a high force |  |  |  |  |
| sales of substitutes | 1 |  |  |  |  |  |
|  | 2 |  | 40.00% | Moderate |  |  |
| bargaining power of suppliers |  |  |  |  |  |  |
| number of suppliers in the industry | 1 | Many suppliers leading low force |  |  |  |  |
| differentiation of suppliers services | 2 |  |  |  |  |  |
| availability of suppliers' products | 2 | Highly available, but some limitations lead to low force |  |  |  |  |
| switching costs | 2 |  |  |  |  |  |
| threat of forward integration by a supplier | 1 |  |  |  |  |  |
|  | 1.6 |  | 32.00% | Low |  |  |
| Bargaining power of Buyers |  |  |  |  |  |  |
| Demand for a product | 2 |  |  |  |  |  |
| Product differentiation | 4 | Low differentiation leads to higher force |  |  |  |  |
| Switching costs | 4 | Low switching costs but replacements/alternatives are expensive |  |  |  |  |
| Buyers' knowledge of competing products | 5 |  |  |  |  |  |
| Buyers' disposable income | 2 |  |  |  |  |  |
| Price fraction of all purchases | 4 |  |  |  |  |  |
| Buyers' ability to postopone a purchase | 3 |  |  |  |  |  |
|  | 3.43 |  | 68.57% | Moderate |  |  |