

Blue Ocean Strategy–Case of Samsung Mobiles

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Abstract—As the modern society has developed, various kinds of companies have been founded. Among those companies, only some companies, those that win the competition, can survive. To survive, each company has its own special strategies. The purposes are not only to survive but also to make lots of profit. Based on these reasons, companies pursue new ideas and strategies to survive against intense and harsh competition. Furthermore, as technologies have developed and advanced, productivity has increased. Thus, it increases supplies but demands decrease. These factors results in the advent of Blue Ocean Strategy. Blue Ocean is a previously unknown and uncontested market space that makes competition irrelevant. In Blue Oceans, demand is created rather than fought over. There is an ample opportunity for growth that is both profitable and rapid. Value innovation is one of the basic elements of blue ocean strategy. Samsung has succeeded in making Blue Ocean in terms of cell phone in a short span of time after it started in 1998. The uses of the first cell phones were just sending text messages and calling. In contrast to ordinary cell phones in the past, Samsung added the camera, mp3, blue-tooth, dictionaries, and digital multimedia broadcasting functions to them. Samsung wanted people to use and enjoy cell phones in different ways, not just as a simple calling machine. As a result, people's demand for Samsung's cell phones increased dramatically. The objective of this research paper is to study "The effectiveness of Blue ocean strategy in crafting sustainable competitive advantage of Samsung in Mobile segment." Also, it will showcase how Samsung has extended its boundaries by making consumer life smarter by providing high end technology in mobiles looking at consumer's upcoming taste in present market era. The results of the study will highlight that by using tools and logic of Value Innovation there was a phenomenal rise of Samsung sales in the already overcrowded mobile phone market and that's how it has become the market King.

Keywords: Blue Ocean, Value innovation, Competitive advantage, Samsung, Product Development

1. INTRODUCTION

Unlike other electronic companies Samsung origins were not involving electronics but other products.

In 1938 the Samsung's founder Byung-Chull Lee set up a trade export company in Korea, selling fish, vegetables, and fruit to China. Within a decade Samsung had flour mills and confectionary machines and became a co-operation in 1951. Humble beginnings. From 1958 onwards Samsung began to expand into other industries such as financial, media, chemicals and ship building throughout the 1970's. In 1969, Samsung Electronics was established producing what

Samsung is most famous for, Televisions, Mobile Phones (throughout 90's), Radio's, Computer components and other electronics devices. 1987 founder and chairman, Byung-Chull Lee passed away and Kun-Hee Lee took over as chairman. In the 1990's Samsung began to expand globally building factories in the US, Britain, Germany, Thailand, Mexico, Spain and China until 1997. In 1997 nearly all Korean businesses shrunk in size and Samsung was no exception. They sold businesses to relieve debt and cut employees down lowering personnel by 50,000. But thanks to the electronic industry they managed to curb this and continue to grow.

The history of Samsung and mobile phones stretches back to over 14 years. In 1993 Samsung developed the 'lightest' mobile phone of its era. The SCH-800 and it was available on CDMA networks.

The success of Samsung as a technology provider continues to grow through the eighties as Samsung Electronics was merged with Samsung Semiconductors and Telecommunications. This paved the way towards a stronger hold on the international market with high-tech products that will become a staple in every home. This development continued on through the next decade as Samsung kept on going beyond its boundaries and restructuring its business plan to accommodate the global scene. Adopting a new form of Strategy proved to be a wise move for the company as its products made their way on the list of top must-haves in their various fields.

A business strategy highlights what is important to an organization and provides directions realize missions and purposes (Steiner, 1997). A strategy is a plan that provides patterns for actions. It reflects its decisions through position and provides vision and direction for an organization (Mintzberg, 1994). In addition, O'Regan, and Ghobadian (2005) demonstrate on the academic level that firms that use strategic planning achieve higher performances. Therefore, strategies do not only provide directions, but also guides a company through its actions, reflects on its decisions and anticipates for the future through thorough analysis of its environment.

2. BLUE OCEAN STRATEGY

Blue Ocean strategy is a strategy that advice companies to go to a new market, which interest customers and avoid

competition from the existing market. This strategy makes possible for Companies, entrepreneurs to increase their chances of success. In order to maximize the efficiency of the strategy, it is better for companies to initiate it when the business starts. The early firms pursue it, the more profits margin will be.

3. DEFINITION

Blue Ocean strategy can help companies to find new market in which they can capture more customers while improving cost structure.

—(Gorrell, 2005)

According to the well-known authors and management thinkers, ‘the only way to beat the competition is to stop trying to beat the competition’.

—W. Chan Kim and Renee Mauborgne

According to them, the entire market universe can be divided into two oceans: Red Ocean and Blue Ocean. Red Ocean is representative of all such industries/products which already exist and are thus representative of the known market space. Blue Oceans denote the industries/products not in existence today. Blue Oceans thus represent the unknown market space. In the Red Ocean industry boundaries are defined and well accepted. This means the existing competition is well known in the market space and the players in the market try to outperform their rivals to get greater share of the existing market demand. As existing market space gets crowded prospects for good profit and growth in future are reduced. Products then lose their distinctiveness and become regular commodities resulting in cut throat market competition thus turning Red Ocean more red or bloodier. Blue Ocean in contrast is defined by untapped market space, opportunities for highly profitable growth and possibility for new demand creation.

4. LITERATURE REVIEW

Blue ocean strategy has been treated by many scholars as a good strategy for companies to create uncontested market in which competition irrelevant. (Layton, 2005; Webber, 2005; Kehnen, 2006; McClenahan, 2005; Srinivasan, 2006; Sarfati, 2006; Kiley, 2005; Gordon, 2005; Scherer, 2007; Madan, 2007; Andersen & Strandkov, 2008; Azar, (2008). Dahl (2005) proves that blue ocean strategy is widely used by successful companies. Abraham (2006) suggests that correctly defining the market space of companies help companies find an industry they monopoly in. Madden (2009) compares blue ocean strategy and simply better approach and find blue ocean has advantage in identifying a more clearly market since simply better approach is lack of thinking of impacts from consumers’ demands. Sheehan and Vaidyanathan (2009) state that blue ocean strategy enable managers to capture unique value for consumers.

Some researchers found that there is a mutually reinforcing relationship between Blue Ocean strategy and innovation. Colman and Buckley (2005) advise that companies create blue ocean through value innovation. Meyer (2005), Kim and Mauborgne (2005) finds that blue ocean strategy help organizations to innovate and bring new products to market. Leavy (2005) proves pursuing blue ocean leads companies to create more value. Sushil (2006) proposes the existence of blue ocean force enterprises to change. Moyer (2006) finds refining and enhancing existing products keeps companies in the existing market. By innovating or even making small changes can bring companies to blue ocean where no one else is and build competitive advantages for companies. Morris (2007) demonstrates organizations using blue ocean strategy to meet the challenge of innovation will bring themselves substantially advantages with their innovation. Kim, Baik, Kazman and Han (2008) propose that many new techniques cannot help a lot for in current highly competitive markets but contribute much to those potential markets where competition doesn’t exist. Marcet (2008) discusses innovation and new technology could increase companies’ competitiveness better through creating new business in Blue Ocean. Kim, In and Baik (2008) study the case that Value-Innovative Requirements Engineering guide software development organizations in creating uncontested new market and satisfying new customers’ needs through applying blue ocean strategy. Côté (2005) describes the competitive space for organization to swim with blue ocean strategy and suggest organizations should re-invent their products to achieve their strategy.

Some studies of Blue Ocean strategy focus on its impacts on corporate supplying high quality services and products. Lewis (2005) uses blue ocean strategy to define industry and propose its contribution of the competition on the quality of products and services. Yang, Kim and Kim (2007) apply blue ocean strategy in Korean power market and develop the value added services successfully. Chang (2008) does a case study of Samsung Total and find Samsung apply their strategy by developing new products to create new electronics markets in China

5. RELEVANCE OF BOS

Samsung mobile’s vision is guided by an extraordinary vision that to lead the digital convergence movement. Samsung believe that through technology development today, they find the solutions address the challenges of tomorrow. The significance of the Blue Ocean Strategy is that it allows a business to sell its products with little or no competition from other firms. This strategy is useful for a new business that does not have a lot of money available for advertising and does not want to sell its products in a market where other companies have already established strong brands. BOS in Samsung has given following crack to grow as listed below:-

Develop Competitive Advantages

- Define unique cost position, differentiation, market segments
- Cultivate firm-specific resources & capabilities Change the Industry Structure
- Manage the Five Forces (raise entry barriers, reduce rivalry, etc)
- Manage the value chain, profit pools, complementarities
- Move into Attractive Industries
- Manage corporate growth; the corporate portfolio
- Diversification strategy; merger & acquisition; synergies

Its helps in brand building

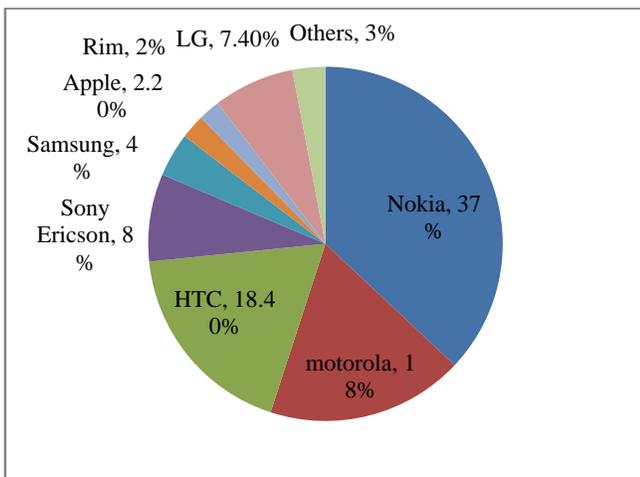
It changes the market borders.

It is concerned with modifying a product.

It gives a path to find and implement a winning formula.

6. SAMSUNG MARKET COMPETITION BEFORE BOS

When Samsung electronics started exporting its mobile phones multinational handset manufactures like Nokia, Motorola, Sony Ericson were involved in fierce competition in the mid and low price markets. From the very beginning Samsung took a different path rather than joining the competition.



Samsung mobiles market share before applying BOS

In order to find a new market space, Samsung took pains to find out what a mobile phone does for a consumer. Consequently they were able to determine that the mobile phone is not just a means of telecommunication between people or between person and communication device. By changing the concept of the product they were able to employ a distinctive strategic approach from those of their competitors.

7. THE CREATION OF BLUE OCEAN

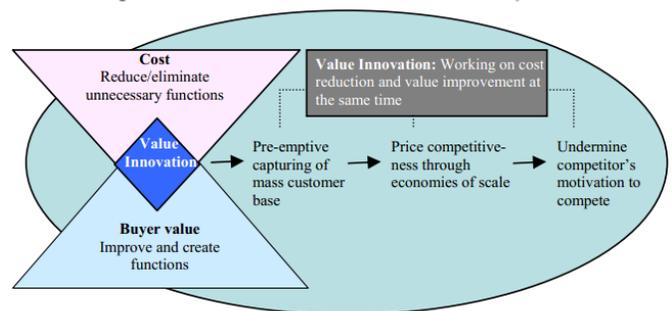


8. BLUE OCEAN STRATEGY TOOLS USED BY SAMSUNG MOBILES

Blue Ocean Strategy consists of a unique set of new management tools. These tools guide you through the process of creating value innovation and reducing costs that do not rely on the manager’s intuition or deep creative insights. When Blue Ocean Strategy tools are properly applied, the results are valid, verifiable and reproducible. Following are the blue ocean strategy tool adapted to Samsung mobiles.

Value Innovation – Samsung today owes much of its success due to its Value Innovation Programme Its role is to provide each business unit with diverse management tools so that they can develop products which offer more value to customers while reducing production costs. During the opening ceremony of VIP centre in September 1998, Samsung Vice Chairman Yun presented the vision for the Centre. He spoke of three specific objectives. 1. Need to study how to reduce costs of existing products in addition to developing new products 2. Various training programs should be offered to cultivate specialists who can help each business unit to be efficiently managed 3. The centre should play a central role in spreading the new management tools throughout the whole company.

Value Innovation, first component of Blue Ocean Strategy is Samsung’s primary tool for product development. Value Innovation Program centre was started in 1998 and by 2004 the centre was playing a very key role in rapid growth of Samsung to become the world’s top consumer electronics company. Many cross-functional Blue Ocean project teams were at work, and had ingrained the approach in the corporate culture with an annual conference presided over by their entire top management. One of the key successes of VIP centre was, within five years of entering the mobile phone market, in 2003 Samsung has become the No2 player in the mobile phones market.



Samsung Mobiles value Innovation Concept fig

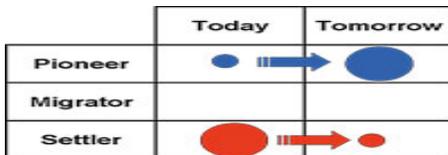
The key aim of blue ocean strategy is to create value innovation – driving costs down while simultaneously driving value up for buyers. Value innovation is the cornerstone of blue ocean strategy.

Value to buyer = offering utility – offering utility’s price

Value of the company = offering’s price – offering’s price’s cost

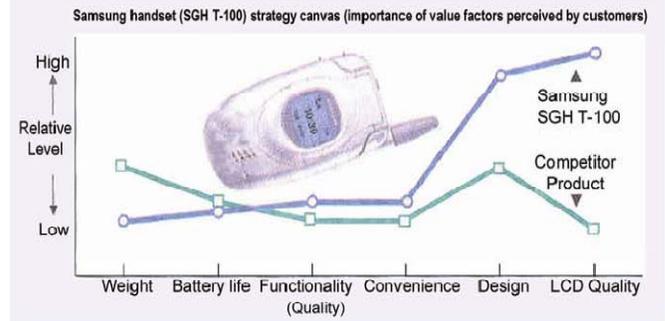
In 2009 Samsung also entered into Mobile OS market with launch of its own open mobile operating system, called "bada," which can be used to develop applications for Samsung phones. Samsung launched mobile phones Wave based on Bada platform along with its first smart phone on Google’s Android platform – Samsung Galaxy. The company plans to bring down smart phone prices significantly. Samsung launched 3D LED TVs and at a premium pricing and changing the home entertainment experience from 2-D to 3D.

A tool that Samsung use as advocated by the Blue Ocean Strategy is the Pioneer- Migrator-Settler (PMS) Map. Such a map can help a company to position its product portfolio. ‘Settlers are defined as me-too businesses, Migrators are business offerings better than most in the marketplace, and Pioneers are the only ones with a mass following of customers.’ If most items in the portfolio are likely to be in the locus of the settler—the challenge is to push it towards the locus of the pioneers.



Through specially designed workshops the centre has trained Samsung employees on the Value innovation theory and specific application programmes such as learning to draw a value curve. After conducting these education workshops, from 2002 the centre started applying the value innovation process to a small proportion of projects and from 2004 all projects were subjected to undergo the value innovation process. Major products from all product groups are now put through the process and only after receiving the VI certificate, they are commercialized.

Strategy canvas-The development team used the “Strategy canvas” a core tool of value innovation process to first discover what customer’s value as well as to make decisions concerning the development and commercialization of the product.



Samsung’s strategy canvas fig

When Samsung develops mobile phone handsets it follows two distinct phases namely conceptualization and development. In the initial stage, a project team is launched with people from various units including hardware and software development, marketing, purchasing, component development and product planning units. The team develops a commercialization plan through a process of defining the product concept, information analysis, systemization of customer’s needs, positioning, concept designing, concept certification and concept finalization. Some of these steps are undertaken in cooperation with VIP centre in Suwon.

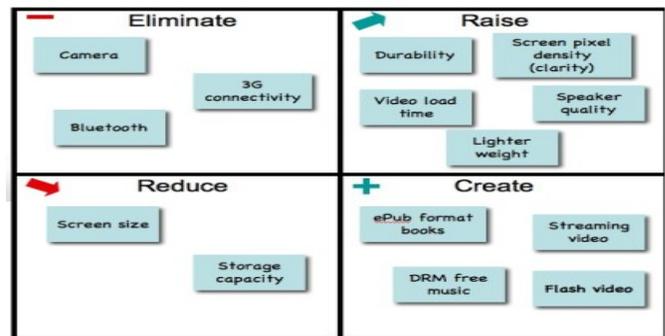
- i. **Four Actions Framework** – A very good tool for looking at differentiation is the “four-action” framework from Blue Ocean Strategy. In this tool the innovation can be evaluated by looking at four aspects:

eliminate-what has been taken out of the mix in the innovation

create-what new elements have been added into the mix

reduce-what aspects/features have reduced function or profile

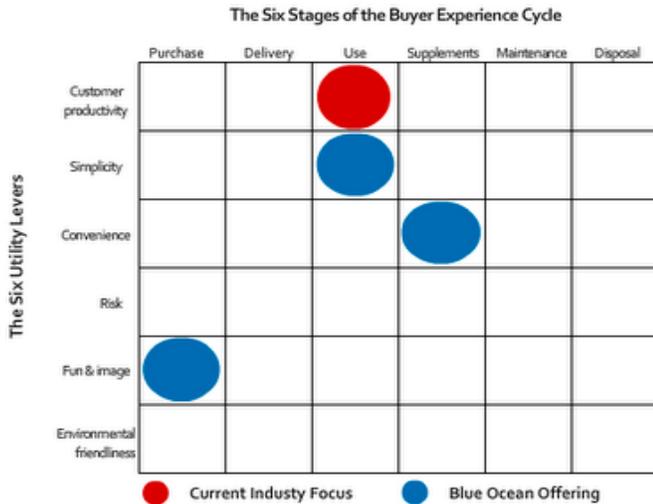
raise-what aspects/features have been improved or have increased profile



Samsung mobiles 4action framework to create value curve

Buyer Utility Map- Samsung’s buyer utility map helps to get managers thinking from the right perspective. It outlines all the levers companies can pull to deliver utility to buyers as well as the different experiences buyers can have of a product or service. This lets managers identify the full range of utility

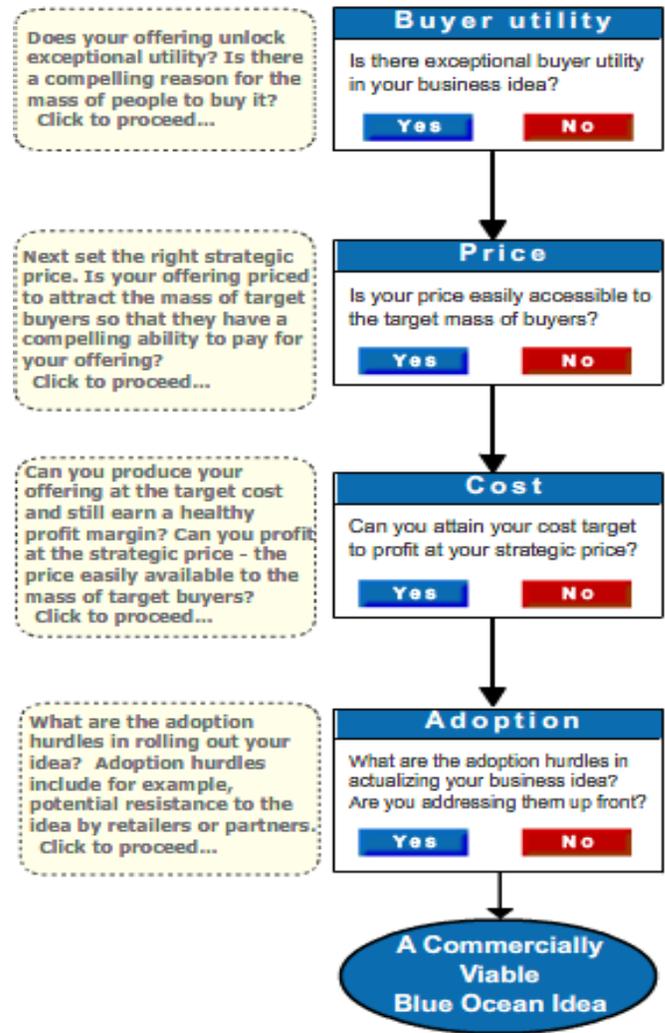
propositions that a product or service can offer. The map's dimension in fig. The six stages of the buyer experience cycle. A buyer's experience can usually be broken down into a cycle of six distinct stages, running more or less sequentially from purchase to disposal. Each stage encompasses a wide variety of specific experiences. Six utility levels. Cutting across the stages of the buyer's experience are what we call the levers of utility – the ways in which companies unlock utility for their customers. Most of the levers are obvious. Simplicity, fun and image, and environmental friendliness need little explanation. Nor does the idea that a product could reduce a buyer's financial or physical risks. And a product or service offers convenience simply by being easy to obtain and or use. The most commonly used lever – but perhaps the least obvious- is that of customer productivity. An innovation can increase productivity by helping them do things faster, better, or in different ways. The financial information company Bloomberg, for example, makes traders more efficient by offering on-line analytics that analyze and compare the raw information it delivers



By locating a new product on one of the 36 spaces of the buyer utility map, managers can clearly see how the new idea creates a different utility proposition from existing products. In our experience, managers all too often focus on delivering more of the same stage of the buyer's experience. That approach may be reasonable in emerging competitors, where there's plenty of room for improving a company's utility proposition. But in many existing industries, this approach is unlikely to produce a market-shaping blue ocean strategy.

Implementation of Blue Ocean Strategy in Samsung mobiles

By implementing blue ocean strategy, Samsung mobiles has responded to the adverse conditions with the ultimate cost competitiveness and management innovations aimed at enhancing speed and efficiency. Steps followed by Samsung mobiles in implementing Blue ocean strategy:



Samsung market competition after applying BOS

The latest numbers in the battle for Smartphone supremacy show that Apple's share of the pie has increased in the U.S., but it is still being out-paced by Android-making rivals. **Samsung shipped 83.2 million smartphones worldwide and captured 24 percent marketshare in Q1 2015, dipping from 31 percent a year earlier. Samsung continued to face challenges in Asia and elsewhere, but its global performance has stabilized sufficiently well this quarter to overtake Apple and recapture first position as the world's largest smartphone vendor by volume**

9. CONCLUSION

Samsung mobiles have organized first Analyst Day at Seoul in 2005 and the Samsung Tech Forum at Singapore in 2006. These highly successful events—the first of their kind in Asia—help our investors and shareholders to better understand the core competencies of business division and the direction in which their technology development is heading over the mid-

/long term. However, the challenges and changes Samsung mobiles faced domestically and overseas grow ever greater, and they were well aware that no company has remained at the apex forever. They also understand that Samsung mobiles are no exception. Therefore, they are not complacently satisfied with today's achievements and continue to take on challenges and implement creative innovations to reap greater results tomorrow. Second Life, a virtual reality environment, plays host to over five million users worldwide—many of them device- and technology hungry teenagers. It has now sat at the top of industry, and its competitors around the world watch their every move. As they have fended off, to develop its own technologies and management systems to maintain a unique competitive edge. They are taking on the challenge of the future with creative ideas and innovation. Moreover, we work tirelessly to enhance their future, as market king. Samsung Mobiles are reinventing their self as a world leader through conviction and enthusiasm for the future, creative innovation and the willingness to take on any challenge. Keep your eye on market demand so that customer will be satisfied.

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