

SAMSUNG OPTIONS

Samsung had 2 options:

- Actively collaborate with Chinese partners. Collaboration would provide access to local Chinese market which was growing rapidly and access to cheap resources and local talented engineers. Risk was to lose its unique culture and intellectual rights were not fully protected.

OR

- Invest heavily in cutting edge memory products and niche markets and leave low end of the market for Chinese.

What kind of competitive advantage are the Chinese entrants seeking? How close are they to achieving that advantage?

Chinese entrants are seeking the same advantages Samsung had applied to win over the Japanese companies 20 years earlier. Without any interest to make profits at the beginning, Samsung dropped selling price to the lowest point that Japanese firms could not follow to expand the market share. This strategy done by Samsung worked well, and now Samsung becomes the number one manufacturer in the market. Chinese entrants with some assistance possibly perform the same low-cost leadership strategy. Plenty of financial supports on research and development loans by Chinese Government are given as well as by investors who forecast the growth as opportunities in the future. Also, The Chinese government is able to provide valuable features such as cheap credit and utilities, abundant land, skillful engineering expertise, tax incentives, and other essential resources to companies that build cutting edge semiconductor facilities with Chinese partners. China has a large pool of talented, educated workers, and the costs of labor are very low. Their level of technological sophistication is currently low but they are already forming partnerships with firms such as Infineon and therefore have access to the necessary technological expertise to compete in spite of trade restrictions imposed by the U.S. By 2010 China was expected to become the world second largest purchaser of semiconductor of the world after US. Many Chinese firms are ready to enter the market. Chinese entrants could afford to sell their products at lower prices and grow their market shares at the expense of profitability. Although SMIC has the lowest market share as its production volume units are the smallest (68.2 mil) among all the competitors after Samsung, the company's fully loaded cost of product is the second lowest among all the firms as \$4.84, and SMIC faces the loss as -\$9.3%. Therefore, it is expected that SMIC gets closer to Samsung and threatens more heavily in 256Mbit market soon.

How much of Samsung's performance is based on its reputed low cost advantage?

Samsung's Low Cost Advantage

The most favorable cost advantage for Samsung is in its DRAM, Samsung was the largest producer of RAM chips also. Firstly the low cost of material, the cost of materials acquired by Samsung compared to its competitors is very low and that's because of the supplier discounts on high volume.

Secondly low labor cost compared to industry average excluding the Chinese market. Korea is much cheaper than US, Japan and Europe.