Intro

* Focus on superior product design and process efficiency
* Concerns about complacency
* From 1987-2003: Focus on memory division, use as cash cow to fund R&D
* Expanded to be leader in mobile phones and LCDs
* Second largest electronic company outside US
* Memory cyclical downturn in 2005 = less $$; Chinese entering the market

Industry

* 16% yoy growth from 1960-2000
* Semiconductor separated in 2 category:
  + Memory ($33.7B market in 2003)
    - DRAM:
      * ½ market
      * Shift from PC usage to communication products and gamming
    - SRAM: 10%
      * Buffer processing
    - Flash: 32%
      * Growth; used in digital cameras and mobile phones
  + Logic chips
* Powerful suppliers; consolidated: Applied Materials, Tokyo Electron, ASML
  + Provide 5% discount on high volume buyers
* Price conscious customers
  + Fragments; no OEM larger than 20%; heavy rivalry
* Memory is:
  + 4-12% cost of PC
  + 4-7% cost of phone
* Defective memory: hard to detect and can hurt OEM brands. OEM reado to pay 1% premium for reliable supplier (how much more expensive is Samsung?)
* 2005
  + large scale entry by Chinese firms
  + Sharp drop in prices: increase in industry capacity and cyclical downturn
* Samsung put out new cutting edge chips; Chinese compete on prices
* Cost to build plant up from 200M to 3B; Chinese having difficulty to raise capital (Samsung competitive advantage: High barrier to entry; already established)
* No substitutes to DRAM or Flash

Competitors

[MISSING]

Company Overview

[MISSING]

Problem statement:

Mature cyclical industry in a downturn => how to defend against Chinese entering the market and competing on price?

Alternatives:

1. Partner with Chinese:
   * Samsung to provide IP + Capital infrastructure
   * Chinese to provide low cost manufacturing + distribution in Chinese market
   * No good:
     + Samesung will effectively build solid competitors which will rival them as soon as downturn over
     + Most likelt little to gain from Samsung; financially stable enough to survive downturn and minimal profits to be gained competing on price in a slow market
2. Invest in R&D:
   * Give low end market to Chinese; focus on niche high end
   * Good to maintain brand but will hurt in short run
3. (not presented in the case) Establish new low end brand
   * Leverage production investments; use new low end brand to liquidate chips that fail high standard QA tests and keep selling non leading edge tech
   * Gain ability to compete with Chinese
   * Does not put at risk IP & Main brand
   * Enables steady cash flow during down turn (little/no profits expected; just cash and inventory rotation)