Huawei’s Competitive Position Analysis

Introduction

Huawei is a Chinese ICT (focused on telecommunications) provider with global presence and 3 major business units: Consumer, Enterprise and Carrier solutions. Even though it is not a publicly traded company, Huawei ranked 228th on the Global Fortune 500 based on its revenue in 2014. During that year, the company's revenue reached approximately USD 46.5 billion, but it is very hard to discern the company’s finance internally, since it is own by the employees, and there is a lot of secrecy about it.

Huawei, in its web site, claims that it invests over 10% of the annual sales revenue into R&D and that more of 45% of the 170,000 employees are engage in R&D. This statement has become one of the mantras of the company, that tries to be associated with innovation and overcome the idea of Chinese products to be just a copy; specially considering the general idea of the brand after the legal fight with Cisco at the beginning of last decade, which ended with an agreement between both parties about 20 months after the lawsuit was filed.

The awareness of the firm is relatively low outside the technology professional, however it has increase due to a very intense marketing campaign related to the consumers market, mostly through football (soccer) players; this and other strategies, have allowed Huawei to grow steadily in the past years.

An interesting fact, which is very significant to understand the culture and way to do business of the company, is the system of a Rotating CEO, in which the leader of the company will stay in chair only during 6 months. After that, the position is occupied by another person, but all the previous CEO remain in the board of directors.

As many big companies, it is hard to determine the specific industry that Huawei is in, however this analysis will try to consider the 3 business units (consumer, enterprise and carrier) that the company promotes, so it will consider several different competitors in the technology segment.

Competitive Position

The steady growth of the company [exhibit 1] has proved that Huawei is a strong, competitive company in the telecommunications industry. The way of doing business has been disruptive in the west but the company continues to adapt its strategy and to grow in overseas (outside China) market. The strategy has changed greatly since 2004, the year in which Huawei decided to expand overseas. At that moment, the operation was based on selling low cost, medium quality
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and highly adaptable products. In later years, however, Huawei fights really hard to provide differentiated products and services to customers, using different approaches.

Due to the broad portfolio, there are several competitors in different segments and the company has different models to compete in each of its business units, but it is clear that the company defined a transversal strategy: achieve differentiation by enhancing product features to the best its capabilities and capacities, keeping a reasonable price.

In the smartphones market, Huawei has taken the basic features and turned them into very easy to use gadgets, enhanced camera, fingerprint detection with additional uses, etc. They have done the same with IT and communications equipment; to the point that Huawei claims to have the best product performance in the industry to transport, process or storage data.

These achievements, however, don’t show real innovation in technology, just take the current products to the maximum capacities possible, up to the point that technology allows, but not trying new types of technologies. This situation might be related to the “fear of failure” of Chinese culture. Even though it is not public outside the company, there is a very strict policy of punishments related to not compliance of the key performance indicators for each member of the organization.

In any case, the R&D investment is high, compared with most competitors and it has expanded to several facilities outside China, which would eventually lead to a transformation of the development process in the company.

Related to geographic scope, currently, more than 50% of the revenue comes from EMEA, Asia Pacific and Americas regions, according to the annual report of the company. The last region, is the smallest, in terms of revenue share. The specific environment in US and Latin America, has made very difficult for Huawei to penetrate in the carrier and enterprise business. On the other hand, Huawei penetrated a lot of market in devices business unit, because of the high end, high quality products at a lower price than the market leaders (Apple and Samsung).

Differentiation

ICT is a competitive market, in which differentiation in crucial to survive. The 5 forces analysis shows Huawei has a strong position because of the big portfolio and the advances in performance done to the products. Also, the fact that big part of the manufacturing is done by the company, enhances the position by reducing the bargaining power of suppliers.

From a chain value identification the capabilities analysis shows 4 main capabilities that can be maintained in the short term. The most significant capability is the long extent of the value chain and the strong supply chain, since it allows Huawei to reach great part of the globe.
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In terms of portfolio, the completeness of it allows the company to compete over several segments and provide complete solutions for the customers. This is a capability very difficult to imitate and therefore, a source of differentiation to Huawei.

In exhibit 7, there is a comparison with the main competitors in each of the segments Huawei has presence. From it, we can see that the biggest competitor is Cisco, due to the great portfolio and the brand awareness in the market.

Conclusion

Huawei has a good competitive position but it is very important that the company transform the R&D process to generate game changer innovation. Without this capability Huawei will always be after western companies that allow the things required for innovation.

In the mean time, the big size of the portfolio and the established infrastructure around the world, allow Huawei to be one of the giants in telecommunications industry.

Exhibit 1

Source: Huawei Annual Report
### Huawei’s Competitive Analysis

#### Exhibit 2

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenue</th>
<th>R&amp;D</th>
<th>FORTUNE 500 position</th>
<th>Brand Recognition</th>
<th>Value proposition</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HUAWEI</strong></td>
<td>60</td>
<td>6</td>
<td>228</td>
<td>Fair quality, low price</td>
<td>End to end process and solution.</td>
<td>Differentiation with enhancement of products available on the market, at a reasonable cost</td>
</tr>
<tr>
<td><strong>DEVICES</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Samsung</td>
<td>195</td>
<td>13,8</td>
<td>13</td>
<td>High Quality, best features</td>
<td>New features for users</td>
<td>Differentiation by user features and branding</td>
</tr>
<tr>
<td>Apple</td>
<td>182</td>
<td>8</td>
<td>5</td>
<td>High Quality, best features</td>
<td>Highly integrative portfolio for consumers</td>
<td>Differentiation by usability and branding</td>
</tr>
<tr>
<td>Lenovo</td>
<td>46,2</td>
<td>2</td>
<td>231</td>
<td>Low price</td>
<td>Low cost</td>
<td>Focus on mid class consumer and corporative market</td>
</tr>
<tr>
<td><strong>CARRIER</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nokia + ALU</td>
<td>13,8</td>
<td>1,3</td>
<td>NA</td>
<td>High quality, good stability</td>
<td>Big portfolio with low cost</td>
<td>New alliances to consolidate a market position</td>
</tr>
<tr>
<td>Cisco</td>
<td>49,2</td>
<td>6,2</td>
<td>60</td>
<td>High quality, high stability, best features</td>
<td>State of the art solutions</td>
<td>Differentiation with innovative solutions</td>
</tr>
<tr>
<td><strong>ENTERPRISE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HP</td>
<td>111</td>
<td>3</td>
<td>19</td>
<td>Good quality, low price</td>
<td>Low cost</td>
<td>Focus on mid class consumer and corporative market</td>
</tr>
<tr>
<td>Avaya</td>
<td>4,4</td>
<td>0,8</td>
<td>581</td>
<td>Good quality, reasonable price</td>
<td>Innovative solution for Unified Communications</td>
<td>Focus in product line, with support lines in its portfolio</td>
</tr>
<tr>
<td>ZTE</td>
<td>16</td>
<td>0,5</td>
<td>NA</td>
<td>Fair quality, low price</td>
<td>Low cost, big portfolio</td>
<td>Focus on mid class consumer and corporative market</td>
</tr>
</tbody>
</table>
### Exhibit 3

<table>
<thead>
<tr>
<th>Factor</th>
<th>Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technological development</td>
<td>Almost all the ICT manufacturers are investing heavily in R&amp;D in order to overcome the competitors, they tend to improve capabilities in short term, but most of the real disruptors are developed in few centers</td>
</tr>
<tr>
<td>Macroeconomical impact</td>
<td>Technology, and specially telecommunications, is relatively out of the influence of economical recessions, however, it has become a commodity product, which makes the competition very hard</td>
</tr>
<tr>
<td>Political and legal situation</td>
<td>ICT are targets of Governments in order to improve security, many tech providers have been coerced to collaborate with governments, without public knowledge. The same governments use this situation as a protective measure for domestic markets *</td>
</tr>
<tr>
<td>Demographic in Americas</td>
<td>Consumers changed the habits for communications and now they are using a lot more the technology to reach to other people. Social media is a constant part of life for the milenials and even for people over 60, that are now much more connected to everyone. The new situation allowed smartphones to become a crucial element for people, that will try to have it at the lowest possible cost.</td>
</tr>
</tbody>
</table>
Exhibit 4

**Threat of new entry = Low**

Considering the broad portfolio of Huawei, and the specialization it requires it is very unlikely a brand new company can compete directly with Huawei.

- Economies of scale to compete in global market
- Highly complex products, developed during a long period of time
- Recognition of major brands, not definitive for provider selection
- Low switching costs.
- Difficult learning curve
- Low expected retaliation

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**Baraganin power of suppliers = Low**

Huawei does a lot of the manufacturing, so many suppliers are just of commodity products.

- Low differentiation of inputs.
- High presence of substitute inputs.
- Low switching costs of suppliers and firms in the industry.
- High importance of volume supplier
- Low impact of inputs in cost differentiation
- Low threat of forward integration

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**Intensity of Rivalry = High**

Highly competitive market, a lot of established providers that fight for differentiation

- High industry growth
- Low product differentiation
- Low diversity of competitors
- High corporate stakes.

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**Baraganin power of buyers = Medium**

Depending on the segment, buyers might have a higher power (for example in carrier), but as they are highly distributed around the globe and there are other segments, the total strength is not very high

- Medium bargaining leverage
- High price sensitivity.
- Low concentration
- Price / total purchases.
- High buyer volume
- Medium Buyer profits
- High buyer switching costs relative to firm switching costs.
- Low ability to backward integrate.
- High buyer information.
- High decision-makers incentives.
- Low ability to backward integrate.

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**Substitute products = Low**

In technology, substitute products are a high risk, however they will appear only a big innovation that is not clear on how and when will happen

- Relative low price performance of substitutes.
- Lowwitching costs.
- Medium buyer propensity to substitute.
### Exhibit 5

#### Value Chain Analysis

<table>
<thead>
<tr>
<th>Firm Infrastructure</th>
<th>Human Resources Management</th>
<th>Research and Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Several factories, Big offices in China and main cities in the world, presence in over 100 countries with owned offices</td>
<td>Company owned by employees, fair distribution of revenue, low concentration of power, constant change of positions for people inside the organization, chinese people and culture comes first</td>
<td>High investment in R&amp;D, several centers, join ventures with other companies, including competitors, mostly done in China and small part in Europe, proactive development for specific segments.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inbound Logistics</th>
<th>Operation</th>
<th>Outbound Logistics</th>
<th>Marketing and Sales</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned factories, from chips. Several R&amp;D centers for design of products</td>
<td>Manufacturing made on demand, low stock</td>
<td>Established transportation methods around the world.</td>
<td>Strategy planned in China for all the globe, hired local people only to execute the planned strategy</td>
<td>Viewed as a requirement, but not a profitable segment for business</td>
</tr>
</tbody>
</table>
### Huawei’s Competitive Analysis

#### Exhibit 6

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>Low cost skilled manpower (China)</td>
<td>People from around the globe to handle easily the tools of the process</td>
<td>R&amp;D engineers and designers</td>
<td>Decisions on investment are concentrated in few people</td>
</tr>
<tr>
<td>Systems</td>
<td>Tech to easily use the manpower</td>
<td>Tech to easily use the manpower</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processes</td>
<td>Defined design process</td>
<td>Strong process defined</td>
<td>Fast implementation of designs</td>
<td></td>
</tr>
<tr>
<td>Aligment</td>
<td>Aligned with market requirement of low cost equipments</td>
<td>Aligned with market requirement of low cost, fast transportation. Not good on terms of availability (time)</td>
<td>Market expects one-stop-provider for tech solutions.</td>
<td>Market will accept easier a provider that shows capability</td>
</tr>
<tr>
<td>Sustainibility</td>
<td>Keeping control of manufacturing process and suppliers, Huawei can maintain a low cost strategy</td>
<td>Easy to overcome from competitors</td>
<td>Competitors will need to create and maintain strong alliances (usually they don’t last more than 2 years) to offer the same spectrum of products</td>
<td>Easy to lose</td>
</tr>
</tbody>
</table>
Strategy Map in comparison with 3 major competitors in different segments. Considers brand awareness, relative cost and portfolio size as size of circle.
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References

http://fortune.com/global500/huawei-investment-holding-228/

2 http://www.ft.com/cms/s/0/469bde20-9eaf-11e3-8663-00144feab7de.html#axzz4A45izA7f


