

# Huawei within a Challenging Environment

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**Abstract:** Huawei is an iconic brand in the Chinese smartphone industry and the importance of its marketing strategy to the company in the internationalisation process cannot be overstated. In the first part of the article, the author analyses the business environment of the smartphone industry in international markets from both macro and micro perspectives. In the second part, the article identifies the marketing strategies that Huawei has adopted and analyses them accordingly. Finally, the author gives marketing recommendations based on actual budgets.

**Keywords:** Huawei, Marketing, PEST model, Michael Porter's Five Forces Model, Marketing Mix, mobile phone industry analysis, Chinese multinational companies

## 1. Introduction

Nowadays, with the development of technology, the smart phone has become the necessity in people's daily life. There are hundreds of mobile phone brands all over the world. With the remarkable and creative designs, a few of mobile phone brands are on the top of the world, and Huawei is one of them. Huawei is a Chinese unlisted mobile telecommunications enterprise, which was established by Zhengfei Ren [1]. Business environment is always the prior consideration in Huawei, and PEST model and Porter's Five Forces will be used below in order to analyze Huawei's threats and opportunities within macro environment and micro environment. As the saying goes, precise knowledge of self and precise knowledge of the threat leads to the victory, so an analysis will be given, which includes Huawei's strengths and weakness by analyzing competitors, distributors, suppliers and customers. Marketing Mix model will be used to identify Huawei's marketing strategies, including target market, positioning and pricing strategy, as well as supply chain. This report will analyze both macro environment and micro environment of Huawei and its marketing strategy from multiple aspects, and give a budget for the marketing strategy in the future.

## 2. Macroenvironment PEST

### 2.1 Political

The differences of legislation between China and other overseas markets might cause a far-reaching influence on Huawei. The abroad political factor is a threat for Huawei: Huawei is growing fast and has a significant status in the telecommunication field all over the world, which is followed by several political problems. Huawei is restricted by politicians in United Kingdom, United States and other countries, which is due to political pressure. As the telecoms provider BT is based on the 4G network from Huawei, the politicians in Britain said that they identified the shortcoming in Huawei and which could be a risk to the safety of British networks, and they also pointed that Zhengfei Ren was an engineer in China's People's Liberation Army before setting up Huawei, so Huawei could be a department of the Chinese government. More and more foreigners believe that Huawei is a tool for China to spy other countries, which is a serious situation for Huawei to expand market [2-3]. On the other hand, domestic political factor is an opportunity for Huawei: pro-competitive legislation is available; the domestic politics is stable and China has lots of preferential policy to encourage the emerging technology company like Huawei to create more profit, which is a great opportunity for Huawei to concentrate on their competitive advantages [4].

2.2 Economic

The economic growth and decline have a profound impact on enterprises. The foreign economic environment is hurting Huawei, which is a threat. Huawei has concentrated on European market in recent years, which is the most successful overseas markets [5]. According to the figure 1 that the market share of Huawei took the third position, just behind Apple. But there was an unexpected recession on economy in the Eurozone because of the political turmoil, so there could be a negative impact on the sales volume of Huawei products [6]. On the other hand, the domestic economy is still booming, which is an opportunity. The growth rate of China GDP is dynamic by analyzing the research provided by National Bureau of Statistics of China [7], and people are much more wealthy than before, as the parent country of Huawei, Chinese market provided a huge opportunity for Huawei to improve their competitive advantages, as shown in Figure 2.

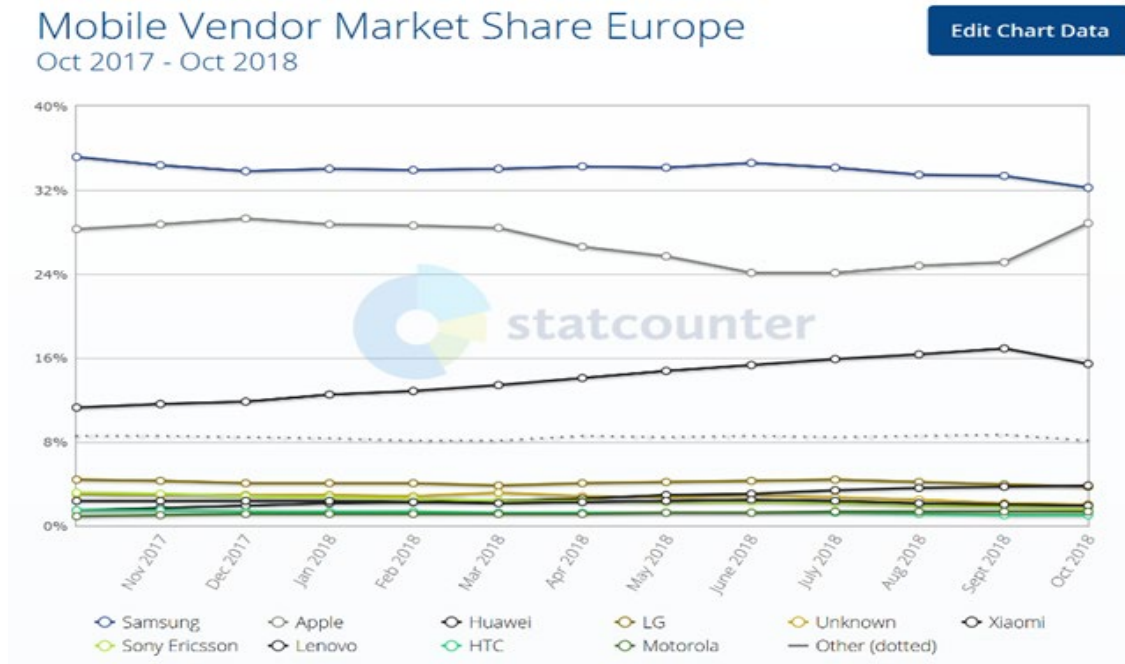


Figure 1: The market share of Huawei

**GDP year-on-year growth rate**  
unit: %

year	First quarter	Second quarter	Third quarter	Fourth quarter
2013	7.9	7.6	7.9	7.7
2014	7.4	7.5	7.1	7.2
2015	7.0	7.0	6.9	6.8
2016	6.7	6.7	6.7	6.8
2017	6.9	6.9	6.8	6.8
2018	6.8	6.7		

note: The year-on-year growth rate was a year-on-year growth rate.

**GDP growth rate**  
unit: %

year	First quarter	Second quarter	Third quarter	Fourth quarter
2013	1.9	1.7	2.1	1.6
2014	1.7	1.8	1.8	1.7
2015	1.7	1.8	1.7	1.5
2016	1.4	1.9	1.7	1.6
2017	1.5	1.9	1.8	1.6
2018	1.4	1.8		

note: The growth rate of the chain is the growth rate that is seasonally adjusted compared with the previous quarter.

source: Chinese National Bureau of Statistics

Figure 2: The growth rate of China GDP

### 2.3 Social

Corporate social responsibility plays a key role in this aspect. The name of Huawei means that China is promising, and Huawei take a meaningful responsibility for the development of China, which is a great opportunity. Domestic product is bolstered by government program, and the customers in China look forward to a transformation from 'made in China' to 'created in China', so massive amount of Chinese enterprises have taken this responsibility, such as ZTE, Alibaba and so on [7]. There is an increasing number of Chinese customers who would like to buy domestic product. So some Chinese newly- rising enterprises get a wide attention from the society with the support of the government. Customers in China preferred buying Apple in the past, but Huawei is becoming more popular than Apple in China in the current situation [8]. Furthermore, demographic force should be mentioned. According to the Stastia [9] research below that the mobile phone industry is increasing rapidly. China has the biggest amount of smart phone users, accounting for 25% of the total, and there would be 40% people owning a smart phone all over the world in 2021. What's more, the rate of mobile phone usage still increases all over the world, which is such a huge market for smart phone enterprises. Additionally, China has the largest population base, which means Huawei is provided with more resources and chances than other smart phone brands [10], as shown in Figure 3.

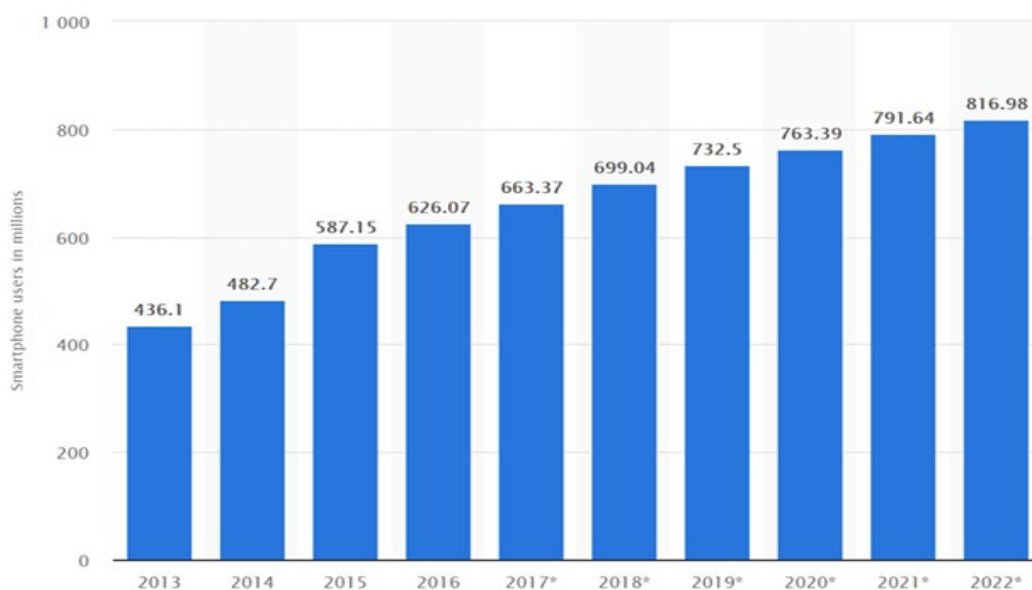


Figure 3: Number of smartphone users in China from 2013 to 2022 (millions)

### 2.4 Technological

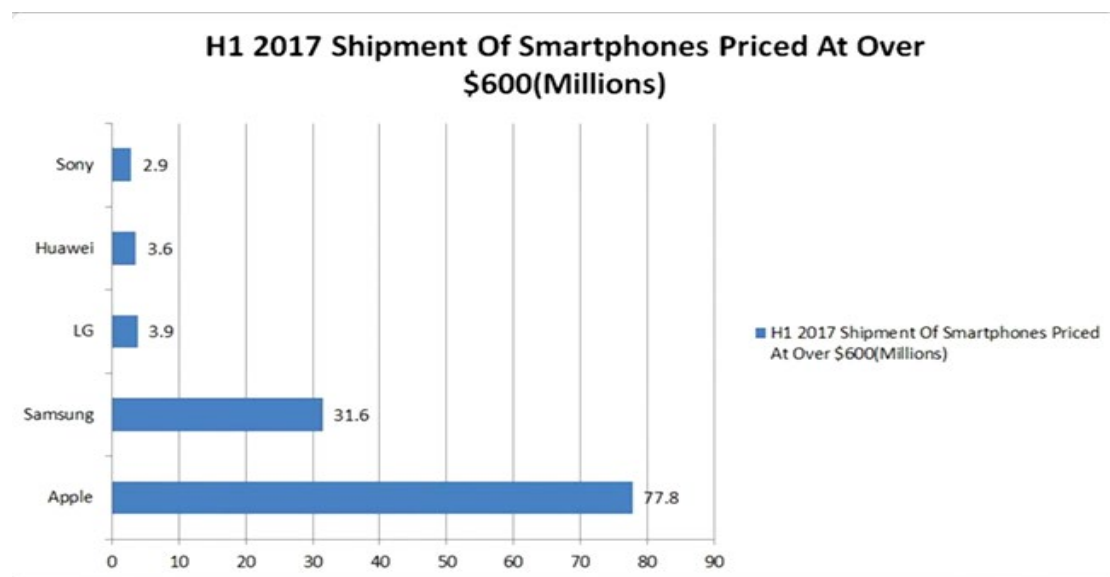
China has the largest 4G network market and more than 1.1 billion 4G users, which is an opportunity for Huawei [11]. A telecommunication enterprise is based on mobile network, so the technological environment in China is a positive factor for the development of Huawei. On the other hand, according to the National Bureau of Statistics of China [9] research below, the internet penetration rate is 55.8 % in China, which provides massive potential opportunities to smart phones. Science and technology is the great power on the growth of Comprehensive National Strength, so the technology company like Huawei gain much more support from China government, which lead to a flourishing trend of creative technology [12]. Huawei is looking for a transformation from digital products to intelligent product, which is a technological innovation, and people could get a new perception during this process [13].

## 3. Microenvironment-Competitor/Distributor/Supplier

### 3.1 Competitors Analysis

By using Porter's 5 Five Forces model to analyse this case, the buyer's bargaining power of Huawei is high because Android operating system is widely used by other brands, so the switching cost of

Huawei is low. By contrast, IOS operating system is more unique [14]. Furthermore, the threat of new entrants is low because different brands have their own core strengths, which creates of a high entry barrier in the cell phone industry. For example, Samsung focuses on the perception of its customer, which means Samsung always changes its design due to its customer's feedback, and Apple has a unique operating system, which is attractive to customers [15-16]. Additionally, there is a fierce rivalry in the cell phone industry, and the figure 4 demonstrates the smartphone shipment price of those several telecommunication companies' was over \$600 in the first half 2017. Among those companies, Apple ranked the top position which was 77.8 million, and Samsung was the second highest with 31.6 million, followed by Huawei with 3.6 million, which could be a big challenge for Huawei to go through [11]. Actually, Huawei does better than Apple and Samsung in European market, whose strategy is to cooperate with local carriers. So it is easy for Huawei to break into European market because of the stable and long-term relationships with local carriers [11]. In addition, there were some negative news about Samsung and Apple, for example, Samsung and Apple forced their customers to update operating system, which caused the operating system to get slow in order to make customers buy new products. All of those situations brought opportunities to Huawei [17]. Huawei tries to expand its market share with a cheaper price; beyond that, Huawei invests more than 10% of its total revenue in research and development in order to improve its creativity [18].



*Figure 4: 2017 Shipment of Priced At Over \$600 (millions)*

### **3.2 Distributor Analysis/ Place analysis**

Huawei used to focus on telecommunication equipment by direct sales, which has accumulated various resources, but as the market was expanding, distribution was concentrated by Huawei on their mobile communication products. According to figure 5 below, Huawei divided their distributors into four aspects: Value-Added Partner (VAP), Gold, Silver and Authorized Partners. Different names means different levels: VAP is the first-level distributor, Gold, Silver and Authorized are the second-level distributor. Those classifications based on the registered capital and the total performance. Different levels have specific customer services standard, which includes the number of salesman, pre-sales engineer as well as post-sales engineer. The role of VAP, Gold and Silver is similar, and those distributors are responsible for customer development, market analysis, technological support and other missions. The pre-sales and post-sales services are based on Authorized partners [19]. Huawei provides not only the technical support, but also the knowledge support to their distributors. Huawei Partner University plays a key role in this process. This university includes Solution Elite College, Sales Elite College, Service Elite College and Business Elite College, which aim to develop the pre-sales capabilities, the abilities to attract customers and explore opportunities, post-sales services capabilities and other business skills. The distributors will be more competitive after training [1]. Those distributors help Huawei a lot and are beneficial for Huawei to expand international markets, improve their services level and innovate their products. Actually, different selling models have different purposes. The advantages of direct sales include total control, efficient marketing feedback and effective marketing strategy, but the negative point is the high cost and risk. Huawei can share the cost and risk with their

distributors, and the distributors know more about the local market, so it is less time-consuming for Huawei to make a marketing strategy.

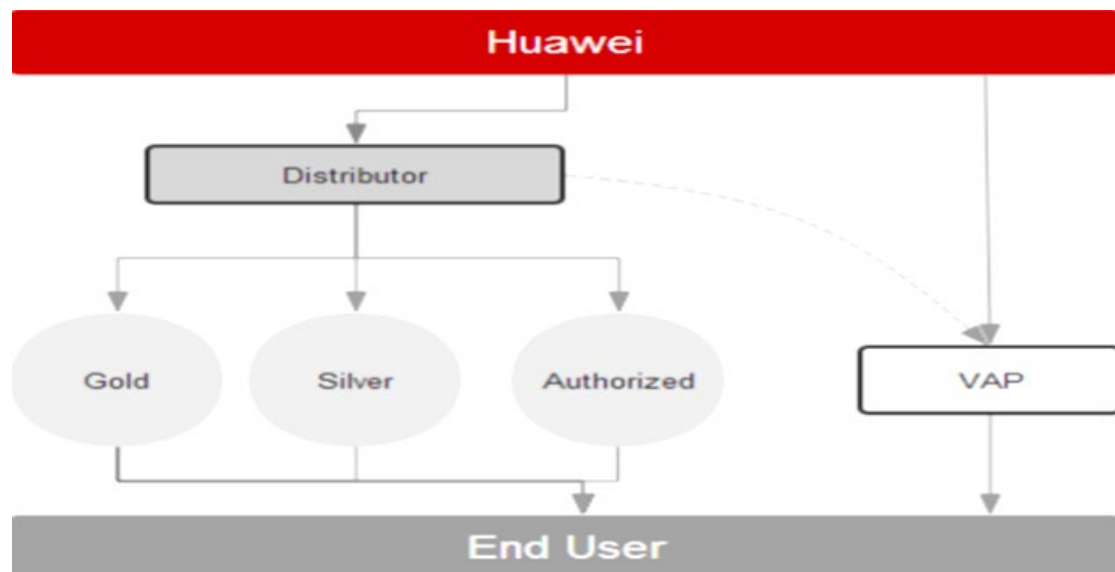


Figure 5: The layers of Huawei distribution

### 3.3 Suppliers Analysis

A successful enterprise is based on a complete and efficient supply chain, and supplier is the most significant role in this process [20]. Huawei has a strict procedure to choose their suppliers. The first factor to consider is the sustainability. Huawei will evaluate the capacity for sustainable development of their potential suppliers, and those who do not have this qualification cannot be chosen by Huawei. Risk evaluation is the second step. The risk level is divided into three layers- high, medium and low. Those suppliers who have high or medium risks will be recorded in the Supplier Corrective Action Requirement (SCAR) system which is used to follow the problems still existing during its suppliers. The performance management of suppliers is also significant. The Huawei annual evaluation will show the sustainability performance of each supplier, and suppliers will be marked in this evaluation. Those who have an excellent sustainability performance will be given the priority to increase the share in procurement. Huawei also provides knowledge support to their suppliers. The regular training will improve the efficiency and avoid most of risks in the supply chain. Additionally, the Commodity Expert Group (CEG) which is responsible for procurement in Huawei cooperates with their suppliers to develop new technology together and Huawei set up several departments in their suppliers in order to get the feedback immediately [21]. The interaction between Huawei and its suppliers is not unidirectional. Huawei cares about the communication, so its suppliers can always get accurate requirement and the collaboration can improve product innovation.

### 3.4 Positioning Strategy and Target Market/ Customers Analysis

Positioning strategy is to analyze the real perception from potential customers to define the brand position in this market [22]. It is quite useful and accurate for a company to use Brand Perceptual Map to analyze the perception of customers [23]. According to the figure 6 that the perception of Apple and Samsung from customers focus on excellent features. Apple is more popular during the young who seek for fashion, and Samsung always attract the general customers. Huawei fans always look for high-cost performance and customization, and durability is always given priority in their mind. From this analysis, we can demonstrate why those products set up for the main customers or potential customers.

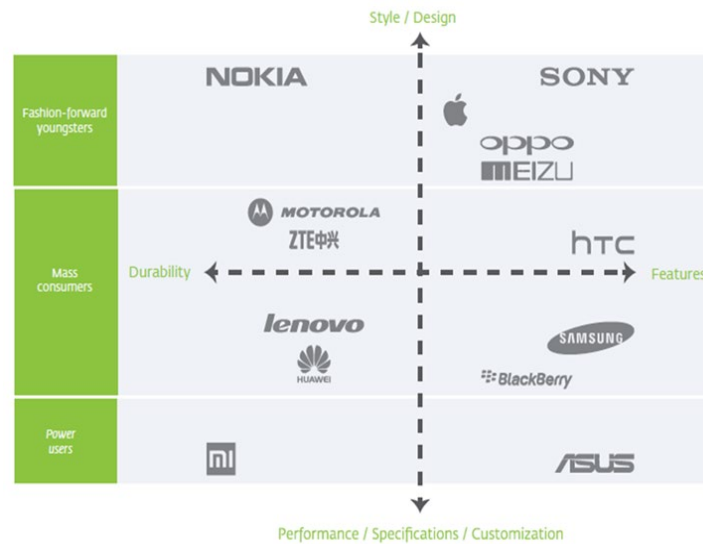


Figure 6: Main positioning approaches of the leading smartphone brands in the Chinese market

The rate of smart phone usage is still rising, and a narrow target market is not be expected by telecommunication enterprises, so do Huawei. Market segmentation means that a company divide their market into fragmented parts according to customers’ consumption habit, by using customization to attract wide customers. Huawei divides their customers into six types [24] , as shown in Figure 7:

<b>Business-focused</b>	those customers want to have a high quality on the network and voice, as well as an excellent customer service
<b>Value-chaser</b>	those customers seek a high cost performance and a better customer service
<b>Family-focused</b>	those customers care about the quality of telecommunication and the data coverage
<b>Entertainer</b>	those customers look for a high-performance product for entertainment
<b>Socializer</b>	those customers focus on a bigger memory capacity and an excellent camera lens pixel
<b>Heavy User</b>	high durability and a large memory capacity are given priority

Figure 7: Huawei six types of customers

Different types means different demands, hence Huawei sets up various models to attract customers. There are five main models below [25] , as shown in Figure 8:

<b>Mate model</b>	Target customer is businessman, high-end model
<b>P model</b>	Target customer is young people who seek for fashion. New technology will be used on this high-end model
<b>Nova model</b>	Target customer is middle-income group, fashionable design and better camera lens pixel, middle-end model
<b>Changxiang model</b>	Target customer is low-income group and light users, low-end model
<b>G model</b>	Customized model for carriers. low-end model

Figure 8: Huawei five main models

In addition to those major models, other models that Huawei created also target different customers. The market segmentation can attract various types of person to purchase their products.

## 4. Marketing MIX

### 4.1 Price Analysis

The pricing strategy is the key for companies to survive. Based on the research above, there are two main pricing strategies in Huawei, that is, market-skimming pricing and market penetration pricing. Different strategies depend on different stages. Market-skimming pricing means that Huawei sets up a high price for their high-tech products which are difficult for competitors to copy, and Huawei can recover their cost immediately [26]. Market penetration pricing means that Huawei's product with a lower price to expand their market share. Huawei is going to decrease customers' price sensitivity, which decreases as price-quality effect and comparison effect, so Huawei always sets up a higher price for their flagship product, and those flagship product can also raise Huawei reputation because of the high performance and patents; on the other hand, the product which is similar to the flagship product will be released as soon as their flagship product are sold, and customers who cannot afford the flagship product will purchase the common one [27]. Those two products may look same, but the hardware is totally different. The common products can also get much attention due to the massive advertising of the flagship product. Additionally, Huawei focuses on providing a strong customer support, which means that satisfaction-based pricing is available. Huawei also provide Contract Phone Plan, so relationship pricing is also actualized.

### 4.2 Promotion Analysis

Huawei uses omni-channel to retail. Omni-channel retailing means that Huawei can combine physical store, mobile commerce and social media together, and the promotion is not limited by shopping method and location. It is quite simple for Huawei to achieve customization and personalization, so the shopping experience is still attractive to customers. Furthermore, intelligent retail should be mentioned. There is a system called Cloudcampus, which can send related products information to customers by analyzing customers performance. This system can collect, transfer, integrate, and analyze massive commercial data in order to improve efficiency and decrease the operating expense. Cloudcampus can provide evidences to Huawei, so Huawei can make specific strategy for promotion [28].

## 5. Budget Recommendation

According to the Huawei Annual Report 2017 [21], compared with the last four years from 2013 to 2016, there is a dramatic growth in the total operating profit from 47,515 CNY million in 2016 to 56,384 CNY million in 2017, which means Huawei's profitability is more stronger than before. A gradual drop is found in Inventories cost from 73,976 CNY million in 2016 to 72,352 CNY million in 2017. It is double-edged for company to decrease its inventory, because low inventory might decrease the company's capacity of reaction. On the other hand, high inventory might cause a high cost, so it is necessary for Huawei to invest much more money in supply chain management to develop its just-in-time system [29]. Huawei's selling and administrative expenses increased by 6,239 CNY million from 2016 to 2017, which is wasteful to spend more money on administrative expenses. Huawei can decrease its administrative expense to improve its supply chain by investing 6,000 CNY million annually. The cost of long-term employee benefits experienced a gradual decrease from 19,652 CNY million in 2016 to 19,073 CNY million in 2017, and long-term reward is related to the whole process of company's annual purpose which can create a positive impact on employee's long-term oriented performance, so it is necessary for Huawei to keep its long-term reward in a high level. On the other hand, Huawei's lack of short-term benefits is bad for employee's performance in short-term oriented promotion. Huawei should spend 9,536 CNY million annually, which is half of long-term reward on short-term reward. The total cost of research and development expenditures is 89,690 CNY million in 2017, representing 14.9% of the total revenue, which is not enough compared with Samsung and Apple [30-34]. Huawei could decrease the amount of advance payments to suppliers and invest much more money in research and development.

## 6. Conclusion

The opportunities from macro and micro environment include that Huawei gets support from Chinese government and enjoy the growth rate of China GDP, furthermore, Huawei plays a key role in

the development of Chinese technology, in addition, the cell phone industry is protected by the high entry barrier. The threats include Huawei suffers from the political resistance from Occident and recession on economy in the Eurozone, as well as high buyer's bargaining power and a fierce rivalry within the cell phone industry. Compared with its competitors, Huawei has a high cost performance, additionally, Huawei has a flexible distribution system and a strict supply chain, Huawei also has excellent marketing strategies such as an accurate market positioning, a flexible pricing and Omni-channel retail. Huawei's investment on R&D is relatively lower and Huawei is not listed which causes pecuniary weakness. As a rising star, Huawei does well with its partnerships, but they also needs to improve creativity and invest much more money in creative technology and design, which should be given a priority in order to compete with Apple and Samsung.

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