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Bandit cellphones: A blue ocean strategy

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A B S T R A C T

The cellphone market has been dominated by global brand companies for years. However, "bandit" cellphones (i.e., unbranded or unknown-brand "white box" cellphones) have introduced a new business model that is changing the rules of the game. Low cost, high value-added features are characteristic of bandit cellphones. Developing countries offer huge market potential for the growth of bandit cellphone sales. MediaTek (the biggest supplier of chips for bandit cellphones in China) and many small and medium-size Chinese companies have created new businesses in the manufacture and sales of these cellphones. This paper uses the blue ocean strategy, proposed by Kim and Mauborgne, to analyze the bandit cellphone strategy. This analysis provides a good example in the field of strategy and innovation management.

1. Introduction

Shipments of cellphone shipments worldwide amounted to more than one billion units in 2007, and growth continues to increase, and strong demand from developing countries will drive global cellphone shipments to new records over the next five years. In 2000, Nokia, Motorola, and Ericsson dominated the cellphone market with over 70% of market share. In 2008, this changed somewhat to reflect Nokia, Samsung, Motorola, LG, and Sony Ericsson as the top five cellphone brands. The strong growth of Samsung and LG showed that nothing is impossible in the high-tech industry. Global brand companies still dominate the cellphone market. However, a new business model has begun to change the rules of the game. By the end of 2007, bandit cellphones were being manufactured in such numbers that they have become a threat to the domination of branded cellphones.

Low cost, high value-added features are characteristic of bandit cellphones. In China, these unbranded or unknown-brand "white box" cellphones satisfy a wide range of demands from consumers. In rural areas, farmers want cellphones with loud speakers, while young people want cellphones with a distinctive appearance. Others like cellphones with powerful audio and video functions. With hundreds of different bandit cellphone models available in the market, consumers can easily find one that meets their needs. At the same time, many consumers feel that global brand cellphones do not offer as many options.

This paper focuses on MediaTek, a chipset supply company, which has created a new business model for manufacturing cellphones.

Kim and Mauborgne [1] proposed the "blue ocean" strategy, which emphasizes avoiding competition while creating value innovation that drives down costs while simultaneously driving up value for buyers. They developed a framework that includes four-actions: factors to be eliminated, reduced, increased, and created. Thinking that is different from traditional strategy is the key to creating value innovation. This paper uses the blue ocean strategy to explain MediaTek's strategy in the cellphone industry. Section 2 describes MediaTek and the cellphone market. Section 3 explains the blue ocean strategy. Section 4 presents the four-action framework and strategy canvas applications. Section 5 presents the conclusion.

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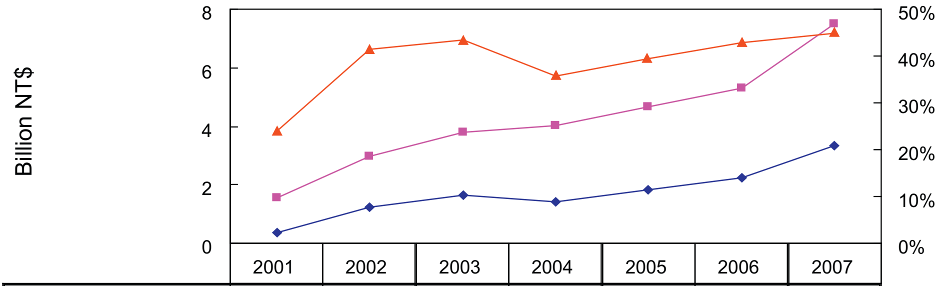

	2001	2002	2003	2004	2005	2006	2007
Revenue	1.54	2.95	3.81	4.01	4.65	5.29	7.48
Net Income	0.37	1.22	1.65	1.43	1.83	2.26	3.36
Net Income Return	24%	41%	43%	36%	39%	43%	45%

Year

Fig. 1. Operating performance of MediaTek, 2001–2007. Source: [2].

2. MediaTek and bandit cellphones

MediaTek, founded in 1997, is a leading integrated circuit (IC) design company for optical storage, digital TV, wireless communications, and digital multimedia solutions. The company, headquartered in Taiwan, has sales and research subsidiaries in China, Singapore, India, Japan, Korea, US, UK, Ireland, and Denmark [2]. According to Global Semiconductor Alliance statistics, MediaTek is ranked among the top 5 fabless[1] companies in the world [3], and the largest one in Taiwan. Its low cost, high value-added solutions for cellphones helped MediaTek become the biggest supplier of chips for bandit cellphones in China. Industry leaders gain the triple benefits of shorter time-to-market, lower costs, and better products [4]. In the past, Qualcomm, Broadcom, and Samsung were the dominant suppliers of chips for cellphones.

MediaTek began manufacturing bandit cellphones in China in 2003. In October 2007, the Chinese government announced that companies manufacturing cellphones no longer had to ask for permission to manufacture. This new policy encouraged more small and medium-size companies to manufacture cellphones. MediaTek provided solutions for these companies, enabling them to launch new products faster and easier than before. It is estimated that more than 100 million bandit cellphones have been shipped to date, and MediaTek provides more than 50% of the chips for those cellphones. Fig. 1 illustrates the operating performance of MediaTek from 2001 to 2007, revealing a highly successful company.

The Asia-Pacific region has enjoyed better sales growth than other regions (see Table 1), with a growth rate of 33% in 2007—twice the world's rate of 16%. In 2008, the growth rate for Asia-Pacific was 16%, more than twice the world growth rate of 7%.

The Asia-Pacific region has consistently had the highest percentage of global cellphone sales (see Table 2), undoubtedly propelled by strong demand from China.

Demand from China has been very strong. The factory average selling price (ASP) of 2G phones was relatively low compared with total cellphones (see Table 3). By the end of 2008, 2G phones had the best sales performance in China. Meanwhile, MediaTek supported many small and medium-size companies in manufacturing 2G cellphones. Bandit cellphone became the major driver for the growth of the cellphone market in China.

The next section analyzes how MediaTek and the small and medium-size Chinese companies successfully acquired the largest share of China's cellphone market.

3. Blue ocean strategy[2]

Creating blue oceans is not a static achievement but a dynamic process. Once a company creates competitive advantages, and its superior performance is shown, sooner or later imitators begin to appear in the market [1]. A good blue ocean strategy is one that is not easy to imitate. Company actions that favorably affect its cost structure and its value proposition to buyers create value innovation. A great value innovation effectively prevents imitators from entering the market, and cost savings occur by reducing and/or eliminating the factors on which an industry competes.

MediaTek provides total solutions to help small and medium-size Chinese companies assemble cellphones. These manufacturers had little money to spend on R&D, so buyer value was increased by creating elements the industry had never offered. Due to innovative designs, these manufacturers easily satisfy the demands of small market segments. Consequently, the manufacturers could introduce new bandit cellphone models quickly into the market. Rapid dissemination via the Internet also enables

[1] A fabless company conducts research, produces chip designs, and carries out marketing and sales while outsourcing the fabrication (manufacturing) of semiconductors. It also may outsource or manufacture cases and other components.

[2] In Kim and Mauborgne's blue ocean strategy, "blue oceans" represent "untapped market space" and "the opportunity for highly profitable growth" [1].