

### **3. METHODOLOGY**

This chapter uses PEST analysis, Michael Porter's Five Forces Model and SWOT analysis to analyze the external environment and internal environment of OPPO mobile phones.

#### **3.1 PEST Analysis**

PEST analysis (political, economic, social-cultural and technological) describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is part of an external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro-environmental factors to be taken into consideration (Wikipedia, 2018).

##### **3.1.1 Political Factors**

The world is mostly in peaceful time with no wars going on. People live and work normally in a stable political environment and stable society.

In 2007, China revoked its mobile approval system. According to the current regulations, a mobile phone can appear in the market using its own brand as long as it has obtained the Network Access License from the Ministry of Industry and Information Technology of the People's Republic of China. In 2009, the General Office of the State Council of the People's Republic of China issued the *Planning on Adjusting and Revitalizing the Electronic Information Industry*. The mobile industry in China continues to loosen its management control until there is none. The political environment of the mobile industry continues to improve.

##### **3.1.2 Economic Factors**

Stable economic growth and a good economic environment are favorable for the development of the mobile market. The increase of per capital income has led to an increase of the purchasing power and the level of consumption. Due to higher incomes as well as better living standards and quality, people now have growing demand for mobile phones, and are more willing to purchase better ones. More and more people own two or

even more mobile phones. Since the reform and opening-up, China's comprehensive national power has continued to grow. In recent years, the economic development of small and medium-sized cities as well as towns and townships in China has enhanced people's purchasing power. Chinese mobile enterprises have expanded their sales channels to small and medium-sized cities, as well as towns and townships, which is beneficial for them to compete for the mobile market in those places. In order to increase their competitiveness, all major telecom operators are accelerating their development through measures such as raising funds by listing, expanding business capacity, and developing value-added services. They will thus increase their investments in infrastructure construction. Communications products will have new opportunities for development ushered in. With the rapid development of China's mobile communications industry, the mobile penetration rate has been further increased, providing a favorable space for the development of the mobile industry. Economic globalization is conducive for OPPO's development of the overseas markets. Other than China, other developing countries have experienced economic development in recent years as well. As the level of consumption advances, the demand of mobile phones has increased.

### **3.1.3 Social Factors**

Society has become more diversified, while culture is getting more open and varied. People's lifestyles are changing by degrees. They have increasingly high demand of materials. New and fashionable lifestyles are more of what they are in pursuit of. They value the quality of life. With higher demand of materials, people are in stronger need of socialization, self-esteem, knowledge and aesthetics. People's preferences for consumption are changing as well. They wish to purchase mobile phones that can embody their status, fashion, aesthetics and quality. They are also putting more emphasis on the quality of them. Mobile phones have become important tools in contemporary society. Texting, making calls, chatting, videos and entertainment are not the only functions of them. People use mobile phone to contact with one another, as well as for entertainment, shopping, current news and information searching. In today's society, lots of people cannot live without the Internet and mobile phones. China also has an increasing number of variety shows, affecting people's lives and values, as well as the marketing of enterprises.

### **3.1.4 Technological Factors**

China encourages and supports scientific and technological innovations. The beginning of the 3G and 4G eras marks a leap in the progress of mobile communications services. With the development of mobile communication technology, mobile phones can combine wireless communication, international Internet and other multimedia communication technologies. The manufacturing technology of mobile phones has reached a relatively mature stage where major manufacturers can independently manufacture mobile phones of certain functionality with much lower costs. The functionality of mobile phones is similar among different brands. When a mobile phone with a new feature is introduced, other brands will soon catch up and come up with mobile phones with the same feature. The development of technology has also affected the online sales channels and online promotion of the enterprises.

## **3.2 Michael Porter's Five Forces Model**

Porter's five forces include three forces from 'horizontal' competition--the threat of substitute products or services, the threat of established rivals, and the threat of new entrants--and two others from 'vertical' competition--the bargaining power of suppliers and the bargaining power of customers. Porter's Five Forces Framework is a tool for analyzing competition of a business (Wikipedia, 2018).

### **3.2.1 Bargaining power of suppliers**

Some of the mobile parts are very important, such as chips, CPU, cameras and screens. The suppliers of these parts have relatively high bargaining power. Some are even monopolies.

### **3.2.2 Bargaining power of customers**

Mobile purchasers are generally individual ultimate consumers. Due to the small number of purchases, they have relatively low bargaining power. Mobile prices are determined by their manufacturers. Consumers can choose to accept the prices or not. They also have the option to purchase or not. Factors that affect their choices include product differentiation, product prices, performance and quality. Occasionally, some

companies will purchase mobile phones in bulk, under which circumstance the customers will have relatively high bargaining power.

### **3.2.3 Threat of new entrants**

As smart phones become more popularized and technologies increasingly transparent, the threshold to get into the mobile industry is getting lower and lower. However, it is still very difficult to come up with the perfect high-quality mobile phones. Faced with fierce competition within the mobile industry, it is not that easy to obtain high market share. In addition to excellent products, the correct marketing strategy, competitive strategy and efficient operation of the company, among other things, are also must-haves. Even some well-known mobile brands such as Nokia, Motorola, Blackberry and Sony Ericsson didn't end up with satisfactory performance in the smart phone market. New entrants are not big threats.

### **3.2.4 Threat of substitutes**

At present, the substitutes of mobile phones include smart watches, tablets and laptops. However, any of these products does not have all the advantages you can find in mobile phones: moderate in size, convenient to use and powerful in functions. Substitutes will not pose a threat to the mobile industry. However, substitutes from the same industry, which are mobile phones of other brands, do pose a serious threat to OPPO mobile phones. The threat of such substitutes gets greater as their quality gets better, functionality gets more diversified, prices of the same-quality products get lower, and products themselves get greater value for money.

### **3.2.5 Industry rivalry**

There is fierce rivalry in the mobile industry. In terms of mobile phones, OPPO's major competitors include Apple's iPhone, Samsung, Huawei, Xiaomi and VIVO. In 2017, Huawei, OPPO and VIVO were the top 3 brands with the highest shipment volumes in China's smart phone market. Samsung, Apple, Huawei, OPPO and Xiaomi were the top 5 brands with the highest shipment volumes in the smart phone market worldwide. In the same year, the market share of Samsung in the global market was 21.6%, Apple's was 14.7%, Huawei's was 10.4%, OPPO's was 7.6%, and Xiaomi's was

6.3%. Apple, Samsung and Huawei are all Global 500 enterprises. While maintaining their steady development in China, Xiaomi mobile phones have stepped up their efforts to develop the overseas markets. In 2017, Xiaomi mobile phones rose to the world's top 5 in sales for the first time. In the last quarter of 2017, the shipment volume of Xiaomi mobile phones had a sharp increase of 96.6%, amounting to 2,810 devices and leapt to fourth in terms of worldwide smart phone shipments of that quarter.

### **3.3 SWOT Analysis**

SWOT analysis is a strategic planning technique used to help a person or organization identify the Strengths, Weaknesses, Opportunities, and Threats related to business competition or project planning. It is intended to specify the objectives of the business venture or project and identify the internal and external factors that are favorable and unfavorable to achieving those objectives (Wikipedia, 2018).

#### **3.3.1 Strengths**

OPPO mobile phones enjoy high popularity, and their adverts are well remembered. In the early years, OPPO invited Korean celebrities to star in their beautiful adverts, creating an aesthetic and stylish image of OPPO. It has also invited popular entertainers for endorsement, sponsored various kinds of programs, and placed adverts so that the brand of OPPO became known to a large number of people.

OPPO has successful experience in the production and marketing of digital products, as well as its own production and sales model.

OPPO mobile phones look stylish, novel, exquisite and fine-made. "Absolute beauty" has been the quintessence of OPPO's brand. It tells how the brand pursues the ultimate exquisiteness. The mission of the brand is to create wonderful life experience through exquisite products and innovative science and technology.

OPPO mobile phones are sold roughly at RMB1,000 to RMB3,000, comparatively lower than the prices of Apple's iPhones and Samsung mobile phones. Young people can afford OPPO mobile phones.

OPPO has always attached great importance to technological innovations. By July 2016, OPPO had entered the list of top 10 domestic applicants in China in terms of the number of patent applications made public. By September 5, 2016, OPPO had a total of 8,683 published patent applications, among which 7,576 were patents for inventions, accounting for 87.3% of all patents. OPPO's patents are mostly focused on areas such as photography, rotating cameras and VOOC flash-charging.

OPPO has a large number of its own offline exclusive stores that provide optimal services. When consumers want to know more about the products, purchase them or require services, they can easily access OPPO mobile stores.

### **3.3.2 Weaknesses**

OPPO entered into the mobile field in 2008. Starting late, it has a lot to catch up with.

Although its brand awareness has been increased through aggressive advertising campaigns, program sponsoring, and popular celebrity endorsements, product performance and quality are still what consumers value the most. Some people have the impression that OPPO mobile phones are pricey, low in configuration, not worth the prices, and similar to those of other brands in terms of functionality. In the case of similar functionality and identical price, consumers may choose Huawei and other brands that are better known for their technologies.

Most enterprises of the mobile industry in China are faced with a problem: core technologies. In the mobile industry, some front-end technologies are still in the hands of those large mobile companies. When companies cannot independently find solutions to the core technologies of China-made mobile phones, they have to rely on those companies that possess such core technologies, which is limiting the development of China-made mobile phones.

### **3.3.3 Opportunities**

With the economic development in China and other developing countries, their residences are getting higher incomes. Consequently, the population with medium and

high levels of incomes continue to grow. As consumers' purchasing power is enhanced, the demand of mobile phones has increased. Some consumers own two or more mobile phones at the same time. Consumers are replacing their mobile phone on a more regular basis.

Apple and Samsung mobile phones' decline in market share has offered OPPO mobile phones an opportunity to take up the part of the markets that Apple and Samsung have lost. With its outstanding hardware configuration and excellent system operation experience, Apple used to be far ahead in terms of sales (Huaqiangbei Mobile Phone Online, 2018). However, through years of development, the gap between Android system and Apple's iOS system is narrowing down. Android system is getting more and more mature and stable. Its user experience is no longer far behind that of the iOS system. Some features are even better than those of the iOS system. Yet in recent years, Apple has been lingering on its past achievements without making any further progress. With its unwarranted confidence, Apple hasn't made much changes to the appearance, functionality and configuration of its products, nor has it improved their performance. However, their prices are getting higher every year. Lots of users have found that their iPhones are having lagging issues and the batteries die really fast after upgraded to iOS 11. They became dissatisfied with iPhones. Coupled with Apple's "performance degradation" incident, it is inevitable that iPhone will not reach the expected sales volume. As for Samsung, its decreased popularity was triggered by the explosion of Note 7. How they handled the matter showed their arrogant and disrespectful attitude toward Chinese consumers, which left them with a negative impression and caused aversion among them. Samsung has an inflated opinion of itself. Its excessive self-confidence about its products and brand has resulted in relatively high prices, as well as its blindness toward the newest changes in China's market and the strong development of Xiaomi, Huawei, OPPO and VIVO.

#### **3.3.4 Threats**

The major mobile brands are fiercely competing with one another. OPPO mobile phones are faced with a multitude of competitors, such as Apple's iPhone, Samsung, Huawei, Xiaomi, VIVO and Gionee mobile phones. The high-end mobile market is still dominated by Apple and Samsung, while Huawei and other brands are showing great strength in mid-range and high-end mobile markets as well. Xiaomi mobile phones

became all the rage in the last quarter of 2017. While maintaining their steady development in China, Xiaomi mobile phones have stepped up their efforts to develop overseas markets. In 2017, Xiaomi mobile phones rose to the world's top 5 in sales for the first time. With the 5G era approaching, Huawei has already announced its release of 5G mobile phones in 2019. On November 17, 2017 US local time, in the 5G short code scheme discussion, the PolarCode scheme recommended by Huawei was recognized as the final solution for 5G control channel eMBB scenario coding.

IDC data shows that the global shipment volume dropped by 0.5% in 2017 compared to 2016, which was the first decline ever occurred in the history of the smart phone market. The smart phone market in China also experienced a 5% drop in shipment volume last year. The smart phone market is going towards saturation. The consumers do not change their mobiles as often, and no longer show much interest in replacing old phones with new models.

The core technologies of the mobile communication market are in the hands of some internationally well-known large manufacturers. As soon as new technology is introduced, or the communication technology is upgraded, international mobile brands will always have the biggest gains. That's because they possess the most advanced technologies and can launch the newest mobile phones within the shortest period of time possible, hence the biggest gains. High-end mobile phones are highly profitable.

The functionality of mobile phones tends to converge. The life cycle of mobile products is getting increasingly short.