

# Huawei's Development about Market Strategy And Non-market Strategy

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**Abstract.** With the increasing development of the current global mobile phone industry chain, the mobile phone market has gradually entered the oligopoly situation, in the high-end market, represented by Apple, Samsung and Huawei, and in the low-end market, many brands are in the line. This paper takes Huawei, which has developed rapidly in the global mobile phone market in recent years, as an example, and further studies the current competitive environment, as well as its advantages and disadvantages through Porter's Five Forces model. Furthermore, according to this, the corresponding market development strategy is given. In addition, since the development of Huawei has been gradually affected by the complicated relations between China and the United States in recent years, this paper also argues that the possible strategy direction of Huawei with non-market factors in the background of increasingly tense international relations, hoping to give Huawei better strategic suggestions for future development.

**Keywords:** Huawei; Market strategy; Non-market strategy.

## 1. Introduction

### 1.1. Research Background

Huawei, which is a leading global provider of information and communications technology infrastructure and smart devices, has spread its business over 170 countries and regions and serve more than three billion people all around the world. So far, it has only a history of 36 years, which is far less than many of the world's top 500 companies with a long history. However, Huawei is well-known for its high speeding development in many countries and regions around the world. Early in year 2014, Huawei's smartphone sales in the five major markets of Spain, France, the United Kingdom, Italy and Germany increased by 123% [1]. In addition, according to Huawei 2022 annual report, the YOY increase of annual revenue in Asia Pacific reached at 10.5%, and in EMEA (Europe, Middle East, and Africa) it also reached at 13.5% [2]. Many scholars have also paid attention to and deeply studied Huawei's excellent performance. One of the representatives is Li Yibo (2020), who attributes Huawei's achievements to strong industrial design, preferential prices, a rich product line, and first-class after-sales service [3]. Actually, all of these factors can be summarized as its excellent market strategy and other non-market strategy. Therefore, in this paper Porter's Five Forces model will be applied to analyze the current market competition environment that Huawei lies in, as well as the market and non-market strategies used by Huawei, in order to give Huawei better business suggestions for future development.

### 1.2. Research Significance

On the issue of Huawei's development strategy, although many scholars have conducted in-depth studies on this issue before, most of these studies are limited to the study of market strategy. However, since the US government upgraded sanctions on Huawei in 2020, changes in international relations have become a very important factor affecting the development of Huawei. Therefore, this paper hopes to conduct an in-depth analysis on this issue based on previous studies. In addition, most of the previous studies focused on a certain country or region, and there were few studies on Huawei's overall global strategy, which is not conducive to the development of Huawei's global market strategy.

Therefore, this has become another goal of this study, and also a breakthrough and improvement of previous studies.

Although there are many research results on the competitiveness of various brands in the mobile phone market, most of the past studies were limited to the research on the market factors themselves, but ignored the research on non-market factors; only limited to one country or region, but neglects the comparative study of different regions of the world. Therefore, this paper will make up for the shortcomings of the past research, increase the study of non-market issues, and expand the research scope to the comparative study of different countries or regions.

### 1.3. Research Framework

The structure of this paper is as follows: the first part is the introduction of the paper, including the research background, research significance and research objectives etc; the second part is literature review, which is a summary of the previous scholars' research results. The third part analyzes Huawei's competitive environment through Porter's five forces model. The fourth part is about the analysis of market factors affecting Huawei's development. The fifth part is about the analysis of non-market factors affecting Huawei's development, mainly focused on the impact of China-US relations on Huawei's future development. Finally, in the last part, the suggestion conclusion of Huawei's market strategy and non-market strategy is provided.

## 2. Literature Review

As a multinational electronic products company with strong competitiveness, Huawei's development has attracted more and more attention in recent years. The research in this paper focuses on the research of Huawei's mobile phone market and summarizes the previous research results. Li Yibo (2020) provided an overview of laptop industry, especially about Huawei and Apple, by the PEST theory and SWOT theory, make the comparative study of Huawei and Apple's market questionnaires, and then put forward some competitive strategy, including overall cost leadership and differentiation strategy. The outstanding characteristics of this paper lies in the comparative study between Huawei and Apple, and the advantages and disadvantages can be clearly shown [3]. Shuwei Zhang (2021) also make research on Porter's five forces model, and made in-depth analysis about Huawei's situation, then make proposal that Huawei should further focus on the core technologies, especially in chips, so that the market share and competitiveness will be greatly improved [4]. Romans Dmitrijevs (2020) makes focus on European market, and stress that in the process of internationalization Huawei also make great effort to expand the brand's influence, and implement innovative marketing strategy to enhance its competitiveness, such as donating the football clubs in Europe [1]. In addition, other scholars also make research on the effect that China-US relations make on development of Huawei. However, these researches mostly focus only on the international political relations, Karsten Friis and Olav Lysne (2021) argues that the economic sanctions measures that US put on China may largely failed in Europe, which conversely accelerate the success of 5G [5]. In short, there are few studies on the impact of China-US relations on Huawei's development strategy.

## 3. Porter's Five Forces Model

In the field of research on enterprise competitiveness, there is a famous theory suggested by Michael Porter, which is the Porter's five forces model, and that was widespread in the early eighties of the 20th century. Michael Porter put forward that there are five forces associated with enterprise competitiveness, and also determine the degree of competitiveness within the industry, which respectively are competitiveness within the industry, potential of new entrants into an industry, the bargaining power of supplier, the bargaining power of customers and threat to substitutes [6]. The five forces as the whole make influence not only on the attractiveness of the industry, but also how

to make the optimal decisions for the existing enterprises from the industry. So far, the model has been recognized as an effective tool to analyze the characteristics of industry competition.

The first force from model refers to the number of competitors in the industry. The more competitors there are, the more intense the competition will be. In the case of product and service differentiation is not obvious, enterprises will tend to price competition, thereby gradually weakening the competitiveness of enterprises within the industry. Conversely, the fewer the number of competitors, the less competitive the industry will be. The more possibility for the existing firms to make higher profit [6]. Take Huawei's mobile phone market in China as an example, now there are many mobile phone brands in the market, including Apple, Huawei, Samsung, Xiaomi, Honor, OPPO, VIVO and others. Among them, the high-end market is mainly dominated by Apple, Huawei and Samsung. Apple has captured a large number of loyal fans in China with its own IOS system, and Huawei, as a well-known local brand, is more in line with the characteristics of Chinese consumers' habits and high cost performance, so basically formed a two-oligopoly situation in the high-end mobile phone market. However, in the low-end market, Huawei faces more diverse competitors, including OPPO and VIVO who define themselves as camera phones, with high market recognition and publicity. Also Xiaomi has been gradually favored with low costs and high quality. According to Canalys smartphone analysis in July 2021, the market shares of OPPO, VIVO and Xiaomi in Q2 2021 in China respectively increased by 8%, 5% and 7%, compared with Q2 2020 [4]. It can be concluded that Huawei is currently faced with pressure from Apple's technological innovation in the high-end market, and pressure from other brands with different characteristics in the low-end market.

The second force from the model refers to the potential of new entrants into its market. Whether the new entrants can easily enter into its market or not represents the barrier to an industry. The much easier for the new entrants to enter into market, the barrier will be lower, and the competition in the industry will be more intense. The industry with stronger barriers to entry can help existing companies in the industry reduce competitive pressure and achieve more profits [6]. The mobile phone production industry is an industry that requires high technology and high capital investment. At present, industry giants such as Apple and Huawei both have developed their own core operating systems, and comparative competitive advantages, which form a high barrier to entry into the industry. Moreover, mobile phone production is also an economy of scale industry, only the production scale is large enough that the fixed cost can be diluted and achieve economies of scale. In this regard, it is difficult for new entrants to form economies of scale in the short term. Thereby, Huawei faces less threat from new entrants.

The third force from the model refers to the bargaining power of suppliers. The proportion of input factors in the total cost and the uniqueness of input factors have become the key factors to determine the bargaining power of suppliers. In depth, the number of suppliers, the cost of customer switching suppliers, and the uniqueness of input factors all become the key to determine the bargaining power of suppliers, and also become an important factor affecting the competitiveness of enterprises. In the current field of mobile phone production, there are two important input factors, one is the chip, and the other is the operating system. At present, Huawei has developed its own Harmony OS. However, on the chip issue, there are twists and turns. For the world's chip supply is basically monopolized in the hands of the United States Qualcomm and Taiwan MTK, Huawei has been strongly suppressed by the United States government, especially after Biden came to power, prohibiting all U.S. suppliers to cooperate with Huawei, which result in Huawei was once faced with a supply cut. After that, Huawei accelerated the replacement of domestic chips. In 2022 alone, Huawei's R&D investment reached \$23.8 billion, while chip problems also began to make progress [2]. All in all, chips are the soul of mobile phone production, and high-quality mobile phones cannot be produced without good chips. It is difficult for China to catch up with the technical level of the United States in the field of chip production in the short term, which has become a major disadvantage and challenge for Huawei.

The fourth force from the model refers to the bargaining power of customers. How many customers a company serve for, how significant each customer is, how much does it cost for opening the market and attracting customers, all both affect the bargaining power of customers [6]. The less customers a

company serve for, and the more a company cost for attracting customers, the stronger the bargaining power of customers is. Any company with many, smaller, independent customers will own more opportunity to charge higher prices so as to enhance greater profit. Huawei's consumers are from all over the world, especially in China, because it is more in line with the consumption habits of Chinese people, and even has more competitive advantages compared with Apple to some extent. However, in some developed regions such as Europe and the United States, Huawei's market share is still lower than Apple's. It can be said that Huawei's customers are mainly from retail store customers and e-commerce customers by Internet, and these two categories of customers have different loyalty to Huawei brand in different regions of the world. In China, Huawei has gained larger market share due to its high cost performance and brand recognition, and the bargaining power of buyers is relatively weak. In the developed regions of Europe and the United States, it is less than Apple.

The last force from the model refers to the threat of substitutes. The substitutability of the products or services provided by the company also directly affects the level of competition in the industry [6]. When products or services provided by the company have nearly no close substitutes, it has more opportunity to charge higher price, and enhance greater profit. Conversely, the close substitutes are easier to get, customers have more chance to seek out other competition rival's products or services, and the company's competitive power will also be weakened. At present, products that can replace the functions of mobile phones are still relatively scarce. Although various electronic devices such as computers, ipads, and smart watches all have some similar functions with mobile phones, it is difficult to find electronic products that can cover all functions like mobile phones. Only from the current level of technological development, artificial intelligence, AR, VR, and smart wearable devices have not yet made technological breakthroughs, cannot replace the mobile phone in People's daily life in all aspects. The rest of the smart bracelet or tablets, for the unbecoming size, or the unbecoming function, and also cannot bring convenience to people's lives at anytime and anywhere like mobile phones. Therefore, in the short term, the threat of substitutes for Huawei's mobile phone products is relatively weak.

From the analysis of Porter's five forces model above, Huawei's current competitive environment is still in the situation of oligopoly, the high-end market is under pressure from Apple's product innovation, and the low-end market is under pressure from VIVO, Xiaomi, OPPO and many other brands with differentiated characteristics. In addition, because Huawei's chip supply was heavily dependent on foreign supplies, the supplier's strong bargaining power was formed. In this regard, after repeated research and development breakthroughs, Huawei has independently developed Kirin chips so far, especially the recently listed Huawei mate60pro has become an important breakthrough in the field of chip independence. Even though, chip independence is still the important development direction from now on, which is also the vital factor that decided how far Huawei can reach later.

#### **4. Analysis Of Huawei Mobile Phone Market Strategy**

Marketing strategy is based on consumer needs, based on past experience and survey information to obtain market demand, purchasing power information and business expectations, and plan to organize various business activities. Kotler's research on market theory mainly includes three processes, market segmentation, target market selection, and market positioning [7]. Market strategy should be based on different market demand and purchasing power, to divide the whole market into different parts, so as to select a reasonable target market. The target market can be selected from multiple perspectives, such as in line with its own strategic direction, with huge growth potential in market share, and make reasonable market positioning to the selected target market, so as to meet the needs of the market to the great extent [8].

Huawei's biggest advantage over Apple in the high-end mobile phone market is its low price. Therefore, in China, it has gained more recognition in the market, but in the European and American countries and regions, Huawei's brand recognition is far less than Apple, which is also for the reason that the per capital income of European and American countries and regions is relatively high, and

consumers pay more attention to product quality compared to price. Even though Huawei has adopted a low-price strategy in the initial stage of entering the European and American markets, the effect of this strategy in the later stage is not better. Thereby, Huawei still should improve its pricing strategy and product strategy in the process of developing high-end mobile phone markets in Europe and America to better satisfy the preferences and pursuits of local users.

For the promotion strategy, it is also effective. In China, the Huawei brand is highly recognizable, to a large extent, because it is associated with patriotic ethnic plots, making Chinese consumers more inclined to buy local brands, which Apple can't catch up. However, in the overseas countries and regions, Huawei has also used a series of promotional methods to expand the market, such as advertising, staff selling, hiring local sales people, and even sponsoring several top European football clubs, so as to promote brand and achieve commercial expansion [9].

In terms of product strategy, Huawei is also continuously enhancing innovation, not only developing the Hongmeng OS system, but also making a major breakthrough for the chip problem that has been trapped in the past. However, in the competition between Huawei and Apple, product quality and user experience have always been controversial issues. This is mainly due to the different concepts and preferences of consumers in different countries and regions. Although Huawei has largely satisfy the needs of Chinese consumers, it still should improve its quality in the European and American markets and pay more attention to product innovation and experience to provide high-quality products and services that are more in line with the needs of European and American consumers [1].

## 5. Analysis Of Huawei Mobile Phone Non-market Strategy

However, an excellent business strategy depends not only on market competitive forces, but also all non-market factors potentially affecting the profitability of the business. The non-market factors include social conditions, environmental conditions, technological revolutions etc. Through a comprehensive analysis of market factors and non-market factors, the best business strategy can be decided.

About the performance of Huawei, the factors that can affect it not only come from market forces, but also some non-market factors, such as international relations. According to the analysis of Porter's Five Forces model, Huawei has some disadvantage in terms of supplier bargaining power, which mainly lies in the fact that Huawei cannot achieve complete autonomy in the production of chips. Even after Huawei's efforts and technological breakthroughs, it has achieved some certain autonomy in chip design, it can only rely on external solutions in chip production. At present, the world's high-end chip manufacturers are very rare, only a few companies such as Samsung of South Korea, Intel of the United States, and Taiwan Semiconductor Manufacturing Company. Even SMIC, the company from China domestic can produce some chips, it is also only limited to low-end chips and can do nothing about high-end chips. The production of high-end chips is inseparable from the lithography machine, which is completely in the hands of the Dutch ASML company, which is a company controlled by the Wall Street group of the United States [10]. It can be said that the complete autonomy of Huawei chips still has a long way to go, which is more related to the game of China-US relations, as well as the most sensitive political issues in Taiwan. If China-US relations continue to deteriorate, the United States is bound to intervene in Taiwan, mainly for TSMC and MTK, to cut off all chances for Huawei to provide chips. In that case, if Huawei cannot produce completely independently, it may face the crisis of chip supply interruption and even bankruptcy [10].

Moreover, the Huawei chip crisis is actually more involved in the game between China and the United States in the field of high-end manufacturing. By curbing Huawei, the United States wants to curb the rise of China's high-end manufacturing industry and reduce the threat of adverse factors to its development. After more than 40 years of reform and opening up, China's economic volume has ranked second in the world. The development of high-end manufacturing industry is a turning point for China from "rich" to "strong". China strongly asks to reduce its dependence on the United States

through the independent development of high-end manufacturing industry and realize the upgrading of industrial structure. Thereby, the issue faced with Huawei is only a microcosm of the increasingly complicated relationship between China and the United States in recent years. To this end, the two sides have held several rounds of talks, including Janet Yellen, Blinken, and even Henry Kissinger and other US political figures have made efforts to solve the problem. These talks include not only the most sensitive Taiwan issue, but also economic and trade issues, scientific and technological issues, and the high-end chip problem faced by Huawei is only one of them, which needs to be accompanied by a comprehensive settlement of political issues and economic and trade issues to completely solve it [11, 12]. On the other hand, after the Huawei chip supply crisis, it is also likely to stimulate Huawei's independent innovation ability to a greater extent, forcing Huawei to move forward on the road of autonomy. From the current point of view about Huawei's latest mate60pro, the new product has achieved Kirin chip autonomy, and increased the satellite call function, which has been widely recognized by the market, especially in Japan, as soon as it was listed, it was crazily ordered by customers [11, 13]. Therefore, with the continuous improvement of the chip autonomy of Huawei in the later stage, it is also possible to gradually reach cooperation with the United States and jointly seek greater interests.

Furthermore, in the current high-end mobile phone market, Huawei's biggest competitor is Apple, followed by Samsung. Compared with Apple and Samsung, Huawei's biggest competitive advantage lies in its low price, high cost performance, and high brand awareness in the Asia-Pacific market. At the same time, compared with Apple and Samsung, it also has the disadvantage of poor user experience and low performance. If China-US relations move towards cooperation in the future, it is also very possible for Huawei and Apple to complement each other's advantages, which is the greatest luck for the development of the entire technology industry. If the relationship between the two countries moves toward confrontation, Huawei is bound to further rise on the road of its own brand. In the low-end market, compared with Xiaomi, OPPO, VIVO, etc., Huawei's personalized functions are not prominent enough, but compared with these low-end brands, its quality is higher and the price is not expensive. Also, these low-end brands can't catch up with Huawei's technological innovation [11, 14, and 15]. Therefore, in the future development, Huawei not only needs to continuously improve product performance and optimize user experience in the high-end market, but also needs to highlight the characteristics of the product in the low-end market to meet the individual needs of different groups.

## 6. Conclusion

Through the analysis of Porter's five forces model, we can see that the biggest potential threat to Huawei's current development comes from the crisis of chip supply failure, which represents the game between China and the United States in the high-tech field. Therefore, Huawei's development strategy can be given as follows: First, in the high-end market field, seek further autonomy in chip production to reduce the threat of chip crisis brought by US sanctions. In this regard, we can unite the forces of some governments and enterprises, seek international cooperation rather than confrontation, and seek the autonomy of the overall chip industry chain. Secondly, in the low-end market area, further improve product characteristics, more clearly define product positioning, and strengthen the implementation of product differentiation strategy, so as to achieve a more long-term and healthy development of Huawei.

As well, this study also has its limitations. As the mobile phone industry technology update is very fast, as of now, Huawei has developed and listed the mate60pro. This is of great significance for the development of Huawei. Whether the listing of mate60pro really means that Huawei has completely realized chip autonomy, it is impossible to give a very clear conclusion in this respect due to the lack of support of relevant chip expertise knowledge, which has also become the limitation of this study. In addition, whether Huawei's rival Apple has also made relevant technological breakthroughs, the

latest iPhone 15 has not yet been launched, and how the competition in the mobile phone market will change at any time, which requires the continued efforts of later scholars.

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