

# ***Business Strategy of TCL Technology Group Corporation: Porter's Five Forces Analysis***

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**Abstract:** This paper analyzes the business strategy of TCL Technology Group Corporation through The Porter's Five Forces Framework. Competition from competitor sellers, competition from some possible new entrants to the market in the same area, competition from manufacturers of substitute products, supplier negotiating power, and consumer bargaining power are all included in the Five Forces Framework model. TCL Technology Group Corporation development has been a qualitative leap after restructuring and the company comes out on top in the world. TCL Technology Group Corporation is faced with fierce competition among leading enterprises which encourages it to promote development of core technology, while it has little substitute products and lower threat from new entrants because of its technical expertise. However, TCL Technology Group Corporation is weak in supplier bargaining power due to similar supply needs among various companies, at the same time, customer bargaining power is strong. Researching on TCL Technology Group Corporation, it is obvious to find out the situation company is faced with and the competitive strategies which is suitable for TCL Technology Group Corporation development in the future.

**Keywords:** five forces framework, TCL technology group corporation, business strategy

## **1. Introduction**

TCL Technology Group Corporation was founded in 1982, with its headquarter is located in Huizhou, Guangdong. TCL's commercial activities span a wide range of industries, and the company is dedicated to giving its customers access to cutting-edge technological goods, services, and solutions in the areas of semiconductor displays, semiconductor photovoltaics, semiconductor materials, and intelligent terminals. The Vietnam market was organized by TCL, a leader in the internationalization of Chinese businesses, in 1999. Since then, the market has gone through four stages: initial market quotation investigation, cross-border M&A, steady expansion, and globalization. In January 2004, TCL Technology Group Co., Ltd. was admitted to trading on the main board of the Shenzhen Stock Exchange, but the terminal product business was stripped off and reorganized into "TCL Technology Group" in April 2019 which retained the semiconductor display industry, industrial investment and financing, as well as Hanlinhui O2O business while other businesses have been divested and sold. TCL Technology Group Corporation then transformed into industry for semiconductor displays and materials. The business entity "TCL CSOT (China Star Optoelectronics Technology Co., Ltd) " has invested two G8.5 factories, one G11 LCD factory, one G6LTPS factory and one G6 flexible AM-

OLED factory with a G11 LCD factory being built. At the same time, there is investment layout in display materials and components and the total industrial investment has reached 180 billion yuan. TCL CSOT has become a major manufacturer in the global semiconductor display industry. Its strategic goal is to become a leading semiconductor display enterprise in the world by continuously improving its scale and efficiency, improving product technology, industrial ecological construction capabilities, and global industrial layout. Additionally, TCL Technology Group Corporation will create new companies in the high-tech, strategic developing sectors of semiconductor and new energy in order to establish itself as a worldwide leader in the high-tech industry based on its capacity for high-end production. It will also continue to develop industrial finance and investment business while enabling industrial development with finance and creating stable industrial financial services and investment income, meanwhile, balancing the cyclical fluctuations of industrial operating income.

## **2. Five Forces Framework**

Early in the 1980s, Michael Porter proposed the Five Forces Framework. According to Porter, there are five forces that influence the intensity and scope of industrial rivalry. These five forces affect the industries' attractiveness and competitive strategy decisions of existing enterprises. In order to examine the basic competitive condition of an industry, the Five Forces Framework condenses a variety of distinct aspects into a straightforward model which identifies five main sources of competition: the competition comes from competing sellers in the market, competition from some potential new entrants to the industry, competition from makers of substitute items, bargaining power of suppliers and customer negotiating power.

### **2.1. Competition from Rival Sellers**

It is acknowledged that most enterprises' interest is related to each other, in other words, companies are struggling to acquire competitive edges to receive high profit in its area. While there may be much more conflicts and antagonism for companies during the process of achieving the profit goal, competition comes up because of these phenomena.

### **2.2. Competition from Some Potential New Entrants to the Same Industry**

Additional entrants will attempt to obtain competitive advantages in the market that has been segmented by current businesses while adding new production capacity and resources to the sector. This could result in competition between current businesses for raw resources and market share, which would eventually erode profit margins for current businesses in the sector. This may also threaten the survival of other enterprises.

### **2.3. Competition from Producers of Substitute Products**

Attributed to the reason that the commodities two businesses create can be substitutes for one another, they may engage in competitive rivalry. This competition from substitution will have a variety of effects on the competitive strategy of already established companies in the sector.

### **2.4. Supplier Bargaining Power**

Through its capacity to raise the price of input elements and lower the quality of unit value, the provider primarily influences the profitability and product attractiveness of existing businesses in the industry.

## 2.5. Customer Bargaining Power

Customers can lower costs while also demanding higher quality of products and services, resulting in a major impact on the revenue based on previously enterprises in the sector.

## 3. Analysis On TCL Technology Group Corporation

### 3.1. Competition from Rival Sellers

Take TCL Technology Group Corporation for example, it is widely believed that BOE, Samsung, LGD are rival sellers in the field of liquid crystals [1]. In this area, the strength of Chinese mainland panel factories is constantly increasing. From the perspective of LCD TV panel production capacity pattern, Chinese mainland manufacturers account for more than 50% from 2020, and will account for nearly 70% of the share in the future. The production capacity in China is highly concentrated during this period. The proportion of Korean manufacturers, however, has shrunk rapidly to less than 20% which will even shrink to less than 5% furthermore. Nowadays during the period of the integration of the display industry, the competitive landscape is being reshaped, while at the same time, the concentration of the industry will gradually increase. In the field of large size of LCD panel, no matter for LCD, OLED, or for new display technology tracks, BOE, TCL CSOT, Samsung Display and LGD are all panel giants with strong comprehensive strength [2]. On December 2017, Hefei BOE G10.5 TFT-LCD products rolled off the production line and delivered to customers; In the first quarter of 2019, TCL CSOT G10.5 production line also achieved mass production. Two panel companies in China have operated the G10.5 production line so far and begun to compete head-on with overseas companies in the field of large-size panels. The improvement of technology and yield has also increased the supply of large size panels, especially 65-inch and 75-inch panels. In the second quarter of 2020, BOE continued to maintain its leading position in the large-size LCD panels. BOE led with 28% shipments and 21% of the shipment area share, followed by Innolux with 15% and TCL CSOT with a 13% shipment area share. TCL CSOT occupies the fifth place in the large-size LCD panel shipments, but takes the second place in the shipment area in the second quarter of 2020 [3]. Nowadays, the LCD panels suppliers of Samsung Electronics and LG Electronics depend more on Chinese panel manufacturers, especially on BOE and TCL CSOT. To meet each other's end, Samsung Display invested on TCL CSOT's 10.5 generation line panel factory, while TCL CSOT also invested on Samsung Display's Suzhou 8.5 generation line factory. However, regardless of how to choose the technical route and what the market competition relationship will be like, benefits of competition is the first consideration of the display industry. In the liquid crystal area, efficiency will be the emphasis of competition. Continental panel factory has initially formed a comparative advantage in LCD display technology, but it is mainly manifested in production capacity, shipment volume and output value which is still at a disadvantage in terms of the added value of products. All in all, continental panel factories including TCL need to promote LCD image quality and invest more on technological research and reserves.

### 3.2. Competition from Some Potential New Entrants to the Same Industry

TCL has always maintained high-cost investment, which is one of the key factors behind the popularity of TCL products. According to the latest annual report issued by TCL, the investment in 2018 and 2019 cost 5.671 billion yuan and 5.464 billion yuan. As for technology, according to the data provided by the IFI Claims global patent database, TCL ranks first in the number of patents of domestic science and technology household appliances enterprises, of which the open patents of quantum dot technology rank second in the world [4]. As the leader in the industry, TCL CSOT also ranked first in the world in terms of large screen shipments. Besides, TCL also attaches great

importance to talent strategy and is one of the enterprises with the highest proportion of technical talents in the industry. The core competitiveness of TCL Technology is clear. On the one hand, the technological innovation iteration is accelerated and the globalization of private brands is effective, which has an absolute advantage in the new display technology Mini LED; On the other hand, TCL has accelerated its global supply chain, basically covering major markets in Europe, America and Asia [5]. The consensus reached by the scientific and technological circles is that the competition in the future is not only the competition of products and technologies, but also the supply chain. This will affect the degree of sustainable development, innovation ability and globalization of enterprises, which is a relatively complete closed loop. TCL's comprehensive competitive advantages in the new energy photovoltaic business sector and semiconductor material business sector have also guaranteed the company's long-term high-speed growth. It is obvious that there are much more barriers for new entrants to enter, which in another word, there are fewer and fewer possible new competitors entering the market.

### **3.3. Competition from Producers of Substitute Products**

In the first place, TCL Group mainly focuses on the production of LCD/OLED panels which are core industry of CSOT after the reorganization. In 2018, CSOT achieved a shipment area of 15.3 million square meters, and sales revenue has reached to 24.56 billion yuan which has an increase of 28.7%. Net profit even reached to 1.3 billion [6]. It is acknowledged that OLED and LCD panels have immovable place in the panel industry as the technology developed. OLED and LCD technologies are not simply substitution relationship which lead them to coexist for a long time [7]. TCL Technology Group Corporation invest both on OLED and LCD panels which represents there is nearly no substitute products in panels area. With the development of TFT-LCD technology, LCD technology will enter a new stage. OLED and LCD are two display devices with completely different principles, OLED belongs to self-illumination, and LCD is passive light. TFT is an active drive element, which can also be understood as an active drive technology using TFT components. OLED driven by TFT commonly referred to AMOLED. LCD driven by TFT is generally called TFT-LCD, which can also be called AMLCD [8]. TFT-LCD panel and AMOLED panel are actually two different display materials during process of manufacturing, while the liquid crystal terminal material and OLED terminal material are the main manufacturing raw materials of the two panels. Due to the different properties of the two display materials, the two display panels also exhibit their own product characteristics. At present the mainstream products of flat panel display (FPD) are LCD and OLED panels. TFT-LCD flat panel as a kind of LCD panel, is still the mainstream product of the display industry relying on its low working voltage, small power consumption, high resolution, good anti-interference, wide range of applications and so on TFT-LCD technology is widely applied in notebook computers, desktop displays, TVs, mobile communication equipment and other fields. TFT-LCD industry will still be the mainstay of the display industry because of its large scale, relatively mature technology, broad market and as for OLED, it is developing rapidly which represents a new application direction [9]. However, in the applications of large-size flat panel display, the OLED technology cannot form a comprehensive competitive situation with TFT-LCD in the short term. This phenomenon conveys the fact that LCD and OLED will coexist in the future and less substitute products will threaten the approximately proven technology.

### **3.4. Supplier Bargaining Power**

The primary elements that influence how suppliers regulate the pricing of domestic appliances are the effect of cost on profitability ratio, the friction coefficient of the amount of distribution companies on suppliers, the brand surcharge brought on by differentiated products, the effect of purchaser

competition on swapping costs for the business, and the supplier's capacity to change prices based on price elasticity of product demand. China's domestic appliance market is indeed very productive despite having poor overall profit margins. Additionally, there is a high degree of product commonality among businesses, particularly large electrical appliance businesses, as well as severe brand competitiveness among leading companies. Therefore, the main factors that affect suppliers' ability to control the prices of household appliance enterprises at this stage in China are reflected in the cost. China abundant resources and cheap labor make the cost of domestic appliance enterprises lower than that of foreign counterparts. In addition, the country lacks perfect legal supervision and guidance on the externalities that affect the production of household appliances, such as environmental protection. With lower costs, Chinese household appliance manufacturers have recently stepped into the global market and amassed a prospective share of the global market in the past two decades. Unfortunately, in recent years, the cost pressure on China's household appliance firms has intensified due to the increase in global raw material costs and the implementation of environmental security requirements by the European Union. Although TCL Technology Group Corporation is at the top line, its key components are still acquired through external purchase. However, there are many similar companies with same needs, but the number of suppliers in the market is limited. Therefore, TCL Technology Group Corporation has little bargaining advantages with suppliers [10].

### 3.5. Customer Bargaining Power

The factors that affect customer bargaining power over household appliance enterprises mainly include the association with alternatives, economic status, customer preferences, diversified desire, marketing strategy. On the one hand, the income level of rural and urban residents has grown as a result of China's economic expansion and improvements in living standards. They are more selective in the price range of household appliances and have stronger bargaining power. Chinese consumers are increasingly seeking high-end good and services that can cater to their unique requirements, and they are willing to pay more for elevated merchandise. On the contrary, a sizable portion of economically underdeveloped rural markets are still on the lookout for high-quality goods that are reasonably priced and well-supported. For this subset of customer groups, enterprise cost of goods elasticity is strong and diversified demand is not readily apparent. On the whole, due to the excess production capacity of China's household electrical appliances enterprises, oversupply in the domestic market, and fierce market competition, consumers have a wide range of choices. Furthermore, consumer attitude has a considerable influence on the amount that businesses charge. Chinese manufacturers of household electrical appliances are struggling with competition from foreign corporations with superior products which are more technologically advanced, function effectively, and distinguish themselves from the competition. Many enterprises use cheap prices strategies to entice customers. Customers under this situation find themselves in a powerful negotiating position.

## 4. Conclusion

The Five Forces Framework reflects some phenomena about TCL Technology Group Corporation through five aspects which leads TCL to right way. After researching on the TCL Technology Group Corporation, it is clear to pay attention to the situation company is faced with and its competitive strategies. Find out suitable strategies is helpful for the future development of TCL Technology Group Corporation. There are several suggestions helping TCL Technology Group Corporation gain competitive advantages in the market. To begin with, TCL Technology Group Corporation needs to put in more cost on technology investment in spite of its crucial position and improve ability of producing core components which panels, semiconductor products and some products with core



technology of TCL need for producing process. It is helpful to gain more bargaining power. In the next place, it is better for TCL Technology Group Corporation to accelerate the integration of global resources to build global supply chain. To sit still in global market, TCL Technology Group Corporation needs to continue to intelligentize the products and create new kinds of products to lead the developing trend in this area. TCL Technology Group Corporation has been developing well so far with core competitiveness and it will enter a new stage with technology promotion. Last but not least, TCL Technology Corporation needs to improve the brand awareness and product set capacity which can help the company obtain excess profits and achieve high-quality development. The company will greatly increase the product added value of manufacturing enterprises. Only by improving brand awareness can the company gain consumer recognition. Only by improving the capacity of complete sets of products can the company improve the profit level of enterprises. Although TCL Technology Group Corporation is facing many challenges, it also has many opportunities. With the support of the government and the promotion of the developed Internet technology, the TCL Technology Group Corporation will achieving high-quality development step by step.

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