

Electronics global strategy in emerging markets marketing essay



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In 1947, LG was born as the Lak Hui Chemical Industrial Co. by Mr. In-hwoi Koo for manufacturing cosmetic creams. After that, the company produced radios, TVs, refrigerators, washing machines, and air conditioners as Goldstar Co. (currently LG Electronics) in 1958. The LG group was a merger of 2 Korean companies, Lucky and Goldstar; the current LG brand name was acronym from the name of these companies. With more than 82. 000 employees and 110 subsidiaries and marketing units all over the world[1], LG Electronics Inc. (LGE) was a successful company of Korean electronics that got the revenues of more than \$43 billion[2]. Its products involve 4 strategic business units: Mobile communications, Digital appliance, Digital display, and Digital media such as CDMA handsets, DVD players, air conditioners, micro ovens, consumer electronics, and so on.

In this report, we are going to discuss the key strengths of the Korean electronics industry during their formative years and how firms leverage these advantages to enter developed country markets. After that, the report mentions particularly about the strategic growths of LG Electronics to approach the emerging markets; and we are going to find out the commonalities across its strategies in the BRIC countries. Finally, the report will be ended with the points of learning that can be distilled from its success in emerging market and if these advantages help firms to compete in developed country or not.

PART II

Case Question 1

What were the key strengths of Korean electronics industry during the formative years? How did firms leverage these advantages to enter developed-country markets?

During the formative years, almost Korea electronics is an Original Equipment Manufacturer such as Goldstar, Samsung, and Zenith; which received orders from global companies. This should bring them a lot of experiences on customer demand, the characteristic of markets, the customized products of some countries. The combination between innovate and education policy encouraged more students for technical education, the low-cost skills of Korean employees, the access of effective technology across all firms, the strongly development of technology in all country. Korea electronics companies can learn quickly knowledge, technologies, skills from Europe, US, Japan because government allows these foreign firms become joint venture with domestic firms. For example: LG - Hitachi, Deawoo - GE, Samsung - Sanyo, so on.

Besides that, government also focused on most sectors of Electronic industry of country, so they supported so much to develop this industry. Foreign investment was supported to develop the intermediate parts and component industry, while prohibiting foreign investment in companies producing finished goods. Korean firm with letters of credit for exports automatically received access to preferential loans. Export companies were exempted from various indirect taxes and received tax breaks for depreciation and tariff

payments; they also had access to duty-free imports of capital goods.

Government helped to encourage firm creating their local R&D.

With the developing and investment of technology, some firms started to export their products by their own logo, not as OEM anymore like LG and Samsung. Because they were OEM of some global markets, so they already had the reference of consumers and global standards. After that, with many supporting of government, they had their manpower supplying with skills and abilities from university. Government has the tax breaks for depreciation and tariff payments for exporting companies. And the R&D department had enough experience to recognize the market and give the best solution for company. As the Glodstar product lines, LGE established a central R&D to develop and manufacture color TV (CTVs), VCRs and computers.

PART III

Case Question 2

Were there any distinct patterns in terms of the company's approach to emerging markets? Trace the commonalities across its strategies in the BRIC countries.

Brazil

Brazil is a country in South America wide more than 8.5 million km², rich in mineral resources, population 190 million people with diverse cultures. Brazil is the leading economy in Latin America, ranking 10th in the world. Brazil chooses the path of economic model: "fast growth" - with the advantage that fast economy flourishes, the growth rate in average income is very high. Besides that, government has some regulations to promote investors such as

preferential tax rates, land subsidies in country, especially in some underdeveloped rainforest region.

With these advantages, LG began attacking the Brazilian market in the mid-1990s. But during that time, Brazil also faced a lot of difficulties. Because their economic model is “fast growth”, so it also makes unequal economic, political; social increasingly fierce; the quality of life is not considered. At the late 1990s, almost global companies had to exit the market because of very high import tariffs, significant competition from the gray goods market, very low brand awareness. Inflation rate increased with high speed, local currency became unstable, exchange rates started to plummet with increasing levels of uncertainty.

LG decided to make a long-term strategy, and also expanded their brand name in India. They had 2 factories in Manaus and Taubate to produce their products, this strategy made Brazil as a regional manufacturing hub to serve South America and US markets. LG also let Brazilian government know that they are a credibility partner in term of national growth by join with government to combat the problem of the rampant smuggling of gray market goods.

Everybody knows that Brazil is a country passionate about soccer, Brazilian live for football. So LG had one strategy to reach millions of football fans – sponsored a football club in Sao Paulo that most popular among the top clubs in the country[3]. By providing official uniforms with the LG logo for Sao Paulo club, LG get the instant brand recognition and fixed image in consumer.

India

LG began in 1993 as a form of joint venture with a consumer products company named Bestavision. They chose the Goldstar line of products to distribute in India. Since the government allowed foreign companies set up their own firms without local partnership, and the business of LG and Bestavision failed, LG decided to launch LGE India Ltd. (LGEIL) in 1997 with their own wholly owned subsidiaries in India. There were many challenges that LG had to overcome like: low brand awareness about LG brand name; LG was one of the last MNCs entered in India; high import duty of government; price sensitiveness of the Indian consumer and competitors.

Following the global strategy, LG still entered and focused on the rural market. Because there are a lot of competition from local and global players in urban market; big population of rural market but also large untapped; etc. There is 1 year for them to set up manufacturing operations in Greater Noida to manufacture televisions, washing machine, etc. to overcome the high import rate cost. At the first time, LG created an R&D teams by local employees to customizing its products lines to meet local needs. It helped LG distribute their existing products and also customizing the new unique characteristic of products that matched the consumer's expectations. This is an important resolution for LG to achieve both objectives: marketing and produce. LG had differentiated its product using technology and health care system like "golden eye technology" of CTVS, "health air system" for air conditionals, so on.

They focus on emphasizing good-quality products, with prime technology and network. For customized products, they did not cut prices in <https://assignbuster.com/electronics-global-strategy-in-emerging-markets-marketing-essay/>

manufacture existing product lines, but they decided to built new version with less material cost and also catch the needs of consumers. They kept the engineered quality of the appliances and focused on value engineering and design to manufacture at the lower cost. Such as microwave ovens with cooking menu including 77 kinds of Indian dishes[4], television is displayed by 10 regional languages, washing machine with “ sari” cycle, and so on. It helped LGEIL have all levels of consumers, especially low-class consumers, because company served exactly the need of them – high quality but not expensive products. The price range of the products of LG India is quite reasonable and affordable so as to make it easier for every class of people to go for it thereby increasing the consumer level. For example, the price of Sampoorna reduces from 9000 to 5050. This shows R & D team has worked very well and complete their tasks, it helps the production of LG reasonable based on deep understanding of India’s cultural and linguistic diversity.

LG Company invested and created the distribution network encompassing with 65 Remote Area Offices, 60 central area offices, near to 4. 000 access points in all areas, and they also had their online channel – lgezbuy. com to provide information of products, comparison of prices and qualities across geographic, accept the individuals buyers. These regional distribution networks helped LG E to penetrate the B, C and D markets faster and wider.

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As same activity in Brazil, LG started sponsoring to catch more customers. LG became the largest single sponsor of cricket in the world, although they

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came from a country where cricket was not played. It immediately attacked to millions of cricket fans in this country and prelude to the success of the cricket-game TV set lines. LG also brought their products to 4 capitals of Indian cricket team for endorsing. Another strategy for other field of India, LGEIL promoted their products by Indian's leading film stars. This is considered the largest film producer in the world by number of films produced annually and the number of tickets sold at cinemas, it has its owned name - Bollywood to describe the effective to local consumers.

After that, LG had another long-term strategy in trying to care about the social welfares in India initiatives. It created a friendly look to the company, people knew that company really did not just trading on their own country, but also cares for their lives. They subsidized the primary school education and books for children, built a village school. While most of employees of company in India were local people, they provided medical clinics for the health care strategy to employees as well as the local community. Also there were some basic levels, but LG shown that their corporation social responsible done well.

As mentioned above, LGEIL put local employees staffed as the main labor force in their manufacturing. With the local employees, company could get great resource of engineering and design skills. LG India's purposing is satisfying the needs of its consumers not only in the domestic market but all across the globe. Company is trying to make India as their training hub for global strategy. The company had begun rotating some of these managers into positions in third countries in the middles east and Africa. This is one of advantages of LG to acquire a leading position by providing fast and <https://assignbuster.com/electronics-global-strategy-in-emerging-markets-marketing-essay/>

innovative techniques on their products. They always create new products with the best technology possible.

Russia

LG first entered Russia for the purpose to sale products; they imported goods manufactured from other countries and sale in Russia. Not the same as Brazil and India, LG operated themselves in and around the city of Moscow, and they just focused on Goldstar brand.

LG set up an R&D center and regional office in St. Petersburg for their first strategy. Till Russian engineers were known for their ability and skills in technology, company looked for talent employees to support their global employees. LG promoted their reputation by opening LG brand shops, retail channels with LG brand portfolio, culture marketing events such as LG festivals, cooking events, and so on.

1998, Russia was affected by the severe economic crisis; it made Russia faced the debt moratorium problem. This was the time LG shown their long-term strategy and loyal attitude to all Russian local and government. The more they pushed the mode of operation to dominate the market dropped; they enhance the image with consumers through the sponsorship of events, more carefully to the requirements for each market. These activities created a foundation for their premium strategy and image to local. In 2005, government allowed company to use the Narodnaya Marka logo for their products. This is an important event for LG - officially recognized as a national brand, the successful of foreign company of their localization strategy.

China

In this market, LG first reason for entering china is lower-cost production, and they spent a lot of time to understand the local market conditions and assessing the feasibility to be successful. Since LG Electronics established its local subsidiary in Huizhou in 1992, the LG Group's 12 subsidiaries have come to manage some 34 local companies, including 22 manufacturers. LG Electronics took the top position in the Chinese domestic market in the area of TV export, CD-Rom drivers, washing machine, and air conditioners during that time because of their advantages of technological prowess and the marketability of their products.

In china, they used the new strategy as a " bipolar strategy" - a strategy offer high value-added digital home appliances to the high income earners living in the coastal areas, and low-priced household electronically appliances to general households living in the interior.

China is a great resource for operating a business. With many advantages such as low labor cost, low material cost, government regulations, geographic proximity to Korea market, 16 corporate entities of LG were built in the country which focused on manufacture Plasma TV, white goods, and important research, development in 2006. LG expanded their brand to set up a manufacturing network to serve countries such as Russia and US. As 98% off employees were local Chinese and R&D center, this is a smart strategy of LG in case of localization in China.

For their promoting image, LG initiated an " I love china" campaign and passed out free sanitary masks to local citizens during the SARS crisis in

China. This activity really effected to customers while others competitors tried to rundown their business. LG also well done with their Corporation Social Responsibility by launching schools, offering scholarships to economically disadvantaged students, sponsoring a touting cultural festival that would bring traditional Chinese cultural experiences to small towns and villages, founding a hospital program to provide surgical treatment to children with cleft palates.

Common strategy across BRIC

At the first time, LG Electronics always put up their local manufacturer and R&D team with local employees to understand the need and characteristic of each market. They depend on these researches and created some specification for local. Such as in India, most of consumers require on cheap price of products, but still have the same quality of international; LGEIL decided to produce the television with a smaller screen size and scaled-down sound system. They did not forget to serve the high-end products to all markets. This is really the big success of their R&D activities. They are supporting global strategy by looking for talent local employees, meaning they localize with a purpose for global market. And with local operation, they can save much of manufactured products such as materials, employees, etc.

Second thing for their global strategy is they always established their brand name on rural market, where avoid the competition of those large corporations around the world. This is one unique strategy of LG because they focus on lower-class consumers and appropriate way to satisfy consumers in cheap prices but still benefit. The population of rural areas is always greater many times than urban areas. In 2007, LG Electronics <https://assignbuster.com/electronics-global-strategy-in-emerging-markets-marketing-essay/>

reached the \$2 billion marks in revenues in India; this is a good result for their strategy.

By recruiting the local employees, LG E knew well about the characteristic of their consumers and this is an advantage to attack them. The company is always looking for talent employees to train them as a global standard. LG E did sponsors to the passionate of the country, such as cricket game in India, football in Brazil. Otherwise, they had good corporation social responsibility that shown local and government their loyalty. All strategies of LG E in BRIC countries are long-term commitment; this make LG has a different position compare with other operations. LG still tries to overcome all the barriers if they believe that a market is really profitable.

PART IV

Case Question 3

What are critical points of learning that can be distilled from its success in emerging market?

How these advantages are leveraged to compete in developed countries? Are there advantages transferable?

By some successful experiences of LG in BRIC countries, LG brought to people the strategy to run well an operation in emerging market. Some of their success experiences are do sponsorship, event to create an image to customers; they always had their R&D team to customization their product to satisfy the markets based on localization. They still kept the global standard on their product lines and put it into new products for each market. By this way, their brand name will have the image of globalization and also

get benefit for customized products. And LG focused on rural market and they know that major population of BRIC countries is poor, so they give what the customers want - low price. In case of operate in developed country, LG can also use this strategy to attack their customers, but it's harder. Because in developed countries, there are many sponsorship and activities daily, if their marketing strategy is not unique, LG can get many difficult to compete with others like Sony, Phillip, etc.

Foreign businesses always focus on 2 things: outsourcing and marketing when enter a country. LG really did 2 things above in BRIC countries because they built their own factories, using local people, manufacture products on their factory in each country. They produce their customized products and sale them. But maybe this strategy will not work in developed country, because of the highly cost rates. The purpose for building their outsourcing is reducing the cost, but in developed country, the cost for these activities is very expensive. There will be better for them if they just do marketing and sale activities in developed country.

Other thing is their distribution network. They expanded their brand name by a lot of retail channel, offices to most areas of each country. They also can save the cost for import, export, transfer, and quickly accessible to consumers. This will be the prepare strategy before LG enter a developed country.

PART V

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LOUIS VUITTON IN INDIA

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PART I

INTRODUCTION

Louis Vuitton, a French fashion house officially founded in 1854, is the world's leading of high-end fashion brand in international fashion industry. The well-known label is LV monogram which is featured on most products ranging from luxury trunks to leather goods is also as a way to deter counterfeiters. Founder of LV first launched a small leather shop in 1821 with the original products specialized in crafting fine leather luggage ware. But since recognized the demand among prestigious travelers who wanted premium steamer bags, flat cases, and weekend bags, the namesake designer, Louis Vuitton, gradually grew into a brand that offered deluxe travel goods. Back then, as successfully in establishing LV initial reputation, LV expanded the assortment to include carry-on-bags, toiletry cases, small trunks, jewelry boxes, and eventually luxury watches. Today, over one hundred and fifty year brand – Louis Vuitton has been spread throughout Europe as the fashion icon of the most exquisite symbol.

In this particular case study, we are going to discuss the reason why people purchase luxury goods, especially is LV; and how the dichotomy between a high-end product and a low-income economy to be reconciled. Then, the report will be continued with the external factors that hindering the purchase

of luxury goods in India, culture typically. After that, mentioned more in international marketing, we are going to find out the reason why luxury goods marketers form retail clusters, why certain luxury goods look for store locations in luxury hotel. And finally, the report will be ended with the way of a luxury mall work for luxury goods marketers.

PART II

Case Question 1

Why do people buy luxury goods?

Nowadays, when the world becomes globalization, there are no more barriers in the integration process of every country. Therefore, people are entitled to purchase and use global products made by international companies. Not the same as consumer goods or necessity goods, “luxury goods are cyclical and correlate with GDP in specific regions, often exaggerating the up- and down-swings; in boom times, consumers’ demand tends to grow faster than the growth of economies (as measured by GDP)”[5]. More precisely, luxury goods are goods for which demand is not related to income. Basically, there are three main factors that lead people by luxury goods. Especially in today’s consumer-driven economy, people spend proportionately less on basic necessities and more on things based upon emotion and desire.

Firstly, they buy luxury good because of its superior functionality and quality. Most of them were old because of hard working time period, so they were wealthy enough that willing to pay premium for products that had enduring value. They usually conducted extensive pre-purchase research, then

making logical decisions rather than emotional or impulsive. This action highlighted the messages of product quality. And that message were information-intensive appealed to them. Consisting of connoisseurs, this category was the largest.

Secondly, they are people who perceive luxury products as a reward. They saw these products as status symbols which make the personal statement that they had “arrived”. Highly driven, they were motivated by a desire to be successful, eager to showcase their success to others. They also were keen on appearing lavish or hedonistic. They wanted to make seemingly “smart” decisions that demonstrated the importance of their purchase while not leaving them open to social criticism of any kind.

Thirdly, this is the smallest and consisted of younger consumers, with a higher proportion of males than the other categories. They saw luxury products as a means of self-indulgence. They enjoyed luxury products for their feel-good factor. They were emotional in their purchase decisions and were not concerned with product longevity or its enduring value.

Particularly, in India, people who buy luxury goods fall into the second category. As we know, maharajahs are the most wealthy and powerful in India in the late 19th century. They are the one who prefer everything luxury to showcase their positions as “great king”. “It was the ongoing orders from Indian royal families, among other wealthy customers, that had helped Louis Vuitton survive the Great Depression of the 1920s”[6]. After that, although the changes in 1971, these maharajahs lost their traditional hold in post-independent India and their riches with the abolition of annual financial

grants from federal government, many of them became entrepreneurs; but accidentally, the new generation of customers for LV was formed in India including start-up owners of myriad new businesses, professional CEOs in their thirties and early forties, non-resident Indian, small and medium retailers, big-brand franchisees, Bollywood actors and “ closet spenders”. This new generation of customers could be the third category of who purchase luxury goods. They are new and not too many of them are really rich, but they still purchase LV as the feel good factor. Hence, they are very essential in long-term strategic development in Indian market.

PART III

Case Question 2

Louis Vuitton is a high-end product. India is a low-income economy. Can this dichotomy be reconciled?

“ India, throughout history, has been a land of extremes and known for the indulgence of its opulent classes”[7]. Typically, there are more than 600 maharajahs existed that time. They are truly powerful and wealthy enough to be considered as “ great king”. As a positive result, most of global brands were looking India as a market with long-term potential whereby there are high demands of luxury goods from Indian royal families, so does Louis Vuitton. Until now, almost luxury brands are still survived in Indian market despite of global economic crisis. Clearly evidences are the Indian market has increased a significant percent of consumption this year when customers are more interested in walking into the outlets and, importantly, buying rather than just looking.

Besides that, India is known as a low-income economy, but there are really have several wealthy people who are superior to the average population. Since Louis Vuitton made an important observation that “ the rich in India were flying to London, Dubai, Singapore, New York, and Paris to shop because there were nothing available in India for them to buy”[8], the company has articulated the clear long-term goals in India that is open store in every Indian city so that the wealthy class can buy the needed items right in their home country. “ The World Wealth Report 2005-06, published by Merrill Lynch and Capgemini, put the number of dollar millionaires in India at 83, 000 in 2005. The report also said that India recorded the world’s second fastest growth in the number of HNW individuals, 19. 3 per cent in 2005”[9]. Thus, we can easily realize the potential market of Indian consumers’ purchasing power.

Currently, due to the capitalist mind set and growing young population, India offers to luxury brands favorable advantages such as more wealthy people, increasing awareness, increasing consumerism, and greater supply of luxury goods. Firstly, luxury product companies strategizing their entry into India were primarily targeting high-net-worth individuals because they are those with a million dollars or more in liquid financial assets. They are the largest category of spending on luxury goods as the number of them as well as their demand increased. Secondly, India young generation is now travelling abroad more than before, thus, the foreigner brand awareness is also increasing. The more they go out of the country, the more they exposure with international brands, especially luxury brands. Then, the demand of these kinds of global brands is increased in India but domestic market can

not satisfy their demand. That is the reason helps luxury goods generally and Louis Vuitton particularly still existed and developed gradually in this market. Thirdly, there are also an increased numbers in consumption of non-essential items. The world is getting globalization day by day; the demand of human is not only the needs but also the wants, so that their life becomes more convenient and sophisticated. They don't afraid of giving a large amount of money to spend on a luxury product that it is worth for and satisfied their wants. Of course, there is no more guilt feeling associated with spending on luxury nowadays. Finally, together with the boom of expanding global, luxury brands opened more and more outlets in as many countries as possible, including India.

Generally, in the world of opposition, this dichotomy entirely can be reconciled.

PART IV

Case Question 3

What are the external factors hindering the purchase of luxury goods in a country like India?

Depend on several conditions of each country; the factors that are hindering the purchase of luxury goods are various. In this particular case study, we are finding out the external factors in Indian market.

Advertising platform: Nowadays, " Advertising is a service to the community"[10]. It is usually revealed the latest fashions and the new popular novelties on the market. Therefore, the effect of adverting to the community is essential. Advertising has the power of persuade and influence

consumer. “ Advertising has short-term power (conveying new information, building awareness, enhancing credibility, etc.) and long-term power (conveying brand image, attaching emotional values to the brand, building positive reputation, etc.)”[11]. Actually, there is lack of advertising platform in Indian market. No famous magazines or newspapers are found in India at that time. Hence, LV als