

# Overseas fdi of lg electronics marketing essay



**ASSIGN  
BUSTER**

LG Electronics was originally established in 1958 as Gold Star. Using their innovative technology and research capability, creative designs, new-product developments, as well as product sales, market share, and corporate value, they are expanding their territory in the electronics industry. As a result, they have established nearly 100 local subsidiaries and around 82, 772 (29, 948 in Korea, 52, 824 overseas) employees are currently working. There are 4 product Divisions in LG Electronics, the “ Mobile Communication” division, the “ Home Appliance”, the “ Home Entertainment” division and lastly, the “ Air Conditioning” division. And to achieve their vision to be the top three electronics and networking company in the world by 2010, they are continuing to develop new technology to cement their place in the future digital industry.[1]

## **(2) Business Divisions**

There are 4 main product divisions for LG Electronics.

First, the Mobile Communications (MC) division, the core sector of LG Electronics responsible for 51% of sales, is in charge of mobile phone production, notebook PCs, and mobile applications. This division is highly affected by designs and trends, and LG has its full focus on developing user-friendly products based on consumer insight.

Second, the Home Appliance (HA) division is responsible for household appliances such as refrigerators, washing machines, ovens, etc. These products are facing fierce competition in local markets as it is becoming more difficult to ultimately differentiate products. LG is continuously

advancing into new markets while focusing on premium products for the developed regions.

Third, the Home Entertainment (HE) division produces multimedia visual/audio products such as LCD TVs, PDP TVs, home theater systems, and etc. Due to the increasing living standards and new technology, this market is expected to grow steadily, but the profitability may be restricted from high competition.

Finally, the Air Conditioning (AC) division was separated recently to solely focus on air conditioners, related products, and new and renewable energy. LG is concentrating on developing high energy-efficient products to comply with new standards.[2]

The overall structure is presented in figure (1).

### **(3) Brief History of Internationalization**

Period Division

Year

Main Event

2nd Revolutionary Era

(1995 ~ present)

2007

World's first New Generation Dual format player

2006

Completion of Digital factory in Russia(LGERA)

2005

No. 1 in CDMA global market share

2000

Global No. 1 for air-conditioners

1999

LG-Phillips, LCD joint venture enterprise launched

1995

Acquisition of Zenith Electronics, USA

Revolutionary Era

(1997 ~ 1994)

1993

Market entry into China

1990

Design Development subsidiary establish in Ireland

1989

Established sales subsidiary and joint venture production subsidiary in Thailand

Internalization Era

(1978 ~ 1986)

1982

Established color TV plant in Huntsville, USA

1980

First European sales subsidiary in Germany

Domestic Growth

(1966 ~ 1977)

Establishment Era

(1958 ~ 1965)

1962

Korea's first radio exported to United State

1958

Gold Star established

(Source: 2009 Annual report)

## **2. International Business of LGE**

### **(1) Globalization Process of LGE**

LG Electronics has built around 60 local subsidiaries all around the world and this has enabled them to compete with large electronics company such as Phillips, Sony, Thompson, and Samsung Electronics. The stages and strategies of building a global management system has been briefly summarized as the following.[3]

#### **Substitution of Imports**

After being founded in 1958, LG Electronics started replacing imports with their own standardized products. After being listed in 1970, they soon started distributing products all over the country to lead the electronics industry in Korea. They opened 480 outlets in Korea in 1978, which lead to the domestic market share to increase to over 30%.

#### **Export to developed countries**

After succeed in domestically, they started business in foreign markets with help from Government export aiding policies in mid-1970s. As the result, their export income increased from 14 million dollars in 1975 to 950 million dollars in 1986. With aid from the policies, they diversified products and strengthened their exporting power which enabled expansion into major markets such as the US and Western Europe. The income from developed countries rose from 75% in 1979 to 89% in 1986 of total exports.

#### **Production in developed countries**

Because of New Protectionism policies and trade restrictions, LG Electronics could not maintain their position in developed. For this, they adopted new

production and entry methods. By establishing a color TV plant in Huntsville, US, in 1981, a color TV and VCR plants in Broms, Germany, in 1986, a microwave plant in Jarrow, UK, in 1988, they could overcome these restrictions.

### **Production in developing countries**

In 1988, LG Electronics started facing problems in developed countries due to the trade restrictions, currency appreciation and wage increases, and made efforts to overcome these by focusing on penetrating into developing countries. To avoid the import trade barriers in developed countries, they produced refrigerators and color TVs in developing countries like Indonesia and Thailand. They also established overseas subsidiaries and local retailers in those countries, while reorganizing their HQ structure to a Geographic Division Structure. The sales in developing countries increased from 21. 4% in 1985 to 51. 6% in 1990 of all exports.

### **Global Production and Sales**

After entering the global markets, they began expanding especially in the Central and South American area to compete with global competitors. They also propelled their globalization strategy by entering into potential markets, India and China, starting from 1993. Leading products such as Flatron TVs and monitors enabled LG to reposition its stance into a global brand. They currently possess various products that are ranked No. 1 in countries such as France, Spain, India, Brazil, Indonesia, South America and many others.[4]

## **(2) Current Status of International Business**

According to the 2007 Annual report, LG Electronics operates 82 subsidiaries globally, with 15 in North/South America, 23 in Europe, 11 in Middle East/Africa, 10 in Asia, 16 in China, and 7 in the CIS region. Chronologically, the number of new overseas subsidiaries established was 5 in the early 80s, 12 in the early 90s, 37 in the late 90s and 21 after the 2000, which shows that 85% of international subsidiaries were established after 1995. It can be implied that LG pursued an internationalization strategy from the late 90s, especially focused on China. LG Electronics is also engaged in various partnership relations with global companies, with the establishment of LG-Phillips LCD in 1999, LGIBM PC in 1996, partnership with GE in “white goods”, global air conditioning partnership with Matsushita, and optical storage R&D with Hitachi.

## **3. Internationalization Strategy**

### **(1) Overall Strategy**

There are various strategies pursued by LG Electronics in its international operations which resulted in successful outcomes. First, being a late addition to global competition, LG had to pursue “Product Leadership” in which they acquired unique sales points in global locations with high brand positioning. For this, they focused on local R&D for functions, designs, fashion and color. Confidence from these movements enabled LG to enter into potential markets such as India and Indonesia with a high brand positioning even from the early stages.

Second, the management of global subsidiaries is employing a large number of local managers to pursue local responsiveness. To implant the “LG

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Electronics culture” to these locals, education programs are being conducted by the HQs. By empowering local managers with more authority and establishing a performance-based evaluation system that links incentives and performance for these local managers, the international management is highly decentralized.

Third, the marketing strategy is completely different according to the specific region. Experience of the market situation is being acquired through pre-marketing and resources are being focused according to local conditions. To proceed with these methods efficiently, LG has established various partnership enterprises with local companies and other global competitors. Also, sports marketing including events and sponsoring local clubs, press tours to enhance its brand recognition, and culture marketing are greatly valued by LG Electronics for its existence in the local markets.

Finally, cost reduction strategies. Since the one of the objectives of establishing a foreign subsidiary is to reduce production costs, LG is initiating its cost reduction know-hows to local managers such as set-up support in early stages, target cost tracking, and rolled throughput yield enhancing. By inducing competition among subsidiaries and the HQs in Korea also to reduce costs, LG is finding optimal locations to produce certain products and models. These examples of “ best practice” by foreign subsidiaries are being implemented by HQs to improve its global decision making.[5],[6]

## **(2) Strategy in India**

### **Country market analysis**

The period in which LG Electronics entered India, 1997, was when the Indian economy began rapid growth and the demand for home appliances was increasing. After 4 months of starting business, LG was operating all over India and in 1998, established a plant in Great Noida to begin local production. The distribution of home appliances in India is still low and sales are increasing by 10% annually in average.

### **Applied local strategy**

Unlike existing Indian manufacturers and global competitors like Sony and Panasonic, LG Electronics developed products that complied with the demands of Indian consumers. For the Indian people, who enjoy listening to music, LG added woofer as a basic function to TVs, and to match the diverse languages being spoken in India (18 official languages), mobile phones that operate in these languages were developed.

Next, unlike competitors who tried to establish their own distribution channel and services in India, LG Electronics utilized existing local channels which enabled them to reach the whole area of India including agricultural regions. There are 46 distribution centers, more than 3, 000 dealers and 8, 700 sub-dealers. Also, service centers count up to 2, 700 in the country which is overwhelming compared to other competitors.

Furthermore, promotion events were localized to Indian consumers. This includes sponsoring cricket, the most popular sport in India. LG is focusing

greatly on sports marketing, which we can see by the fact that they even sponsor the Cricket World Cup.

## **Evaluation**

Currently, LG Electronics is being recognized as the most popular home and digital appliance brand to Indian consumers. This was realized by continuous localization efforts and developing products customized to local demands by maximizing resource acquisition locally and minimizing costs. Meanwhile, LG has established its brand image as a premium brand. Of the foreign companies that have invested in India, LG Electronics is being acknowledged as one of the most successful, through full decentralization of production, HRM, organization management, procurement, marketing and sales.[7]

### **(3) Strategy in China**

#### **Country market analysis**

China is the most rapidly growing market in the world. The growth is propelled by many reasons, but the biggest is the effort of the Chinese government to boost consumption expanding throughout rural areas, and create new consumption patterns[8].

After opening its market to the world, China is being considered as the most promising market due to its huge population and broad undeveloped market in its rural area. Now it is enjoying the benefit from not only its vast market but also as a manufacturing center for many companies from the world. It was possible because of the cheap labor. Increasing FDI proves China's potential as both of a market and a manufacturing center. It has been growing positively for the last 5 months[9].

The effort of the Chinese government for boosting consumption consists of providing subsidies, especially for consumption of automobiles and home appliances. They affected consumption of the Chinese people in a short time frame. Consumption of automobiles increased by 46% from 2008, and the number of automobiles sold reached 13, 640, 000 by the end of 2009. The government also tried to expand consumption into its rural areas by increasing products subject to subsidies. Consumption increase throughout the rural areas is actually growing rapidly, and the year 2009 was the first year that the rural growth rate of consumption, 15. 5%, surpassed the cities, of 15. 2%.

China has been an attractive market and a good destination for FDI in various aspects. That is why LG Electronics decided to invest in China early in the 1990s.

### **Entry mode**

LG Electronics started with a partnership strategy in China. LG Electronics Huizhou Ltd. Was established in 1993 was the first corporation LG settled in China, 80% owned by LG Electronics and 20% by TCL. And now LG has 14 operational centers according to its main products in China[10]. 5 of the corporation are fully owned, and the rest are in a form of partnership in which LG Electronics owns more than 70%.

Although the fully owned entry mode requires the highest commitment of management resources which means higher risk, LG took this entry mode in 3 corporations since it perceived high potential of the Chinese market and to place itself in a beneficial position to prepare for forecasted competition.

Meanwhile, LG Electronics is taking high commitment arrangements of partnership strategies to diversify risk and avoid competition.

### **Applied local strategy**

LG Electronics is focusing on localization in many aspects.

First, LG Electronics is operating a separate HQ in China. The China HQ covers all aspects of business. With this approach, LG Electronics can run manufacturing, R&D, and marketing totally separate from the original HQ in Seoul. In this way, LG Electronics can concentrate on the demands and specific problems in the Chinese market and respond flexibly. In the same sense, LG Electronics is running 4 R&D centers in China[11].

Second, LG Electronics is hiring locals, and up to 98% of the workers are currently Chinese. Raw materials for manufacturing are also brought from the locals enabling the lowest cost for the whole production process.

Currently, the percentage of locally supplied raw materials is 80%[12]. This strategy of localization made it possible to cut down the cost so LG Electronics could survive in the tough price war happening in China today. And setting up its own manufacturing plants in China enabled it to maintain the competitive prices.

Third, LG Electronics is also doing aggressive marketing in rural areas in order to enhance its brand recognition to the potential consumers in areas where substantial growth is expected. LG Electronics is supporting schools and small villages in the area.

## **Evaluation**

In 2005, LG Electronics was nominated in the top 10 influential companies in China by Beijing TV. LG Electronics was the only foreign company among the nominees. This achievement shows that the localization strategy of LG Electronics is being successful, placing the company in a competitive position in the Chinese market.

LG Electronics entry mode strategy, which is a mixed form of partnerships and fully owned FDI, is being proved to be successful. As the competition in the market is getting tougher, other companies entering the market in forms of franchises or licensing are suffering and are trying to transform its forms into partnerships or FDIs. This is necessary to cut the price, but impossible to achieve in a short time frame.

LG Electronics can benefit from the current fierce competition as it has already localized itself to a level that it can endure the price war.

## **(4) Entry into Brazil**

### **Country market analysis**

Brazil has population about 190 million people, which makes Brazil the most populous country in Latin America and the fifth most populous country in the world. Brazil has a moderately free market and an inward-oriented economy. Measured nominally, its gross domestic product surpasses \$1.5 trillion dollars, the eighth largest in the world and the second in the Americas[13]; measured by PPP, \$2 trillion, making it the ninth largest economy in the world and the second largest in the Americas, after the United States. The Brazilian economy has been predicted to become one of the five largest

economies in the world in the decades to come, with the GDP per capita following. This whole situation makes Brazil an attractive market or a place to set up a plant.

## **Entry mode**

LG Electronics set up two corporations; the first one set up in Amazonia, 1995, and the other one set up in Sao Paulo in 1996. They are both manufacturing plants and both are in form of FDI, fully owned. The Amazonia plant produces TVs, DVDs, audios, car audios, and air conditioners while the Sao Paulo plant produces monitors, mobile phones, and laptop PCs[14]. LG corporations in Brazil are not only for supplying Brazilian people. Especially, Sao Paulo, the hub for transportation of Brazil and Latin America, will be functioning as a center base for mobile communication business in Central and South America.

## **4. Conclusion**

### **(1) Localization strategy**

Especially, the company tries to hire locals in foreign countries. This effort will enable effective management. Not only that, localized employees will contribute to providing products that meet the customer needs in the region. Furthermore, establishing production facility in foreign countries will enable various benefits such as agility in producing products, elimination of tariff, and hedging exchange risk.

### **(2) Marketing efforts**

Marketing is one of the most active strategic efforts of LG electronics. First of all, LGE tries to construct high-end brand image. This entails not only

improving its brand image but also improving the products of the company; and by establishing exclusive brand such as XCANVAS, it shows customers confidence over the quality. Not only that, the company is trying to expose its high-end products to crowded area such as airport, station, and hotel lobby all over the world. This provides global customers with an opportunity to experience its products. All these efforts can be called ' premium marketing.'

In addition to it, LG electronics is developing various marketing efforts in the form of ' social marketing' and ' sports marketing.' [15] These approaches are different from traditional way of marketing simply using mass media. Rather than just exposing name of its brand, these efforts are focusing more on showing ' active efforts.' For example, LGE promoted 2001/2002 CAF Champions league and is contributing communities of Panama, Mexico, and Guatemala by providing medical/educational services. Important thing is that these kind of active marketing efforts take on various forms according to regions. With these, the performance of FDI will be even more amplified.

### **(3) Brand Management**

LG electronics is famous for its brand management strategy. Especially it has established " Brand Management team" in 2005, which deals with matters such as protecting the brand image, enhancing the brand value and so on. [16] This is an exemplary case of brand management for other companies.

Moreover, LGE tries to take a position in customer's mind. The distinguished effort is setting so called Brand Identity(BI). This shows how the brand of the company will remembered by customers. For example, BI of 2007 was "



Love.” This means that the company will make customers to be reminded of ‘love’ when they hear of “LG electronics.”[17]

Additionally, LGE is planning to use the brand name of “LG” for its products. [18]Up to now, each product group was given a specific brand name such as DIOS(refrigerator), WHISEN(air conditioner), and XCANVAS(TV). This decision is not only the reflection of the company’s confidence but also the result of its efforts to manage the brand image.

## **5. Recommendations**

LGE has 5 businesses – Home Entertainment, Mobile Communications, Home Appliance, Air Conditioning, and Business Solutions. Among them, Business Solutions part is showing the lowest sales both in domestic and overseas market.[19]Thus, this is an opportunity for the LGE. Business Solutions part focuses on not only selling goods but also providing service to customers. The strength of providing service is that it can help reduce costs. For example, if a company wants to produce products overseas, it should prepare facilities and equipments, not to mention hire employees. However, providing quality Business Solutions service requires higher-skilled employees, who know well what customers want. This is why the company should focus more on localization. By doing so, LGE can increase the profit even higher around the world.

Price is another factor to be taken into account. Digital TV intrinsically requires high price due to high development costs and market entrance costs. However, price competitiveness can be achieved through reducing

production costs. This can be done by continuous development efforts, innovating sales strategy, and occupying market share.

Lastly, LGE started global expansion strategy relatively late - about 85% of overseas expansion is done after 1995. To catch up with other leading companies, LGE tries to install more production lines. However, reckless investment in hardware can lead to loss. Before expanding facility, LGE should be able to attract people that can effectively utilize it. This is why educational efforts, attracting quality talents matter.

## **6. Exhibits**

Figure ()