

View into the global
electronics company
lg electronics
marketing essay



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LG Electronics is a global electronics company headquartered in Yeouido, Seoul, South Korea. LG Electronics is the world's second largest manufacturer of Television sets and third-largest producer of mobile phone. It is the lead company of LG Group, a multinational corporation that excels at producing and selling electronic products. LG was founded in 1947 as Lucky Chemical Industrial Corporation (LCIC) and established an electronic company called GoldStar in 1958. GoldStar experienced high growth and profit with the help of the active support from the Korean government. However, GoldStar's sales volume was affected by the energy crisis in the early 1980s but was soon able to overcome the crisis by reaching sales volume exceeding 1.29 trillion. After experiencing this, GoldStar changed its effective business strategies and focused on product diversification and strengthened national sales in Korea. Also, the company started to focus on diversifying export structure in international sales[1]. However, in the late 1980s, the Korean government lowered tax barriers which allowed foreign competition to enter the Korean market. This harmed the sales of GoldStar and other relevant domestic companies. The company was able to challenge foreign competition by restructuring the organization structure and adopting a decentralized structure for a new management style. From the early 1990s, GoldStar focused on 'creating value for customers' which emphasized the company's founding principle to aim for maximum customer satisfaction. This strategy was successful and the company's export exceeded US\$ 2.56 billion in 1993.

As a whole, LGE's long term strategy is to "maximize cash flow through sustained growth of cash cow business." Since all four sections have

differentiated overseas strategies, this paper will focus specifically on the Mobile Communications sector for the sake of deeper analysis.

The LG Electronics Mobile Communication Company is a global leader and innovator in mobile electronics, providing customers with unique experiences and stylish designs with its smart phones and handsets. The mobile communications division of LG Electronics sold 116.7 million mobile phones in 2010, holding a market share of 8.4%. Currently it has 20 new smart phones and aims to become one of the leading manufacturers in this sector by 2012.

The Mobile Communications Division is responsible for the sales of CDMA and GSM (Global System for Mobile Communications-2G mobile phone system) handsets. LGE launched its CDMA handset operations in 1996 and its GMA operations in 2002. Also, the company is rapidly building a global presence in the 3G handsets. LGE reached global sales of US\$ 9.9 billion and was ranked fourth after Nokia, Motorola, and Samsung in 2009[4].

Annual Sales Growth Comparison

2005

2006

2006

2008

2009

Total Units (million units)

54.9

64.4

80.5

100.8

117.9

Total sales (billion USD)

7.3

7.3

8.5

11.8

13.4

Growth Rate by Unit (%)

24

17.3

25

25.2

17. 0

Operating Margin (%)

4. 3

1. 1

8. 5

11. 0

7. 3

Global Configuration and Coordination

Overseas sales are extremely important for the company and accounts for 88 percent of its overall sales. This is much higher than the rate for its competing manufacturers (Sony: 74 percent, Panasonic: 47 percent) because the domestic market is not large enough[5]. Therefore, implementing appropriate global strategy is crucial for the operation of LGE. For the global strategy of the mobile communication division, LGE adopted the Blue Ocean Management to outrun its competitors. The Blue Ocean strategy is to focus on high end products and enter into new regions or emerging markets like China, India, Middle East, and Africa to create an uncontested marketplace. The main strategy is to maximize efficiency of management by developing a blue ocean area which does not have competition to create more profit. With strong technology leadership in this industry, LGE is competing in the market of new products in the smart devices with technologically advanced features

such as multi-core processors, 3D, bright and clear displays, and 4G LTE (Long Term Evolution)[6]. Through such innovations, LGE aims to enhance the customer value and satisfaction and design the future of the global mobile phone industry.

When a company such as LGE operates internationally, it is important not only to spread value activities across various countries, but also find efficient ways of linking those value activities together. The issue of where and how many places in the world to disperse various activities relates to configuration. The issue of coordination deals with integrating those activities. The following will describe the various aspects of global configuration and coordination, and how LGE specifically in the mobile phone and tablet division, is performing in these areas.

Configuration contains the issue of international cost differences, which means is that difference in wage rates, and worker productivity can vary between different countries. Many companies will try to find employees in countries with large labor forces because often they can pay them less. LGE Mobile Communications Company has a very impressive global network. The company has more than 80, 000 employees, working in over 115 different operations around the world[7]. As of May 2011, the average salary for a managerial job in LGE Mobile Communications is USD \$67, 000[8]. Due to international cost differences however, average salaries can vary depending on the industry, and location. An LGE managerial position may have a lower salary, if located in a less developed country than the United States for example.

A business environment also affects the decision of where and how to locate global activities. Currently, the key point that managers are concerned with, is that their chosen business environment must be knowledge-intensive, and technologically enabled. LGE has subsidiaries in different parts of the world such as the United States of America, United Kingdom, Germany Japan, and France[9]. All of these countries are some of the most innovative in the world. Each has leading-edge technologies, significant organizational and operational capabilities, and excellent institutional performances. It is clear that LGE wants to operate in the most efficient countries.

Conducting business globally can lead to high transaction costs. This is the issue of logistics, which says that companies should minimize exchange expenses by efficiently configuring the location of value activities. For example, it can be costly for LGE to find necessary materials for the mobile phones, and tablet devices in one country, ship them to another country for production, and then ship it to a third country for distribution. Currently, LGE has many production subsidiaries in China, but products must be sent overseas to North America where many distribution centers are. If LGE can minimize the expenses that come with these transactions, they will have a competitive advantage.

Another key feature of configuration is the digitization of products and services. Digitization is really the conversion of analog information into digital information. We have seen that products like software and music have become digitized. LGE smart phones and tablet devices certainly carry this characteristic. For example, The LG Optimus 3D phone handles multi-tasking and multimedia at a very fast pace. It also lets users share 3D content with <https://assignbuster.com/view-into-the-global-electronics-company-lg-electronics-marketing-essay/>

other compatible devices[10]. The LG Optimus Pad is the new tablet that offers users an immersive multimedia environment. LG's tablet runs on a 1 GHz NVIDIA Tegra 2 dual core processor for superior performance. The tablet also comes equipped with a 3D camera, so users can capture 3D images⁴. Based on these advanced products by LG, it's obvious that the company is digitizing information, and making it easy and enjoyable for consumers to use.

When there is a decrease in the unit cost of production associated with an increase in total output, this is referred to as economies of scale. In 2007, according to Dr. Ravi Kalavakunta, the LG KU250, which was a new phone released during that year, was expected to provide economies of scale in manufacturing, logistics, and marketing[11]. This must mean, output increased in the areas of manufacturing, logistics, and marketing while also decreasing the unit costs of production.

Meeting customer needs in different countries can be a challenging task, but it is important for LGE to keep all international customers satisfied. LGE needs to be ready to handle things such as after-sales service, customer complaints, and warranties. If a customer has an issue with either their phone or tablet device, there are places on the official LGE website, where customers can track warranties, ask about repair services, and speak to representatives[12].

Value activities can be configured across different parts of the world, but these activities should be coordinated so they are able to stay connected,

and work towards the same ultimate goal. Coordination, the role of integrating value activities, also has several key features.

International companies may face operational obstacles in communication, such as IT infrastructure. In 2005, LGE started a five-year project to implement an Oracle ERP system globally. When the ERP system is fully employed, the company expects to see major improvements in many different areas. These improvements include cutting reporting and analysis times, improved productivity, decreased maintenance costs, and having complete visibility into global inventory and sales and marketing costs[13]. Through this new enterprise resource planning system, LGE should be able to have better control over its global operations. It is important, that different perceptions be understood, so that each link in a value chain can meet a precise timetable. As mentioned earlier, in 2005 LGE was facing a problem with its ERP system. Many different systems were being used globally and this made it difficult to integrate data, and determine the accuracy of information⁷. Clearly, there was a problem in keeping all units of the value chain on the same timetable. Not having accurate and current information from all global operations can make differences in perceptions of timetables even more burdensome. However, the new ERP system being globally implemented should efficiently connect units; reducing the problem of not having accurate information.

Currently, LGE is planning to expand mobile phone production in India, which will include smart phones[14]. India produced nearly 31 million mobile phones in 2007, at a value of about US\$5 billion, according to a report by Gartner Inc[15]. India is a country, that has developed an expertise in the <https://assignbuster.com/view-into-the-global-electronics-company-lg-electronics-marketing-essay/>

production of mobile phones, and it is a good idea for LGE to expand production there. Since India seems to be ahead of other countries in terms of production, LGE would be wise to learn their practices, and transfer them to other countries where they have production. This is essential when describing the learning curve, another key feature in coordination.

The new ERP system mentioned earlier, will certainly make the transfer of knowledge easier. When information from global subsidiary networks come in late, and at different times, it can cause decision-making problems for LGE. It is crucial for knowledge to be up-to-date and transferred exactly when needed, so right decisions are made. With global subsidiaries staying better connected, coordination among the value chain will be achieved.

LGE is planning on expanding production in India. While this is a good idea it would also be wise of LGE to learn from the Indian production processes and transfer them to other places where production operations are located. For example, LGE has production facilities, in North America, specifically in Mexico, but there currently only two. This is an incredibly small number compared to the number of production facilities located in Asia. LGE, should transfer production knowledge to North America. Since, there are many mobile phone and tablet users in North America, it would cut LGE expenses, such as transportation costs, if it could not only sell, but also produce in North America.

Globalization vs. Localization-Case Study of LGE's Transnational Strategy

Transnational strategy is a strategy selected by a firm that has a business that has high pressure for both global integration and local responsiveness.
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LGE Mobile Communication Division (MCD) follows the transnational strategy to compete in the mobile communication market that needs to be global and customized at the same time. The following section focuses on several cases of LGE's localization strategy in some countries and draws a conclusion to the common practices.

Localization is a business strategy that considers weather, economic environment, and cultural difference of the target market and reflects them on panning out business activities. Putting it concretely, it is an adjusting process between the production and the foreign language, culture and mindset of the people living in the targeted region. This concept includes not only localization of economic resources but also adaption of management style to the market. Through this process, the firm can react actively to the changes and movement of the target and can achieve harmonious progress of the firm and the society[16]

The core of LGE MCD's strategy in China is thorough localization. In October, 1993, LGE started full-scale local management system, establishing a manufacture corporation in Heju, China. Now, they build 'locally self-sufficient management structure' with local manufacture corporation and Research Corporation by continuous investment like foundation of holding company in China. They established Beijing R&D center in 2002 for the development of Chinese next generation product that fits for the specific needs of Chinese. Also, they perform customized marketing actively which concentrates on the development of localization product by the design institute under Chinese holding company

In the Western Hemisphere, LG Brand is recognized as a premium brand. LGE's Brazil branch was prized ' Best Corporation of the year 2004' by Info Exame and also elected NO. 1 corporation in electronic communications of the year by Gazeta Mercantil. Especially ' JD Power's Report about mobile phone- US most authoritative consumer satisfaction investigation-selected LGE's mobile phone as a top ranker in the US.

This successful outcome in this region can be explained by the success of locally self-sufficient management. This seems like the performances in China. LGE pursued thorough locally self-sufficient management in the region. Every process in the Western Hemisphere of LGE - establishment of production base, supply chain, sales, marketing, A/S - was done autonomously in the region and it was efficient and effective[17].

However, performance of LGE fell short of its expectations in West Europe including

Germany. It is because LGE didn't understand the purchasing tendency of natives which

is quite conservative to select product brands. Of course, the considerable influences of local firms are another reason of LGE's poor performance. This situation can be a favorable chance for LGE which has high technologies, but low brand awareness is the big obstacles.

Responding to this condition, LGE reflects the national characters of Germany which put emphasis on frugality, diligence, and credits to products and services. Instead of showing fancy images and packages, LGE appealed

functions and superiorities of its products and customers responded positively. First of all, based on the tendency which accents the life value, LGE promoted its brand slogan, ' Life's Good' to natives actively. Consequently, LGE recorded more than 10% increase of its brand awareness in 2008.

Moreover, LGE made an effort to develop environment friendly products, targeting German natives who are sensitive to environment problems. The major product of LGE mobile phone, Chocolate phone the first mobile phone of Korea, which satisfied RoHS standards therefore, it achieved recognition as the 100% environmental friendly product. By achieving RoHS certification, the value as a premium brand LGE was imprinted on German natives too.

Entering Russian markets was different from entering the matured markets of Europe, at first, LGE figured out the characteristic of Russian consumers. As a result, the Pan Russia strategy was launched. This strategy was set for constructing stable sales and reflecting its differences and diversities to products and services of LGE through strong Brand Pull strategies in locals. The success of this strategy depended on making natives love LGE brand, before making them buy products and services[18]. To achieve this, LGE launched several cultural activities such as LG festival, Miss LG contests and, hired outstanding workforces in local, supporting them to research in LGTCM or Software laboratory in Shangtesburg, in order to make LGE brand image more Russian-friendly.

The Middle East area countries have quite different culture and religion from other regions. Therefore, it is important to reflect the needs of local

customers because of its particularity. Product managers who sent in the Middle East area manage specific products, cooperating with the marketing team of headquarters. The major work of localized LGE MCD is a Mecca phone. Mecca is an Islamic holy place, and every Muslims should worship 5 times a day, facing the Mecca. At this moment, the direction of Mecca changes along the place where they are. Considering this point, LGE published the mobile phone which can show the direction of Mecca.

Components of International Strategy

The key point of LGE MCD's transnational strategy is the pursuing the locally self-sufficient management through thorough localization in a globalized market. The locally completed management is that all processes which include constructing production infra, obtaining components, selling, marketing, and service are operated autonomously in local. But, this locally completed management also shows different aspects in its degree and functions by situations and conditions of the region.

When thinking of the international strategies of LGE, the components of International strategy are distinctive competence, scope of operations, resource management, and synergy. Distinctive competence can be defined as a remarkable competitiveness that cannot be easily imitated by competitors. LG Electronics also has some distinctive competence as a global firm. At first, its outstanding R&D system is one of the distinctive competences of LG Electronics. To respond to different needs in different countries, LG Electronics launched around 30 laboratories for R&D. Through these global R&D systems, LG Electronics can develop brand new

technologies and reinforce its core competence management. As a result, LG Electronics developed the world's first multifunctional mobile phone which can receive mobile broadcasting. Technology of digital display device also the field LG Electronics specialized in. Especially, the advanced technology of LG display device contributes development of mobile phones and tablet PCs.

LG Electronics also has its global competence in product design. Because LG Electronics realized the importance of its original design early, it established LG Design Management Center, improving its product design. As a result, in the International Forum on Design (iF award) held at Hanover, 7 LG Electronics mobile phones won awards[19]. This means that design of LG mobile phone is highly evaluated globally, therefore it is not overestimating that LG design management is its distinctive competence.

When analyzing scope of operations of LG Electronics, we can understand that LG Electronics entered many worldwide countries already. China, America, Russia, India, and Germany are the main countries where LG Electronics entered. In the mobile phone market of China, LG maintains high market share, taking second or third place. And, thanks to the NAFTA which gave more chance to trade freely, removing a tariff wall, LG Electronics set America and Canada as a strategic location. The mobile phone market of Russia keeps growing rapidly each year, Russia is also quite attractive market for LG Electronics[20].

Analyzing the PPP (Purchasing Power Parity), India is ranked 4th globally. It means that the market of India has considerable potentials. Most of all, the Reliance Infocomm, the major Indian telecommunication company keeps

increasing its services. Because of increased purchasing power of middle class in India, the size of mobile phone market is also increasing[21]. For these reasons, the mobile phone market of India can be estimated highly. Therefore, LG Electronics tried to increase its market share in India. At last, Germany is the country LG Electronics entered, which has also considerable economic potential. Germany shows the largest trade, compared to trade amount of other countries in Europe. CeBit, the biggest exhibition of IT and communication technology, is also held in Hanover, Germany. Considering, German natives' considerable attention toward the CeBit, LG Electronics which has advanced technologies has quite many chances to increase its mobile phone and tablet PC market share[22].

LG Electronics concentrated its resource on the markets of China, America and Germany. LG Electronics, needless to say, entered Africa and the Middle East. The majority of nations in Africa and in the Middle East have large population. But, except Iran and Turkey, most of nations show low purchasing power. Because of this reason, LG Electronics put its extra resources in Germany and India. In India, LG Electronics established facilities and R&D team consisted of more than 200 peoples. To raise its brand awareness and secure distribution channel, more than 120 dealerships were established in India. Especially, as written above, LG Electronics shows several marketing strategy like developing environment friendly products, doing sports marketing in Germany, because of its largest mobile phone market in Europe.

Organization Structure of LG Electronics-Vertical Structure

Strategy

Also, LG Electronics has specialized in digital display. Thanks to the advanced technology of digital display, this year LG Electronics shows its will to keep up with Samsung in the area of digital LED television. Standing on the basis of this superior LED TV, LG Electronics keeps publishing advanced DMB mobile phones and tablet PC. Moreover, using FPR technology that is different from technology of Samsung and other firms, LG Electronics shows high performance in 3D TV market globally. Thanks to its 3D TV technology, LG Electronics published the world's first 3D mobile phone, Optimus 3D, last month. These results prove synergy effect in LG technology.

LGE's basic global organizational structure has been a vertically decentralized model. Since the 1980s, LGE adopted a decentralized management structure to overcome the strong competition it faced in the domestic market. LGE's sales and profit depend heavily on the efficiency of the company's procurement performance since it represents 80 percent of the company's revenue. Ever since the company adopted a decentralized structure, business and operation has been focused on the individual business units in each overseas subsidiaries rather than the company as a whole[23]. This strategy has had its merit during the past few decades to increase the company's global market share due to flexible changes and rapid responses to the environment at the subsidiary level. Decisions were made directly by those who were involved rather than by the higher level managers located at headquarter. This was an ideal strategic management system for LGE to boost sales by motivating and recompensing each regional branch according to its performance[24]. However, this also created

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structural problems since each overseas subsidiaries and each business unit had its own strategy, process, and supplier for procurement. There was little cross-unit coordination which raised inefficiency of the business operation. Therefore, LGE decided to transform its global procurement organization in 2008 to centralize and globalize its procurement chain.[25]

LGE is re-inventing the structure from highly decentralized to center-led organization in order to set up a procurement leadership that can coordinate across the five different business units and eight regions. This new structure will be able to coordinate the value of LGE globally and preempt inefficient duplicate activities.

The illustration above depicts the transformation approach that LGE has started since 2008 and the goal that it aims to achieve by 2011-2012. Before the transformation, LGE is largely a company that is driven by each business unit with little coordination. However, the illustration shows how the company transformed into a center-led organization by 2010 and its future plan to further consolidate the structure into a global procurement organization. While these fast changes are ongoing on the structural level for the improvement of efficiency of LGE, the company has to be cautious to be able to retain the benefits of a decentralized structure in the body of a centralized one. The advantages of its previous decentralized structure are not negligible since it helped LGE achieve the global status and sales that it is enjoying today. Therefore, rather than abandoning the decentralized structure altogether, it is recommended for LGE to adopt a transnational strategy and combine the benefits of centralized and decentralized

strategies in different operating sections (e. g. centralize procurement structure while retaining a decentralized marketing and sales structure).

Organization Structure of LG Electronics-Horizontal Structure

Strategy

LGE's internal horizontal structure is complex due to the grand scale of the company. LGE uses diverse standards to divide the functions and allocate tasks such as the product division structure, and the matrix structure.

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This chart shows the basic horizontal organization of LGE. The upper four boxes show the product division structure of LGE (currently divided into five business divisions: MC, HA, BS, HE, AC). LGE's five business division are then divided into sub-units focusing on the specific products in each division. The set of the lower eight boxes is the complex matrix structure of the company (from left: Korea sales and marketing, Customer service, CPO, Human resources, CTO, European headquarters, North American headquarters, China headquarters). This matrix structure is a mix of the functional and geographical division structures. The sections of customer service, human resources, CPO (Chief Procurement Officer), and CTO (Chief Technology Officer) represent the differentiated functions of LGE. This has the advantage of having a clear reporting system according to the relevant function but creates inefficiency in communication between the functions in each regional branch. This is why there is also the geographic division structure to allocate the tasks and resources clearly according to regional focus. Combining these

two structures creates the unique matrix structure of LGE which aims to benefit from the advantages of each while avoiding the side effects.

This organization strategy is to maximize efficiency in assigning responsibility for specialized tasks but there are also dangers of confusion and complication with such multiple reporting lines. Therefore, LGE should create a different level of sub-units below the board of executives and above the current sub-units: one that is in charge of all of the functional division and another that is only in charge of geographic division. This way, all matters relating to functions exclusively can be reported to the upper level of functional division unit and all matters relating to geographical specifics can be reported to the upper level of geographic division unit. All the information can be combined and matched as the new sub-units report directly to the LGE headquarter. Even though this can present more work for the overseas branches, it will be able to reduce the remaining side effects and risks of the current matrix structure and improve for the role of future global leadership.

Conclusion and Recommendations

Other than its success in selling electronic goods to consumers, LG has also been studying social trends and took notice of some of the recent problems that's been rising. As LG puts it, with great leadership comes great responsibility. Now days with the increasing trend of mobile phones and internet, kids begin to be in contact with these technologies at a very early age. With the rapid advancing technology that allows cell phone to have the capability to record and send photos and