

# [Lg electronics – mobile communication division](https://assignbuster.com/lg-electronics-mobile-communication-division/)

As of 15th November, 2011, LG Electronics’ stock price is 95, 300 Korean won and even if Korea Composite Stock Price Index (KOSPI) has been skyrocketing this year, LG Electronics is an exception and cannot enjoy the KOSPI flow trend-increment. As we can see on the diagram below[1], after 28th of April, its stock price value gradually decreased, and stock price itself cannot fully explain its downfall reasons, yet it has a value to evaluate the company to some extent- expectations from market and people for company. I believe LG Electronics case gives a good lesson for those who need special attention in terms of innovation, technology, and R&D.

21st April of 2010, Forbes published “ The Global 2000”, LG Corporation is ranked at 298 places[2]that its rank increased from 308 last year to 298 this year. LG Corporation is known as one of the largest South Korea “ Chaebol”. And LG Electronics products line can be divided into 4 sectors; Home entertainment, Home Appliance, Air Conditioning, and Mobile Communication. Its main leading products are Mobile Innovations, Display Innovations, Appliance Innovations, Digital Media Innovations, etc. LG Electronics has more than 82, 000 employees working in over 114 local subsidiaries around the world.

LG Electronics Overview[3]

LGì „ ìž ì¡°ìë„. bmp LG Electronics organization structure[4]

## LG Electronics History

It was founded in 1947 named ‘ Gold Star.’ LG was the first to manufacture radios in Korea, and after its successes in radio business it expanded its product portfolio in to home appliance electronics such as refrigerators, TVs, washing machines, air conditioners, and etc. As most of companies located in developing countries, Gold Star (LG) started its internationalization through export, and later on, LG established sales subsidiaries in Europe, US, and other countries. In the 1980’s LG continued to grow and made overseas manufacturing facilities, and started operating R&D labs overseas. Its first overseas R&D lab was a design lab established in Ireland in 1990. In 1995, the company name was changed from Gold Star to LG.

## Brand Identity and Mission

The philosophy of LG Electronics is” Great Company, Great People.” This implies that LG’s dedication will always support leading technologies which have potential to change customers everyday life in a better way and trying to keep close relationship with customers around the world. The design of logo comprises the letters “ L” and “ G” in a circle symbolizes the world, future, youth, humanity, and technology.[5]LG Electronics believes that” Product Leadership, Market Leadership, and People Leadership” are the keys to success and” fast innovation” and “ fast growth” are the future.

http://www. lge. com/us/img/about/assets/vision\_img01. gif

LG Mission[6]

## Mobile Division

LG Electronics Mobile Communication sector launched customer-wanted products in a timely manner through continued R&D investments and, as a result, operating profits achieved average 9. 6% from 2008 to 3rd Quarter of 2009. However, 2 years passed since the advent of new technology, smart-phones, the stifling atmosphere continues to exist as of today. Although LG Electronics launched new smart-phone called Optimus series this October starting from Europe to 90 global markets with 120 partners[7], global markets reactions are not friendly.

## The Development of Mobile Division

In 1996, LG Electronics released the first CDMA digital mobile phone in the world; developed the world’s first synchronized / unsynchronized 3G DBDM mobile handset in 2003; developed the world’s first terrestrial DMB phone and satellite DMB phone in 2004; developed the world’s first WCDMA DMB phone in 2005; introduced the world to HSUPA technology in 2006; demonstrated world’s first mobile TV based on 3G in 2007; developed the world’s first Long Term Evolution (LTE) device in 2008; demonstrated ATSC-M/H technology in 2009[8]. Still, LG is eager to contribute its efforts and dedication for mobile technologies.

## Global Mobile Phone Industry review

According to HanMag Securities Research Report on LG Electronics, the number of global cell phone users are approximately 3. 02 billion worldwide and based on this statistics, 44. 5 % world population uses cell phones. And cell phone’s replacement cycle is only about 2. 4 years which is tremendously faster than other electronics industries. (Television is about 7 years, PC is about 4 years) Regardless of world economy recessions, the growth of cell phone industry continue to increase in a fast pace.

Top Five Mobile Phone Vendors Valuation Consensus[9]

## 2. LG Mobile Phone Division SWOT Analysis

## Strengths

## Weaknesses

Government support

Management

R&D Strategy

Strategic Alliance with different business

1. Royalty for CDMA

## Opportunities

## Threats

1. Lower price positioning in Smart-phone

1. Competitive Smart Phone Industry

2. Fast Trend of Mobile industry

## Strengths

## 1. Government support

The Korean government plays an important role by executing friendly policies towards LG Electronics. The government mainly focuses on the heavy industry that possesses the ability to lead in the future technology development industry and to boost the national’s economy. Due to its nature-process industry, governments prohibit entrants to mobile industry but allow only few companies. Not only that, Korean government aided directly or indirectly to be competitive. The Korean government has introduced a bonus/penalty scheme to regulate the companies in order to let them to adopt a more efficient way in production to increase international competitiveness. The policy inevitably pumped talents to work in those industries to learn the skills and gain experiences, and then eventually move to be innovative for further development. For example, Korean government announced to invest in future mobile industry development for 5 years about 225. 3 billion Korean won, specifically in the area of baseband modem, lower power electricity technology for 4th generation mobile commercialization[10].

## Management

LG Electronics is run by Gu Bon-Jun, new Vice Chairman elected on 1st October, 2010. It has been only a month and few days after Vice Chairman got elected, yet he seems to eager on innovating its processes, a. k. a. ERP. According to the Nespim[11], Global ERP will be installed and operated NLT 1 January 2011, which means that all the information, such as financial charts, manufacturing and inventory status of LG Electronics subsidiaries in the world will be integrated and updated automatically so with this information given, management can decide strategies and allocate its resources as quickly as possible. After his change of command, Vice Chairman Gu announced his motto “ speed management” in order to be successful in the fast changing industry. With the help of ERP, LG Electronics seems to be able to innovate decision making process.

Soon after taking Vice Chairman, Gu replaced Mobile Communication director, Park, Jong-Suk who used to be Mobile Communication Laboratory Chief while serving smart-phone business head. Since Park’s strong advantage is that he is aware of smart-phone itself but also marketing. Because of his balanced background, his job is to speed up the smart-phone sales and focus on the new mobile technology. Another opportunity for LG Electronics is corporate culture that it has emphasized on employee loyalty and long term training for a long time. These efforts motivate efficiency on acquiring new knowledge and the passion to learn. With this organization, management can easily implement new and innovative processes and technologies.

## 3. R&D ability

LG has believed technology is the key to success and path to the future for the industry. LG invested heavily in R&D sector to become the world’s leading providers of cell phone service. LG devotes itself into advanced R&D ability in order to fulfill customer wants and needs. As of today, LG Electronics specializes in UMTS (WCDMA), CDMA and GSM.

Furthermore, LG Electronics has comparative advantage on Long Term Evolution(LTE) in terms of numbers of patents owned related to this field. “ LTE is the latest standard in the mobile network technology tree that produced the GSM/EDGE and UMTS/HSxPA network technologies.”[12]The specificity of 4G are as follows. Its download capacity is per second is 100 Mbit and its speed is 10 times faster than ADSL. According to Taurus Investment Company Report[13], LG Electronics has the third largest patent registered in terms of 4G LTE sector. As of July 2010, there are total 1, 238 patent cases regarding LTE and Qualcomm has 322(26%) and LG is ranked Top 3 position with 125 patents consisting 10% of total numbers. Furthermore, the report says that LG has the highest possibility patents to be commercialized in near future with 40 patents, consisting of 30% out of total 134 patents.

LTE # of patents

# of Higher possibility to be commercialized LTE patents

## 4. Strategic Alliance with businesses from other Industries

LG Electronics is well aware of its strengths and weaknesses so has established cooperating strategies with companies from same or different industries to come up with better products in a more efficient and effective ways in its weaker fields. These are the lists of the technical or business tie-up companies; Qualcomm, Viking, Skype, Hitachi, Sky life, Intel, Sun, Microsoft, Schneider, GE, Maxdome, Google, Yahoo, Dolby, and Adobe, etc.

## Weaknesses

## 1. Royalty

Qualcomm is the biggest handset chipset provider and holds the patent rights for most advance mobile communication technology. Every year LG has to pay a royalty to Qualcomm for continuing using its technology on their products. Companies using Qualcomm’s CDMA technology pays 5. 25% ~ 5. 75% for terminal sales, and 6 % ~ 6. 65 % for system sales, and 5. 75 % for sales abroad[14].

## Opportunities

## 1. Lower Price positioning in smart-phone market

In the future, cell phone industry will continue to grow due to rapid replacement period, which is afore-mentioned earlier in this paper and. But mainly customers will want smart-phone. Most of the current market shares of smart-phones are occupied by Apple, Rim, and Samsung. However, LG Electronics still has chance to cope with this phenomenon because of its lower price positioning that it has focused and developed price competitive smart-phones. People’s income level are all different and because some cannot afford or does not prefer expensive ones so if there are technology competitive smart phones emerge, they will choose cheaper ones over expensive. Hard works and efforts made by LG Electronics R&D investment, LG finally caught current technology and started to launch Optimus One series which are forecasted to infiltrate those niche markets.

Optimus Series Picture[15]

## Threats

1. Competitive cell phone industry

What LG Electronics is good about is feature cell phones, not smart-phones. Before the emergence of smart-phones, LG Electronics Mobile achieved its highest growth rate ever, due to user-friendly touch phones and innovative products, with handset sales reaching 100. 7 million units and USD 13. 3 billion that contributes LG Mobile Division became the 3rd largest mobile phone maker in the world on 2009. However, since Apple and RIM launched iPhone and Blackberry, respectively, smart-phones sales are approximately 250 million, which is 20% of global market share[16]. The first smart phone LG Electronics launched was in 2007. However, LG’s smart phones are mostly known for entry-level device and feature phones. As there will be more competitors in the future, Apple’s iPhone and Samsung’s Galaxy are eager to consolidate mobile industry by improving the functions and adding in more state-of-the-art technologies in their phones. In 2010, LG is ranked 3rd largest global cell phone manufacturer, yet in the smart-phones industry, LG Electronics is still an amateur. Smart phones and low-cost handsets are the future trend; LG should be able to find a way out of their dilemma by innovating their processes and products.

Korea Market Cell phones market share[17]

2. The fast trend of mobile industry

Mobile industry is known as dynamic and trend and customers’ taste changes year to year dramatically. Cell phone was first introduced where the main function was to call or receive phone calls. However, its functions and concept have been changed that customers do not want cell phones for just calling. Instead, cell phones are portable personal computer. LG Electronics has to be able to react quickly in order to maintain its current global position.

## 3. Analysis in terms of Innovation and R&D

## R&D Perspective

In the past years, LG Electronics has been successful in developing and inventing new technology in Mobile Communication field. 31 R&D centers in worldwide and aggressive investments on R&D contributed its successes. According to Shinhan Investment, its R&D cost in 2009 is 54 billion Korean won which has been increased from the last year, 45. 55 billion Korean won and it approximate LG Electronics R&D cost 60 billion Korean won this year.[18]

Among the 31 R&D centers, since LG Electronics is conglomerate, it was hard to distinguish which R&D Center is for what. With the given information from LG Electronics website, I was able to find out 14 R&D Centers for Mobile Communication sector. (I included only specifically Mobile related centers) All together, currently approximately 82, 000 workforces are working globally and there are 89 subsidiaries, 31 R&D Centers, 6 Design Centers, and 28 Liaison Offices. However, the definite majority works in the different offices globally. Nonetheless even the small subsidiaries are from great strategic importance. They represent the LG Electronics by research, technology, collecting and evaluating data and ideas, etc. Many trends in the Mobile Communication industry are created there.

With the complexity of the cell phones industry and different tastes from different markets, it makes everything difficult and needs careful attentions to detail. In order to respond quickly and come up with local-preferred products, LG Electronics aggressively set up more R&D centers and global design centers. However, aggressiveness is one side of a two coin that cannot result positive effects all the time on companies. In LG case, management decided to put a lot of money on R&D in order to catch up with the latest smart-phone trends, yet it is doubtful to recover its investment budget.

In addition to that, Mobile Communication, especially in Smart phone field, involves many technologies such as core software, communication techniques, operation system, cell phone functions, DMB, texting, etc. So, due to limited resources and technology within companies with strong competition, cooperation and strategic alliances will become more and more important. And as their potential can and actually is exploited all the way along the alliances. However, balancing between in-house production, supplier management and collaboration is not an easy task. Regardless, LG Electronics seems to be well managing its balances. For example, LG cooperated with PRADA in designing the LG KE850 model. This ‘ win-win’ strategy promoted the stylish sense of cell phone product; its excellence in design and exquisite textures attracted many customers and at the same time, LG and PRADA successfully incorporated its image in brand.

## Innovation Perspective

The key to the successful materialization of new ideas into the being depends upon control of the innovation process, where new technologies are promoted and efficiently embodied in production. The ones who manage this task better are the ones on top. As I already mentioned earlier in this paper that LG Electronics will implement ERP next year will facilitate not only management to view current status of each section and decide from integrated data but also each branch and sector members to co-operate with each other easily. This process innovation is very beneficial that close co-operation with differently located subsidiaries and sectors means that knowledge concerning new technologies is exchanged early on, and therefore modified or processed quickly through rapid feedbacks. The global networking of research and development locations enables optimal use of synergies. Another innovative process can be platform technology that if platform is integrated, it can reduce costs by producing mobile products from common platform. LG Electronics is transforming their separated platforms to be integrated and operate it in minimum level.

Despite all architectural and process-oriented set-ups, LG Electronics dedication and efforts would be in vane without the appropriate innovation-fostering culture and immaterial working environment. The LG Electronics claims that in its corporate culture the central success factors are rooted. This uniqueness of LG Electronics capability to innovate comes from its management concept- value creation for customers and humanity management[19].

## 4. Recommendations

LG Electronics should strengthen the global cooperation network without hesitation and fear. Under the pressure of intensified competition, there is no forever enemy that it should have flexibility in choosing cooperation partner.

LG Electronics relies on Qualcomm’s technology heavily on the 3G standards, so LG needs to come up with strategic plans and to successfully cooperate with Qualcomm. Even if LG has strong comparative advantage on Long Term Evolution, it still lacks commercialized technology. In order for LG to advance its status, it should develop more strategic cooperative researches with Qualcomm closely.

We have witnessed that Apple iPhone created a new business model and rocks smart-phone sector even if it is very expensive product and can derive customer trends from this phenomenon that no matter how expensive it is or how bad we are under economic concession, customers are willing to purchase iPhones. Although LG Electronics strategy is different from Apple which is to infiltrate niche market with lower price and lower specification, it is worthwhile to consider Apple’s product model. With this in mind, since LG Electronics has accumulated market knowledge in terms of touch-panel field strategy, 3G global planning, mature techniques, stylish products, decisive marketing approach, etc, I believe that LG can create further precious value. Simply put, combining its core competencies with the other divisions’ strengths to boost up the synergy effect is highly recommended.