

Chazen International Study Tour Report South Korea's LG Looking for Branding Power

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Chazen International Study Tours

Designed to enhance the classroom curriculum, Chazen International Study Tours offer students and their faculty adviser an intense, firsthand experience of the business culture of their chosen country or region. Study tours are initiated by students and organized with the help of the Jerome A. Chazen Institute of International Business. During study tours students meet with leading executives and government officials while visiting businesses, factories and cultural sites. Destinations change yearly, as study tours are student-initiated. Recent destinations include Brazil, China, Dubai, India, Japan, Mexico, Romania and South Korea.

Introduction

There are many reasons why Seoul, South Korea, is sometimes referred to as the “Soul of Asia.” Fashion trends, trendy music, fancy gadgets and other elements of popular culture have originated in this bustling city of more than 10.4 million people.¹ Notably, Seoul boasts one of the highest Internet-penetration rates in the world.”² This love of fast, modern technology is helping to fuel the growth of South Korean conglomerate LG Group. The company’s goal is to emerge from the shadow of Samsung—its top competitor at home in Seoul and abroad—and solidify its place as a market leader across the consumer electronics spectrum by 2010.

On the Floor at LG Electronics

The LG Electronics showroom in Seoul, South Korea, was perfectly polished when a group of Columbia Business School students stopped by for a visit in March 2008 during a spring-break study tour organized in part by the School’s Jerome A. Chazen Institute of International Business. This visit to LG and to Seoul was the first for almost all of the students taking part in the trip.³

“This is the world’s first wall-mounted high-definition projector,” a female tour guide said to the crowd of future MBAs, pointing at a display wall. More than two-dozen pairs of eyes focused first on the projector and then on other items on display, including several cutting-edge large-screen televisions. First-year student Elson Huang, MBA ’09, enjoyed testing the mobile phones and laptops on display. “My first impression before the visit was LG is not [in the] first tier with Samsung, Phillips and Sony,” said Huang. “But after the trip, I got a better sense that they’re not just serious about being a first-tier player, they’re a force to be reckoned with. You can’t just brush them off.”

That is exactly what LG Electronics wants—for customers to give it a second look. Students spent a half hour examining many of the devices that have put LG Electronics on the map in recent years, such as increasingly advanced HDTVs, air conditioners, washers and dryers. “Our goal is to be a top-three brand in the world in consumer electronics,” said Tom Linton, executive vice president and chief procurement officer, the first American with such seniority at LG Electronics. He paced back and forth at the front of a company boardroom with the ease of a

¹ Korean Culture and Information Service, Korea.net: Gateway to Korea, Republic of Korea, <http://www.korea.net> (accessed January 20, 2008).

² *Economist*, “Man’s Best Friend,” March 31, 2005.

³ Common usage remains such that “LG” often refers not to the LG Group but to the company’s electronics subsidiary.

long-time top executive, yet he landed at LG Electronics less than three months ago, having spent most of the past 20 years working for IBM in Asia.

Linton said LG Electronics' plans to carve out its niche and build a world-class brand include specializing in "integration," as in integrating all the appliances and devices in a room with one another. Such appliances currently include a microwave oven that can download recipes and the Viewty, a mobile phone that can also receive television broadcasts.⁴ LG hopes that such innovation will incline consumers to look beyond some of the more established electronics brands in favor of LG. "In the U.S., there's been favoritism toward Japanese products," said Linton, "but now it's all upside for LG."

LG Then and Now

Back in the 1980s, LG's smiling-face logo boasting "Life's Good" was nowhere to be found. Instead, LG stood for Lucky Goldstar, taken from the names of two Korean companies that merged in 1983. The Lucky Chemical Company made toothpaste back in the 1940s. In the 1950s and '60s, Goldstar was known more for its radios, fans and black-and-white televisions.⁵

Much has changed since then. In the mid-1990s, LG and Samsung were considered "neck-and-neck."⁶ After the Asian economic crisis of 1997, however, Samsung restructured, continuing its forward path, while LG made bad investments in the telecommunications industry, shaking investor confidence so dramatically that its shares dropped 75 percent in 2000.⁷

Since then, LG has rebounded. After years of restructuring, some are saying LG Electronics is again neck and neck with its main rival, Samsung, in terms of the number of mobile handsets shipped to the United States in 2007.⁸ To protect and help build its market share in the highly competitive cell phone industry, the company has forged several important partnerships, such as becoming a top supplier to Verizon Wireless, and it has worked hard to ensure its cell phones are both technologically and aesthetically appealing. Beyond cell phones, the company has become the top supplier of computer monitors to Dell and HP.

⁴ Jonathan Angel, "LG Electronics' Internet Refrigerator," *All Business*, May 8, 2001, <http://www.allbusiness.com/marketing-advertising/4445601-1.html>.

⁵ Peter Barschdorff, Puneesh Chaudhry and others, "Launching the Flat Panel TV in the U.S.," EMBA Columbia Business School student presentation to LG Electronics U.S., Corporate Growth and Development course, August 19, 2005.

⁶ Moon Ihlwan, Cliff Edwards and Roger Crockett, "Korea's LG: The Next Samsung?" *BusinessWeek*, January 13, 2005.

⁷ Ibid.

⁸ Phil Carson, "U.S. at Center of LG's Global Efforts," *RCR Wireless News*, September 3, 2007.

In addition to the LG brand, the company owns electronics brand Zenith and, according to Linton, uses it for the company's less expensive merchandise targeted for discount stores like Costco. By comparison, the company's upmarket gigantic flat-screen televisions have the LG logo. Linton said LG Electronics' shift to produce premium-brand products is not accidental. The company's strategy aims to make strong advances into the American market with more than just washers, dryers and air conditioners—of which LG is a leading seller in India, Indonesia, Brazil and Russia.⁹

“The visit to LG impressed me,” said Kathryn Harrigan, the Henry R. Kravis Professor of Business Leadership, an expert on strategy and the study tour's adviser. In particular, she highlighted Linton's importance to LG Electronics' competitive efforts: “He can make [LG Electronics] better than Samsung,” she said. Harrigan argued that Linton's managerial value proposition included his ability to reassure employees that the company's products, design and quality are all world-class. She also noted that Linton's overseas roots reflect the company's interest in recruiting managers with international expertise for the many global challenges ahead.

LG in the Global Economy

LG Electronics' ongoing rebranding and rebuilding efforts are complicated by virtue of its operations in multiple countries and by foreign-exchange issues. While the weakening of the Korean won against the U.S. dollar may lead industry watchers to report that this is good news for big exporters like LG, top executives at the company say otherwise. A few years ago, LG Electronics shifted one-third of its production to China.¹⁰ “The won is losing its value but the [Chinese] yuan is gaining,” said Nam Young, vice Chairman and CEO of the company, “so the situation is getting worse for goods that we make in China and ship to other countries.”¹¹

Nonetheless, the company is expected to have another stellar year. Earnings are expected to hit US\$1.86 billion this year, an increase of more than 50 percent from last year.¹² Such strong performance is largely attributable to the company's innovative products. A 2007 report jointly produced by *BusinessWeek* and the Boston Consulting Group placed LG Electronics 49th on its annual list of the “World's Most Innovative Companies.” Influential computing magazine *PC World* included LG Electronics' dual-format Blu-ray and HD DVD disc player as one of its

⁹ Tom Linton, executive vice president and chief procurement officer of LG Electronics (presentation to Columbia Business School students, LG headquarters, Seoul, South Korea, March 10, 2008).

¹⁰ Ihlwan and others, “Korea's LG.”

¹¹ Cho Jin-seo, “LG CEO Discounts Benefits from Weak Won,” *Korea Times*, March 23, 2008, http://www.koreatimes.co.kr/www/news/biz/2008/03/123_21184.html.

¹² *Ibid.*; calculation based on Reuters estimates of 1002.9 won per U.S. dollar.

“Best 100 Products of 2007.”¹³ Tech insiders say this product helped end a “high-def format war” between these two formats. Given the company’s current product strength and continued determination to be a leading electronics player, consumers will likely enjoy many more cutting-edge products from the company in the years ahead.

Conclusion

Innovation and integration boost LG Electronics’ brand equity. The company’s strong research and development capabilities will enable it to continue delivering innovative electronics to a global consumer-electronics market that continues to expand. A leading business-information company highlights opportunities for investment in India and growing demand for LG Electronics’ high-definition LCD televisions.¹⁴ Indeed, the company’s range of products and the number of alliances it makes with other companies are ripe for growth as well. Of course, the outlook for LG must be tempered by the challenge of a highly competitive marketplace and the additional challenges of increasing costs of raw materials, rising governmental regulation and counterfeit goods. Nonetheless, LG has created a positive marketplace buzz about itself in the past few years, aided by a growing list of technological firsts. Within just a few years, it will be known if LG has become the truly leading electronics manufacturer it aspires to be.

¹³ Eric Dahl, “The 100 Best Products of 2007,” *PC World*, May 21, 2007, <http://www.pcworld.com/article/id,131935/article.html>.

¹⁴ Datamonitor, “LG Electronics, Inc: Company Profile,” September 28, 2007, 5–6.