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LG Electronics: Global Strategy in Emerging Markets

Mr. Nam Woo, President of LG Electronics (LG), was collecting his thoughts after the press conference in Beijing. He had been appointed as the President of LG Electronics in China in 2006 and was unveiling an ambitious agenda to accelerate LG's presence in the country. He reflected on the emergence of South Korea as a major hub in the consumer electronics business and the role that LG had played in the rapid transformation. Having spearheaded a significant part of LG's forays into emerging markets such as Brazil, Russia, China, and India, Mr. Woo had synthesized some crucial lessons that he would have to bring to bear as China moved up the scale in economic importance. He had told the press that LG would target local Chinese managers to fill at least 80% of its managerial ranks shortly. "We want to make China a strategic base for our business, so we must be a leader not only in sales, but also in research and development and in localization."[1] It was a classic summary of the essence of LG's success in emerging economies.

LG had bet an important part of its future on success in emerging markets. It had entered countries such as Brazil, China, and India fairly early in its evolution, and those investments were providing healthy returns. In many of these markets, LGE had emerged as the market leader and was setting the trend for other competitors to follow. Many believed that the company was defining the broad contours of successful global strategy for a multinational from the developing world. However, LG realized that it had to demonstrate success in developed markets to rightfully claim its position among the leading global consumer electronics and appliance manufacturers. Having conquered the major emerging markets, what would LG have to do in order to breach established markets such as the U.S. and Western Europe where the global giants were active? Would the lessons it had learned in the BRIC countries (Brazil, Russia, India, China) be helpful in making the transition from emerging to developed markets? What were the implications for its global strategic positioning? These were the key questions that Mr. Woo had to ponder.

The Korean Electronics Industry

By 2007, Korea had become synonymous with high quality, innovative consumer electronics products. Within the short span of a few decades, Korean manufacturers had managed to shake off the stigma of upstarts in an industry dominated by established Japanese and European players. Gone were the days when products carrying labels such as Goldstar, Samsung, and Zenith were relegated to the back rooms of electronics retailers. When the titans of the digital age such as Bill Gates of Microsoft and Craig Barrett of Intel headlined the Consumer Electronics Show (CES) in 2005, they demonstrated digital convergence using equipment from Korea. In 2007, LG showcased the world's first dual-system DVD

[1] Liu Baijia. 2006. LG wants local managers to aid growth. *China Daily*. April 20, 2006.

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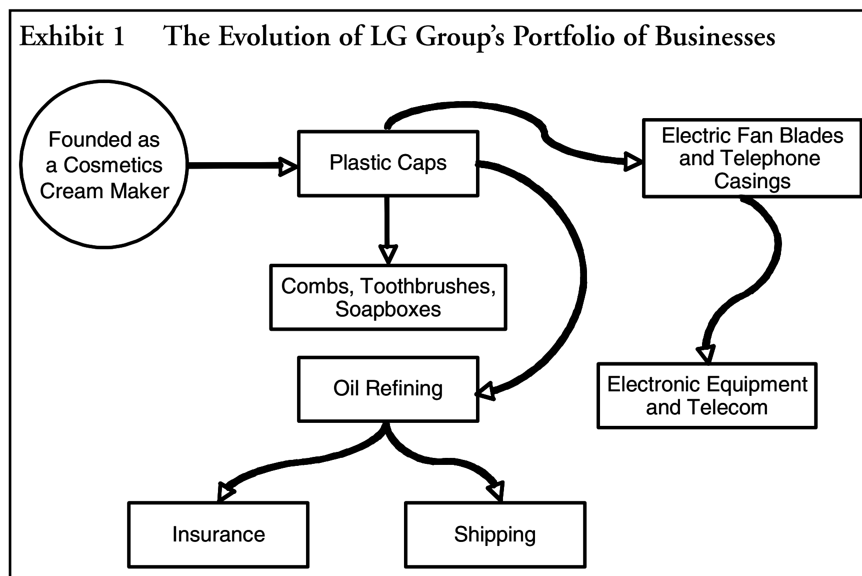
player that was compatible with both Blue Ray and HD-DVD standards. The Korean manufacturers had indeed climbed into the spotlight. In the last two decades alone, the market value of LG Electronics had grown at a compound growth rate of 22% from $200 million in the mid-1980s to $1 billion by the mid-1990s and almost $11 billion by early 2005. Samsung had twice the market capitalization of archrival Sony. This success story was a product of foresight, careful strategic thinking, and leveraging an array of advantages that Korea was building at home.

The History of LG

LG was born as the Lak Hui Chemical Industrial Co. in 1947. It was founded by Mr. In-hwoi Koo for the manufacture of cosmetic creams. Finding that there were no independent manufacturers capable of supplying bottle caps needed for packaging the cream, Lak Hui Chemical set up its own facilities and utilized the excess capacity of its injection-molding machines to manufacture small consumer products based in plastic. This led to an entry into the manufacture of plastics components for telecommunication and electrical companies presaging LG's entry into the telecommunications business. In fortifying its access to feedstock for plastics manufacture, the company moved into oil refining and later into shipping to transport crude oil. It was in 1958 that the Goldstar Co. (currently LG Electronics) was first established to consolidate expansion in the fast-growing area of plastics.

Exhibit 1 The Evolution of LG Group's Portfolio of Businesses



LG Electronics soon pioneered the growth of the Korean electronics and appliances industry, becoming the first Korean company to build a vacuum tube radio, electric fan, black and white television, washing machine, and an automated telephone switching system. By the mid-1960s, the company had moved into a range of industries including oil refining, cables, heavy manufacturing, and energy. Much of the meteoric growth of the group started in the 1970s. Spurred by a country that wanted to boost its exports and consolidate economic growth at home, the electronics, refining, and chemicals businesses set records in terms of revenues that they contributed to the group. This era also saw the move into financial services through the acquisition of an insurance company and a securities trading firm. The 1980s were a period of dedicated internationalization. Starting with intensive exports to developing countries, LG soon moved to capture markets in the developed world. It launched a range of joint ventures with established players from the West such as Caltex and EDS, and started testing the U.S. markets for electronics products. By then, the ground had already been laid for growth in developing markets such as China, India, and Vietnam, where the company had established a significant presence in a variety of industry sectors.

In 2007, the company was well under way with its rebalancing and restructuring program that sought to rationalize its business holdings into core and non-core groups. It had identified three focused business areas as the key domains for its activities—electronics, chemicals, and telecommunications. The group adopted a holding company structure that promoted more transparency and autonomy for subsidiary operations. It had already made its presence felt in the most developed consumer market in the world, the United States, where its CDMA phones outsold all competitors two years in a row. It had also established a strong beachhead position in flat screen televisions through its joint venture with Philips, the Dutch electronics company. LG-Philips was the largest manufacturer of flat screens in the world by a wide margin. By 2006, sales revenues at the group level were roughly $23 billion, generating profits of $500 million. The group had to consolidate these successes in developed-country markets to evolve into a global competitor across the wide range of industry sectors that the organization competed in.

Betting on Electronics

LG Electronics had been quite instrumental in launching the LG brand worldwide. Given its suite of consumer products, ranging from home appliances to mobile telephones, LG had been at the forefront of the group's globalization efforts. It accounted for approximately 47% of group revenues. The company exemplified a "come from behind" approach to defining its strategy by focusing first on markets that few dared to enter. It had formulated a unique mix of management principles and practices to fight its way to the top in the consumer electronics and appliances industry. It owed much of its origins to the competitive context within which it had evolved.

Much of Korea's rise in the economic sense has been attributed to the *chaebol*, largely family-owned business groups that have powered the economy forward in a variety of industries ranging from petrochemical and textiles to semiconductors and shipbuilding. Working hand in hand with the government's industrial policy and growth initiatives, three of the largest *chaebol*—Samsung, Daewoo, and LG—led the charge in the field of consumer electronics. President Park Chung Hee, seen by many as the creator of modern Korea, enacted the Economic Development Plan that highlighted the electronics industry as a national priority sector that would be developed. The government encouraged foreign direct investment to secure technology and creation of joint ventures with leading electronics companies worldwide. LG partnered with Hitachi of Japan, Daewoo with GE, and Samsung with Sanyo and NEC. Soon thereafter, foreign companies through their joint ventures in Korea were exporting close to 70% of all electronics products from the country. This formative period focused on labor-intensive, low value-added products that did not have any significant technology dimension with foreign companies assuming leadership roles in much of the technologically sophisticated products.

It was only in the 1980s that the industry accelerated its drive to prominence by emphasizing technology and indigenous research. Firms were encouraged to invest in local R&D, and the government created a research infrastructure to help this initiative. Resulting from these efforts, Korea had 120 private research institutes and 18 research consortia in operation by the mid-1980s.[2] Industry promotion councils and cooperative institutions were formed to ensure technology access across all Korean firms. A national education policy that emphasized science and technology education went into effect. Vocational schools attracted more students for technical education, while the universities were encouraged to build an elite group of experts in science and technology. As a result of these initiatives, the number of people engaged in R&D jobs in consumer electronics multiplied roughly five-fold in a 20-year period from 1975 to 1995.

Encouraged by the technology investments, many of the companies started to explore export markets under their own labels and tried to break out of the OEM mode. Many of these firms, like Samsung and LG, were quite surprised to find that their products were not well received in the devel-

[2] W. R. Shin, and A. Ho. 1997. Industrial transformation: Interactive decision-making process in creating a global industry. *Public Administration Quarterly*. Summer.

oped markets. Retailers relegated their wares to the back rooms of their stores where they only collected dust. This proved to be an important lesson in understanding the value of differentiated products, innovative design, and superior product quality. Chastened by the experience, these companies invested much more effort into developing a world-class range of products.

Since the home market was relatively small, Korean companies had to establish a firm foothold in overseas markets. Building on this early exposure to demanding foreign markets, Korean companies were forced to differentiate their previous-generation products from those of past global leaders. Years of aggressively exploiting technological innovations while simultaneously improving internal value-chain arrangements and organizational structures to reduce their costs had pushed Korean firms harder than their global competitors, whom they had now surpassed. This called for audacious investments in R&D, anticipatory internationalization, a focus on process innovation, and careful cost control.

If You Are Not Hungry, You Cannot Find Food

The big three Korean electronics manufacturers leveraged their relationships with the leading consumer electronics companies to understand the markets that their main buyers served. The OEM relationship offered a fairly comprehensive view of the markets where the established veterans from Japan were fighting their competitive battles. Squeezed by the very small and economically poor home market on the one hand, and constrained by the OEM relationship on the other, LG and others could not visualize a future that was not global. Although the OEM relationships had helped LG and others in numerous ways, it was clear that this would not lead to global competitiveness.

Having studied the developed-country markets secondhand through their joint venture partners, LG and others felt emboldened to launch their own branded lines in these challenging markets. LG used the *Goldstar* brand to sell a range of home appliances such as microwave ovens and toaster ovens in the U.S. It found the battle for shelf space in retail outlets a very difficult challenge to overcome. Dogged by poor brand recognition, and questions about product reliability and quality, it found that its products were not showcased to sell. The prime spots on the shop floor were always set aside for the more elegant Japanese and European product lines. *Goldstar* appliances were relegated to the corners of the store or hidden away in back rooms gathering dust. LG realized that it would have a lot of work to do in order to give its products the appeal that developed-country buyers often sought. Faced with the difficulties in establishing a foothold in developed-country markets, LG started to craft an alternative approach.

Anticipatory globalization through bold and audacious investments in emerging markets became a centerpiece of the LG strategy. Mr. Kwang-Ro Kim (currently President of LG Southeast Asia), who led LG's meteoric rise in India, for example, observed, "We have seen many Japanese and Chinese companies arriving in India, but like other foreign-owned businesses, they typically put one foot in the water to see if it is warm or cold. They have doubts. They lack determination."[3] The ability to visualize markets in the long term was a critical ingredient in LG's success recipe. While some of its competitors were concerned about making sustainable profits in the short term, LG was willing to enter a market if it believed in its long-term potential. For example, LG entered India in the early 1990s, but it took more than a decade for the company to navigate local regulations and market structures to establish a position of significance. Although the company had set its sights early on Europe and North America, much of its success came from the emerging markets, specifically Brazil, Russia, India, and China.

Brazil: A Bold Move Forward

LG established its Brazilian operations in the mid-1990s and started manufacturing televisions and VCRs at its factory in Manaus. The government of Brazil was promoting investment in the underdevel-

[3] P. R. Sinha. 2005. Premium marketing to the masses: An interview with LG Electronics India's Managing Director. *The McKinsey Quarterly Special Edition: Fulfilling India's Promise.*

oped rainforest region around the headwaters of the Amazon, and offered tax incentives and subsidized land for investors setting up operations. In parallel, the company also established a factory in Taubate, located between the major Brazilian cities of Sao Paulo and Rio de Janeiro. While the factory in Manaus produced audio/video products and related equipment, the other plant focused on communications products such as cellular telephones and monitors.

The Brazilian market of the late 1990s was characterized by very high import tariffs, significant competition from the gray goods market, and very low brand awareness. The major consumer electronics players such as Sony and Philips were operating in Brazil with mixed fortunes. Things started to turn sour in 1999 when the local currency became unstable, leaving managers scrambling to manage operations. The exchange rates started to plummet with increasing levels of uncertainty. This made planning nearly impossible. Many of the global players decided to either scale down their operations as a consequence or to temporarily exit the market. This proved to be a turning point in LG's Brazil strategy. Despite the precipitous exchange losses, LG decided to not only stay in Brazil but also expand its presence there and conceived a strategy that would leverage Brazil as a regional manufacturing hub serving South America and the U.S. markets. Thus, with the dropping value of the local currency, the real, LG was able to shore up some of the low-cost advantages that made exporting increasingly advantageous. It could balance its accounts receivables and payables accordingly, and thus build a viable hedge against exchange rate fluctuations. In due course, LG became one of the largest electronics exporters from Brazil, vaulting the company into the ranks of organizations that the local government saw as a preferred partner in national growth.

LG augmented its Brazil strategy through a series of well-orchestrated moves. First, upon entry, it focused on maximizing the benefits that the government was providing by way of preferential land access, and lower tax rates for locating in underdeveloped areas. Given the rampant smuggling of gray-market goods, LG made it a priority to join with the government in combating this problem. Since imported gray goods were sold at cheaper prices, it had made it difficult for manufacturers to build a strong revenue base when their prices were relatively higher given the incidence of local taxes, something that the smugglers did not have to contend with. Perhaps the biggest challenges were in the areas of marketing and financial management.

The LG brand was hardly known in Brazil when the company first entered, and much needed to be done to build consumer awareness. Taking a cue from the immense popularity of soccer in the country, LG piggybacked its branding campaign on sports events sponsorship. It even sponsored a football club in Sao Paulo, one that was ranked among the top clubs in the country. This sponsorship activity gave the company the instant brand recognition it sought. Leveraging this brand recognition into tangible revenues required careful customization of its product offerings. It started by adopting a premium positioning strategy in the market for displays, televisions, and home appliances. Its approach to product quality was refreshingly new for the Brazilian market, although it demanded a price premium for it. It backed most of its products with a three-year warranty coupled with a guarantee of almost instantaneous service in case of product failures and breakdowns. It employed a fleet of service vehicles that could be dispatched to a customer's location within a very short period of time. This ensured that the consumers could expect a level of reliability that was unknown in the market at the time.

It signed agreements with local distribution chains to gain quick access to the market. The development of its own preferred/authorized dealership network complemented third party distribution arrangements. It placed an enormous focus on relationship development in nurturing its networks of dealers by scheduling periodic product events, social gatherings, and educational opportunities. The portfolio of products that it sold was also customized to address local market realities. Its approach to customization was, however, unique. Where others had sought to downscale their offerings to suit the thinner wallets of the impoverished customers in emerging markets, LG sought to expand its offerings to encompass a wider range. It typically complemented its global product line with customized offer-

ings at appropriate price points, chiefly at the lower end. The customization effort focused on the unique cultural and social dimensions of their consumers' lives.

The local market clearly saw that LG had come to stay in Brazil and was not about to leave in the face of difficult economic crises. This endeared the company's brand to the consumers and helped it fill the void that had been left in the wake of exits by other players. LG capitalized on this sentiment in its dealings with the Brazilian government as well and built on it. It expanded its manufacturing facilities in both Manaus and Taubate. As of 2007, the Manaus plant produced air conditioners, PDP televisions, and audio equipment in addition to the original line of televisions and VCRs it started out with. The Taubate plant also expanded to produce GSM phones and CDMA phones in addition to monitors. The company reported sales of roughly $1.8 billion in 2006, a 35% increase over the previous year.

The Passage to India

LG made a start in India in 1993 and entered a joint venture with a consumer products company named Bestavision. The intent was to first distribute its *Goldstar* line of products in India while building a manufacturing operation to serve the market. Unfortunately, this proved to be a false start when the partner could not bring in additional funds to bankroll the manufacturing operation. LG had learned an important lesson about the challenges of managing joint ventures in emerging markets. Since the Indian government at the time insisted that all foreign firms would have to enter India only through a local partnership, LG had begun negotiations with one of India's leading business groups for a possible joint venture arrangement. During this negotiation phase, the Indian government announced significant market reforms and allowed foreign companies to set up their own wholly owned subsidiaries in India. LG decided to shelve the partnership negotiations and launch LGIL (LGE India Ltd.), a fully owned subsidiary. LGEIL was launched in 1997, and for a year imported its entire line of products as it built its own manufacturing facilities locally.

Its manufacturing operations in Greater Noida, close to India's capital, New Delhi, were set up to manufacture televisions, washing machines, air conditioners, and refrigerators. Right from the start, LGEIL focused on customizing parts of its product lines to address local needs. While the fundamental product platforms remained invariant across country markets, local R&D teams were involved in coming up with product variations that would reflect the unique demands of the local marketplace. For example, it launched a cricket television set with a built-in cricket video game to cater to the teeming millions who are cricket fanatics in the country. Its "golden eye" technology used in television sets was designed to automatically sense the levels of ambient lighting and adjust picture brightness and contrast accordingly. This proved to be an important feature in the local market, especially given the periodic variation in lighting intensity resulting from power supply imbalances. Similarly, it designed a unique air filtration system for its range of air conditioners to filter the fairly high levels of particulate pollution in metropolitan cities in India. All its home appliances were equipped with circuits that could weather dramatic voltage fluctuations that were very common in the country. These customized products were flanked by LG's typical product range that included high-end appliances that it sold in developed markets as well. LGEIL believed that this blended approach to product portfolio development was a crucial ingredient to succeed in India. Mr. Kwang-Ro Kim, LGEIL's Managing Director at the time, observed, "We knew it was important, for example, not to downgrade the Indian market and instead to treat it just as seriously as we would any developed market. This meant preparing a full strategy and emphasizing good-quality products, the best technology, the best network, and access to the best people."[4]

LGEIL recognized very early on that there was enormous potential to be tapped at the lower rungs of the economic pyramid in India, and set about formulating a strategy to address the rural markets. In an important departure from common practice, it was decided not to drop prices on existing lines as they were moved to rural markets. Instead, the company built new versions of its products with a more

[4] Ibid.

compact set of features and cost-efficient materials so that they could be manufactured at lower cost. The company did not cut corners with the engineered quality of the appliances, focusing instead on value engineering and design as the source of cost reductions. Thus, LGEIL introduced a television set with a smaller screen size and a scaled-down sound system, resulting in a price reduction of roughly 40% in entry-level models. Similar efforts produced rural versions of washing machines and air conditioners, placing these traditional luxury products within the reach of India's rural majority. These customization approaches were indeed thoughtful and reflected a deep understanding of India's cultural and linguistic diversity. For example, the television sets sold in rural markets offered menus in local languages—a feature that most of the local manufacturers had themselves not offered. In due course, the company was generating over a third of its sales revenues from this rural segment and close to 60% from non-urban areas.

India's geographic diversity combined with its inadequacy of infrastructure made distribution a very challenging proposition. Most of the large players were content to establish beachheads in large metropolitan centers, but LG attempted a different approach. Realizing that a well-penetrated distribution system was crucial to success in smaller towns and villages where much of India's population lived, the company deployed a tiered approach. Although it originally depended on four national distributors to begin with, it soon moved toward a regional distribution system that was anchored by Regional Distributors who supported smaller channel partners in tier 2 and tier 3 cities. It built remote area offices in the small towns that could not support a larger channel. The company soon blanketed the country with a distribution network encompassing close to 4,000 access points reaching all areas where customers could be found. This bricks-and-mortar distribution strategy was complemented by an online channel called lgezbuy.com. The online channel offered extensive product information along with comparative pricing across geographic regions, combined with the ability to accept online orders from individual buyers. Since this was the first such attempt by any major consumer durables manufacturer in the country, it immediately created a differentiated position for LG.

Customer service was another important feature that set LG apart from its competitors. Taking a page from its Brazilian operations, the company launched a fleet of repair vans that could reach remote areas at short notice. These vans were outfitted with power generators to make sure that the equipment could be serviced in a timely manner in a country that was prone to blackouts. This proved to be an important determinant in favor of LG when customers, especially in remote areas, were shopping for appliances. These services were bolstered by a "walking-after sales service" concept under which traveling crews covered remote areas that were inaccessible.[5] The cities were well served through a chain of customer care centers that coordinated product service in metropolitan areas.

Brand awareness and reputation for LG products had to be carefully tended in the early years during a period when the market was not aware of the company. Local players had built dominant positions by taking advantage of local laws that prohibited foreign firms from competing on an equal footing. Building on its sports marketing efforts in Brazil that had catapulted brand awareness, LGEIL began sponsoring cricket in India. Its cricket television set was launched with much fanfare and coincided with the World Cup, an international championship contested by all cricket-playing nations. In due course, LG became the largest single sponsor of cricket in the world—no mean feat for a company that hailed from a country where cricket was not played. This was a coup for LGEIL and immediately endeared the company to millions of cricket fans. Soon, the company's dedicated cricket-game television sets, televisions with a built-in cricket video game, became a huge hit, and success followed in other product lines as well. By 2007, the company had reached the $2 billion mark in revenues and had declared its intent of increasing that five-fold to $10 billion by 2010. Having entrenched itself in the cricketing realm, LGEIL had signed on India's leading film stars to endorse its products, a brilliant move to capitalize on India's fascination with films.

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[5] Duk-Woo Lee. 2005. LG The No. 1 company in India. *LG News.* February, Vol. 24.

Exhibit 2 LG Market Shares by Volume (%) in India

	LG Electronics	Top 2 Competitors	
Color Televisions			
Analog	26.4	Onida 10.8	Samsung 10.5
Digital	26.5	Samsung 14.3	Onida 10.5
Flat screen	26.7	Samsung 20.6	Sony 14.3
Refrigerators			
Basic	29.4	Whirlpool 23.6	Godrej 16.0
Direct cool	27.0	Whirlpool 24.7	Godrej 16.6
Frost-free	36.5	Whirlpool 20.1	Godrej 14.3
Washing Machines			
Non-automatic	35.0	Whirlpool 14.1	Samsung 13.4
Semiautomatic	36.2	Videocon 16.5	Samsung 14.5
Fully automatic	34.1	IFB 17.0	Whirlpool 14.3
Microwave Ovens	38.0	Samsung 16.8	Electrolux 9.2

Source: ORG-GfK. Cited in P. R. Sinha. 2005. Premium marketing to the masses: An interview with LG Electronics India's Managing Director. *McKinsey Quarterly*, Special Edition.

LGEIL operations also reflected the company's historical beginnings in an economically disadvantaged South Korean market. It had always tried to emphasize compassion and social welfare in its initiatives, and India was no different. LGEIL realized that it had to address the health care needs of its employees on its own since India lacked a reliable public health care system. Medical clinics were set up at its manufacturing facilities to provide care to employees. These facilities were subsequently enhanced to cover vaccinations and medical screenings for families of the employees as well as the local community. Although the level of care was quite basic, it demonstrated that the company's concerns transcended mere profit motives. It also offered subsidized primary school education and books for children, and even built a village school close to its manufacturing facilities.

Local employees staffed most of the top management positions within LGEIL. There were only a handful of South Koreans at the top, and most of them were in research functions. The company believed in developing core designs centrally at its facilities in Korea, but once they were transferred to local operations, ongoing R&D and customization became a local responsibility. In time, this local R&D focus helped the company tap into the abundant engineering and design skills locally. When LG sought engineers to manage parts of its niche analog television business that had run out its lifespan in most developed countries, it was able to find qualified personnel in India who were up to the task.

The localization philosophy encompassed administrative and managerial functions as well. All branch offices in the country were staffed with locals, and even at the country headquarters expatriate managers were a rarity. Only major investment decisions and annual targets had to be approved by the head office in Korea. Investments in ongoing projects were within the domain of the country office. Mr. Kwang-Ro Kim observed that on one occasion when the company was looking to buy a very expensive piece of capital equipment for its Indian operations, Indian engineers favored a supplier in Italy over alternatives from the home country of South Korea. This purchase was approved without any further inquiry or involvement from Korean expatriate managers. This signaled trust and was reciprocated in full measure by the engineers who worked night and day installing the equipment. The level of autonomy afforded the local managers was significant and allowed them to gain confidence in their own managerial abilities. The company had begun rotating some of these managers into positions in third countries in the Middle East and Africa.

By early 2006, LG had established a leadership position in a variety of product lines ranging from refrigerators and washing machines to VCRs and televisions. However, there were signs of intense competition on the horizon. Global rivals such as Philips and Samsung were also focusing on some of

the same pieces of the success recipe—culture marketing, rural distribution, and customized products. Local players such as Videocon had launched ambitious moves to fight their way back to the head of the pack in home appliances. Global rivals like Motorola that preceded LG in the mobile phone market seemed to have the experience edge in some product categories. Undoubtedly, the intensity of competition was set to increase. In a further twist to the competitive scene, Videocon announced that it was pursuing talks to take over the consumer electronics business of Daewoo, a South Korean conglomerate that had fallen on bad times.

Russia: An Early Foray

When South Korea established diplomatic relations with Russia in 1990, LG was at the forefront of Korean companies leading the charge to capture Russian markets for some of its products. However, the market was fraught with unique risks given the communist heritage, state-sponsored business enterprises, and the challenging economic environment. LG commenced operations in Russia with a bonded warehouse business through which it imported goods manufactured at its plants elsewhere for sale in Russia. This business largely focused on the *Goldstar* brand and was limited to operations in and around the city of Moscow.

Gaining momentum in the early years was a very slow process since Russian consumers were not yet familiar with the brand. Drawing on its successes in other similar markets, LG launched a charm offensive that included opening LG brand shops, dedicated retail channels that carried the LG brand portfolio, culture marketing events such as the LG Festivals and cooking events. It also set up a regional office in St. Petersburg to oversee its operations in the CIS countries. By this time, the company had also made a determined effort to source local talent to support its global R&D mission. It set up an R&D center in St. Petersburg dedicated to software development for a range of products. Russia soon became an important location within the LG R&D network.

In 1998, soon after LG had introduced the LG brand in the country, Russia faced a debt moratorium and was in the throes of a severe economic crisis. Many of LG's competitors immediately scaled back their Russia plans, while others retreated from the market entirely. LG on the other hand began investing heavily in the market by supporting its channels, focusing even more on local customization of its product range and by enhancing its visibility through event sponsorships. This paid off rich dividends in that it helped establish a foundation upon which the company built its premium strategy. By 2004, the company had introduced several localized offerings ranging from a hot and cold air-conditioning unit that could be used year-round, to a karaoke machine that came with a library of popular Russian folk songs, and a microwave oven designed to match the specific needs of the Russian kitchen.

In 2005, the company received permission from the Government allowing it to use the *Narodnaya Marka* logo on its products, implying that the products were considered to be national brands.[6] This honor is bestowed on the most popular branded products sold in Russia and is displayed prominently in all company advertising and promotional materials, often considered among global players as the ultimate tribute to a successful localization strategy.

All was not rosy, however. LG had leased land close to Moscow to build an assembly plant for the manufacture of refrigerators, washing machines, and video equipment. The plant was supposed to commence operations in 2006, and an investment of $150 million had been earmarked for the purpose.[7] However, the local authorities claimed that the company did not have proper approvals for the structures it was building and threatened to halt construction.[8] It was widely believed that factions who did not want LG to succeed in the region were purposely raising these legal obstacles. It remained to be seen if this was a routine occurrence in an emerging market or a sign of more setbacks to come.

[6] Korean businesses ride Russian economy: High-end marketing strategy. www.gateway2russia.com/st/art_243266.php.
[7] LG Electronics to build plant in Russia. *RIAN*. May 11, 2005.
[8] Mitvol threatens to kick LG out of Moscow region. *Novecon Press Digest*. October 26, 2005.

Across the Sea to China

China had proved to be a beacon of opportunity for some time, given its geographic proximity to Korea. LG had sought to tap this market through the establishment of a sales subsidiary in Hong Kong as early as 1988. This scouting mission was followed up with a joint venture established in Huizhiou on the mainland in 1991. Much of the initial period was spent in understanding local market conditions and assessing the feasibility for ramping up LG's exposure in China. By 2006, LG had built 16 corporate entities in the country, many of which were focused on sizable product lines such as manufacture of plasma televisions, white goods, and significant research and development as well.

LG's approach to China had been built on the very same foundations that it had used in entering markets such as Brazil and India. However, given the unique nature of governmental regulations and geographic proximity to the home market, it had used some variations in overall strategy. Perhaps the most important variation had to do with local consumption v. exports. Lured initially by the significant labor cost advantages that China offered, LG moved to build a strong manufacturing presence there using it as a hub for exports to other markets. It soon built up enough plants all across the country to be able to leverage an entire manufacturing network to serve countries such as Russia and the United States. Its location choices reflected a very carefully orchestrated emphasis on ensuring that China's developmental needs ideally would be matched with the aspirations of LG. The first wave of substantial investment occurred through a joint venture in Tianjin for the manufacture of refrigerators and air conditioners. By 2002, ten years after it had entered China, the company had 12 production subsidiaries and sales centers spanning cities such as Guangzhou, Shenyang, Wuhan, and Nanjing. It had established a central China office in Beijing to orchestrate the implementation of its China strategy. In the process of expansion, LG had managed to capture the hearts of the local public, evidenced by the fact that the city of Huizhou declared an LG Day to be celebrated each year on the 31st of January, and a downtown street that bears the name of LG—the very first time a major thoroughfare had been named after a foreign company in China.

The company expended significant effort to be seen as a local player because it believed that integrating itself into the local environment was a viable defense against the onslaught of rivals both Chinese and foreign that was already challenging LG. A significant amount of local initiative was left in the hands of the local workers. About 98% of all LG personnel in China were local Chinese. This move allowed the company to signal trust with local employees who then started taking an ownership role in carrying out company-wide welfare projects and promoting LG as a company that embraced Chinese cultural practices. Although much of the production effort in China was launched on the basis of product designs originating in Seoul, LG quickly realized that it had to win the war for talent locally. Having already leveraged its Korean R&D base to achieve the first or second positions in almost its entire product portfolio in China, LG set up a modern R&D facility in Beijing in 2002. It had trained several of its employees at its training facilities in Beidaihe and Beijing in anticipation of the R&D investment. It had already established a Chinese Product Design team to oversee localization of design. In conjunction with the emphasis on local R&D, the company launched an LG Village, where it had transformed a rundown village in an agricultural location into one where it would showcase state-of-the-art technologies for local buyers.

At the height of the SARS crisis in China, LG initiated an "I love China" campaign and passed out free sanitary masks to local citizens. Unlike many other foreign plants that decided to scale down operations, LG persisted, often exhorting its dealers to stay open. It donated much-needed equipment to hospitals during the crisis. This approach left an indelible imprint in the minds of the local consumers. Such efforts demonstrated its strong sense of corporate responsibility and complemented its tried-and-tested approaches to establish itself locally through event sponsorships. In China, these activities encompassed launching schools, offering scholarships to economically disadvantaged students, sponsoring a touring cultural festival that would bring traditional Chinese cultural experiences to small towns and villages, and founding a hospital program to provide surgical treatment to children with cleft palates. These good citizenship activities bolstered LG's commercial objectives in the country. By 2005,

the company had achieved a commanding position in China across all its product lines. It was the largest exporter of televisions from the country, dominant in white goods, leading in computer memory chips and displays with strong potential for even higher levels of revenues within China.

Clouds on the Horizon

The company seemed to have written a playbook that contained repeatable plays guaranteed to succeed in emerging markets. The competitive landscape had, however, started to shift in two fundamental ways. Competition within the emerging markets was increasing rapidly, and many new entrants, along with revitalized oldtimers, had begun to capture market share. This was quite visible in two of LG's most salient emerging markets—India and China.

In India, Samsung, LG's hometown rival, was in second place in many of the product categories dominated by LG. It was widely believed that Samsung was gearing up to make a run for the top spot. Others such as Videocon, Onida, and Whirlpool were nipping at LG's heels as well. In China, there were many more local players in addition to the usual global giants such as Samsung and Sony. Local firms such as Konka and Kelon had traveled the well-worn path of using low labor costs combined with relatively small investments in product R&D to compete on price.[9] They had deftly copied global technology advances and used their low-cost manufacturing resources to underprice multinational rivals and steal market share. This was really beginning to erode LG's entry-level range of products across most categories.

While LG was busy capturing the emerging markets, its Japanese rivals along with European and U.S. companies had continued to dominate the developed-country markets. The U.S., for example, was seeing an influx of European design in the white goods sector. Sony, Matsushita, and Toshiba were still dominant powers to reckon with in consumer electronics. By early 2005, in a return to the limelight, U.S. companies such as Apple, palmOne, and Treo were at the forefront of a new wave of portable electronic devices to share and store music, manage e-mails, and surf the Internet. The advantage in many of these segments had shifted to software, and the skills in manufacturing and engineering were proving to be insufficient bases on which global strategies could be built.[10] Although LG had made a splash in the American market with a conspicuous presence at the largest U.S. trade fair, CES in Las Vegas, and had launched a very sizable branding campaign, it remained to be seen whether it had made substantial inroads. The company had successfully shed its *Goldstar* heritage in the U.S., a brand name that was viewed more as a commodity. In 2005, the company had introduced a range of high-end televisions in the U.S., a launch that was widely believed to have been successful. At the Consumer Electronics Show in Las Vegas, a bell-weather event showcasing new product innovation, LG won as many as 14 awards for excellence in design and creativity in 2006.

The challenges that lay ahead were quite clear. Having conquered the emerging markets, LG would have to successfully hold off local competition that was getting feisty. Simultaneously, it would have to come up with new dimensions to its emerging market prowess in order to stake a claim in the developed markets as well. Analysts were divided on whether the lessons were indeed transferable from emerging markets and whether LG would be better off playing second fiddle to Samsung, allowing its hometown rival to plunge ahead into developed markets while it continued its onslaught into emerging markets. After all, the population growth in emerging markets and less-developed countries was quite promising. Large areas of Africa and the Middle East along with Latin America remained to be exploited fully by the LG machine. The board of LG had asked Mr. Nam Woo to take charge in China. He would be overseeing the entire spectrum of LG operations in the country and helping the company through the challenges it faced there. The time had come for him to apply some of his emerging market prowess in what was the world's largest emerging market.

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[9] Kathy Wilhelm. 2002. Innovation—Electronics—Global ambition: China's electronic makers are rapidly upgrading their skills to challenge the multinationals. *Far Eastern Economic Review*. June 15.
[10] Gary McWilliams. 2005. Power switch in electronics: U.S. companies seize momentum from Japan. *Wall Street Journal*. March 10.

Appendix 1 Operational and Financial Performance of LG Electronics

INCOME STATEMENT				
	2003	2004	2005	2006
	KRW bn	KRW bn	KRW bn	KRW bn
Sales	20,177	24,659	23,774	23,171
Domestic	4,794	5,086	5,509	
Exports	15,383	19,573	18,265	
Cost of Sales	15,351	18,736	17,664	17,726
Gross Profit	4,826	5,923	6,111	5,445
SG&A	3,764	4,674	5,196	4,910
Operating Profit (EBIT)	1,062	1,250	915	535
Income Before Income Taxes	837	1,860	741	261
Tax	174	314	39	49
Net Profit	663	1,546	703	212

BALANCE SHEET				
	2003	2004	2005	2006
	KRW bn	KRW bn	KRW bn	KRW bn
Current Assets	3,773	4,111	3,985	2,974
Quick Assets	2,269	2,436	2,577	1,439
Inventories	1,504	1,675	1,408	1,535
Fixed Assets	7,505	9,124	10,051	10,128
Investment Assets	3,546	4,859	5,481	5,417
Tangible Assets	3,123	3,630	4,150	4,423
Intangible Assets	836	636	420	288
Total Assets	11,277	13,234	14,036	13,102
Current Liabilities	5,091	4,959	5,208	5,020
Fixed Liabilities	2,682	3,259	2,666	1,898
Total Liabilities	7,773	8,218	7,874	6,918
Total Shareholders' Equity	3,505	5,016	8,163	6,184
Total Liabilities and Shareholders' Equity	11,277	13,234	14,036	13,102