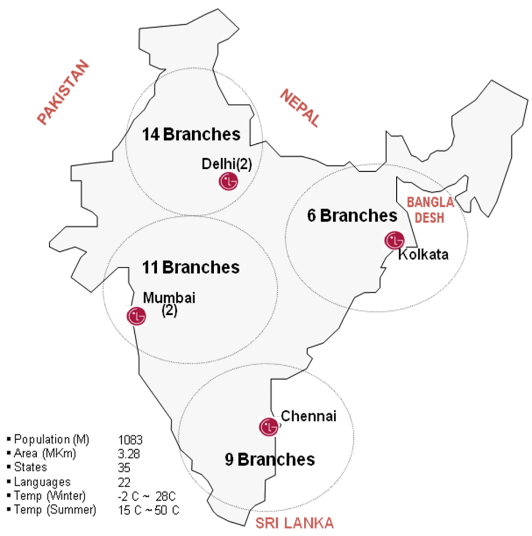


LG in India

Reinventing the Brand

10/2008-5558

This case was written by Nina Paavola, Research Associate at INSEAD, under the supervision of Amitava Chattopadhyay, the L'Oréal Chaired Professor of Marketing-Innovation and Creativity at INSEAD, and Eun-ju Park, Senior Manager of Digital Appliance Marketing Strategy Group. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. We would like to thank Moon Bum Shin, President of LGE India; Yasho Verma, Department Head of HR and MS; and members of the Marketing team for their help and support during the development of this case. Financial support from R&D INSEAD is also gratefully acknowledged.

As LG Electronics India Limited's (LGEIL) tenth birthday approached, the Indian subsidiary of Korean-based LG Electronics was taking stock of its achievements and the challenges that lay ahead. At its inception, LGEIL had been driven by two desires: to build a premium brand and to rank number one in market share in each and every category in which it operated, which included colour TVs, refrigerators, washing machines, microwave ovens, air conditioners and vacuum cleaners. It had reached and surpassed the latter benchmark three years ahead of schedule, having become the dominant player in all categories by 2004 – a remarkable achievement for a late entrant.

With hindsight, however, it had become apparent that in pursuit of market share the LG brand had ended up with an unclear image in the Indian consumer's mind. LG was positioned differently across the consumer electronics and home appliance categories in which it participated. It was no longer the aspirational brand it once aimed to be. It had become a brand with mass appeal. Thus one of LGEIL's key challenges was still the same as when it had first entered India: to overcome the prevailing idea that Korean brands were cheap alternatives. LG needed to restore its original premium position while maintaining its appeal to the masses.

Anil Arora, Head of Marketing for LGE India, pored over the results of recent marketing reports, notably those detailing the PC and mobile phone markets. He wondered whether PCs and mobile phones could strengthen LGEIL's efforts to cement its position as a technological leader in consumer electronics, over and above helping LGEIL grow, as both the IT and mobile phone markets were significantly larger and faster-growing than LGE's traditional markets: consumer electronics (TV, audio, DVD) and home appliances (refrigerators, washing machines, vacuum cleaners, microwave ovens and air conditioners). PCs and mobile phones could also potentially introduce LGE to younger consumer segments, thereby creating future opportunities to sell products from its more traditional portfolio. In one week, Arora needed to make his recommendations to the CEO, Kwang-Ro Kim, on how LGEIL planned to get the LG brand back on track.

LGE's History

Founder and President, Koo In-hoe, former CEO of Lucky Chemical, established GoldStar on 1 October 1958. It began as a radio manufacturing plant and one year later was converted into a corporation, GoldStar Co., Ltd. The A-501, Korea's first radio, was the first product off the line. By March 1963, GoldStar had 1,000 employees and was also producing fans and automated telephones. The US and Hong Kong were the first countries to receive GoldStar exports in 1962, and countries in Europe followed suit two years later. The Lucky Goldstar Group became a publicly listed company in 1969, the first electronics company in Korea to do so.

Branch offices were set up all over North America, West Germany, Britain and the Middle East in the mid- to late 1970s. In 1977, GoldStar recorded exports of US$100 million. The following decade saw expansion into Southeast Asia, China and Africa, and a branch opened in Russia in 1990. On 1 January 1995, the group changed its name to LG Electronics and launched the LG brand.

In the 50 years since the first products rolled off the GoldStar line, LGE had become a behemoth employing some 82,000 people in more than 110 operations, including 81 subsidiaries around the world. Its four business divisions included mobile communications, digital appliance, digital display, and digital media. LGE global sales in 2006 reached US$38.5 billion, making it the world's leading producer of CDMA/GSM handsets, air conditioners, front-loading washing machines, optical storage products, DVD players, flat-screen TVs and home cinema systems.[1]

India: Right Place, Right Time

India is a nation unlike any other: 1.1 billion strong with a remarkable diversity of cultures, languages and religions. The first major civilisation along the Indus River valley dates back over 5,000 years. In 1947, with the demise of the British Empire in South Asia, India emerged as an independent, democratic nation. Although English remains the key language for commercial communication, 18 languages are officially recognised in India and hundreds of dialects exist. The languages come from four distinct families: Indo-European, Dravidian, Mon-Khmer and Sino-Tibetan. The majority of Indians adhere to the Hindu tradition (80%). India is home to the world's second-largest Muslim population (13%) after Indonesia. Other faiths include Christian (2%), Sikh (2%), as well as a significant number of Buddhists, Zoroastrians and Jews.

After independence, the Indian government followed a socialist path with a closed economy, until a balance of payments crisis in 1991. It gradually began liberalising its economy, resulting in faster economic growth. Since 1999 it has grown at more than 6% annually. The year 2006 saw the growth rate rise to 9%, with the economy expected to grow even faster in 2007. Pundits predicted a protracted period of rapid growth for the country.

1997 was a key year in India for LG. A major policy shift led India's Foreign Investment Promotion Board to begin favouring foreign companies that set up manufacturing facilities and sold their products in the country, allowing them to sell directly to retail customers.[2] While US and European competitors entered the Indian market, Japanese competitors (with the exception of Sony) were still absent from the scene, but Samsung, LGE's arch-rival in Korea, had entered the market in November 1995. Thus, LGE Korea felt it needed to take the bull by the horns and enter India without delay.

LGEIL's Beginnings

LG Electronics India Pvt Ltd (LGEIL) opened on 1 April 1997 in the New Okhla Industrial Development Authority (NOIDA) near New Delhi, as a greenfield operation. Upon entry, the company had two main problems of perception to tackle: it had to prove to consumers that it was more than just another Korean brand, and it had to convince distributors that it was worthy of a second chance, after failing in its first attempt to enter the market with GoldStar brand products in the early 1990s.

Given this background, LGEIL knew it needed to make up for lost ground – and fast. Whereas most companies would have been content to work with the basic 'four Ps' of the marketing mix (product, price, place and promotion), the strategy of LGEIL included a fifth –

1 Source: www.lge.com

2 Iyengar, Jayanthi. "China, India confront the Wal-Marts", Asia Times Online, January 31, 2004. www.atimes.com/atimes/Global_Economy/FA31Dj03.html

pace. By 12 May 1997 it had launched five sales branches. Five months later, 18 branch offices were in operation. The pace was remarkable but it came at the expense of skipping a few steps in order to leap ahead. For example, at the new Lucknow branch the entire sales team was recruited and ready to work before office space had been located, so the branch manager's home had to double as the office until one was found.[3]

Despite these occasional hiccups, LGEIL rolled out nationally in four short months while its competitors took more than one year. It was the first Korean brand to launch into Eastern India, notably ahead of Samsung. By 2001, LGEIL's presence was strong throughout the country and growing with each passing year (see Exhibit 1 for timeline).

A CEO Leading by Example

CEO Kwang-Ro Kim had a clear vision and played a principal role in the company's rapid rise. From the beginning, he believed that the company should be strongly rooted in India and leverage local resources to increase its know-how. Instead of automatically bringing in a team of expatriate managers, as in most instances when LG Electronics entered a new market, he appointed Indians to key decision-making positions (see Exhibit 2 for organisation chart). Foreign employees played the role of facilitators and their positions were always assisted by Indians. Kim insisted that the HR and sales and marketing divisions be headed up by locally hired managers, and he also successfully argued with LG headquarters that the LGEIL R&D team should be located on site.

Employees attested to the fact that Kim believed in his team 100%, that he bestowed on them total independence and authority, and therefore accountability. As soon as someone walked into his office, his first gesture was to pick up a pen, ready to sign any request or document without so much as a question. This sent a clear message – complete trust. His role was to empower his employees.

Coming from a sales and marketing background, Kim firmly believed in reaching out to the market. He understood the necessity of taking the time to get to know local consumers and distributors. He travelled extensively – everywhere LGEIL had a branch or area office – meeting employees, dealers and consumers. Always quick to give his business card with his personal e-mail address and mobile number, he demonstrated his availability to absorb any kind of market insight, preferably first hand. He would follow up with team briefings to communicate the information, and expected results or changes within days. A model for his team, Kim was highly respected and local employees were intensely loyal to him and to the company.

The Indian Consumer

According to the 2001 census, India was a young and predominantly rural nation. While 35 cities in India had populations of more than one million people, and the urban areas of Mumbai, Kolkata and Delhi had more than ten million each, these large metropolitan

Age Structure
0-09 years: 23%
10-19 years: 22%
20-29 years: 17%
30-49 years: 24%
50+ years +: 15%
Pop. Growth Rate: 1.6%
Source: Census 2001, Government of India

3 Verma, Yasho V. Passion: The untold story of LG Electronics India. P. 11: Biztantra, 2007.

centres across the nation were home to a mere 30% of India's population, with the other 70% in rural areas.

The high economic growth of the new millennium led to a rapid growth in the number of households with a significant disposable income. Research conducted by the NCAER[4] identified five demographic segments: the Globals, Strivers, Seekers, Aspirers and Deprived (see Exhibit 3 for details). Their research projected that by 2015 the top two groups would have grown to 9 million households (HH), would rival the size of Australia (7.5 million HH) and be three-quarters the size of Korea (12 million HH). Moreover, the top three segments would include 63 million HH and exceed the size of Brazil (51 million HH), Russia (50 million HH), Japan (45 million HH), Germany (40 million HH) and the UK (25 million HH). Importantly, the work of NCAER showed that consumers across demographic segments, including those at the bottom of the income ladder, had the desire to own branded goods.

Along with economic growth, old attitudes towards credit and its availability had begun to shift. Previously, credit was seen as bad; Indians traditionally paid with cash that had been saved. The new Indian consumer, bolstered by rising income and expectations of future prosperity, along with the availability of credit, was willing to buy against expected income and 'enjoy today rather than save for tomorrow', whereas in the past that 'tomorrow' had been very uncertain.

Not only was the Indian consumer rapidly becoming well-off, and thus willing to borrow and spend, but the rise of BPOs (business process outsourcing) in India had led to a boom in jobs for young people, especially those from 20 to 35 years of age. Statistics showed that 62% of the population was under 30 and approximately 45% was under 20. The 20-35 age group was an increasingly important segment of India's consumer market since many of them lived with their working parents, creating multi-income households with relatively high disposable income. They were important to LGEIL since Indian consumers typically purchased home appliances in their 30s and consumer electronics in their 20s.

In terms of mindset, LGEIL's psychographic research suggested that, broadly speaking, adult Indian consumers fell into five groups: Premium Seekers, Stylish Brand Followers, Value Maximisers, Minimalist Buyers, and Basic Price Buyers (see Exhibit 3 for more details). Both classifications were critical as economic classification was less applicable to young customers who would go beyond their means to get what they wanted due to the easy availability of consumer finance. At the same time, since media was sold on the basis of demographics, this classification was crucial for reaching the consumer. LGEIL needed to be clear about whom it was targeting.

Product Strategy

LGEIL's plan, based on its understanding of Indian consumers, was designed to address both urban and rural consumers, and the top of the income pyramid as well as the less affluent masses. Thus it needed an extensive product line which meant introducing new models rapidly: one new model per week! This meant that decisions needed to be taken fast, product development had to be based in India, and products tailored to meet specific local needs. It

4 "The Great Indian Middle Class", National Council for Applied Economic Research, India.

also necessitated a sophisticated logistics system that could reach deep into the countryside and the small towns.

LGEIL began by importing its top-of-the-line, state-of-the-art products in the TV and refrigerator categories from Korea. By late 1998, the company had launched new models that reached down market, selling TVs assembled in its NOIDA factory, which had just come on stream, and sourcing other lower-end products, e.g., refrigerators smaller than 300 litres, from a local manufacturer, Voltas, a Tata Group company that manufactured and marketed a range of refrigerators and air conditioners under its own brand name. In 1999, LGEIL started manufacturing its own microwave ovens, and refrigerators were added to its manufacturing capability at NOIDA in 2001.

As its manufacturing capacity came on stream, LG used customer insights to customise products for India. Microwave ovens were equipped with one-touch Indian menus. Colour TV models had on-screen menus in local Indian languages (Bengali, Hindi, Marathi and Tamil, in addition to English), supported with on screen symbols to cater to people with lower literacy levels. TVs were also fitted with woofers to provide the louder, better low-frequency response that Indians liked. To appeal to children, TV models came with a built-in cricket game, the biggest and most popular sport in India.

Another insight leveraged by LGEIL was that certain products, typically sold as technical and customised products, could be sold off-the-shelf. For instance, air conditioners were sold in India as technical, customised products by all the main players, including Carrier, Voltas and Blue Star. A manufacturer's representative would visit the target customer's home to measure room sizes and then recommend the most suitably-sized unit. LGEIL realised that in most instances a unit with a 1.5 ton capacity was recommended. As a result, it decided to launch its units as off-the-shelf products with broad guidelines for the size of room to which each unit was appropriate. This was a hit with customers as well as with LGEIL dealers and distributors, who had one more product to carry. The move started a channel revolution – from which LGEIL had the most to gain.

LGEIL's success across multiple categories in the marketplace was another strength. Given the diversity of its product range, even if one or two products had weaker performance, others helped maintain sales volumes. LGEIL noted, for example, that air conditioners and refrigerators sold mostly from March to July/August. Washing machine sales peaked during the monsoon season, roughly from June to October, while the festival of Diwali (either in October or November according to the lunar calendar) was the peak sales season for other product categories. Colour TV sales remained steady across the board, regardless of the season or the holiday.[5] Its large volumes and consistent demand throughout the year made LGEIL a very attractive supplier to its dealers.

To determine where future potential lay, LGEIL monitored each product line's market share and contribution to performance by geography, both on aggregate and on a model-by-model basis. The data suggested that Southern and Western India still had growth potential (see Exhibit 4 for details on purchasing power by region). LGEIL also believed that there was great potential in the semi-urban and rural markets, which it referred to as the "sleeping giant". No national-level competitor had ever penetrated this segment, and no one outside a

5 Verma, p. 35.

few regional companies even knew what kinds of products would suit the needs of the rural market. LGEIL was curious to know whether its existing products would appeal to these consumers or if modifications would be necessary.

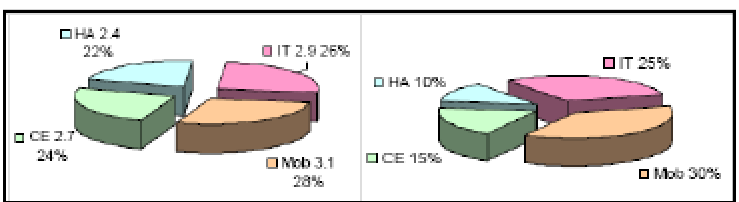
Branch Network

The year 2001 saw new product releases stagnate, having introduced products in all the key categories. LGEIL decided the time was ripe for the penetration of the semi-urban and rural markets, and began to expand its branch network and to complement this with smaller remote area offices. Branch offices, headed by a branch manager and a full commercial team, decided which product collections should be offered in the locality, monitored demand for products and gave input to and gathered information from area managers who interacted directly with distributors and dealers. The branches headed up and supported remote area offices, comprised of sales officers backed up by a team to cover accounting, clearance of goods, logistics and services. These offices were designed to enhance market penetration and use the sales officers in the field to promote good relations with both consumers and the sub-dealer network.

About 12 remote area offices were established, starting in 2002, as the foundation for LGEIL's rural network. Carefully chosen, talented managers were appointed to head these offices: individuals who had leadership potential, were self driven, able to operate independently, lead a small cross-functional team and manage the trade. They were the pool from which the next crop of branch mangers would be drawn. Area managers were backed up financially, provided with ample support materially, and given full decision-making power to get things moving on the ground. In just eight months, the company's rural network was up and running.[6] By 2003, there were 40 branch offices across the country (compared to fewer than 10 for its competitors) and 55 remote area offices, (see Exhibit 5, for situation in 2006).

In enlarging its reach, LGEIL established a presence in all cities with populations over 500,000 (approximately 140). It had a presence in some 16,000 of the 45,000 outlets that sold consumer durables in India. This became a significant strength for the corporation as it could deal with retailers and distributors directly and quickly across the country. Also, in the smaller markets its proximity helped dealers reassure customers that their service needs would be quickly and effectively met by the brand owner itself.

New Categories



Durables Segment Contribution (US$ bn. and MS%) | Segment Growth

In 2003 and 2004, LGEIL entered both the mobile phone and PC categories, attracted by their size and growth rates. They were also deemed attractive as personal products (rather than for the family), which could provide the outside-the-home visibility that LGEIL's current product portfolio lacked. Furthermore, they had the potential to boost the technologically cutting-edge image that LG desired as well as more 'cool' and fashionable associations.

6 Verma, p. 38.

Perhaps most importantly, PCs and mobile phones provided access to younger customers – as young as 15-16 for PCs, and even as young as 13 for mobile phones – who could be convinced of the value of the LG brand and were potential future customers of LG's more traditional product lines.

The Mobile Phone Market

LGEIL entered the mobile phone market in India in 2003, the same year it entered the global market for handsets – CDMA[7] handsets distributed through an agreement with Reliance Mobile, India's leading CDMA service provider, who bundled the phone with its service. It followed up in 2004 with GSM handsets, which comprised 90% of the Indian market. India's mobile phone market was dominated by Nokia, with a 72% market share, making it Nokia's single largest market world-wide.

A massive 70% of the Indian market for GSM phones was for handsets below INR3,000 (approximately €50/US$65) with monochrome screens. Unfortunately, the LG global product line in 2004 consisted exclusively of high-end models with colour screens, priced upwards of INR 7,000, which appealed only to the top 20% of the market and consumers over the age of 30, while LGEIL wanted to target younger customers in their teens and early twenties. By 2005, however, LGEIL had started manufacturing handsets in India that were more attuned to the target market and was having some success in this segment. By 2006, with an overall market share of 15%, LGEIL was closing in on the number three position in the Indian mobile market, with the goal of taking over this spot by the end of 2007. Many issues, however, remained unresolved, as LGEIL's research revealed (summarised in Exhibit 6).

The PC Market

Together, desktop computers, notebooks, monitors and optical storage devices represented a market of INR138 billion (US$3.5 billion) and was expected to grow at 25% CAGR over the next five years as more and more small businesses started using PCs. With household income rising, PCs were also making rapid inroads into people's homes. The desktop PC market in India was dominated by unbranded PCs assembled by small, local entrepreneurs. Typically, unbranded PCs came bundled with a branded monitor and disk drive, in many instances branded LG.

LGEIL's research revealed that consumers were mentioning LG PCs, although it did not participate in this category, and indeed LG Electronics did not have PCs anywhere in its global portfolio. LGEIL believed that branded desktop PCs were on the verge of taking off in the Indian market and, interestingly, while long-term PC players in India, such as HP and IBM, were not seen as "domestic" brands, LG by its very ubiquity had begun to be perceived as such. Thus LGEIL saw an opportunity and decided to take the plunge, launching a desktop PC in 2004. It was an integrated unit with the computer and display packaged in a single box

[7] LG entered the mobile phone market with CDMA technology as Korea and the US were CDMA markets and LG had acquired CDMA technology some years earlier from Qualcomm. It is also noteworthy that CDMA markets were operator handset markets. That is, handsets were largely distributed through the service providers who sold them at deep discounts along with service contracts. India had only one CDMA service provider, Reliance Mobile. Other operators used GSM technology.

and sub-branded MyPC. Arora noted that MyPC was "positioned like Horlicks[8] – a PC at home helps your child win." In 2006, LGEIL also launched a notebook computer as part of the LG global portfolio. This subcategory, comprised mainly of branded multinational players, was dominated by HP, which had a 40% market share. LG's notebooks were distributed partly through existing channels but also complemented by a new channel of IT distributors and dealers. In 2006 its IT distribution system covered 25,000 of the 45,000 IT outlets in India.

Competition

While LGEIL spanned the entire market for consumer electronics, in each category it faced a focused competitor. In refrigerators and washing machines Whirlpool was its major competitor, which operated exclusively in the appliance space. In air conditioners and microwave ovens its key competitor was Samsung (see Exhibits 7 and 8), and in vacuum cleaners it was India's own Eureka Forbes[9]. In mobile phones it was Nokia, and in computers it was HP. The corporation put immense focus on quickly becoming a category winner, going all out for the top spot.

Sony dropped out of the consumer electronics category in 2001, as did BPL, which collapsed due to internal problems. This sequence of events, combined with LGEIL's success, suddenly opened doors to the best distributors. The number one spot quickly fell to LGEIL and once this leadership had been established, it progressively focused on gaining leadership in each and every subcategory, e.g., different sizes of TVs, front-loading washing machines, frost-free refrigerators, etc.

The Race for #1 and its Impact on Brand Image

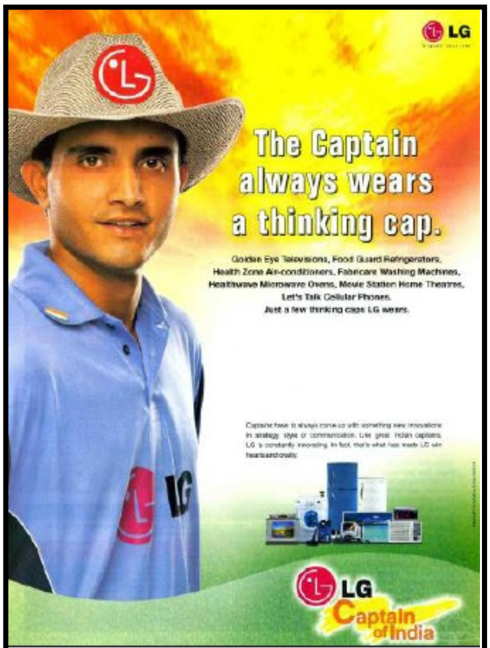
In its early days, LGEIL had invested carefully to build LG as a differentiated, premium brand. The first two years of ad campaigns highlighted technological superiority and product features. In 2000, LGEIL adopted an overarching theme for the LG brand: health, as Indian consumers of all socio-demographic classes perceived health to be important.[10]

8 Horlicks is a malted milk hot drink manufactured by GlaxoSmithKline. India is by far the biggest market for Horlicks, where it has traditionally been marketed as "The Great Family Nourisher". GlaxoSmithKline in India has claimed that Horlicks encourages growth and alertness in children. Horlicks in India is one of the most trusted brands as independently measured by leading publications (Source: http://en.wikipedia.org/wiki/Horlicks).

9 A Tata Group company.

10 Verma, p. 41.

Using the health theme to market televisions was perhaps a tall order, but LGEIL adopted a new technology deployed in Korea called Goldeneye, an automatic control of screen brightness, contrast ratio, colour and sharpness. The benefit, it explained, was reduced eye strain. In the same way, the LG Food Guard line kept food nutritious longer; washing machines were equipped with the Fabric Care System, important to maintaining good health as clothing was seen as a "second skin"; refrigerators were equipped with the Prevention Nutrition (PN) System), a combination of an FIR (far infra-red) lamp, deodoriser and moisture control technology; the punching washing machine generated stronger washing power and stopped clothes tangling. Air conditioners were launched in 1998 with Healthair, which was initially a filter with antibacterial coating and later became a plasma filter. Healthwave microwave ovens, equipped with an interior antibacterial coating, were sold in 1999 to encourage healthier cooking. Finally, Healthguard vacuum cleaners were launched in 2000, containing Hepa filters. All the features that aligned the products under the health theme were unique benefits, with the exception of the vacuum cleaner (Eureka Forbes was already offering Hepa filters).



This LG advertisement features Sourav Ganguly, captain of the Indian cricket team from 2000 to 2005, featuring products with health theme.

In a key move in 2002, LGEIL decided to sponsor the Indian cricket team during the ICC World Cup in 2003. As a large part of the Indian population were passionate followers of the game, sponsorship of the team helped boost brand recall and strengthened the brand's ties with Indian households. No longer would LG be seen as an outsider; its affiliation with cricket enabled LGEIL to become part of the family.[11]

In the early days, promotional activity in India was limited to two promotion events offering price discounts or gifts per year. One was Diwali, the festival which marked the peak sales season for all consumer goods companies, beginning in October and running until the actual date, (either in October or November according to the lunar calendar), and one was LGEIL's birthday bash, the anniversary of the date (12 May) when the first five sales offices were launched.[12]

Success, however, led to a shift in focus as LGEIL had decided to pursue leadership in each and every subcategoy. The result was a shift of budgets from primarily print advertising

11 Verma, pp. 34-35.
12 Verma, p. 10.

designed to build the LG brand to price promotions to build sales. By 2005-2006 price promotions had become ubiquitous. Moreover, in the rush for sales through geographic expansion and market share, decision making on promotional activities had been pushed down to the 90-plus branch/area offices across the country, resulting in an ever-increasing part of the marketing budget being allocated for promotional activities at the local level, at the expense of the budget to build the LG brand from HQ. The spate of price promotions lead to a decline in real prices.

The problem was further exacerbated by ‘product-based silos’ developing within LGEIL. Part of this was the result of moving away from a single ad agency (Lowe) in 1997, to three agencies (Lowe, Capital and Rediffusion) in 2003, with a product-based allocation of responsibility across agencies. To support branch-level initiatives there were another 40 local ad agencies. Thus, instead of being a strength, LGEIL’s focus on each category it operated in became the root cause of a lack of coherent direction and brand-level synergy.

With the loss of the brand-level positioning platform of health – the common thread binding the broad product range marketed by LGEIL – communication shifted to product level, led by features and technology, at aggressive prices often supported by free gifts. The result was a tarnishing of LG’s premium image: it was no longer seen as aspirational but as a low-end brand that provided value for money.

Brand Equity

To stop price erosion and bolster its desired premium brand image, LGEIL came up with a simple way to think about brand equity. The objective of the brand equity initiative was to ensure that revenue objectives were not met at the expense of brand equity by either selling more low-end items or by offering price discounts. LGEIL conceptualised brand equity as follows:

*BE = Relative Market Share * Price Position * High End Contribution*

The brand equity analysis was undertaken with respect to a particular brand in a particular category. For instance, in the traditional colour television (CTV) category, the reference brand was Samsung. In the brand equity equation above, market share was represented as LGEIL’s market share in the category relative to Samsung. Price position referred to the average of the ratio of the price of LG CTV models compared to equivalent Samsung models. This was meant to ensure that, on average, LG prices would remain at a relative premium. High-end contribution referred to the percentage of LG sales contributed by the items in the product mix designated as high end. In the CTV category, these included the 29" flat TV, and all LCD and

CTV Brand Equity Analysis: LG vs. Samsung

Year	Relative Market Share	Price Position	High End Contribution	Brand Equity
2001	0.9	1.2	0.7	0.76
2002	1.2	1.1	0.6	0.78
2003	1.2	1.0	0.5	0.61
2004	1.5	0.9	0.5	0.61
2005	1.7	0.9	0.7	0.97

plasma TV models. This gave clear sales targets for different product sub-categories, balancing the goal of attaining higher market share in order to be number one with the goal of being a premium brand.

The Road Ahead

While the introduction of the brand equity metric was an important step, LGEIL needed to deal with two additional issues.

Distribution

LGEIL's distribution system was comprised of two distinct types of channel members: the direct dealer channel and the distributor/sub-dealer channel. The direct dealer channel was composed of large stores (see Exhibit 9) which sold directly to end consumers, mainly in metros and large cities, and had the working capital to buy stock directly from LGEIL, since LGEIL sold exclusively on a cash-in-advance basis. There were some 2,300 direct dealerships, of which 150 sold the LG brand exclusively, while the remaining were multi-brand shops. Direct dealers collectively accounted for 34% of LGEIL's sales. The second channel, comprising 700 distributors, serviced some 14,000 sub-dealers and accounted for 49% of LGEIL's sales. Sub-dealers were smaller retailers who did not have the working capital to buy directly from LGEIL (see Exhibit 9). Distributors extended credit to the sub-dealers and were liable in case of non-payment. Distributors and direct dealers received an additional 3% margin.

The broad distribution achieved by LGEIL, which should have been an asset, unexpectedly became a liability as consumers 'comparison-shopped' across outlets in close proximity, in a quest for best price for the chosen model, which drove down prices and simply reinforced the value-for-money image that the fragmented communication strategy had earlier spawned. The result was the erosion of dealer margins; dealers stopped making money.

To complicate matters, the Indian retail scene was metamorphosing. In 2005, only 2% of retail sales came through modern retail formats (akin to those that dominated the retail scene in more developed economies) but this was changing. By late 2005, total investment in modern retail in India was US$10 billion and set to increase to US$75 billion by 2010. Jumbo, a chain from the Middle East, was set to enter in 2006; the world's biggest retailer Wal-Mart was set to enter in July 2007, having signed a joint venture agreement with India's Bharti Group. Woolworth had announced its entry into India, as had Tesco and Carrefour (see Exhibit 9 for growth of chain stores and hypermarkets).

To remain number one, LGEIL needed to acquire a presence in this emergent, modern retail format. However, this could only increase the problems it was facing. On the one hand, it would put more downward pressure on price and margins as these channels would leverage their size. On the other, it might further increase comparison-shopping. Above all, it was unclear as to what impact entry into these channels would have on the LG brand image.

One idea gaining currency within LGEIL was to provide exclusive model line-ups for different types of channel partners. For instance, separate product ranges could be offered to direct dealers and distributors, in line with the kind of customers that were served. This would avoid channel conflict and protect dealers via price and retention. The physical attributes of a particular product platform could vary across the different channel types, and with that variation the model numbers could also change.

Brand Positioning

On the branding front it was clear that something needed to be done to rebuild the brand image. This raised the key question of how the LG brand should be positioned. To address this question, Arora and his team undertook a study to articulate how consumers perceived LG and its main competitors Samsung and Nokia. Brand associations were identified and clustered around the main concepts that each brand communicated. LGEIL's six concepts were labeled as: Middle-class, Cold/indifferent, Well-known, Middle-aged, Innovator and Dominating (see Exhibit 11).

In sharp contrast to this image, LG headquarters in Seoul had recently published brand identity guidelines (see Exhibit 12), according to which the LG brand comprised four core values: trust, innovation, people, and passion. The brand promised to "deliver tangible innovations that enriched the lives of LG customers". The benefits for the customer included delivering reliable products, made with simple designs and intuitive functions that made them easy to use, leading to an "extraordinary experience" that provided more value than the customer expected. The brand's personality was described by LG as "delightful" and characterised as trustworthy, considerate, practical and friendly.

Knowing that LGEIL's desire was to move from being a high-volume/low-margin player to a high-margin/high-volume player with a premium image, what could the marketing team propose to take the LG brand where it needed to go? What role would PCs and mobile phones play in this endeavour?

Brand Architecture

Beyond addressing the issue of how to refurbish the image of the LG corporate brand, a second brand-related question was how LGEIL should manage the de facto portfolio of product brands that it had ended up creating (see Exhibit 13). To address this question, Arora and his team consulted various research findings. These suggested a spectrum of possibilities, with the default option being what was known as a "branded house", which would leverage the LG corporate brand universally, acting as an umbrella for a wide product range. Putting funds behind a single brand would contribute to the credibility of the brand. Also, it would help focus the talent and resources of management as well as service agencies (such as advertising agencies) behind one brand. On the downside, with such an approach it might be difficult to maintain a 'cool' image or a quality position with a large market share. Moreover, it might limit the firm's ability to target niche segments. If LGEIL adopted this approach, the key issue would be how to tie the different product categories in which LGEIL operated, together. In the early days, this had been achieved with the health platform. Should that be revived or should a new platform be developed? If the latter, what should that platform be?

Another alternative was to use a sub-branding strategy. With this approach there would be implications for both the master brand (LG in this instance) and the sub-brand (e.g., XCanvas or MyPC), due to the close relationship between the two. On the plus side it could extend the master brand into new segments or categories. Sub-branding could also affect consumer perceptions of both the master and the sub-brand. For instance, associations such as the master brand's established nature could transfer to the sub-brand and boost its credibility. It could also give specific meaning to the sub-brand by transferring specific values associated with the master brand. Conversely, the sub-brand could influence the master brand by transferring certain associations, particularly those tied to the new segment or category, which could change the consumer's perception of the master brand. A sub-branding approach would, however, limit the sub-brand's freedom to create a totally distinct brand image.

A related option would be to use LG as an "endorser brand". In this approach the consumer would be informed that the product brand came from LG, for instance for PCs, if LG adopted this approach, the computer brand would be 'MyPC by LG'. When the master brand acts as an endorser, it plays a relatively minor role; it provides credibility and substance to the endorsed brand, which in the context of LG would come from the organisational associations of the corporate brand. If LGEIL went with either a sub-brand or endorser brand option (or a combination), the question to answer would be: what should be the set of brands that LGEIL should have and what exactly should their relationship to the master LG brand be?

A more extreme option, labeled the "house of brands", would allow the firm to position each of its brands clearly on distinct benefits in specific niche markets, enabling them to potentially dominate the niche. For instance, in Korea LG refrigerators were marketed exclusively under the Dios brand name, with no reference at all to LG. However, such a strategy implied a limited link between the two brands and would completely sacrifice the economies of scale that came with leveraging a brand across multiple businesses.[13]

Arora and his team, thus not only needed to decide on the specific brand architecture to recommend but also to articulate how the brand should be managed to move it up market. Should a specific innovation agenda be set? Should certain products be emphasised? In particular, what role, if any, should PCs and mobile phones play? What should be the focus of marketing communications and how should they be coordinated? Given the current product-based silos supported by different agencies, how could this be achieved? Coordination of above-the-line and below-the-line spending in the form of sales promotions also needed to be controlled and coordinated.

A lot of questions remained to be answered before next week's meeting with CEO Kim. Time was short. Arora needed to weigh the market numbers, consider consumer behaviour and explore the potential for growth in making his marketing strategy recommendations.

13 Aaker, David A. and Joachimsthaler, Erich. "The Brand Relationship Spectrum: The Key to the Brand Architecture Challenge", California Management Review, Vol. 42, No. 4, Summer 2000, p.10.

Exhibit 1

LGEIL Historical Timeline and Number Ones

1997
LGEIL founded
Launched colour TVs, washing machines, and refrigerators

1998
Launched air conditioners
Inaugurated NOIDA plant (production of colour TVs, air conditioners and washing machines)

1999
Started production of microwave ovens (NOIDA plant)
Achieved #1 status in colour TV category

2000
Started production of refrigerators (NOIDA plant)

2001
Started production of monitors
Achieved #1 status in air conditioner category
Started production of frost-free refrigerators

2002
Started production of DC refrigerators
Achieved #1 status in washing machine category

2003
Started production of computers
Achieved #1 status in refrigerator category

2004
Started production of personal computers
Inaugurated Pune plant (production of colour TVs and refrigerators)

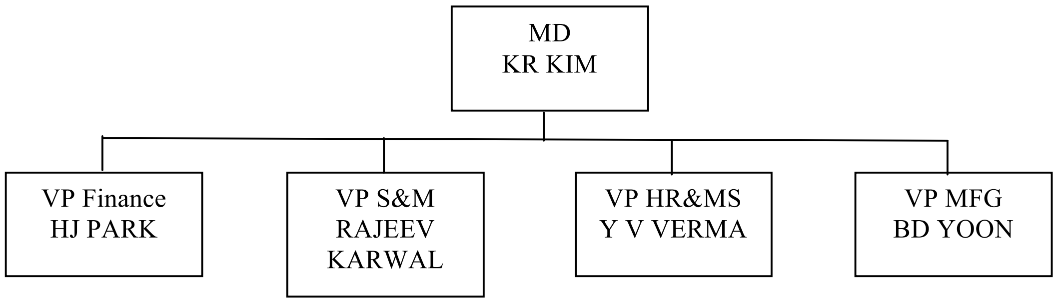
2005
Started production of GSM

2006
Started production of ODD

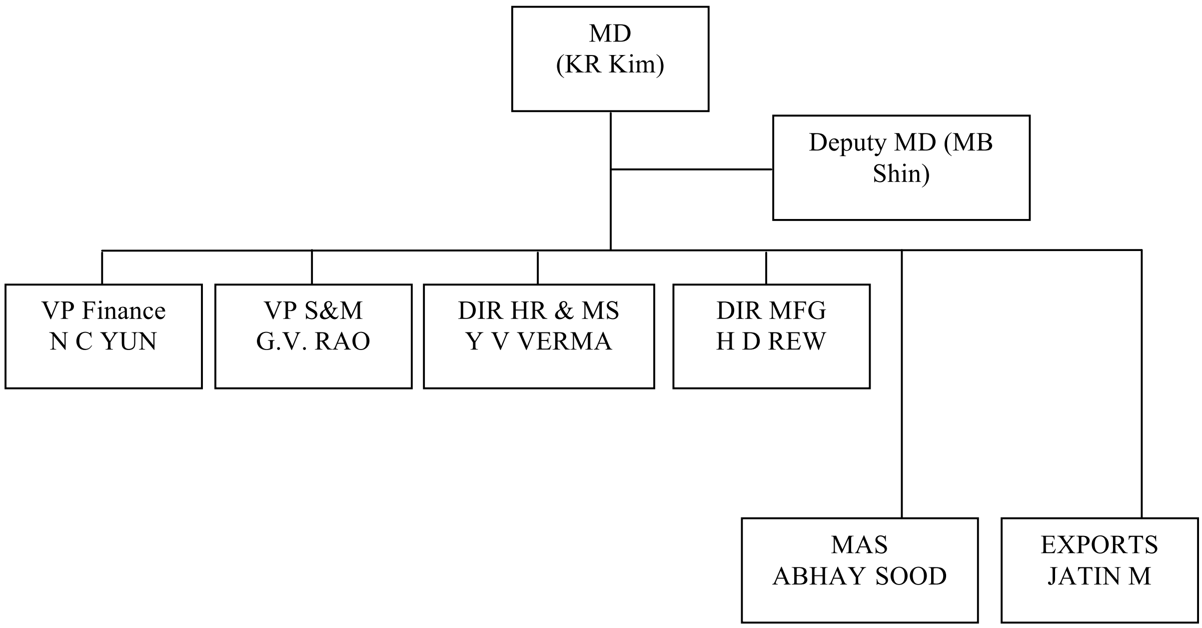
Source: LG Electronics.

Exhibit 2
LGEIL Organisation

Organisation Chart, 1997



Organisation Chart, 2006

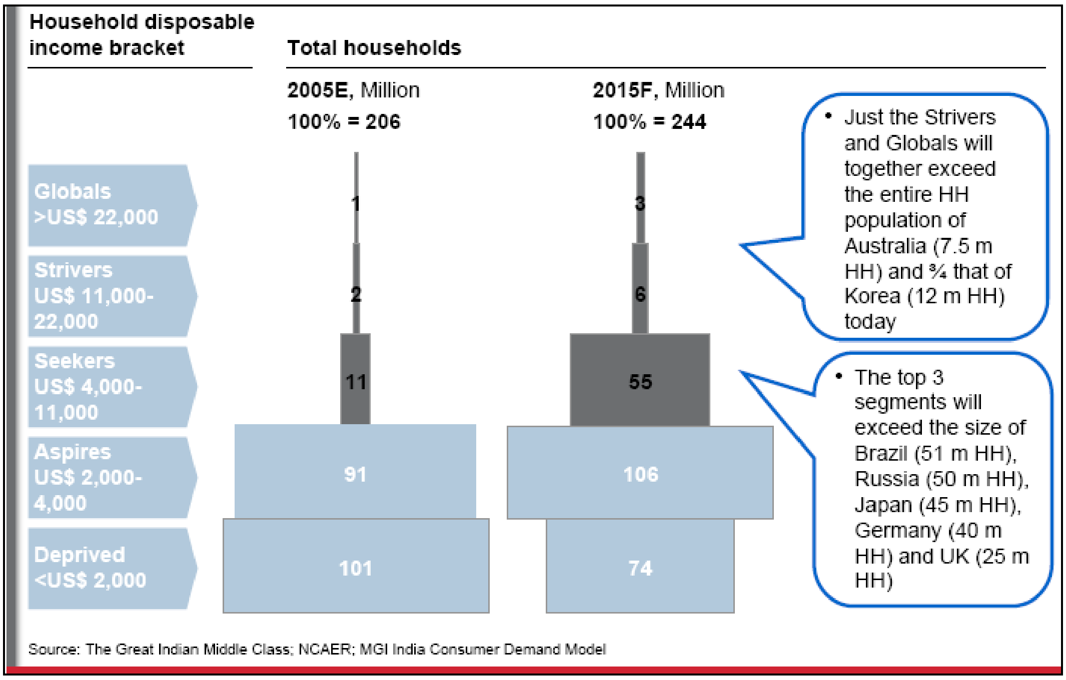


Source: LG Electronics.

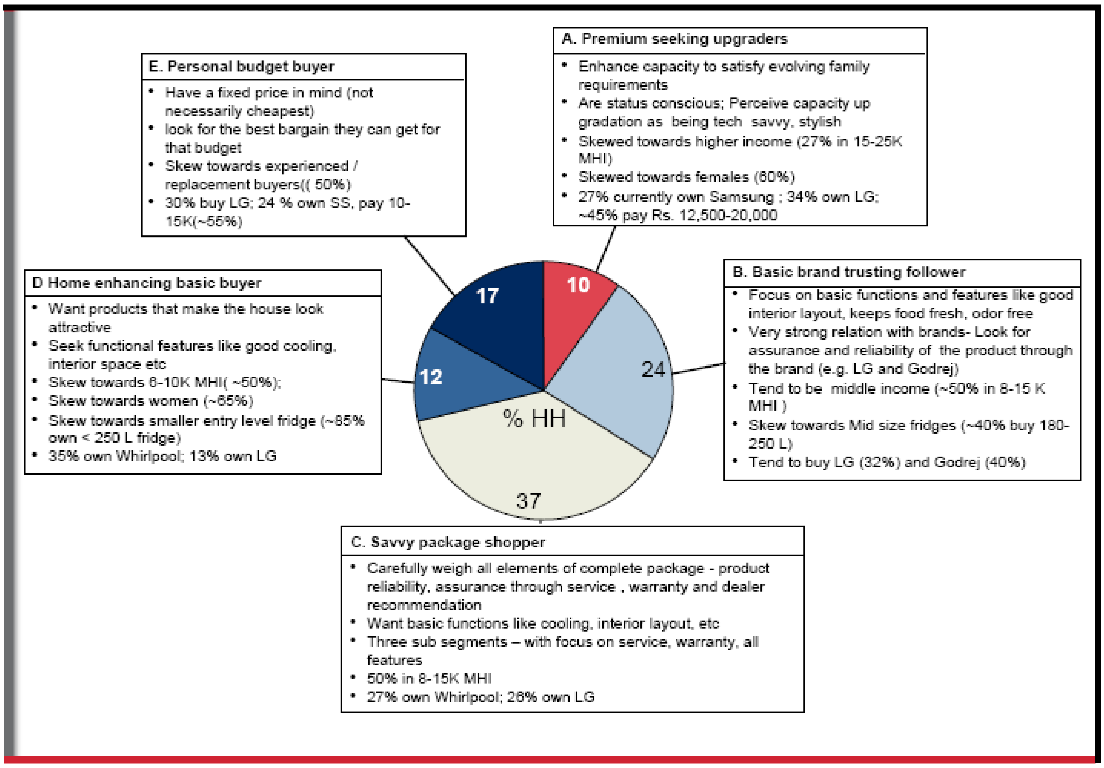
Exhibit 3

Market Segments in India

Demographic Segments

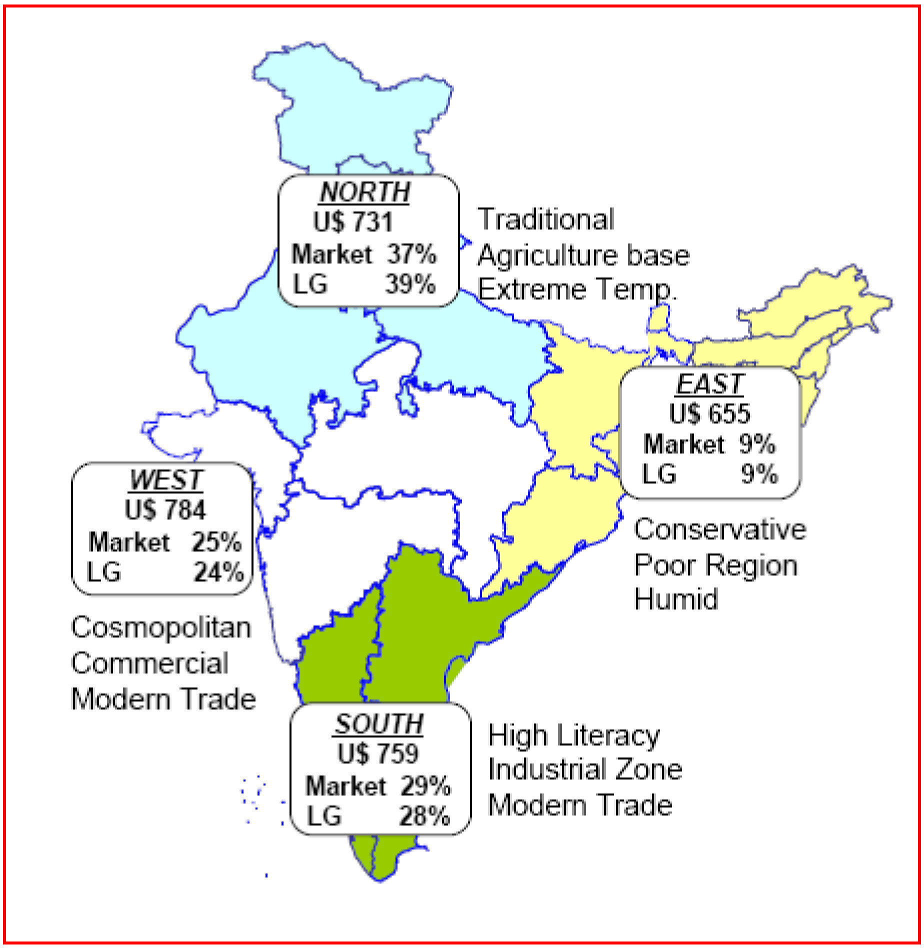


Psychographic Segments



Source: LG Electronics

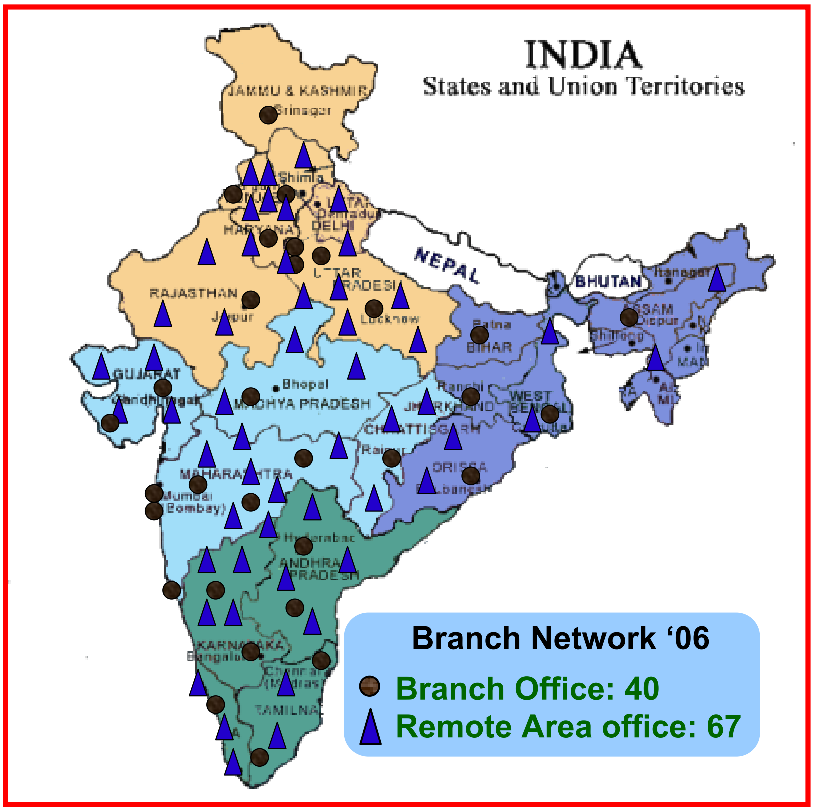
Exhibit 4
Purchasing Power by Region



Source: ORG GFK Indian Readership Survey.

Exhibit 5

Distribution of Branch Offices and Remote Area Offices, End of Year 2006



Source: LG Electronics.

Exhibit 6

Competitive Analysis: Mobile Phones

	Nokia	Moto	Sony E	SS	LG
Design	◑	●	◑	◕	◑
Line-up	●	◑	◕	◕	◔
Service	◑	◑	◑	◑	◕
Quality	◕	◑	◕	◑	◑
Battery	●	◕	◕	◑	◑
Feature	●	◕	◕	◑	◑
Network	●	◕	◕	◑	◑
Promo	●	◕	●	◑	◑
Market Share	→	↗	↗	↘	↗

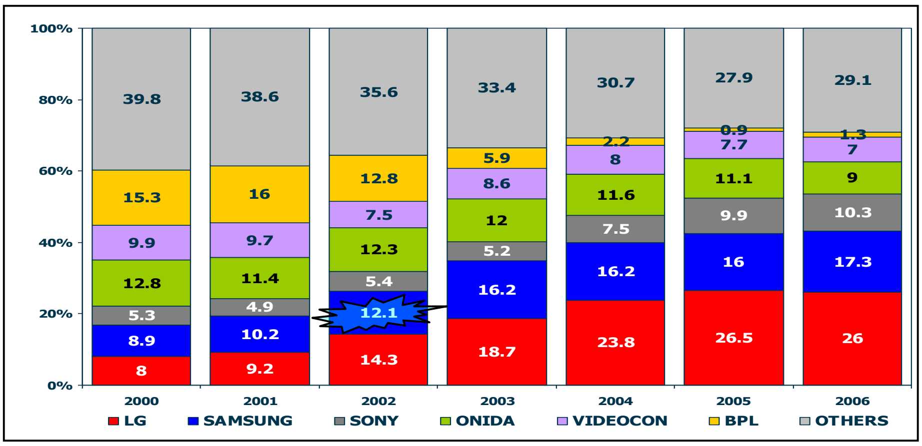
● **Excellent** ◕ **Good** ◑ **Average** ◔ **Poor** ○ **Very Poor**

Source: LG Electronics.

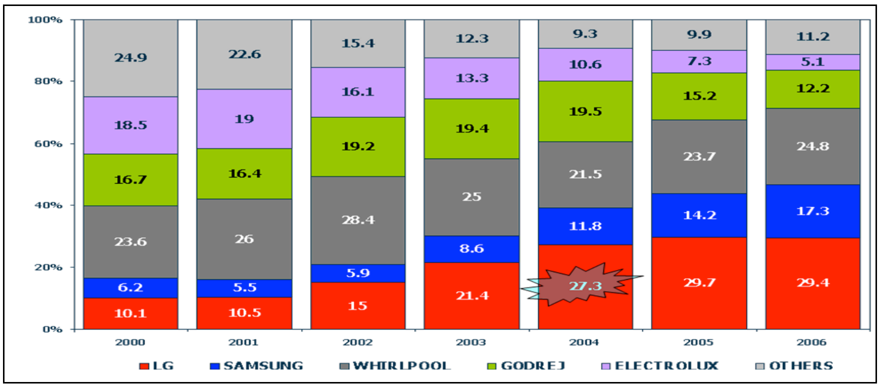
Exhibit 7

LGEIL Performance by Category with Competitors

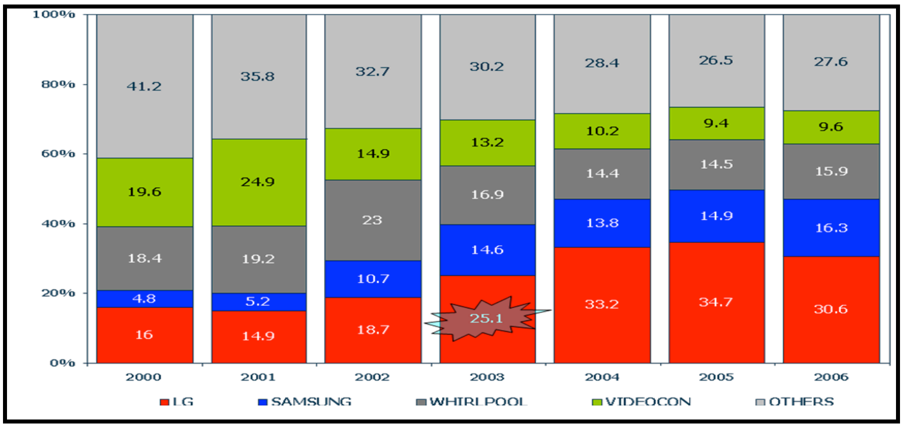
CTV



Refrigerators



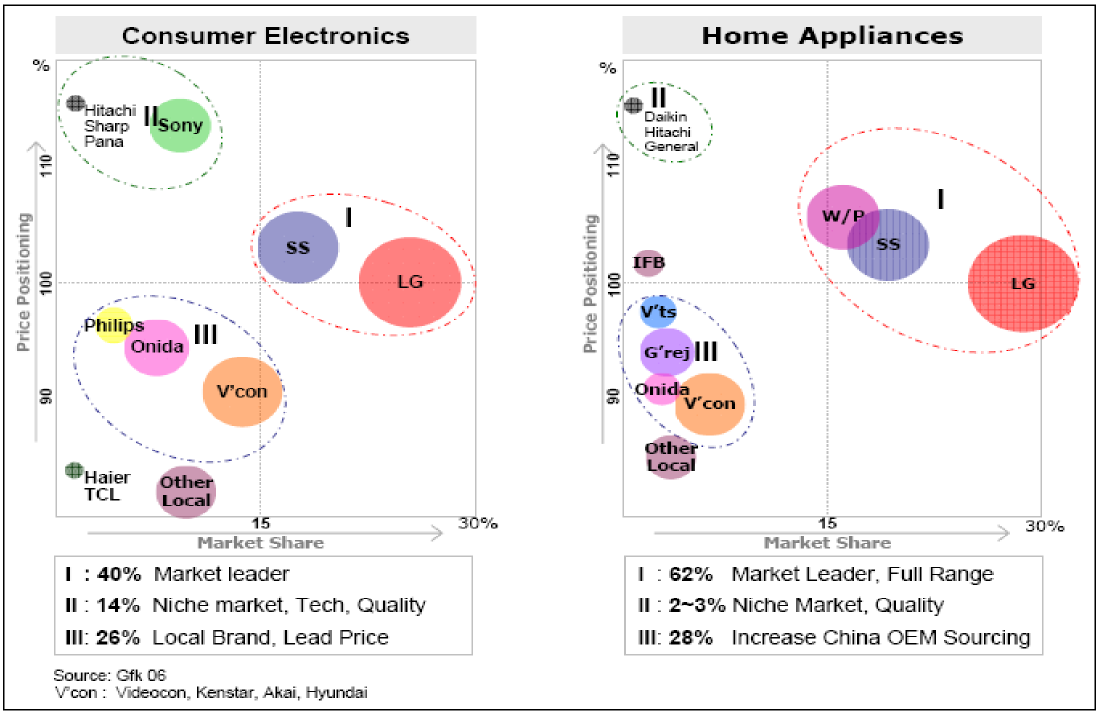
Washing Machines



Source: LG Electronics.

Exhibit 8

LGEIL Competitor Analysis 2006



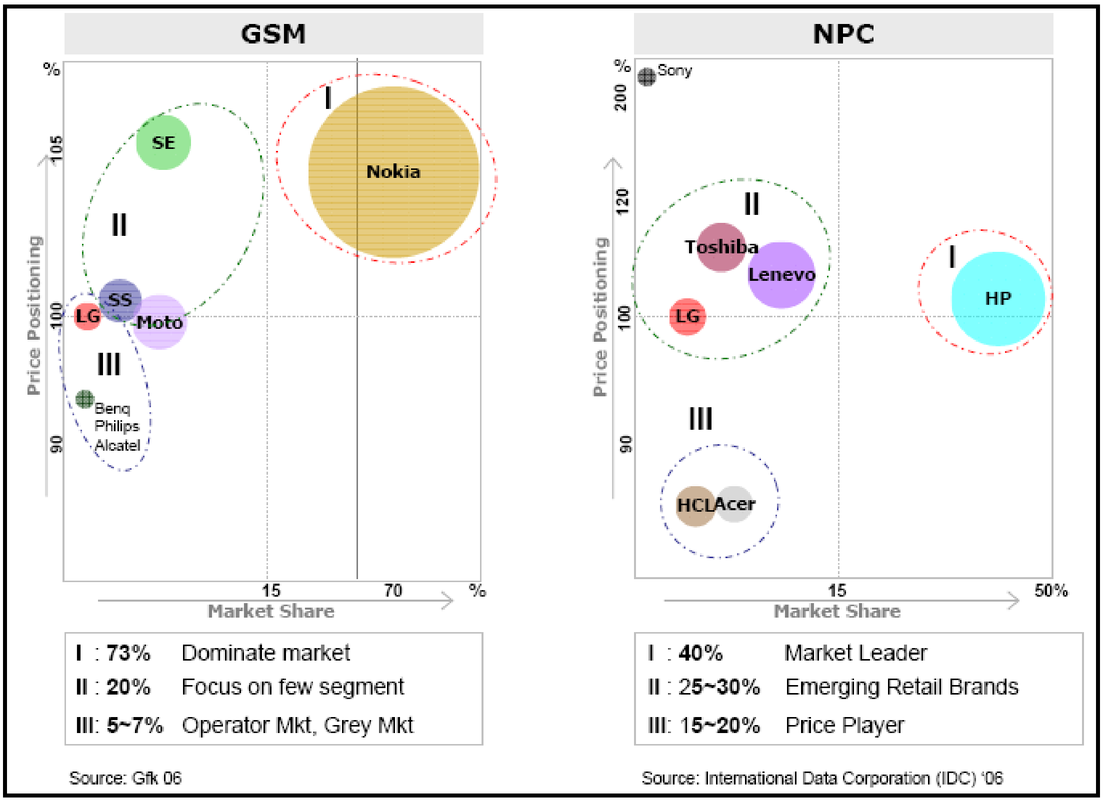


Exhibit 8 (Cont'd)

LGEIL Competitor Analysis 2006

	'06 T/Over	Position	Channel	Network	Ad Investment	Service	Mfg	Local R&D
LG	100	◑	◕	◕	◕	◕	●	◕
SS	59	◕	◑	◑	●	◕	◕	◑
W/P	16	◕	◑	◑	◑	◔	◕	◑
Sony	19	●	◔	○	◑	◑	NA	NA

● Excellent ◕ Good ◑ Average ◔ Poor ○ Very Poor

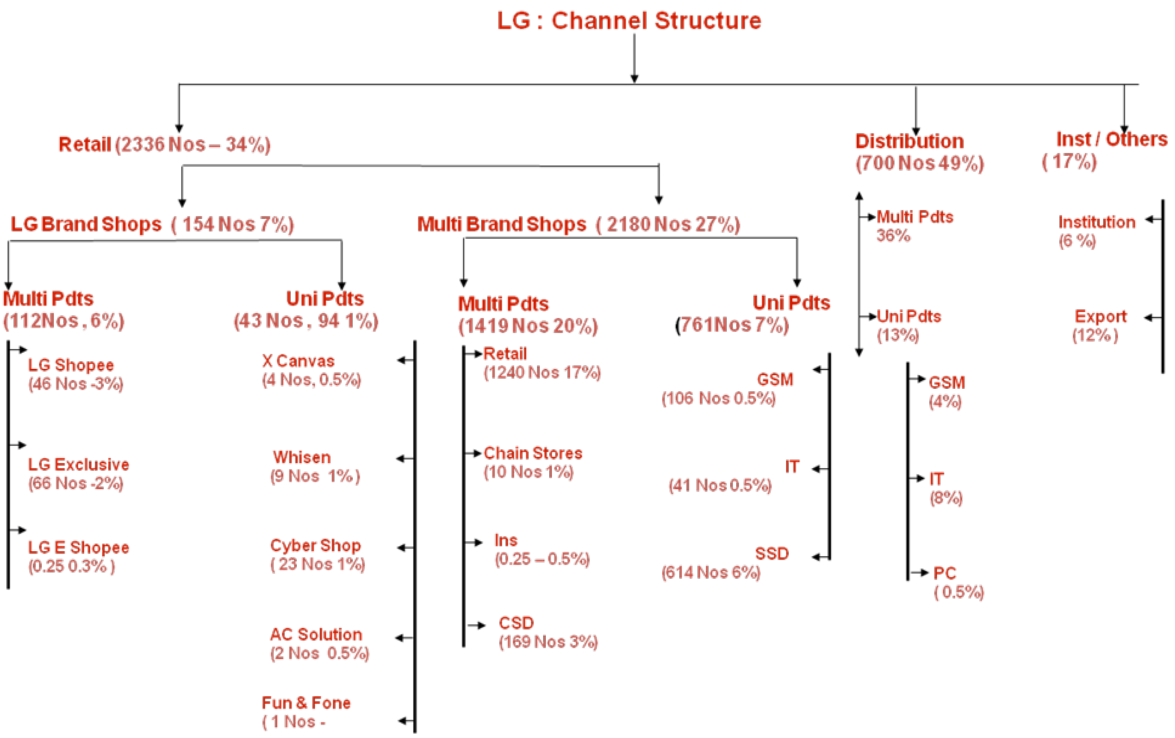
	Strength	Weakness
LG	• Network, Channel, Service	• Communication
SS	• Design, Communication	• Channel
W/P	• Communication, Manufacturing	• Network, Service
Sony	• Brand, Product	• Network

Source: LG Electronics.

Exhibit 9

LGEIL Distribution Channel

Channel Structure



Direct Dealers and LG Brand Shops

Exhibit 9 (Cont'd)

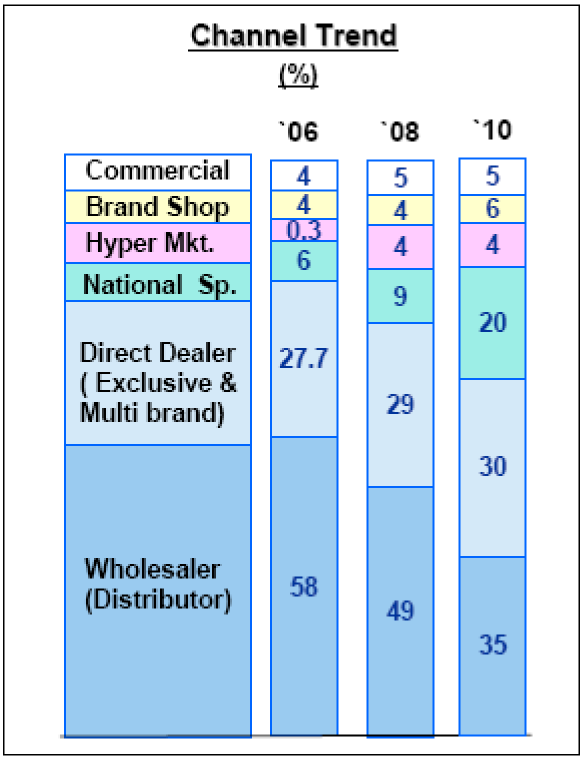
LGEIL Distribution Channel

Sub-Dealers

Source: LG Electronics.

Exhibit 10

LGEIL Internal Channel Analysis 2006



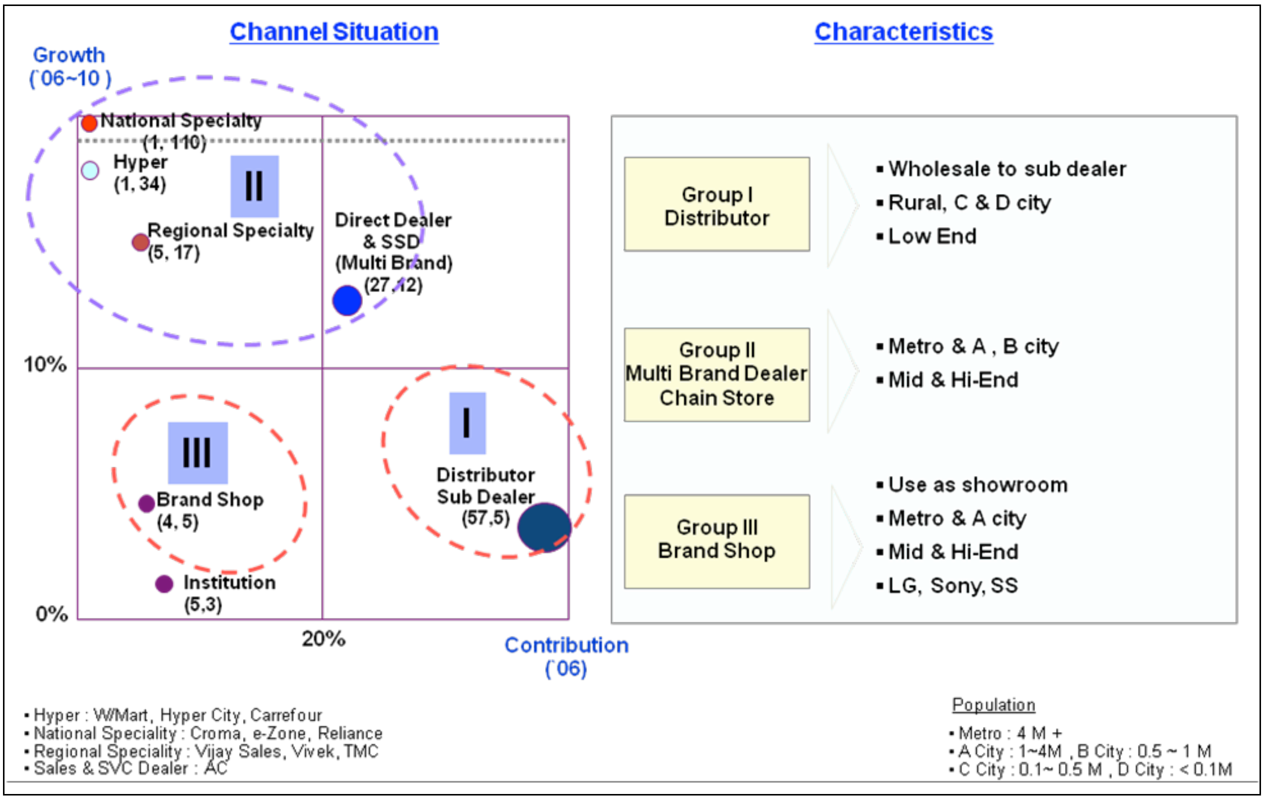


Exhibit 10 (Cont'd)

LGEIL Internal Channel Analysis 2006

Channel Type	Growth	Profit	Model Mix	No of Store	Loyalty	Price Position
National Specialty (Cont '06 :1%)	Excellent	Average	Good	Excellent	Poor	Good
Regional Specialty (Cont '06 : 6%)	Average	Very Poor	Good	Average	Poor	Average
Hyper (Cont '06 : 1%)	Good	Average	Poor	Poor	Poor	Poor
Distributor (Cont '06 : 55%)	Poor	Good	Very Poor	Average	Good	Poor
Multi Brand Dealer (Cont '06 : 24%)	Average	Average	Average	Average	Average	Average
Brand Shop (Cont '06 : 5%)	Poor	Average	Good	Poor	Excellent	Excellent

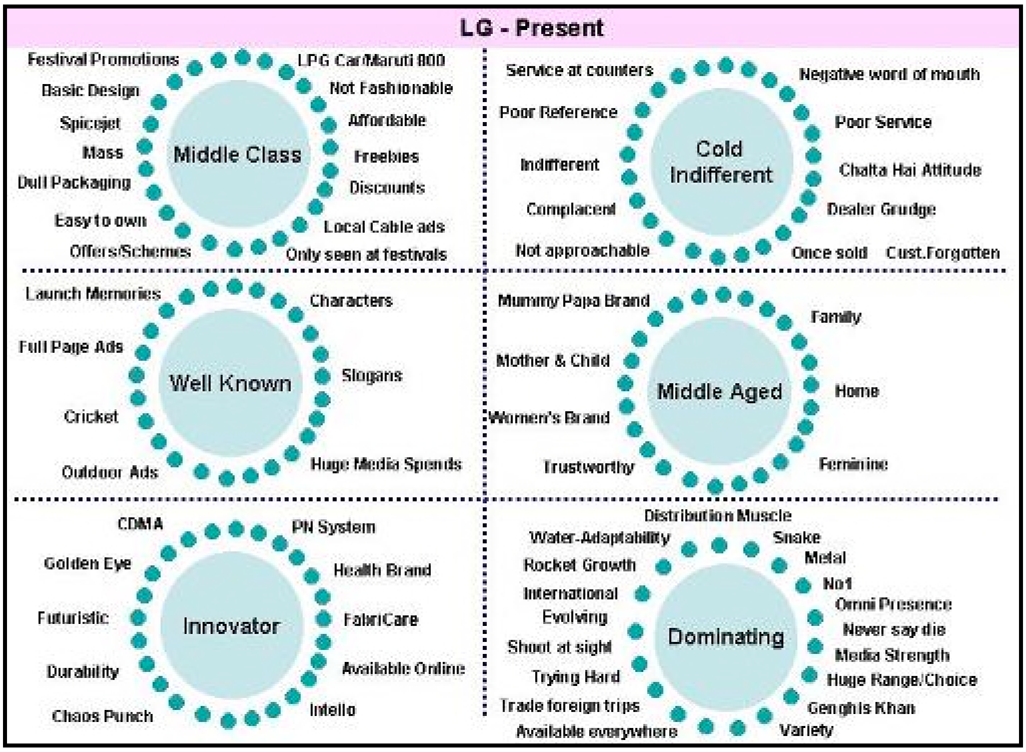
Excellent Good Average Poor Very Poor

- Hyper : W/Mart, Hyper City, Carrefour
- National Speciality : Croma, e-Zone, Reliance
- Regional Speciality : Vijay Sales, Vivek, TMC

Source: LG Electronics.

Exhibit 11

LG and Competitor Brand Perception Among Indian Consumers



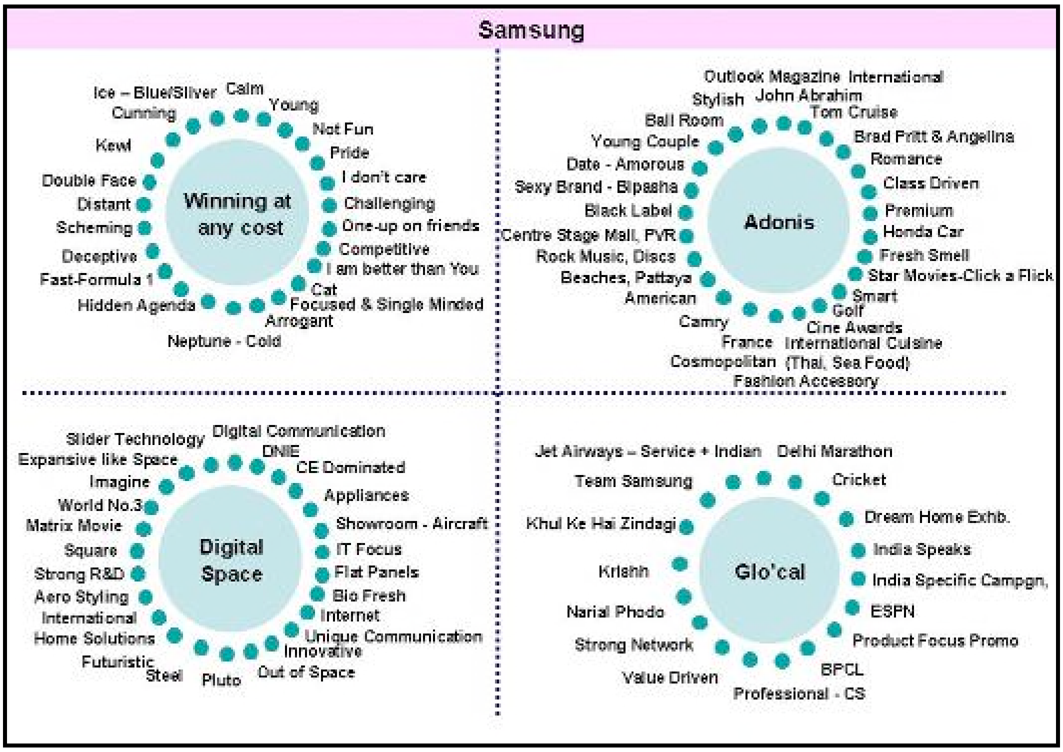
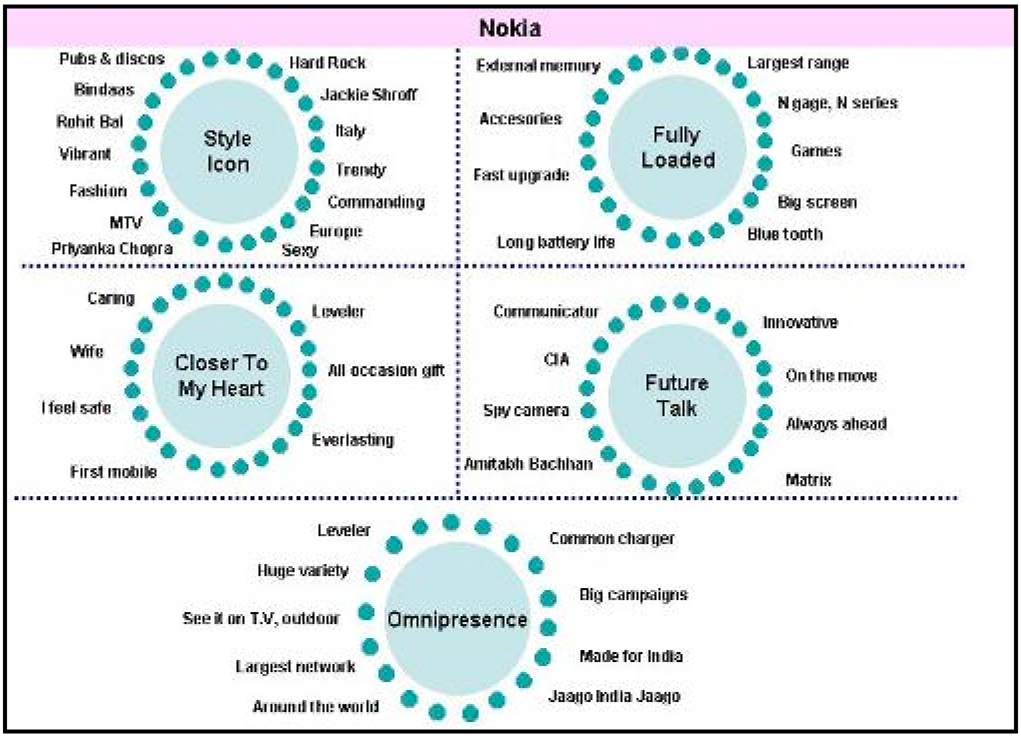


Exhibit 11 (Cont'd)

LG and Competitor Brand Perceptions Among Indian Consumers



Source: LG Electronics.

Exhibit 12

The LG Brand Position and Identity Guidelines from Corporate HQ

LGE Brand Positioning

LG strives to enhance the customer's life (and lifestyle) with our intelligent features, intuitive functionality, and exceptional performance. Choosing LG is a form of self-expression and self-satisfaction. Our customer will take pride in owning the amazing, and take comfort in knowing s/he made a smart, more informed decision.

LGE Brand Identity Overview

Values	Promise	Benefits	Personality
Trust Innovation People Passion	To provide tangible innovations that enrich the lives of our customers	Reliable product Simple design Ease of use Extraordinary experience	Trustworthy Considerate Practical Friendly
The brand's core values that never change	What the brand promises to deliver	The benefits that are consistently delivered to the customer	Human characteristics that are expressed to the customer

LGE Values

Trust

We are honest and responsible. We always keep the promises we make to our customers in our bid to become the world's most trusted brand.

Innovation

We provide the most innovative products and services. Our innovations are made not for technology's sake, but for our customers' benefit. From the most basic features to the most sophisticated technology, our products are designed to give our customers substantial value (technology for customers, not for engineers).

People

Respecting and caring for our customers is the driving force behind our philosophy in human-centric product development. Respecting and caring for our employees make this a reality.

Passion

We are very passionate about providing products and services that satisfy the unmet needs of customers, as well as those potential needs they have yet to recognize.

LGE Promise

LG provides tangible innovations that enrich the lives of customers.

Source: LG Electronics.

Exhibit 13

LGEIL's Portfolio of Product Brands, Ingredient Brands, and Branded Benefits

TV: Flatron (flat screen), XCanvas (plasma/LCD), Goldeneye (technology), and XDEngine (technology)

Refrigerators: Dios (product), GIDC[14] (technology), PN System (benefit) and Food Guard (benefit)

Washing Machines: Tromm (product), Direct Drive (technology) and Fabric Care (benefit)

Air Conditioners: Art Cool (product), AeroDNA (technology), and Healthair (benefit)

Microwave Ovens: Solardom (product), WavDom (technology), Healthwave (benefit)

Vacuum Cleaners: Cyking (product), HEPA (technology) and Healthguard (benefit)

PC: MyPC (product) and XNote (product)

Source: LG Electronics.

[14] Green Ion Door Cooling technology.

