Samsung

It's never too late to fix your brand

When Korean electronics giant Samsung launched an Internet-ready fridge in 2002, it was more an attention-seeking exercise than anything else. Did anybody really want a fridge with a computer screen stuck on the front? It didn't matter—the Internet fridge appeared in ads and magazine stories the world over and made everybody ask, Samsung? What is Samsung?

Not long ago, the answer would have been: a no-name manufacturer of commodity-class microwaves and cheap TVs, the brand you bought when you couldn't afford anything better.

Today, Samsung has successfully repositioned itself as a prestige brand with a flood of desirable products backed by clever, focused marketing campaigns. In the United States, it is now the top seller of television sets over $3,000. It leads the market in sales of flat-panel computer displays, and is a whisker behind Motorola and Nokia in mobile phones. And as the Internet fridge suggested, Samsung is not just after its share of the present—it wants a big piece of the future, too. The fridge was just a taste for the global market. In Seoul, Samsung has fitted out a whole apartment complex with "smart" appliances, allowing 3,000 families to control washing machines, dim the lights, open the blinds, adjust the air-conditioning, and even wake up to freshly brewed coffee from a single remote control—a bold, even unlikely vision. But Samsung's claim that it would soon be a world leader in electronics, which once would have sounded absurd, is rapidly coming true.

The company, one of Korea's vast, family-controlled conglomerates known as chaebol, started life in 1938 as a trading operation, sending dried fish and fruit to Japanese-occupied Manchuria. Its founder, Lee Byung-Chul, was a regular visitor to Tokyo. A keen student of Japanese management practices, Lee made human resources a priority and claimed he spent 80 percent of his time hiring and cultivating good talent. After World War II and the Korean War, Samsung benefited from government rebuilding programs and under Lee's leadership the firm diversified rapidly into shipbuilding, petrochemicals, and aircraft maintenance. By the time Lee died in 1987, handing the company over to his son Lee Kun-Hee (the company's chairman today), Samsung had dozens of separate businesses including semiconductors, financial services, watches, and even a baseball team. While Samsung Electronics was its largest division, the company as a whole was still a vast and unwieldy conglomerate when the Asian economic crisis struck in 1997. Samsung had also started building a massive auto plant that was on target to be producing 500,000 cars a year by 2002. Had it continued down that path it is all too possible it would have encountered the same vast losses as the other Korean car-makers, which all but bankrupted Daewoo and Ssangyong.

The Korean economic crisis forced a swift rethink of Samsung's expansion plans. By the middle of 1998, Samsung Electronics, the Samsung Group's cash cow, was rapidly heading backwards. In response, Samsung Electronics CEO, Yun Jong-yong, pledged to cut costs by 30 percent in five months or resign. Yun's measures were drastic, cutting 20,000 jobs and ending the policy of lifetime employment. He reportedly turned down the heating in the head office so low workers had to wear thermal underwear, and cancelled executive perks such as golf club memberships. By 2000, Yun had wiped out $10 billion in debt, and Samsung Electronics was profitable. It was also now the group's core business—Lee Kun-Hee having decided to sell off many of the less profitable arms, including watches and medical equipment, and phase out low-end products such as electric fans and radios.

Since 1983, Samsung had invested heavily in semiconductors, particularly memory chips, which are essential to most electronic devices. By the late 1990s, though, prices for memory chips had reached commodity levels and many players decided to get out of the business. When the market for chips rebounded at the end of the 1990s Samsung was the dominant manufacturer, and, thanks to its investment in research and development, was able to command premium prices.

The healthy cash flow from chip sales to companies including Sony now allowed Yun Jong-yong to pursue the next stage of Samsung's revitalization: its transformation into a premier consumer brand. Why just sell chips to others when it could use them to power its own products? Samsung's diversity, once seen as a liability, now became an asset. Already manufacturing everything from mobile phones to televisions, Samsung was perfectly placed to take advantage of the increasing interest in digital convergence. Korea, which had embraced the Internet with the highest uptake of broadband in the world, was a perfect test market for products such as video-capable mobile phones.

What Samsung, best known to Western consumers as a manufacturer of microwave ovens, did not have was brand cachet. But as companies such as Levi's, Nike, and even Sony have discovered in recent years, brands are no longer immutable.

It fell to Eric Kim, headhunted in 1999 to become head of global marketing operations, to make Samsung desirable.

Kim hired hundreds of designers to crank out cool-looking products and spent close to $1 billion advertising them—2001's DigitALL campaign reportedly cost $400 million alone—to change customer perceptions. In July 2003, the global consulting firm Interbrand declared Samsung the world's fastest growing brand.

A blizzard of products created some major hits, among them a gorgeous Porsche-designed flat-screen computer monitor and a mobile phone widely embraced by U.S. networks.

Kim said the focus fell on three qualities: "wow," simplicity, and exclusivity. Each department has a quota for how many 'wow' products it must create each year. Samsung does not expect everything to succeed, but such devices as the Internet fridge and a robot vacuum cleaner create a halo effect for the more mundane products.

"It normally takes decades to grow a brand," said Kim. "We achieved tremendous success in coming from nowhere to be one of the top contenders, but in some ways that was the easier challenge. To be truly number one, you have not simply to be known. You have to be loved."

Superficially, Samsung, which accounts for 20 percent of Korea's exports, now appears to be a multinational corporation like any other. However, Samsung's corporate governance structure is still that of a chaebol; it is a public company, but the Lee family owns a controlling interest. Group Chairman Lee Kun-Hee, sixty-one, is the wealthiest person in Korea with assets worth around $2.8 billion. He demands absolute loyalty from employees, and, in the best tradition of chaebol, his rule has been tainted by charges of bribing politicians and subsidizing weaker companies.

Analysts complain that family control makes Samsung's finances murky: in 2001 Korean courts found evidence of internal corruption and fined company executives. And despite his progressive attitudes about recruitment, Lee still plans to hand the company on to his Harvard-educated son, Lee Jae yong, recently promoted, at age thirty-five, to vice president of Samsung Electronics.

NOTES

"It normally takes decades to grow a brand . . ." Pesola, Maija. "From Microwaves to the Matrix," *Financial Times*, 9.11.03, p. 8.

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