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The Rise of Samsung Electronics

IN 2012, SAMSUNG, with $248 billion in revenues, was one of the largest conglomerates globally and the largest *chaebol*[1] in South Korea. A rough comparison would be the U.S. conglomerate General Electric, which had $147 billion in revenues in the same year. Established in 1938 by Lee Byung-chul as a trading company selling noodles and dried seafood, Samsung has since diversified into various industries, such as electronics, chemicals, shipbuilding, financial services, and construction. In particular, Samsung is widely diversified with 83 standalone subsidiaries. The conglomerate accounts for a fifth of all South Korean exports. In 1987, Lee Kun-hee, the youngest son of the founder, took over as chairman of the conglomerate after the death of Lee Byung-chul. By that time, Samsung had become an industry leader in many of its markets.

Samsung Electronics, the flagship subsidiary of Samsung (and best known in the U.S. for its Galaxy line of smartphones and tablets), was initially set up in 1969 to produce home appliances. In 1988, Lee Kun-hee merged Samsung Electronics with Samsung Semiconductors to integrate manufacturing. By 1992, it had become the worldwide market leader in DRAM (dynamic random access memory). Samsung Electronics, however, aspired to be more than a leading supplier and OEM (original equipment manufacturer). Its strategic intent was to be the leader in branded consumer electronics.

Samsung's image, however, was overshadowed by Sony and Motorola, the undisputed world leaders in consumer electronics and mobile phones during this time. In 1988, Samsung Electronics launched its first mobile phone in the South Korean market. It flopped because of the phone's poor quality. In the early 1990s, Samsung Electronics' market share in mobile phones in South Korea was a mere 10 percent compared to Motorola's 60 percent.

The pivotal moment in redefining Samsung Electronics' strategic focus came in early 1995. Samsung's chairman, Mr. Lee, sent out mobile phones as New Year's gifts to hundreds of key business partners. A public embarrassment occurred when Mr. Lee later learned that the phones he had send out as personal gifts didn't work properly. Mr. Lee ordered drastic changes. In front of Samsung's Gami factory with 2,000 employees watching, Mr. Lee set fire to a pile of 150,000 mobile phones to show his disappointment and determination alike. Many Samsung employees credit this day as the beginning of a successful turnaround.

Samsung Electronics increased spending significantly on R&D as well as on marketing and design. Meanwhile, Mr. Lee was undertaking a complete overhaul of the conglomerate's structure in order to change Samsung's culture. To a culture that deeply values seniority, Mr. Lee introduced merit-based pay and promotion. Mr. Lee (who holds an MBA degree from George Washington University) hired Western managers and designers into leading positions and sent home-grown talent to learn the best business practices of other firms around the globe. Mr. Lee also set up the Global Strategic Group to assist non-Korean MBAs and PhDs with a smooth transition into their positions in a largely homogenous cadre of employees.

Mr. Lee appointed a new CEO for Samsung Electronics in 1996, Yun Jong-Yong. Mr. Yun aggressively trimmed costs and sold off unproductive assets during the Asian Financial Crisis in 1997, making the company leaner and more agile. Subsequently, through improved operational efficiency and an integrated manufacturing process, Samsung Electronics shortened the time needed to respond quickly to changes in market trends. It chose to be a fast follower, investing only after a new product category had proven market traction. Once such categories were identified, however, Samsung vastly outspent competitors in order to develop leading electronics products. For example, the company started making batteries for digital gadgets in 2000. Ten years later, it became the world's largest producer of this critical component. In 2001, Samsung started to invest in flat-panel televisions. Just four years later, Samsung was the world's leader in flat-panel TVs. In 2002, Samsung Electronics bet on flash memory, the technology that runs Apple's iPads and iPhones. Providing not only batteries but also flash memory, Samsung is Apple's largest supplier today.

Samsung Electronics applied the same "follow first, innovate second" rule to smartphones. Being a key component vendor to other leading technology companies including Apple, Samsung was able to see easily what directions other companies were taking. It made a range of smartphones tailored to customers in different price categories. Within two short years, it had overtaken Motorola, HTC, BlackBerry, and eventually even Apple to become the number-one vendor of smartphones in the world and the largest technology company by revenues globally (see Exhibits MC14.1 and MC14.2).

Although Samsung has gained a temporary competitive advantage, sustaining it will be even more difficult for a number of reasons. First, Samsung's competitive advantage was built in large part by following its "follow first, innovate second" rule. To keep its number-one spot in the world's technology industry may be a challenge for a company that intends to be a follower rather than a leader. Second, Chinese technology companies such as Lenovo and Huawei are also looking to join the battlefield in smartphones. Third, Apple and Samsung have been locked in ongoing court battles about who infringed the copyrights of whom and in what type of smartphone models. Samsung has already lost a high-profile case against Apple in a California court, where damages were reduced later to some $500 million.

To provide new avenues for future revenue growth, chairman Lee laid out five new business areas in which Samsung plans to invest some $20 billion by 2020. The five areas include (in order of size of investment): LED lighting, solar panels, e-vehicle batteries, biotech drugs, and medical devices.

Succession planning is another challenge Samsung is facing. The family of the late founder, Lee Byung-Chul, still controls a majority of the shares. At 71, Lee Kun-hee has long-groomed his eldest son Jay Y. Lee (43) to be his successor as chairman of Samsung. It remains to be seen whether the younger Mr. Lee, as grandson of the founder, can maintain Samsung's momentum.

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Please answer the following questions by analyzing the case. 請中文作答

1. Describe Samsung as a conglomerate. What type of diversification does Samsung pursue? Identify possible factors such as core competencies, economies of scale, and economies of scope that might underlie its success as a diversified conglomerate (chaebol). Which do you consider its key success factors? 50%

2. What can Samsung Electronics do to sustain its competitive advantage in smartphones? Should Samsung change its "follow first, innovate second" approach as it seeks to build a competitive position in new product areas other than smartphones? 50%

EXHIBIT MC14.1 / Global Smartphone Shipment by Vendor (2009–2012, in millions)
SOURCE: Authors' depiction of data from "How Samsung's rise is reshaping the mobile ecosystem," *Business Insider*, March 14, 2013.

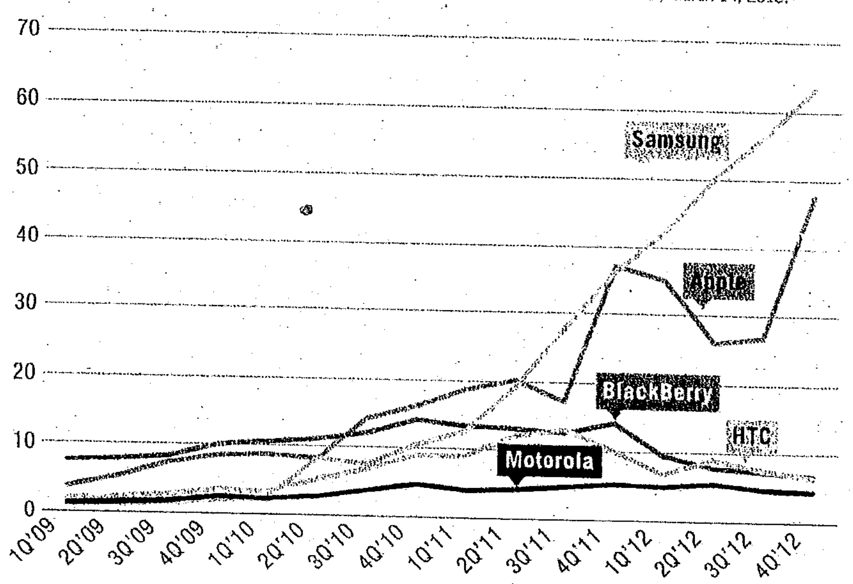

EXHIBIT MC14.2 / Samsung Electronics' Revenues (left vertical axis) and Operating Profits (right vertical axis), in $ billions, 1997–2012
SOURCE: Authors' depiction of data from Samsung's Annual Reports, 2008–2012.