Global Learning Case: Samsung: Building a Great Brand

Ten years ago, Samsung Electronics Company sold a bunch of low-end electronics under various brand names such as Wiseview, Tantus, and Yepp. New management decided to ditch these names and brand all of its products Samsung. At the same time, it invested heavily in design and product quality and in 10 years, it now makes top-of-the-line cell phones and digital TVs that showcase its technological advancements. These are products to which consumers form strong bonds because they use them so much. Between 2000 and 2005, Samsung grew its brand equity by 186 percent, the second-biggest gain in value (behind Google), passing Sony who once had the premier brand reputation in electronics. Good looks, ease of use, useful features—these are the keys to building a great brand reputation. The ultimate driver of brand reputation is a quality product development process.

In 1993, then Samsung Chairman Lee Kun Hee visited the United States and saw for himself that Samsung products were also-rans, lost in the crowd, overshadowed by Sony’s standout design. He correctly concluded that great design and innovation were the ways to build Samsung into a great global brand.

Did he hire hundreds more great marketers to build a great brand? No. He hired hundreds more young hip designers, many trained in premier U.S. higher-education schools of design (the number of designers employed by Samsung increased from about 100 to more than 450 in the next decade, with an average age of 33). Designers were sent all over the world to great museums, art galleries, ancient ruins, and illustrious modern architecture. They now also spend Sabbaticals with design consultancies, fashion houses, furniture designers, and other centers of design excellence abroad. Samsung designers come back with their minds loaded with great design ideas; they lead the product development, not marketers. It is hard to argue with this process of inspiring great design innovation: hire creative, well-trained young designers who are willing to take risks and light up their minds.

But the Samsung product development process also involves a very grounded “usability laboratory” in downtown Seoul to study how consumers get products out of boxes, read or do not read instruction guides, and follow icons and instructions on cell-phone screens. Understanding the user interface is key to Samsung, and has been key to its success.

But Samsung also has design centers in San Francisco, London, Tokyo and Shanghai. And to support great design is a research and development center just outside Seoul, South Korea. Here the top-gun engineers and designers hunker down and solve the toughest product specification and design problems, working 24/7 in a five-story building equipped with sleeping dormitories, a sauna, a gym, billiards, and ping-pong tables. No layers of bureaucracy trying to justify their not-very-productive existence; no endless committees; no staged review gauntlets, stop-go-dawdle reviews, or somewhat fawning ritual presentations to distracted senior executives: “Everybody knows that bureaucracy means death to new ideas, yet most companies still insist on forcing innovative products and ventures through a gauntlet of presentations and reviews and refinements.” No nay-saying lawyers. No delaying actions by feuding factions or senior executives pulling rank and exercising political brinkmanship at this R & D center. No “that is not the way we do things around here.”

The 24/7 approach to problem solving is pretty intense but compelling in its logic. Other companies such as Steelcase, the Mayo Clinic, P&G, and Motorola are developing and using similar innovation labs. It involves concurrent engineering and fast prototyping, and deviates quite considerably from yesterday’s best-practice process of product development presented in Module 6. For Samsung, 80 percent of quality, cost, and delivery time is determined in the initial stages of product development and Samsung is obsessed

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with reducing complexity at this stage. Samsung practices what Confucius and Albert Einstein preached, respectively: “Life is really simple but we insist on making it complicated,” and “Everything should be made as simple as possible, but not simpler.”

What the best product development companies do is create simple products, get feedback from customers, make the product better, and do all of this as fast as they can, or at least, ever faster. You are dead if you do not create simple products; you are dead if you do not get feedback from customers; and you are dead if you do not do all of this quickly. There are a lot of ways of getting “dead” in product development, which is why so many new or improved products fail. The recipe for success in product development is no mystery — it is just very hard to execute.

The drive for improvement is ferocious at Samsung. Samsung cut average product development time down from an average of 14 months to five months. Samsung completely changes its product lines every nine months, Motorola every 12 to 18 months, as if to say, “Motorola and Nokia [who fell behind in mobile phone design in 2005], eat my dust.” Samsung can have the next generation of a product on the market before the competition has its last generation of product out because, as is seen with Motorola, two Samsung product development cycles occur within one Motorola product development cycle. Change management is king at Samsung. The result is that Samsung Electronics has lower manufacturing costs, quicker time to market, an industry-leading profit margin of 21 percent, and from 2002 to 2006 the most industrial design excellence awards of any company, 19 (Apple was second with 15).

And from nothing, the Samsung brand is now worth more than the Sony brand. Philips, Europe’s oldest electronics brand, is also having to learn (again) from another Asian upstart, and is now rebranding itself around the idea of “sense and simplicity.” And how does Samsung view itself now? Its CEO, Jong-Yong Yun, says that Samsung is a good company but that “we still have a lot of things to do before we are a great company.” The drive to improve, to learn, to implement faster and better is as ferocious as ever. Samsung has great process innovators with both process thinking and political skills, who get things done well in a hurry. Is all this process improvement drive in Samsung paying off? Is this the path to shareholder value? Samsung stock has increased in value tenfold since 2000, so owners would probably agree. Remember from Module 1 that the drive to improve, to learn, and to implement faster processes—particularly next-generation product development processes—drives the whole market.

Questions

1. What was the critical activity in the process of Samsung’s transformation into a world-beating developer of new cell phone handset designs and other product line designs?

2. Provide the evidence from the case above, giving examples of the three crucial competitive advantages a firm must have according to the dynamic theory of competition presented in Module 1.

3. Yesterday’s best practice in product development is presented in the module. Where is it criticized in the case?

4. Analyze price strategy, distribution strategy, or promotion strategy of Samsung in the U. S. and compare with one other country in South America, Asian, or Europe.

5. Discuss the Samsung brand itself and compare with Sony or any other brand you think it is the major competitor for Samsung.

6. Provide your suggestions of the future of Samsung in the 4Ps locally and internationally.

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