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## SAMSUNG ELECTRONICS (A): ENTERING INDIA<sup>1</sup>

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With an innovative and aggressive business restructuring process known as “New Management,” Samsung Electronics had emerged as a leader in the global electronics industry. The goal of Samsung’s “New Management” was to develop and market superior products and services for a better global society. Samsung’s managing director, K.S. Kim, presented the new management philosophy<sup>2</sup> for achieving leadership in dynamic global market:

Quality is our top priority. We will do everything possible to produce superior quality products. The second strategy is globalization. The world in which we live is quickly becoming a single market, which requires globalized systems and resources. The third strategy is multifaceted integration. To enhance Samsung Electronics’ global competitiveness, we are reorganizing and integrating our energies and resources.

The restructuring had paid off. In Samsung Electronics, 1994 was a landmark year of prosperity and success. Numerous innovative products were developed, and technological breakthroughs were achieved in its electronics business. More importantly, in some product categories like Dynamic Random Access Memory (DRAM), Samsung clearly emerged as a global leader.

Samsung was one of Korea’s front-runners in growth and profitability. In 1994, operating profit was US\$3.3 billion compared with US\$1.7 billion the previous year. Pre-tax earnings and net profit also grew to US\$1.5 billion and US\$1.2 billion from US\$266.8 million and US\$196.2 million in 1993, respectively. Earnings per share for 1994 were US\$23,418, representing a 482.5 per cent increase from the previous year’s US\$4,120. Samsung declared a five per cent cash dividend and a two per cent stock dividend for its common stock and a six per cent cash dividend and a two per cent stock dividend for its non-voting stock

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<sup>1</sup> *This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Samsung Electronics or any of its employees.*

<sup>2</sup> *[http://samsungelectronics.com/investor\\_relations/annual\\_report/1994/message.html](http://samsungelectronics.com/investor_relations/annual_report/1994/message.html), accessed September 20, 2001.*

from 1994 earnings, which was the first time that any domestic manufacturer of Korea surpassed ₩1 trillion<sup>3</sup> in pre-tax earnings.

However, retaining a high operating profit margin was becoming increasingly difficult, as Samsung faced twin pressures of intense competition in the low-end segment of both domestic and global markets and rising factor costs in Korea. Cost of goods sold increased by 29.9 per cent to US\$9.2 billion; selling and general administrative expenses also rose by 31.2 per cent from US\$1.6 billion in 1993 to US\$2.1 billion in 1994. The company was trying to explore new opportunities. It sought sites suitable to set up global manufacturing units from where the company could serve all major markets, leveraging economies of scale to undermine the competitive strength of domestic players. As a global company, Samsung was trying to establish a decentralized, flexible manufacturing presence in each region of significant market.

The corporate strategic planning group presented a short list of four countries to Kim for possible expansion of global business — India, Vietnam, Spain and Brazil. Kim was particularly intrigued by the possibility of doing business in India. India was the fifth largest economy in the world, had the third largest GDP in Asia and was the second largest among emerging nations — all the indicators based on purchasing power parity. India was also one of the few markets in the world that offered high prospects for growth and learning potential in practically all areas of business. As a student, Kim had been fascinated by the cultural heritage of India. Moreover, press reports revealed that Samsung's main domestic competitors had already been preparing to enter India. While reviewing the scope of business in India, Kim wondered: should Samsung enter India? Was the time ripe for an entry? How should the company go about doing business in India? From his years of experience in global business, Kim knew that he had to move quickly, otherwise the company might face insurmountable late mover disadvantages.

## THE COMPANY

Samsung Electronics belonged to Samsung group, one of the leading and most diversified chaebols<sup>4</sup> of South Korea. On March 1, 1938, the late founding chairman, Byung-Chull Lee,<sup>5</sup> launched a business named “Samsung” in Taegu, South Korea, with ₩30,000 in capital. Initially, the company used to export dried fish, vegetables and fruits produced around Korea to Manchuria and Beijing. Soon, the company started manufacturing and began sales activities by setting up flour mills and confectionery machines. In November 1948, Lee moved to Seoul and founded the Samsung Corporation.

After Korea's freedom from Japan in 1945, the Korean economy became unstable due to political and social unrest. Samsung lost all its assets during the Korean War of 1950, but Lee did not lose heart. He moved the company to Pusan in 1951, where Lee was impressed at the bright prospects of the electronics business. He shared the same vision of the Korean government that electronics was exactly the type of industry Korea needed for rebuilding its economy. A high value-added business, electronics, which required both sophisticated technology and skilled labor, had great potential to unleash rapid growth and prosperity. In 1969, Lee established Samsung. During the next two decades, Samsung expanded rapidly into electronics and became a corporate giant in Korea.

In 1994, all business divisions of Samsung performed exceptionally well. The semiconductor division emerged as the unchallenged leader in the global market with sales growth of 61 per cent and the largest market share in memory products. The primary factors contributing to the excellent performance of

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<sup>3</sup> ₩ = Korean won

<sup>4</sup> Giant companies.

<sup>5</sup> [http://samsungelectronics.com/corporate\\_info/index.html](http://samsungelectronics.com/corporate_info/index.html), September 20, 2001.

Samsung Electronics included higher-than-expected world demand for 4M DRAMs, reduced financing costs and increasing sales of personal computers and consumer electronics products. Sales jumped 41.2 per cent to more than US\$14.6 billion, reflecting strong demand for semiconductors. Total assets amounted to US\$11.5 billion, up 36.5 per cent from US\$8.5 billion a year earlier. Cash from operating activities increased by US\$1.9 billion to a total of US\$3.9 billion. Samsung had been restructuring its debt position by replacing its short-term borrowings with long-term debts. As a result, the current liabilities steadily shrunk from 60.2 per cent of total debt in 1991 to 54.6 per cent in 1994. In spite of Samsung's massive research and development (R&D) expenditure and investments on facilities, its net debt to equity ratio had continuously improved from over 400 per cent in 1990 to below 300 per cent in 1994. (See Exhibits 1 and 2 for financials.)

In 1994, Samsung Electronics became the seventh largest manufacturer of semiconductors and the largest manufacturer of memory products in the world. In the same year, the company started production of the world's first marketable 256M DRAM (with 268 million cells) and became the largest DRAM producer (15 per cent of global production).<sup>6</sup> The company was planning to leverage its proprietary, high-tech semiconductor technology in other markets, especially telecommunications, information systems and consumer electronics. Kim had a vision of stretching product lines in specific market segments like high-definition video, multimedia, color imaging, video disc recorders, mobile telecommunications, automotive electronics and instrumentation products. The boom in the memory chip sector was expected to continue in 1995. The demand for memory chips was rapidly accelerating along with the growth of the personal computers, video games and other electronic products. The company decided to invest about seven per cent of total revenue in R&D<sup>7</sup> to challenge the ongoing price war and rapid technological advancement of the global electronics industry.

### CHALLENGES FACING THE KOREAN ELECTRONICS INDUSTRY

Despite spectacular performance for more than two decades, Samsung could not ignore the emerging dark realities of the 1990s.<sup>8</sup> By 1994, Korean electronics companies, led by Samsung, inched closer to the technology frontier. The country also had a poor record of intellectual property rights protection. Global electronics leaders also became apprehensive of the possible boomerang effect when the Korean companies competed with them in other markets with lower priced products using the same technology that had been transferred to them. As a result, Samsung started facing difficulty in accessing advanced foreign technology. However, one of the most significant threats the company was facing was the high rate of increase in labor cost. Although Samsung's products were less costly than the Japanese brands manufactured in Japan, they lost the cost advantage over Japanese brands produced in Southeast Asian countries and also Chinese brands. The company still had an advantage in material costs however.

A large part of Samsung's success in the global markets, primarily as an original equipment supplier (OEM), was due to its competitive advantage in cost. Until the early 1990s, the government had regulated wages in Korean companies by forcefully blocking labor movement, thus keeping wage rates low. However, as a result of the political reform process, by 1994, wage negotiations were left to the management and employees. This resulted in rising labor cost, as labor unions demanded better working

<sup>6</sup> [http://samsungelectronics.com/investor\\_relations/annual\\_report/1994/message.html](http://samsungelectronics.com/investor_relations/annual_report/1994/message.html), accessed September 20, 2001.

<sup>7</sup> [http://samsungelectronics.com/investor\\_relations/annual\\_report/1995/message.html](http://samsungelectronics.com/investor_relations/annual_report/1995/message.html), accessed September 20, 2001.

<sup>8</sup> Adapted from Paul W. Beamish, David J. Sharp and C.B. Choi, "Samsung China: The Introduction of Color TV," Ivey Case no. 9A98G003, Ivey Publishing and Chang Young-Chul, "Daewoo Electronics Co Ltd.," *Strategic Management in the Asian Context*, John Wiley & Sons, Singapore, 1997.

environments and wages. Therefore, Korea's major advantages in labor cost were waning not only in comparison to advanced countries, but also in comparison to its immediate competitors like the neighboring South Asian countries. The labor cost component in products manufactured in Korea was twice that for the Southeast Asian products and four times as high as that for Chinese products. Wages averaging US\$1,144 a month in Korea were among the highest in Asia after Japan.

Moreover, the world competitiveness report of 1994 and the world Economic Forum ranked South Korea sixth among 15 newly industrializing economies — behind even Malaysia and Chile. The business model of becoming an OEM supplier to leading brands in the world, which had brought a lot of success for the Korean companies in the past, seemed no longer sustainable in a scenario where companies did not have enough cushion to absorb even a small production cost hike. The problem was compounded as the Korean economy was undergoing a fundamental restructuring. The government, once so supportive of big businesses, cut back on subsidies and export credits. Korean industries were no longer competitive in low-level products. Moreover, the market penetration of Korean goods in the United States, as representative of the global market, was falling drastically. In particular, Korean goods were losing market share to Chinese goods. Korean share in the U.S. market had declined from 3.7 per cent in 1990 to 2.6 per cent in 1996, whereas that of China had gone up from 2.0 per cent to 6.4 per cent during the same period.

The problem became acute as the household electronic appliance market in most developed countries, including Korea, was almost reaching a saturation point. The main electronic appliances experienced a 20 per cent to 30 per cent supply surplus in the global market, resulting in fierce price competition. The Korean market was also showing the same trends with color TVs, refrigerators, washing machines and VCRs, recording diffusion rates of 99.9 per cent, 99.1 per cent, 96.6 per cent, and 81.3 per cent respectively in 1993. The Korean market was dominated by three major competitors Samsung, LG Electronics and Daewoo Electronics. Long-time leader Samsung had been losing market share steadily for the last few years and eventually lost the leadership position to LG Electronics in 1993. Table 1 provides the trends in market share of these three major competitors. Exhibit 3 provides the market share data for all major product categories.

**Table 1**

**MARKET SHARES OF THREE MAJOR HOME ELECTRONICS PLAYERS IN KOREA**

Company	1989	1990	1991	1992	1993	1994
Samsung	46.1	46.5	45.5	44.1	41.1	40.8
LG	38.9	42.7	44.4	42.4	42.8	41.5
Daewoo	15.5	10.8	10.1	13.4	16.1	17.7

Source: Dong-Sung Cho and Dong-Hyun Lee, "Daewoo Electronics Co.", Seoul National University.

Another change in the Korean domestic market was the new entries of foreign players. The home market became highly competitive and price sensitive. Due to the deregulation of distribution channels in Korean markets, foreign firms were allowed to sell their products directly to consumers as of July 1993. Market entry barriers were due to be fully deregulated by 1996. Foreign firms like Sony, Matsuhita, Sanyo, Sharp, Philips, GE, Siemens, Whirlpool and Laox were aggressively building their marketing infrastructure by developing distributing networks, professional sales forces and after sales service. Therefore, existing domestic firms were forced to expand foreign business to compensate for potential losses in domestic market. However, the Korean companies would find penetrating foreign markets, particularly the

developed markets, quite difficult. The early addiction to OEM business actually limited the degree to which they could develop their technological base, establish brand identity and expand marketing infrastructure. Though Samsung made significant improvements in technological capabilities (see Table 2), there was a doubt about how long the consumers from the developed markets would take to recognize and accept Samsung brands.

Table 2

**R&D ACTIVITIES AT SAMSUNG ELECTRONICS<sup>9</sup>**

R&D Details	1980	1985	1990	1994
Total Sales (₩100 million)	2,513	12,985	44,523	115,181
R&D investment (₩100)	56	388	1862	7133
R&D/ Total sales (%)	2.1	3.0	4.2	6.2
R&D – Personnel	690	1,821	6,686	8,919
Local patents applied for	18	309	1,732	2,802
Local patents granted	4	17	640	1,413
Foreign patents applied for	-	32	1,145	1,478
Foreign patents granted	0	2	128	752

In Asia, the market for home appliances (like refrigerators, washing machines, microwave ovens, air conditioners and dishwashers) was fragmented, though in the United States and Europe, consolidation was taking place. Whirlpool, Electrolux and Matsushita held significant shares. Japan, Hong Kong and Singapore had high diffusion rates; South Korea, Taiwan, Malaysia and Thailand were the emerging new markets. However, the industry was still at an early stage of development in India, China, Indonesia, Philippines and Vietnam. The potential of the Asian market was projected as 40 per cent of global demand by 2004. As per consumers' purchasing priorities, color television (CTV) came first, followed by VCRs, washing machines and air conditioners (Exhibit 4). Keeping these realities in mind, the corporate strategic planning group of Samsung was exploring the possibilities of entering emerging economies such as India, Vietnam, Spain and Brazil. The entry prospect for home appliances in India looked particularly bright, and CTV seemed the appropriate product for initial experiment in the Indian market.

**INDIA — A GIANT EMERGING MARKET?**

In July 1991, the government of India (GOI) initiated a sustained policy and administrative reforms, popularly known as economic liberalization. Deregulation of selected industries in India started in the early 1980s. However, it was only since July 1991 that the GOI started implementing a large number of policy and administrative reforms such as delicensing of industrial investments, trade reforms entailing gradual reduction of import duties and promotion of exports, deregulation of industries reserved for public sectors and encouragement to foreign direct investments, exchange rate reforms such as rupee convertibility, capital

<sup>9</sup> Linsu Kim, "The Dynamics of Samsung's Technological Learning in Semiconductors," *California Management Review*, 1997.

market reforms including free pricing of equity and access to offshore equity and debt, financial sector reforms to ensure capital adequacy and establishment of private banks, public sector reforms and tax reforms.

Economic liberalization had many facets. Many regulatory policies were eliminated or modified to facilitate entry of private and foreign investors in many industries, supply of resources and raising of funds from the domestic and international capital market. Special thrust and support were given to promote selected industries to boost exports and develop infrastructure. Along with the freedom from government control, greater opportunities and autonomy to industries, policies were initiated to bring more competition into the economic system by exposing Indian industries to competition from domestic and foreign firms. In the area of the public sector, in exchange for more autonomy, the government stopped budgetary support to public sector enterprises, divested some equity to private investors to bring in more accountability to their management and also forced them to augment their own financial resources. All these steps were initiated to achieve higher productivity, efficiency and growth of the Indian economy.

## ECONOMIC TRENDS

By 1994, at the macro economy level, the impact of economic liberalization was quite visible. The Indian economy had been performing well in most respects since 1991, and the long-term prospects remained bright, despite continuing concern about inadequate infrastructure and budget deficits.<sup>10</sup> For the first two years after the initiation of economic liberalization, the Indian economy witnessed a sharp decline in GDP growth. There was a severe recession in the manufacturing sector, which suffered a negative growth in 1991-92 (see Table 3). However, since 1993, the Indian economy had been growing at the rate of six per cent, mainly supported by high industrial growth of around 10 per cent.

**Table 3**

### GROWTH PERFORMANCE OF INDIAN ECONOMY 1981-94 (%)

	1981-90	1990-91	1991-92	1992-93	1993-94	1994-95
GDP at Factor Cost	5.5	5.4	0.8	5.1	5.0	6.3
Agriculture	3.4	3.8	-2.3	6.1	3.3	4.9
Industry	6.9	7.2	-1.3	4.1	4.2	8.3
Manufacturing	7.2	6.1	-3.7	4.1	4.3	9.0
Services	6.6	5.2	4.9	5.1	6.8	6.0

Source: CSO, *National Accounts Statistics*, 1997.

India's economic GDP at factor cost rose 6.3 per cent in 1994-95 and was expected to accelerate to seven per cent in 1995-96. For the first time in recent years, GDP growth occurred independently of growth in the agricultural sector. Industrial growth was strong for the second year in succession, expected to be 12.4 per cent in 1995-1996, compared with 8.3 per cent in 1994-95. The capital goods sector was growing by

<sup>10</sup> [http://www.state.gov/www/about\\_state/business/com\\_guides/1998/southeast\\_asia/india98.html](http://www.state.gov/www/about_state/business/com_guides/1998/southeast_asia/india98.html), accessed September 20, 2001.

over 20 per cent and manufacturing by 13.9 per cent. Healthy growth rates were also recorded in the consumer goods industry (12.9 per cent), intermediate goods (10.3 per cent) and basic goods (nine per cent). Foreign direct investment also had doubled every year since 1991-92. All sources of local financing were available to foreign-participation companies incorporated in India, regardless of the extent of foreign participation.

## POLITICAL ENVIRONMENT

India was a multi-ethnic, multi-religious, federal republic of 25 states and seven union territories. The role and influence of individual states in economic development increased significantly, as they were increasingly competing for foreign investments with each other. The generally friendly business environment, however, was negatively affected by bureaucracy and red tape, ongoing tensions between India and Pakistan, terrorism and various forms of social tensions. There had been a few incidences of politically motivated attacks on foreign projects or installations, but GOI responded swiftly to avoid further damage. The economic reforms were initially opposed by a section of the political opposition of the ruling party, Indian National Congress. However, a consensus was emerging among the public and all political parties regarding the ongoing economic reform program initiated by existing government, and the initiatives were expected to gain further momentum in the foreseeable future. But, the country might face political uncertainty after the coming parliamentary election in early 1996, particularly with the weakening political base of the ruling party and absence of any other dominant political ideology.

## INVESTMENT CLIMATE

India's post-independence economic policy had envisioned a dominant role of the public sector enterprises in the industrial development. It had also nurtured private investments, however, under the overall supervision and control of the state. For the better part of four decades under central planning and control, FDI had never been encouraged. Since 1991, the country had been showing a far more positive attitude toward foreign investment. Prior to 1991, foreign equity participation was limited to 40 per cent, whereas the new policy allowed automatic approval for foreign equity investments of up to 51 per cent.<sup>11</sup> A number of policy changes reduced the discriminatory bias against foreign firms (see Exhibit 5). In spite of the political uncertainty and a volatile exchange rate, foreign direct investment (FDI) had a steady growth in India. Over US\$1.3 billion in FDI was approved in 1994-95. From 1991 to 1995, India approved more than US\$18.6 billion in FDI. The United States was the leading source of FDI in India, accounting for approximately 20 per cent of total investment approved in 1995.

India introduced a fairly liberal plant location policy, special incentives were offered for plants set up in export processing zones (EPZs) and for 100 per cent of export oriented units (EOUs). India had seven EPZs; units in those zones could be 100 per cent foreign-owned or joint ventures. EPZs were designed to provide globally a competitive infrastructure and a duty-free, low-cost environment for exporters.

India had the third-largest pool of scientific and technical workforce in the world, which had attracted many foreign investors. Unemployment and underemployment made unskilled and semi-skilled labor easily available at a low cost. However, illiteracy acted as a major bottleneck on labor productivity. As per the new industrial policy, investors could hire foreign technicians without prior government approval. Industrial wages ranged from about US\$3 per day for unskilled labor, to over US\$150 per month for skilled production workers. Industrial relation was governed by the Industrial Disputes Act of 1947. Once

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<sup>11</sup>*Ibid.*

the hotbed of militant labor unions cooled, post 1991, India's industrial climate improved dramatically, with labor militancy becoming almost extinct in the last few years.

Enforcement of intellectual property rights had been indifferent in the past but was steadily improving, as the high cost of piracy was a critical concern for GOI. Indian copyright law was on par with the most modern laws in developed countries.

The size and sophistication of India's capital market has improved significantly in the last few years. Foreign investors could borrow loans in rupees or foreign currency from all commercial banks, and the prime-lending rate was around 16.5 per cent.

Though India had a bright future with economic reforms, there were lots of pitfalls. Infrastructure continued to be a major bottleneck, with shortages of energy, limited handling capacities at the ports, and saturated rail and road networks hampered industrial growth. Foreign investors were highly disappointed at negotiation with an inefficient and slow-moving bureaucracy. Aptly said by Tarun Das,<sup>12</sup> director general of the Confederation of Indian Industry, the largest industry association in India,

India is not a tiger like the East Asian economic tigers and will never be a tiger. It's an elephant, but an elephant that has made a U-turn and is moving ahead. The general economic direction in India is towards liberalization and globalization, but the process is slow. Before jumping into the market, it is necessary to discover whether government policies exist relating to the particular area of business and whether there are political concerns that should be taken into account.

## INDIAN CONSUMER MARKET

As observed by the Center for Global Trade and Development,<sup>13</sup> once fully open, India would turn out to be the largest consumer market. Following the 1991 economic reforms, a vast middle class with significant purchasing power had been emerging in India. The Indian market was widely diverse, and consumer preference differed greatly across regions. Marketing and selling in such a diverse market was not easy for most new entrants. Prior to reforms, Indian firms had gotten away with high-cost, low-quality goods due to high protective tariff barriers. The fall of import duties after the reforms brought a sea of change in the Indian market. Indian consumers had more options, and greater exposure to the world raised the level of their aspiration. They wanted world-class products at reasonable prices. This change in consumer preference boosted the white-goods markets. Many of the best-known international brands arrived in India in sectors like automobiles, foods, consumer electronics products, financial services and computers. Greater access to foreign goods and services made consumers increasingly quality conscious and demanding.

However, per capita consumption of most manufactured products still remained low, around five per cent to 25 per cent of the level in developed economies.<sup>14</sup> Consumers were highly price conscious and preferred value for money due to low average per capita income. In rural and remote areas, prices could be five per cent to 10 per cent higher because of high transportation costs or an increasing number of intermediaries in

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<sup>12</sup> [http://articles.businesscity.com/doc/art\\_narayanan\\_indiamarket.htm](http://articles.businesscity.com/doc/art_narayanan_indiamarket.htm), accessed September 20, 2001.

<sup>13</sup> [http://www.tibet.ca/wtnarchive/1994/12/3\\_1.html](http://www.tibet.ca/wtnarchive/1994/12/3_1.html), accessed September 20, 2001.

<sup>14</sup> [http://www.state.gov/www/about\\_state/business/com\\_guides/1998/southeast\\_asia/india98.html](http://www.state.gov/www/about_state/business/com_guides/1998/southeast_asia/india98.html), accessed September 20, 2001.



the supply chain. The diverse industrial base resulted in the manufacturing of many local products at competitive costs satisfying unique local needs.

### **DISTRIBUTION AND SALES CHANNELS**

A strong distribution network was one of the critical success factors for any industry in India to ensure countrywide reach for a product and prompt after-sales services. In a competitive scenario, a strategic alliance between the company and its distributors was essential. There was no concept of national department store chains; most of the retail sales outlets were locally owned. India had both organized and unorganized distribution channels for selling products. Before import liberalization, smuggling had developed an unorganized sector of the economy, causing huge revenue loss to GOI. Most Indian companies used to operate through a three-tier distribution structure — distributor, wholesaler and retailer. A company operating nationwide could have around 400 to 2,300 distributors. Typical gross margins for a distributor, wholesaler and retailer were one per cent to two per cent, four per cent to five per cent and five per cent to 10 per cent respectively.<sup>15</sup> It was very expensive for new foreign entrants to create independent sales infrastructures. Advertising and trade promotion activities were well developed in India. Efficient brand management and after-sales service were essential for successful product launch in the consumer electronics sector.

### **THE CONSUMER ELECTRONICS MARKET — COLOR TELEVISION**

CTV transmission was launched in India in 1982,<sup>16</sup> getting off to a modest start. Though the industry had been growing steadily since the mid-1980s, by 1989, it became highly fragmented, with the top five companies having 32.5 per cent share of the total CTV market. During 1989-92, the industry experienced an average annual negative growth of 10 per cent, followed by a partial recovery in 1993. The advent of cable television networks, proliferation of channels and entry of foreign channels like CNN and Star TV gave a major boost to the CTV market. Reduced import duty on color picture tubes brought CTVs within the reach of middle class customers. This also facilitated the entry of multi-national corporation (MNC) brands, and major consolidation took place during this period. Most of the inefficient local players were challenged and marginalized by four emerging local Indian brands – BPL, Onida, Videocon and Optonica.

In the mid-1990s, Indian CTV players were facing various problems: high cost of imported components, low economic scale and low level of market penetration. The industry concentration ratio was gradually increasing, and large firms were gaining market share at the loss of smaller ones. The top five competitors increased their market share to 70 per cent by 1994, up from 50 per cent in 1989; MNCs gained around 12 per cent market share as compared to eight per cent in 1992-1993 (see Exhibit 6). However, global CTV companies were still hesitant to commit investment for building new plants in India as they could not achieve economies of scale without market development and expansion.

During the 1990s, MNCs followed ‘screw-driver assembly’ operations in India, whereas large local firms launched in-depth manufacturing processes to achieve cost benefits through transfer pricing policy and the resulting tax benefits. Most of the MNCs had stand-alone ownership structures as opposed to group structures of large local firms. Further, horizontal and vertical multi-plant integration was largely missing

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<sup>15</sup> *Ibid.*

<sup>16</sup> P.K.Ray, “BPL: Global Competition & Guerilla Warfare on Local Territory,” *World Class in India*, Penguin Books India, New Delhi, 2001, pp. 319-340.

in those MNCs, many of which adopted the strategy of disintegration by subcontracting services to local vendors (co-makers). The chassis, picture tubes and back covers were manufactured by local co-makers.

Demand for Indian consumer electronics market was highly controlled by various factors like price, after-sales service, purchasing power and income levels of buyers, financing options, level of competition, penetration, positioning and distribution strategies, channel explosions and special events. Demand elasticity and price sensitivity were the most critical factors. Purchasing power influenced the growth of CTV industry. With the increasing level of disposable income and the consequent change in aspiration, branded durables became proud possessions for the emerging middle class. Replacement demand was another important issue. The replacement market constituted almost 50 per cent of the total demand of CTVs and had three different segments<sup>17</sup> – upgraders, replacers and first-time buyers. The upgrader segment (40 per cent) was replacing old black and white TVs with CTVs. The replacer segment was replacing CTVs purchased in mid-1980s. In the early 1990s, most TV sets in India became obsolete, as they did not have the S-band facility to receive a large number of channels. Akai was very successful in tapping the latent demand for replacing old sets through a process of pushing the replacement cycle forward and taking back old TV sets.

Earlier consumer electronics items used to be considered as a luxury, and only the affluent class of the society constituted the major buyer segment. In a growing trend, household electronics appliances, particularly TVs, were seen as items to be procured by every household. The demand for CTVs would be contributed mainly by the replacement purchase of the exiting owners of black and white sets and the new purchases.

**Table 4**

**PENETRATION OF TVS IN INDIA  
(per 1,000 households)**

Period	CTVs		B&W TVs	
	Urban	Rural	Urban	Rural
1989-90	123	9	304	59
1992-93	160	16	396	88
1993-94	178	19	414	103

Source: National Council for Applied Economic Research (NCAER) Consumer Market Demographics Report 1998.

The rural market was considered to be the market of tomorrow (see Table 4). As per National Council for Applied Economic Research (NCAER) statistics, rural markets had grown faster, at a rate of 8.8 per cent between 1992 and 1995 compared to 5.3 per cent between 1989-90 and 1992-93.<sup>18</sup> The rural families had greater purchasing power than that of their urban counterparts because of the lower cost of living in rural India.

The urban market became saturated and highly competitive so marketers were forced to look for the rural market. Rural customers were conscious of value for money and they were more brand loyal than their

<sup>17</sup> P. Vyas, "Crown TV- A Pricing Dilemma."

<sup>18</sup> <http://www.indiaonline.com/sect/coel/ctvs/cont.html>, accessed September 20, 2001.

urban counterparts. A study conducted by Philips in Tamil Nadu revealed that almost an entire village owned a single brand of television such as Videocon. Dealers would very often play the role of consultants, and their influence carried a lot of weight at the point of transaction. The indiscriminate marketing strategy used for urban customers was not suitable for the rural market. Rural customers had a different set of priorities, which required a different approach, both in terms of product features and communication strategies.

Globally, the United States had been the largest CTV market in the world (see Exhibit 7), but the U.S. market was likely to stagnate by 2003. On the other hand, the future of the CTV market looked very prospective in emerging markets like India. Total CTV market value in India during the early '90s touched Rs3,000 crores.<sup>19,20,21</sup> The market was expected to grow by 10 per cent to 15 per cent in the late '90s (see Exhibit 8). There was a steady growth in industry sales and average profitability (Table 5). Market penetration level was low, but it was rising very quickly in both urban and rural markets.

**Table 5**  
**INDIAN CONSUMER ELECTRONICS INDUSTRY - PROFIT & LOSS A/C SUMMARY**  
**(Rs Crores)**

P/L A/c	91/03	92/03	93/03	94/03
<b>Sales</b>	2,110.48	3,102.85	3,269.03	3,737.34
<b>Other Income</b>	16.56	47.43	24.1	20.68
<b>Raw materials, Energy</b>	1,462.36	2,087.75	2,296.48	2,570.09
<b>Wages &amp; salaries</b>	93.97	123.7	148.63	158.3
<b>PBDIT</b>	190.36	359.21	327.45	405.8
<b>PAT</b>	80.69	129.06	80.71	198.04
<b>Net Export</b>	-195.22	-238.08	-226.17	-281.71

Source- Dr. P.K. Ray, BPL: *Global Competition & Guerilla Warfare on Local Territory*.

Established domestic players and dealers were expecting fierce competition, rapid erosion of CTV prices, introduction of new models, improved service support, advertising and financial support from foreign brands. The rural market possessed a high degree of potential and was driven by value in terms of technology, price and after sales service. Growth in the CTV industry was fuelled primarily by innovative marketing techniques and the reduction of the price points achieved through aggressive cost-cutting measures by companies. A rise in the cost of inputs put heavy pressure on the margins of the CTV manufacturers; still, the price level was maintained because of stiff competition. Existing players had been using different techniques to push sales, be it pushing the dealers, using a hire-purchase scheme and other attractive financing options, product differentiation through high level of technology or hefty discounts during special events. Some focused on price-cutting and brand building; some went for aggressive advertisement and promotional efforts, improvement in distribution channels and customer service. For the consumer electronics segment, the total spent for ads in 1995 was Rs159.01 crores, a 65 per cent growth from the previous year.<sup>22</sup> In such a scenario, any new player had to assess the market opportunity

<sup>19</sup> P. Vyas, "Crown TV- A Pricing Dilemma."

<sup>20</sup> Rs = Indian rupees.

<sup>21</sup> crore = a unit used in the traditional Indian number system to represent 10 million.

<sup>22</sup> P. Vyas, "Crown TV- A Pricing Dilemma."

accurately and develop a unique market entry package without underestimating the capabilities of the local competition.

### ENTRY STRATEGY CONCERNS

Samsung's total CTV production volume was about six million units, 44 per cent of which were produced overseas. The company had six overseas production bases: SAMEX (Mexico), SFH (Hungary), SEMUK (UK), SETAS (Turkey), TSE (Thailand) and TTSEC (China).<sup>23</sup> The largest production base was Samex, covering 19 per cent of total overseas production. But those six plants were not sufficient to cater to the demand of the global market. Samsung was planning to set up a few more CTV plants in suitable locations.

Kim was very much impressed with India's potential in the consumer electronics market, particularly the CTV market (see Exhibits 6 to 11). Still, some basic questions remained unanswered. From the country risk measures (see Exhibit 12), India was not very attractive. There was high-political risk. The outcome of the upcoming parliamentary election was very uncertain. Foreign investors were worried about the direction of the industrial policy of the next government. Further, there was high foreign exchange risk in India. The Indian domestic market was highly competitive and price sensitive. Many foreign players like LG, Panasonic, Grundig and Daewoo were planning to enter the Indian market. Was the time appropriate for entry? Would it be easy to gain a foothold in the Indian market amidst such a tough competitive scenario? What should be the appropriate mode of entry at the initial stage – export, joint venture, technical licensing or fully owned subsidiary? Export might be considered as an initial mode of entry, but the ultimate objective was to set up an efficient plant for manufacturing globally standardized products like CTVs.

There were other concerns too. Which segments should be targeted? What would be the right positioning and marketing mix? What should the company do with its other product categories? Should they be launched together? It seemed difficult to understand and predict the behavior of Indian consumers and, moreso of the Indian political environment. Kim soon realized that perhaps he would need some expert advice for a sound entry strategy for India.

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<sup>23</sup> Paul W. Beamish, David J. Sharp and C.B. Choi, "Samsung China: The Introduction of Color TV," Ivey Case no. 9A98G003, Ivey Publishing.

## Exhibit 1

BALANCE SHEET OF SAMSUNG ELECTRONICS  
(US\$)

	1994	1993
<b>Current assets:</b>		
Cash and bank deposits	1,149,881	552,651
Marketable securities	112,847	44,853
Accounts and notes receivable	1,886,054	969,936
Inventories	1,437,522	1,256,427
Guarantee deposits	137,741	65,576
Other	334,604	251,628
<b>Total current assets</b>	<b>5,058,649</b>	<b>3,141,071</b>
Property, plant and equipment	4,523,862	3,382,966
Investment in subsidiaries companies	842,290	634,131
Non-current deposits and other assets	1,113,033	850,243
Deferred charges	-	442,577
<b>Total Assets</b>	<b>11,537,834</b>	<b>8,450,988</b>
<b>Current liabilities:</b>		
Accounts and notes payable	1,574,059	1,103,655
Short-term borrowings	689,649	765,013
Current maturities of long-term debt	983,971	871,301
Accrued expenses	561,461	412,545
Income taxes payable	202,325	51,479
Other	303,976	197,081
<b>Total current liabilities</b>	<b>4,315,441</b>	<b>3,347,074</b>
Long-term debt maturities	2,376,060	2,255,259
Foreign currency notes and bonds	678,600	401,150
<b>Total liabilities</b>	<b>7,902,853</b>	<b>6,387,010</b>
<b>Commitments and contingencies:</b>		
Shareholders' equity 1993	336,603	315,474
Preferred stock	97,730	71,735
Revaluation surplus	30,966	30,966
Other capital surplus	1,278,042	864,389
<b>Retained earnings</b>		
Appropriated	697,863	557,795
Unappropriated	1,193,777	189,587
Capital adjustments: Convertible rights	-	34,022
<b>Total shareholders' equity</b>	<b>3,634,981</b>	<b>2,063,978</b>
<b>Total</b>	<b>11,537,834</b>	<b>8,450,988</b>

Source: [http://samsungelectronics.com/investor\\_relations/annual\\_report/1994/message/html](http://samsungelectronics.com/investor_relations/annual_report/1994/message/html), accessed September 20, 2001.

## Exhibit 2

**STATEMENT INCOME & EXPENDITURE OF SAMSUNG ELECTRONICS  
(US\$ 000s)**

	<b>1994</b>	<b>1993</b>
<b>Sales:</b>	4,633,025	3,550,084
Domestic	9,983,828	6,798,593
Export	14,616,853	10,348,677
Cost of sales	9,158,228	7,049,780
Gross profit	5,458,625	3,298,897
Selling, general and administrative expenses	2,149,585	1,638,060
<b>Operating profit</b>	<b>3,309,040</b>	<b>1,660,837</b>
<b>Non-operating income:</b>		
Interest and dividend income	168,022	76,746
Others	300,874	207,874
	<b>468,896</b>	<b>284,620</b>
<b>Non-operating expenses:</b>		
Interest expenses	396,628	448,773
Amortization of deferred charges	1,066,680	581,343
Others	432,911	440,506
	<b>1,896,219</b>	<b>1,470,622</b>
Ordinary profit	1,881,717	474,835
Extraordinary income	3,164	2,136
Extraordinary loss	429,762	210,176
Net income before income taxes	1,455,119	266,795
Income taxes	255,819	70,607
<b>Net income</b>	<b>1,199,300</b>	<b>196,188</b>
<b>Earnings per share</b>	<b>23,418</b>	<b>4,020</b>

Source: [http://samsungelectronics.com/investor\\_relations/annual\\_report/1994/message/html](http://samsungelectronics.com/investor_relations/annual_report/1994/message/html), accessed September 20, 2001

## Exhibit 3

**MARKET SHARES OF THREE MAJOR HOME ELECTRONICS PLAYERS IN KOREA  
FOR THE MAIN PRODUCT CATEGORIES**

Category	Company	1989	1990	1991	1992	1993	1994
Color TV	Samsung	44.5	45.3	45.6	46.3	41.3	41.7
	LG	41.7	44.1	44.9	41.6	43.2	40.9
	Daewoo	13.8	10.6	9.5	12.1	15.4	17.4
VCR	Samsung	41.8	45.2	46.1	44.8	44.1	40.7
	LG	38.4	39.9	41.5	41.0	40.8	38.4
	Daewoo	19.8	14.9	12.3	14.3	15.1	20.9
Refrigerator	Samsung	47.8	45.3	43.7	45.1	42.7	39.8
	LG	37.5	45.4	46.7	44.1	47.5	43.0
	Daewoo	14.6	9.2	9.7	10.9	9.9	17.2
Washing Machine	Samsung	49.7	49.4	46.6	43.6	35.8	36.0
	LG	35.6	40.8	43.5	38.6	40.1	38.0
	Daewoo	14.7	9.8	10.0	17.8	24.1	26.0
Microwave	Samsung	48.2	49.9	47.	44.6	38.3	34.4
	LG	40.7	40.1	44.0	41.6	41.6	39.5
	Daewoo	11.1	10.0	8.1	13.8	20.1	26.1
Total of the five Product Categories	Samsung	46.4	49.9	45.5	45.00	40.4	39.2
	LG	38.5	40.1	44.4	41.5	43.3	40.5
	Daewoo	15.0	10.0	10.0	13.5	16.3	20.3

Source: Dong-Sung Cho and Dong-Hyun Lee, "Daewoo Electronics Co.," Seoul National University.

## Exhibit 4

## HOUSEHOLD OWNERSHIP OF CONSUMER DURABLES

Product	Urban	Rural	Total
Bicycles	49.23	49.57	49.98
Mopeds	6.96	1.53	3.02
Scooters	14.15	1.72	5.12
Motorcycles	5.03	1.62	2.55
Black and white TV	41.40	10.32	18.82
<b>Color Television</b>	<b>17.81</b>	<b>1.93</b>	<b>6.27</b>
Cassette recorders	40.24	12.99	20.44
Radios	46.57	38.08	40.40
<b>VCRs</b>	<b>4.59</b>	<b>.11</b>	<b>1.34</b>
Pressure Cookers	54.98	10.84	22.91
Mixer/Grinders	28.42	2.58	9.64
<b>Refrigerators</b>	<b>21.67</b>	<b>1.41</b>	<b>6.95</b>
<b>Washing Machines</b>	<b>7.64</b>	<b>.28</b>	<b>2.30</b>
Electric irons	34.41	7.02	14.51
Ceiling fans	75.54	14.96	31.53
Sewing machines	27.79	10.77	15.42
Wristwatches (quartz)	101.69	73.21	81.00
Water heaters	56.06	19.43	29.45
Water heaters (instant)	3.21	.03	.90

Source: National Council for Applied Economic Research, 1996.



## Exhibit 5

NEW INDUSTRIAL POLICY, INDIA<sup>24</sup>

- The government amended exchange control regulations previously applicable to companies with significant foreign participation.
- The ban against using foreign brand names/trade marks was lifted.
- The corporate tax rate for foreign companies was reduced from 65 per cent to 55 per cent. The tax rate for domestic companies was lowered to 40 per cent.
- The long-term capital gains rate for foreign companies was lowered to 20 per cent, as was the rate applied to domestic companies.
- The Indian Income Tax Act exempted export earnings from corporate income tax for both Indian and foreign firms.
- A Foreign Institutional Investor (FII) was permitted to invest in shares/debentures up to a ceiling of 10 per cent of the equity of an Indian company listed on the stock exchange. The collective investment of all FII's could not exceed 24 per cent of a company's shares.
- FII's were also permitted to invest in shares of Unit Trust of India (UTI) and Mutual Funds floated by public or private sector financial institutions. Joint ventures among a variety of domestic and foreign securities firms were approved in brokerage companies, merchant banking and asset management.
- Fresh guidelines for approvals of External Commercial Borrowings (ECB) recently announced by the government enabled telecom companies and oil exploration and development companies to raise ECB at a minimum average maturity of five years (compared with seven years previously) for borrowing exceeding US\$15 million. Non-banking financial companies registered with the RBI were eligible to raise funds through Global Depository Receipts (GDR) issues. A previous restriction on the number of GDR issues floated by a company in a financial year was also removed.
- Import licensing restrictions were relaxed. A large number of restricted consumer items were allowed importation under freely tradable Special Import Licenses (SIL), which were granted to the export and trading companies. The harmonized system of commodity classification developed by the Custom Cooperation Council, Brussels, was used by India since October 1995, ensuring greater transparency in export/import licensing policy and reducing areas of ambiguity on import policy matters
- Other policy changes were introduced to encourage foreign direct and institutional investment. Even without a registered office in India, foreign companies were allowed to start multi-modal transport services in India. The Reserve Bank of India permitted 100 per cent foreign investment in the construction of roads and bridges. The peak custom duty rate had been reduced to 50 per cent from its previous level of 65 per cent.

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<sup>24</sup> Sushil Khanna, "The Financial Reforms and Industrial Sector in India," *Economic and Political Weekly*, 45, 1999.

## Exhibit 6

## MARKET SHARE OF CTV MANUFACTURERS, INDIA

Local Company	1992-93	1993-94	1994-95
BPL	20	23	22
Videocon	24	20	23
Onida	18	17	19
Optonica	5	5.5	6
Crown	4	4.5	X
Texla	3	3.7	X
Weston	X	X	2
Others	18	14	X
Total Indian Cos.	92	88	X
<b>Foreign Company</b>			
Philips	5	7.9	7
Sony	2	2.7	X
Others	1	1.4	X
Total Foreign Cos.	8	12	X

Source: P.K. Ray, "BPL: Global Competition & Guerilla Warfare on Local Territory," 2001.

## Exhibit 7

COUNTRYWIDE CTV SALES IN LARGEST MARKETS  
(in 000s units)

Country	1992	1993	1994
Argentina	1,600	1,800	1,500
Brazil	2,684	3,854	5,630
China	13,916	14,118	14,260
Germany	X	5,420	5,490
India	1,029	1,200	1,500
Indonesia	1,130	1,235	1,343.2
Mexico	1,097	1,234	1,445
South Korea	2,025	2,099	2,122
Thailand	1,448	1,586	1,720
United States	31,230	31,760	37,510

Source: Global Market Information Database [Electronic], Euromonitor, September 1999.

## Exhibit 8

**DEMAND PROJECTION FOR CTVS & B/W TVS IN INDIA  
(000,000s)**

Year	CTVs	B/W TVs
1997	3.1	7.7
1998	3.6	8.5
1999	4.2	9.4
2000	4.8	10.3
2001	5.3	11.3
2002	5.8	12.5
2003	6.4	13.7
2004	7.0	15.0

Source: TV Veepar Journal, February 1995.

## Exhibit 9

**DISTRIBUTION OF HOUSEHOLDS BY INCOME  
1993/1994  
(Household in 000s)**

Income Category	Urban	Rural	Total
Upto 20,000	15,804	74,736	90,540
Rs.20000 – 40000	14,228	26,456	40,684
Rs. 40001 – 62000	7,344	8,619	15,963
Rs.62,001 – 86,000	3,377	2,862	6,239
Above Rs. 86,001	2,273	1,621	3,894
<b>Total</b>	<b>43,026</b>	<b>114,294</b>	<b>157,320</b>

Source: Indian Market Demographics, National Council for Applied Economic Research, 1996.

## Exhibit 10

**SALES OF CTV MODELS IN INDIA (%)**

Size	1993-1994	1994-95
14"	12.3	15
20"	43.7	40.7
21"	31.4	23.6
FHR21"	12.5	20.8
25"	0.08	0.12
Total Number	244,945	310,295

Source: <http://www.indiaonline.com/sect/coel/ctvs>, accessed September 20, 2001.

Exhibit 11

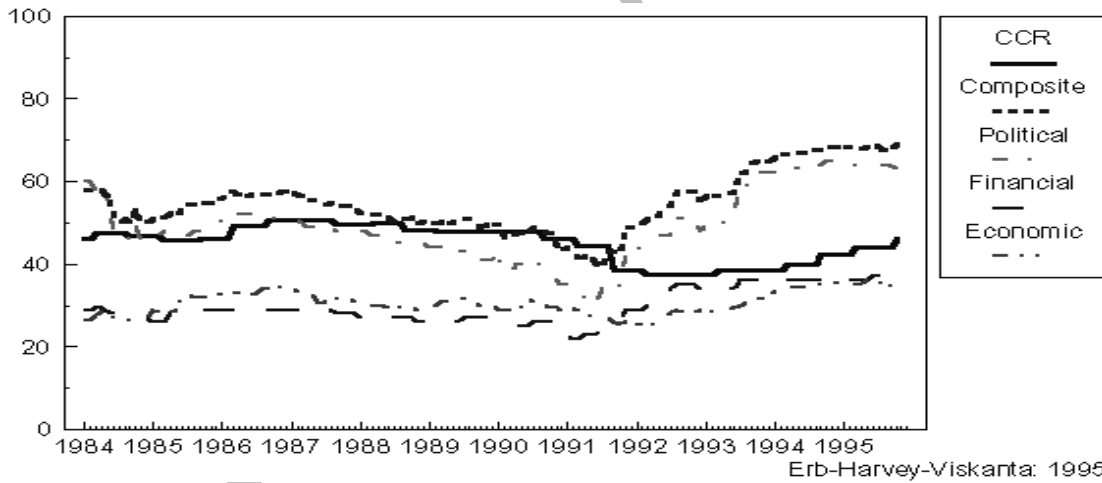
PRICE ON SELECTED BRANDS OF CTV (21'') IN DELHI MARKET  
JUNE 1995

Brand	Model	Price
Onida	21"	15500
Akai	CT2007	14800
Thompson	78RC	18800
Videocon	5302R	13490

Source: Survey of CTV prices in Delhi.

Exhibit 12

COUNTRY RISK MEASURES  
India



Source: [http://www.duke.edu/~charvey/Country\\_risk/couindex.html](http://www.duke.edu/~charvey/Country_risk/couindex.html), accessed September 20, 2001.

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