



How LG Electronics reinvented itself in the US



LG

Life's Good

By Karen Cho

It took three attempts in four years for Korean electronics giant LG Electronics (LGE) to launch its brand in the US market in 2002. Five years later, it became the top seller of refrigerators and washing machines, and has since been successfully maintaining its lead in the two home appliance categories with current respective market shares of about 24 per cent.

In addition, LGE achieved annual revenue growth of 20 per cent in the Americas, rising to more than \$13 billion from \$5.6 billion under the leadership of Michael Ahn, a former president and CEO of LGE Americas. Ahn, who's currently a senior adviser to the company, tells INSEAD Knowledge in an interview that it took a long time for LGE to gain public acceptance of its products as premium products. Even securing national distributors was fraught with difficulties.

Today, some 95 per cent of American consumers view LG as a premium foreign consumer electronics brand, lagging only behind Sony in terms of brand recognition, according to a survey commissioned by LG last year. But as recently as the late 1990s, the company had marketed its products under the Goldstar brand, which American consumers viewed as low quality. To establish a premium brand image and achieve a broader penetration of the US market, the company re-launched its products under the LGE brand in 2002.

Ahn says he had sought to get national retailers including Sears, Lowe's, Best Buy and Home Depot to distribute the then newly-launched LGE products such as refrigerators and washing machines. But all these retailers declined to distribute LGE products on the basis that LGE's brand, product quality and customer service were unknown. Ahn's efforts to procure regional retailers such as P.C. Richard & Son, Fry's, and hhgregg to be distributors were also unsuccessful.

To address this problem, Ahn invited a group of the regional retailers' executives and their wives to tour LGE's production plants in Korea, and took care of them "like our parents", says Ahn. Impressed by their visit, the executives agreed to distribute LGE products in the US, but then later broke their promises.

Undaunted, Ahn used further incentives, such as higher profit margins and support for marketing and training, to persuade the retailers. Consequently, regional retailers P.C. Richard & Son and hhgregg agreed to distribute LGE products. The retailers subsequently enjoyed such successful sales of LGE products that other retailers approached LGE to be their distributors.

"So we made the deals step by step like that," says Ahn. National retailer Best Buy later came on board, which helped LGE clinch Home Depot and Sears as distributors as well.

Asked about the challenges of managing the LGE brand across its product range and geographies, Ahn says the toughest challenge is achieving branding consensus within LGE itself. Some of his colleagues wanted to use discount retailers such as Walmart, Kmart and Costco to increase sales because their compensation was dependent on sales volumes. But fearing that that would tarnish LGE's premium brand image, Ahn refused to allow the distribution of LGE products by discount retailers in the last few years.

“I thought that brand building takes time,” explains Ahn.

As for his view on LGE’s outlook in the US, Ahn says the company will expand its product range and market to other new customers such as corporations and government.

“We will grow much further in consumer electronics and home appliances and even mobile phones. However, there could be limitations in some years for growth. So that’s why we want to extend our business to business-to-business and smart phone areas,” says Ahn, adding that LGE’s business in North America could reach \$3-4 billion, bolstered by its penetration into Mexico and Canada, as well as its new businesses in cooking appliances and floor care.

Furthermore, Ahn believes that as LGE enjoys widespread recognition as a premium brand, it may be the right time to use discount retailers to distribute its products.

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