

LG ELECTRONICS CANADA, INC. — THE WATCH PHONE

Ian Dunn wrote this case under the supervision of Elizabeth M.A. Grasby solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On September 10, 2009, Alex Carson, a fourth-year business student, had just received a phone call from Cindy Anderson, recruitment specialist at LG Electronics Canada, Inc. (LG).¹ Anderson told Carson that he had earned an interview for the position of assistant marketing manager with the Canadian division of the global electronics company. Carson had reviewed the job postings through the Richard Ivey School of Business, The University of Western Ontario, in search of employment upon graduation. LG had ranked as his top choice among those few companies that had appealed to him. Having secured the interview, Carson knew he must prepare well for it if he wanted to be hired by this leading company in the consumer electronics industry. With the interview scheduled in four days, Carson planned to research the industry and the company in order to create a marketing plan for one of LG's newest products, the Watch Phone.

CONSUMER ELECTRONICS INDUSTRY

The consumer electronics industry comprised companies that designed, manufactured or marketed consumer electronics.² Consumer electronics represented three sectors of products: in-home consumer electronics, in-car consumer electronics and portable consumer electronics. In-home consumer electronics consisted of televisions, DVD players, home audio equipment and personal computers. In-car products included aftermarket automobile media players, speakers and navigation systems. Portable consumer electronics encompassed cameras, camcorders, portable computers, portable media players and mobile phones. See Exhibit 1 for sales volume per sector. The majority of the growth in the consumer electronics industry was attributed to the portable sector of the market and to the increasing popularity of product miniaturization.

¹ 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 LG Electronics Inc. or any of its employees.

² http://industries.hoovers.com/consumer-products-manufacturers/consumer-electronics/industry_description, November 3, 2009.

The portable electronics market was characterized by technological convergence.³ This convergence had been driven by consumers' demands to listen to music, watch video, play games and communicate anywhere and anytime. The top global brand manufacturers for portable electronics were Nokia, Motorola, Samsung, Sony, LG and Apple. Exhibit 2 identifies these manufacturers' market shares. The ability of these companies to deliver innovative products and to provide the consumer-desired capabilities depended not only on the companies' own research and development but also on the existing telecommunications infrastructure. Therefore, the infrastructure service providers were key players in this industry as they continued to "roll out" advanced telecommunications infrastructure and make WIFI⁴ and 3G⁵ more readily available.

Although the majority of new consumer electronics were manufactured in the Asian market, they were distributed around the globe. In 2008, the Asian market sold 1.13 billion units, Europe sold 700 million units and North America sold 515 million units.⁶ In North America, high definition televisions (HDTV), mobile phones and laptop computers were in greatest demand. Exhibit 3 provides a product breakdown of North America's consumer electronics market. In the retail sector, Wal-Mart and Best Buy were the largest North American sellers of consumer electronics.

In 2008, sales in this industry totalled 2.7 billion units representing US\$739 billion. Since 2003, consumer electronics had experienced an average growth rate of 11.3 per cent.⁷ The global financial crisis in 2008 had not severely affected overall performance of this industry, but it was not known whether the future might see downward pressure on prices as consumers sought out better value for their money.

LG ELECTRONICS, INC.

LG designed and manufactured consumer electronics, home appliances and mobile communication devices. The company originated as GoldStar in Korea in 1958.⁸ For several decades, GoldStar was a leader of sales in the Korean market, manufacturing innovative products such as televisions, refrigerators, washing machines and air conditioners. In 1995, the company was renamed LG Electronics, Inc. and also acquired an American company, Zenith. The company was the first to commercialize a 71-inch plasma television in 1994 and then a 100-inch LCD television in 1995.⁹ LG has also created a joint venture with Philips called LG Philips LCD. Over the past decade, LG has been at the forefront of innovation in consumer electronics. See Exhibit 4 for LG's accomplishments since its inception.

In 2009, LG employed more than 82,000 people in 82 subsidiaries around the world.¹⁰ In fiscal 2008, the company reported sales of ₩27,638 billion, an equivalent to over US\$22 billion,¹¹ and net earnings of ₩483 billion or nearly US\$389 million.¹²

³ The combination of several technological capabilities into one device.

⁴ A wireless local area network that sends and receives data using high frequency radio signals. Source: <http://wordnetweb.princeton.edu/perl/webwn?s=wifi>, November 3, 2009.

⁵ 3G is the third generation of wireless communications standards. These advancements improved the capacity, bandwidth and support for more diverse applications. Source: <http://en.wikipedia.org/wiki/3G>, November 3, 2009.

⁶ Global Consumer Electronics: Trends, Developments and Insights, Euromonitor International, June 2009.

⁷ Ibid.

⁸ www.lge.com/about/corporate/history.jsp, November 3, 2009.

⁹ Ibid.

¹⁰ www.lge.com, November 3, 2009.

¹¹ Korean won (₩)1=US\$0.000805, source: www.x-rates.com, August 24, 2009.

¹² www.lge.com/ir/financial_info.jsp, November 3, 2009.

In 2008, LG established a new global brand identity: “Stylish design and smart technology in products that fit our consumer’s lives.” In 2009, LG’s promotional efforts were focused on building this brand identity as well as the company’s slogan, “Life’s Good.” These marketing messages had been very successful in helping the Korean company expand throughout North America in recent years.

THE INTERVIEW

Carson had his hopes set on securing the assistant marketing manager position with LG, and he wanted to impress the interview panel. In addition to interview questions about his past experience, education and interests, Carson knew that companies were asking more case-based¹³ interview questions. He had spoken with several friends and some of his faculty members for advice regarding his job hunt. One common suggestion from everyone was to do research and be prepared. During his research, Carson had read about the Watch Phone and its recent introduction into new markets, hence, his strategy was to prepare a thorough marketing plan for this new product’s Canadian launch. Doing so would surely prepare him for similar case-based questions, as well as allow him to intelligently converse with the interviewers about LG’s cutting-edge innovation. Carson’s research had uncovered much information about LG’s Watch Phone.

THE WATCH PHONE

Introduction

Each year, the Consumer Electronics Association held an International Consumer Electronics Show (CES) in Las Vegas. In 2009, CES introduced a variety of new products, one of which, The Watch Phone, garnered plenty of media attention as the world’s first touch watch phone, made by LG. The Watch Phone was a wearable phone loaded with all the latest features, including 3G capabilities, a touch screen interface, an MP3 player and video calling. LG launched the Watch Phone in Europe in August 2009 and then proceeded to investigate ways to expand the device’s market to include North America.

Product Description

The Watch Phone would be the first wearable handset to become available to consumers. LG selected stylish and top quality materials to manufacture the metal casing so that the phone resembled a high-end timepiece. With an appearance (see Exhibit 5) that resembled other watches, consumers should be comfortable wearing the Watch Phone for any occasion. The touch screen face of the watch measured 3.63 centimetres in length;¹⁴ however, the small design did not sacrifice functionality. Still at the forefront of innovation, the Watch Phone offered text-to-speech, voice recognition, waterproof protection, Bluetooth connectivity, speakerphone, alarm, calendar and 3G connectivity. When not in use, the device showed a clock.

The major selling point of the product was its wristwatch shape. Dr. Skott Ahn, president and CEO of LG Electronics Mobile Communications Company, commented:

¹³ A business case study is a “description of an actual situation, commonly involving a decision, a challenge, an opportunity, a problem or an issue faced by a person (or persons) in an organization.” Source: Erskine, J.A. and Leenders, M.R., *Learning with Cases*, © 1997, Richard Ivey School of Business.

¹⁴ www.lge.com/us/press-release/article/lg-unveils-first-market-ready-3g-touch-watch-phone.jsp, August 24, 2009.

Our new 3G Touch Watch Phone is stylish, sophisticated and the height of technology, but it's also undeniably fun. How else can you re-enact those scenes from your favourite sci-fi or spy movie? ... The Watch Phone also demonstrates LG's technological leadership, proving that we can bring all the components in today's most advanced mobile phones down to a very small scale.

Distribution Options

LG's current phone handsets were available through a variety of networks, but LG had not yet chosen its Canadian carriers for the Watch Phone. The major players in the Canadian telecommunications market were Rogers, Bell and Telus; however, more recently, other companies, such as Koodo and Virgin Mobile, had entered the market and were gaining market share. LG also had to decide whether the Watch Phone would be exclusive to one carrier or available through several carriers. One of LG's competitors, Apple, made its iPhone available solely through Rogers, while other competitors offered their phones through the majority of the carriers. As well, LG needed to decide whether the phone would be purchased on a contract with carriers or on a pay-as-you-go basis. In the European launch, LG had offered the Watch Phone through one carrier, Orange, and it was sold on a 12- or 24-month contract.

Pricing Decision

The Watch Phone's Canadian price was not yet established. In the European launch, LG priced the Watch Phone at approximately US\$1,290¹⁵ when a 12- or 24-month contract was signed. This price point reflected the many capabilities of the phone and its significant research and development costs. Now that the phone had gained some traction in the market, LG could be more flexible with its pricing alternatives.

The company would have to choose between a skimming pricing strategy¹⁶ and a penetration pricing strategy.¹⁷ With so many devices available in the market, it was important to define the strategy for a Canadian product launch and then choose the appropriate price point. The competition would also influence the pricing decision. Although no other watch-shaped phones existed, LG would want to entice consumers to switch from their current handsets to the Watch Phone. See Exhibit 6 for some of the details and prices of phones offered by LG's competition.

Promotion Plan

LG's marketing plan would have to include a significant amount of promotion to raise awareness of this new product in the Canadian market. The plan would also require a well-defined target market — those individuals who would represent the majority of consumers for the Watch Phone. This target market could be identified by gender, age, location, income, education level, and/or occupation. Once identified, LG would need to decide on the message it wanted to convey to these consumers. For example, should the company stick to stressing the functionality of the product or develop a catchy slogan for it?

¹⁵ €899. Source: <http://news.softpedia.com/news/LG-039-s-GD910-Watch-Phone-Priced-at-899-on-Contract-118703.shtml>, October 11, 2009.

¹⁶ Skimming is the setting of a high price for a product upon its introduction to the market in an attempt to recover past research and development costs before competitors introduced similar products. The price point may be lowered over time.

¹⁷ Penetration pricing is the setting of a low price for a product upon entering the market to attract customers and gain significant market share.

The promotional medium to be used by LG was also undecided. The company had significant financial resources and was willing to establish a large marketing budget if confident in the proposed marketing plan.

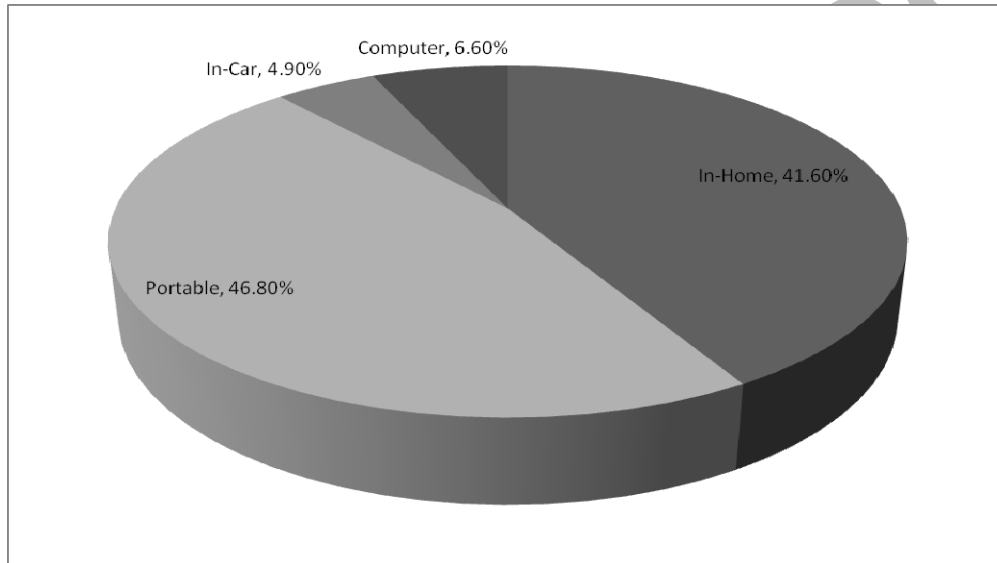
Mobile communications had utilized a variety of advertising media in the past. The most common advertising form was the television commercial. If LG were to use television as its advertising medium, the company must select a station and time of day to run the advertisements. Companies had also used radio, newspaper, billboards and the Internet as means of promotion. More recently, promotion plans in partnership with carriers were common in the industry. This option entailed more of a “pull” strategy.¹⁸ Depending on the relationship with telecommunications carriers, LG could either enter joint marketing efforts with the carrier or have promotions available through the carrier. Should LG stick to traditional means of advertising or try something different, such as guerrilla marketing tactics?¹⁹

CONCLUSION

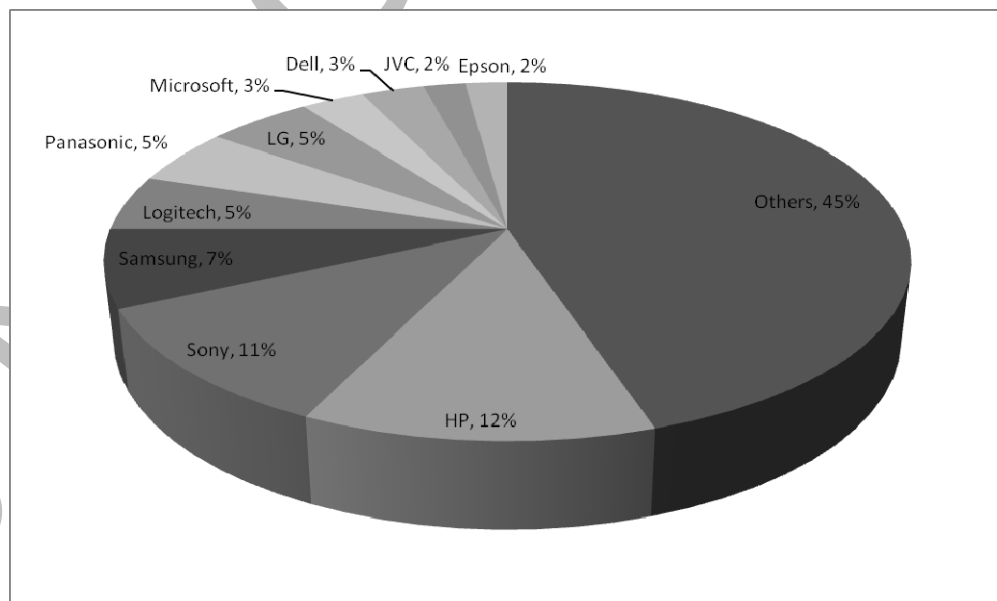
Brimming with excitement about his upcoming interview, Carson sat down to prepare for it. His job hunt was nearing completion, and he could land his ideal job in a few short days. He had a lot of work to do but he was eager to see his results. Carson hoped to be developing marketing plans as a career for many years to come. With this in mind, he decided it was best to identify the relevant implications from an analysis of the industry, LG’s corporate strengths and weaknesses, LG’s competition, and those consumers who would be interested in purchasing a Watch Phone. This information should help him make intelligent, consistent decisions for the product and its pricing, placement and promotion. The end result would be a coherent and memorable marketing plan for the Watch Phone and, of course, a job with LG.

¹⁸ A “pull strategy” is a marketing distribution strategy in which a firm’s promotional efforts are directed towards the ultimate user in an effort to create strong consumer demand. Consumers then ask their dealer for the advertised product which, in turn, tends to pull the goods through the channel of distribution from the producer to the ultimate consumer. Source: “Introduction to Marketing Topic Slides” Business 2257, Richard Ivey School of Business.

¹⁹ “Guerrilla marketing” is the use of unconventional promotional tactics that are designed to create a unique and engaging experience, which, in turn, creates a “buzz” amongst consumers. Examples of these techniques are product giveaways, unusual street encounters/displays and public relations stunts.

Exhibit 1**2008 SALES VOLUME PER SECTOR OF CONSUMER ELECTRONICS**

Source: *Global Consumer Electronics: Trends, Developments and Insights*. Euromonitor International, June 2009.

Exhibit 2**2008 MARKET SHARE OF TOP CONSUMER ELECTRONICS BRANDS**

Source: *Global Consumer Electronics: Trends, Developments and Insights*, Euromonitor International, June 2009.

Exhibit 3

2008 TOP 10 CONSUMER ELECTRONICS PRODUCTS IN NORTH AMERICA

Product	% Volume Share
HDTV (High Definition TV)	20.6
Mobile phones	18.5
Laptops	15.6
Computer peripherals	9.2
Desktops	6.2
Digital cameras	5.3
Monitors	5
Portable multimedia players	3.6
Printers	3.1
Navigation systems	2.8

Source: *Global Consumer Electronics: Trends, Developments and Insights*, Euromonitor International, June 2009.

Exhibit 4

THE HISTORY OF LG: A TIMELINE

- 1958** • Founded as GoldStar.
- 1960s** • Produced Korea's first radios, TVs, refrigerators, washing machines, and air conditioners.
- 1995** • Renamed LG Electronics.
- Acquired U.S.-based Zenith.
- 1997** • World's first CDMA digital mobile handsets supplied to Ameritech and GTE in U.S. Achieves UL certification in U.S.
- Developed world's first IC set for DTV.
- 1998** • Developed world's first 60-inch plasma TV.
- 1999** • Established LG Philips LCD, a joint venture with Philips.
- 2000** • Launched world's first Internet refrigerator.
- Exported synchronous IMT-2000 to Marconi Wireless of Italy.
- Significant exports to Verizon Wireless in U.S.
- 2001** • GSM mobile handset exported to Russia, Italy and Indonesia.
- Established market leadership in Australian CDMA market.
- Launched world's first Internet washing machine, air conditioner and microwave oven.
- 2002** • Under LG Holding Company system, separated into LG Electronics and LG Corporation.
- Full-scale export of GPRS colour mobile phones to Europe.
- Establishes CDMA handset production line and R&D center in China
- 2003** • Entered Northern European and Middle East GSM handset market.
- Achieved monthly export volume above 2.5 million units (July).
- Top global CDMA producer.
- 2004** • EVSB, the next-generation DTV transmission technology, chosen to be the Industry standard by the US ATSC.
- Commercialized world's first 55-inch all-in-one LCD TV.
- Commercialized world's first 71-inch plasma TV.
- Developed world's first Satellite- and Terrestrial-DMB handsets.
- 2005** • Became fourth-largest supplier of the mobile handsets market worldwide.
- Developed world's first 3G UMTS DMB handset, 3G-based DVB-Hand Media FLO DMB Phone with time-shift.
- Established LG-Nortel, a network solution joint venture with Nortel.
- 2006** • LG Chocolate, the first model in LG's Black Label series of premium handsets, sold 7.5 million units worldwide.
- Developed the first single-scan, 60-inch HD PDP module and 100-inch LCD TV.
- Established strategic partnership with UL.
- Acquired the world's first IPv6 Gold Ready logo.
- 2007** • Launched the industry's first dual-format, high-definition disc player and drive.
- Launched 120Hz Full HD LCD TV.
- Demonstrated the world-first MIMO 4G-enabled technologies with 3G LTE.
- Won contract for GSMA's 3G campaign
- 2008** • Established new global brand identity: stylish design and smart technology in products that fit our consumers' lives.
- Posted No.1 spot in U.S. frontloading washers in five consecutive quarters.
- Unveiled the world's first Bluetooth headset-combined mobile phone.
- Unveiled the world's first Blu-ray network storage.
- Developed the world's first LTE mobile modem chip.
- Recorded over 100 million units of LG air conditioners in accumulated sales.

Source: www.lge.com/about/corporate/history.jsp, November 3, 2009.

Exhibit 5
THE WATCH PHONE



Source: www.slashphone.com/media/data/796/lg-3g-watch-phone-3.jpg, November 3, 2009.



Source: www.knowyourmobile.com/siteimage/scale/800/600/59156.png, November 3, 2009.

Exhibit 6

CANADIAN COMPETITORS' MOBILE PHONES¹

Brand	Nokia 2680	Samsung Omnia	Motorola Rival	BlackBerry Tour
Picture				
Technology	GSM 850/1900 MHz	CDMA 800/1900 MHz	CDMA 850/1900 MHz	CDMA 800/1900 MHz, GSM 850/900/1800/1900 MHz, UMTS 2100 MHz
World Roaming	No	Yes	No	Yes
SIM Card	Yes	No	No	Yes
Design Type	Open Face	PDA Style	Slider	PDA Style
Dimensions (h × w × d)	9.9 × 4.7 × 1.6 cm 3.9 × 1.9 × 0.6 in	11.2 × 5.7 × 1.3 cm 4.4 × 2.2 × 0.5 in	9.7 × 5.0 × 1.9 cm 3.8 × 2 × 0.7 in	11.2 × 6.2 × 1.4 cm 4.4 × 2.4 × 0.6 in
Weight	94 grams / 3.3 ounces	118 grams / 4.2 ounces	127 grams / 4.5 ounces	130 grams / 4.6 ounces
Type	LCD (TFT)	LCD (TFT)	LCD (TFT)	LCD (TFT)
Size/Resolution	128 × 160 pixels	240 × 400 pixels	176 × 220 pixels	480 × 360 pixels
Photo Caller ID	No	Yes	Yes	Yes
Voice Activated Dialing	Yes	Yes	Yes	Yes
Digital Camera Resolution	0.3 megapixels VGA	5.0 megapixels	2.0 megapixels	3.2 megapixels
Price	\$0 to \$110	\$99.99 to \$559.99	\$99.99 to \$299.99	\$199.99 to \$699.95

¹ www.cellphones.ca/cell-phones/compare/924,943,1201,1206,1258/, November 3, 2009.