

LG Electronics designs a new product strategy that puts the customer up front

Overview

■ Business Challenge

While a leader in many global markets, LG Electronics (LGE) saw the growing number of low-cost competitors threatening its long-term growth strategy. LGE wanted to strengthen its ability to differentiate by adopting a more customer-driven product management approach across all of its business units.

■ Solution

LGE engaged IBM Global Business Services Korea to design a completely new, customer-driven process framework to govern its product development efforts. Leveraging best practices, the new framework is facilitating LGE's efforts to adopt a more consumer products-oriented business model.



LG Electronics, Inc. is a global leader and technology innovator in consumer electronics, home appliances and mobile communications, employing more than 82,000 people working in over 110 operations including 81 subsidiaries around the world.

■ Key Benefits

- Higher rate of success for new product introductions through strong pre-launch planning and post-launch monitoring
- Improved product portfolio management capability through a more rigorous internal process
- Faster time-to-market through more efficient product development process

“Our future growth will be built on the combined strength of our product innovation and our understanding of the customer. With the help of IBM’s process expertise, we are getting closer to realizing that vision.”

— Sean Choi, Senior Manager of Insight Marketing Team, LG Electronics, Inc.

Enabling a new business model through customer-driven processes

Business Benefits

- Higher rate of success for new product introductions through strong pre-launch planning and post-launch monitoring
- Improved product portfolio management capability through a more rigorous internal process
- Improved ability to leverage and differentiate based on product innovation capabilities
- Improved margin strength
- Strengthening of the LGE brand worldwide
- Faster time-to-market through more efficient product development process

“Our new processes create a strong linkage between what our customers are looking for and where we focus our resources. By giving us the means to sense and respond to changes in a marketplace in a very agile way, they strengthen our ability to become more like a consumer products company—which is how we see our company evolving.”

– Sean Choi

A company’s business model—in essence, the way it creates value and competes—is in many ways a reflection of that company’s business environment at any given point in time. For a business model to be optimal, or even sustainable, it needs to be in sync with the key parameters affecting the business, such as competition, customer tastes and underlying costs. As such, when one or more of these parameters undergo significant change, companies, as a rule, have to change key aspects of their business model to bring it into alignment with the new business environment. While the trend toward globalization hasn’t changed this axiom, it has served to accentuate its key principles—most importantly how the need to adapt in a dynamic global market is essential to profitability and, ultimately, survival. Seoul-based LG Electronics (www.lge.com) is one company that saw important globalization-driven changes in its market environment as an impetus to change core aspects of its business model.

Adapting to change

Of the many ways globalization is manifested in the world economy, perhaps none is more familiar than the tendency for competitors from low-cost regions to encroach on the turf of more established companies, especially in mature markets. LGE—founded 50 years ago as GoldStar and a producer of Korea’s first radios, TVs and major appliances—was once such a company. Over the last decade, however, LGE has become an established global player in such high-growth markets as mobile phones and digital entertainment products, while maintaining a strong position in the more mature global appliance market. But as LGE was evolving as a company, so too was its competitive environment. While LGE was on its way to becoming a global market leader in key segments on the strength of its product innovation, it also saw an increasing threat from the growing number of low-cost—principally Chinese—competitors.

LGE responded by resolving to make fundamental changes to its business strategy. While LGE saw innovation as an important driver of its future growth and brand strength, it also saw the need for a more systematic and targeted approach to managing its product portfolio. As envisioned by LGE, the new approach would establish a tighter linkage between customer needs in the marketplace and the products that LGE decides to develop. In essence, LGE sought to buffer itself from margin erosion by identifying and focusing its resources on the most popular—and profitable—products. To achieve this, the company needed to put in place a rigorous set of evaluation and market planning processes that could be leveraged across all of its business units, thus enabling a more holistic, efficient and disciplined framework for strategic marketing. More than a set of process improvements, LGE envisioned a new, more consumer products-oriented business model. It turned to IBM Global Business Services Korea to help the company refine and realize this vision.

One of the first things LGE did was to put in place a corporate marketing group, which would provide the organizational foundation for its process initiatives. Drawing from a similar initiative they had recently conducted for another customer, consultants from IBM Global Business Services Korea designed a process framework known as the Insight-based New Product Introduction Process (named for its strong reliance on consumer needs or insights as the basis of decisions). The highlight of the process is the incorporation of a rigorous “stage gate” methodology into the opportunity analysis and the early phases of the product development process. Like IBM’s own integrated product development (IPD) methodology—which served as a model for LGE’s framework—the stage gate approach employs multifunctional teams, which are required to perform a series of cross-functional tasks in each stage before getting the green light to move to the next stage of product development.

Enabling a new business model

Importantly, LGE’s process initiative stands out not simply for the use of stage gate, since the company had already deployed a more rudimentary version prior to the project. Instead, it was in the way the IBM team adapted the framework to meet the demanding requirements of the consumer products business model to which LGE aspired. To achieve this, IBM’s consultants brought in best practices used by the world’s most successful global consumer products companies as well as within IBM itself. The other defining aspect of the new process framework is a higher degree of rigor built into the way decisions are made and communicated at each stage of the evaluation process. This contrasts with the relatively unstructured and highly variable way LGE’s business units have evaluated new product opportunities in the past. While the new processes are intended to provide LGE with a standard and consistent analytical and decision-making framework, they are nonetheless flexible enough to be adapted to the specific needs of LGE’s many business units.

LGE’s new product processes address both the early product strategy and planning requirements, as well as those around individual projects. The processes—conducted by each business unit—begin with a Market Assessment, in which customer needs are gathered, analyzed and put into a segmentation framework that becomes an important reference point for developing product strategies. The next process is an analysis designed to ensure that each business unit’s brand strategy is in line with the corporate brand strategy, whereupon a product roadmap is developed for each target segment that serves as a foundation for evaluating individual product opportunities.

Solution Components

Services

- IBM Global Business Services Korea

Timeframe

- Design of Insight-based New Product Introduction Process: 7 months
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Why it matters

Electronics giant LGE reached deep into the practices of consumer product marketing to change its business model. By creating a global standard process that tightly links strategic market planning and its product planning, LGE is putting in place a highly disciplined and data-driven marketing framework to support its broader strategic transformation into a more customer-driven company.



With customer demand findings and the product roadmap as a backdrop, the second group of processes is focused on the generation, evaluation and development of specific product concepts. It is at this stage that individual decision points—or stage gates—are introduced into the process flow to ensure rigorous decision-making. The goal of the next stage, concept verification, is to examine commercialization opportunities by performing a product concept test, looking at purchasing intentions and analyzing consumer preferences on design, functions, price and other factors. If the concept makes it through this point, the process then focuses on the best way to bring the product to consumers, the demand forecasts, detailed consumer studies and pre-launch research on marketing strategies. If the consumer tests fail, however, the process prevents the product from going any further toward launch.

Customer driven

A key benefit of LGE's new marketing processes is that it will enable the company to focus its proven innovation capability on the right products and markets, explains Sean Choi, Senior Manager of the Insight Marketing team in LGE's Corporate Marketing organization. "Our new processes create a strong linkage between what our customers are looking for and where we focus our resources," says Choi. "By giving us the means to sense and respond to changes in the marketplace in a very agile way, they strengthen our ability to become more like a consumer products company—which is how we see our company evolving."

Complementing its recent creation of a corporate marketing organization, LGE's more rigorous and disciplined product planning strategy also represents a valuable tool in the company's efforts to implement a portfolio-based approach to managing its product line. Through such an approach, LGE can identify and focus on products with the highest margins as well as those products that best leverage the company's key technology strengths. That's why Choi sees the new planning process as an essential part of the company's efforts to strengthen the LGE brand along with its ability to differentiate based on product innovation. "Our future growth will be built on the combined strength of our product innovation and our understanding of the customer," says Choi. "With the help of IBM's process expertise, we are getting closer to realizing that vision."

For more information

To learn more about how IBM can help transform your business and help you innovate, please contact your IBM sales representative or IBM Business Partner.

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