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Chapter 5

Marketing-Resources Based Competition: Strategies for the Catch-up of South Korean Firms, the Latecomers in the Chinese Market

Huang Lin

Abstract The purpose of this paper is to examine the development process of marketing-resources based competition in the Chinese market, using the South Korean firms Samsung, LG, and Hyundai as case studies. This study first asks how Korean firms were able to develop a strong market position in China despite their inferiority relative to Japanese firms in technologies. The second question is how Korean firms were able to overcome the challenges of fierce price competition in China, and in particular, how firms were able to evade confrontation with the Chinese firms. In this paper, the strategies of latecomers in the global competitive market will be examined. A detailed description is presented of the process of market entry and market position establishment by Korean firms in China. This paper also shows how the firms develop branding and marketing communication strategies. Product development capabilities with speed and differentiation are the basis of Korean firms' competitiveness in the Chinese and global markets. The conclusion offers the major findings from the theoretical perspective of marketing-resources based competition and discusses the implications and limitations.

Keywords Latecomer, Marketing resource, Catch-up strategy, Branding, Relationship management.

Introduction

The purpose of this paper is to present an empirical study of three Korean firms, Samsung, LG and Hyundai, which examines the process of marketing-resources based competition in the Chinese market. The Korean firms have emerged as international competitors in the Chinese market since 1990. This study first asks how Korean firms, as the latecomers in China, were able to develop a strong market position in China despite their inferiority relative to Japanese firms in technologies. The second question is how Korean firms were able to overcome the challenges of fierce price competition in China, and in particular, how firms were able to evade confrontation with the Chinese firms.

In this paper, the strategies of latecomers in the global competitive market will be examined. In general, the strategies of latecomers display a different trajectory from those of the first-mover. A catch-up strategy is important if the latecomers are to compete with global firms and local firms in the market In this empirical study of Korean firms in China, it appears that marketing resources are a key factor in the process of strategy development in the market.

The major studies on the strategies of latecomers consider the catch-up process as technological position changes of the latecomers and the first-mover companies. Fundamental questions are: “What facilitates a technological position change?” and “How can the technology development of the latecomer link to changes in the latecomer’s market position and competitiveness?” The theories on technology development of the latecomer neglect the intricacies of the catch-up process and the interaction of the latecomer with the market environment. This study conducts an in-depth analysis of the multiple catch-up processes and market position changes of the latecomer. In this paper, a marketing-based approach will be introduced to refute the mainstream approach to the catch-up process in which only technology is emphasized. We argue that, for the latecomer, the catch-up process is also largely based on marketing resources, and so to understand the process, the marketing-resources based competition also needs to be emphasized. The intricate and dynamic interaction among the latecomers within the market environment is critical.

This paper argues the strategies of catch-up used by latecomers and presents a general concept of marketing resources in first section. The following sections take a close look at the process of catch-up, based on marketing resources, from market entry to branding and the establishment of a strong market position. Using information from fieldwork research, a detailed description of three cases, Samsung, LG, and Hyundai, is presented to explain how the Korean firms compete in the Chinese market based on OBM strategy, local-specialist and *guanxi* management. The conclusion offers the major findings from a theoretical perspective and discusses the implications and limitations.

Strategies of latecomers

The competence of individual firms can significantly affect their competitiveness and market position in the global markets. The South Korean electronics and automobile companies are the latecomers in the Chinese market compared to other global firms such as Motorola, Nokia, Panasonic, VW and Honda. With regard to competitiveness, the first-movers or leading firms in industrialized countries have established technological advantages, and the latecomer firms have to pursue catch-up strategies in the form of imitation, borrowing and learning.

The leading firms in industrialized countries constantly have to develop new and unique products to maintain their higher wage levels and living standards. By the time the new products or their production processes become standardized, and thus producible competitively in lower-wage countries, the leading firms in industrialized countries have to improve the products, develop more advanced production technologies, or develop entirely new products in order to maintain their lead. With regard to competitiveness and technological advantages, based the 'first-mover' paradigm, the implications of strategy for international competitiveness may depend mainly upon the capability of that strategy to originate or invent new ideas and concepts.

The latecomer model shows a different trajectory from the 'first-mover' paradigm. The first difference is the manner in which the latecomer assimilates and makes operational new ideas and concepts, or adapts advanced technologies from the first-movers.

While Japanese firms were the heaviest importers of licensed technology from the United States, Korean and Taiwan firms were able to gain valuable technological learning opportunities through original equipment manufacturing (OEM).

OEM is a form of inter-firm alliance. It mainly involves supplying firms that manufacture with original equipment to finish product under the buyer's specifications, to be sold under the buyer's brand name. OEM buyers influence the manufacturers in terms of design, packaging, styling and quality. They also investigate facilities, manufacturing systems, and quality control programs and advise the manufactures. To define exactly what OEM is can be difficult, since various people use the term differently. OEM as an arrangement that became widespread in the automobile industry, as firms sought suppliers of various automobile parts. At first, in involved only US firms, but later it expanded internationally (Cyhn 2002).

Under contracts for international OEM, the buyer firms in industrialized countries inspect the suppliers' facilities to ascertain the production capabilities and test the quality of sample products. In some cases, the buyer may also inspect the facilities of the secondary suppliers. If all these are reasonably satisfactory for the buyers, negotiations will continue concerning the formation of a partnership. After the contract is negotiated, the buyer's engineers are usually stationed at the suppliers' firms to transfer the technologies and capabilities needed by the supplier firms. While much emphasis is placed on production, the buyers assist the suppliers in most aspects of product development. The final products are sampled for fault rates. If problems arise, it is the responsibility of the suppliers to correct them, although buyers are to a certain extent usually willing to assist.

Because there is a high transaction cost involved in finding new suppliers, buyers are reluctant to switch to new suppliers abruptly. After the products are delivered, the buyers undertake sales, marketing, distribution and after-sales services. Thus, overall, while OEM can be considered to be a form of subcontracting, such a characterization would still be overly simplistic. Indeed, OEM does share many similarities with subcontracting. Although terms vary according to specific contracts, they generally share the important characteristics of vertical integration and technology transfer, under the broad setting of the international production network.

In order for latecomer firms to overcome the barriers to entering the advanced markets, they tend to rely heavily on their unique corporate governance and other substantial resources, such as subsidies frequently offered by their governments.

Lall (1996) argues that the success of Korea's technological learning is largely based on domestic entrepreneurship and government intervention. The Korean government has fostered large domestic conglomerates (*chaebols*) and pushed the firms to export, and as a result, the firms have set up capital and technology-intensive investment activities. The government did not stop with offering firms various incentives to gain export and technological know-how, but was also involved in the creation of a number of government research institutions to further support the firms' efforts.

The arguments regarding the technological catch-up strategies of latecomers mainly address effective learning and deepening of technological capabilities, which are positively influenced by the government policies. In addition to the export orientation, government intervention and the industrial structure which is based on large firms in *chaebols* have allowed the Korean firms to overcome various barriers and challenges in order to catch-up.

Ernst (1994) argues that while Korean firms have been successful in catching-up, many shortcomings have also been exposed as well. Korean firms assimilate and adapt technologies from the first-movers in a form of OEM. The rapid growth of Korean firms is credited to the 'deep pocket' advantage of *chaebols* and their product diversification based on low-wage, mass-production of low-profit, commodity-oriented goods (Kenney 1997). The unfavorable view of Korean firms' catch-up strategy, in particular that of its electronics industry, maintains that there is a heavy reliance on imported components and that not much deepening of technological capabilities has occurred. The OEM arrangement has contributed to Korea's export growth, but it has done little to encourage indigenous technology development and own-brand development. Moreover, Korea has lost opportunities to accumulate capabilities and creativity in product design, branding and marketing.

To summarize, the main point of the arguments regarding the strategies of latecomers not only emphasizes assimilation and adaptation from the first-movers but also stresses that latecomers should accumulate indigenous capabilities.

Concept of marketing-resources

The latecomer firms expanded their activities and business domains through the 1980s with reliance on OEM, ODM (own design manufacturing) and joint ventures with the leading firms. In addition, we need to examine the strategies of latecomers concerned with the development of international markets.

The second difference of the latecomer model from the ‘first-mover’ paradigm is the manner in which the latecomers expand their activities in international markets or emerging markets such as China or India. The latecomers have to compete with the global first-movers and local firms. We need to examine the process of resource development and accumulation of latecomers’ indigenous capabilities, in particular their marketing resources

“Marketing resources” refers to the information that a company receives in its interaction with the market environment, which includes customers, business partners and competitors. This concept not only involves brand equity but also refers to the relationship formed in the business process with other companies and the establishment of a reputation/trust with consumers or customers.

According to the theories in the main literature, the company is "a set of resources" or "a set of capabilities." In the conventional idea of a company, there is a definite boundary line between the market environment and the organization. However, in the process of developing resources in international markets, the latecomer firms are suffered from environment changing and global competition consistently. Only with the resources of organization inside, the latecomers cannot completely copy with the interaction with global market environment.

A general concept of resources is shown in **Figure 1**. Although marketing resources are accumulated in customers, business partners or competitors that are outside of an organization, such as long-term relationships, reputation or brand assets are included in the set of resources of a company. Marketing resources that are outside of an organization are unstable and it is impossible for a company to control them perfectly.

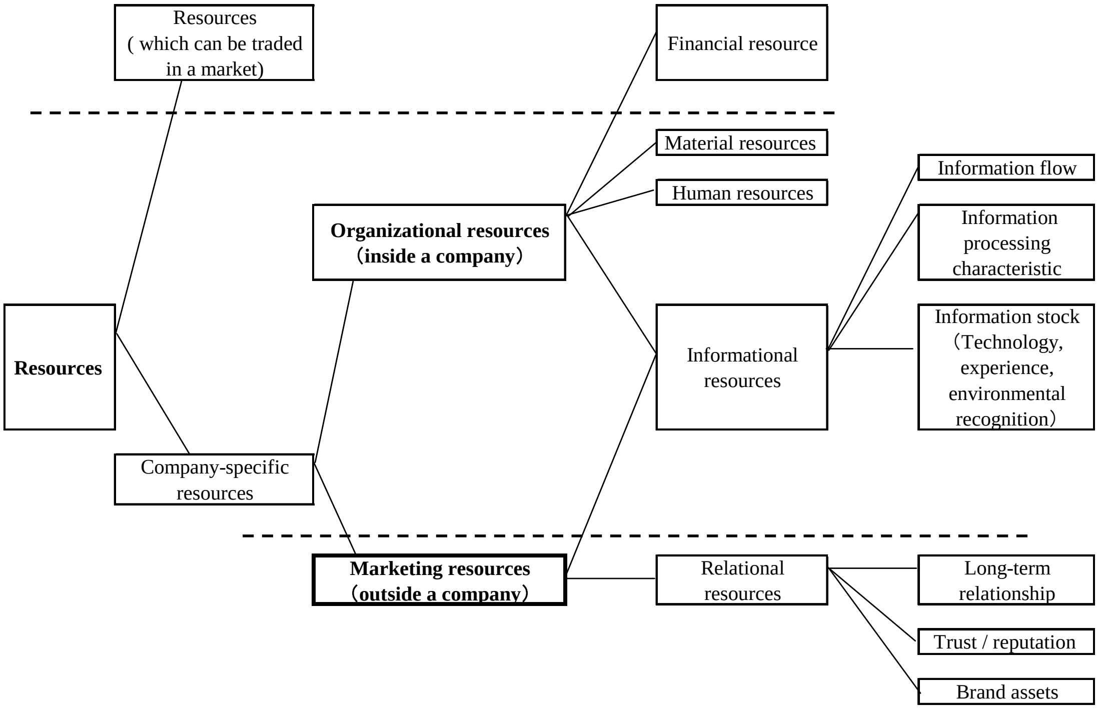
Penrose (1959) argues that resources are accumulated at a company organization and the resources which are unused or the peculiar resources which have multiplex use possibilities are the base of company growth. Among financial resources, human resources, material resources and informational resources, it is particularly claimed that informational resources are the most important (Itami 1987).

There are the information flows and the information stock in a company that are provided through daily business activities. From the viewpoint inside the organization, the management of information flows and stock as well as information processing characteristics, such as the know-how or routines, seem to have a significant impact on the competitiveness and innovativeness of an organization. Depending upon the resource-based view of the firm, the tacit informational resources are inherently non-transferable. The knowledge management is concerned with the organizational competence to acquire, absorb and use the informational resources.

Various information stocks are accumulated inside an organization by interaction with the market environment. With reference to environmental recognition, local market knowledge is the systematic information stock about a local market, society, politics, culture or customs. The international experience of a company is the understanding and recognition that enables it to relate to the local market risk and profitability as well as the company's knowledge about the actual market situation. Experience is accumulated in a specific market, and such experience cannot easily be transferred to other countries or markets. Accumulation of local market knowledge and international experience requires time and is difficult to acquire from the outside of an organization (Johanson and Vahlne 1977). The local market knowledge and international experience accumulated in a company have a major influence on the development of its overseas business.

In contrast, there are marketing resources, such as the image of a company, loyalty of customers, and trust/reputation established with trading partners that are accumulated outside an organization. Brand image and brand loyalty of the company are the indigenous relational resources accumulated outside an organization. In addition, relation-specific resources are accumulated between the company and suppliers of parts/materials, subcontractors, and other business partners. From the viewpoint of marketing resources, long-term cooperative relationships are an important base of competitiveness. Over all, development and accumulation of marketing resources are indispensable for a company to compete in the global markets.

Figure 1: A General Concept of Resources



While international transfer of organizational resources accumulated inside a company is critical to develop international markets, it seems that this is still a limited explanation for the competitiveness and success of a latecomer firm. In addition, marketing resources of first-mover, such as long-term relationships, reputation, or brand image, will become the main obstacles that the latecomer firms have to overcome. The process of differentiation seems to take time and commitment on the part of the latecomer. It is argued here that recognition by the latecomer of the importance of marketing resources accumulated outside has been very significant for the latecomer's understanding of the reality of global competition.

Market entry process of Korean firms in China

In comparison with the global firms of developed countries, Korean firms enter into the Chinese market as the latecomers. The reason why Korean firms became the latecomers in China was due to the relationship between South Korea and China. The US established diplomatic relations with China in 1979, but Japan had established relations with China seven year earlier, in 1972. South Korea established diplomatic relations with China in 1992. Since 1985, Korean firms have been expanding their business to the Chinese market.

What kind of process have the Korean firms, as the latecomers, passed through in order to do business in the Chinese market? In this section, we will take up Samsung, LG, and Hyundai as case studies and present a detailed description of the market entry process.

Samsung: It was around the autumn of 1985 that top management of the Samsung group examined a market entry strategy for the Chinese market. The first characteristic of Samsung's strategy is the top-down "single Samsung" policy to develop business in China, instead of allowing the group companies to grope for Chinese business individually[1]. As a window on the Chinese market, the Samsung group set up a Greater-China Area Headquarters in Hong Kong in the first half of 1985.

Samsung's first liaison office in Beijing was established in the summer of 1985, but it had to take the form of a Beijing liaison office of a bogus company established in Hong Kong. In those days, it was not easy for a Korean businessperson to acquire a Chinese visa for business purposes, either.

The "California" brand refrigerator of Samsung was sold as a US-made product at stores in Beijing. Even though diplomatic relations were not established, the Samsung group exported about US$200 million worth of goods to China, with 75% exported through the Hong Kong office in 1985. The main items were electronics goods, textiles, machine products and chemical products.

At the beginning of 1990, the first local representative of the Samsung group was dispatched to Shanghai. The basic strategy of Samsung until 1990 was to establish a correspondence system with trade representative offices. Samsung firmed up its footholds in Beijing and Shanghai and secured footholds for trade in the major cities of Dalian, Guangzhou and Qindao. The problems were finding capable employees who could speak Chinese, starting up the Chinese market term, reinforcing market research capabilities and public relations, and building acquaintances and relationships with local government (Kim 2005).

In 1992, two production subsidiaries, Samsung Corning Tianjin which produced transformers and Samsung Electricity Dongguan which produced electric parts, were established. By 2000, the Samsung group had established 19 production subsidiaries such as for VCRs, printers, audio equipment, semiconductor parts, cameras/lenses, CTYs, household electrical appliances, wool spinning, menswear, monitors, cathode-ray tubes, glass, LCDs, ship parts and steel processing. During 1992 to 2000, the Samsung group was in the second stage of its business expansion in China. This stage was characterized by the development of production and export footholds in China. By 2000, all production subsidiaries of Samsung in China had recorded a profit.

Since 2000, sales of Samsung in China have increased. In Samsung's third stage of business expansion in China, its brand image and market share, as a high-tech, digital company mainly producing IT products, rose drastically. The popularity of the Samsung brands of digital products, mainly including "Any Call," a mobile phone brand, was established among Chinese consumers.

LG: In 1993, the first subsidiary of the LG group, LG Electronics Huizhou, Ltd., was established. By the end of 2005, the LG group had established 15 subsidiaries in China. The LG group invested US$400 million to build a twin-tower headquarters located in the Chaoyang District of the city of Beijing. This shows the commitment of the LG group to, and its confidence in, the future of the Chinese market.

The process of market entry by the LG group can be divided into three stages. While the development of strategy of LG was very similar to that of the Samsung group, LG, as a household electrical appliance manufacturer, employed a different theme in each stage.

In the first stage, LG invested in Huizhao, Beijing, Shanghai, Nanjing, Shenyang, Tianjing, Qinhuandao, Qingdao, Taizhou and Langchao to establish a substantial production and after-sales service network in China. By 2003, LG had established 10 factories, 6 branch offices and 6 service companies. The total number of employees was 11,000 persons. In the second stage, to realize the economy of scale, LG exported the products of the subsidiaries in China to various countries around the world. In the third stage, LG concentrated on mobile handsets, digital displays including TVs and LCDs, and air conditioners for the global market including China.

Hyundai Motors: In April 2002, Hyundai Motors and Beijing Auto Industry established a joint factory owned fifty-fifty in Beijing. Hyundai Motors had planned to invest a total of US$1.1 billion by 2010, including US$100 million of initial investment and US$430 million by 2005. In comparison with European, Japanese, and US automakers, Hyundai Motors was really the latecomer in the Chinese market. However, the establishment of Beijing Hyundai was very quick, with the factory construction beginning in June 2002 and test production starting at the end of 2002. According to the initial investment plan, the production capacity will be expanded to 200,000 vehicles at the end of 2005, and to 500,000 by 2010. Hyundai Motors plans to produce all of its models at Beijing Hyundai and to establish a production base there for the global market.

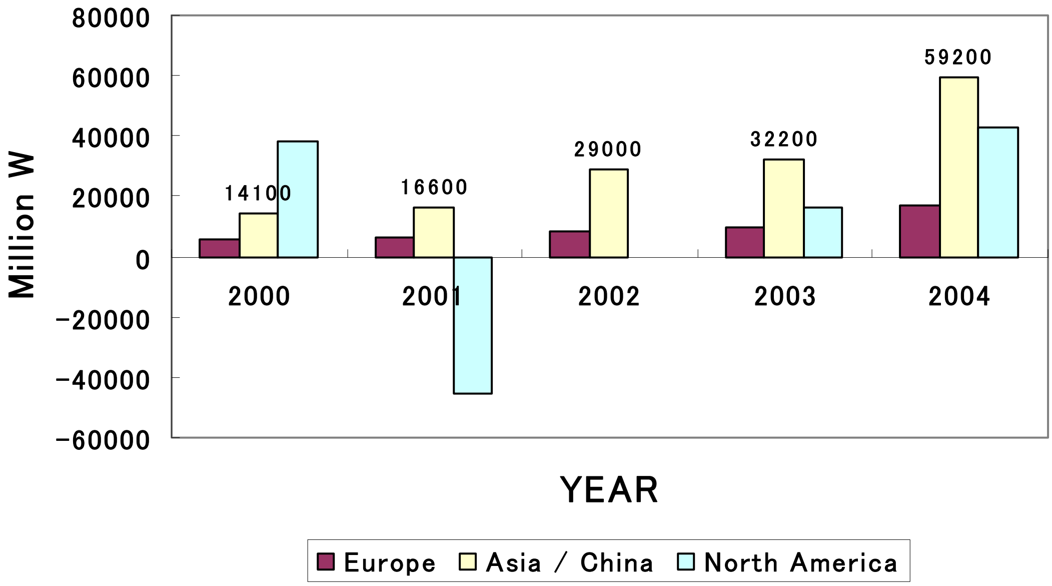
Market position of Korean firms in China

Samsung: Samsung Electronics is the most important company of the Samsung group. Samsung Electronics' network of production, sales and service in China covers the entire country of China. Samsung Electronics' development of business in China has not always been smooth and its performance was not so favorable because, until 2000, Samsung lacked adequate local market knowledge and business experience in China. Moreover, Samsung experienced a huge shock due to the Asian financial crisis in 1997. Because Samsung endured adverse circumstances in the 1990s, it was able to establish its current market position in China.

After the establishment of diplomatic relations between South Korea and China, Samsung Electronics invested in Huizhou in August 1992 and established Samsung Electronics, Ltd., in Tianjin in April 1993. Investment by Samsung Electronics increased tremendously until 1996. During this period, Samsung Electronics was the company most actively investing and expanding its business in China. Samsung Electronics continued to invest in China even when Korean firms were facing the difficult phase following the Asian financial crisis from 1997 to 1999. Samsung Electronics adjusted its global strategy and changed its structure of business. At the same time, Samsung Electronics reconstructed its system to correspond to the changes in the global market environment and boosted its decision-making speed. As a result, the company's investment and business in China accomplished a qualitative leap.

As **Figure 2** indicates, the overseas sales profit of Samsung Electronics in Europe, North America and Asia/China changed according to different patterns. The overseas sales profit in the Asia and China market in particular escalated rapidly after 2000. Samsung has realized the large potential of the Chinese market and has reinforced its commitment to China.

Figure 2: Trends in Overseas Sales Profits of Samsung Electronics



Source： Annual Report of Samsung Electronics.

After 2000, Samsung Electronics launched high-end products in China and concentrated its investment in China in IT, mobile communications, digital media and digital display products. Samsung Electronics has proactively established R&D centers in China. By the end of 2003, the total investment in China of Samsung Electronics had reached US$270 million and its sales in the Chinese market reached US$670 million. This represented 17% of the total worldwide sales Samsung Electronics. The China sales of the Samsung group were US$1.6 billion and its export from China to the global market amounted to US$680 million in 2004. In 2005, Samsung group's sales in China were US$1.76 billion and exports were US$780 million. During the past several years, Samsung Electronics has concentrated about 30% of its overseas investment in China, and its sales target in China was set at US$2.5 billion in the long-term business plan which runs until 2010.

Samsung Electronics has established 14 production subsidiaries, 8 sale subsidiaries, 4 R&D institutes, and several representative offices and service-centers (**Table 1**). The total number of employees in China had reached 23,000 persons as of 2005.

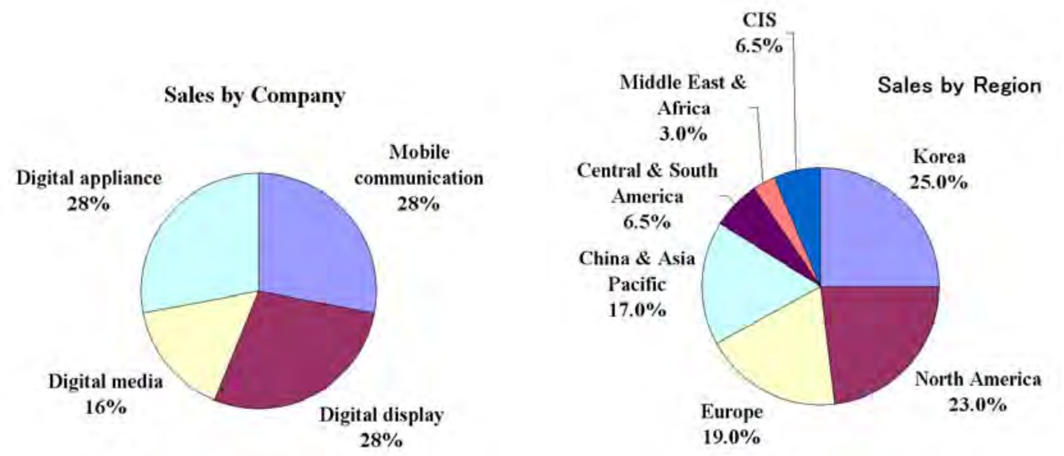
Table 1: Network of Samsung Electronics in China（as of 2006 yearend）

Investment companies		Samsung (China) Investment Ltd.
Production companies	Digital multimedia	Tianjin Tongguan Samsung Electronics Ltd.
		Tianjin Samsung Electronic Display Ltd.
		Tianjin Samsung Electronic Ltd.
		Shangdong Samsung Communication Facilities Ltd.
		Huizhou Samsung Electronics Ltd.
		Suzhou Samsung Electronics Computer Ltd.
	Information and communication	Tianjin Samsung Communications Technology Ltd.
		Shanghai bell Samsung Mobile Communication Ltd.
		Samsung (Hainan) Ltd. Photonic Technology Ltd.
		Hangzhou Samsung Toshin Network Technology Ltd.
		Shenzhen Samsung Mobile Communication Technology Ltd.
	Household appliances	Suzhou Samsung Electronics Ltd.
	Semiconductors	Samsung (Suzhou) Semiconductor Ltd.
	Digtal Displays	Suzhou Samsung Electronic Liquid Crystal Display Ltd.
Sale companies		Shanghai Samsun Semiconductor Ltd.
		Samsung (China) Investment Beijing Branch Office Ltd.
		Samsung (China) Investment Shenyang, Shanghai, Guangzhou, Chengdu, Branch Office Ltd.
		Samsung Electron (Hong Kong) Corporation
		Taiwan Samsung Electron Co., Ltd.
R&D institutes		Beijing Samsung Communications Technology
		Samsung China Design Research Institute(Shanghai)
		Samsung Semiconductor (China) R&D Ltd.(Suzhou)
		Samsung Electronics (China) R&D Center(Nanjing)

Source: http://www.samsung.com.cn/aboutsamsung/samsungglobal_jyxz.htm

LG: The Asian financial crisis aggravated LG's difficult position in the electronics market. The response of LG Electronics was to embark on corporate restructuring and focus on the higher value added segments of IT-related and digital products. The strategy of LG to principally focus on the LCD market was similar to that of Samsung, which successfully focused on semiconductors.

Figure 3: Global Revenue of LG Electronics in 2005



Source: Annual Report of LG Electronics.

For ten years after its entry into China, the sales of LG Electronics in China rose remarkably. The sales exceeded US$400 million in 2002 and reached US$700 million in 2003. The sales performance of LG Electronics in 2003 exceeded the sales of Samsung Electronics in China. In September 2003, the LG group decided to expand its industrial park which is located in the Nanjing Development Zone and is the biggest overseas production base of the LG group. The total investment of the LG group at the end of 2003 reached US$300 million.

LG Electronics' total revenue in its global subsidiaries' account excluding internal transactions was 35,563 billion Korean won, and the share of its sales in China and Asia Pacific was 17%. As shown in **Figure 3**, the China market was the fourth largest market for LG Electronics.

As **Table 2** indicates, based on a proactive convergence strategy, LG and Samsung have already accumulated sufficient in-house technology competence to enable them to overtake their major competitors in the TFT-LCD market.

The strategy of LG Electronics is to converge in the segment in which LG is already among the top three in the world and to aim for the top position in China within the short term. This means that LG Electronics has to purchase most of its parts from local sources. For example, LG Electronics Tianjin Appliances purchases compressors and all other parts and accessories from the local companies for its production of air conditioners. In addition, LG Electronics Shenyang uses the products of LG Changsha. The rate of local sourcing reached 80% in 2003.

Table 2: LCD Market Share Worldwide (TFT-LCDs in 2000 / LCDs for TVs in 2005)

Ranking	2000		2005	
	Company	Market Share (%)	Company	Market Share (%)
1	Samsung	20.5	LG-Philips LCD	23.9
2	LG-Philips LCD	14.0	Samsung	23.5
3	Hitachi	10.1	Sharp	18.5
4	Sharp	7.6	ADI	17.1
5	Toshiba	6.8	Acer	11.9
6	NEC	6.6	Hitachi	1.3
7	Sanyo Electric	5.0		
8	IBM	4.6		
9	Acer	3.6		
10	ADI	3.1		
	Others	18.1	Other	3.8
	Total	100.0	Total	100.0

Source: Display Search, USA

Hyundai Motors: The market position of Beijing Hyundai in the Chinese car market is quite unique. Chinese consumers had a bad image of Korean cars. This was not only due to the fact that Hyundai Motors entered the Chinese market in 2002 as a latecomer, but also due to the fact that Chinese consumers consider Beijing Hyundai's car to be an imitation of Japanese cars. The bad image from the 1990s of a simulated Korean car is not easily to dissolve. Furthermore, in Beijing the image of a taxi is attached to the image of Hyundai Motors as a Korean company. According to the market research report of Beijing Hyundai, the main keywords associated with the brand image of Beijing Hyundai's car are "low price or cheap," "a company good at imitation," "lack technological capability," and "an upstart company," etc. The bad brand image of the Korean car is still strong.

However, sales of Beijing Hyundai's car are growing smoothly because the car market in China is in its initial stage of growth. As a major stockholder of Beijing Hyundai, the Beijing municipal administration gives much support to this joint project. As shown in **Table 3**, the sales volume of Beijing Hyundai jump from 52,128 vehicles in 2003 to 233,668 vehicles in 2005. The ranking of Beijing Hyundai in the Chinese car market rose from eleventh to fourth. The success of Beijing Hyundai, as the latecomer with a weak brand, was due to the positive initial investment over the course of three years that enlarged Beijing Hyundai's production capacity from 50,000 vehicles to 300,000 vehicles to quickly meet demand growth.

Table 3: Car Sales Ranking in China（2003-2006）

Ranking	2003		2004		2005		2006 (1-9)	
	Company	Sales number	Company	Sales number	Company	Sales number	Company	Sales number
1	Shanghai VW	396023	Shanghai VW	355006	Shanghai GM	324828	Shanghai GM	295693
2	Changchun Audi	298012	Changchun Audi	300117	Shanghai VW	249113	Shanghai VW	249756
3	Shanghai GM	201188	Shanghai GM	252053	Changchun Audi	240120	Changchun Audi	246940
4	Guangzhou Honda	117105	Guangzhou Honda	202057	Beijing Hyundai	233668	Beijing Hyundai	210964
5	Tianjin Toyota	113977	Beijing Hyundai	144088	Guangzhou Honda	230759	Guangzhou Honda	185681
6	Citroen Wuhan	103126	Tianjin Toyota	130306	Tianjin Toyota	189998	Qirui	179915
7	Chang'an Suzuki	100018	Chang'an Suzuki	110052	Qirui	189158	Changchun Toyota	169278
8	Qirui	85351	Jili	98383	Dongfeng Nissan	157516	Tianjin Toyota	146796
9	Jili	74804	Citroen Wuhan	89190	Citroen Wuhan	140399	Citroen Wuhan	145526
10	Dongfeng Nissan	65120	Changchun Toyota	88248	Jili	149869	Jili	144914
11	Beijing Hyundai	52128						

Source: Beijing Hyundai

Branding and marketing communication

With respect to branding and marketing communication, the characteristics of Samsung's and LG's activities will be examined in the mobile communication market. The characteristics are similar in both the global market and Chinese market. Samsung Electronics and LG Electronics accumulated indigenous resources and developed capabilities for R&D and design in the face of intense competition in the Korean market. These capabilities, including the development of varied high-performance models and quick market introduction, are important for global competition.

Samsung and LG quickly assimilated and adapted the leading-edge features of product or new devices that Japanese companies developed, using the collective strength of the corporate group. The group synergy effect enables Samsung and LG to adequately introduce new models into the markets more quickly than Japanese firms. Samsung and LG have made large-scale investments to raise their capabilities of product design in particular and to set up Design Centers in London, Los Angeles, San Francisco, Tokyo and Shanghai.

Marketing communication activities, such as TV commercials and advertisements, will be conducted to introduce new high-quality models. Furthermore, Samsung and LG segment the mobile phone handset into function, product performance, quality, design and brand in the global market. In the CDMA market, Samsung and LG are already the leading companies.

Unlike Samsung and LG which developed their brand strategy in the global market and the China market, Hyundai Motors had to overcome a difficult situation in the China market. Beijing Hyundai had to focus on marketing channels and establish new brand recognition because of its very weak brand position.

Samsung: In 1998, the chairperson of Samsung decided that the global brand strategy and the low-end products of the Samsung brand would be removed from North American supermarkets. Samsung adopted a similar brand strategy in the Chinese market. The cheapest Samsung brand mobile handset is now a 1995 model with a retail price of about 900 Yuan.

Samsung’s mobile phone handset is superior in its features, such as its miniaturization, lightweight, and power-saving features. Its good product image, such as leading-edge technology, sense of quality and novel design, form a basis for overwhelming the competition in the Chinese market. Thus, the marketing resources that the company accumulated in Korea, the US and Europe have been transferred to China and have been used to develop the brand strategy.

Samsung Electronics customizes the handset models to suit the Chinese customer and incorporates some unique design features for the local segment. For example, a model with a mirror exclusively for women has won popularity among young Chinese women. In addition, the color display, ringing melody down-loads, camera function, animation photography function, 3D gaming, MP3 player, Bluetooth and slide-phone and sideway-turning screen have been introduced by Samsung Electronics into the Chinese market. The various models with high performance and superior functions are derived from the “child model” – a prototype model in accordance with the platform strategy of product development and design. Samsung’s R&D institutes and design centers in China cooperated with the company’s global R&D institute at its headquarters to introduce various models in sequence into the Chinese market.

The mobile phone handset has become the marketing communication medium to showoff Samsung’s brand concept. Samsung released the two-screen model SGH-A288, and it was the first among the many global rivals in China to release such a model. Samsung also released a flip-up design model, SCH-X350, at the end of 2001 as well as a 5 million pixels camera model, SCH-M509, in 2005.

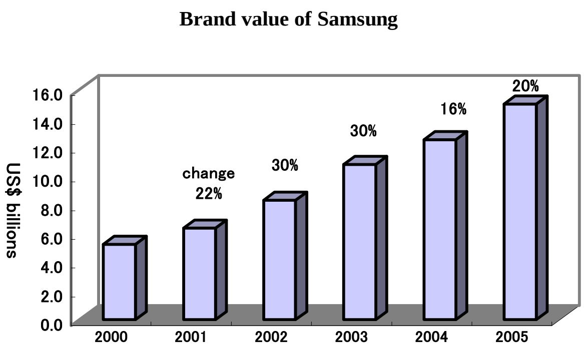
The core of Samsung’s marketing communication is to strengthen new brand recognition and to raise Samsung’s brand image and brand loyalty. In China, Samsung offers a new lifestyle to consumers and achieves new brand recognition by making an impression on consumers. In addition, it seems likely that Samsung has managed to raise its cultural value and brand image at the same time.

For the past several years, Samsung has carried out various culture and social activities to expand Samsung’s products to the target areas in China. For example, Samsung established a digital experience pavilion in Beijing, presented a TV program related to digital knowledge called the "Samsung Electronics Cup." At Shanghai Cebit Asia 2002, Samsung "Digital Man" Competition 2003, and "Korean Culture Wave Month" 2004, Samsung promoted various performances that symbolized new Korean culture. In 2005, Samsung sponsored a 10,000-person marathon as a pre-event of 2008 Beijing Olympics. In addition, Samsung started a program to contribute to the construction of the Samsung Anycall Hope Elementary School in an inland area of China. These cultural and social activities effectively strengthened the image of the Samsung brand as a digital pioneer company.

Figure 4: Brand Value of Samsung and Ranking of Consumer Electronics (2001)

Rank (US $Bn)		2001 brand	2000 brand value	change (%)
1	Nokia	35.0	38.5	-9
2	HP	18.0	20.6	-13
3	Sony	15.0	16.4	-9
4	Compaq	12.4	14.6	-15
5	Nintendo	9.5	n.a.	n.a.
6	Ericsson	7.1	7.8	-9
7	Samsung	6.4	5.2	22
8	Apple	5.5	6.5	-17
9	Philips	4.9	5.5	-11
10	Motorola	3.8	4.5	-15

Source: Interband.



According to the China Consumers' Association, the Samsung brand ranks first among mobile communication brands, outdoing many other global brands. In the ranking determined by Interbrand, Samsung places twentieth in terms of its brand value, which stands at US$15 billion. As shown in **Figure 4**, Samsung's brand value rose annually over the course of five years, and Samsung became the brand of consumer electronics with the fastest rising value around the world. In China, the Samsung brand, a latecomer to the market, moved into first place among the 100 most valuable consumer goods brands. Samsung's massive advertisement signboard for "Anycall" may be seen in all areas of China. For many Chinese, the Samsung brand has become a brand which represents innovation, high quality, advanced technology and novel design.

LG: The characteristics of the brand management of LG are not so clear in comparison with Samsung. The marketing budget primarily is allotted to the local headquarters. Each overseas company carries out the marketing communication activities and adapts the marketing program to the local market. While the marketing communication was adapted to the local markets, the headquarters in Korea has unified the brand image to raise brand recognition and brand loyalty. The marketing managers at the headquarters in Korea do not touch the marketing communication activities and entrust the local decision making to local offices. It seems that localization of marketing campaigns and communication activities is carried out to a considerable extent in the case of LG China[2].

The reasons why LG invested in China are its huge market potential and the low-cost production base it offers. The premium brand strategy of LG Electronics was developed starting in 2004. LG Electronics want to positively shift the LG brand recognition in China from that of a household appliance manufacturer to that of a hi-tech, digital brand. Thus, LG halted sales of low-end products in 2005 and maintains a brand image of high-quality household appliances in China. According to the convergence strategy, LG has concentrated its resources on FPTs, LCDs and digital mobile communication products.

The brand strategy of LG Electronics in China has changed since 2004[3]. It seems that consumer preferences for function, information, fashion and emotional elements in digital products are quite similar in the large cities of Korea and China. So, it is easy to introduce a new digital product which was developed for Korean market into the Chinese market.

LG Electronics focused on digital mobile products for the young white-collar segment of 18-35 years olds as its mainly target. The communication strategy was focused on shifting the LG brand image from high-quality air conditioning and microwave ovens to digital, hi-tech products. The advertisement of LG's 'chocolate' mobile phone handset on two sides of Chang'an, the main street around Tiananmen Square in Beijing, had a large impact and made a strong impression on Chinese consumers. To compete with the local rivals and resist fierce price competition, LG Electronics is aiming to be among the top three brands in each segment by 2010 and to acquire a high share a premium brand sales with a product concept that is always one step ahead.

Hyundai Motors: The reasons why Beijing Hyundai achieved rapid growth can be summarized in the following two points. First, as compared with its competitors such as Shanghai VW or Guangzhou Honda, the brand image of Beijing Hyundai was in a very weak position. Beijing Hyundai focused on the marketing channels and established new brand recognition to make the Beijing Hyundai brand profitable. Second, Beijing Hyundai changed consumers' understanding of the price vs. performance ratio through an effective channel strategy and appropriate promotion strategy. Beijing Hyundai studied the channel strategy and channel management of Guangzhou Honda and imitated it as a basic channel model. However, based on its anticipation of a sudden expansion of car market, Beijing Hyundai proactively undertook vast investment to develop its dealer system. While car dealers with 4S -- full service -- stores were developed by Guangzhou Honda, Beijing Hyundai put emphasis on past experience in handling cars and concluded agency contracts with all dealers.

In the initial stage of market growth, brand recognition of users, who lack experience and knowledge, is not fixed. The brand loyalty of consumers is not yet established. Beijing Hyundai, as a latecomer and a weak brand, recognized that there were many chances to establish a premium brand by using a long-term strategy, appropriate brand communication and good choice of market segment under the present market conditions. Korean cars had a bad reputation in China, and so Beijing Hyundai adopted a "full-segments attack" strategy that entered into the personal car market, public or business car market, and taxi market. There are various arguments about the taxi market, but Beijing Hyundai recognized that consumers have many chances to ride in taxis. That experience could change the weak brand image of Hyundai into a high quality image. Under the long-term branding strategy of Beijing Hyundai of "differentiation", "individualization" and "sensitivity", Chinese consumers could realize that high quality of Hyundai cars just by getting into a taxi in Beijing.

Relationship (*Guanxi*) management and local-specialist

One outstanding characteristic of the China market is that the central government and the local governments directly affect business activities. *Guanxi* is a Chinese word that means that various relationships affect and force the business to reflect the cultural values of Chinese society. Building up relationships with the local government and local society is extremely important if one is to suceed in China. Management of *guanxi* needs to accumulate experiential knowledge about the local market in China. In this section, examples of Korean companies’ conduct of *guanxi* management will be described, with regard to the management of relationships with government and the local-specialist with experiential knowledge.

Generally, accumulation and management of relational resources are necessary conditions for development and success of a business. However, when business acquaintances are managed by offering rebates of money, the results are usually bad. The opposite of the intended effect appears in the long term. Management of acquaintances may be often associated with wrongdoing such as bribery. The effect of management of acquaintances and relationships with the local government concerning business is so great that it cannot be ignored in the Chinese market environment.

Samsung The Chinese headquarters of Samsung has three functions. The first is its role as the face that represents Samsung in China. This means that it integrally accomplishes various public relations activities and society contribution (CSR) activities. Its second function is to manage acquaintances and to sort the VIPs from other people in contact with Samsung. VIP management is an important duty of the Chinese headquarters of Samsung. The third function is to assist the group companies with VIP management, taxation, finance, information systems (Kim 2005).

With respect to PR activities, Samsung focuses on sporting events and society contribution activities in particular. For example, four business divisions, mobile (Samsung Electronics), LCD (SDI), communication systems, and household appliances, developed a plan of PR activities and a budget plan in 2005. The brand communication is divided into the marketing campaign, such as a pre-event for the 2008 Beijing Olympics, and public relation activities, for example the contribution of 9 million Yuan to Hope Elementary School project.

With respect to relationships with local government, Samsung's expansion of its CDMA business offers a good example of how to conduct business in China. In 1999, Samsung accepted an order for a CDMA commercialization network system from Hebei. In 2000, Samsung accepted an order worth about US$200 million for CDMA base station facilities from China Unicom. The Samsung brand strategy has switched from OEM to own brand manufacturer (OBM). The global market share of Korean mobile phones exceeded 50% in 2000[4]. The production technology of Samsung and the digital product development technology in the CDMA market have been coordinated with the Samsung brand. Samsung gained an OEM contract for a CDMA mobile phone terminal from a US communications carrier in October 1996. The CDMA mobile handset was sold with the brand name of 'Sprint-Samsung' in the US market. Samsung switched its brand strategy in the EU starting in 1999. At same time, Samsung developed its own brand, focusing on the CDMA mobile phones in the Chinese market. The good achievements in the US market and the EU market made a good impression on the Chinese local governments. So, Hebei and China Unicom introduced the CDMA communications technology from Samsung (Imai and Kawakami 2006).

Super-high-speed mobile communication service called "WiBro" began in Korea in June 2006. Samsung China has pushed the Chinese central government’s information industry section and the industry standard section to allow the introduction of the "WiBro" to the Chinese market at the same time. In VIP management, the objects of management are not only the top management of companies and government authorities but also dancers, artists and athletes. When certain businesses come up against some authorization or taxation problems, the Samsung China Headquarters looks for appropriate acquaintances among its network of group companies to find solutions (Kim 2005).

LG: LG realized that aim of business in Chinese market is not to become "a successful foreign firm" but to be one "successful Chinese enterprise." Of the 11,000 employees of the LG group in China, more than 98% are Chinese. LG has a positive reputation for stressing localization in China.

In LG China, all 70 managers dispatched from the LG headquarters can speak Chinese. The company had a one-year language study and local market study program, but that is no longer necessary. The LG group plans to dispatch about 10 excellent Chinese managers to its subsidiaries in the EU, US, and other countries every year.

The same situation can be observed in Samsung China. There were 700 managers dispatched from the Samsung headquarters among the 50,000 employees of Samsung China as of August 2006. About 70% of the persons dispatched have received training in a one-year "local-specialist program." A division of Samsung headquarters has a training budget. A dispatched person is registered at the division in China for one year to learn Chinese language, Chinese culture and local market knowledge.

This "local-specialist program" was introduced in 1989. As of 2006, about 3,000 employees of the Samsung group worldwide had undergone this training program. Employees who have worked more than three years in the Samsung group can apply to this program to learn local culture and local language for a half year, and then in the second half year, each dispatched person observes the local market in all areas through “knapsack travels” to experience the local culture, language, social manners and customs. A report on the business environment and the local market characteristics must be submitted once every month[5].

Hyundai Motors: The Chinese market in the global strategy of the Hyundai Motors group had become very important even before Beijing Hyundai was established in 2000[6]. The Chinese partner company of Beijing Hyundai appeared likely go bankrupt before 2000. A company in Shangdong moved to help this partner company. The vice president of Hyundai Motors is a Chinese-Korean who has strong *guanxi* with the company in Shangdong. This provided a chance for Hyundai to entry the Chinese market.

There was a strong request from the city of Beijing so that Beijing Hyundai received business approval quickly in a very short period. After 2000, the Beijing municipal administration authorized Beijing Hyundai as the taxi cars of the city of Beijing, just like the most of taxi cars in the city of Shanghai are Shanghai Santana cars. Beijing Hyundai's monopoly on the taxi car market gave it guaranteed sales, which would offset the cost of expansion of production necessary to begin business in China[7].

Conclusion

What kind of theoretical implications may we draw from the detailed description of the process of business development of Samsung, LG and Hyundai in the Chinese market? How may our discussion on the strategies of the latecomer enhance or deepen our understanding of global competition in a wider context, including the marketing-resources based competition?

First, it is important to clearly distinguish the organizational-resources based competition and marketing-resources based competition when we consider the catch-up process of a latecomer from a theoretical perspective.

Technology is the most important core of organizational resources. The indigenous capability of a organization is not easily accumulated. So, the many arguments on the catch-up strategy of the latecomer focus on product technology or manufacturing technology and abandon the problem of marketing resources.

The studies attempting to explain the catch-up process have paid more attention to the industrial factors, such as a low-wage work force, export intention, incentives of government and superiority of the financial system. Attempts have not been undertaken to explain the catch-up process in terms of marketing-resource based competition.

The studies heretofore have focused on the development process of organizational resources, with emphasis on technology transfer of FDI or technology learning of OEM/ODM. However, the external industrial factors and internal organizational resources provide an insufficient explanation as to why a latecomer who does not have absolute technological competitive power can successfully enter the global market. Also, there is the question of how the latecomer can build a strong market position when its company is faced with a different market environment and industrial structure in an overseas market.

Competitiveness that is based on marketing resources is indispensable for building a strong market position in the global competition. The three cases of successful Korean companies in the Chinese market presented herein offered abundant real-life examples for understanding this point.

A second theoretical finding is that the relationship of the technological catch-up strategy and marketing catch-up strategy is not reciprocal. In the catch-up process of the latecomer, we can observe a complicated and dynamic relationship between the two strategies.

Samsung accumulated indigenous technological capabilities for product development in the domestic market and developed the capability to manage its strategic relationship with CDMA carriers in the US market. Samsung made full use of its indigenous technological capabilities and relational resources in the Chinese market. Samsung seized the change from analog to digital as an opportunity for technological catch-up and focused resources on digital mobile products to establish a strong global brand position. In comparison with Samsung, the synergy effect of technological resources and marketing resources cannot be clearly observed in the case of LG in the Chinese market. LG developed marketing resources in the process of localization and focused on its indigenous technological capabilities in digital media, and on LCDs in particular. In contrast, Hyundai Motors, with its weak brand position, focused on its relational resources with local government, local partners and sale channels.

Conclusively, the concept of marketing resources explains the strategic development process of the latecomer more clearly and fully.

Third, the concept of marketing-resources based competition can assign a new explanation to the company growth process from an OEM company to an

OBM company. There are many difficult obstacles between the stage of technological absorption/technological learning and the stage of being a global brand company. The success example of Samsung, which rapidly built a strong market position as a global brand in the Chinese market, offers many theoretical facts to us.

There are many practical implications that are useful to latecomers that may be gained from observing the development process of these three Korea companies in the Chinese market. Some of the implications are as follow.

Focus： The latecomer in a technology race or the latecomer in entering an overseas market has to focus on the business or market and has to concentrate its limited resources in its strong business field or market segment in order to catch up. The essence of the catch-up strategy is perhaps focusing and concentration of the latecomer’s indigenous capabilities and resources on the most promising market and business. Samsung focused on DRAM semiconductors and digital mobile products, LG focused on LCDs and digital media, and Hyundai concentrated on the market of the Beijing area. Focusing and concentration have a decisive impact on the success of the catching-up attempt.

Speed: The latecomer company has to develop various resources speedily to overtake the first-mover in the business or market on which it is focused. Agility of decision making and resources development is important in global competition. Agility is epitomized by Samsung, which was the “first-mover in digital mobile market,” and Hyundai, which expand its productive capacity in Beijing rapidly.

Differentiation： Samsung quickly applies value-added features or new devices that were developed by Japanese companies and introduces an advanced model with new features into the market earlier than Japanese companies. This contributes to Samsung’s establishment of a new global brand image. The synergy effect of marketing resources and product development capability leads Samsung to a successful differentiation. Differentiation is a basic, core strategy of marketing management. Technological differentiation is not easy for a latecomer, but the potential of the latecomer’s differentiation with marketing resources is much higher.

In this paper, the organizational-resources based competition and marketing- resources based competition have been distinguished. The intricate and dynamic relationship between the two competition types has also been emphasized in the meantime. The multiple appearances of these relations have been seen in the three cases of Korean companies. However, when we observe the long-run growth process of the latecomer, we see that the technological catch-up process generally has multiple stages. There are the imitation, borrowing, absorption, digestion and innovation stages. In which stage does marketing-resources based competition have decisive importance? In which stage does the synergy effect of marketing resources with technologies appear? We cannot find clear and complete answers to those questions by observing the business development of Korean companies in the Chinese market. It is necessary to study the development process of marketing resources of Taiwanese companies or Chinese companies that are latecomers in the global market or in the global technology race. This type of study will deepen our understanding of the theory of the latecomer's catch-up process and will increase the accumulation of study on marketing-resources based competition in other countries.

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[1] The description in this section is based on the Kim, Yu-jin (2006) Japanese translation edition and on interviews at the Samsung Korea Headquarters, in August 2006 and Samsung China (Beijing), in November 2006.

[2] The description in this section is based on an interview of staff at the LG Headquarters, Seoul Korea, in August 2006 and on an interview of the marketing manager at LG China, Beijing, in November 2006.

[3] With respect to global brand strategy, there are differences between Samsung and LG. Samsung entrusted the development and deployment of global brand strategic planning to J. W. Thompson. In contrast, LG consigns the development and deployment of brand and advertising strategic planning in China to the Japanese advertising agency Dentsu.

[4] According to Samsung Research Institute, the volume of the world CDMA market was US$14.0 billion, and production by Korean companies was US$7.5 billion. The market share of Korean CDMA mobile phones in the world market was 53.7% in 2000.

[5] In comparison with Japanese companies, images of Korean companies in China are considerably different. The official language of Japanese companies in China is mostly Japanese.

[6] The description of Hyundai Beijing is based on an interview of manager at the Hyundai Motors, Seoul Korea, in August 2006 and on an interview of manager at Hyundai Beijing, in November 2006.

[7] A similar example is Samsung's entry into the insurance market in China. The Guanxi management with local governments deeply influenced the entry process. To approach the top members of the executive committee in the Chinese central government, Samsung held industry seminars and an insurance relations training program, invited the associated staff of the Chinese government to Korea, and briefed them on the present conditions of Korean industry as well as the system and administration of Korea insurance companies. At a summit meeting of Asian and European leaders in Seoul in October 2000 (ASEM), the Chinese prime minister promised the president of Korea that there was a possibility for one Korean company to entry to the Chinese insurance market (Kim 2005).