



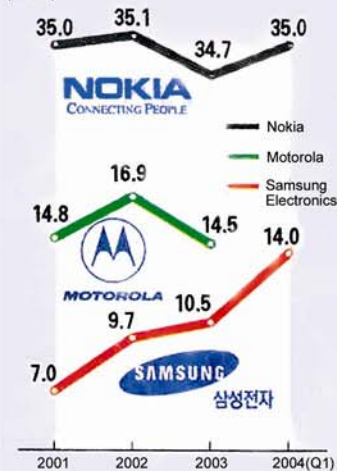
III. VI and "Legend" of Anycall

The Financial Times of the U.K. recently published an article stating that "Nokia is faced with challenges from Samsung", with a cartoon of a Nokia handset being shattered to pieces as it is in collision with a Samsung handset. The column explained that Samsung is strongly coming after world leader Nokia, just as in the mid 1980's, when Reebok caught up with Nike in three years.

The growth of Samsung handset sales is phenomenal. Samsung Electronics began exporting its handsets in earnest in 1998. In just five years, Samsung outpaced Motorola and became the world's second largest handset producer.

The brand equity of Samsung's flagship Anycall skyrocketed from 400 million USD in 1998 to 3 billion USD. From the beginning, Samsung adamantly held on to its high price strategy and gained the nickname of "Mercedes Benz of the cellular phone market." How did Samsung do it? Samsung was behind Nokia and Motorola in terms of technology and brand recognition. The answer is "Value Innovation."

Chart: Market share of the top three players (unit %)



"VI Headquarter" Leads New Product Development

When Samsung Electronics started exporting its mobile phones, multinational handset manufacturers like Nokia, Motorola, Sony-Ericsson were involved in fierce competition in the mid- and low-price markets. From the very beginning Samsung took a different path rather than joining this competition.

In order to find a new market space, Samsung took pains to find out what a mobile phone does for a consumer. Consequently, they were able to determine that the mobile phone is not just a means of telecommunication but a tool that enables communication between people or between person and communication device. By changing the concept of the product, they were able to employ a distinctive strategic approach from those of their competitors.

Convergence-centric tool

At the time, foreign mobile phone manufacturers were focusing on how to increase connection quality and reduce costs of their products in comparison to those of their competitors. In contrast, Samsung used as a benchmark all kinds of information and communication devices, including not only fixed telephones but also letters, Ham, FAX, TV, watch, PDA, etc. For example, a letter, although inferior in terms of speed and convenience, is more of an attractive communication tool for professing love than a mobile phone.

Thanks to this type of change in perspective, Samsung was able to shift the perception of a mobile phone from a functional to an "emotional" product. Samsung also firmly believed that mobile phones, being carried around by people, would play a leading role in the acceleration of movement towards convergence of

digital devices (i.e., fusion and combination).

Professor W. Chan Kim, a co-founder of Value Innovation theory, analyses in a South China Morning Post article,

"Samsung's success lies in that its handset has an emotional appeal with its round and smooth-lined design, large screens, stunning color displays and musical ring tones that sound like real instruments."

A representative case of successful application of VI theory in product development is the SGHT-100 model, dubbed as 'Lee Geunhee Phone,' that has the shape of a pebble. This handset, which beat the record in its category with more than 10 million units in sales, is a product of rigorous application of the Value Innovation theory from its initial phase of conceptualization. Reading market trends, the development team concluded that the high quality color LCD screen would become the central selling point soon.

The team then decided to equip the newly developed handsets with TFT-LCD which enables the best viewing quality. However, there was none with a size small enough for cellular phone handsets. Moreover, the TFT-LCD screen was deemed to be too energy-consuming for a mobile phone.

'Lee Geunhee Phone,' a huge success

However, the team stubbornly held on to the idea. They learned from Value Innovation theory that "if the customers want it, we will solve technical problems regardless." Eventually, the team developed the software which enables lower energy consumption through "auto-save" mode that turns on power only

when necessary. Finally, they successfully developed a handset equipped with a TFT-LCD screen.

At the time, the talk of the mobile phone industry was which manufacturer can produce the smallest-sized handset. Deeply engrossed in the competitive logic, big multinationals all believed that the shortcut to success was to make a mobile phone as small and light as possible. Nonetheless, Samsung broke this conventional thinking with its Value Innovation logic. Samsung noticed that small handsets made it impractical to press buttons, while making the screen smaller as well. Samsung then introduced the "wide & slim" concept for the first time, i.e., make the screens wider and with easy-to-use buttons, and at the same time, make the body slim to increase convenience in carrying it around.

The development team used the "Strategy Canvas," a core tool of Value Innovation process, to first discover what customers value as well as to make decisions concerning the development and commercialization of the product.

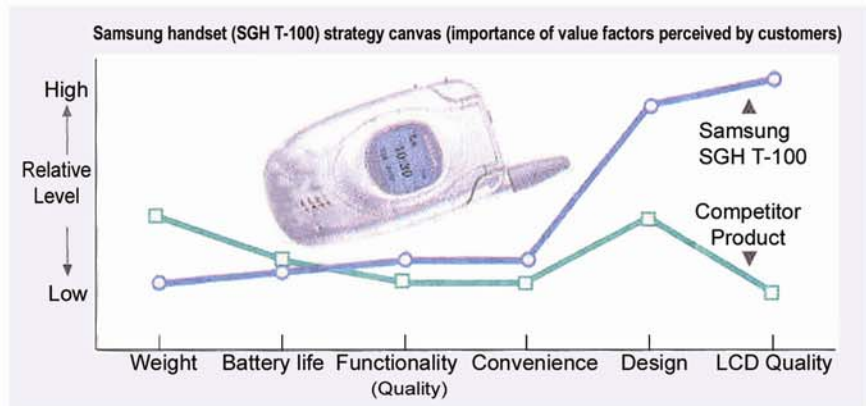
Choosing a different path from competitors

JongKyun Shin who was in charge of the development team said, "I was sure that it would take our competitors at least 6 months to overcome technical problems and develop such a model." In fact, Samsung's competitors started to equip their handsets with TFT-LCD screens ten months later.

The camera-phone (model SPH-E3200) equipped with a built-in antenna, which was launched at the end of last year, is a big success as well. Its sales are expected to reach 5 million units by the first half of this year. In accordance with Value Innovation methodology, the development team defined the factors to be eliminated (external antenna), reduced (size and weight), improved (battery life and ringing tones), and created (built-in antenna and camera) in the new product. Value

Innovation - focused on what customers want, rather than what competitors do - is a sure way to a "mega big hit"

product that sells well despite a relatively expensive price. nkkim@hankyung.com



Find out what customers want, then solve technical problems

Product development process

When Samsung develops mobile phone handsets, it follows two distinct phases, namely conceptualization and development. In the initial stage, a project team is launched with people from various units, including hardware and software development, marketing, purchasing, component development, and product planning units. The team develops a commercialization plan through a process of defining the product concept, information analysis, systemization of customers' needs, positioning (target customer group), concept designing, concept certification, and concept finalization. Some of these steps are undertaken in cooperation with the VIP Center in Suwon. Last year, seven assignments were carried out jointly with the Center.

To elaborate this process, take the example of the development of pebble-shaped SGH-T100 mobile phone. First, at the conceptualization phase, the team decides to develop a high quality color mobile phone. To this end, they gather and analyze a variety of information, find out customers' needs, and begin to decide which category of customer to target. After deciding to use a TFT-LCD screen on the phone, they first

evaluate and test this idea to finalize the concept of a new product.

Once these conceptualization and planning phases are completed, they proceed to develop the product. Having analyzed the new product and applied the technology innovation strategy, they then generate diverse ideas to develop the product. After making a final decision based on the result of the preceding steps, they start to mass produce the product.

Vice President Haeng Woo Kim who is in charge of mobile phone conceptualization and planning, comments, "As the trend of convergence of digital devices started to emerge, innovation became the hot topic in the market. Rather than focusing on reducing functions, we concentrate on finding out what functions are necessary for customers and how to overcome technical difficulties." He also adds, "This notion is more aggressive than merely making the products desired by customers. We do not neglect to educate customers about our new products and induce their usage." This vision seems to be more "market-driving", which is beyond "market driven".