



II. VIP Center: "Delivery room for innovation"

At the East Second section of the Samsung Suwon complex, one notices a very particular building sign that reads 'VIP Center'. The name suggests that it is a place where VIPs (Very Important

Persons) stay, but instead, this is Samsung Electronics' headquarter for value innovation projects and VIP stands for Value Innovation Program. Many different projects for applying value innovation ideas to actual business usage are under way at the

Center. The VI Center is, in a nutshell, Samsung Electronics' internal consulting organization. Its role is to provide each business unit with diverse management tools so that they can develop products which offer more value to customers while reducing production costs.

History of the VIP Center



"VI Headquarters" leads new product development

The VIP Center opened in 1998 under Vice Chairman J.Y. Yun's command. His intention was to promote and apply in everyday business the 'Group Value Engineering' (GVE), a management philosophy strongly espoused by Yun in late 1980's. GVE is Samsung's own version of "value engineering" which is the notion focused on reducing production costs by analyzing various factors. It can be concluded that VIP Center initially was not created to implement value innovation per se.

During the opening ceremony in September 1998, Vice Chairman Yun presented the vision for the VIP Center mentioning the image of a mom-and-pop shop. He said, "The ABC of management is cost

reduction. Even a mom-and-pop shop owner checks the sales figures every day and tries to adjust each unit price to reduce costs. Needless to say, the same is true for large businesses. The VIP Center should be at the heart of carrying out that

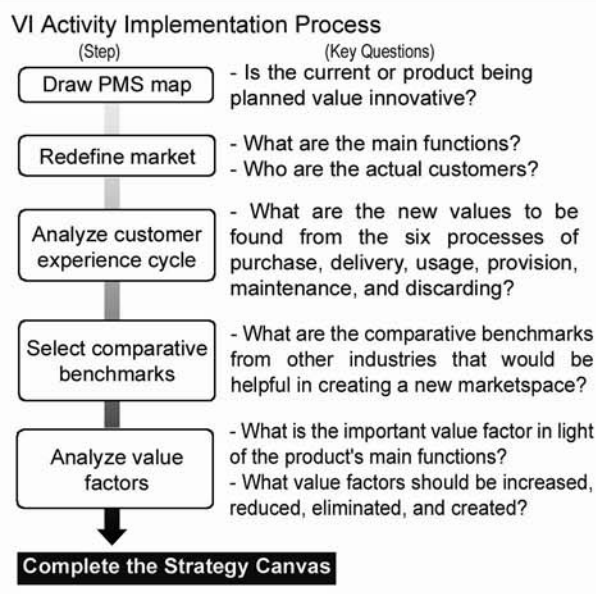
activity."

He spoke of three specific objectives: first, they need to study how to reduce costs of existing products in addition to developing new products; second, various training programs should be offered to cultivate specialists who can

help each business unit to be efficiently managed; and third, the Center should play a central role in spreading new management tools throughout the whole company.

A good example of a management tool introduced by the Center is that of the Value Innovation theory developed by Professors W. Chan Kim and Renée Mauborgne of INSEAD.

For the first year, they tried to adopt the Value Innovation theory and make a unique version for Samsung. A task force was organized to create a new VI tool specifically adapted to Samsung. They introduced the "7 tools" created by a Japanese professor named Kanda to measure and quantify customers'



needs, as well as the "TRIZ" (Russian contradiction-solving methodology) to resolve technical difficulties scientifically and the "DFX" which is an assembly methodology for productivity improvement.

Through specially designed workshops, the Center has trained Samsung employees on the Value Innovation theory and specific application programs such as learning to draw a value curve. After conducting these education workshops, from 2002 the Center started applying the Value Innovation processes to a small proportion of projects, and since last year, all projects are subject to undergo the Value Innovation process. With the exception of the semi-conductor group, major products from all

come in the morning to the VIP Center rather than to their offices and work overnight if necessary. The Center is fully equipped with sleeping accommodation, fitness facilities and a sauna. The team structure is unique as well. Each

companies join as well. This team is called a Cross

Cross-functional team of engineering, marketing and sales personnel

Functional Team (CFT)

ties, a VIP Center specialist is sent right away to help the members resolve problems to achieve specialization and efficiency. There are about 40 of these specialists, including Certified VI Specialists (CVS), process specialists (PMP), and TRIZ

specialists. As permanent workers at the Center, they play the role of helper for project teams.

This year the Center is looking for the "second leap forward." Hyung Kyu Lim, who was appointed as CTO this January, expressed a strong interest in the VI theory and ordered that the VI process be extended to the semi-conductor product group. Moreover, the VI process will be extended to include phases prior to the product development planning stage. Initially the Corporate Management Innovation Cabinet under



Samsung Electronics introduced Value Innovation theory as a strategic tool for the development of innovative products. The VIP Center specialists who call themselves the "evangelists of Samsung's Value Innovation" cheers for a victory.

All products commercialized after undergoing "value innovation" certification process

product groups are now put through the process and only after receiving the VI certificate, they are commercialized.

The VIP Center operates like an in-house research center. While conducting a project, team members

team is supervised by a project manager who is a VIP Center specialist. Each team consists of people from various departments, including an engineer who is in charge of new product development, marketing and sales, product design and production. Each member is involved in every step from product conceptualization to development. Occasionally some people from the buyer and outsourcing

and there are 20 CFT rooms in the Center.

Expansion to semi-conductor sector

The CFT's fast decision-making ability improves work efficiency. Bringing people from different units together in one team has an advantage in that it helps to gain a wider perspective to "see the entire forest, rather than just a few trees." Moreover, if a team encounters difficul-

Vice Chairman Yun was in charge of directing the

Center, but after a few organizational changes, it is now managed by the Technology Headquarters.

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Interview with Dong Jin Lee, Head of VIP Center

"In the past, my mind was full of thoughts about competitors like Sony, GE, LG Electronics. Today, after the introduction of Value Innovation, I focus on finding and delivering the real value that customers appreciate."

Lee Dong Jin, Head of VIP Center, emphasized that the biggest insight he has gained from the introduction of VI is moving away from competitor to customer-centric focus. In other words, being absorbed by competition resulted in neglecting customer needs.

"Before learning about VI, we only concentrated on making marginal improvements on a product. As a result, many companies competed on the same product concepts with minor variation. Now we act differently. By daring to give up what must be given up, we are able to make products based on a new concept that our competitors have not yet thought of."



Focus on customer value rather than on competitors

Roll-out to all business units beyond electronics

This change in perspective broadened his view of the market as well. He insists that Samsung Electronics should not be considered merely as an electronics company in order to discover a new market space. Referring to the example of Southwest Airlines, which created a new market by focusing on the fact that consumers use cars rather than airplanes, he explains "Samsung Electronics is an electronics company, but it must look beyond its industry category, such as medical, aeronautic, and chemical industries to capture invisible customer needs."

Lee assures that the expansion of the Center's activity had a positive contribution to the improvement of work accuracy and trust between team members. According to a survey of employees who had completed VIP projects, 50% answered that working at the Center helped them increase their work efficiency, and 30% responded that the innovative art of VI played a critical role in their R&D work.

The Center's work contributed greatly to the improvement of the company's profit figures as well. The VE rate (Samsung's internal measurement benchmark that is calculated by cost reduction amount/material cost x 100) of a typical project stands at 5-7% while that of a VI project stands at 12-14%, showing a twofold improvement. Lee explains in detail the positive results shown in terms of cost reduction benefits.

However, there is still a long way to go. The plans to up grade this fledgling VI initiative is underway. Lee elaborates, "Currently we are giving weights to the two objectives of VI – cost reduction and improving customer value – at a ratio of 7:3. However, we are trying to gradually change this ratio 3:7 in order to become a true "value innovation-driven company" that even reaches to non-customers."