

Samsung

Overtaking Philips, Panasonic, and Sony as the Leader in the Consumer Electronics Industry

During the past century, industry leadership in the global consumer electronics industry (e.g., radios, TVs, movie and music players, etc.) has changed, with Philips (Netherlands), Panasonic, Sony (Japan), and Samsung (Korea) emerging as leaders at different times. Indeed, each company achieved leadership with a different international strategy, a different organization design, and a different set of organizational capabilities. Philips built a worldwide federation of independent national organizations able to gain access to the company's renowned technological prowess and then to apply and adapt it to meet local market needs. Philips was the worldwide leader in consumer electronics from the early 1900s until the late 1970s. During the 1980s, Panasonic used overseas expansion to leverage its centralized, highly efficient operations in Japan, exploiting global scale economies in R&D and production to offer lower-cost products and overtake Philips as the world leader in consumer electronics. In similar fashion, Sony leveraged its centralized operations in Japan to produce standardized products around the globe. Sony invested far more in R&D than Panasonic did, though, and it was typically the technological and innovation leader in the industry, if not the sales leader, from 1980–2005. By 2009, Samsung had seemingly come out of nowhere to become the world leader in consumer electronics, however. Like Sony, Samsung made large investments in R&D so that it emerged as a technological leader in TVs, DVD players, and smart phones. But rather than just making standardized products that were sold around the globe, Samsung took a more decentralized approach than Panasonic and Sony, which allowed it to do some customizing of products for specific markets. By 2014, Samsung's lead continued to grow. Observers wondered whether the pattern of leader replacement would continue or if Samsung was on top to stay.

Philips Leadership Era: 1900–1980

Philips was founded in 1891 in Eindhoven, Netherlands, by Dutch engineer Gerard Philips and his brother, Anton. The two brothers initially focused on the light bulb business, with Gerard in charge of product development and Anton in charge of sales. Gerard and Anton began a friendly competition in which Gerard would try to produce more than Anton could sell and vice versa.¹ The two agreed that strong basic R&D and product development efforts were vital to the success of Philips, so the company made R&D and product development high priorities. The Philips emphasis on research and product development helped it to become a leader in its field, rivaling General Electric in the early 1900s in the electric lamp industry.

In 1914, Philips established its first research laboratory dedicated to developing breakthrough technologies in lighting. This investment helped the company create some of the world's leading innovations in lighting, such as the tungsten metal filament bulb—a superior

advancement over the common carbon-filament lamps. Moreover, the Philips emphasis on research led the company to experiment and develop new technologies that allowed it to expand its product portfolio. For example, in 1918, Philips started to produce electronic vacuum tubes, and soon after that, it was producing X-ray tubes, electric shavers, and small generators. Philips' most successful new products were arguably its radios, which, by 1936, a mere ten years after the device's introduction, had captured a nearly 20 percent world market share.²

Due to the small size of the Netherlands, Philips was forced to expand internationally in order to leverage its investment in R&D and develop economies of scale in production. By the early 1900s, Philips had begun selling in a wide range of countries, including the United States, France, Russia, Brazil, Canada, Australia, and Japan.³ With such a diverse group of international operations, Philips decided to adopt English as the company language, requiring its use across all of its management ranks. In anticipation of what would become World War II, Philips shifted assets away from the Netherlands and further decentralized management control to the national organizations (NOs) in each country. Anton Philips and much of the top management team fled to the United States, and its main research lab was moved to England. The decentralization of Philips during the war enabled the NOs in each country to become more independent, thus allowing them to respond to their local market conditions. Each of the larger country NO presidents controlled multiple functions for their countries, including R&D, product design, manufacturing, and sales and distribution (see **Exhibit 1**). In order to succeed in each local market, the NOs tailored the Philips products to meet consumer preferences in each different country market. For example, some countries, such as the United States, preferred large furniture-encased television sets, but other countries, such as India, demanded inexpensive, small TVs—often placed inside closable shutters to keep the dust away. Additionally, different countries had different ways to penetrate the market, such as through establishing a TV rental business or selling through department stores or discount retailers.⁴ The NOs had the flexibility to address the local market as they saw fit while drawing upon Philips's technology and financial resources. For example, Philips of Australia made the first stereo TV, and Philips of the United Kingdom created the first TV with teletext.⁵ Other countries could then access those technologies and adapt them to their local markets.

As time went on, Philips matured into its postwar organization. Fourteen product divisions (PDs) with responsibility for each product's development, production, and global distribution were established in Eindhoven. The product divisions were created to better coordinate across country markets. But the real power remained with the NOs.⁶ The NOs were highly autonomous and reported directly to the management board (often sending proxies to represent their interests).

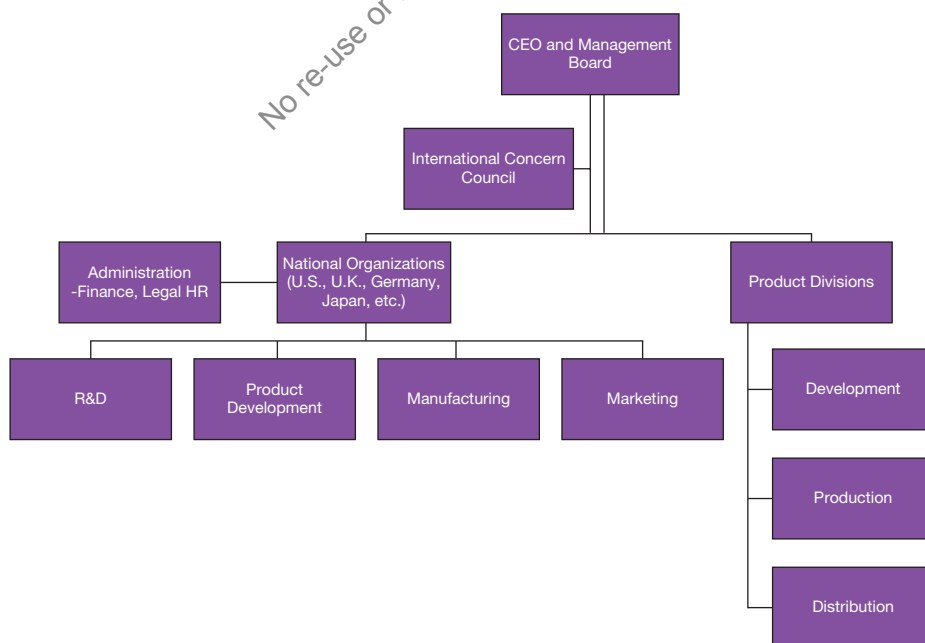


EXHIBIT 1 Philips Organization Structure in the 1950s