

# SONY vs. SAMSUNG

THE INSIDE STORY OF THE  
ELECTRONICS GIANTS' BATTLE  
FOR GLOBAL SUPREMACY

213

SEA-JIN CHANG



PERDANA  
LEADERSHIP  
FOUNDATION  
YAYASAN  
KEPIMPINAN  
PERDANA

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## THE INSIDE STORY OF THE ELECTRONICS GIANTS' BATTLE FOR GLOBAL SUPREMACY

In 2002 a milestone occurred in the electronics industry. The market capitalization of Sony fell below that of Samsung for the first time. Why did the performance of Sony, which once dominated the global electronics industry, drop so rapidly while Samsung emerged from nowhere?

This fascinating book from leading business professor Sea-Jin Chang compares key strategic decisions by Sony and Samsung with respect to technology, marketing, organizational infrastructure, and globalization strategies from the mid-1990s to 2006.

One of the key findings drawn from this book is that the performance differences between Sony and Samsung cannot be attributed solely to their strategies. Rather, organizational processes and executive leadership also contributed significantly to their performances. The author examines these contributions in detail and in doing so reveals much about each company's approach to global expansion and their key factors for success and failure.

*Sony vs. Samsung* examines the challenges that Samsung faces, despite its remarkable performance, while evaluating Sony's potential, despite its current struggles. The conclusions provide useful insights for all companies involved in competitive global markets.

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The Inside Story of the Electronics  
Giants' Battle for Global Supremacy





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Giants' Battle for Global Supremacy

Sea-Jin Chang



PUSTAKA PERDANA



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# Preface

This book emerged out of my own curiosity to understand why Sony's performance, which had dominated the electronics industry for many decades, had dropped so rapidly, while Samsung Electronics, an obscure OEM (Original Equipment Manufacturer) not so many years ago, had emerged from nowhere. I must confess that I was one of the admirers of Sony for its innovative products as well as for its global management. I was fascinated by the late Akio Morita's book, *Made in Japan*, and was impressed by his global mindset and business acumen. This had led me to a research project in 1994–1995 to examine the evolution of Sony's U.S. operation. I had opportunities to meet with many outstanding managers and engineers at Sony including Kunitake Ando, who then was a head of its U.S. operation.

Sony was a role model for many Korean companies, including Samsung Electronics, with which I have maintained a close contact through various projects, and a direct comparison between these two would have been inappropriate at that time. Ten years later, however, the fortunes of these two companies changed dramatically. Sony's performance deteriorated, and Chairman Idei and President Ando had to resign in 2005. On the other hand, Jong-yong Yun, CEO, was applauded for turning Samsung Electronics into one of the most profitable companies in the electronics industry. I felt compelled to find out what had caused their changing fortunes.

Faced with the rapid digitalization of the electronics industry, Sony and Samsung Electronics had pursued rather different strategies. Sony tried to create synergies between hardware and contents by using the network. Samsung Electronics, on the other hand, focused on its parts business, and attempted to secure competitive advantages in end products by being a superior manufacturer. As I dug deeper in the analysis, I became more convinced that the performance differences between Sony and Samsung Electronics could not be attributed to their strategies. Rather, organizational processes and executives' leadership may have made the difference. Sony's independent business units quickly became silos when its top management leadership was questioned. Internal politics among executives further exacerbated its stagnation. On the other hand, the fit between Samsung's strategy in responding to commoditization with speed and its militaristic organization may have contributed to its stellar performance. I further examine the challenges that Samsung Electronics faces, despite its remarkable performance, and evaluate Sony's potential, despite its current struggles.

My endeavor to analyze key strategic decisions by Sony and Samsung Electronics during the last decade would not have been successful without the assistance of Myoung-woo Lee, a 20-year veteran of Samsung Electronics, and, more recently, the president and chairman of Sony Korea. With his unique vantage point of both companies, he not only shared his own perspectives, but also introduced me to executives and managers of both companies for further interviews. I was fortunate enough to have personal interviews with high-level executives (including retirees) of both companies, which would not have been possible without Mr. Lee's introductions. In addition, I had interviews with security analysts and executives of other firms in the electronics industry to get more objective, external opinions. I would like to take this opportunity to thank him for his contributions and assistance.

I am also deeply indebted to several other individuals and organizations. I would like to thank Korea University for providing a special research fund for this project to cover my frequent trips to Japan. I also benefited from discussions with my colleagues at Hitotsubashi University, where I spent the summer of 2007 while preparing the manuscript. John Lafkas, Kyung-hwan Yun, Sejung Seo, Sang-hee Lee,

Young-jae Koh, and Jung-wook Shim provided very helpful editorial and research assistance for the project. I would like to thank Nick Wallwork, my editor at Wiley, and his fellow staff members including Joel Balbin, Fiona Wong, and Pauline Pek, as well as copyeditor Jay Boggis, who all did a wonderful job of turning the manuscript into a book. Last but not least, I would like to thank the executives and managers at Sony and Samsung Electronics who were willing to share their valuable time to meet with me. I cannot name them all here partly because there are too many and partly because most wanted to remain anonymous. I believe in management education. I believe managers can learn from the experience of other firms so that they will not repeat the same mistakes and they can make better informed decisions. Executives and managers from both companies I interviewed were eager to share their own perspectives. I would like to dedicate this book to them.

Sea-Jin Chang

Philadelphia  
February 2008



# 1

## Sony and Samsung: Portraits of Two Global Competitors

Digital technology... [presents] ... the greatest opportunity for those manufacturers who did not have a top market share in the analog world. If they make the correct changes in strategy, they possibly could leap-frog well-entrenched industry leaders.

—*Steve F. Smith, Editor-in-Chief, TWICE Magazine*

Sony ruled a slower age when it could bring out a new gadget like the Walkman as a luxury item, then gradually lower the price and widen the market over time. Now, since the rise of cheap Asian manufacturing in the 1980s, companies need to bring out a stream of new products that sell immediately at high volume for a relatively low price, and are quickly displaced by the next new thing. Samsung is king of this age.

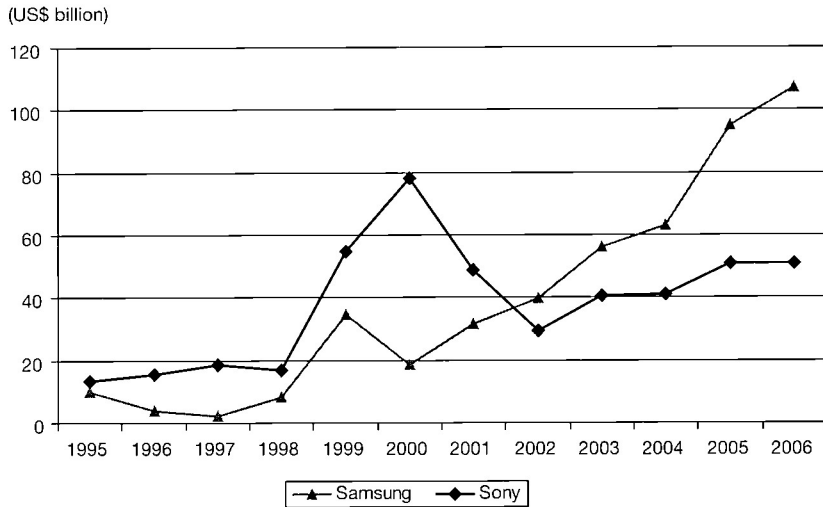
—*Newsweek*<sup>1</sup>

### The Fall of Sony and the Rise of Samsung Electronics

#### A Turning Point

A few years ago, the electronics industry reached a milestone. Sony had long been acknowledged as the world's best electronics manufacturer, but in 2002, Sony's market capitalization fell below Samsung's, which

Figure 1.1 The Market Capitalization of Sony and Samsung Electronics



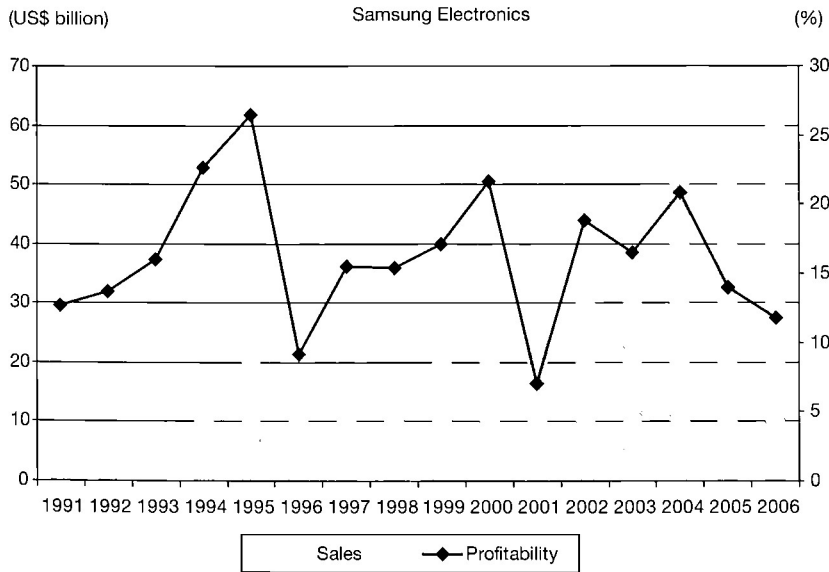
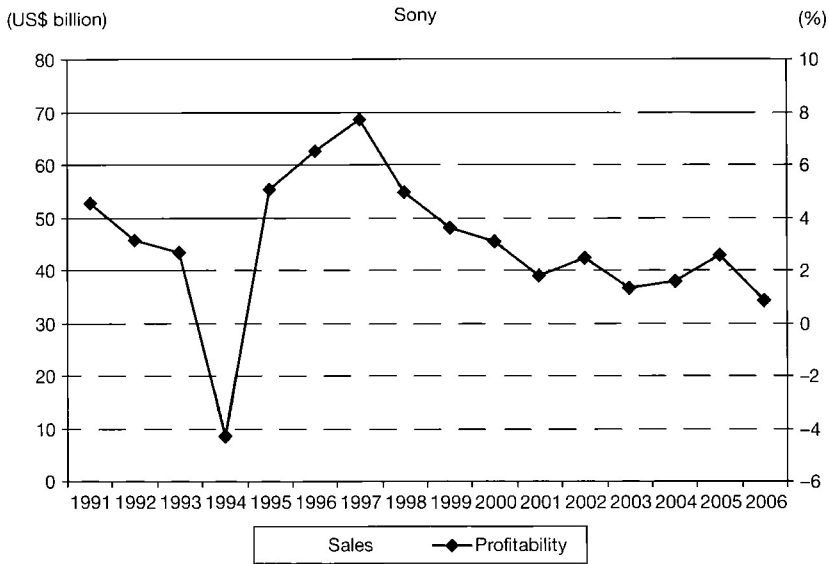
Source: Samsung Securities, Sony Fact Book.

had been an obscure memory chip producer not many years ago. Figure 1.1 shows some of the raw data behind this story. By December 2006, Samsung's market capitalization was \$106 billion, an increase of 400% since 2000 and twice that of Sony's. Since becoming CEO in 1997, Jong-yong Yun, has become famous for turning Samsung Electronics into one of the most profitable companies in the electronics industry. By contrast, Sony's Chairman Nobuyuki Idei and President Kunitake Ando resigned in 2005 and were succeeded by Howard Stringer and Ryoji Chubachi, respectively.

Sony began from a position of strength. The late Chairman Akio Morita had shown the world that Sony had become a global company. Michael Porter, a strategy guru, praised Sony highly as one of the few Japanese companies that actually had a strategy.<sup>2</sup>

Sony's troubles began, however, after it acquired Columbia Pictures in 1989 (see Figure 1.2). Things turned out so bad that by 1994 it had to write off accumulated losses of \$3.5 billion. Sony then restructured its entertainment business to control costs. Sony's profitability peaked in 1997 when it introduced PlayStation, but started to decline again soon afterward, and sales became stagnant. By contrast, although Samsung Electronics' sales and profitability were highly volatile during the late 1990s, its revenue almost doubled between 2000 and 2006, and it had

Figure 1.2 Sony and Samsung Electronics' Sales and Profitability (1991–2006)



Source: Annual Reports and Earnings Announcement of Sony and Samsung, respectively.

Note: Profitability is defined as operating income divided by sales.

a considerably higher rate of profitability than Sony enjoyed during this period.

Some of the best evidence of Samsung's rise and Sony's fall appeared in the changing tones of Sony's top management whenever they spoke about Samsung. Nobuyuki Idei noted in 2002 that "Samsung found Sony a model or a benchmark for their brand image. The product design and the product planning—they have learned from us. So Sony is a very good target for them." To him, Samsung was merely one of the suppliers rather than a potential threat. He continued, "We still believe that Samsung is basically a component company."<sup>3</sup> Just a year later, Kunitake Ando, president of Sony, mentioned that he asked "for a report on what Samsung is doing every week."<sup>4</sup> In 2006, Sony's newly appointed CEO, Howard Stringer, said that "Samsung is a first-rate company and they have a wealth of revenue coming from other areas. But, I think in the high-definition world, which is clearly our strategy for this year, we still have an advantage." Sony was now openly acknowledging that Samsung Electronics had now become its competitor.<sup>5</sup> Some of the popular press even inflicted the ultimate insult on Sony by commenting that it needed a lesson from Samsung. "As he looks for inspiration, Stringer might consider taking a page from Samsung Electronics. The Korean company has taken many of the steps that analysts believe Sony needs to take, ranging from collaborating more with partners to doing a better job taking its cues from the market. In doing so, it has become one of the nimblest players in the business."<sup>6</sup>

### **The Media Hype**

Sony had once dominated the electronics industry. So why did its fortunes drop so rapidly, just as Samsung was emerging from out of nowhere? The media have speculated about why the fortunes of these two companies changed so rapidly, but their evaluations are usually superficial and focus only on short-term performance. Often, journalists anoint a CEO as a Best Manager one year, only to dub him the Worst Manager just a few years later.

Sony had been nominated as one of the "World's Most Admired Companies" by *Fortune* in 1997, which commented that "Sony was voted the most effective Asian company at doing business globally, the best company in Asia at wooing and winning topnotch people, and the

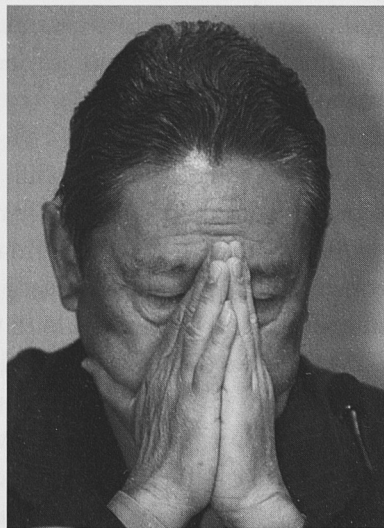
Figure 1.3 Media's Evaluation of Nobuyuki Idei



Cover image courtesy of BusinessWeek.

Photograph by Shonna Valeska

BusinessWeek's TOP 25 Managers of the Year (1999)



Cover image courtesy of BusinessWeek.

Photograph by Associated Press

BusinessWeek's Worst Managers of the Year (2004)

most innovative electronics company in the world. Since he took over two years ago, Idei has shaken the place to its foundations, revamping the board of directors, restructuring major divisions, and clamping down on U.S. operations—especially Sony Pictures Entertainment.”<sup>7</sup> The magazine’s evaluation of Sony and Idei soured, however, soon after the firm’s performance deteriorated. *BusinessWeek* had nominated Idei as one of the World’s Best Managers in 1997 and 1999. But in 2004, the magazine put him on the World’s Worst list when he triggered the so-called Sony shock by announcing that the company had suffered a quarterly loss of about \$1 billion, which triggered a sell-off of shares, plunging its stock price nearly 25% in two days.

The most amazing accusation, according to the same magazine, was “Idei’s later admission that he himself had been caught off guard by the dismal earnings.”<sup>8</sup> He was also criticized for failing to move far enough or fast enough in a corporate restructuring program he had announced in 1999 and for not being able to come up with innovative products. “Sony has pushed great-looking products made from the same digital components that everyone has. So it’s no surprise that its CD (Compact Disc) players, digital cameras, and other gadgets become commodities almost as soon as they hit the market.”<sup>9</sup> While Stringer and Chubachi, the new management team, stopped the hemorrhage by closing down factories and laying off workers, it is not clear whether Sony can regain its reputation as the world’s most innovative consumer electronics powerhouse.

The media often misread up-and-coming firms. A few years ago, everyone wrote about Samsung Electronics as just one of the many anonymous Asian Original Equipment Manufacturing (OEM) companies that dumped cheap, low-quality products in discount stores. Until recently, it was hard to find an article that was favorable of Samsung Electronics. In an article about the Samsung Group that was written right after the financial crisis in 1998, *BusinessWeek* described Samsung Electronics as a company that manufactured commodity chips, such as DRAMs (Dynamic Random Access Memory), and had been badly hurt by the Asian crisis and the downturn of the global chip business. “Senior managers have taken a 10% pay cut. Workers can no longer count on such perks as preschool tuition. At headquarters, the thermostat is now set so low that execs wear thermal underwear.”<sup>10</sup>

But fortunes soon changed. In 1997, *Fortune* had named Idei as “Asia’s Businessman of the Year.” But in 1999 it gave the same title to

Jong-yong Yun of Samsung Electronics. He was now the man who “used Asia’s current chaos to reinvent a company that seemed near death.”<sup>11</sup> He was also praised for turning “a manufacturer of cheap black-and-white TVs into a \$72 billion behemoth that earns more and has a more valuable global brand than archrival Sony.”<sup>12</sup>

Popular books such as Thomas Peters and Robert Waterman’s *In Search of Excellence*, Jim Collins’s *Good to Great*, and Jim Collins and Jerry Porras’s *Built to Last* describe the properties of successful companies as success factors that other firms should emulate.<sup>13</sup> But Philip Rosenzweig, author of the *Halo Effect*, argues that those books merely summarize the characteristics of successful firms; they do not identify true success factors. Managers around the world are constantly looking for magic formulas to improve their bottom line. They find it difficult to resist the temptation to emulate firms like acquisition-savvy Cisco or HP, which does such a good job of cultivating employees. Boards are also looking for a charismatic leader such as Steve Jobs in the hope that he or she will bring tremendous instant success with a product like the iPod. Simply copying a corporate culture, leadership, value system, or strategy does not necessarily lead to success, however; these properties are not themselves the success factors.

Rosenzweig calls the tendency to observe the results first and then rationalize the company’s strategies the Halo Effect.<sup>14</sup> The real challenge is to compare Samsung Electronics’ and Sony’s business structures, technology, brands, organizations, and management systems and to explain why these two giants have met with such drastically different fates during the past 10 years.

### **Comparison of Sony and Samsung Electronics: Motivations and Limitations**

Any comparison of Sony and Samsung Electronics will inevitably be inexact. Sony is a significantly older firm. It was born as a start-up company, while Samsung Electronics began as a subsidiary of Samsung Group and shares that group’s company culture and management system. Further, the missions of these firms were very different. Sony was founded in the early years of post-war Japan and has attempted to make consumers’ lives more convenient by developing and producing innovative products such as the Walkman and the Compact Disc. Samsung Electronics, by contrast, was founded during Korea’s period of rapid industrialization. It created a long-standing identity as a

manufacturer of key parts that are essential to the electronics industry. It lived by slogans like “semiconductors are the bread of the electronics business,” and “contribute to the nation by industry.” Moreover, the cultural differences between Japan and Korea add to the distinctions between these two companies.

In addition, Sony and Samsung Electronics’ key businesses are very different. Sony has devoted significant resources not only to the electronics business but also to music, movies, and software. It also has a B2C (business to customer) business structure, and thus sells mainly to end users. In contrast, although the Samsung Group as a whole is extremely diversified, Samsung Electronics produces and sells parts to other electronics firms, and its product portfolio is centered on the electronics industry. Even its mobile phone business is closer to a B2B (business to business) model than it is to B2C. Samsung Electronics sells its products mainly to a small number of operators.

But despite these important differences, a comparison uncovers valuable insights. First, Sony and Samsung Electronics simultaneously compete and cooperate with each other. They compete in the realms of TVs, DVDs, audio, camcorders, digital cameras, and mobile phones. But they cooperate in the production of LCDs (Liquid Crystal Display) through their S-LCD joint venture. Samsung’s leading LCD technology and Sony’s expertise in product development help both companies gain competitive advantages against their rivals. Further, Samsung Electronics supplies DRAMs and flash memory to Sony, but it purchases CCDs (Charge Couple Device) and batteries from Sony. Comparing two companies that simultaneously compete and cooperate reveals the overall dynamics of how firms in the electronics industry have responded to common trends.

Second, comparing Sony and Samsung Electronics may shed light on how the performance of different firms may change as they try to adjust to rapid technological developments in the electronics industry and how companies should effectively respond to such changes. Firms like Apple and Hewlett-Packard show how volatile the electronics industry can be. For example, Apple had a near-death experience when its Macintosh lines were marginalized by Windows-based personal computers, only to be resurrected by its unexpected success with iPod. Samsung Electronics and Sony have responded somewhat differently to the rapid digitalization of the electronics industry during

the past decade. Sony invested in network technology and attempted to create synergy between hardware and software such as music and film. Samsung Electronics focused on manufacturing core parts. Its CEO Yun has a motto: “Stay at the forefront of core technologies and master the manufacturing and you control your future.”<sup>15</sup> Sony and Samsung Electronics adopted different strategies as they responded to digitalization. Both strategies have their benefits and shortcomings.

Samsung Electronics and Sony are representative Asian companies, which lead the Korean and Japanese electronics industries. A comparison will reveal important strengths and weaknesses of Asia-based companies. In many cases, these companies are still owned and managed by their founders or founders’ families. In many cases the transition to professional managers that is typical in Western firms has not yet occurred. Comparing Samsung Electronics and Sony provides a good perspective on the problems that Asian firms encounter during such transitions.

Finally, both these firms have global ambitions. Because Sony began much earlier than Samsung Electronics and is currently far more globalized, its problems may provide useful lessons to Samsung Electronics, as well as to other Asian companies.

## **The History and Business Areas of Sony and Samsung Electronics**

### **Sony**

#### *The King of AV*

In 1946, the year after Japan’s defeat in World War II, Sony was incorporated as the Tokyo Telecommunication Engineering Corporation. Ibuka Masaru, a talented inventor who had developed various electronic devices during the war, brought in Akio Morita as the manager. Masaru and Morita rented a floor of a department store in *Nihonbashi* Tokyo to use as the office and factory, and launched their business with an investment of 190,000 yen and 20 employees. Sony was just one more start-up company in post-war Japan. These founding conditions indelibly marked Sony’s development and growth.

Tokyo Telecommunication Engineering Corporation produced vacuum tube voltmeters and communication devices. It even

manufactured electric rice cookers and electric floorboards. Sony would manufacture almost anything in order to survive. In 1950, it developed a tape recorder, which it supplied to schools and governments. In 1955, it purchased patent rights for a U.S.-developed transistor and began to produce and sell small transistor radios. In 1955, Morita sold the first transistor radio with the Sony brand in the U.S.

As Sony-brand transistors became a huge hit overseas, the company changed its name to Sony in 1958. Sony is a combination of the Latin word *sonus*, which means sound, and *sonny*, a nickname for a small boy. This name reflected the company's ambition to grow and corresponded to an image of vibrant youth. Sony issued ADRs (American Depository Receipt) on the New York Stock Exchange in 1961, laying a stepping stone toward its development into a global company.

In the 1960s, Sony developed Trinitron technology, which radically upgraded the quality of color TV displays. Its CRT (Cathode Ray Tube) TV, based on Trinitron technology, was immensely popular. Sony's biggest success, however, was the Walkman, a compact cassette tape player that Sony introduced in 1979. It subsequently produced high-quality computer monitors, home VTRs (Video Tape Recorders), CCDs, passport-size camcorders, digital cameras, 3.5 inch floppy disks, CDs, MiniDiscs, and DVDs (Digital Video Disc). In the late 1990s, Sony released WEGA, which applies digital technology to a flat-screen CRT TV. This made it the dominant player in the high-quality TV market.

In 2005, Sony was tied with Philips and Samsung for second in the LCD TV sector. It was first in the digital camcorder sector

Figure 1.4 Sony and Samsung's Market Shares in Major Products

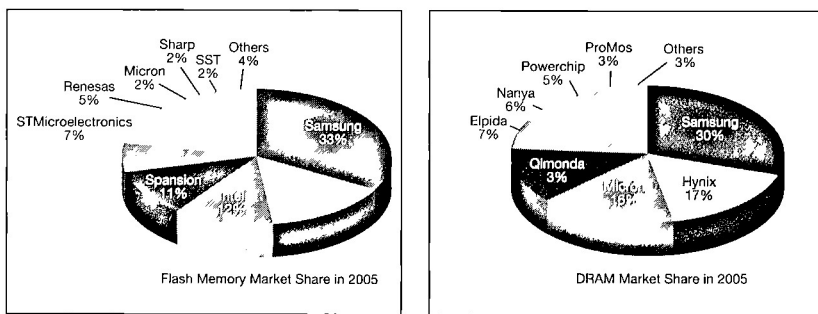
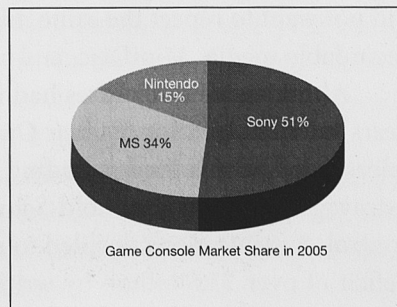
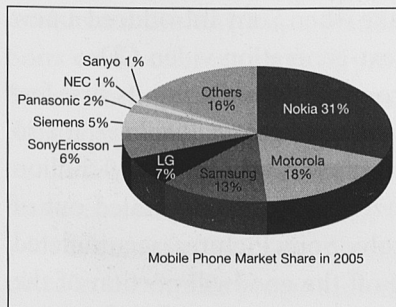
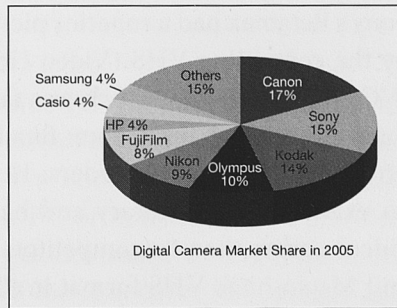
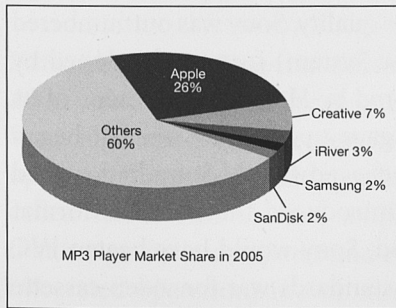
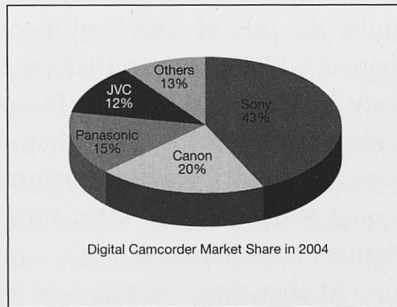
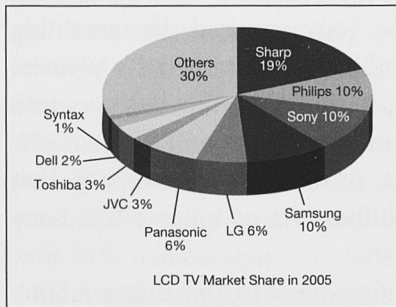
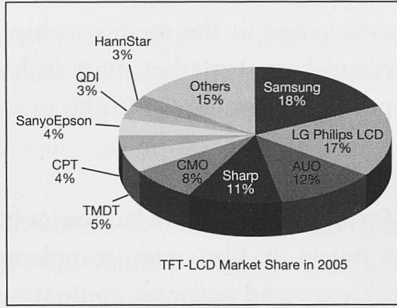
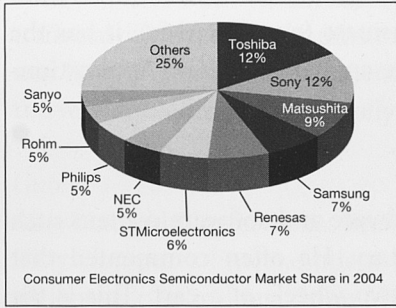


Figure 1.4 Sony and Samsung's Market Shares in Major Products (cont'd)



Source: IDC.

with 43% market share, and second in the digital camera sector, with 15% market share (Figure 1.4). Although Sony has traditionally not participated in the memory chip business (e.g., DRAMs), it has the second-largest market share in home appliance ASICs (Application-Specific Integrated Circuit).

### *Entertainment*

Morita believed that electronics hardware and software content such as music or film were complementary. He often commented that hardware and software content are two wheels of a cart. This is the reason that Sony initiated a joint venture with CBS Records in 1968, under the title of CBS Sony Records. Sony acquired the remaining share of CBS Records in 1988 for \$2 billion and renamed the business Sony Music Entertainment. In 2004, it converted this business into a joint venture with BMG that is now called Sony BMG. In 1989, Sony acquired Columbia Pictures, a venerable film company that owned many valuable titles, for \$6 billion. Its new name was Sony Pictures Entertainment.

At that time, Morita was thinking back to the disaster Sony suffered with its Betamax format since the late 1970s. Even though Sony's Betamax had a superior picture quality, Sony was outnumbered by the competing VHS (Video Home System) format, developed by JVC and Matsushita, which was favored by Hollywood because of its longer recording time. Sony finally gave up in 1988 when it began producing the VHS recorders. He believed that if Sony had owned an extensive video library and had introduced the Betamax-format videos earlier than its competitors did, Sony would have beaten JVC and Matsushita's VHS format in the standards war for video cassette recorders (VCRs). Morita's ego had suffered in this debacle, and he did not want to repeat the same mistake when Sony introduced a new recordable media, MiniDisc, and a next-generation video CD.

Although Sony Pictures had a couple of hits during its first few years such as *A League of Their Own* and *The Universal Soldier*, it also released numerous flops including *The Last Action Hero*, a \$60 million extravaganza starring Arnold Schwarzenegger. Costs spiraled out of control. By 1994, Sony decided to resolve Sony Pictures' accumulated deficit of over \$3.5 billion by writing off the goodwill portion of the initial purchase price. Sony Pictures later brought in a new management

team and a new board of directors, and began a turnaround. In 2005, Sony acquired MGM's film library for \$5 billion. As of 2006, Sony BMG trails only Universal in the music industry, holding 25% of market share, and Sony Picture Entertainment is now the biggest film company in the world, holding 40% of Hollywood's film assets.

### *Games*

Sony's second-biggest hit has been PlayStation. In 1993, Sony established Sony Computer Entertainment as a joint venture between Sony and its Japanese subsidiary, Sony Music Entertainment, to oversee home gaming consoles and software. PlayStation was first released in 1994, and its market share rapidly increased. In 2000, PlayStation 2 was released with a DVD system as well as upgraded music and video features. These offerings have been very successful. By 2006, Sony had sold 100 million game platforms and 1 billion game cartridges.<sup>16</sup> Its portable PlayStation, PSP, can even access servers through a wireless connection. Sony is the clear market leader in the game business, with 51% market share. In 2006, Sony released PlayStation 3, which it equipped with its next-generation Blu-ray DVD player and a Cell chip, developed jointly with IBM and Toshiba.

### *Network, IT, and Financial Business*

Although Sony's initial foray into home PCs in the early 1980s failed, Sony regrouped all its computer-related engineers in 1996 and set up a new company that developed a home multimedia computer called VAIO. This was not simply a PC or notebook but a machine that integrated a computer and AV (audiovisual). VAIO (video audio integrated operation) is a mixture of the sine curve of analogue and 0/1 values of digital. It also refers to the integration of AV and IT. Idei envisioned the VAIO as a platform for a network service over which Sony could offer an array of products. To this end, Sony also started Sonet, an Internet communication service in Japan that offers music downloads, e-commerce, and online financial services.

Sony's first attempt to enter the mobile communications market was unsuccessful, but it folded this business into a joint partnership with Ericsson in 2001. Sony-Ericsson is now tied with Samsung for third place in the mobile phone sector, and trails only Nokia and Motorola. Moreover, Sony established Sony Life Insurance jointly with Prudential

in 1981, in an attempt to enter the financial service sector. In 2000, Sony opened Net Bank jointly with Sakura Bank and JP Morgan.

To sum up, Sony has diversified into many industries other than electronics, including music, motion pictures, games, mobile telecommunication, banking, and insurance. Roughly 40% of sales and profits were generated in the electronics business. The electronics business, however, has been Sony's bread-and-butter, contributing a stable income stream, while its other businesses have their ups and downs.

## **Samsung Electronics**

### *A Humble Beginning*

Samsung Electronics, a subsidiary of Samsung Group, was established in January 1969 with an investment of 330 million won. Samsung Group had begun with the founding of Samsung Corporation, a trading company, established by Byung-chull Lee in 1938. Since then, Samsung has diversified into foods, textiles, various financial services, petrochemicals, shipbuilding, heavy equipment, and aerospace. As of 2006, Samsung Group was a global conglomerate with 59 subsidiaries, \$209 billion in total assets, \$122 billion in sales, and 220,000 employees.

Samsung Group established Samsung Electronics in order to diversify into the electronics business. It began operations in 1970 by producing black-and-white TVs, an outdated product even at the time, simply because it did not have the technology to produce color TVs. In time, it began producing refrigerators, washing machines, color TVs, computer monitors, and microwaves. It vertically integrated by manufacturing electronic parts as it set up affiliates such as Samsung Corning, supplying glass for picture tubes; Samsung SDI, manufacturing TV tubes; and Samsung Electro-mechanics, manufacturing various other items.

Over time, Samsung Electronics' revenues grew significantly. Until the early 1990s, however, Samsung Electronics' home appliances were mainly OEM products, serving as loss leaders in large discount stores such as Sears, Wal-mart, and Kmart. While Samsung Electronics grew in terms of sales revenue, its products were still perceived as cheap and low-quality. For a long time, even in the TV business, where it enjoyed its largest sales, Samsung lacked the technology to produce expensive

but more profitable large-sized or projection TVs. More recently, however, Samsung has become a leading producer of a wide array of appliances and consumer electronics. It currently is a market leader in LCD TVs, PDP (Plasma Display Panel) TVs, and color TVs.<sup>17</sup>

### *Semiconductors and LCDs*

Samsung Electronics' Semiconductor Division includes the memory business and the System LSI business, which makes nonmemory chips. Its memory business produces DRAMs, SRAMs (Static Random Access Memory), and flash memory, and has long been the commanding market leader in DRAM and SRAM. More recently, it has also become the market leader in flash memory. Since 1993, Samsung's dominance in memory businesses has never lost its number one position, and its market share is more than two times larger than that of the second-largest firm. It is also the most technologically innovative firm in these businesses.

The System LSI Division, which competes in nonmemory businesses, supplies products for home appliances, communication devices, and ASICs. This division is particularly strong in products that have a clear technological trajectory, and it focuses on System LSI products with substantial demand. It is weaker, however, in ASIC or SOC (solution on chip) businesses, which are characterized by many small application areas.

The LCD Division produces the LCD (Liquid Crystal Display) based on the TFT (Thin Film Transistor) technology, used for notebook PCs, monitors, and TVs. Samsung invested heavily in TFT technology early on, and has reaped substantial benefits from its initiative. In 2006, Samsung Electronics created a separate division for the LCD business. The LCD Division has also been operating a joint venture with Sony, called S-LCD, to produce seventh-generation LCD panels and is currently expanding the joint venture for the next generation. Samsung Electronics is currently the market leader in the LCD sector.

### *Communication*

Samsung entered the communications business in 1977 when it established Samsung GTE Communication jointly with GTE to produce electronic exchanges and transmission devices. Later, Samsung GTE Communication was merged into Samsung Semiconductor, and again

# SONY VS. SAMSUNG

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