Samsung's colossal challenge

The death of its iconic promoter, Lee Kun-hee, raises questions over how long the *chaebol* can maintain its gigantic footprint in the global electronics industry

DEVANGSHU DATTA
New Delhi, 27 October

The death of Lee Kun-hee last week, after a prolonged illness, sparked turmoil in the $375 billion Samsung Group. The 78-year-old Lee had taken over the giant *chaebol* (conglomerate in Korean) in 1987, after the death of his father, Lee Byung-chull, who founded Samsung in 1938.

In the 1980s, Samsung was primarily a noodle-trading and trucking business. Kun-hee turned it into an engineering giant. Today, Samsung is the global leader in mobile phones, with a gigantic footprint across many other electronics segments. It has over 76,000 active patents, in cutting-edge electronics and associated areas, like special glasses. This is quite apart from its shipbuilding and heavy engineering activities.

Kun-hee was worth over $20 billion when he died. About $16 billion is the value of the stakes in various Samsung companies. His son and probable successor, Jay Y Lee, owns significant stake across Samsung Group in his own right. His two daughters also hold stakes.

Jay has done prison time. He has cases under trial for forcing a corporate merger, and has been indicted for accounting fraud and stock manipulation. He also faces charges in an ongoing bribery case that triggered the ouster of former president, Park Geun-hye. In addition to the track record, Jay must contend with inheritance tax, which could force the sale of part of the family stake. Hence, traders and investors are churning shares in various Samsung group companies.

This is par for the course in Korean business circles. Only the scale is unusual. Kun-hee faced prison on two separate occasions, and was pardoned both times by different Korean presidents. One of those cases also involved the bribery of (yet another) Korean president. Kun-hee's legacy could thus be unclear for a while since Jay might end up in prison (unless he's pardoned).

Regardless, Kun-hee is an unalloyed hero to many Koreans. His drive and vision helped Samsung supersede iconic Japanese brands like Sony Corp, Sharp Corp and Panasonic Corp in chips, TVs and displays. It ended the supremacy of Nokia in feature phones and helped Samsung beat Apple in smartphone sales. Samsung also owns more patents than any other company in 5G, so that dominance is likely to continue for some time.

But the history of electronics indicates that no company, nor any nation for that matter, has been able to cement pole position and maintain it through several cycles. This is not just about innovation, though that's important. It's not just about brand-building, though that's important too. It's also about scale.

Ideally, any electronics business needs to develop IP, scale and brands if it is to capture full-value or its activities. Different nations have built scale at various times and IP is scattered across many firms. Scale without branding leads to low margins. At various times, corporations from different parts of the world have built brands — IBM, Intel, Philips, Sony, AMD, Microsoft, Apple, Nintendo, Apple, Toshiba, Huawei, Nokia, the list goes on.

A potted history would go as follows. Starting in the 1890s, scientists and engineers in labs made important discoveries. The two world wars and the Cold War led to huge research acceleration and multiple new technologies were developed, and released into civilian domain. The space race (which was, of course, part and parcel of the Cold War) meant more of the same.

Electronics is all-pervasive. Military tech is heavily dependent on it. Every modern gadget has electronic components. Basic infrastructure like power supply, water supply, transportation and road-building is impossible without electronics. Any modern manufacturing facility, no matter what is made, requires electronics. The Internet of Things will further magnify demand.

In the 1950s and 1960s, Japan became an export powerhouse on the back of both scale and brands. That helped Japan bootstrap its shattered post-war economy. The transistor revolution was led by Akio Morita of Sony. But a dozen *Zaibatsu* ("conglomerate") followed in Sony's wake.

The Koreans rebuilt their shattered post-war economy on the back of heavy engineering (iron and steel, ship-breaking, ship-building). But Samsung's foray into electronics led to serious growth acceleration for the Korean economy. LG, Daewoo, Kyocera, all got into the act.

China entered the fray later. First, the PRC was a contract manufacturer and then it started building brands on the back of its huge domestic market. Then it moved into exports. It is now a very significant player with vast scales and big brands and it has weathered multiple accusations of intellectual theft. Taiwan is also a powerhouse, along with the Mainland.

Assuming he takes over, Jay will have his work cut out to stave off challenges. But he does possess a template set by his legendary father, and Samsung is one of the few companies that kept its financials intact during the pandemic.

Great leaps forward

The global electronics industry will generate over $2.5 trillion in revenues in 2020 (including consumer segments and military technology). The pandemic may have accelerated already strong growth rates to an estimated 6 per cent or more, over 2021–2025.

Here's a brief timeline of how the industry has developed since inception.

- 1965–75: Intel creates the microprocessor, aka the computer "chip" (1969). Laser optics technology takes off. The first cellphone is demonstrated by Motorola (1973). The US agency, DARPA, funds the project that leads to the internet.
- 1975–90: Personal computing arrives. Microsoft and Apple become household names. The VCR, Walkman and CDs are launched. Videogames take off.
- 1990–2005: The internet takes off after the creation of HTML, enabling e-commerce, online trading, search and search-linked advertising etcetera. Facebook launches (2004). Korean *chaebols* LG and Samsung become big players. China and Taiwan start contract manufacturing.
- 2005–2020: The iPhone is launched (2006). The smartphone era begins. Chinese brands like Xiaomi and Huawei enter the arena. Social media explodes. Drones fly. The Internet of Things (IoT) leads to electronics being embedded in houses, cars, vacuum cleaners and sports equipment.

Lee Kun-hee, who died last week

Food focus keeps PepsiCo going, but Coke struggles

SURAJEET DAS GUPTA
New Delhi, 27 October

One of the things Covid-19 has brought into stark relief is the contrasting strategies of PepsiCo and Coke in India and how the differences have had a bearing on their performance during the pandemic.

One big change is that PepsiCo is now less of a cola or a beverage company and more of a foods major. Declaring the financial results a few weeks ago for Q3 of 2020, PepsiCo CEO Ramon Laguarta announced that despite a slow revenue growth of 2 per cent in emerging and developing markets, India bucked the trend, showing a high single digit growth as compared with double digit decline in both beverages and foods in Q2.

This, despite the fact that its beverage volumes in India declined by double digits in the same period, clearly suggesting that the food business rocked as the lockdown eased. Food revenue matters much more for the company's revenues and margins than beverages.

For Coke, however, which does not have a food business to bank on, Q3 2020 unit case volume declined by 10 per cent in Asia Pacific in its company-owned bottling plants, driven by India and South Africa (it was down 36 per cent in Q2).

But overall, the decline was much lower at 4 per cent in the region and again this was attributed to India and Japan. (It was 18 per cent in Q2 mainly because of India.)

The inference is simple: While Coke's percentage decline in beverage volumes is far lower than its rival and demand take-off has improved over the previous quarter, it does not have a food business to give it a kick start to recovery.

According to analysts, soft drinks now account for only 20 per cent of PepsiCo's revenues as against 59 per cent in 2015. The rest comes from food. The good news for PepsiCo is that the foods segment has normalised much faster to pre-pandemic levels than beverages.

The fact is that soft drinks missed a large part of their peak season (April-June account for 50 per cent of volumes) sales when the country came to a standstill. If they are taking longer to normalise, it is because on-the-go and restaurant sales are limping very slowly towards their earlier levels.

Industry estimates indicate that volumes for the whole year for beverages will be down to a third of last year.

PepsiCo's asset light strategy in beverages has also helped. Two years ago, it sold off its remaining company-owned bottling plants in south and west India to Ravi Jaipuria, transforming itself into a seller of mainly soft drinks concentrate.

The strategy reduced revenues but improved margins profitability. Its normalised profit after tax went up by 58 per cent in FY20 over the previous year, though revenues went down from ₹6,200 to ₹5,264 crore in the same period.

PepsiCo banked heavily on foods and built capacity on its own, mainly from the remaining portion of the $2.2 billion it committed to India by 2022. The strategy has also helped in shoring up margins as, according to industry experts, they are 10-20 per cent higher than beverages, which work on low margins and high volumes.

"We are committed to doubling our snacks business in India by 2025. In fact, we have increased our investment in our greenfield snack plant in Uttar Pradesh from ₹500 crore to ₹814 crore. We have additionally proposed to set up a greenfield manufacturing plant in Assam and expand our capacities in our West Bengal and Maharashtra plants," said Ahmed ElSheikh, president, PepsiCo India.

Currently, its own manufacturing units take care of 70 per cent of its food production (the rest is done by co-packers), which include Lays, Kurkure, and Quaker Oats among others, say analysts.

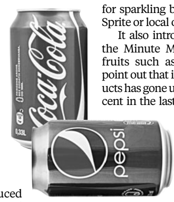
So what is Coke doing? Clearly one big move has been the push towards juice volumes and using more Indian fruits even for sparkling beverages, such as limes in Sprite or local oranges in Fanta.

It also introduced a range of juices in the Minute Maid category with Indian fruits such as pomegranates. Analysts point out that its volumes from juice products has gone up from 35 per cent to 40 per cent in the last three years, while the rest has been from other beverages. The margins in juices are higher. Coke also tested flavoured milk and smoothies in the market but they failed to get much traction.

Coke has also brought in imported products like the fizzy drink Rani Float. It is also rationalising its bottling business. Its share of the company-owned bottling company has gone down from 66 per cent of volumes to 54 per cent.

A Coke India spokesperson, while not sharing numbers, said: "We have just completed the re-alignment of four non-contiguous and fragmented territories in the north, which has opened more avenues for business growth and local investments".

But the rationalisation has raised questions among Coke watchers. Is it also moving towards a more asset-light structure like its rivals? Or will its strong company-owned bottling business be the platform for launching big new products?



Estimates indicate that volumes for the whole year for beverages will be down to a third of last year, despite the push by soft drink companies to go online

India up, close and personal with Hollywood

India remains a Hollywood crazy nation, finds a study by data and market measurement firm Nielsen for &flix. The study, "Hollywood Is For Everyone", covered a sample of 1,500-plus movie buffs across eight metros and non-metros, including Mumbai, Delhi, Chennai, Bengaluru, Pune, Ahmedabad, Lucknow and Indore.

The report, put together after collating responses of people in the age groups of 23 to 30 (37 per cent), 32 to 40 (50 per cent) and 41 to 50 (13 per cent), delved into the consumer preferences, attitudes, behaviours, lifestyles and mindsets of movie buffs in India.

The study found that nine in 10 movie lovers watch both English and Hindi/regional films. Compared to Bollywood and regional movies, 91 per cent felt Hollywood films have better power-packed action sequences and special effects.

Over 70 per cent said they preferred to watch films on television rather than on over-the-top (OTT) platforms. The reasons given were: television viewing is economical since you have to pay a single service provider for access to content from a wider range of channels; bigger and better, since the movie can be enjoyed on a wider screen in high-definition (HD); merrier as the screening experience can be shared with friends and family; and niftier as it does not involve browsing through content to decide what to view.

Compared to Bollywood and regional movies, 91 per cent felt Hollywood films have better power-packed action sequences and special effects

A sizeable 82 per cent also felt that TV viewing came closest to the big-screen experience amid the lockdown.

Looking specifically into Hollywood enthusiasts, the study found them to be tech-savvy and brand-conscious individuals who seek new experiences, are in sync with the latest trends and are avid travellers. The survey also found that this cohort earns one and a half times more than those who watch largely only Bollywood or regional cinema; is twice more likely to buy higher-priced products; is more than two times more likely to own a four-wheeler; and has a stronger social media presence.

VEENU SANDHU

WINDOW TO THE WORLD
(Movie buffs' take on Hollywood)

90% 'Unites a worldwide community of fans'
85% 'Enhances proficiency in the English language'
78% 'Encourages to follow a Hollywood-size lifestyle'
90% 'Offers exposure to international cultures'
86% 'Inspires the drive to try new things'

LARGER-THAN-LIFE IMPACT
(How the movies are perceived)

91% are progressive
86% inspire big dreams
87% influence fashion choices
80% infuse a go-getter attitude

WE SEE, WE BUY, WE PROMOTE
80% viewers
- admit that brands placed in the movies/intermittent TV ads influence their purchases
- are willing to try new products/gadgets shown in the movies and intermittent ads
- value brand image over pricing and associate the bands they buy with their social persona

MOVIE VIEWING ON TV WITH FAMILY
81% 'It's a great way for family bonding during the Covid-19 situation'
81% 'It's the best alternative to family outings given the lockdown restrictions'
76% 'Co-viewing experience is better than solo viewing experience'

SCREEN SIZE MATTERS
82% 'TV viewing comes closest to the big-screen experience amidst the lockdown'
88% 'Hollywood VFX and superhero stunts are better enjoyed on TV than smartphone'
77% 'Watching movies on TV while scrolling on the smartphone is the perfect combo'

'GLOCAL' SHOWS
7/10 viewers want Hollywood hits on TV available in multiple dubbed formats including Hindi and other regional language
(Cohorts considered: Bollywood/regional admirers)

Source: Zee English Cluster-&flix: Project Flick study done in association with Nielsen