GLOBAL/COUNTRY STUDY AND REPORT

ON

“The trajectory of LG Electronics, its entrepreneur growth, managerial strategies, diversification and business relations in India”

Submitted to

Gujarat Technological University

IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF THE AWARD FOR THE DEGREE OF

MASTERS OF BUSINESS ADMINISTRATION

Submitted by

Students of S.Y M.B.A
Batch: 2010-12
MBA SEMESTER III/IV

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LAXMI INSTITUTE OF MANAGEMENT, SARIGAM
MBA PROGRAMME
Affiliated to Gujarat Technological University Ahmedabad
May, 2012
PREFACE

As the part of curriculum of Gujarat Technical University, the students of second year of MBA have to undergo a training programme in which they have to select any organization or company or Industry or sector of foreign country and study the details of that country and find out the existing business and future business potential of that industry/company/sector with India.

To fulfil the curriculum requirements the class was divided into nine groups of six members each and the topics were assigned to them. At the end the work of each group was compiled and a report was prepared under the guidance of faculty members. The company chosen by the students was LG Electronics and the country was South Korea.

The first group has undergone the intensive study of South Korea as a country, its demographics, physical environment, financial aspects, various policies related to business, market conditions and various other aspects related to business environment. The second group has conducted a study on SWOT Analysis of South Korea as a country and LG Electronics as a company. They have also highlighted the economic indicators and undergo PESTEL Analysis of South Korea as a country.

The third group has studied about business strategies of LG Electronics and its marketing policies. They have also analysed the financial performance of the company during the last five years with initial investments. The fourth group has studied about the Human Resource Policies and about the products and their distribution strategies of the company.

The fifth group has studied about the reasons of selling product in the foreign market and also the benefits the company is receiving from the country. The sixth group studied about INCOTERMS and Major buyers of the company’s product. The seventh group has studied benefits to the host and the parent company. The eighth group has undergone the study of tax benefits and EPCG Schemes and its effect on company’s operations. Ninth group has undertaken the topics like Financial Indicators, New products introduced and Employment to local people.
ACKNOWLEDGEMENT

We would like to express our sincere gratitude and appreciation to the Gujarat Technological University for giving us an opportunity to undergo The Global project which was beneficial and valuable to develop within us the interpersonal and intrapersonal academic skills.

We would like to thank the campus director of Laxmi Vidyapeeth, Sarigam Mr George Thomas and the director of Laxmi Institute of Management Dr Rupak Chakravarty for their constant motivation throughout the project.

We are extremely thankful & grateful to all the falling faculty members: Prof. Priyanka Kulkarni, Dr Keyur M Naik, Prof. Shyamsundar Singh, Prof. Kavita Ahuja, Prof. Samira Lakhani, Prof. Poonam Yadav, Prof. Reshma Bhatt, Prof. Hiral Tailor, Prof. Geeta Thakur and Prof. Pranav Raithatha for their constant guidance, supervision, wise ideas & encouragement throughout the study. They truly helped the progression and smoothness of the project.

We would like to express our zillion of thanks to Prof. Samira Lakhani for her extended support to edit, compile and proof read the entire project for the final submission.

We also like to express our thank and gratefulness to all our colleagues for their enormous efforts at all levels as we all have worked as a team to complete the project successfully and on time.
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EXECUTIVE SUMMARY

LG electronics believe that technological innovation is the key to success in the marketplace. Founded in 1958, it led the way in bringing advanced digital products and applied technologies to customers. With commitment to innovation and assertive global business policies LG aims at becoming a worldwide leader in advanced digital technology.

When LG Electronics India, a subsidiary of Korean electronics giant LG, announced to follow the footsteps of its parent, which is implementing this strategy in its subsidiaries, worldwide, it marked a strategic shift in its long-drawn approach of being a mass-marketer, which enabled it to win market share and mindshare in the Indian market. However, of late LG India has been failing to sustain its leadership. Through its new strategy, the company hopes that it will not only capture new and unexplored markets, but also consolidate its market leadership in fast growing segments of consumer electronics, home appliances, and mobile handset markets. Armed with its new strategy, LG India plans to double its sales volume and profit by 2010 with 30% of its sales volume and 50% of its profit coming from Blue Ocean products.

Vision - LG’s vision is to deliver innovative digital products and services that make our customers’ lives better and easier—happier, even—through increased functionality and fun.

Brand Identity - LG’s brand identity focuses on self-expression and a promise of satisfaction to its customers.

Global Operations - LG Electronics plays an active role in world markets with its assertive global business policy.

History - Since its founding in 1958, LG Electronics has led the way to an ever more advanced digital era.

Facts & Figures - The LG Electronics brand was launched in India in 1997. An innovative product range, supported by extensive marketing campaigns has led to strong sales growth.
**Strategic Alliances** - LG Electronics is making technology advances and identifying business opportunities through various partnerships relationships with some of the world’s leading companies.

LG Electronics is striving to become number one in the world by collaborating in various business and technology fields and by strategic alliances with world famous companies. "Strategic alliance between corporations," in which companies with different infrastructures cooperate in the fast-developing 21st century business field, is of key significance in terms of strengthening the existing and creating a new industry.

**South Korea as a Country** - In order to understand the economy of South Korea, growth Competitiveness Index (Growth CI) developed by Jeffery Sachs and John McArthur to assess the competitiveness of nations has been performed which tries to understand the present state of economy on the basis of five parameter. The parameters are Human Capital, Physical Environment, Policy Environment, Market conditions and Technology and Innovation. LG is doing well in all the parameters.

SWOT Analysis and PESTLE Analysis has been done to study the company and it has been found that LG has its technology as the strength but the products of LG are considered as same as of Samsung which is the main weakness.

Economic indicators are studied in order to get the picture of per capita income of the country and also it has been found that the literacy rate of South Korea is 97.9%. The GDP - per capita (PPP) of South Korea is $30,000 (2010 est.) in US dollars.

Then a study has been conducted on the Marketing policies of LG and its performance during the last five years. LG Electronics believe that a firm is not selling a product. It sells only the ‘product benefit’. LG believes about Price in money = physical product + bundle of expectations. LG has received Most Admired MNC in India 4P's award in 2008.

Then study on the Human Resource policies is conducted and it is found that LG is considering its human resource as a main asset and taking care of employees and their careers. Another unique point in LG is the Joyful Working 5 programme at L.G.
LG Electronics is receiving many benefits from India and also it is beneficial for India. Both parent and host countries are mutually benefitted. LG is getting Tax benefits and many other incentives whereas India is enjoying the technological expertise as well as employment opportunities for its residents.

Under the Export Promotion Capital Goods Scheme import of capital goods for pre production, production and post production is allowed at 5% Customs duty subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme to be fulfilled over a period of 8 years reckoned from the date of issuance of Authorization.

Electronics India Ltd, a formidable player in the consumer electronics segment in the domestic market, is aiming at a 60-70 per cent growth in exports from India in 2011.

In the festive months of September and October, the company has targeted sales of Rs2500 crore including Rs80 crore in the Orissa market.

LG Electronics focuses on the areas of social welfare, education and cultural activities by means of sponsorship, financial aid and volunteer work. LG also works for Poverty Alleviations for different countries.

Some suggestions are also recommended to the company on the basis of the project undertaken. The scheme shall now allow import of capital goods for pre-production and post-production facilities also. The Export Obligation under the scheme shall now be linked to the duty saved and shall be 8 times the duty saved. To facilitate upgradation of existing plant and machinery, import of spares shall also be allowed under the scheme. Capital goods up to 10 years old shall also be allowed under the scheme.

From a failed entry into India in 1993 to becoming the de facto leader in the Indian consumer durable industry, LG Electronics India has come a long way. For the durable goods consumers in India the tag line `Life's Good` may not be unfamiliar. With the Korean chaebol's Indian subsidiary now topping the Indian consumer
durable industry's ranking chart, life's indeed good for it. In a span of just seven years since it entered the Indian market in 1997, LG Electronics India, a wholly-owned subsidiary of LG Electronics, South Korea, has risen to the number one position in almost all the major market segments refrigerators, colour TVs, microwave ovens and washing machines it operates in.

The company's present success has not come without initial hiccups. LG Electronics entered India first in 1993. The company tied-up with Besta vision, a Delhi-based firm, to enter the market as Lucky Gold-star. Soon, it had to retreat as the joint venture with Besta vision did not meet with any success; the local partner lacked the financial muscle to set up a manufacturing unit. The company later entered into a partnership with the CK Birla Group. However, this venture too could not succeed for various reasons.

The company re-entered India in 1997, when the Foreign Investment Promotion Board (FIPB) allowed it to set up its own manufacturing unit. It set up a 100% subsidiary called LG Electronics India with a state-of-the-art manufacturing plant with a facility of multi-product lines at Greater Noida, near New Delhi. The company recently inaugurated its second production facility at Pune to manufacture. Today, most of the company's products are manufactured locally, which has helped it cut costs.

The company's aggressive regional distribution strategy has been a key component in its India foray and has played a significant role in its success in the Indian market. This has not only helped LG establish a strong foothold in the country, it has also allowed it to build strong brand equity.

Koreans are the only foreign community in India that have done this.... It's very difficult for them to get exposed to and accept other cultures, but once they get their heads down and start, then the cases of success is quite good. I have not seen any Korean fail here, and they always follow the crowd, that's a fundamental fact.
CHAPTER – 1

INTRODUCTION TO
COUNTRY/COMPANY SELECTED
Information about the country selected- South Korea

South Korea is a sovereign state in East Asia, located on the southern portion of the Korean Peninsula. It is neighboured by the People’s Republic of China to the west, Japan to the east, North Korea to the north, and the East China Sea and Republic of China (Taiwan) to the south. South Korea lies in the North Temperate Zone with a predominantly mountainous terrain. Its territory covers a total area of 99,392 square kilometres and has a population of almost 50 million. The capital and largest city is Seoul, with a population of 10,421,782, coast line of 2,413km.

The climate of the city temperate has heavier rainfall in summer than in winter. People speak Korean but English is widely taught in high school. The currency of the country: 1 South Korean won (W) = 100 chun (theoretical). The bifurcation for religious followers is as follows: Christianity 49 % Buddhism 47 % Confucianism 3 % Shamanist, Chondogyo and other 1 %. In order to understand the economy of South Korea, growth Competitiveness Index (Growth CI) developed by Jeffery Sachs and John McArthur to assess the competitiveness of nations has been performed which tries to understand the present state of economy on the basis of five parameter.

Figure: 1.1 Sustainable Competitiveness Index
The first parameter that is the most important, talks about the intellectual assets i.e. the human capital which focuses on the education system of Korea. The second Index talks about various kinds of policy adopted by the Government in order to protect the environment. The third talks about the Key Resources and maintenance of physical environment. The forth parameter talks about the technological readiness of South Korea. The fifth talks about the market efficiency in terms of Labour, Financial market development and size.

Education

Education is very important among all of us, the fact which is commonly nothing to deny among any. It's the education which transforms a person to live a better life and more importantly in a socially well being. Education in South Korea is regarded as crucial to financial and social success, and competition is consequently fierce, with many participating in intense outside tutoring to supplement classes. South Korea's education system is technologically advanced and it is the world's first country to bring high-speed fibre-optic broadband internet access to every primary and secondary school nation-wide. Using this infrastructure, the country has developed the first Digital Textbooks in the world, which will be distributed for free to every primary and secondary school nation-wide by 2013.

The human capital talks about below mentioned three sub parameters

1. Primary Education

1.1 Primary School Education

The first six years of a Korean student’s education takes place in Elementary school. The curriculum for these schools is nationally standardized, and is centered largely on a basic grounding in Mathematics, language, Science, Music and Art. In third grade (age 8), children begin to learn English, usually in a laid-back manner through informal conversation rather than detailed study of grammatical structures.
1.2 Middle School Education

After completing Elementary School, children usually spend two years studying at a Middle School, in preparation for High School. Middle school begins at grade seven (age 12) and children follow a curriculum that consists of twelve major subjects including Mathematics, Korean and English. Unlike in Elementary Schools, teachers are specialists in individual subject areas.

1.3 High School Education

Children begin High School at tenth grade (age 15). The nature of High School education varies widely between institutions in South Korea. There are both vocational and academic high schools, with the majority of students (68%) attending academic schools. There are also a small number of specialised high schools centres around a particular academic subject such as science or a language. In academic high schools students usually remain in the same classroom, and are visited by a range of specialist teachers who move from room to room between periods. The curriculum of academic high schools is usually geared towards university entrance exams, which are covered in more detail in the higher education section.

2. Higher Education

The highest-level universities admit students based on their performance on specific entrance examinations, an idea taken from the Japanese education system. The number of what are known as Special Schools in South Korea has expanded rapidly in the last decade or so. Special Schools cater for children with a variety of disabilities, and are state-funded.

3. Health

At any rate, Korea’s healthcare system is absolutely beautiful. Basically, everyone is covered for everything (with some amount of deductible) as long as the procedure is not elective. The Korean works in the U.S. for a large company that provides top-rated health insurance, and it still sucks compared to the national health insurance in Korea
3.1 Structure of Healthcare System in Korea

The centrepiece of this structure is the national health insurance, governed by National Health Insurance Act. In Korea, doctor’s offices and hospitals are privately owned, except a small number of community hospitals. Private health insurance exists to cover expenses that the national health insurance does not cover. Koreans on the whole spend about 6.3 percent of its GDP on healthcare, which is lower than Europe/Canada (which is around 10 percent) and a lot lower than America. In fact, because there is a single entity in charge of overseeing the entire healthcare system, it is much easier for Korea to provide a systematic solution for a systematic problem.

3.2 The pitfalls of Korean Health System

The incidence of chronic disease in South Korea covers around 24 percent. Approximately 33 percent of all adults smoke. The human immunodeficiency virus (HIV) rate of prevalence at the end of 2003 was less than 0.1 percent.

The physical environment talks about two parameters, they are as follows:

1. Resources

South Korea has few natural resources. It has to import all of its oil and has built a series of nuclear reactors for generating electricity. Under the terms of the 1994 agreement between North Korea and the US, South Korea is constructing two reactors in the North which, in the event of reunification, will be connected to the national grid. Agriculture remains a highly protected sector of the economy. Plans to open up the rice market have in the past provoked massive demonstrations in Seoul.

2. Renewable Resources

South Korea, the world's second-largest buyer of liquefied-natural-gas after Japan and fifth leading oil importer, plans to increase investment in renewable resources by 24% this year, to 1 trillion won (US$890 million) from 808.4 billion won last year, according to an e-mailed statement issued by the Ministry of Knowledge Economy (this past October, the South Korean government said it would inject some $35 billion into the public and private sectors by 2015 to boost renewable). The South
Korean government has announced that they will invest US$35.4 billion in the development of renewable energy resources by 2015. Total renewable water resources: 69.7 cu km (1999).

South Korea currently imports 97 percent of its energy supply, with 84 percent derived from fossil-based fuel sources. South Korea’s Presidential Commission on Green Growth (“PCGG”) recently adopted a strategy modelled on the five-year planning approach that was so successful in elevating its post-war economy to 1996 admission in the Organization for Economic Co-operation and Development (“OECD”).

**Enhanced Renewable Energy and Green-Tech Deployment**

Shortly after President Lee’s “Low Carbon, Green Growth” policy announcement, in December 2008 South Korea established its Third National Basic Plan for New and Renewable Energy (NRE) R&D and Deployment (“Third Basic Plan”), identifying NRE development and deployment targets.

According to the Third Basic Plan, under a business - usual (“BAU”) scenario, NRE’s share of primary energy supply in the ROK was projected to account for 3.6 percent by 2015, 4.2 percent by 2020 and 5.7 percent by 2030. Under the Third Basic Plan’s targets, however, the ROK seeks to increase NRE’s overall share to 4.3 percent by 2015, 6.1 percent by 2020 and 11 percent by 2030. SEOUL, Feb. 2 (UPI) -- The South Korean government announced it has plans to set up a $72.2 million renewable energy fund to increase renewable energy infrastructure.

According to the Ministry of Knowledge Economy, the money will be used to attract private sector investments in solar, wind and hydroelectric power projects, including developing technologies and plant construction.

The government is planning 24 megawatts’ worth of new wind projects, about eight small hydroelectric plants and a marine-based bio-fuel plant, Seoul-based yon hap news agency reports. Seoul is also planning to host a large international exhibition on clean energy. The government's goal is to increase the country's energy export revenues from $1.2 billion in 2008 to $2.2 billion in 2009.
Environment Policy – An Institution set up for protection of environment

There are many environmental policies of South Korea which is listed below:

1. Green growth - Green Growth" aims to simultaneously pursue three objectives.
   a) To promote eco-friendly new growth engines for the national economy.
   b) To enhance the quality of life for the members of the society.
   c) To contribute to the international efforts to fight climate change.
2. Environmental industry - The environmental industry was defined as a "Post Treatment Industry" originally meant to deal with environmental pollutants. Since the 1990’s, recently, the role of the industry has become diversified to include manufacturing eco-friendly goods.
3. Water supply, sewerage, soil & ground water - As of December 2010, there are 164 regional waterworks suppliers (7 in metropolitan cities, 1 special self-governing province, 75 cities and 81 countries). The total length of sewage pipelines was 96,280km, as of the end of 2007, which is 73.6% of the total planned length of 130,774km of the master plan for sewerage maintenance.
4. Air & climate change – For the air & climate change the Clean Air Conservation Law in August 1990, it became possible to effectively manage business establishments which are the main sources of pollutants emission.
5. Wastage & recycling - Enforcing the Construction Waste Recycling Promotion Act, the Ministry of Environment made the institutional foundation for environmentally-friendly disposal of construction waste and recycling them as high value-added products.
6. Nature & park - In 1999, long-term comprehensive plans for researching national parks were made and they are divided to research project for preserving and managing national parks. In 2007, the Korean National Park Service conducted a research on management system of national parks' capacity and birds as well as a research on natural resources of Gayasan and Sobaeksan.
Institution set for protection of environment

The various kinds of institutions set for the protection of the environment are as follows:

**Basin Management Committee** The basin management committee is a decentralized, joint decision-making body formed to effectively manage many watersheds, and is responsible for controlling a number of local governments. The Committee thus plays a role as the nation's National Assembly for watersheds. The government's major watershed policies, the city mayor and the head of province first gather opinions of their residents and NGOs in order to present their alternatives during their discussions with the committee. If the agenda discussed at the committee has a nation-wide impact.

**Watershed Management Executing Organizations** In the past, the government assigned the central government's duties regarding training and monitoring for the industrial complexes to the local self-government bodies. Now watershed management bureaus are responsible for a watershed planning team, a financial planning team, a source water management team, and a regional co-operation team. His team is responsible for the technical part, such as water quality modelling, a basis of watershed management.

**Support System for Civilian Water Quality Monitoring Activities** In order to enhance participation of the residents and NGOs in resolving the watershed problem, the government provides financial support for the water quality conservation activities at the civilian level. This financial support is conducted via the 'Basin Management Funds'.

**Activating Publicity Groups for Environ-mental Education** MOE expanded the Environ-mental Education and Publicity Group consisting of seniors, activists, leaders and experts in environment by increasing its members from 220 to 320. This growth aimed to encourage adults who had few opportunities to get the systematic education on the environment to practice an environment-minded life and increase their awareness on the environment. MOE also undertakes publicity activities
through the MOE website (www.me.go.kr) and shares information on environmental education by holding workshops on Environmental Education and Publicity.

**Operating Vehicles for Environmental Education** MOE will design a special bus containing environmental experiment equipments as well as other environmental education tools and materials, including outstanding books and environment-related publications. This bus will be used to offer visual and audio education on environmental preservation to kindergarten children, primary and secondary school students, farmers and fishers as well as housewives and soldiers. This specially designed bus administers both mobile environmental education and on-site ecological lessons.

**Market Condition**

It includes three parameters as mentioned below:

**Labour market**

Working contracts - In Korea, the contract determines if the employee is part of the regular or non-regular staff. Permanent employees form the regular staff. Among the non-regular staff, there are different types of contract: part-time workers, temporary workers, dispatched workers, fixed-term contract workers, entrusted employees.

Cost of labour - Minimum wage - The current wage rate is 3,770 won per hour and 30,160 won per day (8-hour day). An average wage - The Average monthly gross earnings in South Korea is KRW 3,551,046 (2,800 USD).

Social contributions - Social security contributions paid by employers: - National Pension: 50% (of total sum based on 9% of the salary).

Health Insurance: 50% (of total sum based on 0.58% of the salary).

Employment Insurance: 50% (of unemployment burden 0.9% of the salary) or 100% of employment security business/occupational ability development business, which are around 0.25~0.85% of the salary.
Financial market development

The various kinds of instrument traded in different market division of South Korea are as follows:

1. KOSPI Market Division
2. KOSDAQ Market Division
3. Derivatives Market Division

Market size and development

"South Korean Food and Drinks Market: Emerging Opportunities" by RNCOS is a work of in-depth study and evaluation of the past, current, and future market trends in the Food, Beverage and Tobacco industry of South Korea. Provides detailed overview of the consumption patterns of South Koreans in various food segments, like consumption of milk, fruits, vegetables, meat etc; the beverage segment talks about the type of beverages, their sales and consumption patterns among South Koreans; and the tobacco segment provides brief description of the tobacco industry in the country.

Korea relies heavily on imported seafood. Currently, the key words for Korean consumers are well-being, health, organics and safety. This has seen a big flow on effect in seafood consumption with Korean consumers opting for seafood over red meat. Wine consumption is growing rapidly. New Zealand is not a recognised exporter of wine in Korea, but industry contacts believe this will gradually change as more New Zealand wines enter the market, along with an appropriate marketing campaign. Korea is New Zealand’s largest export market for deer velvet. There are also good opportunities for other products in the nutraceutical, health food and supplement markets. The main drivers are an ageing population, health and welfare issues and cultural factors such as use of oriental medicines.

In information and communications technology, opportunities exist for New Zealand companies in digital content, health information technology, convergence services
and telemetric, including transport and logistics. The South Korean power sector benefits from a solid economy of the country as well as a stable regulatory framework. However, instability in the region with its neighbour North Korea has proved to be a threat in the past for the country. Some see mobile advertising as closely related to online or internet advertising, though its reach is far greater - currently, most mobile advertising is targeted at mobile phones, that came estimably to a global total of 4.6 billion as of 2009. Notably computers, including desktops and laptops, are currently estimated at 1.1 billion globally.

Technology & Innovation

South Korea has one of the world’s most active telecommunications and Information Technology (IT) markets backed by strong support from the government. As well as the commitment of the government, the sector is boosted by an innovative private sector and a technologically savvy population. The government aims to transform the country into a knowledge-based information society in a ‘smart-age’. The 2010/2011 period has seen significant developments in the South Korean telecommunications market after some restructuring amongst the major operators in 2009. The South Korean Government is committed to transitioning the country to digital terrestrial, digital cable and digital satellite TV broadcasting by 2012. The pressure created by convergence had South Korea rewrite its regulatory arrangements for the broadcasting and communications sector.

The operators continue to invest heavily in fibre based broadband deployments and IPTV subscriptions have passed the 4 million mark as more content is available and the operators are able to compete more effectively with their own live broadcasts. South Korea continues to be a booming mobile market as it innovatively explores the options for value-added services. The market passed the 105% penetration rate mark in 2011 with many individuals carrying at least one mobile phone. Having launched 3G networks in 2003, this account for over 80% of all subscriptions. New investments are intended to drive revenue and gain market share and the year has seen the launch of LTE and the rapid increase in smart phone adoption.
South Korea has the world’s highest number of broadband services per capita. By mid-2011, over 35% of the population and 85% of households were broadband subscribers. FttX accounted for 55% of total subscriptions. Since 2006, Korea’s policy emphasis has been on completing a BcN with wire line speeds of 50-100Mb/s per household and 1-2Mb/s on wireless connections. The plan moving forward is for an UBcN (Ultra Broadband convergence Network) with 1Gb/s speeds on fixed lines or 10Mb/s on wireless by 2012/13.

In addition to upgrades to the backbone network a plan was established to link the public sector to a sensor network by 2012. The drive towards a ‘new economy’ has seen significant investments in Smart Infrastructure including Cloud Computing, Smart Grids and Smart Cities.

The emergence of a National Strategy for Green IT has seen government promotion of new industry creation into 2018 such as 4G broadcasts and 3D and smart television.

**Facts about South Korea**

Apart from above data collected, World Economies Forum has given ranking to economies on the basis of Competitiveness Index. The ranking for top five countries and for Korea and India are as follows:

<table>
<thead>
<tr>
<th>Economy/Country</th>
<th>GCI 2011-2012 Rank Score</th>
<th>GCI 2010-2011-Rank Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>1 5.74</td>
<td>1 0</td>
</tr>
<tr>
<td>Singapore</td>
<td>2 5.63</td>
<td>3 1</td>
</tr>
<tr>
<td>Sweden</td>
<td>3 5.61</td>
<td>2 -1</td>
</tr>
<tr>
<td>Finland</td>
<td>4 5.47</td>
<td>7 3</td>
</tr>
<tr>
<td>United states</td>
<td>5 5.43</td>
<td>4 -1</td>
</tr>
<tr>
<td>Korea</td>
<td>24 5.02</td>
<td>22 -2</td>
</tr>
<tr>
<td>India</td>
<td>56 4.3</td>
<td>51 -5</td>
</tr>
</tbody>
</table>

*Table 1.1 Global Competitiveness Index ranking 2011-2012*
<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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</thead>
<tbody>
<tr>
<td>South Korea</td>
<td>31,410.47</td>
<td>33,072.463</td>
<td>34,784.89</td>
<td>36,612.003</td>
<td>38,616.03</td>
</tr>
<tr>
<td>India</td>
<td>3608.196</td>
<td>3892.72</td>
<td>4213.95</td>
<td>4571.18</td>
<td>4965.91</td>
</tr>
<tr>
<td>Switzerland</td>
<td>42,857.76</td>
<td>43,966.293</td>
<td>45,061.85</td>
<td>46,272.467</td>
<td>47,615.82</td>
</tr>
</tbody>
</table>

Table 1.2 International monetary fund has estimated the GDP income Estimates in Dollars

Information about the company selected- LG

LG Corporation founder Koo In-Hwoi established Lak-Hui Chemical Industrial Corp. in 1947. In 1952, Lak-Hui pronounced "Lucky", (which currently LG Chemical) became the first Korean company to enter the plastics industry. As the company expanded its plastics business, it established “Gold Star Co. Ltd” (which currently LG Electronics) in 1958. Both companies Lucky and Gold star merged and formed Lucky-Gold Star. The company was originally established in 1958 as Gold Star, producing radios, tv, refrigerators, washing machines and air conditioners. LG has grown to become a global corporation. The period from 1947 through the 1950s laid the groundwork for LG’s two major business areas, electronics and chemicals. The 1960s was an era which established the foundation of LG’s key industries. In 1995, Gold Star was renamed LG electronics and acquired Zenith Electronics of the United States.

Vision

A company providing the best communication products to enrich the human experience.

Mission

1. To create value for customers.
2. To respect human dignity.
3. To become the best in its class by winning customers' acclaim as a true leader in the global market.
Key Statistics

Assets of $49.81 billion

Profits of $0.58 billion in 2011

Operations around the world in South Korea, France, United States, England, Peru, India, Vietnam, Russia, China, Spain, Indonesia and United Arab Emirates 143,000 employees. Turnover- LG Group sales in 2004-83 billions and it aims for 135 billion dollars turnover in 2011.

Organization

LG Corp. is the holding group has controlling stakes in the various business fields, i.e., the companies and subsidiaries. LG Corp. is a pure holding company and it focuses primarily on portfolio management of its investment assets. The organization functions are managed by Chairman, CEO, Management, Board of Directors and Executive Officers.

International Ranking

314th in the world according to Forbes Magazine 72nd in Fortune Global 500 list.

Recent Mergers and Acquisitions

1. 2006 - LG Chem acquired and merged with LG Daesan Petrochemical.
2. 2002 - Merger of LG Mart, LG Supercenter, and LG Department Store into LGMart Co.
3. 2000- LG-Caltex Oil Corp. merged with Hoyu Shipping.
4. Also in 2002 there was a merger of LG Electronics Inc. and LG Information & Communications, Ltd.
CHAPTER - 2

FACTORS AFFECTING THE SELECTION OF COUNTRY
SWOT Analysis of the country selected – South Korea

Strengths

1. South Korea is the world’s largest ship builder producing 34.2 percent of all new ships produced in 2004.

2. The global shipbuilding industry is currently dominated by South Korea, which is by far the world's largest shipbuilding nation in terms of tonnage and number of vessels built, in spite of high labor cost, producing more ships than the entire world output combined in 2008.

3. This is largely due to its highly advanced shipbuilding technology and high productivity and efficiency of its shipyards.

4. South Korea's "big three" shipbuilders, Hyundai Heavy Industries, Samsung Heavy Industries and Daewoo Shipbuilding & Marine Engineering, dominate global shipbuilding, with STX Shipbuilding, Hyundai Samho Heavy Industries, Hanjin Heavy Industries and Sungdong Shipbuilding & Marine Engineering also ranking among the top ten shipbuilders in the world.

5. In 2007, STX Shipbuilding acquired Aker Yards, the largest shipbuilding group in Europe, renaming the company to STX Europe in 2008, further strengthening South Korea's dominant position in the industry.

Figure 2.1 Korea’s shipbuilding
Weaknesses

1. **Presidential Pardons for Executives**
   1.1 The South Korean president uses the power to pardon individuals, originally intended for miscarriages of justice, to release executive and other highly rich and powerful individuals.
   1.2 These pardons are suspect, because they disproportionately benefit executives who commit crimes versus the general population who may actually have a grievance.
   1.3 The pardon’s are viewed as politically motivated. They also set precedence for powerful criminals to ignore laws.

2. **Conflicts and Disputes**
   2.1 North and South Korea have diplomatic and military issues between the two.
   2.2 "High-level military talks between North and South Korea have broken down after the two sides failed to make progress on a long-running border dispute: the chief North Korean delegate said his side walked out of the talks after concluding that they were "fruitless".
   2.3 North Korea wants the sea border to the west of the Korean Peninsula to be redrawn further south. The area lies in rich fishing grounds and has been the scene of bloody naval clashes in the past.
   2.4 Turmoil between countries can lead to many problems, such as war and a disintegration of economic cooperation. These hurt both economies and increase risk factors to any companies, which rely on Korea for business.

3. **Bank Cross Holdings**
   3.1 Banks in many countries purchase share of countries in their home territory to speculate on share prices or to establish a stronger relationship with a client. These relationships are beneficial to the bank when share prices rise, but can hurt a bank when shares prices fall.
   3.2 Banks profit by lending money and an economy relies on bank lending to function. A decrease in bank lending is a restriction on the money flowing
through the economy, therefore, the economy decreases, because there is less money.

3.3 If the economy decreases, then generally, stock prices also decrease. When banks hold shares in other companies when those shares become less valuable, then banks have less money to lend, which further restricts the economy and causes share prices to decrease further.

3.4 When banks hold shares in other companies during an economic recession, it causes the banks to restrict lending (because of shares decreases) just when the economy needs lending the most.

3.5 Many developed countries restrict share holdings by bank.

Opportunities

1. Instant Translation of Web Pages
   1.1 The ability to translate web pages quickly and accurately may lead to a break down in the language barriers that separate commerce and social interaction between countries.
   1.2 Rapidly evolving technology is leading the way for computers that "learn" by analyzing documents that have been translated by humans.
   1.3 The possibility of instantly translating a web page, document or blogs may also become reality.
   1.4 Google is experimenting with a machine based translation service and is able to convey the general idea of the text.
   1.5 The ability to instantly and accurately translate written text from one language to another would greatly improve the productivity of the world.

2. Government Backing of Nuclear Industry
   2.1 South Korea is leading the way in terms of their government backing the state sponsored nuclear industry. A Korean consortium consisting of Dooson, Hyundai and Samsung operate South Korea’s 20 or so nuclear reactors, according to the Economist.
   2.2 They offer a complete nuclear package that includes, building the plants, running the plants and finding fuel for them all at a fixed price.
   2.3 This pack is helping them to win contracts, which included a $40 billion contact in the UAE.
2.4 The additional money will increase revenue and profits for the companies involved, while also increasing the Korean currency as demand for their countries services increases.

Threats

1. North Korea
   1.1 North and South Korea have never signed a formal peace treaty and thus are still officially at war; only a ceasefire was declared.
   1.2 South Korea's government came to be dominated by its military and a relative peace was punctuated by border skirmishes and assassination attempts.
   1.3 The North failed in several assassination attempts on South Korean leaders, most notably in 1968, 1974 and 1983; tunnels were frequently found under the DMZ and war nearly broke out over the axe murder incident at Panmunjeom in 1976.
   1.4 In 1973, extremely secret, high-level contacts began to be conducted through the offices of the Red Cross, but ended after the Panmunjeom incident with little progress having been made and the idea that the two Koreas would join international organization separately.
   1.5 In the late 1990s, with the South having transitioned to democracy, the success of the Nordpolitik policy, and power in the North having been taken up by Kim Il-sung's son Kim Jong-il, the two nations began to engage publicly for the first time, with the South declaring its Sunshine Policy.
   1.6 Tension with North Korea threaten lives and slowing down economic growth, because the risk of war makes capital more expensive."

2. Teenagers Addicted to Technology
   2.1 Korea has begun to experience problems with their teenager groups due to increase in cell phone technology.
   2.2 The average Korean school student between the age of nine and nineteen sends more than a 100 SMS text messages a day, causing them to perform poorly in school.
2.3 The wide use of cell phones in this country has caused a massive strain on the historic culture of South Koreans.

2.4 South Korean teenagers have been sucked into the world of their cell phones forgoing visual conversations with fellow teens for picture and text messages.

**SWOT Analysis of the country selected – South Korea**

![Figure 2.2 Logo of the company](image)

**Strengths**

1. LG is a manufacturer of electronic appliances, home entertainment products, communication devices and electronic components.
2. The company manufactures a wide range of products ranging from color monitors to LCD products to home appliances.
3. The company also manufactures wireless handsets and telecommunication infrastructure systems.
4. A diversified operation enables the company to take advantage of opportunities within specific markets and geographies, and at the same time protects it from segment specific setbacks.
5. The company's business is also geographically diversified, with the largest geographic segment, Europe. Other geographic divisions includes North America, Domestic (Korea), China, Asia, Central and South America.
6. LG has strong research and development (R&D) capabilities. LG is committed to invest in R&D to create products with the latest technology and style. The
company's strong focus on R&D has enabled it to come out with innovative products.

7. LG try to keep products innovative to attract the customers and to capture more market share.

8. LG is a global leader in the home appliance industry, dedicated to enhancing consumer lifestyles through its stylish, advanced products. Innovative digital appliances from steam washing machines to refrigerators with built-in Internet and TV illustrate LG's commitment to digital convergence. (In the last four years, LG has remained the market leader in the home-appliances segment worth Rs 14000 crore.

9. Korean consumer durables manufacturer LG is eyeing a 33% market share in home appliances and Rs.6, 100 crore revenue (from India) by the end of this year.

10. LG Electronics provides a wide range of support services to its customers ranging from software updates to manuals which contain valuable information and instructions about the LG products. The service centers of LG are available all over the world.

11. Government support of electronics includes substantial tax benefits for R&D and product testing, plant improvement or facility construction, and manpower development. Support has also included considerable direct funding of projects in line with national priorities. Government support is now turning to new priorities such as information technologies and startup of a domestic semiconductor equipment industry.

12. Wide range of product categories to tap the consumer of middle class, upper middle class and high class.

13. LG, having the widest distribution network in the industry (47 branches, 175 area offices and over 10,000 trade partners)

14. LG is a multinational company and a recognized brand around the world. It has successful established not only in developed countries but also in developing countries.

15. LG products are reliable, easy to use, and have simple designs which satisfy customers that's why LG have the advantage of having loyal customers.

16. LG is at its growing stage and its growing quickly.
Weaknesses

1. Samsung being its competitor provides similar products. Consumers compare L.G with Samsung its Korean rival not with other global companies.
2. Lack of expert operators for complex machines due to illiteracy and lack of training in India.
3. The big weakness of LG is that it has very few competent employees mostly are not skilled and also there is no training and development concern for employees.

Opportunities

1. Fast growth of the home appliances market shifting to rural areas. When LG entered India in the mid-1990s, numerous brands were vying for shelf space with hardly anything to distinguish them from competitors. The South Korean company developed two color television sets for the rural market, Sampoorna (which means "complete" in Hindi) and Cine Plus. At US$65 and US$107 respectively, the sets were priced slightly higher than the black-and-white televisions that other manufacturers were selling in rural markets and that had become obsolete in urban homes. LG was also the first to offer gaming with its cut-price TVs and menus in English and Hindi. Now LG has refrigerators, washing machines and microwave ovens targeted at price-sensitive consumers sold from hundreds of retail and distributor outlets across the hinterland, with rural markets contributing 40% of its revenue.
2. Control over the white goods market, as we know highest market share in home appliance market.
3. Home appliances market is growing very fast, so there is an opportunity for LG to launch new products.
4. LG offers opportunities for fast growth to talented individuals and technical experts in offices and hubs around the world.
5. The electronic market is expanding rapidly which is a great opportunity for LG to expand itself in new market and to capture more market share. It also can expand its target market geographically and socially both by introducing new products in existing market and existing products in new markets.
6. Through the innovation in existing products it can attract more customers because at present it is behind the market leadership so to become a leader it has to make innovations to attract potential buyers and retain existing customers.

Threats

1. The closest competitors Samsung is also from South Korea and consumer compare LG products with Samsung product.
2. Price war with its closest competitors, Samsung.
3. Even as LG is slipping, its South Korean rival Samsung is rising. The company has revamped its strategy and doubled the sales network to work more closely with dealers. For years now, LG has been betting on innovations for its share gains. But even that's not an exclusive domain anymore. Samsung and Whirlpool have launched dozens of technologically-advanced products from their global portfolio this year.
4. Competitions from Indian brand and from new entrants.
5. As the competitors of LG are more dominant in the market and continuously improving their products so they can take away the existing customers of LG, so it has to work very hard to retain and attract customers.

PEST Analysis of South Korea

Political

1. The South Korean political system is classified into 3 categories:
   1.1 Executive
   1.2 Judicial
   1.3 Legislative
2. Member of WTO resulting to uncomplicated market structure.
3. Increasing growth for industry and foreign venture into South Korea especially in IT since 1997.
4. Restriction of foreign investment to venture in South Korea.
5. Members of Bilateral & Multilateral trade organizations such as WTO, APEC & OCED.
6. Constraints: market entry with Lobster Hatchery

**Economical**

1. South Korea’s economy boosted since 1997 Asian Financial Crisis.
2. Increase in per capita income
3. Increase in spending power
4. Famous for being one of the leading technology based product exporting country in the world.
5. Specialization in science and technology resulting to rapid economic growth.
7. Only 4% is contributed to total GDP due scarcity of arable lands and heavy industrialization.
8. The agriculture’s contribution is due to lack of labour force.

**Socio-cultural**

1. Age structure of South Korean population show Greater presence of the Younger Generation aged between 15-65 years (i.e. median age of 36.7 years)
2. Most of younger generation falls under working class category.
3. More liberal and westernized lifestyle.

**Technological**

1. Improvement in technology made the electronic product cheaper.
2. Quality of product has been improved.

**Effects of PEST analysis on LG**

1. LG faces significant political risks in the countries where it operates though in the majority of the countries, the political situation is conducive for the operation of the country.
2. The political climate in South Korea has become a worrying factor for LG and the country faces political instability at home.
3. LG certainly follows good strategies in the markets it operates based on the economic size and the strength of the consumers.
4. The company enters markets where the business cycle for the products that it sells is in the initial stages unlike the developed countries.

5. This strategy of entering countries where the products find a ready-made market has indeed paid off.

6. LG has managed to integrate itself well in the emerging markets where it does business.

7. Strike a balance between the aspiration values of the consumer classes and the levels of income that they possess.

8. Improvement in technology made the electronic product cheaper.

9. Quality of product has been increased.


11. The company’s innovation drive is its biggest strength.

Economics indicator

GDP

1. GDP (Current Prices, National Currency) for Korea is KRW 1,164,250.38 Billion. In 2009, it was KRW 1,063,059.10 Billion.

2. In 2010, it was or will be 9.52% more than it was or will be in 2009. In the following or forecasted year, 2011, it was or will be KRW 1,262,991.75 Billion, which is 8.48% more than the 2010.

3. GDP (Current Prices, US Dollars) for Korea in year 2010 is US$ 1,007.08 Billion.

4. Values are based upon GDP in national currency and the exchange rate projections provided by country economists for the group of other emerging market and developing countries.
1. This entry gives the gross domestic product (GDP) or value of all final goods and services produced within a nation in a given year.

2. A nation's GDP at purchasing power parity (PPP) exchange rates is the sum value of all goods and services produced in the country valued at prices prevailing in the United States.

3. This is the measure most economists prefer when looking at per-capita welfare and when comparing living conditions or use of resources across countries.

4. The measure is difficult to compute, as a US dollar value has to be assigned to all goods and services in the country regardless of whether these goods and services have a direct equivalent in the United States (for example, the value of an ox-cart or non-US military equipment); as a result, PPP estimates for some countries are based on a small and sometimes different set of goods and services.

5. South Korea has achieved an incredible record of growth and integration into the high-tech modern global economy.

**Figures 2.3: GDP (Current Prices, US Dollars) for Korea in year 2010**

**GDP (PPP)**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>GDP</th>
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</thead>
<tbody>
<tr>
<td>2000</td>
<td>533.385</td>
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<td>2001</td>
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<tr>
<td>2009</td>
<td>832.512</td>
</tr>
<tr>
<td>2010</td>
<td>1007.084</td>
</tr>
</tbody>
</table>
6. In 2004, South Korea has joined the trillion-dollar club of world economies. The country's economy is largely dependent upon the fuel exports.

7. Both services sector as well as industrial sector is important in the economy.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>GDP (PPP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>775.7</td>
</tr>
<tr>
<td>2001</td>
<td>824.4</td>
</tr>
<tr>
<td>2002</td>
<td>897.6</td>
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<tr>
<td>2003</td>
<td>942.6</td>
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<tr>
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<td>2010</td>
<td>1459</td>
</tr>
<tr>
<td>2011</td>
<td>1541</td>
</tr>
</tbody>
</table>

Figure 2.4: Services constitute share in the GDP

Electricity Consumption

It consists of total electricity generated annually plus imports and minus exports, expressed in kilowatt-hours. The discrepancy between the amount of electricity generated and/or imported and the amount consumed and/or exported is accounted for as loss in transmission and distribution.

1. Electricity - production: 417 billion kWh (2009 est.)
2. Electricity - consumption: 402 billion kWh (2009 est.)
Figure 2.5 Percentages for Annual Electricity Generation

Unemployment Rates

The unemployment rates contain the percent of the labour force that is without jobs. Substantial underemployment might be noted.

1. Unemployment Rate (% of Labour Force) for Korea in year 2010 is 3.725 %.
2. Employment for Korea in year 2010 is 23.829 Million.
Inflation Rates

1. The inflation rate furnishes the annual percent change in consumer prices compared with the previous year's consumer prices.
2. Inflation (End of Year Change %) for Korea in year 2010 is 3.515 %.
3. This makes Korea No. 105 in world rankings according to Inflation (End of Year Change %) in year 2010. The world's average Inflation (End of Year Change %) value is 5.51 %; Korea is 2.00 less than the average.
4. In the previous year, 2009, Inflation (End of Year Change %) for Korea was 2.80 % Inflation (End of Year Change %) for Korea in 2010 was or will be 25.54% more than it was or will be in 2009.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>INFLATION RATE</th>
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<tr>
<td>1999</td>
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<td>2000</td>
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<tr>
<td>2002</td>
<td>2.8</td>
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<td>2009</td>
<td>2.8</td>
</tr>
<tr>
<td>2010</td>
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</tr>
</tbody>
</table>

Figure 2.7 Percentages of inflation rates

Life Expectancy Rate
This entry contains the average number of years to be lived by a group of people born in the same year, if mortality at each age remains constant in the future. The entry includes total population as well as the male and female components. Life expectancy at birth is also a measure of overall quality of life in a country and summarizes the mortality at all ages. It can also be thought of as indicating the potential return on investment in human capital and is necessary for the calculation of various actuarial measures.

<table>
<thead>
<tr>
<th>YEAR</th>
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<tr>
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<tr>
<td>2009</td>
<td>78.72</td>
</tr>
<tr>
<td>2010</td>
<td>78.81</td>
</tr>
</tbody>
</table>

Figure 2.8 percentages for life expectancy rate

Labour Force

1. The labour force; total in South Korea was reported at 24418072.54 in 2008, according to the World Bank.

2. Total labour force comprises people ages 15 and older who meet the International Labour Organization definition of the economically active population: all people who supply labour for the production of goods and services during a specified period.

3. It includes both the employed and the unemployed. While national practices vary in the treatment of such groups as the armed forces and seasonal or
part-time workers, in general the labour force includes the armed forces, the unemployed and first-time job-seekers, but excludes homemakers and other unpaid caregivers and workers in the informal sector.

4. Since the 1960s, South Korea has achieved an incredible record of growth and integration into the high-tech modern world economy. An extremely competitive education system and a highly skilled and motivated workforce are two key factors driving this knowledge economy.

5. In recent years, Korea's economy moved away from the centrally planned, government-directed investment model toward a more market-oriented one. Economists are concerned that South Korea's economic growth potential has fallen because of a rapidly aging population and structural problems that are becoming increasingly apparent.

![Figure 2.9 labour force in South Korea](image)

**Employment to population**

1. The Employment to population ratio; ages 15-24; total (%) in South Korea was reported at 27.70 in 2008, according to the World Bank.
2. Employment to population ratio is the proportion of a country's population that is employed. Ages 15-24 are generally considered the youth population.
Literacy rate of South Korea

1. Korean society historically has prized learning and the well educated, yet education was not widely available to all until after the Korean War.
2. As late as 1945, less than 20 percent of Koreans had received formal education of any kind.
3. The modern education system is based on a 1968 charter that identifies education as an important aspect of citizenship and defines the government’s role in providing all Korean children with access to education.
4. South Korea has compulsory education through the ninth grade, with 95 percent of school-age children attending high school.
5. Approximately 25 percent of all high-school students attend one of 350 public and private postsecondary institutions, the most prestigious of which are Seoul National, Yonsei, Koryo, and Ewha universities.
6. Many observers regard students as the “national conscience” of South Korea, especially given their important role in democratic reform movements since 1960. The literacy rate is 98 percent.

Findings
1. Forecasted year, 2011, GDP (current prices, national currency) for Korea was or will be KRW 1,262,991.75 billion, which is 8.48% more than the 2010 figure.

2. Unemployment rate in south Korea was last reported at 3 percent in august of 2011.

3. South Korea’s unemployment rate averaged 3.75 percent reaching an historical high of 7.10 percent in June of 1999 and a record low of 3.00 percent in September of 2002.

4. Korea stands at no. 105 in world rankings according to inflation (end of year change %) in year 2010. The world's average inflation (end of year change %) value is 5.51 %; Korea is 2.00 less than the average.

5. South Korea has achieved an incredible record of growth and integration into the high-tech modern global economy.

6. South Korea’s economic growth potential has fallen because of a rapidly aging population and structural problems that are becoming increasingly apparent.

Suggestions

1. LG is a multinational company and a recognized brand around the world. Therefore it is their top priority to maintain the goodwill by providing more than just satisfying the consumer’s need.

2. LG products are reliable, easy to use, and have simple designs which satisfy customers that’s why LG have the advantage of having loyal customers.

3. Through the innovation in existing products it can attract more customers. Therefore constant focus on R & D is necessary for more innovative features in new as well as in existing products.

4. Since the political condition is instable, LG should conduct their business with at most care.
5. Good business strategies would help to operate its business in a better way since the economic condition of South Korea is quite feasible for better performance of the company.

6. LG needs to concentrate on training as well as motivational aspect of the employee as it has very few competent employees which is their biggest weakness.

7. Since LG is slipping its market holding to its rival SAMSUNG, the corporation should come up with better strategy as well as strong sales network in order to gain more dominating position compared to its rivals.
CHAPTER – 3

OPERATIONS MANAGEMENT OF THE COMPANY
Global Business Strategy of LG Electronics

LG Electronics has created seven Strategic Business Zones worldwide.

1. North America Region
2. South & Central America Region
3. Europe Region
4. Middle East & Africa Region
5. China Region
6. Asian Region
7. Korea Region

Marketing Background of LG Electronics

Based in South Korea, LG Electronics (LGE) had a global turnover of US$ 29.9 billion in 2003. LGE has 50 affiliated companies across the globe, with 300 offices and presence in 120 countries.

With over 64,000 employees, it focuses on four main businesses - Electronics and Telecommunications Services, Finance and Chemicals. LGE has 20 R&D centres worldwide and has subsidiaries in 76 countries. Established in 1997, LG Electronics India (LGEI) is a wholly-owned subsidiary of LG Electronics.

South Korea. It is one of the leading companies in consumer electronics, home appliances and computer peripherals in India. It has a turnover of almost US$ 1000 million in India. LGEI’s sales are increasing with a CAGR of 40 per cent over the past five years.

LG is the market leader in various segments like colour TVs, microwave ovens, frost-free refrigerators, washing machines and air-conditioners, with market shares of 26.2 per cent, 41.2 percent, 37.9 per cent, 34.1 per cent and 34 per cent respectively. LG Electronics India received the Occupational Health & Safety Management System OHSAS 18001:1999 certification from the British Standards Institution (BSI), India, for a systematic approach towards Occupational Health and Safety Management System. LGEI exported goods and services worth US$ 40
million in 2003. The major export markets for LGEI are the Middle East, West Africa and Central Asia.

**Introduction of Marketing**

In the decades of 50’s marketing was a far simpler subject. Consumer marketing largely operated on mass of marketing principle & business-marketing principle concerned itself will how to build the sales force. In those days, marketers faced a number of tough decisions. They have to determine products features & quality, establishes accompanying services set the price, determine the distribution channel. Many managers think of marketing as a company department whose job is to analyze the market, discern opportunities, formulate marketing strategies, develop specific strategies & tactics, propose a Budget & establish a set of control. But there is more to marketing: marketing must also push the rest of the company to be customer oriented & market driven.

Marketing is more than a company department; it is an orderly & insightful process for thinking about and planning for market. The process is applicable to more than just goods & services. Anything can be marketed – ideas, events, organizations, places, personalities. The process is being with researching the relevant marketplace to understand its dynamics and to identify opportunities to meet existing or latent needs. It involves segmenting. The marketing & those segments that the company can satisfy in a superior way. It involves carrying out a plan, evaluating the results & making further improvements.

**Marketing Management in LG electronics**

Basically as far as marketing strategy of LG, it is focused in innovation in electronics consumer products and provides best quality experience at competitive rate.

**Marketing challenges in India confronted by LG**

The challenges faced by LG when it entered the market in 1995 were as followed:

1. Low brand awareness about LG in India.
2. One of the last MNCs to enter India. (Samsung, Sony & Panasonic entered in 1995 & LG in 1997.)
3. High import duty.
4. Competition from local players and other multinational companies in the consumer electronics segment
5. Price sensitiveness of Indian consumers.

LG EI has overcome these challenges to emerge as one of the prominent brands in the Indian consumer electronics and home appliances market by leveraging the success factors mentioned below.

**Marketing Factors for success for LG Electronics**

1. **Innovative marketing strategies**
   1.1 Launch of new technologies in consumer electronics and home appliances.
   1.2 LG was the first brand to enter cricket in a big way, by sponsoring the 1999 World Cup, and followed it up in 2003 as well.
   1.3 LG brought in four captains of the Indian cricket team to endorse its products. LG invested more than USS 8 million on advertising and marketing in this sport.
   1.4 LG has differentiated its products using technology and health benefits. The CTV range has ‘Golden Eye’ technology, air-conditioners have the ‘Health Air System’ and microwave ovens have the ‘Health Wave System’.

2. **Local and efficient manufacturing to reduce cost**
   2.1 To overcome high import duties, LG manufactures PC monitors and refrigerators in India at its manufacturing facility at Noida, Delhi. LGEIL had already commissioned contract manufacturing at Mohali, Kolkata and Bhopal for CTVs. This has helped LGEI to reduce costs.
   2.2 LGEIL is implementing a “digital manufacturing system” (DMS) as a cost-cutting innovation. This system is a follow-up to the Six Sigma exercise LGEIL had initiated earlier.

3. **Product localization**
   3.1 LG came out with Hindi and regional language menus on its TV.
   3.2 Introduced the low-priced “Cineplus” and “Sampoorna” range for the rural markets.
3.3 LG was the first brand to introduce gaming in CTVs. In continuation of its association with cricket, LG introduced the cricket game in CTVs.

### 4. Regional channel strategy and wide distribution network

4.1 LG has adopted the regional distribution model in India. All the distributors work directly with the company. This has resulted in quicker rotation of stocks, and better penetration into the B, C, and D class markets.

4.2 LG also follows the strategy of stock rotation, rather than dumping stocks on channel partners. LG has over 46 branch offices and another 110 area offices across the country. LG had set a target of developing 2,000 dealers in 2004, in addition to the existing 3,000 dealers all over India.

### 5. R&D potential

5.1 LG has set up research and development facilities in India at Bangalore and is in the process of setting up another at Pune. Both the units carry out R&D work for the domestic market as well as for the parent company. It also does customized R&D for specific countries to which it exports products.

5.2 Future plans of LG Electronics in India are to become market leader in all electronics consumables products. LG has a positive perception of India and the Indian consumer. LG is making a foray into the e-commerce market in India and has partnered with various local websites like fabmall.com, rediff.com, indiatimes.com, and indiaplaza.com. LG is also planning to invest over US$ 208 million in India over the next three years to expand the business. Mobile software development is also on LG’s agenda.

### LG Electronics: marketing policies

Marketing activities should be carried out under well – through – out philosophy of efficient, effective, & socially responsible marketing. However, there are five competing concepts under which organizations should conduct marketing activities as shown below.

1. Production concept
2. Product concept
3. Selling concept
4. Marketing concept
5. Societal marketing concept.

1. The Production Concept
The production concept holds that customers will prefer products that are widely available inexpensive. In LG electronics, managers of production based business concentrate on achieving high production efficiency, low cost, & mass distribution. They assume that consumers are primarily interested in product availability and low prices. It is used very effectively so a company expand the market. This orientation makes sense in developing countries, where consumers are more interested in obtaining the product than in its feature.

2. The Product Concept
The product concept holds that consumers will prefer those products that offer the most quality, performance, or innovative features. In LG electronics, managers in LG organizations focus on making superior products & improving them over time. They assume that buyers admire well-made products and can appraise quality and performance. However, these managers are sometimes caught up in a love affair with their product and do not realize what the market needs.

3. The Selling Concept
The selling concept holds that consumers and businesses, if left alone, will ordinarily not buy enough of the organization’s products. The organization must therefore, undertake an aggressive selling and promotion effort. In LG Electronics, this concept assumes that consumers typically show buying inertia or resistance & must be coaxed into buying. It also assumes that the company as a whole battery of effective selling & promotion tools to stimulate more buying. Most firms practice the selling concept when they have over capacity. Their aim is to sell what they make rather than make what the market wants.

4. The Marketing Concept
The marketing concept is a business philosophy that challenges the three- business orientation. In LG Electronics, the marketing concept holds that the key to achieving its organizational goals consists of the company being more effective than
competitors in creating, delivering & communicating customer value to its chosen target market.

The marketing concept has been expressed in many colourful ways mentioned below:

1. “Meeting needs carefully”
2. “Putting people first” (British Airways)
3. “Partners for profits” (Milliken & company)

In LG Electronics, the marketing concept rests on four pillars: target market, customer needs, integrated marketing, and profitability.

5. **LG strongly believe upon “The Societal marketing concept”**

The societal marketing concept holds that the organization’s task is to determine the needs, wants & interests of the target market & to deliver the desired satisfaction more effectively & efficiently than competitors in a way that preserves & enhances the consumer’s & the society well being.

The societal marketing concept calls upon the marketers to build social & ethical consideration into their marketing practices. They must balance & juggle the often-conflicting criteria of company profit, consumer want satisfaction, and public interest.

Yet a number of companies have achieved notable sales & profit gains by adopting & practicing the societal marketing concept. We can say with some confidence that “the marketplace isn’t what it used to be.” It is changing radically as a result of major societal force such as technological advancement, globalization, and deregulation. Customers increasingly expect higher quality & service & some customization. They perceive fewer real product differences and show less brand loyalty. They are showing greater price sensitivity in their search for value. Brand manufactures are facing intense competition from domestic & foreign brand, which is resulting in rising promotion cost & shrinking the profit margin. Store-based retailers are suffering from an over saturation of retailing. They are facing growing competition from catalogue houses; direct-mail firms, newspapers, magazine & TV direct customer to ads & the Internet. They are marketing an “experience” rather than a product assortment.
In LG Electronics, the marketing policies are based on the factors of 4p's explained below.

**Marketing Mix**

“Marketing mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market.” McCarthy classified these tools into four broad groups called 4P’s of marketing: Product, Price, Place, & Promotion. These marketing variables are shown in the following figure:

1. **P—‘PRODUCT’**

Product is a key element in the market offering. Marketing mix planning begins with formulating to meet target customer’s need & wants. The customer will judge the offering by three basic elements- features & quality, services mix & quality & price appropriateness. ‘A product is anything that can be offered to a market to satisfy the wants or needs of the consumers.’ Products that are marketed include physical goods, services, events, experience, persons, place, properties, organizations, information’s & ideas.

LG Electronics believe that a firm is not selling a product. It sells only the ‘product benefit’. Product is most important variable in the marketing mix of the firm. If the product is sound & easily acceptable to the market if it satisfies reseller’s need & consumer preference & is carefully fitted to the needs & desires of the customers, sales success is assured. Hence ‘product’ is the center of all-marketing policies & decisions. The marketing planning begins with the product & also ends with the product. Products of LG Electronics are listed below.

1.1 Air conditioners
1.2 Audio/Video/Home Theatre
1.3 Mobile
1.4 IT Products
1.5 Television
1.6 Refrigerator
1.7 Washing Machine
1.8 Microwave Oven
2. P- ‘PRICE

Sales are only income for any business concern. But price is the main factor, which affects the sale of the market. If the price is high, few buyers purchase and if the price is low many buyers purchase. Therefore a sound pricing policy must be adopted to have maximum sale revenue. Moreover, it is only through proper pricing policy the already laid down marketing objective and corporate goals could be achieved. Price is the exchange value of a product or service always expressed in terms of money. In other words, price of a product or service is what the seller feels it’s worth on term of money, when offered to a buyer.

To the customer, the price is an agreement between seller & buyer concerning what each is to receive. The buyer is interested in the ‘price’ of the whole ‘package’ consisting of physical product plus a bundle of expectation and satisfaction. The consumer has numerous expectations such as after sale service, replacement of parts, technical guidance & money other benefits. However, to the seller, price is a source of revenue and a main determinant of profit. To the seller, price is equivalent to the total product offering. In LG Electronics, this offering includes a brand name, a package, product benefits, after sale service and so on. We can define price as the “money of the product or service agreed upon in a market transaction”.

LG believes about Price in money = physical product + bundle of expectations

The pricing adopted by LG Electronics India Pvt. Ltd. Can describe under this sub head:

Competitive pricing- LG Electronics India Pvt. Ltd. adopted the method of pricing called competitive pricing for their products. Under this policy, the price of LG is fixed according to the price of other competitor brand of the market & the price moves accordingly.

3.P – ‘PROMOTION’

Promotion is the process of making communication involving information, persuasion
and influence. Promotion has three specific purposes. It communicates marketing information to the customers, users & retailers. Promotion persuades and convinces the buyer & enters into this consumer behaviour. Promotional efforts act as powerful tools of competition providing of cutting edge of its entire marketing programmed.

In LG Electronics, promotion has been defined as “the coordinated self initiated effort to establish channel of information & persuasion to facilitate or faster the sale of goods or services, or the acceptance of ideas of points of view.” It is a non-price competition. In LG Electronics, promotion broadly speaking, promotion means to push forward or to advance ideas in such a way as to gain its acceptance & approval. It is an effort by the marketer to inform and persuade buyer to accept, resell, recommend, or use the article, services or ideas, which is being promoted. The promotional activity always attempts to affect knowledge, attitude, preferences & behaviour of recipient, i.e. buyers. The element of persuasion to accept ideas, products, services etc., is the heart of promotion. The market must communicate to his prospective buyer & provide them adequate information in a persuasive language. People must know that the right product is available at the right place & at the right price. This is the job of promotion in marketing. In essence, promotion is the spark plug in our marketing mix. It is said that:

In LG Electronics, the communication & promotion mix includes some promotional ingredients listed below:

3.1 Sales promotion
3.2 Advertising & Publicity
3.3 Personal selling
3.4 Trade Fairs & Exhibitions
3.5 Demonstration

3.1 Sales promotion
Sales promotion is an important instrument in marketing to lubricate the marketing efforts. Today, sales promotion is a necessity & not a luxury. It is not expenditure, it is an investment, which can pay a rich dividends. It is an integral part of marketing effort. “In a specific sense, sales promotion includes those sales activities that
supplement both personal selling & advertising & coordinated them and help to make them effective such as displays, shows and expositions, demonstration and other nonrecurring selling effort not in a ordinary routine.

Company plans to follow two kinds of promotional tool for their products. They are:

(a) Dealers promotion

(b) Customers promotion

(a) Dealers promotion

To make a proper channel of distribution & to increase the market share of the company, corporate plans to promote their dealer or retailers through the various promotional strategies. Under which they provide a price off, a straight discount off the list price. The offer encourages retailers as well as distributors to buy a quantity or carry a new item. As it is company provide allowances to the distributors for the carrying out of the company’s brand. An advertising allowance compensates retailers for advertising the company’s products. Company also provides free goods to the distributors as the offer for taking up extra goods or for carrying new products. In the extra company plans to organize the industrial associations in the form of trade fairs & conventions o stimulate the sale result of their intermediaries.

(b) Customers promotion

Due to the proper attention towards the channel of intermediaries, company is not able to give proper attention towards consumer’s promotion but they arrange whole the method of local promotion for the awareness of the local customers. As it is they also provides demonstration & gifts to the customers shortly by which products of the company are able to create a spec in the customer’s mind.


3.2 Advertising & Publicity

The modern age is an era of competition. To withstand competition manufactures have to think of new & unfamiliar uses for their products or they have to find out new buyers for their products. The patent medicine people were the first to prove what advertisement could do. They sold “Life ka naksa badal de.” “Advertisement is the art of influencing human action’ the awakening for the desire to possess & possess your product.” “Advertisement consists of all the activities in presenting a group a non-personal, oral or visual, openly sponsored message regarding a product, services or idea.” Advertising with the reference of LG Electronics India Pvt. Ltd. At present time the chairman of LG Electronics India Pvt. Ltd. give attention to make proper distribution channel for their products. It is the company’s policy that firstly they make proper distribution channel for their products by which any customer either he/she will be belongs to rural area or belongs to urban area got the product easily. After to make proper distribution channel corporate plans to come through the media, because advertisement on media requires heavy investment.

As far as advertisement is concerned LG Electronics India Pvt. Ltd. provides claim to their respective stockiest of the different districts of the state for the local awareness / promotion as per required by the stockiest of the districts. Local promotion includes Banners, Holdings, and Cable TV. Ad. Installing, Trade fairs, Sponsorship etc. for the awareness of their products to the local customers. Because of the company doesn’t come through the media in present time i.e. why company bears all the expanses for the local promotion as required by the distributors? It is true, that it is not sufficient in today’s high competitive marketing scenario, but after the attainment of the proper distribution channel company definitely come through the media which is a powerful source of demand generation in today’s tough marketing scenario & it is definitely provides a strong consumer pull to the new products of the LG Electronics India Pvt. Ltd.

3.3 Personal Selling

A salesman is one who practices the profession of selling. One can learn a lot about selling and salesmanship just by thinking about definition of personal selling. LG
Electronics marketing dept. defined salesmanship as ‘the process of including and assisting a prospective buyer to buy a commodity or service or to act favourably upon an idea that has commercial significance to the seller.’ Selling as ‘the process affecting the transfer, with a profit to buyer & seller, of goods & services that gives such last satisfaction that the buyer is predispose to come back to seller for more of the same.

Personal selling refers to oral presentation in conversation or more prospective customers for the purpose of making sales. Personal selling involves two-way communication, “a well defined problem is half solved.” Due to seller buyer interaction, personal selling alone can provide immediate feedback of information, which enables salesman to understand properly the buyer’s mind, his problems, his needs & his preferences.

**Personal selling with the reference of LG Electronics India Pvt. Ltd.**

As far as the LG Electronics India Pvt. Ltd. is concerned corporate plans the effective medium of personal selling for their products. They provide full support to the salesman for selling their products. Effective communication & facilities motivate salesman to make a good relationship with the customers. Corporate actually knows the importance of the phenomenon of the personal selling i.e. why they tries to implement the ‘A-I-D-A-S’ formula of personal selling. The brief description of this formula is as follows:

A: - Attention – The ‘Attention’ of the customer.
I: - Interest -- Create an ‘Interest’.
D: - Desire-- Ignite the ‘Desire’ of the customer.
A: - Action -- Gaining an order.
S: - Satisfaction – Customer ‘Satisfaction’.

**3.4 Trade Fairs & Exhibitions**

LG Electronics regularly participating at global level for trade fares and exhibitions are the oldest forms of sales promotions. Trade fairs and exhibitions provide companies with the opportunities of introducing and displaying their products. This brings company’s product and consumers in direct contact. “Seeing believes” is the
essence and basic concept of large-scale exhibitions and trade fairs.

3.5 Demonstration

Demonstration is those tools of sales promotion, which are used for all the three levels of sales promotions. Viz., consumer level, trade level & sales force level. Companies reset to product demonstrations when it comes up with a new product. Following are different forms of demonstration:

3.5.1 Demonstration of LG Products in prime phase of counter at retail stores
3.5.2 Demonstration to key people

4 ‘P’ - PLACE

Marketer has to ensure the availability of its products to the target customers. If a product is not available to the target customers at the right place, then he/she may shift to competitive products. For LG Electronics, the marketing function of place plays very important role as under.

4.1 Channel decision – what kind of distribution channels a company adopts between plants & consumer.
4.2 Distribution channel policy – whatever to go for extensive or selective or exclusive distribution.
4.3 Degree of selectivity among wholesalers & retailers.
4.4 Effort to get the cooperation of the trade.
4.5 Physical distribution decision includes logistics, transportation, warehousing, material handling and bulk packaging.

Goods produced by the manufacturers must come to the knowledge of the ultimate consumers. This is arranging by the sales promotion activities like salesmanship & advertising. By mere knowledge, the prospective consumers are not happy. The products must reach their hands for actual use. Channels of distribution are paths through which products move from the point of production to the point of consumption. Distribution channels are also called Trade channels.
LG set up a state-of-art manufacturing facilities in 1998 at greater Noida (NCR New Delhi) with the initial investment of Rs.500 crore to start Indian operations for Electronics business.

**Financial Performances**

**FINAL REPORT (BALANCE SHEET)   1 re = 22.34 KRW   AND   1$ = 1135 KRW**

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<td>2,524,654</td>
<td>2101302</td>
</tr>
<tr>
<td>Total Receivables, Net</td>
<td>7,512,419</td>
<td>8,342,905</td>
<td>7,612,959</td>
<td>5383949</td>
<td>4058829</td>
</tr>
<tr>
<td>Total Inventory</td>
<td>6,034,455</td>
<td>5,072,097</td>
<td>6,587,449</td>
<td>5708260</td>
<td>5795019</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>917,007</td>
<td>838,185</td>
<td>681,077</td>
<td>2261340</td>
<td>153044</td>
</tr>
<tr>
<td>Other current assets, total</td>
<td>19,676</td>
<td>9,197</td>
<td>1,358,244</td>
<td>3741063</td>
<td>414686</td>
</tr>
<tr>
<td>Total current assets</td>
<td>16,514,533</td>
<td>16,910,073</td>
<td>22,274,137</td>
<td>17326382</td>
<td>1403776</td>
</tr>
<tr>
<td>Property, plant &amp; equipment, net</td>
<td>6,500,484</td>
<td>7,708,933</td>
<td>16,253,024</td>
<td>14406331</td>
<td>1632293</td>
</tr>
<tr>
<td>Goodwill, net</td>
<td>38,873</td>
<td>36,502</td>
<td>43,815</td>
<td>590589</td>
<td>621756</td>
</tr>
<tr>
<td>Intangibles, net</td>
<td>724,509</td>
<td>767,326</td>
<td>730,234</td>
<td>42482</td>
<td>56609</td>
</tr>
<tr>
<td>Long term investments</td>
<td>6,135,422</td>
<td>4,533,341</td>
<td>929,715</td>
<td>42482</td>
<td>56609</td>
</tr>
<tr>
<td>Note receivable - long term</td>
<td>174,257</td>
<td>114,889</td>
<td>79,880</td>
<td>621756</td>
<td>621756</td>
</tr>
<tr>
<td>Other long term assets</td>
<td>1,261,670</td>
<td>1,349,659</td>
<td>1,210,847</td>
<td>659046</td>
<td>659046</td>
</tr>
<tr>
<td>Total assets</td>
<td>32,318,499</td>
<td>32,114,512</td>
<td>42,372,298</td>
<td>34584427</td>
<td>3335441</td>
</tr>
</tbody>
</table>

<p>| <strong>LIABILITIES</strong>               |            |            |            |            |            |
| Accounts payable              | 5,824,392  | 5,315,853  | 4,455,702  | 44,529,22  | 42,52,500  |
| Accrued expenses              | 1,927,979  | 2,244,372  | 2,512,529  | 6016,143   | 6016,143   |
| Notes payable/short-term debt | 3,327,277  | 3,221,498  | 6,016,143  | 6,016,143  | 6,016,143  |
| Current portion long-term debt/capital leases | 681,952 | 1,085,517  | 1,389,926  | 1,389,926  | 1,389,926  |
| Other current liabilities, total | 3,632,253 | 4,301,427  | 6,026,197  | 14,616,455 | 15,760,389 |
| Total current liabilities     | 15,393,853 | 16,168,667 | 20,400,497 | 15,760,389 | 15,760,389 |
| Total long term debt          | 3,183,706  | 2,601,583  | 5,455,268  | 3084       | 3084       |
| Total debt                    | 7,192,935  | 6,908,598  | 12,861,337 | 4730376    | 4730376    |
| Deferred income tax           | 10,253     | 25,682     | 634,742    | 687        | 687        |
| Minority interest             | 215,497    | 621,068    | 6,473,114  | 5650074    | 5650074    |
| Other liabilities, total      | 871,050    | 893,334    | 1,089,219  | 21,756     | 21,756     |
| Total liabilities             | 19,674,359 | 20,310,334 | 34,052,840 | 22,656,851 | 22,656,851 |</p>
<table>
<thead>
<tr>
<th>SHAREHOLDERS EQUITY</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>809,169</td>
<td>809,169</td>
<td>809,169</td>
<td>809,169</td>
<td>809,169</td>
<td>809,169</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>2,217,810</td>
<td>2,217,810</td>
<td>2,651,911</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings (accumulated deficit)</td>
<td>10,108,173</td>
<td>9,214,309</td>
<td>4,041,724</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury stock – common</td>
<td>(44,893)</td>
<td>(44,893)</td>
<td>--</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain (loss)</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other equity, total</td>
<td>(446,119)</td>
<td>(392,217)</td>
<td>816,654</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>12,644,140</td>
<td>11,804,178</td>
<td>8,319,458</td>
<td>12,827,954</td>
<td>10,697,567</td>
<td></td>
</tr>
<tr>
<td>Total liabilities &amp; shareholders' equity</td>
<td>32,318,499</td>
<td>32,114,512</td>
<td>42,372,298</td>
<td>34,584,427</td>
<td>33,354,418</td>
<td></td>
</tr>
<tr>
<td>Total common shares outstanding</td>
<td>144</td>
<td>144</td>
<td>144</td>
<td>144</td>
<td>144</td>
<td>144</td>
</tr>
<tr>
<td>Treasury shares - common primary issue</td>
<td>0.76</td>
<td>0.76</td>
<td>0.76</td>
<td>0.76</td>
<td>0.76</td>
<td>0.76</td>
</tr>
</tbody>
</table>

Table 2.1 LG Electronics Inc. Consolidated Balance Sheets (Millions in KW)

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>As of Dec 31</th>
<th>Dec 31</th>
<th>Dec 31</th>
<th>Dec 31</th>
<th>Dec 31</th>
<th>Dec 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>53,426,741.0</td>
<td>63,280,391.0</td>
<td>55,491,157.0</td>
<td>55,753,804.0</td>
<td>463,398,644.0</td>
<td></td>
</tr>
<tr>
<td>TOTAL REVENUES</td>
<td>53,426,741.0</td>
<td>63,280,391.0</td>
<td>55,491,157.0</td>
<td>55,753,804.0</td>
<td>463,398,644.0</td>
<td></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>41,351,661.0</td>
<td>47,707,085.0</td>
<td>41,340,613.0</td>
<td>43,723,913.0</td>
<td>37,684,208.0</td>
<td></td>
</tr>
<tr>
<td>GROSS PROFIT</td>
<td>12,075,082.0</td>
<td>15,573,306.0</td>
<td>14,150,544.0</td>
<td>12,029,891.0</td>
<td>8,655,656.0</td>
<td></td>
</tr>
<tr>
<td>Selling General &amp; Admin Expenses, Total</td>
<td>8,534,892.0</td>
<td>10,594,280.0</td>
<td>9,920,551.0</td>
<td>10,441,002.0</td>
<td>8,650,571.0</td>
<td></td>
</tr>
<tr>
<td>R&amp;D Expenses</td>
<td>380,899.0</td>
<td>455,459.0</td>
<td>1,269,828.0</td>
<td>1,500,759.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation &amp; Amortization, Total</td>
<td>261,363.0</td>
<td>319,731.0</td>
<td>--</td>
<td>--</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>81,145.0</td>
<td>96,977.0</td>
<td>328,151.0</td>
<td>-74,161.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OTHER OPERATING EXPENSES, TOTAL</td>
<td>9,258,299.0</td>
<td>11,466,447.0</td>
<td>11,518,530.0</td>
<td>11,867,600.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OPERATING INCOME</td>
<td>2,816,781.0</td>
<td>4,106,859.0</td>
<td>2,632,014.0</td>
<td>162,291.0</td>
<td>5,085</td>
<td></td>
</tr>
<tr>
<td>Interest Expense</td>
<td>-575,766.0</td>
<td>-464,322.0</td>
<td>-378,695.0</td>
<td>-233,056.0</td>
<td>-550,195</td>
<td></td>
</tr>
<tr>
<td>Interest and Investment Income</td>
<td>174,920.0</td>
<td>311,211.0</td>
<td>86,030.0</td>
<td>79,173.0</td>
<td>141,437</td>
<td></td>
</tr>
<tr>
<td>NET INTEREST EXPENSE</td>
<td>-400,846.0</td>
<td>-153,111.0</td>
<td>-292,665.0</td>
<td>-153,883.0</td>
<td>-408758</td>
<td></td>
</tr>
<tr>
<td>Income (Loss) on Equity Investments</td>
<td>58,545.0</td>
<td>51,500.0</td>
<td>435,378.0</td>
<td>477,322.0</td>
<td>25,470</td>
<td></td>
</tr>
<tr>
<td>Currency Exchange Gains (Loss)</td>
<td>295,258.0</td>
<td>-1,155,580.0</td>
<td>188,118.0</td>
<td>-11,532.0</td>
<td>240036</td>
<td></td>
</tr>
<tr>
<td>Other Non-Operating Income (Expenses)</td>
<td>-109,415</td>
<td>-588,194</td>
<td>-732,309</td>
<td>-23,567.0</td>
<td>-108926</td>
<td></td>
</tr>
<tr>
<td>EBT, EXCLUDING UNUSUAL ITEMS</td>
<td>2,517,321.0</td>
<td>1,709,607.0</td>
<td>2,921,501.0</td>
<td>450,631.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain (Loss) on Sale of Investments</td>
<td>39719</td>
<td>53,471.0</td>
<td>--</td>
<td>--</td>
<td>22960</td>
<td></td>
</tr>
<tr>
<td>Gain (Loss) on Sale of Assets</td>
<td>-1803</td>
<td>-17,413.0</td>
<td>-56,819.0</td>
<td>-16,105.0</td>
<td>-10505</td>
<td></td>
</tr>
<tr>
<td>Other Unusual Items, Total</td>
<td>-155,359.0</td>
<td>-126,638.0</td>
<td>--</td>
<td>--</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Unusual Items</td>
<td>-19,500.0</td>
<td>-13.0</td>
<td>--</td>
<td>--</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBT, INCLUDING UNUSUAL ITEMS</td>
<td>2,378,901.0</td>
<td>1,619,027.0</td>
<td>2,864,682.0</td>
<td>434,526.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>(310,203)</td>
<td>(480,155)</td>
<td>(588,680)</td>
<td>141.0</td>
<td>(198220)</td>
<td></td>
</tr>
<tr>
<td>Minority Interest in Earnings</td>
<td>-839,776.0</td>
<td>-700,337.0</td>
<td>-62,643.0</td>
<td>-55,157.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings from Continuing Operations</td>
<td>1,138,872.0</td>
<td>2,276,002.0</td>
<td>434,385.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EARNINGS FROM DISCONTINUED OPERATIONS</td>
<td>--</td>
<td>--</td>
<td>74,126.0</td>
<td>847,734.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NET INCOME</td>
<td>2,068,698</td>
<td>438,535.0</td>
<td>2,287,485.0</td>
<td>1,226,962.0</td>
<td>(208,514)</td>
<td></td>
</tr>
<tr>
<td>NET INCOME TO COMMON INCLUDING EXTRA ITEMS</td>
<td>1,097,062.0</td>
<td>390,988.0</td>
<td>2,042,705.0</td>
<td>1,095,312.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NET INCOME TO COMMON EXCLUDING EXTRA ITEMS</td>
<td>1,097,062.0</td>
<td>390,988.0</td>
<td>1,968,579.0</td>
<td>247,578.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2.2 income statement: cost and revenues

Income statement in KRW (Korean Won)

Year on year LG Electronics Inc's net income deteriorated 46.36% from 2.29tn to 1.23tn despite relatively flat revenues. A contributing factor has been the increase in
the cost of goods sold, selling, general and administrative expenses and interest paid (all as a percent of sales).

Revenue

<table>
<thead>
<tr>
<th>Gross margin (Five years)</th>
<th>21.06%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit margin</td>
<td>3.29%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>3.32%</td>
</tr>
</tbody>
</table>

Net Income

<table>
<thead>
<tr>
<th>Return on assets (Five years)</th>
<th>5.40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on equity</td>
<td>14.16%</td>
</tr>
<tr>
<td>Return on investment</td>
<td>10.99%</td>
</tr>
</tbody>
</table>

Growth Rates in KRW

Year on year, both dividends per share and earnings per share excluding extraordinary items growth dropped 88.57% and 87.42%, respectively. Additionally when measured on a five year annualized basis, dividend per share growth is below the industry average relative to its peers, while earnings per share growth are in-line with the industry average.

Divided per share

<table>
<thead>
<tr>
<th>Div yield(5 year avg)</th>
<th>-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Div growth rate (5 year)</td>
<td>-30.69%</td>
</tr>
<tr>
<td>Payout ratio (TTM)</td>
<td>1.59%</td>
</tr>
</tbody>
</table>

Earnings per share

<table>
<thead>
<tr>
<th>EPS growth(5 years) (KRW)</th>
<th>-14.5018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS (TTM) vs TTM 1 year ago</td>
<td>6.80</td>
</tr>
</tbody>
</table>

Cash flow in KRW
In 2010, cash reserves at LG Electronics Inc fell by 479.63bn. Cash Flow from Financing totalled 1.22tn or 2.19% of revenues. In addition the company generated 8.52bn in cash from operations while cash used for investing totalled 1.67tn.

<table>
<thead>
<tr>
<th>Cash flow per share (Five years)</th>
<th>22,124 (KRW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price/Cash flow per share</td>
<td>3.55</td>
</tr>
</tbody>
</table>

**Cash**

<table>
<thead>
<tr>
<th>Book value per share</th>
<th>87,022 (KRW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible book value per share</td>
<td>80,900 (KRW)</td>
</tr>
</tbody>
</table>

**Balance sheet in KRW**

LG Electronics Inc has a Debt to Total Capital ratio of 37.86%.

**Total Assets**

<table>
<thead>
<tr>
<th>Current ratio</th>
<th>1.05 times</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quick ratio</td>
<td>0.6866 times</td>
</tr>
</tbody>
</table>

**Total Debt**

<table>
<thead>
<tr>
<th>Total debt/total equity</th>
<th>0.6201 (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt/total capital</td>
<td>0.3786 (Percentage)</td>
</tr>
</tbody>
</table>

**Policies Pertaining to Human Resource**

The Human Resources Policy and Procedures Manual have been developed to facilitate the implementation and clearly define policies on human resource management. The manual provides guidelines to be followed in the administration of these policies, and assists all employees in defining who is responsible for each human resource management decision, and the correct procedure which is to be followed. The policies specified within are consistent with those of best practice management principles.
HR policy is set of rules that define the manner in which an organization deals with a human resource or personnel related matters. An HR policy is a commitment of an organization to act in a specific way while dealing with its employees.

**LG Electronics India – HR Policies**

As we all know requirement of trained and experienced Professional with the desired mindset is the need of the hour for any Organization to Survive and Grow in this competitive environment. While there is no dearth of Professionals in Indian Industry and people are available but what is most important and difficult to get is the right mindset.

To cope with the growing expectations of business and in order to give the organization a competitive edge to the business LG have streamlined the whole system by integrating the HR fundamentals with Information Technology and have adopted some practices unique to LG.

**On Line Recruitment Management System**

![Figure 3.1 Online recruitment management systems](image)

Small variations in the recruiting process may be found depending on local employment conditions, such as the local labour market (industry, average retirement age, etc.) and local labour laws and regulations related to recruitment. In some countries, an additional stage may be added to the recruiting process, such as with the administration of aptitude and attitude tests.

Under this prospective candidates visit our website and can directly register their CV for any position listed on the site. Similarly all consultants are also required to post their CV through the website. As a result duplication of CV is immediately identified and not accepted. The CV then comes to the data bank and for short listing/
screening both the functional users and HR department has the rights for selection. Once a candidate is rejected, immediately information goes to the consultant or the candidate. In case the candidate is selected for interview then the information goes for finalization of interview at specified date and time. This speeds up the whole process as it does the initial screening of the vital parameters in terms of age, qualification, experience, etc.

**LG’s CSR Vision**

It is purely an understanding on LG’s part that the time, resources and in-house professional expertise invested in social development projects pay rich dividends to the company and the communities in which it operates. Therefore at LG the message is clear- *creating profits can and should go hand-in-hand with generating goodwill*

The company also asks the candidates to undergo Psychometric tests which throw up the complete profile of the person. Keeping in view the organizational requirements of mindset, & organizational fit, decide whether the person shall fit into the system or not. Negative Interview is conducted to assess whether the candidate would be able to survive the organizational stress at different levels.

**After Recruitment**

candidates undergo an exhaustive induction programme for duration of 14 days under which the candidate is acquainted which each and every aspect of the organization. A thorough integration with HR & Business Processes takes place and the formulation of a KPI is done within three days of taking the candidate onboard.

**Creative problem solving to employees - LG’s forte**

The company has regular line meeting at the manufacturing lines in the factory with the workers to discuss and solve their problems then and there. Morning meetings are also the norm at LG where the whole team gets together to motivate each other. LG has come up with the unique concept of Pizza Meetings where the whole department meets up for a pizza treat and discusses issues in an informal setting. HR melt-ins [collective meeting] is also a regular feature at LG where the HR
department meets up with the employee having a problem and their immediate senior to solve issues.

Apart from HR melt-ins, departmental melt-ins also takes place at regular intervals in LG wherein the every member of a certain department meets up to discuss and solve internal issues within their department.

**Helpdesk Facility**

LG also has a helpdesk facility for their employees to help them overcome every aspect of their professional problem. Business related problem solving is also a help tool available across board to all employees and cross functional Teams and TDR's also exist within the company.

**Other Facilities**

1. A host of facilities are provided to the employees to make feel as comfortable and much a part of the LG family as possible.
2. All employees are given pick & drop facility and are served breakfast, lunch and dinner.
3. Workers get a chance to take a half day break on request to come up with the innovation of the day, so as to make the production process more efficient.
4. Team slogan shouting is done every morning to motivate workers.
5. World renowned six sigma training is provided to all employees.
6. The blue collar employees are given English coaching classes and at the end of every month one employee gives a speech in English in front of MD and gets an incentive for the same.
7. Family ambassador programme where a dedicated mentor goes to the workers house and talks to his family, their problems etc. and tries to make their situation better.
8. All workers are served lunch along with the other senior employees so that no demarcation is made. Infact lunch is first served to workers and then to the white collar employees. On the first Monday of every month the workers meet the MD and 50 workers amongst them get awards for outstanding performance
LG India is one of the very few companies in the country that has an internal Energy, Environment, Safety and Health Departments. This function caters to activities like Energy Conservation, Environmental Issues, Work Place Fire and Safety as well as Occupational Health for the benefit of the employees.

**Joyful Working 5:**

Another unique point in LG is the Joyful Working 5 programme at LG. To accelerate and strengthen the Culture at LGEIL a survey was conducted, which mainly focused on the monotony which employees are facing at work and the boredom they are undergoing. Therefore, company came up with the new campaign which not only helped the company creating the compelling future, but also build the culture of striving for number One position in the industry always. This Campaign was named as JW5 (i.e. Joyful working 5)

Joyful Working 5 was mainly based on 5 Key factors organization needed to focus upon. These core factors were as following:

1. Stress
2. Communication
3. Leadership
4. Target setting
5. Working hours

Keeping in Mind Values and Motto LG took one step ahead and benchmarked some activities form Industry as well as overseas companies and introduced them at the company wide level. Certain Best practices such as Improving upon Employee and subordinates relationships bring family like feeling in teams/ departments, creating more openness through forums, giving positive strokes to employee at right time, fun day celebrations in departments, building leadership competencies and lot more.

**The Right People**

LG is always seeking out committed and enthusiastic team players. Exceptional individuals who possess the necessary skills to perform at the highest-level keen thinkers who armed with both professionalism and a desire to take an active role on
the global stage and achievers well-versed in global market issues, with cultivated knowledge, expertise, and an engaging work style

The Right People
We want the "Right People" who have a strong passion for winning, and are proactive and highly competent.

Figure 3.2 The Right People

LGEIL’s Human Resource

Creativity and autonomy

An individual's creativity is the basis for value creation. LG Electronics respects diversity and autonomy, allowing each of its employees to exercise their creativity to the full.

Emphasis on competence

Competence is the basis for performance. LG Electronics sees competence as the most important factor in its personnel decisions.

Performance-based rewards

Rewards based on performance are essential for human motivation. LG Electronics evaluates performance results fairly and rewards them accordingly.
Equal opportunities

Equal opportunities build trust among people. LG Electronics ensures equal opportunities regardless of gender, race, age, religion, or nationality.

Long-term perspective

Maintaining a long-term perspective is the foundation for LG's human resources policies. LG's human resources programs are designed with a long-term perspective and implemented with dedication and persistence.

Training

LG Electronics offers diverse educational programs to its employees according to rank and job to encourage growth and development and mould them into "the right people" for the company. They do this by equipping them with the professional capabilities that the company needs and enabling them to apply the latest technologies to their work.

Rewards

LG Electronics offers its employees a competitive, unique rewards system that takes account of their working situations by nation, region, and job. This rewards system motivates employees to perform better by helping them to enhance their quality of life. LG's rewards system consists of fixed salaries and flexible salaries. Fixed salaries are determined every year through a fair evaluation process. Flexible salaries are immediate rewards given to individual employees for their performance and competence.

Looking Good - LG Electronics India Discusses its Supply Chain Strategy

LG Electronics India believes in reaching products to people on-demand. Somebody impressed the market with a sense of enterprise, depth of vision, efficiency of service and the durability of products. Jayashree Mendes meets the Vice-President (Head – SCM) of LG Electronics India, KK Kaul, the man behind this movement.

Manufacturing Momentum
LGEIL manufactures a range of products spanning washing machines, color televisions, monitors, refrigerators, air-conditioners, microwave ovens, DVD player, cell phones, and Optical Disk Drives (See Box: LG India: Production Numbers) at its two plants in Greater Noida operational since 1998 and at Ranjangaon in Pune since 2004, besides employing the services of third-party manufacturers. While LGEIL has several firsts to its credit, in manufacturing it was the first company to produce DVD Writers in the country.

The move to rope in electronic manufacturing services (EMS) or third-party manufacturers arose in 2002 after LGEIL realized that supply was not keeping up with demand. The Noida plant was running to full capacity.

Over the next six years, LGEIL has meticulously added 15 EMS companies to exclusively manufacture goods for them. To ensure quality, LGEIL provides the EMS companies with components such as picture tubes, panels, chips, compressors, LCDs, etc., that it sources globally for its own two plants.

Today, the EMS companies manufacture 25 percent of the total number of goods produced by LGEIL. For logistics purposes and to ensure that the components reach the EMS companies on time, the locations of the EMS companies are based at Dehradun, Rourkee, Rudrapur, Baddi, Noida, Kolhapur, Pune and Rajpura. The locations are significant in that they are either close to LG’s Greater Noida plant or Pune, thus making transportation and access easier.

It is common for MNCs like LG, Panasonic, Samsung, or Ericsson (LOG India January 2011 issue), who have global manufacturing units to source components and raw materials from global suppliers. Mr. Kaul says, “We source major and locally unavailable components like picture tubes, LCDs, chips, panels, compressors, etc. from established Asian companies, most of who are our subsidiaries. The components come in from China, Korea, Thailand, Malaysia, Indonesia, and Japan.” Except for deciding on price and the order, the logistics of raw materials and components are overseen by the supply-chain department under Mr. Kaul.

Simultaneously, LGEIL is investing 800 crore in ramping up production at its Noida plant. LGEIL expects the increase in production to commensurate with a three-fold
increase in revenue by 2015. Currently, the company exports 20 percent of produced goods to Africa, Gulf countries, Europe, the US and CIS countries.

The Supply-Chain Process

Year 2008 also changed many things for LG globally with the implementation of new IT systems and changing its transportation functions through adoption of IT. Earlier, the Korean Chaebol [refers to a South Korean form of business conglomerate] found it hard not only to keep up with the fast-growing company, but concurrently tracking demand, supply, inventory, manufacturing, raw materials, logistics and distribution. It was onerous to compute collective data that would allow the company to see its progress at a quick glance, and in real-time. The Indian arm had to regularly send across long detailed excel sheets of data. The Korean headquarters required a system to synchronize forecasts, production and sales that would eliminate the issues of inaccurate shipping, planning and inventory. The Global Supply Chain Planning was established.

The GSCP integrates control of the entire business process from receiving orders, production to sales, and inventory, with an online link of LG companies around the world. Integrated with the Oracle ERP systems of LG worldwide, the end result of the deployment of GSCP enables the company to close the gap between demand and supply. It also provides the previous week’s performance results and capability matrix.

The difference in GSCP from the earlier IT tools that LG Electronics has been using is that it combines design, parts supply, procurement, production, supply-chain, and cost management into an integrated process thus allowing the company to know how much to produce. For that to happen, Mr. Kaul clarifies, “it is crucial that all the branch personnel from every department collaborate on the weekly Sales & Operations Planning (S&OP) to decide on production and sales plans.”

Prior to deploying GSCP, LGE also faced problems in managing inventory. At a time when it needed to be at 42 days of inventory, it had 10 to 15 days more of inventory. LGE rolled out 12 Inventory Optimization solutions thus releasing it from millions of cash flow that’s no longer tied to inventory.
Considering that LGEIL outsources its transportation, the company often faced simple theft, misrepresentation of inventory, counterfeiting and piracy. This was restricted by installing deployed Global Digital Logistics System (GDLs) which aids in better route optimization, as well as improved loading and tendering capabilities. Playing on its existing Oracle ERP and EXEWMS, the transportation solution provides execution capabilities to its shippers and 3PL partners.

**Forecasting Paradigm**

Forecasting for LGEIL is at three levels: Inventory, production, and sales. The company adopts a short-term forecasting of up to six weeks, and a mid-term one for four months.

For LGEIL, it is important that the company procures right. Some of the components that it imports have long lead times. For instance, following the earthquake and the tsunami in Japan, companies round the world had to look elsewhere to fulfill their supply of raw materials, which otherwise came from that country. This impacted production and supply. Mr. Kaul says with some satisfaction, “Our short-term forecasting is 95 percent accurate, though of course we are working at improving it. Since we need to place orders for some components at least three months in advance, we have maintained a forecasting model of 16 weeks.”

The stress on accuracy becomes even more pertinent considering that it imports about 35-40 percent of components which total about 60 percent in value terms.

LGEIL executes demand forecasting by using GDMI (Global Demand Management Innovation). The solution used for demand forecasting is integrated with the demand fulfillment system. Based on the previous year’s seasonality demands, trends in the previous quarter across each product, the company arrives at expected demand in the coming season. It works on three layers: market feedback, Global Aspiration and supply-chain capabilities – all of which lead to a single sales plan. For instance, from Target Aspiration, LGEIL has deducted a higher turnover can only be accrued by focusing on high-value products.
The results of the inventory and demand forecasting are passed on to the EMS companies and to its own production department. To maintain the rhythm, all the various departments straighten out forecasting by the 6th of every month, by the 12th all the divisions file in their data in the system, and by the 16th the schedule for the next month will be pinned up on the production department’s display board.

LGEIL’s sales department sends across its forecasting data to a centralized server on the last Thursday of the month for the following month, while keeping figures tentative for the next three months. The production department picks up the plan and based on the closing stock and demand forecasting decides on the numbers to be manufactured. Mr. Kaul says, “At the time of sales forecasting, we also decide on the products that should be sent across to a particular region, how and when.”

With the new plant coming up by 2013, LGEIL is mulling the capacity it needs to fit based on a tentative demand forecasting it has visualized till 2015.

Inventory Control

LGEIL’s strategy is to strike a balance between inventory levels and optimum utilization of capacity. It also has to deal with high rates of product obsolescence and evolving customer needs. The GSCP maintains a record of all inventories, but according to Mr. Kaul, “one always tries to decrease inventory turn at warehouses”.

He adds, “Days of inventory outstanding or DIO for finished goods is 27 days (including in transit), while monthly warehouse shelf inventory turn is 4 days. We try to ensure that goods move out of the Distribution Center in less than 30 days. Our focus this year is on reducing DIO, because of shortened product life cycles. That’s why our forecasting has to be incisive.”

LGEIL takes care of the life-cycle of products, especially end-of-life (EOL) products, through a carefully controlled production plan. It sells EOL products through schemes, and some find its way into smaller and rural towns. In urban areas, this appears difficult as few or no dealers want to be saddled with old and outdated models. The GSCP tool, while keeping track of EOL products, also throws up data of where these products could be deployed and sold.
LGEIL follows the hub-and-spoke model. So the final goods are moved from its various factories to the central DC at Noida and Ranjangaon, from where it moves to its 53 warehouses. A staunch subscriber to the outsourcing theory, Mr. Kaul believes that outsourcing non-value added activities to third-party can help create focus from operational activity to strategic value add operations. This is the reason why LGEIL has outsourced most activities such as transportation and warehouses.

Choosing the Right Partners

Towards the end of each year, LGEIL conducts a 'global bidding' to choose five shipping lines for its imports and to ship its products across the country. Most major shipping lines participate and send in their quote for a year's business with their service conditions. It requires five shipping lines to import its containers numbering approximately 24,000 TEU per year, of which an estimated 12,000 TEUs are exported every year through Nhava Sheva port alone.

Here are a few more firsts to LGEIL’s credit, according to Mr. Kaul. In India, it was the first consumer durables company to use the sea route to ship goods. The first sea movement was from Kandla port to Kochi, and then extended to Coimbatore and later on to Chennai.

It also started sending out goods by rail using the services of the private container train operators (PCTOs), and introduced the concept of using high cube containers. In rail, LGEIL moves full rail rack to Kochi, Kolkata and Guwahati. Rail transport is frequently used from Pune to Kochi and Guwahati, Noida to South (Chennai, Hyderabad and Bangalore).

Mobile phones are shipped by air as they are prone to constant change in prices, high obsolescence and the need to supply on demand thus making sure that inventory is minimal.

In 1997, it started using closed body trucks for distribution and moved to using trucks that allowed for double stacking.
Up to 2008, LGEIL primarily used road transportation. As consumer durables bear the burden of ‘seasonality’, a festival season in a particular area means that supply could go as high as four times compared to the other months in the year. Citing an instance, Mr. Kaul says, “During Onam in South India, demand for white goods and electronic items go up four times. Similarly, the Dassehra or Durga festival in September sees a shoot up in demand in Eastern India. While March and April see a drastic rise for air-condition and refrigerator compressors.”

**Outbound Logistics**

To meet the fourfold increase in demand, it has to speed up the manufacturing and transportation to these respective cities. A drawback of having several manufacturing industries based out of North India, mainly Baddi and Dehradun, invariably sees a huge demand for vehicle requirements. Trucks move from northern India to the rest of the country. Inflow of trucks to the north is few and this means less backload from the south or the east to the north. The lack of backload sometimes creates problems in terms of long hauls and shortage of trucks.

Currently, LGEIL channelizes approximately 7,500 vehicles every month from its various manufacturing locations to branch DCs. But it was the constraint of availability of quality vehicles that led the company to explore multi-modal transportation. Besides this, approximately 24,000 vehicles are sent out from branch DCs every month, for secondary transportation, to various dealers and distributors all over India.

Arvind Kumar Lohia, Managing Director, East India Transport Agency (A unit of EITA India Ltd), and an LGEIL transportation partner, says, “Since the products are in high volume and fragile in nature, we cater with customized vehicles. A challenge is to cater to seasonal fluctuation which is endemic with such a products range. It requires constant planning and shifting our fleet strength to those locations where they need to send their products as well as arranging for the return goods from those locations.”

Siddharth Adya, Managing Director, South Asia Region, at APL Logistics, a 3PL partner managing the regional distribution center at Chennai, says, “Retaining labor
is a challenge. Hiring quality people with the right skill sets is a constant challenge, particularly in a high-volume facility like this one.”

APL Logistics handles all the warehouse function for LGEIL at Chennai like Inbound Inventory Management, Outbound such as handling shipments to dealers and modern trade and institution sales; Storage, and Transportation Management and Coordination including update of proof of delivery in LGE’s Oracle system.

**Regional Distribution**

Ten years ago, the consumer durables and electronics trade was in disarray in terms of distribution. Most companies preferred to go with national distributors, who in turn sent out the goods to dealers. Dealers did not deal with the company directly. Also, companies manufacturing several products had created separate divisions within their company and each division would deal with the distributor separately. This caused a certain amount of confusion in the supply-chain. Soon there arose issues and allegations in terms of margins or the lack of it, product quality, and reverse logistics. LGEIL (possibly, another first way back in 2003) charted a new course and went to the regional distributors (RDs) directly, thus doing away with national distributors. Mr. Kaul says, “We thought that only local people would know their own market. This has worked well for us.”

It also began offering higher margins to help them scale up their business from LG products. The expertise of the RDs also helps LGEIL to near correctly send out the right product batches and manage the reverse logistics too. Vishaal Dutta, Regional Manager (Maharashtra), LGEIL says, “The customer returns are handled by the customer support department directly, while the returns from dealers are handled by the supply chain. Transportation used is the same which goes for the delivery of the products to such dealers. In Maharashtra, we have a warehouse in Bhiwandi and goods are moved to the warehouses of our trade partners. We deal directly with dealers and distributors who in turn supply to sub-dealers.”

So how does it distinguish between urban and rural supply-chain? “We don’t,” says Mr. Kaul. “Actually, you’d be surprised that goods that find their way to urban places
also find their way to rural, though on a smaller scale because of power outages or lack of electricity."

As is evident at LGEIL, there’s much required to do something simple and keep it that way. See demand and push supply, so goes the saying at LGEIL.

**Product localisation**

1. LG came out with Hindi and regional language menus on its TV.
2. Introduced the low-priced “Cineplus" and “Sampoorna" range for the rural markets.
3. LG was the first brand to introduce gaming in CTVs. In continuation of its association with cricket, LG introduced the cricket game in CTVs.

**Regional channel strategy and wide distribution network**

LG has adopted the regional distribution model in India. All the distributors work directly with the company. This has resulted in quicker rotation of stocks, and better penetration into the B, C, and D class markets.

LG also follows the strategy of stock rotation, rather than dumping stocks on channel partners. LG has over 46 branch offices and another 110 area offices across the country. LG had set a target of developing 2,000 dealers in 2004, in addition to the existing 3,000 dealers all over India.
CHAPTER – 4

EXPORT AND IMPORT STRATEGIES
Percentage of product sold domestically & its reasons

List of products of LG Electronics

1. Television
   a. Flat
   b. LCD
   c. Plasma
2. Refrigerator
3. Washing Machine
4. Air – Conditioner
5. Microwave Oven
6. PCs
7. Mobile Phone

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG</td>
<td>26.2</td>
</tr>
<tr>
<td>Videocon</td>
<td>17</td>
</tr>
<tr>
<td>Onida</td>
<td>8.7</td>
</tr>
<tr>
<td>Samsung</td>
<td>23.4</td>
</tr>
<tr>
<td>other</td>
<td>24.6</td>
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Table 4.1 Company v/s market share

Graph 4.1 Market share

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<thead>
<tr>
<th>Market Share of Television</th>
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<tbody>
<tr>
<td>Company</td>
</tr>
<tr>
<td>LG</td>
</tr>
<tr>
<td>Samsung</td>
</tr>
<tr>
<td>Sony</td>
</tr>
<tr>
<td>Philips</td>
</tr>
<tr>
<td>Sansui</td>
</tr>
<tr>
<td>Videocon</td>
</tr>
<tr>
<td>BPL</td>
</tr>
<tr>
<td>Company</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>LG</td>
</tr>
<tr>
<td>Samsung</td>
</tr>
<tr>
<td>Kenstar</td>
</tr>
<tr>
<td>IFB</td>
</tr>
<tr>
<td>Electrolux</td>
</tr>
<tr>
<td>Others</td>
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Table 4.3 Microwave market

<table>
<thead>
<tr>
<th>Category</th>
<th>Market Share in terms of Volume</th>
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<tbody>
<tr>
<td>LG</td>
<td>No 2 players</td>
</tr>
<tr>
<td>Refrigerator</td>
<td>27.2</td>
</tr>
<tr>
<td></td>
<td>(Whirpool)</td>
</tr>
<tr>
<td>CTVs</td>
<td>15.1</td>
</tr>
<tr>
<td></td>
<td>(Samsung)</td>
</tr>
<tr>
<td>Microwave Oven</td>
<td>19.7</td>
</tr>
<tr>
<td></td>
<td>(Samsung)</td>
</tr>
<tr>
<td>Washing Machine</td>
<td>13.8</td>
</tr>
<tr>
<td></td>
<td>(Whirpool)</td>
</tr>
</tbody>
</table>

Communication strategy of LG – Tag line “life’s Good”

LG positioned itself as an Indian brand. Company were hitting the emotional attributed of the consumer. The warmth & affection that a brand showers upon its target audience will be reciprocated. For television market they are using child, because child plays the role of influencer in purchase of TV Sets. LG Home appliances communication message is totally based on health message like “Golden Eye technology & Intello.”
<table>
<thead>
<tr>
<th>Particular</th>
<th>SALES DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Sales %</td>
</tr>
<tr>
<td>Digital Appliance</td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>2303</td>
</tr>
<tr>
<td>Export</td>
<td>3550</td>
</tr>
<tr>
<td>Digital Display</td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>1113</td>
</tr>
<tr>
<td>Export</td>
<td>4008</td>
</tr>
<tr>
<td>Digital Media</td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>672</td>
</tr>
<tr>
<td>Export</td>
<td>2507</td>
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<tr>
<td>Mobile Communication</td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>1276</td>
</tr>
<tr>
<td>Export</td>
<td>8182</td>
</tr>
<tr>
<td>Total Sales</td>
<td>23611</td>
</tr>
</tbody>
</table>

Table 4.5 Sales data of the year 2005 to 2007

Domestic Sales (KOREA)

![Graph 4.4 % of Product Sold Domestically of 2005 to 2007](image)
Reasons

1. For Digital Appliance

It continuously increases from 2005 to 2007 i.e. 7.19% to 11.95% due to in KOREA (domestic country) there are strong sales of premium products such as:

1.1 Air Conditioners
1.2 Refrigerators
1.3 Washing Machines
1.4 Cooking Appliances
1.5 Vacuum Cleaners

2. For Digital Display

In recent years, LG Electronics has wowed the world with the industry’s first 100-inch LCD and 102-inch Plasma TVs with built-in digital video recorder. Sales leaped up on strong Seasonal Demand (viz. Olympics and World Cup). At that time, there was sales increase of:

2.1 LCD TVs (19, 22, 26, 32, 37, 42, 47, and 52 inch screen sizes)
2.2 PLASMA TVs (32, 42, 50, and 60 inch screen sizes)
2.3 LCD MONITORS
2.4 PROJECTORS

3. For Digital Media

Here domestically, they gained competitiveness and market share by launch: New Notebook PCs, Dual core NTPC, DMB PDA, also sale increase of digital media products like HOME AUDIO, HOME VIDEO, and MOBILE ENTERTAINMENT DEVICES, CAR INFOTAINMENT, SECURITY SYSTEMS, OPTICAL STORAGE.

4. For Mobile Communication

4.1 MOBILE PHONES 2006 global launch of the LG Chocolate phone the first handset in Black Label series of premium design phones has been a tough act to follow, selling over 15 million units through the end of 2007.
4.2 During the year 2007, they launched the LG Shine phone, the second phone in Black Label series, featuring a sleek full-metal body.
4.3 They partnered with fashion icon Prada to launch the Prada Phone by LG, a sophisticated and elegant handset with the industry’s first complete advanced touch interface.
4.4 They also launched the LG Views, a feature oriented phone with a 5.0-megapixel camera and high-end multimedia capabilities.
4.5 And they have adopted the latest 3G technologies like HSDPA to give consumers access to the latest high-speed networks.

<table>
<thead>
<tr>
<th>Particular</th>
<th>SALES DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td>Sales</td>
</tr>
<tr>
<td>Home Entertainment</td>
<td>Domestic</td>
</tr>
<tr>
<td></td>
<td>Export</td>
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<tr>
<td>Mobile Communication</td>
<td>Domestic</td>
</tr>
<tr>
<td></td>
<td>Export</td>
</tr>
<tr>
<td>Home Appliance</td>
<td>Domestic</td>
</tr>
<tr>
<td></td>
<td>Export</td>
</tr>
<tr>
<td>Air Conditioning</td>
<td>Domestic</td>
</tr>
<tr>
<td></td>
<td>Export</td>
</tr>
<tr>
<td>Business Solution</td>
<td>Domestic</td>
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<tr>
<td></td>
<td>Export</td>
</tr>
<tr>
<td>Total Sales</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.6 Sales Data for the Year 2008 & 2009
Reasons

1. Home Entertainment

In 2009, improved market position and rising demand by holiday season, strong competitiveness in premium products like: **LCD TVs, Plasma TVs, Audios/Videos, Projectors, and Data Storage.**

2. Mobile communications

Severe decline of demand in Korea (down 23% QoQ), so overall demand dropped 18% QoQ shifting to smart phone.

3. Home Appliance

In South Korea, Sustained similar level of sale YoY. Sales revenue remained at last year’s level.

4. Air Conditioning

In **Korea,** affected by low demand from long rainy season in the summer and limited decline from new model launches and reservation sales, so that sales revenue decreased sequentially due to slow season at last year’s level.

5. Business Solutions

Demand withdrawal impact from global recession led to sales decline in business products such as: **Monitors, Commercial Displays, Security, Car Infotainment.**
1. In 2005 & 2006 % domestic sales of Digital Appliance is higher than the others Products.

2. Where In 2007, the mobile communication sales is higher at 23.42% from other product.

3. And also in 2008 & 2009 the overall % of domestic sales of mobile communication products is high by there was many mobile handsets launched by LG.
Advantages through export to LG Electronics

High Living Standards

Comparative cost theory indicates that South Korea have the advantage of raw materials, human resources, natural resources and climatic conditions in producing electronic goods and can produce the products at low cost and also of high quality. Customers in various countries can buy more products with the same amount of money. In turn, it can also enhance the living standards of the people through enhanced purchasing power and by consuming high quality products.

Increased Socio-Economic Welfare

International business enhances consumption level, and economic welfare of the people of the trading countries, for example, the people of China are now enjoying variety of products of various countries than before. And also the electronics of South Korea are of better quality, thus, the Indians consumption levels and socio economic welfare are enhanced.

Wider Market

International business widens the market and increases the market size. Indians markets are now open for South Korea; therefore the companies need not depend on the demand for the product in a single country or customer’s tastes and preferences of a single country.

Reduced Effects of Business Cycle

The stages of business cycles vary from country to country. Therefore, MNCs shift from the country, experiencing a recession to the country experiencing boom conditions. Thus, international business firms can escape from the recessionary conditions.

Reduced Risks

Both commercial and political risks are reduced for the companies engaged in international business due to spread in different countries. Even if in one country some unrest is prevailing LG can enjoy the boom of some other country.
Large Scale Economics

Multinational companies due to the wider and larger markets produce larger quantities, which provide the benefit of large scale economies like reduced costs of production, availability of expertise, quality etc.

Potential Untapped Market

International business provides the chance of exploring and exploiting the potential markets which are untapped so far. These markets provide the opportunity of selling the product at a higher price than in domestic markets. LG electronics is exploring the Indian market.

Provides the Opportunity for and Challenge to Domestic Business

International business firms provide the opportunities to the domestic companies. These opportunities include technology, management expertise, market intelligence, product development, etc. for example South Korean firms operating in the India provide these opportunities to the Indian companies. This is more evident in the case of developing countries like India, African countries and Asian countries.

Similarly MNC pose challenge to the domestic business initially. Domestic firms develop themselves to meet these challenges. Thus the opportunities and help the domestic companies to develop.

Division of Labour and Specialization

As mentioned earlier, international business leads to division of labour and specialization. South Korea is specialized in electronics and can enjoy the benefit in India.

Economic Growth of the World

Specialization, division of labour, enhancement of productivity, posing challenges, development to meet them, innovations and creations to meet the competition lead to overall economic growth of the world nations. International business particularly helped the Asian countries like Japan, Taiwan, Korea, Singapore, Malaysia and the UAE.
Optimum and Proper Utilization of World Resources

International business provides the flow of raw materials, natural resources and human resources from the countries where they are in excess supply to those countries which are in short supply or need most. For example, flow of human resources from India, electronic goods from the South Korea. This, in turn helps in the optimum and proper utilization of world resources.

Cultural Transformation

International business benefits are not purely economical or commercial; they are even social and cultural. These days we observe that in India the culture of different nations are accepted. It does mean that the good cultural factors and values of both the nations are acquired by each other. Thus, there is a close cultural transformation and integration.

Knitting the World into closely Interactive Traditional Village

International business ultimately knits the global economies, societies and countries into a closely interactive and traditional village where one is for all and all are for one.

Benefits that LG Electronics is receiving from India

Tax Benefits

LG Electronics is enjoying the tax benefits. All dividends, interests, royalties, rents, compensations and other amounts are levied at the concessional rate.

Minimal Compliance Requirements

The information of directors, officers and shareholders can be kept completely confidential. Appointing a company secretary is not a mandatory requirement. There is no need to appoint any operating officers of the company. Neither nationality nor residence restrictions apply on company directors or company shareholders.

Lenient rules for holding company meetings

There is no compulsion to hold Annual General Meetings (AGMs). Board meetings can be held anywhere in the world. Physical presence of attendees is not a requirement in company meetings. Telephonic and virtual meetings are acceptable.
Lenient accounting requirements

Offshore company accounts need not be audited by internal or external auditors. Books and records can be maintained anywhere in the world. Share books or company meeting minutes (if maintained) need not be certified by any authority.

Share currency

Shares can be denominated in any currency. Shares may be denominated in more than one currency.

No foreign exchange controls

There are little foreign exchange controls and funds that can be move out of country.

Political and Economical stability

As one of the more socio-economically stable regions of the world, India highly regarded as a safe haven for conducting international business activities. As India is considered safe and attractive place to conduct the business activities South Korea can enjoy the benefits.

Huge market potential of the country

India has huge market potential as the purchasing power as well as awareness has increased tremendously in last few years. Because of the change in technology Indian customers are now aware of international brands which comprise huge markets for LG Electronics.

FDI attractiveness

Foreign Direct Investments are now become attractive and easily accessible as the conditions for business are getting easy day by day. Foreign exchange can also be acquired from foreign exchange market at easy conditions and also Government provides assistance for international business.

Labour competitiveness
As the education level of India has shown a great improvement during last few years so it becomes easy to get local efficient employees and also the cost of labour in India is not too high. It becomes beneficial for the foreign companies to establish their market in India.

**Macro-economic stability**

1. India is a developing country and even its market is not so susceptible to ups and downs of the global markets. In India comparatively more stability is there in terms of Government policies, market positions, taxation policies, monetary policies and other related terms.
2. Export means trade across the political boundaries of different nation. No Nation is self sufficient and had all the goods that it needs. This happens because of climatic variation & unequal distribution of natural resources. As a result, countries all over the world have become interdependent, which necessitated foreign trade.
3. A developing country like India with its fast growing agricultural production to keep pace with the population to keep pace with the population growth and growing Industrial infrastructure needs high-import and this can be sustained only with fast export growth. To meet the oil import bill, export is unavoidable.
4. It is evident that export promotion continues to be a major thrust area for the government. Several measures have been under taken in the past for improving export performance of the country. In India, Govt. has come out from time to time with various policies on foreign trade to promote export thereby increasing the “Foreign Exchange Reserve”. These policies are termed as “Exim Policy”

**Exim policy**

1. It contains policies in the sphere of foreign trade i.e. with respect to import & export from the country and more especially export promotion measures, policies and procedure related thereto.
2. Export means selling abroad and import as bringing into India, any goods and services.
Objectives of Exim Policy

1. Accelerating the country’s transition to a globally oriented vibrant economy with a view to derive maximum benefits from expanding global market opportunities;
2. Stimulating sustained economic growth
3. Enhancing the technological strength and efficiency
4. Encouraging the attainment of internationally accepted standards of quality
5. Providing consumers with good quality products and services at reasonable prices.

General provisions regarding export import

1. Exports and Imports free unless regulated
2. Compliance with Laws
3. Interpretation of Policy
4. Procedure:
5. Exemption from Policy/ Procedure
6. Principles of Restriction
7. Restricted Goods
8. Terms and Conditions of a License
9. Importer-Exporter Code Number
10. Exemption from Bank Guarantee
11. Clearance of Goods from Customs

Export Promotion Measure

1. Policy measures
2. Institutional set up.
3. Import Facilitation for Export Production.


5. Fiscal Incentives.

6. Foreign Exchange Facilities.

7. Export incentives

8. Export production units

**Export Incentives**

1. Duty Exemption

2. Duty Drawback Scheme

3. DFRC (Duty free replenishment certificate)

4. DEPB (Duty entitlement pass book)

5. Deemed Exports

**Export Production Units**

1. Export Oriented Unit (EOU)

2. Special Economic Zones (SEZ)

3. Software Technology Parks (STP)

4. Electronic Hardware Technology Parks (EHTP)

**Cash subsidies**

1. Marketing development assistance

2. Air freight subsidy

3. Spices export promotion scheme

4. Jute external marketing assistance

5. Financial assistance scheme agriculture & meat exports
Trade agreements - India signs bilateral trade agreement with South Korea

1. India and South Korea today signed the Comprehensive Economic Partnership Agreement (CEPA) opening up trade and investment between the two countries.
2. The CEPA comprises six agreements relating mainly to opening up of trade in goods, services and customs. It would give a boost to the more than USD 10 billion bilateral trades.
3. India's exclusion and sensitive list contains mostly agricultural, textiles and electronics. The CEPA negotiations had started in March 2006 and were concluded in September 2008. The Cabinet had
4. "We expect the CEPA to be a catalyst to further boost our business ties with India," said Choi Gyung Rim, policy director of South Korean foreign ministry. The South Korean foreign ministry official said he expects the agreement to become effective sometime around next January after Seoul gets final approval from the South Korean National Assembly by the end of October.
5. The CEPA is similar to a free trade agreement (FTA), with a comprehensive coverage of trade in goods and services and investments, as well as intellectual property rights. Under the CEPA, India will eliminate duties on 75 percent of products imported from South Korea on a custom-value basis during the eight years after the CEPA becomes effective. South Korea will remove duties on 93 percent of products from India during the same period. Although the tariff-removal rate is slower than the provision under most other free trade agreements, the deal with India is still expected to boost bilateral trade by up to $3.3 billion, up from the 2008 total of $15.6 billion, the state-run Korea Institute for International Economic Policy forecast. The agreement is forecast to benefit South Korean shipment of auto parts, while it benefits Indian service sector and service workers to work for South Korean companies. The CEPA enables the duty-free export of 108 items that are made in the jointly-operated industrial park of Kaesong in North Korea.
6. The two countries agreed to shift their focus to the revision of the visa policies between the two countries, expansion of trade, and establishment of free...
trade agreement to encourage further investment between the two countries. Korean companies such as LG and Samsung have established manufacturing and service facilities in India. Under the CEPA Agreement, tariffs will be reduced or eliminated on 93% of Korea’s tariff lines and 85% of India’s tariff lines. The pact will boost bilateral trade by as much as US$3.3 billion annually.

**Tariff Reduction or Elimination**

The following staging categories apply to the reduction or elimination of custom duties by each Party:

1. **E-0**: duties on originating goods shall be eliminated entirely and such goods shall be duty-free on the date this Agreement enters into force.
2. **E-5**: duties on originating goods shall be removed in five equal annual stages beginning on the date this Agreement enters into force, and such goods shall be duty-free, effective January 1 of year four.
3. **E-8**: duties on originating goods shall be removed in eight equal annual stages beginning on the date this Agreement enters into force, and such goods shall be duty-free, effective January 1 of year seven.
4. **RED**: duties on originating goods shall be reduced to one to five percent from the base rate in eight equal annual stages beginning on the date this Agreement enters into force, and such goods shall remain at one to five percent, effective January 1 of year seven.
5. **SEN**: duties on originating goods shall be reduced- 
   5.1 for India, by fifty percent of the base rate in ten equal annual stages beginning on the date this Agreement enters into force, and such goods shall remain at fifty percent of the base rate, effective January 1 of year nine; and
   5.2 for Korea, by fifty percent of the base rate in eight equal annual stages beginning on the date this Agreement enters into force, and such goods shall remain at fifty percent of the base rate, effective January 1 of year seven.
6. **EXC**: originating goods are exempt from the obligation of tariff reduction or elimination.
International Trade Policy

Free trade maximizes world output and benefits all nations but all nations impose some restrictions on the free flow of international trade.

1. Tariffs

1.1 Easily applied
1.2 Most common tool
1.3 Mostly taken from imports
1.4 GATT tries to decrease the rates
1.5 South Korea - 7.5% (2000)

A tariff is a tax or duty levied on the traded commodity as it crosses a national boundary.

Aim

1. To raise revenue for the government
2. Protection of domestic industries
3. Specific: Fixed sum per physical unit of the traded commodity.
5. Compound: Combination of ad valorem and specific tariff

Macroeconomic Effects

1. Balance of payments
2. National income
3. Terms of trade
4. Income distribution

2. Non – Tariff Trade Barriers

2.1 Quantitative Restrictions
2.2 Foreign Exchange Restrictions
2.3 New Protectionism
2.4 Export and Import Taxes
2.5 Monopolies and Cartels

Foreign Exchange Restrictions

Multiple Exchange Rate System
Under fixed exchange rate systems, different exchange rates might be applied in trade of some goods and services.

Foreign Exchange Controls
1. Government controls and interventions on the foreign exchange operations.
2. Applied together with other tools like quotas or import prohibitions.
3. Simply there are two exchange rates:
4. High exchange rate in the market:
   Imports: Luxury goods
   Exports: Exports of goods that are encouraged

Foreign Exchange Controls
1. Applied under fixed exchange rate systems.
2. Applied with import quotas and under multiple exchange rate systems.

Major Buyers of LG and Inco terms used by LG
The consumer durable goods industry is a highly growth oriented Industry, which is seeing high net growth in spite of the recession which has gripped the major industries worldwide. Indian market has been able to post robust growth in this industry in spite of the recession in the world markets. The reason, which has helped this industry, is the desire of the Indian people to acquire the latest that the technology and the companies have to offer in the product portfolio ranging from CTV's & their higher end versions of plasma & projection TV's, Air conditioners, Refrigerators, Washing machines, Cell phones, Microwave Ovens etc.

As such, we embrace the philosophy of "Great Company, Great People," whereby only great people can create a great company, and pursue two growth strategies involving "fast innovation" and "fast growth." Likewise, we seek to secure three core capabilities: product leadership, market
leadership, and people-centred leadership.

LG Electronics India is the fastest growing company in the consumer electronics, home appliances and computer peripherals industry today. LG Electronics is continually providing superior technology products & value for money to over 50 Lakh households in India. LG Electronics already have various ranges of products & Planning to more with all their variants and deviants. LG’s Marketing Network is also big as enough; company is planning to increase it more. LG Electronics currently has 65 Regional Area Offices, 60 Central Area Offices with 40 branches all over India.

LG Electronics is one of the leading companies in the field of electronics with a global presence in many countries. Before briefing, we have divided the introduction part into two main sub parts.

1. LG Global
2. LG India

Global Operation

LG Electronics is playing an active role in the world market with its assertive global business policy. As a result, LG Electronics controls 110 local subsidiaries in the world with around 82,000 executive and employees.

LG Group
1. LG. Philips LCD
2. LG Chemical
3. LG Telecom
4. LG Powercom
5. LG Twins
6. LG Dacom

Business areas and main products- Mobile communications
1. CDMA Handsets,
2. GSM Handsets,  
3. 3G Handsets,  
4. Cellular Phones

Graph 4.6 World Market Share of Mobile Phones as per the Report of RNCOS for the year 2008-

Digital appliance
1. Air Conditioners  
2. Refrigerators  
3. Microwave Ovens  
4. Washing Machines  
5. Vacuum Cleaners  
6. Home Net,  
7. Compressors for Air Conditioners and Refrigerators

Digital display
1. Plasma TVs  
2. LCD TVs  
3. Micro Display Panel TVs  
4. Monitors
5. PDP Modules
6. OLED Panels
7. USB Memory
8. Flat Panel Computer Monitors

Digital media

1. Home Theater Systems
2. DVD Recorders
3. Super Multi DVD Rewriters
4. CD±RW
5. Notebook PCs
6. Desktop PCs
7. PDAs
8. PDA Phones
9. MP3 Players
10. New Karaoke Systems
11. Car Infotainment

LG in INDIA

LG Electronics India Pvt. Ltd., a wholly owned subsidiary of LG Electronics, South Korea was established in January 1997 after clearance from the Foreign Investment Promotion Board (FIPB). LG set up a state-of-the art manufacturing facility at Greater Noida, near Delhi, in 1998, with an investment of Rs 500 Crores. LG Electronics India is the fastest growing company in the consumer electronics, home appliances, and computer peripherals industry today.

LG Electronics is continually providing, superior technology products & value for money to more than 50 lakhs households in India.
LG market share of consumer appliances and consumer electronic

Graph 4.7 LG position of CTV in various states in India

Graph 4.8 LG position of WM in various states in India

Graph 4.9 LG position of AC in various States in India
This analysis is based on the ORG survey conducted by LG which represent the LG position of different consumer durables in various states in India. I select different brand in different category as per the market share and the demand of product in market. This analysis represents the LG market position during the period of March 2008. It shows that LG has captured maximum market share almost in every category. LG and Samsung have the maximum market in consumer durable market but LG dominate the almost all the category in consumer durable.
In Feb. 2007 LG Electronics and Yahoo formed a strategic alliance. Yahoo mobile services will be available from LG mobile. This service is targeting 10 million LG mobile phones in over 70 countries. In Mar. 2007 LG Electronics and Google formed a strategic alliance. Both companies will work together to release, market, and offer LG mobile phones with Google services (search engine, map, email, and blogs.)

Figure 4.4 LG mobile phones with Google Services

Figure 4.5 BCG Matrix of LG

LG Brand identity

The brand of LG is delightfully smart. LG strives to enhance the customer’s life and lifestyle with intelligent features, institutive functionality and exceptional performance.
**The brand platform:** The LG brand is composed of four basic elements mentioned below:

1. Value
2. Promise
3. Benefits
4. Personality

**The Brands core Value that never changes.**

1. Trust
2. Innovation,
3. People
4. Passion

---

**Figure 4.6 Cycle for domestic producer and foreign consumer**
The company appoints distributor for selective cities where the markets are small but require more focus and attention. Distributors are required to conduct sales and marketing on behalf of the company in these markets serving to all the required company stores. The company sends goods to the distributor on outright sale basis. It is the duty of the distributor to send his people into the field to book the orders and also execute them through their own delivery vehicles. The distributor has to maintain his own sales, delivery and accounts people for smooth working of his unit and is served by the nearest C/F for all his requirements. The distributor is given a margin of 10-20%

**In-coterms used by LG - EXW – Ex Works (named place of delivery)**

The seller makes the goods available at its premises. This term places the maximum obligation on the buyer and minimum obligations on the seller. The Ex Works term is
often used when making an initial quotation for the sale of goods without any costs included. EXW means that a seller has the goods ready for collection at his premises (works, factory, warehouse, plant) on the date agreed upon.

1. **FCA – Free Carrier (named place of delivery)**
   The seller hands over the goods, cleared for export, into the disposal of the first carrier (named by the buyer) at the named place. The seller pays for carriage to the named point of delivery, and risk passes when the goods are handed over to the first carrier.

2. **CPT - Carriage Paid To (named place of destination)**
   The seller pays for carriage. Risk transfers to buyer upon handing goods over to the first carrier.

3. **CIP – Carriage and Insurance Paid to (named place of destination)**
   The containerized transport/multimodal equivalent of CIF. Seller pays for carriage and insurance to the named destination point, but risk passes when the goods are handed over to the first carrier.

4. **DAT – Delivered at Terminal (named terminal at port or place of destination)**
   Seller pays for carriage to the terminal, except for costs related to import clearance, and assumes all risks up to the point that the goods are unloaded at the terminal.

5. **DAP – Delivered at Place (named place of destination)**
   Seller pays for carriage to the named place, except for costs related to import clearance, and assumes all risks prior to the point that the goods are ready for unloading by the buyer.

6. **DDP – Delivered Duty Paid (named place of destination)**
   Seller is responsible for delivering the goods to the named place in the country of the buyer, and pays all costs in bringing the goods to the destination including import duties and taxes. This term places the maximum obligations on the seller and minimum obligations on the buyer.
CHAPTER - 5

BENEFITS TO THE HOST COUNTRY/COMPANY
Benefits to Host Country (India)

Electronic industry contribution

The government has identified electronics and IT hardware manufacturing as one of the thrust areas for development. The industry constitutes less than 1% of the global market. However, demand for these products is growing rapidly and investments are flowing in to augment manufacturing capacity. India remains a major importer of electronic materials, components and finished equipment amounting to around $20 billion (Rs84,000 crore now) in 2007. The country imports electronic goods mainly from China. In the last four years, production of computers has grown at a compounded annual growth rate (CAGR) of 31%, the highest among the various electronic products in India.

This has been followed by communication and broadcast equipment (25%), strategic electronics (20%) and industrial electronics (17%). The consumer electronics segment, which has grown at a CAGR of 10% in the last five years, includes a wide range of products such as DVD, VCD/MP3 players, television sets and microwave ovens. The growth in demand for telecom products has been high, with India adding two million mobile phone users every month, which is one of the main reasons for the growth in production of electronic goods. This growth is expected to continue over the next decade in the case of exports, the largest share was taken by electronic components, with 47% of total electronic exports. Exports of electronic components have grown at a CAGR of 25% in the last five years.

Setting up industry in India

The electronic industry in India constitutes just 0.7 % of the global electronic industry. Hence it is miniscule by international comparison. However the demand in the Indian market is growing rapidly and investments are flowing in to augment manufacturing capacity. India however remains a major importer of electronic materials, components and finished equipment amounting to over US$12 Billion in 2005.
Established in 1997, LG Electronics India Pvt. Ltd., is a wholly owned subsidiary of LG Electronics, South Korea. In India for a decade now, LG is the market leader in consumer durables and recognised as a leading technology innovator in the information technology and mobile communications business. LG is the acknowledged trendsetter for the consumer durable industry in India with the fastest ever nationwide reach, latest global technology and product innovation.

**Output of Electronic Industry**

![Indian Electronic Industry (2007-08) Total $ 20* Billion](image)

*Figure 5.1 Indian Electronic Industries in 2007-08*

The output of the Electronic Hardware Industry in India is worth $11.6 Billion at present. India is also an exporter of a vast range of electronic components and products for the following segments:

1. Display technologies
2. Entertainment electronics
3. Optical Storage devices
4. Passive components  
5. Electromechanical components  
6. Telecom equipment  
7. Transmission & Signalling equipment  
8. Semiconductor designing  
9. Electronic Manufacturing Services (EMS)  

**Indian Electronics Industry Exports are given below**

<table>
<thead>
<tr>
<th>Electronics &amp; IT Production (Calendar Year)</th>
<th></th>
<th></th>
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<tr>
<td>(Rs. crore)</td>
<td>2002</td>
<td>2003</td>
<td>2004</td>
<td>2005</td>
<td>2006</td>
<td>2007*</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Consumer Electronics</td>
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<td>14,850</td>
<td>16,500</td>
<td>17,500</td>
<td>19,500</td>
<td>21,880</td>
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<tr>
<td>Industrial Electronics</td>
<td>5,400</td>
<td>5,980</td>
<td>8,300</td>
<td>8,600</td>
<td>10,100</td>
<td>11,560</td>
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<td>Computers</td>
<td>4,180</td>
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<td>8,680</td>
<td>10,500</td>
<td>12,500</td>
<td>15,500</td>
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<td>Communication &amp; Broadcast Eqpt.</td>
<td>&amp;4,800</td>
<td>5,150</td>
<td>4,770</td>
<td>6,300</td>
<td>9,200</td>
<td>13,150</td>
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<td>Strategic Electronics</td>
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<td>2,670</td>
<td>2,850</td>
<td>3,070</td>
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<td>5,700</td>
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<td>8,700</td>
<td>8,530</td>
<td>8,600</td>
<td>9,320</td>
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<td><strong>Sub-Total</strong></td>
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<td><strong>42,700</strong></td>
<td><strong>49,800</strong></td>
<td><strong>54,500</strong></td>
<td><strong>64,400</strong></td>
<td><strong>77,110</strong></td>
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<td>44,000</td>
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<td>75,000</td>
<td>97,000</td>
<td>132,025</td>
<td>157,500</td>
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<td>Domestic Software</td>
<td>12,000</td>
<td>15,500</td>
<td>20,500</td>
<td>27,000</td>
<td>35,150</td>
<td>44,730</td>
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<td><strong>Total</strong></td>
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<td><strong>145,300</strong></td>
<td><strong>178,500</strong></td>
<td><strong>231,575</strong></td>
<td><strong>279,340</strong></td>
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<td>*Estimated</td>
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<td>(Rs. crore)</td>
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<td>2004-05</td>
<td>2005-06</td>
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<tr>
<td>Consumer Electronics</td>
<td>13,800</td>
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<td>16,800</td>
<td>18,000</td>
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<td>Computers</td>
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<td>4,800</td>
<td>7,000</td>
<td>9,500</td>
<td>14,350</td>
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### Broadcast Eqpt.

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<tr>
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<td>2,750</td>
<td>3,000</td>
<td>3,200</td>
<td>4,500</td>
<td>6,100</td>
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<td>8,800</td>
<td>8,800</td>
<td>8,800</td>
<td>9,500</td>
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<td><strong>Sub-Total</strong></td>
<td><strong>37,500</strong></td>
<td><strong>43,800</strong></td>
<td><strong>50,500</strong></td>
<td><strong>56,600</strong></td>
<td><strong>66,000</strong></td>
<td><strong>80,800</strong></td>
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<td>Software for Export</td>
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<td>80,180</td>
<td>104,100</td>
<td>141,000</td>
<td>163,000</td>
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<tr>
<td>Domestic Software</td>
<td>13,400</td>
<td>16,250</td>
<td>21,740</td>
<td>29,600</td>
<td>37,000</td>
<td>47,300</td>
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<td><strong>Total</strong></td>
<td><strong>97,000</strong></td>
<td><strong>118,290</strong></td>
<td><strong>152,420</strong></td>
<td><strong>190,300</strong></td>
<td><strong>244,000</strong></td>
<td><strong>291,100</strong></td>
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*Estimated

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### Electronics & IT Exports

(Rs. Crore)

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<tr>
<td>Consumer Electronics</td>
<td>750</td>
<td>825</td>
<td>1,150</td>
<td>2,000</td>
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<td>1,515</td>
<td>1,500</td>
<td>2,300</td>
<td>3,000</td>
<td>3630</td>
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<tr>
<td>Computers</td>
<td>550</td>
<td>1,440</td>
<td>1,200</td>
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<td>1928</td>
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<td>Communication &amp; Broadcasting Eqpt.</td>
<td>500</td>
<td>165</td>
<td>350</td>
<td>500</td>
<td>650</td>
<td>694</td>
</tr>
<tr>
<td>Components</td>
<td>2,400</td>
<td>3,755</td>
<td>3,800</td>
<td>3,800</td>
<td>5,850</td>
<td>6725</td>
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<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>5,600</strong></td>
<td><strong>7,700</strong></td>
<td><strong>8,000</strong></td>
<td><strong>9,625</strong></td>
<td><strong>12,500</strong></td>
<td><strong>12,700</strong></td>
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<tr>
<td>Computer Software</td>
<td>46,100</td>
<td>58,240</td>
<td>80,180</td>
<td>104,100</td>
<td>141,000</td>
<td>163,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51,700</strong></td>
<td><strong>65,940</strong></td>
<td><strong>88,180</strong></td>
<td><strong>113,725</strong></td>
<td><strong>153,500</strong></td>
<td><strong>175,700</strong></td>
</tr>
</tbody>
</table>

*Estimated

---

**Table 5.1 Indian Electronics Industry Exports**

**Consumer durable market**

India’s rural consumer durable market will witness an annual growth of 40 per cent in the next fiscal 2011-12, as against the current growth rate of 30 per cent owing to the change in lifestyle and higher disposable income of rural India which has fascinated the consumer durable market according to a study “Rise of Consumer Durables in Rural India” undertaken by the Associated Chambers of Commerce and Industry of India”. Around 35 per cent of the total sales of consumer durable items come from rural and semi-urban markets, which will grow by 40 to 45 per cent in the near future.
The consumer durable industry is growing at a fast pace and sees a strong demand in the coming period with the growing affordability of products as well as general buoyancy in the economy", The Chamber chief further said the penetration level of consumer durables is about 5 to 7 per cent in as compared to other countries.

The market for consumer durables is estimated at Rs. 300 billion and is expected to reach Rs. 500 billion by 2015. The urban consumer durables market is growing at an annual rate of nine to 12 per cent, the rural durables market is growing at 30 per cent annually. With being the second fastest growing economy with a rate of more than 9 per cent, with a huge consumer class nearly 70 per cent in rural areas, consumer durables have emerged as one of the fastest growing industries in especially in rural.

The consumer durable sector which contributes around 8 per cent in the Index of Industrial Production (IIP) and which provides jobs to professionals, skilled, semi skilled and unskilled workers, particularly women in the rural and semi-urban areas every year.

The Indian consumer durables segment can be segregated into consumer electronics (LCDs, home theatre systems, laptops & PCs etc.) and consumer appliances (white goods) like refrigerators, washing machines, air conditioners, microwave ovens, dishwashers and small home appliances. Television, Refrigerator and Air-conditioner have penetration of around 25 per cent, 17 per cent & 4 per cent respectively in the rural.

The government is focusing on roll out of GST by 2011, this is an important consideration that is discussed including whether GST will increase or decrease the proximity of rural markets from mainline distribution routes. It also surfaced that the excitement that rural is causing in Indian manufacturers and marketers represents an opportunity for domestic players to develop their infrastructure in the rural sector.

The study revealed that in the coming five years it would be a new era for rural, by 2015 it is expected that every village will be connected by an all weather road, every village will get the internet connectivity and almost every home will have electricity and possess a mobile phone.
Literacy rate in India

Literacy in India is key for socio-economic progress, and the Indian literacy rate grew to 74.04% in 2011 from 12% at the end of British rule in 1947. Although this was a greater than six fold improvement, the level is well below the world average literacy rate of 84, and India currently has the largest illiterate population of any nation on earth. Despite government programs, India's literacy rate increased only "sluggishly, and a 1990 study estimated that it would take until 2060 for India to achieve universal literacy at then-current rate of progress. The 2011 census, however, indicated a 2001-2011 decadal literacy growth of 9.2%, which is the slower than the growth seen during the previous decade.

There is a wide gender disparity in the literacy rate in India: effective literacy rates (age 7 and above) in 2011 were 82.14% for men and 65.46% for women. The low female literacy rate has had a dramatically negative impact on family planning and population stabilization efforts in India. Studies have indicated that female literacy is a strong predictor of the use of contraception among married Indian couples, even when women do not otherwise have economic independence. The census provided a positive indication that growth in female literacy rates (11.8%) was substantially faster than in male literacy rates (6.9%) in the 2001-2011 decadal period, which means the gender gap appears to be narrowing.

Innovative marketing strategies

To make itself a known brand in the consumer electronics sector, LG has taken innovative marketing and promotional initiatives:

1. Launch of new technologies in consumer electronics and home appliances.

2. LG was the first brand to enter cricket in a big offices across the country. LG had set a target of developing 2,000 dealers in 2004, in addition to the existing 3,000 dealers all over India.
Electronic systems innovation India’s opportunity to drive global market

The Indian market is uniquely diverse and versatile. Opportunities abound across market segments and price brackets, with the potential to innovate and adapt. The Electronics System Design and Manufacturing (ESDM) industry is poised to ride the rising wave of domestic demand for electronic products. The Indian industry is proficient in design and applications development. Capabilities in these core areas can catapult the industry towards greater innovation, and development of products for the local, regional and global markets. ESDM, with the stress on energy-efficiency and inclusive growth, can propel the country towards global leadership.

Market & business dynamics in emerging markets

Businesses in emerging economies are breaking the rules of convention and finding innovative ways to grow and sustain in the competitive landscape. These high growth regions, like India, Greater China, Brazil and sub-Saharan Africa, have come out of the global downturn with a lower degree of impact. These markets are in the focus of international business as they provide significant challenges and great opportunities. An economy on the rise, a fast developing business environment, and the culture of ‘we-can-make-it-happen’ are the big enablers. The rapid penetration of mobile telephony and the Internet have played a big role. India ranks an outstanding 28th in the most complex areas measured by the business sophistication and innovation sub-index, ahead of several advanced economies.

Health care & Education: Next frontier in multi-disciplinary system design

Electronics can be tomorrow’s change agent in healthcare and education in India. Electronics for medical and education devices need not be the privilege of the few. Electronics has the potential to bring about a revolution in healthcare delivery in India, and take education to the masses. Value engineering and systems integration will make products more accessible and enable inclusive growth. Technologies that allow portability, connectivity and data security will rule the day. Systems will then move from the hospital environment to the home. Industry is looking at ways to
surmount the pricing barrier and challenges in distribution, and thereby, evolve an enabling ecosystem.

Energy efficiency: Energy saved is energy produced

The world is estimated to consume 20,000 billion KWH of electrical energy in the year 2010. By 2030, it will grow to 30,000 billion KWH. The demand will be significantly higher from the emerging economies of China and India. Such high energy consumption is bound to leave a huge impact on the environment. Energy-efficient products and devices can be a big saviour. Electronics can make a big difference in the energy efficiency of products and systems. It is the enabling technology to efficiently use, distribute and generate electrical energy. Several market segments, such as domestic and office appliances, heating, ventilation and air-conditioning, digital consumer, communication, factory automation and drives, traction, automotive and renewable energy, can potentially benefit from the application of electronics in the efficient usage of electrical energy.

Benefits to Parent Country (South Korea)

Telecoms & consumer products: Driving global markets through local innovations

India semiconductor market grew 15.6 percent in 2009 in contrast to the global market that shrunk by 11 percent from 2008. Wireless handsets, 3G networks, WiMax, notebooks, set-top-boxes and smart cards are the primary drivers of the semiconductor market in India. Telecommunications infrastructure development will push domestic semiconductor consumption by a massive 132.5 percent from 2009 to 2011. Indian companies have been innovating to adapt to the rapid changes in the market, and are taking on global companies. The spotlight now turns on Indian industry as it leverages the gains made on the home ground to explore global markets.

Local and efficient manufacturing to reduce cost
To overcome high import duties, LG manufactures PC monitors and refrigerators in India at its manufacturing facility at Noida, Delhi. LGEIL had already commissioned contract manufacturing at Mohali, Kolkata and Bhopal for CTVs. This has helped LGEI to reduce costs. LGEIL is implementing a “digital manufacturing system” (DMS) as a cost-cutting innovation. This system is a follow-up to the Six Sigma exercise LGEIL had initiated earlier.

1. The Indian Durables market, with a market size of US$ 27.38 billion in 2008-09, has grown by 7.1% over the previous year.
2. The rapid business economic growth is increasing and enhancing employment and opportunities.
3. The production in the consumer electronics industry has been estimated at US$ 6.7 billion in 2009-2010.
4. The segment registered a growth of 18% in 2009-10 from US$ 5.5 billion.
5. The consumer electronics segment contributes about 27%.
6. The competitors of LG are Videocon, Whirlpool, Godrej.

**India and South Korea relation**

India shares cordial relations with South Korea since 1962. However, the presence of South Korean President Lee Myung-bak, as the Chief Guest for the January 26 Republic Day celebrations will further strengthen the ties between the two nations.

Looking back, it was in 1973 that India established Ambassador level relations with South Korea. Since then ties between both countries have been growing at a gradual pace. However, with liberalization of Indian economy in 1991, India opened its doors to MNCs, and Korean companies were the first to venture into the Indian markets. Very soon Korean companies like LG, Samsung, Daewoo and Hyundai have made their presence felt in a major way in India. The significant success of these companies has seen large number of companies waiting to embark into the Indian markets.

The subsequent years have witnessed more broad-based relations between both the nations. Rapidly growing trade and investment flow apparently form the basis of
bilateral cooperation between the two nations. The visit by an Indian President Abdul Kalam to South Korea in 2006 gave further boost to the trade relation between the two states. It was first-ever visit by an Indian President to the Republic of Korea which saw signing of a Comprehensive Economic Partnership Agreement.

**Trade**

The two-way trade relations between two countries gathered momentum in the recent years. Despite the hullabaloo around recession globally, the trade between the two nations have been growing from strength to strength. In the year 2008, bilateral trade grew by almost 39 percent. The same year, Korean imports clocked a growth of almost 42 percent, which were recorded at US$ 6.5 billion.

India’s major Exports to Korea: Naphtha (US$3.88 billion worth), iron and steel, oil seeds residue and cattle feed. Even AC generators, photo-sensitive semi-conductors and chemical products etc have been gradually catching the fancy of the Koreans. India’s major imports from Korea: Auto parts including engines, ships/tankers, iron and steel products, fertilizers, footwear, ships and chemicals. Republic of Korea exports grew at 36% reaching a total amount of US$8.9 billion. In 2001, the total trade stood at US$2.52 billion, seven years later it has increased almost 6 times and as per ROK estimates stands at US$15.5 billion. However, it was during the last two years the trade graph has shown a steep upward curve i.e. over 100 percent.

**Tourism and Cultural ties**

A tourism agreement was signed between India and South Korea in 1993, in an attempt to give a fresh impetus to tourism and cultural exchanges between both the countries. In fact number of festival and cultural events has been organized in South Korea in an endeavour to educate the masses about India’s deep rooted cultural traditions. A 55 strong Indian contingent of performing arts had recently visited South Korea to participate in the 3rd Delphic Games.

**Education**
The number of Indian students enrolling in Korean Universities is on the rise. For that matter even Korean students seem interested in coming to India and pursue further education in premier technical institutions like IITs. Jawaharal Nehru University and Delhi University have even launched special Korean Studies and Korean Language courses. Likewise, two South Korean Universities have also come up with Indian Studies Department.

**Non-Resident Indians in South Korea**

There are around 6000 non-resident Indians in South Korea. They include businessmen, IT professionals, scientists, research fellows, students and workers. There are about 150 businessmen dealing mainly in textiles, over 1000 IT professionals and engineers, 600 hundred scientists/post doctoral research scholars.

**Policies**

1. The Foreign investment up to 100% is possible in the Indian consumer electronics to set up units exclusively for exports.
2. It is possible to import duty-free all components and raw materials, manufacture products and export.
3. EHTP (Electronic Hardware Technology Park) benefits include export credits, no duties on imported components, business tax incentives.

**Intellectual Property Rights**

1. Protection of Intellectual property rights is a prime requisite for development of R&D and innovation in the consumer electronics sector.
2. In the current WTO regime, India is a party to the “Trade Related Aspects of the Intellectual Properties (TRIPs) Agreement.
3. The Indian Copyright Act 1957 was amended in 1999; the patent Act 1970 was amended in 1999 & 2003.
4. Trademarks and Merchandise Marks Act 1959 was overtaken by a new Trademark Act 1999.
5. The Industrial Design Act 1911 was effectively replaced by the Design Act 2000.
6. The Layout Design of Semiconductor integrated Circuit Act 2000 was enacted.
7. The consumer electronics and durables sector is expected to continue to benefit from supportive policies and become globally competitive.

**Regulations**

1. **Free Trade Agreement**

   1.1 The WTO regime which came in force in 2005, results in Zero customs duty on imports of all telecom equipment.
   1.2 The 217 electronic items were covered under the Information Technology Agreement (ITA) of the WTO for complete customs Tariff elimination.
   1.3 The ITA-1 would result in intensifying competition as more imported products will be easily available at lower prices.

2. **Foreign Investment Policy (FDI)**

   2.1 Foreign Investment up to 100% is allowed in Indian electronics industry set up exclusively for exports.
   2.2 The units set up under these programmes are bonded Factories eligible to import, free of duty, their entire requirement of capital goods, raw material, spares and consumables, office equipment etc.
   2.3 The FDI approval for electrical equipment from April 2000 to January 2010 was US$ 21.24 billion, which was 2.01 % of the total FDI approved.
   2.4 The FDI inflow for electrical equipment was US$ 96.30 billion.

3. **Procedure for Approval**

   3.1 Once the investment in equity has been approved for short duration does not require any additional approvals.
   3.2 Approval of Ministry of Home Affairs is not needed for hiring foreign nationals holding valid employment visa.
3.3 Approval for setting up units in Export Processing Zones (EPZs) is given by the board of Approvals in the Ministry of Commerce.

3.4 Proposals involving foreign direct investment not covered under the automatic route are considered by the Foreign Investment Promotion Board (FIPS).

4. **Foreign technology collaboration Agreement**

4.1 The government facilitates FDI and investment from Non-Resident Indians (NRIs) to complement and supplement domestic investment.

4.2 Foreign technology induction is encouraged through FDI and foreign technology.

South Korea LG mainly focus on innovative product through good client relationship, it helps to expansion of existing relationship and desire growth. As a second largest electronic manufacturing company in Korea-LG, the demand of their products in overseas market are quiet high, more technical work force. Therefore company aims to give more training facility and quality of work life.

LG is the market leader in various segments like colour TVs, microwave ovens, frost-free refrigerators, washing machines and air-conditioners, with market shares of 26.2 per cent, 41.2 per cent, 37.9 per cent, 34.1 per cent and 34 per cent respectively.

LG Electronics India received the Occupational Health & Safety Management System OHSAS18001:1999 certification from the British Standards Institution (BSI), India, for a systematic approach towards Occupational Health and Safety Management System. LGEI exported goods and services worth US$ 40 million in 2003. The major export markets for LGEI are the Middle East, West Africa and Central Asia.

LG’s products come equipped with values, promise, benefits, and personality. LG Electronics' innovative technologies, unique products, and cutting-edge designs are an investment in the future. LG Electronics, Inc. (LG) is a global leader and
technology innovator in consumer electronics, mobile communications and home appliances, employing more than 84,000 people working in 112 operations. LG's vision is to supply top-of-the-range innovative digital products and services and ensure customer satisfaction. LGEIL sales turnover has increased from 125 crore in 1997 to 13000 crore in 2009. LG continues to pursue its 21st century vision of becoming a worldwide leader in digital that ensures customer satisfaction through innovative products and superior service. LG Electronics continues to pursue its 21st century vision of becoming a worldwide leader in digital—ensuring customer satisfaction through innovative products and superior service while aiming to rank among the world’s top three electronics, information, and telecommunications firms by 2010. On our way, we hold tight to a philosophy of "Great Company, Great People," underscoring our belief that only great people can create a great company.

Benefits to the Society (CSR Initiatives)

Since 1994, LG Electronics has endeavoured to minimize its impact on the environment, from product development to final product.

Footprint Overview

With the intention of creating a cleaner planet and protecting people's health, LG Electronics has adopted an environmental management strategy, developing eco-products while actively supporting out-of-house environmental protection initiatives. In an effort to respond quickly and efficiently to threats, LG operates continual assessment and monitoring systems. The company also puts environmental management principles into practice by applying an environmentally friendly mindset to the entire production process, from design to development, to production and distribution.

The company is also committed to the necessary research needed to devise more efficient methods of taking-back and recycling end-of-life electronic products. For all these reasons, LG is now well-known as a protector of the environment, and significantly engaged in environmental initiatives inside and out.
Strategy

In its bid to provide customers with eco-products, LG is also making strides toward attaining its own sustainability goals. LG Electronics' environmental management and eco-products strategies are being implemented in the environment/energy sector, the health and safety sector, and the comprehensive sector now laying the foundations for ongoing sustainable management. These strategies are being implemented through various means, including:

1. Eco-design
2. Management of hazardous substances
3. Research for take-back and the recycling of end-of-life electronics products
4. Green program
5. Supporting strong environmental communities (NGOs, stakeholders)

Our Sustainability Vision

Through sustainable management, LG Electronics is helping to keep the environment clean and society warm-hearted.

LG Electronics' Promises to represent the promises made to the people, the planet, and to LG Electronics itself. It speaks to a vision of society where LG employees, stakeholders, the population at large, can live in harmony with nature while helping to make it a cleaner, safer place for generations to come. For its part, LG is carrying out a set of environmental mandates, proving once more that the innovative spirit behind our international success is a vital asset in many realms.

Sustainable Management Policy

From its founding, LG Electronics has applied sustainable management principles-practices grounded in the best interests of the company and greater mankind-putting the creation of value above all else.

1. LG Electronics' sustainable management policy has become the standard against which company-wide management practices are judged.
2. LG Electronics enhances customers' quality of life by offering innovative products.

3. LG Electronics continues to create revenue for stakeholders and investors through technological development and innovative management—ever on the lookout for new ways to offer value.

4. LG Electronics encourages self-realization and offers rewards acknowledging the creativity and individuality of its employees.

5. LG Electronics, together with our business partners, is constantly evolving through free and fair trade and collaborative relationships that benefit all.

6. Based on a broad perspective that takes all components into consideration, LG Electronics is committed to protecting the planet by minimizing the environmental impact of our production processes, beginning to end.

7. In its role as corporate citizen and in an effort to fulfill its social responsibilities—LG Electronics contributes to various causes and organizations around the world.

8. LG Electronics takes into consideration potential social impacts, as well as the opinions of its stakeholders, when establishing strategies and launching new enterprises.

9. LG Electronics conducts ongoing evaluations of its sustainable management policy, providing regular updates, both at home and overseas.

**Climate Change and Energy**

LG Electronics is a global company, set on becoming the third-largest company in global digital electronics sales, by 2010. Partly because of this goal—and the company’s already achieved top-tier rank worldwide, we feel an equal urgency toward social responsibility and taking an active role in the push to reduce greenhouse emissions and tackle the environmental damage already incurred. Toward this end, LG Electronics is implementing various strategies to and technologies to reduce greenhouse gas emissions at our factories. We’re also working to minimize the indirect greenhouse gases emitted from LG products by continuing to increase the energy-efficiency of our products.
Greenhouse Gases Discharged During Business Activities

Beginning with the already-complete survey of our Cheongju factory, LG is conducting a full inventory of operations to discern the amount and sources of discharged greenhouse gases. The inventory will be completed by June 2009, and will encompass all domestic and overseas factories, though we are already gradually reducing the amount of greenhouse gases discharged in these locations.

Once complete, we will move swiftly to establish a complete management system for greenhouse gases, including office, research, and transportation, as well as manufacturing factories. We will also put in place objective authentication and IT management systems to establish full-time monitoring and evaluation.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Emissions</td>
<td>117,419</td>
<td>131,991</td>
<td>133,207</td>
</tr>
<tr>
<td>Energy Indirect Emissions</td>
<td>456,125</td>
<td>568,826</td>
<td>541,826</td>
</tr>
<tr>
<td>Other Indirect Emissions</td>
<td>9,297</td>
<td>11,022</td>
<td>11,435</td>
</tr>
<tr>
<td>Optional</td>
<td>135,772</td>
<td>134,365</td>
<td>129,402</td>
</tr>
<tr>
<td>Total</td>
<td>718,613</td>
<td>846,204</td>
<td>815,870</td>
</tr>
</tbody>
</table>

Table 5.2 The Amount of Greenhouse Gases Discharged from Domestic Factories

Scope (as defined within ISO 14064-1) Year

Greenhouse Gas Emission during Product Use

In order to further reduce greenhouse gas emissions, LG Electronics is increasing its proportion of high-efficiency products, in part by continuing to aggressively develop new technologies. We’re also acting to educate our customers by offering them simple energy-saving tips-highlighting ways that they can join the effort reduce these emissions, and underscoring the importance of a cleaner world. By 2012, LG plans to further demonstrate its determination to counter climate change by establishing a low-carbon business environment.
Energy Efficiency

Energy Star is the U.S. government's international program to encourage the use of energy-saving consumer products. It was formed by the country's Environmental Protection Agency (EPA) in 1992, as part of a larger initiative to reduce energy consumption and greenhouse gas emissions. We are proud to note that the majority of LG Electronics' products meet Energy Star standards. Click the link below to view LG products that meet Energy Star specifications.

Reduction Plan and Goals for the Disposal of Greenhouse Gases Produced by Factories

By 2007, LG Electronics operated a total of 36 manufacturing sites; nine in Korea, and 27 overseas. Greenhouse gases emitted from these facilities fall into both categories of gas emissions: direct and indirect. Direct emissions are generated from burning fossil fuels during the manufacturing processes, and from escaping coolant (inserted into products during production). Indirect emissions are generated through the use of external energy sources, such as electricity.

Because the majority of our emissions are indirect, and each facility is actively promoting efficiency improvements At the Changwon Factory, greenhouse gases were reduced by approximately 5,000 tons in 2007, as a result of such measures. Currently, a plan to expand the use of recycled energy is also being reviewed. And, when inventories are complete, emission reduction in domestic factories will begin with the implementation of an integrated greenhouse gases management system.

Development of Renewable, Energy-Related Technology

The home appliance business sector has, for the last seven years, been number one in global sales of residential air-conditioners. In April 2007, and thanks to some 40 years' expertise, we launched a newly conceptualized air-conditioning and heating system, called the "Hybrid Gio." This environmentally friendly system consumes less energy than conventional cooling or heating systems that use electricity or gas, and emits no direct greenhouse gases. Moreover, the sector launched the solar cell business group, led by LG Corp, building a solar-light system capable of generating
tens of megawatts. And, because the solar-light generation system emits no greenhouse gases, LG will be able to reduce greenhouse emissions by actually generating greener electricity.

**Battery Chargers**

All LG mobile-phone chargers developed and launched since January 1, 2005 have satisfied the EU voluntary Code of Conduct (CoC) and the EPA Energy Star 1.1* of the United States, actually exceeding the latter standard by more than 50% at the point of shipment. This marks an improvement average of 69 percent.

<table>
<thead>
<tr>
<th>Total Model No.</th>
<th>Energy Star 1.1 Qualified Models</th>
<th>Exceeding Energy Star 1.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Battery Charger</td>
<td>39 39 100% 39 100%</td>
<td>39 100%</td>
</tr>
<tr>
<td>Total</td>
<td>39 39 100% 39 100%</td>
<td>39 100%</td>
</tr>
</tbody>
</table>

**Table 5.3 Energy Star Qualified Model**

The IPP Project on the Efficiency of a Mobile Device Charger is a voluntary agreement committing electronics manufacturers to develop external power supplies (i.e. chargers) with minimized power consumption and, in particular, minimum no-load power consumption. This means that when the charger is not charging a device, but is still plugged in, it consumes a minimal amount of energy.

<table>
<thead>
<tr>
<th>Rating</th>
<th>No-load Power consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>0.03W</td>
</tr>
<tr>
<td>4</td>
<td>0.03W to 0.15W</td>
</tr>
<tr>
<td>3</td>
<td>0.15W to 0.25W</td>
</tr>
<tr>
<td>2</td>
<td>0.25W to 0.35W</td>
</tr>
<tr>
<td>1</td>
<td>0.35W to 0.5W</td>
</tr>
<tr>
<td>0</td>
<td>0.5W</td>
</tr>
</tbody>
</table>
Table 5.4 Energy Efficiency Rating for Mobile Device Charger (By Voluntary Agreement EU and Industry IPP Project)

**TVs**

The following TVs were launched by LG Electronics in 2007. More than 85% of the products satisfy the Energy Star standards, and some products exceed those standards by more than 30 percent.

```
<table>
<thead>
<tr>
<th></th>
<th>Met</th>
<th>Exceeding (30%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LCD</td>
<td>88%</td>
<td>45%</td>
</tr>
<tr>
<td>PDP</td>
<td>91%</td>
<td>29%</td>
</tr>
</tbody>
</table>
```

Table 5.5 Energy Star TVs standard (Effective July 1, 2005): standby mode 1 W (exceeding the mode by 30% at 0.7 W)

**Monitors**

The following monitors were launched by LG Electronics in 2007. More than 85% of the products satisfy Energy Star standards—with more than 80% of the models exceeding those standards by more than 30 percent.

```
<table>
<thead>
<tr>
<th></th>
<th>Total Model No.</th>
<th>Energy Star 2.2 Qualified Models</th>
<th>Exceeding Energy Star 2.2 by 30%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Quantity</td>
<td>%</td>
</tr>
<tr>
<td>Overseas</td>
<td>LCD 136</td>
<td>126</td>
<td>92.65%</td>
</tr>
<tr>
<td></td>
<td>CRT 8</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Domestic</td>
<td>LCD 32</td>
<td>31</td>
<td>96.88%</td>
</tr>
<tr>
<td></td>
<td>CRT 1</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>177</td>
<td>157</td>
<td>88.70%</td>
</tr>
</tbody>
</table>
```

Table 5.6 Energy Star standards – 2.2 Qualified Models
Status of Renewable Energy Use

Renewable energy, including solar power, hydro-power, bio-organism based, and geothermal heat is a desirable solution for fossil fuel depletion and taking care with the environment. Currently, LG's second Chang-Won factory is using four kinds of renewable energy: geothermal and solar heat, and the Cogen and solar-light systems. Geothermal System Cooling water is the product of this system, in which hot water runs into the ground and is circulated back to be used as cooling water again. Generating capacity: 35 kw/h

Solar-Energy System This system generates electricity from infinite, pollution-free solar energy via the use of solar cells. Generating capacity: 1kw/h. Cogen System This system supplies warm water after generating electricity by using LNG. Generating capacity: 30kw/h. Solar Heat System This system supplies hot water using heat absorbed in a solar-heat condenser, which is then connected to a Cogen system warm water tank.

Environment Safety

Following the creation of LG Electronics' Environmental Declaration, the company has established and is currently enforcing its mid- and long-term Green strategies.

Figure 5.2 of LG Electronics' Environmental Declaration

Environmental Stabilization Policy

LG Electronics is committed to facilitating continuous technological innovation, as well as undertaking research and development to encourage sustainable
development and enhance quality of life. We aim to offer the best services to customers and to preserve a safe and healthy environment for future generations.

**Environmental Management Strategy**

Strategies established for environmental management and for the development of eco-products have yielded sustainable management policies. These strategies have been expanded upon to create the comprehensive strategy for Energy, Environment, Safety and Health (EESH), which includes the environment-as well as industrial safety and healthcare.

**Evaluation of Environmental Achievement**

In 1999, LG Electronics adopted ISO 14001 an Environmental Achievement Evaluation system & in 2009 we adopted BS EN 16001 an Energy Management system to facilitate systematic management of environmental operation activities, and to raise the standards of the company's environmental operations. This evaluation system, which is designed to manage health- and safety-related areas, as well as environmental activities, was established through numerous and ongoing initiatives.

**Environmental Safety and Crisis Management System**

LG Electronics has established a set of priorities in case of crisis, conducting emergency training sessions on a scenario basis. The aim of this training is to eliminate the uncertainty that disrupts crisis-management efforts and to minimize damage by being able to respond to an emergency situation quickly and efficiently.

**Social Contribution**

**Hope for Life’s Good!**

As a leading corporate citizen, under the slogan “Hope for Life’s Good,” LG has been playing an active role in global efforts to provide sustainable solutions and help achieve the UN Millennium Development Goals (MDGs). By engaging with diverse stakeholders such as governments, academic institutions, NGOs and its employees,
LG is helping to create and share common values based on creativity, sustainability and more fulfilling lives

Based on LG Way which is LG Group wide values such as creating values for customers and human respect management, LG Electronics announced it’s Charter of Social Contribution in 2005.

At global level, LGE support the achievement of UN MDGs which is broadly target the eradication of poverty in developing countries, alleviation of disease such as cholera and promoting environmental awareness.

At local level, LG Electronics define diverse local issues and problems through stakeholder engagement such as government, academia, NGOs and customers. Faced by these challenges, LGE provide innovative solutions by its own smart technology, products and differentiated services. For example, in Korea, from 2006, LGE developed specialized phone for blinds and provide more than 2,000 mobile phones to blinds in low income family. In Nigeria, under the partnership with university of Lagos, LGE supported to develop the design lab and training programme for capacity building of young students.

LG Electronics encourage its employees to act as global citizen through volunteering. Employees at our worldwide locations participate in Global Volunteer Day, blood donation campaigns, LG Hope schools and tree planting activities.

In Korea, thousands of LG Electronics managers and employees have organized themselves into working-level volunteer groups such as the talent sharing volunteering activity, Life’s Good Volunteers, LG IT Angels and Junior Science Class. At the financial level, the company operates donation programs including the Salaries Fund, Executive Social Contribution Fund and Charity Party.

LGE Labour Union declared the Charter of USR (Union Social Responsibility) in 2010 as the first company in the world to encourage employee engagement on social contribution activities and tackle local problems.
Every year, LGE Labour Union hosted ‘Global Volunteer Day’ worldwide to celebrate World Environment Day and blood donation campaigns in more than 10 subsidiaries.

Charter of Social Contribution

As a global company, LG Electronics fulfills its social responsibility by showing love for those who have dreams and contributing to making a better society where everyone can lead a happy life.

1. LG Electronics actively supports those who strive to reach (realize) their dreams.
2. LG Electronics operates its corporate citizenship programs by forming partnerships between labour and management, executives and employees, customers and local community citizens, and related NPO/NGOs.
3. LG Electronics conducts its corporate citizenship activities from a long-term perspective.
4. LG Electronics focuses on the areas of social welfare, education and cultural activities by means of sponsorship, financial aid and volunteer work.
5. As a global corporate citizen, LG Electronics conducts its corporate citizenship activities wherever it does business.
Poverty Alleviation

1. LG Hope Series

For eradicate poverty and increase self resilience in developing countries, LGE operate LG Hope Series in Africa and Asia under the partnership with UN WFP since 2009. Through this partnership, LG support to achieve MDG Goal

2. LG Hope School and LG Hope Village

Since 2009, LG has been cooperating with UN WFP in operating the LG Hope series toward sustainable development. LG provide school meals in the 15 LG Hope Schools through the slum districts in Kenya. Through this LG hope School, children in slum can increase not only their nutrition but also get opportunity to study in the school for being out of poverty in the future. In Ethiopia, LG Hope Village to support environmental friendly land management with village people to increase their income. Long term LG Hope Village project will support to build the self resilience.

3. LG Hope Family

Since 2011, LG expand its poverty eradication activity into Asia. In Bangladesh and Cambodia, total 7,000 families were selected as LG Hope Family and they will support to develop local infrastructure such as pond and road and we receive food.
Through LG Hope Family, they can get food, opportunity to work and contribute to develop community infrastructure.

Figure 5.5 Developing community infrastructures

Tax Benefits

Taxation in India

India has a well developed tax structure with a three-tier federal structure, comprising the Union Government, the State Governments and the Urban/Rural Local Bodies. The power to levy taxes and duties is distributed among the three tiers of Governments, in accordance with the provisions of the Indian Constitution. The main taxes/duties that the Union Government is empowered to levy are Income Tax (except tax on agricultural income, which the State Governments can levy), Customs duties, Central Excise and Sales Tax and Service Tax. The principal taxes levied by the State Governments are Sales Tax (tax on intra-State sale of goods), Stamp Duty (duty on transfer of property), State Excise (duty on manufacture of alcohol), Land Revenue (levy on land used for agricultural/non-agricultural purposes), Duty on Entertainment and Tax on Professions & Callings. The Local Bodies are empowered
to levy tax on properties (buildings, etc.), Octroi (tax on entry of goods for use/consumption within areas of the Local Bodies), Tax on Markets and Tax/User Charges for utilities like water supply, drainage, etc.

Since 1991 tax system in India has undergone a radical change, in line with liberal economic policy and WTO commitments of the country. Some of the changes are:

1. Reduction in customs and excise duties
2. Lowering corporate Tax
3. Widening of the tax base and toning up the tax administration

Direct Taxes

A tax is said to be direct tax when impact and Incidence of a tax are on one and same person, i.e., when a person on whom tax is levied is the same who finally bears the burden of tax. For Instance, income tax is a direct tax because impact and incidence falls on the same person.

Indirect taxes

Indirect taxes are those taxes which are paid in the first instance by one person and then are shifted on to some other persons. The impact is one person but the incidence is on the other. If the impact of tax falls on one person and incidence on another, the tax is called indirect. For example, tax on saleable articles is usually an indirect tax because it can be shifted on to the consumers.

1. Personal Income Tax

Individual income slabs are 0%, 10%, 20%, 30% for annual incomes up to Rs 50,000, 50,000 - 60,000, 60,000 - 1,50,000 and above 1,50,000 respectively.

2. Corporate Income Tax

For domestic companies, this is levied @ 35% plus surcharge of 5%, whereas for a foreign company (including branch/project offices), it is @ 40% plus surcharge of
5%. An Indian registered company, which is a subsidiary of a foreign company, is also considered an Indian company for this purpose.

In the host countries in which these MNCs operate, they end up paying taxes; this can lead to the MNCs being favored by the government. The MNCs use this government leverage to receive subsidies and tax benefits; they can also evade taxes by increasing the price of imports and decreasing the price of exports of the products they manufacture. Though they increase the employment and revenue in the host countries, their unfair influence with government can stifle other local businesses.

Multinationals are business entities that operate in more than one country. Multinationals are also known as multinational corporations, transnational corporations and multinational enterprises. Typically, multinationals will have headquarters in one country and operational facilities in other countries. Multinational benefits both to the home country and the host countries.

The state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government. This principle has been subjected to severe criticism on the following grounds:

Firstly, if the state maintains a certain connection between the benefits conferred and the benefits derived. It will be against the basic principle of the tax. A tax, as we know, is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct quid pro quo in the case of a tax.

Secondly, most of the expenditure incurred by the state is for the general benefit of its citizens, it is not possible to estimate the benefit enjoyed by a particular individual every year.

Thirdly, if we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. If we get more from the poor by way of taxes, it is against the principle of justice?
The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the latter.

It seems that if the taxes are levied on this principle as stated above, then justice can be achieved. But our difficulties do not end here. The fact is that when we put this theory in practice, our difficulties actually begin. The trouble arises with the definition of ability to pay. The economists are not unanimous as to what should be the exact measure of a person's ability or faculty to pay.

The main viewpoints advanced in this connection are as follows

1. Ownership of Property: Some economists are of the opinion that ownership of the property is a very good basis of measuring one's ability to pay. This idea is out rightly rejected on the ground that if a person's earns a large income but does not spend on buying any property, he will then escape taxation. On the other hand, another person earning income buys property; he will be subjected to taxation. Is this not absurd and unjustifiable that a person, earning large income is exempted from taxes and another person with small income is taxed.

2. Tax on the Basis of Expenditure: It is also asserted by some economists that the ability or faculty to pay tax should be judged by the expenditure which a person incurs. The greater the expenditure, the higher should be the tax and vice versa. The viewpoint is unsound and unfair in every respect. A person having a large family to support has to spend more than a person having a small family. If we make expenditure. As the test of one's ability to pay, the former person who is already burdened with many dependents will have to pay more taxes than the latter who has a small family. So this is unjustifiable.
3. Income as the Basics: Most of the economists are of the opinion that income should be the basis of measuring a man's ability to pay. It appears very just and fair that if the income of a person is greater than that of another, the former should be asked to pay more towards the support of the government than the latter. That is why in the modern tax system of the countries of the world, income has been accepted as the best test for measuring the ability to pay off a person.

Withholding Tax for NRIs and Foreign Companies

Withholding Tax Rates for payments made to Non-Residents are determined by the Finance Act passed by the Parliament for various years. The current rates are as follows.

1. Interest - 20% of Gross Amount
2. Dividends - 10%
3. Royalties - 20%
4. Technical Services - 20%
5. Any other Services - Individuals - 30% of net income
6. Companies/Corporate - 40% of net income

The above rates are general and in respect of the countries with which India does not have a Double Taxation Avoidance Agreement (DTAA).

Double Taxation Relief

India has entered into DTAA with 65 countries including countries like U.S.A., U.K., Japan, France, Germany, etc. These agreements provides for relief from the double taxation in respect of incomes by providing exemption and also by providing credits for taxes paid in one of the countries.

These treaties are based on the general principles laid down in the model draft of the Organisation for Economic Cooperation and Development (OECD) with suitable
modifications as agreed to by the other contracting countries. In case of countries with which India has double taxation avoidance agreements, the tax rates are determined by such agreements and are indicated for various countries as under:

<table>
<thead>
<tr>
<th>Country</th>
<th>Dividends %</th>
<th>Interest %</th>
<th>Royalties %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Austria</td>
<td>20</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>15</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Belarus</td>
<td>15</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Belgium</td>
<td>15</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Brazil</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>15</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Canada</td>
<td>25</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>China</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Cyprus</td>
<td>15</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>20</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Denmark</td>
<td>20</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Egypt</td>
<td>20</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Finland</td>
<td>15</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>France</td>
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<td>10/20</td>
</tr>
<tr>
<td>Country</td>
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<td>Column 2</td>
<td>Column 3</td>
</tr>
<tr>
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</tr>
<tr>
<td>Germany</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Greece</td>
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<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Hungary</td>
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<td>Indonesia</td>
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<td>Israel</td>
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<td>15</td>
<td>15</td>
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<tr>
<td>Kyrgyzstan</td>
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<td>10</td>
<td>15</td>
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<td>Libya</td>
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<td>Malaysia</td>
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<td>20</td>
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<td>Mongolia</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Morocco</td>
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<td>10</td>
<td>10</td>
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<tr>
<td>Namibia</td>
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<td>10</td>
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<tr>
<td>Nepal</td>
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<td>15</td>
</tr>
<tr>
<td>Country</td>
<td>General Tax</td>
<td>Incentives for Industries</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>-------------</td>
<td>---------------------------</td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>15</td>
<td>12.5</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>20</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
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</tr>
<tr>
<td>Non treaty countries</td>
<td>0</td>
<td>20</td>
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</tr>
</tbody>
</table>

**Table 5.7** The tax rates are determined by such agreements and are indicated for various countries

**General Tax Incentives for Industries**

100% deduction of profits and gains for ten years is available in respect of the following:

1. Any enterprise carrying on the business of developing, maintaining and operating infrastructure facilities viz., roads, highways, bridges, airports, ports, rail systems, industrial towns, inland waterways, water supply projects, water treatment systems, irrigation projects, sanitation and sewage projects, solid waste management systems.
2. Undertakings engaged in generation or generation and distribution, transmission or distribution of power, which commence these activities before 31.3.2006.

3. Any company engaged in scientific and industrial research and development activities, approved by the prescribed authority, before 31.3.2003.

4. Any undertaking which develops, operates, maintains an Industrial Park or Special Economic Zone before 31.3.2006.

5. Notified Industrial Undertakings set up in the North Eastern region including seven north-eastern states and the state of Sikkim.

6. Undertakings developing and building housing projects approved by the local authority before 31.3.2001 and which are completed before 31.3.2003.

7. 100% deduction for seven years for undertakings producing or refining mineral oil.

8. 100% deduction from income for first five years and 30% (for persons other than companies: 25%).

9. Company which starts providing telecommunication services whether basic or cellular including radio paging, domestic satellite service, network or trucking, broad band network and internet services before 31.3.2003.

10. Industrial undertakings located in certain specified industrially backward states and districts.

11. Undertakings which begin to operate cold chain facilities for agricultural produce before 31.3.2003.

12. Undertakings engaged in the business of handling, storage, transportation of food grains.
13. 50% deduction for a period of five years is available to undertakings engaged in the business of building, owning and operating multiplex theatres or convention centres constructed before 31.3.2005.

14. Tax exemption of 100% on export profits for ten years up to F.Y. 2009-10, for new industries located in EHTPs and STPs and 100% Export Oriented Units. For units set up in Special Economic Zones (SEZs), 100% deduction of export income for first five years followed by 50% for next two years, even beyond 2009-10.

15. Tax exemption of 100% of Export profits for ten years for new industries located in Integrated Infrastructure Development Centres or Industrial Growth Centres of the North Eastern Region.

16. Deduction of 50% of export profits from the gross total income. The deduction would be restricted to 30% for financial year 2003-04 and no deduction is allowable subsequently.

17. Deduction from the gross total income of 50% of foreign exchange earnings by hotels and tour operators. The deduction would be restricted to 30% for financial year 2003-04 and no deduction is allowable subsequently.

18. 50% deduction of export income due to export of computer software or film software, television software, music software, from the gross total income. The deduction would be restricted to 30% for financial year 2003-04 and no deduction is allowable subsequently.

19. Deduction in respect of certain inter-corporate dividends to the extent of dividend declared.

20. Exemption of any income by way of dividend, interest or long term capital gains of an infrastructure capital fund or an infrastructure capital company from investment made by way of shares or long term finance in any enterprises carrying on the business of developing, maintaining and operating infrastructure facility.
LG Tax Payments and Benefits

Figure 5.6 LG Electronics' Interim Consolidated Statements of Financial Position -1

1. This statement highlights current income tax liability of total assets of 2010-11.

2. Increment in current income tax liability of total assets of 36641 of Korean Won of 2010-11.

3. It also gives glance about differed income tax liabilities.


<table>
<thead>
<tr>
<th>Assets</th>
<th>Current assets</th>
<th>Non-current assets</th>
<th>Total assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
<tr>
<td>Notes</td>
<td>June 30, 2011</td>
<td>December 31, 2010</td>
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<tr>
<td>Cash and cash equivalents</td>
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<td>Financial deposits</td>
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<td>Trade receivables</td>
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<td>7,001,962</td>
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<td>323,043</td>
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<td>Other financial assets</td>
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<td>Assets classified as held for sale</td>
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<td>Financial deposits</td>
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<td>Other financial assets</td>
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<td>Property, plant and equipment</td>
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<td>6,699,684</td>
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<td>Intangible assets</td>
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<td>Deferred income tax assets</td>
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<td>Investments in jointly controlled entities and associates</td>
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<td>Investments in property</td>
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<td>Other non-current assets</td>
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<td>Total liabilities</td>
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<td>Current liabilities</td>
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<td>4,006,229</td>
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<td>92,434</td>
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<td>[100,340]</td>
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<td>Provisions</td>
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<td>Other current liabilities</td>
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<tr>
<td>Total non-current liabilities</td>
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<td>15,317,233</td>
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<td>Borrowings</td>
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<td>Other financial liabilities</td>
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<td>13,528</td>
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<tr>
<td>Deferred income tax liabilities</td>
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<td>1,055,73</td>
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<tr>
<td>Defined benefit liability</td>
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<td>Other non-current liabilities</td>
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<tr>
<td>Total liabilities</td>
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<td>4,141,026</td>
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<tr>
<td>Equity attributable to owners of the Parent Company</td>
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<td>Paid-in capital</td>
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<td>806,169</td>
<td>806,169</td>
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<tr>
<td>Capital stock</td>
<td>2,207,919</td>
<td>2,207,919</td>
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<tr>
<td>Retained earnings</td>
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<td>10,106,172</td>
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<tr>
<td>Accumulated other comprehensive income</td>
<td>365,905</td>
<td>(206,944)</td>
<td>(206,944)</td>
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<tr>
<td>Other components of equity</td>
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<td>271,287</td>
<td>271,287</td>
</tr>
<tr>
<td>Other non-controlling interest</td>
<td>12,521,140</td>
<td>12,840,140</td>
<td>12,840,140</td>
</tr>
<tr>
<td>Total equity</td>
<td>12,743,945</td>
<td>12,856,637</td>
<td>12,856,637</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>33,844,991</td>
<td>32,318,499</td>
<td>32,318,499</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
Figure 5.7 LG Electronics’ Interim Consolidated Statements of Financial Position -2

1. Current income tax on assets increased to 1403 Korean Won in 2011.
2. Differed current income tax assets increased up to 69927 in 2011.
3. Current income tax liability decreased to zero in 2011.
Export Promotion Capital Goods (EPCG)

Under the Export Promotion Capital Goods Scheme import of capital goods for pre production, production and post production (including CKD/SKD thereof as well as computer software systems) is allowed at 5% Customs duty subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme to be fulfilled over a period of 8 years reckoned from the date of issuance of Authorisation.

The capital goods shall include spares, (including refurbished/ reconditioned spares) jigs, fixtures, dies and moulds. EPCG Authorisation may also be issued for import of components of such capital goods required for assembly or manufacturer of capital goods by the authorisation holder.

Second hand capital goods without any restriction on age may also be imported under the EPCG scheme.

Spares (including refurbished/ reconditioned spares), tools, spare refractoriness, catalyst & consumable for the existing plant and machinery imported/to be imported under the Scheme shall also be allowed subject to an export obligation equivalent to 8 times of duty saved to be fulfilled over a period of 8 years reckoned from the date of issuance of Authorisation.

The scheme will be available for exporters of engineering & electronic products, basic chemicals & pharmaceuticals, apparels & textiles, plastics, handicrafts, chemicals & allied products, leather & leather products, paper & paperboard and articles thereof, ceramic products, refractory, glass & glassware, rubber & articles thereof, plywood and allied products, marine products, sports goods and toys

Import by Agro Units

In the case of agro units, import of capital goods at 5% Customs duty shall be allowed subject to a fulfilment of an export obligation equivalent to 6 times the duty saved (on capital goods imported under the Scheme) over a period of 12 years from the date of issue of Authorisation.
Import by SSI Units

However for SSI units, import of capital goods at 5% Customs duty shall be allowed subject to a fulfilment of an export obligation equivalent to 6 times the duty saved (on capital goods imported under the Scheme) over a period of 8 years from the date of issue of Authorisation provided the landed CIF value of such imported Capital Goods under the Scheme does not exceed Rs. Twenty Five Lakhs and the total investment in plant and machinery after such imports does not exceed the SSI limit.

However, in respect of EPCG Authorisations with a duty saved value of Rs. 100 crore or more, the same export obligation shall be required to be fulfilled over a period of 12 years.

Other Provisions

In case CVD is paid in cash on imports under EPCG, the incidence of CVD would not be taken for computation of net duty saved provided the same is not converted.

The capital goods shall include spares, (including refurbished/ reconditioned spares) jigs, fixtures, dies and moulds. EPCG Authorisation may also be issued for import of components of such capital goods required for assembly or manufacturer of capital goods by the authorisation holder.

Second hand capital goods without any restriction on age may also be imported under the EPCG scheme.

However, import of motor cars, sports utility vehicles/all purpose vehicles shall be allowed only to hotels, travel agents, tour operators or tour transport operators and companies owning/operating golf resorts whose total foreign exchange earnings from the hotel, travel & tourism and golf tourism sectors in the current and preceding three Regional years is Rs 1.5 crores or more. The ‘duty saved’ amount on all EPCG Authorisations issued in a Regional year for import of motor cars, sports utility vehicles/all purpose vehicles shall not exceed 50% of the average foreign exchange earnings from the hotel, travel & tourism
and golf tourism sectors in the preceding three Regional years. However, the parts of motor cars, sports utility vehicles/ all purpose vehicles such as chassis etc. cannot be imported under the EPCG Scheme.

Import of Restricted items of imports mentioned under ITC(HS) shall only be allowed to be imported under the Scheme after approval from the Import Licensing Committee.

Spares (including refurbished/ reconditioned spares), tools, spare refractory, catalyst & consumable for the existing plant and machinery may also be imported under the EPCG Scheme subject to an export obligation equivalent to 8 times of duty saved to be fulfilled over a period of 8 years reckoned from the date of issuance of Authorisation.

**EPCG for Projects**

An EPCG authorization can also be issued for import of capital goods for supply to projects notified by the Central Board of Excise and Customs under S.No 441 of Customs Exemption Notification No 21/2002 dated 01.03.2002 wherein the basic customs duty on imports is 10% with a CVD of 16%.

The export obligation for such EPCG Authorisations would be eight times the duty saved. The duty saved would be the difference between the effective duty under the aforesaid Customs Notification and the concessional duty under the EPCG Scheme

**EPCG for Retail Sector**

To create modern infrastructure in the retail sector, concessional duty benefits under EPCG scheme shall be extended for import of capital goods required by retailers having minimum area of 1000 sq meters. The retailer shall fulfil the export obligation i.e. 8 times the duty saved in 8 years.

**Eligibility**
EPCG scheme covers manufacturer exporters with or without supporting manufacturer(s)/ vendor(s), merchant exporters tied to supporting manufacturer(s) and service providers.

Export Promotion Capital Goods (EPCG) Scheme also covers a service provider who is designated / certified as a Common Service Provider (CSP) by the DGFT, Department of Commerce or State Industrial Infrastructural Corporation in a Town of Export Excellence subject to provisions of Foreign Trade Policy/Handbook of Procedures with the following conditions:

1. EPCG licence to be given to the CSP should have a clear endorsement giving the details of the users and the quantum of Export Obligation (EO) which each user would fulfil.
2. Such exports will not count towards fulfilment of other specific export obligations; and
3. Each one of the users of the CSP apart from the CSP should furnish 100% Bank Guarantee (BG) equivalent to their portion of duty foregone apportioned in terms of quantum of EO to be discharged by them and the B.G. will be enforced in the event of the obligation not being fulfilled.

**Technological up-gradation of existing EPCG machinery**

EPCG Authorization holders can opt for Technological Up-gradation of existing capital goods imported under EPCG Authorization. Conditions governing Technological Up-gradation of existing capital goods are as under:

1. Minimum time period for applying for Technological Up-gradation of existing capital goods imported under EPCG is 5 years from Authorization issue date.
2. Minimum exports made under old capital goods must be 40% of total export obligation imposed on first EPCG Authorization.
3. Export obligation would be re-fixed such that total export obligation mandated for both capital goods would be sum total of 6 times of duty saved on both the capital goods, to be fulfilled in 8 years from new authorization issue-date.
4. Facility for technological up-gradation shall be available only once and the minimum imports to be made shall be at least 10% of the existing investment in plant and machinery by applicant.

5. Capital Goods to be imported must be new and technologically superior to earlier CG.

An advantageous scheme for procurement of Capital Goods through import as well as domestically as mentioned below:

1. The EPCG scheme allows import/domestic sourcing of capital goods (including CKD/SKD thereof as well as computer software systems and spares, jigs, fixtures, dies and moulds) at 0% (for certain sectors) & at 3.09% Customs duty for all sectors as against the normal total of 23.895%, thus providing a duty saved value of more than 20% of the import value. This is subject to an Export Obligation (EO) equivalent to 6/8 times of duty saved, to be fulfilled over a period of 6/8 years reckoned from the date of issuance of license. For large projects, SSI etc. there are more relaxed norms of EO. The scheme covers manufacturer exporters with or without supporting manufacturer(s) / vendor(s), merchant exporters tied to supporting manufacturer(s) and Service Providers.

2. Actual user conditions: Import of capital goods is subject to Actual User condition till the export obligation is completed.

3. Export obligation: The export obligation needs to be fulfilled by the export of goods capable of being manufactured or produced by the use of the capital goods imported under the scheme.

4. In addition up to 50% of the EO can also be fulfilled by any alternate product of the company or even Group Company.

5. Deemed Exports like 7 supplies to Power Projects, Projects funded by WB/ADB/JBIC etc, EOUs etc. Can also be utilized to fulfil the EO
Domestic Sourcing

A person holding an EPCG license may source the capital goods from a domestic manufacturer instead of importing them. The domestic manufacturer supplying capital goods to EPCG license holders shall be eligible for refund of Excise Duty paid by him. In addition the indigenous supplier can import his own raw material duty free and other benefits which can be discussed

For Manufacturers

The scheme is quite beneficial to Manufacturer exporters as they can import their CG at a substantial discount. Especially for those manufacturers whose final product is not excisable (Agriculture sector) or is exempt from excise duty (like those in Uttaranchal) since they cannot take the CENVAT credit of the CVD paid on imports and Excise Duty paid in Domestic markets.

Merchant Exporters tied with the supporting manufacturers can also utilize the scheme for concessional duty import of Capital Goods to be installed at the supporting manufacturers.

For Projects

EPCG can be taken for the full projects where exports of goods or services can be envisaged by the use of the project or alternative products. This can be taken for Captive Power units also. EPCG can be taken along with Project Import scheme in case of new Projects.

For Service Provider

Various service providers / exporters can take EPCG route to reduce their Capital Cost. Service Providers like Port Developers, Hotels, Hospitals, Tour Operators, Taxi Operators, Construction Companies, Logistics companies can utilize the scheme to import/procure from domestic market, their capital goods at a substantially reduced costs. The EO can be fulfilled by Forex Earnings through providing services, like that of Foreign Guests staying in the hotel, medical tourism etc.
For Others

Certain other sectors like Retail Sector in the country, Port Projects etc. can also utilize EPCG scheme to their advantage. In case of domestic procurement we can assist in getting necessary invalidations from the authority, and the refund of Excise Duty.

The scheme allows import of capital goods for pre production, production and post production (including CKD/SKD thereof as well as computer software systems) at 5% Customs duty subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme to be fulfilled over a period of 8 years reckoned from the date of issuance of licence. Capital goods would be allowed at 0% duty for exports of agricultural products and their value added variants.

However, in respect of EPCG licences with a duty saved of Rs.100 crore or more, the same export obligation shall be required to be fulfilled over a period of 12 years.

In case CVD is paid in cash on imports under EPCG, the incidence of CVD would not be taken for computation of net duty saved provided the same is not Cenvated.

The capital goods shall include spares (including refurbished/ reconditioned spares), tools, jigs, fixtures, dies and moulds. EPCG licence may also be issued for import of components of such capital goods required for assembly or manufacturer of capital goods by the licence holder.

Second hand capital goods without any restriction on age may also be imported under the EPCG scheme.

Spares (including refurbished/ reconditioned spares), tools, refractory, catalyst and consumable for the existing and new plant and machinery may also be imported under the EPCG scheme.

However, import of motor cars, sports utility vehicles/ all purpose vehicles shall be allowed only to hotels, travel agents, tour operators or tour transport operators whose total foreign exchange earning in current and preceding three licensing years
is Rs 1.5 crores. However, the parts of motor cars, sports utility vehicles/ all purpose vehicles such as chassis etc cannot be imported under the EPCG Scheme.

**EPCG Scheme of India**

1. The scheme shall now allow import of capital goods for pre-production and post-production facilities also.
2. The Export Obligation under the scheme shall now be linked to the duty saved and shall be 8 times the duty saved.
3. To facilitate up gradation of existing plant and machinery, import of spares shall also be allowed under the scheme.
4. To promote higher value addition in exports, the existing condition of imposing an additional Export Obligation of 50% for products in the higher product chain to be done away with.
5. Greater flexibility for fulfilment of export obligation under the scheme by allowing export of any other product manufactured by the exporter. This shall take care of the dynamics of international market.
6. Capital goods up to 10 years old shall also be allowed under the scheme.
7. To facilitate diversification into the software sector, existing manufacturer exporters will be allowed to fulfil export obligation arising out of import of capital goods under the scheme for setting up of software units through export of manufactured goods of the same company.
8. Royalty payments received from abroad and testing charges received in free foreign exchange to be counted for discharge of export obligation under EPCG scheme.
9. EPCG scheme allows import of capital goods for pre production, production and post production (including CKD / SKD thereof as well as computer software systems) at 3% Customs Duty, subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 8 years reckoned from Authorisation issue-date. In case of agro units, and units in cottage or tiny sector, import of capital goods at 3% Customs duty shall be allowed subject to fulfilment of export obligation equivalent to 6 times of duty saved on capital goods imported, in 12 years from Authorisation issue- date. For SSI units, import of capital
goods at 3% Customs duty shall be allowed, subject to fulfilment of export obligation equivalent to 6 times of duty saved on capital goods, in 8 years from Authorisation issue-date, provided the landed if value of such imported capital goods. Under the scheme does not exceed Rs.50 lakhs and total investment in plant and machinery after such imports does not exceed SSI limit. However, in respect of EPCG Authorisations with a duty saved amount of Rs. 100 crores or more, export obligation shall be fulfilled in 12 years. In case CVD is paid in cash on imports under EPCG, incidence of CVD would not be taken for computation of net duty saved, provided the same is not CENVATed. Capital goods shall include spares (including refurbished / reconditioned spares), tools, jigs, fixtures, dies and moulds.

**Conditions and Obligations under EPCG Scheme**

1. The export obligation shall be fulfilled by the export of goods manufactured or produced by the use of the capital goods imported under the scheme.

2. The exports shall be direct exports in the name of the importer. However, the importer may export through a third party provided the name of the importer/licence holder is also indicated in the Shipping Bill. If a merchant exporter is the importer the name of the manufacturer shall be indicated in the Shipping Bill.

3. Export proceeds shall be realized in freely convertible Currency.

4. Exports shall be physical exports. Deemed exports shall also be taken into consideration for fulfilment of export obligation but the licence shall not be entitled to claim any benefit of Deemed Exports.

5. The export obligation shall be in addition to any other export obligation undertaken by the importer and shall be over and above the average level of exports of the same product achieved by him in the preceding three licensing years. If the exporter achieves an export of 75 per cent of the annual value of the production of the relevant export product, the export obligation under this scheme shall be subsumed under that export provided, however, that the aggregate value of such exports during the specified period shall not be less than the aggregate value of the export obligation fixed.
6. Where the manufacturer exporter has obtained licences for the manufacture of the same export product both under this scheme and the Duty Exemption Scheme, the physical exports made under the Duty exemption Scheme shall also be counted towards the discharge of the export obligation under this scheme.

7. In the case of export of computer software, the export obligation shall be determined in accordance with policy but the conditions that exports hall be over and above the average level of exports in the preceding three licensing years shall not apply.

LG Electronics India Ltd, a formidable player in the consumer electronics segment in the domestic market, is aiming at a 60-70 per cent growth in exports from India in 2011. LG exports would witness a growth of 60-70 per cent in 2011 and this would come on the back of a robust demand for our products in countries like Sri Lanka, Bangladesh and few countries of the European Union and West Asia.

LG Electronics India has targeted a turnover of Rs19000 crore from the entire range of its products in 2010 and if achieved, this would be a growth of 45.16 per cent over Rs 13089 crore which the company achieved in 2009. In the festive months of September and October, the company has targeted sales of Rs2500 crore including Rs80 crore in the Orissa market.

The company claimed to have achieved 80 per cent of its targeted sales in the festive period in Orissa. LG Electronics is spending Rs65 crore on marketing for this year’s festive season.

LG Electronics India has identified LCDs and mobile phones as its strategic products and aims to scale up its market share in the mobile phone segment significantly in the next few years. Presently, LG’s share in the mobile handset market in the country is less than 10 per cent.
CHAPTER – 6

KEY INDICATORS
Financial Indicators

Statistics used to measure current conditions as well as to forecast financial or economic trends. Indicators are used extensively in technical analysis to predict changes in stock trends or price patterns. In fundamental analysis, economic indicators that quantify current economic and industry conditions are used to provide insight into the future profitability potential of public companies.

(Financial Indicators) monitoring indicators used to assess progress in terms of annual commitment and payment of the funds available for any operation, measure or programme in relation to its eligible costs.

Types of Financial Indicator

There are mainly four types of indicators are there, they are as mentioned below:

1. Ratio Analysis

Ratio is a measure providing a relationship between two variables both in term of percentage as well as quotient Ratio act as a yardstick to evaluate the financial condition or performance of the firm. The main purpose of ratio analysis is measure to past performance and its compared to budgeted or forecasted or standard industry ratio. It also helps in projection future trend.

2. Return on Net worth

A class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well.

3. Return on Total Assets

ROA tells you what earnings were generated from invested capital (assets). ROA for public companies can vary substantially and will be highly dependent on the industry.

This is why when using ROA as a comparative measure, it is best to compare it against company's previous ROA numbers or the ROA of a similar company.
4. Earnings per Share

The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.

LG's Performance Evaluation Ratio

1. Profitable Ratio
2. Liquidity Ratios
3. Capital Structure Ratios
4. Asset Efficiency Ratios

Net working capital is useful in time-series comparisons for internal control. Since net working capital is a gross number rather than a ratio, comparison against other firms' net working capital (as in cross-sectional comparisons) would be misleading.

The current and quick ratios, however, may be used for both cross-sectional and time-series analysis since they are relative measures. Additional information is necessary to assess how well a firm collects receivables and meets payables.

The average collection period of receivables should be compared to a firm's own credit terms. The average payment period should be compared to the creditors' credit terms.

Common-size income statements are: (1) the gross profit margin, the operating profit margin and (3) the net profit margin. Firms that have high gross profit margins and low net profit margins have high levels of expenses other than cost of goods sold. In this case, the high expenses more than offset the low cost of goods sold (i.e., high gross profit margin) thereby resulting in a low net profit margin.

Return on total assets (ROA) net profits after taxes ÷ total assets is the ratio which measures the overall effectiveness of management to generate profits on available assets. Return on equity (ROE) net profits after taxes ÷ stockholders' equity measures the return on the owners'
Then the ROA is related to ROE using the financial leverage multiplier (FLM), the ratio of total assets to shareholder equity. Use of the FLM incorporates the increased risk of financial leverage.

The pattern indicates a deteriorating liquidity position. c. The low inventory turnover suggests that liquidity is even worse than the declining liquidity measures indicate. Slow inventory turnover may indicate obsolete inventory.

The Wilkins Manufacturing inventory turnover ratio significantly exceeds the industry.

Indian Consumer Durables market used to be dominated by few domestic players like Godrej, Voltas, Allwyn and Kalvinater. But post liberalization much foreign company have entered into Indian market dethroning the Indian player and dominating Indian market the major categories in the market CTV, REFRIGRATOR, AIR CONDITIONERS AND WASHING MACHINE.

Consumer durables major LG Electronics India Pvt Ltd (LGEIL) will invest nearly Rs 500 crore in India this year in research and development, brand-building and other marketing initiatives.

**Why Companies introduced New Products?**

1. To capture the more market
2. To compete with competitors
3. To develop the business
4. To expand the product line
5. For innovation in market
6. For creating brand value
7. For customer satisfaction
8. To generate more profit
9. To diversify in different business
And the same reason will apply for LG to introduce New Product in to market, here are the some products which has been introduced recently,

**LG’s New Products**

1. HD LCD TV with HD
2. Full HD 3D LED LCD Notebook
3. HS201 Projector
4. LG GC-P227LG CW Side by Side Refrigerator
5. LG PS-N550WP Air Purifier
6. LG P990
7. Dual Sim Phone P520

**Employment to Local People**

1. **LG’s Mantra**
   1.1 JOYFUL Working 5 or JW5 is the mantra by which LG employees live.
   1.2 Based on five factors; stress, communication, leadership, target setting and working hours, the idea is to eliminate the existing issues pertaining to the above factors and bring fun at workplace.
   1.3 Report at 8.40 a.m., begin their day with exercise and yoga, bracing up for eight hours of fun at work

2. **On Campus Hiring**
   2.1 On Campus hiring is for both engineers and management trainees.
   2.2 A total of 50 colleges are on the panel of LG. Last year the company visited 35 campuses to hire 130 fresher.
   2.3 These are M-Tech and MBA students. These are M-Tech and MBA students.
   2.4 LG says “We need engineers with in depth level of technology who can contribute in research and technology transfer from Korea”.
   2.5 The students presented with offer letters in August, will join onboard from July.
   2.6 The induction programme usually begins on July 1, each year.
   2.7 Students are selected on the basis of group discussion, psychometric test, and personal interview.
2.8 The factors assessed in the interview are students’ degree of intellectual awareness, drive for performance, levels of adaptability, ownership and passion.

2.9 For engineers, IITs, NIT’s, Punjab Engineering College and Thapar Institute of Engineering and Technology are visited. For management trainees, FORE, IBS, BIMM and ISB. The MBA’s settle into function areas of sales and marketing, product planning, supply chain management, risk management, finance, operations and HR. M-Techs join manufacturing and Research and Development.

3. **Off Campus/ Direct Hiring**

3.1 The interested candidates can log on to the company website and directly register their CVs for any position listed on the site.

3.2 The CV then goes to the LG data bank for short listing/screening.

3.3 In case the candidate is rejected, the information is passed on to the candidate or the consultant who has forwarded the CV. If the candidate is selected, then he is informed of the specified date and time.

3.4 This gives us the flexibility of taking a decision, without the candidate being required to come over to the corporate office, especially for field level position.

4. **Training**

4.1 Once fresh candidates are hired, they undergo an exhaustive induction programme for one month. This includes apprising about LG products, brand management, manufacturing, and distribution among others.

4.2 The theoretical training is given for the first 20 days and in the last 10 days freshly inducted candidates are taken for trekking in the Himalayas.
Jobs at LG Electronics are categorized into several different areas, including R&D, marketing, production, and support. Each area offers keen opportunities for development and career advancement. For your reference, each job category is described below.

**Research & Development**

LG Electronics R&D division is responsible for many key disciplines, including advanced research, product plans, designs, standards and patents, and R&D planning to name but a few. By securing leadership in the technology field, LG Electronics is steadily moving toward its goal of joining the ranks of the Global Top 3. Major jobs: R&D, Design, and R&D Support
Production

LG Electronics production division is responsible for product manufacturing, production planning and management, production technologies, product-quality management, purchasing, materials planning and management, and other production-related jobs. This division upholds LG Electronics’ unrivalled global product leadership, and devotes its technological prowess to LG products using its innovation tools, Tear Down and Redesign and Six Sigma. Major jobs: Production Management, Production Engineering, Procurement, and Quality Assurance

Marketing

LG Electronics marketing division is responsible for domestic and overseas marketing and sales, marketing planning, product planning, customer service, and other jobs related to product sales and services. It has secured LG Electronics market leadership through differentiated sales and customer service strategies. It continually strives to bolster LG Electronics' market presence, both domestic and overseas. Major jobs: Domestic Sales & Marketing, Overseas Sales & Marketing, Product Planning, and Customer Service

Support

LG Electronics support division is responsible for formulating the company’s policies and business direction, and supporting its R&D, production, and marketing divisions. It consists of LG Electronics headquarters, affiliated companies, and various departments and teams according to job and location. Major jobs: Business Planning, Finance Accounting, Legal, Internal Consulting, HR, PR, IT, General Affairs, and Environment Safety.
Conclusion of LG Electronics

1. LG a second largest electronic manufacturing company in Korea, the demand of their products in overseas market are quiet high.
2. LG Electronics India received the Occupational Health & Safety Management System OHSAS18001:1999 certification from the British Standards Institution (BSI).
3. LG Electronics continues to pursue its 21st century vision of becoming a worldwide leader in digital—ensuring customer satisfaction through innovative products and superior service.
4. They hold tight to a philosophy of "Great Company, Great People".
5. LG is the Multinational Company with high goodwill and prestige.

Conclusion of South Korea

1. South Korea is more advanced in IT sectors & has well developed infrastructural facilities.
2. All kinds of workers whether skilled or semi skilled are seen in South Korea with proper wage structure.
3. As far as physical environment lots of investment has been made for development and the result are expected by 2030.
4. In spite of having many policies for control on water supply only one committee has been formed that looks after the water supply.
5. The GDP growth rate of South Korea i.e.8.48 they show that the inflation rate & unemployment is also very low as compare other countries of the world.
Recommendations

1. We can recommend improving the features of the mobile phone because their features are not as good as compare to other brand mobiles.
2. The maximum % of Indian population belongs to lower or middle income group so it is recommended that company can adopt low cost theory to cater this population.
3. The waiting period of delivery of LG product is length, so it is recommended that they can have more prompt and effective distribution services.
4. Samsung being competitor provides similar products, consumers compare LG with Samsung its Korean rival not with other global companies, so it is recommended to the company to consider whole market.
5. Focus on giving short period of training to the employees so that they can extract the efficient and skilful employees for the company; as they can placement opportunity they can focus on reputed institutes like IIM, IIPM.
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