

2009 Winning in Recession



Increased Organizational Efficiency through CWR

In December 2008, LG Electronics opened a “Crisis War Room” (CWR) at its twin-tower headquarters. The CWR is playing a critical role in providing a bridge between LGE’s five companies, its eight regions, and its C-level divisions to manage detailed tasks and cut costs.

More specifically, LG Electronics chose 11 tasks to overcome the current economic recession and prepare itself for the upcoming post-recession era, coordinating roles for each company, region, and C-level division, which it has been closely monitoring since then. These 11 practical tasks had been expanded from 2009’s original top three tasks of market intelligence, cost reduction & cash flow improvement, as well as restructuring.

Under the 2009 corporate banner of “Winning in Recession” (WIR), LG Electronics formed and began running a WIR Task Force Team at each of its companies and divisions. These task force teams are in charge of improving the flow of logistics, reducing fees and charges, and providing better services. They are also reducing overhead, manufacturing, and production costs at each division.

PRACTICAL TASKS TO OVERCOMING CURRENT RECESSION

MARKET INTELLIGENCE

1. Quick market intelligence (QMI)
2. Sales performance tracking

COST REDUCTION & CASH FLOW IMPROVEMENT

3. Overhead reduction
4. Material and manufacturing cost reduction
5. Working capital and cost reduction by SCM innovation
6. Product portfolio/SKU optimization
7. Improvement of R&D efficiency
8. Improvement of marketing efficiency

*SCM : Supply Chain Management
SKU : Stock Keeping Unit

RESTRUCTURING

9. Improvement of organization efficiency
10. Manufacturing footprint optimization
11. Business portfolio restructuring

With the world economic outlook appearing bleak, financial markets shrouded in uncertainty and the real economy slowing down, LG Electronics feels it is imperative to turn this crisis into an opportunity for future growth, which is why it is carrying out long-term initiatives to this end. By focusing its capabilities on reorganizing its business portfolio, LG Electronics will be able to secure profits and long-term growth, while remaining flexible in its business operations in order to increase its market share despite market volatilities.



Implementation of Cost Reduction Project

LG Electronics is pushing ahead with a cost-cutting plan that will save it a total of KRW 3.2 trillion—KRW 1.2 trillion in purchasing and KRW 2 trillion in other expenses—by 2009. This project involves not just the Korean headquarters, but every division of the corporation, including manufacturing, all five of LGE's companies, and 84 overseas subsidiaries (as of late June 2009).

After taking every opportunity to improve its cash flow, including cutting unnecessary expenses, positive results are starting to show in inventory cuts, conversion of accounts receivable into cash, supply chain management (SCM) optimization, and integrated purchasing.

More than anything else, LGE's Waste Elimination Activities, a program that has been promoted throughout the corporation since 2007, is playing a key role in cost reduction. Employees at LG Electronics around the world are posting ideas to eliminate waste in the business process, and the results are included in a one-page report on the Waste Elimination bulletin board, part of LGE's portal site. There is also an award for best practices that motivates employees to commit themselves even further to cost reduction.

Meeting the Highest Global Standards

Since December 2007 LG Electronics has replaced six of its nine top management executives with foreign Executive Vice Presidents. It has also hired over 200 professionals in major divisions such as purchasing, SCM management, and marketing to better meet the highest global standards. LG Electronics believes the standardization of work processes and a supporting system based on an organizational structure adhering to the most exacting global standards makes a business infinitely more efficient.

To accomplish this, 20% of LGE's administrative and general workers have been assigned to take part in TDR (Tear Down and Redesign) activities in a bid to strengthen core capabilities through improvement of the work process, paving the way for future growth engine industries at LG Electronics.

SUCCESSFUL WASTE ELIMINATION CASES

- Purchasing cost of consumable materials reduced: 25-30% decrease per division from the previous year through integrated purchasing and Waste Elimination Activities
- Domestic/overseas business travel expenses reduced: more than 20% of costs cut through increased use of KTX trains, cheaper airlines, and teleconferencing
- Product and advertising costs reduced: billions of won in costs cut from simplifying user manuals for mobile phones, changing TV screen cleaning materials, and reducing TV commercial time overseas (from 30-second spots to 15-second spots).