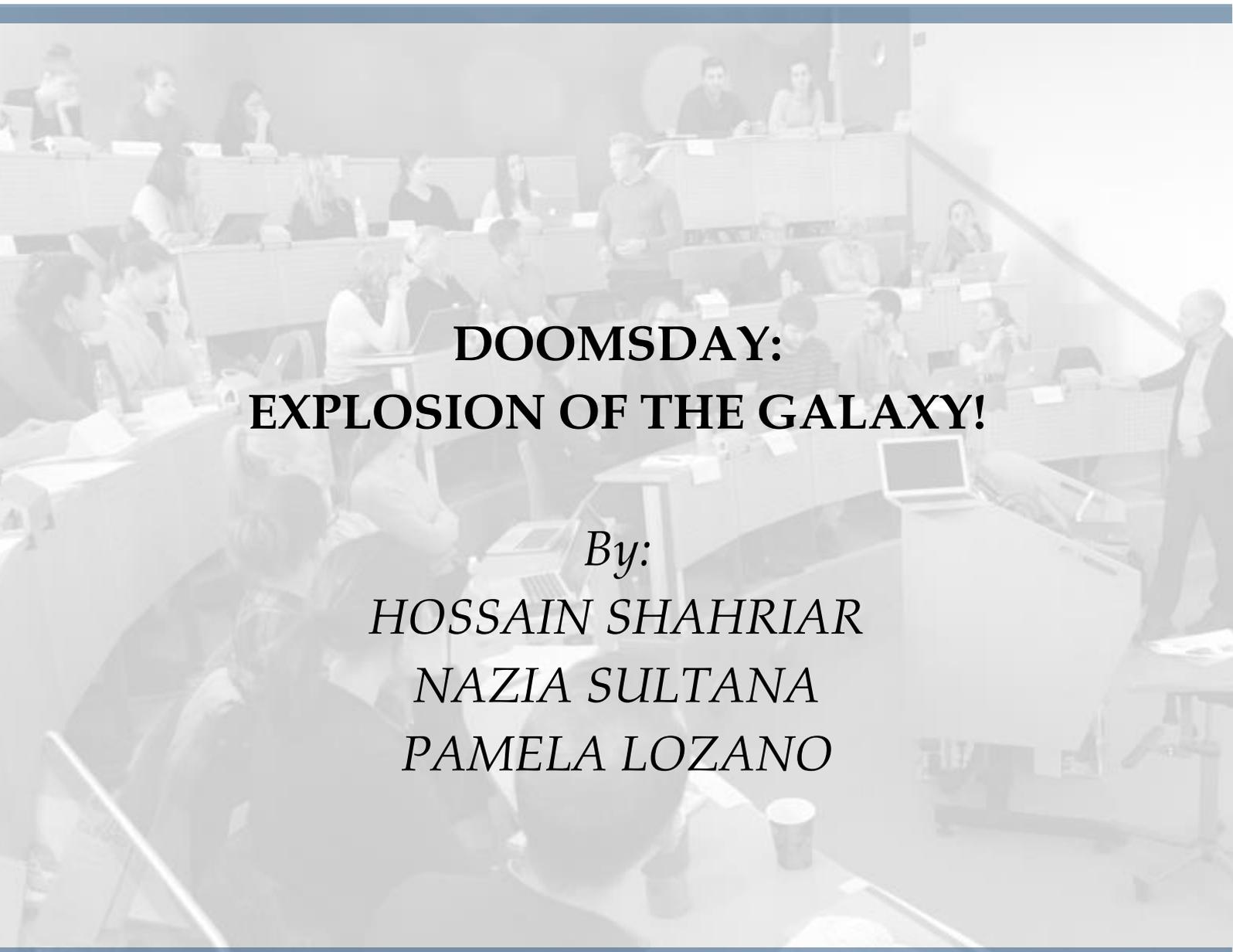


CORPORATE BRAND MANAGEMENT
AND REPUTATION

MASTER CASES



**DOOMSDAY:
EXPLOSION OF THE GALAXY!**

By:

HOSSAIN SHAHRIAR

NAZIA SULTANA

PAMELA LOZANO

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Corporate Brand Management and Reputation: Master's Cases

The “Corporate Brand Management and Reputation: Master's cases” is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *“A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class.”*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as “written cases” (handed out and read in advance, later to be discussed in class) and/or as “live case” (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *“to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice.”*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

Editor

Mats Urde
Associate Professor
mats.urde@fek.lu.se

Head of master's course Corporate Brand Management (BUSN35), part of the master's program International Marketing and Brand Management.
Lund School of Economics and Management

Doomsday: Explosion of the Galaxy!

WRITTEN CASE

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HOSSAIN SHAHRIAR

NAZIA SULTANA

PAMELA LOZANO

Doomsday: Explosion of the Galaxy!

The explosion of the Galaxy Note7 is the biggest technology failure in recent times. Samsung has failed to deliver its brand covenant to offer “best in class safety and quality” in its products. While the Galaxy Note7 was going up in smoke, Samsung’s reputation was going down in flames. The company’s corporate brand reputation took a major setback as their ranks in leading measures of corporate reputation plummeted. In Harris Poll's annual US Reputation Quotient (RQ®) Rating¹, Samsung was blasted down from 7th to 49th. In Reputation Institute’s 2017 Global RepTrak® 100² (The World’s Most Reputable Companies), Samsung’s rank nosedived to 70, which was 17 in 2016.

Background and History

Since its origin in 1938 as a trading company in South Korea, Samsung has evolved and expanded significantly in various affiliated businesses. During the next decades after its foundation, the company diversified into different industries such as advanced technology, electronics, semiconductors, plant construction, medicine, among various others. Nowadays Samsung is formed by a conglomerate of more than 78 different companies and affiliates. Aligned to its main motto "*Inspire the World, Create the Future*", Samsung launched its first android mobile phones during the year 2010 and since then these products have been leading the mobile industry.

Nowadays Samsung is positioned at the forefront of the mobile industry with 267 million smartphones sold in 2015 and with KRW 103.55 trillion in sales on their IT & Mobile segment. Among the company various smartphone products, the *Galaxy*

¹ The Harris Poll Reputation Quotient (RQ®) measures the reputations of the most visible companies in the U.S., as perceived by the general public. The report was published in February 2017.

² Reputation Institute’s RepTrak® model is the gold standard for reputation measurement, providing an appraisal of the world’s 100 most highly-regarded and familiar global companies. This report was published on February 28, 2017

S and *Galaxy Note* smartphone series are considered to be the company's flagship models. A snapshot of Samsung's product portfolio can be seen in **Exhibit 1**.

The *Galaxy S* and *Galaxy Note* smartphones reflect Samsung core values of innovation, reliability and high quality. These brand identity attributes have helped the company to build up a high reputation and brand loyalty. Moreover, the recently launch of the upgraded Samsung Galaxy series, the *Galaxy S7* and *Galaxy Note7*, have created a lot of expectation among smartphone users and the mobile industry.

The Crisis

The story began on August 24, 2016, merely five days after the official launch³ of the *Galaxy Note7*, when a report of a *Note7* device 'exploding' materialized on the news and subsequently started spreading like wildfire, thanks to the ubiquitous reach of social media. Initially Samsung deferred their shipment of *Note7* to South Korean carriers for further testing. However, they continued with rollout of their flagship phablet⁴, as they inaugurated *Note7* in China on September 01. Little did they know that this was just the beginning of the end of the *Galaxy*!

The Crisis Begins

As reports of *Galaxy Note7* explosion continued to explode, on September 02, the company comprehended the seriousness of the issue and its potential to become a crisis and voluntarily proclaimed a worldwide recall of *Note7* devices, citing 'isolated battery cell issues'. They proffered to replace the device (along with any *Note7* accessories) with either a new *Note7* or a *Galaxy S7* or *S7 Edge* (with a refund of any price differences). Tim Baxter, the President and COO of Samsung Electronics America said "*Samsung is taking a proactive approach to address customer needs around the Note7. We are encouraging customers to exchange their Note7 by taking advantage of our Product Exchange Program. The safety and satisfaction of our customers is Samsung's top priority*".

But things started to go from bad to worse as on September 08, the U.S. Federal Aviation Administration (FAA) and innumerable airlines globally prohibited their passengers to either switch on or charge their *Note7* devices, or stow them in any checked baggage on-board the flight. The next day, Samsung addressed the statement by the FAA and urged users to "*power down their Galaxy Note7 and exchange them*" immediately. They indicated that they have identified the infected inventory and halted sales and shipments of those batch of devices. Samsung also asserted that they are working in collaboration with the U.S. Consumer Product Safety

³ The *Galaxy Note7* was launched on August 19, 2016 in ten markets including South Korea and the United States

⁴ A 'phablet' is a portmanteau of the words phone and tablet denoting a mobile computing device designed to fuse the functions and size of a smartphone and tablet.

Commission (CPSC) on a “voluntary corrective action plan to expedite a recall of the product”. The CPSC strongly urged Note7 users to abstain from using their devices.

On September 15, the CPSC formally pronounced the recall of all Galaxy Note7 devices. “*The recall will include 1 million devices because of serious fire and burn hazards*” said Elliot Kaye, the CPSC Chairman, in a press conference. The CPSC statement highlighted that there were 92 incidents reported of overheating batteries in the U.S., which comprised of 26 burns incidents and 55 reports of property damages (such as fires in cars and garage).

Tim Baxter went on-air⁵ and issued a formal apology saying “*with battery cell defects in some of our Note7 phones, we did not meet the standard of excellence that you expect and deserve. For that, we apologize, especially to those of you who were personally affected by this. To those of you who love the Note – the most loyal customers in our Samsung family – we appreciate your passion and your patience. [...] We will work every day to earn back your trust through a number of unprecedented actions and with the extraordinary support of our carrier partners, suppliers and the CPSC.*” Baxter confirmed that they have discontinued sales of the original Note7 devices and a wave of replacement Note7 devices would be available within six days. However, he went on to state something that would haunt him for the rest of his life, “*to be clear the Note7 with the new battery is safe. The battery cell issue is resolved and this finding has been affirmed by a recognized, independent, lithium ion battery expert*”. While this mortification approach for image restoration was reassuring for reducing uncertainty, this hasty proclamation was a covenant that he would not be able to keep.

While Samsung was trying to cool down the ‘overheating’, things were still getting ignited on other fronts:

- On September 16, the iPhone 7 and 7 Plus (the latest phones from Samsung’s biggest competition) were released.
- A man from Florida sued Samsung for burns from a Note7 combustion.
- Samsung initiated a Note7 recall program on September 19 in South Korea and promised to resume Note7 sales within nine days.
- In China, reports appeared that the Note7 was catching fire but Samsung claimed the phone caught off due to external heating and batteries for that device is from a different supplier was hence was not part of the recall.

The Crisis Averted?

Samsung believed they moved on from the impact to the readjustment phase of the crisis. On September 20, Samsung announced that 500,000 brand new replacement Note7 devices have arrived and are ready for exchange the next day. They also subsequently rolled out a software update (see **Exhibit 2**) to identify new Galaxy Note7 devices (with a green battery icon on the status bar of the device).

⁵ the video is available on YouTube: https://www.youtube.com/watch?v=k8P3_2kMums

Coeval with this, a firmware update (see **Exhibit 3**) was pushed to the old Note7 devices with a notification (to replace) popping up every time users powered on or charged their devices. Verizon Communications and Sprint (U.S. carriers) began taking orders for new Note7, the following day. Meanwhile, South Korea instructed Samsung Electronics Co Ltd to take further measures to ensure safety of Note7 batteries.

Samsung incessantly provided updates of their voluntary exchange on their website. On September 22, they proclaimed “about half of recalled Galaxy Note7 phones already exchanged”, while 90% opting for the new (replacement) Galaxy Note7. A week later, Samsung declared that more than a million people was using Note7 with ‘safe battery’.

On October 01, Samsung recommenced sales of the Note7 in South Korea. A glimmer of hope flickered as Samsung, with their fast response and ‘reputational reservoir’, successfully managed the crisis, or at least that was what they thought. After all, this has been the biggest fire and burn hazard related recall in the history of the United States.

The Crisis Ascents

But the rosy picture was too good to last, as despair engulfed what was left of Note7’s reputation. From the readjustment phase, they dived headfirst back into the impact stage. On October 06, a report appeared of a replacement Note7 still exhibiting analogous problems. When a passenger aboard a Southwest Airline flight, at the request of a flight attendant, turned off his (replacement) Note7 device, it started emitting smoke and the aircraft was subsequently evacuated. The very next day, the company released a statement promising to investigate the concerns of their stakeholders after the newly released replacement Note7 devices started catching fire. Within two days, two of their biggest stakeholders – U.S. carriers AT&T and T-Mobile halted sales and issuing new Note7 replacement. To add fuel to the fire, more reports started emerging of replacement Note7 devices exploding. A Burger King employee in South Korea was seen, on social media, carrying a Note7 with greenish fumes protruding out.

The reputation of the Galaxy Note series, Samsung smartphones and the whole company has been severely impaired. Samsung is facing potential class action lawsuits from consumers. 527 South Korean users already sued Samsung to seek compensation for financial cost of device exchange, psychological cost of using dangerous phone and time cost in data transfer.

Samsung missed out on US\$ 3 billion potential profits over two quarters due to this crisis. Samsung Electronics announced that in the third quarter (ending September 30, 2016) its revenues declined by KRW⁶ 3.87 trillion YOY⁷ (to KRW 47.82

⁶ South Korean Won

million), while their net profit plunged by 16.8% to KRW 4.54 trillion (\$4.0 billion) and operating profit by 29.7% YOY. A detailed financial of Samsung Electronics can be found in **Exhibit 4**.

Management Decisions: Guardians of the Galaxy

Samsung's first response to the crisis only aggravated the situation. The reputational reservoir is not an infinity pool and would soon run out, plunging them into their doomsday. The staff are enduring their worst nightmare. Meanwhile, clips from Grand Theft Auto V (in a modded game) emerged on YouTube showing the Galaxy Note7 being used literally as a weapon that explodes (see **Exhibit 5**!).

The CEO of Samsung Electronics, the world's largest manufacturer of mobile phones and smartphones, has handpicked you from all major departments of the company (marketing, supply chain, procurement, finance, public relations, corporate communications, product, investor relations) to form a cross-functional taskforce called "**Guardians of the Galaxy**".

You are tasked to formulate *how can Samsung manage the crisis and save the reputation and the future of the Galaxy Note series along with a range of related products in its portfolio*.

To help facilitate your management decision, you are provided with the following guiding questions:

- What should you do to deal with the situation after the second failure to mitigate the crisis?
- How can you gain back consumer trust and build confidence?
- How can you curtail the impact of the Galaxy Note7 crisis on other products in Samsung's portfolio?
- How can you better equip yourselves to evade crisis in the future?
- How can you ensure the suppliers abide by the compliance code?

⁷ Year Over Year

Exhibit 1 Samsung's brand portfolio



Exhibit 2 Software Update Status Bar for New Galaxy Note7 Before and After

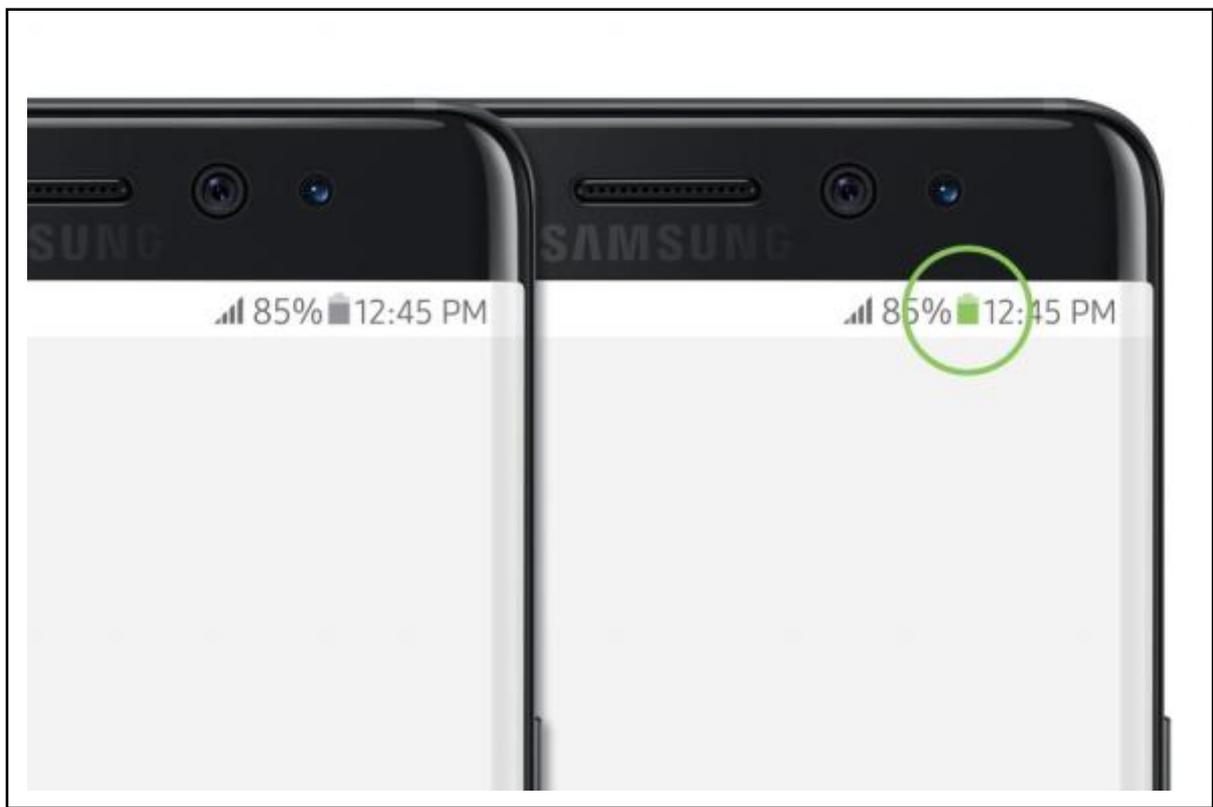


Exhibit 3 Firmware Update Safety Notice Prompt for Recalled Galaxy Note7

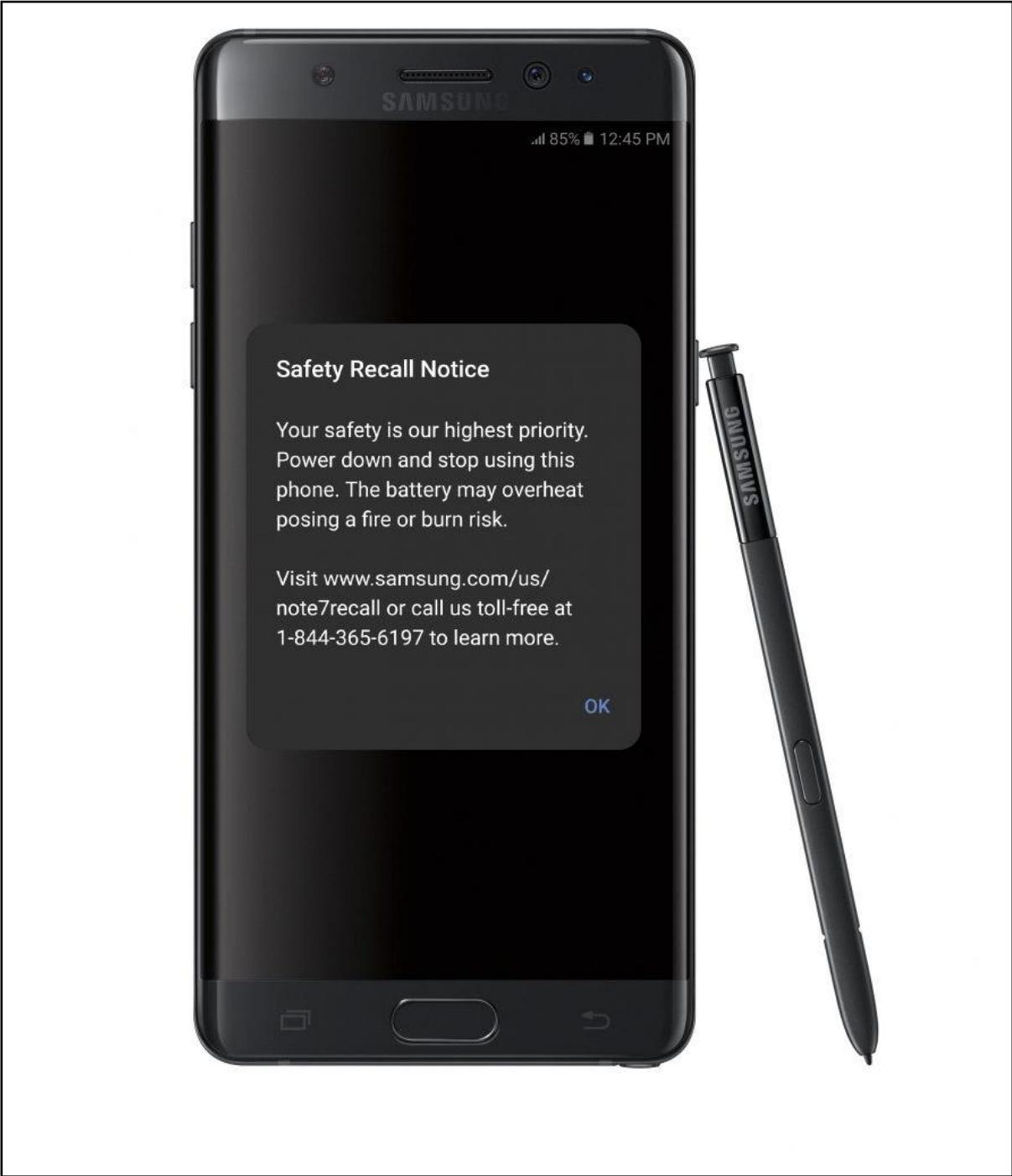


Exhibit 4 Consolidated Sales & Operating Profit by Segment based on K-IFRS (2014~2016.3Q)

(Unit: KRW trillion)		2014					2015					2016		
		1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q
Sales	CE	11.32	13.00	11.60	14.27	50.18	10.26	11.20	11.59	13.85	46.90	10.62	11.55	11.24
	IM	32.44	28.45	24.58	26.29	111.76	25.89	26.06	26.61	25.00	103.55	27.60	26.56	22.54
	Semicon	9.39	9.78	9.89	10.66	39.73	10.27	11.29	12.82	13.21	47.59	11.15	12.00	13.15
	DP	6.10	6.33	6.25	7.05	25.73	6.85	6.62	7.49	6.53	27.49	6.04	6.42	7.06
	DS	15.56	16.23	16.29	17.71	65.79	17.10	17.87	20.31	19.74	75.03	17.18	18.43	20.29
	Total	53.68	52.35	47.45	52.73	206.21	47.12	48.54	51.68	53.32	200.65	49.78	50.94	47.82
Operating Profit	CE	0.19	0.77	0.05	0.18	1.18	-0.14	0.21	0.36	0.82	1.25	0.51	1.03	0.77
	IM	6.43	4.42	1.75	1.96	14.56	2.74	2.76	2.40	2.23	10.14	3.89	4.32	0.10
	Semicon	1.95	1.86	2.26	2.70	8.78	2.93	3.40	3.66	2.80	12.79	2.63	2.64	3.37
	DP	-0.08	0.22	0.06	0.47	0.66	0.52	0.54	0.93	0.30	2.30	-0.27	0.14	1.02
	DS	1.87	2.09	2.33	3.13	9.43	3.39	3.87	4.65	2.98	14.89	2.33	2.79	4.40
	Total	8.49	7.19	4.06	5.29	25.03	5.98	6.90	7.39	6.14	26.41	6.68	8.14	5.20

Note 1: Sales for each business include intersegment sales
 Note 2: CE (Consumer Electronics), IM (IT & Mobile Communications), DS (Device Solutions), DP (Display Panel)
 Note 3: Information on annual earnings is stated according to the business divisions as of 2016.

Source: <https://news.samsung.com/global/samsung-electronics-announces-third-quarter-results-2016>

Exhibit 5 Galaxy Note7 shown as a weapon in a modded GTA V game

