

# CORPORATE BRAND MANAGEMENT AND REPUTATION

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## MASTER CASES

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How *explosive* should the launch of the new Samsung Galaxy8 be?

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First Edition  
Student Case Papers

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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.

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**How *explosive* should the launch of the new Samsung Galaxy Note8 be?**

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**WRITTEN CASE**

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## How *explosive* should the launch of the new Samsung Galaxy Note8 be?

In the late summer of 2016, Samsung faced the possibly biggest crisis in corporate history with its flagship product that literally burst into flames. Shortly after the product launch of the Samsung Galaxy Note7, several media reported exploding phone batteries and spreading visuals on the internet resulted in a PR nightmare. The battery's design flaw resulted in a product recall of 2.5 million phones and significant damages to the brand's reputation and standing, and the model's ongoing ban from several types of travel is a constant reminder up until today. Overall, Samsung suffered its worst decline in smartphone sales with a decrease of 14% in Q3 2016 and, thus, had to place all its hopes on the faulty phone's successor: The Galaxy Note8. However, the company must not only advance a product line that has been under strict surveillance ever since but tackle a market of fierce competition and address customers that have become increasingly wary with product safety. Hence, the board must now decide on actions for the global launch of the Galaxy Note8 in August 2017.

### Background and history

Samsung was founded in 1938 in Daegu, South Korea, as a trading company that gradually diversified into the areas of food processing, textiles, insurance, securities and retail. In the late 1960s, Samsung entered the electronics industry that – together with the construction and shipbuilding industry from the mid-1970s – primarily led to the company's subsequent growth. After the founder's death in 1987, Samsung was separated into four business groups: Samsung Group, Shinsegae Group, CJ Group and Hansol Group.

Since 1990, Samsung Group has successfully globalized as a conglomerate with more than 70 companies and affiliates, and Samsung Electronics (**Exhibit 1**) developed to the flagship company while its mobile phones have become the most important source of income. Further, Samsung Electronics is South Korea's biggest multinational corporation and the world's largest information technology company and consumer electronics maker (by revenue).

Up until today, the company's brand value steadily grows, and it ranked 6th in Interbrand's Best Global Brands from 2017 until 2019 (**Exhibit 2**) while positioning at the forefront of the global mobile industry. The Samsung Galaxy line of devices features the brand's most favorable products while the company also serves clients such as Apple, Sony, HTC and Nokia as a major manufacturer of electronic components.

Samsung follows a simple philosophy that sets a (1) high value on its people and technologies that develop (2) best products and services to (3) contribute to a better global society. This vision is already embedded in the company's name, translated into "three stars" referring to "big, numerous and powerful", and sources from the company's key values of people, excellence, change, integrity and co-prosperity. As a consequence, Samsung follows the "Five Samsung Business Principles", containing the compliance with laws and ethical standards, a clean organizational culture, respect for all stakeholders and shareholders, care for the environment, and safety and health.

As a socially responsible corporate citizen, Samsung has developed a powerful influence on South Korea's economic development, politics, media and culture. Further, the company spends about \$17 billion on research and development per year, ranking among the organization with the most US patents granted. Overall, Samsung has assembly plants and sales networks in 80 countries all over the world with around 308.000 employees.

## **The incident**

### *First period: product launch (August 2016)*

On August 2, 2016, Samsung unveiled its Galaxy Note7 as a successor to and an evolution of the Galaxy Note5, after a two-week run of marketing communication with allusions to and the public's fantasy of the phone's details. Subsequently, pre-orders in South Korea broke records with 200,000 plus units within two days only, and the global launch had been delayed due to a shortage in supply. On August 19, Samsung officially launched its product but shortly afterwards reported further delays in delivery due to additional testing.

### *Second period: emerging crisis (August – September 2016)*

On August 24, 2016, the first phone explosions were reported in South Korea and in the following days, pictures of burned phones were published on social media. As a consequence, Samsung deferred the shipment to South Korean retailers but, nonetheless, continued with its global rollout. During the following weeks, however, evidence of exploding phones piled up and on September 2, the company announced an informal recall of 2.5 million phones (recall 1) but simultaneously assured that the vast majority of the Galaxy Note7 phones should be unaffected.

*Third period: crisis (September – October 2016)*

On September 8, 2016, the US Federal Aviation Administration and the European Aviation Safety Agency issued a warning that passengers should switch off phones for the whole stay on-board, and many airlines and bus stations banned the Galaxy Note7—with prominently naming (and shaming) the brand during safety instructions. Further, the Galaxy Note7 was—and still is—considered as a hazmat product (a dangerous good that poses a risk to health, safety, property, or the environment even when not being transported). As a consequence, Samsung urged its consumers to power down the phones and to exchange these immediately while also working on corrective plans.

On September 12, 2016, 92 incidents of overheating batteries had been reported in the US, and the Consumer Product Safety Commission (CPSC) officially recalled the Samsung Galaxy Note7. On September 13, Samsung announced a software update intended to curtail the phone's functionality as a mobile device for eliminating the risk of explosion—among other features, the update restricted the battery capacity and blocked the connection to wireless networks. Also, the Galaxy Note7 was re-versioned with batteries from another China-based supplier but the new phones also suffered from a manufacturing defect that possibly sourced in the urge to provide a quick product replacement. On October 5, a Southwest Airlines plane was evacuated due to a smoking Galaxy Note7, which was both replaced and turned-off, and more and more people shared experiences of exploding batteries online. Subsequently, multiple online marketplaces and delivery services took down listings and/or further issued bans.

*Fourth period: crisis management (October – December 2016)*

On October 10, 2016, Samsung reported a formal recall of the Galaxy Note7 worldwide (recall 2) while suspending sales until further notice and stopping its production already one day after—with an apology to its customers that, unfortunately, lacked detailed information. Further, the company provided special packaging kits for the devices to be returned as well as dedicated kiosks at selected airports to provide travelers the opportunity to refund or exchange their phones before departure. After a four-month-long investigation and little external communication, Samsung took full responsibility for the incident and officially apologized to its customers across the media and with an apology letter (**Exhibit 3**).

*Fifth period: crisis follow-up (January – June 2017)*

On January 23, 2017, Samsung finally published its official findings from internal and external testing and analyses that identified the exact causes of the defects: overheating due to irregularly sized batteries that did not fit the phone, and a number of other failures in the manufacturing including missing insulation tape and sharp edge protrusions. At a press conference, the company also announced stricter inspections and testing processes for the future while setting up a battery advisory

group and engaging battery consultancy firms to ensure high quality and safety. Further, the company openly shared comprehensive information about all actions taken: from incidents to investigations to improvements (**Exhibit 4**). By deploying all communication measures with high-level volumes and speed, Samsung had been able to reach a global return rate of 96%. As a consequence, the Department of Transportation lifted the requirement for airlines to notify customers about the phone's ban on-board due to the high degree of public awareness. In June that year, Samsung refurbished recalled phones and released these as the Samsung Galaxy Note Fan Edition.

#### *Sixth period: aftermath (from June 2017)*

After the incident, Samsung faced several lawsuits over its handling of the recall, injuries of different degrees and compensations for damaged property. Further, the company was blamed for their insouciance in the beginning, a lack of transparency in the middle, and an increased production of (electronic) waste in the end of the crisis. Samsung stated costs of \$5.3 billion for the recalls and testing, and the company further lost 97% of its expected profit and \$26 billion on the stock market. In addition, the company's reputation collapsed from 17<sup>th</sup> to 70<sup>th</sup> in the Reputation Institute's 2017 Global RepTrak® 100. In social networks, many customers expressed their disappointment with a decreased level of trust and loyalty. However, Samsung stated that 95% of the Note users maintained their loyalty to the company, and 10,000 people ultimately signed up for bimonthly updates.

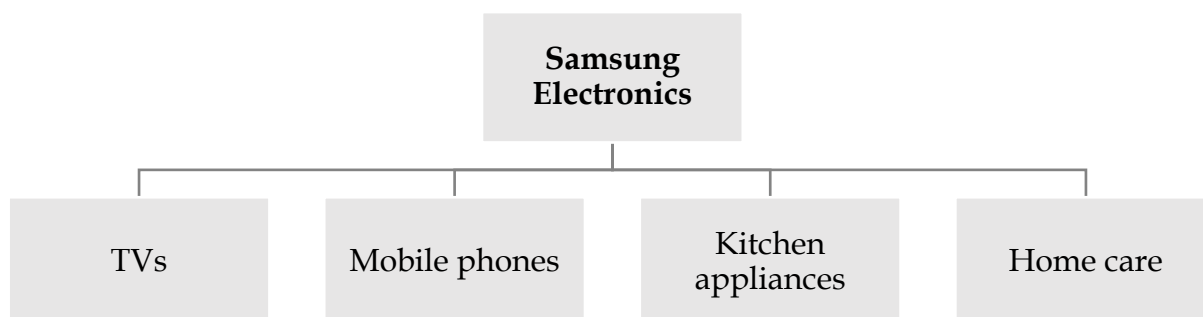
#### **A new product launch in 2017**

In August 2017, a couple of months after the crisis, Samsung will launch the Galaxy Note7's successor model: the Samsung Galaxy Note8. Assuming **the role of a respective member of the Executive Board**, how would you answer the following question:

*How should Samsung communicate the launch of the new Samsung Galaxy Note8 and how should the company – if at all – refer to the previous crisis?*

## Appendix

**Exhibit 1** Samsung Electronics business segments



**Exhibit 2** Samsung Electronics' brand value and brand rank according to Interbrand from 2013 to 2019

Year	2013	2014	2015	2016	2017	2018	2019
Brand Value (USD; in millions)	39,610	45,462	45,297	51,808	56,249	59,890	61,098
Brand Rank	8	7	7	7	6	6	6



**Exhibit 3** Samsung’s apology letter to Galaxy Note7 customers

# An open letter to all Galaxy Note7 customers

To our valued customers,

At Samsung, we innovate to deliver breakthrough technologies that enrich people’s lives. An important tenet of our mission is to offer best-in-class safety and quality. Recently, we fell short on this promise.

Because we had not gone on general sale in Europe with the Note7, there were a small number of affected customers here. For those customers who received the device during the pre-order phase, we recognize that we have not lived up to your expectations, or our own high standards. For this we are truly sorry.

We take seriously our responsibility to address concerns about safety and quality. In collaboration with government agencies and industry partners around the world, we are taking proactive steps to do better. Here is an update of our actions.

As you have heard – or experienced personally – we have stopped production of the Galaxy Note7. We are working swiftly to ensure every Note7 device is safely returned. For those directly affected, we appreciate your patience throughout the replacement process.

Samsung is fully committed to identifying and addressing the source of the Note7’s battery issue. We have already initiated investigations with independent third party experts to carefully revisit every aspect of the device, including the battery, hardware and software, and manufacturing processes. Once available, we will transparently share our findings.

Samsung has a long heritage of innovation and we have shown that we can and will learn from our mistakes. While we are always looking to innovate and create the next generation of great consumer technology, safety will remain our top priority. We will invest to better serve your needs through enhanced customer care and quality assurance.

On behalf of all our employees across Europe, we are truly sorry, and grateful for your ongoing support. We will listen to you, learn from this and act in a way that allows us to win back your trust.

**Exhibit 4** Samsung's actions from incidents to investigations and improvements

