Group Presentations

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Group Presentations

Golden Rules

- Presentation = **stories**.
- What **core message** do you wish to share with the audience?
- Simple, clear, & precise.
- Originality / uniqueness / novelty.
- Explain with **your own words** (**NOT read**) & **pronounce well**.
- **Contextualized & detailed** discussions.
- Make the best use of **your analytical skills**.
- **Own tables, figures & charts** based on **reliable data sources**.
- **Preparation, preparation, preparation !**
- **8 slides** at a maximum (excluding the front page & the list of reference) → It should be **well-structured** & **well-organized**.
- ONLY **15 minutes (I will set an alarm.)**

Colpan & Hikino (2005). "Changing Economic Environments, Evolving Diversification Strategies, & Differing Financial Performance".

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Diversification & Financial Performance

- **Colpan & Hikino (2005)**

❖ **WHAT** is the **central discussion point** of this piece of work?

Making Diversification Work

■ Overview

❖ Diversification

- **NOT ALL** diversification through M&As moves **erode** performance.
- **BP's acquisition of Amoco & Arco** performed well.
- When **AIG** was **in financial distress** in 2010, **Metlife** was able to acquire their assets **at an attractive price**.
- **'2' types: Related** diversification & **unrelated** diversification
- **Google, Apple & Intel:** Revenues (↑), profits (↑) & market share (↑) through (1) **acquisitions**, (2) **strategic alliances & JVs**, & (3) **internal development**.

❖ Key Questions

- **Why** do some diversification efforts **pay off** & others produce **poor results**?
- **Why** should companies need to take **diversification initiatives**?
- What are the **benefits & risks** of different types of diversification?

Related Diversification: Scope Economies

Leveraging Core Competencies

❖ Creating Superior Customer Value

- Every value chain activity has the potential to provide a viable basis for **building on a core competence**.
- **Gillette** has developed **a series of successful new razors**, building on a thorough knowledge of several phenomena that underlie shaving.

❖ Similarity in Different Businesses

- At least one element in the value chain must require **similar skills** in creating competitive advantage if the firm is to capitalize on core competence.
- **Fujifilm: Collagen**, a key component of both film & human skin.

❖ The Core Competencies Should be Inimitable

- **Amazon** developed strong core competencies in **Internet retailing**, **website infrastructure**, **warehousing** & **order fulfillment** to dominate the **online book industry**.

Related Diversification: Scope Economies

■ Sharing Activities

❖ Deriving Cost Savings

- **Cost savings: "Hard synergies"**
- **High levels** of **certainty of achievement**.
- **Where do cost savings come from?** (1) the elimination of jobs, facilities, & related expenses that are no longer needed when functions are consolidated & (2) scale economies in purchasing.
- **Cost savings** are **highest** when one company acquires another from the **same industry** in the **same country** (*i.e.*, **acquisitions & consolidation**).
- **Honda** benefits by **sharing small engine development** & **manufacturing** across the more than **15 different types** of **power equipment** it produces.
- **GM** uses **a shared engineering group** & **shared vehicle platforms** across its Chevrolet, Buick, & GM brands.

Related Diversification: Market Power

Pooled Negotiating Power

Definition

- Firms' abilities to profit through **restricting or controlling supply** to a market.

Example

- **Nestle** is powerful because it makes **large purchases** from **suppliers** & provides **a wide variety of products**.

Vertical Integration

Definition

- An expansion of the firm by integrating preceding or successive production processes. The firm incorporates more processes toward the original source of raw materials (**backward integration**) or toward the ultimate consumer (**forward integration**).

Example

- **Tesla** **vertically** integrates **battery production** in its production expansion.

Unrelated Diversification

Corporate Parenting & Restructuring

Parenting

- **The positive contributions of the corporate office** to a new business as a result of expertise & support provided.
- … **improve plans & budgets & provide especially competent central functions** (*e.g.*, legal, financial, HRM, procurement etc.).

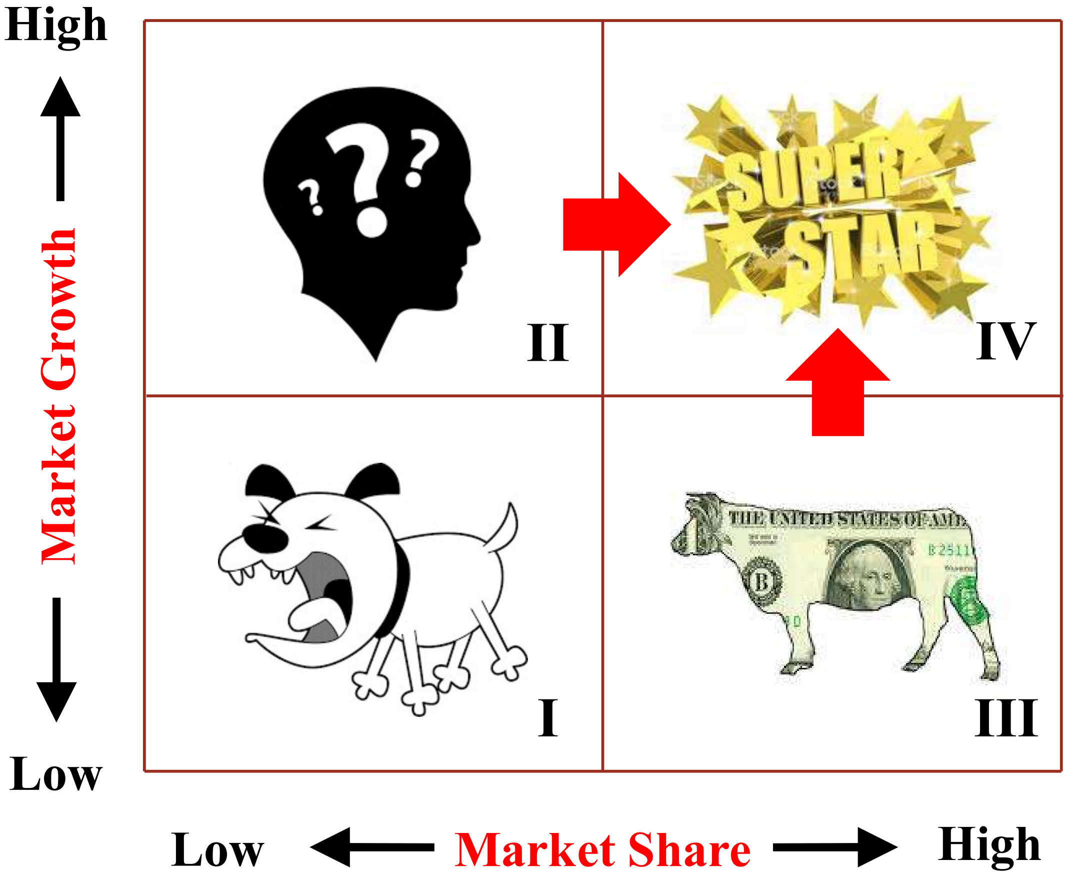
Restructuring

- **Asset restructuring:** The **sale** of unproductive assets, or even whole lines of businesses, that are peripheral.
- **Capital restructuring:** (1) how to **funds** a firm's overall operations & (2) how to **minimizes** the riskiness of its borrowing practices.
- **Management restructuring:** **changes** in (1) the composition of the TMTs, (2) organizational structure & (3) reporting relationships.

Unrelated Diversification

■ Portfolio Management: BCG's Growth/Share Matrix

❖ Underlying Logic



KEY POINTS

- **Quadrant I (Dogs):** **Low Market Share & Low Market Growth** (Weak in market, difficult to make profit = Exit !)
- **Quadrants II (Question Marks):** **Low Market Share & High Market Growth** (High competition requires additional & continued investments = Large cashout !)
- **Quadrants III (Cash Cows):** **High Market Share & Low Market Growth** (Doing well in no growth market with limited opportunities = Market maturity & stability / little cashout / high profits).
- **Quadrant IV (Stars):** **High Market Share & High Market Growth** (Doing well, great opportunities)

Unrelated Diversification

■ Portfolio Management: BCG's Growth/Share Matrix

❖ Limitations

- Portfolio models compare SBUs on **only '2' dimensions**, making the implicit but erroneous assumption that (1) those are the only factors that really matter (???) & (2) every unit can be accurately compared on that basis (???).
- The **BCG matrix** views **each SBU as a stand-alone entity**, ignoring common core business practices & value-creating activities that may hold promise for synergies across business units.
- The **imaginary** of the **BCG matrix** can be just **an oversimplified graphical model** for the important contributions of the **CEO's experience & judgement,** thus leading to **some troubles.**
- **The reliance on "strict rules"** regarding **resource allocation** across SBUs can be **detrimental** to **a firm's long-term viability**.

The Means to Achieve Diversification

■ Mergers & Acquisitions

❖ Examples

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The Means to Achieve Diversification

Strategic Alliances & JVs

Entering New Markets

- **Zara** expanded into **India** in 2010 **in cooperation with Tata**.
- **Lego** has expanded its product portfolio by licensing the right to develop products built around characters & brands (*e.g.*, **Star Wars & Harry Potter**).

Reducing Manufacturing Costs in the Value Chain

- **Strategic alliances (or JVs)** often enable firms to <u>pool capital, value – creating activities, or facilities in order to reduce costs</u>.
- The **PGA & LPGA**: To save costs by **jointly marketing golf**, **developing a shared digital platform**, & **jointly negotiating domestic TV contracts**.

Developing & Diffusing New Technologies

- Build jointly on the **technological expertise** of <u>two or more companies</u>.
- The strategic alliance between **Ericsson & Cisco**.

The Means to Achieve Diversification

■ Internal Development

❖Key Points

- Entering a new business through investment in new facilities, often called **corporate entrepreneurship** & **new venture development**.
- **Sony:** Dedication to innovation, R&D, & cutting-edge technologies.
- **3M** (The Minnesota Mining & Manufacturing Co.): Developing its entire **corporate culture** to support its ongoing policy of generating at least 25% of total sales from **products created within the most recent 4-year period**.
- **Biocon** (The largest Indian biotechnology firm): Taking advantage of knowledge of **malting & brewing learnt in college** to produce **enzymes for the beer industry** → Providing **enzymes for other good & textile industries** → Producing **generic drugs** (*e.g.*, insulin).

Diversification & Financial Performance

Diversification As A Source of Competitive Advantage?

Benefits of Business Diversification

- Ensure **a regular revenue stream** by extending your portfolio of product.
- Extend **a brand reputation** into other markets.
- Opportunities to expand product offerings or expand into **new markets**.

When to Diversify Your Business?

- Diversification is good when **your core business is stable & profitable**.

Hidden Costs of Diversification

- **Complexity** & **difficulty** of coordinating different businesses.
- **Lack of expertise or knowledge** about new businesses.

What is Sony's Diversification Pattern? Unrelated?

- Sony finds itself **thinly stretched with too many products** while being targeted by too many rivals.

Diversification & Financial Performance

■ Questions

Q1: What is the **uniqueness** of this article?

Q2: Describe **how** Japanese largest textile companies **diversified** their product markets. Are they **similar** or **different** regarding the **direction**, **nature** & **pattern** of their diversification strategies?

Q3: Discuss **what triggered** their **diversification strategies**.

Q4: Analyse the **effectiveness** of their **diversification strategies** in a longitudinal setting. When do you think that **related product diversification** is beneficial to the Japanese textile firms while **unrelated product diversification** is harmful to them?

Q5: What is the **managerial relevance** of this article?

Diversification & Financial Performance

Introduction

- **Diversification** has been **the primary measure for economic adjustments** in **Japan's matured textile industry**.
- **The relative decline of textile businesses** became inevitable when the major generic growth strategies within those product categories did not bring the long-term solution.
- Entire companies are **divided into '3' strategic groups** in order to identify the collective characteristics of the companies that possessed **similar resources, capabilities & business models**.
- This study highlights **'3' major periods:** (1) the **turbulent period** of the **1970s**, (2) the **booming years** of the **1980s**, & (3) the **depression decade** of the **1990s**.

Diversification & Financial Performance

The Major Players of Japan's Textile Industry

- In **2001,** the **total assets** of the **10 companies** together stand for around **76%** of all the textile enterprises.
- **The 10 textile enterprises:** Toray, Asahi Kasei, Teijin, Kanebo, Toyobo, Kuraray, Unitika, Mitsubishi Rayon, Nisshinbo, & Kurabo.
- The **crucial turning point? Synthetic fiber manufacturing** as the driving force of the entire industry in the **1950s**.
- **Kanebo**, **Kurabo**, & **Nisshinbo:** Relative **weakness** in terms of their resources & capabilities necessary for **synthetic fiber entry**.
- They started **cooperating with**, rather than competing against, **technological frontrunners**.

Diversification & Financial Performance

■ The 10 Largest Japanese Textile Firms in 2001 by Assets

Companies	Total assets (¥ million)		Founding date	Original product line
	2001	1970		
1. Toray	1,461,133	357,868	1926	Rayon fiber
2. Asahi Kasei	1,240,007	302,383	1922	Rayon fiber
3. Teijin	1,058,513	247,400	1918	Rayon fiber
4. Kanebo	712,609	152,156	1887	Cotton yarn
5. Toyobo	540,114	178,906	1882	Cotton yarn
6. Kuraray	512,479	133,788	1926	Rayon fiber
7. Unitika	377,143	191,736	1969	Cotton yarn, Rayon fiber (merger of Nichibo and Nippon Rayon)
8. Mitsubishi Rayon	359,041	137,642	1933	Rayon fiber
9. Nisshinbo	334,460	48,607	1907	Cotton yarn
10. Kurabo	206,609	53,039	1888	Cotton yarn

Diversification & Financial Performance

■ Significance of Textile Businesses for the Largest Firms

Companies	Ratio of textile sales to total sales (%)						
	1970	1975	1980	1985	1990	1995	2000
Toray	92.1	77.6	74.5	63.2	55.3	48.2	41.0
Asahi Kasei	75.0	58.8	38.2	27.6	17.2	14.5	12.0
Teijin	95.0	70.0	69.7	71.3	64.5	53.7	53.0
Kanebo	83.1	73.9	68.8	56.9	51.5	44.8	30.0
Toyobo	99.0	97.0	89.2	82.2	75.7	68.8	56.0
Kuraray	82.0	71.8	73.0	69.3	45.3	36.6	31.0
Unitika	97.7	92.0	80.9	78.8	66.4	51.2	47.0
Mitsubishi Rayon	86.1	80.0	60.6	45.6	48.0	46.8	33.0
Nisshinbo	88.5	81.0	74.0	76.0	67.0	61.0	49.0
Kurabo	95.0	91.4	91.0	88.8	76.6	73.2	65.0

Diversification & Financial Performance

■ '3' Groups of Companies: Diversification

Technology-Driven Diversifiers	
Textile Adherent	
Market-Led Diversifiers (Technology-laggard firms)	

Diversification & Financial Performance

■ '3' Groups of Companies: Diversification

Technology-Driven Diversifiers	☐ **Toray, Teijin, Asahi Kasei, Kuraray & Mitsubishi Rayon** ☐ **Entry into new businesses** (*i.e.*, plastics, chemicals, filters) ☐ **Toray** intensified its range of **plastic applications** into the fields of **electronic materials in 1970** & **construction materials in 1975**. ☐ Their **commitment to R&D** for many businesses resulted in the **accumulation** of the **technological capabilities**.
Textile Adherent	☐ The firms did **not fully realize their technological potential for non-textile market entry**. ☐ They regarded the **textile domain** as **a source of competitive advantage**. ☐ **Toyobo & Unitika** deliberately concentrated on **high-end textile products** & did not fully commit themselves to R&D activities for chemical product markets.
Market-Led Diversifiers (Technology-laggard firms)	☐ **Nisshinbo, Kurabo & Kanebo** emphasized **investments in marketing &/or financial capabilities**. ☐ **Kanebo's 5 domains:** (1) textiles, (2) cosmetics, (3) housing construction & sales, (4) food, & (5) pharmaceuticals. ☐ **Limited capabilities** forced them to **pursue new ventures in new venues**.

Diversification & Financial Performance

■ Significance of Textile Businesses for the Largest Firms

			Turbulent Period		Prosperity Period		Depression Period	
	Coefficient	**Significance**	**Coefficient**	**Significance**	**Coefficient**	**Significance**	**Coefficient**	**Significance**
Er	0.217	0.003** (3.102)	−0.064	0.380 (−0.891)	0.674	0.009** (2.953)	0.486	0.000** (4.193)
Eur	0.084	0.367 (0.906)	−0.024	0.804 (−0.250)	0.513	0.004** (3.317)	−0.268	0.002** (−3.268)
RD	0.225	0.019** (2.393)	−0.131	0.386 (−0.879)	0.556	0.002** (3.736)	0.305	0.000** (3.959)
ADV	−0.059	0.408 (−0.830)	−0.022	0.835 (−0.209)	0.730	0.001** (3.845)	−0.352	0.000** (−4.680)
Equity	0.350	0.000** (3.962)	0.464	0.002** (3.383)	0.489	0.004** (3.333)	0.441	0.001** (3.591)
TextSale	−0.152	0.199 (−1.292)	−0.166	0.250 (−1.173)	0.607	0.002** (3.572)	−0.324	0.007** (−2.845)
Apparel	−0.191	0.052* (−1.968)	−0.269	0.104 (−1.676)	−0.451	0.018** (−2.591)	−0.229	0.057* (−1.972)
Employee	−0.100	0.266 (−1.119)	−0.045	0.701 (−0.388)	−0.089	0.497 (−0.693)	0.266	0.013** (2.625)
IndGro	0.343	0.000** (3.907)	0.456	0.000** (4.935)	0.269	0.025** (2.441)	−0.079	0.353 (−0.942)
F-statistic	19.750**		28.393**		22.453**		42.324**	
R^2	0.705		0.867		0.877		0.896	

Diversification & Financial Performance

What Factors Benefits Japanese Textile Firms?

- **R&D Intensity**
  - Prosperity periods (+)
  - Depression periods (+)
- **Related Diversification**
  - Entire periods (+)
  - Prosperity periods (+)
  - Depression periods (+)
- **Unrelated Diversification**
  - Prosperity periods (+)
  - Depression periods (–)

- The business model dedicated to **technology investments & related diversification** constitutes an enduring growth model that ultimately yields **higher profitability** relative to the other business models.

Aoyama (2007). "Oligopoly & the Structural Paradox of Retail TNCs: An Assessment of Carrefour & Wal-Mart in Japan", *Journal of Economic Geography*, 7: 471-490.

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Failed Cases of Carrefour & Wal-Mart in Japan

■ Question

WHAT mistakes did Carrefour & Wal-Mart make in Japan?

Failed Cases of Carrefour & Wal-Mart in Japan

■ Wal-Mart & Carrefour in the Early 2000s in Japan

Source: Aoyama,(2007).

Failed Cases of Carrefour & Wal-Mart in Japan

■ The General Trend of Foreign Food Retailers in Japan

- ❖**Small-scale operations**: CostCo (US, 1999, 5 stores) & Metro (Germany, JV with Marubeni Trading, 2002, 3 stores).
- ❖**New rivals**: 99-yen grocery stores, 100-yen stores, electronics stores.
- ❖**Divestments of retail TNCs** from Japan: Sports Authority (USA, 96), Footlocker (USA, 97-00), Warner Studio Store (USA, 96-00) & JC Penny (USA, 98-99).
- ❖**Daily Farm**, a successful HK retailer, set up a JV with Seiyu & opened 4 stores in Japan, was forced into closure due to poor sales in 1998 due to the **lack of competitiveness** in fresh food items unattractive store & poor shelf design & severe domestic competition.
- ❖**Carrefour & Wal-Mart** in Japan: **Delivering lower prices**.

Source: Aoyama,(2007).

Failed Cases of Carrefour & Wal-Mart in Japan

■ General Information

Carrefour Japan

- **8 stores** in Japan starting **2000**.
- **Wholly-owned subsidiary**.
- Carrefour's overseas expansion to seek out **partnerships with local firms** & to acquire **market-specific knowledge**.
- **13 stores** by the end of 2003.
- The first store in a **Tokyo suburb** of **Makuhari** in December 2000.
- A "**ghost-town**" in **an early afternoon of a weekday**.
- The **inability of securing a buyer**.
- **3 stores** in the **Tokyo** region & 5 stores in the **Osaka** region were **sold to Aeon**.

Source: Aoyama,(2007).

Wal-Mart Japan

- **Alliance** with Sumitomo Trading & purchased a 34% share of **Seiyu** (2002) ➔ **50.1% (2005) & 66.7% (2007)**.
- **No visible changes** in storefront design & product variety due to **Seiyu's name recognition** in Japan.
- **Voluntary early retirement** of **25%** of its **full-time employees** & raising the **share of part-time employees to 85%**.
- However, the **lay-off** reportedly had **negative impacts** on the moral of Seiyu employees.

Failed Cases of Carrefour & Wal-Mart in Japan

■ Mistakes?

- ❖ **WHAT** explains the problems of retail TNCs in Japan?

  (1) **Operational efficiency** & (2) **branding**.

- ❖ In the supermarket category, the most common strategy employed among foreign retailers is **low price**.

- ❖ **Low-price-strategies** of foreign retailers have been **criticized as unsuitable** for the Japanese market.

- ❖ **WHY** did Japanese consumers **NOT** flock to their stores?

  (1) Carrefour & **Wal-Mart** focused on the **low-price strategy** in spite of **the relatively small share of low-income households in Japan** & **a small market for low-end products**. (**Japan: low inequality**)

Source: Aoyama,(2007).

Failed Cases of Carrefour & Wal-Mart in Japan

■ Mistakes (Operational Efficiency)

❖ **WHY** did Japanese consumers **NOT** flock to their stores?

(2) The **attitude** of the **Japanese consumers** toward price is particularly **complex**. ➔ Relatively **price-insensitive**. Wal-Mart was keen on introducing its trade-mark **"ever-day-low-price" strategy** at its Seiyu stores with much fanfare. Seiyu failed to consistently undercut competitors' prices. A typical Japanese grocery shopper closely examines **several flyers** of nearby supermarkets & identifies **frequently changing sales items**, & switches where to shop daily. Consumer finds it more economical to continue with the **practice of price comparisons** & **switching places to shop** on the daily basis.

Source: Aoyama,(2007).

Failed Cases of Carrefour & Wal-Mart in Japan

■ Mistakes (Operational Efficiency)

❖**WHY** did Japanese consumers **NOT** flock to their stores?

(3) Both companies insisted that their strategies for **low-cost operations** that worked elsewhere would eventually win customers in Japan. They **stacked up high in large quantities on shelves** for visibility & shelf space maximization, but at the expense of store attractiveness. Seiyu's clientele was mainly the **middle-aged & elderly loyal customers** who were not impressed with low-cost display of bulk.

(4) **Store layout** was designed to direct customers to form **a one-way traffic from entrance to exit**. Supermarkets substitute for **'refrigerators' in Japan ➔ Lean consumption**.

Source: Aoyama,(2007).

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Failed Cases of Carrefour & Wal-Mart in Japan

■ Mistakes (Operational Efficiency)

❖ **WHY** did Japanese consumers **NOT** flock to their stores?

(5) **Domestic competitors** employed strategies that went directly <u>against the retail TNC's low cost approach</u>.

Visibility & **customer appeal**, **great variety** in a vigorous thriving atmosphere. They particularly exhibit particular **sensitivity to seasonal changes** in food items, **awareness to gift giving seasons, love new products** & consider **freshness** as extremely important. ➔ For example, merchandise in its fresh seafood section **changed 3 times as a day**; whole fish from nearby ocean in the morning, sliced into sashimi in the afternoon; & marinated & grilled fish in the evening.

Source: Aoyama,(2007).

Failed Cases of Carrefour & Wal-Mart in Japan

Mistakes (Branding)

- The Japanese consumer has been referred to as the **'most difficult consumer to strategize'**, as they require **high quality** on everything, & are **knowledgeable** about products, service, quality & prices from around the world.

- **Image gap**: Japanese consumers' previous experience with French retailers was largely shaped by luxury boutiques (*e.g.*, Chanel, Louis Vitton & Hermes).

- Wal-Mart's **low-cost, low-quality approach** was widely blamed for its most recent **poor performance** as it ruined Seiyu's highly profitable apparel section.

Source: Aoyama,(2007).

The End of Today’s Lecture

ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille!

Merci beaucoup!

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