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WORLDWIDE CASE COMPETITION

Sample Case Analysis #4

Qualification Round submission from the
2017 NIBS Worldwide Case Competition, Rauma, Finland

Case: *Suominen Wipes the Slate Clean*

SUOMINEN WIPES

Submission prepared for the Qualifying Round of the
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Problem Statement

Nina Kopola needs to establish the best course of action for Suominen to differentiate itself in a highly competitive environment. To fulfill its long term goal of becoming a true market leader, it will need to aggressively pursue growth.

Objectives & Outcome

Suominen seeks to increase the company's profitability, as the company grows above the industry growth rate of 7%. The strategic plan set out herein will achieve a 10% growth rate and gain €32M in revenue over the next five years.

Situation Analysis

Four different analyses were used to evaluate Suominen’s standing within industry including; PESTEL, SWOT, Porters five forces, and a competitive analysis.

The **PESTEL analysis** emphasis on the social and economic factors that the industry faces. This includes a growing preference for environmentally friendly products as the market continues to grow at 7%, mainly thanks to Asia (Appendix 2).

The **SWOT analysis** reveals that one of Suominen’s biggest strengths is its focus within the industry, as the world’s largest supplier of nonwoven wipes (Appendix 3). Other strengths include a highly motivated workforce, and innovative R&D activities that enable to company to meet specific customer needs. This has provided Suominen with success, as they have been able to develop a strong team while cutting costs by €10 million. The company has an opportunity to leverage these strengths as they move forward, to capitalize on growing demand for high quality nonwoven products in Asian markets.

Porter's five forces (Appendix 4) shows that the industry is not attractive to anyone other than well established players, making the threat of new entrants low. In order to be a supplier to brands, companies must undergo a qualification process which can take upwards of one year. If a company does become qualified, it demonstrates that they are capable of handling large supply volumes. This directly increases the possibility for companies to form supply deals with other Fortune 500 companies and increase their viability along with their sales. This is significant as there are various substitutes to products within the nonwoven industry. These include products made from reusable materials as well as textiles and paper.

The **competitive analysis** shows that Suominen's biggest competitors are Kimberly Clark and Berry Plastics (Appendix 5). These competitors are located around the world, including China. This gives them a competitive advantage as the market in Asia is growing at the fastest rate.

Alternatives

The alternatives have been divided into two parts; the first relates to company structure, and the second to company strategy. A combination of A & B will be required.

Company Structure Options

1. Acquire NunLiu, Suominen's Taiwanesse competitor.
2. Form a joint venture with NunLiu
3. Pursue organic growth

See Appendix 6 for the pros and cons of each alternative.

Company Strategy Options

1. Consumer driven innovation (i.e., focused differentiation)
2. Low cost

The first option is to stay with the current strategy of focused differentiation. This strategy caters to customer needs, as it shows a higher scoring in financial growth and R&D (Appendix 7).

The second option is to pursue a low-cost strategy. This entails selling products at a lower cost than rivals, which is feasible due to decreased production costs resulting from economies of scale (Appendix 7). Lowering price will boost demand, increasing sales revenues (Appendix 9).

Recommendation

After analyzing these options in the context of our key decision criteria (Appendix 1) we determined that the best approach for Suominen is to pursue organic growth for the next 3 years, and subsequently seek a joint venture with NanLiu, the company's main Taiwanese competitor.

The initial focus on organic growth will provide the company with additional profits of €21.1M (Appendix 8). As a public company, Suominen faces pressure to satisfy shareholders, including disbursement of dividends when possible. They also want to maintain a debt-equity ratio of 40%-80% (currently, this stands at 57%). Entering into the joint venture immediately would increase their debt-equity ratio to 67%, making it more desirable to pursue this at a later date.

Ultimately, however, a joint-venture with NunLiu makes sense because it will enable Suominen to penetrate the fast-growing East Asian market more effectively. The two companies will have mutual interest in undertaking this project, as it will allow both to acquire key technological knowledge from the other, thus enhancing capabilities, limiting risk, and reducing competitive threats.

With respect to the choice between differentiation and low-cost, it is clear that differentiation is the better alternative for Suominen—at least in the short term. With key success factors like financial strength and R&D-driven innovation, the company is well-equipped to deliver high-quality, differentiated offerings that customers will pay a premium for. This option provides the company with a gross profit percentage of 12.93% (Appendix 9).

Implementation Plan

A concern for Suominen while undertaking a joint venture with NunLiu is the risk to its corporate reputation and brand. In this industry, Taiwanese companies are generally associated with low quality products. To avoid confusion and limit risk, we recommend that the companies create a new entity with a new name. This will ensure that Suominen will be able to sell lower quality products in the Asian market whilst preserving the prestige and positive perception of their brand in western countries.

We recommend that the company employ a low-cost strategy in Asia. The price of products sold by the new joint venture will need to be lower than the price of products sold by Suominen in western countries. Likewise, the quality of these new products can be lower, in line with market needs and expectations.

Since the supply chain for this industry is focused on B2B distribution channels, we recommend that

Suominen leverage both their existing distributors and NunLiu's distribution networks when pursuing the East Asian market. This will limit the need for Suominen to find new distributors in the region and capitalize on the fact that many of their existing clients in the EU and United States—such as L'Oreal and Johnson & Johnson—already have operations in East Asia.

Timeline

Short term (1 year)

Nina Kopola should begin by implementing an HR training program for the new Brazilian and South Carolina plants, and headhunting a manager/supervisor for an enhanced R&D department. She should also begin to plan for the joint venture immediately. This includes setting aside €15M each fiscal year for the next three years, which is possible thanks to their current ratio of 2.5. This will give Suominen €45M to put toward the joint venture, which will minimize the loan required to invest in NanLiu.

Within existing markets, Suominen should maintain its focused differentiation strategy. This will ensure that sales in the existing business will continue to grow at a stable rate.

Medium term (1 to 3 years)

Suominen should continue investing €3 million annually on R&D initiatives and hire an additional four employees to support these efforts. This will ensure that customers have new innovative products, providing the company with a platform for growth.

The annual 2017 shareholder meeting will be especially critical. This will be Kopola's opportunity to present the joint venture idea to shareholders, paired with a dividend of €500,000 to secure their support.

Once shareholders have been notified, formal negotiations with NanLiu can begin. The company can start finalize the details of the joint venture during the ensuing period. In year 3, Suominen will need to secure a €55M loan from the bank to complete the transaction. Assuming this loan is repaid over 8 years at an interest rate of 6%, the PV of the investment in year 3 will be €107,097,938. With future cash flows from the investment forecast to be €230M, Suominen will enjoy an ROI of 15% (Appendix 10)—in line with company goals.

Long term (3+ years)

At 2020 fiscal year-end, Suominen should assess its performance and launch the joint venture. This will help the company with R&D, since teaming up will result in shared knowledge. Since this will be the company's first direct operation in Asia, it is a big step. It is therefore key for Suominen to put the necessary human resources in place to make the joint venture a success. The company should appoint or hire employees specifically to work with the new Taiwanese partner. This will help to maximize learning, internationalize Suominen's company culture, and increase its comfort with the logistics of multi-national operations.

Appendices

Appendix 1 - Key Success Factors

1) Positive financial results to keep stakeholders pleased, maintain adequate production capacities at all to meet buyers' requirements
2) Maintain/foster healthy, trustful relationships with buyers and suppliers,
3) Facilitate opportunities of innovation through technological advancement and R&D.

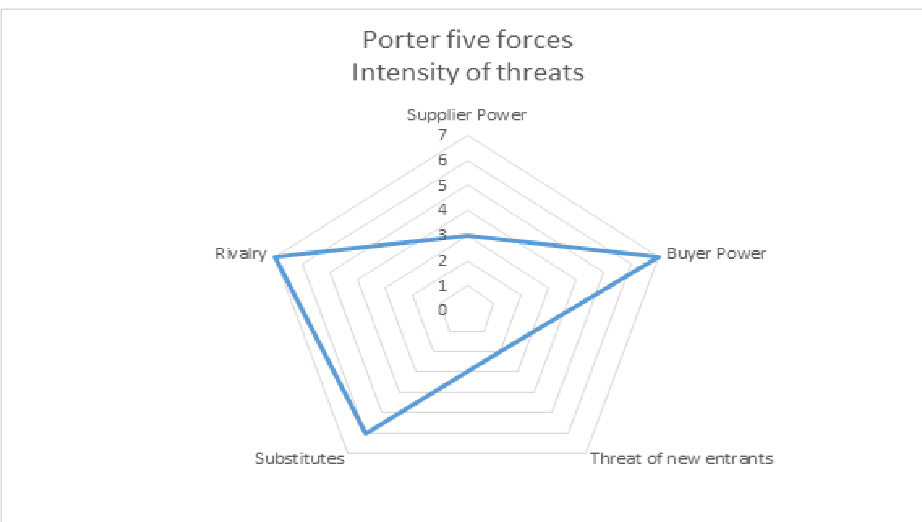
Appendix 2 - PESTEL Analysis

Factors	**Implications**
Political	- Political instability in key regions (Middle East supply chain and Chinese market openness)
Environmental	- Need to follow strict environmental regulations
Social	- Growing trend for environmentally clean products. Possibility to grow brand through social media and growth in B2B companies having a social media presence. -Different cultural preferences on the use of nonwoven products
Technological	- Need to follow technological trends in market and keep R&D section of company to develop new technologies
Economical	- Market growth of roughly 7% in next 5 years for global nonwoven products market. -Most of global growth will come from Asian market.
Legal	- Important to keep ahead of changing global trade laws.

Appendix 3 - SWOT Analysis

Strengths	Weaknesses
- New motivated management team complemented with high performing staff - Proven abilities to cut costs and manage cash -Largest supplier of nonwoven global wipes -Ninth largest nonwoven company in the world -widest range of technologies in the marketplace -supply assurance across global platform - Development of Innovative R&D activities to accommodate specific customer needs.	-Poor understanding of end customer(s) and their needs. -Poor division management -Low credit rating
Opportunities	**Threats**
- Growing demand for high quality nonwoven products in Asian markets	- Demand surge(s) in separate geographic regions - Companies in industry selling nonwoven products at very competitive prices

Appendix 4- Porter's Five Forces



Appendix 5 - Competitive Analysis

	Kimberly Clark	Berry Plastics	Spuntech	John Holm	Suominen
Areas of activity	Global	Global	Israel, US, EU	EU, US	EU. America
Product line	Hygiene, Wipes	Hygiene, Wipes, medical	Wipes, Medical	Hygiene, Wipes	Hygiene, Wipes, Medical
Possibility of financing through company (Based on company sales and revenue)	High	Medium high	Small, medium	Medium	medium

Appendix 6 - Qualitative Analysis

Alternative	Pros	Cons
Acquisition	-Enter East Asia (particularly the Chinese market) while being situated in a relatively open economic zone in a turbulent geopolitical area. -Control over a Chinese company and incorporate all their knowledge.	-Suominen would have to integrate a company that detains a foreign culture. -Financial risk, would negatively affect shareholder wealth
Joint Venture	-Provide similar benefits as an acquisition, at a lower risk. -Both parties would share financial risks and cost. -Only a temporary arrangement. If Suominen's management can work together efficiently, they can reap the benefits of future innovations in research and technology as well as a shared value-chain.	-Shared profits -Threat of conflicting cultures and management egos between both parties.
Natural Growth	-Safe option for Suominen. -Provide shareholder satisfaction as Suominen has just recently begun to make a profit. -Lower debt/equity ratio	-Lower growth opportunities -Limits R&D opportunities

Appendix 7 - Decision Matrix

	Financial growth	Foster buyer relations-hip	Risk	Company synergy	Maximize Share holder wealth	R&D	Total
Acquisition	9	8	2	2	3	8	32
Natural growth	5	5	9	9	6	5	39
Joint venture	7	6	4	6	4	7	35
Consumer driven innovation (Focus strategy)	8	7	5	6	5	8	39
Low cost strategy	7	6	7	4	4	5	33

Appendix 8 - Company Structure

Alternative	Revenue	Cost	Financial implication In first year (net income)	Financial implication in 10 years (net income)
Acquisition	€743M	(€815M)	(€72M)	€52M
Joint Venture	€615	(€623)	(€8M)	€41M
Natural Growth	€500M	(€478.9M)	€21.1M	€32M

-Assumption: Acquisition has initial cost of €200M and joint venture has an initial cost of €100M
-Assumption: 10 year net income projection takes into consideration synergies, acquisition cost and stable growth rate
-Assumption: Profit margin is currently 3.82%, giving cost of 96.18%. → assume slow increasing profit margin for 10 years due to maturity stage in market
-Assumption: reach organic growth projection of €500M in revenue

Appendix 9 - Company Strategy

Alternative: strategy	Revenue	COGS	Gross Profit %
Low-cost	480M	429.6M	10.5%
Focused differentiation	444M	386.6M	12.93%

Assume: Gross profit % based off 2015 figures, Low-Cost strategy has slightly lower GP% due to a switched focus of selling more units at a lower profit margin.

Appendix 10 - ROI

Cash	45,000,000
Loan	62,097,938
PV of JV	107,097,938
Expected future cash flows	230,000,000
ROI = (proceeds - cost)/cost	1.15