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WORLDWIDE CASE COMPETITION

Sample Case Analysis #1

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

Case: *Suominen Wipes the Slate Clean*

SUOMINEN WIPES THE SLATE CLEAN

Submission prepared for the Qualifying Round of the
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Executive Summary

Suominen, the market leader in the manufacturing of nonwoven products, needs a new strategy. CEO Nina Kopola began restructuring the company in 2012. Her latest decision was to divide the core business unit into Convenience and Care—a decision that resulted in a drop in share price. The decision itself, however, was well thought out and should simply have been communicated more clearly to stakeholders. A new strategy, properly communicated, is therefore likely to be convincing. We recommend focusing on the Care market due to changes in other markets, the low value-added in other segments, and the maturity of the Convenience market. Implementing our strategy will offer an IRR of 33%, with additional revenue of €23 million over five years.

Analysis

Internal

The BCG-matrix (Appendix 3) shows that the current revenue streams of the enterprise are changing: Medical and Industrial are growth segments and Baby Wipes are in decline.

A SWOT analysis (Appendix 1) shows that the company's strengths are quality and reliability in both products and services. The new CEO has taken a sound approach with the transformation, informing all employees and gaining a loyal workforce. However, the company's share price has recently dropped by 30%, indicating shareholder dissatisfaction. We also note that 41% of revenue comes from baby wipes, which have thin margins.

External

Porter's five forces (Appendix 4) shows that buyer power and strong competitors are the main issues for Suominen, creating a need for greater bargaining power and differentiation. A growth rate of 40% within the Care industry provides an exciting opportunity; emerging markets are quickly catching up and growing populations are driving this growth.

Buyer contracts being 2-3 years mean that losing a client amounts to losing these clients for an extended period—possibly forever. There is a serious risk that Suominen could face a hostile takeover due to the 30% drop in share price and the failure of shareholders to appreciate the significance of the split between the Care and Convenience businesses.

Market analysis (Appendix 2) indicates a decline in wipes (-15%) and growth in medical (+10%) and industrial products (+19%).

The following issues are crucial for Suominen:

1. The 30% decline in share price
2. The critical role of innovation in this industry
3. Shifting markets
4. A need for differentiation

Problem

What strategy should Suominen pursue to grow the Care business unit in a sustainable way, maximizing profits and differentiating the company from competitors?

Alternatives

Four alternative approaches can be used to achieve this. These are further explained in Appendix 5:

1. Reorient the business

Focus the business on the Care market, using market shifts and the 40% growth in the medical market to Suominen's advantage. Increase production of existing medical products while researching new products to introduce. Forge alliances with converters to create private channels.

2. Grow through acquisition

A buy-and-build strategy, looking for strategic takeovers to increase revenue and become a bigger player in global markets. Buying a competitor gives Suominen insight into their R&D and product development, creating new knowledge that can be leveraged across the entire business.

3. License products

Suominen is the market leader and biggest innovator, therefore the company could license its products to other production facilities. This would provides them with better goods and gain Suominen payment through royalties without production risks.

4. Open innovation

Fully focus on innovation, integrating the product chain and sharing information with multinational brands, converters, oil companies that supply the raw material and Suominen's own business. This creates the highest chance of becoming a product leader with truly innovative products.

Recommendation

As noted in Appendix 6, we recommend reorienting the business towards the Care market. This decision is based on the SFA (sustainability, feasibility, acceptability) decision criteria.

Implementation Plan

Our implementation plan specifies four areas of focus: Operations, HR, Finance, and Marketing. Actions in each of these areas are specified in Appendix 7, showing the implementation timeline.

Our recommended strategy will initially focus on the U.S., which represents 50% of the company's total revenues. Expansion to Europe and emerging markets is possible in the future.

Operations

To grow in the Care market, Suominen will need to either change the nature of its existing relationships with converters or forge relationships with new converters. To create new relationships, the company will need to decide whom to approach. Our first choice would be the biggest converter in the Care industry; Suominen should engage in a conversation with them and sign a contract to join forces.

As Suominen is a market leader, the company will have bargaining power in these negotiations and come from a position of strength. We propose to offer this converter an exclusive deal (geographically bound) for the care products; in return Suominen will gain margins and a clear win-win situation. The converter will be responsible for creating the demand further down the product chain.

Suominen could discuss global possibilities with this converter if the partnership is successful.

We believe that the new facility in The U.S. should be the foundation for Suominen's growth within the Care market. The converters should thus be located close to this facility due to the benefits of efficient logistics and close communication channels.

Part of the €15 million investment is available for the new plant, tailoring it for the Care market using the Airlaid production technique. This will provide 9% growth in demand.

Human Resources

Following Nina's example, executives should communicate with all employees in order to signal that management values its staff—thus facilitating acceptance of the new strategy. Employees are crucial to success of the plan because of their empowerment, accountability, and passion. Their engagement contributes towards the high-quality products needed in the Care industry.

The current bonus strategy is based on short-term metrics. To give our strategy a higher chance of succeeding, effort should be made to align employees with the long-term vision of the company. We believe this is best done via employee stock options (ESO). As such, the company should buy back shares in the current market while prices are low, and then use this stock to sell to employees later on. This buyback will also have the effect of increasing the stock price in the immediate term. Staff should be allowed to convert their ESO in three years.

The four new employees in the R&D department should focus solely on customer needs within the Care industry and seek innovations to fulfill these requirements. These employees make it possible for the company to differentiate itself from competitors. Creating the best new products ensures higher margins, improving profits for the enterprise as a whole.

Marketing

The first six months should consist of market research aimed at identifying the needs of converters in the care industry in the U.S. With this market research, Suominen will be able to choose the most suitable converters to partner with. Analyzing their needs will also make it easier to target converters effectively. Suominen can then use a press release to inform customers about the new partnerships and its new vision for the company.

Digital channels—principally, the company's website supported by social media (e.g., Facebook, Twitter, Pinterest)—can be used to build awareness about Suominen's new product portfolio for the Care industry. Market research regarding innovation should be done throughout the implementation to keep up with market trends.

Finance

Our financial plan is based on the assumptions specified in Appendix 8; the forecast itself is shown in Appendix 9. We project sales growth for the next five years in the U.S. Care market. This will provide additional revenues of €23 million with an initial investment of €15 million needed to reorganize the new facility in North Carolina and fund an increase in the R&D budget.

Appendix 10 shows worst-case, average, and best-case scenarios. The impact of these scenarios is shown in the sensitivity analysis (Appendix 11), providing insight on the effects of changes to price and cost of goods sold, and their consequences for the Net Present Value of this project.

Risks & Contingencies

The main risks involve sales in the Care industry falling short of expectations, due to a failure to create or communicate value. Further market research can be used to ensure that Suominen creates superior products that do a good job of meeting needs, and convince customers—especially hospitals and doctors—to adopt them.

This market research can also show how the can be convinced of our products.

Expected Outcomes

We expect that Nina Kopola will be able to bring stakeholders on board during the upcoming meeting, improving share price in the immediate term and resulting in significant sales and profitability gains in the longter-term. This creates win-win situations for converters, hospitals and Suominen’s business.

Appendices

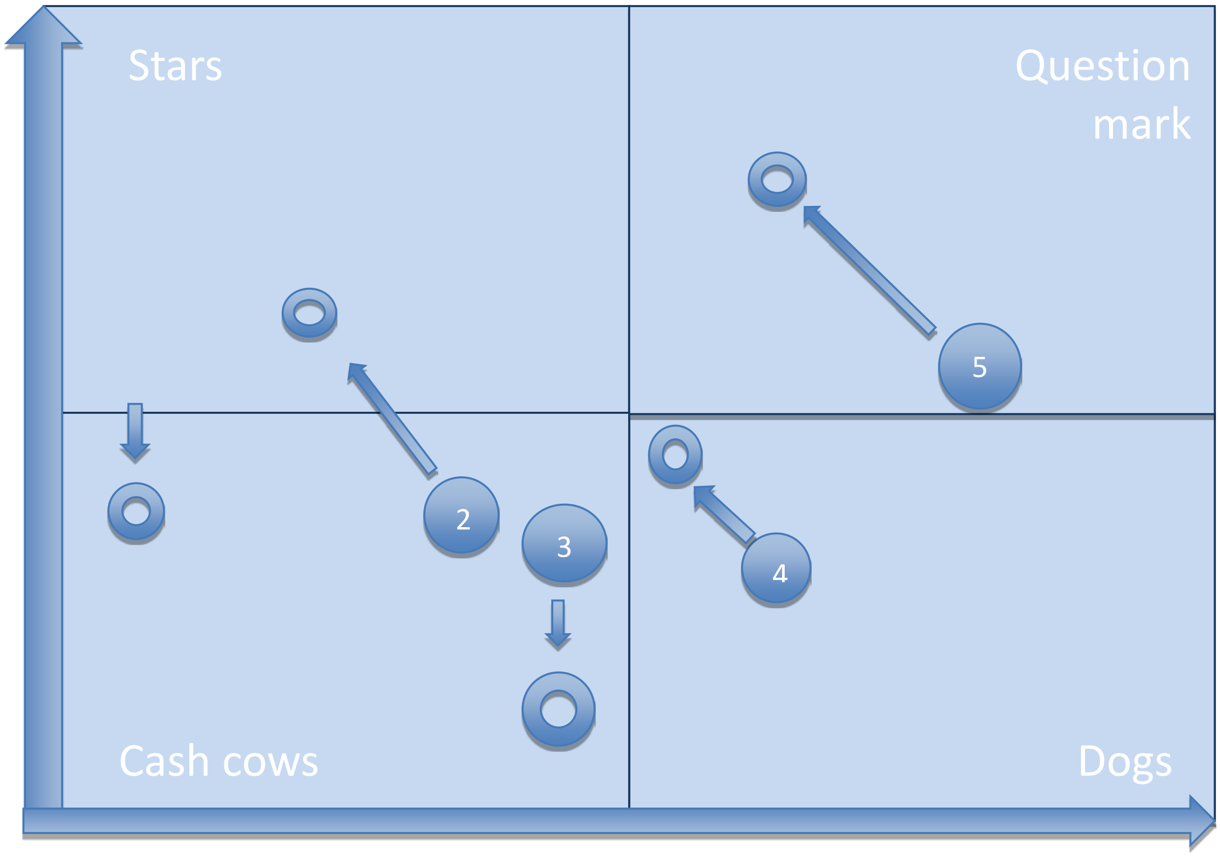
Appendix 1: SWOT Analysis

SWOT	Analysis	Strategic action
Strengths	**- R&D capabilities** **- Proven products (Quality)** - **Reliability as a supplier** - Strong organization with good leadership - **HR Workforce (Employee passion, empowerment and accountability)** - Cashpile	**Action:** Maximizing the R&D capabilities, reliability and HR workforce in a new focus. R&D is maximized by understanding the customers, reliability by creating contracts with suppliers and HR workforce by challenging them to reach further than they've ever done.
Weaknesses	- Strong customers (Fortune 500 companies) **- Low value-added products (Baby wipes, 41% of revenue)** - Supplier dependant (sourcing) **- Converter dependant (to deliver end-products)** **- Share price dropping (30% decrease in price last quarter, bad communication to shareholders)**	**Action:** Shifting the products from low value-added to high-value added, creating strategic alliances with converters and presenting the new focus to the shareholders.
Opportunities	**- Shifting market demand** **- 40% growth in medical industry** - Emerging markets **- Aging population (Worldwide)** **- Customer insights available at the multinational brands**	**Consider:** The medical industry is poised to grow at 40% creating a higher demand within this segment, customer insights leading the way to create high value-added products in other segments.
Threats	**- Mature market** - Being a takeover target (30% share drop and competitors are large conglomerates) **- Buyer contracts (lasting 2-3 years)** - Supplier issues (if a supplier can't deliver you lose your buyer because of the strict screening) - Ecological focus (Chemical products vs textile substitutes) - Competitor's focus (Big multinationals might shift their focus towards this market)	**Consider**: Repositioning the products to shift from the mature market and the buyer contracts to create more bargaining power as a supplier of semi-assembled products within the product chain.
Key takeaway	**Shifting the focus from low value-added to high value-added creates a stronger bargaining power, higher margins and R&D budgets. Using these to develop new products differentiates your company from competitors and moves it out of mature markets while creating shareholder acceptance by providing them with a strategy.**	

Appendix 2: Market Share per Segment

Market segment	Industry percentage	Growth rate	Industry percentage in 2025	Change %
Personal hygiene products	20%	6.0%	19%	-7%
Wipes	12%	5.0%	10%	-15%
Construction	10%	9.0%	12%	19%
Filtration products	9%	9.0%	11%	19%
Medical uses	9%	8.0%	10%	10%
Niches	40%	6.5%	39%	-3%

Appendix 3: BCG Matrix



Product category:	Explanation:
1. Baby and toddlers (41%)	The market is going to decline in size. However, this business unit accounts for 41% of sales (most sales of Suominen)
2. Personal care wipes (21%)	Expected high growth; accounts for 21% of sales
3. Household wipes (17%)	Market is going to decline because of shrinking family sizes; accounts for 17% of Suominen's sales
4. Industrial wipes (11%)	Predicted global market growth of 5% annually; accounts for 11% of Suominen's sales
5. Hygiene and medical products (8%)	The market is predicted to grow at a rate of with 40% over the next four years. This category currently accounts for 8% of Suominen's sales
Key takeaway: Product category "personal care wipes" is expected to grow. Also, product category "hygiene and medical products" is projected to grow exponentially. Convenience market is going through a small decline in growth. However, the global market is shifting towards the care market.	

Appendix 4: Porter's Five Forces

Likelyhood impact 5 forces	Very low	Low	Moderate	High	Very high
Power of suppliers					
Buyer power					
Substitutes					
Threat of a new market entry					
Competitive rivalry					

Key takeaway: The buyer power is high in the industry that Suominen operates. It means that if you do not answer the needs of the buyer, you will lose them. Also, the competitive rivalry is high. This means that you will have to take into account what moves your competitiors make, cause every move they make will cause a big impact in the market.

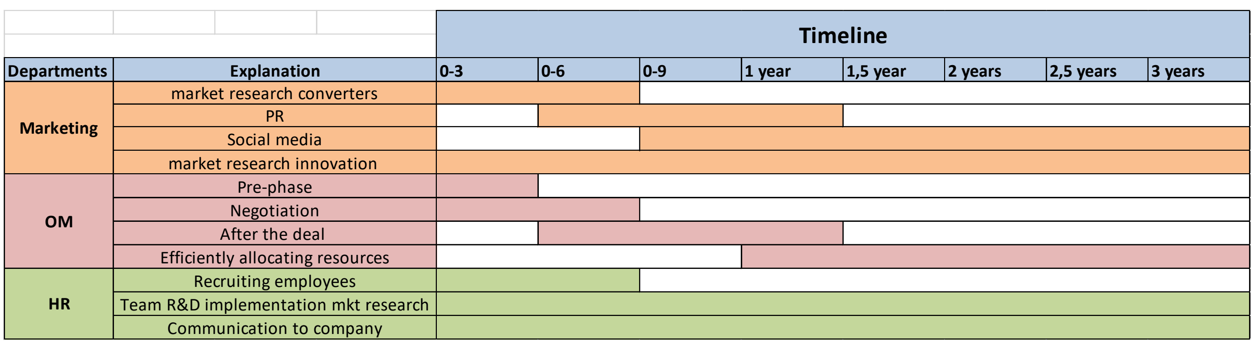
Appendix 5: Alternatives

Alternatives	Pros	Cons
1. Reorient the business	This option will capitalize on the opportunities and threats. Besides, it will be the most feasible in the implementation phase.	There is a slight risk in changing your focus in another business unit. Also, this option is very dependent on the converter.
2. Grow via acquisition	This is a short-term solution where you will gain more knowledge in the care industry.	This option will not capitalize enough on your strengths as a company. Also, you will lose focus on your operations because of the integration.
3. License products	This option focuses on your strengths R&D and increases your current reputation.	It provides your competitors with knowledge, which in the long run can make you lose market share.
4. Open innovation	This option focuses on becoming the product leadership by integrating the product chain into your R&D process. Utilizing the knowledge of the product chain to create new products	This option does not avoid the threats ahead and also the weaknesses of the company.

Appendix 6: Decision Matrix

Decision matrix					
		Refocusing	Acquisition	Licensing	Open Innovation
Suitability					
Does the choosen option address the key opportunities	Opp 1: Shifting markets (to medical ind.)	3	2	1	2
	Opp 2: Customer insights	2	2	1	2
Avoid key threaths	Thr 1: Mature market	3	2	2	2
	Thr 2: Buyer contracts	3	2	1	1
Does the option capitalize on organization's strengths	Cap str 1: Quality	2	1	2	3
	Cap str 2: Reliability	2	1	2	2
Avoids or remedies weakness	Av wkn 1: Converter dependant	1	2	2	1
	Av wkn 2: Communcation to shareholders	3	2	2	2
Acceptability		**19**	**14**	**13**	**15**
Choosen option meets expectation stakeholders		3	2	2	2
Level of risk acceptable	Risk	2	2	2	2
Likely return acceptable	Return	2	2	1	2
Stakeholders accept strategy	Stakeholders	3	3	2	2
Feasability		**10**	**9**	**7**	**8**
Would the choosen option work in practice	Why?	3	2	2	2
Can the strategy be financed	How?	3	3	3	3
Do people and their skills exist or can it be obtained	Who and Which?	3	2	2	2
Can the required resources be obtained and integrated	Where?	3	2	2	1
Evaluation		**12**	**9**	**9**	**8**
Score		**41**	32	29	31

Appendix 7: Implementation Timeline



Appendix 8: Financial Assumptions

Assumptions:
Current market for Care is €45 million
Growth of this market is 15% in the first year (2017)
Profit Margin in this market is 20%
Price of one product (roll of manufactured goods is €10.000)
The SG&A expense is fixated at 6% of revenue
The cost of capital (12%) is equal to the internal ROI standards
R&D Expense is at 5% of turnover for this market

Appendix 9: Financial Forecast

		2016	2017	2018	2019	2020
Sales Growth			15%	12%	10%	8%
Price		€ 10,000	€ 10,000	€ 10,000	€ 10,000	€ 10,000
Quantity		4500	5175	5796	6376	6886
Revenue		€ 45,000,000	€ 51,750,000	€ 57,960,000	€ 63,756,000	€ 68,856,480
Cost of goods sold	80% of turnover	€ 36,000,000	€ 41,400,000	€ 46,368,000	€ 51,004,800	€ 55,085,184
Gross profit		€ 9,000,000	€ 10,350,000	€ 11,592,000	€ 12,751,200	€ 13,771,296
SG&A Expense	6.00%	€ 2,700,000	€ 3,105,000	€ 3,477,600	€ 3,825,360	€ 4,131,389
R&D Expense	5.00%	€ 2,250,000	€ 2,587,500	€ 2,898,000	€ 3,187,800	€ 3,442,824
NOPAT		€ 4,050,000	€ 4,657,500	€ 5,216,400	€ 5,738,040	€ 6,197,083
Investment		€ -15,000,000	0	0	0	0
Free cash flows		€ -10,950,000	€ 4,657,500	€ 5,216,400	€ 5,738,040	€ 6,197,083

Appendix 10: Potential Scenarios

Assumptions	Input	Worst	Average	Best
Units Sold	4500	4000	4500	5000
Price per unit	€ 10,000	€ 9,500	€ 10,000	€ 11,000
Cost of goods per unit	€ 8,000	€ 8,000	€ 8,000	€ 8,000
Cost of capital	12%	12%	12%	12%
Taxes	0%	0%	0%	0%
NPV	€ 4,812,094.84			
IRR	33%			
Break-even units (consdering R&D + SG&A)	2475			

When does this project become breakeven: (When does the NPV become 0)	
Sales price:	€ 9,493
COGS per unit	€ 8,454
R&D Expense	9.54% of turnover

Appendix 11: Sensitivity Analysis

		Price per unit		
		Worst	Average	Best
Units sold		€ 9,500	€ 10,000	€ 11,000
Worst	4000	€ -5,211,866	€ 2,789,322	€ 18,791,700
Average	4500	€ -4,189,243	€ 4,812,095	€ 22,814,770
Best	5000	€ -3,166,619	€ 6,834,867	€ 26,837,839

The average scenario shows an NPV of €4.812 million with a high sensitivity on both sides, if you can create a higher sales price or lower cost of goods sold your NPV will improve drastically.