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WORLDWIDE CASE COMPETITION

Sample Case Analysis #3

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
2017 Network of International Business Schools
Worldwide Case Competition
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Introduction

Through a successful rebirth, Suominen is positioned as the largest nonwoven manufacturer for personal hygiene products, medical dressings, and wipe products in the world. The company now faces increased pressure for revenue growth and product differentiation either through organic growth or acquisition.

Challenges

The key challenges that Suominen faces are:

1. Fulfilling shareholder requirements for growth;
2. The commodification of the nonwoven wipes industry, and;
3. The changing international societal conditions of their markets.

Internal Analysis

Suominen has emerged as a market leader within the nonwoven industry. This has resulted in a powerful brand and close relationships with their customers and suppliers. Through managerial proficiency, the company has developed a core competency in technological prowess. This enables them to quickly and effectively adapt to changing demand conditions, while also having the capacity and capability to assure supply. This core competency has also led to the development of inimitable proprietary manufacturing techniques. Conversely, these competencies entail a price premium in a market place where products are homogenous. Also, Suominen's profitability is contingent on the performance of its customers, which denotes limited control over its own revenues. See Appendix 1 for further information.

External Analysis

The opportunity that Suominen must capture is the expected growth of international markets. With Asian/Pacific markets accounting for 42% of global demand and the international growth rate for nonwoven is 7% per year since 2010, there is much value to reap. Outside of this core product, Suominen must also collect the growth in the medical nonwoven (Appendix 1). The main threat facing Suominen is increasing commodification of the wipes industry, which represents a significant risk to profitability. Also, evolving societal trends can reshape the demand of certain products. For example, decreasing birth rates in western countries lead to a decrease in diaper demand. The nonwoven industry is highly competitive due to monumental entry barriers, the growth potential of the industry and the consolidation of the firms, where the top 7 control over 30% of market. See Appendix 3 for further information.

Alternatives

Facing shareholder pressure, Suominen must choose whether to grow organically or to acquire. The benefits and risks associated with each alternative can be found in *Appendix 4*.

Alternative 1: Organic Growth

This option allows the company to cut costs through optimization as well as gain value chain efficiency. Suominen can lower their prices, thus gaining more customers and increasing revenue. Organic growth is a fast option with revenues expected to increase to 500 million euros by 2017. However, applying a low-cost strategy does not align with the company's core competency of providing high quality products with the guarantee of timely production due to their presence in three continents.

Alternative 2: Acquisition

Acquisition provides Suominen with the opportunity to differentiate their products through the acquisition of technology and human capital, which is the main goal of management. Acquiring a company that has these resources and capabilities will enable Suominen to focus on developing and refining their competitive advantage. This option provides significantly higher revenue than organic growth of 1 billion euros expected annually within 7 or 8 years.

Based on *Appendix 5*, the best strategy for Suominen is to acquire another company.

Recommendation

Suominen should acquire Dalian Ruiguang in order to capture their technological expertise, as well as their valuable human capital based upon the criteria set in *Appendix 7*. This will complement the organization's competitive advantage and increase manufacturing capacities internationally. The strategic implantation is further discussed in Appendix 8.

Acquisition Process (see Appendix 9)

Shareholder meeting: In order to initiate the acquisition process, a shareholder vote must take place. The benefits and risk associated will be clearly communicated and analyzed to avoid shareholder disputes or poor sentiment. The vote will occur at the general assembly shareholder meeting on December 31, 2016. Additional risks and risk mitigation are outlined in *Appendix 6*.

Screening: This will be employed to gauge political, economic, social, technical, and environmental compatibilities with current business practices. Criteria that must be met in the screening process are identified in *Appendix 7.*

Financing: To purchase the target, Suominen will need to leverage its credit rating to secure debt. This includes the negotiating with the investment banks and relevant financial regulatory agencies. Their debt to equity position provides reasonable assurance that the debt is securable.

Purchasing: Upon regulatory approval from Chinese and Finnish agencies, Suominen will commence the formal transaction process and thus undergo the exchange of power. The purchase will be finalized Q3 2018.

Initializing: Suominen executives will create a task force of Finnish talent that will work together with Dalian executives in order to initiate the integration process. Following this discussion, Finnish executives must communicate with both Dalian and Suominen stakeholders the ramifications of cultural adaptation. Given the vast differences of the Chinese and Finnish cultures, it is critical to establish one culture that employees comprehend and abide to. This will lead to the new set of practices in recruiting, training, and hiring talent, all while retaining the best performers from Dalian pre-acquisition.

Leadership: To further cement the Finnish culture implementation, the executives will impose a tone at the top operating style. To facilitate the cultural synergies, domestic Chinese managerial consultants will be employed, and will thus reduce the gravity and number of cross-cultural issues.

Refining: This process entails the application of Suominen core competencies of quality assurance and management to the manufacturing process at the Dalian site. Also, the integration of Dalian technology into the broad existing technological capabilities of Suominen will be complimentary. Extraneous issues and costs will be remedied in this stage as the manufacturing process is established and finalized.

Performance evaluation: A bi-quarterly analysis of the performance of the newly acquired site will be developed and implemented by managers. The results of these evaluations will be communicated directly to the Finnish headquarters, and then disseminated to the shareholders, board and employees.

Financial Analysis

Suominen's lowered debt to equity ratio over the past few years and improved credit rating puts them in a position to leverage an acquisition through secured debt (*See Appendix 7*). Suominen should offer a 10% price premium over the valuation as an incentive for management to sell. If this offer is rejected 15% and 20% premiums are also feasible as they fall within the relevant range of management's budget. Through this acquisition, Suominen can capitalize on the growth in the Asian/Pacific market and achieve the desired revenue growth by leveraging the Dalian technology to enhance product differentiation. Upon news of the acquisition, the stock price for Suominen on the OMX Helsinki Index will increase in the short term based upon traditional investor behaviors and thus shareholder value. *Appendix 7* clarifies earnings projections and financial information relevant to the acquisition.

Conclusion

Acquiring the Dalian Ruiguang Nonwoven Group addresses the challenges and goals of Suominen by fostering a differentiation strategy and achieving annual revenues of 1 billion euros in 8 years.

Appendices

Appendix 1: SWOT Analysis

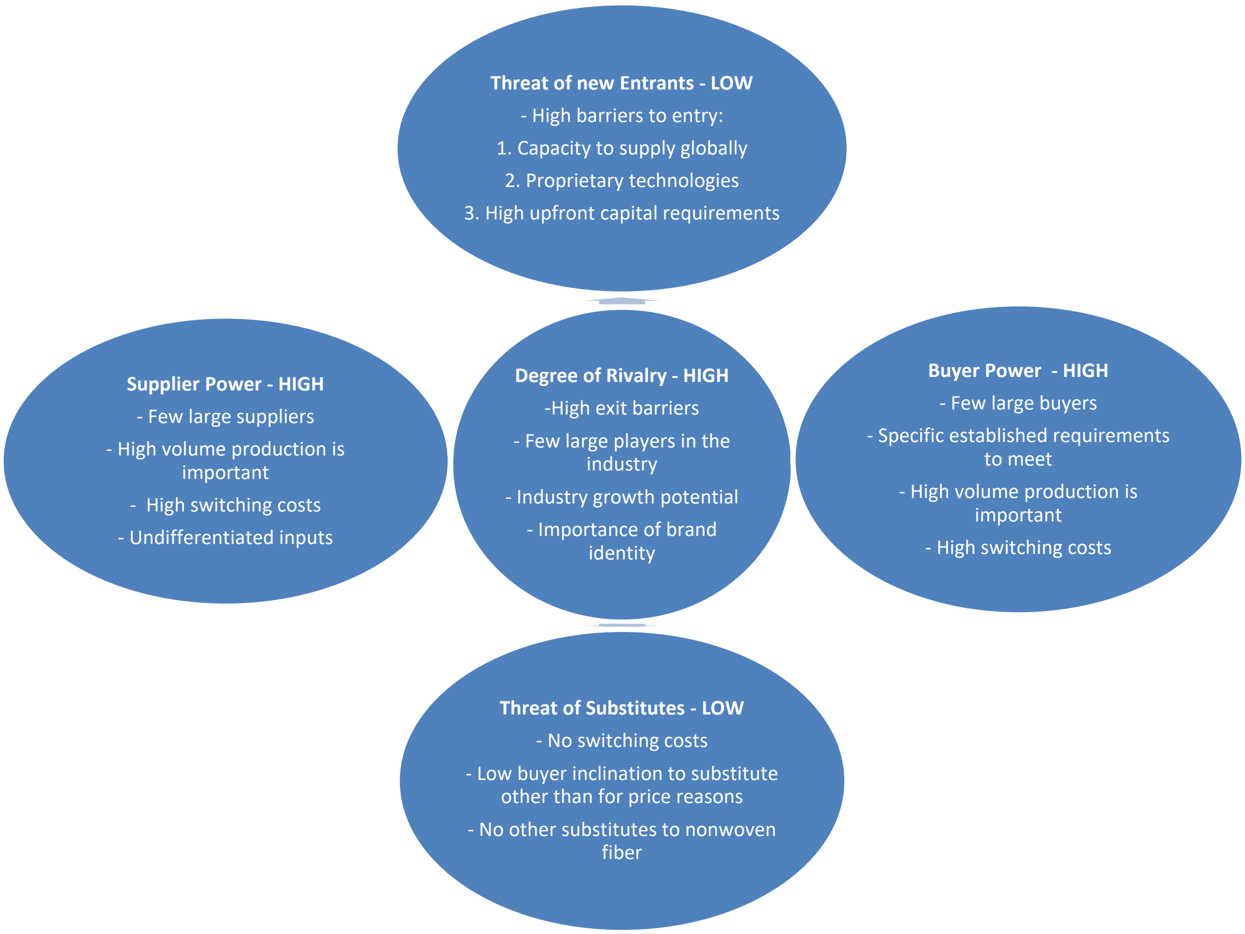
Strengths	- **Global Platform**: Market leaders, social media platform, sustainable brand reliability - **Quality assurance and management**: Supply Chain assurance for customer brands as well as a standardized quality management - **R&D and technological capabilities**: Differentiated products that cannot be duplicated by competitors - **Relationships with customers and suppliers**
Weaknesses	- **Price Premium:** Products are 5% to 7% more expensive than competitors - **Converter compliance reliance:** Suominen's product revenue relies on converters' performance, thus limiting the company's control over it.
Opportunities	- **Developing market growth**: China growing middle class - **Medical industry growth**: 40% annually between 2015-2020 - Demand for nonwovens products has increased approximately 7.5% per year.
Threats	- **Developed market trends**: Changing societal norms is expected to decrease demand for certain products. - **Commodification**: Minimal innovative space, less profitability, and less justification for premium price

Appendix 2: Key Success Factors

Key Success Factors	**Explanation**	**Weight**
Capacity and capability to supply	Revenues are contingent on Suominen's capacity and capability to supply to converters	40%
Technology Access	To pursue a differentiation strategy, technological access is required to drive convenience and care product innovation	25%
Human Capital	Suominen's future success depends on the competency of purchased and retained human capital	20%
Brand value with converters	Quality assurance and management drives relationship with converters, which in return, drives revenue growth	15%

<u>Key Takeaway</u>: Technology access allows Suominen's to encourage product innovation, thus supporting the differentiation strategy.

Appendix 3: Porter's 5 Forces



<u>Key Takeaway</u>: To collude with management preferences, a differentiation strategy points to success is this highly competitive marketplace.

Appendix 4: Pros and Cons of Alternatives

	Pros	**Cons**
Organic Growth	- Inexpensive - Control retention - Culture consistency	- Limited to company's capabilities - Does not address problem statement - Relatively lower profits
Acquisition	- Technology to differentiate products - Increased market share - Sustainable global platform	- Cultural barriers - Institutional environment - Organizational culture compatibility - Converter acceptance

Appendix 5: Decision Matrix

	Capacity and Capabilities (40%)	*Technology Access (25%)*	*Human Capital (20%)*	*Brand Value (15%)*	Total
Organic Growth	**35%**	**15%**	**10%**	**13%**	**73%**
Acquisition	**40%**	**25%**	**20%**	**14%**	**99%**

<u>Key Takeaways</u>: The significance of attaining technology and human capital allows the company to maintain and develop its differentiation factor thus justifying its premium price

Appendix 6: Risks and Mitigation

Risks	**Mitigation**
Inability to secure debt for acquisition	Corporate securities or equity offering
Voters reject acquisition of Dalian	Screen other potential acquisition targets
Chinese Government Rejects Deal	Identify other critical markets where competitive advantage can be complemented or enhanced
Cultural Incompatability	Hire consultants in the Chinese market to facilitate cultural integration

Appendix 7: Financial Analysis

	2013	**2014**	**2015**
Debt to Equity Ratio	2.04	1.43	1.32
Percentage Change (%)	-	*-43%*	*-8%*

Company	**BCN**	**Spuntech**	**Nan Liu**	**Dalian**
Acquisition Criteria				
€200 Million Valuation				
Differentiated Technology				
Private Company				
Total Criteria Met for Acquisition	2	1	1	3

Dalian Ruiguang Nonwoven Group
Income Based Valuation

	10%	15%	20%
Revenue (USD)	$ 170,000,000.00	$ 170,000,000.00	$ 170,000,000.00
Premium % (USD)	$ 17,000,000.00	$ 25,500,000.00	$ 34,000,000.00
Total	$ 187,000,000.00	$ 195,500,000.00	$ 204,000,000.00
Exchange Rate (€)	€ 0.85	€ 0.85	€ 0.85
Acquisition Price (€)	**€ 158,950,000.00**	**€ 166,175,000.00**	**€ 173,400,000.00**

Assumptions

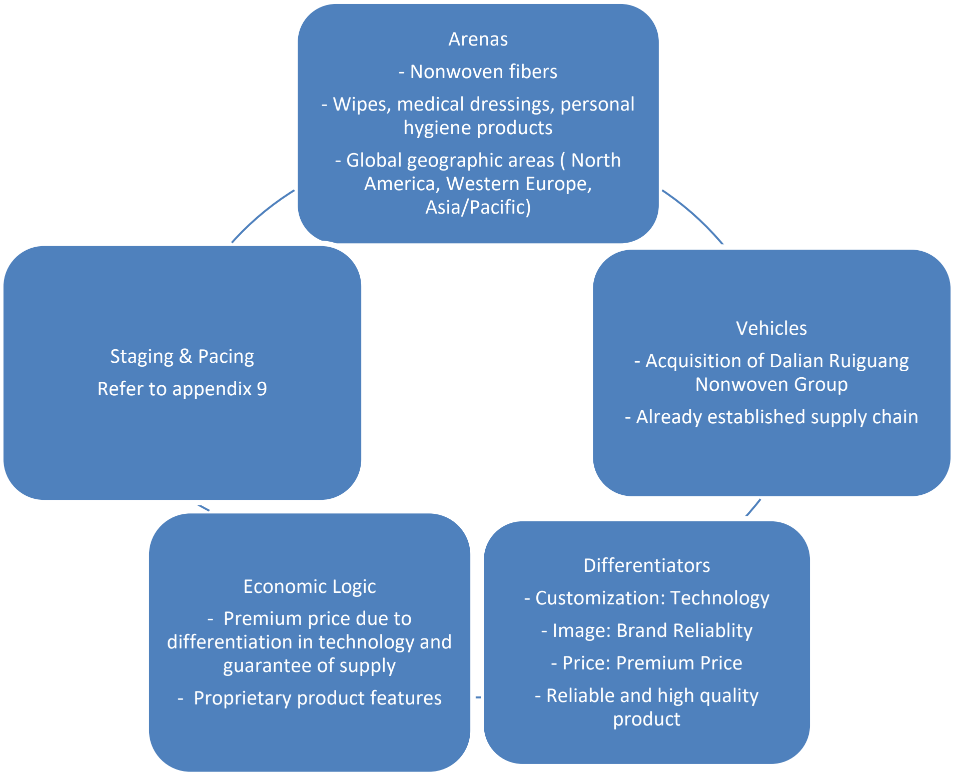
Exchange Rate	Euro is a fixed rate of 0.85
Premium	Price premium will have to be 10% over valuation to entice Dalian to sell 15 % and 20% over valuation will be offered if original offer(s) is declined However no offers will be considered if over the 200M euro threshold
Valuation Method	Data given on acquisiton targets can only be measured through the income based method
Corporate Tax	Assume regional tax rate of 45%
Revenue Growth	Assume a growth rate of sales of 13% YOY, meeting the projection of 1B in year 2022
Cost of Goods Sold	Assume that costs increase at the same rate as sales
Interest	Average of past interest expenses

Suominen Projected Earnings 2016-2022
(in € millions, fiscal year end December 31)

	2014	2015	Projected Earnings	2016	2017	2018	2019	2020	2021	2022
Revenue	401.8	444		501.72	566.94	640.65	723.93	818.04	924.39	1044.56
COGS	352.1	386.6		436.86	493.65	557.82	630.34	712.29	804.88	909.52
Percentage		0.87								
Gross Profit	49.7	57.5		64.86	73.29	82.82	93.59	105.76	119.50	135.04
Percentage Change (%)		*14%*		*11%*	*12%*	*12%*	*12%*	*12%*	*12%*	*12%*
S&A Expenses	20.4	24.5		22.45	22.45	22.45	22.45	22.45	22.45	22.45
R&D Expense	2.9	3.5		3.2	3.2	3.2	3.2	3.2	3.2	3.2
EBIT	26.4	29.4		39.21	47.64	57.17	67.94	80.11	93.85	109.39
Interest Expense	3.2	3.7		3.45	3.45	3.45	3.45	3.45	3.45	3.45
Unusual Items (M&A)	4.1	0.9		3	3.54	4.11	4.68	5.24	5.77	6.23
**20% M&A Expenses*				*20%*	*18%*	*16%*	*14%*	*12%*	*10%*	*8%*
EBT	19.1	24.8		32.76	40.65	49.62	59.81	71.41	84.64	99.71
Tax Expense	7.6	9.5		14.74	18.29	22.33	26.91	32.14	38.09	44.87
Net Income	11.5	15.3		18.02	22.36	27.29	32.89	39.28	46.55	54.84

***M&A Expenses:**
New restructuring fees include HR organization changes, due diligence, professional fees, and training with a 2% reduction annually after intial acquisition

Appendix 8: Strategic Diamond



Appendix 9: Implementation Timeline