



Munich Personal RePEc Archive

**Strategy Formulation Approach,
Industry Factors, Competition and the
Notion of Learning Organization:
Evidences from KAO Corporation.**

Dissanayake, D.M.N.S.W.

University of Kelaniya

29 August 2012

Online at <https://mpra.ub.uni-muenchen.de/40946/>
MPRA Paper No. 40946, posted 30 Aug 2012 09:12 UTC

Strategy Formulation Approach, Industry Factors, Competition and the Notion of Learning Organization: Evidences from KAO Corporation

D.M.N.S.W.Dissanayake
Department of Commerce and Financial Management
Faculty of Commerce and Management Studies
University of Kelaniya
Sri Lanka
neelacksha911@gmail.com

Abstract

Particularly this report defines the strategic aspects of the KAO Corporation in Japan. The KAO Corporation is one of the leading consumer product providers in the Japanese market. Though the company exists in the FMCG industry, it can be stated that the company has attained a competitive advantage over the existing players in the market. At the outset the report defines a clear introduction with regards to the company philosophy. The activities of the business and the market position of the company. Following, a clear understanding has been provided with regards to the company strategic formulation. And the steps of the strategic formulation have also been provided. And predominantly, the report encompasses an industry analysis. Moving along with the report, the learning has been defined with regards to the company perspective, since the company constantly engaging with the notion or learning organization. Last but not the least the report defines how the company has engaged with the idea of learning organization.

Key words: Competition, Learning organization, Strategy formulation

JEL Classifications: M100

Introduction

At the outset, it can be stated that the corporation KAO was incorporated in May, 1940, with a capital of 85.4 billion yen, (KAO Corporation, 2011). Primarily the KAO Corporation's main fields of businesses are consumer products, especially beauty products, comprises with varied cosmetics and skin care and other products. The company's business activities are diverse.

Adding to that, business activities are comprises with areas such as, research and development, marketing, production, distribution and sales. Basically, research and development highly concern on initiating innovative products to the market. Within the area of marketing, the company ascertains needs of main consumers, and they intend to fulfill those needs as well. The function of production strives to deliver products to customers in a safe and precise manner. However, the distribution function is more towards strategy. The strategy of Supply Chain Management (SCM), has led the company to deliver the products to the target customer at a least time. The company has developed comprehensive means to implement the sales strategy to the company. Adding to that, implementation of consumer communication effectively helps the company to increase sales. Finally the Total Cost Reduction (TRC) activities, is one of the most effective strategy that the company has implemented to reduce the entire cost of the company. The company believes, cost reduction is one of the most vital strategies that need to be implemented to achieve success, (KAO Corporation, 2011).

Strategy formulation at KAO Corporation

Prior to address the strategy formulating process at KAO Corporation, it is important to state about the Fast Moving Consumer Goods (hereafter, FMCG) industry in brief to assess the pertaining strategy. Generally, the FMCG industry touches the products that consumers use regularly. They tend to be more towards perishable goods as well. The FMCG industry evolves since the 19th century. Most importantly, company Proctor and James Gamble, is one of the prominent corporation established. The nature of the products the consumers tend to associate with a habitual buying behavior. This is mainly due to less expensiveness of the product, (Essay Coursework, 2011). In fact, competitive advantage for a company is unpredictable, Sekulić, V. (2009).

When formulating the strategy for a company, the company has to be keen on the problem of selecting the most suitable strategic option since many strategic options are available for a corporate, (Lancaster & Massingham, 1993). Adding to that, in order to correctly accommodate the correct strategy for the company, correct conceptual framework is essential. One of the most promising conceptual frameworks is Ansoff Matrix developed by H.I. Ansoff (1957), (Lancaster & Massingham, 1993). Though it was dated back to fifty years time, the matrix is still popular and applicable. Further, some improvements were postulated by Thompson and Martin (1993) Alterowitz and Zonderman (1988) and D.Aaker (1988).

When formulating strategies for the company, they have faced number of challenges. Mainly, the company enterprise management practices by means of visualization of the globally

management information. Besides, the company faced difficulty in implementing low cost strategies to their business dealings. When attempting that, the company was faced the dynamic environment as well this is constantly changing. Adding to that the company faced greater difficulties in facing severe competition in the retail industry. European and U.S. retailers were considered as dominant at that time. When it comes to compliance in accounting practices the company was faced difficulties in implementing. Implementing International Financial Reporting Standards are one of them.

Above so called obstacles in implementing strategies were eliminated by means of effective and lucrative strategies. When minimizing those problems, the company implemented standardization of business practices to their business dealings. Adding to that the company was implemented a system to catch data in high precision in real time. That was led to number of advantages to the company. Further, the company implemented a centralized decision making system to enhance the performances of the company. Moreover the company implemented Key Performance Indicators (KPIs) to achieve and to measure performances. They engaged with best business practices among groups and non group companies across the globe.

By engaging with above strategic moves the company was able to achieve following success factors as well. Leadership is one of the key success factors, and they were able to share a common goal towards all departments of the company. Successes of projects were achieved by means of offering promotions.

Strategy formulation process is comprises with three steps. They are diagnosis, formulation, and implementation of the strategy, (Johnson, & Scholes, 2007). The first step, Diagnosis includes implementing a situation analysis. The situational analysis includes identification of the existing mission, objectives and the internal and external environment of the company. The second phase, Formulation, encompasses with setting obvious set of recommendations. Final stage is the formulation of strategies. This includes, implementing strategies that formulated by means of effective ways pertaining to the company. Under this phase the company strives to achieve objectives of the company.

Besides, the company must consider on the levels of the strategies as well. They are corporate level business level strategy and operational level strategy. Corporate level strategy concerns about the overall scope of the company, senior managers are the responsible party for implementing the corporate strategy and the key activities of thee business are being accomplished from this strategy. In a nutshell this level strategy decides which business the company will involve in the future.

Secondly the company may consider about the business level strategy. The business level concerns about the competitive position of the company by means of assessing the Strategic Business Units (SBUs). The porters' three generic strategies can be identified as one of the dominant strategy to assess the business level strategy of the company. The three generic strategies define either to implement cost leadership, differentiation or focus.

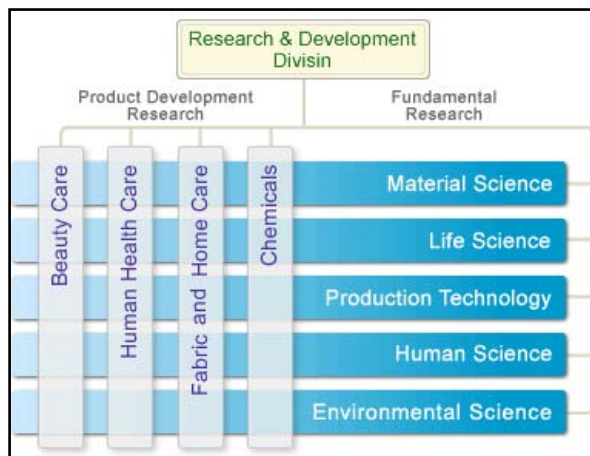
Finally, is the operational level strategy of the company. This level particularly concerns about the functions of the company. Operational level concerns areas such as marketing, finance, administration, etc. It is considered effective communication among levels of the strategy is required in order to effectively implement the desired strategy.

Major Activities of KAO Corporation

The application of the above strategic aspects can be identified with a proper identification of the current activities and operations of the business.

The company KAO is highly concern on **research and development activities** of the business. The company has developed a motto to enhance the empowerment towards desired goals. The motto desired is, "Integration of Diversity." Cross functionally research and development activities are implemented to the company. The company is comprises with a separate research and development unit to enhance research capabilities and to initiate innovative products. Product development research and laboratories developed research units are the two units that have established by the company. Structure of the Research and development unit can be illustrated as follows.

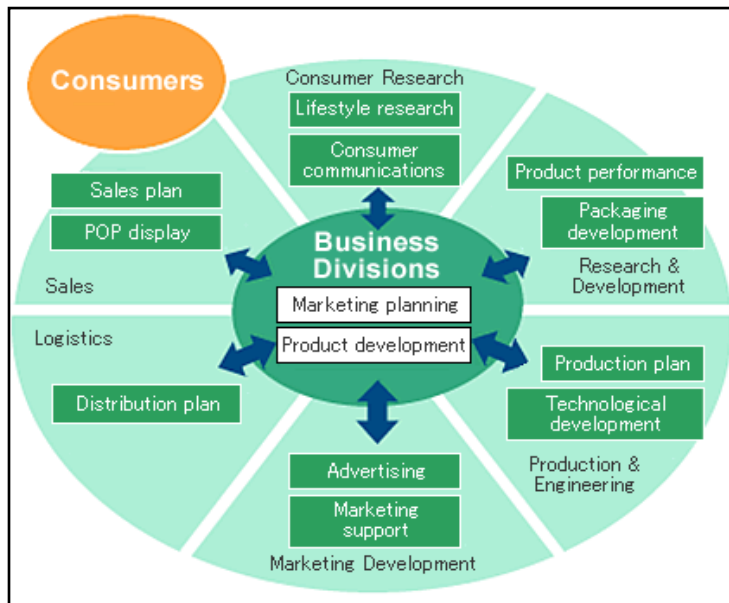
Figure 01: Research and development division at KAO Corporation.



Source: KAO Corporation official web site

Secondly **marketing activities** can be identified as dominant. The marketing function correctly accommodates and ascertains the needs of the consumers of the company. The marketing function mainly conveys the consumers about the benefits of the products offered. And finally they convey the convenience place to purchase the product by means of effective advertising and promotion aspects. The role of the pertaining business divisions can be elaborated as follows.

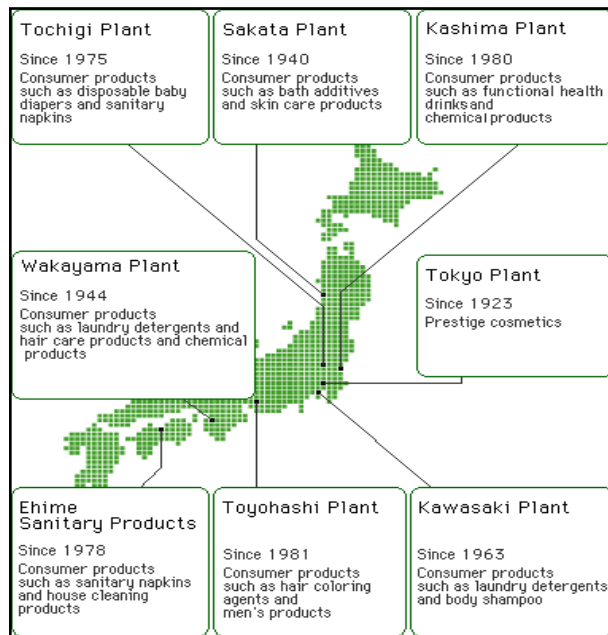
Figure 02: Role of the business divisions of KAO Corporation



Source: KAO Corporation official web site

When it comes to the **production activities** of the business the company highly concern about the product quality and to reduce cost of the product. Across eight factories of Japan the company has implemented production centers. To achieve the competitive advantage and to position the company's value proposition in a sound manner the company maintains a high quality of the products. Production plants in Japan can be depicted as follows.

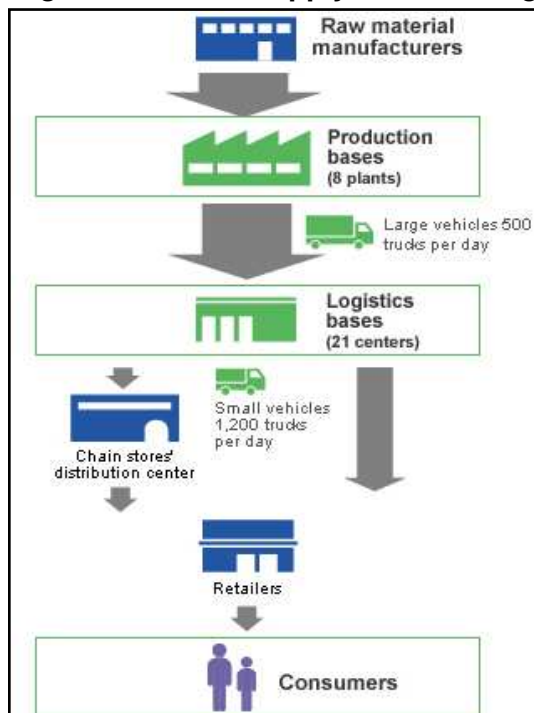
Figure 03: Production Bases in Japan



Source: KAO Corporation official web site

The supply chain is one of the dominant tools that the company has implemented for their distribution phase. They intend to deliver the product without any delay for the target customers. Predominantly the company maintains a single workflow from the procurement of raw materials to the end customers. They were able to maintain an effective level of stock and they have avoided stock-outs. Implementation of the supply chain management to the company's operations can be elaborated as follows.

Figure 04: Kao's Supply Chain Management



Source: KAO Corporation official web site

The above mentioned strategy formulation approach can be clearly identified in the KAO's operations. The company's strategic intent was able to gain a competitive advantage over the existing players of the company. Particularly the company's research and development function enables them to identify the market gaps. Unfilled gaps can be filled by means of developing effective strategic diagnosing. And they can be effectively implemented by means of strategic formulation and implementation of the company.

Current Industry Factors and Main Competitors of KAO Corporation

To identify industry factors, viable tools can be identified. One of the existing tools, the porter's five forces can be identified as lucrative to implement an industry analysis. Let look at the product characteristics of the company. Shampoo, detergents, soap and facial wash are some of the proliferated product lines in the company. Further differentiations can be seen within the product categories as well. For an instant, shampoo for oily, dry and for normal hair can be identified. For most economies this industry has reached to the maturity stage, and the demand is considered as saturated. Though it is the fact in least developed countries and developing

countries it is considered as the growth stage. Even though the market is matured, in fact, many competitors introduce number of new initiatives to existing products. With having the introduction, now let's move to the industry analysis phase. It is considered that the **intensity of rivalry** is high in the fast moving consumer goods industry. Many factors can be identified as reasons. Firstly, the FMCG industry is comprises with number of players. Besides form the major players in the market, many regional players can be seen in the industry. Severe competition can be seen among those groups. For an instant, a brand like Zaitun implements religious approach in order to sell their product. It is considered that the strategy is feasible among Islamic countries. The most highly concerned factor among companies is the consumers can easily shift from one supplier to another at a zero cost. Particularly, this fact led the companies to face a severe competition. Depending on the position of the firm, various companies implement price reduction strategies and product innovative initiatives to gain a competitive advantage.

The entry into the FMCG industry is considered as quite high since it requires extensive investments for production plants and costs in administration. Particularly, existing firms may gain a competitive advantage over rivals by means of economies of scale. Adding to that, a new firm requires extensive investments in research and developments as well. These factors make the industry less attractive for investors.

Predominantly, the **threat of substitutes** is consider as not very prominent. Since the shifting cost is low, it is considered as substitutions are low in FMCG industry.

In the FMCG industry, mostly chemicals are considered as the major input. To reduce the power of suppliers many producers vertically integrate backwards. For an instant, the KAO Corporation has raw material supports from Malaysia and Philippines. The reduction in power in suppliers leads to implement a lower price for commodities and eventually to make maximum profits for their customers.

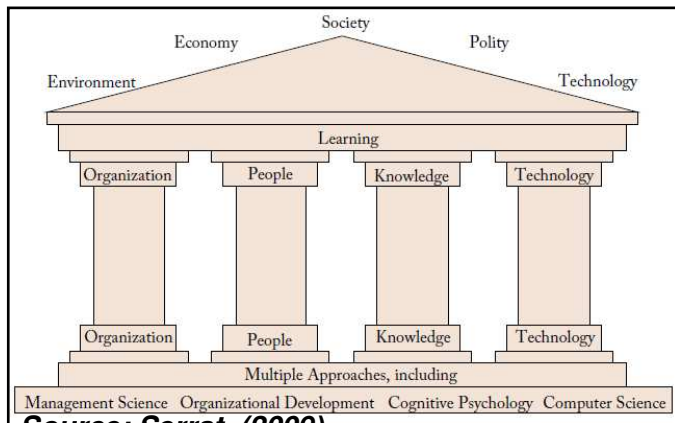
Hypermarkets and high traffic outlets are the major buyers in the FMCG industry. It is considered that the **power of buyer** is high due to the purchasing power of hypermarkets. The major initiative to reduce the buyer power is the implementation of the internet by means of online transactions.

The **major players** in the industry are as follows, Johnson & Johnson, USA, Colgate Palmolive, USA, and Proctor & Gamble, USA.

The notion of Learning Organization

Learning is one of the key factors for success, (Serrat, 2009). Most importantly it is the factor for survival of the organization as well. Through internal and external learning knowledge creation can be stimulated. In order to accomplish that, organization needs to support employee's empowerment. Serrat, (2009) postulated a model of organizational learning for prosper. The model is as follows.

Figure 05: Building a Learning Organization



Source: Serrat, (2009)

For organizations hopes to stay pertinent and flourish, learning improved and earlier is seriously significant. Many organizations relate rapid and simple fixes often driven by expertise. Most are useless efforts to generate organizational modify. However, organizational learning is neither probable nor appropriate with no considerate what makes it. The figure above demonstrates the subsystems of a learning organization: which are organization, people, knowledge, and technology. Each subsystem helps the others in enlarging the learning as it infuses crosswise the system.

The company describes them as a learning organization that uses a product separation system for its global development. at the same time as this policy appears to be tremendously effectual in its limited markets of Japan and to a smaller degree South East Asia, it is an unproductive policy to stab the European and North American marketplace since of conflicting customer preference. Worldwide marketplace necessitate a exacting compassion to the local society that cannot be erudite with a ten-day spell at the corporation teaching capability, or yet a two-year fascination in a foreign mores.

The learning organization that company struggles to carry on being is assisted by its level managerial arrangement which helps decrease joblessness and stimulates information distributions. Instances of this can be seen inside the association from side to side growths like Glycerin Ether; was initiated as a combined plan among three Kao labs. The schemes that have been establish to give confidence announcements amongst research departments, for example the monthly R&D meetings, have assisted Kao to be a business giant in innovation.

Building a Learning Organization at KAO Corporation

The company has terrified unlock the association and its people to the bracing power of constant learning. It is familiar with necessitating sighting the corporation as an instructive organization and be familiar with that competitive lead runs from people's aptitude to continually improve their acquaintance and abilities. Official classroom teaching is only a part of the long-lasting education procedure even though an important one. The more hard part of redesigning a corporation as a knowledge centre is to redesign its work techniques, information runs and

management procedures to generate personality growth occasions for people inside their daily habits, (Dutta & Swarup, 2008)

The corporation strives to attain their mission in a way that enriching people's life. They are currently working with the mission of "to strive for the wholehearted satisfaction and enrichment of the lives of people globally" (Dutta & Swarup, 2008). In line with the mission statement the company tries to serve to the customers. In fact the company is motivated by core values of providing innovative and integrity while serving to the customer.

Specifically, numbers of initiatives were implemented by the company to improve corporate originality. Those can be elaborated as follows. Firstly the implementation of supporting learning environment for continuous improvements in knowledge can be identified. Employees were encouraged to enhance and to pursue and to seek knowledge. Secondly concrete practices and learning processes were implemented to enhance learning. Thirdly, a leadership situation was established to enhance the learning processes. The company believed that proper leadership is required for proper guidance. Besides information systems were also incorporated to enhance research and development initiatives.

The Current Position of KAO Corporation and its Business

To obtain a proper evaluation of the current position of the KAO Corporation, let's look at the financial aspects of the company. Following figure illustrates latest financial figures of the company as of 2011.

Figure 06: Consolidated financial highlights of the company.

	(Millions of yen, millions of U.S. dollars, except per share data)			
	Year ended March 31			
	2011	2010	Growth	2011
	Yen		%	U.S. dollars
Net sales	1,186,831	1,184,384	0.2	14,273.4
Operating income	104,591	94,033	11.2	1,257.9
Ordinary income	103,336	93,572	10.4	1,242.8
Net income	46,737	40,506	15.4	562.1
Comprehensive income	25,558	51,166	(50.0)	307.4
ROE (Net income / Net worth)	8.5%	7.3%	-	8.5%
ROA (Ordinary income / Total assets)	9.9%	8.6%	-	9.9%
Operating income / Net sales	8.8%	7.9%	-	8.8%
Total assets	1,022,799	1,065,751	(4.0)	12,300.6
Total net assets	539,564	575,294	(6.2)	6,489.0
Net worth	528,894	565,133	(6.4)	6,360.7
Net worth ratio	51.7%	53.0%	-	51.7%
Net worth per share (Yen/US\$)	1,013.05	1,054.31	(3.9)	12.18
Net income per share (Yen/US\$)	87.69	75.57	16.0	1.05
Net income per share, fully diluted (Yen/US\$)	87.67	75.55	16.0	1.05
	Yen		%	U.S. dollars
Net cash provided by operating activities	151,298	172,284	-	1,819.6
Net cash used in investing activities	(31,777)	(44,220)	-	(382.2)
Net cash used in financing activities	(87,323)	(124,566)	-	(1,050.2)
Cash and cash equivalents, end of period	143,143	117,180	-	1,721.5

Source: KAO Corporation Reports Business and Results, New release, April 26, 2011.

Though the change in net sales does not associated with a high percentage, operating, ordinary and net income of the company associated with high changes, 11%, 10% and 15% respectively. Adding to that, company's return on equity and return on assets corresponds with moderate values, 8.5%, and 9.9% respectively. Besides, when it comes to financial aspects of the company, net worth per share corresponds with the value of 12.18. Net worth of a company implies, how much worth a company's share at the market. Increasing the net worth is considered as important for a company to ensure prosper. Net income for a share corresponds with a slightly average value implying a 1.05 per share. It is advisable to the company to raise the net income per share.

The report further elaborates the prediction for the period of 2012. They state that the global economy is steadily recovering it state. Bu though it is the fact, oil prices have been rising since the last year. Most importantly, the Japan has been severely damaged by the sudden earthquake of the year. The earthquake was able to damage each and every part of the economy as a whole. Based on the facts elaborated above the company intends to attain following figures in this year. The company forecasted to increase the operating income to 105 billion yen, and also raise ordinary income to 104 billion yen and to increase net income to 53 billion yen.

References

- Aaker,D.A.(1988).*Strategic Market Management*, Upper Saddle River: Prentice Hall, p. 490.
- Alterowitz, R.,Zoderman, F.(1988).*New Corporate Ventures*, New York: John Willey & Sons.
- Ansoff, H.I.(1957). Strategies for diversification. *Harvard Business Review* , September-October .p.113-124
- Dutta, Swarup Kumar, Transformatiion of a Company to a University (2008). Management Education, p. 53, April 2008. Available at SSRN: <http://ssrn.com/abstract=1913789>
- Essay Coursework . (2011). *KAO Corporation*. Available: <http://www.essaycoursework.com/coursework/kao-corporation.php>.Last accessed 4/4/2012.
- Johnson, G. & Scholes, K. (2007). *Exploring Corporate Strategy*. 6th ed. India: Pearson Education. 39-75.
- KAO Corporation. (2011). *Company Outline*. Available: http://www.kao.com/jp/en/corp_info/outline.html.Last accessed 4/4/2012
- Lancaster ,G.L.,Massingham, L.(1993).*Essentials of Marketing*.Maidenhead, UK:McGrawHill, p.77
- Sekulić, V. (2009). CORPORATE STRATEGY DEVELOPMENT AND COMPETITIVE ADVANTAGE OF ENTERPRISE. *Economics and Organization*. 06 (03), 269-279.

Serrat, O. "Building a Learning Organization" (2009). International Publications. Paper 119.
<http://digitalcommons.ilr.cornell.edu/intl/119>

Thompson, J., Martin, F. (2005). *Strategic Management. Awareness and Change*. London: Thompsons, p.513