Dainippon Ink: Distinctive Strategy

By Atsuyuki Suzuta

In the unglamorous printing ink industry, Dainippon Ink and Chemicals, Inc. (DIC) stands out for its aggressive globalization. In rapid succession, the company has pushed through six mergers and acquisitions (M&A) in the United States and Europe. What prompted DIC to go international?

Musing on this question, DIC President Shigekuni Kawamura first points to the ink industry's unique characteristics. "In our industry, expanding overseas requires localization." The printing ink industry has to satisfy highly diverse client needs. In many cases, a product ordered in the morning must be delivered that very evening. Service must be fine-tuned to conditions in each country, and each enterprise. Products made in Japan cannot simply be shipped around the world. When a printing ink company wants to sell overseas, it has to go through the entire localization process before it can even begin.

Founder's ambition

DIC has a long history of internationalization. Founded in 1908, the company was a late starter in the printing ink industry, and founder Kijuro Kawamura thought of going overseas from the very beginning. He set the ambitious target of capturing 30% of the world ink market. In line with this policy, the company established a base in China before World War II. After the end of the war, it lost no time in preparing to manufacture ink in Hong Kong and Thailand, and sell it throughout the rest of Southeast Asia.

The way DIC imported technology from abroad after the war well reveals its global approach. Up until then, varnish had been used to make printing ink in Japan. Kawamura, however, noticed a special gloss on printed matter in the United States, and discovered that American printing ink used synthetic resin instead of varnish. He promptly established tie-ups with Sun Chemical Corp. and Reichhold Chemicals, Inc. to produce Japan's first resin-based printing ink.

This is only one example of the way the company constantly monitors new developments in the printing ink industry around the world. Despite being affected by several major business recessions since the war, DIC's sales have continued to post double-digit growth. The company was able in each case to solidify its business foundation for the next big leap forward.

DIC took its first plunge into M&A in 1976. The company had already established a subsidiary, DIC Americas, Inc. in the U.S. in 1970, and was using the venture to gather information on the U.S. printing and ink industries while importing American products into Japan. When the company's advance into Southeast Asia was all but complete, DIC began studying the feasibility of establishing a full-scale presence in North America.

DIC purchased America's sixth-largest ink maker, Kohl & Madden Printing Ink Corp. Why did DIC opt for an M&A, then an unfamiliar tactic for Japanese corporations, rather than building an entirely new DIC plant in the U.S.?

By acquiring a company with a good business record, DIC thought, it could get the feel of the market at firsthand and test its own ability to compete in the U.S. It would also be able to absorb new know-how from the American printing industry, which is still several steps ahead of its Japanese counterpart.

By coincidence, it happened that the owner-president of K&M had died and his successor wanted to sell the company. The purchasing price of K&M, with annual sales of $28 million and net assets worth $9 million, was set at $6 million, which seemed a bargain. Actually, however, K&M held claims which were not recoverable and its management structure was fragile. It took DIC seven years to revamp K&M in both technology and production and get it back on track. "K&M was a bitter but good lesson," comments Kawamura with a grin. "I guess you should not buy a bargain after all."

Today, K&M is a sound company with annual profits topping $1 million. DIC gained immeasurably from the purchase, for it learned, albeit the hard way, the know-how it takes to survive in the U.S. and carry out M&As. It also became familiar with the legal problems that Japanese companies often encounter when doing business in the U.S.

Hybrid effect

DIC followed up its purchase of K&M by buying out Polychrome Corp. in 1979. This grew into a major corporate takeover drama involving Japan, France and the U.S. Polychrome is a U.S. company which developed the world's first presensitized plates for use in offset printing. Learning that French chemical company Rhône-Poulenc, a major shareholder, wanted to sell its stake in Polychrome, DIC decided to engineer a takeover. But then Polychrome's performance improved, and Rhône-Poulenc launched a takeover bid to gain management control. DIC made a counter bid, and succeeded in rolling back the French bid. In the process, however, the price ballooned to $7.2 million, in those days the highest ever paid by a Japanese company to acquire a foreign company.

DIC wanted Polychrome to reinforce its printing and preprinting equipment and supplies divisions. Purchasing Polychrome not only made it possible for DIC to accumulate in a very short time a body of technical know-how which would have required years to build up on its own, but also set the stage for developing new products fusing DIC's own technology and newly acquired photochemical technology. Explains Kawamura: "We purchased Polychrome in anticipation of a hybrid effect." That hybrid effect would later lead to the development of the filmless plate-making system first put to

DIC took over the graphic arts materials division of Sun Chemical Corp. in 1986, attracting worldwide attention to what was a major acquisition by a Japanese company.

practical use by the *Wall Street Journal* for printing in different cities and countries using a communications satellite.

Gaining confidence from its previous experiences, DIC successfully carried out two large M&As in 1986. The one which attracted worldwide attention was its takeover of the graphic arts materials division of Sun Chemical Corp., a prominent American chemical maker. DIC's purchase was touched off by West German BASF AG's buy-out the previous year of Inmont Corp., an American printing ink company comparable to Sun Chemical in both scale and performance.

DIC had been considering making a bid for either one of the top two printing ink makers. Now that West German BASF had Inmont, that only left Sun Chemical. DIC feared that if it stood by, another American or foreign company might take over Sun Chemical first, dramatically reshaping the global map of the printing ink industry. Sun Chemical was putting more effort into its high-tech divisions, such as weapons manufacture, than it was into printing ink production, and it was in serious need of funds. DIC's negotiations with Sun Chemical were concluded in August 1986, with the purchase price set at $550 million.

Having obtained technical know-how from Sun Chemical more than 30 years before, DIC well knew the true capabilities of the company, and concluded that it could count on gaining the hybrid effect from the purchase.

Recalling those days, Kawamura confides: "A big factor which moved us to purchase Sun Chemical was that we were sure we would be able to recruit Mr. Ed Barr." Edward E. Barr had been president of Sun Chemical for seven years before quitting the company six years before. His managerial ability was credited with nurturing Sun Chemical into a powerful firm standing shoulder to shoulder with Inmont. He quit in disagreement with the company's new policy of pouring the profits from printing ink into the arms division. He not only knew the U.S. printing ink industry inside out, but was also familiar with DIC and a friend of Kawamura. A prerequisite for purchasing Sun Chemical, a company with no fewer than 4,000 employees, was to find a man who could control the huge organization. The firm prospect of getting Barr's services was a decisive factor encouraging DIC to go ahead with the purchase.

Since then, DIC has also purchased 10 companies of the Hartmann Group of West Germany, one of the three big European ink makers, from BASF. BASF had to divest some of its business empire as part of the Antimonopoly Law in consequence of its acquisition of Inmont. This string of ambitious M&As boosted DIC's share of the world printing ink market to 15%, making it one of the world's leading printing ink makers. Today it ranks third in organic pigments, with 13% of the world market, and has captured top place as an integrated maker of thermosetting resins.

Talking about his company's M&A strategy, Kawamura says the true significance of an M&A lies in the fact that it "turns one plus one not only into three but even into five." He cites the hybrid effects that can be achieved as the foremost merit of this strategy. In order to produce hybrid effects, however, the takeovers must be friendly, and the target company a prominent one.

Another important consideration in a successful M&A is that the purchaser have confidence in the post-buyout management. "The M&A itself is only the beginning," says Kawamura. Unless management has confidence in the post-M&A prospects, the whole exercise is meaningless. It is essential to have a capable leader in place who can successfully manage the acquired firm.

Changing map

As the number of high-profile takeovers by Japanese enterprises overseas grows, they are drawing increasing criticism. Since even a single company's advance overseas can result in excessive competition in the local market and throw the affected industry in the host country into confusion, M&As can actually be considered tools for the orderly restructuring of the world's industrial map. In many cases, they can even be beneficial to the company being taken over, and to its employees.

Belying the industry's unexciting image, DIC has successfully established its foundations as a global enterprise through a series of bold M&As. Other Japanese companies will be closely watching to see how its M&A strategy shows up on the bottom line. The fine chemical field of which printing ink is a part is attracting the world's highly capitalized chemical companies. The industry is watching the next move in DIC's distinctive globalization strategy.

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