Market-in Restructuring

By Kenji Mizuguchi

The numbers are in for July, and they are devastating. The 1,213 bankruptcies, for example, represent a 38.6% increase over July 1991. Things are just not selling, and the bulk of these bankruptcies are recession-related.

Looking just at the Tokyo-area department stores (14 companies with a total of 27 stores), sales are 3.7% less than they were in July 1991. This is the fifth straight month that sales have been less than the same month of last year. There were hopes for a recovery in July with the mid-summer gift season and the widespread special "sales" of summer goods, but the stores took a beating despite these two traditional boosts. On the mid-summer gift-giving, the main reason for the slump was that corporate demand was anemic. These gifts may be a tradition, but more and more companies decided they had better things to spend their money on this year.

Changing market

Everybody is hoping that consumers will lead the economy out of its quagmire, but this is not happening. Everybody is hoping, but consumption is flat and companies are hurting all over the lot–clothing, real estate, securities, automobiles, restaurants, tourism and everybody else.

Hoping is clearly not enough. Some observers are saying that hoping might even be counterproductive if it deludes people into thinking that things are going to someday return to "normal." Yesterday's "normal" is gone, these people argue, and the automobile, real estate, clothing and other markets will never again be what they were before this recession. "We are," they say, "undergoing major structural changes, and rather than just sitting and hoping, companies should be taking this opportunity to restructure their marketing and restructure their management."

While attention to markets is crucial, this restructuring has to include how the company is organized and managed. It has to go well beyond the traditional marketing concern of how to approach markets.

Yesterday's market leaders were leaders because they had devised the means that best suited the prevailing market conditions. Today, the market has changed and these means no longer work as well as they used to. Automobiles and cosmetics are typical here.

In automobiles, there were four main means devised to get the customer's money:
(1) Model-specific dealer networks.
(2) Door-to-door sales conducted by the manufacturer and the dealer working together.
(3) Weekend events to bring potential customers into the showrooms.
(4) All-new models every four years.

This does not work any more. For one thing, customers now want to look at a lot of different cars in one location, and they are shunning those dealers that only have one or two models to show. For another, more women are working, meaning that there is very frequently nobody home when the salesperson calls. And because there are more recreational opportunities available elsewhere, fewer people are visiting the showrooms on weekends.

In cosmetics, too, there were four main means devised to sell the product for more than the cost of making it:
(1) Manufacturer-specific *keiretsu* sales outlets.
(2) Sending sales personnel to staff the affiliated sales outlets.
(3) Promotions linked to the season every season.
(4) Regional sales companies for each manufacturer.

But like the automakers, cosmetics companies are finding that yesterday's tools are not up to today's tasks. The main reason is that the affiliated sales outlets no longer have the clout they once did. Instead of going to a cosmetics shop, customers are buying their makeup at the same place they buy their groceries and other personal supplies–at the supermarket and the shopping center, such as those adjacent to railroad stations. As a result–and because fewer customers now ask what the clerk thinks–the cosmetics sales staff is not having a chance to promote the product. And since all of the companies have seasonal promotions, each one has less impact.

Conditions are changing for these companies, and there is no point in just waiting for the economy to get back on its feet. When it does, it will be a different economy and a different market. Marketing innovation is imperative, and this has to include management innovation as well.

Shiseido and Kirin

Shiseido and Kirin Brewery provide two useful examples here. Both are market leaders, and both ran into problems in the late 1980s that forced them to undertake massive restructuring.

Shiseido had long sold its cosmetics through affiliated sales subsidiaries and affiliated outlets. As a result, it was possible for the company to have a situation in which Shiseido sales to its affiliates were up but actual market sales were not–in effect meaning that Shiseido was piling up inventory all along the distribution chain.

When Yoshiharu Fukuhara assumed the presidency in 1987, he promptly moved to resolve this problem by buying back ¥30 billion in non-moving inventory. As a result, Shiseido sales and profits were both off for the term, the first time this had happened in 13 years. Shiseido shares plunged on the stock market, trading being halted temporarily because the decline was so precipitous. Shiseido started restructuring by jumping off a cliff.

In Kirin's case, the company boasted 63% of the beer market in 1976, most of it with its popular bottled lager. In fact, Kirin's bottled lager was popular enough

The Long Road of Management Restructuring

	Shjseido	Kirin Brewery
1986	Inventory bloating.	Declining market share. Reorganizing and enhancing subsidiaries and dealers.
1987	Fukuhara becomes president. Bloated inventories cut.	Major erosion of market share.
1988	Management Innovation Council established. Office of Management Innovation established. Brands consolidated and sales affiliates merged.	Long-term management plan announced. Project teams formed for different kinds of beer.
1989	New corporate ideals and action principles drawn up.	Start made on filling holes in product lineup. Lager repositioned. Regional strategies started.
1990	Whitess Essence and other new technology-based products launched. Administrative structure flattened. Shift from salespeople to marketing advisers.	Ichiban-shibori launched. Starts to regain market share.
1991	Grand Design announced.	Back to over 50% of market.

to give the company a lock on the market. Other companies came out with draft beers and canned beers, but to no avail. Kirin just shrugged them off. In 1986, it still had 60% of the market. Then in 1987, things changed when Asahi Breweries introduced its smash-hit Super Dry and Kirin lost 5% of the market in a single year. Faced with serious market share erosion, Kirin settled down to restructure.

The year 1988 was a year of upheaval for both companies. For Shiseido, it marked the establishment of a Management Innovation Council and an Office of Management Innovation to identify the problems. At the same time, freewheeling discussion sessions were instituted company-wide, with Fukuhara traveling to various research facilities, factories and sales affiliates to hear what other people had to say. Radical reforms were also instituted to consolidate cosmetics brands and to merge sales affiliates.

Kirin announced a long-term management plan, at the same time designating the three years starting in 1989 for a second medium-term plan. Three special project teams were formed for beer operations, each team bringing together experts from all over the company. Personnel were reshuffled to make sure there was a good interaction of expertise, experience and ideas.

The next two years, 1989 and 1990, were busy ones for both companies. After extensive studies and discussions, Shiseido established a new set of corporate ideals and action principles. Within this, Shiseido talked about interacting with the public to discover new and substantial value and seeking to capture the customer's heart. In addition, Shiseido declared itself a company of people-enhancing science. Fukuhara expended considerable energy and leadership getting the company behind the new corporate ideals and action principles. Having people address each other by name rather than rank and abolishing strict dress codes also helped create a stronger sense of community.

In Kirin's case, the restructuring started with a new emphasis on filling out the product line. This represented a realization that some people prefer non-lager beer, and it was revolutionary after Kirin had profited for so long by concentrating on lager. The other emphasis was on regional markets in the realization that different markets need to be massaged in different ways. Along with these efforts to supplement its lager line, Kirin spent considerable time, money and effort repositioning the lager to make it more attractive to urban young people. As a result of these efforts, Kirin came up with its Ichiban-shibori–a new line that outsold even Asahi's Super Dry.

The two companies had largely completed their restructuring by 1991. Shiseido announced its Grand Design for the future, setting forth the reasons for its corporate structure and activities. And the company enjoyed record sales and profits for fiscal 1991.

Having fallen to 48% of the market, Kirin started to regain lost ground in 1990. The recovery was particularly quick in urban Japan, and Kirin was back to over 50% by 1991. Even more encouraging, it was engaged in a strong program of diversification, including spinoff subsidiaries. The new long-term plan is being put into practice and is paying off.

Energy and focus

This is the stuff of marketing-led management restructuring. But not everyone does it as well as Shiseido and Kirin. These two companies were strong competitors that realized their problem in time and that had the luxury of formulating a timely response under strong executive leadership. Other companies might not be so lucky.

In many ways, this is a question of energy. It is generally accepted that corporate restructuring is done by middle management prodded by top management when top management has a sense of crisis about where the company is going. At least this is the way Hitotsubashi University Professor Ikujiro Nonaka and Kobe University Professor Tadao Kagono explain it after studying numerous examples.

Basically, I agree. But in fact, middle management at most companies has neither the vision nor the authority to work real reforms. As Benjamin B. Tregoe *et al.* have written (in *Vision in Action* [Simon & Schuster, New York, 1989]) based on their experience as global consultants, the main danger in many companies is that middle management will be a black hole–a destructive buffer absorbing the sense of crisis from the top and the suggestions for improvement from the front lines but not letting either get to the other.

That is why marketing has such an important role to play in corporate restructuring–because it keeps management focused on the all-important questions of how to make products that will sell and how to sell them.

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