

3m business analysis

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Countries, United States



3M Business Analysis III Steve Phelps MGT/521 April 23, 2012 3M Business Analysis III To answer the question of how current economic trends are affecting 3M and what strategies 3M is using to adapt to those economic trends, it is necessary to understand what the current state of the United States economy is, then define what economic trends exist. The Economy The best ways to understand what encompasses the economy in the United States is to first look at the Gross Domestic Product. This statistic measures the country's total output. According to the Bureau of Economic Analysis, the United States economy is everything produced by every company and person in the United States. This year the Gross Domestic Product was totaled just over \$15 trillion, according to the Bureau of Economic Analysis. The Gross Domestic Product is made of four primary components: Personal Consumption Expenditures, which measures consumer spending; Business Investments, which is basically purchases that companies make to produce consumer goods; Government Spending; and Net Exports of Goods and Services, which measures what is added and subtracted to the Gross Domestic Product with exports and imports, respectively. Of these four components, it is the Personal Consumption Expenditures that is probably the most important of the Gross Domestic Product, as it accounts for a large part of the United States economy. Over 60% of what the United States produces is for personal consumption according to the Bureau of Labor and Statistics. The Current State of the Economy While the United States has experienced some economic highs and lows, overall the United States economy was the model of a healthy robust economy. However, for close to ten years the United States economy has experienced a gradual downturn.

This downturn has cumulated into what many believe is a recession for the United States economy. What that means in terms of the Gross Domestic Product is that it has been decreasing and not growing for a consistent period of time. The beginning of this downturn can be traced to the early 2000's with the "housing bubble". This was a period where many people agreed to house mortgages that they proved unable to afford. There was high speculation in the housing market where many believed housing prices would continue to increase. In 2006 housing prices begin to decrease, and many homeowners was faced with the prospect of losing money by selling their homes for far less than their mortgage. As a result they foreclosed. This trend of mortgage foreclosure spread nationwide. Many banks and fund managers that had large investments in mortgage-backed securities also faced the prospect of large losses. After 2006, banks didn't want those foreclosed loans as collateral and causes banks to not want to lend to each other. This, in turn, led to the government backed bailout of institutions like AIG, Fannie Mae and Freddie Mac. By 2008, employment had declined faster than in the 2001 recession. In 2009, a government backed stimulus plan was enacted, essentially curbing the four quarter decline in the Gross Domestic Product, effectively ending the recession. Unemployment continued to rise and many business leaders expected to feel the effects of the recession through the end of 2010. Current Economic Trends Some resulting economic trends that the United States economy is experiencing are the non-growth in the Gross Domestic Product, which means job creation will not be stimulated; the value of the dollar is declining, which means the dollar can buy fewer foreign goods thus increasing the price for imports and causing inflation;

home prices are lowering; employment is low and unemployment is high, which mean less consumer spending; and the trade deficit is high, which means our nation's economy is financed with a large amount of foreign debt, which means that if one of this country's lenders decided they wanted repayment, the United States faces the prospect of defaulting on a loan and all the consequences of that. These trends are all connected and affect each other, but the decline of the dollar and high trade deficit are especially connected in that since the dollar value is lowered, export prices to other countries are cheaper. However, because the dollar value is lowered and fewer imports are bought from other countries as well. Strategy for Current Economic Trends Clearly there are economic challenges for any business today. 3M's business strategy is to embrace those challenges. Their mission statement is " It's Never a Steady-State World. " 3M has determined that sales will always be driven or affected by factors including natural market growth; natural attrition and cannibalization; above market organic growth and resultant share growth, which is driven by new-to-the-world products; acquisitions; net prices, some markets will be down/some markets will be up; supply chain transients, which are driven by changes in end-market demand then amplified in the supply chain; and " Black Swans" or rare, high impact events that is difficult to forecast. (Buckley, George, 3M Outlook Meeting, 2012) 3M is approaching their situation with the current economy as an issue of supply chain transientness. Their belief is that a " company whose sale model includes distribution always sees temporary amplification of increases or declines in sales when the end-market changes rapidly" (Buckley, George, 2012). Their metrics have suggested to them that their revenue is simply a

reflection of the negative transientness that they are experiencing. And if their calculations are correct, when the transient dies down, the end market will rebound but the demand will also be lower as well. They also accept that their calculations are not necessarily accurate, only the best they can produce based on the information they have. However, they have determined that those winners in business, especially given this climate, will be those “ that are highly cash generative; have the ability to re-invent and differentiate themselves constantly; are willing to adapt to a new, more global competitive mode; have powerful and trusted brands; maintain a strong presence in more rapidly growing emerging markets; ability to compete with/beat tough Asian competition; and deliver steady dividends through a thoughtful capital allocation mode” (Buckley, George, 2012). 3M’s plan to be one of those business winners with a four-pronged strategy with each “ prong” as important as the other (Buckley, George, 2012). That includes growing their core businesses, acquisitions of companies that compliment the core business, building new business, and international growth. Each prong is detailed and is needed by the other. Starting with growing their core business, which essentially is the applying of coatings to backings (that has broadened to include optical applications, medical applications and fuel cells). 3M is a business that grew with a philosophy of slow, incremental growth. This first “ prong” seeks to upgrade that philosophy to a more aggressive approach to expansion. This “ prong” has levels that includes Defending Their Core; Expanding Their Presence Across Various Tiers, Relentless Penetration, Rebuilding Their Research and Development Department and Building Scale and Market Share. 3M has a

history of acquisition and will continue to do so with a focus on those companies that compliment what their core businesses produce. 3M has identified less obvious applications to their core competency and has entered those markets. Those less obvious markets include filtration systems, used for fluid processing; energy & minerals extraction; power transmission, used for utility company cables; and track & trace systems, used for supply chain tracking and management. This “ prong” will be used to solidify the core, move into adjacent markets and create new platforms. Those adjacent acquisitions will be closely monitored and if it is determined that overtime scale cannot be built, differentiation cannot be made through 3M technology, the base technology is at its “ end life”; or a risk assessment determines that another owner could extract more value than 3M, then those acquisitions will be divested. 3M will also have a focus on competitors that are prime for acquisition and pursue those with a strategy of “ defensive acquisition”. 3M is a multinational conglomerate. But at their core they will always be entrepreneurs first with a focus on constant innovation. With that in mind, the next “ prong” of their strategy is to build new businesses. Those innovations include improvements on their current businesses, like their abrasives product...a top selling core product line that will now have a longer product lifecycle with self sharpening surface features. 3M has also identified “ megatrends’ for the near future that they intend to capitalize on. Some of those trends are “ changing consumption, rapid pace of technology change, shifting demographics, economic setbacks, global inter-connectivity and growing emerging markets” (Buckley, George, 2012). Those “ megatrends” are likely to yield high-growth markets that include bioplastics, next

generation health monitoring, nanotech drug delivery and biocompatible materials. 3M has had a presence outside the United States for at least 20 years. As of 2006, 3M estimates that over 60% of sales come from outside the United States. Their plan for international growth was focused on all countries but especially Brazil, Russia, India, China Poland, with much activity in Eastern/Western Europe, Japan, and Australia. 3M expected much of their outside-United States growth to come from Brazil, Russia, India, China and Poland and planned for a significant increase in capital expenditures to those developing countries. International growth was expected to grow 2 to 3 times the rate of United States growth. China was expected to grow with a compound annual growth rate of 35%; India was expected to grow at 40%; double digit growth was expected in Eastern Europe (Buckley, George, An Emerging Strategy for Growth, 3M Investor Meeting, 2006). The housing “ crises” that brought the economic downturn of the United States had a direct effect on countries outside of the United States, as well. Many countries also had investments in the United States housing market and experienced the profits and (ultimately) losses that the United States experienced. This created a domino effect where the expected economic growth of developing countries like India, China, and Brazil instead experienced economic slowdowns that lowered trade between countries. For the international growth “ prong” of 3M’s overall strategy, they adjusted their growth strategy to include ALL developing countries. Their strategy will include increased localizations in the countries where they have a presence, and expanding their brand in all developing markets with “ no country left behind. ” With their four-pronged strategy, 3M is expecting the China market

to grow as their slowdown stabilizes; sales in Latin America growing approximately 3%; some growth in Japan despite some economic challenges in that region; their worldwide industrial production index is likely to worsen; slow but positive growth in the United States; but overall 3M sales growth to be between 2-6%. Again, all with the philosophy that, "It's Never a Steady-State World" but with the assumption that there will be no "Black Swans" (Buckley, George, 2012). The Role of Human Resources Though not mentioned in their four-pronged strategy, human resources places an important part in the strategy's effectiveness as the correct human capital will be needed. 3M's focus in the face of current economic trends will be innovation and growth. Using the Pearson Prentice Hall Personality Assessment Scale, for this innovation to occur, human resources should have their focus on their human capital that exhibits the personality types of ENTP and/or ISTP, with of course the correct professional credentials. The ENTP personality type is likely best suited for the task of developing innovation as their personality leans toward mechanics and invention. The ISTP personality type is also likely to well-suited for the task of developing innovation as this personality tends to excel at analyzing situations and finding the root of a problem to implement change or correction. For the task of growth, a strong sales force is needed. Human resources should have their focus on the ESTP, ESFP, ENFP and even the ENFJ as these personalities has qualities that makes them comfortable with human interaction more than others. The ESTP personality type has the potential for being effective in sales as this personality is usually effective with communication and navigating in social arenas. The ESFP personality type tends to also be highly expressive and

enjoys being the center of attention and thus a good candidate for sales. The ENFP personality type may also prove effective in sales as they are driven to have their convictions expressed to others and accepted. Though not as fun-loving as the ESTP and ESFP personality, the ENFP personality has the high energy and force of conviction to be an effective sales person. There are some sales techniques that are more consultative. This is where the ENFJ personality type would be best suited. This personality is also expressive, but their approach is more humanistic with an apparent genuine concern for those they are attempting to instruct or sale.

Why Invest in 3M Based on 3M's length of existence, ability to offer returns on investment and scope of product line, 3M is a solid company to invest in. 3M has been in business of over 100 years. They have experienced situations in their early company history that challenged and even threatened to close their company. They had years of struggle that resulted in learning from many mistakes that eventually yielded their mastery of quality production and supply chain. More importantly, it appears that 3M learned the lessons of constant improvement with their business and intelligent growth through innovations. Their survival, successes and steady investor returns are testaments to why 3M is a solid company to invest in. Conclusion Overall, 3M is the model that other businesses can learn from. From their origin, 3M has adopted the philosophy of constant innovation/constant improvement. Their original business plan was to sell one type of mineral to manufactures that made grinding wheels and proved to be worthless. With their inventory of "worthless" minerals the founders attempted to use that mineral to produce sandpaper. The sale of the sandpaper grew, but a defect was found that

required the founders to face the prospect of loss due to defective inventory or find a way to correct the defect and keep the inventory. They found a way to correct the defect and keep their inventory and later increase sales. This reluctance to accept defeat and innovation has been the key to 3M success over the years. Rather than stay in a market with a prospect of not succeeding, 3M aggressively finds ways to use the inventory that they have, innovate and adjust their plans to remain and succeed in that market.

They've recognized early the need to be fluid/entrepreneurial with the market. Their philosophy of "It's Never a Steady-State World" is what they embrace. This philosophy propelled 3M to be one of the early adopters of globalization and constant awareness of new markets and ways their current core business can capitalize on them. Recognizing that while growth is necessary for survival and successes, they also recognized that controlled, measured growth is equally important...that growth can be gained through correct analysis, planning, discipline and execution, no matter the economic environment (all things being equal). By using benchmarks and intense metrics, 3M has been able to effectively chart the economic environment they are in, no matter the volatility, and devise an effective plan to grow and navigate through it. Their longevity, business practices and philosophy make 3M a company others should learn from. References United States Gross Domestic Product reference Retrieved from: <http://www.bea.gov/national/index.htm> Personal Consumption Expenditure reference Retrieved from: <http://www.bls.gov/mlr/1998/06/art3full.pdf> Buckley, George, 3M Outlook Meeting, 2012 Retrieved from: http://media.corporate-ir.net/media_files/irol/80/80574/12062011_George_Buckley_Part_A.pdf 3M

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