J.d. irving limited (jdi) business analysis

J. D. Irving Limited (JDI) is a 128 year old organization, based out of New Brunswick, Canada. This organization have over 15, 000 employees with business units in Transportation, Shipbuilding & Industrial Marine, Forest and Forestry Products, Retail, Industrial Equipment, Construction Services and Building Materials, and Consumer Products.

Their value principles include uncompromising quality, committed service to consumers; focus on continuous improvement and innovation, positive influence to communities and ensuring a sustainable environment.

Family values ensure strong-hold of current business lines, and the management is averse to spinning-off or divesting non-contributing business units, due to outdated corporate philosophy.

Horizontal diversification allowed JDI to use their resources efficiently, and create economies of scale and scope.

Vertical diversification runs parallel with the historical company strategy to scale up to a business, from inception to launch including retailing of the product, and its supporting infrastructure.

Even though there are many pointers across the organization that suggest a restructuring is to be done on the current organizational structure, their current strategies have ensured a constant level of success over the years and the presence of multiple business lines, have ensured that no one business line goes out of business, with the introduction of the cross-selling concept. We feel that J. D. Irving has passed the better-off test, but not with flying colors. As a part of our recommendation, we believe that a few non-core business lines would need to be divested, and they would need to focus on streamlining and reducing costs, with increased efficiencies across business lines, with the possibility of looking into emerging markets to either off-shore or outsource parts of their businesses, which would in-turn reduce costs and increase profit share.

Company Analysis:

J. D. Irving, Limited (JDI) is a diverse family owned company with operations in Canada and the United States. For over 125 years, their focus has been on providing quality service and products to customers in Americas and Europe. Although its roots are in forestry and farming, JDI is nowadays diverse group of companies, including that continues to make such forest products as paper, pulp, lumber, and corrugated material for packaging. JDI has expanded in transportation, shipbuilding, industrial services, construction, retail and food processing. In addition, the company owns Brunswick News – nearly monopoly in regional media. With a focus on creating an aligned and engaged workforce across various industries, JDI offers both internal and external competency-based development, tailored to individual needs. Their “ way of doing business” includes effective communications, fairness, dynamic leadership, healthy corporate culture and work/family policies. The use of Lean and Six-Sigma methodologies combined with a strong focus on team and employee engagement is what drives their culture of “ Finding a Better Way, Every Day!.”[i]This report closely examines the JDI Group’s corporate strategy / rationale and identifies the main issues faced by JDI with appropriate recommendations from our analysis.

The Irving Family & Values:

As a family stronghold, the Irvings have amassed a large fortune, and rank 212 on Forbes 2010 billionaire list[ii]. They have managed to keep together a group of 250 privately-owned companies, worth over $7. 1 Billion, intact, with plans to restructure to cater to the ambitions of a new generation of Irving owner-managers. Irving Oil, was founded by K. C. Irving, and has been run separate of the rest of the group for decades. (Management Hierarchy-Exhibit 1)

When James Durgavel Irving started and K. C. Irving developed the company, they faced very few competitors, and preferred to be their own customer, a philosophy still intimately followed by the current generation of owners. K. C. Irving was a master of vertical integration. The ideology of forming a company, to become a supporting pillar for their core businesses was instilled in the early 1900s, and is still a major component of their success to this day. K. C Irving’s three sons, James (J. K.) handled the Forestry business, Arthur handled the Oil business, and Jack handled the Construction unit. This generation never strayed away from the resource-based, core industries that have generated the Irvings billions.[iii]The Irvings were are core capitalists by nature; they rarely buy and sell, prefer to build from scratch and usually keep what they’ve built. Their corporate culture revolved around efficiency and speed, in terms of decision-making, another aspect which entailed managing the “ empire” within the family and not going public.

Corporate Rationale:

Across the years, the Irving business has diversified and integrated, resulting in the current mix of seven industries: Forestry & Forest Products, Transportation, Shipbuilding & Industrial Marine, Retail & Distribution, Industrial Equipment, Construction Services & Building Materials, Specialty Printing, and Consumer Products (Exhibit 2). Irving Oil, being out of scope of this report, has also affected synergies and development of particular JDI transport and logistics businesses.

Various factors have contributed to JDI's current business processes. An insufficiently developed business environment and infrastructure, in the early 1900s, in East Canada, resulted in the need to create missing value chain elements. Control over the entire value chain, in addition, allowed JDI to sustain high quality of their products, deal with insufficient and/or expensive distribution processes. Horizontal diversification, on other hand, allowed JDI to use their resources efficiently, and create economies of scale and scope. Initially, JDI's competition in New Brunswick should have been fragmented and irrelevant, allowing the company to gain competitive advantage, across their business portfolio. The company diversified into industries such as Transport, to support their core businesses. For a family business, diversification gives an opportunity to hedge risk, associated with commodities and concentration mainly in a single geographic region (Canada and Northern parts of the US). (JDI business structure – Exhibit 23)

Vertical Integration:

J. D. Irving has multiple business units which associate to and piggy-back on each other. This runs parallel with the historical company strategy to scale up to a business, from inception to launch including retailing of the product, and its supporting infrastructure. The company assumed ownership of a business from end-to-end. From our analysis, we can infer that for the Forest

Business line, The Forest Management formed the core which branched out into Pulp and Lumber. Pulp meshed with Corrugating Mediums, Tissue and Paper which in turn corresponded to retail companies such as Chandler (Packaging), Irving Tissue and Plasticraft respectively. It is likely, that Irving paper is used to print Brunswick News magazines. The Lumber division corresponded to Shamrock Truss, Kent and Kent Homes (having its own correlations with Gulf Operators & Atlantic Wallboard). Parallel to this was the Shipbuilding vertical with sub units of Marine Construction (with correlations to Harbour Development and Heavy Equipment), Ship yards (with correlations to Kent Line and JDI Logistics), Atlantic Towing and Facilities, Technical and MSPV Services arms. To support distribution of the respective lines, a Transportation & Logistics vertical comprised of Midland, RST Industries (correlating to Universal Truck & Trailers), and Sunbury and NB Railways (supporting the lumber industries). The only department holistically shared across the board, according to our research, is a common Information Technology Department.[iv]

Horizontal Diversification:

Unrelated Diversification:

JDI owns businesses starting from forestry and ending with retail of consumer goods, French-fries, railways and port services. While they all make the Irving Group, operating environment and coordination of individual businesses might be relatively autonomous. Some businesses, such as personal care products, are little related to any of Irving’s core branches.

JDI’s unique geographic location and ability to acquire large capital over time helped the company to be significantly superior to its competitors, and gave advantage to make long-term, capital intensive investments. Irvings also to large extent control the general business environment in New Brunswick, employing one in 12 workers[v]and owning most of regional media – presence in diverse businesses helps to increase their influence.

Few other factors give advantage to their chosen diversification plan: JDI family business culture, and strong capabilities of its members to build and strengthen businesses.

Related Diversification:

Despite the initial diverse categories, almost all of JDI's businesses are grouped under four main categories – forestry, oil, shipbuilding, and transport, which connect with each other. This allows JDI to be better off, by making wood a multi-purpose asset; allowing them to employ synergies of resources. For instance, pulp and lumber businesses use the same resource from JDI forestry operations. Similarly corrugating medium, tissue and paper businesses all use inputs from JDI's pulp business, while Kent, Kent Homes, and Shamrock Truss all use lumber. Additionally, JDI has strong brand and company reputation to extend it to other businesses.

Cross-selling (one-stop-shop):// BrandLooking at JDI's corporate structure, the company tends to fully own its businesses. Probably, this has developed historically with an insufficient institutional context. Nowadays, taking into account, that JDI owns entire value chains, being a private company, they have a full control over information and resource allocation amongst their businesses.

Over the years, JDI has strategically placed itself as an important business empire in Canada. But this has come at a cost. They have been constantly rebuked and pulled to court due to environmental concerns, caused by costly mistakes, but their holistic corporate outlook towards the environment and social responsibility have negated the effects of these pitfalls.

Recommendations:

Over the years, JDI has strategically placed itself as an important business empire in Canada. The company's businesses are well integrated and diversified, giving JDI opportunity to solve challenges, which came across in different times, and eventually presence in many strategically important industries in New Brunswick (Exhibit 4).

Due to lack of financial information, we cannot pointedly suggest divestures or spin-offs of any business lines. However, we feel that JDI should be less diverse and control its current portfolio to suit today's business needs. The name has diluted over time, for example, with the acquisition of a diaper company.

JDI as a corporate parent can add workable value to its businesses by investing into sustainable expertise. The corporate concept of not selling businesses might lead to sustained losses over time. With the state of the current global economy and with the prices of oil being drastically low as compared to a few years ago, running end-to-end businesses in Forestry, Shipping and Transportation makes little sense, especially when many of the processes can be outsourced or off-shored, to emerging markets, where low costs of labor and raw materials, would substantially increase profit margins.

Our recommendation would be to retain the core oil and ship-building businesses, with some core aspects of logistics and consumer products and equipment manufacturing to be moved to " less costly" markets, so as to increase overall gross margins. They would need to divest non-core businesses, which were aimed at short-term profits and look to create a sustainable company. For J. D. Irving, philosophies and policies should be formulated in a way that they can be strategically changed with time and environment.

Over the years, JDI has strategically placed itself as an important business empire in Canada. But this has come at a cost. They have been constantly rebuked and pulled to court due to environmental concerns, caused by costly mistakes, but their holistic corporate outlook towards the environment and social responsibility have negated the effects of these pitfalls. Due to lack of financial information, we cannot pointedly suggest divestures or spin-offs of any business lines. However, we feel that JDI should be less diverse and control its current portfolio to suit today's business needs. The name has diluted over time. JDI as a corporate parent can add workable value to its businesses by investing into sustainable expertise. The corporate concept of not selling businesses might lead to sustained losses over time. With the state of the current global economy and with the prices of oil being drastically low as compared to a few years ago, running end-to-end businesses in Forestry, Oil, Shipping and Transportation makes little sense, especially when many of the core processes can be outsourced or off-shored, to emerging markets, where prices of labor and raw materials, would substantially increase profit margins. The management has made some efforts into moving into international markets, but they have diluted their core businesses by moving into potato production and diaper companies. Our recommendation would be to retain the core oil and ship-building businesses, with some core aspects of logistics and consumer products and equipment manufacturing to be moved to “ less costly” markets, so as to increase overall ROI. They would need to divest non-core businesses, which were aimed at short-term profits and look to create a sustainable company and to not restrict themselves with a policy of corporate philosophy. Philosophies and policies should be formulated in a way that they can be strategically changed with time and environment.

Irving Corporate Scope

J. D. Irving key strengths

- S1: Business Diversification
- S2: Long term focus, fast and concentrated decision making process
- S3: Overall control of business environment in New Brunswick
- S4: Patent family capital and financial capacity
- S5: Economies of scope and scale
- S6: Strong corporate culture

J. D. Irving key weaknesses

- W1: Difference in business profitability in vertical value chains
- W2: Family dynamics – potential conflict amongst 4th generation members
- W3: Unclear boundaries between family and business interests

Key opportunities

- O1: Divesting non-performing assets and offshoring labor intensive processes to emerging markets
- O2: High barriers to entry many JDI industries
- O3: Proximity to major economies like the US and Europe

S1, S4, S5, S6, Q1, Q3 JDI business diversification and financial strength allows the company to capitalize on close proximity to main developed markets, while gives an opportunity to offshore businesses to emerging markets

Create synergy between low cost manufacturing and operations, and established access to profitable markets

W2, W3, Q2 Various aspects of family relations and interests might negatively affect JDI development

Use the company’s strengths, such as low competition, to overcome family related inefficiencies

Key threats

- T1: Volatility and cyclic performance in global wood, paper and faming industries
- T2: Declining revenues in shipping industry
- T3: Increasing operating costs and overheads
- T4: Increasing competition in transport industry

S2, S3, T1, T2, T4 JDI business diversification and low competition in the regional market can help the company to deal with higher risks, volatility and declining revenues in a short term

Maintain business portfolio, which allows to avoid cyclical downturns in particular industries

W1, T3 Less attractive value chain parts can harm JDI long term profitability

Evaluate profitability of all business processes and outsource those, which do not add value to the company

Source: JDI analysis, IBIB World industry reports for paper, oil, and transport industries