

Philips vs matsushita recommendations



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This case deals with Philips and Matsushita, who are well recognized in worldwide consumer electronics market. Philips is now based in Amsterdam, Netherlands and Matsushita, now called Panasonic, is based in Osaka, Japan. Both companies were ready to launch a set of strategic initiatives and organizational restructuring by 2001. These initiatives were aimed at maintaining their competitive edge. Nevertheless, Philips and Matsushita reached this stage by making use of different strategies. While Philips built its achievements on a worldwide establishment of independent/ autonomous national organizations, Matsushita was relying on its centralized operations in Japan.

Both companies thus followed very different strategies and emerged with different organizational capabilities.

By means of comparing these two companies, a good insight in how it is possible that two almost equal companies followed two completely different paths in trying to become a market leader can be gained.

In order to give a good insight the main strategic issues will be summarized first. Afterwards, the aspects, that made Philips the leading consumer electronics company will be outlined as well as the incompetencies that the company built.

In order to be able to compare both companies the aspect how Matsushita managed to displace Philips as the leading company will be investigated. Additionally, Matsushita's incompetencies will be named.

Introducing of Philips and Matsushita

History of Philips

Philips was founded in Eindhoven, The Netherlands, in 1892 as a family run business and by 1900 was the third largest bulb manufacturer in Europe.

Philips differentiated itself from other firms in developing a tradition of caring for its workers through education, good pay, profit sharing and

other benefits. In 1899 Philips ventured outside Holland and Europe to

Brazil, Australia Japan, Canada and the U. S. While all functions remained centralized in Eindhoven, Phillips created local ventures to gain entry into local markets. So in the late 1890's and

early 1900s Philips was a single product company that made light bulbs. By the 1920's Philips departed from its highly centralized past and rapidly transformed itself into a multinational, decentralized company with a broad product line in the electrical and electronic industries. Philips had evolved from a highly centralized company whose sales were conducted through third parties to a decentralized sales organization with autonomous marketing companies in 14 European countries, China, Brazil and Australia.

Matsushita was founded in 1918 as an electrical socket manufacturer. It evolved rapidly into a multi-product electrical company. In the postwar boom, Matsushita thrived in the electronics industry and grew rapidly using a one-product-one -division structure that encouraged self-sufficiency.

History of Matsushita

Matsushita was founded in 1918 and started as an electrical socket manufacturer. Matsushita changed rapidly into a multi-product electrical company. In the postwar boom, they increased in the electronics industry. Moreover they grew rapidly by using a one-product-one-division structure that did encourage selfsufficiency. In the 50s and 60s Matsushita changed to a multinational company with several plant globally. The overseas subsidiaries were fully owned single product plants or companies with a foreign product line for local markets. During the 80s there was tight central control possible due to expatriate Japanese in foreign subsidiaries which had strong network connections in Japan.

Main strategic issues

A first main strategic issue for Philips was the struggle between NOs and PDs. This was a problem for Philips. While their organizational structure was a geographic/product matrix, the NO's pretended that they had the real power, this existed in a conflict regarding to power and responsibilities. The NO's had more influence on top management.

A second main strategic issue was the late entrance to the market. Because of a decentralized organizational structure Philips lacked to enter new products to the market on time and cost efficient. For instance, the V200 failed to capture the market, the late entrance was one of the reasons for this. This resulted in a closure of inefficient plants, Philips had to laid off 178,000 of their employees.

According to Matsushita, the highly centralized organization structure was a main strategic issue. Matsushita lacked in their ability to innovate.

Matsushita is quite fast in producing a similar product, which is a risky strategy.

Philips as the leading consumer electronics company

After the war, Philips' management board wanted to build the company on the strengths of the national organization (NOs). This means that the corporate headquarter is linked to these various subsidiaries on a one-to-one basis without real integration across them. The increased self-sufficiency of the national subsidiaries during the war had allowed them to respond to country-specific market conditions. The independent NOs' advantage was the fact that they were able to sense and response to the differences in every distinct market. The NOs were led by a technical manager and a commercial manager. This was a good cooperation, due to the technical aspects analyzed by the technical managers and the way to enter the market analyzed by the commercial manager.

Due to this decentralized organizational design Philips was able to gain a leadership position after the war. This decentralized organizational design was the 'administrative heritage' of the company's early expansion in international market and can be seen as representative of a multi-business geographical model (Lasserre 2007: 70).

At a time when political, economic and technological forces favoured responsiveness to local markets and strategic adaptation, Philips established several distinctive competences.

Due to

NOs' ability to respond to local market conditions

NOs' development of a technical and innovative capability (resulting from the growth and great independence of the NOs)

The dual leadership system consisting of a technical and a commercial manager (cross- functional coordination throughout the organization)

Philips became the leading customer electronics company in the world in the postwar era.

Nevertheless, Philips also built some distinctive incompetencies. Due to a lack of structure within the organization of manufacturing and also marketing, Philips lost its leadership position to Matsushita, its Japanese competitor.

Moreover, Philips was not able to control all of its national subsidiaries and the relation and coordination between the product divisions (PDs), which were located in Eindhoven, and the NOs was very weak. This lack of coordination/relation between the PDs and the NOs gets obvious when Philips failed to persuade the North American Philips Cooperation (NACP), its American subsidiary, to sell the V2000 videocassette format. Instead of following the way the headquarter wanted them to act, the NACP sold the VHS, which was under license from his great competitor Matsushita.

Because of its decreasing sales, Philips began to reduce costs and restructure its organization. This caused Philips to ignore new emerging market demands for more segmented products and higher customer

services and Matsushita displaced Philips as No. 1 in the consumer electronic market.

Philips versus Matsushita

In the period when Philips and Matsushita began to internationalize the difference between both companies, that finally led to the leading position of Matsushita, gets obvious.

When Philips started to internationalize in 1912 its organizational design has been influenced by the First and Second World War. The multi- business geographical model that Philips made use of was not suitable when the environment began to change in the 1980s. Philips was not able any more to respond quickly to the changing market demands and their products could not keep up with the competitor's ones as far as producing costs are concerned.

In contrast to Philips, Matsushita began to expand internationally not before the end of the Second World War. Thus, Matsushita could better react to the changing conditions than Philips could. Matsushita's organizational design could be best described as a representative of a ' global hub' form of organization (Lasserre 2007: 72). Due to this global integrated approach the company was more effective and a better transfer of technologies across borders was possible. Thus, Matsushita's divisional structure was more apt to react to the changing environmental conditions at that time than the organizational design Philips made use of.

Due to its divisional structure Matsushita was able to develop distinctive competencies that helped the company to displace Philips as the leading

company in the electronic market. In contrast to Philips, Matsushita's competencies were as follows:

Headquarter's power to control their foreign subsidiaries. Because of the expatriates Matsushita has short communication lines. The Headquarter was able to outvote the subsidiaries despite the fact that they had great autonomy.

Economies of scale due to its early investments in low-wage countries.

Their ability to produce what the people demand thus anticipating on the market (for instance the VHS).

Nevertheless, also Matsushita built some distinctive incompetencies that had an influence on its market position. There are two major incompetences that arose in Matsushita.

Firstly they were highly centralized and their structure was inflexible. This resulted in a slow way to manage change. The high level of centralization and their tall structure have lacked Matsushita's innovation attempts. The recent different CEOs did try to improve the innovation, however the hierarchy was flat and restructuring took place. Moreover the Japanese economy collapsed and this resulted major decrease of profit. After all Matsushita was slow to manage changes in the external environment.

Secondly another major incompetence leads towards their dependency on competitors in technical innovation. Since Matsushita was not an innovative company from the start, their main capabilities were mainly the ability to mass production towards a low cost. Matsushita is mostly fast in producing a

similar product as the competitors produce. They adapt quick to the market. This strategy is a bit riskful, it is quite dangerous to rely on other firms regarding to the innovation process.

Additionally there are some other incompetences that should be taken into consideration. Matsushita has a high turnover by unsatisfied overseas staff because of high control from Japan's highly centralized R&D operations. This result in a lack of initiative from foreign plants, they are too dependent towards the headquarter. This is stongly needed for their technology development in overseas companies. The failure of the desructruction and creation program of Nakamura created confusion in the firm and has led to a decrease of turnover.

The process of change of Philips and Matsushita

Response to strategic and structural changes for Philips & Matsushita

Philips:

Objective 1: A protection of overseas sales and home company by techonological, economic and political barriers.

Implementation: developing postwar organizations on domestic production facilities

Objective 2: economies of scale

Implementation: A decentralization of the sales and marketing department in 14 European countries, China , Brazil and Australia.

The impact of both objectives: Philips used a geographic/product matrix structure. The subsidiaries control of assets often underestimated the role of home product divisions. The R&D division continued independent and expanded internationally. This resulted in an increasing of country specific market conditions and increasing responsiveness.

Other consequences:

The use of geographic/product matrix structure led to complexity.

Lose of market share to efficient Japanese firms, such as Matsushita

New products resulted in marketing disasters

Objective 3: The integration should be improved, there was a lack of communication.

Implementation: International Concern Council 1954

Impact: improved integration of managers with Nos and an improved coordination between Nos and home country.

Objective 4: A globalizing of the product development, an increased control over domestic subsidiaries and aiming for more efficient production facilities

Implementation: The relationships of the managers between PD's and NO's.

With the aim to increase scale of production and flow of goods. It was also important to close inefficient plants and to cover efficient plants into International Products Centres. This would increase control PD managers over NO's

Objective 5: Decrease costs, because of the competitive advantage of competitors with cost leadership.

Implementation: Shifting production to low wages countries. The PD/NO matrix disappeared. There was an increased concentration on new market demands to obtain higher customer service. Philips concentrated on consumer electronics and shifted their resources to marketing. This resulted in a 40% increase advertising to generate awareness of the Philips brand

Impact: A improved market oriented product variety, global efficiency, the coordination increased profits.

The development of common markets in the 60s and the erosion of trade barriers increased the need for globalization. Observed can be that Philips shifted towards a local focus, whereas the whole world was a market to sustain competition. The centralization resulted a more worldwide approach regarding to decision making, coordination and control of key functions (marketing and R&D.) Those key functions were linked which resulted in more market-oriented products. However , centralization had a huge influence on integrate operations, which leads to less complexity and less cost/time effective. We agree that Philips created a better mix of standardization and differentiation due to shifting an adaptive differentiated product towards a standardized production process (economies of scale.)

A main difficulty was the change from a decentralized company to a centralized culture. This is a different way of acting and thinking, more global thinking instead of host country.

Matsushita

The way Matsushita changes can be defined by the following objectives:

Objective 1: To develop offshore and develop innovative and entrepreneurial initiatives in the overseas subsidiaries. This was implemented by Toshihiko Yamashita, who launched "operation Localization."

The managers were afraid of a decrease of employment in Japan, increased overseas production would be the expense of export sales.

Objective 2: Creating a small business environment to provide growth and flexibility. This was implemented by a divisional structure. The impact was that the divisional structure stimulated competition among divisions, encouraging them to increase growth by leveraging their technology assets into new developed products.

Objective 3: Cutting costs, due to the company's high capacity, variety of products and network of retailers changed from assets to liabilities.

Implementation: Matsushita implemented a restructuring

Impact: increasing of profit margins, decreasing of low margin consumer electronics and a shifting into digital technologies.

Matsushita has developed a change in their company structure. They have changed from a global functional model, with centralized decision-making towards an international division model, where each division has more profit responsibilities. However, Matsushita had built their global competitiveness on their centralized operations in Japan. The change has been good, because

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the main objective of Matsushita is to obtain local responsiveness and maintaining their strong global capabilities. The overseas subsidiaries possess a high degree of autonomy, but are on the other hand dependent on the home-country divisions for products and technical support. This model offers the requirements on one hand the global efficiency and on the other hand local responsiveness.

Matsushita's and Philips' difficulties of strategic and structural changes

The structural changes and cultural changes resulted in that Matsushita, like Philips, needed time to adapt to their new structure. The company's slow movement towards local senior-level management in their overseas subsidiaries and the unsuccessful efforts to integrate foreign managers at senior levels in the company are good examples of the challenges that Matsushita is facing. Structure and culture needs to be changed.

Current situation

Philips

Philips launched a 'Vision 2010' which tries to simplify its organizational design by establishing three sectors (Healthcare, Lighting and Consumer Lifestyle). Nevertheless, due to the current economic situation, the financial targets set as part of Vision 2010 are not likely to be met by the end of 2010 because of the continuing economic crisis and the resulting decreasing demands.

Nowadays, Philips has 134000 employees, holds more than 55000 patent rights, has 33000 registered trademarks and reaches sales of EUR 27. 0

billion. Its headquarters is still in the Netherlands and it is present in over 60 countries worldwide (Philips. com 2008).

In 2004 Philips launched its “sense and simplicity” brand promise by which a new way forward for the company started. The promise “Sense and Simplicity” reflects Philips’ commitment to be a market- driven company that provides products and services fulfilling the promise of being “designed around you, easy to experience and advanced” (Philips. com 2008).

The estimated value of Philips brand has increased by 8 % in 2008.

The mission of Philips “Improve the quality of people’s lives through timely introduction of meaningful innovations” clearly shows its focus on innovation (Philips. com 2008).

Matsushita

In 2008 Matsushita was renamed as Panasonic Corporation and all its brands were established under the Panasonic brand. Nowadays Panasonic is one of the largest electronic product manufacturers worldwide and comprises over 540 companies.

Panasonic’s management philosophy is “Recognizing our responsibilities as industrialists, we will devote ourselves to the progress and development of society and the well- being of people through our business activities, thereby enhancing the quality of life throughout the world” (Panasonic Corporation 2010).

Recommendations

6. 1. Philips

Over the years Philips has been very successful in developing new products. However, they were not able to successfully introduce them in the markets. So Philips' pursuit to become a global leader has failed, but it still possesses capabilities that its competitor Matsushita does not. Its ability to innovate and develop new technologies and new products is what made Philips successful and the leading company in the first place and it must try to exploit these capabilities further.

The main reason for Philips' failure is the fact that there was almost no relationship and coherence between the headquarter, the PDs, and the NOs. To change this unprofitable situation Philips has made many attempts to restructure its company in order to gain more power/ control over their national subsidiaries. Although those attempts were very costly they did not pay off for the company.

In order to make the company profitable by successfully introducing new technologies and new products to the market, Cor Boonstra should make sure that the product is adopted by the whole organization and not only by parts of it. By means of a restructuring of the company this should be possible. The company should be restructured in that way that the NOs have less power and they have no other opportunity than to follow the strategy that is given by the headquarter. Once they achieved a better coherence they can concentrate on improving their corporate marketing strategy to better position their new inventions/ products.

Cor Boonstra could as well follow another strategy to improve the product introduction: by means of licensing their technologies and products the company will gain network externalities and thus a competitive advantage. In this way they can obtain the revenues of their normal sales as well as the revenues of their licences. This might lead to improve their competitive advantage and their profits, too, as they will be able to invest the money to further develop new products.

An important factor is that Philips should not give up its value proposition of being a 'technology developer and global marketer', which might be the result of outsourcing the majority of its production.

Matsushita

Regarding Matsushita it gets obvious that their main disadvantage was their centralized organization, which was the reason for the company's slow market responsiveness.

Matsushita's strategy of buying licenses of competitive manufacturers was successful and in order to internationalize throughout the world they made use of their competitive advantage of low- cost production. To maintain this position as a leading low- cost producer Yoichi Morishita should pay attention to further low- cost production facilities, thus, a high local responsiveness is needed. However, the transition to local senior-level management in its foreign subsidiaries has been slow. This is why Morishita's objective should be to speed up the transition to be able to gain profit from the advantages of globalization and to maintain their competitive advantage. Additionally, a rapid transfer of specific know- how and important processes can be

achieved as well as the implementation of more global integration and coordination. Then they will be able to develop a faster reaction to local opportunities as far as the introduction of new products is concerned. Consequently, Matsushita will operate as one unit that focuses on the whole company profit instead of only concentrating on the profit in Japan.

Conclusion

Due to the decentralized organizational design Philips was able to become the leading consumer electronics company in the postwar era. However, as the environment changed, Philips could not maintain its leading position but lost it to Matsushita, which reacted to the changing environment by implementing a global functional model.

To develop distinctive competences, both, Philips and Matsushita, changed their company structure. While Philips became a more centralised company, Matsushita developed a more decentralized organizational design.

In the end we can conclude that the most difficult influence that need to be tackled by both companies to strengthen their position, is the creation of coherence between subsidiaries and headquarters. Besides, Philips should concentrate itself on successful introducing new products and technologies and Matsushita will need to anticipate on the globalization of the market, so that they are capable of sustaining their competitive advantage in low-cost production.