Kao corporation is a chemical and cosmetics company marketing essay

INTRODUCTION

In 1887, Tomiro Nagase founded Nihon Yuki as a domestic toiletry soap company (Kao, 2010a). In 1940, the company changed its name to Kao Soap Company (Kao, 2010b) and finally in 1985, the company again renames itself to Kao Corporation (Kao, 2010c).

The 1960s and the 1970s saw the company expand its business into neighboring Taiwan and other ASEAN countries (Kao, 2010d). They also extended their research and development into oleo chemicals in order to complement their main business (Kao, 2010e). This period saw the company launch several household products, laundry products, and industrial products in a bid to expand its revenue base.

During the 1980s, its hit products Merries diapers, Attack detergent, and Sofina cosmetics were launched. During this time, Kao engaged in several joint ventures (haircare in Europe, Nivea in Japan with Beiersdorf), and acquisitions (Andrew Jergens Company in 1988, Goldwell AG in 1989) in North America and Europe. During this period, Kao also expanded to the manufacture of floppy disks (Kao, 2010f).

During the 1990s and 2000s, the company expanded into China and Vietnam – countries that, during that time, were opening up their economies to the rest of the world (Kao, 2010g).

Under the direction of Dr. Yoshio Maruta, the then president of Kao Corporation, Kao became one of the most admired companies in Japan regularly rated by Nikkei Business ahead of well known companies like

Canon and Toyota in terms of corporate originality, innovativeness and creativity.

Several of the company's innovative products in the area of super concentrated detergents and shaped diapers were benchmarks in their categories when compared to its much larger rivals like P&G and Unilever. It made it a habit to constantly come up with innovative products well in advance of its local competitors and quickly emerged as the biggest branded and packaged goods company in Japan and second biggest in the cosmetics industry.

COMPANY ANALYSIS

Kao Corporation has thrown open the business and its employees to the stimulating force of incessant learning. It recognizes the need to sight the company as a learning organization and be aware of that competitive benefit flows from people's capability to continually augment their knowledge and skills. Proper classroom learning, although important, played only a part in the continual learning process of the company. The more difficult part of redesigning a company as a learning centre was to redesign its work methodology, information flows and organization processes to produce self advancement opportunities for people within their daily routines.

What set of features does Kao Corporation posses that helps the company differentiate itself from its competitors in the market? Basically speaking, Kao Corporation is a learning organization which did not stop at ' learning' but instead ' learnt how to learn'. The following attributes defines the traits of a learning organization as can be seen to be present in Kao Corporationcontinuing education, organizational fit and disequilibrium, creation of dynamic processes creating a sense of stretch, managing sweet and sour strategic alignment and challenge, democratization of information,.

While Kao Corporation has managed to be a leader in the Japanese domestic market as well as dominate in the nearby South East Asian countries, the company has not been able to achieve similar success in the Western markets. Under their strategic expansion plan, the company has now set itself a task to become a major global player. The question however is, does Kao Corporation have what it takes to become a global player and compete with major competitors like P&G and Unilever? Will the company be able to face up to the challenges of the Western markets? What strategies should Kao Corporation resort to in order to be a major market player?

INDUSTRY ANALYSIS

SWOT Analysis Overview

Strengths

Focus on research and development

Widely known brand portfolio

Adequate short term liquidity

Weaknesses

Pressure on topline and profitability

Geographical concentration

Opportunities

Business Integration

Investment in environmental technology

Positive outlook for the global personal products market

Threats

Competition from private labels

Stringent regulations could impose new liabilities

Changing consumer preferences

Strengths

Focus on research and development

Kao has strong research and developments (R&D) capabilities and the company ensures that it leaves to stone unturned in order to ensure that sufficient money is always pumped into strengthening its R&D function. This is apparent from the information that the company invested JPY46, 126 million ($461. 3 million) and JPY45, 070 million ($450. 7 million) in FY2009 and FY2008 (Kao, 2008a) (Kao, 2009a), correspondingly, on research and development of new products or the preservation and enhancement of existing products.

The R&D division attempts to develop pioneering products through the amalgamation of two kinds of research activities: product improvement research to devise and commercializing products that meet consumers' needs, and elemental research to study supplies and understand unique mechanisms that the company finds. In product improvement research, product design is conducted based on a methodical perception of consumers' habits and needs and appliance of its research conclusion. Additionally, the R&D division works directly with the marketing and manufacture divisions. The unvarying focus on R&D enables Kao to continually innovate and launch new products in line with varying purchaser preferences enabling them to maintain a competitive advantage over its peers.

Widely known brand portfolio

The company has sturdy range of brands across the various product categories it operates in. Kao's key brands include Molton Brown, a range of hair care and bath body products; Laurier, the sanitary napkin series; Attack, a liquid laundry detergent; Pyuora and Clear Clean, the oral hygiene products; Kao Safina, a skin care product; Magiclean and Quickle, the household cleaners amongst others (Marketline, 2010a).

They also offer a assortment of other well-liked products that are distinctive from their competitors such as Healthya Green Tea and Econa Healthy Cooking Oil lineup. A strong assortment of brands enables the company to perk up its brand equity, resulting in an instant remembrance for its customers leading to recurring purchase and steady income (Marketline, 2010b).

Adequate short term liquidity

Even though Kao profits declined, it has an ample asset support to meet short term commitments. The current ratio of the company for FY2009 stood at 1. 49 with the total current assets of JPY403, 826 million ($4, 038. 3 million) and current liabilities of JPY270, 741 million ($2, 707. 4 million). A sufficient short tenure liquidity situation will prop up shareholder and creditor's assurance in the corporation.

Weaknesses

Pressure on topline and profitability

Financial Year 2008-09 saw Kao document a feeble financial show in its key financial metrics. Company revenues went down at a rate of 3. 2%, from $13, 185. 1 million in FY2008 to $12, 763. 2 million in FY2009 (Kao, 2008b) (Kao, 2009c). This decline in revenue could be attributed to the decline in the sales of its consumer products business, particularly the beauty care business, and fabric and home care business. They both recorded a negative income increase of 6. 3% and 0. 2%, respectively, during FY2008-09.

A decline in the company's top line and profits could have a severe impact on Kao's flow of cash and increasing its susceptibility to exterior sources for financial support and expansion projects in the ensuing financial year.

Geographical concentration

Despite having a diversified operation around the world, Kao is still highly dependent on the Japanese marketplace for the greater part of its revenues. In FY2009, the company derived 70. 4% of its revenues from Japan, while other worldwide markets accounted for merely 29. 6% (Kao, 2009b). Soaring reliance on the Japanese market makes the company susceptible to the demand dynamics of this region and restricts its income growth to the local economy. Besides, the company is also open to the elements of risks related with the financial system, while its competitors, such Procter & Gamble Company (P&G) and Unilever who have noteworthy operations in varied geographic regions are secured against such a peril.

Opportunities

Business Integration

Kao and Kanebo Cosmetics started incorporation of their logistics bases to jointly distribute products for their common customers. By 2010, integrated logistics bases would be positioned all through Japan to offer a nationwide joint delivery for the companies’ shared customers (Marketline, 2010b).

Kao and Kanebo Cosmetics are targeting about 50. 0 million of collective cost reductions by 2010 by combining their logistic synergies. By incorporating Kanebo Cosmetics’ logistics bases with Kao’s logistics integration plan leasing fees for external storage and cargo handling fees would be trimmed down. Also, by efficiently using Kao’s delivery routes, the company would reduce its delivery fees.. Furthermore, from an environmental viewpoint, the two companies, through cooperative distribution, would decrease CO2 emissions caused by sharing. The amalgamation gives a prospect for the company to decrease operating cost through logistics amalgamation plan (Marketline, 2010c).

Investment in environmental technology

Kao has taken quite a lot of initiatives to improve its environment technology in recent times. For example, they announced the building of Eco-Technology Research Center (ETRC) as the foundation for Kao’s environmental technology in June 2009. The center will be situated inside the complex of

Wakayama Complex (Wakayama City) in Japan. ETRC, which is planned to commence in February 2011, will consist of of three research facilities. The company intends to spend around $160 million on this facility. This facility will facilitate the company to incorporate and focus its environmental research functions within ETRC, thereby accelerating environmental research and technology progress (Marketline, 2010d).

Positive outlook for the global personal products market

The international personal products market has been on the increase at a vigorous tempo in the past few years. In December 2009, the global personal products market made overall revenues of $361, 100 million in 2008, representing a compound yearly growth rate (CAGR) of 3. 7% for the period 2004-08. The performance of the market is predicted to perk up more and is likely to direct the market to a value of $424, 100 million by the end of 2013 (Marketline, 2010e).

With a strong presence in the global personal products market, the increase in the personal products market will give Kao a chance to tap the demand in a big way and boost its overall sales.

Threats

Competition from private labels

Competition from private labels is intense in the markets that Kao operates in. They not only face competition from local, low-priced manufacturers in developing countries but also from increasing private label brands owned by large format retailers and discounters worldwide. Consumer expenditure on private label food, drinks and personal care has been on the climb with the food markets recording the strongest increase. Retail chains are keen to promote private label products due to better profit margins. Private label brands offer higher margins than branded products (Marketline, 2010f).

Stringent regulations could impose new liabilities

Several consumer protection groups are expressing concerns over the existence of unsafe chemical ingredients in cosmetic products. Due to escalating public demands, it is anticipated that rigorous quality norms would be forced on cosmetic products.

Due to these rigorous policies, Kao’s products may come under greater than before examination forcing the company to fine-tune or revise its product range. This would directly effect Kao’s cost structure, which possibly will result in a decline in company’s profitability.

Changing consumer preferences

Customers are ever more taking sanctuary in new technologies such as sophisticated dermatology, cosmetic surgery, hair and organ transplant and other treatments to augment their beauty. Not only is the outcome from these treatments immediate, but they are also long durable. As a result, rising popularity of these new technologies may possibly diminish reliance on conventional beauty aids such as creams and lotions, which can steer to a drop in demand for beauty products (Marketline, 2010c).