

Olympus strategic
management
research commerce
essay



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Olympus Corporation is a Japan-based manufacturer of reprography and optics products, founded on 12 October 1919 by Takeshi Yamashita with headquarters in Tokyo, Japan and listed on the Tokyo Stock Exchange. The company is engaged in the manufacture and sale of precision machineries and instruments for the imaging, medical, life sciences, information and communication and other markets.

The company's imaging system business, through Olympus Imaging Corp., markets compact and lightweight digital cameras, optical lenses and voice recorders. The medical systems business, through Olympus Medical Systems Corp., offers medical endoscopes, surgical endoscopes, endotherapy products, ultrasound endoscopes and surgical treatment devices. The life science segment's products include molecular imaging systems, such as chemistry analyzers, immunoassay systems and blood analyzers, diagnostic systems and biological and industrial microscopes. Olympus also operates several research facilities, such as the Olympus Bio Imaging Laboratory and the RIKEN BSI-Olympus Collaboration Centre, connected to the operations of their segment. The company's information and communication offerings, through ITX Corp., include investment and business incubation, IT services and equipment sales, such as the sale of mobile terminals. The company operates across six continents and more than 50 countries through 219 subsidiaries and 19 affiliated companies. Altogether, Olympus is comprised of four business segments: Imaging Systems, Life Sciences and Industrial Systems, Medical Systems and Information and Communication. Olympus President and Representative Director is Hiroyuki Sasa, who took this office in April, 2012.

PESTEL Analysis

Political factors. The political environment is considered as one of the most influential factors that affect the operations of a business. Since all political forces are a part of the macro-environment and are associated with the situation of government, this directly influences the possibility of maintaining a business in a particular economy. Better government would always strive to create the most favorable conditions for a business, developing good policies and making business thrive. Governments also choose the way of taxation and can influence export and import abilities of a particular country (e. g. artificial limitation of an amount of particular good that can be imported in the country, changing taxation for local and foreign producers, stimulating export or import, special license conditions etc.).

In our particular case, the most important thing of a political environment Olympus operates in is fiscal policies of the governments of the countries Olympus's stores and its distribution chain are situated in. Pursuing their objectives, governments can levy taxes that make conducting a business unprofitable in this political system, or, for example, cancel taxation of some firms at all to improve the situation of a company on the market.

Overall political situation in particular countries also affects Olympus business. Since some countries have unstable political situation (e. g. Somali, Iraq, many African countries), Olympus is reluctant to maintain their business there because of unpredictable business conditions and unreliability of partnerships with local retailers.

Economic factors. Economic environment of an organization are all economic factors that effect on the working of a business. This point includes distribution of income and wealth in the economy, trade cycles, economic policies and nature of an economy. Scientists distinguish five main components of a firm's economic environment. They are: economic conditions, economic system, economic policies, international economic environment and economic legislations.

Since Olympus's initial purpose is bringing profits to stockholders, all these factors should be carefully considered while acting in a particular economy in order to bring the highest profits possible. Size of market, demand and supply trends, inflation rate in the economy, national income, per capita income, efficiency of public and private sectors and many other factors influence Olympus performance in a particular economy and directly influence its profitability. Moreover, since an economic system of a country determines " rules, goals and incentives that controls economic relations among people in a society", this factor influences Olympus desire or even ability to perform in a particular economy.

Separated word should be said about global economic downturn as a result of the global financial crisis of 2008. The worst economic debacle the humankind has faced since the Great Depression left millions of people without jobs and trillions of dollars in market value evaporated. The global consumption and demand felt dramatically, including the demand for reprography and optics products Olympus manufactures. Although Asian countries did not experience such a striking shock as Europe and Northern America did, overseas sales account for approximately 80% of Olympus
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sales. Interest rates became higher in practically all countries, somehow influenced by the crisis. National income growth in majority of countries slowed down. Hence, the downturn of the global economy is one of the most prominent economic factors which influence Olympus operations.

Furthermore, current economic problems in Europe, which accounts for 26% of Olympus sales, also adversely influence the company scrutinized.

Social factors. One of the most important social factors, which influence operations of Olympus is ageing of population in its target markets and constantly growing of health consciousness of those individuals. Since Medical Systems & Life Sciences are the largest business segments of Olympus Corporation, these trends can positively influence Olympus because of the demand growth expectations and need for improvement of patient quality of life. However, population growth rates in these countries are not that positive and for the last decade we have observed shrinkage of population in developed countries and constant growth of population in developing countries as India, China and many countries of the Muslim world. Therefore, in the nearest future the trend will reverse and exactly those growing countries will become major importers of hi-tech products as Olympus manufactures. Thus, Olympus should be ready to such changes and pay attention to the development of its distribution chain in all prospective markets.

Technological factors. Any changes in technology have a major impact on the business. New technologies change the business prospects and profits, work culture and methods of production that are used in the industry.

Technological changes force management to change the course of how the
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business is maintained in order to boost the productivity and profitability of the production process.

Talking about the industry of hi-tech medical, imaging and information communication products Olympus operates in and technological environment there, it can be said that this industry is probably one of the most technologically-advanced industries of contemporary world. Because of the nature pace of the human progress and constantly growing demand for better medical apparatuses and other hi-tech products Olympus produces, technological changes and breakthroughs in this industry happen extremely often. Technology incentives of many companies are striking, constantly increasing the rate of technological change.

All these factors determine the technological environment for Olympus, simultaneously affecting its minimum efficient production level, level of financing its research facilities, cost and quality of products manufactured and ultimately strive for innovation, which will determine the share of the company on the market in the nearest future.

Environmental factors. Environmental factors are those factors of any company's external environment, which include weather and climate concerns, directly influencing operations of a business. Environmental factors are not of the highest importance for Olympus Corporation and do not shape its or its competitor's products or production chain as they do, for example, for agriculture companies. However, constantly growing concern of the environmental sustainability, greenhouse effect and nature protection define certain environmental standards Olympus should comply with.

Legal environment. As any business, Olympus operates within a strict framework of law which influences different aspects of the company.

Governmental laws regulate “ the status of the organization, its relationship with customers and suppliers and certain internal procedures and activities”, influencing the behavior of Olympus on the market and specific market conditions. Consumer laws, discrimination laws, employment laws, antitrust laws and health and safety laws of different countries affect how Olympus operates on local markets and also determines cost and demand for its products.

Porter’s Diamond Model

The Diamond model of Michael Porter was contrived to evaluate and assess competitive advantages of a firm in national and global competition. Let us construct Porter’s Diamond model for Olympus Corporation.

400px-The_Porter_Diamond

Graph 1. The Porter diamond

Source:

Factor conditions

Skilled workforce

High intellectual potential and strive towards innovations

New innovations and new methods of corporate governance

Developed technological base and infrastructure

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Demand conditions

Sophisticated local and overseas market

High pressure and demand for innovations

Related and supporting industries

Local and international competition creates innovations and cost-effectiveness

Participation of suppliers in upgrading process

High incentives for innovations in whole production chain

Firm strategy, structure and rivalry

New corporate governance strategy

Focus on core business domains

New corporate management policies: Back to Basics, One Olympus, and Profitable Growth

Four new basic strategies: Rebuilding of business portfolio/Optimal allocation of management resources, Restructuring of governance, Review of cost structures and Restoration of financial health

Fierce domestic competition, which stimulates innovations

High standards of corporate culture

Government

Significant efforts paid to the development of infrastructure and attraction of new businesses

Educational incentives and creation of skilled labor

Encouragement of BPO/KPO (business process outsourcing and knowledge process outsourcing)

Chance

Changes in global economic trends

All factors, which create discontinuities and are outside of a control of a firm

Market Analysis and Industry Life Cycle

Nowadays the industry of reprography and optics products Olympus operates in is the subject for constant growth and development. The Medical Business, which is the main business segment of Olympus, has experienced steady growth over the years and is expected to grow even further in view of the social environment. At a time of fast aging of population in the developed countries, early detection and diagnosis of treatment have become urgent priorities for patients, physicians and societies overall.

Minimally invasive treatment methods as endoscopic surgery are expected to play a key role in satisfying these requirements. The surgical devices field annual sales are expected to grow 14% annually, creating major business opportunities for Olympus because it is the only company in the world, which possesses the technologies for manufacturing of apparatus that meet the full range of needs from early detection of illnesses to minimally invasive

treatment. Therefore, we can conclude that Medical Business of Olympus operates in the “ growth” stage of the industry life cycle.

Regarding the Imaging Business of Olympus, it operates in the industry, which slowly proceeds from the “ growth” into the “ mature” stage of its life cycle. Although hundreds of innovations are still made in this field, the market in developed countries is close to be saturated. However, there is still an enormous market and place for development in developing countries. Furthermore, it should be recognized that Imaging Business is simultaneously a brand and imaging technology driver for Olympus. Thus, it is an inherent part of the company’s marketing strategy and will be paid an utmost attention in the nearest future.

Life Science & Industrial business of Olympus is also in its “ growth” stage. The driving factor for this is that the industries, where reprography and optics products have not been used before, begin to adapt innovations from this field to develop and increase the efficiency and productivity of their business. Hence, sales expansion by entering untapped industries is of the highest interest for Olympus, since this market is undeveloped yet, contains a lot of opportunities, place for innovations and growth.

Porter’s Five Forces Framework

Porter’s five forces framework is a tool for industry and company analysis, aimed to derive those five forces, which determine the intensity of competition and therefore attractiveness of a particular market and overall industry profitability. Three of the aforementioned five forces concern

competition threats from external sources. The remaining two are related to the company's internal threats.

Graph 2. Porter's Five Forces Framework

Source:

Bargaining power of suppliers. The concentration of suppliers of Olympus's three key business segments is comparatively high. The number of suppliers and availability of substitute inputs differs from the product or inventory supplied. Availability of lenses Olympus uses, for example, for its Medical Business segment is limited because of the complicated process of their production and various patents. Input of suppliers of hi-tech components is extremely important for companies in the industry Olympus operates in and an ability to substitute suppliers of such unique products is low. Hence, suppliers of technologically advanced inventory have a significant influence on the industry scrutinized and are able to drive up prices with little resistance from their buyers.

Firms which produce less unique products, however, have dramatically less power. The number of suppliers in this category is big as well as the availability of substitutes. The competition among these suppliers is severe and therefore their ability to artificially deviate prices is low.

Bargaining power of consumers. Bargaining power of Olympus's consumers, similarly to bargaining power of its suppliers, differs greatly from one business segment of a company to another. Imaging Business, for example, has a great number of customers. The size of each order, however, is low in

comparison with other businesses of the firm. Buyers of this segment possess a credible backward integration threat, since they can choose to buy products of a rival firm as Canon or Nikon. Buyer power is also strong because switching costs are low, is usually well-educated about the product and lots of substitutes are available on the market.

In case of Medical and Life Science & Industrial businesses of Olympus, consumer bargaining power is different and is believed to be lower. To the great extent this is because of little number of substitutes available on the market and their lower technical characteristics. Threat of backward integration in these businesses is low and majority of buyers purchase products in low volume.

Threat of new entrants. Threat of new entrants on the market of hi-tech products Olympus manufactures is low because of several factors. First, in order to enter this market, extremely high capital investments are required. Second, patents and rights of already established firms make it hardly possible for new entrants to produce products, similar to existing ones. Hence, prohibitive for new firms amount of financial and human resources should be put into research and development to introduce technologies and products unavailable yet on the market. Furthermore, in Olympus business lots of attention is paid to consumer loyalty and it may be very hard for new entrants to entice clientele of well-known already established brands.

Threat of substitute products. Feasible threat of substitute products Olympus experiences in all its businesses other than the Medical. This can be observed because of consumers' propensity to substitute and comparatively

low switching costs. Number of substitute products, which can compete with the products of Olympus's Life Science & Industrial and Imaging businesses is high. So is the ease of substitution.

There is, however, less threat of substitute products from Medical business of Olympus because products in the Medical business have significantly longer lifecycles and development cycles. For example, Evis Exera III – a core endoscopy system, which was introduced by Olympus in spring 2012 and has no substitutes on the market, had the development period of seven years. Since Olympus has a competitive edge in research and development, it is unlikely that products able to substitute Olympus Medical businesses' apparatuses will emerge on the market in the nearest time.

Competitive rivalry within an industry. Competition within Olympus's industry is fierce. All companies which compete for leadership in this industry have powerful competitive strategies and high levels of advertising expense. Each of the companies tries to achieve sustainable competitive advantage through implementing innovations and investments in research and development. Number of competitors is limited; however, their financial and human resources are huge. Costs of leaving market are high.

Olympus Current Strategy

Corporate Strategies. Basing on the corporate management policies and aiming to address pressing issues of the company, Olympus's management has set forth four basic corporate strategies. First, three business domains have been chosen as those, in which the company should invest first and foremost. These are: the Medical Business, Life Science & Industrial Business

and Imaging Business. Medical Business should become a growth driver for the company, which will later transform into a medical-field oriented firm. Second, Olympus will revise its cost structures and aims for profitable growth. Third strategy is to improve the company's shaken financial position and performance. Last but not least corporate strategy of Olympus is to restructure the firm's governance after the recent unprecedented turbulence of the Olympus scandal period.

Business Strategies.

Medical Business. Under the current medium-term vision of Olympus management, the Medical Business of the company should become a profit and growth driver for the firm. The strategy of Medical Business is to achieve further expansion of the business by “ capitalizing on the highly strategically advantageous position of being capable of simultaneously developing devices necessary for new minimally invasive treatments as well as new diagnostic methods closely related to those new treatments” (Olympus Corporation, 2012). The company also plans to replace existing devices with new once and create a new market by applying highly innovative technologies unavailable to its competitors.

Life Science & Industrial Business. Life Science & Industrial Business of Olympus are aimed at growth of the corporation. There are two business strategies for this segment. First strategy is product portfolio expansion. Basing on the customer industry categories and technologies and product categories, Olympus will strive to open up new customers and open up new business fields. Moreover, this strategy also involves focus on emerging and

developing countries, where the market and consequently demand for Olympus products is growing.

Second strategy is implementation of reform of the income and profit structure of the Life Science field, which will involve reduction of cost of goods sold and improvement of operating efficiency.

Imaging Business. For today, two strategies have been devised to address the proclaimed objective of restructuring the Imaging Business. The first strategy is to concentrate on mirrorless interchangeable-lens cameras and high-end compact cameras. The second strategy is to restructure the manufacturing process and carry out reform of the cost structure of devices.

Functional Strategies. Functional strategies of Olympus include the following: rigorous cost reductions, profitability improvements, increased investment in technology development, restructuration of subsidiaries and production sites worldwide.

Olympus Current Business Policies

The new management of Olympus, who took their office on April 2012, have set out three major corporate management policies of the company: Back to Basics, One Olympus and Profitable Growth.

Back to Basics. Back to Basic policy was devised to deal with the aftermath of recent Olympus scandals, the cause of which was the pursuit of income from investments in non-core business domains of the firm, namely equity. Thus, the Back to Basics policy was developed to bring Olympus back to its

initial mission – contribution to the development of society through new solutions and products.

One Olympus. The idea behind One Olympus policy lies in uniting all Olympus’s employees and staff worldwide under a common business strategy and encouraging teamwork and cooperation.

Profitable Growth. This policy simply proclaims Olympus intention to grow while earning profits.

Olympus Current Performance

Performance Indices

Results (FY ended March 2012)

Net sales

¥ 848. 5 billion

Operating income

¥ 35. 5 billion

Ordinary income

¥17. 9 billion

Net income

- ¥49. 0 billion

EBITDA

¥80.3 billion

Operating margin

4%

Ordinary income ratio

2%

Net income ratio

-6%

Net sales ratio

9%

Free cash flows

- ¥4.8 billion

Balance of interest-bearing debt

¥642.4 billion

Equity ratio

4.6%

Operating margin

4.2%

Return on invested capital (ROIC)

2. 7%

Table 1. Olympus current performance indices

Source: Olympus Corporation. Annual Report 2012

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Source: Olympus Corporation. Annual Report 2012

Research Question 2. Strategic Recommendations

Basing on the analysis above, several strategic recommendations are reasonable for Olympus to overcome its temporary crisis period and achieve financial superiority and growth of stockholders' value in long-term period. First, it is pertinent that Medical Business should become the main segment of Olympus production chain. Olympus possesses a competitive advantage over its closest rivals in this sector and holds the largest market share. Its medical devices contain the newest innovations and technologies available on the market and hardly any company can compete in this sector with Olympus. However, for the last several years the company has been deviating from this segment, investing in non-core business segments of the firm. This turned into the debacle for Olympus. Therefore, total reconstruction of the firm's operations should be conducted with the aim to bring an emphasis on Medical Business of the firm, which should become profit and growth generator. Life Science & Industrial Business, in its turn, will become an accompanying business, specializing in expansion of the

product portfolio in the industrial field and hence another source of growth. The task of the Imaging Business, as one of the three core business of the firm, should be development of new technologies and innovations and becoming a brand driver for the company.

Research Question 3. Mr. Michael Woodford, a Hero or a Traitor?

Recent Olympus scandal has been one of the biggest and longestraining lost-hiding arrangements in global corporate history since accounting and corporate scandals including Enron, Parmalat, Peregrine Systems, Tyco International, Adelphia and WorldCom. One of the main Olympus insiders, involved in the scandal and who actually was the one who exposed doubtful acquisitions of Olympus dated several years earlier, was British-born top-executive Michael Woodford, former CEO of Olympus. This led to missing of \$6.25 in assets, overall downturn of the company and great concerns regarding corporate governance in Japan. Although some people would aver that Mr. Michael Woodford acted as a traitor, I assert that his actions were extremely ethical and complied with the highest standards of corporate governance and information disclosure. Hereinafter I will provide some cogent arguments to support my point of view.

To start with, I would like to mention that ultimate aim of management of any company is growth of value for stockholders. In order to keep an eye on management actions, each publicly traded company has a board of directors, which defines strategy of the company, supervises management and ensures the protection of stockholders' interests. Management, as an

operational branch of corporate governance, is obliged to deliver truthful information regarding company's performance.

From accounting and corporate scandals in the U. S. and Europe which involved Enron, Parmalat, Peregrine Systems, Tyco International and several other big companies we have learned how distortion and hiding of information may make the companies concerned collapse and shook local and international securities markets. In order to avoid such shocks in future, many countries have adopted various standards and laws which regulate corporate governance, including the Sarbanes-Oxley Act in the US and UK Corporate Governance Code. Japan, however, has not adopted any similar documents and this is one of the major reasons why Olympus scandal emerged in 2011.

According to internationally-accepted standards of corporate standards and information disclosure, the behaviour of the former Olympus's CEO Michael Woodford was the only acceptable in the situation he faced with. Obviously, local peculiarities of Japanese corporate governance should be taken into account, however, from my point of view, Woodford acted in according to international business ethics standards. Olympus is an international publicly-traded company and therefore should comply with internationally-accepted ways of doing business. Furthermore, Olympus is responsible to its stockholders, who are interested in transparency of the business. Hence, Woodford's behaviour was ethical in all senses and was aimed to bring transparency to the company and protect Olympus stakeholders. Since Woodford did what all members of Olympus board could not do, I think that he is a hero for the company and should be brought back.

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The behaviour of top management of Olympus, however, was not ethical and, as said by Lindsay Whipp and Jonathan Soble, the management by itself was “rotten at the core” (Yasu, 2011). A twodecade scheme to hide losses from investment was maintained by the company’s top executives.

The Olympus scandal tells us that despite accounting and corporate scandals of the last decade, the tensions still remain in some countries, which have not adapted strict standards and codes of corporate governance. Japan is not an exception. The conflict between management and stockholders will probably last forever, however compliance with such laws as Sarbanes-Oxley Act, for example, will bring transparency to the activities of publicly traded companies. Management will have less space for financial machinations and distortion of information. This, undoubtedly, will create a more reliable system of corporate governance and management. Hence, adoption of strict laws which contain enhanced standards for all public company boards, management and auditors should be conducted in all countries where this has not been done yet.

If I were in the position to make a decision, I would definitely employ Woodford as a new CEO of Olympus because he has demonstrated himself as a responsible top-executive who has extremely high ethical standards. Although corporate culture in Japan is very peculiar, he managed to uncover one of the biggest and longestrunning lost-hiding arrangements in Japanese history. Despite this created great financial troubles for the company, loss of reputation and urgent need of restructuration, I believe that disclosure of this crime was essential for Olympus’s further growth and development.

Ultimately, to solve the issues of the Olympus scandal several vital steps should be undertaken. First, and this has already been done, new management structure should be introduced. Second, Olympus should be restructured and the foremost attention should be paid to the core businesses of the firm. Third, thorough re-branding of the company should be conducted to renew the reputation of the firm in the eyes of its suppliers and consumers.