



# Strategic Management

## SAMPLE

### Examination

Answer all FOUR (4) questions.

Clearly cross out surplus answers.

**Time: 3 hours**

The maximum mark for this paper is 100.

Candidates may bring an annotated copy of the case study into the exam and refer to it whilst answering the questions. They may NOT bring any other/ additional reference material into the exam.

## **YKK**

“The biggest brand you have never heard of.”

YKK shipped, on a global basis, around 9 *billion* units in 2016. Not bad for a company whose products are used by billions of people every day but which most people have never heard of.

### **Background**

YKK is a private company headquartered in Japan. It has three product groups; Fastening Products, Architectural Products, and Machinery & Engineering. The biggest of the three is the Fastening Products Group, on which this case study focuses. As of 2018, YKK has 111 subsidiary companies in a total of 558 locations across 73 countries, with over 45,000 employees of whom 40% are based outside Japan.

Within the Fastening Products Group, the most important product line is zips (or ‘zippers’ in the USA). YKK is estimated to supply around 45% of the total global market for zips. It has plants in over 70 different countries around the world in order to support that. The company was founded in 1934 by Tadao Yoshida (1908-1993) in Tokyo; YKK stands for Yoshida Kogyo Kabushikikaisha (which roughly translates as Yoshida Company Limited). The young Yoshida was a ‘tinkerer’, someone who makes small changes to things in an attempt to improve them, who designed his own customised machines for manufacturing zips when he became dissatisfied with existing production methods.

From the outset, Yoshida decided that the company’s business policy would be based on the “Cycle of Goodness”. It is said that he learned this from reading the biography of Andrew Carnegie when he was at school. In its Social and Environmental Report for 2016, YKK refers to the “Cycle of Goodness” as its philosophy, and states:

“An enterprise is an important member of society, and as such, it must coexist with other elements of society. Its value will be recognised by the benefits it shares with society. Tadao Yoshida, YKK’s founder, carefully considered this need for mutual prosperity as he planned his business endeavours. He determined that contributions to society could best be achieved by the continual creation of value through innovative ideas and inventions. The resulting business expansion would bring prosperity to consumers and trading partners, thus benefiting all of society. For example, if a more efficient machine can be developed, productivity will be enhanced; or, if the material loss rate can be reduced, lower cost in the final product will be attained while making the best use of limited resources. Also, Tadao Yoshida felt strongly that the fruits of these innovative idea must not be retained by any individual. Instead, they should be distributed widely to society, thereby circulating the benefit. In this way, one can prosper while making a contribution to the enrichment of all humankind. Tadao Yoshida called this the “Cycle of Goodness”, and he made this idea his fundamental philosophy. We retain this concept as the ongoing business philosophy of YKK.”

## Products

The range of zips that YKK offers is extremely wide. There are three main groups; metal, coil, and the 'Vislon' range. In the metal group, there is a choice of different metals and colour variations; there is the option of stronger zips, with thicker elements (teeth), and lightweight versions; there are options for different textures for the tape, marble finishes, water and airtight zips, and fire-retardant zips. The coil zips are made using spiral plastic elements instead of metal, and again the choice is extremely wide; the elements can be woven or knitted in to the tapes; they can be concealed; they can be soft, vertically stretching, water repellent, clear, or reflective; and they can be printed with patterns or logos onto the tapes. The Vislon group of zips are made with plastic elements, and options include metallic colours, transparent, luminescent, and waterproof zips. Depending on the specification, all the zip groups come in a range of different sizes (that is, width), and the length can be anything you want. Colours can be anything you want, again depending on the specification. The zips can be closed-end, open-end or two-way open. Even the 'basic' sliders come with a range of options – non-lock, automatic lock, semi-automatic lock, reversible, double-pulled and more.

## International aspects

From its base in Japan, YKK's first overseas operation was in New Zealand in 1959. This was followed shortly afterwards by the USA in 1960. At that time, the only orders that YKK could attract in the US were the zips that competitors were not interested in such as unusual designs or colours. However, over time, YKK gained a reputation for a service that was reliable, quick, and flexible. A notable boost to the brand, not only in the US, came in 1969, when the first man on the moon wore a space suit using YKK zips. The main competitor in the US (both in the 1960s and now) was Talon, who were responsible for inventing the zip. In those times, when the competitor's patents expired, YKK took the design, improved it, and then sold it at a competitive price.

YKK now has a truly global presence. As a consequence of being based in Japan, YKK was excellently positioned to take advantage of the trend by garment manufacturers from the 1980s onwards to move their manufacturing into Asia, and with its global presence, is well-positioned to take advantage of continuing shifts in where in the world garments are made. Inevitably, the major competition for YKK now comes from China, with over a thousand small manufacturers competing in the market. From YKK's viewpoint, these manufacturers use old technology; however, they do provide a source of low-cost competition. In order to compete in this part of the market, YKK has created a specific low-price brand, with the emphasis on price rather than its normal standards of quality. Those low-price competitors are not, however, able to compete with YKK for the business of the large multinational garment manufacturers such as Levi-Strauss, Adidas or Nike. In order to be able to supply those companies, YKK has to be able to ensure identical products and quality across all the different countries in which they manufacture; in the case of Adidas, that is 40 different countries.

In more recent years, the world's clothing and apparel industries have seen large changes in customer needs and shorter product life cycles as well as demands for faster, lower-cost production. Clothing and apparel manufacturers have increasingly seen it as important to react to changes in demand very quickly which can mean moving from the design of the garment to having it in the shops in a few weeks. Zip suppliers, as well as all the other raw material suppliers, have to be able to meet that expectation.

## Organisation Structure

YKK's global activities are organised on a "hexagonal" basis. This means that there are 6 regional groupings, comprising Japan, North & Central America, South America, EMEA (Europe, Middle East & Africa), East Asia and ASEAN & Oceania. (ASEAN = the Association of South East Asian Nations, and comprises [Indonesia](#), [Thailand](#), [Malaysia](#), [Singapore](#), [Philippines](#), [Vietnam](#), [Myanmar \(Burma\)](#), [Cambodia](#), [Brunei](#), [Laos](#)). Each of these regions has a regional headquarters. To take the example of the EMEA region, the headquarters are in London, with around 120 employees. That headquarters has responsibility for 28 subsidiaries across the whole EMEA region, and has 2 key roles; technical and operational assistance to the subsidiaries, and collection of risk and marketing information in the region.

These six regional headquarters liaise closely with YKK's headquarters in Japan. To take the example of some of the operations in Africa; there are 4 subsidiaries, in Egypt, Morocco, Lesotho and Tunisia. The *buyers* of the zips are mostly located in those countries, and hence YKK is endeavouring to be a 'local' supplier. The users of those zips are generally garment and apparel manufacturers, with most of the output from such manufacturers going to Europe (and Spain in particular), the output from Lesotho going mainly to the USA but also to Europe, and for Tunisia mainly to Europe and France in particular. The clothing and apparel from Egypt goes mainly to the USA and Europe. Although YKK is a global organisation, it is clear that it fits into the global supply chains involved in the clothing and apparel industries. The Egyptian plant focuses on a single type of product manufactured in large amounts for final customers in the USA.

Table 1 Information on 4 African subsidiaries

	Egypt	Morocco	Swaziland	Tunisia
Date established	1980	2005	1976	1997
Capacity (million zips/year)	69	50	83	20
Employees	128	60	201	52
Nationality of Chief Executive	Egyptian	French	Japanese	Japanese

(Source: Yamazaki, K. 2017)

Table 2 Regional data for YKK

	Japan	North & Central America	South America	EMEA	East Asia	Asean & Oceania	Total
Sales	56	7	2	8	15	14	100
Tangible fixed assets	54	5	1	5	18	16	100

(Source: Yamazaki, K. 2017)

Table 2 above demonstrates that over half of YKK's sales revenue comes from its operations in Japan which, perhaps, doesn't quite fit with it being a *global* organisation.

One part of the reasons for half of YKK's sales revenue coming from operations in Japan is a consequence of needing to manufacture in an efficient fashion, benefiting from economies of scale while *also* providing a fast and flexible service to its customers along with a bewildering choice of zips. In order to achieve the economies of scale, much of the *initial* production of zips (such as the elements (teeth), the sliders, coils, plastic components for the 'Vislon' range, etc., is undertaken in Japan. Those components are then shipped to YKK's manufacturing plants around the world. Each manufacturing plant then has a stock of components and part-finished zips ready for the final processes in accordance with what the customer wants. For comparatively 'standard' zips, the stocks might include large rolls of zip, which will need little more than cutting to length and fitting with sliders, etc. This system also allows YKK to respond to customer requirements very rapidly; in many instances, all of the components for a particular type of zip (whether it is metal or plastic, the width, colour, finish, type of slider, etc., etc.) will be immediately available at the plant, and there will be no delay while the components are shipped in.

An unusual characteristic of YKK is the high level of vertical integration that is involved in its operations. "YKK smelts its own brass, concocts its own polyester, spins and twists its own thread, weaves and colour-dyes cloth for zip tapes, forges and moulds its scooped zip teeth. YKK even makes the boxes its ships the zips in. And, of course, it still manufactures its own zip-manufacturing machines which it carefully hides from the eyes of competitors." (*slate.com*)

This means that YKK, for example, manufactures the majority of the metal and plastic components for the zips itself, and also undertakes the coatings and finishes. Furthermore, it designs and manufactures much of the equipment used in the production of the zips, including the equipment for the creation of the components. For example, it designs, manufactures, and then installs at its production plants around the world. the equipment and machinery for final manufacture of the zips. This helps to ensure equivalence of quality from all its plants, but also ensures the most efficient production processes are used at each plant.

Exceeding customer expectations has always been a primary objective of YKK but with a focused eye on the positive effect the company can have on society overall. This effect is demonstrated in environmental terms, but also in various aspects of corporate citizenship, across all of the company's plants in the different countries where they are based. As an example, YKK's plant in Anaheim, USA, has a solar electricity generating system that meets almost all of the plant's energy needs. At the heart of the company is the "Cycle of Goodness". YKK endeavours to create the best zips in the market, ones that will stand up to long periods of use in the final product. The benefit of that durability will be felt by the end consumer, but also by the apparel manufacturer (it is the apparel manufacturer that gets the blame for a faulty zip, not the zip manufacturer, in the eyes of the end consumer). That results in a benefit to YKK in higher repeat and referral sales, thus completing the "Cycle of Goodness". As one garment manufacturer said: "A zipper will never make a garment. But it can break a garment."

YKK is not just concerned with providing zips to its customers. It is concerned with providing *solutions*. YKK wants companies to come to it in order to identify the optimal solution to its zip requirements. Their reasoning is that because of the scale of YKK's operations, similar problems may well have arisen before and YKK may have a ready-made solution for any client requirement. If not, then YKK will be interested in finding a solution since that will result in another customer satisfied, more referrals, and another

product that can be sold to *other* customers. This approach creates another round of the “Cycle of Goodness”

## **Culture**

When Tadahiro Yoshida (Tadao Yoshida’s son) took over the business from his father in 1993, he saw the need to develop the “Cycle of Goodness” philosophy in a way that would resonate in an increasingly globalised world, and which would motivate individual employees to create new value. He therefore created the YKK Management Principle: “YKK seeks corporate value of higher significance.” The Principle states that the company should pursue quality in 7 fields; strive to satisfy customers, earn recognition from society, and be a company where employees are proud and happy to work. To achieve this, the company must strive for higher quality in products, technology and management. At the same time, the company must always maintain ‘fairness’ in all it does.

In 2008, after consultation with 15,000 employees, the company chose 3 sayings of Tadao Yoshida that would make the company stronger in future.

These are:

1. “Do not fear failure; experience builds success. Create opportunities for employees”
2. “Insist on quality in everything”
3. “Build trust, transparency and respect”

The company has regular workshops and discussions to make sure that every single employee embraces and truly lives both the Philosophy and the Core Values.

On many occasions, YKK’s founder said (when pointing his finger at leaders of the company): “Your job is *not* to maximise profits. Maybe you read that in some book or studied it at school, but that’s not your objective. Your objective is to fulfil the “Cycle of Goodness” in every sense.”

In YKK’s Japanese operations, part of every employee’s salary and bonus is saved internally. Through the employee share ownership plan, that part of the salary is accumulated in the form of share ownership and the employees become shareholders. As Philip Kotler commented: “YKK’s management style can be described as win-win-win-win. Many stakeholders including management, employees, suppliers and communities are tied in win-win relationships.” (*YKK Environmental Report 2016, p. 4.*)

## **Research & Development**

YKK Fujimodo in Japan is a YKK research & development centre, providing a base for the accumulation and exchange of technology, and the nurturing of development personnel. However, much R&D activity takes place elsewhere in the world but is linked back and forth to YKK Fujimodo. As of 2017, YKK Fastening’s development centres are situated in 22 locations around the world, employing around 800 people. The intention is to respond swiftly to customer requests, and carry out product development that is clearly associated with regions. Technology is seen as a key element of future growth, with YKK seeking to improve the *speed* of development of new products. The R&D activities are strongly influenced by “The Cycle of Goodness”.

“When you think of Japanese companies, things like Sony, Nintendo, Toshiba, Honda and Toyota come to mind, but never YKK. YKK makes incredibly dependable zippers, ships them on time without fail, offers a wide range of colours, materials, and style, and never gets badly undercut on price. The feeling in the apparel industry is that you can’t go wrong with YKK.”

*(Source: dosmagazine.com)*

References:

<https://slate.com/business/2012/04/ykk-zippers-why-so-many-designers-use-them.html?>

<https://dosmagazine.com/en/the-vibrant-history-of-ykk/>

*Yamazaki, K. 2017*

*Dosmagazine.com*

*YKK environmental report 2016*

**END OF CASE STUDY**

**Answer all FOUR (4) questions**

**The following questions are, in part, based on the YKK case study. You should base your answers on the information in the case study and your knowledge from studying the Strategic Management Unit.**

**Question 1**

**25 Marks**

Analyse YKK's strategic capability using Porter's Value Chain framework. What linkages in the Value Chain does YKK manage particularly well?

Assess the sustainability of YKK's strategic capability using the Valuable, Rare, Inimitable and Organisational Support (VRIO) framework.

**Question 2**

**25 Marks**

How has YKK responded to major changes in the macroenvironment and the industry environment that it has faced in the past, and how effective have those responses been?

What are the major issues currently facing YKK from the macroenvironment and the industry environment that need to be reflected in the company's future strategy?

**Question 3**

**25 Marks**

Analyse YKK's previous strategies using Porter's generic strategy framework, and the Ansoff Matrix. To what extent are these strategies appropriate for the future?

Analyse the approach to internationalisation that YKK has adopted and assess the extent to which that approach has been appropriate, and why.

**Question 4**

**25 marks**

Explain what is meant by the deliberate and the emergent approaches to strategy formation in organisations.

What balance of intended and emergent approaches to strategy formation has YKK adopted in the past? To what extent has that balance been appropriate, and why? How do you believe that balance should be changed for the future, and why?

**End of Paper**