

A RESEARCH PAPER ON “3M: CULTIVATING CORE COMPETENCY”**Dr. Mahesh U. Mangaonkar**

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Abstract:

The 3M Company is one of the largest manufacturers in the U.S which has been well known for its innovation and R&D. The 3M Corporation is a multinational conglomerate with six distinct operation segments: display and graphics, health care, safety, electro and communications, industrial and transportation, and consumer and office. Annual sales of these combined units for 2006 were approximately \$23 billion, with net income of \$3.851 billion. About 67% of 3M sales are generated outside the United States. Like many multi-national companies, 3M has been challenged to develop strategies that leverage their unique core competencies that will allow them to seize opportunities within the global market. However, 3M executives face a somewhat paradoxical challenge in that their unique corporate culture, which stresses sideways innovation where corporate entrepreneurship and informal collegial cooperation between departments, is embraced as a core value (Krames, 2005). Strategic initiatives, therefore, must complement this unique core competency.

Key words: 3M Company, strategies, core competencies, global market, core value.

1.1 INTRODUCTION:

Strategic analysis is important for every company working in this dynamic market and it has four parts, including key success factors, strategies, core competency-resources, and summary whether the case which is studying has sustainable competitive advantage or not.

From this analysis and by applying creativity will come a number of options and opportunities that can be used to build and implement a solid strategic plan for new or existing markets. Investigating strategies being used as well as core competency (s) gives the company a very good insight for future to take timely action and recover from those mistakes with which company has been in troubles

1.2 OBJECTIVES OF THE STUDY:

- 1) To do the SWOT analysis of 3M company.
- 2) To analyze the business level and corporate level strategies of 3M Company.
- 3) To know the core competencies and key success factors of 3M Company.

1.3 RESEARCH METHODOLOGY:

This is an exploratory research. The researcher has collected the information by using the secondary data source. The data is collected by referring books, newspapers, and websites.

1.4 SCOPE OF THE STUDY:

The present study uses the SWOT analysis technique to study the internal and external environment of the 3M Company. The functional scope of the study is related to understand the business level and corporate level strategies used by 3M to get competitive advantage in the market.

1.5 SWOT ANALYSIS OF 3M:

SWOT is a basic, straightforward model that assesses what an organization can and cannot do as well as its potential opportunities and threats .The 3MCompany - SWOT Analysis company profile is the essential source for top-level company data and information. 3M Company - SWOT Analysis examines the company's key business structure and operations, history and products, and provides summary analysis of its key revenue lines and strategy. The method of SWOT analysis is to take the information from an

environmental analysis and separate it into internal (strengths and weaknesses) and external issues (opportunities and threats)

- **Strengths:**

One of the most important strengths of 3M company is its diversification across so many industries and so many areas worldwide. Diversified businesses such as: industrial and transportation, healthcare, display and graphics, consumer and office, safety, security and protection services, and electro and communications. Accounts shown for around 30% of revenues grew 9.5% in 2007, and the next biggest division, Health Care, accounts for just over 16% of total sales. Each of the other four divisions account for an even lower percentage of total revenues. 3M is not slowing down in its diversification either; it acquired 16 different companies in 2007. One of 3M's strengths, its large research and development division, also represents a significant weakness for the company. 3M describes itself as a 'science' company, and as such, they must have a constant pipeline of new products coming to market to keep them on top of the most recent technological innovations. As such, this pipeline can represent significant liability for a corporation such as 3M if it turns out that one of their products that has been in development for a while does not work out another one is Solid revenue & profit growth, which has grown net income, revenue, and dividends consistently for the past five years, can do so because it is constantly developing new products and innovations. 3M employs over 7,000 researchers in its 35 different operations that have laboratories throughout the world. In the last five years, 3M spent over \$6.5 billion on research and development, with \$1.368 in 2007 alone. This huge investment into developing new products pays off because it keeps 3M at the top of the technological curve. It can and has led to the development of hugely successful new products, such as masking tape, that increase revenue for years to come. Over its century long company history, 3M has successfully filed over 500 patents. Other immediate strength of this company is the number of fantastic brand names it has license too, including such household favorites as Scotch Tape and Post-It Notes. This brand name recognition gives 3M an advantage in the stores when customers are deciding between competing products of similar quality; individuals

Will go with what they know. It also keeps customers from switching to different products. 3M is focusing on continuing to develop these enduring franchises, while at the same time focusing on emerging brand names, such as the new Filtrate brand air filters that are part of 3M's Consumer & Office business.

- **Weaknesses:**

The main weakness is high health care cost. Energy independence has the opportunity to propel growth. And other weaknesses of this company include: Low inventory turnover which impacts inventories and margins Weaker than expected performance in key segments Not as nimble as smaller, more focused competitors

- **Future Opportunities:**

The most important area for future growth of 3M is in its international operations. 3M does well internationally now, with 63% of 2007 revenue coming from areas outside the US. Even with these strong international sales, 3M is looking to expand even more outside the US, with 70% international revenue expected by 2010. 3M is focusing specifically on emerging markets, such as Latin America, Eastern Europe, and China, in which sales have been growing at an average of 20% over the last five years. In fact, nearly 30% of total revenue, or \$7 billion, comes from these emerging markets. Also another opportunity of 3M includes: Acquisitions in key operating areas, Continued global expansion, Rising healthcare spending in the US, and Security concerns with weaker economy in the US could present opportunities for 3M's security business.

- **Threats:**

The major threat is the housing crisis, which will lower growth and Rising commodity and energy prices,

Environmental regulations, other threats include 3M's susceptibility to international exchange rates. Since 63% of its revenues come from outside sources, strengthening of the US dollar against other currencies could lead to unexpected decreases in reported sales. 3M is also highly dependent on energy and raw material prices, and any unexpected changes which lead to lower supplies could raise the costs of natural resources such as oil and severely hurt 3M's future business development. Another major threat for 3M is the pollution costs it faces from litigation and cleanup. As recently as 2003, 3M was rated on the Political Economy Research Institutes list of 100 most toxic companies in the US, releasing 4.75 million pounds of air pollutants every year. Also 3M is a very diverse company, both by product and location, a large portion of revenues, 27%, still comes from the US. This is a dangerously high percentage because any major economic slowdown in the US, such as the one that happened in 2008, could have a substantial negative effect on 3M's revenue and sales.

1.6. COMPETITORS:

In the early 1920s, the corporation manufactured a line of sand papers, which it sold to several key industries. Its competitors offered similar products and sold to the same customers. In that era, 3M's strategy was straightforward: 'we will make a quality product at a fair price and sell it aggressively'. During the 1970s, a number of obstacles interfered with its growth and the company also lost the cassette tape market to two Japanese companies, TDK and Maxell, who were engaged in price cutting. 3M stuck to its traditional of banding markets where it could not set its own prices. Avery Dennison is one of the three top competitors. It's a global leader in the marketing of adhesive labels used on packaging. Second, Johnson & Johnson which is diversified health care and it is a competitor for 3M in health care segment. Third one Du Pont, one of the largest chemical companies in the world. In fact for 3M there isn't strong competitor because it is a diversified manufacturer and works in 6 segments without any conflict with competitors. 3M is first mover and innovator and the products which produce are unique and hard to imitate.

1.7. STRATEGIES USED BY 3M:

Current strategies of the Company have been mentioned in this part, including business level, competitive strategies and corporate level and been exhibited in tables of appendix in detail during the time.

1.7.1 BUSINESS LEVEL STRATEGIES OF 3M:

As the common business level strategies for staying in the market, including:

- **Differentiation:**

The 3M Company has been well known for its R&D as a result, it focuses more on the invention of brand new products to solve the problems of people. Then it turns invention to the innovation to exploit commercial goods that are different from the others. Since this company has had an innovation culture from the first few days till now so, almost all CEOs use differentiation strategy in business level.

- **Relatively Low cost:**

Another common business level strategy that the 3M Company is using is relatively cost leadership, not an absolute one. It could be asked as a controversial question why 3M has no absolute cost leadership with this big size and global presence. The answer is because the Company has a diversified business in at least six different areas and to be a cost leader in all of those markets is a big deal. Therefore, 3M has relatively low cost in any of the businesses it works.

- **Competitive strategy:**

Each company in competition with other competitors has some strategies that force them to take action or response to action of others that depend on many factors including: size, quality, being pioneer, market cycle, market dependence and so forth.

- **Big size yet flexible:**

One of the components of competitive strategy is size which specifies either a company is quick in

responses to the actions or it is rigid and inflexible. 3M is one of the biggest companies in the world since 1902 that is a globalized company with presence in more than 60 countries that verify its big size, but the Company is yet flexible because of diversified business. The company can take action very soon in any six markets which is working in because it is not that big in those businesses and the strategy has been to keep the eggs in different baskets not just in one basket.

- **Quality of product:**

Like most of Japanese Companies, 3M offers high quality products that because customers be willing to pay more on high quality products. The more quality it has, the more profit it can earn. Quality control is not enough, however it is necessary to makes a brand well known to be zero defects and it makes 3M different and is a kind of non-price competition. 3M has been solving peoples problem with innovating products with high quality that been given people durability, good performance and so on.

- **First mover (Innovation):**

To be first or second or late mover increase or decrease the likelihood of attack and response. Small firms are flexible and quick in taking action, while big Companies cannot response quickly to the actions. Being first mover in many markets has made 3M to gain the loyalty of customers as well as market share because the Company has been allocating around \$1 billion in product innovation and development, advertising and advanced research and development.

- **Positive reputation:**

Reputation is one of the negative or positive attribute ascribed by one rival to another based on past competitive behaviour. 3M again with its problem solving has a good reputation, good brand image and good positioning that out stands it from other competitors.

1.7.2 CORPORATE LEVEL STRATEGIES OF 3M:

Corporate-level strategies address the entire strategic scope of the enterprise. This is the big picture view of the organization and includes deciding in which product or service markets to compete and in which geographic regions to operate. For multi-business firms, the resource allocation process²how cash, staffing, equipment and other resources are distributed²istypically established at the corporate level.

- **Value creating diversification:**

Among three different kinds of diversification-including value creating, value neutral and value reducing diversification- 3M has value creating diversification in which it is looking for to collect profit more than average return. The level of diversification in 3M is high as well as related that means less than 70% of profit comes from the dominant business however they have share their competencies in many cases we cannot call it a related diversification because 3M is working in six completely different businesses. E.g. Pushing research staff to work more closely with marketer is due to value creating diversification.

- **Poor management of inventory:**

As mentioned in previous part, a company can have operational relatedness when they can share their activity whether it is primary or support. From the primary stage, managing the inventory for a diversified company is critical; 3M cannot have good inventory management due to unrelated diversification though.

- **Downsizing:**

With lying off 6500 of its employees, 3M did downsizing so that it can balance its R&D intellectuals however it has been more down scoping rather than downsizing to put an end on those ideas and businesses where 3M could not earn more than average return.

- **Acquisitions:**

The single biggest component of Buckley's strategy that requires attention is his acquisition strategy, primarily because it is a diversion away from the goal of tapping core competencies to achieve growth. 3M's acquisition experience is limited, and the company's competency at successfully acquiring technology

is not yet fully developed. The use of acquisitions to satisfy strategic goals is well-chosen. Acquisitions offer 3M a low-risk, cost-effective way to develop new products, build technology; rapidly access markets and meet expectations for sustainable growth. However, the success of acquisitions can be tampered by integration difficulties, excessive debt, and the inability to achieve synergy. 3M's use of strategic licensing and investments in small technology companies that readily tuck in to their existing businesses can protect the company from common problems that interfere with successful acquisitions. This cautious approach also fits with the company's conservative values. Targeting acquisitions to fill openings in geography and channel capacity is consistent with the company's other strategic efforts and should provide synergy when acquisitions are complementary to the company's core businesses and capabilities.

1.8 CORE COMPETENCIES OF 3M:

3M's core competencies including tangible and intangible and value chain are as follow:

- **Tangible:**
 - Formidable organizational culture
 - One of the first R&D departments
 - Patent purchasing in 1921
 - Multinational company
- **Intangible:**
 - Invention
 - Superior technology platforms
 - Superior manufacturing process capabilities
 - Know-how
- **Value Chain:**
 - Superior operational process
 - Rapid advancements in technology well-aligned to external environment
 - Very intellectual HR in R&D department
 - Good customer relationship (CRM) particularly in recent years
 - Poor management of inventory

1.9 KEY SUCCESS FACTORS OF 3M:

The first part of strategic analysis is investigating success factors which has made the company different from the others work in the same field; they have blind point and weaknesses though. The case that has been investigated is 3M and its success factors are existent in the case objectively. The 3M Company has a formidable strength to its unusual corporate culture that feed innovation and interdepartmental cooperation with back up of 1 billion dollar annually and as a result, it is leader in many technologies. For example, pressure sensitive tapes, sand paper, protective chemical, premium graphic and so on. Like any other successful companies in the world, 3M has many success keys that out stand it from other companies, including product development, founder and leader in many technologies, Strong knowledge, innovative products globally, Strong R&D with \$1 billion budget per year, Innovative culture, adjacency lattice, Interdepartmental cooperation, operation in multiple industries and so on that are exhibited in appendix A in detail extracted from the case study of 3M in different CEO's periods.

1.10 CONCLUSION:

The paper provides an extensive definition of 3M's core competency, which is based on its invention and manufacturing capabilities to solve and deliver unique solutions for industrial and commercial customers. The company's technology platforms hold together its diverse business activities. According to Buckley, 3M's fundamental core competency is in applying coatings to backings, processes

which were both developed internally.3M an edge over its competitors: low cost, scale and relative share, customer value chain, pristine service, and premium brands.

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