**SANYO SHAKAI: AFTER LOSING THE BURBERRY LICENSE WHAT’S NEXT?**

**Introduction: Sanyo Losing Burberry**

Masahiko Sugiura, President of Sanyo Shokai, one of Japan’s leading textile/clothing manufacturing firms appeared to vacillate between remorse, reflection, and optimism as he prepared for a major company public announcement. In the letter to shareholders, Sugiura wrote "For half a century, we have continued to dramatically improve Burberry's brand value and recognition.  We wish Burberry's further growth and development.  We take this opportunity to make a new beginning on growth.  We will aggressively invest in Blue Label and Black Label (without Burberry's brand name), other existing and upcoming projects.  The impact (of losing Burberry) will be rather small, and it won't be necessary to revise the financial projections for this fiscal year of 2014 (An announcement, 2014)."

On May 19, 2014, Sugiura announced that Sanyo Shokai (Sanyo) and Burberry Ltd. would end their long-lasting licensing agreement in June 2015 that allowed Sanyo to manufacture and sell women’s, men’s, and children’s clothing in Japan. The following day, Sanyo’s stock price declined from 310 yen to 210 yen (Sanyo Shokai, Burberry ni kawaru, 2014). Sugiura was concerned about losing their 20 year-long licensing agreement and 45 years of collaboration with Burberry because Burberry products were a large part of his company’s sales and reputation in the retail industry. Burberry was a prestigious, high-status, global brand and Sanyo operated over 350 Burberry boutiques, mainly in department stores throughout Japan (Hata, 2014).

In addition to trendy young Japanese consumers, Chinese tourists flocked to Japanese department stores to purchase this exclusive brand of Burberry clothing and accessories (Ohnishi, 2014). Industry reports indicated that over 50% of Sanyo’s sales and the majority of its profits were made with Burberry labels (Ohnishi, 2014). Industry observers raised questions about Sanyo’s marketing strategy in a changing global business arena. They also questioned the changes in Burberry’s leadership, brand strategy, and licensing strategy in the retail industry (Minami, 2014).

After Sugiura’s May 19 announcement and marketplace reactions, he reflected on what might have gone wrong in the long relationship with Burberry. Although he was conflicted, Sugiura tried to stay optimistic about the future of his company.

**The Evolving Relationship and Dilemma**

Burberry had a storied history and was a global brand. The firm’s Key Events Timeline showed the evolving relationship between Burberry and Sanyo Shokai (see Table 1).

Table 1. Sanyo Shokai Key Events Timeline

|  |  |
| --- | --- |
| Year | Key Company Events |
| 1942 | Nobuyuki Yoshihara founded the company. |
| 1965 | Started importing Burberry coats |
| 1970 | Signed a licensing agreement with Burberry |
| 1996 | Launched “Burberry Blue Label” |
| 1998 | Launched “Burberry Black Label” |
| 2009 | Stacey Cartwright amends agreement to end in five years. |
| 2014 | The agreement with Burberry was terminated. |
| 2015 | Launched “Mackintosh London,” “Blue Label Crestbridge,” and “Black Label Crestbridge” (to replace Burberry Blue Labe and Burberry Black Label) |

(Source: https://www.sanyo-shokai.co.jp/en/company/corporate/history.html)

In addition to its own brands, Sanyo Shokai designed and manufactured products that were sold with Burberry labels for the Japanese market. Sanyo Shokai and Burberry Ltd. signed a 20-year licensing agreement. Sanyo Shokai introduced Burberry Blue Label for young women. When the popular singer Namie Amuro said she liked to wear Blue Label, the brand became a staple for college students and businesswomen in their twenties and thirties (Sanyo Shokai, Burberry ni kawaru, 2014).

Following the success of Blue Label for females, the company introduced Black Label for young male consumers. Both labels were made in Japan, and the prices were about half the price of regular Burberry merchandise.

On October 2, 2009, Stacey Cartwright, CFO of Burberry, announced an amendment to the agreement to end five years early. The license agreement would now expire in June 2015 (previously 2020). Burberry would receive higher royalty payments than previously planned, which would increase operating profit to Burberry by approximately four million pounds (Bloomberg, 2009).”

Sanyo Shokai lost the license to manufacture Burberry-labeled children’s clothing (Minami, 2014). This series of events culminated with the May 19,2014 announcement that Sanyo Shokai and Burberry Ltd. would end their long-lasting licensing agreement to manufacture and sell women’s, men’s, and children’s clothing in Japan effective June 2015.

As Masahiko Sugiura reflected on the evolving relationship between Sanyo Shokai Burberry that resulted in the termination of the long-term licensing agreement, he wondered was there life after Burberry?

Immediately after the amendment in 2009, Burberry opened its first company store in Japan, and within four years they opened fourteen company stores. The CEO of Burberry, Angela Ahrendts, developed a global strategy to standardize the brand image. Since Ahrendts tried to position the brand as a luxury brand, she was not happy with the half-priced Blue Label and Black Label. She also wanted to control global retailing. In 2010, she successfully converted franchising stores to company stores in Spain (Hata, 2014). The announcement about the termination of the licensing agreement did not surprise industry analysts.

Sanyo Shokai would continue Blue Label and Black Label. Neither brand could use the Burberry brand, name or trademark. However, the company agreed to pay a licensing fee for using Burberry’s micro check pattern (not the famous larger Burberry tartan check) for three years. An analyst at Exane BNP Paribas said this move looked like a patch up (Sharman & Robinson, 2014). Sanyo employees were quite unhappy about the agreement on Blue and Black Labels. They thought the Labels without Burberry name had no competitive advantage. They also could not understand why the firm had to pay a licensing fee just for the check pattern (Burberry ni nigerareta, 2014).

**Industry Background**

The high-end fashion market could be divided into two classes, luxury, and premium. Luxury brands include Gucci, Louis Vuitton, Christian Louboutin, Hermes, Rolex, and others. Gucci sneakers and Louboutin’s famous red bottom high-heels cost over $1,000. Prices of Hermes and Louis Vuitton handbags could well exceed $10,000. Even a low-end Louis Vuitton tote bag cost over $1,000. When it came to Swiss watches, the sky was the limit. They could cost over $1 million. The low-end Rolex watch was over $5,000. Premium brands were more accessible. Calvin Klein, Tommy Hilfiger, Guess, and Diesel were among the most popular premium brands.

The size of the luxury and premium fashion markets combined was $375 billion in 2013 and expected to exceed $480 billion by 2020 (Premium products, 2018). Although the US and Europe remained the largest markets with $149 and $124 million in sales respectively, China was the fastest growing market for luxury fashion (Premium products, 2018). Chinese consumers accounted for 32% of the global personal luxury-goods market in 2017, increased from 12% in 2008 (Chinese luxury, 2017). The market share was projected to reach 44% by 2025. Chinese consumers were expected to spend approximately $150 billion (Chinese luxury, 2017).

Table 2. Market by consumer nationality (2017)

|  |  |  |
| --- | --- | --- |
| 1 | Chinese | 32% |
| 2 | American | 22% |
| 3 | European | 18% |
| 4 | Other Asian | 11% |
| 5 | Japanese | 10% |
| 6 | Rest of the World | 7% |

Source: (Bain and Company, 2017)

The largest luxury fashion company was LVMH Moet-Hennessy-Louis Vuitton SE with $23 billion in luxury goods sales in 2016. The company owned Lous Vuitton, Dior, Fendi, Givanchy, Kenzo, Loewe, Marc Jacobs to name a few. Kering S.A. that sold $9.4 billion of luxury goods followed LVMH. Kering held Gucci, Balenciaga, Brioni, Saint Laurent, and others. Ralph Lauren and PVH (Calvin Klein and Tommy Hilfiger) sold about $6.6 billion each. Burberry Group plc. sold $3.6 billion although the company had only one brand (Deloitte, 2018).

**Burberry History and Company Background**

It usually took a considerable amount of time to establish a major retail brand such as Burberry (Grailed, Inc. [US]. History of Burberry’s check (N.D.) and Burberry’s management was concerned about brand dilution. When Angela Ahrendts took the helm as CEO of Burberry in 2006, she believed Burberry’s external focus on the competitive luxury clothing and leather goods space had led it to neglect the company’s core strength in iconic outerwear (Forbes, 2013). Ahrendts began a six-year campaign of factory closures, layoffs, leadership shake-ups, and a re-invention of the famous brand (Forbes, 2013). However, termination of licensing agreements with established partners was a risk.

Termination of the licensing agreement with Sanyo Shokai was a rocky road for Burberry as well since it would lose 350 outlets in department stores. In addition, it would lose the licensing fee, which was estimated to be worth over 60% of the total licensing income or 12% of earnings before interest and taxes. (Hata, 2014; Sharman & Robinson, 2014). Burberry would start with 14 stores they owned and 50 children’s clothing stores, which would be transferred from Sanyo Shokai (Business Journal, 2014). Burberry Japan planned to increase sales from 4.2 billion yen in 2013 to 17 billion yen in 2018.

**Sanyo Company Background**

At the end of 2013, Sanyo Shokai’s sales exceeded 106 billion yen (about $1 billion). The executives expected the sales would decline to 85 billion yen or by 20% with an operational loss of 2 billion yen in 2016 (Hata, 2014). One industry observer indicated the President Masahiko Sugiura told him in an interview that it would take five years for Sanyo to plug the gap that loss of the long-standing licensing agreement with Burberry created (Rudlin, 2014). Sanyo management was aware that sometimes “doing nothing” was the best change management strategy because markets sometimes correct themselves and problems go away but modern management practices suggested more proactive approaches (Mitroff, 2005 Pearce & Robbins, 2008; Kotter,2012; Yakola, 2014). Hence, Sanyo management concluded their projected financial and market deterioration might reach a crisis unless strategic changes were made inside and outside Sanyo.

The company also projected 2018 sales to reach 100 billion yen. The executives expected sales to be recovered to the same level as 2013 (Burberry naki ato, 2014). They planned to generate 65 billion yen with three other licensed brands, Mackintosh, Paul Stuart, and Epoca. Blue Label, Black Label, and other brands would bring the rest. Sanyo Shokai was planning to convert their 350 Burberry boutiques for those brands, although department stores might not agree to extend the lease agreements. There was a rumor that some department stores had already started negotiating with Sanyo Shokai’s competitors (Hata, 2014). After the announcement, Mitsubishi UFJ Morgan Stanley Securities published a report titled “Good bye Burberry,” which said the projection was too optimistic. Other industry experts predicted those three brands together would generate only 25 billion yen (Burberry ni nigerareta, 2014).

**Retail Licensing Agreement in Japan**

Licensing was a popular entry strategy for foreign firms during the 1970s. The Japanese economy was rapidly growing. However, it was not an easy market to enter since the government heavily regulated the retailing industry to protect small businesses. Also, the multi-level distribution system was too complicated for foreign firms to break into. Japanese retailers and wholesalers were reluctant to do business with companies that had no prior relationships. Therefore, foreign firms needed to rely on Japanese master distributors or licensees to enter the market. Almost all the car manufacturers had a master distributor in Japan, including Mercedes Benz, BMW, Audi, Volkswagen, Volvo, and others. All of them established their own dealer network after learning how to do business in Japan.

Licensed manufacturing of apparel products was also popular in the 1970s. Many designer brands terminated the agreements in the 1990s since they wanted to control branding. During the last decade, licensed manufacturing had decreased by 30% (Takahashi, 2014). When Descente Ltd. lost Adidas in 1998, sales declined by 40% from 100 billion to 60 billion yen. It cut 30% of its labor force. In 1997, Christen Dior terminated a 33-year-old licensing agreement with Kanebo. Its fashion business shrank by 40% (Burberry ni nigerareta, 2014).

Japan has produced global brands in the automotive and consumer electronics industries. Honda, Toyota, and Nissan even launched luxury brands: Acura, Lexus, and Infiniti. However, in the luxury fashion market, Japanese brands were almost non-existent. Kenzo, Kansai, Issei Miyake, Yoji Yamamoto, and Comme des Garcons were a few exceptions, but they were not in the same league as other European or American brands. The irony was Japan was one of the biggest luxury fashion markets.

**Management Challenge**

Prior to President Masahiko Sugiura’s May 19, 2014 announcement, the top management at Sanyo Shokai believed they had a workable relationship with Burberry and Sugiura was confident the long-standing licensing agreement would be renewed in 2015. Although the Sanyo Shokai management seemed to be surprised that Burberry did not want to continue the licensing agreement. Industry observers saw Burberry opening their own stores in Japan, Sanyo losing the license to manufacture Burberry labeled children’s clothing, and failure to renegotiate the licensing agreement in 2009 as signs of a deteriorating relationship (cite). These industry observers indicated the new Burberry CEO that emphasized refocusing control over the Burberry brand, the undisciplined global pricing that confused customers, the changing nature of licensing agreements in the retail industry as contributing factors to the decline of the relationship.

Sugiura made the May 19, 2014, public announcement concerning the termination of the agreement with Burberry in 2015 and he spent time reflecting on what he could have improved in the relationship before developing a new Sanyo marketing strategy. Hence, the industry and marketplace reactions to the termination of the licensing agreement seemed to move Sugiura, from complacency to contemplation and finally action. Sugiura wondered whether the global business environment placed Burberry and Sanyo Shokai in an incompatible situation? Furthermore, did industry licensing agreements make a longer-term relationship between Burberry and Sanyo Shokai unlikely? On the other hand, he pondered whether the Sanyo Shokai marketing mix was ineffective in this luxury banded product space? Masahiko Sugiura believed that objective analysis and well-thought-out answers to these questions would provide a blue print to improve current and future business relationships as well as move his company forward.

What analysis should President Sugiura make to understand better the major factors that contributed to the termination of the licensing agreement with Burberry effective 2015 and improve the likelihood that Sanyo would survive and prosper?

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**Teaching Note**

**SANYO SHAKAI: AFTER LOSING THE BURBERRY LICENSE WHAT’S NEXT?**

**Overview**

On May 19, 2014, the president of Sanyo Shokai announced that the firm would end its 40-year-old licensing agreement with Burberry Ltd. Sanyo Shokai designed, manufactured and sold women’s, men’s, and children’s clothing under the Burberry label in its own retail outlets in Japan. It operated over 350 Burberry boutiques. They needed to convert or close all of the boutiques by June 2015. Over 50% of the company’s sales and the majority of profits were made with Burberry labels. Although the executives were confident to make up the losses with other licensed brands, the stock market did not agree, and the stock declined by 30%, from 310 to 210 yen per share. This descriptive case ends with the president mulling over what factors might have caused Burberry to terminate the long-term licensing agreement and what actions should be taken to make sure the company rebounds.

**Research Method**

The information contained in this descriptive case was gathered from secondary sources. The names of individuals, the firms, or their locations, et al. are not disguised.

**Learning Outcomes**

After reading this case and answering the questions, a student should be able to:

1. Evaluate the importance of a global/standardized positioning strategy for retail in today’s global business environment.
2. Analyze changes to firms that lose partnership agreements in the global business environment.
3. Analyze the importance of licensing agreement for high-status labels in today’s global business environment.
4. Compare the roles that strategy and leadership play in the decline of global business relationships.
5. Determine viable turnaround options for global retail firms in distress.

**Discussion Questions**

What changes in the external business environment were major contributors to Burberry’s termination of the long-standing licensing agreement with Sanyo Shokai? (LO1)

What elements of Sanyo’s marketing strategy (marketing mix) contributed to

termination of the long-standing licensing agreement between Burberry and

Sanyo? (LO2)

What changes in the retail industry licensing agreements and the specific agreement between Burberry and Sanyo led to the termination of the long-standing agreement?(LO3)

1. Which actions should the Sanyo management propose and take in 2015 to give the firm the best opportunity to survive and prosper?(LO5)

**Answers to Discussion Questions**

**What changes in the external business environment were major contributors to Burberry’s termination of the long-standing licensing agreement with Sanyo Shokai? (LO1)**

Burberry appears to follow a classic pattern of market entry and internationalization: first direct export, then sell through agents, representatives, set up franchises, then establish a partnership or joint venture, and finally move to a direct investment in a wholly-owned operation. This way a firm can, at first, gain knowledge and experience in an unfamiliar overseas environment. To be sure, in the initial stages, revenues and profits must be shared with second parties. But eventually, with the elimination of the second parties, the firm can reallocate revenues and retain more profit.

The case appears to follow this classic pattern. Also, consider that the success and failure of joint projects often revolves around asymmetric relationships. Japan was, and remains, an attractive market for foreign luxury brands. But it’s also a difficult market for non-Japanese firms to break into. The distribution system is extremely complex with multiple inter-locking relationships that are designed to keep unknown—and unwelcome--newcomers out. Thus, for an outsider knocking on the door to come in, a foreign firm needs a strong Japanese domestic partner. In other words, at the beginning, Sanyo held the upper hand—without Sanyo, Burberry would not be in the market.

But once in, Burberry could devote resources to becoming well known and establishing a luxury market presence. The power relationship could change—over time Sanyo would need Burberry more than Burberry needed Sanyo. Burberry, now in a stronger position, sent strong signals that their relationship with Sanyo Shokai was eroding. Why Sanyo Shokai’s executives missed the signals is unclear. From the reaction of business analysts looking at this case—and from the reaction of the stock market—it would appear that Sanyo’s executives were both myopic and overconfident.

Today, no luxury brand can be successful without China. As mentioned in the case, the share of Chinese consumers will account for 44% of the luxury fashion market. Although Japan was a key market for Burberry, it China had a higher priority.

Maintaining the high-end image was extremely important for Burberry. Although Blue and Black Labels developed for Japanese consumers generated lots of cash for both the licensor and licensee, Burberry could not afford to tarnish its brand image with half-priced Burberry products. There were an increasing number of Chinese tourists visiting Japan. Also, the information travels around the world through the Internet. It was impossible to isolate the Japanese market.

**2. What elements of Sanyo’s marketing strategy (marketing mix) contributed to the termination of the long-standing licensing agreement between Burberry and Sanyo? (LO2)**

For brands—especially brands that aspire to be in in the luxury category—having a consistent global marketing strategy is a plus. It enhances the perception of quality, luxury, and prestige, increasing the desirability of the brand. It also establishes brand identity: think of Apple and the iPhone. A consistent strategy helps maintain control of the message. And by having a consistent message, you can achieve cost-lowering economies of scale in the marketing mix.

And when we come to luxury goods, be aware that the market for such goods is both small and global—small in terms of the number of consumers with high disposal income, but global in the sense that prestige brands cross borders. Your targets are the international travelers in first class, not the folks in the back of the local bus — consistent messages on a global scale count.

On the other hand, a global brand positioning strategy has to be flexible. It shouldn’t be locked into the “one message fits all” approach. You should exploit opportunities—and be aware of dangers—afforded by the cultural milieu of target audiences. Promoting travel goods in China in the run-up to the Chinese New Year holiday make sense—millions of Chinese hit the road during the holiday. But ignore cultural differences at your peril: most of the famous international marketing disasters—like the failure of the “Nova” automobile in Latin America—can hit the ethnocentric firm hard.

It is important to understand and respect the customers’ culture. In November 2018, Dolce and Gabbana, an Italian luxury brand, made fun of Chinese culture in its promotional video. In the video, a Chinese model had trouble eating pizza with chopsticks. It infuriated Chinese consumers. Critics called the ad “disrespectful and racist (CNN, 2018).” Stefano Gabbana, the co-founder, made an offensive comment on Instagram in the middle of the uproar. Although the founders made an official apology, the damage had been done. A fashion show was cancelled. Major e-commerce sites removed all Dolce and Gabbana products. In addition, the video was viewed by millions of people all around the world.

**3. What changes in the retail industry licensing agreements and the specific agreement between Burberry and Sanyo led to the termination of the long-standing agreement? (LO3)**

First, the kind of licensing agreement Burberry and Sanyo Shokai entered into is common in the fashion/apparel industry. For example, Luxottica Group S.p.A., the world’s largest eyewear company that owns Ray-Ban, Person, Oakley, and others, manufactures sunglasses and prescription frames under license for Chanel, Prada, Giorgio Armani, Burberry, Versace, Dolce and Gabbana, Ralph Lauren, Tiffany & Co., Donna Karan, Stella McCartney, Tory Burch among others (Luxotica Home Page, 2018)[[1]](#endnote-1).

G-III Apparel Group, Ltd. is another example. G-III is a leading manufacturer and distributor of outerwear, dresses, sportswear, swimwear, women’s suits and women’s performance wear, as well as footwear, luggage and women’s handbags, small leather goods and cold weather accessories, It markets own brands, such as Donna Karan, Vilebrequin, Andrew Marc, and G.H. Bass, and over 30 licensed brands including Calvin Klein, Kenneth Cole, Cole Haan, Guess?, Tommy Hilfiger, Levi’s, Dockers, Jessica Simpson, Vince Camuto, Ellen Tracy, Kensie, Mac & Jac, Jones New York, Ivanka Trump, and Nine West (G III Home Page, 2018). The firm’s tasks include designing, manufacturing and distributing of the licensed products[[2]](#endnote-2). According to Morris Goldfarb, CEO of G-III, designers of the firm design products with the licensor’s review (Lockwood, 2016).

Advantages and disadvantages for licensors

Advantages:

* Since the licensee invests most of the capital to start the business, the licensor does not have to assume financial risks.
* The licensor does not have to be involved in marketing operations including promotion, sales, logistics, and others in the host country.
* The licensor can save time to launch its business or brand. It does not have to acquire the knowledge or build relationships with the local market. The licensee with local expertise is responsible for adaptation and customization of the products.
* Since the licensor makes little capital investment, it can withdraw from the market relatively easily.
* The licensor can use the experience as a beachhead to enter the foreign market.

Disadvantages:

* The licensor has to give up the tight control over manufacturing and/or marketing activities. Although both parties communicate on a regular basis, and the licensor visits factories and stores periodically, it is still difficult to monitor daily activities in the local market.
* Manufacturing and marketing know-how is transferred to the licensee. The licensee may start its own business after learning the necessary expertise and experiences.
* Global strategic implementation can be constrained by the licensing agreement. Maintaining standardized positioning or product portfolio can be challenging.
* The licensee, not the brand, may develop relationships with local channel members and possibly consumers.

Advantages and disadvantages for licensees

Advantages:

* The brand has already been well known. The licensee could utilize the brand equity to break into its home market.
* Since the licensee could build relationships with its channel members, it could cross-sell other products they manufacture or purchase from other manufacturers.
* Since global marketing and branding strategies are developed and implemented by the licensor, the licensee does not have to invest in branding as much as their own brands would require.

Disadvantages:

* A licensee cannot have full control over the marketing mix.
* Contract renewal may be difficult regardless or the licensee’s performance. If the performance is poor, the licensor won’t be interested in extending the agreement. If the brand spreads successfully in the market, the licensor may want to terminate the agreement to gain full control of the market and to maximize profits.
  + A licensee is required to sell an agreed amount of products. Otherwise, it will be financially penalized.
  + After the market is fully developed, the licensor may establish its wholly owned subsidiary or work with another firm.
* Customers are most likely to become loyal to the brand, not the licensee.

Sanyo Shokai was extremely dependent upon Burberry’s business. The executives should have foreseen the possibility of losing the brand, but they were overconfident about the relationship with Burberry. Business history shows that licensees of prestige brands can lose them: before Sanyo Shokai lost Burberry, the importers of German automobiles (BMW, Audi, and Mercedes Benz) all lost their licensing (master franchising) agreements; Descente lost Adidas; Onward lost Ralph Lauren, and Kanebo lost Dior, among other similar cases.

It is not clear why Sanyo Shokai agreed to amend the contract. The term was shortened by five years. It was an obvious sign to anyone that Burberry wanted to exit the relationship. One could argue that Sanyo Shokai should have never agreed to the amendment. Certainly, the company could have used the extra time to prepare for the loss of agreement.

Sanyo Shokai agreed to pay for the use of the micro check patterns (they are not the same as the Burberry tartan pattern that customers are familiar with) for three years. It is not hard to imagine that the patterns without the brand name or the knight-and-horse brand mark have little value to the customers. Sanyo Shokai’s negotiation style or skill appears to be very questionable.

It perilous to convert 350 outlets from the famous Burberry brand to virtually unknown labels: Mackintosh, Epoca, and Paul Stuart. Considering their low brand equity, there is a slim chance to generate similar sales as the firm did with Burberry. Even if Sanyo Shokai successfully develops the market for the licensors, Sanyo Shokai could lose the brands, customers, sales, etc. just like Burberry. Rather than being a licensee, the firm could acquire an established brand or a fashion company.

Mackintosh is a British brand, but Yagi Tsusho Ltd. of Japan owns the firm. Paul Stuart was founded in New York City, and it has been sold to a Japanese general trading firm, Mitsui. Direct investment has many merits over a licensing agreement. The firm gains complete control over operations. It will be free from the fear of losing the brand and business. Moreover, the firm will be more desperate and motivated to foster the growth of the brand.

Sanyo Shokai has the knowledge, experience, facilities, and other resources to design, manufacture, and sell the first quality apparel products. Although their bread-and-butter business is to sell licensed products, they should focus on marketing their own brands. Sanyo Shokai is a well-known name in the fashion industry. They have sufficient resources including the network with major department stores and media companies to build a household brand name. A popular singer, Namie Amuro, made Burberry Blue Label a household name in Japan. Why wouldn’t Sanyo Shokai make similar efforts for its own brands?

Students may suggest that Sanyo Shokai could have sold 350 retail outlets to Burberry. However, it does not appear to be realistic. First, Burberry was not interested in the scale. Regaining exclusivity was more important than maintaining sales. Burberry may want to secure the prime locations, but they are important for Sanyo Shokai’s new business as well.

As the global market has converged, many companies have tried to standardize their branding and marketing strategies. They prefer a unified brand image in every market to a unique image in each market. Burberry was not happy with the half-priced Blue and Black labels despite of their financial contributions. Burberry felt these private labels would tarnish their luxury image. Although the business in Japan was already large, Burberry needed to regain control of its marketing efforts.

Exclusivity is considered one of the most important factors to maintaining the value of luxury brands. According to Mizukoshi of Yano Research Institute, Ltd., Burberry gave up Japan’s middle-class mass market that generated 100 billion yen in sales to reposition the brand. Burberry would re-launch the brand with 16 stores with 4 billion yen sales (Burberry wa, 2015). Burberry did not want super-rich Chinese and other Asian consumers to buy half-priced Burberry Blue Label or Black Label in Japan.

Craig Johnson, president of research and consulting firm Customer Growth Partners, said, “We’ve seen this movie before — an accessible luxury brand that lost sight of the key element of a luxury brand: the value of scarcity. Whether you are Coach or Kors or Ralph Lauren, once the brand overly expands its distribution to the point it becomes ubiquitous, it loses its exclusivity. And once a luxury brand is available in lesser forms — whether “Lauren by Ralph Lauren” or with the made-for-outlet quality for the outlets — it risks diminishing the brand’s cachet. Larsson’s efforts to trim the sails and restore the ship to its true heritage and heading are spot-on (Staff writer, 2016).”

Ashley Lutz also reports, “companies like Ralph Lauren, Coach, and Michael Kors had disappointing earnings, and share prices fell recently because they all opened too many outlet stores (Lutz, 2015).” In fact, Paul Lejuez of Wells Fargo Securities estimated Coach’s factory outlet stores generated two-thirds of its U.S. retail business in 2014, up from 40% a decade ago (Kapner and Mason, 2014). As fashion brands become ubiquitous, they lose their coolness and appeal to the affluent market.

**4. Which actions should the Sanyo management propose and take in 2015 to give the**

**firm the best opportunity to survive and prosper? (LO5)**

The case indicates the Sanyo company has suffered large financial, branding, and market presence losses due to the termination of its long-term licensing agreement with the prestigious Burberry Ltd. Company (Hata, 2014; Rudlin, 2014; Sharman & Robinson, 2014). The case also indicates that most retail industry observers believed these losses created a crisis situation for Sanyo and the declining financials and stock market reaction were tangible evidence of the crisis. We suggest that President Sugiura’s reflections in the case concerning what went wrong in the relationship with Burberry and what could be done to improve Sanyo’s future should be considered by students as a crisis and analyzed from the traditional change management and turnaround management perspectives.

**Crisis**

We contend that Sanyo’s situation in 2014-2015 fits Mitroff’s (2005) definition of an organizational crisis. Mitroff (2005) argues that crisis management is no longer sufficient to respond to crises that today’s organizations face and crisis leadership is needed. He suggests the difference is largely directional and crisis leadership focuses on vision, the interaction between crisis elements and is pro-active while crisis management is detailed and transactional, views the crisis elements as isolated and is reactive to change (Mitroff, 2005). This description of crisis leadership aligns more closely with Transformational leadership and Change theory as opposed Transactional leadership approaches. Hence, leadership alignment is important when we discuss the leadership requirements later in this question for President Sugiura to effectively lead the change. No matter which crisis category Sanyo fits (crisis management or crisis leadership), effective change management is required to turnaround an organization in distress and Sanyo would be expected to make appropriate changes based on sound management concepts.

**Traditional Change Management Models**

Jones & George (2017) indicate numerous change models exist in the management literature. However, Kotter’s eight steps is the most popular change management model, and it would be most likely covered in several classes identified in the TN target courses (Jones & George 2017; Kotter, 2012).  If not, the list of eight steps in the popular change model could be handed out by the instructor or made a required part of the case assignment (see General Discussion and Teaching Approaches). Kotter’s eight steps to the planned change are:

* Step One: Create Urgency. ...
* Step Two: Form a Powerful Coalition. ...
* Step Three: Create a Vision for Change. ...
* Step Four: Communicate the Vision. ...
* Step Five: Remove Obstacles. ...
* Step Six: Create Short-Term Wins. ...
* Step Seven: Build on the Change. ...
* Step Eight: Anchor the Changes in Corporate Culture.

The case indicates the long-standing licensing agreement with Burberry made the Sanyo management complacent, and the first step (Urgency) in Kotter’s change management model might not be obvious for Sanyo’s management and employees. Successful companies in the high-end retail market space have a complex and fragile web of suppliers, financiers, retail stores, and customers (cite). Hence, a powerful coalition of these suppliers, financiers, retail stores, and customers is required to make effective change. President Sugiura did not quickly and pro-actively court the department stores for the space where Burberry products existed (cite). The case does not indicate President Sugiura developed a clear vision for change that included a new strategic plan. After reflecting on the reasons why the licensing agreement was terminated, the case indicates Sugiura took action to convert 350 outlets from the famous Burberry brand to virtually unknown labels: Mackintosh, Epoca, and Paul Stuart (see question # 3). The financial and marketing results suggest this action (change step) by Sugiura did not result in any short-term wins. Considering their low brand equity, there is slim chance to generate similar sales as the firm did with Burberry. Even if Sanyo Shokai successfully develops the market for the licensors, Sanyo Shokai could lose the brands, customers, sales, etc. just like Burberry (cite). Therefore, we contend Sanyo did not adequately address all eight steps (# 2, 5, 7, and 8) that led to the serious questions about the long-term survival of President Sugiura and the company.

**Turnaround Management Strategies**

Turnaround strategies for distressed organizations are included in the financial, marketing, strategy, and general management literature. Since the Sanyo dilemma was not presented as a financial case and insufficient financial reports are available in the case, the general management approach to company turnaround strategies is used. These turnaround models are usually supported by sound change management concepts, and the strategies vary based on the number of steps in the model. Management scholars and turnaround consultants alike find these steps to be effective practical guides to implement change for saving struggling companies. For example, Yakola (2014) posits a ten-step model used by McKinsey & Company and Ashe-Edmunds (n.d.) offers a five-step model. We have blended several turnaround models and use six steps as options or recommendations that would provide a framework for President Sugiura to improve the likelihood that Sanyo would survive and prosper after the 2015 licensing agreement termination. These options are not listed in priority order. A brief explanation and the relative “ease to implement” each option are discussed, and the best option is selected based on the advantages and disadvantages.

1. Evaluate the failed strategy
2. Rightsize the company to fit new realities
3. Look for new sources of funding
4. Replace product line with products for new customers
5. Position company for merger or acquisition
6. Go out of business

**1. Evaluate the failed strategy**. We contend that Sugiura should conduct a thorough evaluation of his previous failed strategy and quickly move to put in place a transformational plan and implement it with transformational leadership (Osland, Kolb, Rubin & Turner,2007;

Jones & George, 2017). Critical evaluation of your own decisions is a difficult task. As mentioned in the case, when taking charge in a crisis situation, “vision” is critical and crisis leadership is more important than crisis management. Warren Bennis emphasizes that leaders become effective by committing others to a vision (Bennis & Nanus, 2003). Since both the leadership style and products are controllable internal items, the leadership style match to the company’s product approach should be an easier option to implement than the many external factors such as preparing a company for merger or acquisition. Newer leadership models such as transformational leadership based on changes, such as the change in product life cycle, should be considered (Osland et al., 2007; Jones & George, 2017). For example, when Angela Ahrendts took the helm as CEO of Burberry in 2006, she took a transformational approach to the company’s failed strategy to reinvent the Burberry brand (Forbes, 2013). She took a transformational leadership approach to turnaround the company and established a clear vision that was aligned with key stakeholders and led to the company’s success (Forbes, 2013). The Sanyo case indicates that President Sugiura reflected on what might have gone wrong and led to Burberry’s termination of the long-standing licensing agreement. However, one industry observer reported that Sugiura appeared to have “separation anxiety” rather than a clear vision for change and a transformational strategy (Nikkei Asian Review, 2014). Sugiura unveiled a plan to replace the Burberry line and promoted this new brand, but his focus was on product development and not a new vision. The Nikkei Asian Review (2014) reported that Sugiura stated in an interview concerning the five-year plan to replace Burberry, “It will be the culmination of Sanyo Shokai's know-how in product development." Sanyo Shokai invited more than 1,000 people, including buyers and department store executives, to a big promotional event. Sugiura followed up with visits to department stores around the country to promote the brand and aggressively opened new stores to offset estimated operating losses, but these changes appear to be transactional rather than based on a clear vision (Nikkei Asian Review, 2014). Moreover, Sugiura might need to get outside consulting help to develop a transformational strategy and implement it, and this approach would cost Sanyo precious cash that is in increasingly short supply.

**2. Rightsize, the company.** After the development of a transformation plan, we assert that firms tend to focus first on internal sources of change such as rightsizing due to their ability to control the variables involved. Therefore, rightsizing might be easier for Sugiura to implement because many factors are controllable by Sanyo. Rightsizing usually includes downsizing, but it is more involved than merely reducing the number of employees. The financial effects of “downsizing” can be achieved by the reduction of the amount and type of work, but not necessarily reduction of employees, as well as the elimination of functions, hierarchal levels, or units in an organization. Additional financial effects of rightsizing can be achieved by implementing cost-containment strategies, such as transaction processing, information systems, or authorization procedures (Cooper & Argyris, 1998). Although detailed financial reports for Sanyo are not available, salary savings of downsizing should fall quickly to their bottom-line financial numbers.

Companies usually try other rightsizing methods such as changing the organizational structure that is mainly due to excessive overhead costs and labor-displacing new technology, as well as selling assets or eliminating activities that do not add value and outsourcing (Cooper & Argyris, 1998). With a smaller workforce, the companies usually have a smaller support staff, a smaller, less expensive buildings, and less expensive yet effective sales/marketing channels. Often, executives consider this rightsizing option in “an either/or context” with only two ways for companies to become more profitable; downsizing or generating more revenue (Cooper & Argyris, 1998). This easy to implement option might not easily turn around Sanyo. As discussed, new company revenue in the short-run is not expected, and cost saving in some areas may be offset by increased communications and legal costs. Additionally, downsizing employees could influence the remaining key employees with key talent Sanyo needs, to voluntarily leave the firm.

**3. Search for new sources of funding.** The location of additional funding could become the most urgent task for Sugiura going forward if revenues and profits continue to decline. Japanese companies usually count on the bank for financing; however, Sanyo might be forced to consider

nontraditional fund-raising methods.

**4. Replace product line with products for new customers.** The case indicates that loss of the Burberry products created a giant hole in the company’s product line and revenue. Hence, a key part of a new transformational strategy (marketing mix) would be an examination of new products to replace the Burberry line (see question # 2). The Nikkei Asian Review (2014) reported that Sanyo hopes that a replacement Mackintosh London product line will help cushion the negative impact from the loss of Burberry products, generating as much as 20 billion yen ($187 million) a year under its five-year business plan. Mackintosh London will target mainly men and women in their 40s. Featuring checkered patterns, its line will range from suits and one-piece dresses to bags and other accessories.  A men's suit will likely be priced at around 150,000 yen**.** What about the competition? After termination of the licensing agreement with Sanyo, Burberry expanded its presence in Japan with company stores.

Additionally, the Nikkei Asian Review (2014) reported a branding executive at a competitor in Japan says his company has been laying the groundwork for years to boost its odds of securing choice retail space after Burberry leaves and stated, "We have been developing and expanding offerings with Burberry customers' tastes in mind." Furthermore, what has Sanyo placed in its new marketing mix to satisfy the Chinese customers mentioned in the case that prefer high-status labels? Sanyo’s focus on the Mackintosh London labels could dilute the Sanyo brand and alienate customers that prefer prestigious labels.

**5. Position the company to be acquired.**  Part of every effective turnaround plan should be scenario related to a “safety net” or recognition that the transformational plan might not work (Yakola, 2014; Ashe-Edmunds, n.d.). Sanyo is a company with a proud tradition in Japan. However, we suggest that Sanyo should consider merger and acquisition (M&A) prior to the option of going out of business. Although it is a safety net, Sanyo should recognize that lack of internal control and M&A skills might make this option more difficult to implement than the previous options. Additionally, uncontrollable external factors could exist that have a negative impact on Sanyo a potential company to be acquired. M&A requires a skill-set that usually does not exist inside most firms and the track record for M&A success is problematic (Osland et al., 2007). Research suggests a large percentage of M&A’s fail to achieve their objectives (Osland et al., 2007). Yet, M&A usually creates continued employment opportunities for some of the acquired company’s employees and perhaps an opportunity to continue with product development. Often status is important and this option would be less of a reputational blow to Sanyo management than going out of business.

**6. Go out of business.** This is another option that recognizes the transformational turnaround plan might not work.As part of the going out of business option, Sanyo should consider bankruptcy or reorganization under Japanese law.Bankruptcies have less-stigma attached to them in 2014-15 than in the past because some well-known companies had gone into bankruptcy and emerged as stronger entities. There are several types of bankruptcy or reorganization options that are not going out of business strategies. Although bankruptcy or reorganization could be an attractive option, it does require cash flow to hire outside specialists to do the sophisticated analysis to evaluate the company under Japanese laws. This is not a pure turnaround option, and it is offered primarily because it can become the only option if all others fail. Nevertheless, option# 6 is usually the most difficult one for company management with a large emotional, reputational and financial stake to implement.

**Best Option**. After weighing the advantages and disadvantages of each option, we contend that options # 1, 2, and 3 are the best choices in order for Sanyo in 2014-15. Strong crisis leadership by Sugiura would provide Sanyo with the best chance to survive and prosper. Other methods could be employed to evaluate the advantages and disadvantages of each option. For example, quantitative methods exist to prioritize options and select the best option. However, insufficient information is provided in the Sanyo case to conduct Quantitative methods such as Cost-Benefit analysis, Weighted Average Matrix, and Payoff Matrix exist, and these methods are beyond the scope of this question.

**General Discussion and Teaching Approaches**

**Typical Assignment Timing and Format**

The questions (DQs) were designed for use as either an individual or a team assignment. The descriptive case and five DQs would be effective as an end-of-term class written assignment. As a written end of term integrative assignment, we believe the full-length case would ideally be assigned after all themes/problem areas are covered in class.Alternatively, it could be a progressive case written or discussion in-class assignment where one of the five DQs is assigned after each associated topic is covered in class.

As a class discussion assignment, the case would be best-used in classes with a scheduled time of more than ninety minutes in order to cover the case in its entirety in one class period. In the previously mentioned progressive case format, it is estimated to take a minimum of thirty minutes to examine each question, and it would take two hours to discuss the four DQs. However, it might take longer to process the five questions in classes with more than 4-5 teams or 20-25 students. Classes with less time might consider assigning one or two questions per class session. Additionally, the instructor might consider a handout on topics covered by each question to accompany the brief lecture to maximize the class discussion experience. If an instructor wanted greater depth in student responses, stretch questions and assignments (see Other Pedagogical Materials), or extra credit projects might be considered.

**Teaching with the Case**

A basic understanding of traditional management, leadership, strategy, marketing, and financial concepts are required to assess the company’s previous decisions in these areas and make recommendations for improvement. The target student audience has most likely covered these fundamental concepts in undergraduate or graduate level courses such as principles of management, international business, strategic management, and marketing management. Again, the case should be assigned after students have been exposed in class to the basic concepts covered by the topics in the discussion questions. Kotter’s change model is well-known and mentioned in most standard management textbooks (Kotter, 2012).  However, if an instructor requires students to use a specific model or framework beyond those mentioned in the case, standard textbooks, or in assigned readings, handouts should be provided. For example, numerous turnaround models exist in the management literature with a different list of steps in each model. If a specific turnaround model is required for the case discussion, it would help student engagement and responses to hand out the specific turnaround model prior to the case discussion.

The Sanyo case has not yet been used in a formal business class, but one author’s class is scheduled to use the case in the spring 2018 semester. In order to determine the amount of information the average reader knew about the Burberry brand and products, a graduate class was surveyed to find out whether the students recognized the Burberry brand, pattern, prices. If these students recognized the aforementioned Burberry items, they were asked whether the brand was prestigious, if they planned to purchase one or more items in the future, and did they believe the price was fair. Since only 50% of the students recognized the Burberry brand, a link to the history of Burberry and the Sanyo timeline was provided in the case as background material.

**Epilogue**

As the case mentioned, Sanyo Shokai lost Burberry in June 2015. The financial impact of the loss of the brand had been more serious than the management anticipated. The company converted 263 stores out of 350 (about 70%) to Mackintosh London, Blue Label Crestbridge, and Black Label Crestbridge, not Paul Stuart or Epoca as planned (Sanyo Shokai ga, 2016).

In June 2016, Sanyo Shokai announced to lay off 250 employees. It has also decided to discontinue its own brands, Pringle 1815 and Bianca Epoca (Sanyo Shokai ga, 2016). At the end of 2016, sales declined by 30% to 68 billion yen, and net loss for the fiscal year will be 11.3 billion yen (Sanyo Shokai: Burberry, 2017). The sales continued to fall in 2017. The company closed a total of 289 stores in 2017 (Hayashi, 2018).

**Sales and Profits 2012-2016**

|  |  |  |
| --- | --- | --- |
|  | Sales (billion yen) | Profit (billion yen) |
| 2012 | 107.6 | 5.9 |
| 2013 | 106.4 | 7.1 |
| 2014 | 111.0 | 10.2 |
| 2015 | 97.4 | 6.6 |
| 2016 | 67.6 | (11.3) |
| 2017 | 62.5 | (1.03) |

Source: <http://www.sanyo-shokai.co.jp/company/ir/highlight.html>

<http://www.nikkei.com/article/DGXLASDZ29H5B_Z20C16A7000000/>

<https://business.nikkeibp.co.jp/atcl/report/15/278209/061400129/>

<https://www.sanyo-shokai.co.jp/company/ir/pdf/29_75_renketu_s.pdf>

In February 2017 Sanyo Shokai’s new president, Isao Iwata, who was appointed to succeed Masahiko Sugiura on 1 January, 2017, announced a new vision involving diversification of functions into an “all-round fashion firm” that embraces manufacturing, retailing and online sales (Japan News, 2017).

**Additional Pedagogical Materials**

**Stretch Exercises**

The topics covered in the DQs could be expanded as a stretch assignment or an extra credit assignment for students that desire to explore a question (DQ), associated topic, or a concept in more depth.

The current teaching plan is built around the President of Sanyo’s assessment of company actions prior to his public announcement May 2014 concerning the June 2015 termination of the licensing agreement (see Key Events Timeline, Case-Table 1). The case could be further developed as either a descriptive or decisional case depending upon the decision points for the case and the associated learning outcomes.The authors developed several alternative decision points for future case enhancements.

**Potential Decision Points**

We believe any one of the individual issues, events, and company crossroads in the case could become a decision point for a separate three-page critical incident or a full case. The potential decision points for descriptive or decisional cases by year are:

* ***June 2015*** – Termination of the licensing agreement with Burberry.
* ***June 2016*** ­– President Sanyo Shokai made an announcement to lay off 250 Sanyo employees decided to discontinue its own brands.
* ***2017*** – Hiring of new President for Sanyo in Japan

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2. [↑](#endnote-ref-2)