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FORETHOUGHT REVIEWS

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Reviews

Panasonic

The Largest Corporate Restructuring in History

Francis McInerney
(St. Martin's Press, 2007)

Fifteen years ago, Americans faced a wave of criticism over their short-term approach to business. While Japanese and European companies patiently invested in R&D and internal training, their U.S. counterparts slashed development budgets, laid off employees, and gave executives outsized bonuses for quick improvements. The American approach surely led to a lot of waste, not to mention personal suffering. But comparing the three economies now, it's hard not to connect this short-term thinking to the rise of flexible, customer-oriented companies that enabled Americans to regain global market share in a host of industries.

Panasonic tells how a typical Japanese multinational learned to restructure itself according to this flexible "American" approach while preserving some essential Japanese attributes. Panasonic is the main brand name for Matsushita Electric Industrial Company; author Francis McInerney consulted for Matsushita's American subsidiary in the late 1990s—where the firm's troubles became most apparent.

Like other Japanese industrial giants, Matsushita had thrived by investing in dedicated engineering staffs and relentlessly entering electronics markets with high-quality, lower-cost products. That worked well in the decades after World War II, when the corporation's fine execution gave it a solid position in Japan and elsewhere. But, as McInerney tells the story, success led to complacency and ossification, as problems were hidden by the large, semiprotected domestic market. The company characteristically reacted to stagnation in the late 1980s with a huge investment in R&D, but that only eroded margins faster.

McInerney's diagnosis for the firm draws on comparisons with Dell and Wal-Mart, which organized their entire value chains around short-term customer demand. Matsushita, he finds, was isolated from customers, with factories determining output levels and its understaffed sales offices lacking in rudimentary account management skills. Fortunately, headquarters understood the troubles enough to promote Kunio Nakamura, head of the American subsidiary (and McInerney's client), to Matsushita president in 2000. Aided by the worldwide electronics crash of 2001, Nakamura aggressively restructured the company to remove bureaucratic complexities and increase its market responsiveness.

Much of the story reads like familiar business advice about getting close to customers. But one improvement stands out as fundamentally Japanese. Long a major product for the company, television sets had become a money-losing commodity by the 1990s.

Eager for growth along with cost cutting, the executives decided on a bold move into flat-panel displays—radically different from cathode-ray tubes but starting to attract consumer interest. In five years, the company captured half the global market for the high-margin sets. Some of that came from a judicious use of American-style joint ventures and outsourcing. But a large part surely came from the company's long-nurtured traditions of engineering excellence, which empowered managers and employees to commit to the intense work involved in developing a world-class product.

—John T. Landry

Hidden in Plain Sight

How to Find and Execute Your Company's Next Big Growth Strategy

Erich Joachimsthaler
(Harvard Business School Press, 2007)

Several recent books have told companies to innovate by shaking off their established notions and looking closely at how customers actually use products in their lives. Joachimsthaler, a longtime marketing consultant, differentiates his account with a focus on brands. He looks deeply at the meaning and expectations that consumers give brands in their own personal contexts. Frito-Lay, for example, revived its stagnant potato chips when it discovered that people mainly ate them not for taste or to alleviate hunger but for immediate comfort and reassurance—as a "smile break." That insight about the power of feelings persuaded the company to de-emphasize product attributes and play up the theme of breaks. Stories like this give hope to managers worried about stale brands, but it's harder to manage brand image over the long term when it depends so much on what consumers bring to the table.

—John T. Landry

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