3M: Research Paper

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Over the past century, 3M Corporation has become one of the most dominant companies in the world. The company was established in 1902 and has been thriving ever since. 3M operates in five business groups: Industrial (tapes and adhesives), Safety and Graphics (personal protection, security, and traffic safety products), Electronics and Energy (LCD computer monitors, LCD televisions, automotive displays), Healthcare (medical and surgical supplies, food safety supplies), as well as Consumer (office supply products, home care products). “3M distributes its products directly to users and through several wholesalers, retailers, jobbers, distributors and dealers” (Marketline, 2018). 3M Co. is based out of Saint Paul, Minnesota, but operates around the world, including areas such as the Americas, Europe, Asia Pacific, the Middle East, and Africa (Marketline, 2018). 3M has influence throughout many different markets because of its diversity. Along with being a company that is praised for its financial success, 3M is founded on the idea of innovation. Innovation is the starting building block to the company. 3M’s slogan is “Innovation”. 3M currently has 91,536 employees and an amazing financial history and reputation (Marketline, 2018). Employees of 3M are encouraged to come up with new ideas and products and are motivated to come up with ways that the company could improve. 3M has become such a giant company because of this. Many give credit to it’s employees for pushing 3M to be one of the most innovative corporations today. 3M has been named one of America’s top 50 manufacturers and has factories throughout the globe that allow them to efficiently produce quality products for their countless consumers.

The plethora of different markets that 3M has taken a major role in has led to them expanding their customer base. Marketing is something that 3M focuses on and they use customer segmentation in order to maximize their customer base. Customer segments are the first step in the Business Canvas Model and these different market segments are individuals that respond similarly to a given market offering. 3M chooses their customer segments based on the potential opportunity and competitive differentiation. 3M uses a specific marketing program; “3M’s Strategy and Marketing Development (SMD) is a unique two-year, non-rotational leadership development program that leverages internal marketing and strategy consulting as a vehicle for development. SMD is the integration of two highly successful programs – Strategic Business Development (SBD) and Integrated Marketing Development (IMD) – that have thrived at 3M for more than 20 years” (3M, 2018). As already stated, 3M is primarily focused on five different business segments: Industrial, Healthcare, Safety and Graphics, Electronics and Energy, and Consumer. The statistics that most stand out from each of these segments consist of $3.1 billion net sales with +6.8% year-on-year within the industrial market. The industry with the biggest organic local currency growth is safety and graphics which has a +8.5% year-on-year. The healthcare industry does not stand out as much when compared to the other industries but still has a net sales of $1.5 billion with +4.9% year-on-year. A 64.7% operating margin in the electronics and energy industry with +39.6% year-on-year and a whopping $865 million operating income with +166.8% year-on-year shows that this is where a lot of profits are made for 3M. The consumer market seems to be the smallest industry that 3M is a part of with only $261 million operating income with +32.3% year-on-year (3M, 2018). A Chart that
shows 3M’s Customers, Q3 2018 revenue growth by industry clearly illustrates how many customer segments 3M truly has (See Figure 1, Appendix A) (Csimarket). Some of the largest increases the company saw this past quarter are customers in the software and programming industry (24.44%), customers in the automotive aftermarket industry (15.31%), customers in the aerospace and defense industry (12.09%), customers in the semiconductor industry (22.81%), customers in the communications equipment industry (13.96%), and customers in the electric and wiring equipment industry (8.27%) (Csimarket). 3M creates value for their customer segments by encouraging customers to continue to purchase from them. 3M launches hundreds of various marketing plans every year in order to add value to the products they are selling to retail stores, manufacturers, and to consumers. For example, recent marketing campaigns were taken to social media in order to “advertise its traditional products to millennials who were interested in robots and 3D printing” (Danao, 2017). 3M has created the hashtag #LifeWith3M with the tagline “3M Science. Applied to Life” as well as focusing on getting inspiration from consumer’s stories on social media (Danao, 2017).

3M uses strategies different than most other companies do in order to keep up with modern times which is how the prestigious company has been able to do so well for over a century. 3M focuses on 3 key levers “which are big value-creators both today and into the future” (3M, 2017). The first lever, portfolio management, has been ramped up over the past few years. Since 2012, 3M has cut back from six business groups to five and from focusing on forty businesses to twenty four (3M, 2017). One strategy 3M uses within portfolio management is the acquisition of other smaller companies. For example, in 2017, they completed the acquisition of Scott Safety, a safety solution company, in order to strengthen their personal safety portfolio (3M, 2017). 3M also has acquired the company Sumitomo after already recently purchasing a 25% stake of Sumitomo Electric (Forbes, 2015). This purchase could possibly cater to an $800 million market in Japan where 3M is trying to expand their growth (Forbes, 2015). Another example of a company that was acquired by 3M was Treo Solutions which advanced their influence in the healthcare market which is currently projected to grow in the future and is why 3M is so interested in expanding into that market (Forbes, 2015). On the other hand of these acquisitions that 3M has made, they constantly divest in companies that no longer align with their strategic objectives, including four companies last year. As stated by 3M in their annual report, “Portfolio Management is strengthening 3M’s competitiveness, and making us even more relevant to our customers and the marketplace. Equally important, it is also allowing us to prioritize resources to our biggest and best opportunities” (3M, 2017). The second lever of focus for 3M is investing and innovation. Research and development allows 3M to deliver what consumers are looking for plus some along with premium returns to shareholders. In 2017, 3M increased investments in research and development to $1.9 billion which is 6% of their sales; results in organic growth and increasing margins have shown that this investment has paid off (3M, 2017). 3M deals with R&D a bit differently than most other companies, claiming to separate the R and the D. At 3M, scientists are allowed and encouraged to focus on pure research and to follow their instincts in order to find totally unexpected discoveries (3M, 2018). Within each business group that 3M is
involved with, specific development teams use the company’s core technology to create products for their targeted markets (3M, 2018). The company’s culture highly encourages and pushes onto their employees risk-taking, collaboration, and big thinking. Their culture also cultivates innovation, possibly the most important characteristic of the company. 3M’s ability to manufacture large amounts of innovative products efficiently and consistently with the help of their various R&D strategies, have led to thousands of commercial hits with a wide, returning customer base such as Post-it Notes, Scotch-Brite and Scotch tape (Digitpro, 2018). Employees are also encouraged not only to do things better and more efficiently but differently, which is a huge ideology for 3M. This strategy within the culture of 3M creates ideas that solve solutions differently than others would which is why 3M can invent game-changing values and products. The third and last lever, Business Transformation, which includes “standardizing and optimizing global processes so we (3M) can serve customers with even greater agility and efficiency” (3M, 2017). An important building block to the third lever of business transformation is a global EPR system and staying on track to expanding their business throughout the world. These hubs that 3M creates across the globe help consolidate supply chain, promote effective management of manufacturing, engineering activities and distribution channels (Forbes, 2015). It is thought to save 3M $500-700 million in operational costs and another $500 million in a reduction of working capital by the year 2020 (Forbes, 2015).

3M Corporation’s organizational structure is known to be more of a hierarchical structure than anything else. 3M is so large, employing over ninety thousand people, that there needs to be a strong leadership core who holds a majority of the power and has the ability to make most of the decisions. While the company’s architecture is mostly revolved around a hierarchical structure, a departmental organizational structure is also required because of the mass amounts of markets and industries that 3M operates in. Structure is needed within each separate department of the company which is why an approach of departmental organization structure also is needed. What makes 3M so special and dominant in so many markets is that they are capable to share technologies, manufacturing, operations, brands, along with other resources across its business departments and segments in order to increase efficiency and profits. Core competencies are important to 3M because it allows for them to solve and deliver solutions for original manufacturers and channel customers (Digitpro, 2018). Because of these core competencies, 3M has the “ability not only to develop unique products but also to manufacture them efficiently and consistently around the world” (Digitpro, 2018).

What stands out most and what 3M is credited with is their amazing financial performance. 3M’s financial performance is such an influence on our business world today that they are one of thirty companies listed on the Dow Jones Industrial Average along with other prominent companies such as Apple, Goldman Sachs, Chevron, and Coca-Cola. Last year alone, their net sales were approximately $31.7 billion, about a 5% increase year-on-year, the highest it’s been since 2014 as shown by Figure 2 in Appendix A (3M, 2017). Approximately 60% of their net sales were made outside of the United States ($19,285 million) and 40% in the United States ($12,372 million) (3M, 2017). Net sales broken up into customer segments in order from greatest to least is:
Industrial at 34.5%, Safety and Graphics at 19.4%, Healthcare at 18.4%, Electronics and Energy at 16.3%, and Consumer at 14.5% (3M, 2017). Cash dividends paid per share in 2017 was $4.70, up 26 cents from 2016 (3M, 2017). The global operational income in 2017 was $7,820 million which was an 8.3% increase over the operational income in 2016 (3M, 2017). This increase in operational income likely resulted from all segments earning an increase in organic local currency sales and all geographic areas having an increase in net sales throughout the past year as well. The largest expense for the company in 2017 was cost of goods sold (cost of sales) which was approximately $16,018 million or 50.6% of net sales, up from 49.9% in 2016 (3M, 2017). 3M invested $1.9 billion in research and development and another $1.4 billion in capital expenditures throughout last year (3M, 2017). Their selling, general and administrative expense was around $6 billion or 18.9% of net sales, down from 20.3% the year before. By the end of 2017, 3M’s adjusted earnings per share was at $9.17 which was a +12.4% year over year. At the end of 2016, the stock price was at $178.57 and at the end of 2017, the stock price was at $235.37 which can be seen by Figure 3 in Appendix B also showing the pattern throughout 2017 (Yahoo Finance, 2018). However, The most recent financial performance for 3M this past quarter wasn’t as well as they had hoped for and what people were expecting. The 10-Q for quarter three was released on October 23rd, 2018. The first thing that caught the reader's attention on the report was the adjusted earnings reported of $2.58 per share, which missed the Zacks Consensus Estimate of $2.70 (Zacks, 2018). However, the earnings recorded had an increase of 10.7% from the year-ago tally of $2.33 (Zacks, 2018). The net sales reported in the third quarter were $8,152 million which was a decline of 0.2% from the year-ago quarter which also missed the Zacks Consensus Estimate of $8,421 million (2018 quarter 3 10-Q). The day after the quarterly results were released (October 24th, 2018), the stock price dropped from $192.71 to $184.51 which is a significant drop (Yahoo Finance, 2018). As many have noticed, 3M did not meet expectations for this past quarter but still however they managed to stay on an upward trajectory in the long run and continue on the path they have been on for over a century.

3M as a whole was created and revolved around the idea of opportunity. At 3M, opportunities are found in every aspect of the company from within the corporate structure and the manufacturing process to marketing in the modern business world. According to marketline, 3M’s strengths consist of strong R&D capability, balanced revenue stream and geographical presence, and robust portfolio of brands (Marketline, 2018). Because of 3M’s consistent mass investments into the business such as the $1.9 billion put into R&D last year, opportunities for development and further growth of the company lies right in front of them. These major investments 3M has made has been the key to past successes, present, and most likely have a heavy influence on future endeavors. 3M has continued to focus on developing new technology and creating new products which is how they have grown tremendously throughout the last century and this is how 3M will continue to thrive. Opportunities for new business development also exist within the company’s delivery methods. 3M promotes to and targets customers around the globe where the ability to get orders with speed and efficiency is a necessity especially with companies out there that are revolutionizing “instant satisfaction” such as Amazon. In order to compete on the same speed and
efficiency level as Amazon, 3M must expand its business operations and create more global service centers around the world. 3M has seen an increase in global expansion, however, the rates at which this is and has been happening are not enough to keep up with the modern business world. Operational efficiency rates would also increase as a result of these global service centers. 3M should also continue to pursue the acquisition of new technology, industrial, and energy/electronic companies at an even higher level. Within these three customer segments lie a bulk of their net sales and these are the segments that constantly change and modernize. Not only will this give 3M more of a competitive advantage than they already have but in doing so, 3M will also benefit because their market share in various industries will increase and diversify. Some other opportunities include, a growing automotive manufacturing market, a robust outlook of global renewable energy market, and a strategic acquisition of Scott Safety (Marketline, 2018). In order to grow as a business in the future, 3M should continue to make major investments back in their company, pursue more acquisitions of other companies, and to update and expand their delivery methods as well as increase global service centers. A few strategic concerns that the management of 3M should be aware of are foreign currency fluctuations, environmental law compliance, and rising intense competition (Marketline, 2018). Fluctuating foreign currencies could have an effect on 3M in the future because they operate in more than 70 countries and their financial statements are calculated in US dollars, therefore, exchange rates have the potential to negatively affect the company (Marketline, 2018). Along with almost every other business, laws and regulations can affect what a business can and can’t do. For 3M, specifically, environmental laws are the biggest threat because of past problems and compliance costs increasing due to these regulations. Lastly, 3M is involved and has influence in many different markets, all of which are currently expanding along with having influence of other dominant companies. These are just a few different threats that 3M’s management should keep in mind when making decisions in the future. Along with any other company, 3M still has concerns related to human resources and management. Recent problems within that business world have showed that a big concern for many companies is centered around social media and social injustice. 3M must be on top of managing and keeping track of their employees and making sure they are respectful towards one another and everyone else around them. In any company, there will be problems that arise and negative situations will come around involving employees. However, it is 3M’s responsibility to make sure they have a safe and positive work environment where their employees are happy and feel comfortable.

It is very rare that a company in our modern world has experienced quite the same amount of evolution as 3M has. In 1902, the Minnesota Mining and Manufacturing Co. otherwise known as “3M” today, had one simple goal: “to harvest a mineral known as corundum from a mine called Crystal Bay” (Kane, 2017). What began as an unsuccessful mining company rapidly grew into a company which dedicated itself to innovation, eventually turning to other materials and then other products. The company quickly generated sales catching the attention of many and as time passed, harvesting minerals became a thing of the past. The company took a path towards technological innovation. Today, 3M is much more than just a technology company as they withhold a significant amount of market share and have influence in many different
major industries. 3M is currently ranked 97th on the Fortune 500 list (Fortune, 2018). With over 55,000 products and over 91,000 employees, 3M has evolved from an old school mining company to one of the most innovative, technologically advanced, and profitable companies across the globe.
Appendix A

3m's Customers, Q3 2018 Revenue Growth By Industry

Figure 1. 3m’s Customers, Q3 Revenue Growth By Industry (Csimarket, 2018)

Figure 2. Net sales in the past five years (3M, 2017)
Appendix B

Figure 3. 3M Company (MMM) share price from Jan 03, 2017 - Dec 29, 2017 (Yahoo Finance, 2018)
Bibliography


