# Event Report
# "Approaches to Change: Conquering the Crisis of a Century"
# A *Zadankai* with Michihisa Shinagawa

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*How foreign companies with significant operations in the United States react to the financial crisis is of critical importance to understanding the changing competitive landscape of enterprise in the United States. In a* zadankai *(informal discussion) at Columbia Business School on November 13, 2008, Michihisa Shinagawa, president and CEO of Sumitomo Corporation of America, explained three critical changes to the economic landscape that have helped shape Sumitomo's strategy of operations in this rapidly changing environment. The event was sponsored by Columbia Business School's Center on Japanese Economy and Business and the Japan Business Association, a student organization.*

Sumitomo Corporation is a *sogo shosha* (integrated trading company) that focuses on trading activities, sales and marketing, financing, logistics and other support services to its clients. Sumitomo also places large investments in companies that have product synergies with its business lines, focusing on large profit margins. Until the late 1980s, Sumitomo had focused primarily on Japanese companies that sold their products globally. The rapid asset deflation of the 1990s Japanese bubble placed significant pressure on Sumitomo, further heightened by the company's involvement in a trading scandal in the mid-1990s. However, in the wake of these issues, Sumitomo was able to reinvent itself by focusing on risk-adjusted returns. This led the company to divest its underperforming assets, and today Sumitomo achieves risk-adjusted returns that are twice its cost of capital. Needless to say, Sumitomo has a strong history of navigating turbulent times and reinventing itself in the midst of crisis.

Despite its turbulent history, Sumitomo considers today's economic climate one of its greatest challenges. Sumitomo has identified three key structural changes that have created the opportunities for the company to build on its past success. The first, the need for more efficient use of natural resources, has focused the company on its investments in the area of developing alternative-energy businesses. Second, the company has identified the change of the United States becoming a primarily consumer-driven nation as a key area of opportunity. Sumitomo believes that the downturn in consumer spending in the short term will be offset by rising immigration. Lastly, Sumitomo sees increased trade between the United States and the rest of the Americas, specifically Canada, Mexico and Brazil. As the costs of producing and shipping products from China increases, these countries will become more important producers in the U.S. market.

In addition to outlining these key structural shifts, Sumitomo has also outlined ways in which it plans to capitalize on these changes. First, the company is seeking to achieve critical mass in each of its commodity-driven businesses. As commodity prices fluctuate rapidly, consumers will be more conscious of cost, thereby forcing suppliers to reduce costs by becoming large-scale global competitors. Sumitomo is particularly focused on implementing this strategy in its tubular-steel market. The tubular business is currently focused on leveraging its supply chain to increase its market share, particularly in Brazil.

Next, Sumitomo plans to capitalize on the changing economic cycles. The company uses the downturns in the economic cycles to review its portfolio holdings, with a focus on rebalancing and achieving greater diversification. Michihisa Shinagawa described the reinvestment in the company's real estate portfolio to gain greater diversification. Furthermore, the company leveraged the changing business cycles to expand its wind-turbine business to meet the anticipated rise in consumer demand for cost-efficient renewable-energy sources.

The final strategy is focused on achieving a lean-and-mean organizational structure. This strategy centers on strengthening Sumitomo's balance sheet by carefully monitoring inventory levels and turnover of its working capital. The second tactic focuses on reevaluating the company's assets to make sure that profitable portfolio companies are getting the capital they need to prosper, while underperforming assets are divested. Lastly, and most important, Sumitomo seeks to achieve its goals by further enhancing its human resources. This strategy emphasizes the acquisition and development of core staff talent and enhancing corporate communications to ensure smooth successions in the midst of personnel changes.

The company sees significant opportunities in energy, food and commodity markets. First, Mr. Shinagawa was quick to point out that fossil fuels are not going away anytime soon, and we will most likely see these technologies operating in parallel with alternative sources. In the next 20 years, solar and wind technologies will gain the most, while nuclear technology will take longer, primarily due to the long lag time in building new plants and adding capacity. In transportation markets, Mr. Shinagawa predicted that we would see the continued use of fossil fuels, biodiesel or some combination of the two. As of today, however, Sumitomo has not indentified a good market opportunity in the United States. In the short term, the biggest gains will be made in the supply side of the market, while the consumer market is of greater long-term interest. For quick results, Sumitomo sees more success in the supply side of the energy chain, but it is also looking at acquiring an American oil company, particularly because of the downturn in the U.S. equity market. Mr. Shinagawa was also quick to point out that the company is not planning to just buy everything but will continue to raise capital conventionally and be selective in its sources and uses of capital.

In conclusion, Mr. Shinagawa noted that Sumitomo is seeking larger projects as it begins to compete on a higher level. The company will continue to maximize its strengths to leverage greater returns throughout the downturn. Sumitomo’s strategy provides critical insights into how a large global conglomerate is adapting to the changing business climate by carefully reviewing its investment portfolio and concentrating its efforts in new growth areas.

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