

Samsonite: Case Study

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Abstract

This case study aimed at shedding light on the new emerging trends of business observed in the Asian region. Today, big multinationals are learning from Asia and applying best practices, developed in this continent, in their operations worldwide spanning from USA, South America and Europe. In particular, this case study paid focus on the strategy adopted by Timothy Charles Parker, the Chairman of the Board of Directors, Samsonite International S.A, incorporated in March 2011. It also focused on the turnaround strategy applied by him for the Samsonite (Luggage Company). Charles Parker is a man with a reputation for turning around companies from losses to profitability. He was put in charge by the Board to revive Samsonite that was continuously losing its strength and market share in the year of 2009. From this perspective, this study tried to explore the methodology adopted by Timothy Charles Parker to successfully revive the company. It is also noteworthy to note how Timothy Charles Parker paid careful attention to the integration strategy by Ramesh Tainwala in India to support the Samsonite operations in American and European operations. Furthermore, Asian region was also used for tapping funds from the stock market because of damage to the brand equity of Samsonite in the developed markets. Within the period of merely seven years, Samsonite is now one of the most thriving and successful luggage companies in the world and its share is most sought after in Hong Kong stock market. Based on the studies case, it can be recommended that management practices developed in Asian region can also be adopted in order to revive.

Keywords: *Turnaround, forward integration, cost-cutting, strategy, innovation, customization, engagement of senior employees*

INTRODUCTION

Mr Timothy Charles Parke, the Chairman of the Board of Directors, Samsonite International S.A, incorporated in March 2011, was sitting at his office and displaying unhappy remarks on the performance of the company measured in the year of 2014. Mr Chairman was not satisfied with the overall performance of the company despite the fact that the overall percent sales of the company had increased by 15%, Earnings before Interest, Taxes, Depreciation and

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Amortization (EBITDA) had also increased by 13%, and margins were also giving positive signals. One of the main reasons for his unhappiness was his awareness about the performance of Samsonite for the last five years, which had been delivering double-digit growth figures in sales and profitably (Samsonite International S.A, 2014). The result of this performance had made the company as Samsonite stock, which became one of the most sought-after share in Hong Kong stock market (Honeywell, 2012).

However, Mr Chairman was in a great tense as unable to recognize how to maintain such sustainable growth rate in the Europe and United States. Nevertheless, he was quite aware of the fact that Asia region was providing a great momentum to travelling and thus he was confident that 55 million travellers could be expected in the year of 2016. Therefore, he made the plan of maintaining such growth rate of the company in that region (Samsonite International S.A, 2015). He had the idea of Asia region when he joined the company as CEO; nevertheless, the company was experiencing huge losses and debts at that time. As a matter of fact, the top management of Samsonite was planning for the filing of bankruptcy. One of Mr Chairman's friends suggested him not to join the company with the offered position, as the company was going straight to graveyard, or else, he would be damaging his reputation of CEO specialist in turning around companies.

SAMSONITE: THE COMPANY

Samsonite International is the largest travel luggage company in the world with 100 years of history. The company started a business as a small trunk manufacturing company in Denver by Jesse Shwayder in 1910. Factory locating at Denver, having more than 4000 people as employees, stopped operating in 2001 and created a lot of political outburst in the United States against the outsourcing and globalization (Samsonite UK, 2017). Samsonite has been purchased and sold a number of times by different business groups. The company is now involved in designing, sourcing, manufacturing, distributing and retailing of luggage, computer bags, outdoor and casual bags (Samsonite Canada, 2017).

The global financial crisis resulted in less travelling which had a negative impact on luggage sales. Samsonite also faced crises in the year of 2009; losses were piling up, sales were declining. From this perspective, the Board of Samsonite decided to invite Tim Parker as a British manager who enjoyed the reputation of turning around the companies; the board was impressed after hearing news from the market circles about amazing turnaround story and performance of Tim Parker at Clark Shoe Company (Samsonite UK, 2017).

Back Ground of Tim Parker: Chairman of Samsonite International S.A

Timothy Charles Parker looks like a rock star and has developed his resume that matches his personality. He got his first opportunity to step into his professional life at the young age of 26 and was assigned to lead a company, Post Office. The Chairman of Post Office was an ex-Navy person who strongly believed in developing leaders from a young age. He used to say that Navy gives its ships under the command of young officers to develop them as future leaders. According to Parker, "I was given a business to run at a very young age with no experience. As expected I made a lot of mistakes and when you are young, you can afford to make mistakes but your bosses need to have a forgiving nature with an eye on future. Luckily, I had such bosses"

(Bloomberg, 2017, p.n.d). Since then, Charles Parker has developed a reputation of turning around companies. From losses to profitability, this is what he has been doing with a lot of confidence and consistency. He has been able to revive companies like Clark Shoes, Kwik, Fit and AA.

Tim Parker was inducted into the company titled as Samsonite for reviving and turning around it company in the year of 2009. Today, after 8 years ago, Mr Parker is settled well in this company. According to Tim Parker, organizations suffering and have accumulated losses are directly resulting of putting wrong bosses in- charge by the Board (Bloomberg, 2017). This sideline, people who tell him the right strategies and clearly communicate to top management to avoid the wrong steps are put in meaningless isolated jobs or are pushed outside the organization. Most often, they are pushed to implement faulty strategies. This type of management is also unwilling to promote right people on merit and hence the performance of the organization tumbles.

Furthermore, Mr Parker also points out, “I firmly believe that there are two key steps in any turn- around situation first one that you need to communicate openly with the employees. You have to explain your difficult situation in which the company is stuck currently and secondly you need to identify the right people who will give you the road map of recovery. I am a manager, not a technical expert on anything, so my decisions have to be based on the opinion of specialists, people who have given their lives to the company. If you are willing to become unpopular in short time frame, you can select the right opinions on which to base your decisions. If you have the capability to judge people as well as you can communicate and express openly, you can achieve a lot for the organizations” (Bloomberg, 2017, p.n.d).

It can be stated as strange enough that big organizations already have resources within the organizations; one just needs to tap these financial and human resources. However, giving responsibility and decision making power to your subordinates with clear accountability is the key to changing the culture and turning around the organization. Management should be based on actions. A large number of managers overkill the analysis and give less time to the real action and implementation. Right individuals are already working in the organizations (Chan, 2015). Therefore, it is the responsibility of the organization to not only identify them but also bring them into the mainstream. In this way, most of the wrong decisions can be rectified. It is pertinent that employees should see the boss as a flexible person, in case of wrong decisions. From this perspective, the boss will be able to modify the decision and thus will not be embarrassed to do it. Employees need to understand the logic and basis of the boss’s decisions. Time is an extremely critical element in this process. One must be willing to make mistakes and open to learning from such mistakes only then their quality of decision-making will improve (Chan, 2015).

Shedding light on the quality of a strong manager, Hals (2017) points out, “I may suggest that you have a good look at the senior team of the company which is in losses and evaluate their contribution in the current situation and decide whether these people are right. Secondly, one needs to develop a hypothesis, why the company is struggling and what steps are required to revive the company. Thirdly, cost review process needs to be carried out and thus costs that are not providing any value to the customers need to be eliminated from the company. It is critical to turning around the process that organization has enough resources to ensure that company can sustain the reorganization process. At times, you have to go for divesting and

selling the non-core business to focus on core competencies” (p.n.d).

According to Tim Parker, when he took over Samsonite as CEO, stocks of finished inventory were piling up and cash flow situation was very tight. The sales of the company were declining in double-digit and the company was defaulting on its loan payments. The company had a debt-equity ratio of 90:10 that was a very high level of debt. Therefore, it had to go for re-negotiating the debt payments with the banks. It is worthy to note that the company was offering a debt-for-equity swap. From this perspective, the company had to reach the breakeven point quickly to ensure the company survival. As a result, as CEO, Parker took out all of the unnecessary costs from American and European operations (Samsonite international S.A, 2016).

With the application of the strategy adopted by the CEO, it took two years, particularly from 2009 to onwards, for the company to come out of the trouble. As a result, the company successfully made a record performance in the year of 2010 has been facing the extreme financial difficulty in the year of 2009. On the other hand, Ramesh Tainwalla, the CEO of Samsonite international at Asian region, also played a significant role in the successful business of the company at the Asian region, particularly in the India (Bloomberg L.P, 2017). This is particularly because the company made a significant achievement in the Asian region while losing money in Europe and America. Therefore, the company decided to follow the turnaround strategy of India to implement it to the worldwide business.

Ramesh Tainwala was a made vendor of Samsonite in India in the year of 2000. He was assigned to the job to create a strategic alliance with the VIP; the most dominant luggage and bags manufacturing company of India. However, VIP did not show any inclination to enter into strategic alliance with the Samsonite. Nevertheless, Samsonite India kept struggling and the American principle company wanted to close down the business in India. Ramesh Tainwala called the CEO of Samsonite and asked for management control and decision making power to decide in India and said that he should be given two years to manage independently. The specific condition was that during such years he would not be asked for the resources from the head office. Therefore, he was made in charge of the Indian operations in the year of 2007. According to Bloomberg L.P (2017), the turnaround in India saw Tainwala for his rework, the colour, design, and size strategy for India. Consultants had told the multinational corporation (MNC) that Indians consider black as bad omen so products in that colour should be avoided. Samsonite followed the advice and made Tainwala as the chief operating officer. Today, bags with black colour are providing 70% of the overall sales of Samsonite in India. American Tourister, a low price brand worldwide acquired by Samsonite, comprises 50% of sales of Samsonite in India. In addition, Samsonite is selling its brands in India at a premium as compared to VIP.

On the other hand, VIP dominated the organized retail trade channel. Samsonite worked around the challenge by launching its own retail store network, the company opened 200 retail stores. Today, company-owned showrooms account for 60% of Samsonite’s retail trade in India. After studying the amazing turnaround story of Ramesh Tainwala in India, Tim Parker decided to apply the same strategy in North America and Europe. However, he needed funds. Furthermore, the brand of the company had already been suffering heavily in the USA. Therefore, it was difficult to launch share in stock markets of the USA. From this perspective, the company decided to launch its IPO in Hong Kong. According to Barreto (2011), “Samsonite International SA (1910.HK), the world’s biggest luggage maker, raised

\$1.25 billion after pricing its Hong Kong IPO at the bottom of a revised price range as weak global markets sapped investor demand” (p.n.d). From this perspective, it would not be wrong to state that Samsonite is now performing very well and selling its product under the brand Samsonite, American Tourister, High Sierra, Hatman. Furthermore, it can be stated as one of the most successful turnaround stories of industry in the present era.

CURRENT POSITION OF SAMSONITE

Samsonite has four divisions located in Asia, Europe, North America, and Latin America. All of the four divisions are independent in designing and marketing their markets as each division has its own unique demands and requirements observed for the customers. Samsonite is known for its reliability and innovation; normally polypropylene sheets are used with lamination that makes the products i.e. luggage and suitcases tough as well as a lightweight (Macquarie Research, 2014). Samsonite has successfully built factories in Europe and India that outsource the products to other countries. The company advertises heavily to improve the brand image in all regions. A period of four years back, Samsonite business only focused on travel luggage and the products were distributed only through wholesale channel. Today, Samsonite is selling the following brands Samsonite, American Tourister, Hartman, High Sierra and recently purchased brand Lipault. Samsonite is selling its products through several distribution channels, company-owned retail outlets, e-commerce, speciality luggage stores, departmental stores and mass merchants. Samsonite is now available in 100 countries with over 49,000 points of sale.

Table 1: Samsonite Sales in 2014

Net Sales By Regions	The year 2014 Sales of Million \$	% of Net-sales
<i>Asia</i>	<i>\$ 892 million</i>	<i>38 %</i>
<i>North America (USA & Canada)</i>	<i>\$ 761 million</i>	<i>32%</i>
<i>Europe</i>	<i>\$ 557 million</i>	<i>23%</i>
<i>Latin America</i>	<i>\$ 131 million</i>	<i>5.6%</i>
<i>Corporate</i>	<i>\$ 8 million</i>	<i>0.3%</i>

Table 1 shows the graph of Samsonite sales observed in the year of 2014. Samsonite group is experiencing high sales growth in Asia led by China + 18.7%, South Korea + 12.8%, India + 20%, Japan + 32.3 %, in Latin America only Brazil and Mexico is doing well, a lot of work is required in this region (Samsonite International S.A, 2015).

Brands

Table 2 reveals the breakdown of net sales by brand for the years, 2014 both in absolute terms and as a percentage of total net sales.

Table 2: Breakdown of Net Sales in 2014

Net Sales By Brands	The year 2014 Sales of Million \$	% of Net-sales
<i>Samsonite</i>	\$ 1,535 million	65%
<i>American Tourister</i>	\$ 504 million	21.4%
<i>Speck</i>	\$ 91 million	3.9 %
<i>High Sierra</i>	\$ 89 million	3.8 %
<i>Hartman</i>	\$ 17 million	0.7%
<i>Gregory</i>	\$ 12 million	0.5%
<i>Others</i>	\$ 100	4.4%

Samsonite group sales are dominated by Samsonite brand and American Tourister that are considered to be the products for the budget travellers. In other words, Samsonite brand and American Tourister is also enjoying the high growth in Asia and has tremendous potential worldwide to grow. Speck which makes covers for iPhone, Samsung phones, tablets, tablets and for other accessories are also growing while luxury niche brands High Sierra and Hartman are also giving encouraging results (Samsonite International S.A, 2015).

Distribution Channels

Samsonite is selling its products through two channels, wholesale and retail. The following table 3 gives a breakdown of these channels in absolute and percentage terms of total net sales.

Table 3: Breakdown of These Channels in Absolute and Percentage Terms of Total Net Sales

Net Sales By Distribution channel	The year 2014 Sales in Million dollars	% of Net-sales
<i>Wholesale</i>	\$ 1,866 million	79.4%
<i>Retail</i>	\$ 474 million	20.2%
<i>Others</i>	\$ 9 million	0.4 %

Samsonite group is now concentrating on the consumer channel directly through the company's owned stores and e-commerce activities. On the other hand, the North America region was considered to be a mature market but strategy of forwarding integration and e-commerce provided growth of 7.3% in sales. Samsonite group intends to open up at least 4000 retail outlets in Asia every year to capitalize on their portfolio of brands and offering better exposure and experience to their consumers through their state of art retail outlets. The company is also offering exclusive franchise to business people who are interested in selling their products at prime locations. On the other hand, the management of Samsonite is pushing forward integration strategy because of two developments. This is particularly because of the increasing number of consumers throughout the world. Furthermore, there is a significant increase in the number of consumers migrating to online purchases. Therefore, Samsonite offers multi-brands from travelling to non-travelling. Table 4 demonstrates the financial figures of Samsonite International Group for the Year of 2013 and 2014 ended on December 31.

Table 4: Expressed in Millions of US Dollars except Ratios and Earnings per Share

	2014	2013	Percentage Change
<i>Net Sales</i>	\$ 2,3501 Mill	\$ 2,038 Mill	15.4%
<i>Operating Profit</i>	\$ 299 Mill	\$ 281 Mill	6.4%
<i>Net Profit</i>	\$ 205 Mill	\$ 197 Mill	4%
<i>EBITDA</i>	\$ 384Mill	\$ 337 Mill	13.8
<i>Earnings per share</i>	\$.147	.134	9.7%
<i>Debt Equity Ratio</i>	5.2%	1.3%	
<i>Average Inventory Turnover days</i>	104	111	

Samsonite Group has been a new vision by Tim Parker to double the sales by the end of the year of 2020. One main challenge the group is facing right now is the low-cost goods sourced from highly labour-intensive factories, which is closing down. From this perspective, Samsonite has to create new factories with a lot of automation to meet the growth in demand. Samsonite is also increasing the budget of research and development to ensure its survival in the future. Furthermore, the Samsonite Group has to keep on emphasizing the strategy of globalization, which is to use international brands with local tastes and preferences. That is not the enough, the Samsonite Group is also thinking of increasing advertisement online and on social media to grab the category of young travellers. This is particularly because the company aims at delivering the top-line growth, maintaining gross margins, increasing adjusted EBITDA margins, generating cash, and enhancing the shareholder value.

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