A NEW BEGINNING, THE SAME BRAND

Adriana Andrade Marques | 152111073

Supervisor **| Professor Ilídio Barreto**

CATÓLICA LISBON
SCHOOL OF BUSINESS & ECONOMICS

UNIVERSIDADE CATÓLICA PORTUGUESA

Dissertation submitted in partial fulfillment of requirements for the degree of MSc in Business Administration, at Universidade Católica Portuguesa, June 2013

ABSTRACT

Organizational success has been a much debated issue. Many theories were developed through last decades, from the Industrial Organizational model to the Resource-base view. Even with the progress of these theories, there always has been a gap regarding how companies succeed in a dynamic and turbulent environment, and the dynamic capabilities view (DCV) appeared in order to fill this gap. Regarding this view, several scholars developed their own proposals, but for this specific dissertation, the Barreto's view (2010) was the chosen one not only because it is a recent perspective, but also because it considered the previous theoretical developments and empirical findings. More important, this was arguably the most appropriate view to allow the operationalization of the dynamic capability construct.

This thesis intends to illustrate the DCV by using a case study, highlighting how adaptation to context changes can influence a company's performance. It will be first analyzed how negative can be the impact on a firm if it is not attentive to market changes, and then, it will also be examined how the performance of a firm can be improved significantly by the strengthening of dynamic capabilities.

I will answer the following questions: What strategic decisions can lead a well-established company to fail? What factors are critical in a turnaround? How do strategic decisions translate into changes in the resource base?

The main findings of the case suggest that the four dimensions of the dynamic capabilities construct are crucial to explain both failure and success of a firm. In addition, it shows that these dimensions are interconnected. No dimension alone can represent the construct.

To wrap up, dynamic capabilities can help a firm to achieve success in a turbulent environment and this specific case suggests that the four dimensions included in the dynamic capabilities construct are vital for the achievement of the success.

ACKNOWLEDGEMENTS

I would like to thank Professor Ilídio Barreto for being a brilliant academic advisor and for sharing his enormous experience in the topic of dynamic capabilities. His enthusiasm helped in making this experience of writing a dissertation more simple and delightful.

My family was also a very important piece; they constantly encouraged me and were supportive through my college education.

I also would like to thank my friends, especially to Fabíola Barbosa and to my boyfriend for being comprehensive and supportive with me in my most stressful moments.

To finalize, I would like to thank my colleagues for the time we spend together in the university, sharing knowledge and ideas.

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I. INTRODUCTION

The dynamic capabilities topic has attracted a lot of attention since its first definition (Teece, Pisano & Shuen, 1997). The number of scientific articles considering dynamic capabilities as a key issue in strategy has been outstanding, but its use has also been impressive in other important areas in business administration, for example, in marketing (e.g. Menguc & Auh, 2006), human resources management (e.g. Thompson, 2007), operations management (e.g. Sambamurthy, Bharadwaj & Grover, 2003) and entrepreneurship (e.g. Arthurs & Busenitz, 2006).

The dynamic capabilities view is seeking to provide an answer to the following question: "How can firms successfully build competitive advantages to respond to dynamic environments?". Several approaches have been use to analyse competitive advantage. One explanation belongs to Porter's competitive forces approach (1980) which suggests that industry structure strongly influences firm's differentiated performance. Another approach, the strategic conflict approach (Shapiro, 1989) used game theory to analyze the nature of competitive interaction between rival firms. Later on, the resource-based theory (Barney, 1991) concluded that firm-specific resources and capabilities are the key determinants of heterogeneous performance across firms. However, none of those theories explains how to build successful advantages in a changing environment.

Teece and colleagues proposed the dynamic capabilities framework to fill the gap (Teece, Pisano & Shuen, 1997). Afterwards, several alternative conceptualizations of dynamic capabilities were developed. In this paper, I will use a specific definition of dynamic capabilities, which states that "a dynamic capability is the firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base" (Barreto, 2010). Among all the definitions developed so far, I have chosen this definition, as it is a recent perspective, it considers the previous theoretical developments and empirical findings, and also enables a clear operationalization of the construct.

Given the current global environment, it is very important and relevant to study the dynamic capability view. In turbulent business environments, the possession of dynamic capabilities is quite relevant (Teece, 2007). Firms in highly dynamic environments, i.e., where there are frequent environmental shifts, need to build successive temporary advantages (D'Aveni, 1994;

Eisenhardt & Martin, 2000). Creating moves and counter-moves to fight the competition and to build temporary advantage can lead to superior performance (D'Aveni, 1994).

Given Barreto's (2010) new and more rigorous definition of dynamic capabilities, it seems quite interesting to see whether and how this conceptualization applies to real-world situations. By 2007, Samsonite's performance decreased substantially and the company had to go through several strategic changes in order to get back on track. In this thesis, I will attempt to answer to the following questions: What strategic decisions can lead a well-established company to fail? What factors are critical in a turnaround? How do strategic decisions translate into changes in the resource base?

I will focus on the four dimensions underlined by the definition of dynamic capacities and analyze its possible relevance within a specific firm competing in a dynamic environment. To analyze the topics above mentioned, this thesis will be composed by five main sections. There will be a literature review where I will summarize the main theoretical findings about dynamic capabilities. Afterwards, the Samsonite's case will be described. In the third section, I will present the teaching note to answer some important questions about the case study. In the subsequent sections, I will present the discussion and the conclusion. Overall, I hope to better understand the role of dynamic capabilities and its four dimensions and to show the practical relevance of this topic.

II. LITERATURE REVIEW

The origin of the dynamic capabilities view

To better understand the dynamic capabilities view, it is important to consider the theories studied in the past. Some decades ago, several theories have emerged with the aim to explain how firms can successfully achieve competitive advantages. During the 80s, the dominant theory was the competitive force approach developed by Michael Porter (1980). This model includes the five industry-level forces framework which determines the potential profit of an industry. According to this model, competitive formulation of a firm is related to its environment and the industry structure strongly influences the competitive rules of the game and consequently, the strategies of firms.
Later on, a different theory appeared to explain how successfully competitive advantages are created and developed. The resource-based theory (Barney, 1991) assumes that resources and capabilities are heterogeneously distributed across firms and that such heterogeneity may persist over time. The real key factor to a firm's success or even to its future development lies in its ability to find and create a competence that is truly distinctive (Learned et al., 1969). The main limitation of these two perspectives is that they do not explain firm's competitive advantage in changing and dynamic environments (Priem & Butler, 2001).

Evolution of the concept of dynamic capabilities

All the previous theories were insufficient to explain the success of a firm in changing and dynamic environments and to fulfill this gap, the dynamic capability approach emerged. The first definition of dynamic capabilities was proposed as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece, Pisano and Shue, 1997). This definition presented significant limitations and it does not explain how some firms and not other achieve competitive advantage.
After that, new conceptualizations of dynamic capabilities were developed by other scholars. Eisenhardt & Martin (2000) came up with a different definition of dynamic capabilities as "the firm's processes that use resources" and also suggested that "dynamic capabilities are the organizational and strategic routines by which firms achieve new resource configurations". Later on, dynamic capability was considered as a "learned and stable pattern of collective

activity through which the organization generates and modifies its operating routines in pursuit of improved effectiveness" (Zollo & Winter, 2002).

On the other hand, Winter (2003) suggested that dynamic capabilities should be seen in the context of two types of capabilities: the ordinary capability and the high-order capability. He also suggested that the high-order capabilities influence the ordinary ones, which allow short-term survival. After a decade, Teece (2007), tried to redefine the concept of dynamic capabilities and he suggested that dynamic capabilities could be disaggregated into three dimensions: 1. the capacity to sense and shape opportunities and threats; 2.the capacity to seize opportunities and 3.the capacity to maintain competitiveness though enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets. One major problem of these and other definitions of dynamic capabilities was that it was hard to test them empirically as they were too broad and often tautological

New definition of dynamic capabilities

Recently, a new definition was proposed as "the firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base" (Barreto, 2010:271).

According to this definition, dynamic capability should be viewed as a multidimensional construct because it refers to four distinct but related dimensions, treated as a single theoretical concept. The four dimensions are interconnected and no dimension alone can represent the construct (Barreto, 2010). Although the four dimensions represent the specific components of the construct, there is no requirement about the level of correlation among them and some dimensions might even be poorly correlated (Law et al., 1998).

The four dimensions emerged through past research from different scholars. The propensity to sense opportunities and threats is consistent with previous suggestions by Teece (2007) in his topic of "capacity to sensing opportunities and threats". Other scholars mentioned the importance of "capability monitoring" as an important function in dynamic capabilities (Schreyogg & Kliesch-Eberl, 2007). Other considerations on the managerial framing of opportunities and threats as one key element of dynamic capabilities were also made (Gilbert, 2006).

The propensity to make timely oriented decisions was also studied before by several scholars. Eisenhardt and Martin (2000: 1117) suggested that the potential for long competitive advantage lies not only in the ability to change existing resources but also in doing it sooner. Other scholars highlight the importance "to quickly accomplish reconfiguration and transformation ahead of competitors", which recall the importance of firms in making decisions at the right time (Teece et al., 1997: 521).

The propensity to make market-oriented decisions is also important. Adner and Helfat (2003) mentioned that although timely decision making is relevant for dynamic capabilities, the content of such decision is equally or even more important. Other findings have suggested that market orientation can be transformed into a dynamic capability when complemented by reconfiguration capabilities (Menguc and Auh, 2006).

Finally, the propensity to change the resource base is in line with several earlier proposals (Eisenhardt & Martin, 2000; Helfat et al., 2007; Teece et al., 1997) and it includes firm's propensity to create, extend and reconfigure the resource base. Scholars have highlighted the importance of not only to make the right decisions at the right time, but also in building new resources configurations to achieve a long-term competitive advantage.

Dynamic capabilities and its performance

The relationship between firms' dynamic capabilities and performance has also been a relevant topic. There are three main approaches presented in this field: The first approach stated that there is a direct relationship between firm's dynamic capabilities and performance (Makadok, 2001; Teece et al., 1997; Zollo & Winter, 2002). Some scholars believe that dynamic capabilities theory explains the level of success and failure of the firms, competitive advantage and private wealth creation. Some of them consider the dynamic capabilities approach as a casual mechanism by which firms create profits.

The second approach suggest that dynamic capabilities do not necessarily lead to a superior performance (Eisenhardt & Martin, 2000; Helfat et al, 2007) and that performance effects may depend on the characteristics of the resulting new resource configuration or on how managers use their dynamic capabilities. The scholars who defend this idea suggest that dynamic capabilities are necessary, but not sufficient conditions for competitive advantage. They also suggest that, in the long term, competitive advantage of a firm does not rely in dynamic capabilities themselves but on the resource configurations created by dynamic capabilities. According to this view, performance effects should be expected only if the new resource base proves to be valuable, rare, inimitate and nonsubstituable (Barney, 1991).

The third approach considers that there is an indirect relationship between dynamic capabilities and performance (Zahra et al., 2006; Winter, 2003). The authors who defend this approach also consider that dynamic capabilities may damage rather than improve the firm's performance if dynamic capabilities are used when there is no need or when assumptions used by firms are wrong.

Returning to the main question regarding how firms can build competitive advantages in dynamic environments, this remains a very complex topic. Currently, we are living in a dynamic and changing environment, so adaptation is crucial for any firm. It is not possible neither realistic for any firm to maintain a unique and static competitive advantage and expect to survive in this current competitive market. Firms need to be able to achieve successive and temporary competitive advantages, to fight against the various exogenous shocks and ultimately to survive (D'Aveni, 1994; Eisenhardt and Martin, 2000; Barreto, 2010). The field of strategic management and the dynamic capabilities framework recognizes that 'strategic fit' needs to be continuously achieved (Teece, 2007). However, there is no guarantee that by implementing dynamic capabilities, a firm will be able to perform well and to be ready to address all the exogenous shocks of the market. There are other variables that might influence the level of performance of a firm (e.g. the decisions of the managers).

III. TEACHING CASE

When Samsonite began to manufacture suitcases in 1910 in Denver as a local and family business, no one could imagine the growth this company would have. Jesse Shwayder was the founder and an entrepreneur with the vision of creating functional and durable suitcases, which at that time was a unique product. Until 1973 the company was managed by Shwayder's family, and since then, the company has been a subsidiary of several conglomerate companies. In 2007, Samsonite was acquired by CVC Capital Partners for $1.7 billion, but few months after that, the company was forced into a debt-for-equity swap with its biggest lender, Royal Bank of Scotland (RBS). Due to this operation RBS got 30% stake while CVC held 70% of the company[1]. From this time until the end of 2008, the adjusted EBITDA of the company has decreased around 10%[2] and the projections for the future were pessimistic. In an attempt to save the company, in 2009 Tim Parker, who was a member of the advisory board of CVC Capital Partners[3], was appointed as CEO of Samsonite. Some reorganization measures were applied and on September 2nd, 2009 the company filed for Chapter 11[4] burdened by its $1.5b debt and its weak revenues. Two years after, the company was completing an initial public offering in the Hong Kong Stock Exchange[5] and its success has represented a fantastic turnaround for Samsonite[6]. What type of strategic decisions lead Samsonite to such fragile position in 2009? How can a company be almost bankrupted and in a few years become a complete success? What measures could have been done in order to avoid the crisis?

Company's History Background

Samsonite Group was founded by Jesse Shwayder (Exhibit 1) in 1910 in Denver, Colorado, United States, under the name of Shwayder Trunk Manufacturing Company. Shwayder who used to work for several years as a salesman in New York in a trunk and bag company decided to return to his hometown and with the age of 28 he started his own business. With his life's savings of $3,500[7] he began to manufacture wood trunks and suitcases (Exhibit 2) in a 50 × 125 foot room that he had rented in downtown Denver.[8] Shwayder burned through most of his $3,500 in savings during his first year of business, but he was able to borrow more money in order to keep his business on moving.

His four brothers joined him in 1912 and each one of them was charged by a department. Mark started to work on sales, Maurice and Ben focused on manufacturing and Sol became the company's attorney[9]. Later on, in 1916, the Shwayders took a picture that would become an advertising coup (Exhibit 3). In the picture, the five Shwayder brothers are standing on a board that is balanced on a Samsonite suitcase to demonstrate the strength of the suitcase[10]. The photo was used to advertise Samsonite luggage and the slogan used was "Strong enough to stand on”[11]. This became an excellent promotional and direct-mail advertising tool for several years.

The experience that Jesse Shwayder has acquired in New York helped him to develop an efficient strategy for his business, rather than trying to compete with other luggage companies on price, he decided to differentiate his products on quality. He started to focus his business in manufacturing luggage for turn-of-the century travellers, which were composed by a small and affluent group of people who appreciate unique, durable and finely crafted products[12] and by 1917 they were selling $76,000 worth of luggage annually throughout the Western United States. At that time, the brothers felt the need to build a bigger plant to fulfill all the demand in the Western side of the United States and in 1924 they moved their operations into a new 80,000 square foot factory in south Denver.

With the Western United States side under control, the Shwayders leased an 85,000 square foot factory near Detroit to keep pace demand in Eastern United States in late 20s. At that time, the company covered all the United States market and its revenues bolted to more than $1 million. With that plant up and running, the company seemed almost unstoppable. Unfortunately, the 1929 stock market crash and succeeding Great Depression revoked that perception. Shwayder Trunk's shipments felt by 50 percent within few years and the brothers had some difficulties to meet payroll and pay their bills. At that time, they replaced lost luggage sales to manufacture other products, such as license plates, card tables, stilts, doggie dinettes and sandboxes. To reflect the diversification, the brothers changed the name of their company in 1931 to Shwayder Brothers, Inc. [13] and interestingly, the Shwayder's card table sales briefly surpassed luggage shipments during the 1930s.

After this time of crisis, the company decided to focus again in its core business and in 1941 launched a suitcase with the name of Samsonite. The reason for the chosen name was to highlight the strength and durability of the product and brand by taking its name from the biblical character Samson[14], renowned for his strength. At that time, the company created its own logo, the Samson personage (Exhibit 4) in order to differentiate its brand from its competitors. By 1948, the sales of the company had shot up to $13 million and its product line was considered an enormous success.

Over the years, the market trends have changed and the wooden box construction gave way to a shift towards lighter materials, initially magnesium and ABS. In 1956, an innovative lightweight luggage line[15] was launched and at that time, the Samsonite brand luggage was already a success. In the same year, the company expanded out of the United States for the first time. The company built its first subsidiary in Canada and it has also created an export sales department focused on Europe[16]. Because of the positive impact of the brand and this enormous development, in 1965 the company decided to change its name to Samsonite Corporation[17] in order to capitalize the now-renowned Samsonite label.

Becoming Global

The corporate structure of the company remained within the family environment until beginning 1970s. Jesse Shwayder managed the company until 1962[18], and after his retirement, his son, King David Shwayer became in charged for the company and one of the responsible for its expansion. By the mid-1970s, the company had achieved a truly global presence and was the leading manufacturer of luggage in the world. The company, which was still headquartered in Denver, was employing a work force of 5,000 and boasted the largest and most advanced production facilities in the luggage and casual furniture industries[19].

After operating as an independent firm under the direction of the Shwayder family for more than 60 years, in 1973, Samsonite was purchased by Beatrice Foods Co. [20], and became its subsidiary. Beatrice allowed Samsonite to continue operating as an autonomous company, and has supported its expansion efforts financially.

This change in the corporate structure led to some changes in the company, starting by the change of the company's logo to the swirl image[21], which is now used and it helped the company's positioning in the market with a more formal and corporative image (Exhibit 5). The company also became more concerned with the market and consumer trends and several "firsts" were introduced in the market with the aim to anticipate and fulfil the changing requirements of travellers[22]. In 1974, the first Samsonite suitcase on wheels was introduced representing a revolution in comfort and convenience for travels and later on, in 1986, the company developed a suitcase with a three point latching system, which became the best-selling Samsonite product at that time (Exhibit 6).

In the meanwhile, Samsonite belonged to various consumer goods conglomerate companies, but after 22 years working as a subsidiary, in 1995, the company merged with its former holding company at that time, Astrum International Corporation[23], leaving once again Samsonite Corporation as an independent company. Since Astrum had purchased the American Tourister luggage company[24] years before, when the merger happened, the new company was composed by Samsonite, American Tourister divisions and related operations. That purchase significantly enhanced Samsonite's lead in the domestic luggage market and expanded its scope to include some lower tier segments of the market.

In 1997, with the beginning of the financial crisis in Asia (Exhibit 7), the company reinforced its strategy on the mature markets (North America and Europe), which represented 87% of the company sales and accounted for the majority of revenues of the company (Exhibit 8). In the same year, the company presented the first upright case with a balanced four-wheel system that allowed the traveler to push or pull their luggage and only after three years, in 2000, the four-wheel Samsonite Spinners were introduced (Exhibit 6), again, improving mobility, convenience and anticipating traveler's needs.

Until this time, the mature markets have been relatively constant. However, some saturation has been revealed when for the first time, the sales in mature markets decreased in 2000[25]. To worsen the situation, several shocks on the market occurred, creating instability in the company. On September 2001, United States has suffered dramatic terrorist attacks which had put pressure on the travel industry, leaving the company under significant financial stress. Later on, in 2003, the SARS epidemic has negatively impacted the travel industry as well, and consequently, it has decreased the performance of the company (Exhibit 7). According to Gendreau, CFO of Samsonite, "the effects of those events (those which are not controlled by the company) typically lasted up to six months before the business recovered and returned to a growth trend"[26] because of the direct correlation that exist between the travel industry and luggage industry trends.

During that time, Samsonite Corporation's common stock was listed on Nasdaq, but this only lasted until January 2002 when the company was delisted as a result of having a market capitalization lower than Nasdaq's minimum requirements for listing. In 2002 the company lost ground in the domestic market, representing a decreased in the sales of 14% in North America and a decrease of 7% in overall market. From January 2002 until October 2007, Samsonite Corporation was publicly traded on the OTC Bulletin Board, where the share price never reached more than 1.5 USD (Exhibit 9). In the same period of time, the percentage of sales provided by mature markets has decreased substantially, in 2002 the mature markets accounted for 82% of the sales, while in 2007, the same markets accounted only for 73% of the sales. Due to this big change in the market, Samsonite has expanded its business in Asia by establishing Samsonite majority-owned joint ventures in Australia and Thailand with the aim to easily reach the Asian market[27].

The year of 2007 was a decisive year for the company; there was deterioration in global economic conditions which affected consumer confidence and spending, and which are directly correlated with the performance of the company. Although the overall sales of the company have increased approximately 4%, the adjusted EBITDA decreased approximately 9.5%[28].

Under such a pressure and unable to control the results of company, on July 5, 2007, the group was acquired by the private equity firms CVC Partners in an all-cash deal of about $1.7

billion. The deal, which was approved by the board of Samsonite, valued positively the company at $1.49 a share. [29]The acquisition did not affect the business operations of the group and did not result in the divestment of any group companies. However, this was not as successful as CVC Partners expected and one year later, Samsonite was forced into a debt-for-equity swap with its biggest lender, Royal Bank of Scotland. The deal cut Samsonite's debt from about $800m to $240m and the structure of the company changed; RBS got 30% stake in Samonite while CVC held almost 70% of the company.[30]

In 2008, while the total amount of sales of the company continued to increase, the adjusted EBITDA have decreased 10% for the second consecutive year. At this point in time, the Asian market accounted for 22% of the overall sales of Samsonite, while mature markets accounted for 69% of the sales[31].

Although the company's adjusted EBITDA continued to diminish, Samsonite continued to be the leader in the luggage market with a market share of 9.6%. Its major competitor was VF Corporation which was comprised by Eastpak, Reef, and The North Face among other well known brands and held a market share of 3.1%. It is important to retain that this is a very segmented market where around 80% of the luggage market is composed by small local manufactures (Exhibit 10), so although the market share of Samsonite seems small, the company is far ahead of its competitors and has shown a solid and leading position in the market.

In 2009, the sales of Samsonite on mature markets accounted around 65%, while the remaining 35% accounted for markets in Asia and Latin America[32]. At this point in time, the global luggage industry was valued approximately US$24.7 billion, where Asia was considered the largest luggage market, comprising approximately 40% of the total market. The mature markets (North America and Europe) accounted for 53% of the total market.

Although the total amount of retail sales of luggage has been increased over the time, as well as the sales of Samsonite, the different regions have shown a different evolution (Exhibit 11). The percentage of sales in North America, Europe and Japan were decreasing in comparison with the total amount of sales in the global luggage market, while the percentage of sales in Asian (without Japan) and Latin America were expected to increase significantly in comparison with the total amount of sales in the global luggage market (Exhibit 12).

According to the consulting company Frost and Sullivan, the value spent per capita on expenditure on luggage is another factor that luggage companies should have in consideration when they are delineating their business strategies since it can gives a good measurement of the economic wealth of each zone. The expenditure on tourism and travel expands once the household's disposable income grows beyond a level which covers its basic needs. Per capita expenditure on luggage was significantly lower in developing regions than it was in the developed markets of Japan, North America and Europe. However, the growth rate of expenditure on tourism and travel was much higher in developing countries than it was in developed countries, which means that the expenditure on tourism and travel was expected to increase a lot in Latin America and Asia (excluding Japan) and especially in India, China and South Korea (Exhibit 13).

Moment of Truth

At this point in time, Samsonite continued to be the leader in the luggage market with a market share much ahead of its competitors and with a small but consistent growth on sales. However, the adjusted EBITDA which is viewed as an important financial measure of the company's overall profitability has decreased since 2007.

Several factors have influenced this result, and according to Frost and Sullian consulting company, the luggage market has changed over the last decade. The mature markets which have been very constant over the last decades are now showing some signs of saturation and economic problems, while the markets in developing are showing an increase on the expenditure on travel and travel-related products.

Adding to these occurrences, North America and Europe have suffered an economic and financial crisis which started exactly in the beginning of 2007 and according to Samsonite's Chief Financial Officer "the recession has caused a severe decline in consumers purchasing travel-related goods and the company has responded to this critical situation with a substantial restructuring program"[33], suggesting that this recession was the main cause of Samsonite's poor performance. Sales of travel luggage, which makes up the majority of the sales for Samsonite, were significantly dependent on travel as a driver of consumer demand, which has decreased significantly with this recession.

Strengthening this opinion, Don Chernoff, president of Skyroll, which makes roll-up luggage for air travels, suggested that he"knew this recession was going to be bad because it looked and felt a lot like what happened after [the attacks on Sept. 11, 2001], the big difference being that 9/11 was a sharp spike down and rebounded quickly", but "this time is much worse."[34]

Independent of what has truly caused the bad performance of Samsonite, the results on 2009 were catastrophic. The overall sales of the company dropped approximately 17.6% to 1029.4 million of dollars in 2009 (Exhibit 14), while adjusted EBITDA have decreased almost 54% in the same period of time (Exhibit 15). It is also possible to perceive that during that period the most affected zones were Europe with a decreased of 25% on sales, Latin America with a decreased of 24% and North America with a decreased of 18%. Finally, the corporate costs of Samsonite had increased 68% between 2008 and 2009 and it had represented a huge proportion in comparison with the presented net income (Exhibit 16).

With these poor results, Samsonite decided to make a reorganization of the company's structure. Kyle Gendreau, CFO of Samsonite Co. Stores of Samsonite Corp said that "realigning the company's real estate portfolio will increase profitability, allowing us to further capitalize on growth opportunities and to secure the company's future" [35] in order to improve the company's performance.

The Reorganization

Given the huge drop in sales and in EBITDA's values of the company in the beginning of 2009, the company felt the need to make an extreme reorganization inside the company.

Changes in corporate structure

In connection with the 2009 Reorganization, Samsonite Corporation was converted into Samsonite LLC, a Delaware limited liability company. Samsonite LLC was transferred at fair market value to a new Luxembourg holding structure, consisted of a series of seven Luxembourg-incorporated private limited companies, known as Luxcos 1-7. Luxco 1 is the holding company for the group, and Luxcos 2-7 are its wholly-owned subsidiaries. As a result, the group became tax resident in Luxembourg [36] and all the assets of Samsonite Corporation were acquired indirectly by Luxembourg subsidiaries of the company. Luxembourg is considered one of Europe's leading financial centers and it is a place which offers low effective corporate rates and various tax incentives[37].

Another change in the corporate structure during that time happened with the appointment of Tim Parker as CEO of the company. Parker, who was considered one of the best-known and successful turnaround managers in the UK, filed the Subsidiary Samsonite Company Stores, LLC into Chapter 11 by filing a petition in Delaware on September 2nd, 2009[38]. Chapter 11 is the principal business reorganization chapter of the United States Bankruptcy Code and under the Chapter 11, a company is authorized to reorganize its business for the benefit of itself, its creditors and equity holders.

According to the U.S. Bankruptcy Court in Wilmington, Delaware, the company listed $233 million in assets and $1.5 billion in debt[39] and facing this situation, some measures were applied. The company started by eliminating unnecessary global management team positions that duplicated functions in the regional operations and also decided to close the global executive headquarter in London. Besides that, the company has closed 84 underperforming retail stores in United States (out of 193) and 31 in Europe (out of 92); consequently, the number of employees was reduced as well by 115 in North America regional headquarters and by 505 in Europe regional headquarters. Apart from that, the company decided to end unprofitable non-core businesses such as luxury handbag joint ventures and its Italian-based shoe product line[40].

Regarding its operations, Samsonite has rationalized the manufacturing and distribution operations in Europe as well as the sales organization in Europe and Latin America by closing local sales offices and shifting toward third-party distributors. Finally, the company has negotiated lower freight prices and has improved the terms of trade and business relationships with suppliers.[41]

The company has reached an agreement with its creditors on the terms of a court-approved plan of reorganization, which included the repayment of its creditors. The 20 largest creditors without collateral backing their claims are owed a total of $920,301[42]. Athalon Sportgear Inc., owed $272,049 and was listed as the largest unsecured creditor. Parker, dubbed the "Prince of Darkness" by British union groups for his ruthless cost cutting, expects to save $100 million in annual costs and triple its EBITDA for the next year.

As a result of the 2009 reorganization the ownership of the group was the following one:

CVC Funds	RBS	Other Lenders	Tim Parker/ Corelli LP	Management(1)
54.3 percent	29.9 percent	5.3 percent	6.5 percent	4.0 percent

Note: (1) Management comprises certain members of management (excluding Tim Parker), current and former directors of the Group and industry advisors to the CVC Funds.[43]

Regarding the joint ventures of the company, those would be treated as majority-owned subsidiaries in the group's accounts. Under these arrangements and through trademark licensing agreements all the joint ventures produce and commercialize Samsonite and American Tourister brands and each one has its own board composition, voting at shareholder meetings and restrictions on the transfer of shares. Profits of the joint ventures are distributed by way of dividend in proportion to the interests held by us and our joint venture partners[44].

Change in strategy

After all the measures done to reduce the cost base of Samsonite, the company felt the need to re-focus its strategies and its implementations.

One of the objectives of the company was to strengthen the leading position of Samsonite, through continued investment in innovation and marketing and to achieve that, the company has planned to invest in the development of the products. Its goal was to introduce at least one major innovation product per year. The company decided to maintain a robust level of expenditure on product-focused advertising in order to emphasize the characteristics of functionality and durability of the brand and to support the brand globally and locally (Exhibit 17).

Furthermore, the company has decided to develop American Tourister as a brand that reflects its core values of quality and reliability at more accessible price points. This strategy enabled the company to penetrate in emerging markets, especially in India and China, through the growth of the emerging middle class. The company intended to develop American Tourister through advertising focused on Asia, increasing the number of points of sales and design products that correspond to the customer preferences. [45]

Since the company was a global leader in the luggage market, the company decided to take advantage of economies of scale in marketing, research and development, distribution and sourcing and in this way, the company would be able to save money.

The company decided to focus on developing the company's business in high growth Asian markets, particularly in China and India, through investment in marketing, further expansion of the distribution network, by increasing the existing points of sales, expanding geographical coverage and develop product ranges tailored to local customer's preferences in each region.[46]

In more mature markets, such as in Europe and North America, the company planned to use the existing strong brand awareness and its extensive distribution network to increase the company's revenues and penetration of the business and casual product categories.[47]

Moreover, the company decided to operate its business with a higher degree of autonomy in the four geographic regions of Asia, Europe, North America and Latin America, while retaining centralized management over brand consistency, sourcing and finance. This approach enabled Samsonite to implement appropriate business strategies for different regional consumer preferences and trends, market dynamics and economic conditions.

Regarding the products offered by the company, its aim is to increase penetration of the business bags, casual bags and accessories product categories through sustained investment in product development, marketing and staff.

Finally, the ultimate goal of Samsonite is to continue to increase the company's adjusted EBITDA margin through expansion in the Asian markets by preserving its efficient cost base through managing supplier relationships and by maintaining fixed costs through efficiencies resulting from economies of scale[48].

The Turnaround

One year after the 2009 reorganization and after the implementation of the new strategies, the company obtained amazing results. The sales of the company have growth exponentially (Exhibit 15) and as result of that, the adjusted EBITDA have increased around 241% (Exhibit 16), reaching results never seen before. The results of the business in Asia have increased around 60% and around 400% in Latin America. In the more mature markets which have suffered a very radical cost base reduction, the result was impressive as well. In North America, the profits increased around 866% and in Europe, the around 81%. The costs with the corporate structure have also decreased around 68% (Exhibit 16).

In 2011, the results of the adjusted EBITDA continued to be very positive, showing a growth rate of 30% (Exhibit 15). The reorganization and new strategies implemented worked very well, the company has shown an impressive recovery, and to highlight this success, the company has completed its IPO on the Hong Kong Stock Exchange by raising HK$9.73 billion (US$1.25b) in the process, on June 16th, 2011. Hong Kong has been considered the biggest market for IPOs for the last years as London and New York have struggled in the wake of the financial crisis. [49] According to Kyle Gendreau, Samsonite CFO, Hong Kong was the "logical" listing venue for the company for both fundraising and strategic reasons. He also added that "Asia is Samsonite's biggest, fastest growing and most profitable region" and "it's also the region with the best long-term growth prospects for us." [50]

The company and shareholders, including CVC and Royal Bank of Scotland Group, sold 671.2 million shares, where 121.1 million were new issued shares and the remain 550.1 million belonged to CVC, RBS and several former and current employees of the company and were sold in a secondary offering.[51] This process allowed a partial exit for its backers, enabling CVC Capital Partners and Royal Bank of Scotland, to sell down their stakes from 54.3% to 29.8%, and from 29.9% to 15.8% respectively.[52] Later, on January 2013, the company sold 138.3 million more shares, leaving CVC with a 9.7% position while RBS had 5.1%[53].

Regarding the price per share determined for Samsonite, just few days before the IPO, the company had narrowed the indicative price range from HK$13.5 -HK$17.50 to HK$14.50-HK$15.50,[54]eventually being sold at HK$ 14.50 ($1.87) each share. This represents 18.3 times its projected 2011 earnings[55]. On average, the P/E ratio for Asia ex-Japan consumer companies is 20.1 times, according to CLSA estimates, so Samsonite transaction was below the Asian consumer companies' average.

Masahiko Ejiri, a Tokyo-based fund manager at Mizuho Asset Management Co. commented that "the timing of Samsonite's listing isn't that great" and that "the global economy might be weaker than expected, so people are just very cautious about buying into equities" explaining why the price per share of Samsonite was not higher. However, CFO Gendreu believed that "the IPO was really the best refinancing option in that it enabled the shareholders to achieve liquidity while allowing them to retain significant exposure to Samsonite's future growth". Samsonite was the fourth Hong Kong IPO exceeding $1 billion in 2011 and all four have dropped from their initial sale price in the first day of trading, by an average of 8 percent, according to Bloomberg data. In the case of Samsonite, its initial sale price fell 7.7 percent to HK$13.38 at the 4 p.m. close in Hong Kong[56]. Tim Parker, chief executive officer commented after the listing ceremony at the Hong Kong Stock Exchange that "where markets are at the moment, it's a pretty tough place", although, he felt that "this is a pretty good way to open, actually. I'm not at all displeased."[57]

Apart from that, Samsonite shares suffered some turbulence, falling sharply in subsequent weeks, drifting from their HK$14.5 (US$1.9) initial price down to HK$9.25 (US$1.19) by November (Exhibit 18). However, with the shares having made a spirited charge back toward their IPO level, in February they reached HK$14 (US$1.8) again.

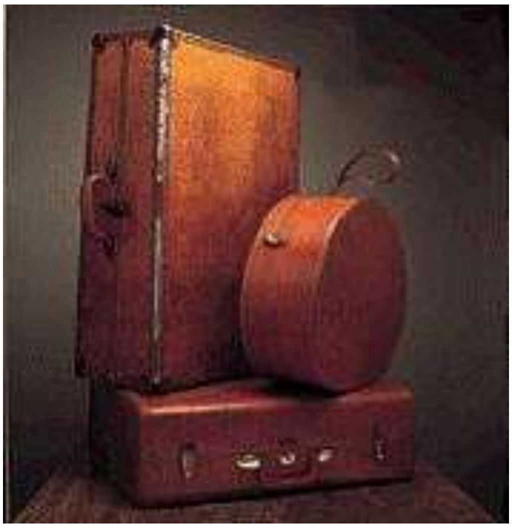
Raising capital was not the only motivation for the flotation. According to the CFO, the move was strategically advantageous and he believed that "listing on the Hong Kong Exchange helped to significantly raise our profile and that of our brands, especially in Asia, which has yielded excellent operational benefits". Gendreau also seemed confident in this approach and he believed that "this strategy leaves us well positioned to take the lion's share of the growth in the luggage market in the next few years."[58] The company is betting on growth in Asia, where leisure travel is becoming increasingly affordable and where the market it is expanding into business and casual bags.

EXHIBITS

Exhibit 1 – Jesse Shwayder's photo

Source: http://www.lojasamsonite.com/sam-brand#

Exhibit 2 – Suitcases produced by Shwayder Trunk Manufacturing Company



Source: http://www.lojasamsonite.com/sam-brand#

Exhibit 3 – Photo used for the first advertising campaign in 1916 with the slogan: "Strong enough to stand on"

Source: University of Denver Library - http://lib-anubis.cair.du.edu/specoll/Beck/ph160.cfm

Exhibit 4 – Old Samsonite Logo (Samson)

Source: http://boyleg.blogspot.pt/2009/01/old-samsonite-logo.html

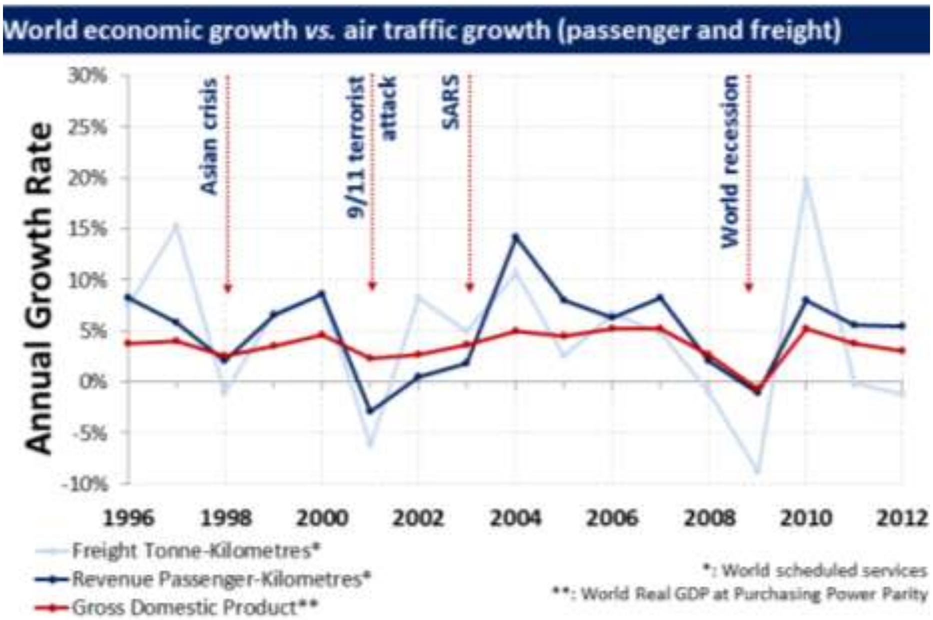
Exhibit 5 – Logo launched in 1973 (Left) and its development

Source: http://aletp.com/2007/09/27/samsonite-historia-da-marca/comment-page-5/

Exhibit 6 – Evolution of luggage in Samsonite

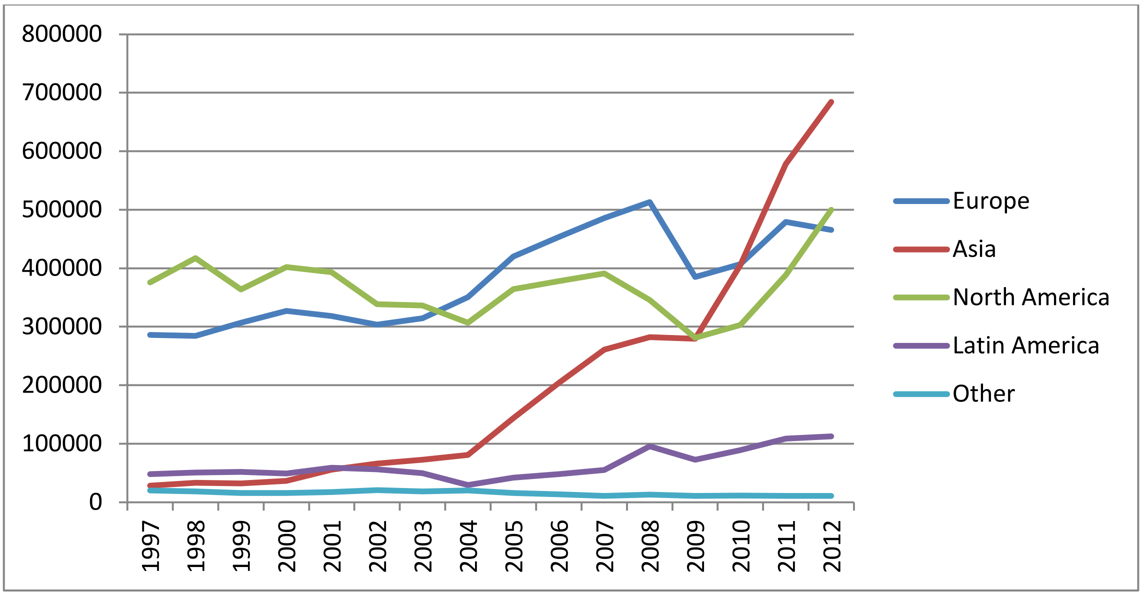
Source: Samsonite official prospectus, 2011, History of Samsonite

Exhibit 7 – World economic growth vs. air traffic growth (passenger and freight)



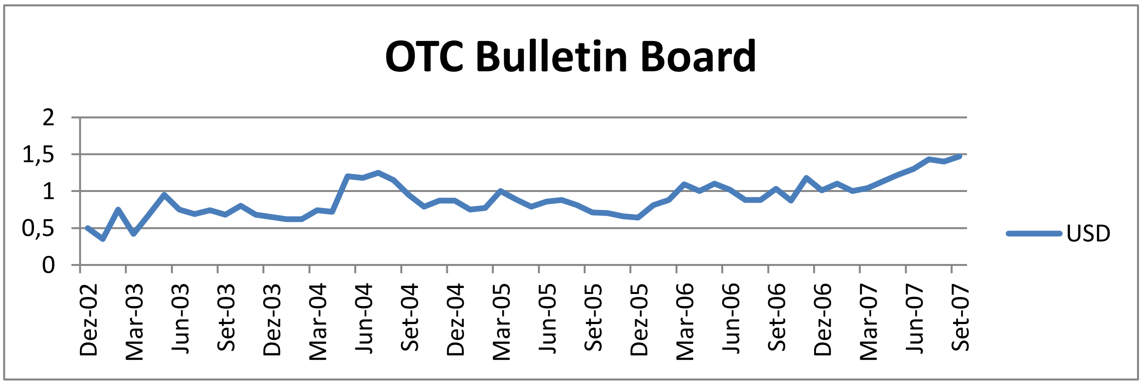
Source: http://www.icao.int/sustainability/Pages/Facts-Figures_WorldEconomyData.aspx

Exhibit 8 – Evolution of the total sales of Samsonite by zones



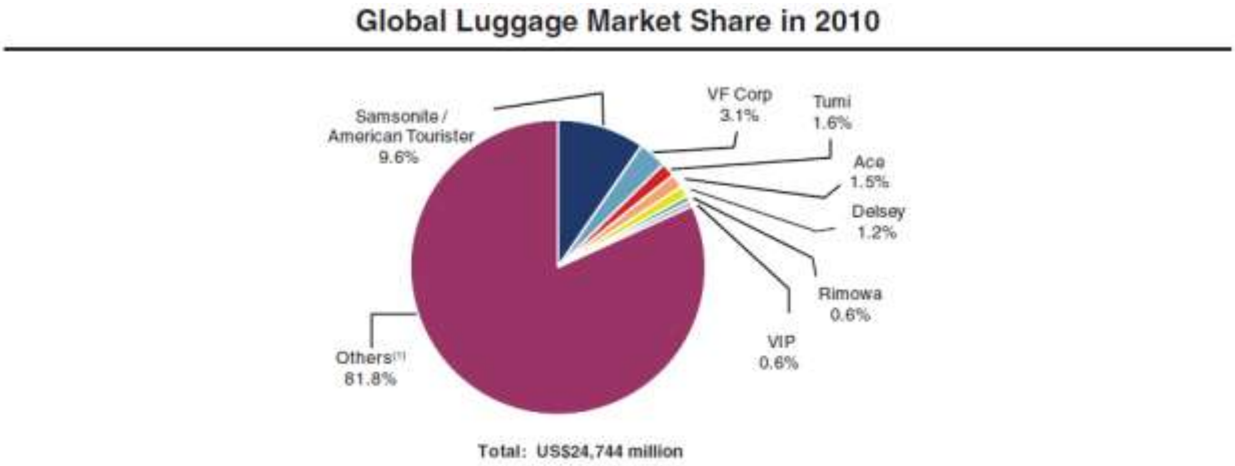
Source: Osiris data

Exhibit 9 – Samsonite's share price on OTC Bulletin Board (in dollars)



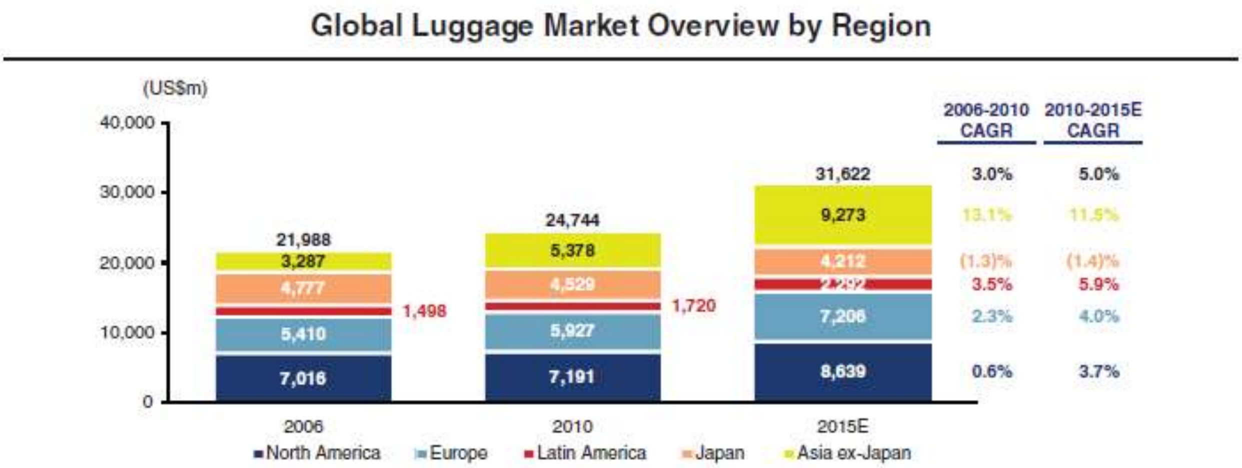
Source: Osiris databse

Exhibit 10 – Global luggage market share in 2010



Note:
(1) Other include: Antler, Bric's Victorinox, Wenger Swiss, Randa, Diplomat and Travelpro as well as other smaller players.
Source: *Frost & Sullivan*

Exhibit 11 – Global Luggage Market Overview by Region



Source: *Frost & Sullivan*

Exhibit 12 – Luggage market growth by regions

Exhibit 13 – Per Capita Expenditure on Luggage in 2010 and 2015 Forecast

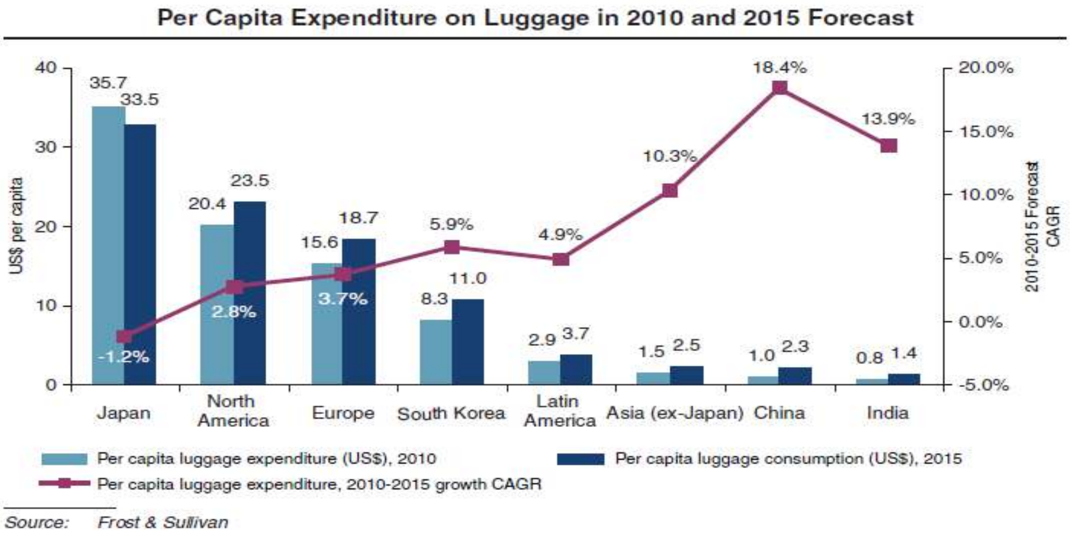
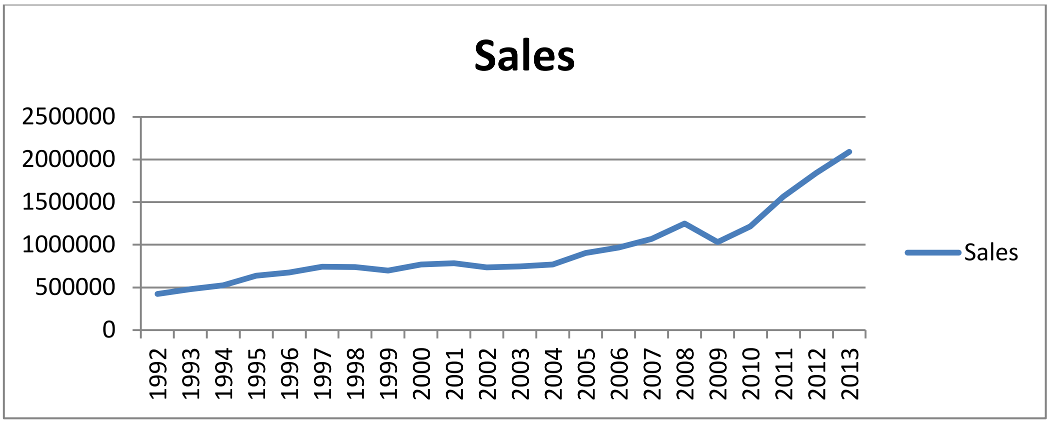
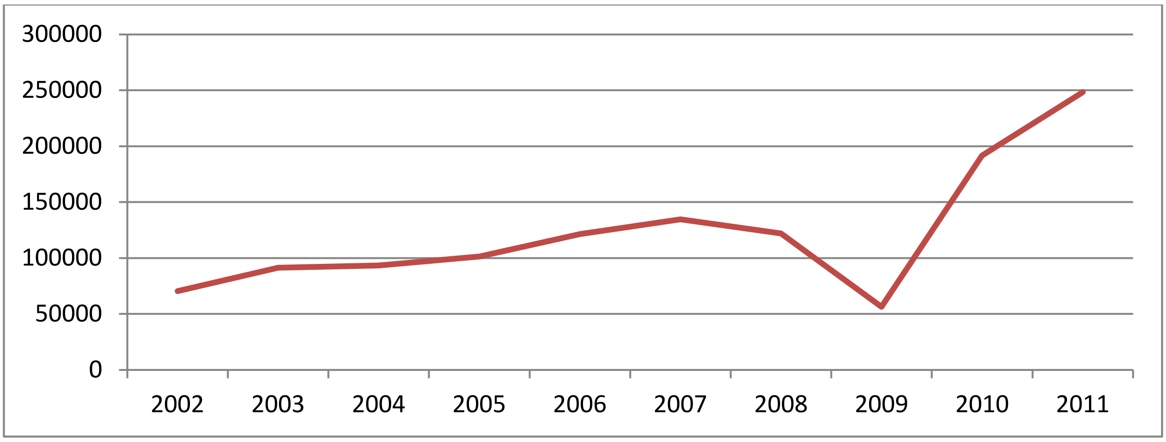


Exhibit 14- Evolution of total sales of Samsonite Corporation



Source : Osiris database

Exhibit 15 – Adjusted EBITDA of Samsonite



Source: Samsonite Financial reports

Exhibit 16 – Adjusted EBITDA per zones in 2008, 2009 and 2010

	Year ended December 31,					
	2008		2009		2010	
	US$'000	% of region's net sales	US$'000	% of region's net sales	US$'000	% of region's net sales
Region:						
Asia	58,119	20.6	50,095	17.9	80,064	19.8
Europe	70,897	13.8	40,180	10.4	72,862	17.9
North America	3,083	0.9	4,121	1.5	39,834	13.1
Latin America	13,803	14.4	2,351	3.2	12,107	13.6
Corporate	(24,076)		(40,525)		(12,926)	
Adjusted EBITDA	**121,826**	**9.7**	**56,222**	**5.5**	**191,941**	**15.8**

Source: Samsonite financial reports

Exhibit 17 – Examples of Samsonite advertising campaigns where the durability and functionality of the brand are presented

Source: Samsonite official prospectus

Exhibit 18 – 1910.HK Evolution of share price of Samsonite Corporation

Source: Yahoo Finance-
http://uk.finance.yahoo.com/echarts?s=1910.HK#symbol=1910.hk;range=2y;compare=;indicator=volume;charttype=area;crosshair=on;ohlcvalues=0;logscale=off;source=undefined;

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IV. Teaching Note

Synopsis

The Samsonite group was founded in Denver, in 1910, by Jesse Shwayder who at that time decided to manufacture durable and functional suitcases for a small group of affluent people who used to travel around United States. The company became truly famous when manufactured a strong suitcase called Samsonite in 1941. The chosen name wanted to highlight the durability and strength of the brand honoring the biblical personage Samson and few years later, the brand was so successful that in 1965, the company changed the name to Samsonite Corporation.

By mid-1970s, Samsonite was the leading manufacturer of luggage and it had a global presence in the world. Until 1973 the company was being managed by Shwayder family members, but after that time, Samsonite was bought by a bigger company and it became a subsidiary of Beatrice Foods Co. For the next 22 years, Samsonite belonged to several different holding companies, regained its independency again in 1995 when Samsonite merged with its holding company regained the name of Samsonite Corporation.

Until January 2002, Samsonite was listed in NASDAQ, when after that was delisted due to its low revenues. From January 2002 until October 2007 the company was publicly traded on the OTC Bulletin Board, when after that date, it was remove.

In July 2007, CVC Partner Capital acquired Samsonite for $ 1.7 b and this acquisition did not affect the business operations of the group. However, this was not as successful as CVC Partners was expecting and one year later, Samsonite was forced into a debt-for-equity swap with its biggest lender, Royal Bank of Scotland. The structure of the company changed and RBS got 30% of the company while CVC got the remained 70%.

In 2009, as a result of the crisis in the financial sector, in the air traveling sector and as result of the changed on the luggage market trends, the profits of the company decreased substantially and the company felt the need of reorganization; Tim Parker was appointed CEO of the company and significant changes happened in the structure of the company as well as in its strategy. The results of this reorganization were quite positives and on June 2011 Samsonite has completed an IPO in the Stock Exchange of Hong Kong and has raised a total amount of $ 1.25 billion dollars in this operation.

This case examines how a leading and successful company forgot to look at the market trends and failed to see what was really important. The first section of the case was devoted to explain how Samsonite was founded and the concept behind its success. It covers the early years of the company and the different corporate structure that the company has had over the years.

The second part of the case indicates how Samsonite became global and makes a brief overview of the global luggage market trends during the period of analysis.

After that, it was made a brief description of the economic situation of the company in the moment they realized they needed a restructuration. It was described the values of the luggage sales in the different regions, as well as, the valued of the EBITDA of the company.

The fourth section of the case revolves around the restructuration that affected the company in 2009, and the measures that Tim Parker took in order to revitalize the company. It describes extensively the changes that happened in terms of corporate structure as well as in terms of strategy orientation.

Finally, the last piece of the case describes the status of Samsonite in 2011, when it completed its initial public offering in the Stock Exchange of Hong Kong and the challenges for the future.

Teaching Purpose

The Samsonite's case is suitable to develop the skills and competences of graduate students who already undertook basic economics, business and strategy courses. The case is intended to be taught at master's level in strategy subjects, in order to make known to students how a leading company can be so badly affected by market changes and how can the same company make a turnaround and resume its successful path.

The case requires from students to:

- Analyze the external context of the global luggage market along the time, highlighting the main drivers for the company's crisis;
- Understand the dangers of failing in sensing opportunities and threats and in making late decisions in a dynamic environment;
- Analyze the top management team's role in an environment in crisis;
- Understand how the strategic decisions implemented have impacted the resource base of the company.

The instructor should have already presented to their students the view and a case dedicated to dynamic capabilities, so that they can better identify the external environment and dimensions in this case. Compaq in Crisis by Adrian Elton is a good case to introduce the topic.

Intended Contribution

The Samsonite case illustrates how a leading and successful company has missed the trends in the market and industry. The company ignored the environment changes, when failed in sensing market opportunities and threats and in making timely decisions, thus, having a negative impact on the performance of the company.

The case also demonstrate how strategic decisions, in this specific case taken by Tim Parker, can affect the dimensions described in the dynamic capabilities view, and put a company back on track.

It is intended that the case presents a detailed description of the drivers that led Samsonite to bankruptcy, as well as the response to these changes in order to allow the students to understand the difficulties that a fast changing competitive environment carries.

Instructor Preparation

For a easier understanding of the case, it is important that the instructor is familiar with dynamic capabilities view, and for this purpose, it would be suggested that the instructor should read the article “Dynamic Capabilities: A Review of Past Research and an Agenda for the Future,” (Ilídio Barreto, Journal of Management, January 2010), which presents a review of the literature and introduces the dynamic capabilities definition that can be used in this specific teaching case. Students should also have been informed about this literature before they read the case.

The instructor should also learn more about Samsonite by reading the annual reports from the last years, which are available in their website and by reading the official prospectus of the company published in 2011 which is available in the internet. The official prospectus of the company provide an extensive global luggage market study published by Frost & Sullivan, it describes in detail all the strategies implemented by the company in the last years and offers a description of the different products in the different markets where the company operates.

Finally, to obtain more information about the external environment at this specific period, it is suggested that the instructor read “the case for listing” where Kyle Gendreau, CFO of Samsonite is interviewed and talked about this specific turbulent period and about Samsonite in the Ernest & Young digital magazine called Capital insights.

Suggested Assignment Questions

Samsonite case first describes how a successful company has failed to address market changes, and then describes how the firm was able to give the turnaround, taking decisions in line with the dimensions of the dynamic capabilities view. The instructor should cover the case with the following questions:

Question 1 - Characterize Samsonite's external environment in the mid-2000s, namely the exogenous shocks.

Regarding this question students are not necessarily required to use a specific framework to perform this analysis although they should be able to identify:

- Luggage industry is a very saturated market where there is several competitors offering the same type of products for different prices;
- Samsonite is the leader in the luggage market and it is considerable ahead from its competitors;
- Global luggage revenues are increasing over time and is expected to increase even more;
- The relative importance of revenues is still higher in mature markets than in markets in developing countries, but the growth on the mature markets is much lower than the growth in markets in developing countries

Growth of Luggage revenues	**2006 - 2010**	**2010 - 2015**
Markets in developing countries		
Asia (except Japan)	13.1%	11.5%
Latin America	3.5%	5.9%
Mature markets		
United States	0.6%	3.7%
Europe	2.3%	4%
Japan	-1.3%	-1.4%
Total	3%	5%

- In the same rein, mature markets spend more money on luggage and travel than markets in developing countries, although the growth of expenditures on luggage and travel is higher in markets in developing countries than in mature markets.

Growth expenditure on luggage and travel	2010 - 2015
Markets in developing countries	
Asia (expect Japan)	10.3%
China	18.4%
India	13.9%
South Korea	5.9%
Latin America	4.9%
Mature Markets	
North America	2.8%
Europe	3.7%
Japan	-1.2%

- The luggage industry can be influenced by external events which are not controlled by the company and this was dramatic for Samsonite (eg. 11/9 terrorist attacks, SARS epidemic);
- There is a direct correlation between economic recession and the propensity to spend money on travel. Between 2007 and 2009 there was a big drop in the worldwide GDP and consequently a huge decrease in the expenditures on travel;

Question 2 - In what way did Samsonite fail, leading to the decrease in its performance? Please consider the four dimensions that compose the dynamic capabilities view in your analysis.

In this question it is expected that students have already understood the global luggage market in this period of time and now it is expecting that, by using the four dimensions of the dynamic capabilities view, students understand what failed in Samsonite's strategy. Regarding the first dimension about the propensity to sense opportunities and threats, students should be able to state that Samsonite despised the exponential growth of the luggage revenues in Asia and Latin America as well as the growth on the spending on travel in Asia and Latin America countries. Another important change that Samsonite failed to sense was the increase of the middle class in Asia, especially in China and India. Samsonite has been focus only on the high end market, ignoring the medium end market which was exponentially growing. The company has been leader of the luggage market for the past decades and was comfortable with its strategy, forgetting to look at the market trends. It is clear that the propensity to sense opportunities and threats was relatively low.

The propensity to make timely decisions can also be considered relatively low at that time, as, it has shown a very late response to market changes. Samsonite only decided to move to markets in developing countries when the performance of the company decreased substantially, analyzed through the adjusted EBITDA values of the company.

In what concerns its propensity to make market-oriented decisions at that time, it can also be considered relatively low since the company was not aware of the market changes, and because of that, it could not make decisions that would respond to those changes. The lack of market consciousness led Samsonite to make some counter market-oriented decision, such as focus its strategies on mature markets instead on the markets in developing and focus on the high end market (luxury handbags and Italian shoe product line), forgetting the middle class and the low end market.

Finally, the propensity to change its resource base was also low at that time. Samsonite lacked in providing adequate resources and capabilities, namely sufficient know-how to make the fulfillment of demands in markets in developing, (e.g. in China, South Korea and India) and sufficient distribution centers to supply a market as the Asian market. Additionally, in order to compete successfully, the company would need to have a higher know-how about the Asian market which is a huge segmented market composed by all types of different segments. Adding to that, in order to be successfully, the company would also need a more wide-ranging distributor centre in the Asian market and more solid joint ventures with its partners. The company made its first joint venture in Asia, in 1995, but only in 2006, the company realized how strong the Asian market was and decided to transform all the joint ventures built until this time, in owned subsidiaries of the company. In that year, the joint ventures built in the previous years in India, Singapore, South Korea and China, became to belong to the company. After that, Samsonite also increased its county list, by adding majority-owned joint ventures in Australia, Thailand, Indonesia and Philippines. Samsonite showed a low level of dynamic capabilities at this point and it was not achieving the adaptation required to maintain its strong market position.

Propensity to sense opportunities and threat	Low
Propensity to make timely decisions	Low
Propensity to make market-oriented decisions	Low
Propensity to change its resource base	Low

Question 3 - In your opinion, the occurred turnaround has incorporated any elements of dynamic capabilities?

In this question it is required that students realize that the turnaround have incorporated the four dimensions of dynamic capabilities.
The appointment of Tim Parker as CEO of Samsonite should be immediately identified as the beginning of the turnaround. Students should also identify that Parker's first decision was related to a cost base reduction on the company. The re-adjustment of the firm's strategy was implemented afterwards. Most of the decisions made by Parker can be viewed along the dynamic capabilities' dimensions. The propensity to sense opportunities and threats was visible in the company and could be seen in several situations:

- Perception that the firm should focus on Asia rather than on United States and Europe;
- Increase in the frequency of introduction of new and innovated products are launched, especially in mature markets;

Concerning the propensity to make timely decisions, it is expected that students realize that most of Samsonite's decisions did not take place in a timely manner until this point. The company has simply reacted to the decrease in performance, rather than anticipating to it. However, with Tim Parker, the firm quickly filed to the Chapter 11 and embraced a complete business restructuring. Below are listed several measures taken by the company which show the propensity to make timely decisions:

- Investment on American Tourister brand - more advertising on Asia, increase of the number of points of sales and design products that correspond to the customer preferences to respond to the increase of the middle class in this region;
- Negotiation of lower freight prices;
- Improvement of the terms of trade and business relationships with suppliers;
- Increase the degree of autonomy in the four geographic regions, while retaining centralized management over brand consistency, sourcing and finance.

The propensity to make market-oriented decisions was confirmed by the following:

- Focus on the growth of markets in developing - expansion of the distribution network, increase the points of sales, expansion of geographical coverage and development of product ranges tailored to local customer's preferences in each region;
- Increase penetration in mature markets - use the existing strong brand awareness and the extensive distribution network to increase the company's revenues and penetration of the business and casual product categories;
- Develop American Tourister as a brand that reflects quality and reliability as Samsonite but with lower prices so that the company cover the lower target market;

Finally, there are also some evidences regarding the propensity to change its resource base:

- Reduction in the number of stores – 84 closed stores in United States and 31 closed stories in Europe;
- Reduction in the number of employees - less 115 employees in United States and less 505 employees in Europe;
- Elimination of global management team positions where functions were duplicated;
- Close the global executive headquarter in London;
- Change the structure of the company to a Luxembourg holding structure;
- Rationalization of the manufacturing and distribution operations in Europe;
- Close local sales office in Europe and Latin America, shifting toward third-party distributors;
- End unprofitable non-core business operations - luxury handbag joint ventures and the Italian-based shoe product line;
- Ability to raise a huge amount of capital;
- Expansion of points of sales, geographical coverage and reinforce the brand in Asian markets.

Propensity to sense opportunities and threat	Medium/ High
Propensity to make timely decisions	High
Propensity to make market-oriented decisions	High
Propensity to change its resource base	High

Question 4 – In your opinion, the decision of launching an IPO in the Hong Kong Stock Exchange was justified?

In this question, students are expected to analyze the advantages and the disadvantages of making an IPO in Hong Kong Stock Exchange.

Benefits	Disadvantages
Opportunity to raise and refinance the company by HK$9.73 billion (1.25 billion dollars);	Samsonite had to narrow the indicative price range from HK$13.5-HK$17.50 to HK$14.50-HK$15.50 before the IPO, which gives negative signs to the market;
Hong Kong is considered the biggest market for IPOs for the last years;	On the average, the P/E ratio for Asia (ex-Japan) consumer companies is 20.1 times, in Samsonite's case was 18.3 times;
Asia is the biggest, fastest growing and most profitable region for Samsonite;	Experts in IPO believe that the timing of Samsonite's listing wasn't the best.
Asia is the region with the best long-term growth prospects for Samsonite;	
IPO allowed partial exit for its old shareholders;	
The price per share fell 7.7% in the first day, on average the price used to fall 8%;	
Listing on the HK Exchange helped the company to raise its profile, especially in Asia.	

Teaching Plan

This teaching case is prepared for a 90-minute class, as long as the students are already familiarized with the dynamic capabilities' view and have previously examined the case before.

Topic	**Time (minutes)**
Review the Dynamic Capabilities view	10
Summarize Samsonite's Case	15
Question 1	10
Question 2	15
Question 3	20
Question 4	10
Final considerations	10

V. DISCUSSION

The aim of this section is to relate the dynamic capabilities literature to the real business situation witnessed by Samsonite.

In this thesis, I have used the definition proposed by Barreto (2010), since it is the most recent and encompassing one: “A dynamic capability is the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base.”

This definition suggests that a dynamic capability is composed by four different but connected dimensions, namely, the firm’s propensities to (1) sense opportunities and threats, (2) to make timely and (3) market-oriented decisions, and to (4) change its resource base. The four dimensions are interconnected and no dimension alone can represent the construct.

Under this view, it is possible to present an explanation for the Samsonite’s history.

The propensity to sense market opportunities and threats, also known as “capability monitoring” (Schreyogg & Kliesch-Eberl, 2007), has been described by past research as one of the critical abilities for companies succeed in changing environments (Teece, 2007). Furthermore, research has also suggested that the perception of an exogenous shock as a threat or as an opportunity also influences how the firm responds to the event (Gilbert, 2006). The Samsonite case helps to illustrate the importance of being able (or not) to perceive the opportunities and threats in the market. To start, the company failed to fully sense the growth in the markets in developing countries (especially in Asia) as an opportunity for the company. The company was operating under the same business strategy for decades, not presenting any ability to monitoring the market, and this has contributed for the failure of the company. Samsonite did not perceive the exogenous shocks of the increase of middle class in Asia as an opportunity nor the saturation in the mature markets as a threat, but with the reorganization in 2009, the company started to operate differently. The company decided to negotiate lower freight prices and also improve the terms of trade and business relationships with its suppliers. In the mature markets, the company increased the frequency with which new and innovated products were launched, while in markets in development, the company developed the American Tourister brand.

The case supports the idea that the ability to sense changes in a firm’s competitive environment is an essential condition to succeed in dynamic environments.

The propensity to make timely decisions was also recommended for several scholars to firms competing in very dynamic environments. Several studies have argued that the timing of decisions, in particular being ahead of competitors (Eisenhardt & Martin, 2000; Teece *et al*., 1997), is essential for achieving competitive advantage.

Again, in the Samsonite case, the company was not able to sense the changes in the market, thus showing a very late response to market changes. Only when the adjusted EBITDA valued of the company decreased substantially, the company took the initiative to respond in an adequately way to the market. If the company was more attentive to the market trends, the company would be able to change its strategy and the crisis situation could be avoid. With the reorganization of 2009, the company increased the degree of autonomy in the four geographic regions, retaining centralized management over brand consistency, sourcing and finance, thus becoming faster in building responses to the market changes.

The third dimension in the definition, the propensity to make market-oriented decisions is crucial to achieve a successful market adaptation. Although timely decision making is relevant for dynamic capabilities, as it was mentioned before, the content of such decision is equally or even more important (Adner and Helfat, 2003). Other findings suggest that market orientation can even be transformed into a dynamic capability when complemented with reconfiguration capabilities (Menguc and Auh, 2006).

In the case of Samsonite, it is possible to state that the market-oriented decisions were more important than the time when those decisions happened. Until the reorganization time, the company was operating mainly in the mature markets, after that the company changed its strategy and decided to focus on markets in developing countries. The company also decided to develop the American Tourister brand which until that time, was an acquired brand without so many importance for Samsonite. Although these decisions were significantly late in time, the content of such decisions were decisive for the turnaround of the company.

The suggestion made in the literature that market orientation can be transformed in a dynamic capability when complemented with reconfiguration capabilities can also be applied in the Samsonite's case. The fact that the company started to manage its resources in a different manner was essential to help the company in making good market oriented decisions. The firm decided to drop some resources, leverage other resources and develop new ones, thus being able to change the (market-oriented) decisions of the company. This happened, for example, when the company decided to develop the American Tourister, a brand that has been part of the company since 1994, in a different direction, by operating the brand in a new market, the Asian market, where the middle class was increasing.

The propensity to change the resource base is the last dimension in the dynamic capabilities' definition and it is the final crucial step to achieve market adaptation (Eisenhardt & Martim, 2000; Helfat et al, 2007). It includes the firm's propensity to create, extend and reconfigure the resource base (Teece et al., 1997) to fit the strategic decisions. Scholars have highlighted the importance of not only to make the right decisions at the right time, but also in building new resource configurations to achieve a long-term competitive advantage.

Samsonite was amazing in building a new resource configuration. The company was able to change significantly its resource base in a very short period of time, by reducing its number of stores by 105 and the number of employees by 620 employees in the mature markets. The company was also able to eliminate the global management team positions that were duplicated and closed the global executives headquarter in London. Unprofitable non-core business operations were finished too. It was rationalized the manufacturing and the distribution operations in Europe and the holding the structure of the company was changed to the Luxembourg. At the same time, they increased the number of selling points and other resources in Asia.

In the case of Samsonite, the success of the company happened when the four dimensions were improved significantly.

The relationship between firms' dynamic capabilities and performance has been much discussed too. Some scholars have argued that there is a direct relationship between firm's dynamic capabilities and firm's performance (Makadok, 2001; Teece et al., 1997; Zollo & Winter,2002), stating that dynamic capabilities view explains the level of success and failure of the firms. Other scholars believe that dynamic capabilities does not necessarily lead to a superior performance (Eisenhardt & Martin, 2000; Helfat et al, 2007) and that dynamic capabilities are necessary, but not sufficient conditions for competitive advantage. Finally, other scholars suggest that there is an indirect relationship between dynamic capabilities and performance (Zahra et al., 2006; Winter, 2003). In this approach, dynamic capabilities may damage rather than improve the firm's performance if dynamic capabilities are used when there is no need or when assumptions used by firms are wrong.

In the Samsonite case the relationship between firm's dynamic capabilities and firm's performance has been very positive. The performance of the company improved substantially, with an increase of the adjusted EBITDA of 241% one year after the reorganization and with the listing of the company in the Hong Kong Stock Exchange in 2011. It is not possible to comment on the long terms results of the company, but from the reorganization so far, both sales and EBITDA have increased with an average rate of 20% and 100% per year, respectively, which are amazing results for a company that was almost bankruptcy few years ago.

To conclude, the Samsonite case provides insight and illustrates how actual management practices are related to strategic management theory, and more specifically with the dynamic capabilities literature.

VI. CONCLUSION

The dynamic capabilities view has emerged with the need to explain how firms can be successful in dynamic environments. The high number of research studies concerning this topic is indicative of its relevance, especially nowadays, when the market is constantly changing. This paper was built around the recent conceptualizations of dynamic capabilities view and a teaching case was written to provide additional evidence for the importance of this view to the business world.

Samsonite's case illustrates how important having dynamic capabilities can be, even for well established firms. The company was focusing too much on the mature markets, which have been profitable for the past decades and has forgotten the rest of the market. The company was not attentive and did not realize the potential in markets in developing countries. With a low level of sensing the opportunities and threats of the market, Samsonite had no structure to develop the other three dimensions, and this had a negative impact on its performance. With the aim to recover from the struggling situation, new shareholders and top management took the lead of the firm. The company has finally sensed the potential of doing business in markets in developing countries and has changed its strategic decisions and resource base, recovering and improving its performance in a couple of years.

Finally, it is possible to conclude through this paper that the dynamic capabilities concept is quite relevant in current economies and that its four dimensions are decisive for firms' adaptation in changing environments.

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