

FOTILE's Next Steps

*Infusing Confucian values into the conventional
management practices*

FOTILE KITCHEN
EXPERT

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Agenda

Overview

One Culture

Greater Good

Strategic Move

Implementation Timeline

FOTILE's Next Steps

Appendices



Overview: FOTILE's steps to becoming the premier global business



FOTILE's Vision: To become a Premier Global Business

FOTILE's competitive advantages and limitations

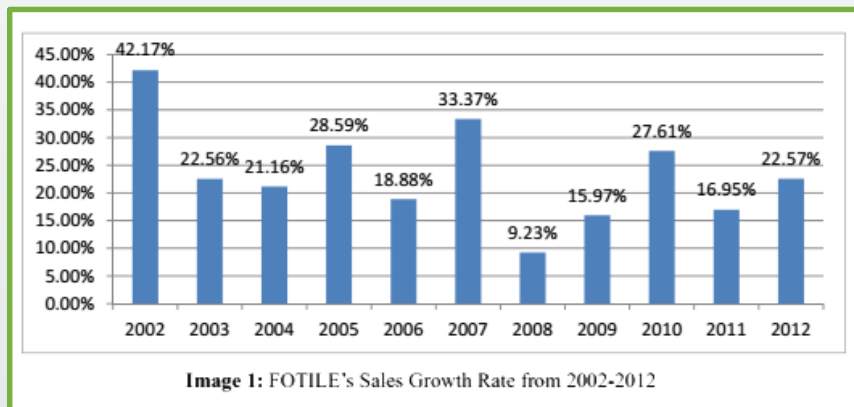
Key Sources of Success

- Technological innovation: More than 300 patents and huge investments in R&D
- Strong brand positioning: Products aimed at high-end, high-margin market segment; **FOTILE & FOTILE BORCCI**
- Effective marketing strategy: Successful advertising campaign and competitive marketing staff



Limiting Factors

- Low motivation for growth and competition
- Unfair/harsh management practices
- Lack of coherence of company values across the teams

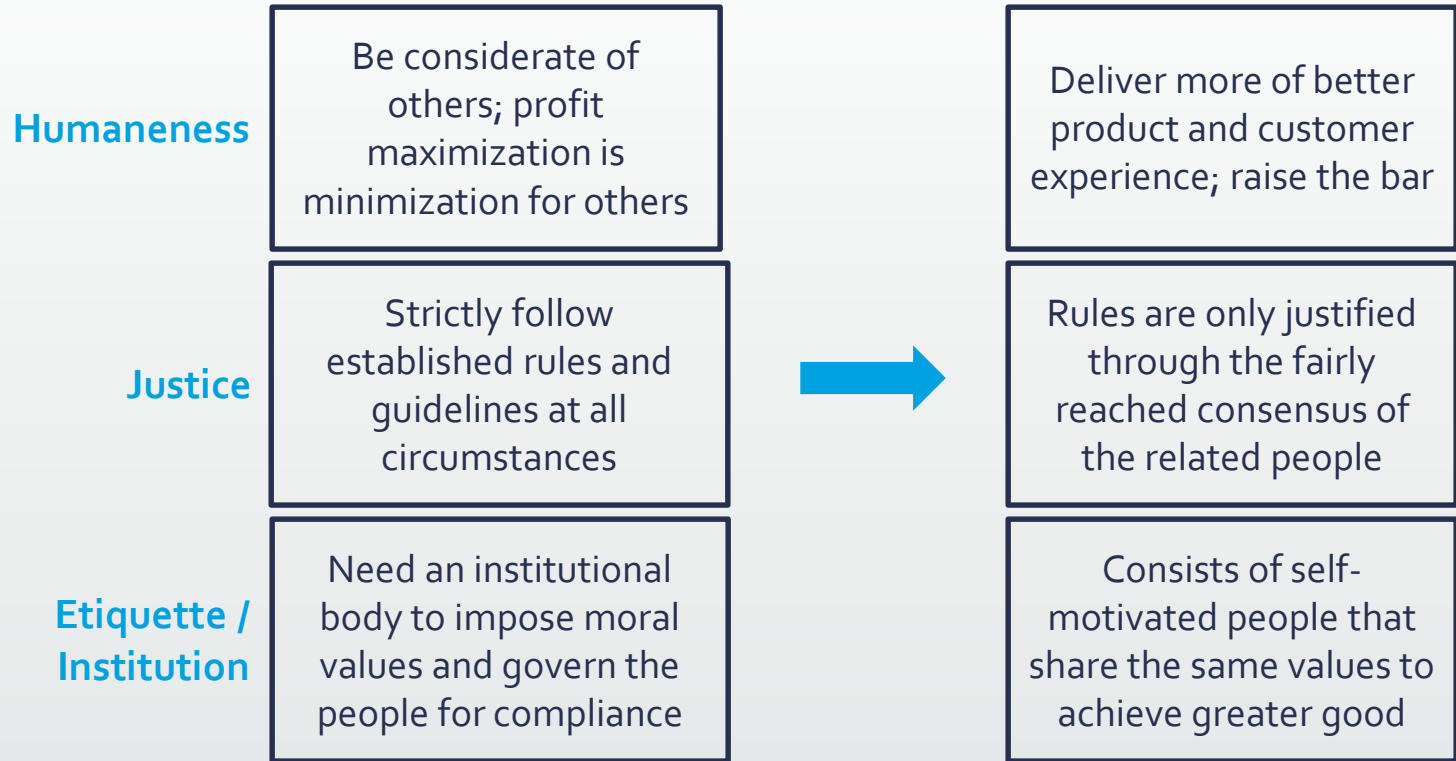


One Culture

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Strategic Move

Redefining company values: what Confucianism says about profits and business growth?



"One who, on seeing profit, thinks of righteousness, may be considered a perfect man."
= Profit-making in harmony with the good of the society

Source: "Catholicism and Confucianism in Dialogue for Corporate Social Responsibility"
Research paper by Han

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Strategic Move

Build Confucius Institute into the heart of company's culture

What It Serves

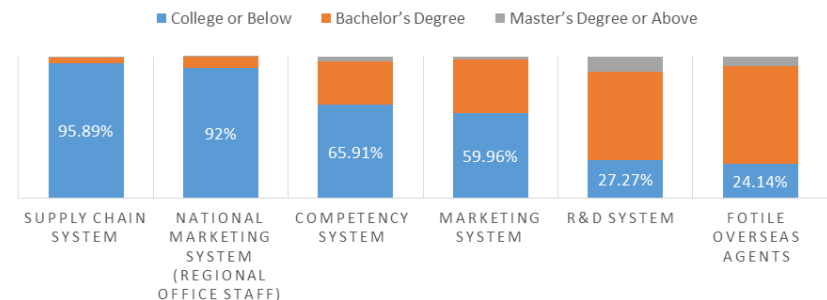
- Regular (quarterly) training sessions for all employees
- Additional function: FOTILE University for educating the community and prospective hires



Benefits

- Offering opportunities for marketing staff to experience higher level education
- Better training leads to better job performance and increase customer satisfaction
- Relate more growth opportunities to advance within the organization; regional manager
- More frequent and open interaction amongst different functions

FOTILE STAFF'S EDUCATION LEVEL DISTRIBUTION IN 2012



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Strategic Move

Motivate employees through effective HR policies

Changes to be Made

- ABC appraisal adopts an absolute scale from a relative scale
- More objective criteria are reflected in the job appraisal
- Grade of C doesn't imply straight job dismissal and an improving
- Dividend bonuses are linked to job evaluation (A-100%, B-50%, C-20% of monthly salary)



Benefits

- Everyone can get an A and there doesn't have to be a C
- Reduces competition against colleagues and more objective criteria reflected in assessment
- Poor performance isn't the final call but still encourages improvement through different bonus payment



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Strategic Move

Harmony with the good of the society: FOTILE's stakeholders

FOTILE's External Stakeholders

	Stakeholder	Current Relationship
	Customers	Most advanced customer services in the nation
	Business partners / competitors	Big market share and technology leader
	Community	Little contributions made to the community
	College / Prospective hires	Limited access to the new talent

- “Endless pursuit of technological breakthroughs for more effective fume removal”
– case material
- FOTILE can spread its Confucian values more widely through delivering higher quality products and customer services to its customers as well as leveraging its position to reach other stakeholders

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Strategic Move



Recruit and inject new talent for fresh ideas

Build mutually beneficial relationships with universities in major cities

- Offer guest lecture series regarding Confucianism and FOTILE's business philosophy
- Sponsor case competitions and idea pitching events to gain fresh R&D ideas and spot bright prospective hires
- Provide scholarship and internship opportunities to bright talents to attract them from early on



FOTILE University

- Expand the facility to serve as a hub for training employees all across the nation as well as prospective hires and college-related programs
- Provide students with more on-the-job experience to give them a chance to assess the cultural fit

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Strategic Move

Promote corporate social responsibility

Make more contributions back to the community



- Open up FOTILE University to the public who are interested in Confucianism
- Offer special classes in Confucianism within business context and special interests

FOTILE University for Public



- Host special sessions where both the employees and their families (especially children) can enjoy learning the common values

Family Involvement



- Connect with local nonprofits for charity
- Create volunteer work days where employees can take regular work days off to volunteer in community services

Volunteer Work Days

- Greatly increases employee morale and work satisfaction through linking the company's business performance with bigger give-backs to the community
- Helps in the long-run publicity of the company and building of strong goodwill with potential customers

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Strategic Move

Current boom of traditional values in China

Increasing importance of traditional values

- Consumers are increasingly becoming socially conscious consumers and make more ethical considerations in deciding purchases
- Chinese government is seeking to establish greater Chinese business associations in the face of intense foreign competition



Benefits

- Gain supports from Chinese government to enable alliances within the industry
- Create much stronger brand images that can further benefit company's sales.
- Foster the opportunities to expand into other countries



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Strategic Move

Form strategic alliance with shared values

Candidates for the strategic alliance

	Candidates	Strategic Alliance
	Competitors in the kitchen appliance industry as well as wider consumer appliance industry	
	Nonprofits and consumer interest groups that advocate the common values like FOTILE	
	Target for official recognition from regulatory government agency	

FOTILE's roles

- Persuade business partners to join and share the common values through Confucian education
- Establish a code of ethics and guiding standards for all alliance members
- Launch a collective marketing scheme to promote the value of the alliance and establish association of its membership with socially responsible companies producing high quality products

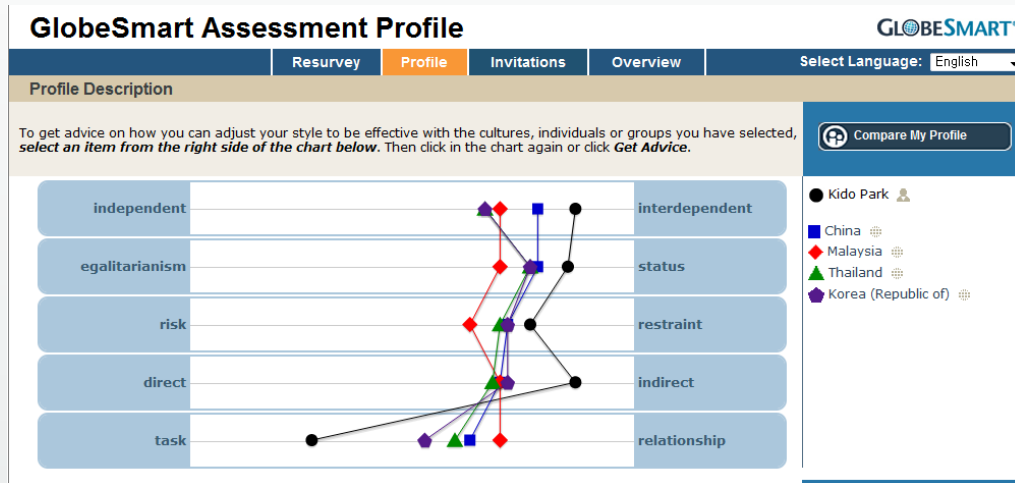
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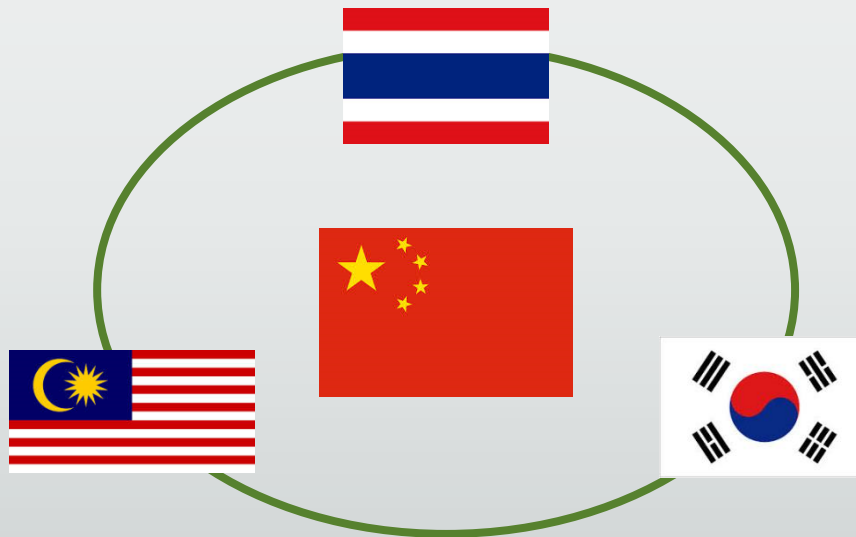
Strategic Move

Expand into international markets

Identification of culturally similar markets



- Closer geographic proximity and within the influence of domestic marketing efforts
- Easier to connect to their cultural values with FOTILE's Confucian values and spread the company's philosophy to bigger audience
- Niche market present for high-end products of kitchen appliances

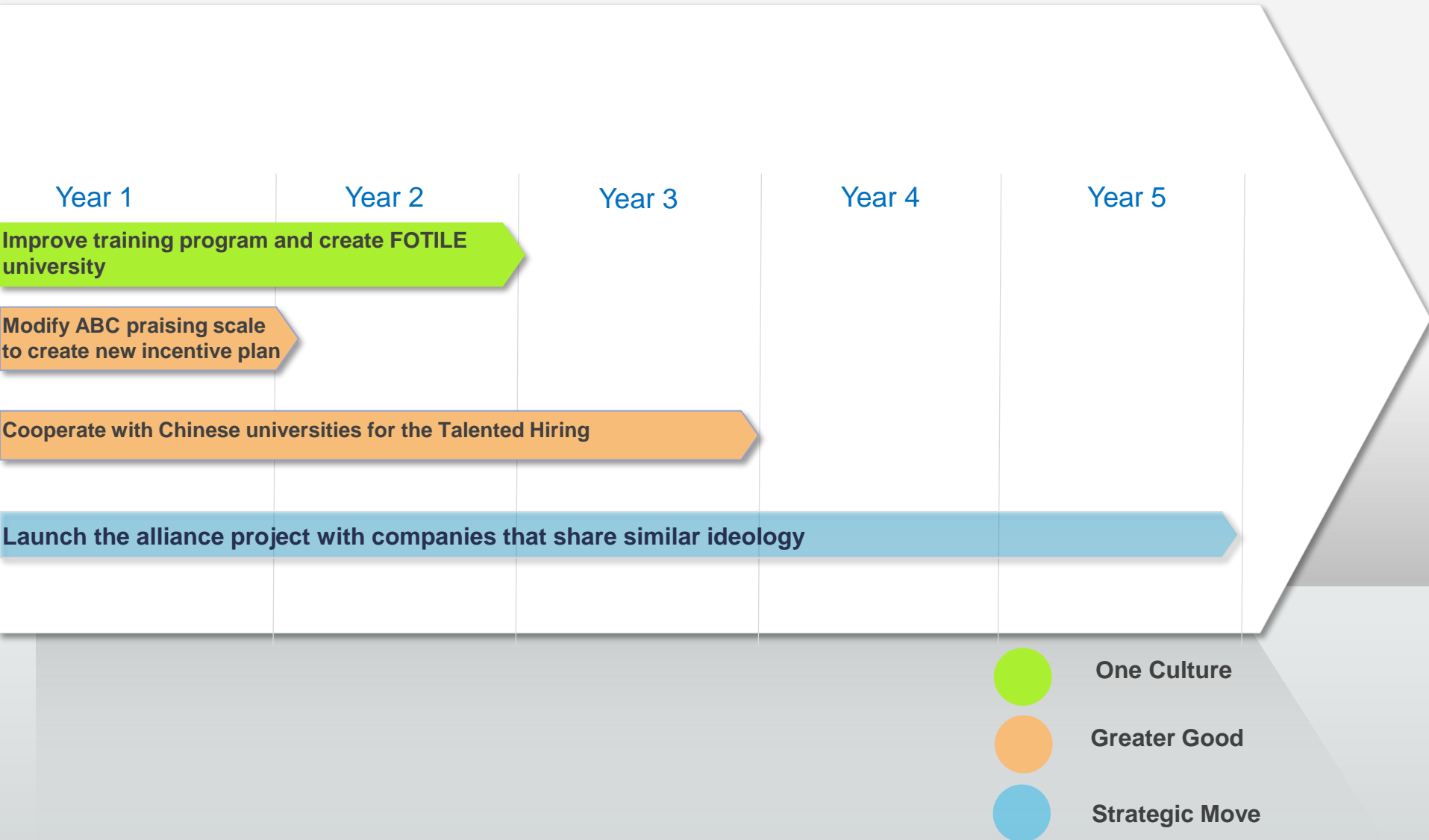


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Strategic Move

Implementation Timeline



FOTILE's Next Steps



FOTILE proceeds to become the premier business leader

Questions



Appendix 1: Major Problem Areas

Confucius Institute



- ☐ Half-voluntary?
- ☐ External pressure
- ☐ Measure of understanding

Labor Share System



- ☐ 20% of profits
- ☐ Helping efficiency?
- ☐ Extrinsic vs. Intrinsic

Market Share Focus



- ☐ Hinder motivation
- ☐ Intense competition
- ☐ International market

Best Service Principle



- ☐ Unclear guideline
- ☐ Customer satisfaction

Job Appraisal



- ☐ ABC appraisal for fairness
- ☐ Last chances granted for improvement
- ☐ Consideration for R&D team

Seeking New Talent



- ☐ Industry-competitive salary
- ☐ Staff poaching
- ☐ Access to highly-educated candidates

Distant Marketing Team



- ☐ Geographical distance
- ☐ Lack of interaction with the headquarters
- ☐ Inconsistent cultural resonance

Appendix 2: Financial Projection

Past Income Statements (2008-2013)

(RMB in millions)

Year	2008	2009	2010	2011	2012	2013	CAGR (2008-2013)
<u>Sales</u>	2,000	2,185	2,533	3,233	3,781	4,634	
Sales Growth	9.23%	15.97%	27.61%	16.95%	22.57%	N/A	18.30%
<u>Costs</u>							% of Sales
R&D	100	109	127	162	189	232	5.00%
SG&A (with Other operating costs)	1,623	1,773	2,056	2,624	3,068	3,761	81.15%
Total Costs	1,723	1,882	2,183	2,785	3,257	3,993	86.15%
Income Before Tax	277	302	351	448	524	642	
Income Tax (35%)	97	106	123	157	183	225	
Net Profit	180	197	228	291	340	417	9.00%
Employee Profit Sharing	36	39	46	58	68	83	
Retained Earnings	144	157	182	233	272	334	7.20%

Appendix 2: Financial Projection

Pro Forma Income Statements (2013-2016E)

(RMB in millions)

Year	2013	2014E	2015E	2016E	CAGR (2013-2016E)
Sales	4,634	5,575	6,707	8,069	
Sales Growth					20.30%
Costs					% of Sales
R&D	232	279	335	403	5.00%
R&D Team		278	334	402	4.99%
University Programs		1	1	1	0.01%
SG&A (with Other operating costs)	3,761	4,554	5,479	6,591	81.69%
Training and Community Service		56	67	81	1.00%
Total Costs	3,993	4,889	5,882	7,076	87.69%
Income Before Tax	642	686	825	993	
Income Tax (35%)	225	240	289	348	
Net Profit	417	446	537	645	8.00%
Employee Profit Sharing	83	67	80	97	
Retained Earnings	334	379	456	549	6.80%

Assumptions:

1. R&D expenses remain the same but there will be a diversion of its investment, which we call 'smart spending'. Some of them will be directed towards university-related programs. Our estimated budget for a total of three universities is RMB 1 million.
2. There will be an additional capital expenditure, amounting to 2% of total costs in the first 3 years to improve FOTILE University.
3. CAGR for sales would be improved from better educated sales force and better publicity. We increased the previous 5 years CAGR by 2 points.
4. There will be an increase in SG&A to support the employee training and community volunteer service, amounting to 1% of sales.
5. Net profit margin, as a result of initial spending, would decrease by 1 point to 8%.
6. Employee profit sharing will eventually decrease as more objective and differentiated bonus payment is adopted. We see a decrease from 20% to 15%.



Appendix 3: Sources for Confucian Values

Confucianism in China

press.princeton.edu/chapters/s9173.pdf

<https://www.stthomas.edu/cathstudies/cst/conferences/thegoodcompany/Finalpapers/Hong%20Soon%20Han%20Final%20.pdf>

remain in them.”¹⁵ In fact, Confucius himself says, “If the search for riches is sure to be successful, though I should become a groom with whip in hand to get them, I will do so. As the search may not be successful, I will follow after that which I love.”¹⁶ He thus mentions upon the uncertainty of pursuing riches in the right way.

It can be said, therefore, that what Confucians warn against is the violation of morality in the profit-making process. The desire for profit or for personal gain may promote social conflict, whereas profit harmonized with justice may promote social harmony. This underlines the importance of returning a proper part of the company’s profits to society and fulfilling the social responsibility of the company.

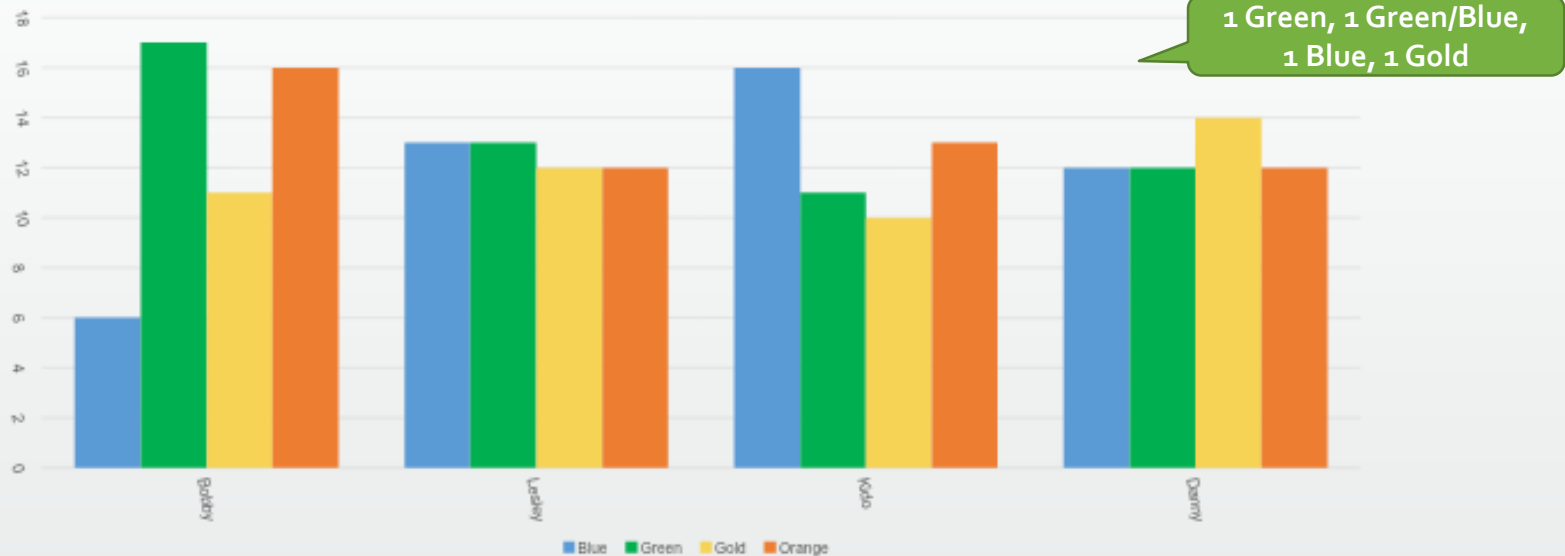
Appendix 4: Our Team Experience

Getting to Know Each Other

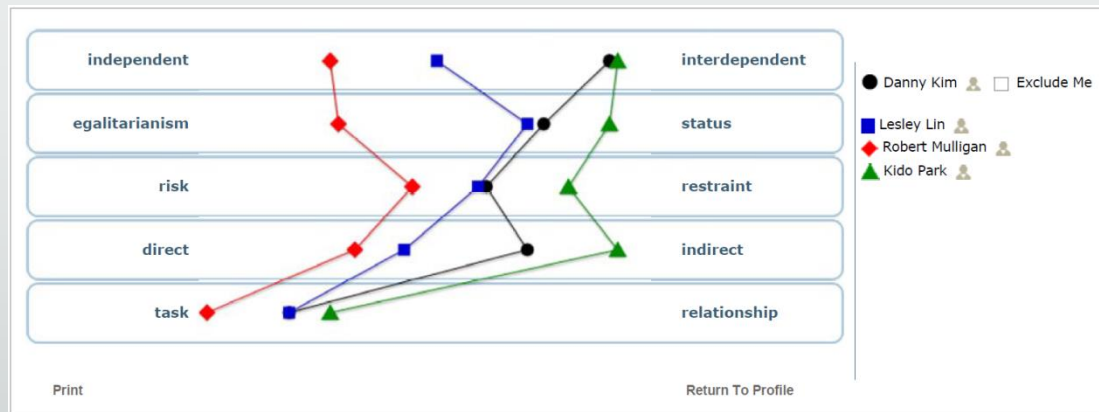


Appendix 4: Our Team Experience

True Color Indicator Test



GlobeSmart Team Analysis



Evenly spread from left to right, but all Task-Oriented

Appendix 4: Our Team Experience

Working as a Team



What We Learned

