Resinas Sintéticas, S.A. (A)

Dear Professors,

Hope all is well with you! Since all three of you taught me cultural and historical business classes at Harvard, I would like to share an amusing experience with you. As you know, Americans usually talk about the cultural barriers to doing business in other countries. But in this letter, I want to turn the tables and analyze a cultural barrier in doing business in America from my Mexican perspective.

As you may remember, I graduated from both HBS and Russian Studies a year ago and have since been working in the family business (Resinas Sintéticas) which is a leading pine chemicals company here in Mexico. Our star products are esterified rosin resins. The chemical goes into adhesives, tapes, inks, chewing gum, and food coloring agents. There are two companies that market this small specialty chemical to global customers: Resinas and an American company called Grand Chemicals. Resinas has a subsidiary in Texas called T&R Chemicals, which markets Resinas' resins in the United States and at the same time takes care of the liquid side of the pine chemical business, turning turpentine into pine oil and turpsol, an aromatic.

Though both Resinas and Grand's Rosins Division were started in the 1920s, protectionist barriers did not allow Resinas to compete effectively outside of Mexico. This left Grand with a virtual monopolistic hold on the world market for esterified rosin resins. However, ever since the early 1990s when Mexico signed several free-trade agreements, including NAFTA, Resinas now exports to more than 25 countries and thus competes directly with Grand Chemical.

Our quality of product and service matches that of Grand. But because we are vertically integrated into producing our own raw material (rosin) and are not part of a greedy conglomerate, we are able to offer a lower price than Grand which buys its rosin from China and has various manufacturing plants around the world. This has allowed us to make tremendous in-roads into the international market, capturing share that had belonged to Grand for decades. But this is not equal everywhere we market. For example, European customers often like to buy from both Grand and Resinas, since that way they hedge their risk of supplier delays. Grand has had

This case is based entirely on the perspective of Fredo Arias-King. With the exception of Arias-King and Resinas Sintéticas, the names of companies and individuals have been disguised to protect their anonymity. Research Associate Gregory C. Rogers prepared this case under the supervision of Professor Lynn Sharp Paine as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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LYNN SHARP PAINE

Resinas Sintéticas, S.A. (B)

"My father and I had different responses to the situation with Grand Chemical. I wanted to call our lawyers and start lawsuits for defamation. My father, on the other hand, remained very calm. He didn't call the lawyers. He knew that a legal battle with Grand would cost us far more than if we continued to focus our resources and energy on serving the customers as best we could. 'It would be through our actions that people would judge us,' my father would say. 'To pick an open fight with someone as big as Grand would be foolish.'"

Meanwhile, Resinas continued its expansion efforts. Between 1990-1999, Resinas' international sales had grown from practically zero to 50% of total revenue. Despite the mixed reception it had gotten in the U.S., about half of its exports went to American purchasers while the other half flowed to customers in Europe and a few in Asia. As a result, Resinas' net revenue over that same time period rose at a compound annual rate of 6%, a noteworthy achievement given the maturity of the resins market. It grew even more in some regions such as in Europe where Resinas captured 30% of the chewing gum market. Domestically, Resinas retained the dominant position that it had enjoyed historically, with one exception, food coloring agents.

"When Grand noticed the kind of progress we were making in the United States, they started to become really worried," recalled Arias-King. It didn't help that Grand was also facing difficulties of its own making. (See **Exhibit 1** for Grand's stock price.) "Grand had incurred a heavy debt load to finance some of its other divisions and it used its resins division as a cash cow to both service its debt and to feed the other businesses," said Arias-King. "We were no longer just an annoying fly in their proverbial soup; we were becoming a genuine threat." An industry newsletter described Grand's position:

> The second mistake occurred in the early 1970s when Grand became enamored with the Boston Consulting Group's ideas that divided the products of the world into four groups: the stars, the question marks, the cash cows and the dogs. The idea was to get rid of the dogs, milk the cash cows, and feed profits into the growth of the stars and question marks. The BCG never advocated starving the cash cows, but Grand did just that with the rosin based resins. As a result, that product line is today operating with antiquated equipment and technology.[1]

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[1] *Tackifier Topics* Newsletter, March 2000, p. 3.

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LYNN SHARP PAINE

Resinas Sintéticas, S.A. (C)

Arias-King explained his decision not to respond to Grand's overture:

> Grand was very much like the old Soviet Union. It could only survive as a monopoly, ergo its desperate tactics to stay that way. It was also a fixed-costs nightmare, and it used massive cross-subsidization to keep its "empire" alive. They cannot sustain their ambitious strategy without constant expansion, and absent that, constant price increases in the markets they serve.
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> Our strategy therefore derived partly from Soviet Studies. How do you deal with a thing like that? First, don't succumb to either their provocations or their friendly overtures. Have a long-term strategy. They requested a détente in their letter of January 1999, but knowing that the USSR would have probably collapsed sooner without it, we did not give them that "breathing space." We did not answer any of their calls nor offers to "purchase" us. The Soviet Union would enter into opaque negotiations with Washington in order to sow suspicion and paranoia into America's allies, hoping to drive a wedge between both and extract independent concessions from them. We never gave our customers any reason whatsoever to suspect they had made a mistake in "taking the plunge" to Resinas. Second is the strategy of "containment," developed by veteran Sovietologist George Kennan. This meant that Grand became trapped and could not grow.

Resinas did not even consider the offer by Grand. Meanwhile, Grand's stock continued its slide. (See **Exhibit 1** for stock price.) In July 1999, Grand announced the termination of its joint venture with a Japanese resin company. Then, in the first quarter of 2000, Grand announced its intention to sell its resins division and entered talks with an undisclosed buyer. It would use the proceeds to service the debt it had amassed in the other five divisions. However, Grand's difficulties did not abate:

- August 2000: Grand is forced to dispel rumors that it is the target of a potential hostile takeover
- September 2000: Camera Chemicals announces it has signed letter of intent to buy select portions of the Grand Resins Division
- October 2000: Grand CEO announces Grand Chemical has retained Goldman Sachs to explore the "possible sale" of Grand

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