



Sava Transformation Chronicle (A)

Nenad Filipović

Abstract: This case study is part of a sequel of cases (from A to D) prepared to be used together in a course on Strategic Management (more in particular on topics related to Mergers and Acquisitions, Business Portfolio Management and Corporate Transformation). Due to the article length restrictions, parts B - D, as well as the case Teaching Note, will be published in a separate article. Please refer to the Teaching Note for more precise suggestions related to classroom use.

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DOI 10.32015/JIBM.2023.15.2.4

Mednarodno inovativno poslovanje =
Journal of Innovative Business and
Management

ISSN 1855-6175

Kronika preobrazbe Save (A)

Povzetek: Ta študija primera je del primerov od A do D, ki so pripravljene za uporabo pri predmetu o strateškem managementu. Natančneje o temah, povezanih z združitvami in prevzemi, upravljanjem poslovnih portfeljev ter korporativno preobrazbo. Zaradi omejitev dolžine članka bodo deli B - D skupaj z navodili za poučevanje objavljeni v ločenih člankih. Za natančnejše predloge glede uporabe v učilnici, se prosim sklicujte na navodila za poučevanje, ki so na koncu prispevka.

Dark clouds were gathering above Labore, the industrial suburb of the small industrial city of Kranj, the location of the headquarters of Sava. The celebration of the 75th company anniversary was supposed to be a happy occasion, marking the proud history of technological development and business success. Sava was among few successful tire and engineered rubber products in Central and Eastern Europe, commanding approximately 2% of the European market share and enjoying the fruits of 25 years of close cooperation with Semperit (Austrian rubber and tire manufacturer, taken over by Continental from Germany in 1985), one of the industry giants. It had recently become an excellent transformation showcase, following the political and economic changes reflecting Slovenia's quest for independence. The appointment of Janez Bohorič as the new CEO, to take over the company in January 1996, was symbolically bringing together tradition and a new managerial spirit. But the upcoming expiry of the JV contract with Semperit/Continental opened many demanding questions and threatened to spoil the festivities.

The first 75 years

Four Slovenian entrepreneurs founded a rubber company in Kranj in 1920, seeing an opportunity in the growing market for various rubber products in the aftermath of World War I. The first products were simple, such as erasers and rubber heels for shoes. In 1931, the initial owners decided to sell the factory to the Austrian company Semperit, which extended the product portfolio, among others with bicycle tires. Just before the start of World War II in Slovenia, German company Continental took over the company and started the production of diagonal car tires in Kranj.

Slovenia, as part of Yugoslavia, came out of World War II as a country under the dominance of the communist ideology. All the industrial companies were nationalized and the Continental plant in Kranj was renamed into Sava (the name of the largest river in South East Europe, flowing near the company). In the first period, the company depended on its own technological development, which restricted the product portfolio and focused the company primarily to serving the local market. Despite the severe constraints of the Yugoslav economic system trying to find a middle ground between a communist planned economy and fully free markets but never being effective, the industrial tradition combined with solid technical education gave Sava some space for development. With the further loosening of the ideological straitjacket (partially driven by influence from Austria and Germany, with whom Slovenia had strong economic ties), Sava looked for an opportunity to get access to the most advanced rubber technology as well as to the western markets. As a result, Semperit had entered the company in 1971 as a Joint Venture partner and holder of 28% of equity (under complex legal system in former Yugoslavia, Semperit was not allowed to freely dispose with this equity and all the rights it received were the ones explicitly stipulated in the JV contract), transferring the radial tire technology and opening its distribution channels to Sava products. Further growth ensued, with the brand Sava strengthening its position in the local markets and JV products being exported elsewhere. The takeover of Semperit by Continental had no direct impact on the joint venture contract, signed for the period of 25 years.

Slovenia gained its independence in 1991, at the very beginning of the violent break-up of former Yugoslavia. Sava immediately faced a number of challenges, such as loss of the market in other parts of former Yugoslavia, which had to be substituted almost overnight

with exports. The local business environment proved not to be supportive, with complex legislation, weak financial markets, improvable labor efficiencies and underdeveloped managerial competences. The privatization process, which was started in 1992, followed the voucher privatization approach. All Slovenian citizens received a certain amount of vouchers. The scheme gave the employees and retirees of a company priority rights in using their vouchers to buy the company stock. If any stock would be left, it would be open to sales to other voucher holders. That led to rise of employee ownership, but later, once employees started selling the stock, it led to non-transparent second round of privatization through voucher management funds. At the same time, traditionally strong entrepreneurial spirit in Slovenia led to many start-ups and new business initiatives, often finding inspiration in examples from Western Europe.

Despite all of these challenges, Slovenian business community saw Sava as a success story for the first period of its restructuring. By 1995 its revenues grew to more than 220 million US\$, 86% of which was sold in export markets, which was taken as the key evidence of company's strong performance. At the same time, productivity benchmarking was not so flattering (see Exhibit 3). With close to 4 thousand employees, many in sizeable overhead functions, Sava's sales per employee was comparable to its East European competitors, but lagging almost threefold behind the global best, Japanese giant Bridgestone. Productivity and cost efficiency at standard quality levels being among key drivers of success in tire industry, that benchmark alone meant Sava had a long way to go to become truly competitive in global markets. Otherwise, the only advantage it could manage against major competitors would be low labor cost, which was already at that time not seen as a sustainable proposal in Slovenia.

Some observers questioned Sava's decision to diversify its product portfolio to as much as 18 different product groups. For a rubber product company of medium size it was difficult to keep all of them competitive, as well as to develop effective distribution channels for products varying from adhesives to rubber rolls for print industry, rubber profiles for doors and windows, artificial leather or tires for many different applications. Car and truck tires made close to 70% of all sales. See Exhibits 4 through 6 for the information on the product portfolio in 1995.

Independent industry analysts in late 1995 mentioned quite a few strengths of Sava:

- Strong export orientation (86%)
- Technological know-how and business experience in the area of car and truck tires, obtained through JV cooperation with Semperit / Continental
- Niche brand position of Sava tires in Europe, with up to 2% market share
- Leading Sava tires brand position in the regional markets of South-East Europe
- Own sales network in Slovenia and other countries of former Yugoslavia, as well as Check Republic, Germany, Hungary, Italy, Poland and Slovakia
- Solid product quality, comparable to competition
- ISO 9001 covering 80% of processes
- Favorable production location position
- Fairly high share of employees with university education, high loyalty of key employees

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- Relatively solid financial strength of the company.

At the same time, the company was burdened with numerous weaknesses:

- Large number of product groups with questionable competitiveness and loss-making history (see Exhibit 6)
- High (fixed) costs per product making majority of product groups costly in comparison with competition
- Inefficient customer service
- Partial and largely ineffective marketing and sales planning process, not well supported with data (some jokingly said it followed “management by hope” principle)
- Limited market research activities and intelligence, not allowing for valuable insights about potential high growth market opportunities and leading to fairly poor quality of long term business / market development, distribution channel development or price positioning discussions
- Managerial decisions related to complex issues of growth and company strategy were too often based on power relations and personal influence, rather than data analytics or research
- Unclear value proposition in a number of product-market segments
- Cost based pricing and fairly rigid accounting system, not in line with industry best practices regarding pricing and profitability analysis, as well as business case analysis

With existing JV contract nearing its end, Sava leadership decided to perform a systematic review of the company and weigh its options for future development. Understanding where the industry was heading became critical element of that exercise.

Global rubber industry in 1995

Global industry of rubber products had all the characteristics of a highly mature industry, in particular slow growth (around 2%) except in few niches, few technological innovations, sophisticated manufacturing processes, proliferation of many sizes and types of product to meet OEM demands, and the dominance of a few large global players with the scale to meet the global demand. Manufacturing costs were heavily influenced by production ticket rationalizations among a portfolio of factories, which thus enabled longer, more efficient production runs and less changes to equipment and processing. Although the industry was very capital intense, it was also sensitive to labor and energy costs. This is why major players by 1995 already started relocating parts of their production (in particular more price sensitive product segments or brands) to low-cost countries. However, largest part of global production was still located in Europe, and European players were net exporters.

Constant investments, partly due to increasing environmental regulation pressures, as well as the increasing number of acquisitions as part of industry concentration left the large players exposed to financial risks. Debt to equity ratio of 4:1 was quite common in the industry, which was generally plagued with low profitability. Therefore, intense cost containment projects became part of daily routine and further fueled M&A activities. Global players could exploit many beneficial effects of acquisitions, including market penetration

and distribution network strengthening, better portfolio and risk management, lower R&D, technology and marketing costs per unit, as well as better purchasing conditions.

Since some of the features of the two most important segments of rubber industry, tires and engineered rubber products, were complementary, global players tended to be present in both, using the available synergies.

Tire industry represented 56% of global output of rubber products measured by volume (in tons), but only 50% measured by value. Average profitability was below 5%, with some of the best players reaching 8%. The volumes were clearly driven by the trends in car industry, which was in mid-'90s in developed countries fairly stagnant. Strong competition led to closure of a number of factories which could not improve their cost base, leading to overall reduction of workforce.

Standard view of the tire market divided it into the OEM market (tires mounted on the new cars) and the replacement market. OEM market was extremely competitive, with technical characteristics, price and geo-political criteria dominating. It required greater R&D costs to meet new sizes and types of tires for new and ever-changing vehicles and performance characteristics. Manufacturers had to bet that the greater margins in the replacement market would compensate the low margins in the OEM market. Replacement market required significantly higher marketing costs and sales effort, but allowed for higher prices and required excellence in distribution channels, technical support and service. Quality and distribution costs still mattered greatly. The size of OEM market in Europe towards the end of '90s was estimated at around 100 million units, with the size of replacement market at around 125 million units. The dynamics of customer behavior change was expected to increase, as indicated in Exhibit 7. Environmentally friendly storage and reuse of winter tires, reprocessing of old tires for energy consumption, and the retreading of truck tires, were all becoming a global issue.

With annual sales of around 1 billion tires, the excess production capacity was estimated at around 70 million units. Six largest players had almost 80% of global production capacity (see Exhibit 8).

Engineered rubber products was much more fragmented industry, both in terms of product markets (see Exhibit 4 as an illustration of product group diversity) and competition (majority of the manufacturers were companies with less than 200 employees, only a number of large units, employing more than 500 employees each, were part of multinational groups). Different market segments had different growth potential, ranging from a few percent (e.g. for most of the vehicle components) to double digit (e.g. for medical products). Despite of maturity of basic technology of rubber production, there was enough space for innovative niche products. While many of the products were sold in local markets only, market globalization was already present in large product groups such as car V-belts, industry conveyor belts, air springs or pressed rubber products for vehicle industry. A survey among industry executives indicated environmental issues, price competitiveness and product innovation as their main concerns.

Engineered rubber product pricing was strongly dependent on the product group, ranging from 3 to 30 US\$ per kg. Prices per kg of engineered rubber products were, on average, up

to 25% higher than prices of tires, which allowed this industrial sector to achieve higher profitability than tire sector. Due to production technology, however, productivity in tire sector was much higher than the one in engineered rubber, on average 105 thousand US\$ per employee in comparison with 85 thousand US\$

Trends in South-East European tire markets

The market potential for passenger car tires in the region of former Yugoslavia in 1995 was estimated at around 2.9 million pieces. Around 77% of the market belonged to the two price driven market segments (price and commodity, see Exhibit 9). While the buyers in the commodity segment were purely driven by the opportunity to buy conveniently at the best price, the buyers in the price segment, although having the price of the tires as the most important selection criterion, were still considering the brand they were buying. There was some overlap between this segment and value segment (both covering the “value for money” buyers), the latter being primarily driven by the brand and the price having secondary influence. At the top of the pyramid were price insensitive buyers in the premium segment, driven primarily by the brand and performance considerations. Safety, in particular handling characteristics such as braking, cornering and wet and snow traction, was the main performance criterion.

Market research indicated that in the period from 1995 to 2005 the premium and high performance segment was likely to double. Opposite to European trends, value segment was expected to grow from 14% to 18% market share in the same period. The growth of these two segments would come at the expense of price and commodity segments, which were expected to fall from 77% to 64% of the market share.

In terms of overall volume, the market was expected to grow above the global market growth rates, following faster growth of GDP and personal income. This would create the readiness of the buyers not only to replace the tire set more frequently, but also to change the vehicle every four to five years, or buy the second one (average driver covered 15 thousand kilometers per year). Since the buyers were on average quite knowledgeable of tire brands and their relative performance, it was expected that global brands would gain higher market share in that period. Distribution network in the region was mostly built around specialized dealers and tire service shops. Up to 70% of the customers were likely to follow the recommendation of the service shop personnel when choosing new tires. Sava had traditionally held very strong position with them, with 33% of overall market share in the regional passenger car tire market.

Where applied, custom duties on tire imports presented a major factor in final market price, distorting global price competitiveness patterns. There were no custom duties in the region for Slovenian products. While it was not clear how fast would individual countries of the region drop customs barriers for tire imports from outside of the region, changes were likely to follow increase of political stability in the region and its gradual improvement of economic ties with EU.

Strategic options considered in 1995

At the time when Sava and Semperit (later acquired by Continental) had negotiated the 25-year Joint Venture contract, Semperit clearly had the upper hand. The investment of around 12 million US\$ gave them 28% ownership share in Sava, along with disproportionately large influence on daily management of the company, since all of the important issues had to be approved with consensus at the joint Business Board.

On the other hand side, Sava was entitled to full technological support related to the production of car tires, as well as sales of 20% to 50% of the production to the JV partner. Sava had access for its own branded products to the partner's distribution network, but also had to observe significant restrictions in developing own network in some territories (like Austria, Germany or Switzerland).

In the beginning of 1995 Sava had started intense negotiations with Continental as the most logical partner for the new JV, given that it was already familiar with the people and manufacturing capability of Sava. The aim was not to prolong the JV contract under initial conditions, but to use the fact of Sava's successful development for obtaining better conditions. That in particular meant further technological upgrade, production extension, extension of JV contract into the area of engineered products, as well as strengthening of Sava brand and distribution network in the European markets.

Continental did not react favorably to this initiative. A major factor in its position towards JV extension was certainly the fact that in 1993 Continental had acquired Czech tire manufacturer Barum, and started using it as a low cost manufacturing location. The following was the summary of Continental's proposal to Sava:

- Continental shall reach 51% of the ownership share or stay at the existing one, but additional equity cannot be higher than 15 million US\$
- Independent marketing and sales of products under Sava brand is not allowed in the countries where Continental has its own distribution network
- Continental takes over full control over the company operations
- Sava products will be bought by Continental in case they have cost advantage over Barum
- All overhead functions (such as R&D and marketing) will be integrated into the headquarters functions, Sava will remain a low-cost production facility
- Continental has no interest in Sava's engineered products, since is estimated them not to be cost competitive
- Unless Sava management accepts the above conditions, Continental will use the option to terminate the JV contract in 1996.

Clearly, Sava management saw such conditions as unacceptable, but was not sure how much space for negotiations existed in reality. It was quite probable that Continental would improve its offer in case of another company appearing as a credible alternative for Sava. Therefore, Sava management decided to pause the negotiations with Continental and explore both the option of staying independent, as well as one of finding another partner.

In doing that it turned for support to the International Finance Corporation (IFC, sister organization of the World Bank and part of World Bank Group) and engaged other international consultants. With his experience from negotiating major international deals and his personal commitment to Sava project, Mr. John Clarke from IFC soon became member of the core team crucial for preparing the company strategic response to the situation at hand.

Even the fairly basic analysis showed that the option of remaining independent would be quite challenging. On the one hand side, players of Sava's size had problems in keeping the needed level of investment into the development of production technology, new products and brand support. On the other hand side, staying in commodity segment was likely not to be easy for Sava, since such position would have to be based on high volumes and low production costs, both difficult to sustain.

On the positive side, Sava had some very promising product categories among its engineered products, result of its own knowhow. At the same time, some of the product segments were utterly uncompetitive and would have to be abandoned, but high growth in remaining segment would have to be attained in order for significant employments cuts not to become necessary.

While Sava did not have strong financial backing of the global equity markets, in 1995 it had low level of debt and Slovenian growing banking system would likely be eager to engage in financing further company development. Needless to say, excellent political connections of the new CEO would serve well in such circumstances.

With limited number of large players in rubber industry and taking into account cultural distance and geo-political interests, it was not very difficult for Sava management to identify two potential partners who reacted favorably when approached discretely to check possible interest. They had very different profiles.

The first potential partner was Vredestein Banden B.V. from the Netherlands (later: Apollo Vredestein). Although of a similar size as Sava, it would provide for complementarity and help Sava solve some of the challenges, which it faced as an independent company. Vredestein's management and main shareholders responded positively, but Sava management, after studying the offer carefully, decided to postpone the decision until they clarify the prospects of cooperation with Goodyear.

Goodyear, based in Akron, Ohio, was one of the largest rubber and tire companies in the world. It had around 60 thousand employees (i.e. 15 times more than Sava) and around 24 billion US\$ sales, having production units in 48 locations in 22 different countries. Goodyear was the second largest tire manufacturer in Europe, where it also had one of its two global innovation centers.

Sava approached Goodyear as early as of March 1995. It soon became obvious that, although interest for cooperation existed in principle, given partner's size and meticulous approach to M&As, including thorough due diligence process, it would take more than a year to come to any form of initial agreement. That would put pressure on Sava, since it would have to

survive the period immediately after the termination of JV contract without having the alternative secured and with possible negative effects on tire sales in 1996.

While it was not clear how would Goodyear set the valuation of Sava in case of acquisition, as well as whether it would also acquire some or, less likely, all of the engineered products activities, the fit of the strategic position of the two companies in the tire segment was clear in several areas:

- Sava had high quality production of speed rated car tires, while Goodyear lacked capacities for that product category
- Sava had dominant market position in the markets of former Yugoslavia, where Goodyear was hardly present, thus representing growth in new markets for Goodyear
- Sava brand was well received in West European commodity segment, where Goodyear did not have sufficient coverage
- Goodyear had excellent global distribution network, while Sava did not manage to develop its distribution network in Western Europe and missed market opportunities there
- Goodyear had extremely strong product development capabilities and manufacturing scale among multiple factories in the European region in all tire ranges, while Sava's mix of profitable products was under threat of obsolescence
- Goodyear had strong marketing orientation and excellent brand position in premium segment, where Sava was weak and did not have adequate offering for the regional markets.

Goodyear showed initial interest in some of the engineered product groups within Sava portfolio, but the discussion in that area was expected to be even more demanding given the broadness of Sava portfolio and likely gap in interests.

By early 1996 it was clear to Mr. Bohorič and his team that all scenarios should for the time being remain opened, but most effort should be put in the discussions with Goodyear. They were confident that progress could be made, although the detailed negotiation platform was still not formed and had to be adjusted to the progress of talks with Goodyear.

Ready for the challenge

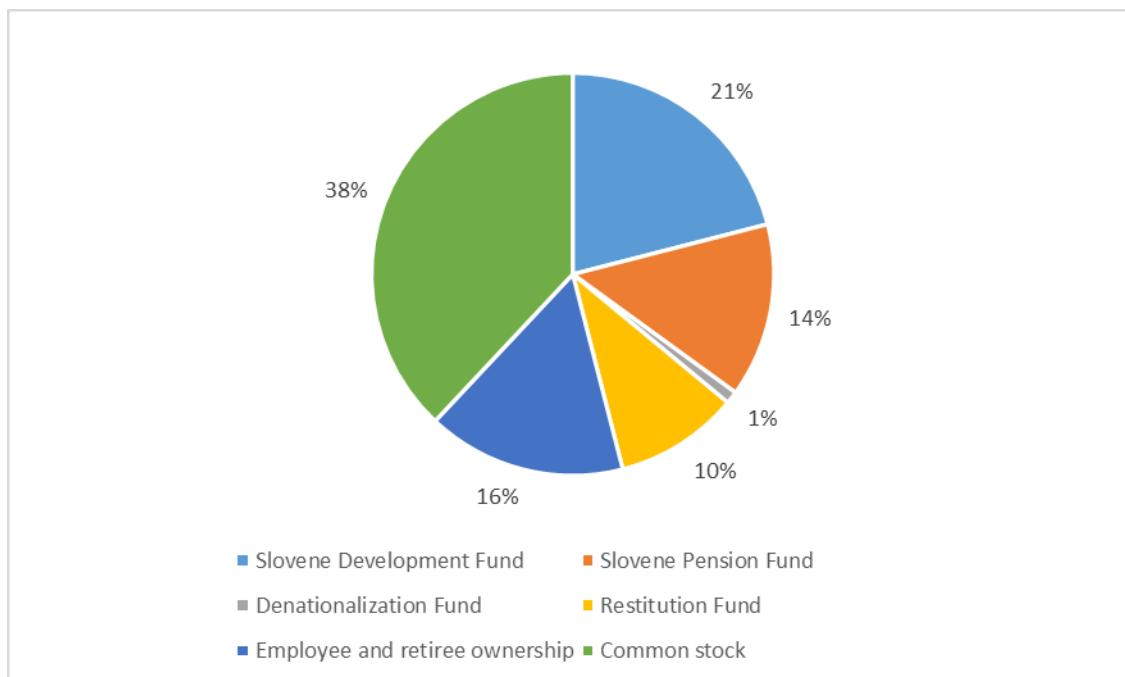
The incoming CEO, Mr. Bohorič, was not only a seasoned businessman, but he also enjoyed the benefits of a successful career in politics. After joining Sava as a young chemical engineer and leading the business development of its artificial leather unit, at the age of 36 he became the General Manager of the whole company, one of the youngest in such a position in Slovenia. Six years later he decided to step out of Sava and join Slovenian Government, where in the period from 1984 to 1990 he had served as the Vice-President in charge of economic affairs. Being part of a more liberal political faction at that time, he soon got positive media coverage and became one of the opinion makers in Slovenian society. Media often quoted his opinion on the critical issues related to economic transformation of the country.

With former communist party losing its dominance in Slovenia in the first multiparty elections in 1990, Mr. Bohorič returned to Sava to lead its marketing activities. He kept high media profile, which was further enhanced by his numerous philanthropic activities, such as starting the Lions Club in Slovenia, as well as the fact that, opposed to many of his colleagues, he took no personal benefit from the first wave of privatization in early '90s. He was seen as part of the “leftist establishment”, but was not related to numerous scandals, which seemed to be inevitable during the transition from post-socialist to West-European style capitalist society. While some of his colleagues from the Managers’ Association of Slovenia were not attracted to his personal style, said to reflect his huge ambition and large ego, they were ready to admit his managerial performance was outstanding.

Used to exercising the power of his position in order to make tough decisions and implement them with little consideration for opposing voices, Mr. Bohorič seemed not to be impressed by the challenge he would be facing as the new CEO of Sava. He and his core team started methodically examining the available options and getting ready to select the one they would see as the best for the company. While partnership with Goodyear seemed promising, experience with Continental told them that dealing with huge multinational companies was not easy and making a wrong move could prove to be fatal for the future of the company.

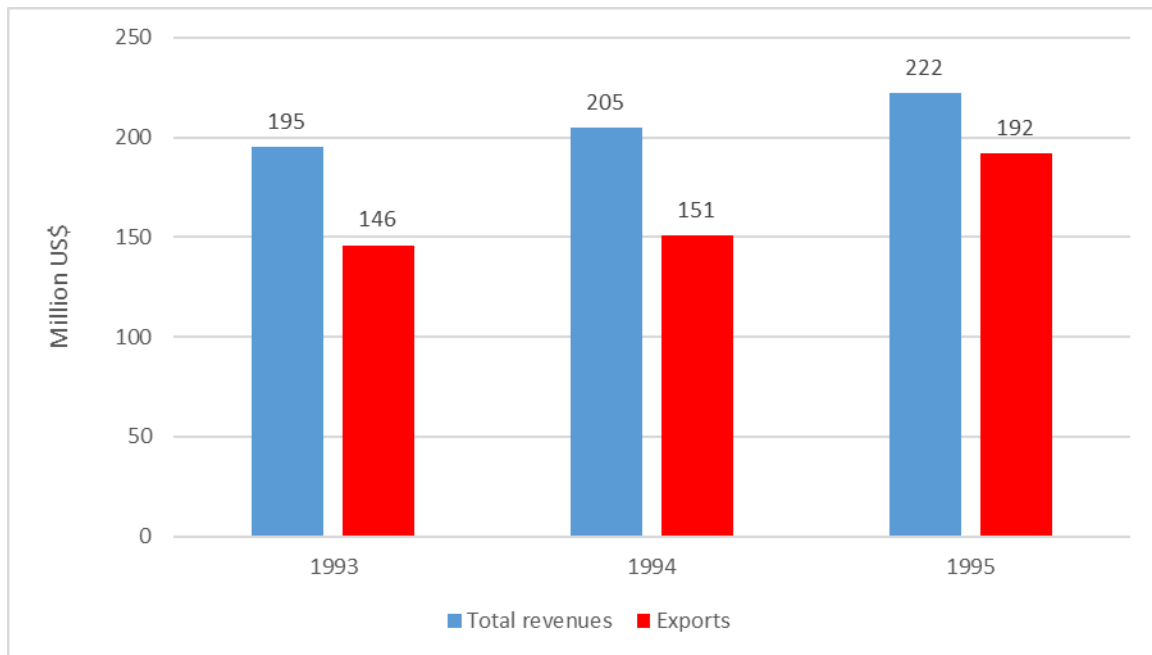
Exhibit 1

Sava ownership structure in 1995



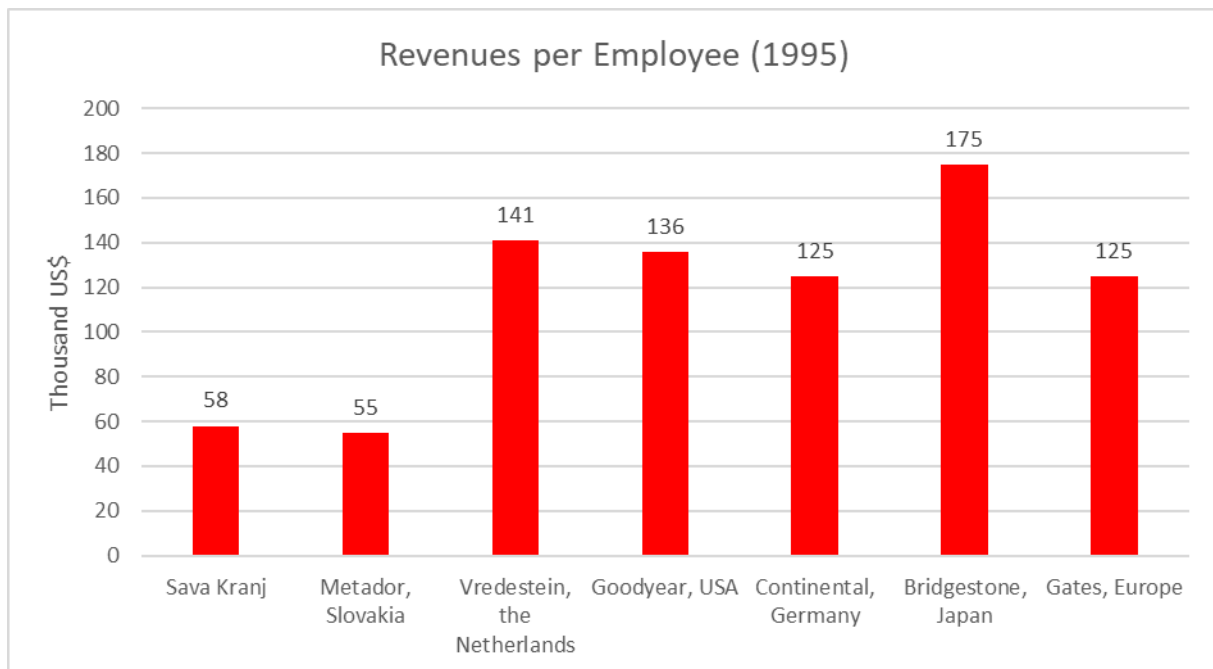
Source: Case writers’ data

Exhibit 2
Sava Revenues



Source: Case writers' data

Exhibit 3
Productivity benchmarking of selected tire manufacturers



Source: Case writers' data

Exhibit 4

Sava sales programs / product segments in 1995

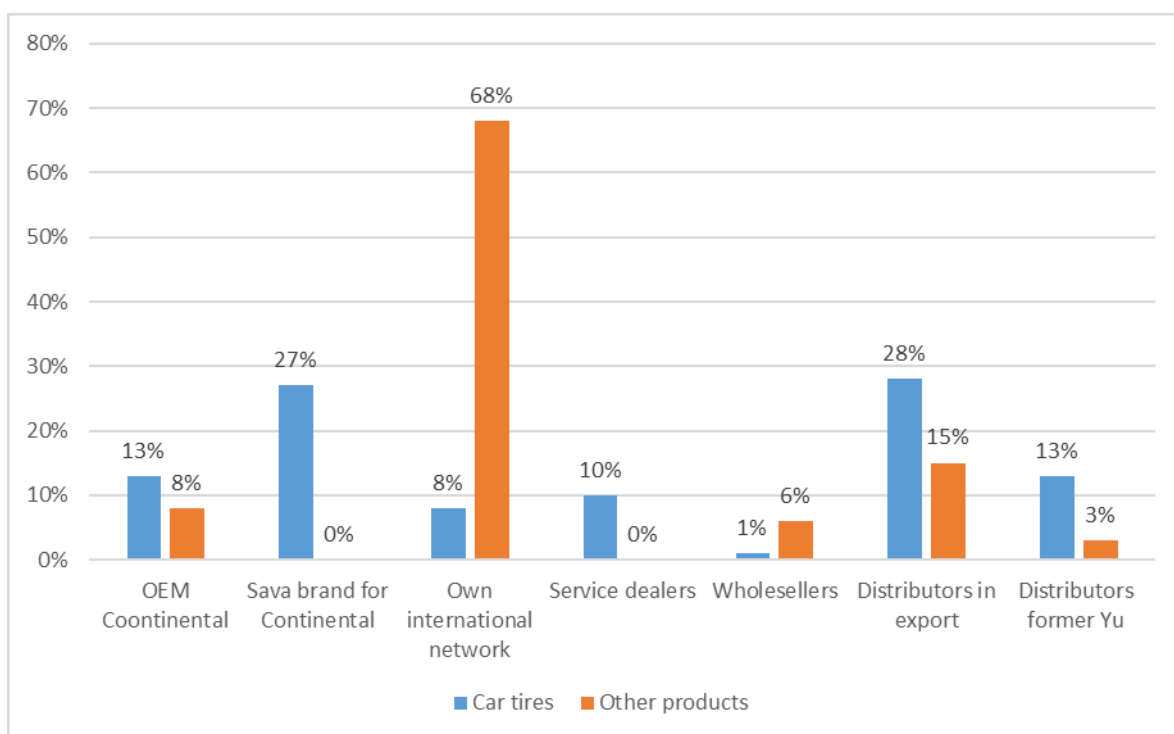
Sales program	Product-market segment	Sales (in million US\$)
Car tires	Personal vehicles	93.3
	Heavy trucks	41.1
	Pick-ups and light trucks	21.2
Bike tires	Bicycles, mopeds, scooters, motorbikes	16.1
Vist artificial leather	Car industry, shoe industry, furniture industry, fashion industry	13.7
Conveyer belts	Construction industry, mining, cement industry, agriculture, food industry	9.1
V-belts	Car industry, agriculture mechanization, home appliances	7.2
Rubber profiles	Window and door industry	5.7
Roll covers	Paper industry, printing	3.4
Eco interventions	Utilities, ambulance vehicles, ecology	3.1
Air springs	Trucks	2.5
Adhesives and chemical products	Shoe industry, retail	1.7
Surface protection	Various industrial applications	1.5
Sava Print	Printing	1.2
Pressed rubber products	Car industry, agriculture mechanization, construction industry, retail	0.8
Rubber hoses	Industrial applications, home appliances, retail	0.7

Sales program	Product-market segment	Sales (in million US\$)
Sava Medical	Healthcare, pharmaceutical industry	0.4
Construmat	Bridge construction	0.3
Rubber plates	Various industrial applications, retail	0.3
Rubber wheels	Forklift industry	0.2

Source: Case writers' data

Exhibit 5

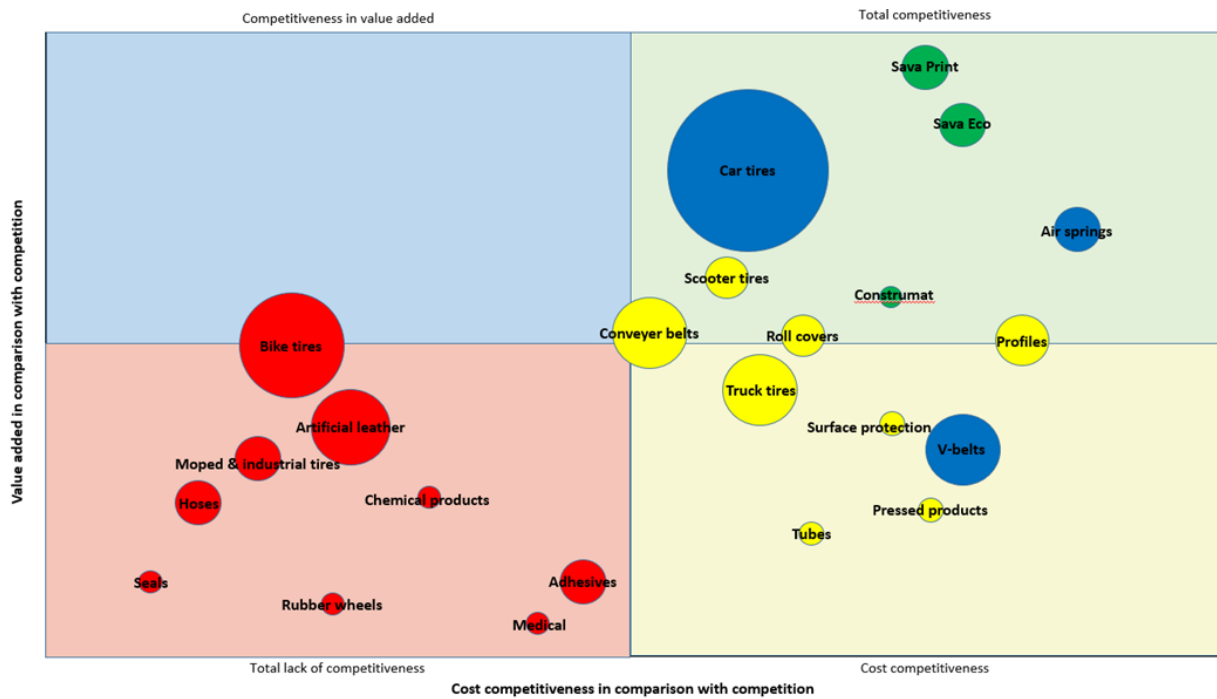
Sava sales structure by channels in 1995



Source: Case writers' data

Exhibit 6

Competitiveness of Sava sales programs in 1995

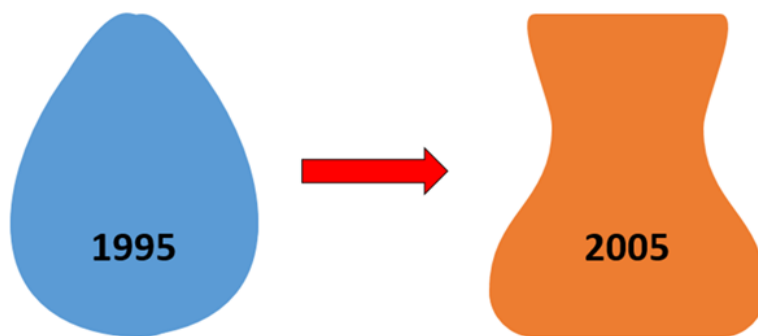
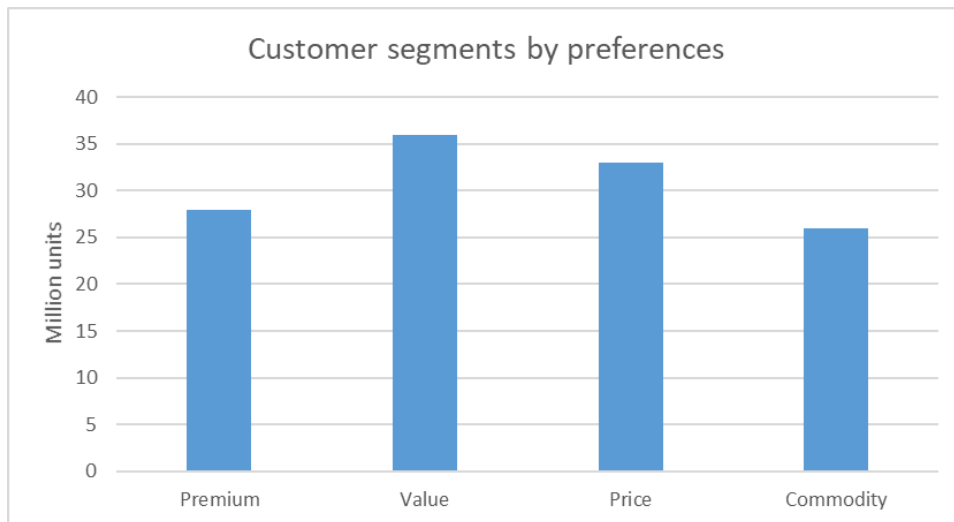


- **Segments to terminate**
- **Segments to keep**
- **Segments of interest for strategic partner**
- **Segments with highest development potential**

Source: Case writers' data

Exhibit 7

Tire replacement market structure and dynamics



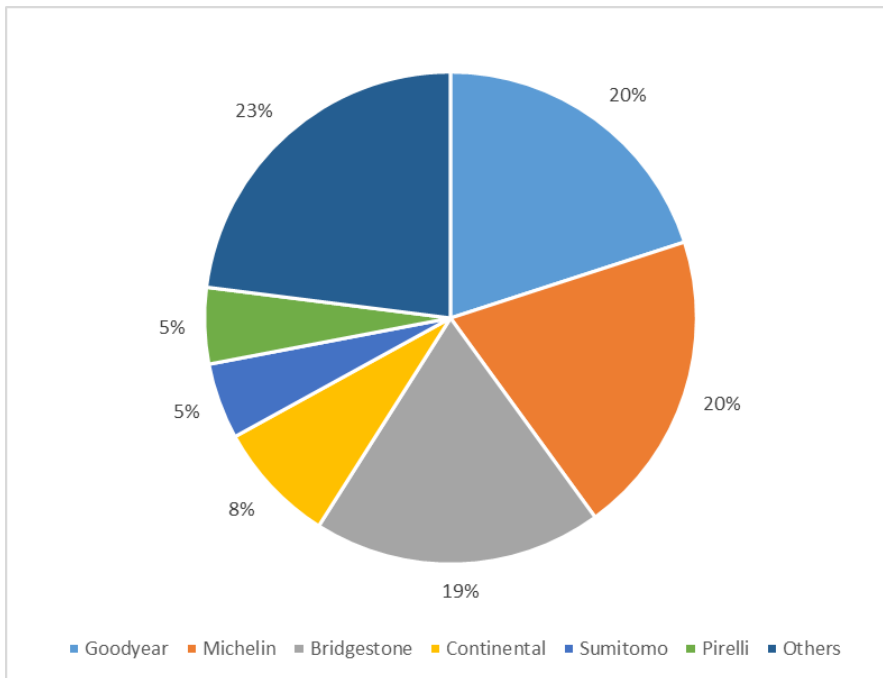
The “new customer”:

- Well informed, has access to product benchmark test results
- Critical
- Under strong influence of mass media
- Price sensitive
- 49% take brand as #1 purchasing criterion, 51% take price
- Middle range segment is disappearing

Source: Case writers’ data

Exhibit 8

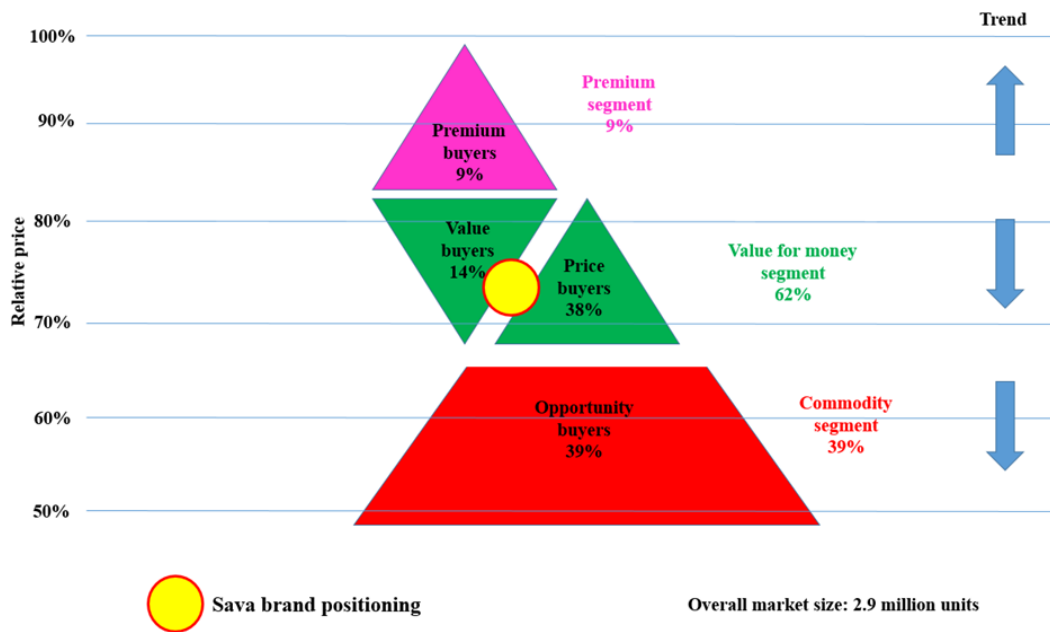
Global market shares in tire industry in 1995



Source: Case writers' data

Exhibit 9

Tire market structure in the countries of former Yugoslavia in 1995



Source: Case writers' data

Sava Transformation Chronicle

Teaching Note

Sava Chronicle sequel of cases (A to D) describes the challenges and outcomes related to the process of strategic transformation of Sava, a rubber products manufacturing company from Slovenia, in the period from 1995 to 2016. The cases deal with the following main situations:

- Case A: Briefly recounts the history of Sava and presents the external setting in 1995, as well as the challenge of the expiry of JV contract between Sava and Continental, which puts in jeopardy Sava's ability to stay a viable player in car tire and engineered rubber products market;
- Case B: Summarizes the thinking behind the selection of strategy responding to the challenge presented in Case A, leading to negotiations between Sava and Goodyear, successful closure of new JV contract and resulting challenge of transforming both the JV part and the remaining part of Sava;
- Case C: Presents the challenge of transforming Sava Tires, the newly formed JV between Goodyear and Sava, from the point of view of Richard Johnson, newly appointed Managing Director, as well as actions taken to (successfully) resolve these challenges;
- Case D: Presents the challenge of selecting the right strategy for Sava of using the proceeds from sales to Goodyear to achieve sustainable, profitable growth; details the three phases of transformation: initial hesitation, unrelated diversification and final crisis, allowing for discussion about reasoning behind individual choices taken and causes of ultimate transformation failure.

The sequel can be used in a number of courses, typically on the MBA level or within executive education programs. Some examples of the usage include:

- Strategy course, focusing on the topic of sources of sustainable growth;
- Strategy course, focusing on the topic of diversification challenges;
- Strategy or change management course, focusing on the topic of transformation priorities;
- Leadership course, focusing on the role of charismatic leader in corporate transformation and the tendency of charismatic leaders to derail due to hubris induced by prior successes;
- Corporate governance / Business ethics, focusing on ethical challenges related to large-scale transformation and critical role of corporate governance in managing them.

The use of various conceptual frameworks, such as SWOT, five forces analysis, portfolio management, diversification typologies, risk management matrix, or transformation management can be illustrated through the case analysis and discussion process .

Stanko Cvenkel, Richard Johnson and Slavko Koren contributed the material for this case written by Professor Nenad Filipović solely as a basis for class discussion. The case is not intended to illustrate either the effective or ineffective handling of a business situation. Some information may have been disguised to protect confidentiality.

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The sequel allows for ample discussion on core issues related to and illustrated in individual cases. Using role play is possible for every case (for example - but not limited to - Sava vs. Continental in Case A, Sava vs. Goodyear in Case B, management vs. employees in Case C, Management Board vs. Supervisory Board vs. management of subsidiaries in Case D). While some understanding of the setting (manufacturing industry, Central Europe in the period from 1995 to 2015) is beneficial, it is not mandatory, since core issues are universal. If the whole sequel is used, two 90-minute blocks might be appropriate for class discussion, not including the preparation time

The preparation may be structured around the following questions:

Case A:

1. What options are available for Sava management in response to the challenge of expiring JV contract with Continental?
2. Should Sava management try to narrow down these options to as few as possible as early as possible, or try to keep them open as long as possible? Why?
3. How should the industry dynamics and market trends influence the management's thinking about the options?
4. How should the Sava competences (or lack of them) influence the management's thinking about the options?

Case B:

1. Did the Sava management handle the negotiation process appropriately? Would it be beneficial for the parties to do anything else in the preparation for the deal closure?
2. What should Goodyear see as the priorities immediately after the contract came into force?
3. What should Sava see as the priorities immediately after the contract came into force?

Case C:

1. What do you see as rationale behind Johnson's initial priorities? Would you modify the list? If yes, how? If not, why not?
2. What were the principle strengths of the change process, leading to positive outcome?
3. Does the choice to have a production unit in a small EU member country appear as sustainable over long run? What might be the pros and cons of moving it to a low labour cost or a large local market country?

Case D:

1. How do you see the arguments in favour of the growth strategy chosen by Sava management? Against it?

2. Was the final failure primarily the result of unexpected turmoil in financial markets due to 2008 global financial crisis, or you see other factors being more important? If latter, which factor were decisive?