Japan stagnates despite “Abenomics”

Island economy sees little revitalization in President Shinzo Abe’s tripartite plan; recruiting youth may hold key to progress

By Paul Mulholland

Japan is one of the most stagnated economies on the planet. Japan’s economy grew by 1% last year and the IMF projects it won’t grow by much more this year. Its GDP has barely risen since the 1990s, and its aging population peaked in 2010 at 128 million and is in decline. The Prime Minister, Shinzo Abe, was elected in 2012 on the promise to restore growth and fight deflation in the economy in his three-part plan dubbed “Abenomics.”

The first “arrow” of Abenomics is fiscal stimulus. Abe’s government has spent over $200B since 2012 on infrastructure investment with the aim to increase growth. Even though Japan’s unemployment rate is below 3%, a 25-year low, the extra spending has not led to higher wages or growth, only to an increase in Japan’s debt, which now stands at around 240% of GDP, the highest in the developed world.

The second arrow is monetary policy. The Bank of Japan has introduced negative interest rates and has launched a quantitative easing program (in which assets are bought with printed money to proportionate to the US Fed’s quantitative easing program). The Bank of Japan now owns assets valued over 70% of Japan’s GDP, roughly triple proportionate to the US Fed’s quantitative easing program.

What if the two arrows have been ineffective, it is because the third arrow of structural reform has yet to seriously take place. Japan is by far the oldest developed country in the world. Its workforce has declined by 6% over the last ten years and the number of 20-29-year-olds has fallen from 18.3 million to 12.6 million since 2000. It is not hard to see why a declining domestic population would hurt growth, but instead of allowing more immigration into Japan from other Asian countries with workers to spare, Japan has focused on increasing its own birth rate, now at 1.46, even creating a new cabinet position for fertility. Probably the most effective reform Japan could make would be to allow younger workers to enter its workforce from labor surplus countries in Asia.

Another potential major reform could be relaxing Japan’s rigid labor laws which make it difficult for firms to lay off workers, effectively locking out young workers from full-time jobs. This lack of secure employment is ironically denied to younger workers by these laws because firms are less likely to hire them full-time if they know they cannot easily fire them. Economic insecurity among the young likely contributes to Japan’s deflation and demographic traps by preventing the young from investing in themselves and starting families.

With Japan’s workforce declining, Japan has also been struggling with low inflation and deflation since the 1990s. Deflation puts additional pressure on borrowers because the repaid money is more valuable than the money that was lent to them, and deters investment because assets are expected to be cheaper in the future. The resulting decrease in consumption and investment leads to still further deflation and decreases growth.

For Japan to break out of its trap, it should continue monetary stimulus to “reflate” the market and more importantly open up its economy — and particularly its labor market — to competition from the outside and to its own young workforce.

Welcome back, TCNJ!

Sharpen your knowledge on Japanese demographics, keep up with world headlines, & become acquainted with the interests of our student staff — just on this first page alone! Enjoy the expanded content in the August 2017 edition of The Bull, Bear & Lion: our first four-page issue. Thanks for picking us up!
LEARN YOUR M&A ABCs

GOOGLE PARENT ALPHABET IS A JUGGERNAUT FOR TAKING OVER TECH VENTURES

By Susan Lange

Among the most powerful trends in American enterprise in this millennium has been the starting-up of small technology firms. Following their inceptions, these companies have accomplished some extraordinary feats: programming artificial intelligents, 3D-printing prosthetic limbs, and engineering driverless vehicles. A coinciding trend? The same firms have been extraordinarily named. Silicon Valley startups have made a fashion of using the most niche letters of the Roman alphabet when titling themselves. Technology IPOs in 2017 have included Aterix, Impinj, Okta, Qualtrics, Viprepa, Yext, and Zuora. Google is a brand universally linked to internet search, but also the leading magnet for acquiring these Silicon Valley ventures. Therefore, when company executives felt the need to create a parent company to separate Google from its many startup siblings, it was only appropriate that they named the holding firm Alphabet.

Here, learn your ABCs of Alphabet’s existing and up-and-coming holdings.

Android: developer of the most prevalent operating software in the world; provides the mobile interface on over 2 billion phones and tablets

Bump Technologies: creator of the Bump! app that allowed users to exchange data by tapping their smartphones together; captured the earliest whispers of mobile information sharing before being acquired — and having its iPhone-clanging premise sensibly retired — during the 2013 remodeling of Google Photos

Calico: Alphabet’s $1.6 billion biology subsidiary devoted to human longevity research

Deepmind: the machine learning venture famous for its algorithmic mastery of the board game Go

Eyefluence: a lab that classifies foveal shifts, the specific optic movements that enable Google Glass headset wearers to navigate web pages with their eyes

FameBit: a digital marketing intermediary that strikes contracts between independent content creators and online companies, acquired in 2016 to drive YouTube ad sales

Google: Alphabet’s flagship subsidiary that includes the eponymous search engine, Cloud database, Maps navigation, and “G-Suite” of office processing tools

Halli Labs: Alphabet’s most recent acquisition; the four-month-old, India-based startup’s unprecedented advances in natural language processing led to its purchase in July 2017

Imperium: an anti-spam software developer that has contributed to Google’s web protection projects since 2014

Jigsaw: Alphabet’s think-tank subsidiary, convened to brainstorm policies on online censorship, extremist representation, cyber attacks, and tech ethics

Kaggle: a platform where 336,000 registered statisticians and researchers can compete to create the best predictive models for inquiries in computer science, medicine, and virtual reality

Lift Labs: the biomedical engineering firm that made headlines in 2014 for its self-stabilizing spoon, which allows patients suffering from neurodegenerative tremors to eat independently

Meka Robotics: pioneer of bipedal robots that mimic human sprinting

Nest: Alphabet’s “smart home” subsidiary that designs internet-connected, self-programmable appliances, including thermostats, smoke detectors, and security cameras

Oyster: the digital publishing company that perfected e-book streaming for all devices built with Android software

PostRank: founder of the analytics services used by Google to accumulate web click, page view, and network traffic data from blogs and social media sites

Quickoffice: builder of the productivity applications that were the precursors to Google Drive, Docs, Sheets, and Slides

ReCAPTCHA: maker of the infamous internet security system, which asks users to type sequences of distorted letters and numbers, sold its 100-million-Captcha-per-day business to Google in 2014

Songza: service that provides music recommendations based on the user’s favorite genres and artists, the time of day, and the season of the year

Titan Aerospace: developer of unmanned aviation vehicles; contributed to drone technology experiments in Alphabet’s X lab

Urban Engines: a transportation analytics start-up that designed the software used in Google Maps’ route visualization feature

Verily: Alphabet’s life science technology subsidiary; its projects include a health-tracking wristband, glucose-monitoring contact lenses, and surgical robots

Waymo: the division responsible for Alphabet’s popular innovations in driverless cars

YouTube: the worldwide web’s leading video streaming and posting network

Zagat: the cultivated restaurant ratings guide launched by couple Tim and Nina Zagat in 1979 and acquired by Google for $125 million in 2013

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BEYOND THE SWEAT, PART I:
Under Armour Faces Oil Price, Foreign Exchange, Ethics Challenges

By Joshua Allman

Under Armour was founded by Kevin Plank in 1995. Plank’s motivation to create a sports apparel company was born out of his desire to solve a single issue: sweat-soaked shirts. Today, UA is one of the most innovative apparel and footwear companies in the sports apparel industry and possibly the clothing industry as well; and innovation is what sets the UA brand apart. Under Plank’s leadership, UA has continued to innovate what athletes wear, how they look, and most importantly how they feel. However, a transition from moisture-free shirts to today’s advanced wearable technology has not been without its challenges.

UA’s products are petroleum-based and require the usage of conflict minerals. Beyond that, UA’s products, including its advanced wearable technology, require the conversion of raw materials and minerals into specialized intermediate and final products, which inherently leads to complex operational obstacles, environmental backlash, and even human rights issues.

The Dodd-Frank Wall Street Reform Section 1502 (“conflict materials”) provides insight into where companies manufacture, transport, and forecast their products are petroleum-based or “corrupt.” Under Armour faces a dependency on the political maneuvers of its advanced wearable technology, an obvious challenge to supply stability and pricing as regimes change and policies regarding mineral extraction change. Conflict zones also have supply chain reliability issues as infrastructure and employment are not primary concerns for their governments, leading to risky supply chain practices.

Oil is related to conflict minerals in that it supplies and demand impact its price. Therefore, entire systems of production can fluctuate, creating variability and risk. Oil directly impacts the freight costs of shipping and receiving goods, the operation of plants and equipment, and the production of goods and services. The fluctuations in the price of oil due to political regime changes, war, and terrorism, and UA’s dependency on oil affect how UA can manufacture, transport, and forecast the price of its goods.

Over the past two years, oil has seen a dramatic fall in its price because of several interrelated factors. This change began with Saudi Arabia refusing to limit supply, Russia increasing its productivity, and Iran’s gearing up for its sanctions being lifted. Additionally, the advent of fracking, the United States is now a marginal producer of oil. The United States’ production of oil is highly elastic to changes in price. Thus, there is an oversupply of oil, and a huge drop in the per-barrel price. However, Saudi Arabia recently agreed to limit supply if Iran and Russia also agree to hold back – thus, the volatility is reflective of political maneuvers. The production of UA’s goods and its patented sweat-free shirts are stained with a dependency on oil, and therefore, a dependency on the political maneuvers of unstable regimes.

To be continued in Part II

CONTINUING THREAD:
Fast Fashion Confronts Oil Price Volatility

By Kaelyn DiGiamarino

Zara CEO Amancio Ortega introduced the concept of “fast fashion” to the apparel industry. His stores replenish their stock with new clothes and styles every two weeks, and receive orders within 48 hours. Typically, a dress modeled on the runway will take several months to arrive in a department store. A dress with a similar design can be found on the Zara store racks within just a few weeks.

The price of oil has a huge impact on the cost of shipping and transportation services. A rise in oil prices has the potential to be detrimental to a global company that relies on offshoreing. Zara, however, keeps its supply chain predominantly close to home. It is naive to say that Zara would be unaffected by a spike in oil price, but it short supply chain could help minimize the damage.

At least half of the company’s production centers are in Spain. The Inditex (parent company of Zara) Annual Report identifies this as an effort towards sustainability, but it also offers the company protection against oil price volatility. Zara works to improve transportation methods in the most efficient manner. To optimize packaging throughout the supply chain, the company homogenized and standardized its packaging materials. This also allows for greater shipment sizes, making transportation more efficient because more goods can be moved at one time. More sustainable packaging is also used and encouraged, with the goal of eliminating waste that goes to landfill.

“The fluctuations in the price of oil due to political regime changes, war, and terrorism, and UA’s dependency on oil affect how UA can manufacture, transport, and forecast the price of its goods.”

“The price of oil has a huge impact on the cost of shipping and transportation services. A rise in oil prices has the potential to be detrimental to a global company that relies on offshoreing.”
Movie Fans: Get Published for Your Passion

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STOCK PROFILE:
Alphabet (NASDAQ: GOOGL)
By Sean Lange

From its internet influence via Google and its one-of-a-kind approach to leveraging Silicon Valley start-ups, the holding company should be viewed as a tech superpower. Its businesses at once encompass channels for immediate profit, products staked to growing industry demands, and projects based on visionary trends. Therefore, Alphabet offers a constant timeline of value, and is advised to be held as a long-term position with the notion that its price continues to advance...

...Google’s earnings per share are expected to grow 10.92% to $30.89 in 2017, and then 31.99% to $40.65 in 2018. Yet, concurrent price estimates are managed to only increase from $970 by FYE 2017 to a high estimate of $1,050 by the conclusion of 2018. This renders a P/E ratio in the 18x - 22x range, a phenomenon for a company with as outstanding a growth horizon as Alphabet...

...In complement to its core search business, its Google division has two prominent vehicles for continuing dominance. YouTube, the second biggest social network in the world, represents 18% of Google’s total business. With an audience of over one billion viewers, and with new customization and control implementations allowed that partners to choose exactly where in or where alongside videos their ads will appear. YouTube commissions are expected to jump 40% each year in both 2017 and 2018... According to Google, the over $50 billion in 2016, represent 18% of Google’s total business. With an audience of over one billion viewers, and with new customization and control implementations allowed that partners to choose exactly where in or where alongside videos their ads will appear. YouTube commissions are expected to jump 40% each year in both 2017 and 2018...

Alphabet targets startups that reflect undervalued technologies rather than prized innovations, taking over unpolished assets and experimenting with them...many of these “Odd Bets” are managed under the premise that they may never produce a consumable product. While this deliberate swing-and-miss strategy would seem to exist, more consistent susceptible to wasted spending and the stock susceptible to lower EPS figures, this tactic may serve to insulate Alphabet from certain risks. If the company or tech sector faces a downturn, Alphabet already has a buffer of operational costs written off and committed to extenuating failures...

...Alphabet is both an entrenched corporation and a tech growth company. The company is ubiquitous online (Google search and YouTube), the information dimension (Google Cloud), in the industrial world (drones, drugs, computer hardware), in the material world (Google Glass, smart speakers), and in consumer devices (Android phones), for the immediate, intermediate, and long-term. When the business environment for one venture be favorable, the results are still other that companies hold that can thrive. Per KBW analyst Mark Mahaney, “Alphabet is one of the strongest, most consistent fundamental stories in Tech. Period.”

What if the pieces of advice we have been given in life are leading us to fail? Convention wisdom says intelligence and ambition will get us where we want to go. Malcolm Gladwell says otherwise. In his third book, Outliers, Gladwell proposes that instead of looking at the successful characteristics as explanations for their accomplishments, we ought to look at their surroundings. Perhaps it is not what successful people are “like” that is important, but rather where they came from. Known for his bestseller The Tipping Point and Blink, Gladwell continues to strike his readers with surprise. He questions the intuitive and his pieces pick up the subconscious biases every person holds. Gladwell’s curiosity is unrivaled and he continually confronts his readers with truths that have always been present, but never noticed.

Outliers is a book that is both comforting and disconcerting. The idea that one’s likelihood of success is chosen for one by the cards life deals makes room for a little bit of optimism, but also a great deal of doubt. In the end, how much is hard work really worth if this is true? Gladwell taps into the narrative power of entropy the reader into a success story, with an inspiring overview of an individual’s greatness. Only once he has captured your imagination and lured you to the ending you expect does he swiftly dismantle every detail. Gladwell explores how commonly we confuse maturity with experience and how accumulated advantage, unusual opportunities, and practical intelligence play stronger roles than we typically think. Gladwell proposes provocative theories such as that only those born in January will make the Canadian national hockey team, or that South Korean pilots are more likely to crash their planes than pilots from other countries, and that there is a reason Asians are more successful in mathematics than those from other cultures, and likewise a reason that you have never heard of the man with the highest IQ.

It is not uncommon for business students to feel overwhelming pressure to succeed; there is enormous focus on grit and determination, on hard work and hard skills. Every choice seems to be excessively weighty, and the fear of missing an opportunity early in one’s career is immense. Business majors read case study after case study on inventors, innovators, and disruptors. One wonders how these individuals found a way to stand out from the rest of humanity. Did they pave a path with grit and ambition, or did they simply stumble upon a road laid out for them?

There is no doubt that Gladwell’s myriad of case studies and data creates compelling arguments. He pushes his readers to confront the hidden advantages of generation, family, culture, and class, and will undoubtedly make you question where you fall on the spectrum of human potential. Whether you subscribe to that belief or not, Gladwell’s peculiar perspective is provocative and memorable.

"It is not the brightest who succeed. Nor is success simply the sum of the decisions and efforts we make on our own behalf. It is, rather, a gift. Outliers are those who have been given opportunities and who have had the strength and presence of mind to seize them. To make yet more fortunes from the misery and misfortunes it has inflicted on others.

"It is a tale. Told by an idiot, full of sound and fury. Signifying nothing.”

― Malcolm Gladwell, Outliers

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TIPS & QUOTES
Edited by Sean Lange

ADAPTED FROM THE HBR MANAGEMENT TIP OF THE DAY:
Stating the Obvious

 Turns out a lot of management tools focus on some pretty basic stuff, like how to run meetings, have conversations, and set goals. While they may not always feel glamorous, when really implemented, simple management practices can have a huge payoff.

August 24, 2017

“The truth of the matter is that you always know the right thing to do. The hard part is doing it.” — General H. Norman Schwarzkopf

Blinked by the Light:

“You only have to do a very few things right in your life so long as you don’t do too many things wrong.” — Warren Buffett

“Everything, in retrospect, is obvious. But if everything were obvious, authors of histories of financial folly would be rich…” — Michael Lewis

“A day without sunshine is like, you know, night.” — Steve Martin