

## Globalisation (December 1999)

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### What is globalisation?

Globalisation is the process by which the world economy is transformed from a set of national and regional markets into a set of global markets that operate without regard to national or regional boundaries.

Truly global markets now produce and consume about 20% of world output - \$6trillion of the planet's \$28trillion gross domestic product. Within next 30 years, as the planet's gross domestic product expands to \$91 trillion (assuming real growth rate at 4%), the global market is expected to multiply 12-fold, reaching \$73 trillion or 80% of total world output.

According to Gary Hamel and Jim Scholes we live in a discontinuous world. Digitalisation, deregulation & globalisation are reshaping the industrial landscape. The convergence of these forces has produced an explosion of new organisational models, institutional relationships and value creating possibilities.

Jane Fraser and Jeremy Openheim opine that exponential change in the pace, scale and scope of globalisation is a result of three mutually reinforcing factors:

- The growing scale, mobility and integration of the world's capital markets.
- The increasing irrelevance of national borders as regulation is liberalised and other economic barriers fall.
- The expanding ability to leverage knowledge and talent worldwide through technology.

The wall between markets, organisations and nations are coming down, feels Kenichi Ohmae .

### Management Response

The essence of business strategy is to offer better value than competition in the most cost effective and sustainable way. Leaders have to become organisers of complex systems - brokers of performance and efficiency.

C.K. Prahalad and Jan P. Oosterveld feel that the challenge to companies is to move from the zone of comfort - the familiar - to the zone of opportunity - the unfamiliar.

This note is not intended at prescribing the silver bullets to cope up with globalisation. The objective is to sensitise readers to some of the key bases on which globalisation is having such an all pervasive influence. All of us need to have a mindset oriented to exploiting the opportunities thrown up by globalisation.

### Bases of influence of globalisation

The bases on which globalisation has influenced or is likely to influence enterprise, varies from industry to industry. But the following are three significant bases:

- **Globalisation of the consumer**

Internationalisation of media has led to "globalisation of the consumer". This has presented an unparalleled opportunity for industries to globalise individual needs, globalise individual preferences and create global brands.

On the other hand, the net has balanced this industry advantage by giving an opportunity for consumers to get together effectively and at a low cost, and thereby influence the value proposition they obtain in their dealings with industry.

Consumers today have more choice than ever before and will, in future, be even more in command. Businesses have no option but to become pro-consumers. They will not survive, unless they meet consistently increasing value proposition expectations of consumers.

- **Shorter product life cycle**

The sheer size of global research and development budgets is staggering. Couple that with "fungibility of technology" - technology in one industry that can be transported into other industries - and we are moving from the realm of product life cycles, to the realm of "product life dots!" .

The life cycle of products and services is being dramatically shortened. Managers must expect competing products / brands to appear almost immediately after they launch their product.

Shorter product life cycles and the need to offer the best possible value proposition to the customer have imposed new demands on organisations. Access to a responsive supplier base, global logistics, and flexible manufacturing systems are becoming new sources of competitive advantage. These would ensure that companies manufacture products cost-effectively, while minimising risks.

But cost effectiveness and risk minimisation are not adequate. They also need to be good "technology prospectors", to ensure that they launch their brands at the beginning of the products' life in the industry. Otherwise they will be caught out like Kodak in photography.

- **Break up of traditional channels of distribution**

Traditional channel structures are being challenged. The net has made it possible for manufacturers to be in direct contact with end users by eliminating intermediaries - distributors, wholesalers and dealers.

This has presented managers an opportunity to gain increasingly sophisticated knowledge of consumers. The challenge is to capitalise on this, and remain innovative and competitive in delivering the value proposition. The success of Dell Computers, in seeking information on individual choices and setting up a supply chain that would deliver this, is a pointer of the shape of things to come.

Thus, the key to success in the globalisation game is to be an effective value propositioner, a successful technology prospector and an innovative value deliverer  
Companies need to be strong in at least one of these variables, and meet minimum standards for the other two variables, to survive. Companies that master all three will survive and thrive. They will be the kings of the global market.

## The case of the global consumer electronics industry

Let us take the case of the global consumer electronics (CE) industry to understand the above points. CE includes White goods (refrigerators, washing machines, cookers, freezers etc.) and Brown goods (CTV, VCR, Audio, Camcorders etc.)

The major world players in CE are Sony, Panasonic, JVC, Hitachi, Philips, Samsung, Daewoo, LG, Electrolux, Whirlpool etc. Recently in Berlin at the IFA Exhibition, the world's largest exhibition on CE, the trends were clear and visible - in the strategies of the global CE players and their recognition of the phenomenon of globalisation.

- **Creation and fulfillment of market need through co-opetition**

Sony, Panasonic, Toshiba, Sumsung, LG and Philips are concentrating on developing technology for future products. They are collaborating with each other to understand the consumer needs and devising technologies / products that address those needs.

The thrust areas for next 10 years are likely to be:

- **Digitisation** Converting products from analog to digital format (DVD, Digital CTV)
- **Internet based products** Mobile-phones and televisions are the first few extensions of the internet beyond computers. Blurring of industry boundaries is leading to a classic war between computer hardware and consumer electronics to be first to the market with a product.
- **Interactive products** Convergence of various technologies will enhance customer convenience by making it possible for computing, telecommunication and CE gadgets to interact with each other with a click of mouse or central control.

The process of co-opetition between the majors helps in sharing technology costs and technology risks. The DVD technology is a result of this sharing between Sony and Philips.

- **Creation of global products for global markets**

Discerning consumers across the globe are demanding better choice. Convergence of tastes of "globalised customers" has made it possible for the CE giants to cater to this demand for choice through global products. Localisation is minimal, for instance, to take care of voltage differentials.

The current strategy is to manufacture global products for the global markets. Until some years back, companies used to launch sophisticated products in European and US markets, and basic models in developing countries. But today, the same flat, super flat or pure flat TV is available all over the world.

Technology upgradation and economies of scale are helping in bringing down cost each year. A 29-inch TV is available today at the cost of a 21-inch TV last year. The projection CTV prices are tumbling, almost by 30-40%, despite better features. A video camera with digital format is available at the price at which the analog format was available recently.

The consumer has more choices at various steps in the price ladder. He can choose a price/performance combination that suits his pocket.

- **Clusters as manufacturing strategy**

The manufacturing of many CE goods is concentrated in clusters in East Asia, China, Malaysia, Indonesia and Singapore. Did you know that the so called sophisticated projection TVs, from 33 to 70 inches, are manufactured in a large compound in Singapore, where Sony, Panasonic and Toshiba have factories (assembly lines) operated by low cost women expat workers? By functioning in close proximity, each of the majors is able to get scale benefits. The components are sourced from specialised manufacturers all over the world.

Such manufacturing trends are helping to bring down costs along with global economies of scale

- **Distribution through direct reach**

Management of supply chain, use of internet for direct selling and focus on large retailers are helping CE majors to reduce the cost of distribution, and in turn the price for end-consumers.

Advances in technology will make it possible for prospective customers to experience the product from their drawing room. The dealership/retailers then becomes a place for a final feel - if the customer wants it.

Dealers/retailers will have to re-define their role to justify their existence; the direction of technology is to make them redundant. But there is no single solution for all companies, and the process has to be managed. Compaq, for instance, faced major problems when it tried to duplicate the Dell strategy of direct access to the customer.

- **Emergence of China, the unknown**

During the CE exhibition at Guanzhou in October 1999, the emergence of Chinese global players, competing on cost leadership, was noted. A 34-inch CTV with super flat features was available for \$400.

Such players can give stiff competition to global players, not only in their domestic markets but also in global markets as they expand. Brands like Konka, Hisense, Prima and Haier are becoming household names globally. The Konka and Haier have tied up to set up manufacturing base in India.

Cost leadership translated into a customer value proposition could be a source of globalisation. But, as pointed out earlier, the companies would also need to meet minimum standards in delivering the value (including branding, distribution etc.). Further, in order to sustain their global position, they would also need to meet minimum technology prospecting standards.

These trends are recent - and specific to consumer electronics. There can be no generalised thumb rules that are applicable to all industries. But the bases of globalisation outlined earlier are pointers to the kind of variables that companies need to focus on, to emerge as and remain global players.

## Consumer electronics industry in India

In the early 1970s, the popular CTV brands were Weston, Televista, EC, Binatone, Uptron, Bush etc. Today none of these brands exist. The Indian market is dominated by global brands like Panasonic, Sony, LG, Samsung, Toshiba and Aiwa. The few remaining Indian brands in TV are BPL and Videocon. Most global manufacturers are setting up their own domestic bases, after a few years in joint venture with a local manufacturer.

A similar phenomenon is happening in white goods with domestic companies like Godrej, Kelvinator and Voltas vis-a-vis global companies like GE, Electrolux, Samsung and Whirlpool.

Indian companies are concerned with foreign brands invading the markets. In a scenario of free trade, local brands will find it difficult to match the technology-price offer of global brands.

What can Indian companies do?

### Collaborate

One option is to collaborate with the global giants. The Indian company can be a global manufacturing base for some of the international giants. Videocon, for instance, has gone on an aggressive global manufacturing drive. It is seeking to set up manufacturing bases in Italy, the Far East and Bahrain. It has taken the route of OEM manufacturers for global companies.

### Compete

Another option is to try and become a global giant. This would entail a mindset of looking at the world as the market. It would also involve investment in R&D, brand-building and delivery on an international scale.

### Sell-out

A third option is to sell out while the going is good. Indian CE companies need to take a clear position on this. Else they will have a serious problem at hand.

### Experience of other industries

What is happening to CE has already happened in many other Indian industries that were thrown open to the foreign sector. The following examples stand out -

Automobiles	Maruti(Suzuki),Hyundai, Fiat, Daewoo, Ford, Honda, GM
FMCG	Hindustan Lever, Procter & Gamble, Colgate
Consulting	Big six

### ORG-MARG:Impact of liberalization An ORG-MARG study has come out with interesting results on the impact of liberalisation -

- Indian firms have benefited due to both tie-ups and availability of knowhow & critical inputs for upgrading products & production processes.
- The consumer has enjoyed much easier and faster access to products.
- The entry of more players and products and the economies of scale have brought down prices.

## **Conclusion**

The trend towards globalisation and de-regulation is irreversible - more so because the customer is leading the change process this time. Overhauling in each industry is underway. Indian companies need to take a clear view - can they be internationally competitive? This will determine their choice of strategy - compete, co-operate or sell-out.

This is a core area of consulting for Advantage-India. We have insights and a headstart out of studying the working of global companies at close quarters. We are gathering information on various industries to foresee the emerging trends, identify the skills needed to cope with change and help organisations in understanding and devising strategy to be ahead of the curve, rather than get caught in the whirlpool.

We are happy to hear that about 50 student from IIMA were placed abroad for summer assignments. This is another recognition of the competitiveness of Indian talent in the global market. This also helps foreign companies to understand India better, and has offered country opportunities that were never imagined.

We can visualise a situation in the very near future where all placement will be with global companies. This also means that institutions like IIMA have to develop the outlook and impart the skills that students need to outsell competition in the global marketplace.

## **Food for thought**

A few words from Jacques Nasser, CEO Ford Motors, a truly global company, and the first automobile company to come up with the concept of a global product:

"We are working to create a consumer headset - not mindset - to understand how consumers think, see, hear, touch, smell and feel. We want to know everything about them, how they see us and what they want from us.

"Like most international companies of its day, Ford was organised like the world was at that time - by region. Each region had its own product, development plans, supply base, R&D. Five years ago we launched an internal effort that broke all boundaries and this led to improved quality, productivity and shorter product development cycle. With global strategy in place we could eliminate duplication and waste. We have been able to reduce the number of platforms while increasing the number of derivatives. We are in more markets, more segments, reaching more customers, all at lower cost and greater speed..."