

New Business Models, The Restructure Of Competition And Implications On Business Management And Trade Statistics

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Abstract: - Economists and managers should be aware today of the fact that some concepts and economic mechanisms need to be reconsidered in the context of the new aspects of globalization. The appearance of new types of business and new trade patterns on the international stage has led to the restructure of worldwide competition. “Traditional” competition between companies is replaced, in the context of the “globally integrated businesses” and the new division of labour based on the “functional” specialization, by new types of competition. This has a few implications on business management and on foreign trade statistics and analysis as well.

Key-Words: - competition, “functional” specialization, “globally integrated business”, business management, foreign trade statistics.

1. Introduction

There are a lot of factors that contributed to the appearance of new types of business and new trade patterns on the international stage. We can structure them in the following three categories:

1. The Western factor – the implementation by Western companies of new strategies and business models.

We are referring to the “globally integrated businesses” which are stimulated by:

- the competitive advantages offered by the concentration of resources on a specific field of expertise or functions that enhance positioning on the market;
- the technical opportunities and economic efficiency enhancement resulting from the relocation of activities, and first of all of manufacturing, through offshoring and international outsourcing.

“The globally integrated companies” reflect the integration in a certain formula of the components of the “product” value chain and the distribution of their fulfilment in at least two countries. Integration also implies, on an ever larger scale, the functional inter-dependence of at least 2 independent companies which realize in conjunction the “product” global value chain, and through this symbiosis generate a “globally integrated business”.

Under the category of “globally integrated companies” we have to define two types of companies:

a) **“the functions outsourcers”**, which can be:

- big companies (national companies, multinational companies-MNC, transnational companies-TNC), which undergo a process of vertical disintegration, by retaining the basic function(s) (in which their competencies are maximal) and the distribution of other functions to third parties (outsourcing to functions integrators selected through the arbitrage of their competencies and advantages)
- new companies that design and structure from scratch a “globally integrated business” by assigning functions to “integrated” participants.

b. **“the functions integrators”**, which can be:

- companies that directly perform the contractually undertaken function(s) (design, R&D, manufacturing, assembly, distribution, marketing, post-sales analyses or a combination of these)
- companies that build and use (orchestrate) supplier networks. This kind of integrator becomes in its turn a functions outsourcer, while the network itself becomes a “globally integrated business”.

2. The emergent factor – the governmental policies and private initiatives of some emerging countries. These have facilitated:

- the foreign direct investments
- the set up and growth of a number of national companies meant to become partners to Western TNCs within the frame of certain “globally integrated businesses”
- building of national, regional or even international chains or networks
- the extension of functions within the global value chains, ready to be undertaken by emerging companies, from manufacturing to logistics, R&D and other business services.

3. The conjunction and evolution of the above mentioned factors – which created a new economic reality.

This new reality can be characterized by:

- the reshape of international inter-dependences between companies, countries and regions
- the reshape of trade and investments flows
- the review of the meaning of a country specialization, which is no longer based on the overall balance of comparative advantage of countries in producing a final good, but on the comparative advantage of producing components of final goods (the intra-product specialization) or on the comparative advantage of fulfilling certain tasks/functions along the global value chain of a product (the functional specialization).

The appearance of new types of business and new trade patterns on the international stage has led to the restructure of worldwide competition. This has a few implications on business management and on foreign trade statistics and analysis as well and we will that for make some remarks on these issues.

2. The restructure of competition

“Traditional” competition between companies is replaced, in the context of the “globally integrated businesses”, by new types of competition specific to the new types of structures and new management concepts, which are currently consolidated under the new division of labor.

1. Competition between “comprehensive” companies (with all “functions” of the value chain in their courtyard) **is replaced by a competition localized at the level of a certain function or a set of functions retained in a company’s portfolio.**

When the manufacturing is outsourced by several companies to the same contract manufacturer, it is obvious that differences in competitiveness will result from other functions held within the company (research, design, logistics, marketing, etc.). Competition moves to the level of the “functions of excellence” retained inside the company, while competition in the outsourced functions becomes residual and results from the advantages that the competing providers of functions can bring (when not resorting to the same provider).

2. “Competition is no longer limited to company against company, but rather to supply chain against supply chain. Partners in the chain are the same team members who are trying to optimize value. If a chain eliminates another chain, all the members of the defeated chain fail. The better the chain members cooperate with each other, the more competitive they will be against rivals. This is a different vision of partnership and a broader vision on the company itself.

This idea changes the way the supply chain members interact with each other. In traditional supply chain (or other “value chains” that deliver products or services), suppliers were trying to extract the best prices from buyers. Buyers sought concessions from suppliers. Each player optimized a part of the supply chain, the overall efficiency of the chain being usually sacrificed for the optimization of the results of a single strong player.

But the success of a modern supply chain depends not just on efficiency, and an antagonistic relationship can damage a lot. Antagonistic relationships diminish suppliers creativity, reduce flexibility and weaken the chain in many ways. As flexibility is becoming increasingly important, the cost of such lack of

coordination becomes increasingly higher. Collaboration, on the other hand, can improve supply chain as a whole”¹.

Synthesizing the above, we could say that **in relational terms**, the supply chain may be:

a) a **classic** one, based on antagonistic relationships between its components, namely between firms in a position of seller or buyer, each trying, in their bilateral relations, to maximize profits through negotiated prices. Thus, some links are strengthened and others are weakened. The latter will later endanger the whole supply chain.

b) a **modern** one, based on relations of cooperation between its components, collaboration that aims to overall chain efficiency and results in a stronger position in competition with other supply chains.

On the other hand, it is useful to look at supply chain **in structural terms**, namely:

a) **static** supply chains, based on a fixed number of components, mostly invariant over long periods of time in respect of the supplying companies identity.

b) **dynamic** supply chains, based on networks that can reshape, whenever necessary, a certain supply chain, in order to optimize its overall responsiveness (an extension of the classical concept of efficiency), increasing chain flexibility and stimulating suppliers creativity.

In this point of the analysis, we can conclude that **the dynamic supply chains of collaborative nature are better positioned in the competition fight**.

The supply networks that generate these supply chains are also competing each other and the outcome of this competition will translate into a greater number of prestigious Western companies that will contract that network to carry out the supply chains specific functions.

3. A new type of competition is observed also between the networks of suppliers. This competition is more complex than the competition **between supply chains** and even more complicated when some members are part of several networks that may be competing themselves. In such cases, when a network intends to give a strong blow to another network competing in the same branch, it is very likely that it will be itself affected by this maneuver.

“Competition between networks means that a company that has access to the best networks will surpass rivals today, but will be able to overcome their rivals in the future as well. Such companies can create superior supply chains now, but can also project new supply chains based on the existing networks. Thus, companies have many more options to meet customer needs. **The best networks give rise to the best supply chains**”².

3. Implications on business models and management

1. Another level of the analysis of the business structures engaged today in the field of the global competition, could be that of the **comparison between the matrix structures** (from the functional point of view) **of TNCs** (with their branches system) **and the matrix structures of the supply networks**.

Certainly there are matrix response skills to market demands in both structures, but it seems that **networks have competitive advantages over TNCs**, at least in the field of the manufacturing function.

These advantages result, among others, from the following reasons:

- The geographical and functional structure of a TNC is more rigid than that of the supply chain. It is fastened by its original structure, built on the strategies of market adaptation or the aggregation of similar market demands. This structure largely cancels from the start the permissiveness of a rapid implementation of a new production matrix. In a supply network such as that orchestrated by Li Fung, consisting of over 12,000 suppliers located in over 40 countries, the formulation and implementation of a new production matrix is possible immediately and with reduced operational costs.
- The ownership structure of a TNC is more rigid than that of the supply chain. While the flexibility of the first is increased through green-field investments or mergers and acquisitions, the second enjoys an incomparable flexibility both in the development stage of the existing structure, based on the adherence to

¹ Victor K.Fung, William K.Fung, Yoram (Jerry) Wind: *Concurenta intr-o lume plata: cum sa construim o companie intr-o lume fara granite*, Ed.Publica, 2009.

² Victor K.Fung, William K.Fung, Yoram (Jerry) Wind: *Concurenta intr-o lume plata: cum sa construim o companie intr-o lume fara granite*, Ed.Publica, 2009.

the network that can leave aside ownership involvement, as well as in the functional stage, when, for a similar result, a number of operational combinations (matrix) can be made readily available.

- The strategy of the arbitrage of factors that finally define the manufacturing efficiency reach its optimum in the network because, in comparison with many TNCs, it can put together at any moment, from “n” possible variants, the matrix that optimizes coordinates like: assigned functions, costs, location, speed of execution, etc.). In this context, the arbitrage strategy applied inside its own structure of a TNC is expected to turn more extensively into a strategy arbitrage in respect of choosing the right supply network. Partnering with a supply network equates in the same time with the outsourcing of the arbitrage strategy regarding manufacturing (lately accompanied by activities of design, marketing and logistics) from a TNC to the selected supply chain. In this context we will probably witness the emergence of a new concept, that of the “outsourcing of the arbitrage strategy” from under the roof of some TNCs to some supply networks (which turned themselves also into “globally integrated businesses”).

2. The organic growth model, based on the ownership of assets, is no longer, as in the classical economic theory, the only model of enhancing the economic strength of a company.

Within the functional specialization, following the segmentation of the global value chain, a number of TNCs have outsourced the “function” of manufacturing, keeping higher value-added functions in which they focused their highest skills, that set them apart from competitors (such as research and development, planning and design, innovative marketing and distribution strategies).

The outsourcing of the manufacturing function to contract manufacturers discharged those companies of the need of managing some high-value assets that are no longer to be found in their heritage. The resources thus made available were assigned to other functions, functions that have generated a more notable increase of the company value.

If in the past, the vertical structure and the organic growth have paved the way towards profitability and reputation, now the de-verticalized structures prove to be more profitable.

The fact that the property model can be successfully overcome is shown, perhaps the most eloquent, by the integrators of functions who have specialized in orchestrating vast networks of suppliers. Although their contractual commitment is to supply manufactured products, it is possible that such integrators report turnover of billions of dollars while owning no production facility.

These networks consist of thousands of suppliers, some of which exceed the known concept of a supplier and provide even complex and distinct functions like the fabrication of product modules, assembly, logistics, retailer activities, etc..

The construction of this network is vertical, but not in a single company’s courtyard. This democratic structure consisting of “n” independent owners is made functional and effective not by property relationships (belonging to one company), but by a new type of management, innovated and perfected over the last 10-15 years by some visionary companies which early seized the new opportunities offered by the “functional” specialization and the availability of some brand companies, mainly American, to apply to the international outsourcing (offshoring) of manufacturing and services.

3. The expanding and deepening of the interdependence relationships between independent companies, based on the “functional” dependability between them.

This kind of dependency between the seller and the integrator of functions, pave the way merely to relationships of cooperation and to a balance of power between partners. The “functional” interdependence has already come to overshadow, through its potential, the older structures such as strategic alliances. It is also a challenge for managers of many companies that face difficulties in assimilating the new conceptual principles of networked businesses.

The symbiotic relationship between partners emerges from the fact that the seller of the production function knows and represents the market of demand, while the integrator of that function knows, organize and represent the market of the supply of production factors.

4. In the context of the “globally integrated businesses”, the pricing strategies will be shaped differently.

It is expected that traditional means of competitive struggle between transnational companies, including the central role of pricing strategies and the use of transfer price mechanism, to be reconsidered, especially in connection with the new matrix of the “globally integrated businesses” in which, for example, the mechanism of transfer prices is no longer operative and competitive advantages are distributed and focused on “functions”.

5. The restructure of competition in businesses involving functional specialization has implications for the overall competition. Analysis of changes in the competitive environment should be separated by areas, due to the particularities of the new business structures and their symbiosis with the classical ones.

In the past 20 years we can observe an almost exponential growth of the contract manufacturing, in all its forms (original technology manufacturers, original design manufacturers, global suppliers) and almost in all industrial fields. However it may be noted that in the light industry the strategic options of functions integrators were more varied than in other areas (a comparison should be made first of all with the electronics industry), because in terms of assets and functions, they could engage in more diverse forms of structuring the business (supply chains, supply networks).

There are still plenty of examples of running a successful business in property-based systems, as in the case of vertically integrated companies, and in the light industry the vertical pattern is often fulfilled, out of conjuncture or competitive reasons, by Lohn contracting.

A parallel between a model of structuring a business including a supply network and a model that includes a network of manufacturers in a Lohn system would certainly lead to the idea that the first is more competitive than the classical one. The main reason lies in the “offshoring” of the management of the manufacturing function from the outsourcing company to the company that manages the supply network, leading to an increased focus of the outsourcing company on the management of the relationship with the market, leading finally to the optimization of the flow from the study of demand to the suitability of supply.

The transition to the network model also implies a shift from the “supply chain management”, which focuses on optimizing a fixed and relatively limited set of assets, to the “orchestrating or management of a network”, which focuses on optimizing the response to customer needs, using the assets of a vast network of partners. Innovations in the field of network management define in fact another type of management, the dynamic management of probable structures.

The “decoupling” of the supply chain management from the management of markets, at the level of some independent companies, will generate not only a tendency to maximize the specific managerial skills, but also a competition which is not this time located at the level of vertically structured companies, but at the level of those couples formed by the outsourcing company and the company managing the supply network.

4. Implications on foreign trade statistics and analysis

Trade in **intermediate goods** now dominates world trade in non-fuel merchandise. The growing international flows in intermediate goods reflect the evolution of intra-industry trade, the impact of offshoring and the prominent role of networks of multinational enterprises (MNEs) in world trade.

While Europe is still the biggest trader in intermediate goods, Asia has been rapidly closing the gap, and is now a close second.

While intermediate goods constitute more than 60 per cent of Asia’s total imports, Asia tends to export more final goods composed of the imported intermediate ones. This regional characteristic, inherent in the region’s role as “Factory Asia”, is not equally displayed by each country. Some economies, like China, India and Viet Nam, have distinctly higher shares of intermediate goods in their imports than in their exports, while the opposite is true for the Republic of Korea, Japan and Chinese Taipei. Not only has trade in intermediate goods increased, but these goods are also increasingly complex.

The evolution of regional production networks has created a distinctive structure for the Asian-US production system, understood as the “**tri-polar trade through China**” model. In this structure:

1. East Asian countries, except China, produce sophisticated parts and components and export them to China,
2. China assembles them into final products,
3. final products are further exported to the US market for consumption.

Regarding the implications of the appearance of new types of business and new trade patterns, we should point to the following:

1. **The reshaping of the methodology of foreign trade statistics** in a way that, based on the trade flows of intermediate goods, it could reveal:
 - the domestic content embedded in exports and the import content of exports
 - the country specialization
 - the effects on the foreign balances of payments

The decomposition of exports value into its foreign and domestic content can be done through measuring the value added of exported goods (or in other words, measuring the international trade flows of parts of the entire value added embedded in that specific final good exported). This methodological approach, the “trade in value added” approach, has been recently initiated by WTO and implies the use of the following tools:

- the international trade statistics and
- international input-output (II-O) tables (such as those developed by IDE-JETRO).

As the WTO and IDE-JETRO study points out, the global production chains have blurred the relevance of some conventional trade indicators, like bilateral trade balances, when products are “made in the world” rather than in a single country. Vertical trade is one of the new elements of international exchanges that require the application of innovative metrics.

Attributing the entire commercial value of an exported good to the last link of the chain – the economy exporting the final good – can lead to a statistical bias and to misunderstandings, which may alter trade analysis and have potential implications for trade policy and multilateral trade negotiations.

2. The re-evaluation of some technical issues of trade policies at the level of countries or customs unions, as:

- the reevaluation of the concept of “country of origin”
- the reevaluation of the importance of certain emerging economies as “countries of origin”.

The new methodology developed by WTO-JETRO offers a new perspective for trade analysts, as it dramatically re-evaluates the importance of some economies as “countries of origin”. The result is that the absolute value of some bilateral trade imbalances is reduced, notably that of China and the United States, while overall global balances remain untouched.

This can be illustrated with the common example of the US trade deficit vis-à-vis China. The deficit, as currently measured between the two countries, is clearly overstated, as it does not originate only in China, but also in economic partners belonging to the same production chains. By subtracting the estimated import content from conventional trade values, the value added approach enables bilateral transactions to be adjusted in line with the actual values created in the two countries.

The 2005 US-China trade shortfall would have even been cut by more than half, from US\$ 218 to US\$ 101 billion, if it had been estimated in value added and adjusted for processing trade. Similarly, in 2008, the US\$ 285 billion bilateral deficit would have been reduced by more than 40 per cent. The difference must be attributed to the value added from other economies, such as Japan, the Republic of Korea, Malaysia, etc., embedded in Chinese exports to the United States.

3. The re-evaluation of the political speech of some Western countries towards certain emerging countries with whom they encounter increasing trade deficits.

In this respect, the negative impact on the foreign balance of payments of the Western country should be re-evaluated, as the specialists from JETRO suggest, with the foreign value added embedded in the exports of the respective emerging country, or with the value of intermediate goods imported and embedded in the final goods exported.

More than that, in our opinion, the negative impact on the foreign deficit should be re-evaluated also with the value of exports resulted from the participation of companies from emerging countries to the “globally integrated businesses” with Western partners who outsourced them functions like manufacturing, logistics or mixes of functions.

In this case, regardless of whether the entire value added comes from a single country or is a sum of value added in several countries, the export originated within a “globally integrated businesses” should be perceived like an even more “positive” component than other bilateral trade flows because it is even stronger linked to the competitiveness and market position of an increasing number of important Western companies.

The WTO-JETRO methodology does not separate the trade flows induced by the “globally integrated businesses”, so that an emphasis on the “sine qua non” feature of these trade flows cannot be statistically backed-up.

5. Conclusions

Regarding the implications of the appearance of new types of business and new trade patterns, we have to stress on the utility of the reshaping of the methodology of foreign trade statistics, in a way that, based on the

trade flows of intermediate goods, to reveal the domestic content embedded in exports and the import content of exports, and to re-evaluate the political speech of some Western countries towards certain emerging countries with whom they encounter increasing trade deficits.

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