

Global Business Strategy (Chapter 5)

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Topics to be covered

- Product architecture and difficult to catchup business model
- Global Infrasctuture business as an example of complex system
- Business planning: practical guide and introduction to global business competition
- Introduction to next class: case study on Neemrana Industrial Park

Development in emerging economies
Such as China and India

New
markets

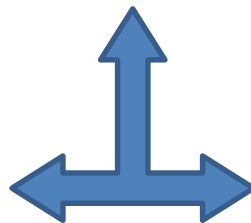
New
competitors



Global Business Strategy

- Shift to “good enough market” and improvement in cost competitiveness
- Business model re-organization by service dominant design

World is not so
flat,
understanding
distance

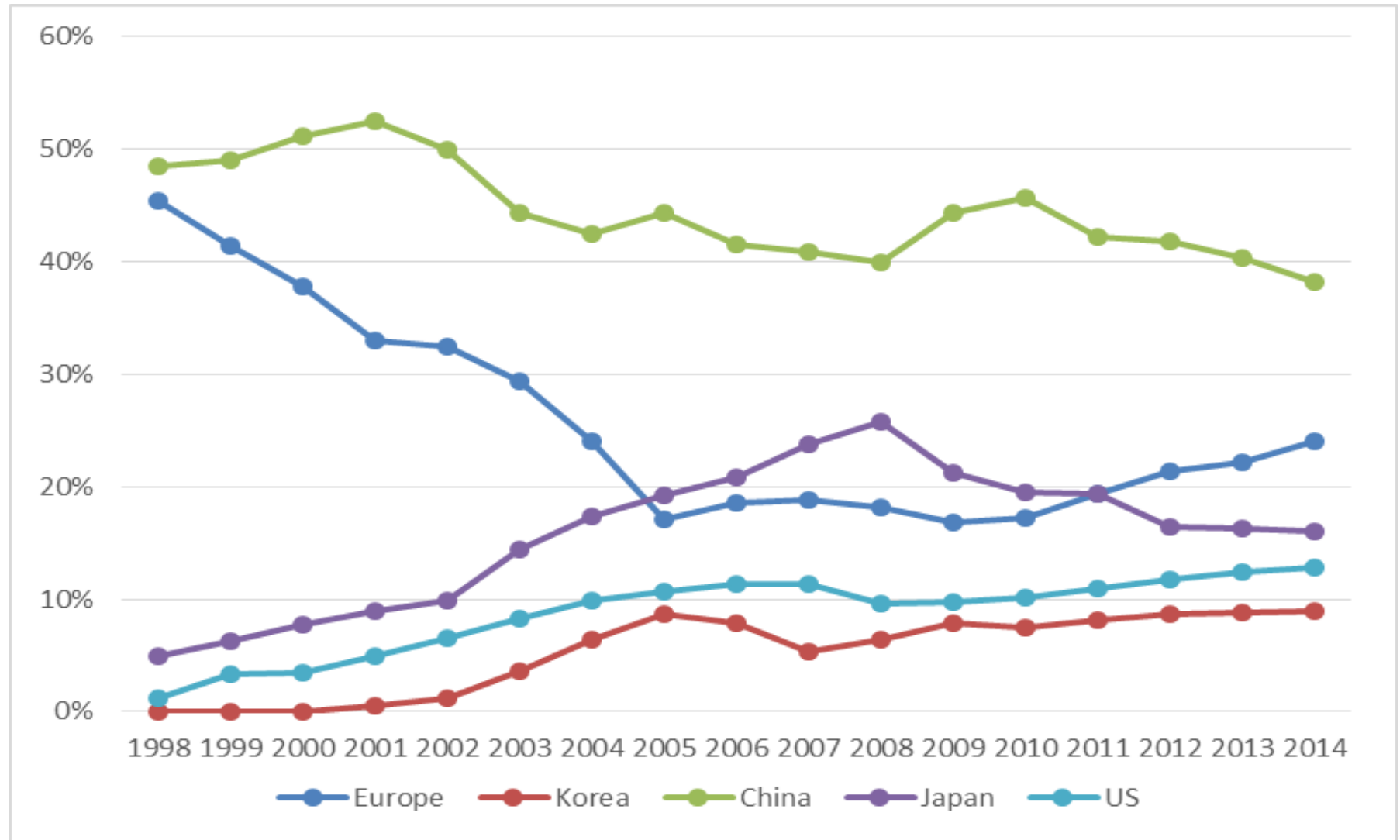


Consistency
with corporate
strategy

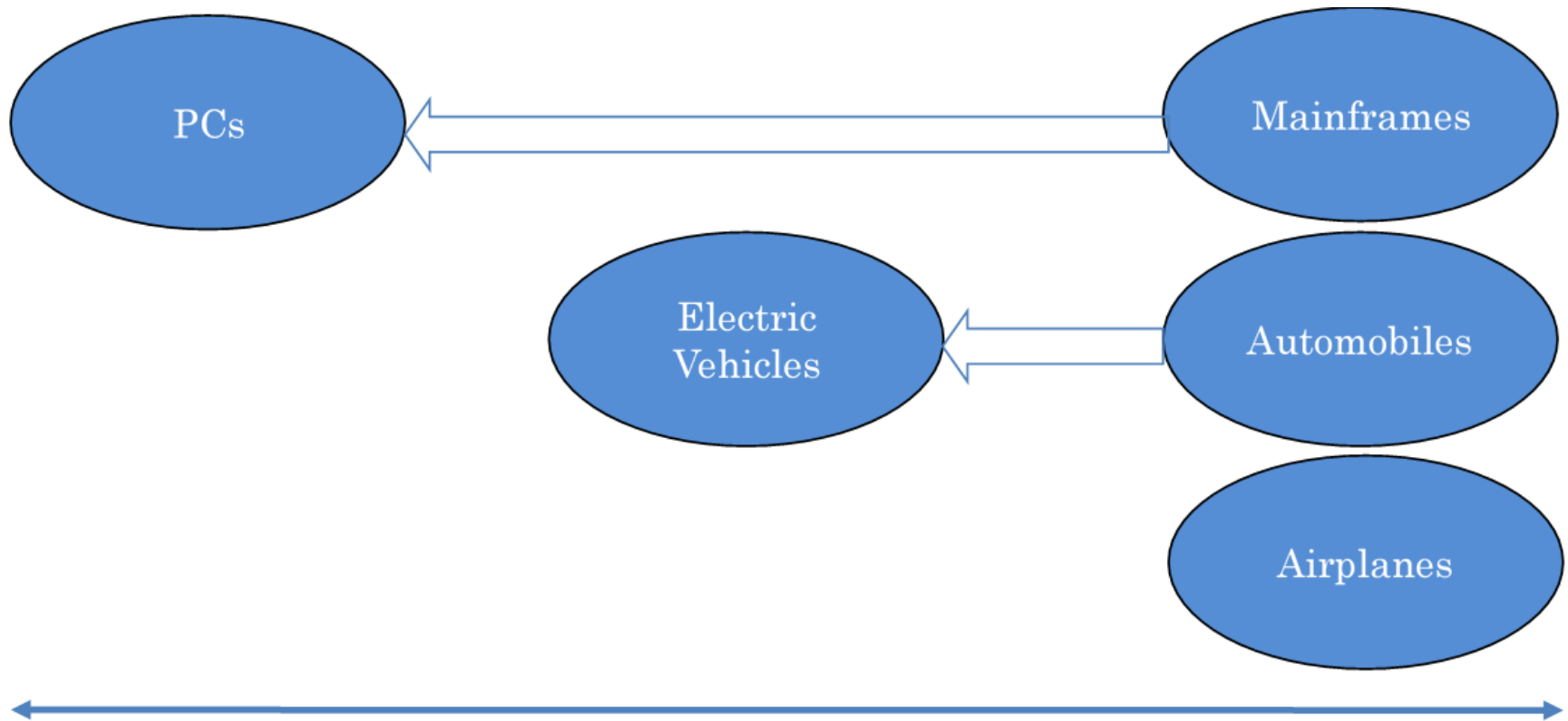
Issues of technology managements in emerging economies

- Technology catch-up of local competitors are very fast. How to protect our propriety technology? By patent? Trade secret?
- At the same time, partnership with local players is important
- Re-configuration of business model: difficult to be imitated one: product model -> complex system, service model

Why domestic car is not so popular in China?

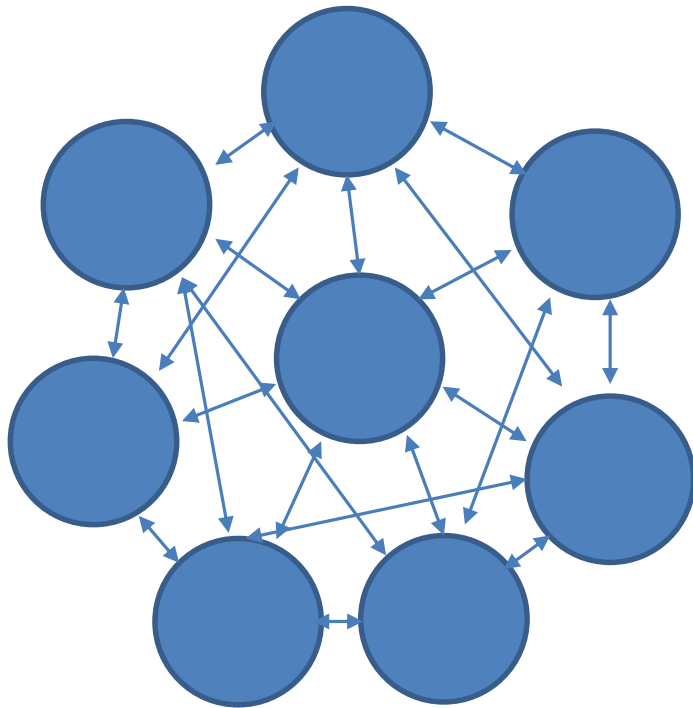


Product Architecture

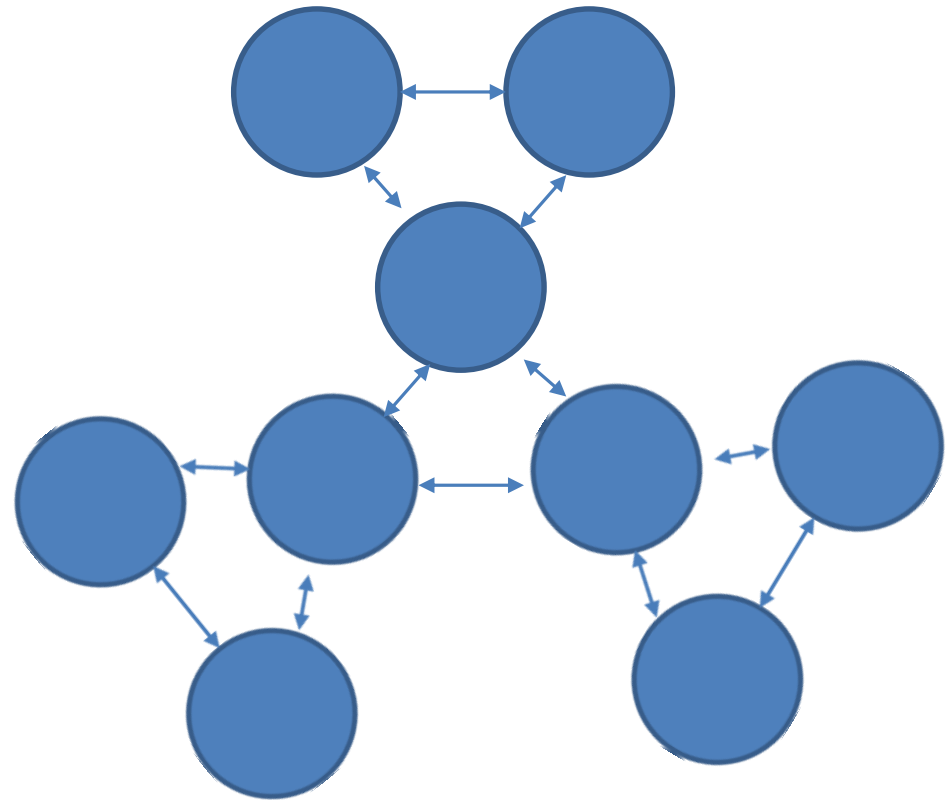


Modular	Product Architecture	Integral
Low	Functionality/quality/price	High
Fast	Innovation speed	Slow

Difference in product architecture



Integrated architecture



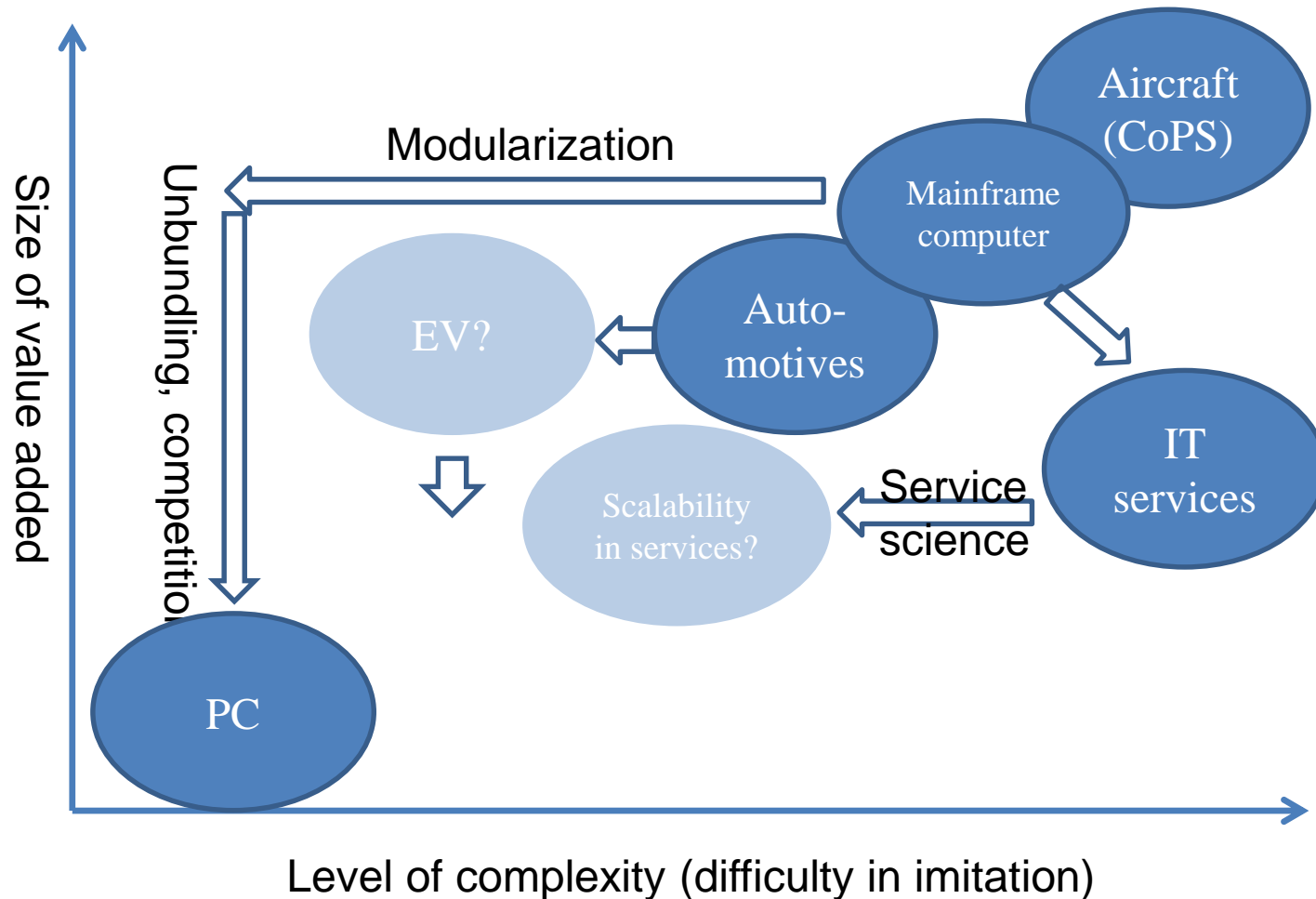
Modular architecture

Service model (service dominant logic)

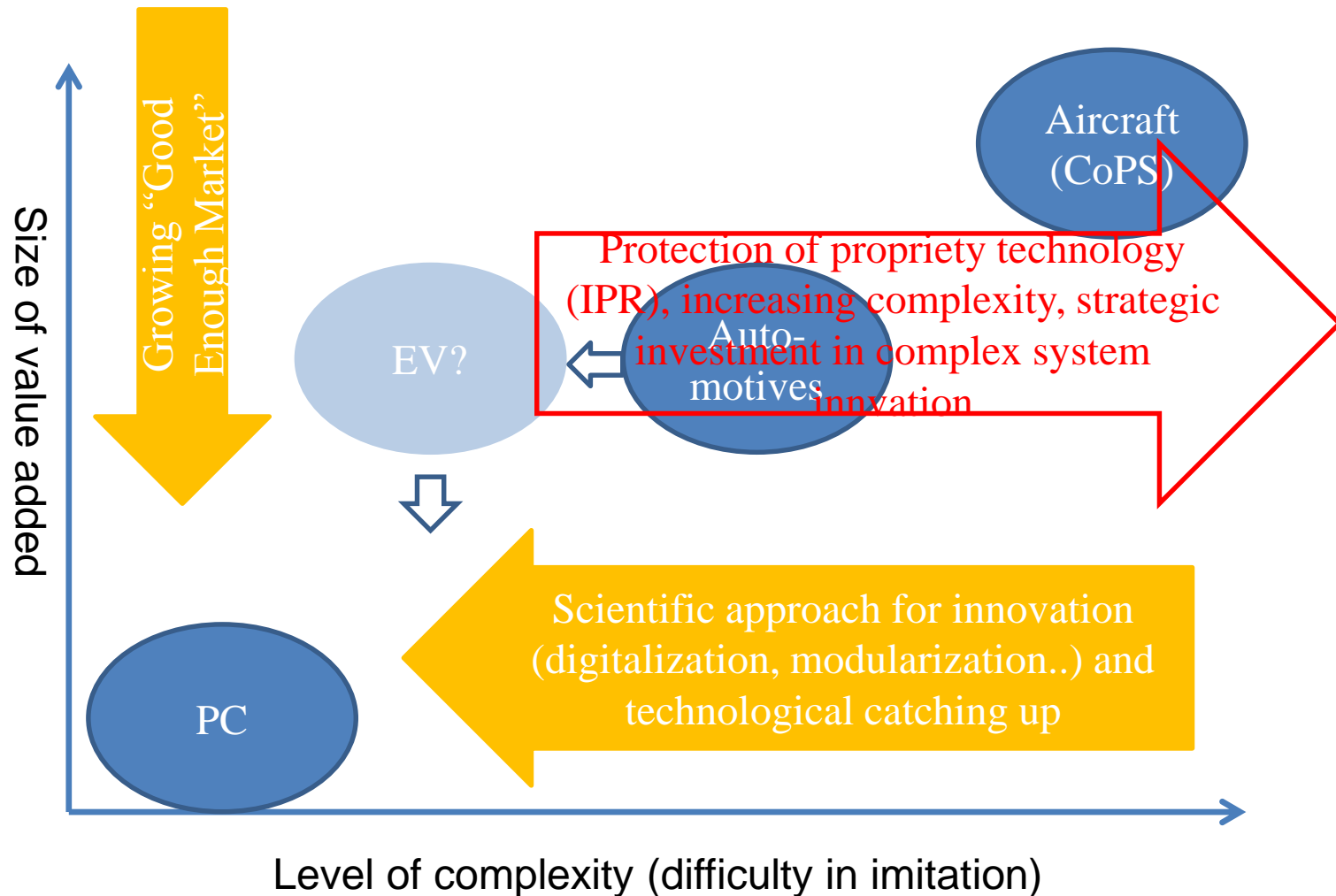
	Product-centric Model	Service-centric Model
Unit of market exchange	Products	Specialized knowledge and skills embodied in the services and products that customers gain
Product role	Key component of market exchange	Intermediary that creates customer value
Customer role	Receiver of product	Collaborator in services gained from products
Determiner of value	Corporations (value is attached to the product itself)	Customer (value determined by benefit gained by customer; corporations are nothing more than proposers of value)
Source of value added services	Surplus created from exchanges of tangible products and management resources	Surplus created by exchanges of specialized knowledge and skills from products and services

Vargo and Lusch (2004)

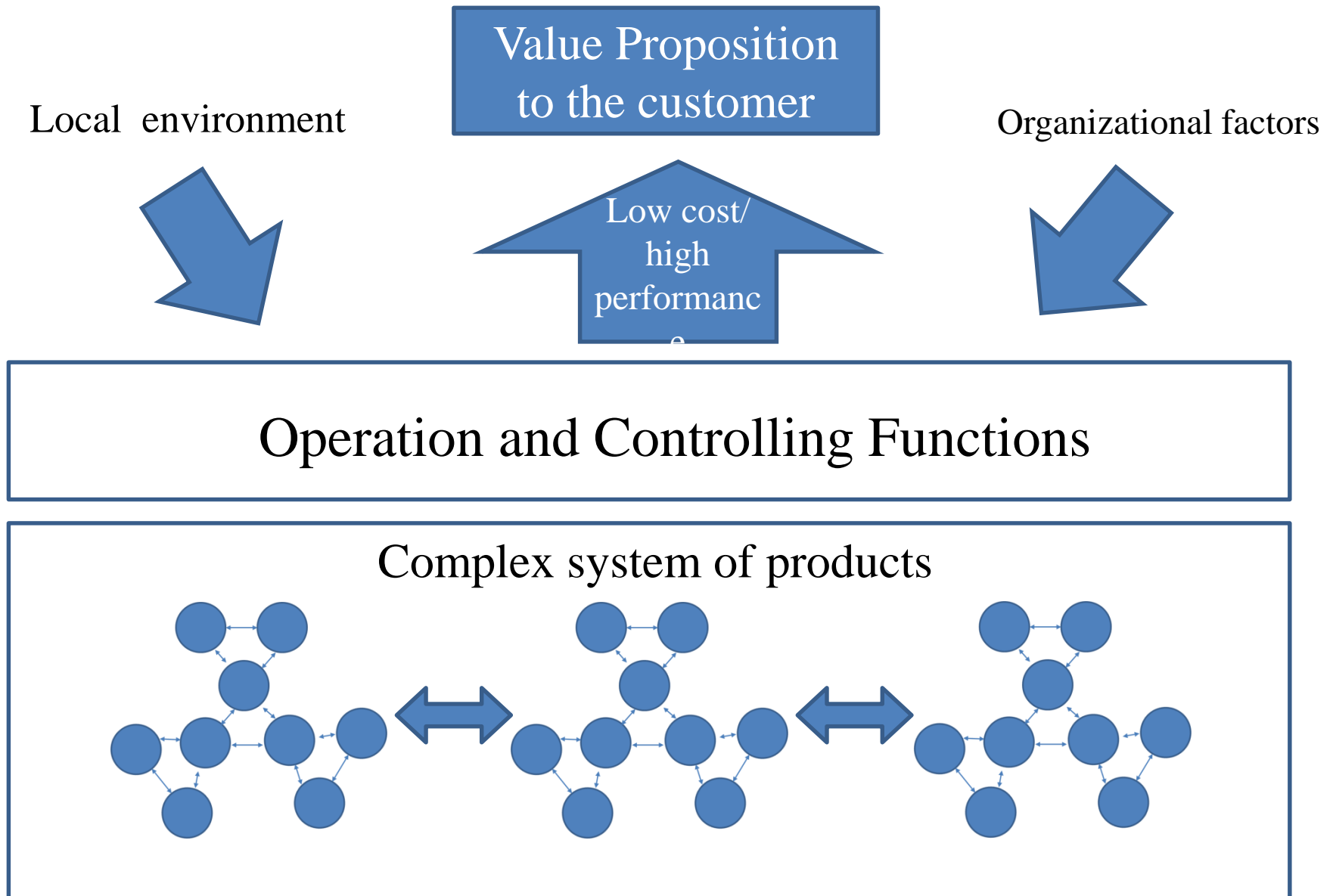
Product architecture and value creation



Driving forces

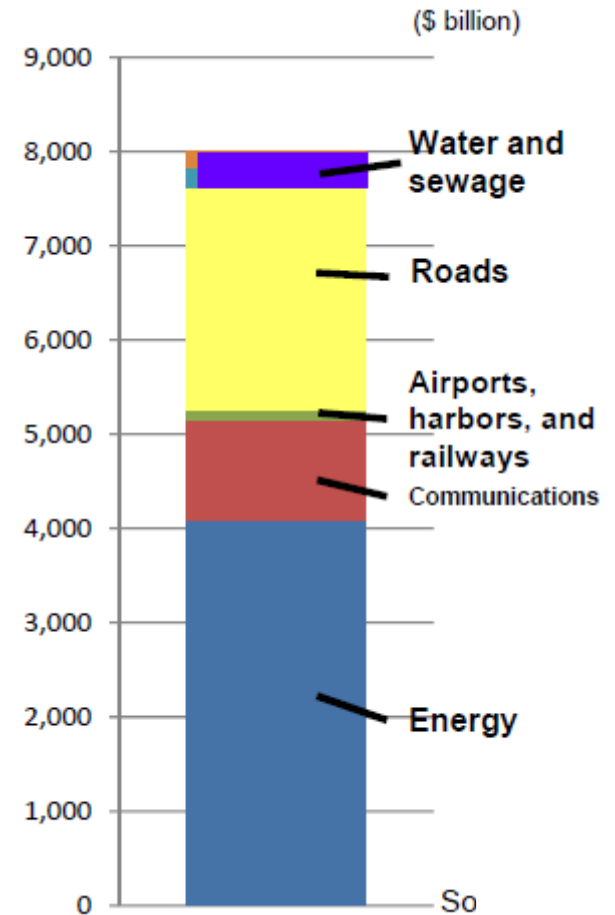


What is complex service system?



Complex system case: global infrastructure business

- Infrastructure development needs in Asia until 2020 reaches \$8 trillion due to urbanization (METI estimates).
- Public money cannot cover such amount, so that PPP (public private partnership) is needed.
- Analyzing infrastructure business is important
 - Risk analysis and simulation
 - Business modeling with relevant players

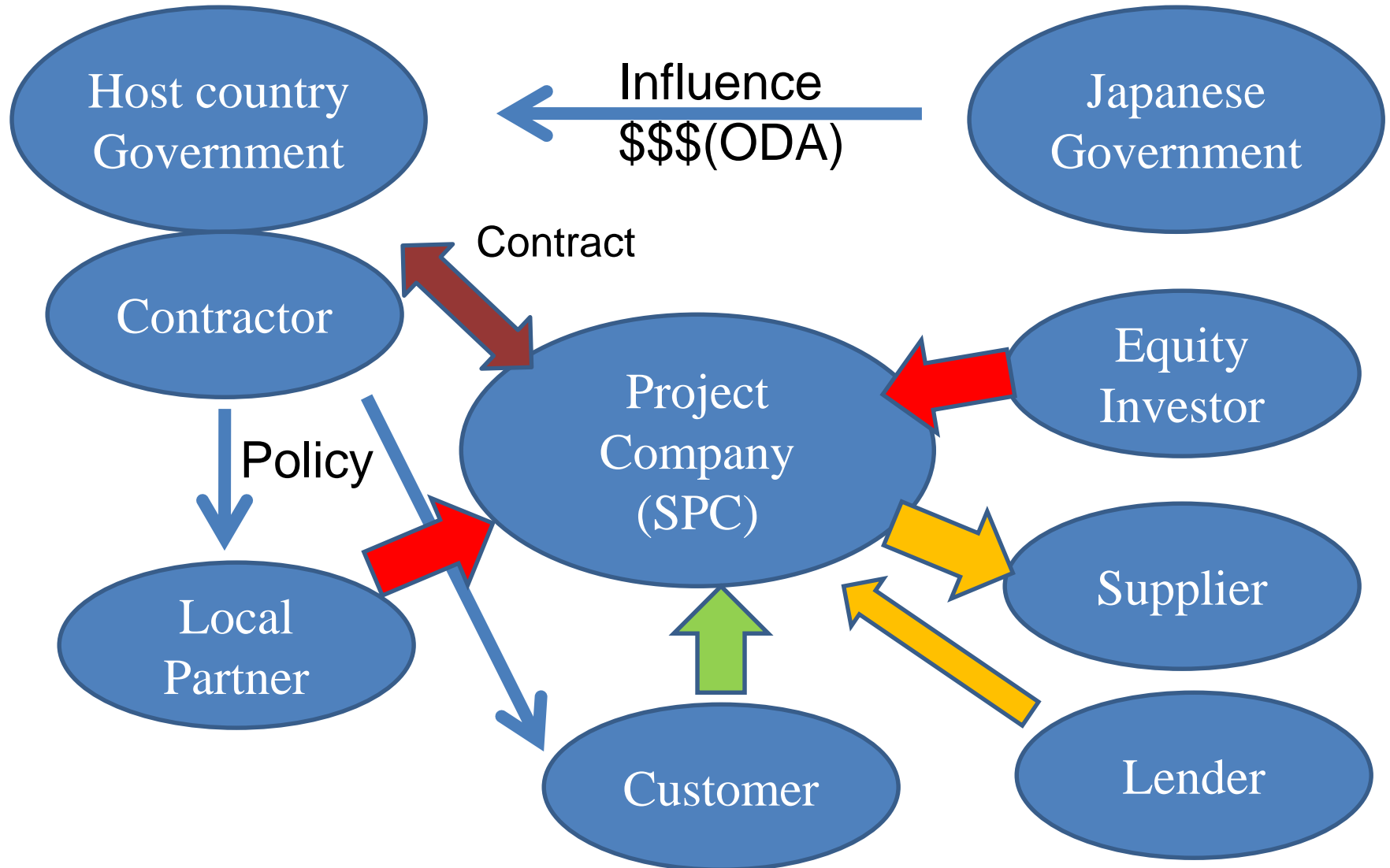


Types of PPP



- BOT (Build Operate Transfer): concession contract
- BOO (Build Own Operate)
- Leasing: Public leases out for private, affermarge
- Joint Venture
- Operations or management contract
- Cooperative arrangement: public supports to private

Complex system of PPP project

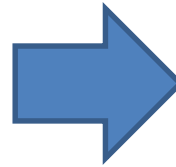
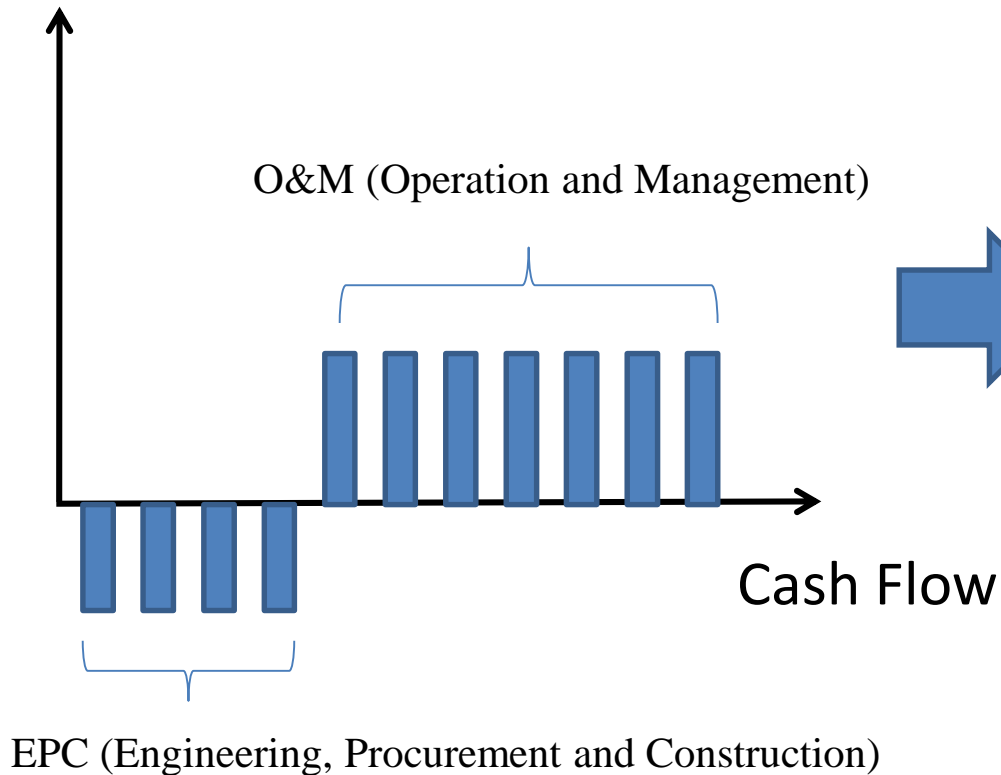


Business Plan Items

- Executive Summary
- What is your company? (in case, you represent a particular company such as Hitachi)
- Management Team and Division of Labor
- What kind of global infrastructure related business?
 - Summary of your new business including information on the country or the region of your business to be introduced
 - Business model of your proposal
 - Who's your customer?
 - Market and competitor analysis
 - Risk analysis
 - Potential risks and contingency plan
- Business execution planning (HOW)
 - Partnership with local players (with whom? why?)
 - Local operation
 - Marketing plan
- Business Plan Evaluation (such as NPV, IRR analysis)

15 min presentation in the last class of this course

NPV Project Evaluation



$$NPV = \sum_{t=1}^T \frac{CF_t}{(1+r)^t}$$
$$IRR = r(NPV = 0)$$

Next class: Case study on Neemrana Industrial Park

- Neemrana Industrial Park has been developed by cooperation of Japanese and Indian governments. What are reasons why both side of governments helped to develop this industrial park?
- What are risks associated with investment in production sites in India? What are benefits located in Neemrana Industrial Park, in terms of lowering these risks?
- Hitachi plans to extend “Neemrana Shared Energy Center (N-SEC)” model to other region of India? Do you think whether Hitachi will succeed?
- Do you have any recommendation in new business in India? What kind of business will be successful? You can extend a scope of your industry, not only in manufacturing, but also to trading companies, banks and logistics business.