

RIDING GLOBALISATION

By Katherine Wu



“Globalisation” is too fashionable a word to be ignored. The earliest phase of globalisation made Britain the first world super power and then the United States after emerging from World War II. How will the world evolve in this new era? With wide-open eyes we started our overseas module in July, flying to New York and Philadelphia.

Travelling with a group of 28 CEIBS classmates, it turned out to be a rewarding trip. The sharing of thoughts and the time spent among classmates was such a great experience.

Globalisation is about information. If the late nineteenth century brought globalisation through industry revolution, the late twentieth century brought a new era with technology, finance and information revolution. Even before the US trip, we got full access to the financial performance, history, and latest news of the nine companies that we would visit. Nowadays, information is easier to shop for than groceries. Imagine two hundred years ago, Chinese could trade silk for an equal volume of gold, since nobody had a fair, global market value for either. Now, nearly everything you can imagine is priced, indexed, and openly shown in front of you at home. Such information transparency has deprived many companies of trading privileges but brought in a lot more clever information surfers.

Why can American Express charge a premium commission to its stores? The answer is information. By providing stores the shoppers' behaviour and purchase information, American Express gains an advantage that is not so easily copied by its competitors like Visa. The information about the cardholders is definitely one of the biggest assets of American Express. How can Harrah's make its top customers happy and get them to come back again to spend more money? The answer is information. By introducing the Total Reward Program and analysing customer profiles, it can launch promotions at the right targets and make sure it manages each individual's mood during every gambling experience. It is interesting that Harrah's mentioned the "predictive value of data." We are very much used to historical performance measurement, but the introduction of new Key Performance Indicators (KPIs) look at the same history from a different angle. Here they are using information to make forecasting the future another competitor advantage. However, it is also worth noting that this can be a slim advantage. In this open, fast changing world, competitors can catch up in the blink of an eye. The only way you can combat this, as Harrah's put it, is

"hopefully by then we have another great idea that keeps us in the lead".

Globalisation is about business model innovation. A lot of companies that we visited are "old" with many years of history. The most important reason that they still stay at the top is that these companies never cease recreating themselves. It's amazing that American Express started as a parcel delivery firm and Johnson & Johnson started by producing baby powders. Looking back, their history is about endless acquisition, spin off, strategy revolution, and evolution. I question the prosperity of Saks Fifth Avenue, whose long term successful "prestige" has reached a comfortable status but also an end. When ABC wants to stick to the good old traditions in its news division, we have to admit that this is not only a world of value and pride, but also, maybe more a world of price and cost. When we talk about innovation, we used to mean product innovation, technology innovation, and so on, but now it's the time for business model innovation. It's not about displaying things better on the shelf and getting more variety shipped in from around the world, it's about a virtue marketplace called eBay. So what is next?

Globalisation is about focusing on what you do well. The world is getting too sophisticated for any single specialisation. However, bigger size and more specialisation are unavoidable. Someone is good at branding, someone is good at manufacturing, and someone good at servicing. When the whole world is moving towards offshoring, Vanguard says that it will keep the call centre in house "because this is not a priority since our strength is not in low cost, but better, more professional and focused service." You don't win because of no weaknesses or no mistakes, you win because of your strengths and a few big successes. Johnson & Johnson's decentralised operating model causes a lot of pain from a lack of global co-ordination, inconsistent culture, and wasted resources. However its attention has never diverted from its strategic focus on innovation, flexible marketing, and portfolio management. When Liu Xiang

won the gold medal in the Olympics he commented, "I just have better rhythm. We all know that African athletes have the fastest flat running speed, I can never compete in that, so instead my coach trained my rhythm and consistency." Just imagine if Liu Xiang had been trying all these years to improve his running speed?

How can China compete with the US? Today, China's GDP per capital is around USD1,000 while the US' GDP per capital is 37 times more. Assuming that the Chinese economy grows at an annual rate of 8% and the US at 1%, it would take China more than 50 years to catch up. But nobody knows what will happen in fifty years. China is now becoming the "factory of the world," a good sign since this is exactly where China lost the market more than a century ago. Before the Industrial Revolution, China accounted for one third of the world economy and Britain only around 5%. After the Industrial Revolution, when China failed to follow, the economy lagged.

Back from US I learned how the Americans made America successful. There are some things that we are still lagging behind, such as business sense, innovation capability, financial systems, and efficient systems. Maybe the only thing that we can compete with is a large population of hard working and intelligent people. But don't forget that people are also the market. A few Chinese companies like Lenovo and Haier have started to enter overseas markets, acquiring foreign businesses, and setting up overseas factories. However, in my view, the foundation for Chinese businesses is still the local market. We have the talent, technology, and local support to succeed.

The Chinese government still has a long way to go since the success of the past 20 years does not make the next 20 years any easier. On the contrary, unreasonable industrial structure, an aging population, rural poverty, environmental threats, immature financial markets, social stability, etc., are all issues confronting China and its leadership. We still have a long way to go. **THELINK**

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