

# INSIDE **SUPPLY** MANAGEMENT<sup>®</sup>

Fariborz Ghadar, Ph.D.,  
director of the Penn State  
University Center for  
Global Business Studies  
The Pennsylvania State University

**Expert Insights  
Into the Evolution  
of Corporate  
Strategy**

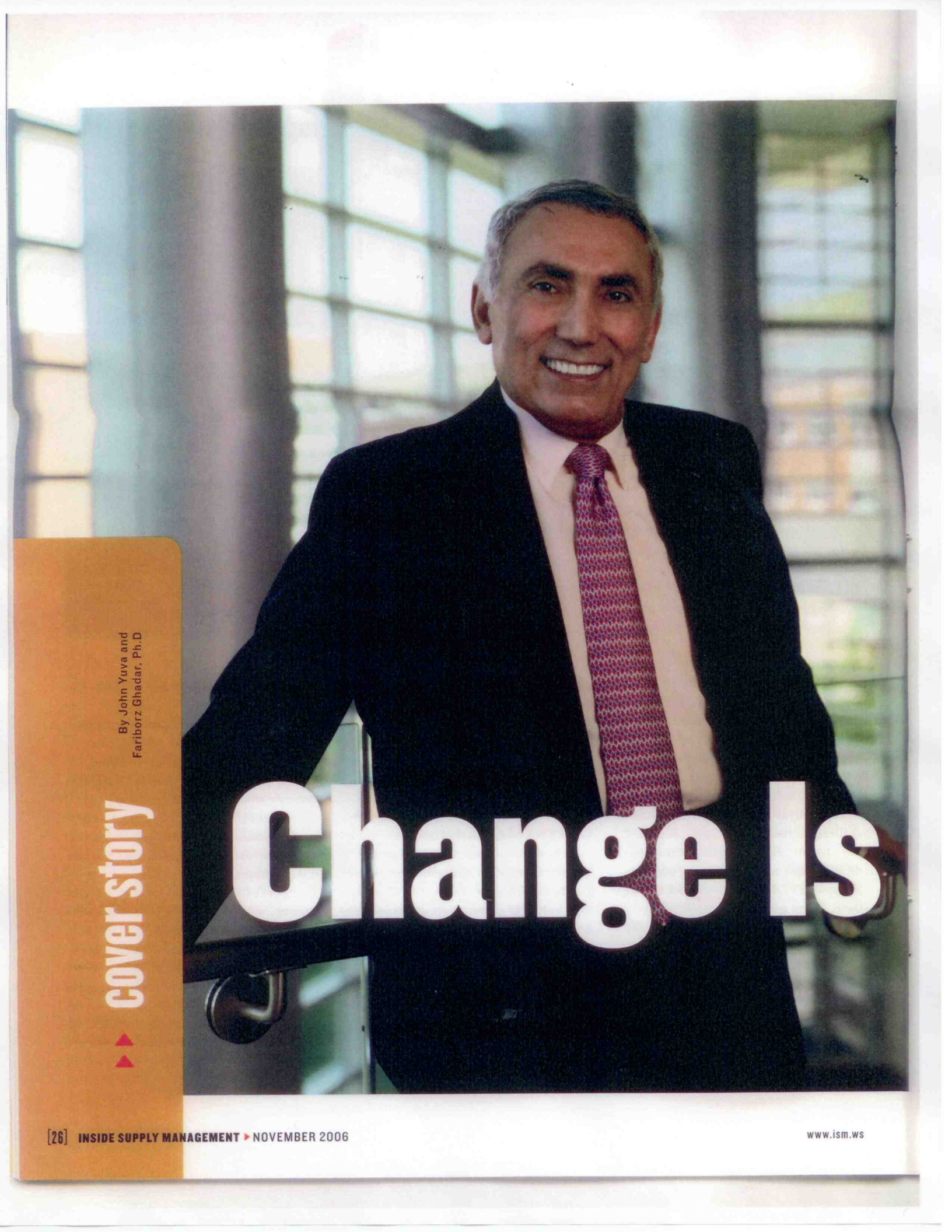
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A portrait of Fariborz Ghadar, a middle-aged man with short grey hair, wearing a dark suit, white shirt, and a red patterned tie. He is smiling slightly and looking directly at the camera. The background is a blurred outdoor setting with green foliage.

**Change  
Is Constant**

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By John Yuva and  
Fariborz Ghadar, Ph.D

cover story



# Change Is



**W**hat is the long-term outlook for the American automobile industry? How much influence will Asia have on the U.S. economy in 10 years? What global strategy will companies need to implement in order to compete in tomorrow's marketplace? Answering these questions requires someone with an intimate understanding of business trends and global economics. One notable expert is Fariborz Ghadar, Ph.D., the William A. Schreyer Chair of Global Management and director of the Penn State University Center for Global Business Studies at The Pennsylvania State University in State College, Pennsylvania. Recognized by *BusinessWeek* as one of the top 10 "Stars of Finance," Ghadar is a leading authority on global business trends and global corporate strategy.

Just how has corporate strategy evolved over the years? Based on comprehensive research and his latest book, *Global Tectonics*, Ghadar explores the evolution of corporate strategy by examining the growth of technology from post-World War II to the present. Through his analysis, executives will have a greater understanding of how their company made the transition to compete in today's marketplace.

### Growth of a Global Market

Following the end of World War II, the economies of Japan, Germany and most of Europe were decimated. This left the United States as the dominant economic power. As the economic and technology leader, the world had little choice but to choose the United States as its primary source of trade. This economic advantage continued for the next 20 years. During that time, U.S. companies began to develop a global strategy and position themselves in the marketplace based on their level of technology. Four market segments emerged:

1. **Leading-edge technologists.** Companies in this segment focused on next-generation technology. Much of their work revolved around R&D. While there was interest in their discoveries from outside sources, these companies had little to no marketing

efforts. Emphasis was on the outcome of the research rather than how it could benefit the marketplace.

2. **Proven technologists.** Companies residing in this segment manufactured products with technology that was tested and proven to be of a high standard. With a robust sales force, these companies relied on their brand to attract customers. Purchasing from a company in this segment meant you were receiving the best that the marketplace had to offer.

3. **Value-driven technologists.** Companies operating from a value-driven perspective prided themselves on the ability to offer a quality, reliable product at a reasonable price. Where the segment above excelled at sales, the value-driven group was a leader in marketing its products. Not only

was there an understanding about customers' needs, but that understanding extended globally.

4. **Price-based technologists.** Companies within this group manufactured standardized products where the focus was on price. As a result, there was an emphasis to meet the needs of price-sensitive customers. Often, the cost of offering cheaper products was offset by lower wages and fewer benefits for employees.

While these corporate strategies were the mainstay during the first 20 years following World War II, a shift began to emerge in the mid-1960s that continues evolving to this day.

### Product Costs and Lifecycles

For nearly two decades, the United States was a leader in many industry

# Constant

In today's world where *value* is an expectation, **companies must view their suppliers as partners working together** in an integrated network to deliver capabilities and products to the consumer.



# Movement Under the Surface

**W**hile it's important to keep abreast of short-term issues, executives cannot lose sight of what is on the horizon. There are 12 underlying trends that are affecting the global economy, but their full impact may not be felt for 10 or 15 years.

Fariborz Ghadar, Ph.D., the William A. Schreyer Chair of Global Management and director of the Penn State University Center for Global Business Studies in State College, Pennsylvania, refers to these trends as global tectonics — long-term trends under the surface that are shaking the foundation of how companies conduct business.

The following 12 areas comprise the global tectonics trends that executives must monitor and make appropriate market adjustments for in the years to come.

1. Population
2. Urbanization
3. Disease and globalization
4. Resource management
5. Environmental degradation
6. Economic integration

segments. However, during that time, other countries began recovering economically, until finally many had the same manufacturing capacity as the United States. What was once a sole-source marketplace was now filled with competitors on a global scale. This was most evident in the television industry, where the United States was once a global leader in that market.

What were the factors that led to such changes in the marketplace? The first was the change in product lifecycles. Consider the television. The average lifecycle of a television produced in the United States was 15 to 20 years.

As other countries, particularly in Asia, developed their own manufacturing capacity, products such as the television were duplicated and sold into the marketplace. This created an acceleration of product lifecycles that is even more evident today. A major U.S.-based semiconductor manufacturer creates a new chip, and within 12 to 18 months, an overseas competitor is marketing the same chip in the global market.

Second, the growth in the marketplace also accelerated the growth in technology. As technology became more complicated, the cost of product development increased

7. Knowledge dissemination
8. Information technology
9. Biotechnology
10. Nanotechnology
11. Conflict
12. Governance

Thus, while executives need to be flexible and understand what is occurring in the short term, there are some longer-range trends in the pipeline that are already having effects economically. Take, for example, population.

- The Japanese population is getting older, which could lead to a workforce shortfall.
- While the European population is aging, the region is experiencing an influx of immigration.
- With a rapid increase of young people in India and South America, there is concern surrounding job creation.

"On one hand, we need to be sensitive to what's going on in the marketplace right away," says Ghadar, "but at the same time we can't lose sight of the fact that long-term trends are in existence." **ISM**

significantly. The automobile is a classic example. In the 1950s, it was common to repair or rebuild your own automobile because doing so involved the basic understanding of the individual parts.

Today, the inner workings of an automobile function according to signals sent from a circuit board. And developing a new engine platform for today's automobiles is several times more costly than it was in 1950. The same is true for computers. When DOS 2.0 was developed, it cost \$23,000 compared to the more than \$2 billion price tag for Windows 95.

With shrinking product lifecycles and growing product development costs, U.S. corporations needed to respond differently to the marketplace.

## A Focus on Value and Information

Customers now had more product choices, but at the same time turned a critical eye toward quality and price. Thus, companies couldn't afford to spend their time on R&D or rely solely on their brand to sell product, or even expect the lowest price to win out. What customers wanted were quality products with the requirements they needed at a reasonable price. Companies that could meet

those demands and do it well have been successful. Examples include Toyota's model, where everything is developed, manufactured and shipped within the company, and Dell's model, where an external partner works with the company to meet customers' needs.

That success, however, would not be possible without the emergence of companies with a technology and logistic focus. Whether it was companies with software capabilities, consulting capabilities or logistic capabilities, the background tasks became a critical infrastructure to what ultimately morphed into a company network — a supply chain.

These partners serve as the information lifeblood to companies by providing them with customer, product and delivery information. And companies that listen to the needs of their customer and can deliver in a logistic manner that beats the customer's requirements are thriving in the marketplace.

## Companies Must Continually Adapt

For many companies, this requires a massive strategic shift in how they view the company internally and the market externally. A company may have a strong brand, but it must still develop reasonably-priced products that meet customers' needs. This means viewing suppliers as partners in an integrated network to deliver capabilities and products to the consumer. Thus, each part of the network communicates with the other and knows the status of its operation.

The domestic and global marketplace has changed much over the years. Things were simpler in the past, but change is a natural progression. Everyone must adapt to some degree. However, in the corporate environment where manufacturing is just-in-time, adaptation is not a choice but a necessity. Companies no longer can compete by themselves. To listen effectively to the customer and hear their needs requires a supply chain of integrated partners that contribute their core competency for the betterment of everyone — most importantly, the customer. **ISM**

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John Yuva is a writer for *Inside Supply Management*®. Fariborz Ghadar, Ph.D., is the William A. Schreyer Chair of Global Management and director of the Penn State University Center for Global Business Studies at The Pennsylvania State University, State College, Pennsylvania. To contact the authors or sources mentioned in this article, please send an e-mail to [author@ism.ws](mailto:author@ism.ws).



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