



## IN THIS ISSUE: QUALITY WILL OUT

### SYNOPSIS OF PRESENTATION BY DR. ROGER SELBERT

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### TRENDS IN GLOBAL COMPETITIVENESS

What does it take, and more importantly, what will it take, to compete effectively in the global economy of today and tomorrow? As we heard this morning, it will take knowledge, market positioning, global branding and more.

What else will it take? As a business futurist, my usual prescription is to identify the most important trends shaping a client company's competitive business environment, and then helping to devise strategies that leverage those trends for competitive advantage.

But when we look at the most important trends shaping the competitive business environment of the 21st century, we find acute challenges. They are:

- Globalization (increasing levels of trade, investment, cross-border production sharing, outsourcing – a "flattening" of the Earth, according to Tom Friedman.) This creates relentless pressures. It requires sourcing from, and selling to, everywhere on the globe; it means operating 24/7/365; it means constant change, improvement, productivity.
- Commoditization (the tendency of all products and services to be driven to standardization and lowest common denominator). This includes services and even software, delivered over the Internet (the big switch to utility computing). The time from innovation to commoditization has shrunk to an amazing

degree, affecting every industry, product and service. Patents and copyrights don't seem to help – nothing stays proprietary for very long.

- The Cheap revolution (innovation, technology and relentless competition allow all economic players to avail themselves of lowest-cost providers). This drives prices and profit margins lower. Low cost everything = low cost marketplace access, i.e. declining barriers to marketplace entry for all competitors, big and small, all over the world. The cheap revolution allows you and your business to do things you could not do before, but now so can everyone else.

Now, how do you compete in this environment? Trying to leverage these trends will drive you into the ground.

Will knowledge, market positioning, and global branding be enough? Can you ever get cheap enough, fast enough, productive enough, or offer the number and variety of what you produce to not just compete but grow, capture market share, and even create and sustain new markets?

No, you can always be undercut.

### COUNTERTRENDS

Fortunately, each of the main trends I have identified has also engendered a countertrend. And each of these countertrends, as it happens, CAN be leveraged for competitive advantage.

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## And what are these countertrends?

- The countertrend to globalization is regionalization and localization.
- The countertrend to commoditization is the growing importance of intangible value.
- The countertrend to the cheap revolution is the rise of global middle and affluent classes, and as a result, the demand and ability to pay for customization and personalization.

These are not just consultant-speak buzzwords. These concepts represent real conditions that real companies are leveraging for real competitive advantage. So let's take a look at each of these countertrends.

The countertrend to globalization is regionalization and localization. Despite talk of a new, wired world where information, ideas, money, and people can move around the planet faster than ever before, more than 90% of all phone calls, Web traffic and investment are local.

Despite massive trade flows, the ratio of domestic to international trade is still substantial (even Canada-US trade, the largest bilateral relationship of its kind in the world, still exhibits a home bias of 5 to 1).

Web traffic within countries and regions has increased far faster than traffic between them. Just as in the real world, Internet links decay with distance.

The number of long-term international migrants amounted to 2.9% of the world's population in 2005, lower than in 1900.

Clearly, borders still matter. Global integration is only beginning, and is fragile and reversible.

In other words, markets are global, but markets are also regional and local.

The countertrend to commoditization is the growing importance of intangible value (as a means of differentiation).

A car is basic transportation. It gets you from Point A to Point B. But you can buy a \$2500 car from India, a \$20,000 car from Detroit, a \$50,000 car from Japan, or a \$100,000 car from Germany. What's the difference? Quality, workmanship, technology, of course, but also a lot of intangible value.

Intangible value is difficult to define or measure. But it is very real. Intangible value is intrinsic to your preferred products and services. It heightens your pleasure, your experience, your satisfaction. When your expectations are met and surpassed, you have received intangible value.

You can get intangible value from both products (a car) and services (a car rental).

The importance of intangible value is growing as more people become healthier, wealthier and more educated (in other words, as they move up the hierarchy of needs). And that's just what is happening:

The countertrend to the cheap revolution is the rise of global middle and affluent classes, and as a result, a desire and demand for customization and personalization.

People around the world are living longer, healthier lives, and becoming wealthier, better educated, more peaceful and increasingly connected. So concludes the UN report "The Improving State of the World."

To what do we owe these improvements in health, wealth, education, peace and technology? Capitalism and free markets drive development – not foreign aid, the World Bank, the International Bank for Reconstruction and Development, or the Bill & Melinda Gates Foundation.

- Market and industry analysis
- Strategic business direction
- Growth dynamics

- Trend identification and analysis
- Keynotes and presentations
- Proprietary research and reports

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While the total population of the planet will increase by about a billion people in the next 12 years, the ranks of the middle class will swell by as many as 1.8 billion. According to the Brookings Institution, by 2020 the world's middle class will comprise 52% of total population, up from 30% now. (This is not just China and India, which are major components of this rise, but also populations throughout Asia, Eastern Europe, Latin America and even Africa.) More people, countries and regions are getting on and moving up the continuum of development and industrialization and post-industrialization.

When more people move beyond the point of basic necessity, they want and can afford a growing array of products and services. Increasing numbers of middle- and upper-class consumers, increasing wealth (mass affluence), and rising levels of education, income and information raise sophistication, taste, and discernment. After going through a mass market phase, these consumers graduate to a phase of personalization and individualization.

In response, providers of goods and services (and their marketers) are responding with mass customization, customer relationship marketing, consumer-centricity, and enhancing of the customer experience.

### **IDENTIFYING THE LEVERAGE POINTS**

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Okay, now what do we do with these countertrends? We leverage them for competitive advantage. How? By identifying the leverage points. Here they are, interconnected and mutually reinforcing:

- HIGHER QUALITY
- SUPERIOR DESIGN
- INTANGIBLE BENEFITS
- THE EXPERIENTIAL

### **HIGHER QUALITY**

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Quality improvement has become its own industry. There are many approaches, from TQM to Six Sigma to ISO9000 to QFD to Kaizen to Zero Defect to Taguchi to Quality Circle. The best approaches are holistic, considering people, processes and products together rather than as independent factors.

Higher quality represents workmanship, craftsmanship, attention to detail, higher standards – qualities always in demand.

**Bottom line:** higher quality is never a commodity.

Higher quality = differentiation/competitive advantage.

### **SUPERIOR DESIGN**

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Design is intrinsically linked to a company's goals, even its reason for existing. Done well, design can become a strategic resource, a basis of innovation.

Superior design turns the mundane and merely functional into art – and there is always a demand for art.

**Bottom line:** superior design can never be commoditized.

Superior design = differentiation/competitive advantage.

### **INTANGIBLE BENEFITS**

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Intangible benefits are not just emotional – they represent real benefits for both consumer and provider: superior service, good will, improved image, loyalty and referrals, increased satisfaction.

As Rolf Jensen shows in *The Dream Society*, businesses that understand emotional markets profit greatly by providing consumers not just with the

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products and services they desire, but with the emotional fulfillment they crave.

Providing intangible benefits presents the opportunity to connect with your customers on the most powerful level: the instinctive.

**Bottom line:** intangible benefits can never be commoditized.

Intangible benefits = differentiation/competitive advantage.

## THE EXPERIENTIAL

In an age of commoditization, consumers shift their focus from product and service attributes to the experience obtained while using the product or service. The more relevant and memorable the sensory experience, the higher the value, the higher the worth, the higher the price that can be charged.

Customers are actively engaged, involved – they have a relationship with the product, the brand, the company. Needs, wants and desires are fulfilled.

**Bottom line:** the experiential can never be commoditized.

The experiential = differentiation/competitive advantage.

## THEORY INTO ACTION

This is all very good for Danish brands and Danish products, because as we all know, Danish products thrive on higher quality, superior design, intangible benefits and the experiential. To cite just a few examples:

- LEGO
- Louis Poulsen

*Growth Strategies* newsletter was formerly published as *FutureScan*.

- Georg Jensen
- Rosendahl
- Pilgrim
- Fritz Hansen
- Arne Jacobsen
- Eva Trio
- Arla
- Skype
- Prince
- Carlsberg
- Bang & Olufsen
- Skagen
- Poul Henning
- Velux

When I think of the number of Danish products in my own life it amazes me, and I realize it is because of these four factors of comparative advantage: higher quality, superior design, intangible benefits, and the experiential.

AND OF COURSE BECAUSE I KNOW ABOUT THEM.

Thus the importance of knowledge, market positioning, and global branding.

## CONCLUSION

The competitive environment of the 21st century global economy will be characterized by globalization, commoditization and the cheap revolution. So get fast, get cheap, offer variety. More importantly, however, provide higher quality, superior design, intangible benefits and the experiential. These are the keys to a prosperous future.