



# New Business Innovation Ideas are going to Change West to Eastern Countries (China): A Case Study on a Chinese Watch Company

## Abstract

Many European companies are keen to come to China. While in the past, European companies came to China to take advantage of low-cost manufacturing for export, more recently, they have come to enter the Chinese domestic market, establish R&D, engage in cooperative development, take advantage of a skilled work force, establish suppliers, and develop long-term partnerships in China. In order to achieve this, they are often willing to ‘transfer’ their key technology and designs to Chinese subsidiaries of European firms, joint-venture (JV) partners, or Chinese manufacturing and service companies. One of the challenges facing European companies coming to China is devising creative solutions to minimize the risk to their intellectual property (IP) associated with such technology transfers.

**Keywords:** Skagen, design, cost, China, Europe, pestel, economics, innovation.

## INTRODUCTION

Many decision problems involve a number of objectives, and often these objectives conflict. But the central idea is that, by splitting the problem into small parts and focusing on each part separately the decision maker is likely to acquire a better understanding of the problem.(p15).By acquiring a commitment of time and effort, analysis encourages the decision maker to think deeply about the problem, enabling to develop a rationale which is explicit and defensible. After such analysis the decision maker should be better able to explain and justify why a particular option is favoured. Here decision would be taken whether Skagen Design completely move the total manufacture of their product to a single company in a country or not.

Looking at the entire system of Skagen design, to make a decision, various attributes have been taken to perform the analysis with the help of Value Tree and the famous Simple Multiple Attribute Rating Techniques-SMART.

SKAGEN DESIGN & ITSELF

In the north of Denmark lies a tiny fishing town that produces the hardest of people, yet inspires the most exquisite of creations. The name of the place is Skagen. Skagen, founded in 1989 by two immigrants namely Henrik and Charlotte Jorst in the United States who came from their native Denmark with a dream of engaging themselves into their own business, to introduce the Danish lifestyle and philosophy into the lives of many with the following Vision & Mission Statement:

## **Vision Statement:**

**Vision Statement:** “By 2015, Skagen Designs will be the first choice among suppliers, customers, consumers, and employees as the most innovative and profitable design goods company within our chosen strategic segments, products and markets.”

#### **Mission Statement:**

**MISSION STATEMENT:**  
“Skagen Designs strives to create a global community of enthusiasts with our commitment to designing an impressive and unique yet attainable product while offering outstanding customer service to our customers and consumers.”

## CASE STUDY

As learnt from the case, one of the customers of Skagen watch named Geoff Southern had to face an embarrassing experience while he got the glass of his wristwatch broken of which consequences were a series of exchanges of emails and telephone conversations between the customer and representatives of the vendor at different levels. Finally, on Monday 10<sup>th</sup> July the customer received a phone call from Ortak, the retailer shop saying that they had tried to ring the previous Thursday or Friday but had received no reply. However, the customer was informed that the watch was then available and awaiting collection in the shop. Meanwhile, a reasonable period of time had elapsed since first complain was lodged.

The case is simply enough to tell the story of non-conformity between their Mission Statement and the actual experience by a customer.

## CURRENT OPERATING SYSTEM:

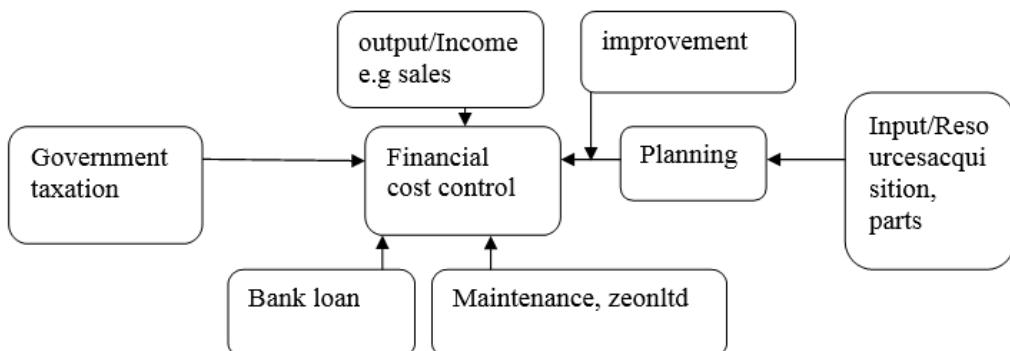


Fig: Diagram of current operating system.

Skagen Designs has offices in the US, Denmark and Hong Kong. Skagen's business is expanding exponentially in Europe and even more so throughout the Asia Pacific region. Skagen operates two flagship stores in Denmark, one in the inspirational starting point of Skagen, Denmark and the other in the bustling, modern downtown Copenhagen. Additionally, independent Skagen concept stores are located in Tokyo, Osaka and Nagoya, Japan and Taipei, Taiwan with new openings in Korea planned for later this year of 2010. The Skagen Denmark product proves to be a top-seller in many markets from Singapore, Malaysia and Australia, and more store openings are planned in the next few years. But at the same time, this is the high time for them to maintain the commitment which they assure for their customers and consumers. Since they are in line of expansion of their business globally, it is very important from the customers' perspective of a sound after sales services.

From the sign of their business expansion, it seems that Skagen may be put in "Star" of BCG Matrix. Consequently, it lies in their responsibility that Skagen will leave no stone unturned to hold their Market Share as soon as they will be at the mature stage in the industry. Henceforth, decentralization in production of Skagen products may be useful. In this era of globalisation, wherein all the companies are chasing one after another to bring out their best products within the reasonable price for their customers, why Skagen would have back footage? Companies are now also much aware of customer satisfaction than ever before. In this backdrop, all the world-renowned companies have shifted their production plant in different corners of the world where production cost is relatively low, China for example. Companies are now also utilizing the cost advantage by shifting their production plant to places like China. Besides, they are investing much on Call Centres and offering "Toll Free" service to the customers, which reflects apex high commitments for their customers. Eventually, Skagen could come forward with these strategies so that the experience of Geoff Southern never repeats.

In case of Skagen, they outsource the components from different countries and assemble in Denmark. First they arrange the components, and then bring those into the parent company. Assembly takes place in Denmark and final products shipped to markets globally. The overall process starting from procurement of components to finished goods incur a huge cost. As mentioned earlier, there are countries like China where cost could be minimised at every stage of production which has impact on final price of the product. Skagen could easily move to China.

All decisions have beneficiaries whose interests the decisions is intended to serve. But beneficiaries could be distinguished into two categories: Distant and immediate.

Primary among distant beneficiaries are people who have made investments of various kinds in the company and whose ends the company was established to achieve.

The typical company decision is intended to serve the concrete needs and interests of specific groups of people. That is why it makes sense to call these people immediate beneficiaries.(decision management j.frank Yates page 29) .

Manufacturing can be defined as the conversion of raw materials into useful articles by means of physical labour or the use of power driven machinery.(basic manufacturing 3<sup>rd</sup> edition roger timings).Manufacturing is a commercial activity and exists for two purposes:

- To create wealth: there is no point in investing people's money in a manufacturing plant unless the return on the investment is substantially better than the interest that the invested money could earn in a savings account.
- To satisfy a demand: there is no point(a demand), there is no point in manufacturing a product to satisfy that demand unless that product can be sold at a profit.

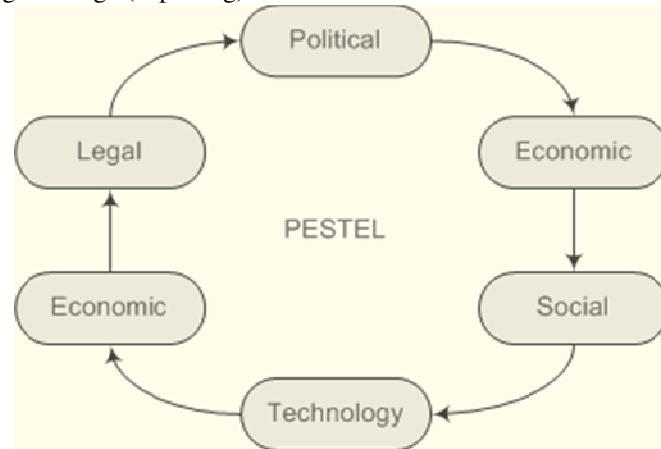
		Profit	
	Administrative Cost		
	Overhead cost		
Direct labour			Selling Price
Materials	Prime Cost	Cost of Manufacture	Total Cost
Bought-in components			

Figure: Cost Structure (Basic Manufacturing)

"Made in China" may be the most common phrase found on manufactured products around the globe. A powerful combination of efficient factories, cheap labor, and massive international investment has enabled Chinese companies to become major producers of everything from shoes to computers to musical instruments. China makes more crude steel, cement, fertilizer, and woven cotton fabrics than any other country. And based on revenue growth between 2006 and 2007, China (including Hong Kong) is home to five of the world's ten fastest growing publicly held manufacturers. (<http://ngm.nationalgeographic.com/geopedia/China>)

But before forward to CHINA it is needed to justify the decision to establish the manufacturing plant in CHINA. The PESTEL frame work can be used to identify how future trends in the political, economic, social, technological, environmental(green),and legal environments might impinge on organisation. This pestel analysis provides the broad 'data' from which to identify the key drivers of change. These key drivers can be used to construct scenarios of possible futures.

Scenarios consider how strategies might need to change depending on the different ways in which the business environment might change.(exploring).



A PESTEL Analysis can be particularly useful for groups who have become too inward-looking. They may be in danger of forgetting the power and effect of external pressures for change because they are focused on internal pressures

It is very important that an organization considers its environment before beginning the marketing process. In fact, environmental analysis should be continuous and feed all aspects of planning.

#### **Political Factors.**

Political systems vary between countries and often shape what managers can and cannot do. governments often regulate industries such as power supply, telecommunications, postal services and transport by specifying,amongst other things,who can offer services,the conditions they must meet, and what they can charge. regulations differ between countries and are a major factor in managers' decisions.

Considering modern china the Chinese government has embraced foreign direct investment. After China's re-entry into WTO in December 2002, many laws are currently being amended to meet China's WTO obligations to further liberalize industries. There are various tax benefits for foreign investment in China. The State Tax Administration of China stated that with China's entry into the WTO, China will apply the general tax law to

foreign invested enterprises and annual tax preferences granted to foreign invested enterprises (<http://www.wangandwang.com/prc.htm>).

#### **Economic Factors.**

Economic factors such as wage levels, inflation and interest rates affect an organisation's costs. Increasing competition and the search for cost advantages drive globalization. Electronics companies such as National Semiconductor or Seagate have switched many production facilities to low-wage economies in Asia to cut costs. The trade surpluses, particularly with the United States and Europe, have been growing for the past three decades and have given China a foreign exchange reserve of more than \$2.5 trillion. Economic and social projections for 2015

- GDP growth is expected to be 9.5%
- GDP per capita is estimated at \$7,258
- Exports will rise by 7.9%
- Foreign exchange reserves should reach \$4.74tr

Source: Xinhua news agency & IMF

(China's economic tightrope By Jonathan Fenby, bbc news 1 november 2010)

#### **Sociocultural Factors.**

Demography is important for organizations where changes in the size and age of the population affect demand for health care, pharmaceuticals and financial services. Fidelity investments changed its strategy to take advantage of demographic change, by offering a broader range of financial advice. The year of 1998 saw 19.91 million births, 8.07 million deaths of the population, with a net growth population of 11.84 million (compared with 12.37 million in 1997); More than 10% of total population is over 60 years old (1999 data).

- The country is projected to have 1.39bn citizens by 2015, up from 1.32bn at the end of 2008
- China's urban population is to surpass its rural population for the first time by 2015

#### **Technological Factors.**

Companies pay close attention to the physical infrastructure-such as the adequacy of power supplies and transport systems. Even more, they monitor advances in information technology, which are dramatically changing the business environment of many companies. Computers traditionally handled data, while other systems handled voice(telephones), and pictures(film and video). These three devices at the front of the information revolution-the telephone, the computer and the television. Technology is changing the nature of work, enabling employees to work at remote locations.(96-99).

The number of Internet users in China hit an estimated 162 million by the end of June, with nearly 100 people a minute going online for the first time, the China Internet Network Information Centre (CNNIC) announced on Wednesday.

An estimated 122 million Chinese have broadband access to the Internet, according to the 20th statistical report on China's Internet development issued by the CNNIC on Wednesday.

One in every four Chinese Internet users, or 44.3 million, accesses the Internet by phone, largely due to lower mobile charges and about one third of users access the Internet primarily by wireless devices. (<http://www.chinatoday.com/science/a.htm>)

#### **Environmental Factors**

The **natural resources** available in an economy-including minerals, agricultural land and the prevailing climate-affect the kind of business that managers create: the mills at New Lanark were built beside a source of water power. Currently attention focuses on climate change and what that means for countries and business-insurance companies, house builders and water companies are only the most visible example of companies which are being affected.

#### **LEGAL FACTORS**

Governments create the legal framework within which companies operate, most obviously in areas such as health and safety, employment, consumer protection and pollution control. They also create the legal basis for business.

Every country in the industrialized world faces pollution problems, but the scale and speed of the environmental degradation in China has no parallel. Over the past 30 years China's transition to its new role as the world's manufacturing hub has brought millions of Chinese out of poverty—but at the cost of massive water, air, and soil pollution that threaten human health. The central government has committed considerable resources to solving this socially and economically expensive problem,

PESTEL analysis is a useful tool for understanding the 'big picture' of the environment in which an organization is operating or going to be operated because of its simplicity. It also facilitates an understanding of

the wider business environment and encourage the development of external and strategic thinking. The most two important aspects are to enable an organisation to anticipate future business threats and take action to avoid or minimise their impact and to spot business opportunities and exploit them fully.

(AGUILAR, F.J. (1967) *Scanning the business environment*. New York: Macmillan.)

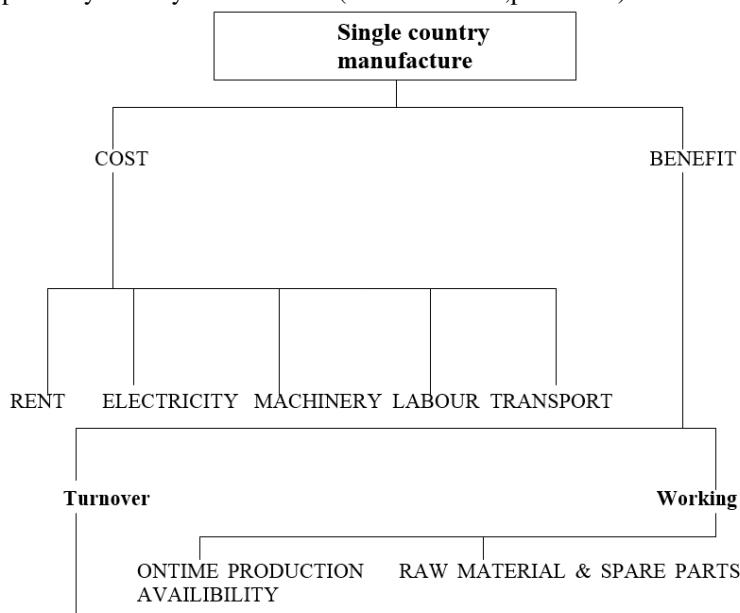
### HOW THE PROPOSAL FITS INTO CURRENT COMPANY STRATEGY

In the skagen Current system the key areas which are responsible for the organisational goal are-Finance which is responsible for investment and cost control during inventory/equipment purchasing, production/service costing, business analysis and government interference through taxation and import duties. Technical Operations involves design of existing product, new design, maintenance .

Marketing which is done through adverts on magazines, internet and purchasing through online and sales outlets. Skagen also promote corporate image through social service to community under Skagen for community.

### VALUE TREE

So the next step is to identify the attributes which the decision maker considers to be relevant to the problem. This means that we need to arrive at a set of attributes which can be assessed on a numeric scale. The value tree is a way of organizing the information so that people can visualize which are the most important elements of the project. Another key feature of the value tree is that ability to show the scope of the project. Often there are elements of a project upon which the client cannot decide until some initial design and costs work has been undertaken. By making explicit the areas which the client would like to include but are currently considered outside the scope of the project, the design team have a clearer remit upon which to work.(Gower handbook of project management,3<sup>rd</sup> edition,edited by j.rodney turner,Stephen j.simister,gower publishing limited,2000,uk).The accurate and useful representation of the decision- maker will be judge using the standard five Criteria “completeness, operability, Decomposability, absence of redundancy and minimum size” as proposed by Keeney and Raiffa in (Goodwin et al.,p.36 2009).



### Simple Multiple Attribute Rating Techniques-SMART

From Goodwin et al(2009 p.36),initially, the report identifies two main problems are ‘cost’ and ‘benefit’. This main attributes can further be subdivided into a much clearer parts as represented below for analysis. The attributes for this proposal are :

1. Low Production Cost
2. Customer Service
3. Raw material Availability
4. Ontime Production
5. Market Expansion

Now the problem is that the importance weights range between the least and most preferred options on each attribute. Fortunately the problem can be avoided by using swing weights. These are derived by asking the

decision maker to compare a change(or swing) from the least preferred to the most preferred value on one attribute to a similar change in another attribute. So Low production cost has been given a weight of 100.The others are as follows in the table. The five weights obtained sum to 300and it is conventional to normalize them so that add up to 100.Normalization is achieved by simply dividing each weight by the sum of the weights(300) and multiplying by 100.Then each value is multiplied by the weight attached to that attribute. The resulting products are then summed and divided by 100 to obtain the overall value of benefits.

Attributes	Values For China	Normalized Weight	V x W	Values for India	Normalized Weight	V x W	Values For do Nothing	Normalized Weight	V x W
1.Low Production Cost	100	31	31	80	42	32	0	0	0
2.Customer Service	80	25	20	60	33	18	0	0	0
3.Raw material Availability	70	22	15.4	30	13	4.5	0	0	0
4.Ontime Production	50	16	8	20	8	2	0	0	0
5.Market Expansion	20	6	1.2	10	4	.5	0	0	0
	320	100	75.6	200	100	57	0	0	0

Therefore the aggregate value for China is....Table gives the summary of the values obtained for all the opportunity (CHINA,INDIA,DO NOTHING) and their aggregate values.It can be seen that China has the highest value for benefits and Do Nothing the lowest.

### Recomendation

Skagen also need to pay special attention to comply their Mission Statement where they are saying about "*outstanding customer service*". Outstanding customer service never allows a customer to write several times simply for replacement a broken glass of a watch which implies very poor customer care. A centralised database may be incorporated at Skagen where the monitoring officers will be responsible solely for ensuring proper customer service. A strong and centralized MIS system is the need of time for Skagen unless interruption of customer service is very common. Skagen also have to emphasise on inventory management which is also requires to be backed by a central database where access will be open for all the personnel relating to customer service of Skagen products. This might strengthen the Inventory Management of spare parts, which may help Skagen to speed up their after sales service.

### Reference

- Yates,F., Decision Management: How to Assure Better Decisions in Your Company, Jossey-bass,2003,USA.
- Roger Timings,R., Basic Manufacturing,,Elsevier,2004,UK.
- <http://ngm.nationalgeographic.com/geopedia/China>
- Bob Paladino,B., Innovative Corporate Performance Management: Five Key Principles to Accelerate Results,JohnWiley & Sons,2011,NJ. ,121p,
- ( <http://www.wangandwang.com/prc.htm>
- China's economic tightrope By Jonathan Fenby,bbc news 1november 2010
- <http://www.chinatoday.com/science/a.htm>
- AGUILAR, F.J. *Scanning the business environment*. 1967,New York: Macmillan
- J.rodney turner,Stephen j.simister,Gower handbook of project management,3<sup>rd</sup> edition, Gower publishing limited,2000,UK.
- Goodwin,P., & Wright, G.,decision analysis for management judgement,2009,Wiley,UK.

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:  
<http://www.iiste.org>

## CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

**Prospective authors of journals can find the submission instruction on the following page:** <http://www.iiste.org/journals/> All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

## MORE RESOURCES

Book publication information: <http://www.iiste.org/book/>

Academic conference: <http://www.iiste.org/conference/upcoming-conferences-call-for-paper/>

## IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library , NewJour, Google Scholar

