

India's Design Boom: The Rise and Rise of Indian Design (fragmentation of the value chain)

Case duration (Min): **45-60**
 Strategic Management (SM)
 Operations Management (OPs)
Cost management
Design management

India

Case summary:

This is a multidimensional and multifaceted problem that can be used to explore business issues on many levels: global, country, industry or specific company. The core of the problem is strategic and may be considered from the supplier (case organization, Desmania) or customer (the MNC seeking to outsource activities) perspective. Questions such as why fragment the value chain and why chose an Indian outsource partner may be considered.

Economic globalisation has significantly increased the competitive pressure on enterprises in many sectors. This comes as a result of, amongst other factors, the emergence of new, lower-cost producers, fast-changing demand patterns, increased market fragmentation and shortened product life cycles. In such an environment, innovation (either in terms of business processes or of final products and services) becomes crucial for the long-term competitiveness and survival of enterprises.

Multinational organisations have had the opportunity to benefit from the comparative advantage of different countries, (be they technology driven or factor abundance driven), to reduce the total costs of production, particularly through the ever more popular method of fragmentation (slicing up the value chain) in which different parts (activities) of the production process are located in different countries. In this case, an Indian design company provides the context to consider country level competitive advantage, multinational outsourcing strategy and global environmental change.

Learning objectives:

Explore environmental analysis, globalization, fragmentation, outsourcing strategies and country level competitive advantage.

Case problem:

Strategic issues associated with global fragmentation of the value chain - different parts of goods and services are provided in different countries before they are combined to create final goods.

Company Technical Services

Desmania

<http://www.desmania.com>

Desmania was established in 1992 as a multi-disciplinary design firm. It has evolved into a one stop shop for creative & innovative solutions, offering professional design services that are profitable to the clients.

Services - industrial design: 1. Product design, 2. Product graphics, 3. Research & innovation and 4. Design strategy; Packaging: 1. Product packaging, 2. Packaging graphics and 3. Branding & strategy; Visual communication, green design, toy design; Automotive design, cad & mechanical engineering; Rapid prototyping, design innovation and design research.

First, if you are taking a taught management course then consult with your tutor and ensure that the case has not been scheduled into a teaching class or tutorial. If it has not:

1. Play/ read the media associated with the case. You may need to access the Internet and enter a URL to locate any video clips.
2. Attempt the Case study questions.

Consider attempting the case study as a group exercise; you could form a study group with fellow students.

3. Check the suggested answers - remember these are suggestions only and there are often many possible answers.

Discuss questions and answers with other students.

4. If you feel your answer(s) were weak then consider reading the relevant suggested readings again (also see the case study suggested references).

Title/ Media type

URL/ Media description

The Rise and Rise of Indian Design

http://feedroom.businessweek.com/index.jsp?fr_story=593e4aec86e7d836f779df6d1f1851ecb0fc11a0

Film

BusinessWeek Senior Editor David Rocks talks to Anuj Prasad of Delhi-based consultancy Desmania about the growing importance of design to local and global business (2.5 minutes).

The video starts with discussion about the changing prospects (opportunity) for Indian design amidst globalisation; design is seen as an emerging and growing industry. Next, the traditional approach to design is discussed and the interviewee recognises that this work was historically done by European and American companies but that times were changing. The arguments for shifting design work (creating new – upstream work or adapting products – downstream work) to India are considered. MNC's may fragment their value chains and outsource (rather than 'make') certain activities.

NOTES:

Case study questions...

Action	Pre/During/After class
1 THE ENVIRONMENT AS A SOURCE OF OPPORTUNITY AND THREAT Analyse the global and Indian environment, considering events and change over the past decade or so, discussing the factors impacting upon opportunity in the design industry - particularly from an Indian perspective.	During
2 FRAGMENTATION OF THE VALUE CHAIN, GLOBAL SOURCING AND OUTSOURCING. Discuss why organisations typically engage in such strategies.	During
3 FRAGMENTATION OF THE VALUE CHAIN ICT enables new ways of working at the international level -providing opportunity to support value chain fragmentation. Critically discuss how technology might enable Desmania to serve its corporate customers - multinationals like Nestle etc.	During
4 NATIONAL COMPETITIVE ADVANTAGE Explain why certain countries are leaders in the production of certain products/ services. Specifically, discuss why more design work opportunities are likely to be seized by Indian companies rather than say European or American companies. Consider arguments associated with using an Indian design company to (1) create new products for the Indian market, (2) create new products for the global market, (3) adapt existing products for the Indian market and (4) adapt products for other country markets.	During

Answers...

OFFSHORE OUTSOURCING

Use of vendors in other countries, usually where labour is inexpensive, to do programming or other systems development tasks.

OFFSHORING

Outsourcing work to employees in other countries.

MAKE-OR-BUY DECISIONS

Decisions a company makes about whether to perform a value creation activity itself or to outsource it to another entity

OUTSOURCING

The use of supply chain partners to provide products or services.

VALUE CHAIN MODEL

Model developed by Porter that shows the primary activities that sequentially add value to the profit margin; also shows the support activities.

VALUE CREATION

Performing activities that increase the value of goods or services to consumers

FRAGMENTATION PROCESS

different parts of goods and services are provided in different countries before they are combined in final goods

COMPARATIVE ADVANTAGE

The theory that countries should specialize in the production of goods and services they can produce most efficiently A country is said to have a comparative advantage in the production of such goods and services

Question/ Answer

1 The environment as a source of opportunity and threat

Analyse the global and Indian environment, considering events and change over the past decade or so, discussing the factors impacting upon opportunity in the design industry - particularly from an Indian perspective.

Making sense of the macro environment poses a significant challenge. However, there are diagnostic frameworks to help break it down into more manageable components (environmental variables) which can be investigated. PESTEL (see also PEST, SLEPT, STEP & PESTLE) analysis is a common technique for analysing the general external environment of an organisation in terms of the political, economic, socio-cultural, technological, environmental and legal aspects.

Organizations undertake the process of continuously monitoring the environment so that they can respond accordingly; in some cases the analysis of the external environment may be described as an external audit. From an international organizational perspective it is important to recognise that legal, economic and sociocultural factors exist within each country. Consequently, the environment of the international organization is more diverse and complex. Not all factors will influence the organization's industry and the analyst must identify the more important factors, understand the implications and then act accordingly – typically adapting the organizations strategy, structure, practices, systems, culture, products and services.

- India has become far more sophisticated - capitalise on the inherent advantage of a hugely diverse society

- with protected markets, there was little reason for Indian companies to bother with good design; most people were happy to buy whatever they could get their hands on. However, as the economy has opened and incomes rise, consumers have begun to demand better products.

- Political: In a move aimed at encouraging the growth of innovation-driven industries, the Ministry of Science and Technology set up special innovation zones offering a host of fiscal incentives for research and development companies in India; the government released the National Innovation Act, 2008. The preamble to the Act explains its purpose: "An Act to facilitate public, private or public-private partnership initiatives for building an Innovation support system to encourage Innovation, evolve a National Integrated Science and Technology Plan and codify and consolidate the law of confidentiality in aid of protecting Confidential Information, trade secrets and Innovation.

- despite all the wage inflation, India remains a lot cheaper than the U.S.

- availability of talent: growing quality and experience of India's huge technical workforce

2 Fragmentation of the value chain, global sourcing and outsourcing.

Discuss why organisations typically engage in such strategies.

Organisations typically engage in such strategies in the pursuit of cost leadership or differentiation. They fragment because they can: see globalization and ICT in particular but also transport costs and logistic solutions

3 Fragmentation of the value chain

ICT enables new ways of working at the international level -providing opportunity to support value chain fragmentation. Critically discuss how technology might enable Desmania to serve its corporate customers - multinationals like Nestle etc.

- Internet technologies: sharing data, information and knowledge and distributing products and services or enabling the procurement process, overcoming time and space barriers AND the Web for companies to promote themselves globally

- CAD/CAM

- Enterprise and Supply Chain Management Systems for sharing data, integration and work flow management

COMPARATIVE ADVANTAGE

the name for the ability of one business entity to engage in production at a lower opportunity cost than another entity.

Comparative advantage, rather than absolute advantage, is useful in determining what should be produced and what should be acquired through trade.

PORTER'S DIAMOND

Porter's Diamond suggests that there are inherent reasons why some nations are more competitive than others, and why some industries within nations are more competitive than others.

GLOBAL SOURCING

Global sourcing: purchasing services and components from the most appropriate suppliers around the world regardless of their location

4 National competitive advantage

Explain why certain countries are leaders in the production of certain products/ services. Specifically, discuss why more design work opportunities are likely to be seized by Indian companies rather than say European or American companies. Consider arguments associated with using an Indian design company to (1) create new products for the Indian market, (2) create new products for the global market, (3) adapt existing products for the Indian market and (4) adapt products for other country markets.

Organisations need to be both dynamic and innovative. Porter identified four elements which form the basis of the national competitiveness (factor conditions, firm strategy, structure and rivalry, demand conditions and related and supporting industries) -the Porter Diamond, present to varying degrees in every country. The factor conditions element draws on factor proportions theory and is used to explain what products a country will produce and export. Factors include labour and natural resources but extend to skill levels, the technological infrastructure, and the country education system and research and development capabilities. Porter argues that sophisticated buyers in the home market are also important to national competitive advantage in a product area (demand conditions) as such buyers drive companies to develop products and services which satisfy their needs. Furthermore, a country industry characterised by high degrees of competition and rivalry will help those companies compete against imports and develop a presence in foreign markets.

Indian design companies:

**May be able to provide their services at lower cost i.e. they are cheaper (low cost producer)
Have local 'cultural and social' knowledge enabling them to better differentiate products (or packaging) for their local markets – they will appeal more to Indian consumers
Know how to design goods that can be sold at 'rock bottom' prices.**

Case study references

Brakeman, L., Garretsen, H., Marrewijk, C. and Witteloostuijn, A. (2006) 'Nations and Firms in the Global Economy', Cambridge.

Cole, G A. and Kelly, P P. (2011) 'Management Theory and Practice', Ed. 7. Cengage EMEA.

Kelly, P P. (2009) 'International Business and Management', Cengage Learning EMEA.

Porter, M E. (1986) 'Changing Patterns of International Competition', California Management Review, Winter86, Vol. 28 Issue 2, p. 9 - 41.

Porter, M E. (1998) 'Clusters and the New Economics of Competition', Harvard Business Review, Nov/Dec98, Vol. 76 Issue 6, p. 77 - 90.