

Assignment of the Global Business Challenges Module:

Current environmental forces and
their impact on the organisation

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Executive summary

The international organisation considered in this report is a manufacturer of power tools and other products mainly used in the construction and Do-It-Yourself industry. It is globally active to source, manufacture and sell products with a total annual turnover of 8 billion USD. With a clear vision to get and remain a global leader in key business areas, the considered organisation has a strategy focusing on growth of revenue and profit. While this strategy seemed to be relatively easy to achieve in the past, the organisation is now facing some strong headwinds requiring positive decisions. In the first part of this report, the environment is analysed in detail using several assessment tools. Decisions the organisation already made in the past and decisions it will potentially take in future are discussed. The implications of the most critical business challenge the organisation is currently facing, the increasing protectionism, is discussed in a second part.

The analysis of the environmental forces acting on the considered organisation has disclosed several forces threatening the healthiness of its business, most prominently the increased costs due to the US-China tariff war. The management has taken strong decisions to respond to cost increases in order to achieve the envisaged goal of growth. Next to general efforts to cut costs, decisions were taken to optimise expenditures for labour and other HR related costs. Further, resourcing programs have been executed and unprofitable product lines phased out to regain margin goals. New 'Made in the US' product lines have been initiated for various product categories. For all these activities, the organisation leverages its possibilities as a global organisation with a large product portfolio and wide supply basis. The outcome of the analysis further suggests possible future decisions to strengthen the business. The underlying strategies would all rely on a massively increased digitalisation of critical production and commercialisation processes.

Steel is one of the main components of tools and construction products. Since the considered organisation sources primarily in China for the US market, it is severely affected by the global trend to protectionism. The US tariffs imposed on products imported from China make the products more expensive. In order to not lose market shares and sales volumes, only a small portion of the increased costs can be covered by raising the sales prices. Increased raw material prices and unfavourable exchange rates put further pressure on costs. Under these external circumstances, which the organisation cannot influence on but only react to, it is extremely difficult to meet the strategic goal of growing the business. Agreements to remove the newly erected trade barriers are not expected for the time being and further tough decisions are required to rebalance the business. In parallel, measures are required to mitigate the risks evolving from the cost saving policy. No organisation can afford to put long grown business ties and outperforming staff at risk in the long run.

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1 Introduction

The task of this assignment is to critically assess the current environmental forces and their impact on a real organisation while taking the hypothetical position of a managing director. After a short introduction of the considered organisation (Section 1), the task is elaborated in two parts: In Part 1, presented in Section 2 of this report, the competitive environment is analysed and assessed using analytical tools and economic theories dealt with in the Module 'BMMB7006D - Global Business Challenges'. The findings of this macro-economic analysis will then be used to discuss their implications on micro-economic decisions the organisation made in the past, and their potential implications on future decisions. In Part 2, presented in Section 3 of this report, one of the currently most critical challenge of the considered organisation will be discussed in further detail. Additional information and references are given in the appendix Section 4 and Section 5, respectively.

For the assignment I am considering a manufacturer of power tools and other products mainly used in the construction and Do-It-Yourself (DIY) industry. In this report, I am only using data which is freely available either in public domain or in the annual report of the company. As the discussions partly reflect personal views, the organisation's name will be given in an anonymised form in this report and is simply referred to as the Corporation. The Corporation is a multinational organisation headquartered in the US with more than 50,000 employees worldwide located in about 50 countries. The Corporation is a company listed at international stock exchanges. The annual revenue is more than 8 billion USD spread across more than 50 brands and several business units. For this report, I will only consider the strategic business unit for tools and accessories used in construction.

The product portfolio of the considered strategic business unit comprises several thousand parts. These range from commodity products sold in numbers of several 100,000 a year to more specialised products that are sold on a Made-To-Order (MTO) basis and in small lots of only 100 or so. These small lots are either highly profitable or support the system sell of other higher volume products. The Corporation sells their products globally via channels like big DIY markets or distributors for professional customers. The Corporation operates also as an Original Equipment Manufacturer (OEM) for some renowned brands of other companies which may be competitors in other product categories. The Corporation primarily sources and manufactures products in China and sells them primarily in western countries.

While the Corporation's brand and product portfolio is diversified, there is a clear business strategy focusing on organic growth as well growth by acquisition, and operations in key markets. The growth is fuelled by innovative and high-performance products. It is important to note that particularly in the considered business unit, the Corporation is considered to be one of the global leaders. Its roots reach back to the first half of the nineteenth century, and there is a clear vision to continue on the successful path to grow the business further and to increase its profitability. The following sections will analyse in detail the

environmental framework this growth takes place in, what strategic decisions it is taking and potentially will be taking, and how the Corporation deals with the biggest challenge it is currently facing globally: the increasing protectionism.

2 Part One

2.1 Analysis and assessment of the competitive environment

In the following, five different analytical tools are used to assess the current environmental forces acting on the considered organisation. For this, I took next to the PESTEL analysis, the SWOT and TOWS matrices as well as the Porter's 5 Forces and Diamond models. The level of detail varies depending on the relevance or applicability for the Corporation.

2.1.1 PESTEL

The PESTEL analysis is considering five aspects describing the macro-economic framework an organisation is set in: Political, Economical, Social, Technological, Environmental, and Legal.

Political – The dominating political issues for the Corporation are these days the US-China tariff war and the Brexit. The tariff politics are a massive intervention in the economy, affecting business on a daily and strategic basis. For the Corporation, trade restrictions are threatening the fundamental business model of manufacturing the products in China at relatively low costs and sell them with a healthy margin in the US and Europe. In response to the tariff politics, alternative sourcing options are developed. However, the uncertainty of the further course of this crisis makes strategic decision-making extremely difficult (Flaen and Pierce, 2019). In the UK, the Corporation's most important sales region in Europe, Brexit adds further uncertainty, not only to the economy but also to the people weighing on investment and consumption (Carney, 2019). Warehouses are precautionarily stocked up, and departments closed and transferred to continental Europe. On the other hand, a special US-UK deal could result in business opportunities for the Corporation.

Economical – The economy in the developed countries is stable, overall the business cycle is still booming in the US and Europe. The construction sector is growing globally, not only in China and India, but also in the US; all three countries are accounting for 57% of all global growth (GCP, 2019). Northern Europe is also doing well. It is forecasted that UK will even overtake Germany to become the largest growth market in Europe. The disposable income in the private sector is high and still growing (OECD, 2019a), Figure 1. These are good market conditions for consumer and professional products in the construction and DIY industry. Historically low interest rates in the US and Europe (OECD, 2019b), Figure 2, enable acquisitions the Corporation needs to achieve the targeted growth in revenue. On the other hand, the above mentioned

tariff war as well as volatile exchange rates and commodity costs are a risk for every international business, refer also to Section 3.

Social – The Corporation is increasingly focusing on online sales via channels like Amazon, by this reflecting social trends and habits. Women are getting more in the focus as target buyer group for the historically men dominated world of construction and tools. But also for the corporate culture, gender equality is getting very important as part of social responsibility. Like many other tech companies the Corporation is actively working on closing the gender gap and increasing the diversity in general (Conway et al., 2019). Training sessions are mandatory for every employee. Overall, the importance of the HR management is growing, last but not least to manage the integration of employees of acquired companies.

Technological – For the Corporation producing manual and power tools, and other construction products, technological innovations are important. The mega trend are battery solutions for powered tools. Since the whole industry now goes for battery technologies, batteries and their components are getting a critical supply while raw material shortage is imminent (Anon, 2019a). Overall more important than the technological advance of the products, however, is the digital transformation of the production and commercialisation processes. Digital processes allow integrating and optimising processes for lean production and higher profitability (Anon, 2016). For this, additional IT-professionals are hired and software systems employed to manage the flow of products and services.

Environmental – Replacing combustion technology by battery technology is initially not as green as it is generally perceived. If however the power is generated by green technologies, and the batteries are made environmentally friendlier, batteries might be a viable contribution to environment protection in future. For now, increased environmental regulations e.g. regarding zinc plating applied on tools etc. are of a higher ecological relevance. Climate change, though publicly discussed already for a decade (Cowan, 2010), is to date not really an issue for the Corporation.

Legal – In a big US company, legal issues naturally play an important role and the legal department is historically strong (Novak and Psenicny, 2014): Product liability but also corporate compliance subjects like anti-corruption, delegation of authority, discrimination of employees etc. are very prominent as the Corporation wants to avoid any costly lawsuits from customers, shareholders, or employees. This not only affects the everyday behaviour of the managers but can also lead to business decisions against specific

technologies or products if e.g. they are too risky to introduce. In international business, not only the national law in the home country needs to be considered but the law in every country.

In summary, political and economical aspects are currently the driving factors for strategic considerations of the Corporation. Naturally, technological aspects are also important for an organisation manufacturing technical products. However, rather the progressing digitalisation than real technical innovation is the critical technological factor showing the direction the Corporation has to take to secure its business position and lift it to the next level.

2.1.2 SWOT

The SWOT matrix identifies four key aspects that are elementary to define the position of a business, namely Strengths, Weaknesses, Opportunities and Threats. It is simple but focused.

Strengths – The Corporation has a strong product portfolio and well-established supply base. Its annual report documents a strong organic growth of 7%. A strong cash flow provides the means to expand to new products for incremental growth by acquiring companies like other iconic tool brands. The Corporation can fall back on a strong dealer and consumer community particularly in the US. As a big international organisation with a broad portfolio it can adjust their production to manufacture a mix of products allowing them to utilise the available resources best (Hill, 2016).

Weaknesses – On the downside, the Corporation is very focused on the US, only 45% of the revenue is generated outside of the US. The US market is saturated, and the US focus makes the Corporation vulnerable to the economic situation there. The Corporation invests continuously in brand-building marketing which however is focused again on the US, whereas there is only limited success in fully establishing the brand in any market outside of the US. Also the sponsorship for a European top soccer club primarily aims at the US customer (Lore, 2019). Another weakness is the low grade of digitisation prevalent in the Corporation. The investment in digital excellence has been increased over past few years, however, it is still lagging behind of what similar corporations do.

Opportunities – In emerging markets currently only 14% of the Corporation's revenue is generated, a number still low and way below what was envisaged some 5 years ago and which allows massive future growth. Emerging markets not only have a booming construction industry, at a later stage they are also

ready for the DIY business. Emerging markets are potential winners of the US-China war (Harding, 2019); on the other hand, however, they might suffer collateral damage (Tran, 2019). E-commerce has been identified as one the key driver for organic growth. After a late start, digitalisation became an emphasised activity already for some years. An increasing R&D budget is now focusing on digital product innovations, advanced analytics, and digital marketing capabilities. This, together with increasing venture investments, enables the Corporation to seize some promising opportunities.

Threats – The Chinese supply basis combined with sales primarily in the US makes the Corporation an exemplary victim of the ongoing tariff war. Further headwinds come from increasing commodity and raw material costs. Disadvantageous development of foreign exchange rates makes the US products expensive in the western markets of Europe, Australia and New Zealand. On top of this, rising interest rates and slowing down economy in the US, and a stalling economy in Europe and China as well as a couple of sanctions (Anon, 2019) threatens revenue and profit.

In total, the Corporation holds a solid strategic position. The main point for each aspect can be clearly named. Strength: global business of considerable size; Weakness: US focus with low brand recognition elsewhere; Opportunity: good chances to grow outside of the US, particularly in emerging markets; Threat: trade war as part of increasing protectionism. – A clear understanding of the position enables the strategical planning for achieving the growth objectives.

2.1.3 TOWS

The TOWS matrix is a planning tool to develop strategical options by matching the factors from the SWOT analysis to reduce threats, to take advantages of opportunities, to overcome weaknesses, and to exploit strengths.

Strength - Opportunities – The Corporation has a strong product portfolio, broad in view of the variety of product categories, and deep in view of different products within a category. Tools and accessories are readily available for an intensified commercialisation in emerging markets where the Corporation is too date not very much established. There is a huge opportunity to enhance the business in the quickly developing countries with their booming construction industry. More mature markets are ready for DIY markets. Commercialisation activities in regions of high affinity to new technologies fit also perfectly to the increased efforts in strengthening the e-commerce platform.

Strength - Threats – A wide product portfolio and supply basis enable the Corporation to respond to the threats imposed by the tariff war and adverse exchange rate. The product mix and sourcing can be strategically reshuffled so that the tariffs put on products manufactured in China are avoided. To reduce the currency risk, the production can be brought to countries with favourable exchange rates or where the products are ultimately sold. Further, more products could be assembled in freeport zones and exported to third countries directly, thus reducing customs and transportation costs. All these measures are options smaller companies do not have but global organisations can make use of.

Weakness - Opportunities – The brand of the Corporation outside of the US is still weak and there are opportunities to change that. Activities can be intensified to build a brand outside of the US for a better product proliferation in European and emerging markets. Localising the marketing divisions could help to tailor marketing strategies for the regional markets. Regional preferences depend on (Hofstede and Minkov, 2010) and should be taken into account in the product development. More technical support resources than what is generally provided in the US could help to strengthen the brand in Europe and to establish it in new markets.

Weakness - Threats – The weak brand outside the US, together with increasing commodity prices might call for extra efforts. One strategy could be to move the brand further into the direction of the premium segment. This move would help to justify higher prices. For the European markets as well as for Australia and New Zealand, there are good chances for premium products. There is even the possibility to have final assembly lines in Germany maybe using automated processes, making the 'Made in Germany' brand a selling point. However, the premium approach would not be a viable strategy for the emerging markets, and it requires a long-term strategy and substantial investments.

Adding to the results of the SWOT analysis, the TOWS analysis reveals some possible business strategies. The Corporation is certainly aware of how to react to the threats by utilizing its strengths. Efforts have also been undertaken to seize opportunities resulting from its strong position. The threats and opportunities evolving from the combination with the weaknesses as laid out above, however, has so far not been addressed by the Corporation.

2.1.4 Porter's 5 Forces

Porter's 5 Forces model describe the five major competitive forces acting on a company. By considering the threat of new entrants and of substitutes, the bargaining power of customers and of suppliers, and the industry rivalry, business situation is analysed.

Threat of new entrants – The threat of new competitors entering the market is real. Tools and accessories used in the construction industry are generally low-tech and therefore the barrier is low. There are already plenty of competitors and further companies are expanding their product portfolio into the same area. This threat requires a steady improvement of the products to distinguish them from the competitors in quality, price or other unique selling points.

Threat of substitutes – Tools and accessories can be easily substituted. It is a two-sided sword: The products of the Corporation are threatened to get substituted by competitor products, but there is also the chance that they substitute competitor products, also as OEM products. To avoid substitution of the own products, products may get specified by certificates like technical approvals blocking competitor products. But this is expensive and only reasonable for certain product categories.

Bargaining power of customers – The bargaining power of the customers is certainly high as there are many competing distributors offering a variety of competitor products. This power has increased over the years as e-commerce allow comparing competitor products or sales online and in real-time. Online procurement of construction products is getting increasingly common also for the professional range, either via distributors or directly by one-stop-shops of the manufacturers.

Bargaining power of suppliers – The power of the suppliers is decreasing as there are globally excess capacities. This holds in general, but particularly for hardware like tools and accessories. Suppliers are courting the big organisations for supply contracts. Establishing business contact between supplier and purchaser is today very straightforward; trade shows are not even required as global contacts can be easily arranged via the internet. The US-China tariff war has aggravated the situation of Chinese suppliers further, while suppliers from other countries see the chance for taking over business to date handled by China.

Industry rivalry – Due to new entrants flocking in and the replaceability of tools and accessories, the rivalry in that field is high. As long as construction and DIY business are doing fine in the key markets of the

Corporation, the situation can be handled and offers opportunities. However, the situation might get rough when these markets are cooling down. This will inevitably result in a decline of achievable sales prices. Moreover, reduced market volumes would require larger market shares in order to keep the sales volume allotted to the Corporation stable.

In conclusion, the Corporation is subject of strong competitive forces acting from all directions, vertically and horizontally. The only relief is the relatively limited bargaining power of suppliers. The industry rivalry might develop to the biggest threat when the construction boom ends in the key markets like the US. The Corporation is well advised to get ready for intensified price battle from direct competitors.

2.1.5 Porter's Diamond (aka National Diamond)

Porter's Diamond, also known as National Diamond, is a model which considers up to six components including the institutional framework.

Factor conditions – There are no special endowments for the Corporation manufacturing products used in construction. The Corporation does not produce anything special but grew over the decades, organically and by acquisitions. It has grown big and size matters for returns to scale.

Related and supporting industries – There are no special industries or clusters in the field the Corporation operates in.

Demand conditions – There are no specialised demand conditions for tools and accessories. When it comes to power tools, there is only the general trend to make life and work easier.

Strategy, structure, and rivalry – The competition in that product range is global. There are competitors of all kind within the US, but there are also several serious competitors outside of the US, particularly by German and Japanese companies. But there are no structural constraints that helped the Corporation to grow.

The role of government – There is some tradition in the US that for governmental projects, particularly military projects, products and tools made in the US are favoured. But only recently this regulation is enforced and fuelled by the tariff war.

The role of chance – It cannot be stressed enough that sheer luck often plays a key role also in business. Since the Corporation does not provide extraordinary products it was not benefitting from a lucky circumstance yet. The 'Made in the US' policy came up by chance but if the Corporation manages to benefit from this, it is in response to this factor. The Corporation did not have the right product portfolio beforehand.

Altogether, the analysis by the Diamond model does not yield many findings. Still, it highlights what role of the government may play, an aspect many other strategic analysis tools do not consider.

2.2 Actual implications on the organisation and decisions made in the past

The current position of the Corporation is globally strong as the annual reports document every consecutive year. The Corporation is finance driven and ambitious revenue and profit goals are postulated each year to secure the shareholder value. In order to achieve the goals, the corporation has to grow, scale up operations for improving returns of scales, and leverage resources and assets. Recently, several external factors challenge the goals, most notably the trade war with China. Several decisions have been taken to compensate the headwinds, some of them tough.

- Cut labour costs and raise synergies: Measures like hiring freeze and travel ban helped to reduce the costs immediately. Further, the merging of strategic divisions and sales regions enabled the Corporation to make use of synergies e.g. in management. In some cases, employees have been laid off. On the other hand, profitable companies have been acquired, and their products and staff integrated. In that course, the HR management gained more importance within the Corporation.
- Remix and resource products: Product categories that turned unprofitable, e.g. those with low production depth but high steel content, have been discontinued. Other categories e.g. tools or accessories sourced from Japan or Germany have been promoted. At the same time, the supply basis for a couple of product categories has been shifted away from China.
- Adopt 'Made in US': The renaissance of products that are demonstrably made in the US encouraged the Corporation to create 'Made in the US' product lines for all categories where possible. These products not only have a cost benefit due to avoided tariffs, the marketing of 'Made in the US' labelled products proved to be a success in the US where the Corporation has a good stance.

2.3 Potential implications on the organisation and future decisions

Decisions made in the past aimed at utilizing the Corporation's strengths to overcome threats while its weaknesses have been addressed to a lesser extent. Reasons are certainly the time frame and the amount of investment to be made. A deteriorating economic situation, however, might push the Corporation towards innovation. Provided the Corporation would be ready to take bold decisions for the future, I could imagine the following strategies to overcome deficiencies and to seize business opportunities:

- Further digitalisation of the manufacturing and ordering processes would increase effectivity and by this profitability. Ultimately, it would allow the transformation to an exponential organisation (Ismail et al., 2014) of some parts of the Corporate's business. In an exponential organisation, most of the processes are automated, including the interaction with the customer, and the sales can be easily scaled up at relatively constant overhead costs.
- Digital solutions like specification software would further help to build platforms tying the customer closer to the Corporation's products, or at least to the Corporation's service. Even competitor products could be sold via platforms as long as the Corporation earns money e.g. by fees (who owns the platform earns the money). The initial focus should be placed on the emerging markets where the people are technically open minded, and where there is still business to grow, particularly for the Corporation.
- Digitalised ordering tools would also enable configurator software allowing the customer to specify the product within certain parametric spaces via a user interface. Automated production methods, potentially involving 3D print technologies, could be used to manufacture these MTO parts (Dalenogare et al., 2018). This industry 4.0 solution would help to move away from commodity products towards more specified premium products with higher margins. The dependency on China as the supply basis would gradually diminish.

3 Part Two

3.1 Comment on one of the challenges identified by IMF

What follows is a discussion of one of the challenges identified in the IMF report (International Monetary Fund, 2019) for the global economy. For the organisation considered in this report, the most relevant challenge is certainly the rising protectionism. Aspects like the trend to greater inequality or ageing population is certainly of less importance. Therefore, I picked the challenge of protectionism to discuss the implications of the macro-economic protectionism on the considered organisation at a micro-economic level.

3.2 Rising protectionism and the impact on the considered organisation

Protectionism refers to actions of the governmental administration to restrict international trade to the benefit of the own domestic industry. For this, trade barriers are primarily erected by tariffs which make foreign products more expensive and domestic products more attractive. There are also other forms of protectionism, namely nontariff regulation barriers to ensure quality or safety, potentially also used as specious reasons. These are in the here discussed context of only minor relevance. However, it is interesting to note that the US, like other countries, wants to keep the Chinese communication tech company Hua Wei out of their 5G installation for reasons of national security (Qian, 2019).

Protectionist politics support domestic products which otherwise would not have a chance in free trade. In the best case, the domestic economy is stimulated, resulting in more domestic production and generating jobs. By limiting imports and promoting exports, the trade balance improves, and the external debt lowers (Ostry, 2018). There is, however, also a backside of this: Products are getting more expensive for the customer, the trade volume reduces, and the incentive is lost for the domestic industry to develop competitive products. We will later see what this means in case of the considered organisation.

To reduce trade deficits, the US administration introduced the so-called 'Trump tariffs' as part of the 'America First' policy shifting from multilateral free trade agreements to bilateral trade deals to allow controlling the trade to the benefit of the US (Dudar and Shesgreen, 2018; Hunter, 2017). First introduced in January 2018 on a couple of specific products like solar panels, the tariffs imposed on steel (25%) and aluminium (10%) hit the international economy in a broad scale (Lawder et al., 2019). The tariff for steel is certainly the most prominent tariff, and it is applicable to all countries. In this context, however, it is important to note that the tariff is primarily applied to raw and semi-finished products, and to a reduced rate to finished products. For this reason, European countries typically exporting finished and specialised products are affected by this tariff to a lesser extent. After a couple of exemptions made for other steel and aluminium exporting countries like Canada and Mexico, but also Australia, Taiwan and South Korea, and a

further increase of the tariffs specifically for products from China, China is clearly the main target of this policy (an overview can be found in (Politi et al., 2019), see Figure 3). Undoubtedly, China is also that country with the highest subsidies supporting their steel industry, resulting in large over-capacities and dumping prices. If the terms 'unfair' and 'imbalanced' are used, they are most applicable to China indeed (Jia, 2019; Haley and Haley, 2014).

The Corporation manufactures tools and accessories primarily in China for the US market. Steel is one of the main components of these tools. For this reason, the Corporation is severely affected by the tariffs imposed by the US administration on steel products imported from China. These tariffs add to the other financial headwinds the Corporation is currently experiencing, namely increasing commodity prices and currency fluctuations. The commodity prices are volatile, and it is feared that costs for materials needed for the production will continue to increase (Figure 4). The Dollar is getting stronger compared to many other currencies, e.g. the British Pound (Figure 5) and the Euro (Figure 6). On the other hand, China is benefitting from the fixed exchange rate of their Renminbi (Figure 7), giving Chinese exports advantages. From the President of America's point of view, the Dollar is rated too high, and he is influencing the Federal Reserve Bank (FED) to depreciate the Dollar in order to support US exports. The devaluation, also by cutting interest rates, would directly lead to a currency war and further protectionism with a presumably negative outcome also for the US (Prasad, 2019; Rose, 2018).

All these challenges (commodity prices, currency fluctuation, protectionist tariffs) are external and outside of the Corporation's influence, making it particularly difficult to counterbalance. A bunch of measures have been taken by the management to mitigate the situation. Most of them aimed at reducing the costs: A temporary salary and promotion freeze as well as an extended travel ban had an immediate effect on reducing the current expenditures. Benefits like employee sales and employee share programs have been terminated. Business divisions have been merged to materialise synergy effects. On the other side, sales prices have been risen; however, only moderately. Raised prices required to offset increased costs have to be balanced against decreasing sales volumes. Most importers use a mix of measurements to spread the higher costs among suppliers and consumers to maintain market shares (Singh, 2019). – All these measures and their effects demonstrate that the burden of the trade war is put on the employees and consumers. The tariffs work like a tax (Harrison, 2019) and by no means the costs are just covered by China that, however, is also suffering by the decreased sales volumes.

By the attempt to reduce costs further, the Corporation is trying to resource the production and move it out of China. In fact, bringing the production home has been the original intention of the 'America First' policy. Carried by a wave of new patriotism, 'Made in the USA' evolved to an important selling point in the US market. For this, outdated products that are still manufacturable in the US are re-activated; thus hampering innovation at increased costs. On the other hand, running the production in the US home market

cuts out adverse exchange rates as a business risk. However, only few of the previously China based production have been taken home so far. The US has lost the capacities to produce the steel in the required quality to Europe, Japan and Korea already in the 1960s and then later to China (Mihm, 2018), let alone the capabilities or effectiveness to manufacture the products like tools and accessories in the US (Clarke, 2019). For these reasons, most of the resource programs relocated the production from China to other emerging countries in Asia like Vietnam or Mongolia. Even countries which used to be the work bench for the western economies before they got too expensive, e.g. Taiwan for formed steel products, have been able to regain production they have lost to China over the past decades (Jennings, 2019).

Under these circumstances it is extremely difficult for the Corporation to meet the goals set. Not only the margin is threatened, but also the growth in revenue as increased prices is poison for the sales and counteracts plans to increase market shares. Moreover, cost cuts have also a counterproductive aspect. It is demotivating for the employees, and every company introducing these measures run risk to lose the most talented staff and management. This demonstrates that protectionism has potentially momentous consequences for the business, far beyond the primary financial impact.

3.3 Remark on trade theories in the given context

For the matter of completeness, various trade theories are briefly discussed in the context of the considered organisation and the challenge of protectionism. Like many other companies, the Corporation has been benefitting from the international trade for a long period of time. The free trade allowed manufacturing products or components globally at various locations to optimise profitability. Low transportation costs made a fragmentation of the production processes possible.

But not only the Corporation, as a typical example for its industry, benefitted from this setup, so did also the customer in the US and Europe. The customer got access to reasonably priced products, by this saving money and supporting his real income. At the same time, the downsides of industry production like environmental pollution, but also dirty jobs many employees at that time were not willing to accept, have been externalised to a country where the environmental and occupational standards are not yet as high as in the developed world. Like no other state, China has been benefitting from this trade to generate prosperity for its people.

The US-China trade is the prominent feature of the international business the Corporation is participating in. The Corporation does not manufacture everything in China but for its product portfolio, China has been the first choice for manufacturing and sourcing. That is not because of competitive products but because of lower labour and environmental standards. China has absolute and comparative advantages in producing low-tech products (Das, 2017). Low trading barriers allowed then to sell the products globally. This clear

trading model is now at risk because of the increasing protectionism, specifically between China and the US, but also in general.

Porter's models (Porter, 1990, 1979) focus on competitive forces and advantages, the basis of the free trade, though primarily within one industry and on a national level. Protectionism is not subject of these models. While protectionist measures are mentioned in the context of Krugman's new trade theory (NTT) to support infant, often high-tech industries, the protectionism and tariff war between the US and China is of a different nature. The Trump tariffs aim at supporting a domestic industry which otherwise would not be competitive. The NTT explains trade between similar economies (Markusen and Venables, 1998) but the economies in the US and China are very different; and the NTT cannot explain fragmentation across countries the Corporation is benefitting from. The NTT is therefore not very applicable to the international trade the Corporation is involved in.

- 'The Corporation and its international business considered in this report is an interesting showcase for the discussion we currently have regarding free trade and protectionism. It illustrates some deficiencies of the free trade idea: On one hand, China violates the rules of free trade (manipulation of currency, subsidies etc.), and on the other hand the US is suffering from a deindustrialisation and its negative impacts (lower growth, mean productivity, margins and wages etc.), accompanied by a high consumption and level of debt. China as a mercantilist state is benefitting very much, while many employees in the US are losing wealth. Is the ideal situation that free trade results in more prosperity for everyone only an illusion? An interesting topic that cannot be fully addressed within this assignment.

4 Appendix: Figures

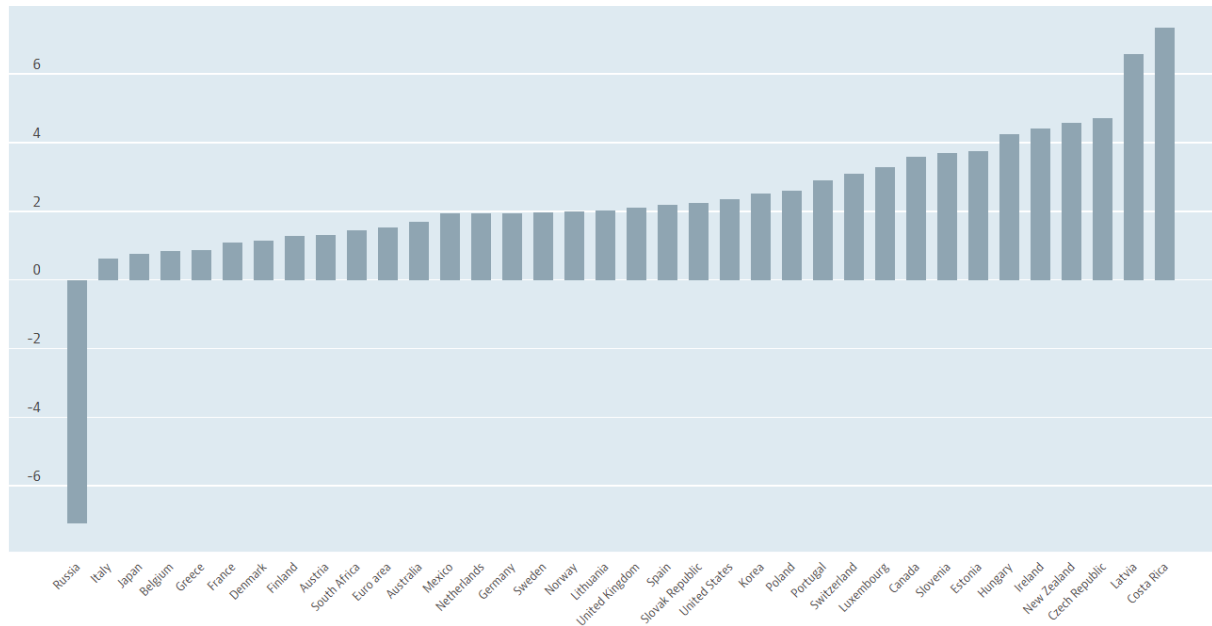


Figure 1: Household disposable income – Annual growth rate [%] (OECD, 2019a)

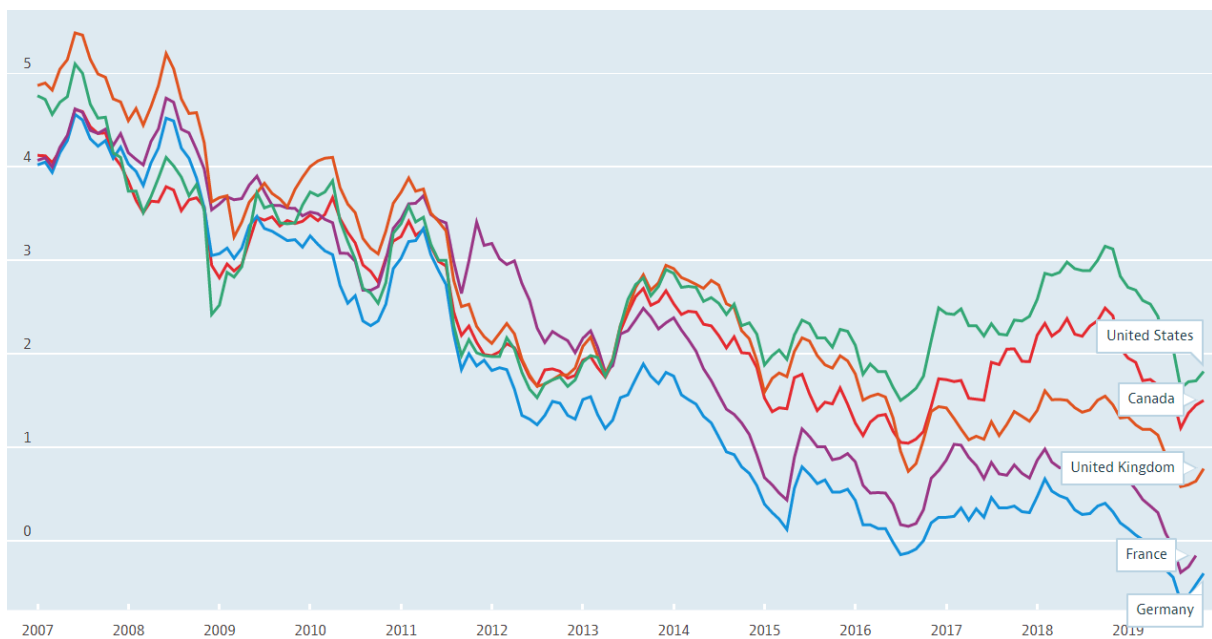


Figure 2: Long term interest rates – Total, [% p.a.] (OECD, 2019b)

How the US-China trade war escalated

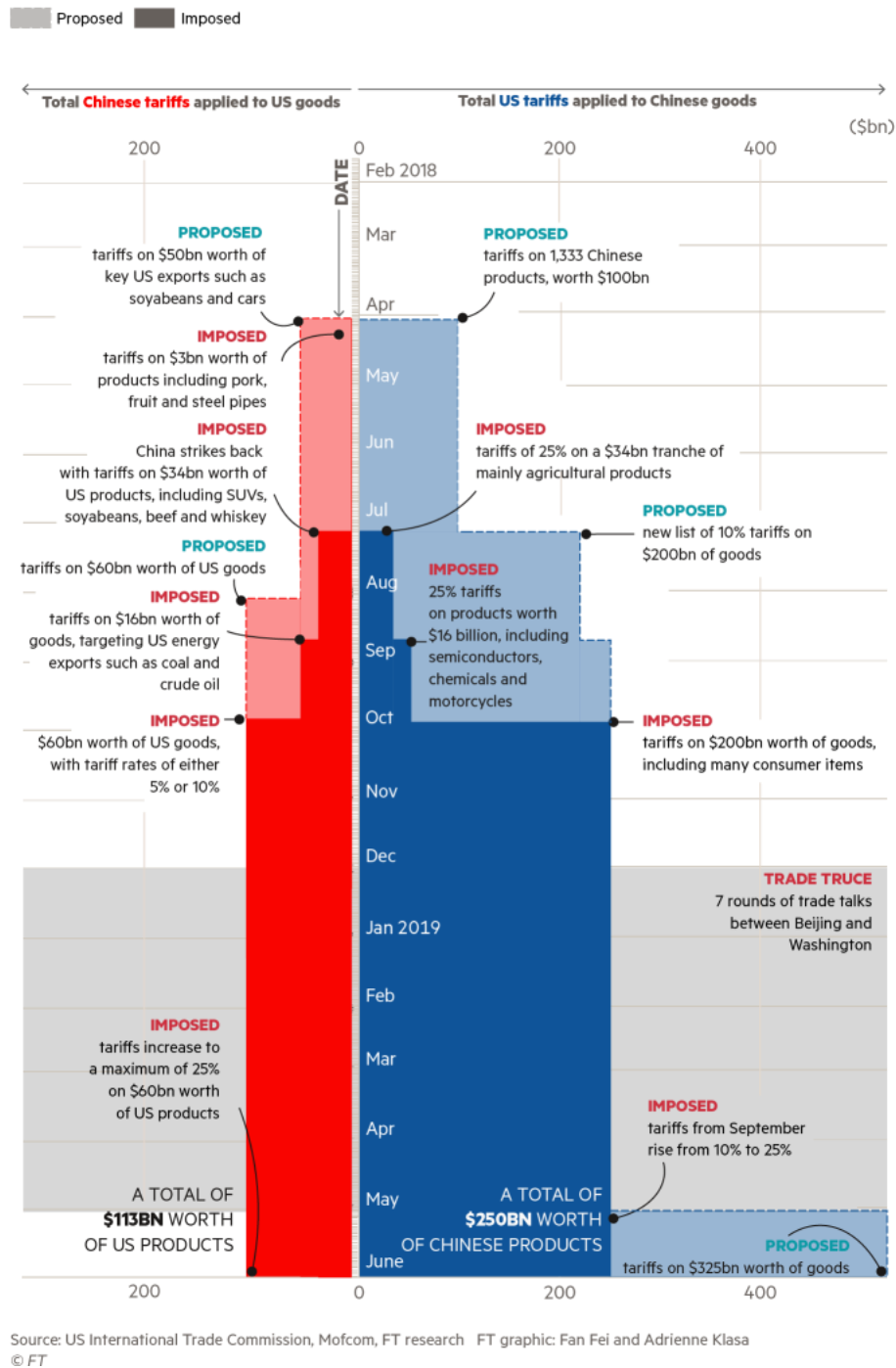


Figure 3: How the US-China trade war escalated (graphic taken from (Politi et al., 2019))

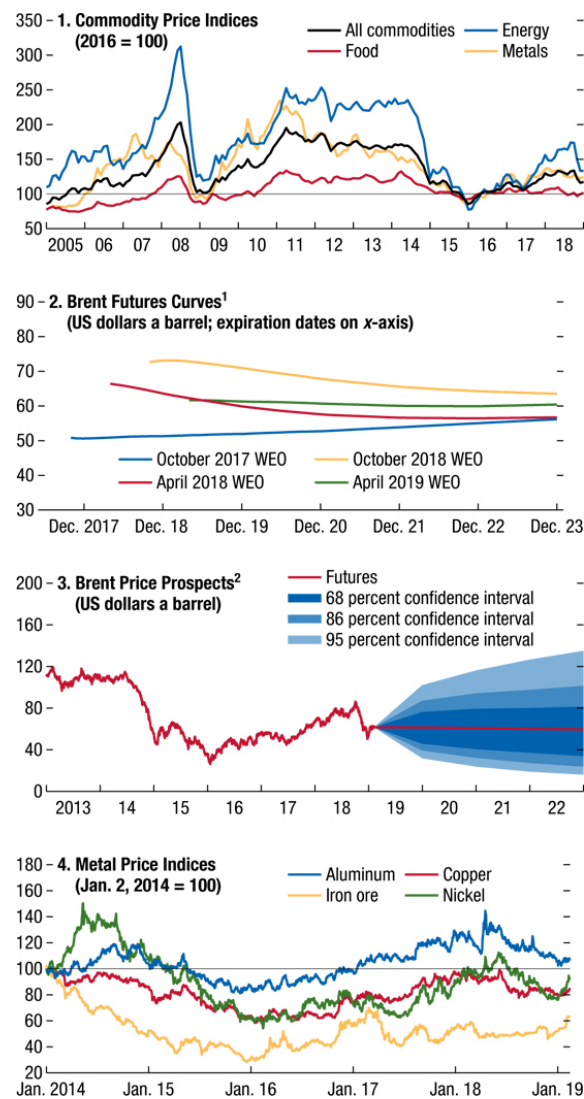


Figure 4: Commodity market development (graphic taken from (International Monetary Fund, 2019))

Assignment of the Global Business Challenges Module:
Current environmental forces and their impact on the organisation

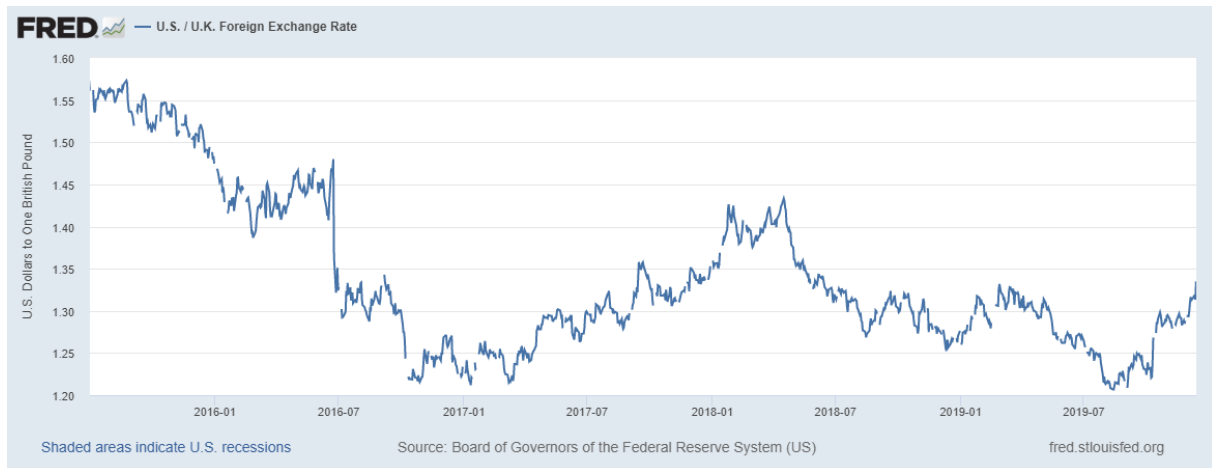


Figure 5: Great Britain Pound (GBP) to US Dollar (USD) exchange rate 2016 to 2019 (FED, 2019a)

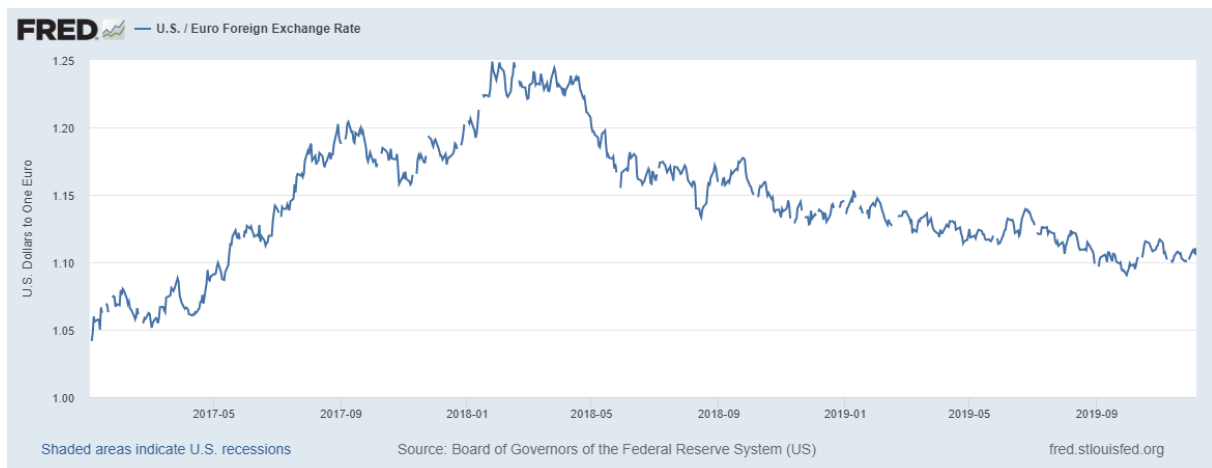


Figure 6: Euro (EUR) to US Dollar (USD) exchange rate 2017 to 2019 (FED, 2019b)

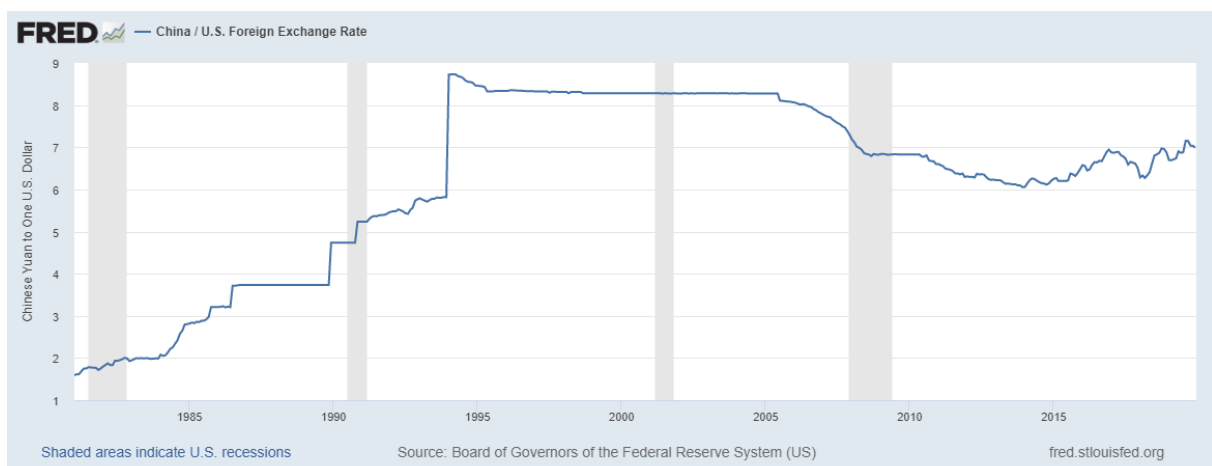


Figure 7: Chinese Yuan (CNY) to US Dollar (USD) exchange rate 1981 to 2019 (FED, 2019c)

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