

COURSE: BUSINESS MODEL INNOVATIONS

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Important --- Formulae

Economic Systems

Resource Allocation

Market

Command

**Resource
Ownership**

Private

State

Market Capitalism	Centrally Planned Capitalism
Market Socialism	Centrally Planned Socialism

Market Capitalism

- Individuals and firms allocate resources

- Production resources are privately owned
- Driven by consumers
- Government's role is to promote competition among firms and ensure consumer protection

Western Market Systems

Type of System	Key Characteristics	Countries
Anglo-Saxon	Private ownership Great Britain	US, Canada, free enterprise
		Minimal social safety net
Social Market Economy Model	Private ownership Inflexible employment	France, Germany, Italy
		policies, "social partners"
Nordic Model	Mix of state and private ownership, large safety net High taxes	Sweden, Norway

Centrally Planned Socialism

- Opposite of market capitalism
- State holds broad powers to serve the public interest; decides what goods and services are produced and in what quantities
- Consumers can spend only what is available
- Government owns entire industries and controls distribution
- Demand typically exceeds supply
- Little reliance on product differentiation, advertising, pricing strategy
- China, India, and the former USSR now moving towards some market allocation and private ownership

Centrally Planned Capitalism

Continued.....

Economic system in which command resource allocation is used extensively in an environment of private resource ownership

Example:

- Swedish government controls 2/3s of all spending; a hybrid of CPS and capitalism
- Swedish government plans move towards privatization

Economic Freedom

Rankings of economic freedom among countries

- “free” “mostly free” “mostly unfree” “repressed”

Variables considered include such things as:

- Trade policy
- Taxation policy
- Capital flows and foreign investment
- Banking policy
- Wage and price controls
- Property rights
- Black market

Economic Freedom— 2019

Rankings

Free

1. Hong Kong
2. Singapore
3. Australia
4. New Zealand
5. Switzerland
6. Canada
7. Ireland
8. Denmark
9. United States
10. Bahrain

Repressed

169. Turkmenistan
170. Timor-Leste
171. Iran
172. Dem. Rep. Congo
173. Libya
174. Burma
175. Venezuela
176. Eritrea
177. Cuba
178. Zimbabwe
179. North Korea

Stages of Market Development

The World Bank has defined four categories of development using Gross National Income (GNI) as a base

BEMs, identified 10 years ago, were countries in Central Europe, Latin America, and Asia that were to have rapid economic growth

Today, the focus is on **BRIC**: Brazil, Russia, India, and China

Low-Income Countries

- GNP per capita of \$996 or less
- Characteristics
 - Limited industrialization
 - High percentage of population in farming
 - High birth rates
 - Low literacy rates
 - Heavy reliance on foreign aid
 - Political instability and unrest
 - Concentrated in Sub-Saharan Africa
 - Uzbekistan and Turkamanistan

Lower-Middle-Income Countries

- GNI per capita: \$996 to \$3,945
- Characteristics
 - Rapidly expanding consumer markets
 - Cheap labor
 - Mature, standardized, labor-intensive industries like footwear, textiles and toys
- BRIC nations are India, China

Upper-Middle-Income Countries

GNP per capita: \$3,946 to \$12,195

Characteristics:

Rapidly industrializing, less agricultural employment

Increasing urbanization

Rising wages

High literacy rates and advanced education

Lower wage costs than advanced countries

Chilean copper mine

- Also called newly industrializing economies (NIEs)
- Examples: Brazil, Russia, Malaysia, Chile, Venezuela, Hungary, Mexico

Marketing Opportunities in LDCs

Characterized by a shortage of goods and services

Long-term opportunities must be nurtured in these countries

- Look beyond per capita GNP
- Consider the LDCs collectively rather than individually
- Consider first mover advantage
- Set realistic deadlines

Mistaken Assumptions about LDCs

1. The poor have no money.
2. The poor will not “waste” money on non-essential goods.
3. Entering developing markets is fruitless because goods there are too cheap to make a profit.
4. People in BOP (bottom of the pyramid) countries cannot use technology.
5. Global companies doing business in BOP countries will be seen as exploiting the poor.

High-Income Countries

GNI per capita: \$12,196 or more

Also known as advanced, developed, industrialized, or postindustrial countries

Characteristics:

- Sustained economic growth through disciplined innovation
- Service sector is more than 50% of GNI
- Households have high ownership levels of basic products

High-Income Countries

Characteristics, continued:

- Importance of information processing and exchange
- Ascendancy of knowledge over capital, intellectual over machine technology, scientists and professionals over engineers and semiskilled workers
- Future oriented
- Importance of interpersonal relationships

G-8, the Group of Eight

Goal of global economic stability and prosperity

- U.S.
- Japan
- Germany
- France
- Britain
- Canada
- Italy
- Russia (1998)

OECD, the Organization for Economic Cooperation and Development

30 nations

Post-WW II European origin

Canada, U.S. (1961), Japan (1964)

Promotes economic growth and social well-being

Focuses on world trade, global issues, labor market deregulation

- Anti-bribery conventions

The Triad

U.S., Western Europe, and Japan

Represents 75% of world income

Expanded Triad includes all of North America and the Pacific Rim and most of Eastern Europe

Global companies should be equally strong in each part

Product Saturation Levels

The % of potential buyers or households who own a product

India: 20% of people have telephones

Autos: 1 per 43,000 Chinese; 21 per 100 Poles; 8 per 1,000 Indians

Computers: 1 PC per 6,000 Chinese; 11 PCs per 100 Poles; 34 PCs per 100 EU citizen

Balance of Payments

Record of all economic transactions between the residents of a country and the rest of the world

- Current account—record of all recurring trade in merchandise and services, and humanitarian aid
 - trade deficit—negative current account
 - trade surplus—positive current account
- Capital account—record of all long-term direct investment, portfolio investment, and capital flows

Overview of International Finance

Foreign exchange makes it possible to do business across the boundary of a national currency

Currency of various countries are traded for both immediate (spot) and future (forward) delivery

Currency risk adds turbulence to global commerce

Foreign Exchange Market Dynamics

Supply and Demand interaction

- Country sells more goods/services than it buys
- There is a greater demand for the currency
- The currency will appreciate in value

Foreign Contract Exchange Rates	\$1,000,000 Contract		€1,100,000 Contract	
	U.S. Seller Receives	European Buyer Pays	U.S. Seller Receives	European Buyer Pays
€1.25 = \$1	\$1,000,000	€1,250,000	\$880,000	€1,100,000
€1.10 = \$1	\$1,000,000	€1,100,000	\$1,000,000	€1,100,000
€1.00 = \$1	\$1,000,000	€1,000,000	\$1,100,000	€1,100,000
€0.85 = \$1	\$1,000,000	€850,000	\$1,294,118	€1,100,000

Exchange Risks and Gains in Foreign Transactions

Managing Economic Exposure

Economic exposure refers to the impact of currency fluctuations on the present value of the company's future cash flows

Two categories of economic exposure:

- ***Transaction exposure*** is from sales/purchases
- ***Real operating exposure*** arises when currency fluctuations, together with price changes, alter a company's future revenues and costs

Managing Economic Exposure

Numerous techniques and strategies have been developed to reduce exchange rate risk

- **Hedging** involves balancing the risk of loss in one currency with a corresponding gain in another currency
- **Forward Contracts** set the price of the exchange rate at some point in the future to eliminate some risk

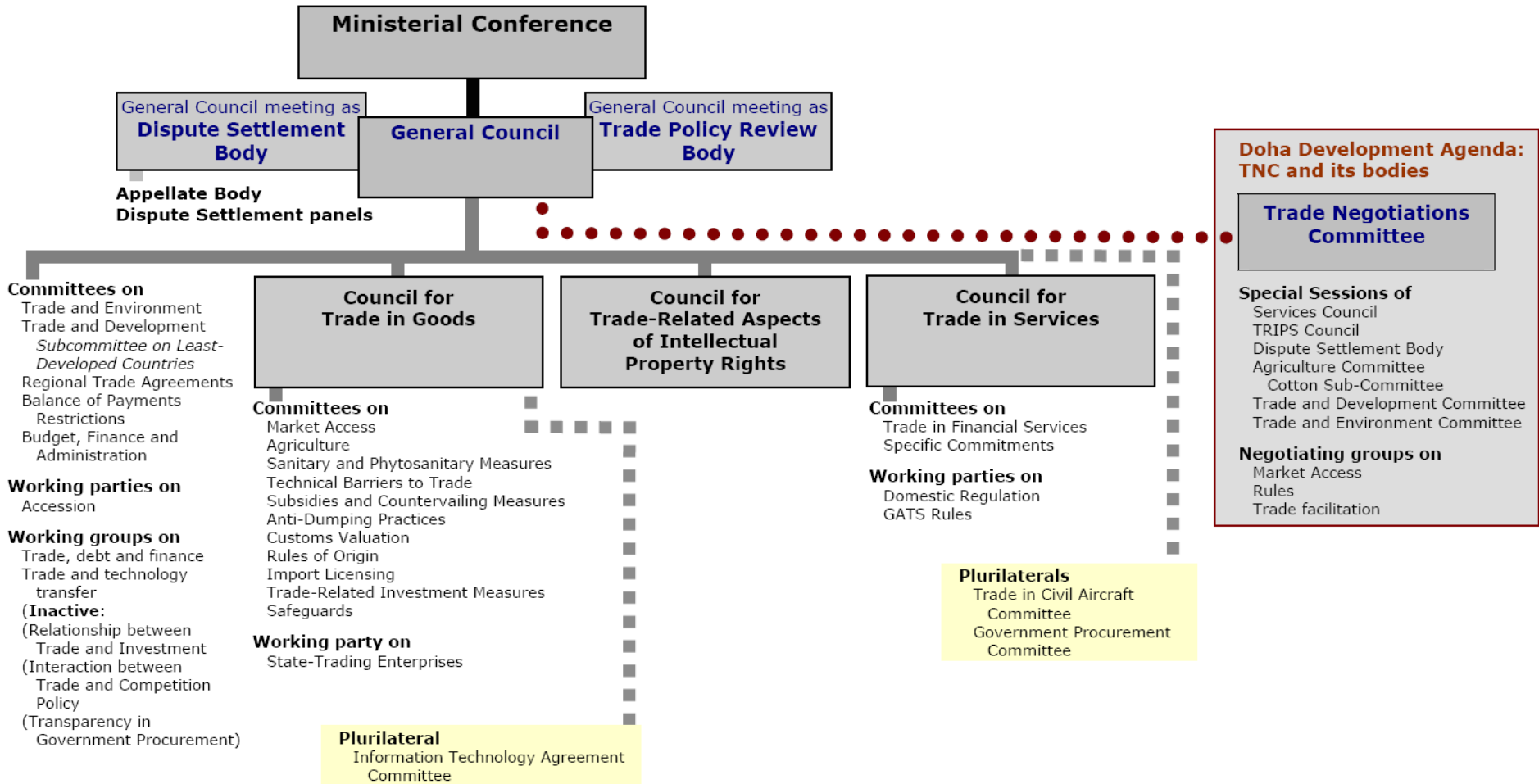
The World Trade Organization

- Forum for trade-related negotiations among 153 members
 - Based in Geneva
 - Serves as dispute mediator through DSB
 - Has enforcement power and can impose sanctions

WTO Structure

WTO structure

All WTO members may participate in all councils, committees, etc, except Appellate Body, Dispute Settlement panels, and plurilateral committees.



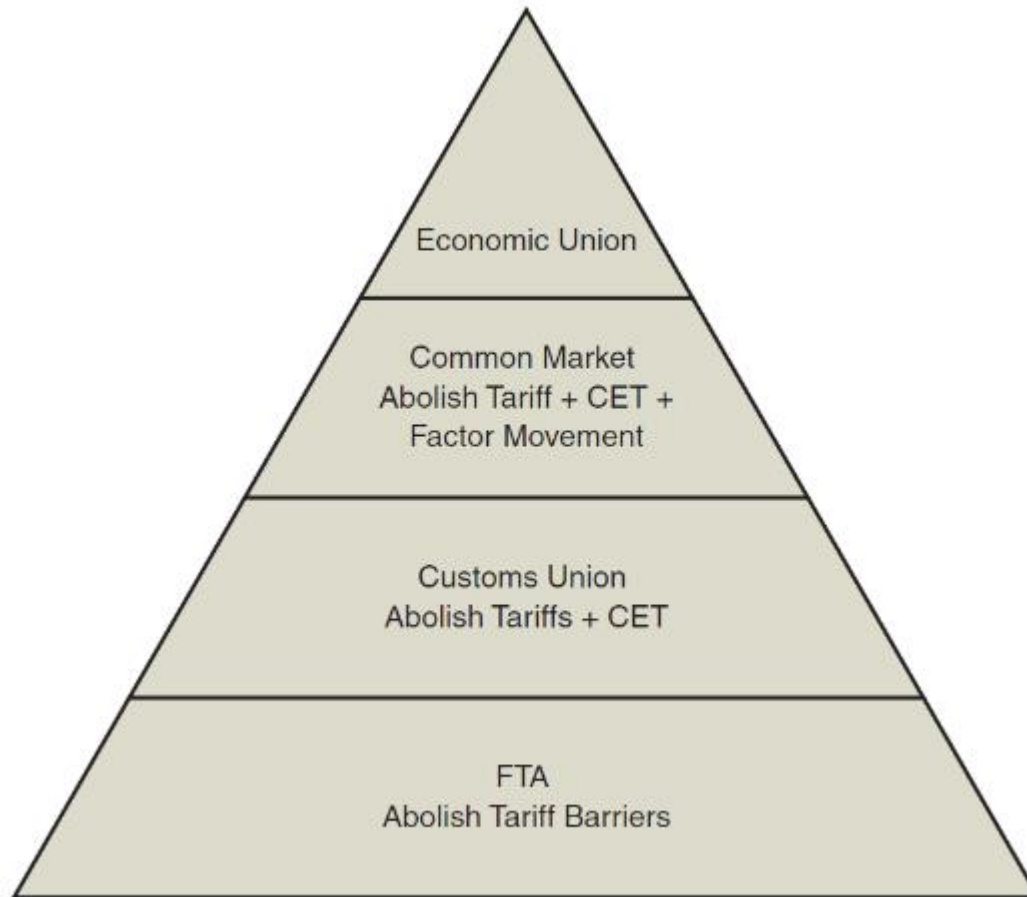
Preferential Trade Agreements

Many countries seek to lower barriers to trade within their regions

PTAs give partners special treatment and may discriminate against others

Over 300 PTAs have been notified to the WTO

Hierarchy of PFTs



CET = Common External Tariffs

Free Trade Area

Two or more countries agree to abolish tariffs and other barriers to trade amongst themselves

Countries continue independent trade policies with countries outside agreement

Rules of origin requirements restrict transshipment of goods from the country with the lowest tariff to another

North America—NAFTA

Canada, United States, Mexico

NAFTA established a free trade area in 1994

- All three nations pledge to promote economic growth through tariff reductions and expanded trade and investment
- No common external tariffs
- Restrictions on labor and other movements remain

Customs Union

Evolution of Free Trade Area

Includes the elimination of internal barriers to trade
(as in FTA)

AND establishes common external barriers to trade

Examples: The EU and Turkey, the Andean
Community, Mercosur, CARICOM, Central American
Integration System (SICA)

Common Market

Includes the elimination of internal barriers to trade (as in free trade area)

AND establishes common external barriers to trade (as in customs union)

AND allows for the free movement of factors of production, such as labor, capital, and information

Reference and source

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