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A new theory of comparative advantage from Trump's perspective

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First a global tariff of 25% on steel imports & 10% on aluminium imports and now increased tariffs on USD 60 billion worth of Chinese exports to the US, shows a very simple and lame strategy of a country like USA to defend itself against global trade. Well, in my perspective, these actions are nothing but the greatest displays of economic nonsense in the history of global trade.

For long, the world has been following the Ricardo theorem of Comparative Advantage which states that, other things being equal, a country tends to specialise in and export only those commodities of which it has maximum comparative cost advantage or minimum comparative disadvantage. Similarly, the counterpart country's imports will be of goods having relatively less comparative cost advantage or greater disadvantage.

However, under the Trump era, the definition has changed completely. The trade has now become a zero sum game, with winning only defined as having a national trade surplus irrespective of the benefits earned by its counterparty. For long, we have been thinking that trade consists of millions of deeds of selling and buying by respective parties for mutual benefit but voila, we were wrong as it's just a one side game, export-export and if import increase then **"don't trade anymore - in order to win big."**

Imposing duties of such a level requires a strong justification, or at least a logical rationale. But the fact of the matter is that the Trump administration offers neither. It is well known that the U.S.A has its own trade objections with China, but there are better ways to resolve them. Imposing these increased tariffs is not going to affect Chinese exporters but the U.S.A producers and consumers who will now have to pay more for imported goods thus destroying more U.S.A jobs than they create.

Right now, the president and the administration needs to understand that the trade deficit U.S.A is facing represents an enormous amount of commercial activities downstream, which creates millions of jobs for Americans. Stopping this trade is not going to increase the production magically and bring the US economy to the autarky situation, or what we call as economic self-sufficiency in a scenario where investments have been crashed significantly.

Although protectionism in form of tariffs can have an initial appeal because of its potential to create short-term benefits in an economy but in the longer term it would almost certainly be destructive. I guess the administration better needs to understand the definition of 'trade' and its benefits. Otherwise why people or countries were doing it? No one forces anyone to buy or sell either domestically or across borders.

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Agile Transformation – A Cue from ING

Organizations across sectors in World are trying to match the speed, dynamism and customer centricity of digital players. Inspired from companies like Google, Netflix and Spotify the Dutch banking group "ING" embarked on such journey "***Agile***" model in summer 2015. Armed with 350 nine person ***"squads"*** in 13 ***"tribes",*** ING has improved on fronts like time to market, employee engagement and productivity. Interestingly, the roots of this transformation for ING was not based on any financial incentive or need. Today, customer behavior is rapidly changing with upcoming and penetrating digital distribution channels. Leadership at ING realized that it was high time they started understanding and influencing customer journeys in this **Omni channel distribution environment**. A strategy of initiating and continuously delivering high quality services though one channel required the "Agile" transformation.

Being "agile" means an organization is **flexible** and **rapid** enough to change the direction and **adapt** to the environment. It does not require any function to be changed on its own. The key to successful agile transformation is to work in **multi-disciplinary** teams called squads focused on client's needs and united by common definition of success. Today ING's new agile organizational model does not have any fixed structure. It is a **continuously evolving** model.

ING's initial focus was on the 3,500 staff members at group headquarters. It started with team comprising previous departments such as marketing, product management, channel management, and IT development because it had to **start at the core** and that would set a good example for the rest of the organization. It originally left out the support functions such as HR, finance, and risk the branches, the call centers, operations, and IT infrastructure when shifting to tribes and squads. But it doesn't mean they are not agile; they **adopt agility** in a different way. **Culture** seems to be the most important element of this kind of transformation effort. It is not something that can be addressed in a program on its own. A company has to spend an enormous amount of energy and leadership time trying to role model the sort of behavior—**ownership, empowerment, customer centricity**—that is appropriate in an **agile culture**. Culture needs to be reflected and rooted in anything and everything that is undertaken as an organization and as individuals.

Like ING any organization, traditional or modern, can become agile. But agility is not a purpose in itself, it is the means to a broader goal. The first question that has to be asked is **"Why agile? What's the broader goal?"** There should be a clear and compelling reason that everyone recognizes, because to make such a big transformation a success is an all-in game, backed up by the entire leadership team. The second question is, **"What is the organization willing to give up?"** It requires sacrifices and a willingness to give up fundamental parts of the current way of working—starting with the leaders. Leaders planning such transformation should look beyond their own industry and allow themselves to make mistakes and learn. The risk will come with a prize, an organization ready face any challenge- **Flexible, Fast and "Agile".**

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The New SEC: Flaws and a Unifying Recommendation

The Socio-Economic Classification system is used in India to benchmark different strata of the society across parameters of household durables owned and the level of education of the CWE (Chief Wage Earner) of the family. Originally created in 1988 by IMRB International, it was revamped in 2011 by BAARC to showcase a household's affordability for consumer goods/durables instead of an individual's ability for the same, and to compare rural and urban consumers as per the same standard expressed on 2x2, easily comprehensible matrix by extending the definition of durables to agricultural land as well.

	Education of CWE						
No. of Durables Owned	Illiterate	Literate but no formal school/ School up to 4 yrs	School: 5 to 9 years	SSC/ HSC	Some College (incl Diploma) but not Grad	Grad/ PG: General	Grad/PG: Professional
	1	2	3	4	5	6	7
None	E3	E2	E2	E2	E2	E1	D2
1	E2	E1	E1	E1	D2	D2	D2
2	E1	E1	D2	D2	D1	D1	D1
3	D2	D2	D1	D1	C2	C2	C2
4	D1	C2	C2	C1	C1	B2	B2
5	C2	C1	C1	B2	B1	B1	B1
6	C1	B2	B2	B1	A3	A3	A3
7	C1	B1	B1	A3	A3	A2	A2
8	B1	A3	A3	A3	A2	A2	A2
9 +	B1	A3	A3	A2	A2	A1	A1

But the new SEC matrix comes up with some challenges of its own, two of which are highlighted below:

1) **Equivalency:** The New SEC classifies mid-level categories likes A3 across extremities that are logically unequal. For example, a household whose CWE is a "Grad/PG; Professional" and owns 6 durables is pegged at the same level as a household whose CWE is "Literate but no formal school/School up to 4 yrs" but with 9+ durables owned.

2) **Single Counting**: In urban areas, there is a rapid growth of families with two chief wage earners of significant contributions toward durables owned in a household. But according to the new SEC system, the causality will be chalked off to contributions of just the first CWE, likely to be the male CWE, and not the contributions of the spouse.

An example of such a misconstrued interpretation could be while defining a Target Group for a consumer product. A rural land owner's spouse with ownership of 9+ durables owned (likely to be explained by the needs of a larger joint family) will pass through the same filter as a spouse of a 2-CWE urban family with lesser number of durables (likely to be explained by the size of a nuclear family). At this stage without understanding any psychographics, it is likely to be assumed that both the prospects have similar levels of affordability. But cultural and individualistic differences will be unable to justify the classification later on.

Thus, the SEC system is clearly designed for easily gauging preliminary distinctions between social groups on the account of affordability. But its ubiquity of usage and the previously mentioned flaws necessitates a major change to help alleviate the latter.

A Newer Subscale: An A3 classification will indicate same level of affordability vis-à-vis disposable income but a subscale under that (on a scale of 1-5, 1 for "rural" consumer behaviour and 5 for "urban" consumer behaviour") will explain further variability within a single category. As per our previous example, the rural spouse will now be at an A3/1 classification and urban spouse at an A3/5. Two urban spouses at A3 with one in a single CWE household and with a double, will be pegged at A3/4 and A3/5 respectively. This accounts for financial independence of both spouses in both the rural and urban contexts which will be closer to defining consumer behaviour similarities and differences with a single category.

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Are Product Managers the new sales force?

Product Designing has always been a highly skilled niche domain. With the advent of big data and customer centric approaches to designing, this role has undergone a lot of changes within a short span of time.

Product management is an interdisciplinary role in its true sense. Product managers are the glue that bind the many functions that touch a product—*engineering, design, customer success, sales, marketing, operations, finance, legal, and more*. They not only own the decisions about what gets built but also influence every aspect of how it gets built and launched. The product manager of today is increasingly the **mini-CEO of the product**.

Such products with an enhanced focus on user experience have a higher degree of **stickiness**. The idea behind a sticky product is that the customer becomes tied down to a product or service and can't easily leave. This however, provides an unrivalled competitive advantage to technology companies who develop such products. However, there is a trend which is catching up quickly in Silicon Valley. Such technology companies are now ditching their sales teams.

Atlassian, the Australian enterprise software company with products like *Jira, Confluence, HipChat* and revenue over $650 million is a case in point. **Slack, Dropbox,** and **GitHub** are among the companies trying to attract corporate clients with little efforts that rely largely on good reviews and positive word-of-mouth.

Cloud giants Salesforce spend close to 50% of their revenue on sales and marketing activities. ServiceNow and Marketo spend close to above 50% and 60% respectively on Sales and Marketing strategies.

Startups including **Dropbox** are taking a hybrid approach, relying on grass-roots pitches to land initial users within a company, then setting up sales calls once those users grow to a critical mass.

Such a change is driven mostly by exceptional Product Managers. New responsibilities for product managers include overseeing the application programming interface (API) as a product, identifying and owning key partnerships, managing the developer ecosystem, and more. A Product Manager's efficiency is measured by six broad parameters: Customer Experience grounding, Market orientation, Business acumen, Technical skills, Soft skills, Enablers.

Product managers of the future will be adept at manipulating data and less reliant on analysts for basic questions. They will spend **at least 30** percent of their time on external activities like engaging with customers and the partner ecosystem. This will subsume certain responsibilities of the sales function in technology companies and create a rather hybrid latticework of roles, models and use-cases for future Product Managers, who would then play an even bigger role.

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Core Rigidity: Can size hinder success?

Smaller companies are generally intimidated by their larger rivals. There are often shrill cries for protection for smaller businesses against the global behemoths, Paytm's recent tirade against Whatsapp's payment system or the Flipkart vs. Amazon saga are examples that immediately come to mind. But does size always guarantee success? Or can size actually hinder companies' ability to succeed in certain scenarios?

In the start-up stages, organisations tend to be people driven. The human capital of the organisation plays a big role in the success or failure of the organization. But as companies mature, the capabilities start to shift towards processes and values. In successful companies, employees come to assume that the processes and priorities that they have used so successfully so often are the right way to do their work.

Values also reflect the cost structure and business model a company can pursue. For instance, if the cost structure of a company require it to achieve a gross profit margin of say, at least 50%, it will find itself unable to pursue business opportunities that promise gross margins under 50%.

A smaller company on the other hand can easily pursue this opportunity because the costs of running a smaller company is much lesser.

Growth rate can also be a decider in a situation like this - A $50 million company must find $10 million in new business to grow at 20%, but a $50 billion company must find a $10 dollar to grow at the same rate.

Another metric under consideration is the ability to disrupt.

Established companies are very good at sustaining innovation. Innovation becomes part of their response to evolutionary change in their markets.

Disruptive innovations, on the other hand, create entirely new markets.

Often these new markets, at the initial stages, promise lower profit margins. Therefore, successful companies with their cost structures, do not find these new markets attractive enough to pursue.

In these scenarios, start-ups end up winning, because their values and cost structures allow them to accept smaller markets and lower margins.

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Retail Value Chain and the Connected Customers

With 1.3 billion population and $ 1.01 trillion retail sales at a growth rate of 8.8 %, India stands at rank 2 in Global retail development index. This has been the result of increased ease of doing business and better clarity in Foreign Direct Regulations. The retail industry in India is sunrise industry in India. But along with emerging retail industry there is emerging e-commerce industry. With increase in internet penetration, smart phone use and social media presence, there has been rise in connected customers. E-tail industry, combination of Retail and E-commerce will evolve rapidly in coming 5 years. The fear that increasing online presence will threaten the Brick and Mortar stores might prove right if retailers do not get agile about the shifting needs of their customers.

With growing urbanization and more working women, there has been increasing acceptance of online selling. But in-store customer experience, if crafted properly may give neck and neck competition to the rising e-commerce sector. Strategy that a retailer can employ to adapt to the changing trends are increasing both online and physical presence or carry on with core traditional retail model. Providing customers with differentiated product or service or enter the online channel. With increasing purchasing power parity there has been a shift in purchasing drivers from discount to convenience and product assortment as it is rightly said,

"Don't find customers for your products, find products for your customers"

7 steps that a retailer can take to influence the Customer Decision Journey to win over the connected customers are

1. Inform: Communicate an authentic value proposition consistently across all channels
2. Design highly personalized campaigns
3. Browse: Track the customer behavior in buying pattern and customize the product assortment and promotion based on past history of customer buying behavior.
4. Buy: Provide end-to end shopping experience to the customer
5. Provide seamless shopping experience through enhanced services like RFID enabled devices and smart mirrors , mobile enabled barcode scanning to pull up the product information and reviews and geo sensing device for suggestions based on user activity in the store
6. Fulfil: Expand ecosystem partnership with the customer
7. Service: Use digital media to increase two-way engagement with the customers.

Retail Giants like Tesco, Walmart and Future Group have been quick in adapting to technology and analytics. Tesco has a

Club card that maps the customer behavior and the buying pattern and gives product recommendations. It gives customized information regarding the products and their location in the store to the customers.

Walmart employs software and data mining to increase the conversions. Apart from demand side, technology needs to be employed in supply side like in planning, manufacturing, logistics along with point of sale retailing.

Future Group Company partnered with a global analytics firm to implement analytics solutions to reduce stock-outs, customer churn and lead time. Future Group chose an off-the-shelf solution to optimize the assortment performance and price realization with real-time analysis of store data. Thus if the retail wins the race of winning over connected customer will depend on the extent to which it employs technology and data analytics to cater to the connected customer needs.

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