

Logitech case study essay



Logitech is an innovator in personal computer accessories and has made its name by offering high quality products at a low cost. Technology is a very competitive business and for anyone to succeed they must find a way to add value for customers. What Logitech has done to accomplish this is look at where that value could come from. Where could or how could they keep costs low to keep attracting customers while pursuing new R&D so they could keep offering new products. How could they keep competitive without hurting their brand name?

Logitech starting to look at their business model set up to find if there was any inefficiency. Could changes be made without affecting other facets of the business leading to inequalities in any or all of the businesses processes? What Logitech did next was to compare itself against its competitors. How did they run their operations what was keeping them profitable without losing quality and brand loyalty? In the technology industry Logitech knows that the high tech market develops quickly and that products desires come and go but what makes these things work is the key to the success.

Logitech has experienced success with being the first to offer a computer mouse that is wireless and used infrared tracking rather than a tracking ball. This gave people a new way to relate with their computer accessories, that computer accessories were now being a part of them instead of a tool in which way to interact with another tool the computer. Logitech was different from its competitors in design and view of how people could work with technology and Logitech knew that. Now they needed to keep ahead and stay ahead. Logitech is a modern global company but they know they need to change their operations.

Their operation relies on good marketing, new designs, product development and research, and distribution channels. This is where Logitech sees its value chain. •Logitech strategies; (1) the environment in which the business operates, (2) the resources available to the organization and (3) the history of the organization. These strategies are their critical steps. Once they understand these choices can be made, who are the important partners and people, are alignments checked between all areas of the business operation, is expansion needed and where. Reinforcing strategies; (1) expanded production capacity, (2) move near competitors, and (3) keep value and low costs.

By expanding their operation will allow them to reach economies of scale and lower production costs. Being near competitors keeps them up to speed on market changes in their industry. Keeping value that consumer wants and lower prices reinforce brand loyalty. Recommendations In a world without trade, what would happen to the costs that American consumers would have to pay for Logitech's products?

In a world without trade the cost would for products would increase for American consumers because economies of scale could happen so costs from producing would be high. Economic growth would be small as well because markets would be limited which intern would discourage new developments for products and there would be no need for businesses to engage in cost saving processes. Logitech wouldn't be able to use cheap labor and assembly from China or Taiwan or have the use of the most efficient markets.

Value creation would be lost because the best locations for activities of its operations wouldn't be available causing prices of its products to increase and less able to compete against competitors because there would be no differentiators. Explain how trade lowers the cost of making computer peripherals such as mice and keyboards. Trade helps in reducing the cost of producing because it allows the manufacturing process to be done where it is the cheapest and where it can be assembled for the best price as well. This is achieved by finding low labor cost countries.

Products and services can be sent to customers by using the most efficient shipping methods and routes. Services can be outsourced to specialists who may be cheaper than employing them full time. Here in the case study is how it is done by Logitech in order for them to be able to offer their mouse for \$40 in America. They have Ireland design their computer mouse because they are a design firm and Logitech is not, software programming is done in Switzerland and Fremont two places where high tech enterprises are, and manufacturing done in China, assembling done in Taiwan and abroad where labor costs are cheap.

Fremont is the corporate headquarters and coordination's all business functions. Location economies are at work here because all activities are adding value creation in the best location. These lower costs of value creation help Logitech to accomplish a low cost strategy by offering lower prices to its customers and uses this positioning of savings to offer more products which helps them to compete against their competitors. Use the theory of comparative advantage to explain the way in which Logitech has configured its global operations.

The theory of comparative advantage states that it makes sense for a country to use its resources to produce only goods that it can most efficiently and to buy (trade) what it produces less efficiently. Trade allows for countries to become specialized and focus on what it holds as an advantage compared to other countries. Logitech realizes that China can produce its products cheaper than having them built in the United States. China's comparative advantage is the low cost of labor.

Switzerland and Fremont California offer specialist in software and Taiwan provides skilled workers to assemble the products which is cheaper than the U. S. and has the knowledge China lacks. Ireland specializes in designing. Why does the computer manufacture in China and Taiwan, undertake basic R&D in California and Switzerland, design products in Ireland, and coordinate marketing and operations from California? China is used because it can manufacture the computer most efficiently because a majority of its population is impoverished thus Logitech can and does exploit this and employs and pay workers cheap. Logitech then can take the saves it captured from cheap labor and put it toward their R&D, marketing or operations.

Logitech according to China's Ministry of Commerce is not alone in this practice. Taiwan provides space in its science based Industrial Park in Hsinchu and charges a low fee where they have developed a supply of parts, qualified people and an expanding computer industry. In doing all this Taiwan has positioned itself as an efficient partner in manufacturing computer parts. Fremont, California is located in the high tech capital of the world where many other technological companies are located.

Doing this lets them know about new technologies that developing, interact with other high tech businesses and have experienced pool of workers for their R&D and it has access to a large market for consumers who want new technologies. Switzerland is used for software programming expertise.

Ireland provides the skills of knowing what kinds of designs to use in order to make products comfortable for users. These activities all add the value chain Logitech has created in order to compete against its competitors.

By using this global web approach Logitech captures the value by dispersing each of its value creation activities to the best locations given the current factor costs. Who creates more value for Logitech, the 650 people it employs in Fremont and Switzerland, or the 4, 000 employees at its Chinese factory? Logitech sells the computer mouse for \$40. Eight dollars is taken from ($\$40 - \$8 = \$32$) this and is being used for R&D, marketing, and corporate overhead. \$15 is taken from ($\$32 - \$15 = \17) that amount left over and used for distributors and retailers around the world.

Then \$14 is taken from the left over and is used for supplier to buy parts to make more computer mice; which is where the pay for the Chinese workers is included in this cost ($\$17 - \$14 = \$3$). Three dollars is left over for shareholders. Will say of the eight dollars, four dollars is used for corporate overhead, two dollars for R&D and one dollar for marketing.

Corporate overhead includes employee salaries. \$4. 00 a mouse a day goes for salaries. So if a worker in China produces 100 mice a day, that's $100 * 4.00 = \$400.00$ a day per worker; so 4, 000 employees at 100 mice a day makes, that's $100 * \$400.00 = \$1,600,000.00$ a day to pay for the Fremont and

Switzerland salaries which individually for each employee work out to be \$2,461.54 a day. The Chinese factory creates more value for Logitech. What are the implications of this observation for the argument that free trade is beneficial? Free trade is beneficial because it allows Logitech to take advantage of the low cost of labor in China otherwise Logitech might be forced to produce computer mice where labor costs would be higher.

Free trade permits for resources to be used most efficiently and allows for businesses to seek out the best sources for its uses. Free trade brings economic growth so countries who embrace in trade. Higher growth rates raises peoples income and standard of living. Factor endowments where a country has the most of a resource means that it will be able to offer lower costs because there isn't any scarcity. Why do you think the company decided to shift its corporate headquarters from Switzerland to Fremont?

Moving to Fremont, California allowed Logitech to be close to an innovative center of knowledge in technology which is beneficial to their R&D and where new technologies advancements take place and where there are a large number of consumers which are interested in purchasing new technologies which helps them respond to their wants or needs as well. Logitech can also benefit from the pool of experienced resources available there. It wanted to be close to its competitors in order to be able to scan its competitive environment. All of these reasons make it a smart move to Fremont.

To what extent can Porter's diamond help explain the choice of Taiwan as a major manufacturing site for Logitech? Porter's diamond explains that there

are four qualities that create an environment for competition among businesses and can either promote or stop competitive advantage. Factor endowment for Taiwan is having qualified people who are able to assemble the computer mice and they had invested in a science based Industrial Park which helped to attract Logitech. They were positioning themselves to become a technological center.

A demand condition is shown by how Apple and IBM had been buying their mice for Alps, a large Japanese firm that has also been supplying Microsoft. There is a demand for the services that Taiwan supplied. Relating and supporting industries for Taiwan is that its computer industry is expanding because of its well supplied base for parts. Meaning it has supplies that can meet the demands for the technology industry as needed. The firm strategy, structure and rivalry; the rivalry is among the local companies such as Alps which is used by three big computer companies and the new science park in Hsinchu being used by Logitech.

The strategy is that Taiwan created this huge science park to encourage companies to do business there and the structure is huge space for a modest fee of \$200, 000. Taiwan's attitude toward foreign direct investment is why Logitech and others have chosen to bring their products there for manufacturing and assembling. Taiwan benefits from the increasing supply of funding it gets in from foreign direct investments and reinvests in its infrastructure. Why do you think China is now a favored location for so much high technology manufacturing activity?

Using the competitive advantage of Porter's diamond shows that China is a favored location because it's the most efficient for manufacturing. China is the world's fourth largest country, considerable amount of land which is undeveloped, natural resources of coal, iron ore, natural gas, lead, aluminum and many others. Their population is the largest in the world which means they have a huge pool of labor and the cost of labor is low there. It has access to many water ways for transportation for trading. There is rivalry among local businesses because people are now allowed to pursue their own businesses for personal gain.

A good number of the population is literate and is educated. These all supports China as a favored location for manufacturing. How will China's increasing involvement in global trade help that country? As China has become more desirable for manufacturing for many businesses it can use this position in the political arena as far as getting favorable trade agreements with other countries. China has economies of scale because it can do large scaled productions without costing much because labor is cheap and the government is encouraging foreign direct investments from businesses.

As investments come in China expand their manufacturing and other infrastructures to attract more businesses. Global trade will also help China's population because economic growth will bring money into the country and increase people's income which will allow their living standards to rise and afford them more purchasing power. This in turn will also allow for more of the people to become educated because they will be able to send their children to school. How will it help the world's developed economies?

Other developed economies will use China because its labor force is cheaper than their own. Cheap labor affords for products to be made less expensively which than can be passed down to consumers and more profit can be made by businesses. China is also more efficient in the manufacturing sector because it has used the first mover advantage in entering the market as a cheap source for producing products. Developing countries will be able to trade with China because it will be able to afford the products that are manufactured there.

As developing countries being to trade their economies will grow and will lead to increased growth rates. Incomes will increase and living standards will become better by allowing people to buy more and pursue education which will attract businesses and bring in more investments. As depend becomes more each country will be able to engage in producing goods and serves that it has factors of endowment for. Developing countries' economies will be able to have more purchasing power and engage in trading.

What potential problems are associated with moving work to China? Political risks are a potential problem because China's government could decide to take over a business for political reasons based on national security or to protect local business owners from foreign competition and or make businesses pay special fees for operating there. China's policies can affect the profits and goals of the business moving there. Tariffs can be levied on imports and exports causing pricing in products to rise and making manufacturing no longer attractive place to do business.

Social unrest can also cause problems by people demonstrating against the political system, this tends to hurt businesses profits and goals. Policy can be made to restrict businesses from specific industries because the government feels that local investors can better employ its people. Economic risks if China's currency becomes devalued or nonconvertible. If interest rates on loans become too high and the manufacturing prices start to climb. Foreign investors will begin to leave if they feel their investments will decline selling their stocks, bonds and currency out of the country.

Government involvement in forcing banks to lend to businesses that may not be viable or over-investment, if businesses can't repay the loans based on these the banks lose money and maybe force to close. A legal risk is China is not enforcing contracts and not protecting property or intellectual property rights. If businesses aren't safeguarded against theft of their intellectual property other businesses can steal their ideas and offer the service or product cheaper because they didn't have to invest in research and development.

If contract enforcement is weak businesses will not engage in joint ventures partnerships for fear that the contract will not be binding and each partner can do as they wish. The overall attractiveness of a country is their potential markets for investment and if China wants to achieve economic growth it will lean toward favorable conditions for promoting business investments minimize risks for business and investments. A country's attitude toward foreign direct investment is what businesses use to decide whether or not to locate their manufacturing facilities and other business opportunities.