

General electric
medical systems –
global product
company concept
essay sample



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The Global Product Company concept means "to concentrate manufacturing – and ultimately other activities – wherever in the world it could be carried out to GE's exacting standards most cost-effectively". That means that the production is moving to countries where people are mostly underutilized (the example given in the case study tells about engineers from Eastern Europe, who cost only \$1, 5/h). There are two major reasons why a company would do that:

- a. Maintaining/Raising the margins – One of the most important goals of every company is profit. It can be raised in two ways: either a company has to make bigger revenues or it has to lower costs. When a company can deliver a product with the same quality but at a lower cost it is a great opportunity to raise its profits.

- b. Gathering information about the local culture – Countries which have well-educated, but cheap human capital are those countries which have future potential. Those are countries which for the moment can afford mostly low-end products (which contribute to only 20% of global revenues), but in the near future may start switching to middle- and high-end products. By entering the market at this stage a company is able to learn the local culture and find the needs of the customers. After some time this company will have an advantage over its competitors when selling new products on the market. For GE a good example is Japan, which now is the 2nd most important source of revenue.

There are many pros and cons of the Chinese market. "Hospitals' reputations came to be based on the ownership of high-end equipment",

which shows that there is potential for sales of high-end products which contribute to 45% of worldwide revenues. GEMS has also a very good position in China (it has a 40% market share which is bigger than Siemens' and Philips' together). " China is already the third-largest market for medical diagnostics worldwide" and " has the largest demand for low-end medical diagnostics products". It has also the biggest growth out of the three biggest markets. It has a big growth rate of population and has low labor costs. There are also no quotas which gives export opportunities (already 70% of GEMS China production is for export). GEMS already has offices in China, so moving there should require low fixed costs.

On the other hand the Chinese government banned the sale of used equipment which was an important field for GEMS. There is a big number of assemblers and trading companies, which may in the future pose a threat. Some people also say that more focus should be put on basic coverage rather than high-end technology. What is more, Korea, India and a unit in Japan are also competing for the same position as the Chinese GEMS. Knowing that a drop in price of 10% may raise sales by 50% and assuming that both variable and fixed costs remained the same, we can see on Exhibit 1 that after the decline of prices, profits fell almost by 18%. This shows that for the moment a decrease in prices wouldn't be a solution for China. When we add costs connected with moving to China (2% decline in variable costs and additional \$1m of incremental fixed costs) we see that the profits fall dramatically.

In order for the company to reach the break-even point in would have to sell at least 1280 units at the price of \$3300/unit. That means that without <https://assignbuster.com/general-electric-medical-systems-global-product-company-concept-essay-sample/>

change in price and costs sales would have to increase by about 60%. The sales in Asia on average grew annually by 23% in years 1998-2001.

Assuming that China would grow at the same pace in the coming years, it would take the company about 2 years and 3 months to reach the break-even point. In order to reach the same level of profits the company would have to sell around 2027 units, which would be an increase of 153% and would take about 4 years and 5 months. Nevertheless this is a pessimistic scenario. It assumes that the prices wouldn't rise and costs wouldn't fall. It also assumes that China would grow at the same pace as rest of Asia, while in reality it grows faster. What is also important, as time passed China would probably start switching from low-end to middle- and high-end equipment which would boost the sales even further.

Genomics and health care-IT are still small but growing in importance areas of medicine. They will not only change the practice of medicine, but also “challenge medical equipment manufacturers”. These areas would be a source of competitive advantage in the future. Still there are many risks and potential costs involved in the process of entering these areas. GEMS would have to enter a field which was still unknown to him, so in the beginning it would take time to create or acquire new and sufficient know-how. R&D costs would have to be high. Furthermore genomics is still controversial in case of ethics, which means that wrong decisions could prolong the adaptation process for the customers. There are also many challenges regarding marketing of health care-IT. What is more, Siemens and Philips control 80% of this market.

On the other hand GEMS has “ the ability to absorb new talent pools” and “ is not likely to be beaten by existing competitors”. Also “ GEMS typically spent 7% to 9% of sales on R&D projects and held the philosophy that the best technology would always win in the marketplace”. It had many situations of successful inventions which in the beginning required big R&D costs. What is more, in the past GEMS was able to gain significant share in markets where Siemens was already well established.

All in all, considering the risks of the genomics and health care-IT, the fact that GEMS strategies are long-term and future growth potential of China, the GPC philosophy should be altered to suit the needs of the medical diagnostics market in China and GEMS should be pursuing genomics and health care-IT in addition to, not instead of, the China opportunity. China would be a market, which could provide stable and growing revenues and in this way secure the potential losses from genomics and health care-IT.