

Chapter XV

Convergence of Facilities in Low Cost Operation Areas

In this chapter, the convergence of manufacturing facilities is discussed. Very little room is left for the differentiation of products in the late standardized stage. Although companies source globally to reduce the cost, they should cut down their cost even further. In addition, the demand for a product begins to decline sharply at the end of the life cycle because of the saturation of the market or the emergence of alternative products. As a result, companies should make the most of economies of scale in a low cost operation area. Companies converge their manufacturing facilities into low cost operation areas or withdraw completely from the market.

Late Standardized Stage

In the late standardized stage, almost no innovation occurs except for combined products that act as a bridge to alternative products. All companies, including the leading companies, have been involved in price wars and have encountered difficulties in differentiating their products from others. The manufacturing process has become so standardized that additionally companies require global sourcing, especially in the low cost operation areas. For further cost cutting, they should make the most of the economies of scale. Otherwise, companies can not survive under the cut throat competition in this stage.

The product has been diffused globally very extensively by the late standardized stage. The product has become spread not only in the highly advanced countries but also the low cost operation areas. As a result, the center of the demand is the repeat purchasing. The product has a much greater risk of being replaced by another product because consumers are tired of products that are not very different from the old ones, and alternative products that have competitive advantages in performance and/or price, may appear. Although some products maintain their demand at a higher level for a long time, all products face ultimate decline.

As a last resort, companies should start concentrating their facilities in a low cost area. The economies of scale are their final effort. In cases where demand for the products is declining, companies unable to utilize economies of scale would quickly withdraw from the market. The leading companies have the brand name, the niches have their domain, and the cost cutters have competitive advantages in the price war. The followers might be the first ones to withdraw from the market and seek alternative products in earnest. Surviving companies would squeeze their facilities into a low cost operations area while also considering alternative products.

Companies establish a global division of labor by product types to achieve economies of scale. Companies manufacture the high-end products, which have the biggest drop in global demand, in their domestic facilities and then export them all over the world. Other products are produced in a low-cost operation area and are also exported worldwide. Therefore, even the country of origin becomes an importer of the products because the demand for the high-end products is much smaller than that of others. Eventually companies find it difficult to secure the critical mass demand. When this occurs, companies would manufacture more than the critical mass and maintain

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