國立台灣大學管理學院企業管理碩士專班

碩士論文

Global MBA
College of Management
National Taiwan University

Master Thesis

非洲水產品貿易公司轉型之個案研究

A case study on the transformation of a trading company specializing in aquatic products in Africa

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中華民國 104 年 6 月

June 2015

國立臺灣大學碩士學位論文

口試委員會審定書

Master Thesis Certification by Oral Defense Committee
National Taiwan University

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本論文係陳忠信君（R00749021）在國立臺灣大學企業管理碩士專班完成之碩士學位論文，於民國 104 年 06 月 11 日承下列考試委員審查通過及口試及格，特此證明

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Abstract

Trading company is one of the easiest ways for young entrepreneurs to start-up a business. Requiring as simple as a phone plus a fax machine to launch, a typical trading company is normally the intermediary between buyers and suppliers. It sources the desired products for its customers or delivers the products to the market in demand. Hence, having strong bargaining power in both supply and demand sides is a key success factor in the trading business. However, one of the main issues in trading industry is known as a phenomenon called: “disintermediation” – where the intermediary is skipped, replaced or substituted. Given the progress of internet and communication technology, maturity of industry and its players, and global trade liberalization, it is getting harder for trading companies to sustain and survive. Strong determination, great vision, and viable strategy are essentials for them to compete in the current cutthroat battlefields.

In this research, topics covered are: the process of establishing a trading company in Africa, the growth strategy in the market between Africa and Asia, the diversification of the product lines, and the transformation of the organization. This research will give insights to readers on how to prevail the seemingly saturated and highly competitive trading market.

By applying the business model canvas, this research identifies a pattern of building business model and standard process for product development for trading companies. Furthermore, by following the pattern, one can quickly design, adjust, and implement new business model when transformation is required.

Key words: trading company; business model; transformation; commodity

中文摘要

貿易公司是年輕人新創公司最容易的選項之一，有時候甚至只需要一支電話跟一台傳真機就可以創業。由於貿易公司創造價值的方式是在買賣雙方間創造市場，所以他們必須非常了解產業，上下游的掌控能力必須非常強，才能在競爭激烈的市場中存活。隨著時代的演變，網路科技越來越發達，產業越來越成熟，資訊越來越透明，貿易障礙也越來越少的狀況下，買賣雙方無不努力地「去中間化」−藉由跳過中間者的方式增加利益以及降低成本−因此貿易公司生存的空間越來越狹隘，貿易公司的經營者必須有很堅強的決心，遠大的願景以及良好的策略，才能夠在這重重難關中突圍。

本研究藉由個案分析研究一間在非洲的水產貿易商如何創立的過程，如何在亞洲及非洲間創造市場及其策略，以及如何藉由產品的多元化進行公司的轉型。

本研究利用商業模式圖找出此類型貿易公司商業模式的固定模組及發展新產品的標準程序，期能利用接近標準化的方式幫助新創公司依據其產業背景快速設計整套新的商業模式以及發展新商品，並在必要時進行調整，重新設計以及落實計畫。尤其是在公司需要轉型的時候，更需要利用商業模式圖去全盤思考與改革。以此公司為例，其計畫藉由新產品的開發帶動公司的轉型，但是新產品的成功機率並不大，故需要有套標準的方式幫助公司快速篩選各種新產品並且辨識出重要而有效的新產品。確認產品之後，快速的動員及整合公司資源，投入產品及市場的開發。藉由此兩種工具，新創貿易公司的成功機率將會大大的提升。

關鍵字：貿易公司；商業模式；轉型；大宗物資

Acknowledgement

The completion of this paper would not be possible without the assistance and encouragement from many people. I would like to give them my highest gratitude for the unconditional love and support given to me. In particular, I would like to thank:

Professor Ruey-Shan Andy Guo, who has been a mentor and benchmark for me in both academic and personal life through this program. The advices received are precious that I will certainly keep with me forever.

My wife, Roslyn, who has been there taking care of me day and night. It is her supports that give me strength to make through all the obstacles and hindrances in the past two years.

My beloved friends, Sally, Hank, and Evan, who have been great partners in this adventure. I would not be able to reach here without their accompaniment. It has been a great journey.

Lastly, my partners and co-workers in the company for being patient and covering me during these two years while I am pursuing for this program. In return, I hope what I have learned will make contributions and bring prosperity to the business.

This paper is dedicated to all of you.

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Chapter 1 Introduction

1.1 Background

Taiwan is an island country with limited resources and intensely dense population. Trade has been a major economic activity throughout Taiwan's economic history. According to WTO's database, the trade value of import and export in Taiwan has been 575,338 million USD in 2013 (see figure 1 for the trade value in the past 5 years) and Taiwan was the 20th exporter and 18th importer in terms of value in 2013[1].

With the GDP being 15,221,201 millions USD in 2013[2], trade accounts for 3.78% of nominal gross domestic product in Taiwan.

In millions USD

Year / Items	2010	2011	2012	2013	2014
Import	174,371	251,236	281,438	270,473	269,897
Export	203,675	274,601	308,257	301,181	305,441
Total	378,046	525,837	589,695	571,654	575,338
GDP	12,961,656	14,119,213	14,312,200	14,686,917	15,221,201
Trade/GDP	2.92%	3.72%	4.12%	3.89%	3.78%

Table 1-1 Annual trade value in Taiwan 2010~2014
Data resource: WTO and National Statistics ROC Taiwan

Although trade played a very important role in Taiwan's economic development, many factors has changed and influenced the way trading companies operate nowadays. The prevalence of Internet has diminished the obscurity and asymmetry of information. The advance of technology had created better, direct and punctual communication for the

1 WTO at https://www.wto.org/english/res_e/statis_e/its2014_e/its2014_e.pdf

2 National Statistics ROC Taiwan at http://www1.stat.gov.tw/mp.asp?mp=3

buyers and suppliers. The progress of complementary services provided by forwarders and transporters has also simplified the procurement procedures and allow buyers to purchase directly in the global markets instead of going through a trader. Global trade liberalization has lifted many barriers lying between the buyers and suppliers in the past. All these changes and improvements have weaken the importance of trading companies and led to “disintermediation” in the past few years. Although the economic environment has been more difficult for trading industry, opportunities still can be found for start-ups.

Taking A Company as an example, this case company is in the trading business in both Africa and Taiwan markets. It targets and procures the African-originated commodity and resells them to buyers in Asia. The products are mainly agricultural and aquatic related. This kind of business practice has existed for centuries. A Company follows the traditional trading company route and does not manufacture nor process any products. It simply serves as a channel for customers from Africa-Asia. (Further details will be discussed in Chapter 4.)

Generally, for a trading company dealing with agriculture and aquatic products, there are several factors influencing the competitiveness and profitability of the products: the degree of information asymmetry, the interaction of the five forces in the industry, the act of gods (mainly climate and harvest), and fluctuation of supply and demand. Whoever master in the controlling and managing of these factors will prevail in the competition.

1.2 Motivation

From A Company's case, one can learn the difficulties in finding a successful product in the targeted markets. The challenge continues in maintaining products that is successfully developed mainly due to the low entry barriers. The imitators will soon arise. This is a common issue faced by most of the trading companies – lack of differentiation in terms of services or products. One of the tactics used by successful trading company is the ability to find, source, and introduce new products constantly. So, they are always one step ahead than the copycats.

Like a double edge sword, having the flexibility and quickness in product switching based on market demand, can be both good and bad. The bright side of this is that heavy investments in fixed assets are not needed. This will give relief on the financial burdens such as initial capital or operational cash flow. However, as most of the money spent is on the selected products, a wrong judgment made on a particular product may potentially lead to major failure. Finding the right product requires tremendous efforts because it many things have to happen at the same time. For example, traders have to engage in heavy negotiations with both supplier and buyer to find an agreed price in order to maintain a satiable return for the traders. Other than the negotiations, traders also have to overcome issues relating to product/service quality and operations from procurement, production to delivery. According to A Company's experience, only 1 out of 20 proposed products will work out. And the life cycle of that one product may vary due to the fast-changing nature of the market demand and supply.

As a result, the researcher is motivated to understand following issues: How the trading of the aquatic and agricultural commodity works in the business world? Is there a sustainable business model that can be applied to this kind of fast changing context and industry? And is there a mechanism for the trading companies to follow in their decision-making process when they expand and develop new products?

1.3 Objectives

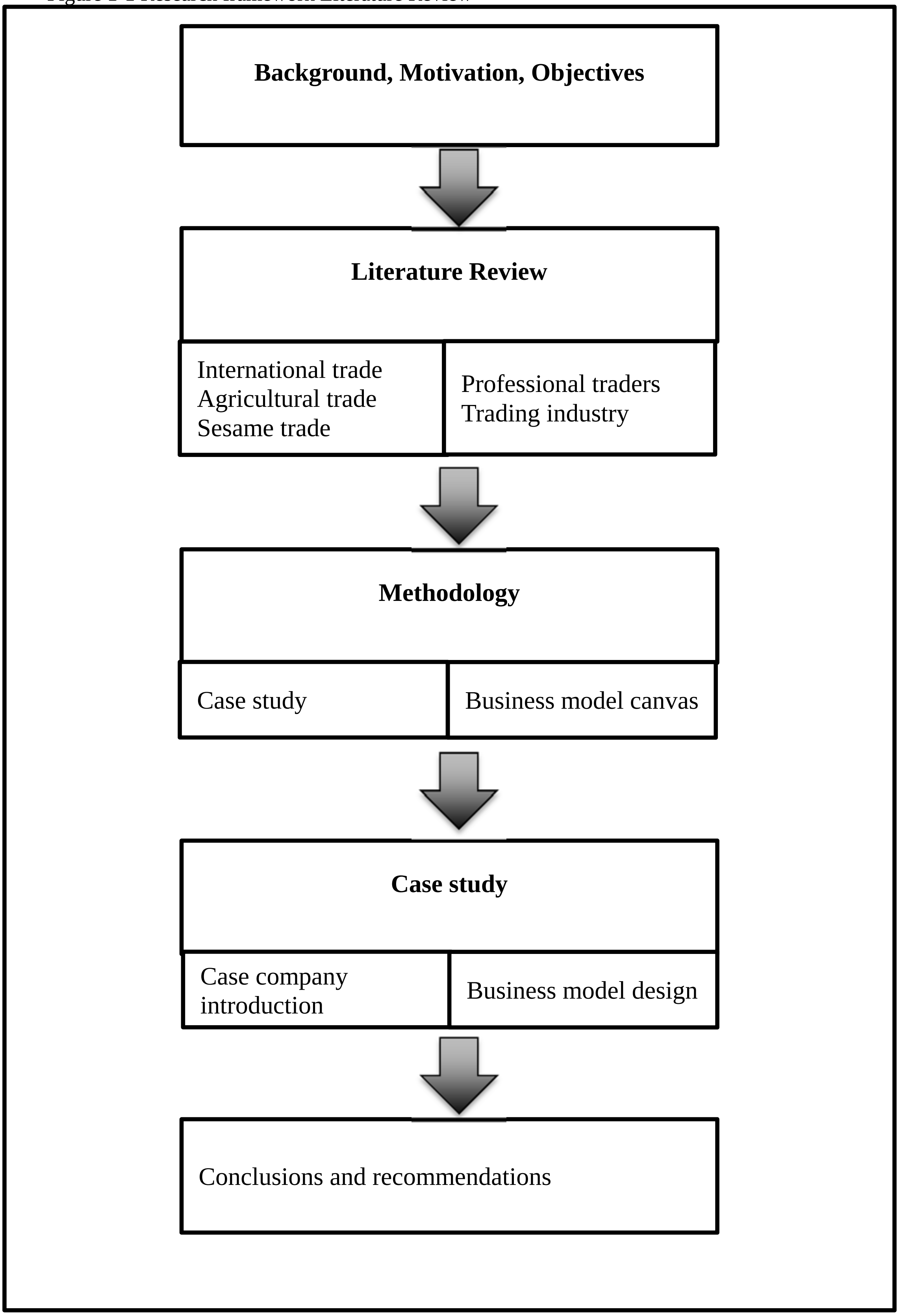
This research has following objectives:

1. to understand how a young trading company starts, grows and transforms,
2. to build competitive advantages through strategic alliance with upstream and/or downstream in the supply chain,
3. to strive in an already seemly saturated and competitive market.

In order to do that, this research goes through the literature review on professional traders and the trading industry to define what a trading company is and how they compete and create value. The case company will demonstrate the concepts of international trade and the new product development (using sesame as an example). The implications from the business model canvas will assist in identifying a pattern that one can use to quickly design a workable and sustainable business model for several products in defined business context. The overall framework of the research structures is shown in figure 1-1:

1.4 Research Framework

Figure 1-1 Research framework Literature Review



Chapter 2 Literature review

2.1 Professional traders

2.1.1 Definition of professional trader

Broadly defined, traders are roughly separated into 2 categories: a ***professional trader*** and an in-house ***trading department*** run by manufacturer. Professional traders normally serve as the intermediary in the transaction between upstream suppliers and downstream buyers. They specialize in sourcing for a wild range of products and resell them to make a profit (as a principal). Occasionally, they may connect the suppliers to the buyers directly or vise versa and earn commission fee from the deal (as an intermediary). On the other hand, manufacturer could run a trading department to promote their product locally or internationally. In this research, we will focus on the professional trader, which is the role taken by the case company. (Chang, 2010)

2.1.2 Variety: Importer, exporter and triangle trade

A professional trader can further be separated into professional importer or professional exporter. The former helps local companies in the search and procurement of the necessary product or material abroad; while the latter provides added-value services to local producer by extending the market to the global platform with their capability in international trade, logistics, marketing and sales. This kind of profession can be applied for both ways since many trading companies are both exporter and importer. (Y. H. Chang, 2010) The case company is unique that it does not completely fit in the definitions as a traditional importer or exporter. The business model is more like what some people would call a “triangle-trade”. This means the trader acts as an agent handling the procurement for its customers from remote country. For example, Company A locates sales, administrative, and customer service team in Taiwan. It sources the products in Africa for customers in China, Korea, Japan, and some Southeast Asian countries. This type of trade has increased in its popularity under the effect of globalization and highly developed supply chain network. (Wong, 2004)

2.1.3 Industry classification of professional traders

As for industry classification, trading companies are normally categorized in the service segment because they are generally not involved in the production or manufacturing process. Instead they only buy and resell or provide trade-related services. (Y. H. Chang, 2010) Trading companies may seem to deal with products just like manufacturers do. However, some of the fundamental processes are different. Unlike other industries in which the players own similar assets, provide similar product, play similar games, have common position in the value chain, target similar suppliers and customers, trading industry works with all kinds of products as long as there is a demand for them. The targeted markets are much broader for traders. This is similar to legal or accounting firms that provide services across industries. Therefore, analysis on both the general concepts of trading companies as well as the specific targeted market, mainly the agriculture segment, to which the case company aiming for should be studied. The intersection of the two domains - trading and agriculture - forms the profit zone keeping the business of the case company viable.

2.1.4 Customer segmentation and required capabilities

In terms of customers, professional traders have mainly two kinds of customer segmentations that require different professional capabilities. First one is the direct-sales market, also called business-to-customer services (B2C). The product for this kind of business is normally uncompetitive and unable to be produced locally. Examples are highly branded luxury goods, exotic spices, foods and fruits that require specific climate or soil, and products with high technology involvement and so on. The profit margin should be set high, as the sales volume is relatively low. The other kind is the wholesale market also known as business-to-business services (B2B). The product for this segment is generally commodity for industrial purpose with high sales volume. It could serve as material that will be further processed or repackaged before reselling to the general market. (Y. H. Chang, 2010) The case company in this research competes mainly in B2B segment focusing on providing products with consistent quality and high volume accompanied with professional logistics services to the target customers.

2.1.5 Development path of trading companies

Some of the successful and competitive trading companies have already ensued forward integration to build the brand and to earn the exclusivity in the end user market. This is similar to what many exclusive agents of branded products or specialized machinery did. Others, mainly the manufacturers, are conducting backward integration to strengthen their position in the upstream of the supply chain in order to avoid others from entering the market. As for the incompetent ones, they are naturally selected out of the market or are still fighting in the breakeven zone for survival. With the maturity of this industry, it becomes difficult not only for the incumbent ones but also for young new entrants to run the business. Without the ability and capability to quickly identify the right path and find the right business strategy, one will become the victim in Darwin's theory of survival the fittest. For the case company, backward integration toward the manufacturing direction was employed.

2.2 Trading industry

The most important thing trading companies are doing is to create the market so that buyers and suppliers can make the deal that otherwise would not happen without the existence of the intermediary. There are enormous amount of researches on the trading industry already. Majority of them conducted in-depth analysis on the meanings on why trading companies exist and what values they bring. There are two ways for a trading company to create values. One is by reducing the financial, operational, and product costs and risks for the customer via the help of professional and experienced intermediary. The other is through bringing the added value realized by its capabilities to integrate the value chain in the complex activity network.

2.2.1 Transaction costs

One of the most important values that a trading company can achieve is reducing the transactions cost. The so-called transaction costs include the costs of searching for information, dealing with contracts, controlling the production quality and costs, and supervising the execution of the contract. (Casson, 1982) As summarized by Wong (2004): In international trade, the buyer and supplier are unable to make a deal because they do not understand the economic and political situation of each other's country. There are language and cultural barriers between them and the market itself contains a certain level of uncertainty. With all the risks considered, it is extremely costly to find a reliable buyer or supplier especially in the international market where the dispute may be more costly to resolve than executing the deal itself if it happens.

Due to the difficulty in controlling the quality of the products or the execution of the contract between buyers and sellers, intermediary justifies its existence with one of its core values to the customer: the guarantor and enforcer. Leveraging its capability of communication, negotiation, integration and control in both parties, the intermediary can guarantee a smooth execution of the deal with minimum risks. It can serve as a trustworthy and neutral arbitrator when a dispute occurs. (Wong, 2004)

Many may argue that the intermediary exists due information asymmetry and question about whether information costs money. Therefore, they believe once the buyer and supplier are connected to each other, there will be no need for intermediary as the information are transparent. However, managing information is actually not free of charge and the costs attached to it may be high. The entire flow of information starts from gathering, processing, and organizing to be valuable intelligence. Afterwards, storage and delivery of the useful and applicable information for the buyer and supplier will be carried out. In every steps of the above process, someone must verify the quality and quantity of the product at the scene and control the flow of activities to meet the clauses of the contract. In addition, the intermediary also needs to collect information about the political and economic situation of the country and the background of both supplier and buyer. The efficiency and effectiveness of collecting and controlling the above information is what the intermediary specialized in. The buyer and supplier will have hard time to replicate it (as the long learning curve) and it can be very costly. As a result, the profit of [a trading company] can stem from the difference between the value and cost of information. (Wong, 2004)

Although transaction costs are one of the profit determinants intermediary relies on, they have been decreasing in importance as information asymmetry has diminished over time thanks to the advancement in technology and the Internet. Furthermore, many industries have grown into the maturity stage, in which it was no longer necessary to search for information, select and filter buyers and suppliers, build the trust, and understand each other. In addition, barriers for international trade have been lifted gradually and many countries are doing their best to secure political and economic stability in order to encourage the commercial development. All of the above factors reduce the transaction costs significantly. As a result, it is no longer cost-benefit justifiable. Trading companies are now in an urgent need to find and shift to new core values instead of relying on saving costs in transactions and they need to reposition themselves in the business cycle from declining stage back to growing stage.

2.2.2 Added value of intermediary

Aforementioned, the required capabilities for each kind of intermediary (exporter, importer and triangle trader) are quite different. The expected values for customers also vary. For an importer, control of quality and on-time delivery are the most important, while for an exporter, it is the market opening and payment collection. As for a triangle trader, the key value is the total supply chain management from upstream to downstream. The triangle trade could be simple with few suppliers of a single product in one country and few buyers in another. Or it could be very complicated, such as what Li & Fung group did, where materials, components, or final products could be transferred in between countries to countries several times for processing, assembly or sales purposes.

The value of information

Information is a valuable asset not only because it helps prevent and reduce transaction costs, but also it creates more value with knowledge. Most of the time, suppliers and buyers prefer specializing and focusing on what they do and stay in the country, or they simply cannot afford for internationalization due to financial and language barriers. Intermediary could, on one hand, provide them with consultancy ad intelligence with regards to the international market trend, industry-wide development and global forecast of demand and supply etc. On the other hand, it could also coordinate them in terms of product specification, quality control and international logistics with its professional knowledge.

The value of services

Other than information, intermediary creates values through providing multidimensional services according to the requirement of its customers. Traditional services that trading companies offer are normally buying and reselling, logistics in import and export, assistance in procurement or opening new market, quality control. More and more services are added in the past few years: consultancy, design, and backwards or forward integration. Furthermore, intermediary could provide financial or arbitrator services by dealing with both parties if they have doubts and are unwilling to take the risks (Wong, 2004). In other words, in order to fill the gaps that lie between the buyers and suppliers, trading companies can provide all kinds of necessary services and that is the value of them.

The value of network

The position of the intermediary itself has an intrinsic value created by the interactions of the players in the industry- the value of networking. Most of the time, producers are rivalry among themself and buyers are competing with each other. Given this natural conflict of interest, it provides advantage for the intermediary to work with different suppliers and buyers at the same time without their being on guard against each other. Therefore, competitive intermediary is able to leverage its relationship with many parties to create a network that buyers and suppliers could not do by themselves due to their embedded limitation. Network is another asset intermediary possesses and grows in scale over time. The bigger the network is, the more resources, both tangible and intangible, are available to the intermediary. With a strong network, intermediary may also gain a wider view of the industry and obtain more insightful information that they can cross check between upstream and downstream. This gives them elasticity and flexibility to adjust according to the fluctuation of supply and demand.

The value of reputation

Besides having a strong network, the reputation of the intermediary also plays an important role towards success. Relationship is an issue many people ignore because it cannot be quantified. However, relationship proves its greatest value when the buyer and supplier do not trust each other. An intermediary with better reputation enjoys higher loyalty from its upstream and downstream partners. Both the buyer and supplier may take the risk of doing business with each other based on the trust of the intermediary. Therefore, reputation is a value of intermediary that buyers or suppliers need when they are new to the market or there is an issue of trust (Wong, 2004). Bigger network implies supply (or demand) stability and variety as well as a good source of information while reputation implies lower risk and security in conducting business. As a result, suppliers and buyers are more willing to work with a sizable intermediary with long history because of its network and reputation.

2.3 International trade

Before starting the analysis of the case company, it is important to understand the background and logic behind its strategy, choices, and decisions. The answers can be found in the theories of international trade and the analysis of the subsector of agricultural trade and the target product - sesame.

2.3.1 Value created by international trade

International trade has been functioning in the world for millennia, and bringing deep influence to the world. The definition of international trade is “the exchange of goods or services along international borders. This type of trade allows for a greater competition and more competitive pricing in the market. The competition results in more affordable products for the consumer. The exchange of goods also affects the economy of the world as dictated by supply and demand, making goods and services obtainable which may not otherwise be available to consumers globally”[3].

Reem Heakal (2003) mentioned: “Global trade allows wealthy countries to use their resources - whether labor, technology or capital - more efficiently. Because countries are endowed with different assets and natural resources (land, labor, capital and technology), some countries may produce the same good more efficiently and therefore sell it more cheaply than other countries. If a country cannot efficiently produce an item, it can obtain the item by trading with another country that can. This is known as specialization in international trade”[4].

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[3] http://www.businessdictionary.com/definition/international-trade.html

[4] http://www.investopedia.com/articles/03/112503.asp-what is international trade

Paul Torelli (2013) also pointed out: "Conventional economic models of international trade suggest that trade promotes growth because it allows each nation to focus on the economic activities that it can perform most efficiently. In other words, it gives each country more opportunities, minimizes costs, maximizes output, and leads to a more finely tuned division of labor across the world. Trade also facilitates the transfer of new technologies and ideas, particularly from leading economics to developing economics…Consumers typically gain from an increased variety of goods, often at much lower prices." Although international trade may cause other problems that might hurt the related industries in the importing country, if the government of the importing country can handle them well with suitable policies and controls, the benefit could be tremendous.

2.3.2 Absolute advantage

Current theories of international trade have been developed since the work of Adam Smith, *WEALTH OF NATIONS*, in 1776. Adam Smith pointed out that each country should produce and export something that it possesses absolute advantage over other countries, and import others for which it bears the absolute disadvantage. With specialization and division of labor, the nations that trade with each other will benefit collectively. However, this model did not explain the situation of a country that has absolute advantage over another country in everything that they do.

2.3.3 Comparative advantage

Thereafter, David Ricardo complemented the theory by his book in 1817, *ON THE PRINCIPLES OF POLITICAL ECONOMY AND TAXATION*. In his book, Ricardo developed the concept of comparative advantage by comparing the relative cost of manufacturers among countries and taking opportunity cost into account. In this model, although one country's absolute productivity is higher than the compared country in every sectors, the former will only focus and specialize on the things with the least opportunity cost and leaving other things to the latter.

This theory does not only apply to countries, but also to companies and individuals. For example, Joe works as a carpenter while Peter works as a dentist, whose performance is better than Joe. In Adam Smith's model, there is no space for Joe to live because Peter possesses absolute advantage over everything Joe does. Nonetheless, in Ricardo's model, Joe still owns comparative advantage over Peter if looking at the opportunity cost. Assuming working as a dentist for a day makes 200 dollars, while being a carpenter makes only 50 dollars. The opportunity cost for Peter to work as a carpenter will cost him 150 dollars while it costs Joe only 50 dollars even if he lost the job. In this case, Peter will choose to work as a dentist anyway and leave the carpenter job to Joe. This case also happens between developed countries and emerging countries. As a matter of fact, "each unit is comparative advantage is their competitive advantage", as Torelli put it. This way of looking at things has provided an important philosophy to the case company: although it is difficult to create absolute advantages in a market that is highly competitive and seemly saturated, a firm still can differentiate themselves through identifying and leveraging comparative advantages.

2.3.4 Factor endowment theory

Besides the classical theories of absolute advantage and comparative advantage, there is a revolutionary model to international trade: the factor endowments theory, also known as HOS model, named after its inventors Heckscher, Ohlin and Samuelson.

Instead of comparing the productivity of labor alone, this neoclassical theory takes other resources such as capital, human resources, and technology into account, assuming the productivity of each factor is the same among the countries. Comparative advantage is stemmed from the difference in endowments of these factors rather than in productivity of labor alone. In this theory, the country that is better endowed with a factor will be benefited to take intensive advantage of this factor because it is relatively cheaper. As a result, the relative abundance or scarcity of the factors of production will determine the direction of trade among countries and hence the division of labor.

HOS model, together with industry analysis, provides important insights for the case company to consider when it chooses its product and direction.

2.4 Agricultural trade

Theories of international trade are mainly applied to the general markets and product level. This part focuses on the segment of agriculture in order to understand the important factors and the determinants of the competitiveness in this specific sub-industry of international trade.

2.4.1 Characteristics of Commodity

Agricultural product is normally a commodity. Some of them will be consumed directly and immediately because they are normally perishable, such as fruits and vegetables. Some of them need further processing via commodity chain, which consists of production (as raw material), processing (some times more than once), storage, and delivery. Taking cashew for example, cashew can be cultivated and amassed in West Africa. A trading company collects and ships raw cashews with shell on to Vietnam for the first treatment of taking off the shell and packing into vacuum bag. Then another trading company may help a Taiwanese food factory to import the shell-off cashew for further processing such as low temperature baking and seasoning. Once it is made into finished products, a third trading company may sell them under its own brand name locally or export to other countries for further processing. The shelf life for this kind of production can be as long as 18 months from the day it is amassed.

Although there is a stable need for commodity product, there is no qualitative differentiation across the market. Since commodity is either fully or partially fungible, the market normally regards the products as equivalent without concerning who the producer is and where it is originated. Commodity's price, due to its undifferentiated nature, is determined through the function of the market as a whole.

2.4.2 Price factors

Price is the first and most important factor for commodity. Although the demand elasticity is relatively stable and grows with the population rate, the supply could be literally unlimited if accounting for the global suppliers as a whole in the long run, reflecting the theory of perfect competition in economics. The one who can supply the product at the lowest price will definitely gain the most advantage.

Determinants of price

The price that we are discussing here is called border price, meaning unprotected and unsupported price that reflects unbiased productivity and efficiency of the production, and therefore reflects the true competitiveness of the product. We can also measure the real added value, which is the difference between the selling price of the commodity and the cost of the inputs used in its production. (V. Becvarova)

Determinants for price-competitiveness are mainly in the cost structure including costs of land, labor, capital (assets), and transportation. The price, quality, and dependability of the purchased inputs are the most direct and obvious sources of competitiveness. However, given the nature of commodity, it is actually difficult for a firm to gain any advantage in this area, because the absolute change in any cost factors applies to every player in the industry. In other words, the decrease in costs shifts the total supply curves of the industry to the right, instead of benefiting individual firm. No producer will be happy for an absolute decrease of costs and they won't be sad for a general increase of costs, because the result is the same. Therefore, to gain a competitive advantage in price, a firm must lower costs of input relatively to those of competitors. In order to do that, there are two possible ways: economies of scale and economies of scope. (Colyer and Kennedy, 2000)

Enlarging the market share attains economies of scale. With the increase of output units, the fixed costs are spread out and the costs per units will decrease, thereby gaining the price advantage over competitor with similar size.

For some product lines where the supply is limited due to natural resources or seasonal fluctuation, the economies of scope might be helpful to drive down fixed costs as well. Take the case company for example, where the fixed costs are mainly staffs, they can choose to produce frozen fish during the summer and trade sesame in the winter so that the fixed costs are diversified instead of increased. With economies of scope, they are competitive against those who do one business only.

Ceiling of price

Subjectively investing in any business without considering the comparative advantage and competing only with price is both highly risky and unprofitable for the producer.

For one reason, in Arthur Lewis' famous research on unlimited supplies of labor, he discovered the difference of real wages in West Indies' sugar industry and Canada's wheat industry. In West Indies, the labor supply is unlimited so that the wage cannot grow over the subsistence level. The benefits of technology progress in sugar plantations and refining accrue to the consumers instead of workers. On the contrary, due to limited supply of labor in Canada, the real wages grow with the technological change. There are several implications in this finding: (Deaton, 1999)

1. Real price of commodity cannot rise as long as there are unlimited supplies of labor with wages at subsistence level and it will fall in response to technical progress.

2. The poorest country that produces it, instead of the one with most advanced technology or industrialization, determines the price of a commodity.
3. A country that is poor but endowed with natural resources and where people are not well educated can compete in the world market against rich and technically more advanced countries.
4. The price does have a ceiling and it is important to analyze it before entering the market.

For another reason, in a perfect competitive market, as long as there is demand, there will be supply until there is no margin for profit. Only in an imperfect competition market can a producer charge higher and earn more profit with bargaining power and differentiation. As a result, the non-price factors become more and more important for producers to compete.

2.4.3 Non–price factors

From the supply-side point of view, there is seemingly no difference among the end products of commodity: the intrinsic physical characteristics of the commodity product look, taste and perform the same in most of the cases and the products from different suppliers or area can be fully or partly substituted with one another. There are still certain reasons for which a buyer chooses to buy from one supplier than another, thereby creating the differentials among suppliers. Those reasons could be natural or processed quality of the product, physical aspects of the products, variety of offering such as grading and sizing, package, brand and promotions, high quality services, supply consistency and stability etc. Before making a purchasing decision, a veteran buyer will also take above factors into consideration in addition to price. Therefore, if the supplier could leverage these non-price factors, it is not impossible for him to build a strong bargaining power in the competitive market of commodity and earn extra profit with differentiation. As Marion puts it in 1986: product differentiation is the degree to which the products of competing sellers substitute for one another in consumption. Differentiation, on one hand, could increase market share, on the other hand, could earn customer loyalty. Here are some ways for differentiation：

Quality

Quality is priority to compete in the commodity market, and superior quality is extremely hard to imitate, thereby creating the biggest and most sustainable differentiation.

Quality could be an endowment in agricultural product, thanks to the difference in soil composition; the taste and flavor could vary from area to area, thus creating a natural differentiation in quality in customers' mind. And it could be deliberated choices of a series of process in order to provide superior quality, to names some of them: introduction of sophisticated machinery and ways of processing, investment in research and development, quality control, or simply the use of higher quality inputs ahead of production. (Colyer and Kennedy, 2000)

Most of the time, the market takes good quality for granted and mistakenly compare agricultural product with mechanic product. Unlike mechanic or electronic products, which are more stable and imperishable, agricultural product's quality varies greatly with climate, storage, transportation and production conditions, and the product is, in reality, not the same season by season, or even lot by lot. Therefore, quality is actually a repeating challenge in the commodity sector, and the one who handles it well already wins at the starting point.

Package

In contrast to quality that will demonstrate its value in the long run, packaging gives the immediate impression and influences customer's decision making. Sometimes the competition is so fierce that 1 cent of price difference in offering can decide the life or death of a deal. As a result, cost down is a main issue and packaging is one of the most convenient ways to save money. However, a bad packaging not only gives bad impression to customers, but it actually costs them money: some of them lose with leakage because of broken package while others must put more labor hours because it is inconvenient to handle and stack the products. These invisible costs will be identified only later after purchase. So the decision to save actually costs more in the end. It is difficult to measure the tradeoff between good and bad packaging. As a result, it becomes a differentiator among suppliers, and most of the time, it becomes part of the quality guarantee and brand to which the value will only reveal in the long run. The choice is left to the logic and strategy of suppliers.

Variety

The competitiveness of a supplier is also on its ability to provide varieties to customers. Given the fact that as commodity gradually matures, the reserved price for each market varies depending on the purchase power. The preference changes in different countries; thus, even for the same commodity, the demand will also vary in terms of grade and size. Capable suppliers provide different choices for the same product in order to maximize customer surplus with price differentiation. Commodity is no longer a commodity; for each kind of size and grade, it is a different product and thus has a different price. In an article introducing Flavor Company, the biggest sesame oil producer in Taiwan, the company produces 6 kinds of sesame oil for market segmentation purpose.

The commercial ones aim to grab majority of the market share while the higher quality ones targeting for the high-end market with higher profit.[5]

Consistency and reliability

With the development of supply chain, the stability of upstream is extremely critical for downstream. As a result, they are sometimes willing to pay a premium in order to secure the supply and they impose great penalty if the supplier fails to meet the commitment. Take the same cashew factory in Taiwan for example, they could have reserved space for their products with big channel such as Carrefour or Costco to which they would have paid dearly and signed a contract for a year or so. They would have also reserved packages for the year in order to get a discounted price. They might have even hired an advertisement company to promote their product. Imagine what a catastrophe it would be if their suppliers were unable to supply the raw material on time. It will cause a chain of failures. Therefore, consistency and reliability is another big issue in the competition.

Services

A Company can also differentiate itself with high quality services, to which the concept of total solution is one way as the benchmark. There is always unmet needs hidden in the supply chain. Value added service is another way to differentiate a company from another.

Branding and promotion

Brand is the ultimate stage of differentiation, but it cannot be reached before the aforementioned factors are perfectly executed. It will be a waste of time and money if one company tries to build its brand before its products and services are already better than its

[5] http://www.ieatpe.org.tw/magazine/ebook238/b4.pdf

competitors. It is because what the customers really need are still the products and services instead of an empty brand. Once the brand is built, the company could earn extra profit in good time and still maintain a sustainable margin by have a group of loyal customer in bad time.

Promotion is a normal way to build the brand. However, one must be careful that promotion will most likely to cost more than the value earned in the short term while its benefit may take years to realize. As a result, branding is a long term and continuous issue for a company to work on.

2.4.4 Other external factors

Price and non-price factors are normally regarded as internal factors. There are still many external factors to consider for the agricultural trade:

World supply and demand

A veteran exporter should be sensitive to world supply and demand beyond the domestic market, because it’s the global market as a whole that determines the price of a product. As a result, information is critical for the company to set the price before offering it to buyers. This factor is external and cannot be controlled by internal arrangement.

Technology

Technology has two kinds of meanings: productivity enhancing and quality enhancing, and most of the time they come together. Productivity enhancing drives the costs down or the production quantity up. In the case that technology can be easily copied or transferred, in the long run even though the progress of technology boosts the productivity upward, the supply curve shifts to the right altogether. This results in the decline of price given the unmatched growth in demand. The benefit will goes to the consumers. As a result, we must be careful if the technology will adversely affect all producers in the national level. And at the firm level, what they should be concerned is if they can keep the proprietary technology exclusively for themselves and the risk of being kicked out the market if they do not adopt the new technology that everyone else has acquired, even if doing that does not make them better off. (Colyer and Kennedy, 2000)

For quality enhancing, there are two kinds. First one is a natural one, as the agricultural researcher always grafts one plant with another. Another one is biotechnology, such as genic modified products. Although it could bring dramatic change to the industry as Monsanto did, consumer's concern about the unproved side effects is still a big question mark in the market. (Colyer and Kennedy, 2000)

Government control-subsidy and tariff

Government policies could affect the price-competitiveness of a specific sector that it intends to encourage or protect, directly or indirectly. A direct subsidy, as China does with tax refund or tax reduction on certain exports, or investment on the research and development and on the training and professional education to increase the so-called human capital etc., are examples that government policies support an industry. A tariff or quota limitation is a common way to hinder import in order to protect local industry. But this is not without cost, or more precisely, opportunity cost, for the nation as a whole. Krugman (1994) and Porter (1990) argued that it is firms that compete, instead of nations. Subsidizing every industry in attempt to enhance the overall competitiveness of the country is not only ineffective but also useless. As shown by comparative and factor endowment theory, to maximize the welfare of the nation, resources must be redirected toward those firms or industries in a way that the overall welfare of the nation is maximized. In other word, the government policies should "invest" its policies on the sector with the least opportunity cost. Therefore, it is important for the trading company of a specific product or industry to understand the evolving comparative advantage of the nation so that it can predict the trend of policies and act before others do. (Colyer and Kennedy, 2000)

International trade agreement and liberalization

Apart from the domestic policies, international trade agreement and liberalization has a great impact on the flows of the commodities. The multilateral trade liberalization proposed by World Trade Organization and many regional bilateral negotiations have been forthcoming to agreements. The results are the lift of trade tariff barriers, the more competition to the commodity sector and the specialization in agricultural production based on comparative advantage. However, the type and degree of liberalization is still not universal, many regional barriers still exist among countries, for example, Korea still imposes limited quota on the import of sesame and heavy duty on those without quota until now. (Colyer and Kennedy, 2000)

Exchange rate

As commodity's characteristics are normally low margin with high volume, a small change in exchange rate could turn profit into loss or vice versa. As exchange rate is determined by the function of total export and total import in the global market and it involves too many factors, it is hard to predict the direction to which the exchange rate is going. To counter the effect, A Company might be careful in choosing the currency in the deal and try to transfer to risk to the buyer, for example, the currency in West Africa is CFA Franc, and its exchange is locked to Euro with the fixed rate of 655.957. One can choose to quote Euro if it does not want to bear any exchange rate risk, and choose US

Dollars if it believes US dollars will appreciate.   Other tools are the futures and options in the exchange rate.

Climate change

Climate change is another external factor out of the control of the producer and starts to get attention. As no one can predict how much rain and harvest there will be each year. It becomes more and more risky when a single company intends to invest heavily in agriculture. Keeping a degree of flexibility and outsourcing is possible solutions to avoid the risk.

2.5 Industry of Sesame

Sesame (Sesamum indicum) is the next product the case company targets. It is an annual crop with quadrangular stem. Sesame seed has various applications in different countries. According to its color, black sesame is mainly used for oil extraction while the white sesame could be used in oil extraction, pastries and cosmetic industries. Sesame oil is the most expensive edible oil in unit price because of its flavor and fine quality.

2.5.1 Sesame Seed Production

According to the statistics data from FAO (Food and Agriculture Organization of United Nations), worldwide production of sesames seed in 2013 is 4.8 million tons, down from 5.2 million tons in 2012. Despite the decline in 2013, the supply of sesame seed has been increasing over the past 10 years, by around 40% comparing the production quantity of 2004 and 2013.

The average yield rate for sesame seed is around 500kg per hectare, but it actually varies widely among countries, from the highest in Israel, 2,000kg per hectare to the lowest in India, 341kg per hectare (FAO statistics, 2013). Despite the difference of productivity among countries, the reason for the increase of world production is mainly due to the augmentation of cultivation area instead of productivity, and partly because the cultivation of sesame mainly depends on the natural rainfall instead of irrigation, the amount of rainfall will definitely influence the output.

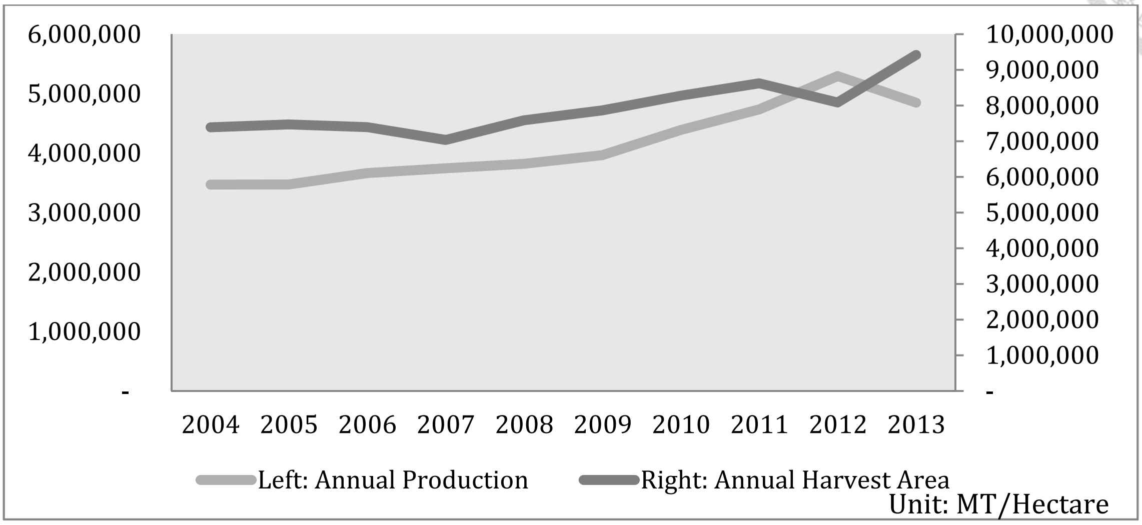

Figure 2-1 Worldwide sesame seeds annual production and harvest area
Sources: FAO statistics

World's largest producers are mainly in Asia, followed by African countries. The first three Asian producers are Myanmar (0.89million tons), India (0.63million tons) and China (0.62million tons). They account for 44% of world production together.

The output in Asia is relatively stable with a variation range of plus or minus 10%, while it could fluctuate greatly in Africa, with the range of as much as 40~70%. Despite the sudden change due to political and economic instability or regional volatility, the cultivation of sesame seed is growing in the African region, partly due to the unsatisfied demand and decrease of transportation costs, which make African products more competitive. In 2013, the first three African countries that harvest sesame seed the most is Sudan (0.62 million tons), Tanzania (0.42 million tons) and Ethiopia (0.19 million tons)

Rank as of 2013	**Area Name**	**Production quantity of 2013(Tons)**	**Share of production**	**Change compared with 2012**
	World	4,847,921	100%	-9%
1	Myanmar	890,000	18%	+2%
2	India	636,000	13%	-8%
3	China, mainland	623,492	13%	-3%
4	Sudan (former)	562,000	12%	+67%

5	Tanzania	420,000	9%	-9%
6	Ethiopia	187,121	4%	+3%
7	Uganda	180,000	4%	-5%
8	Nigeria	165,000	3%	+40%
9	Burkina Faso	137,347	3%	+27%
10	Mozambique	110,000	2%	-6%

Table 2-1 Top 10 sesame seed producers in the world of 2013
Sources: FAO statistics database

African sesame seed is expanding fast over the past few years and is occupying the shares in the world production from roughly 30% in 2009 to almost 45% in 2013. Because of easy cultivation, low production costs and quick liquidity for sesame, as long as there are arable land and sufficient rainfall, African farmers are willing to invest in the production in spite of low yield and return rate. This trend reflects the theory of comparative advantage and of factor endowment, for the African countries has few opportunity costs to lose.

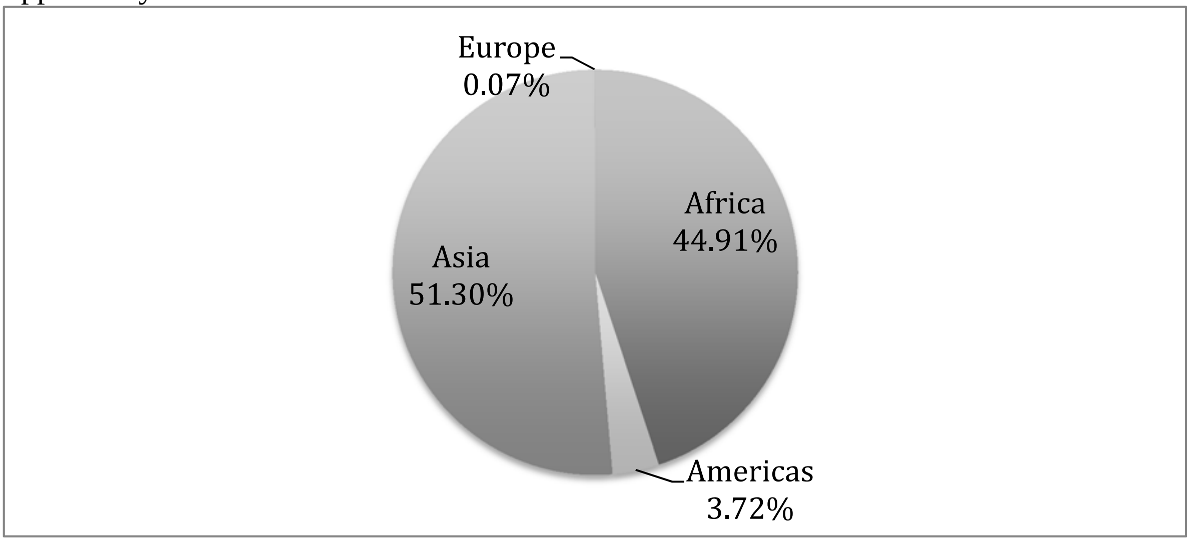

Figure 2-2 Share of world sesame production by region
Sources: FAO statistics database

2.5.2 Sesame Seed Export

As of 2013, sesame seed export quantity in the world is 2 millions tons, indicating that more than half of the world sesame production is for local consumption. The first three biggest exporters are India (with 0.27 million tons exported), Ethiopia (0.22milion tons) and Sudan (0.21million tons), together accounting for 54% of the share in world export. Total export worldwide has increased by 14% from 2009 to 2013. Growth and decline are seen in interval among countries while African countries are mostly catching up with supply quantity.

Depending on the quality and flavor, price also varies among originated country, as it could be as high as 2,500 USD per ton in China and as low as 1,400 in Burkina Faso and Tanzania (CNF price) in 2013. Transportation time and costs play an important role in this industry because the main importers are in Asia while African countries becomes more and more important exporters in the market. The challenge remains on how to be competitive since it sometimes takes more than two months (occurring immense costs of capital) on high sea and 5,000~9,000 kilometers of travel distance to deliver the products. Given the fact that Asian countries are closer to the market but their labor and land costs are increasing while African countries have abundant land and labor but are at a disadvantage in terms of long distance transportation, the competition will be inevitable and fierce among them.

Rank as of 2013	Quantity exported in 2013 (Tons)	Unit value (USD/unit)	Annual growth in quantity between 2009-2013 (%)	Share in world exports (%)	Average distance of importing countries (km)
World	2,001,609	1,360	14	100	6,217
1. India	279,727	2,260	11	23.2	5,968
2. Ethiopia	222,294	2,020	1	16.5	6,133
3. Sudan	217,454	1,773	18	14.2	4,533
4. Nigeria	142,957	1,685	18	8.9	7,412
5. Burkina Faso	113,093	1,426	24	5.9	9,821
6. Tanzania	87,727	1,420	6	4.6	9,760
7. Somalia	36,535	1,567	53	2.1	4,944
8. Myanmar	34,168	1,592	-15	2.0	3,192
9. China	34,127	2,521	1	3.2	1,123
10. Guatemala	34,078	1,457	13	1.8	8,633

Table 2-2 Top 10 sesame seeds exporters in the world of 2013
Sources: Trademap database

2.5.3 Sesame Seed Demand

China, Japan, and Turkey have traditionally been the three biggest buyers in the international market. According to Trademap's data, China has imported 0.44 million tons of sesame seed in 2013 and accounts for almost 29% in world import, while Japan imported 0.14 million tons (10%) and Turkey 0.1 million tons (7%).

Although China, Japan, and Turkey together represent almost 46% of the imported sesame seed, the concentration rate of sesame is diverse enough with 164 importing countries. (Yaogo, 2013)

China is both producer and buyer of sesame seeds. They not only export to Korea but they also buy other grades of sesame worldwide depending on the local market segmentation and various purposes. The fluctuation of demand in China has great impact on the price of sesame. Although China imposes 7.3% of tariff on imported sesame seed on the surface, it also grants duty free to those countries that have special diplomatic relationship with China, mainly the poorest Asian and African countries. As a result, those countries that enjoy the exemption of import tariff will be more competitive in the Chinese market.

As for Japan and Korea, the import for these two countries is controlled by few importers and concentrated in few exporting countries. Korea imposes a punitive 1,475% tariff on the import without quota according to Trademap's data. It is hard for new entrants to enter the market, as their supply and demand structure is generally stable and enclosed.

Importers	Quantity imported in 2013 (Tons)	Unit value (USD/unit)	Annual growth in quantity between 2009-2013 (%)	Share in world imports (%)	Average distance of supplying countries (km)	Average tariff (estimated) applied by the country (%)
World	1,463,903	1,838	6	100	6,585	
China	441,112	1,753	7	28.7	9,075	7.3
Japan	141,577	1,886	2	9.9	12,263	0
Turkey	106,845	1,705	4	6.8	3,996	16.8
Korea	77,881	2,256	1	6.5	3,395	1475.4
India	76,565	1,602	46	4.6	4,466	29.4
Israel	55,348	2,025	10	4.2	3,685	0
Viet Nam	41,787	1,482	25	2.3	4,197	5.5
Saudi Arabia	40,369	1,775	15	2.7	1,784	4.6
Greece	39,728	1,820	3	2.7	4,027	0
Taipei, Chinese	38,993	1,775	-3	1.7	4,759	13.5

Table 2-3 Top 10 sesame seeds exporters in the world of 2013
Sources: Trademap database

An interesting fact to be noticed is that the affordable price varies tremendously among different countries. Although our observation and rankings are mainly based on quantity, price is another issue worth of attention. If we rank the importance by value, USA and German has higher value of transaction than Taiwan (Chinese Taipei). Despite the less quantity imported to USA and German, the value and unit price are more than twice compared with Taiwan, which indicates that there is great price differentiation in commodity. As a result, how to enter a market is important, but how to choose a good market is also very important.

Importer	Value imported in 2013 (USD thousand)	Quantity imported in 2013	Unit value (USD/unit)
USA	89,568	34,494	2,597
Germany	73,805	30,628	2,410
Taipei, Chinese	45,406	38,993	1,164

Table 2-4 Imported value of sesame seeds to USA, Germany and Taiwan.
Sources: Trademap database

In Yaogo's research in 2013, "An increase in the import price of sesame 1% leads to a decrease the import demand of 0.2% for Japan, 0.6% for Korea and 0.3% for Taiwan, which is consistent with economic theory. This means that consumers are sensitive to any change in the price of sesame, but this sensitivity remains very slight compare to the price change." This indicates a lower risk if one wants to enter the market because the price elasticity for the demand is quite low.

Chapter 3 Methodology

3.1 Type of research

The methods applied in this research are business research methods, including the writing and evaluation of a business plan, designing of the research, methods of gathering and analyzing the data and reporting the final result.

According to Cooper (2011), business research is the process of planning, acquiring, analyzing and disseminating relevant data, information and insights to decision makers in ways that mobilize the organization to take appropriate actions that, in turn, maximize business performance. There are several types of business researches based on different classifications:

Type of research	Basis of classification	Type of this research
Applied/ Basic research	Outcome of the research	Applied research
Deductive/ Inductive research	Logic of the research	Inductive research
Quantitative/Qualitative research	Process of the research	Qualitative research
Primary/ Secondary research	Source of data of the research	Both primary and secondary data
Descriptive/Exploratory/ Analytical/Predictive research	Purpose of the research	Exploratory research

Table 3-1 Type of research
Sources: Cooper 2011

Classification based on outcome:

Basic research tends to expand the limits of knowledge, and is not directly involved in the solution to a pragmatic problem while applied research is conducted so a decision must be made about a specific real-life problem. Given these definitions and the fact that this research tries to integrate several theories and results from several researches to solve a problem encountered in real life, this research focuses more on the pragmatism and applications of the knowledge.

Classification based on logic:

Inductive research is a "bottom up" approach, starting from observation to identifying patterns and building a theory based on tentative hypothesis. The route is from specific observations to broader generalizations. Deductive research, on the contrary, is from the general to the specific, therefore, a "top-down" approach. The conclusion follows logically with several premises based on available facts and theories. This research uses inductive approach: based on the context of a specific case, the researcher analyzes the case through several angles with the researches and theories discussed in the literature review and tries to generalize as a business model.

Classification based on process:

Quantitative research uses statistical, formulaic and numerical analysis. Its approaches include data analysis, causal determination, prediction and generalization of findings. In contrast, qualitative research uses no numeric techniques. The main approaches for qualitative researches are discovery, illumination, understanding, and extrapolation to similar circumstances. Qualitative researches are normally more subjective, open-ended, and process-oriented and use more narrative description and constant comparison and it cares more about the meanings than numbers.

As this research tends to build a business model for an organization, it cares more about the structure of the business instead of a specific problem that could be solved by statistical methods, neither of objectively reporting a result from an experiment. Besides objectively analyzing and collecting data, it takes subjective decisions making and choices making as well in the research. Therefore, qualitative approaches are more appropriate for this research.

Classification based on data:

This research uses both primary and secondary data. Primary data is mainly from the internal sources of the case company. Secondary data includes literature review, statistics reports and books related to the topics.

Classification based on purpose:

This research is an exploratory research, because it finds out the factors, relationships, and causes and effects among those factors that determine the competitiveness of the case company in order to build a business model based on the results of the findings and analysis.

3.2 Case study method

The method used in this research is qualitative case study. Qualitative case study is one of many research methods. This method is used when “how” and “why” questions are posed, when the investigator has little control over events, and when the focus is on contemporary phenomenon within some real-life context.

Case study allows the research to retain holistic and meaningful characteristics of events-such as individual life cycles, organizational and managerial processes and the maturation of industries. (Yin, 1989) And it tried to illuminate a decision or set of decisions: why they were taken, how they were implemented and with what result. (Schramm, 1971). Yin (1989) defined a case study as an empirical inquiry that:

1. Investigate a contemporary phenomenon within its real-life context; when
2. The boundaries between phenomenon and context are not clearly evident; and
3. Multiple sources of evidence are used.

In order to do case study, one must design the research with five fundamental components,

1. a study’s question,
2. its propositions, if any;
3. its unit(s) of analysis;
4. the logic linking the data to the propositions; and
5. the criteria for interpreting the findings.

A complete research design will provide strong guidance about what data to collect and what strategies to use to analyze it. To conduct a case study, a lot of data and evidence must be collected to support and verify the propositions. There are six types of sources:

documentations, archival records, interviews, direct observations, participant-observation, and physical artifacts.

After having collected all necessary data, one must analyze them through examining, categorizing, tabulating or recombining the evidence to address the initial propositions of the research. To achieve a good analysis, three dominant measures could be taken: pattern-matching, explanation-building, and time-series analysis.

The case study ends with reporting, which could be in oral or written forms. The process to make a good report is basically: identifying the audience of the report, developing the compositional structure, and following existing procedures by asking the informed people who are familiar with the case to review. The compositional structure could be linear-analytical, comparative, chronological, theory building, suspense and unsequenced structures.

An exemplary case study has the following imperatives:

1. It must be significant.
2. It must be complete.
3. It must consider alternative perspectives.
4. It mist display sufficient evidence.
5. It must be composed in an engaging manner. (Yin, 1989)

3.3 Framework of business model

Alexander Osterwalder and Yves Pigneur developed the business model canvas in their book of *BUSINESS MODEL GENERATION* (2010). The researcher uses the business model canvas to design the new business models because it provides a business model concept that covers most of the elements of business model that everybody can easily understand and discuss. With the framework, it becomes easier to analyze each element in the business model and understand the relationships among them on a single page of paper. The framework not only thinks through the organization but it also compares with competitors or with any other enterprises. It could be reused and adjusted with progress instead of writing from scratch every time. Most importantly, it is possible to unbundle or combine different components in various business models, facilitating the creation and innovation of new business models. A business canvas normally consists of the following nine elements:

Customer segmentation

Customer segment is a group of customers that has similar characteristics in terms of needs, channels, relationships, and profitability. They are virtually regrouped so that the business model can be built specifically for this segment and to satisfy most of the targeted customers. A business model may define several customer segments and design a framework around them.

Value propositions

The value proposition is the reason why customers choose one company over another. It solves a customer problem or satisfies a customer need. The offer could be an innovative or disruptive offer, or an offer similar to existing ones but with added features or attributes. A value proposition creates value for a customer segment through one or a bundle of product(s) and service(s).

Channels

Channel is the interface on which a company reaches, communicates and interacts with customers. Channel's functions are 1. Raising awareness of the company, including its products and services, among customers. 2. Helping customer evaluate the value proposition of the company. 3. Allowing customers to purchase the product and services. 4. Delivering the value proposition to customers. 5. Providing after-sales services.

Customer relationships

Customer relationships determine customer experience besides the value created by product and service. The purposes behind the choices of different types of customer relationships are customer acquisition, customer retention and boosting sales. A Company should clarify the type of relationship it wants to establish with each customer segment.

Revenues streams

Revenue stream is the pricing mechanism of the product and services. There are mainly two types of them:

1. Transaction revenues resulting from one-time payment.
2. Recurring revenues resulting from repeated delivery of value propositions.

The flow of the revenues streams determines the continuity of the business model as a whole.

Key resources

Key resources are the most important assets required to make the business model work. They allow the company to offer and deliver the value proposition, reach the market, maintain customer relationships, and earn revenue. Different type of business model requires different key resources, which could be physical, financial, intellectual and human. A company does not necessarily own key resources; they could lease or acquire them as well.

Key activities

Key activities are the most important things a company must do to make its business work. They are the actions taken in every other block: to offer and deliver the value proposition, to reach the market, to maintain customer relationships, to earn revenue, to procure or recruit, to control the costs, and to ally with key partners.

Key partnerships

Key partnerships are the network of suppliers and partners that make the business model work. Companies create alliance in many forms, but for common purposes: optimizing their proper business models, reducing risks and acquiring resources. There are mainly four types of partnerships:

1. Strategic alliance between non-competitors.
2. Cooptition alliance between competitors.
3. Joint ventures to develop new business.
4. Buyers and suppliers building supply chain together.

Cost structures

The cost structures describe all costs incurred to operate the business model, including the costs in delivering value propositions, acquiring key resources, maintaining customer relationships, executing key activities, establishing key partnership etc. There are mainly two categories of them: cost driven and value driven. A company could run for both of them.

In addition to the framework of business model, *BUSINESS MODEL GENERATION* also lists out several important patterns that share similar characteristics, thus facilitating the innovation and analysis of business model without needing to go through each component every time. With the help of the pattern, one can focus on the most important part and reuse the common components.

In the end, the book describes the process of building a business model. The process has five phases: Mobilize, Understand, Design, Implement, and Manage. The process could be applied to different organizations that are at different points of its life and having different contexts and objectives. With the standardized process, it will be easier and faster for the business model designer to know in which step the situation is, so that he can take related measures.

This case study will apply the framework of business model canvas and the tools explained in *BUSINESS MODEL GENERATION* to collect the information, analyze the environment, dissect and integrate all the components in order to find the optimal combination of them and design a business model that is most suitable with all the available information.

Chapter 4 Case Study - A Company

4.1 Introduction of A Company

4.1.1 Background about A Company

Established in 2010, A Company is a trading company for frozen aquatic products located in Dakar, Senegal, northwestern Africa. The main products include frozen sardinelle, horse mackerel, Japanese mackerel, ribbon fish, tongue sole, white croaker, cattle fish, octopus, shrimps etc. All products come in different sizes and packages. The main sourcing area covers northwestern coast Africa from Guinee Bissau to West Sahara. The market is mainly China, Taiwan, Korea and African neighboring countries.

Figure 4-1 Main sourcing area and market for A Company in Africa[6]
Sources: Researcher

A Company exported more than 2,500 tons of products in 2014, a tremendous growth comparing to 2011, which was only less than 400 tons. Within four years' time, A

6 http://www.amcharts.com/visited_countries/#GN,MR,SN,EH

Company's revenue has grown to 6 million USD from less than six hundred thousand in the first year.

A company continuously develops new products into the portfolio and increases the production quantity in the existing product line to keep a high pace of growth.

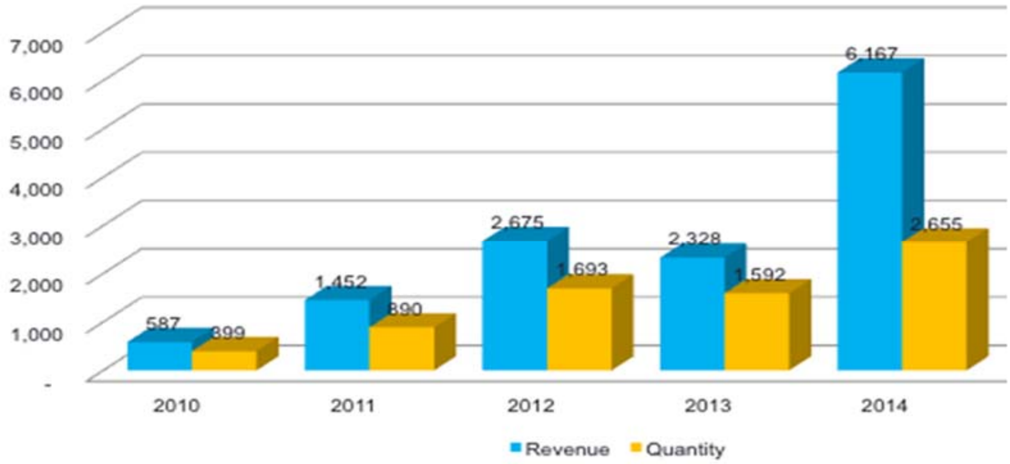

Figure 4-2 Annual revenue and export quantity of A Company
Sources: Researcher

With the growth, A Company has established offices in both Taiwan and Senegal. Senegalese team is mainly responsible for production and procurement, while Taiwanese team is responsible for sales and customer relationships.

Although the origin of A Company was based in Senegal, Africa, the founding team members are mostly Taiwanese. With a specialized and diverse team, each department cooperatively works together and takes the responsibilities for different critical parts of the company's operation. A Company's decision-making structure is a solid triangle consisting of administration department, product department and sales department. A decision must pass by a consensus of all the department heads to avoid bias and dictatorship. Accounting department plays a supportive role to the company as a whole in A Company. The functions of each department are explained as below:

- Administration department: Administration department is responsible for building the internal platform, setting the objectives and rules, and coordinating among departments. The general manager performs these tasks currently.
- Sales department: Sales department is responsible for building and maintaining customer relationship, negotiating orders, and payment collections.
- Production department: Production department is responsible for developing new products, executing the orders taken by sales department, and controlling quality and quantity.
- Accounting department: Accounting department is responsible for forecasting and controlling the budget, registering and managing the payment, and evaluating performance through financial indicators.

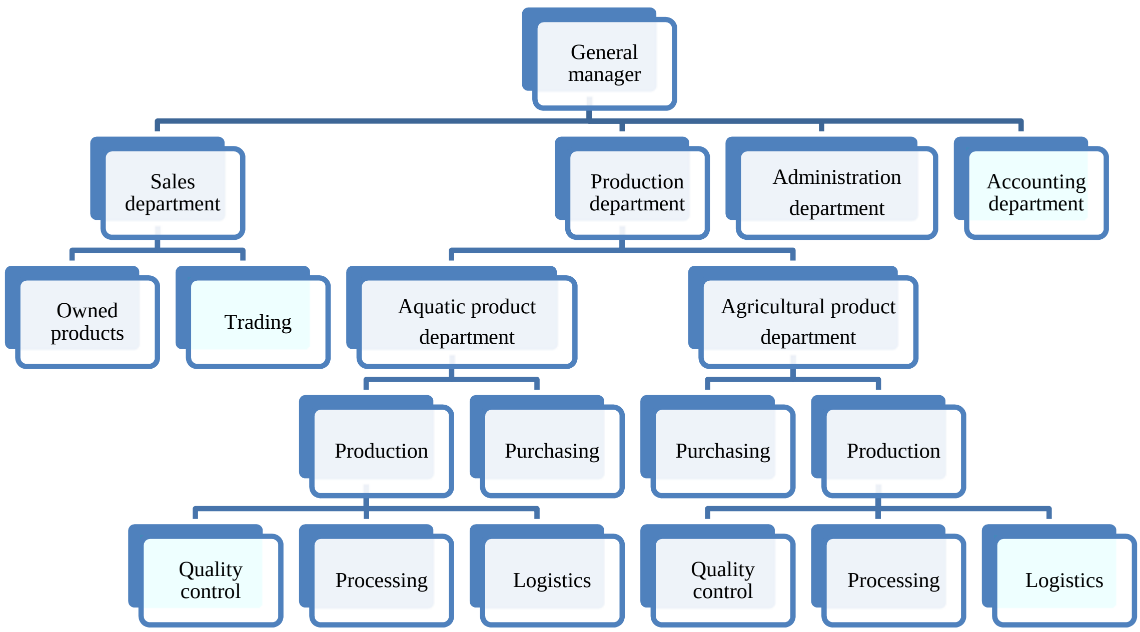

Chart 4-1 Organization Structure of A Company
Sources: Researcher

4.1.2 Analysis of Key Success Factor of A Company

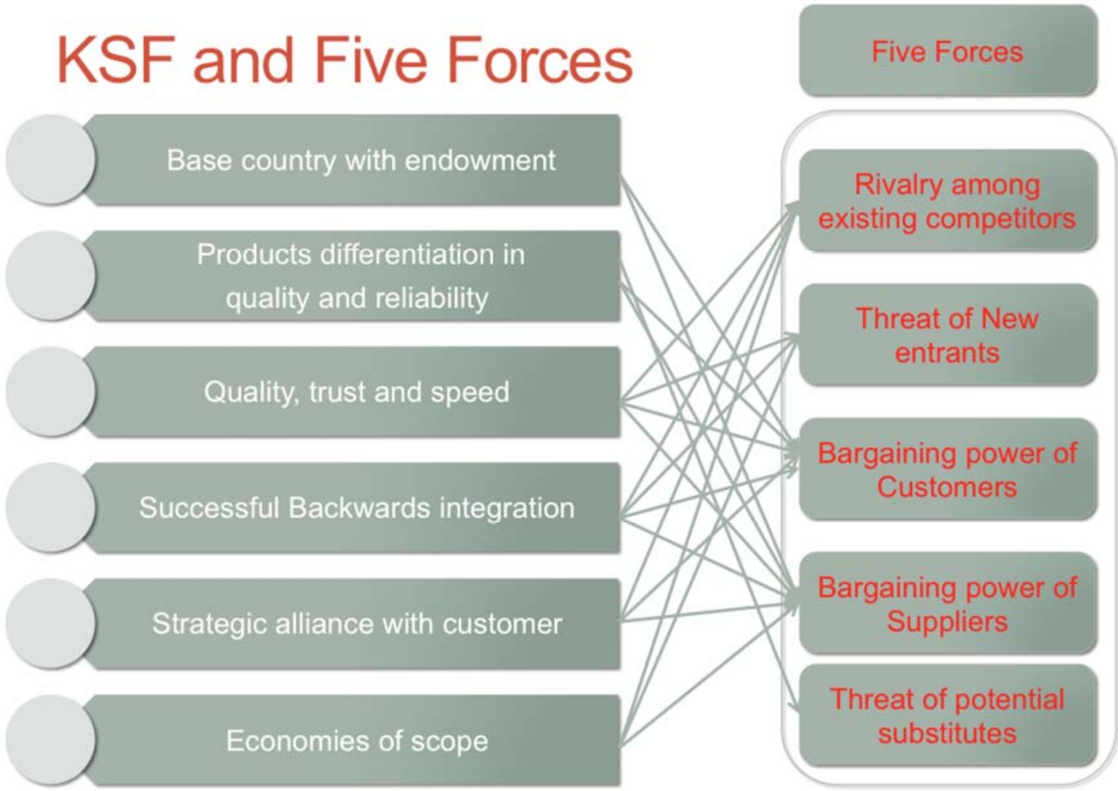

Figure 4-3 Key success factors and five forces of A Company
Sources: Researcher

A Company started with one hundred thousand US dollars in capital back in 2011. As a trading company, A Company does not invest in any fixed asset such as factory and equipment nor produce and sell any products to the retailers, limiting A Company's bargaining power over its buyers and suppliers. Despite the disadvantages, the company's financial performance is outstanding and the revenue reached a historical record high at more than 6 million USD in 2014. The company has been able to charge a higher unit price without affecting its customer's profit. The company has also been able to streamline the supply chain with upstream and downstream even with its intrinsic low bargaining power. A Company knows very well its comparative advantage in the country it chooses to stay. In addition, they are able to put themselves in a position that readily gains bargaining power facing the five competing forces. With a close observation from hindsight, several key success factors have been identified:

Base country with endowment

A Company tends to establish a channel between Africa and Asia for Asian buyers who want to procure raw materials in Africa. In the first glance, African countries may seem to be endowed with abundant natural resources. Hence, it should be relatively easy to spot a business opportunity with great return as long as one is willing to go there. However, many factors, whether short and long term, need to be scrutinized before the actual investment. Examples are: political and economic stability of the country; legal, safety and business environment; level of openness and friendliness to foreigners; auxiliary services including transportation and infrastructure; and language barrier, which can be easily neglected but plays an important role. As various foreigners colonized African countries in different period of time, it is difficult to have a single official language among them. This also affects the ways of doing business in different African countries. Moreover, African is notorious for fraudulent behaviors resulting from a mix of ignorance and negligence.

Therefore, doing business in Africa may be somewhat difficult because of language barriers, cultural difference, and distance. The transactions costs and risks are higher in African countries compared with others. With all the potential problems, why A Company is able to succeed in Senegal? The reasons are listed below:

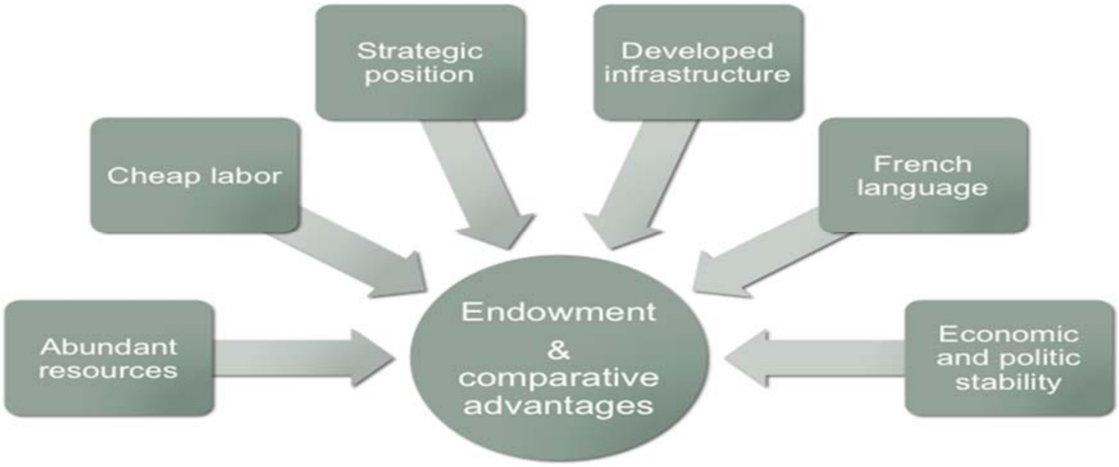

Figure 4-4 Endowment and comparative advantages of Senegal
Sources: Researcher

Senegal is an agriculture-based country. It is so endowed with abundant natural resources and low-cost labor that it becomes the second largest economic entity in Northwestern Africa, next to Ivory Coast. With the geographical advantage- the closest country to United States, every boat going into Europe from the southwest of Senegal must pass through it. As a result, Senegal is one the countries that is developed very early in Africa. It has a well-developed infrastructure and advanced facility for logistics than the neighboring African countries, which suffer either from weaker supply chain or land-lock. Furthermore, Senegal is one of the few countries in Africa that enjoys economic and politic stability as well as social safety and security, while other countries is devastated by civil war, politic conflicts, and economic volatility. Lastly, the founder of A Company majored in French for bachelor degree. As a result, it eliminates one of the entry barriers for A Company when doing business in Senegal because the official language of Senegal is French.

On the company level, with a solid network in Africa, bilingual capability, and reputation for integrity, A Company is capable of sourcing raw materials in a place that is difficult for Asian to do business. On the industry level, Senegal enjoys comparative advantages because of its endowment in natural resources, low-cost labor, geographic advantage, and well-developed infrastructure over many other African countries, which only possess some of them instead of all of them. Through leveraging comparatives advantages on both company and industry level, A Company has been able to obtain greater bargaining power over its upstream and downstream partners and grow very fast in a steady pace.

Added-Value and Service Commitments

A Company incorporates the company standards with customers' requirement and applies them to every step in the operation. So the quality of the product can be secured and meet customers' specifications. Comparing to the majority of other factories in the same region, they do their own way and often ignore what the customer really wants. A Company is one of very few suppliers that ice the fish properly on the beach when offloading from fishing boat and loading onto the truck. The company processes the fish with European standards in low temperature. The fishes are froze to -18°C before packing and storing. Since temperature determines the quality, A Company pays a lot of attention and effort in monitoring the temperature at every step of operation to make sure the product come out with high quality consistently.

With offices in both Africa and Asia, A company is able to communicate immediately with customer, reducing language barrier, cultural difference and uncertainty to the lowest level. This way of cooperation makes A Company more reliable than its competitors in the same sector.

Quality, Trust, and Agility

Although buyers could purchase the products from multiple suppliers in Senegal, there is always an issue of trust. One of the common ways to resolve this issue is by the payment system through letter of credit in international business. However, letter of credit requires long and complicated procedures and hinders the flow of operations that require huge capital investment. To source from Africa, the inventory related costs might be higher than source locally because the buyer needs to: 1) pay the cash to suppliers in Africa to obtain the products (primary inventory). Then it takes about two months for the purchased products to be shipped from Africa to Asia (secondary inventory). Finally, the buyer may further process the products received and make them into the finished goods (tertiary inventory) at the destination for sales. For the flow to work, it consumes several millions of US dollars just for inventory turnover. A Company convinces its buyer to pay immediately after loading the container while others need to wait for the letter of credit to cash. This contributes to a difference in terms of turnover rate at least four times and thus impacting the cash flow and overall operation.

On the other hand, the letter of credit does not guarantee the product quality, which can’t be validated until shipment arrives to the destination two months after payment. This is a risk for the buyers in Asia. With the operation team that can solve any problems timely for the customers upon received of the shipments in Asia, A Company is able to promise full responsibility for quality, which differentiates itself from other competitors and strengthen customers’ trust on it.

With the mutual trust, A Company obtains full financial support from the buyers while many African suppliers potentially run into financial issues due to lack of cash to run the business. When the quality is secured and the trust is built, the flow of operation will speed up, resulting in a win-win situation for every player in the chain and minimizing the transaction costs.

Successful backward integration

Normally, a good supply chain in the aquatic industry requires the good cooperation and coordination of every participant from the upstream to downstream. It is a game against the clock. Fishermen should be reliable to sail out, locate and catch the fish, and pass to the broker while the catches are still fresh. The broker will then sort the fish from various fishermen and transport the well-iced fish to the contracted factories as soon as possible. Upon receiving the fish, the factories will process and freeze them within a time constraint in order to keep the fish as fresh as possible. Factories will then store the frozen fish until the quantity reach one full container or the order amount. They will arrange all necessary sanitary inspection and declaration before shipping the products to the customers. The customers would pay by cash remittance or irrevocable letter of credit either in advance or after loading the container. Cash up front is still the preferred payment term in Africa. As one can see, every personnel in the chain is tightly linked. A perfect executed circle would minimize transaction costs and ensure operational smoothness.

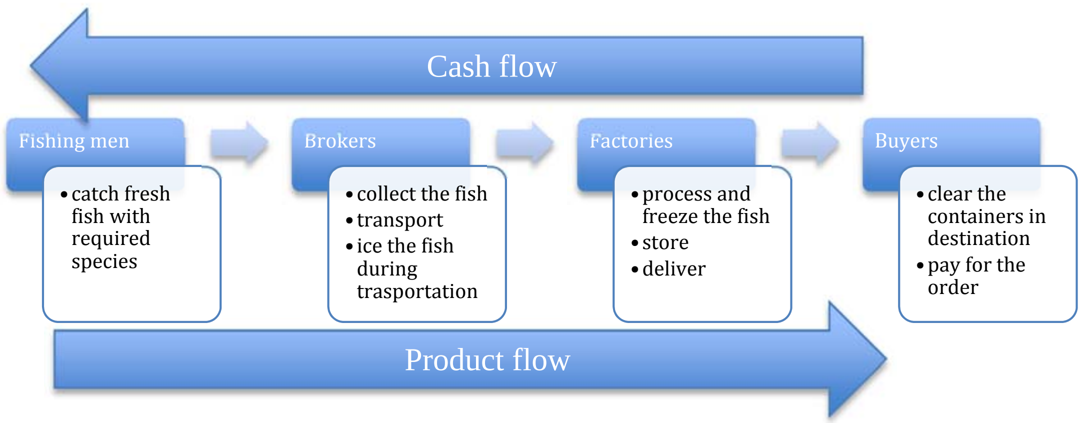

Chart 4-2 Healthy supply chain of aquatic industry in Senegal
Sources: Researcher

However, despite abundant aquatic resources and inexpensive labor, supply chain is still premature in Senegal. Common problems identified are that most of the fishermen lack means to go to the sea, local brokers who collect and deliver the fish does not have required knowledge about the quality neither can they afford the high expense of transportation and ice to keep fish fresh, and factories throw their credibility away because they delay or do not pay full amount to brokers and fishermen with all kinds of excuses after taking the fish. The factories also seem to pay less attention in quality or packaging because the demand is always greater than the supply. Experienced buyers over the world distrust African factories because there is a high chance of problems with the quality (both in product and package) and the quantity (mainly shortage due to lack of validation processes) after receiving the goods they purchased two month ago. As a result, there is a general lack of integrity, trust, and commitment in this supply chain, and the spiral vicious circle leads to the failure of the system.

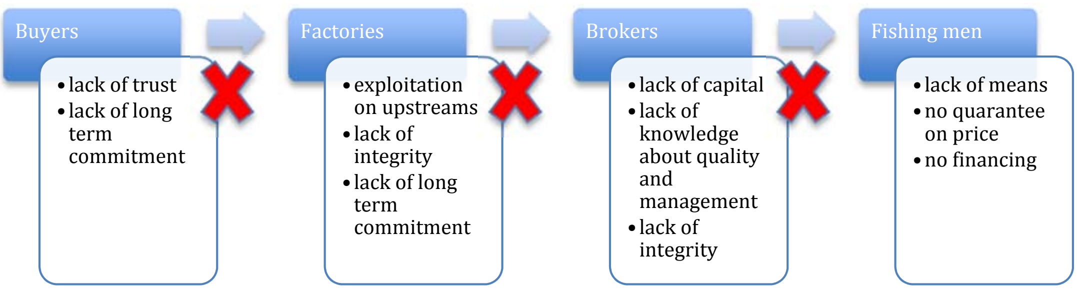

Chart 4-3 Broken supply chain of aquatic industry in Senegal
Sources: Researcher

The transaction costs and inefficiency of doing business in Africa are tremendous to the extent that hinders the national economic development. The whole system needs someone to integrate the supply chain and take responsibility so that the fresh quality could be maintained from the catch of the fish to the delivery to the end users. A Company spotted the opportunity and seized it.

As identified, there is a general lack of integrity and trust in the industry. When issues happen, it is hard to clarify the responsibility, as it is similar to the chicken or egg situation. A Company knows the problem and found the solution for it, which is the backward integration that aligns the upstream with downstream. Since A Company wants to keep its agility and light asset while maintaining the ability to expand output when it is necessary, it employed a strategy to develop backwards integration partially. Owning a factory seems to be the immediate focal point for A Company to integrate. Unfortunately, due to immense capital investment, processing know-how, human resources, government relationship, and many other factors, A Company did not go that path as it involves too much uncertainty and risks. Instead, it outsources production to several competent and qualified factories, which are selected carefully by A Company. The factories A Company chooses are normally qualified with European standards hygienic control giving A Company a certain level of differentiation in the market. The real part of backward integration A Company does is with the fishermen and brokers. A Company's strategy intends to control both ends of factories: raw material and the market. So that it can leverage both forces to control the factories, which lose bargaining power because A Company has already aligned with their upstream and downstream. In so doing, A Company gains the control of the whole chain and essentially achieves a full backwards integration of the whole supply chain. This strategy provides other advantages including savings on the initial investment, more resources on maintaining customer relationship, increasing turnover of asset, and controlling the quality of aquatic products from the origin of sources.

Traditionally, trading companies buy from factories and resell the product. However, in reality, factory has a conflict of interests with downstream because the less it spends (sacrificing quality), the more they gain, transferring the expense to customer. This strategic backward integration significantly helps A Company to stand at a competitive position that strengthens its bargaining power while maintaining minimum costs.

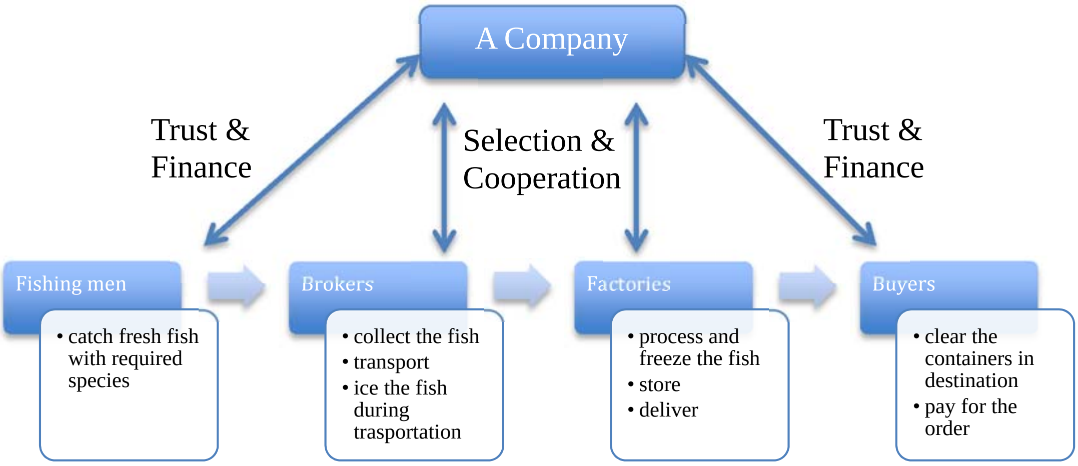

Chart 4-4 Backwards integration of A Company to rebuild the supply chain
Sources: Researcher

The supply chain is rebuilt thanks to its careful selection and trust relationships with upstream and downstream, strategic position in the supply chain between African and Asia, and innovative business model. A Company believes that in order to rebuild the system, integrity and quality are the key factors. Therefore, it starts with the buyers and obtains their financial support and long-term commitment first.

Strategic alliance with customer

A Company does not simply choose the customer that offers the best price for the order. What it looks at is the synergy or the total value of the cooperation. This perspective allows it to select and develop long-term relationship with its customers. As discussed many times previously, trust is an important issue and source of competitiveness of a trading company. Trading company can only survive when the transactions costs for the customers are higher than the benefits of doing it by themselves or when the value of the services it offers is higher than the costs. After a careful selection of the base, product, a well-designed system of backwards integration, what A Company offers to its customers is very attractive as it is a true total solution for buyers to procure from Africa. All its customers need to do is get the cash ready and leave everything else to A Company. This division of labor allows customers to focus on marketing and taking care of their local market while A Company can focus on managing the procurement. As a result, A Company carefully selects its customer and develops a strategic network with them to minimize obstacles towards the operation flow and maximize benefits for both parties. With the smooth cash flow, A Company is able to gain bargaining power of the suppliers in Africa and plan the operation for long-term perspectives, and so are their customers. Unlike others who fight alone, in the case when African factories struggle with the sales and cash flow and Asian customers struggle with the trust and uncertainty, A Company and its customers have already moved forward and accomplished much more.

Economies of scope

In order to maximize comparative advantages, A Company deliberately chooses the products that have the following characteristics: high and stable demand with limited supply worldwide, high seasonal and cyclical product, and oligopolistic market with low competition.

There are many ways to build bargaining power: some go to the upstream via patent and intellectual right, advanced technology and know-how, or economies of scale in manufacturing; others choose the downstream via brand building and customer services in marketing. Trading companies are in between as they do not manufacture nor own the brand. Unlike manufacturer and brand-owner, trading companies leverage the product and the market that require their services to gain bargaining power. As we know from basic Economics, limited supply and oligopolistic market strengthen bargaining power to the suppliers readily. A Company chooses products with these characteristics so that it can negotiate with buyers for a contract and price on the product. Naturally, buyers will seek to do business by themselves if the benefits are higher than the costs, and competitors tend to enter the market if they see potential profit. In order to counter this effect, A Company chooses several products that are highly seasonal and cross-disciplinary, making it cost-ineffective and inefficient for the buyers to conduct backward integration and for new competitors to enter the market for a product that would last only 3~6 months in a year. Furthermore, some aquatic and agricultural products are normally characterized with special taste and flavor that are difficult to substitute. For these kinds of products, end users are less sensitive to the price and are more willing to pay a premium.

Due to limited capital and resources, A Company does not go for economies of scale in its early stage. On the contrary, it tries to leverage buyer's capital and resources in different industry to extend its economies of scope. A Company tends to work multiple products in different categories for several reasons:

1. Diversifying the risks.

Since agricultural and aquatic products are deeply influenced by climate and season, and also by the supply in other countries. It is very risky to have only a single product in its portfolio. A Company has always been testing new products so that the risk can be diversified.

2. Extending the business.

A Company normally supply to one or two biggest buyers in the market so that the customer can have pricing power over others. With the quick progress, the product is easily developed to its limits and slowdown in growth. A new product in different category has normally better chance than in the existing one, so A Company has to develop other products with larger potentiality and higher margin.

3. Spreading the costs.

Since Africa is relatively underdeveloped, only a small portion of population is literate, and the product is mainly raw material, it is normally hard to upgrade the product to a higher level. Therefore, A Company starts to work with new products that are easy to handle, so that the existing people and system can be used and thus spreading the costs over the volume.

For the above reasons, economies of scope are a better choice for A Company to grow at this stage. The choice may change if the situation changes, such as the volume of business, the accumulated capital or the progress of technology.

In summary, key success factors are for the time being. With the growth of the company and change of the environment, the choices and focus will change, too. More importantly, A Company should be adaptive, flexible and agile so that it can keep its competiveness in the market.

4.1.3 SWOT analysis of A Company

Strength

With the analysis of A Company's key success factors, it is clear to see that one of the strengths for A Company is its communication with both upstream and downstream that is normally blocked by language barrier, distance and many other reasons discussed previously. With the existence of A Company, customers save tremendous transaction costs that would otherwise occur if they deal directly with African suppliers.

Its ability to integrate and to rebuild the supply chain makes it competitive against its competitors and strengthens its bargaining power over buyers and suppliers. Unlike normal trading companies who struggle in the middle of buyers and suppliers, A Company takes a proactive role to rebuild the chain, bringing values to both sides and therefore making itself indispensable.

Quality control is easy to say than to do, especially in African area where much of the infrastructure is underdeveloped and people are lacking of proper training. A Company is one of very few players that emphasize the control quality through actions. In the early years, people thought commodity is the same everywhere, and the only differentiator is price. Thus, it was a very difficult period for A Company as the costs are much higher to maintain high quality. As proven by time, those who bought cheaper products often found their stock are harder to sell leading to loss. A Company prevails and earns not only for itself but also for its customers the reputation of higher quality and reliability.

Lastly, the endowment of Senegal's low-cost labor and abundant natural resources makes it readily competitive in the market for A Company to leverage against the competition of other suppliers in other countries.

Opportunity

With the economic development of Asian countries, especially China, the demand for food in terms of variety and quantity is expected to increase over coming years. In addition, due to exploitation and overfishing, natural resources in Asia area becomes less and less, causing supply shortage and price fluctuation. Furthermore, thanks to specialization and maturity of logistics industry, transportation costs decreases largely, making African products more competitive. Lastly, African product is normally natural and unpolluted, which become more valuable because of food safety problems that many Asian countries face in recent years. With all above reasons, there are lots of opportunities for A Company to grasp.

Weakness

A Company shares common weakness that many startups face. Its size is small and is constraint with capital and resources. It does not possess heavy asset that would serve as a guarantee to many customers before placing orders. And its products are highly seasonal that causes inefficiency of its production and labor and make it unable to spread the risks and costs.

Threats

Other than internal weakness, there are many external threats that are imminent. With the low entry barrier, it is easy for new entrant to enter the market and take a share out of it. Given that as more players entering the market and the supply of material does not catch up, material price will continue to go up and the profit margin will shrink. As a result, A Company's growth will be limited in the coming years. Another threat is that more than 80% of A Company's revenue depends on one product called ribbonfish. The high concentration on a single product is a potential threat to A Company. Besides, the seasonal characteristics of aquatic products exacerbate the risk of fluctuation and threat A Company's business.

Based on the SWOT analysis, A Company conclude that it needs to transform its business with a product that has following characteristics:

- **The new product must be scalable.**

The product must be scalable so that A Company can take full advantage of the opportunities brought by current circumstance.

- **The new product must be reinforcing.**

The product must be reinforcing in terms of A Company's strengths. It took years of effort and experience for A Company to become what it is today. If the new product can utilize existing resources then it could not only save the costs in learning curve but also the time to build the business. Therefore, A Company needs to be very clear about it strength and reinforce it, instead of doing many things that do not utilize its core competency.

- **The new product must be complementary.**

The new product must be complementary to make up A Company's weakness. New products require new assets, capabilities and resources, which are actually what A Company also lacks of. As a result, A Company must find a way with which it can add the new product without necessarily increasing its burden. In this case, its ability of building strategy alliance with customer plays an important role. As a result, the challenge is not only the search for the right product but also the customer who is willing to cooperate and create the market together.

- **The new product must be diversifying.**

The success of A Company started with a single product and then it specialized in it to sustain its competiveness. However, with the growth of the industry, new entrants and competitors will enter the market and buyers will look for substitutes. Therefore it is very risky to rely on a single product. As A Company's revenue is too concentrated on one product, it is important to find something else to diversify the risks. If the product fails in any circumstances, A Company can still survive with other products. As a result, diversification is also an important factor that A Company must consider when it develops a new product.

4.1.4 The way to expansion

A Company started with aquatic products in 2010, then it developed fishmeal business in 2013. As fishmeal eventually brought revenue by more than 2 million US dollars yearly, A Company tries to consolidate the product line as a second stable revenue stream to the company. In 2014, A Company tried to take foot in agricultural products including sesame and cashew, because aquatic products shows highly seasonal supply fluctuation over the past few years: the fish is caught and landed mainly from January to June, and disappear in the following months. Given that cashew is a commodity that requires much less effort than sesame and has smaller effect of differentiation, A Company decides to focus on the sesame product as the third main product line in its business in the following three to five years because it satisfies above four requirements based on above SWOT analysis. With the add-on of sesame, A Company's business can run for the whole year without waste in resources.

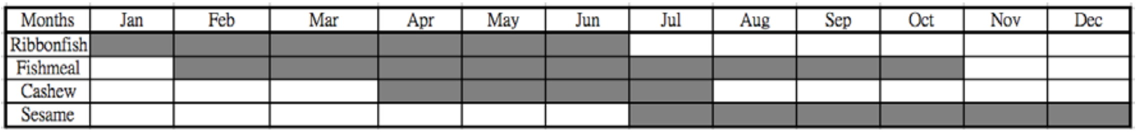

Table 4-1 Product season during the year of A Company
Resources: researcher.

4.2 Transformation of A Company

4.2.1 Design of A Company's business model

With several years' experience and practice in the aquatic industry, A Company has come up with a business model that suits their Asian-African context very well. And they tend to apply it into the agricultural industry again. Although the business is different, they will try to reuse what they have learned and built with their experience in aquatic product business. By reapplying the business model as a blueprint, A Company is able to save time and money on developing the new business model for agricultural product. With a shortened learning curve, A Company is able to switch among products with minimum costs while it is able to expand rapidly in large scale when a product proves to be profitable. Below is the overview of A Company's business model:

<table>
<tr>
<td rowspan="2">Key partners

*Factories-
(processing)

*Farmer/
Fishing group
(materials)

*Customers
(financing,
technology &
intelligence)</td>
<td>Key Activities

*Backwards
integration
*Processing
*Storage
*Delivery
*Product
development</td>
<td rowspan="2">Value
Propositions

*High quality
*Low
financial risk
*Exclusive
materials

Sourcing</td>
<td>Customer
Relationships

*Dedicated
personal
assistance</td>
<td rowspan="2">Customer
Segments

*Niche market

*No.1 or No.2
wholesaler in
the market

*Mass
purchase
orders</td>
</tr>
<tr>
<td>Key Resources

*Human
*Supply chain</td>
<td>Channels

Owned &
selected
channels and
networks</td>
</tr>
<tr>
<td colspan="2">Cost Structure
*Mix of cost driven (market price) and
value driven (premium for good quality)
* Make to order
* Economies of scope</td>
<td colspan="3">Revenue streams
*Tangible: asset sales
*Intangible: Financing, networking,
technology transfer and information
sharing</td>
</tr>
</table>

Chart 4-5 Over view of business model canvas of A Company
Resources: Researcher.

Customer segmentation

In A Company's business model, customer plays the most important role. A Company could introduce hundreds of potential goods products into the market; however, without customer support buying them, it does no good to the business. This is known as ***marketing myopia***, where company is product-focused rather than customer-focused. As the total costs of running business in Africa is very high, A Company needs to do the business with volume, as a result, A Company tends to focus on the niche market with very few customers who are able to buy large volume, and build long term and profound relationship with them.

Value propositions

A Company offers a total solution to procure aquatic and agricultural raw materials in Senegal and Northwest Africa for Asian market. This value proposition is very attractive because the aquatic resources are decreasing worldwide due to overfishing and exploitation. This also applies to the agricultural resources because the increase in consumption rate in Asia surpasses the increase of production rate. The lack of arable lands further makes raw materials more and more expensive. On the contrary, Africa is one of the remaining areas in the world with abundant resources and available arable land. As a result, many large companies turn their heads to procure in Africa. Unfortunately, they found it difficult due to lack of channels, language barriers, and uncertainty in politic, economic and business risks. The costs to set up a dedicated procurement division in Africa are just too high for them because everything must be imported and it is very hard to recruit the right people to work with. Nonetheless, aquatic and agricultural products are highly seasonal and the supply fluctuates significantly, making the investment with great uncertainty and risks.

The services provided by A Company will be the ultimate solution. Once the customers approve the products sourced by A Company, all they have to do is to send in orders and wait for the product to be delivered to them. That's the value proposition offered by A Company.

Channels

The channel for A Company is extremely simple but hard to build. For each product, A Company only work with 1~3 major clients in the market. After careful screening, only the top qualified channels will be selected to handle the products for A Company. For every new product, A Company will go through existing partners in the network first to see if anyone is interested. If no one shows any interests, A Company will conduct cold calls to the biggest buyers in the market. Normally, A Company is able to get an average of 3 offers out of 20 candidates, who are interested in cooperation if the product is suitable, competitive and profitable.

Customer relationships

A Company assigns dedicated personal assistance to maintain relationship with customers. A Company was separated mainly into two teams. The one in Africa focuses on production, product development, and procurement while the other stays in Taiwan for customer services. One of the problems for international trade is the time difference and cultural difference. The arrangement with people in Taiwan facilitates communication and negotiation and diminishes the trust issue. A Company also needs to have an excellent relationship with suppliers in Africa, which is built by the team in Africa. A good relationship on both sides is what contributes to the competiveness of A Company.

Revenues streams

The revenue is easy to calculate, which is the price minus costs of goods sold (gross profit), and then minus the overhead costs and tax ending up with net profit. In A Company, gross profit is roughly 10~20%. It is not high compare to market benchmark because A Company is still relatively young and is trying to increase its market share. However, as the business grows steadily, A Company starts to modify its strategy. Instead of focusing on high profit margin, it should go for big volume. With high volume, it still can make great profit.

The other hidden revenue is the intangible gain derived from intangible assets. In A Company's case, this is considered to be more valuable than the actual profit margin. With the strategic alliance with customers, A Company gains the market information, production technics, and financial support. By forming a networking with major branded buyers, A Company benefits from the ***brand effects*** and earns the reputation quickly in the industry. With the buildup of volume, experience, and reputation, a growing number of new customers are willing to do business with A Company. As a result, A Company does not only look at the money it earned, but also at the intangible revenue, which is often neglected.

Key resources

The most important resource is the people that A Company employs and the supply chain it builds. In Africa, the most difficult part is not about finding the right products, but finding the right people. African country is mostly underdeveloped and people are mostly illiterate. As a result, A Company spends a lot of money and time in recruiting and training. Due to cultural differences, the mentality of African people is very different from people in the developed countries. This makes the training even harder. Unlike most of African employers, A Company continuously puts a lot of efforts in training essential skills and transferring knowledge to their employees to make sure they can meet the standards for work.

Not only is it difficult to find good employee in Africa, but also it is difficult to find reliable suppliers. For the export of raw material to be done, it will involve many parties such as fishermen /farmers, brokers, factories, forwarders, logistics companies, processing and package materials providers, banks, accounting companies, auxiliary services companies and most importantly the authorities including fiscal, sanitary and customs. The network among these parties influences the smoothness of operation in Africa and directly determines the competitiveness of the company. As a result, the network as a whole is also a very valuable asset that A Company owns. With the right people, everything is possible.

Key activities

As mentioned before, backwards integration is the most important activity A Company does in procurement. With the direct contracts with suppliers, A Company can control the quality and quantity of raw material and avoid the exploitation of middlemen and fluctuation.

Other activities are also very important but more internally, such as processing, storage, and delivery. Ensuring good quality in every step from procurement to delivery contributes to the competitiveness of A Company. Without it, all other efforts put in will be wasted.

Lastly, product development is an important task because the market is fluctuating all the time. The business A Company is doing today does not guarantee it will be doable in the near future. A Company has to keep searching for products with potential high margin, larger demands, and difficult to imitate to counter the competition.

Key partnerships

As a trading company, A Company treats all the stakeholders as its partners, including its suppliers, employees, and buyers. As already been discussed, the employees are the key resources to the business. Factories plays important role in processing and manufacturing product with good quality. Farmers and Fishermen are important in providing raw materials and in return A Company provide them financial support and technics. Customers provide financing, technology and intelligence.

It is the teamwork of partnership that allows A Company to compete with other suppliers in Africa and works with biggest buyers in the competitive market. A Company believes that the 21st century is the competition among supply chains and the networking is the key.

Cost structures

The cost structure of A Company is a mix of cost driven (market price) and value driven (premium for good quality). As most of the commodity is cost driven, A Company can only follow the market price and make a reasonable margin. However, A Company keeps looking for the extra values for the customer and tries to differentiate the products in terms of quality and package, so that it does not fall in the trap of commodity. A Company tends to provide only high and consistent quality products in order to sell at premiums to its customers.

Given the small size of the capital, the structures of A Company are that it has low fixed costs in asset and high variable costs. With the nature of the business, it only takes the order and prepayment before production (make to order). In so doing, it bears the minimum risks. Furthermore, it encourages its buyers to build inventory because the product is highly seasonal. If the buyers do not build a significant safety stock, it may lead to shortage or force to buy at higher price, which ultimately results in profit loss.

4.2.2 Process of product development

Before entering a new business, one must understand the environment for the product, study the potential customer, interview experts in the domain, collect ideas and opinions and conduct a lot of researches. (Alexander and Yves, 2010) A Company is no exception. For each new product line, A Company has standard procedures for product development as below:

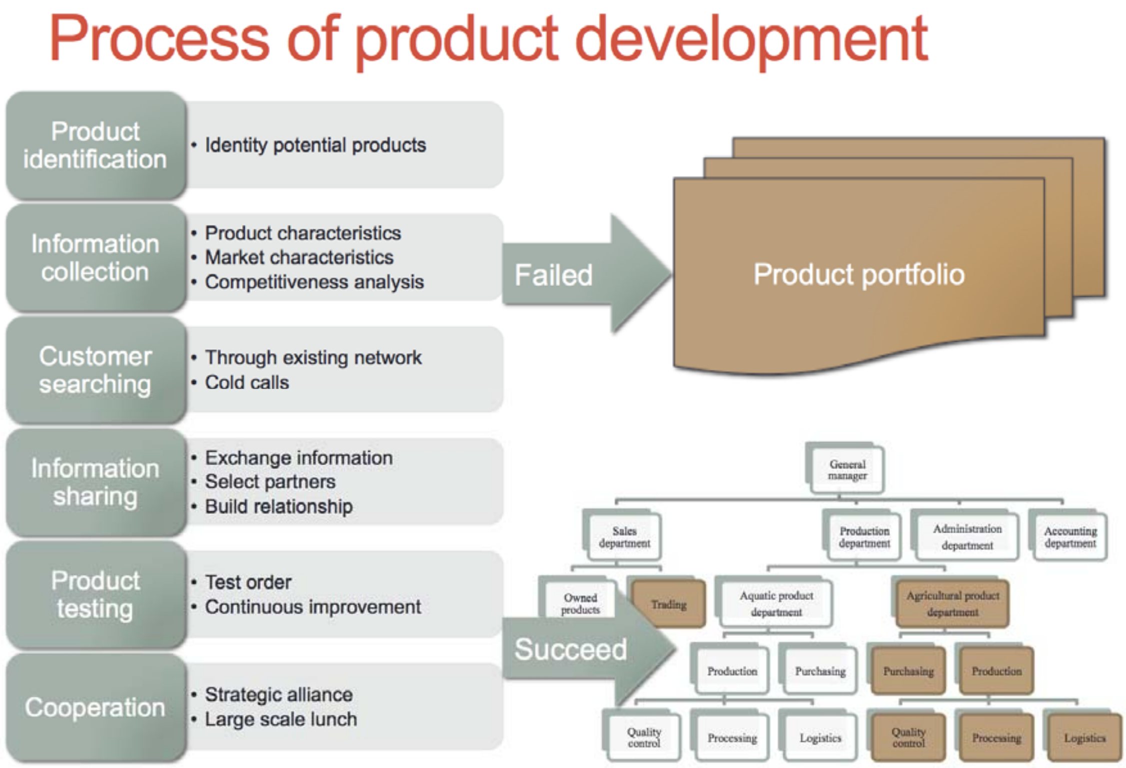

Figure 4-5 Process of product development
Resources: Researcher.

Firstly, it identifies products with potentials and then it collects all necessary information about the product, such as market saturation and competition. Next, it analyzes the data and conducts several interviews to verify the assumptions. Once confirmed, it starts to search potential buyers through existing channel or colds calls. A Company bundles interests with the potential customers by sharing openly the information in Africa and making it clear about the division of labor. A Company will focus on procurements in Africa and will not compete with the buyers in the destination market, so the customers do not feel threatened and are more willing to share the first hand information from their side. With this cooperation, A Company is able to quickly obtain the information that customers have collected and the network they have built for years. Sometimes, the buyers may even provide free consultancy or giving warning about current market. In return, A Company provides them with exclusivity and discount in price. Followed by exchange of information is a trial run for test order. A Company and customers can validate their assumptions during the trial run and make any necessary changes before the large-scale shipments take place.

At this point, A Company will make the decision on adding the product into the trading portfolio if it simply involves buying and selling. If the product takes backwards integration like the fish products, then A Company could set up a production line exclusive for the product, depending on the scale and situation.

If a new product does not sell, A Company will not consider it as a failure perhaps it may just be the wrong timing. The strong and potential product will still be put into the product archive. Once the timing is right for the products, it can always be released from the archive and put into active product list again. As a result, the effort of developing new product will not be wasted. It is these procedures that minimize the chances for A Company from losing money or introducing unwanted products.

4.2.3 Next product- Sesame

Senegal's main export products are groundnut (peanut) and its edible oil (15% out of total exports), and fish (10% of total export). A Company has already been in the fishery domain for years and now it is targeting at the agricultural market. A Company has spotted sesame as next star product for following years for several reasons. Firstly, it is a scalable product. With a good condition of climate, soil and sufficient land and labor, one can cultivate as much as sesame as he wants. Secondly, it is complementary to aquatic product in terms of season. While the targeted fish for A Company is harvested only in the first six months (January to June) of the year, sesame's season is from July to December. This makes sesame a perfect complement to A Company's business. Thirdly, what it takes to succeed in sesame is relatively similar to the fish business A Company has been doing. As a result, A Company is able to utilize its resources and reinforce its strengths when it enters the sesame business without occurring too many extra costs. Lastly, despite other options, A Company chooses sesame because of its easy liquidity and strong demand in Asia area. The risk for entering this market is relatively low. The entry and exit barrier for A Company is very low as well. As a result, engaging into sesame market not only diversifies the risk of concentration effectively but also provides the chance to increase revenue for the company.

In addition, among all the commodities exporting out of Senegal, sesame was ranked the 15th with the volume of 4,715 tons in 2012. It shows that Senegal is adaptable to grow the sesame but did not grow in large scale as other countries do. From the literature review, we have known that the most common way to increase the volume of production is from augmentation in cultivation area, instead of advancement in technology. As a matter of fact, labor and land are still the key factors for the sesame production.

'Commodity'	'Quantity (tonnes)'	Flag	'Value (1000 $)'	Flag	'Unit value ($/tonne)'
Rice – total (Rice milled equivalent)	96,181.00	A	42,201.00	A	438.77
Food prep nes	35,697.00		89,752.00		2,514.27
Groundnuts, shelled	17,287.00		11,186.00		647.08
Flour, wheat	14,751.00		7,129.00		483.29
Melons, other (inc.cantaloupes)	14,335.00		8,990.00		627.14
Oil, groundnut	13,672.00		27,192.00		1,988.88
Cotton lint	10,331.00		21,524.00		2,083.44
Pastry	9,520.00		9,633.00		1,011.87
Tomatoes	8,894.00		10,910.00		1,226.67
Fruit, tropical fresh nes	8,344.00		6,635.00		795.18
Tomatoes, paste	6,722.00		6,204.00		922.94
Watermelons	6,042.00		4,542.00		751.74
Milk, whole dried	5,532.00		22,377.00		4,045.01
Beans, green	4,823.00		7,312.00		1,516.07
Sesame seed	4,715.00		3,273.00		694.17

Table 4-2 Top 15 commodities of Senegal 2013
Sources: FAO statistics

Senegal’s arable area is 3,350,000 hectares, or 17.4% of the total land area in Senegal. 42% out of 13 million of total population live in the rural area in Senegal. The labor force is quite abundant at low cost in the countryside. Although, there is abundant arable land in Senegal, many lands are actually deserted because farmers lack capital, resources, and most importantly a good system of work to develop them. As a result, as long as A Company have the financial means and market, it is possible for them to quickly expand the cultivation of sesame in Senegal with their successful experience in aquatic product.

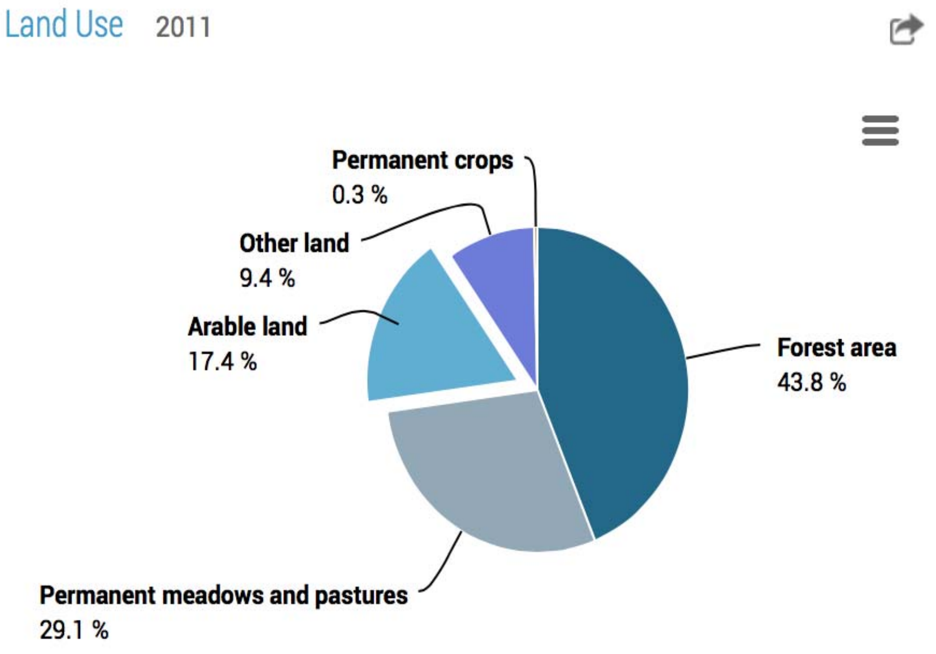

Figure 4-6 Share of land use in Senegal
Sources: FAO statistics

4.2.4 Competitiveness and profitability analysis for sesame

Most of the farmers in Senegal would prefer to cultivate high value crops such as fruits and vegetables. However, the initial investment is too large and risky for them. As a next choice, they would go for groundnuts such as peanuts and sesame seeds, which is easier to cultivate and to sell. Both of the peanuts and sesame seeds require similar conditions of land and ways of cultivation. However, peanut is much easier to sell. Hence, it becomes the priority choice for most of the farmers. Even though peanuts may be the best choice, it is still possible to convince the farmers to change their targeted crop to sesame as long as the return can justify the switch costs. By forming a strategic alliance with the biggest importer in Taiwan, who imports more than 3,000MT of sesame seeds yearly, A Company secures a minimum order of 500MT from them. The next step it needs to consider is the price competitiveness in both supply and demand side. For this to be done, A Company chooses to trade white sesame seeds as a basic product and black sesame seeds as a premium product. White sesame is very competitive worldwide, so the price and margins are very low. The demand on volume and turnover rate is still very good at current stage. Black sesame is a very popular item particularly in the Taiwanese market. The buyers are willing to pay a much higher price to this product. As a result, A Company tries to secure their own group of farmers by giving financial and technical supports. While the black sesame seeds targets the Taiwanese market, the white sesame seeds are aiming for the Chinese and Japanese markets. The market segmentation would increase the chance of success for A Company.

As for the demand side, according to the buyers, the price range of white sesame has been 1,300~2,000USD/ MT for the past few years. As long as the offered price follows the international range, African product is preferred for its superior quality.

For supply side, based on the market information, the price for peanut is 450 CFA per kg in 2014 and the outturn per hectare is 500 kg. This gives the total revenue for peanut about 450X500=225,000 CFA per hectare. In this case, as long as A Company can guarantee a minimum 225,000 CFA per hectare for the farmer to cultivate the sesame, they would be indifferent to both crops. Given that the output of sesame is also about 500 KG per hectare, A Company needs to guarantee the price of 450 CFA per kg to the farmers in order to attract them to change their crop. Other operation costs (processing, transportation, FOB and freight) are roughly estimated at 210 CFA per kg. Hence, total costs per kg for sesame would be around 450+210=660CFA, equivalent to 1.32USD per kg (with the exchange rate of 500CFA: 1 USD). That means the breakeven point of costs is around 1,320 USD per metric ton. According to the buyers, the average price of sesame is roughly 1,500USD. In between the costs and price lies with the margin.

The price of sesame fluctuates with international supply and demand. When the international price rises, the raw material will normally increase. On the contrary, when the international price drops, the raw material will also drop. The fluctuation is the function of the international supply and demand.

Raw material	Processing & package	Transportation	FOB	Freight	Total cost (CFA/KG)	Total cost (USD/MT)	Selling Price (USD/MT)	Gross profit	Gross margin
450	110	30	40	30	660	1,320	1,400	80	6%
500	110	30	40	30	710	1,420	1,500	80	6%
550	110	30	40	30	760	1,520	1,600	80	5%

Table 4-3 White sesame profitability analysis
Sources: Researcher

Raw material	Processing & package	Transportation	FOB	Freight	Total cost (CFA/KG)	Total cost (USD/MT)	Selling Price (USD/MT)	Gross profit	Gross margin
600	110	30	40	30	810	1,620	2,200	580	36%
650	110	30	40	30	860	1,720	2,300	580	34%
700	110	30	40	30	910	1,820	2,400	580	32%

Table 4-4 Black sesame profitability analysis
Sources: Researcher

5-Year Financial projection

Unit: USD/MT

Income	Description	2015	2016	2017	2018	2019
Sales of White sesame	1500USDX500MT	750,000	900,000	1,080,000	1,296,000	1,555,200
Sales of Black sesame	2300USDX200MT	460,000	552,000	662,400	794,880	953,856
Total revenue		1,210,000	1,452,000	1,742,400	2,090,880	2,509,056
Costs of goods sold						
White sesame	1420USDX500MT	- 710,000	- 852,000	- 1,022,400	- 1,226,880	- 1,472,256
Black sesame	1720USDX200MT	- 344,000	- 412,800	- 495,360	- 594,432	- 713,318
Gross profits		156,000	187,200	224,640	269,568	323,482
SG&A	shared overhead	- 50,000	- 55,000	- 60,500	- 66,550	- 73,205
Salary		- 45,000	- 49,500	- 54,450	- 59,895	- 65,885
EBIT		61,000	82,700	109,690	143,123	184,392
Tax	15% tax rate	- 9,150	- 12,405	- 16,454	- 21,468	- 27,659
Net Income		51,850	70,295	93,237	121,655	156,733
Net present value		48,009	65,088	86,330	112,643	145,123
Total net present value	457,194	with 8% required return rate				
Initial capital	200,000					
IRR for the project	129%					

Table 4-5 5-Year Financial projection for sesame seeds in A Company
Sources: Researcher

Although the project takes a high initial capital to start with, the revenue is expected pick up quickly in the next few years. A Company has prepared a five-year projected financial statement to illustrate the potential return of the project and facilitate a long-term planning.

From the five-year projection, it is conservatively estimated that the annual sales of white sesame to be 500MT and black sesame 200MT, and the volumes will grow 20% annually afterwards.

- For the costs of goods sold, our estimated costs for white sesame are 1,420 USD when its average price is 1,500 USD and they are 1,720 USD for black sesame when average price is 2,300 USD.

- The exchange rate has great impact on the profitability of commodity, as the profit margin is small and volume is high. As the US dollars appreciate more than 10% recently, A Company will become more competitive in the procurement. The average exchange rate in the past is 500:1 and will serves as the base rate in the projections.
- The average costs and revenue are projected to increase 20% annually.
- The SG&A is 30% out of the total company's SG&A. And it increases at the rate of 10% annually afterwards.
- The salary includes the salary of local manager and three team members. And it increases at 10% annually afterwards.

The projected financial statement demonstrates a total profit with net present value for the five years to be 457,194 USD and the Internal return rate is 129% against the initial capital of 200,000USD. The required return rate is 8% in this case.

4.2.5 Phases of implementation of transformation

Although A Company is desperate to succeed in the diversified business, it still takes several phases cautiously to transform. With step-by-step transformation, A Company not only become more resistant to the fierce competition and to dramatic fluctuation of their business but also is able to grow in size and volume.

Phase 1: Information collection and competitiveness analysis

Passed in 2014. Sesame proves to be a potential product for A Company with previous analysis.

Phase 2: Customer search and strategic alliance building

Passed in 2014. A Company has searched most of Taiwanese buyers in the market and concluded a test order with one of the biggest buyer in Taiwan.

Phase 3: Test order of white sesame

Passed in 2015. A Company has shipped five containers for test in 2015. And the result turned out to be good. The quality is acceptable to Taiwanese market and slightly better than Asian competitors. However, the purity rate is not as good as required at 99%. Despite this processing problem, the buyer is still willing to guarantee a yearly order of 500MT of white sesame, and will invest to open the market in China. For the black sesame, there is no cap in terms of the volume so far in Taiwanese market once the test is successful.

Phase 4: Test cultivation of black sesame

Ongoing in 2015. A Company has been working on the cultivation of black sesame seeds with eight different groups from different areas in Senegal. Until June of 2015, 3 out of the 8 groups have successfully grown the black sesame meeting the standards. A Company will wait until the harvest and processing, and then send the sample to buyers in Taiwan for testing the market. According the buyers experience, it will most likely to go through.

Phase 6: Large scale cultivation, purchase and processing

Planning for 2016. Once above test is good and machinery is imported and set up. A Company tends to do contract farming with reliable farmers and go for large-scale cultivation, purchase and processing. The market will not be limited to Taiwan, but also China, Japan, and Korea if possible.

Option 1 for future path: to the manufacturer

As local processing quality cannot reach the purity rate of 99%, A Company tends to import the necessary equipment to improve the quality and productivity, but only on the conditions with success in both white sesame and black sesame so that the risks will be minimized and costs can be spread. The machinery is not only useful for A Company's products, but it can also apply to rice, beans and many other agricultural products, thus bringing more opportunities and revenue to the company and it could help the company to develop agricultural product into an independent product line in the future.

Option 2 for future path: to the brand builder

As organic foods are the trend of the food industry, A Company can introduce the organic foods procedures with its contracted farmer. So, both the farmer and buyer can benefit from the product differentiation and avoid the trap of commodity that only competes with price. A Company can then build a brand and reliable supply of sesame in Senegal as its next core business.

Both solutions are possible for A Company. However, it takes different capabilities, assets and strategies and a complete analysis of the context to make the right decision. Before that, A Company has to focus on what it is doing now and it must conduct the transformation gradually and continuously rather than suddenly and dramatically.

Chapter 5 Conclusions and limitations

5.1 Conclusions

Many people tend to design or find the product with absolute advantage, but it is rare. Even if it exists, most likely someone is doing it already. The chance of inventing a new product with killer application is very low if we look at the general probability. On the contrary, most of the time, we will find ourselves doing something others have done already or are doing. More embarrassingly, sometimes they are doing much better than we do. Even so, we will still do it because we choose to. Even Warrant Buffet said out of all the decisions he made, only 31 of them are right, which is enough to make him a billionaire. Everyone has to make choice. The questions are whether if we made the right choice and how to do it right.

This research describes, as the first step, on how to leverage the comparative advantages at country and company levels to reverse the intrinsic disadvantageous situation a trading company faces in the market. *THE ARTS OF WAR* says: “Do many calculations lead to victory, and few calculations to defeat” and “If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle. “It is the same when we do business. We have to do a lot of calculations before actions. We also need to know ourselves, both the strengths and weaknesses. Nowadays, very little absolute advantage exists because everyone can do the same thing. As a result, it will be very useful to think of comparative advantage, as well as differentiation. Take A Company for example, it won’t succeed if they do the same fish business in China due to lack of advantageous resources. However, by switching the battlefield to Africa, it is doing very well for the same business. Why? Because of comparative advantages!! As a result, the first step to start up a business is to understand and leverage the comparative advantage and take full advantage of endowment one has. Then the business is already on its way to success.

Secondly, a business must create value. As shown in this research, there are many ways for a trading company to create value. The more values it creates, the more competitive it will be. Again, with same concept of comparative advantages, the value may not always be the product. Information, trust, and ability could be more valuable for a trading company could be e. Most of the time, there is a gap in the cognition of value between suppliers and buyers. The problem is not what we want to sell but what customer needs. The value depends not on the supply, but also on the need. The more the customers need it, the higher value the product or service has (cognitive approach).

Thirdly, the research explores many ways to avoid the commodity trap of competing with price only. Be warned, one should not simply imitate the way others are doing and should not try to incorporate every single tactics into their business. Finding the right and suitable strategy is the key. The competitiveness must be relative, as Michael Porter pointed out in his famous article-*"WHAT IS STRATEGY"* (1996): when every player pursues operational excellence, it only makes them worse off, instead of better off. "A company can outperform rivals only if it can establish a difference that it can preserve" as Michael put it. As a result, one should leverage the difference that has most impact with justifiable costs. Be brave to be different!

Business model is the fourth point the research tackled. The business model may be designed specifically for a particular company, but it can actually serves as a pattern, which can be re-applied for future products or a new business. This research identifies the pattern of product development and designs a flexible business model that can be used for most of the cases. The pattern of business model minimizes the switching costs and time among products and customers. For the pattern to work, most of the factors in the business model should be constant, with only two variables – product and the customers. For the constants, we needs to standardize them and improve continuously, while for the variables, we needs to watch the changes closely and keep looking for new opportunities for bringing in additional profit. In addition, it is not necessary to always search for new products or customers. Actually, an upgrade or deepening of the existing ones may also work. In this fast changing world, speed is the key to success. A capable trading company must have a portfolio of products, and must be able to quickly switch the offered products based on the market demands. Keep in mind that the product that works this year may not work next year, and what did not work out last year may come out strong in the next year. It is all about timing and it is the reality of a trading company. A good business model will keep the essence and help us to draw the lines when we need to change. In the end, the best way to develop a product is to find one that fits readily into the pattern instead of designing whole new business model for every new product.

Fifth point covered in this research is the perspective about uncertainty and chance, and risk and opportunity. No products will last forever in generating good profit margin, as is basic concept in Economics. In addition, the supply and demand will change all the time leading to frequent fluctuations. With these two factors, it creates uncertainty and risks but also chance and opportunity. Risk may be linearly related to the profit: the higher the risk the higher the rewards. As a result, embracing an acceptable level of the risks may bring surprise rewards. As pointed out in the book of Taleb Nassim (2013), *ANTIFRAGILE* – “everyone can make profit or bear loss in the fluctuation. The fragile one bears the loss in the fluctuation and uncertainty. On the contrary, the anti-fragile one can not only avoid the loss, but also a profit out of them.”

Lastly, the researcher provides a model for decision making- the balance of opportunity cost and comparative advantages. When it is hard for us to make a decision and it seems that there is no way out, one should always think of comparative advantage. There is always an Achilles’ heel in the system or for the competitors. If we have a relative advantage, we have the chance to win. But don’t forget, when making a decision, one should always bear the opportunity cost in mind. With the concept of opportunity cost, one will only selectively take things that are BETTER. Back to the little story of Peter and Joe, Peter won’t work as a carpenter but will happily be a dentist, which is the same for Joe. In brief, comparative advantages make sure we can win and opportunity costs make sure we do not stop.

To summarize, as a Chinese saying goes: “Timing, Position and People (天時，地利，人和). Those who have them all will take all.” Since timing has been a relatively uncontrollable factor, one can always prepare themselves for the other two factors: with good position and right people. Through this case study, we see how a trading company chooses its position and how it organizes its people with a flexible business model and standardized process of product development to succeed in the fast changing and competitive world. It can serve as a good example for people who would like to start an international trading company from scratch, show them the possible problems on the way, and guide a path to transformation.

5.2 Limitation

1. Due to time and manpower constraints, the collection of data and information inevitably has discrepancies.
2. The dissertation and interpretation of the data are based on personal experience and logic thus might be biased and distorted. As a result, it cannot be applied to every case.

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