

How do COFCO Effectively Manage Their Operations and Coordinate Production Across Borders?

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Abstract: In today's increasingly developed cross-border business model, multinational enterprises are facing great opportunities as well as great challenges among industries. This essay focuses on how COFCO, as the largest food industry chain enterprise in China and even Asia, can realize the coordinated operation of cross-border industry chain through VRIO theoretical framework, hoping to bring some research value to such industries.

Keywords: Multinational Enterprises; Operation; Coordination of Industrial Chain.

1. Introduction

As a world-class comprehensive import and export supply chain enterprise and a famous food producer, China oil and foodstuffs Corporation (Hereinafter referred to as COFCO), committed to becoming the leader of the global agricultural industry cluster, the COFCO has trade relations with over 50 countries all over the world, mainly in America, Europe and Asia-Pacific (COFCO 2020). As the oldest and largest Chinese state-owned enterprise, COFCO has nearly 11,000 employees worldwide (COFCO 2020). COFCO is developing steadily in the global agricultural industry with its successful sustainable strategy.

Based on the analysis of COFCO case production and operation, this essay mainly analyzes the internal conditions and external environment of COFCO to analyze how the company can effectively manage its operations and coordinate production. The theoretical framework used in this essay includes VRIO framework analysis and Pentagonal analysis. These analyses help to determine feasible strategic positioning and solutions for COFCO case studies.

2. Method

Based on the question to be studied in this essay, how multinational companies can effectively manage their operations and coordinate production, so the author mainly focuses on mature multinational companies established over ten years in the selection of companies, which is conducive to the analysis of the company's development process and past encounters bottlenecks or barriers. Founded in 1949, COFCO has entered the Fortune Global 500 more than 20 times^[1]. As a diversified group company, COFCO Group has expanded from "planting-purchasing-storing-processing" to "trade-brand-distribution", this industrial chain strategy has obvious industry characteristics. The combination of products and services of many brands under the company has obtained a good market response from the global market. Therefore, this is a state-owned enterprise with great research value. The main content of the essay is obtained through second-hand data, such as Google scholar and the company's official website annual report. Due to the firm's outstanding representation in the industry, the available reference materials are large and valuable. However, due to the lag of literature and the limitation of company data, the author will mainly conduct an objective and critical secondary analysis of effective information.

3. Findings

With the implementation of global integrated trade and the vigorous development of the E-commerce industry, COFCO's financial indicators for the past three years show that the average annual sales exceed 30 billion US dollars (COFCO 2020). This essay will focus on the analysis of COFCO's main business--agricultural product import and export trade. The main production and operation mode of COFCO can be summarized as the whole industry chain mode. COFCO's raw material suppliers come from major production regions such as the South America, Europe, Australia and Asia Pacific, but the marketing network is spread all over the world (COFCO 2020), which is an obvious feature of the global industrial chain. In terms of the whole industry chain is that starts from the source of the industry chain, through the cultivation and procurement of agricultural products to logistics and transportation, and then from deep processing of food to product sales and brand promotion, to ensure that every link of the industry chain can achieve quality traceability, so as to achieve the business philosophy of product safety, health and nutrition (Bell 2016). This operating model of the whole industry chain must be based on the firm's strong capital, because it requires considerable cost and technical support^[2].

According to the data of the company's official annual report, COFCO's competitive advantage is unique and obvious, because the firm is based on the steady growth of food consumption demand in the Asian and global markets, from production to sales. With a

unique industrial chain model and logistics system, the COFCO has reshaped the traditional model of the global agricultural industry, and is one of the few in the same industry. This cross-regional strategic model just confirms the “Belt and Road” policy advocated by the Chinese government in recent years.

4. Discussion

This essay will focus on analyzing the company’s internal environment and industry environment, so the main theoretical frameworks used are VRIO analysis.

4.1 VRIO

4.1.1 Valuable

The COFCO’s most valuable capabilities are its product quality and marketing strategy, which is beneficial to COFCO achieving brand promotion and market penetration. From 2009 to the present, it is the fastest development of COFCO in the past ten years, the COFCO has successively merged and acquired the farms and factories in Australia and other countries as its exclusive raw material production base (Bell 2016), and then with the rise of the Chinese E-commerce era, COFCO has achieved a change from B2B to B2C marketing model (COFCO 2020), rapid scale expansion and increasing market share have made the COFCO’s resources and capabilities increasingly strong, which constitute the company’s core competitiveness and absolute advantage, which can make COFCO resist the threat of potential competitors^[3].

4.1.2 Rare

In terms of rarity, the COFCO has been using unique production mode and advanced production technology. In the production process, artificial intelligence technology is used to replace the original production of workers (COFCO 2020), which not only saves costs but also improves the production efficiency of products. In the sales stage, the company has a diversified product portfolio strategy to suit the consumer preferences of different consumer groups (Hudson 2017). In the after-sales phase, the COFCO has strict market research to adapt to the rapidly changing market situation (Hudson 2017).

4.1.3 Inimitable

COFCO’s strategic concept of the whole industry chain is the company’s unique advantage. COFCO insists on strict control of planting and land selection among upstream stages; and achieves full tracking of product quality during processing to ensure food safety; In the downstream link, through technology research and development and innovation, provide consumers with healthy products (Bell 2016). In addition, the COFCO encourages internal entrepreneurship and research and development of new products (COFCO 2020), so that the R&D team of COFCO can always provide innovative products and suggestions for improvement. Continuous innovation enables the company to stay ahead of the industry, this unique production and operation model is difficult for other competitors in the same industry to replicate.

4.1.4 Organized

Any mature and successful company cannot do without an excellent human resources team within the organization. During the seventy-year development process, COFCO has always paid attention to employee training and welfare policies (Bell 2016), thus making employees’ job satisfaction and working ability very high. As a state-owned enterprise, COFCO Group’s correct and progressive corporate strategy at the leadership level is also a prerequisite for the company’s growing capital.

4.2 Threats and opportunities

As COFCO has many competitors in the same industry in the domestic market and the international market, the oversaturated current market status makes it more difficult for COFCO to maintain a higher market share, and the company’s cost in the process of developing new products is also increasing (Hudson 2017). Against this complex and potentially threatening background, exploring emerging markets is the main opportunity companies should seek. For example, the COFCO should consider reverse innovation such as spreading market targets to developing countries, which will further increase product market share.

5. Conclusion

COFCO’s strong resources and capabilities prove that the company has good development prospects. Even so, in such an era of intensified competition and economic downturn, it is necessary to maintain development strategies and innovations that keep pace with the times. As shown and emphasized by the pentagon analysis, important core capabilities depend on relevant proprietary product features or relevant technical support. Although COFCO is close to a semi-monopoly situation in the Chinese domestic market, this may stimulate competitors to be more aggressive from the global markets, and such potential threats will bring the company’s future trade barriers.

References:

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