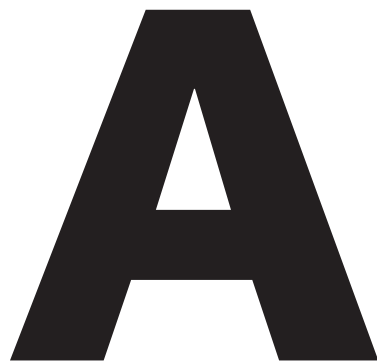


SPLIT THE CONTROL BUT CONTROL THE PARTS

How manufacturing companies with a new understanding of networking are opening up global markets

Dr. Thomas Troll, ROI Management Consulting AG



An example from the Greek construction materials industry shows how many international markets can be developed and dominated successfully over a significant period with just one product. Marble from the island of Paros was a major luxury export hit that for a long time was considered to be a mandatory feature of European government buildings and villas of the wealthier classes. Greece continuously improved extraction techniques, maintained intercultural exchanges along the supply chain and thus succeeded in opening up more and more new markets. However, this success story unfortunately came to an end just over 200 years ago when a competitor from Carrara in Italy proved to be able to produce the precious blocks of stone faster and more demand-oriented thanks to technical innovations in processing.

"It is not the interests of individual regional locations that count but the benefits for the overall corporate network."

Raw materials, products, customers and the value chains connecting everybody with everything may have changed in the meantime, but the challenge remains the same. How can markets be developed and how can concrete and financial value chains be managed that span the entire globe? And

above all, how can continuous improvements be made to consolidate a position already reached and to develop it into a 'leading network'? There are two essential conditions for this process:

1. The question 'What does the customer expect of me?' is answered from a consistently global perspective. It is not the interests of individual regional locations that count but the benefits for the overall corporate network.

2. The design of the value chain does not end at the warehouse exit but covers all interconnections within the network – in other words: 'How do I need to deliver my products?'. Here it is vital to find the right balance between speed and the costs of production and transportation.

Six Starting Points for a Modern Network Strategy

A purely regionally motivated expansion- or wage-oriented location strategy is no longer in keeping with modern times, since such a strategy and doggedly holding on to traditional location structures exacerbate two risks. First, wasted time, budget and resources drive up actual costs and prevent sales potential from being exploited. Second, this strategy endangers a company's agility when it comes to changes – but it is exactly this agility that has made a decisive contribution to the strength of global players.

Forward-looking manufacturing companies shape their global footprint using a clear, active process cycle. This includes six steps that, taken together, form a leading network: motivation, combination, allocation, creation, organization and participation.

Motivation: knowing requirements

The reasons for or against a production location usually result from the necessity of resisting competitive pressure in the supply chain through shorter paths. It is not just in the car industry that delivery times are growing continuously shorter but also in machine engineering and in other manufacturing industries. At the same time, cost pressures are growing, meaning that lower costs at a new location appear as an ideal safety valve. It is therefore important, first and foremost, to know accurate customer and market

requirements. Does the customer wish to see us as a producer present in the local market? Is speed or price the main factor in growth?

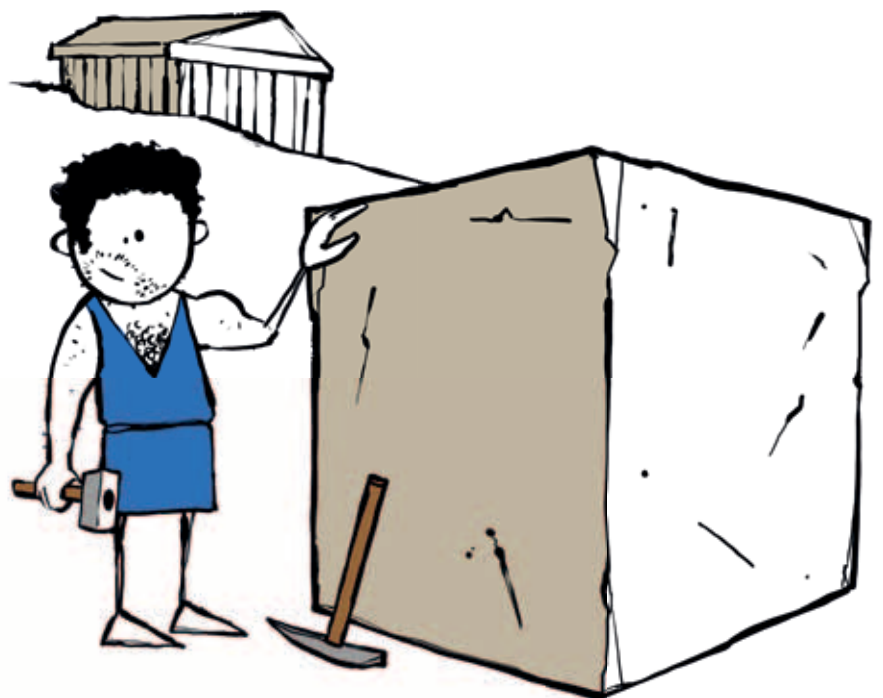
Combination: balancing production and acquisition

Added-value alternatives should be played through at each location – what can be produced in house and what can be bought in e.g. from suppliers and their networks? The primary aim is to clarify whether the interplay of the company's own market, production and organizational strategies can merely be adapted to existing market requirements or whether overall economic conditions should be shaped. Clearly identifying the company's own core competences helps in this case. Are there requirements that may perhaps be better met by the local supplier and partner network?

Allocation: assigning products

Finally it is important to ascertain who should do what in the network. This can also result in displacement and closures. Many locations are characterized by the conception of themselves as unique units or country representations. In these cases the core challenge is to change this conception from seeing themselves as the 'regional hub of the world' to an acceptance of being part of an agile, versatile network. Here the supplier and logistic structures must be taken into account that with their individual networks can ultimately either run the added value network of the entire cycle smoothly or impede it. The global view is again all-important.

"The principle of 'faster and cheaper' is not sufficient for shaping a global network."





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Creation: defining production processes

A location can often provide a blueprint for a successful manufacturing concept, for example lean production. But changes in technical equipment also play a central role. In this case, the question is if similar outcomes can be achieved through standardized machinery or production concepts at different locations, thereby avoiding fluctuations in demand simply through relocating machines? Or is automation not worth it since wage costs are to remain low over the medium to long term?

Organization: creating balance between central requirements and local responsibility

Adjustments in the network organization are generally made in two steps. First, the decision for or against a location has to be made before controlling is designed. According to the principle of central governance but local profit responsibility the balance between pre-

scription and leeway for decision making is crucial. The principle of hierarchical management continues to exist, but this management should be aware of the capabilities and the local agility of the individual locations in detail and allow or restrict freedom of action accordingly.

Participation: weakening competitive attitudes and strengthening best-practice experience

Local control will only work well if there is a strong awareness of responsibility for the systematic development of the nodes. How can the individual location be improved in terms of the core dimensions of quality, costs and timing? How can common learning be achieved from best practice experience and common goals agreed instead of potential and strength being wasted in internal rivalry?

Ultimately, checking the entire cycle on a regular basis is necessary, since a leading network bases its claim to lead on being able to respond and adapt quickly to market changes, crises and new development opportunities.

Countering complexity with foresight

Depending on the size of the network, the process sketched out requires three to six months to be implemented systematically. During this phase there will inevitably be conflicts and barriers to understanding that should not be regarded as obstacles but instead used for improvement through concrete questioning. However, the biggest challenge is in dealing with the complexity of a global network correctly. Managing and developing it requires an enormous effort in order to overcome economic, linguistic and cultural differences. Different taxation and customs systems, public holiday arrangements and time zones that need to be included in work-

flows are only the tip of the iceberg.

In general, the network will only work as good as its management. In this respect, it is advisable to

"The ability to disengage from one's current perspective is essential for the existence of the network."

systematically equip prospective managers with a global career plan at an early stage. This will not only create just a regional but also an international management network. Another essential factor for the continued long-term existence of the network is the ability to always disengage from the current perspective. In other words, to develop scenarios on a regular basis that sketch out the future changes in the market. The sooner these points become a matter of course, the better will be the chances of survival for a leading network – perhaps even for the next 200 years.

