

A large, stylized blue chevron graphic pointing to the right, with the text "High performance. Delivered." centered within it.

High performance. Delivered.

How to Build A Successful Global Operations Model Podcast Transcript

Speaker: I'm Paul Bushet

There is no one-size-fits-all approach. But every winning global operations strategy rests on six key capabilities.

Host: Hello, I'm Paul Bushet, your host for the Accenture High Performance Business podcast series. Since 2007, Accenture has presented podcasts about the pursuit of high performance in business today, drawing upon years of specialized research and articles which originally appeared in Outlook, our journal of high-performance business. Our earlier podcasts detailed the three key building

blocks of high performance. We now examine what constitutes the distinctive capabilities building block, an essential but elusive element for achieving high performance.

As before, some podcasts highlight our early research around the principles of high performance. Others, such as this one, are based on more recent work and focus on how companies can apply these principles.

Opening

Narrator: How To Build A Successful

Global Operations Model.

As sources of both supply and demand, emerging markets like China, India, Eastern Europe and Brazil are rapidly gaining importance for corporations in the mature economies of North America, the European Union and Japan. But recent Accenture research reveals few corporations have implemented the integrated global operations strategies and capabilities needed to effectively penetrate these emerging markets, fend off new competition, and boost productivity and top-line growth, while simultaneously serving mature markets by leveraging low-cost sourcing and

manufacturing opportunities.

Indeed, almost 90 percent of the U.S. and European corporate executives we interviewed report an adverse business impact from poorly designed or executed global operations. Accenture defines global operations as the sourcing, manufacturing, distributing and supporting of a company's products and services worldwide. Nearly half the executives blame a poorly designed or executed global operations strategy for their companies' failure to grow share in important new markets, meet time-to-market objectives for new products and use emerging markets for cost reduction.

Given the size of the opportunity, it's not surprising 93 percent of these executives consider global operations central to their business strategy. Moreover, 97 percent say they are attempting to upgrade global operations.

What is surprising? Only 50 percent report successfully implementing these critical capabilities. Despite years of expansion into emerging markets through both sourcing and sales, many report their organizational and process capabilities are still fragmented across markets.

Their key challenge is to simultaneously develop the ability to source, manufacture and ship goods from low-cost countries while meeting the service, time-to-market and quality standards of mature markets and the requirements of growing markets.

Part 1 – Meeting Two Challenges

Why are so few companies, despite their efforts to upgrade global operations, failing to get results? Accenture research confirms that for most of them, establishing a global footprint has meant working through functional or regional silos rather than taking an integrated, global approach.

Say, for example, that a company decides to manufacture in China. The board hands the task over to a vice president of

manufacturing. A year or two later, the hypothetical company has a plant up and running in Guangdong. But it has no overall end-to-end supply chain capability to account for lead times increasing by four weeks. This affects how the company sells its products, takes orders, plans distribution, sizes warehousing and manages inbound and outbound logistics.

Bringing together the worlds of product, market growth and operations strategy is a prerequisite to success in both new and existing markets because it ensures operating models meet both needs. Our experience with clients demonstrates the critical importance of a holistic approach to a global operations model, one addressing and integrating all aspects of global operations.

Companies attempting to penetrate new markets without a specific product portfolio redesign and without rethinking channel approaches, make-or-buy strategies and back-office capabilities are in for a rough time. In turn, companies forced by emerging competition to realign cost targets at a global level require a whole new "top-down" strategy for sourcing, manufacturing and distribution. But they also must ensure that leveraging low-cost countries doesn't jeopardize other strategic objectives like time-to-market targets. Too often, companies address cost-cutting strategies with a silo-based mentality and overlook the implications on new product introduction lead times and customer service effectiveness.

Part 2 – Key Capabilities

Although there is no one-size-fits-all approach, six key capabilities underpin every successful global operations model. Let's take a moment to look at each:

Key Capability Number One – An effective global, integrated sales and operations planning process for key markets to ensure customer service, time-to-market, inventory and cost objectives.

Key Capability Number Two – A procurement, manufacturing, distribution and R&D network designed to deliver a quality product, in the scheduled time frame, at target objectives for cost-of-goods sold and time-to-market.

Key Capability Number Three – Tight links with customers and suppliers to enable improved demand visibility, customer service, and reduced working capital and cost-of-goods sold.

Key Capability Number Four – Logistics partnerships to ensure efficient and time-effective low-cost-market sourcing and penetration.

Key Capability Number Five – Effective supplier recruitment, certification and alignment programs to ensure quality and service objectives in addition to cost.

Key Capability Number Six – A go-to-market strategy for emerging markets incorporating product portfolio, channel, network, and make or buy decisions.

Part 3 – Product-specific Models

Virtually all company executives agree these capabilities are crucial. But how companies create or optimize their global footprint is neither simple nor template-driven.

Operating globally often requires companies to restructure traditional organizational boundaries. Many take a country-based approach for sourcing, manufacturing and selling. But a well-oiled global operating model with adequate degrees of responsibility and capability at all levels—global and regional as well as country—might require country or regional managers to surrender specific responsibilities to a higher level. This often entails change management challenges.

The appropriate operations model for a product line should be based on a calculated, product-specific balance among time-to-market, service and cost objectives. Such a balance is influenced by such factors as individual product

demand and supply complexity. "Demand factors" include product differentiation, range, lifecycle, risk of obsolescence, promotional intensity, freshness and other product characteristics. "Supply factors" include such drivers of cost as scale, labor and technology; complexity of the bill of materials needed for product manufacture, lead times and lot sizes.

Zara, the Spanish-based fashion leader, is an excellent example of a company implementing two different operations models for two different market needs. Zara launches more than 11,000 new designs each year. The company has crafted a model in which product development takes weeks, as opposed to the months its competitors take. New product introductions to stores take place every two to three weeks. Because short-lifecycle fashions represent the majority of its sales and profits, Zara deploys a supply model based on quick feedback from stores. Each store manager tracks customer opinion and relays it to the regional manager. The manager in turn passes this on to the product development team, which can quickly come up with a new design to meet current trends.

For this core model, the company uses mainly onshore manufacturers in Spain and Portugal, although the number of Asian suppliers is being increased to serve growing demand in the Far East. The company books manufacturing capacity in advance, committing to make a certain number of blouses before it knows their color and style. The combination of instantly relaying customer insights and booking onshore capacity in advance means Zara has new products on store shelves within four weeks of the moment a store manager detects a fashion trend. Stores in Europe, the Americas and Asia are replenished, on average, twice a week. Average product shelf life is two to three weeks.

For basic products like T-shirts and underwear—a product group representing less than 30 percent of revenues—Zara relies on low-cost offshore or near-shore

manufacturers in countries like China and Morocco. This product group's larger orders, relatively predictable demand and long shelf life make it possible to source from lower-cost locales.

A leading mobile phone manufacturer sells to highly customized market segments with short lifecycles. It relies on a similar supply model, focusing on frequent and rapid product introductions supported by a global supply chain that gets high marks for flexibility and efficiency.

The company implemented a global supply web in which an information hub links suppliers and plants, supporting vendor-managed inventory and collaborative planning. It deploys rapid-response manufacturing; its nine plants switching among product lines with exceptional speed. These factories tend to be grouped in semi-independent clusters serving one of three global regions—Europe, the Americas and Asia. The company also leverages quick-ship logistics, often exceeding customer expectations on quantities and delivery schedules.

The company benefits from aggressive inventory controls, with minimal material stocks and handset production well matched to demand. It also is a worldwide cost leader. The operating model helps the company maintain its reputation as a strong brand with equally strong financial results.

In the global economy, companies that operate a collection of international businesses cannot hope to achieve this kind of performance without a well-designed, integrated operating model. Such a model must tie together R&D and time-to-market activities, sales and operations planning, order management, global logistics, sourcing and procurement, and manufacturing.

This does not necessarily mean global leaders have centralized these functions. It simply means they have thought them out carefully in terms of supporting the

business objectives associated with each product line, and adequately assigned roles and responsibilities at the global, regional and local levels. For example, new market segments and channels will often require country-based supply chain configurations.

Defining the operations model requires careful, initial consideration of trade-offs as well as the competitive identification of gaps. Such a gap analysis might determine a heavy emphasis on cost cutting will jeopardize other objectives.

A different trade-off analysis might address R&D and new product introduction. Can a centralized research and development model deliver innovative products and services to markets as diverse as China, India and Brazil? Obviously, new markets require differentiated – and often original – product and channel strategies. In this context, R&D networks offer the possibility of market focus and global leverage.

Conclusion

Global operations can contribute to high performance when companies understand varying market and customer requirements and factor them into specific landed cost and time-to-market targets. This needs to occur early in the new product design and product introduction process, bringing together market growth and operations strategies into a single end-to-end exercise.

By moving quickly, companies position themselves to make the best of both worlds—existing and emerging markets—and to do so ahead of their competition.

Outro

Host: In this podcast, we examined the makings of a successful global operations model. We looked at the dichotomy between universal recognition of such a model's importance and its relative lack of implementation. We reviewed the challenges to implementation, and detailed six key capabilities behind every successful model. Finally, we looked at

how various global operations models can achieve winning results.

We thank you for listening, and hope you found these insights worthwhile and stimulating. In coming podcasts, we will address other concepts drawn from Accenture's High Performance Business research.

For more information relevant to this podcast, including deeper research detail and how your organization can achieve high performance, visit us at www.accenture.com/researchpodcast.