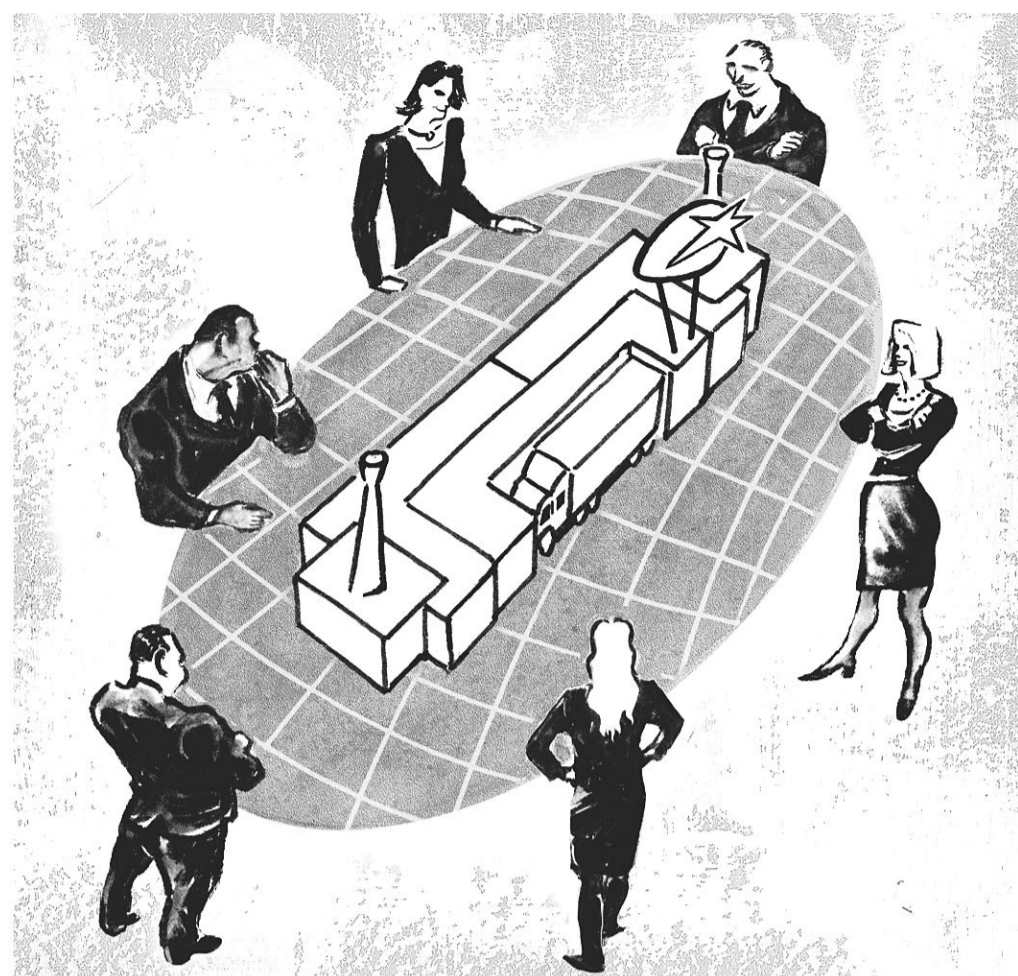
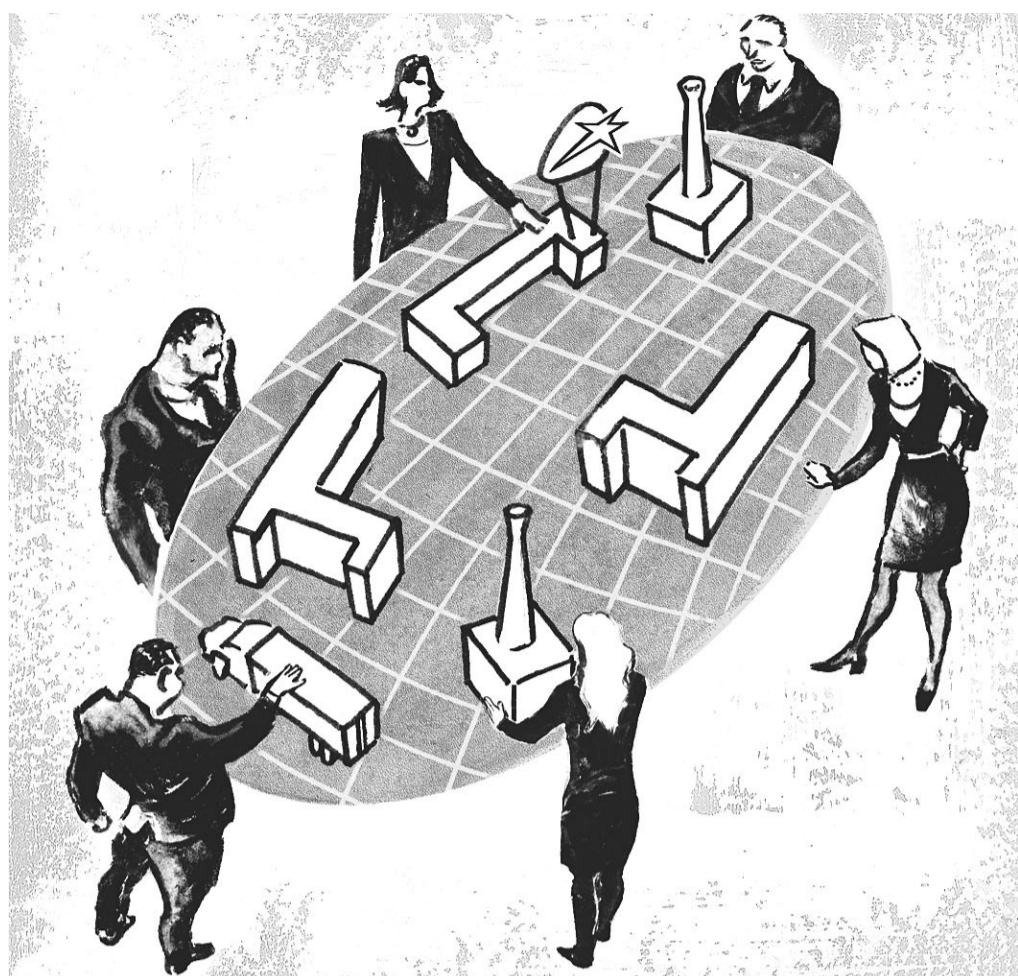


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# HIGH PERFORMANCE



## Forging a Firm Strategy Is Essential for Global Success

By Catherine Bolgar

Growth is the goal for most companies, but especially for those seeking to achieve high performance. The most successful companies — established ones as well as emerging leaders — are finding the greatest opportunities for growth in today's rapidly integrating global market. Participating in that market, however, increasingly requires operating not just on a multinational scale, but on a global one.

Making such a leap is fraught with risks and complications. High-performance businesses create an integrated strategy for making the most of global opportunities, rather than just tacking on additional countries, says Narendra Mulani, Chicago-based global managing director for the Supply Chain service line at Accenture, the global management consulting, technology services and outsourcing company.

"When most organizations decide they need access to global markets, they look at developing new lines of business in growing markets or they look at whether to source from low-cost locations," Mr. Mulani says. "That's a limiting strategy. They need to align both sourcing and demand in the same context, with a single strategic plan that takes it all into account and allows them to meet changing customer needs."

As part of its ongoing High Performance Business research program, Accenture recently conducted a survey of 300 corporate executives to see what the most successful global organizations had in common. Leaders, Accenture found, are proactive, while laggards are reactive. Leaders invest in new plants and equipment, for example, while laggards focus on cutting costs by chasing cheap labor or suppliers. Globalization doesn't just mean producing in low-cost developing countries; it also means tapping rising demand in those countries and creating new markets for a company's goods. Leaders create global strategies that unify both supply and demand, while laggards approach the problem piecemeal.

### A New Era

Many large companies have world-wide reach but "are for the first time saying they have to set up global operations and not just operate country by country. The era of creating and driving high-performance regional and global operating models is here," says Jeffrey Russell, Accenture managing director, supply chain Asia Pacific, speaking from Singapore.

Wärtsilä Corp., the Finnish maker of decentralized power plants and ship power and related services, restructured itself between 2002 and 2004 with the goal of raising itself from the multinational league to the global league. The changes included creating decentralized delivery centers that are responsible for everything concerning orders. Their authority ranges from pur-

chasing parts, to assembly, testing and delivery. The changes added both capacity and flexibility, and Wärtsilä was poised to capitalize on a strong market upturn in 2005, says Lars Hellberg, group vice president of industrial operations in Helsinki.

The 16 delivery centers around the world "give us flexibility, while maintaining a focus on quality and product reliability," Mr. Hellberg says. "That set the baseline for the future for cost-effectiveness and productivity."

Meanwhile, Wärtsilä followed its customers to Asia, creating six production sites there, mostly through joint ventures and partnerships. "We get quicker market access because our partner is a local player," Mr. Hellberg explains. And in a multipolar world where new rivals surface in unlikely corners, partnerships mean "we work with potential competitors rather than against them," he says.

In creating truly global operations, organizations need to identify drivers of cost in the supply chain, manage risk effectively and optimize the supply chain from end to end, rather than by one product at a time, says David Simchi-Levi, professor of engineering systems at the Massachusetts Institute of Technology in Cambridge, Mass. "We see companies shifting from a static supply-chain strategy to a dynamic one. Such flexibility can be expensive, so it's important for companies to identify when, where and how they need that flexibility."

*High-performance businesses "recognize they have to strike the right balance: global and local. Those that get it right recognize that the customer is at the local level."*

Gallina Blanca-Star Group, a Barcelona-based maker of food products, such as soups, sauces, flavorings and seasonings, provides the products demanded by each of the 70 countries it serves by applying a flexible global supply-chain strategy. "A central planning group with the responsibility of efficiently managing the full chain makes the decisions related to the medium- and long-term horizon," says Jaume Canamasas, corporate planning and logistic director. "The decisions over the short-term activities are kept at the local level."

Gallina Blanca has found the right balance between the two contradictory priorities every company faces in being globally competitive: costs and customer desires, says Jaume Ferrer, managing director for Accenture Management Consulting in Europe, the Middle East, Latin America and Africa, speaking from Barcelona. To cut costs, companies need to standardize as much as possible and employ economies of scale. But customers don't want standardized products; they want customization, and they want constant innovation.

To find the optimum point between these competing priorities, companies need to decide how they want to differentiate themselves, Mr. Ferrer says. Will it be on price,

innovation, quality or something else? Each choice entails a different global operating model. Indeed, Wärtsilä decided on a decentralized model to produce its highly customized power systems, while Gallina Blanca uses a more centralized supply chain with specialized manufacturing to accommodate sharply different local tastes.

While taste in foods differs greatly from country to country, taste in fashion is surprisingly universal. "Our experience is that when something is good, it's good everywhere," says Jesus Echevarria, managing director for communications for Inditex SA, based in Arteixo, Spain, and the parent company of fashion retailer Zara. So all stores, from Madrid to New York to Tokyo, receive the same garments.

Zara sets itself apart not by low cost but by innovation, with new looks constantly arriving in its stores. That requires a control on supplies and deliveries that can only be accomplished in-house. Inditex began in 1963 as a clothing manufacturer; it entered the retail segment with Zara in 1975. "We were in fast fashion from the very start," Mr. Echevarria says. "We were reaching stores twice a week even at the beginning."

Zara uses two kinds of suppliers. Half of the production is ultra-fast fashion made at Inditex's own factories in Spain. Turnaround time is two to three weeks for new looks. Another 20% is also quick response, but not

quite as fast, Mr. Echevarria says. For this, the company taps outside suppliers in other European countries and Peru and Mexico. And the remaining 30% comes from external suppliers in Asia, for basic items like jeans and T-shirts, with three to five months' lead time.

By using a well-calculated mix of in-house and outsourced manufacturing, Inditex achieves the right balance of cost control and innovation. Many companies have been rushing to shed their own factories in their home markets and contract with low-cost plants in developing countries, but Accenture's study shows that leaders are moving toward more in-house manufacturing, done at sites around the world.

One example is Sanofi-Aventis SA, the world's third-biggest drug maker by sales. Paris-based Sanofi doesn't outsource production, and it achieves flexibility by having 72 of its own manufacturing sites around the world. The plants are extremely complex and take three to five years to build and get running, and they need to be kept in-house, notes Geoffroy Bessaud, deputy head of corporate media relations. Factories serve not only local markets, but global markets: "We export from everywhere to everywhere," he adds.

The right balance varies by industry — from whether to outsource production or keep it in-house, whether to standardize or localize, and so on, says Pankaj Ghemawat, professor of global strategy at the IESE Business School of the University of Navarra in Spain and author of "Redefining Global Strategy."

In any case, he says, companies need to have an overarching vision or mission. "Otherwise, how is the whole worth more than the sum of its parts?" he asks. "There isn't a blanket imperative to go forth and multiply. It might be better to look at the specifics of your situation."

### Leaders and Laggards

Accenture's survey found that 40% of leaders generate more than 35% of their revenue from outside their home markets, and these same leaders report they expect the figure to rise to 60% of revenue in three years. This compares with 28% and 35%, respectively, for the laggards. Demographics make it inevitable that revenues will slow in established markets like Europe, the U.S. and Japan, while opportunities for growth must be found in emerging markets.

Sanofi already sees this trend. Of its €28 billion (\$43.5 billion) sales in 2007, sales in Europe fell 0.4% from the year before, while the U.S. was up 3.8%, Brazil/Russia/India/China (often referred to as the BRIC nations) together were up 11.5%, and the rest of the world was up 7.8%. Meanwhile, while overall headcount was down 1.5%, Sanofi's staffing outside the U.S., Europe and Australia rose 4.2%.

Asia is accounting for a bigger slice of Wärtsilä's revenue base, 38% for 2007, compared with 36% a year earlier. Meanwhile, Europe represented 38% of 2007 revenues, compared with 39% a year earlier, and the Americas 14% for 2007, vs. 18% previously. The shift carries long-term implications. Wärtsilä's power solutions have life cycles of decades, so sales today mean service contracts far into the future, with more and more of them in emerging markets.

High-performance businesses "recognize they have to strike the right balance: global and local," says Mr. Ferrer of Accenture. "Those that get it right recognize that the customer is at the local level."

High performers see that, on a local level, they can leverage economies of scale, skill and scope in areas such as information technology, human resources, finance and supply chains. And on the global level, high-performance businesses provide coordination among local markets, along with financial backing and standard processes, Mr. Ferrer says. The broad vision is what separates a truly global organization from being a patchwork network, and that which positions it for growth and success.

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