# How to build a successful global operations model

By Jaume Ferrer and Johan Karlberg

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

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 a recent Accenture survey has determined that few of those corporations have implemented the integrated global operations strategies and capabilities they say they need to effectively penetrate these emerging markets, fend off new competition, and boost productivity and top-line growth, while at the same time serving mature markets by leveraging low-cost sourcing and manufacturing opportunities.

Indeed, almost 9 out of 10 survey respondents say their companies have felt a business impact in the past year from poorly designed or executed global operations, which Accenture defines as the sourcing, manufacturing, distributing and supporting of products and services globally. Nearly half of the executives surveyed 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.

The critical importance of emerging markets to the business success of these corporations was evident from the 305 executives who participated in the survey (see page 92). The percentage of revenue their companies generated from emerging markets increased from 27 percent three years ago to 35 percent today, and is expected to grow to 42 percent within three years. This comes as these companies report record increases in the volume of raw, semifinished and finished goods they are sourcing from emerging markets.

Given the size of the opportunity, it's not surprising that 93 percent of all survey respondents report that global operations are a central component of their business strategy. Moreover, virtually all companies surveyed—97 percent—are attempting to upgrade global operations.

What is surprising is that only 50 percent say they have successfully implemented the capabilities that all respondents admit are critical. Despite years of expansion into emerging markets through both sourcing and sales, many companies report that organizational and process capabilities are still fragmented market by market.

The key challenge: to 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.

## Meeting two challenges

Why are so few companies, despite their efforts to upgrade global operations, failing to get results? Accenture research confirms what we've been seeing across all industries and around the world: For most companies, establishing a global footprint has meant working through functional or regional silos rather than taking an integrated, global approach.

Say, for example, that at the board level a company decides to manufacture in China. The board hands the task over to a vice president of manufacturing, and a year or two later, the company has a plant up and running in Guangdong. But our hypothetical company has no overall end-to-end supply chain capability to account for the fact that its lead times have increased 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 that operating models meet both needs. Our experience with clients has taught us that a holistic approach to a global operations model, one that addresses and integrates all aspects of global operations, is crucial.

Companies that attempt 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 that are 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 their leveraging of 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, overlooking the implications on new product introduction lead times and customer service effectiveness.

## Key capabilities

Although there is no one-size-fits-all approach, six key capabilities serve as a foundation for every successful global operations model.

- An effective global, integrated sales and operations planning process for key markets to ensure customer service, time-to-market, inventory and cost objectives.
- A procurement, manufacturing, distribution and R&D network designed to deliver a quality product, in the scheduled time frame, at a target cost-of-goods sold and time-to-market objectives.
- Tight links with customers and suppliers to enable improved demand visibility, customer service, and reduced working capital and cost-of-goods sold.
- Logistics partnerships to ensure efficient and time-effective low-cost-market sourcing and penetration.
- Effective supplier recruitment, certification and alignment programs to ensure quality and service objectives in addition to cost.
- A go-to-market strategy (product

portfolio, channel, network, make or buy) for emerging markets.

### Product-specific models

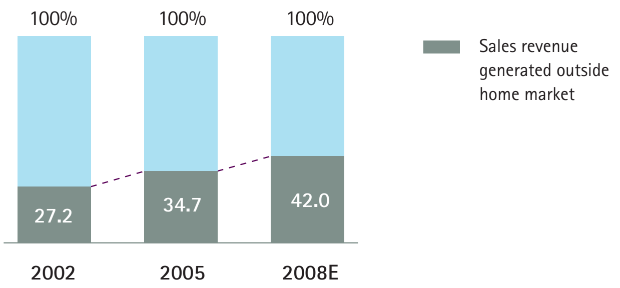
Virtually all respondents to our survey agree that these capabilities are crucial. But how companies create or optimize their global footprint is neither simple nor template-driven.

Operating globally often requires companies to restructure traditional organizational boundaries. For example, many companies take a country-based approach to assigning responsibility for sourcing, manufacturing and selling. But creating 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, which often entails change management challenges.

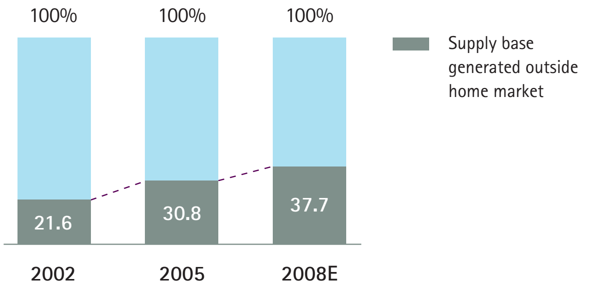
The appropriate operations model for a product line should be based on a calculated, product-specific balance among time-to-market, service and cost objectives. Such a balance is influenced by the individual product demand and supply complexity factors. "Demand factors" include product differentiation, range, lifecycle, risk of obsolescence, promotional intensity, freshness and other product characteristics. Supply factors include drivers of cost (scale, labor and technology), complexity of the bill of materials (a list of all the materials needed to manufacture a product

## Achieving a global footprint

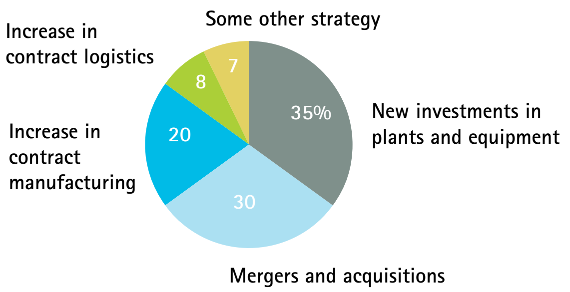
Average percent of sales revenue generated outside home market




Average percent of supply base generated outside home market




Most important strategy company has for achieving new operations footprint




Source: Accenture research

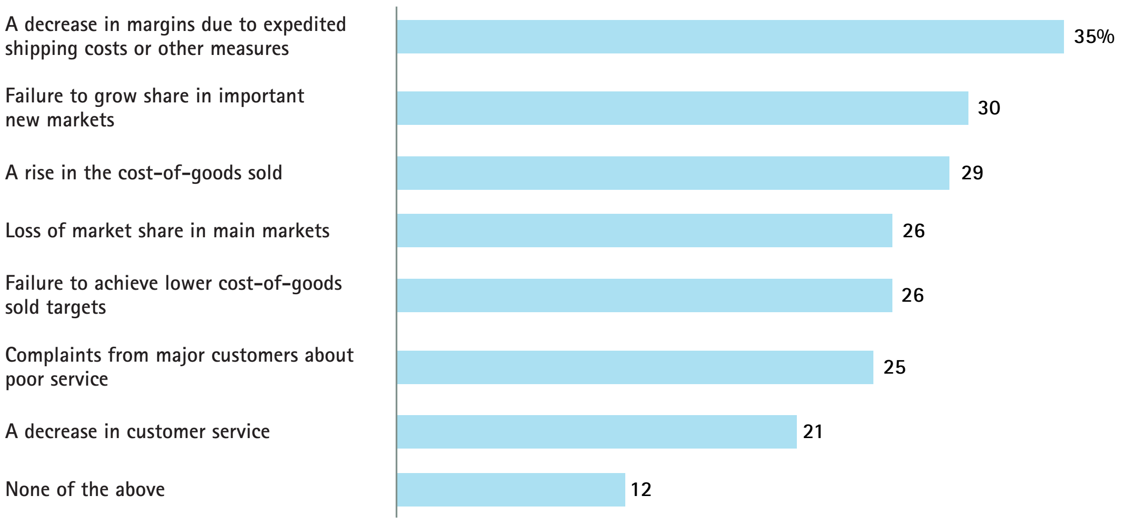
or product component), lead times and lot sizes.

Zara, the Spanish-based fashion leader, is an excellent example of a company that has implemented two different operations models for two different market needs, optimizing the business objectives of each product line. The industry's fastest-growing company, Zara launches more than 11,000 new designs each year. The company has crafted a model in which product development takes three to five weeks, as opposed to the industry average of nine months; new product introductions to stores takes place, on average, every two to three weeks. Because short-lifecycle fashions represent the majority of its sales and profits, the company deploys an onshore/time-to-market rapid-response supply model based on quick feedback from stores. Each store manager tracks customer opinion and relays the information to the regional manager, who passes the regional data to the product development team, which can quickly come up with a new design that meets current trends.

For this core model, the company uses mainly onshore manufacturers in Spain and Portugal, although the number of suppliers in Asia is being increased to serve growing demand in the Far East. The company books manufacturing capacity in advance, committing to making a certain number of blouses before it knows the colors and styles. The combination of instantly relaying

## Paying the price

Survey respondents said that during the past year, poorly designed or executed operations strategies have resulted in the following outcomes that have adversely affected business.




Source: Accenture research

customer insights and booking onshore capacity in advance means Zara can have 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; the average product shelf life is two to three weeks.

For basic products like T-shirts and underwear—a product group that represents less than 30 percent of revenues—Zara relies on low-cost offshore or near-shore manufacturers in countries like China and Morocco. The product group's larger orders, relatively predictable demand and long shelf life make it possible to source from lower-cost locales.

Like Zara, a leading mobile phone manufacturer sells to highly customized market segments with short lifecycles. And it relies on a similar supply model: It focuses 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 can switch among product lines exceptionally quickly. These factories tend to be grouped in clusters serving one of three global regions—Europe, the Americas and Asia—semi-independently. The

## Multiple obstacles

Survey respondents listed the following challenges to effectively running global operations.


Source: Accenture research

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 that is well matched to demand. It also is a worldwide cost leader. The operating model has helped 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 that ties 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 that global leaders have centralized these functions. It simply means that they have thought them out carefully in terms of supporting the business objectives associated with each product line, and have subsequently determined the adequate assignment of roles and responsibilities to 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 initially requires the careful consideration of trade-offs as well as the

## About the research

In June 2005, to better understand executives' views on global operations, Accenture conducted 305 online interviews. Approximately one-half of the respondents (53 percent) reside in the United States and one-half (47 percent) in Europe. Roughly one-half of all respondents are sales/marketing executives and one-half are supply chain executives. About 88 percent of the executives represent companies with annual revenues of US$1 billion or more, and 43 percent work for companies whose sales exceed US$10 billion. China led the list of emerging markets that US respondents desire to penetrate—it was cited as the No. 1 market of choice by 82 percent of US executives. Eastern Europe led the list for European executives, being cited by 66 percent. Among US respondents, India was the second-most desired market (named by 56 percent of executives). Among European executives, China was the No. 2 choice of market (named by 62 percent).

competitive identification of gaps. For example, such gap analysis might determine that a heavy emphasis on cost cutting would jeopardize other objectives.

A different trade-off analysis might address R&D and new product introduction. Will a centralized research and development model be capable of delivering innovative products and services to individual 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.

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 are positioned to make the best of both worlds—existing and emerging markets—and to do it before the competition.

## About the authors

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