


STRATEGIC INSIGHT

VALUE INNOVATION SERIES

V I P GLOBAL ENTERPRISES

OPERATIONAL STRATEGY: BOLD MOVES, BREAKOUT PERFORMANCE

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ViP GLOBAL ENTERPRISES

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Good business strategy plots changes in where a company is going. A winning operational strategy translates that direction into operational reality, creating strategic competitive advantage in the process. Operational strategy finds new ways to structure your business operations and economics to create breakout results in top-line growth, earnings, and valuation.

Today's senior executives are leading in a time of profound change and opportunity, and making decisions in a world environment filled with emerging paradoxes. For example, while the largest world markets are now opening up to companies from all geographies, free information flow and property rights – two fundamentals of free market capitalism – do not necessarily exist in these markets.

And while more individual shareholders exist than ever before, access to capital is increasingly controlled by large shareholders, institutional investors, and private equity companies, significantly curtailing the CEO's ability to impact sources and uses of capital.

Adding to the mix, shifts in worldwide demographics, regulations, technologies, and economics are transforming the operational structure of business. While these business elements are constants, the profound difference today is that nearly any market dislocation can be operationally integrated into a business, regardless of its location.

For example, consider the following arbitrage strategies as opportunities to capitalize in the global marketplace:

1. *Low-cost country sourcing is essentially a labor arbitrage opportunity. Whether in manufacturing, call center processing, or R&D, a company can take advantage of skills and local market wage economics regardless of geography.*
2. *The rise of third-party specialists – logistics providers, contract manufacturers, bill processors – is an arbitrage opportunity between internally available and externally available specialties.*
3. *Increasing trade area tariff agreements represents an arbitrage opportunity between regional trading partners and unaligned national economies. This is fueling the increasing number of regional trade areas and increasing competition for trade between trading blocks.*

The best of the best are exploiting these shifts to make bold operational moves that fundamentally restructure the industries in which they compete. These companies are executing innovative operating models that disproportionately deliver value for their customers and shareholders, often at the expense of all other industry players.

For example, P&G has redefined its R&D model to a global “open innovation” approach that has dramatically increased R&D innovation output while reducing R&D spend. And Dell has built one, global, end-to-end operational chain from customer to supplier and back again that sets it apart from all others in terms of cash flow and responsiveness.

In short, companies are increasingly leveraging these new business conditions to reinvent their cost structures, set new industry performance standards, and create unmatched customer experiences. Changing the game on competitors, sometimes permanently, is the outcome of a winning operational strategy.

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This critical component of corporate strategy cannot be left out or left to chance. Traditional functional definitions of operations tend to drive focus towards operational execution – management processes, organizational structures, and implementation quality. But, it is essential to give strategic attention to the overarching operational strategies that directly impact financial performance and guide day-to-day execution priorities and investments.

So what is your operational strategy and what is it doing for your company? Is it simply making you a better competitor? Or is it positioning you for commanding market leadership? In a volatile environment in which operations have become a make or break proposition, more and more leaders are asking these questions.

Today's Operational CEOs realize that even brilliant business strategies are destined to fail without the right operational strategies to back them up. Our experience points to five essential ingredients of operational strategy:

Transform Market Forces into Operational Advantage

Examine the external macro and micro global market forces shaping your operational context, including macroeconomic, demographic, regulatory, technology, competitor, and customer shifts. Which are putting you on the defensive? How can they be turned to your advantage? What new arbitrage opportunities do they introduce? This is the kind of insight that Black & Decker used to turn a regulatory requirement for double insulated power tools into a new modular product platform that redefined cost and performance in category after category. The same type of insight helped Progressive Insurance transform automobile claims from an unproductive part of its cost structure into a far more economical and valued source of competitive advantage.

Do One Thing Extraordinarily Well

Companies that deliver disproportionate shareholder value identify the one thing above all others that they do extraordinarily well, and then execute relentlessly. Consider the case of Apple iTunes. Its 73 percent share of the digital music player market is fueled by Apple's relentless pursuit of ease of use as a basis of competition. Isolate your company's singular basis of competition. Some companies focus on product leadership, and are consistently first to market with the right new products. Some companies like Wal-Mart are all about cost leadership, attaining the lowest end to end operational cost and the highest productivity. Others are focused on winning based on customer intimacy, delivering an exceptional total

product and service customer experience. Wherever you choose to play, the key is to have the discipline of focus.

Think End-to-End, Continuous, Real-Time, and Horizontally

Every organization has a set of core operational domains that make up its operational model. For most, these comprise some combination of the development chain, the supply chain, and the customer chain. Operational strategy configures these operational domains to deliver against business strategy, and create advantage in their own right.

Drive Innovation in Your Operations and Business Model

Peter Drucker defined innovation as change that creates a new dimension of performance. He also stated that a key accountability of the CEO is innovation. Too often innovation is perceived to be a technical or product-oriented activity. The reality is that operational innovation is creating the commanding leaders today. Will you settle for operational improvement, will you target operational excellence, or will you set your sights on operational innovation? CEOs that don't challenge their organizations to break operational rules and reward them for succeeding will ultimately have to settle for less.

Execute Relentlessly

A complete operational strategy requires a commitment to execution, identifying the critical programs to integrate efforts and making the necessary changes in (1) organization and management systems (2) talent, culture, and leadership, (3) business technology systems, and (4) process architecture. Our research shows that companies with commanding leads in their markets execute relentlessly across all four of these dimensions of execution, informed by their global marketplace insight, aligned to a singular competitive focus, emboldened by a clear innovation intent, and guided by a sound operational model aligned with business strategy and business economics.

In the 21st century, companies that make all aspects of their operations a source of strategic innovation will dominate their markets, delivering unparalleled revenue growth, EBITDA performance, and shareholder return.

About ViP Global Enterprises, Inc.

ViP Global is a seasoned team and network of proven senior executives, entrepreneurs, investors, subject matter experts, and educational providers with proven experience in addressing the challenges facing high growth and troubled organizations. Through our practice areas we help organizations strengthen initiatives in Corporate Strategy, Procurement, Organizational Change and Human Resources, Product & Service Development, Sales & Marketing, and Operations Improvement.

ViP Global is an Operations Improvement Service Provider assisting organizations with their strategic operational issues for over 20 years. Engagements may include Lean Enterprise, Planning, Supply Chain Management, Logistics, Purchasing, Outsourcing, Operational Support and Processing, Throughput and Capacity Planning, Facilities Planning and Layout, Synchronous Material Flow Design, Material Handling & Storage Systems Design, Cellular Manufacturing, Workplace Design & Material JIT initiatives, Operational Assessments and Productivity Improvement, Work Simplification, Measurement & Methods Design, and, Line Balancing, Lean Manufacturing, Toyota Production System, Productivity Audits, Cost Reduction Programs, Direct and Indirect Labor Planning, Quality Management and Control; Designing, Programming, and Deploying Production and Inventory Management Applications.

ViP has successfully implemented operational strategies across the Fortune 500, Mid-Market, and smaller organizations desiring to leverage Lean Thinking and Performance Improvement into their organization. Clients often average 15-25% hard savings across operations and up to 50% efficiency improvements in:

- Reduced inventories, lead times and material handling cost while increasing turns
- Improved production flexibility, material flow and control
- Ease of maintenance and good housekeeping
- Effective utilization of people, equipment, space and energy
- Eliminated waste and non-value added activities
- Increased communication, job satisfaction, safety management effectiveness
- Eliminated bottlenecks & improved throughput
- Reduced labor, material and scrap costs in manufacturing with lean warehouse operations
- Enhanced production planning and control
- Improved performance measurements and controls

Contact Information

In order to best serve our clients, ViP Global provides flexible fee options for their consulting services. Clients often choose between contingency (gain sharing) based, fee for service, or a hybrid arrangement.

For more information about ViP Global, its business and team members, or to discuss a structured business arrangement, please contact us directly at 312.725.6095 or on the web at www.vip-global.us

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Act Local, THINK GLOBAL™