

Welcome to Directions: 3

Welcome to the third edition of the newsletter of Codexx Associates Ltd. This is aimed at executives within European businesses. Our objective is to share with readers, 'sound-bites' of the latest business trends and thinking, which we believe are relevant to your business.

Innovation – more than good ideas

There is a renewed burst of interest in **Lean Manufacturing** in UK industry at the moment. Much of it is driven by companies seeking cost reduction in manufacturing. Codexx are strong advocates of Lean, having worked on Lean manufacturing projects since 1990 and witnessed the benefits first hand. But we believe that a prime focus on cost reduction leads to a dead-end. Why? Simply because the benefits of improved responsiveness and flexibility are more important for UK manufacturers than simply cost. With Chinese labour costs 1/10 of those in the UK and with significantly lower overhead costs, UK companies will never compete on cost with low cost offshore manufacturers. One client in the FMCG sector finds Chinese competitors' prices on some products lower than their own costs – they therefore compete on the basis of innovation and responsiveness. This is why improved Innovation is so important for UK companies. Improved innovation capabilities enable better competition on the basis of value, rather than simply price.

Innovation is more than just bright ideas. It is also more than just products. Companies can innovate in four key areas:

1. Products and services

- As Dyson famously did with its vacuum cleaner

2. Business process innovation

- As Toyota did with their JIT system in manufacturing

3. Marketing (position)

- SmithKline Beecham turning Lucozade from something for the sick to a 'Sports' drink

4. Business strategy (paradigm)

- As Dell have done with their low-cost direct model for PCs

Innovation helps business to renew and reposition in one or more of these four key areas. People often consider innovation is something done in R&D, for new products. Is this acceptable in today's highly competitive environment? Of course not. If asked, most Chief Executives would want innovation to be something that happened across the business, constantly. So why the gap? Simply because, many companies don't seek to understand or manage innovation in the way that they do other business activities. Innovation, they may feel, is too fuzzy, too nebulous, too much of a 'black art' to be systemised. Correct? No, it isn't. Whilst Innovation can be fuzzy and uncertain and the successful energising of the creativity element of innovation can be a 'black art', there is indeed a process for effective innovation.

Research from 1996, by David Francis, in the Centre for Research in Innovation Management, at The University of Brighton, on more than 100 innovative organisations identified the major innovation capabilities that these successful organisations possessed. This work then identified 56 common innovation best practices shared by these companies. An innovation model was then constructed and used successfully with 50 organisations, to help them assess their innovation capabilities and help them develop actions to improve their overall innovation capability. This research work has now been packaged by Codexx into a methodology for helping companies assess and improve their innovation capabilities, which we call 'The House of Innovation'. Lessons from the work undertaken with companies identified five common problems that companies have in developing effective innovation capabilities:

- The most common blockage to effective innovation is that it is neither expected nor appraised.
- Firms lack effective processes to select/deselect ideas
- Many individuals lack the personal skills to be innovative in teams
- Most firms lack the ability to facilitate high 'innovation intensity'.
- Many organisations lack a clear statement of mission, vision and values.

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"Improved innovation capabilities enable competition on the basis of value, rather than price."

"Companies don't seek to understand or manage innovation in the way that they do other business activities."

Innovation (continued)

By using an holistic approach, covering organisation & culture, business processes, technology and strategy, we have found that companies can indeed be helped to systematically improve their competitiveness through innovation. The challenge is for companies to break out of their functional paradigms and embrace innovation as a competitive weapon.

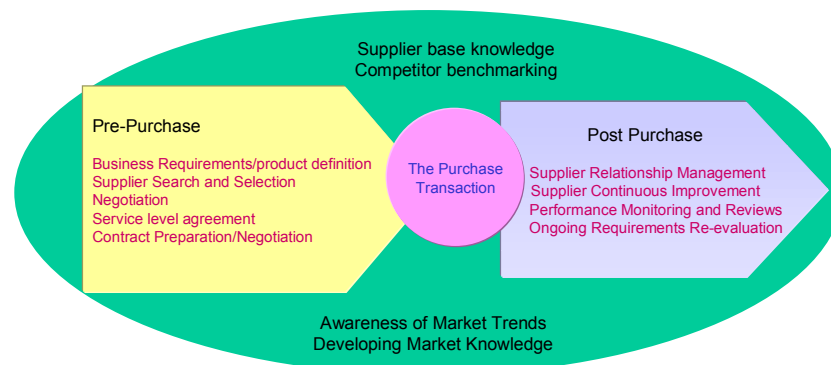
Alastair Ross leads Codexx activities.

Strategic Procurement - license to print money?

In a typical business the value of purchased items might well be 50 to 80% of the total operating cost of the business. There has been enormous effort over the years to control and manage the labour costs of businesses but procurement cost has traditionally not had the same degree of attention. More recently, however, the focus has been turned to this area as one of the most likely ways of saving costs – quickly.

Procurement is the business process of understanding internal customer needs, determining how internal and external resources are best deployed to meet these needs and the subsequent sourcing of external goods and services to meet those needs within the right balance of specification, cost, quality, service and timeliness. It also incorporate the company's transactional requisitioning, procurement and in-bound logistics processes (see Fig. 1).

Figure 1: What is Procurement?



Many companies are now focusing on procurement strategies to reduce overall business costs whilst improving availability and their own customer service level. The emphasis is on **total life cycle costing**, rather than simple unit cost. There is now a marked trend away from auctions and supplier cost squeezing for quick cash generation towards a more considered, longer term and, in many ways, more difficult approach towards supplier relationship management. IT-enabled use of sophisticated spend analysis has led to more, constructive power being wielded by organisations over suppliers. Only by a better understanding of life cycle costs and procurement spend effectiveness will a business be able to realise real procurement savings and whilst internal procurement process savings are potentially very significant, savings generated by working closely with key suppliers in strategic partnerships can be huge.

Procurement managers are recognising the value of **sharing financial and performance data with their suppliers**. Improved measurement of key performance indicators is allowing more accurate target setting and improved performance relate remuneration. Suppliers can now have increased insight into how their performance and the quality and delivery of their goods and service impact on client companies' performance. More sophisticated companies are using this data and the benefits of real time information sharing to build collaborative relationships with their suppliers. The concept of 'strategic partner' is increasingly being understood and companies are actively choosing suppliers and investing in their development for the long term. Supplier Relationship Management (SRM) is now a core business competence and has a real impact on the bottom line of companies.

Dr Gunther Kruse and Christine Berry focus on Supply Chain and Procurement

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International Manufacturing Strategy

What should I be making in-house, and where in the world should I do it? These are two of the fundamental questions being asked in the boardrooms of today's international manufacturing companies.

On the first question, the simple but useful **Make vs. Buy** matrix (shown below in Fig.1) helps place products and manufacturing processes and aids strategic decisions. For example, Green & Black believes that making chocolate is not strategically important to their brand-driven business model and choose to "buy" to their own formulation from expert suppliers. At the opposite corner of the matrix, Rolls Royce believes making turbines is critical to their customer service business, and the need to "make" is reinforced by the shortage of effective suppliers. The other two quadrants are not so easy to support clear decisions, and further analysis is required to fully understand the strategic implications. In the top-right quadrant, a product or manufacturing process may be strategically critical to a company but others may exceed their own capability. Here there is the risk of "leakage" of IPR and suppliers becoming competitors. This raises strategic options such as supplier alliances and even joint ventures. In the bottom-left quadrant, although a process may not be strategically important, a company may be forced to perform it in-house as no-one else can do it well enough. Alternatively, the company may work closely in partnership with a supplier to help them develop that capability so it can retain focus on more value-adding activities.

On the second question above, the challenge of designing an **international manufacturing network** can be considered in terms of two key parameters: dispersion vs. co-ordination. The supporting decision matrix is shown in Fig.2. Dispersion here means how many plants and where. Should they be globally dispersed (i.e. close to market) to maximise customer response time or meet local content regulations? Or should production be centralised to maximise economies of scale/scope. The co-ordination continuum addresses the question of how much management effort should be focused on developing global designs, harmonising production plant and processes, and in capturing and sharing management best practices. The matrix can help to characterise different strategic choices. Whilst most companies may aspire to be globally co-ordinated, many have to take a multi-faceted approach. Ford has made great progress on global design co-ordination with the Focus in particular. This is quite a breakthrough - many had believed that different national tastes would always require different national product strategies, forcing the less efficient multi-domestic approach. GlaxoSmithKline packages many products on a regional basis, but reaps economies of scale in the upstream capital-intensive primary processes by having a central global plant which exports to the secondary plants (export model).

Developing an international manufacturing strategy is a complex challenge. There are many conflicting drivers and tricky trade-offs. It needs to **promote responsiveness to customers but ensure economies of scale**. It needs to enter exciting unregulated markets but not risk IPR leakage. It needs to make use of low cost labour sources but minimise logistics costs. Simple frameworks as shown can help managers to crystallise the key issues and make informed decisions.

Paul Christodoulou specialises in strategy for manufacturing businesses.

Fig 1. Make v Buy logic

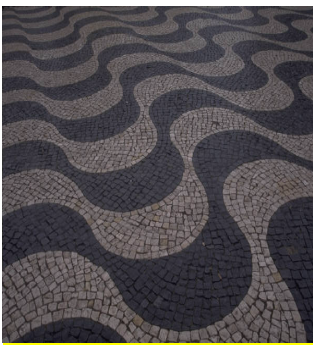
External sources better than us	Buy	Sourcing Risk Analysis
SUPPLY EFFECTIVENESS		
We're better than external sources	Make / Buy Analysis	Make
	Low	High
	STRATEGIC IMPORTANCE	

Fig 2. Network logic

Many plants in different locations	Multi-domestic	Globally co-ordinated
DISPERSION		
One central plant	Regional player	Export model
	Low	High
	CO-ORDINATION	
	* product design * production processes	

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Your comments and suggestions on this newsletter are welcome. Contact us at: enquiries@codexx.com
 Codexx provides business improvement services. We define our mission as 'helping businesses help themselves'. In our experience this is the best way of creating high impact and sustainable improvement. For more information go to <http://www.codexx.com>



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