

strategy+business



strategy+business Webinar

Operations Strategy for a Flat World

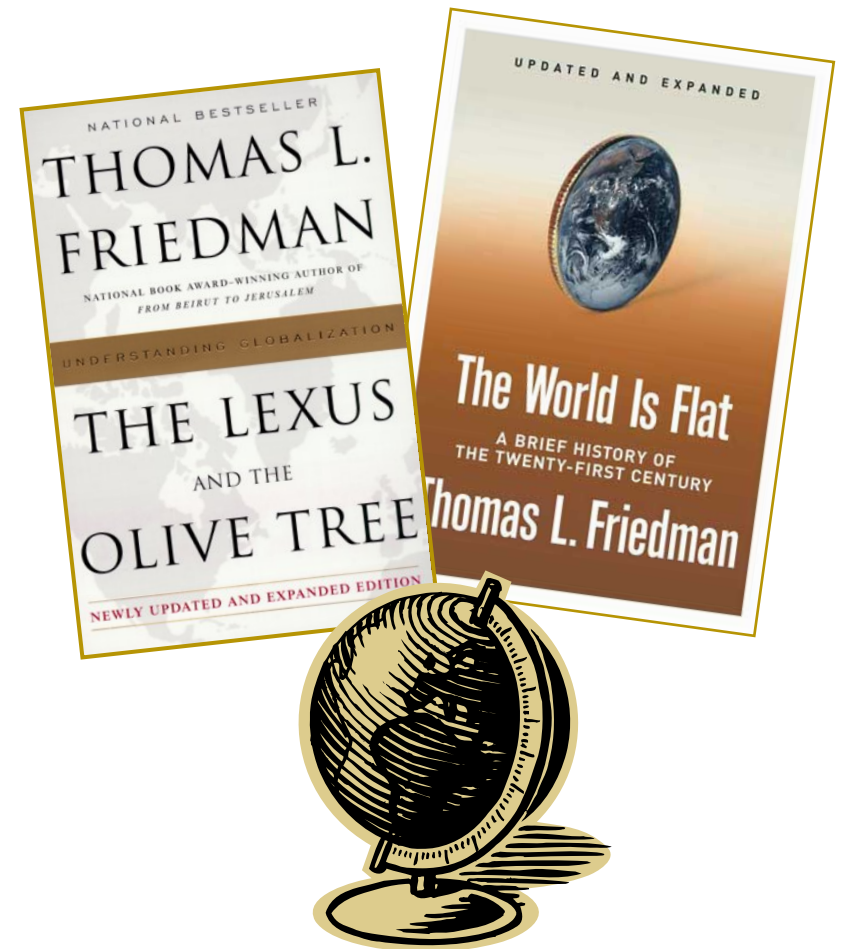
Charlottesville, Virginia
May, 17 2007

TODAY'S WEBINAR:

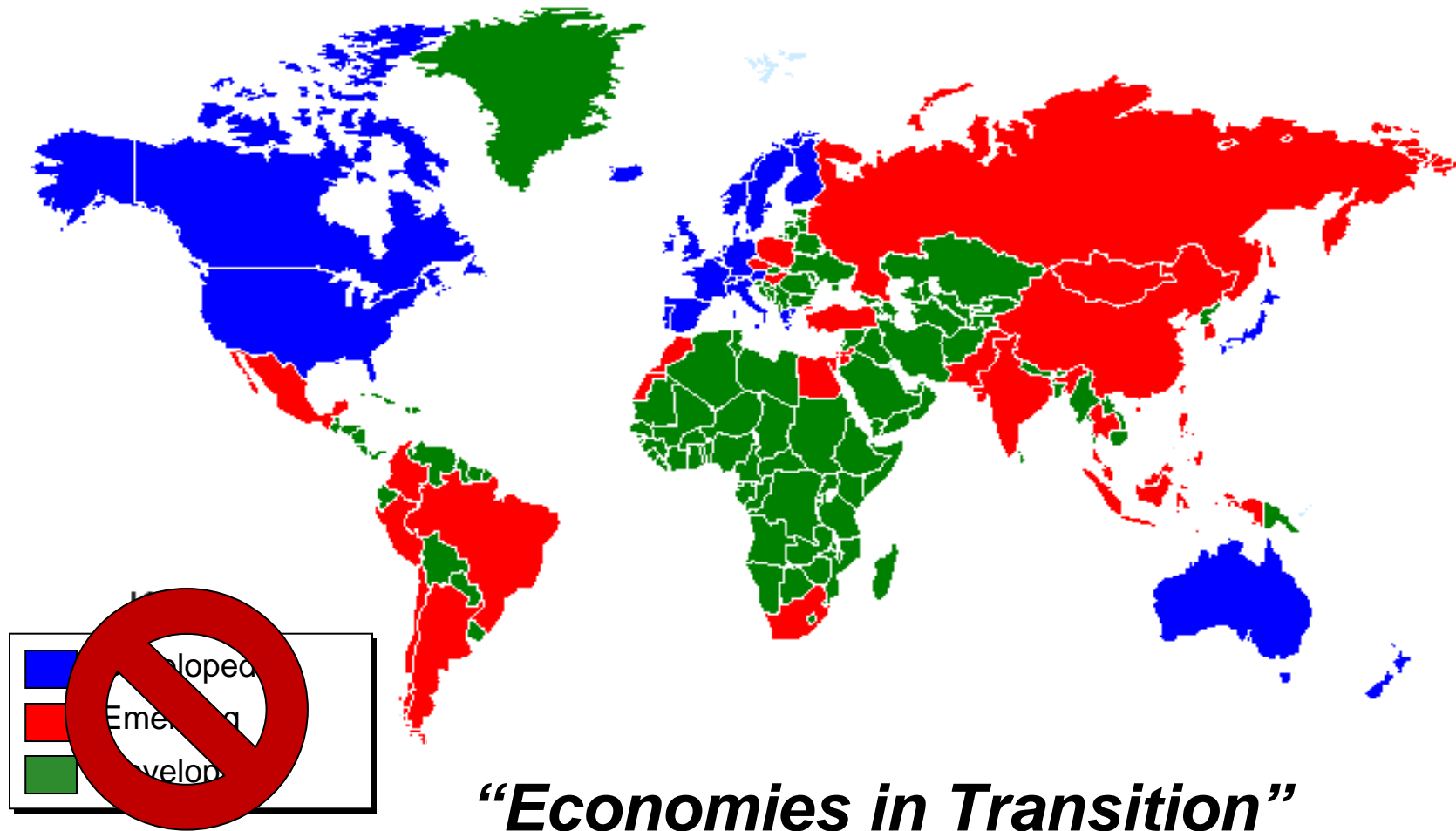
Implications of a "Flat World" on Operation Strategy

AGENDA

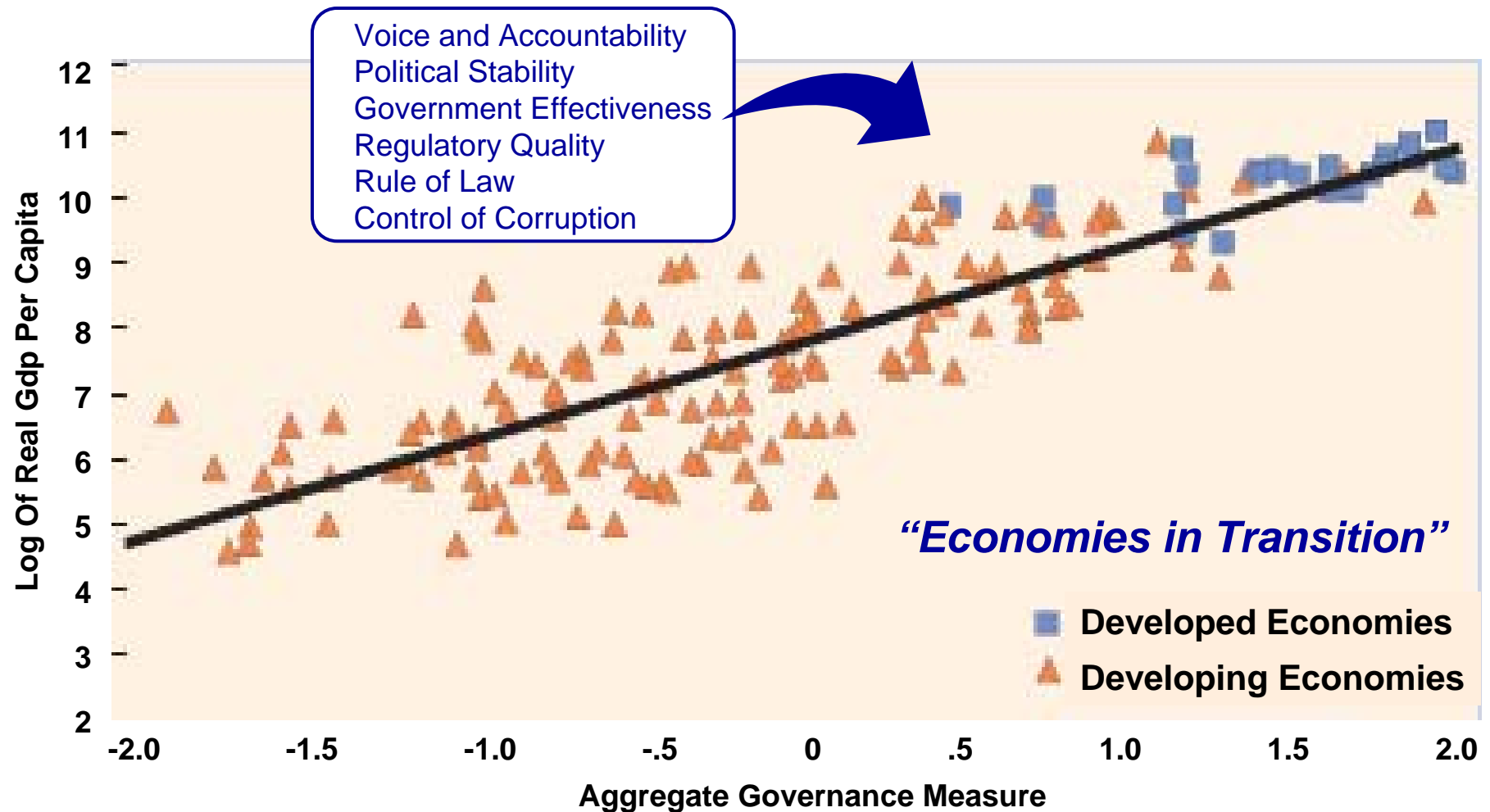
- *Framing the "Flat World"*
- *Examining Global Proverbs*
- *Discussing Implications*



FLAT WORLD: *Market-Based Economies Linked by Technology*

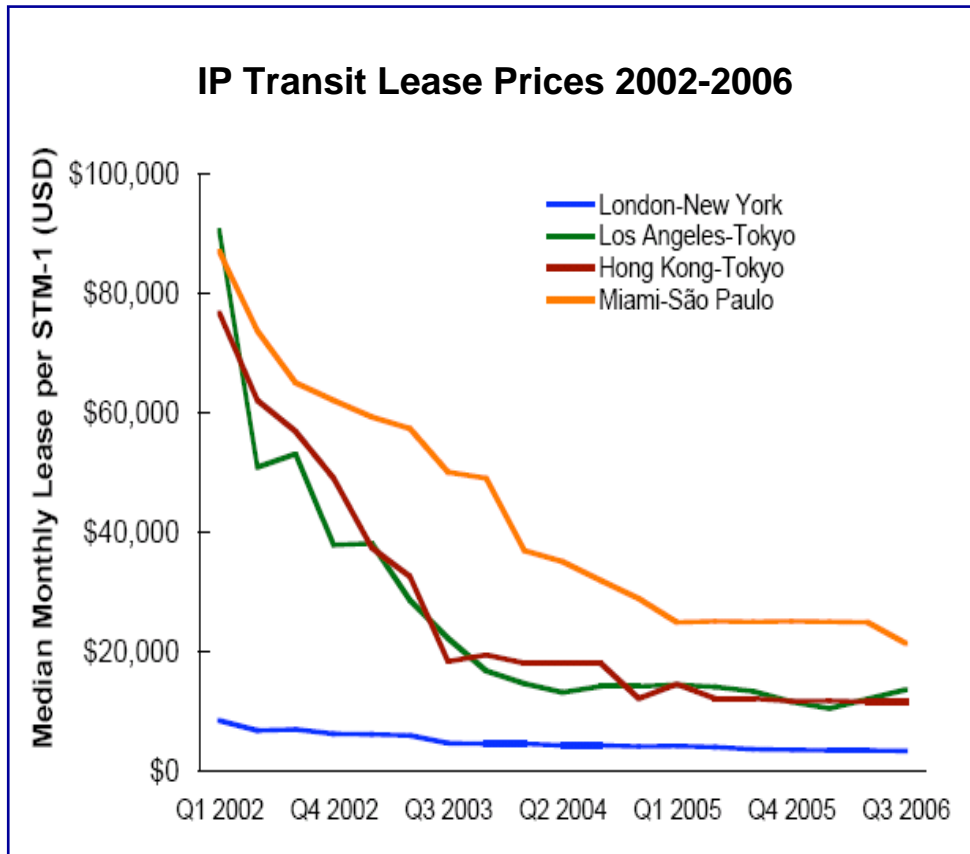


FREE MARKET MODEL WON: *Planned Economies Adopting “Golden Straightjacket”*



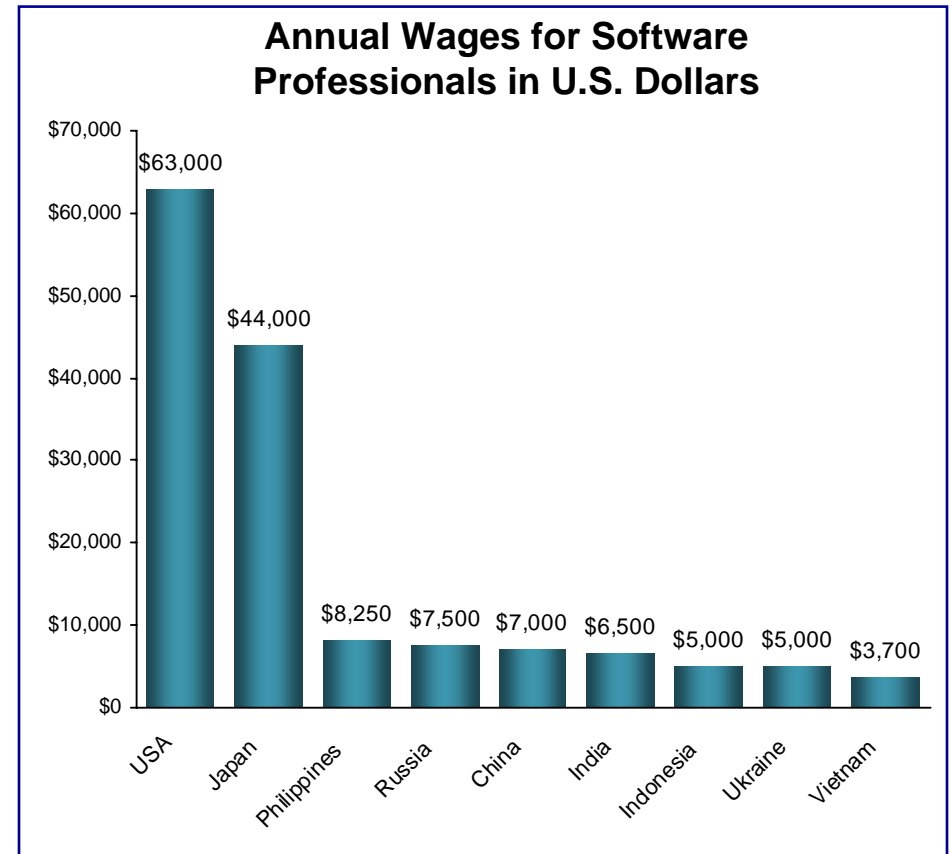
Source: United Nations Conference on Trade and Development, Trade and Development Report 2006

INTERNET TECHNOLOGY CONNECTING ALL: *Allowing Lower Cost Countries to Compete Globally*



Note: Prices reflect median STM-1 monthly lease prices, exclusive of installation fees and local access.

Source: TeleGeography

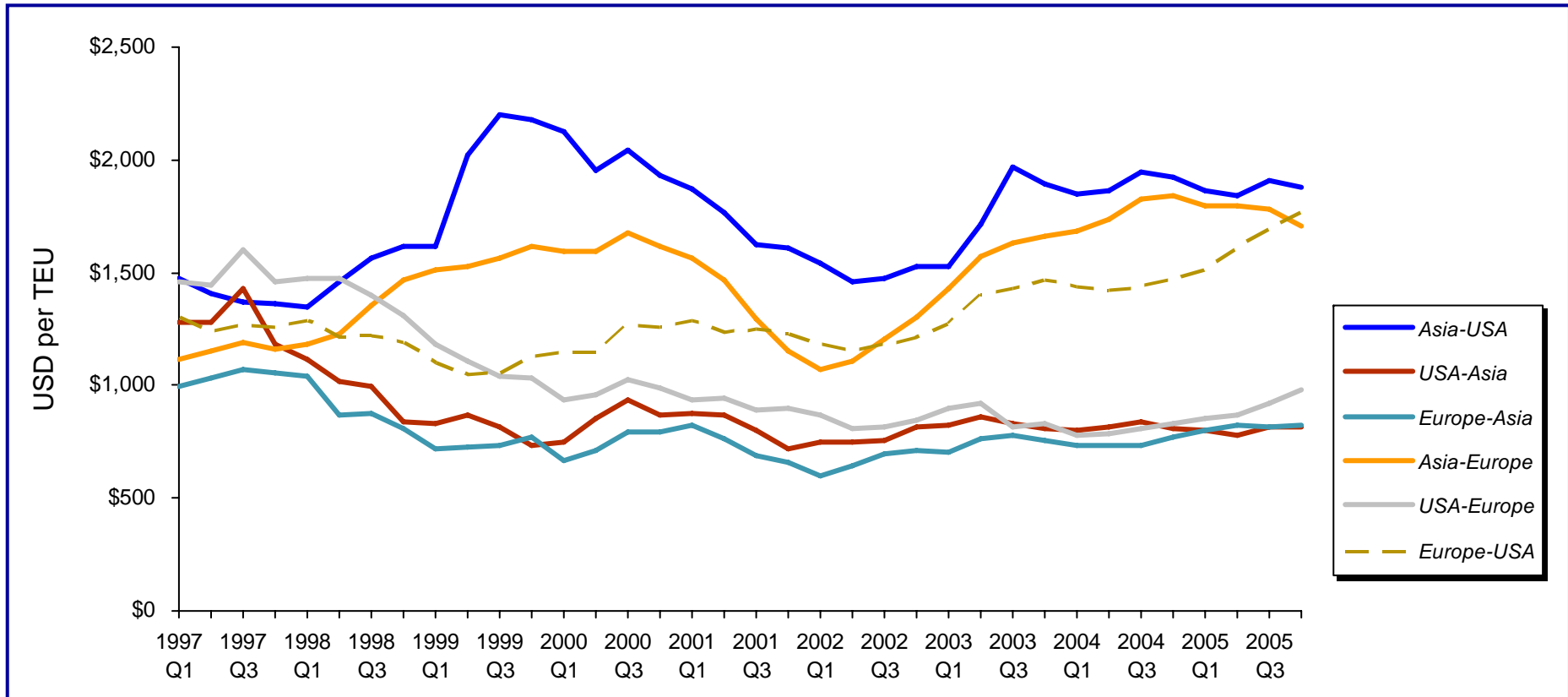


Notes: National software wage data vary significantly from source to source, thus the data presented are for rough comparisons only

Source: Carmel (2003), *The New Software Exporting Nations: Success Factors* (Accessed <http://www.is.cityu.edu.hk/research/ejisdc/vol13/v13r4.pdf>)

SHIFTING GLOBAL TRADE BALANCES: *Asia Quickly Becoming the Producer for the World*

Container Freight Rates on Major Liner Trade Routes



Notes: All rates are average rates of all commodities carried by six of the trades' major liner companies; All rates are all-in, including the inland intermodal portion, if relevant; Rates to and from the USA refer to the average for all three coasts; Rates to and from Europe refer to the average for Northern and Mediterranean Europe; Rates to and from Asia refer to the whole of South-East Asia, East Asia and Japan/South Korea

Source: UNCTAD Review of Maritime Transport, Containerisation International

HOW CAN ORGANIZATIONS RESPOND?

Reflect on Twelve, Timeless Global Proverbs

1 In a calm sea every man is a pilot (Spanish)

2 Wonder is the beginning of wisdom (Greek)

3 Though a tree grow ever so high, the falling leaves return to the ground (Malay)

4 Who begins too much accomplishes little (German)

5 The wise adapt themselves to circumstances, as water molds itself to the pitcher (Chinese)

6 The reverse side has a reverse side (Japanese)

7 Time is money (American)

8 When its time has arrived, the prey becomes the hunter (Persian)

9 Do not look where you fell, but where you slipped (African)

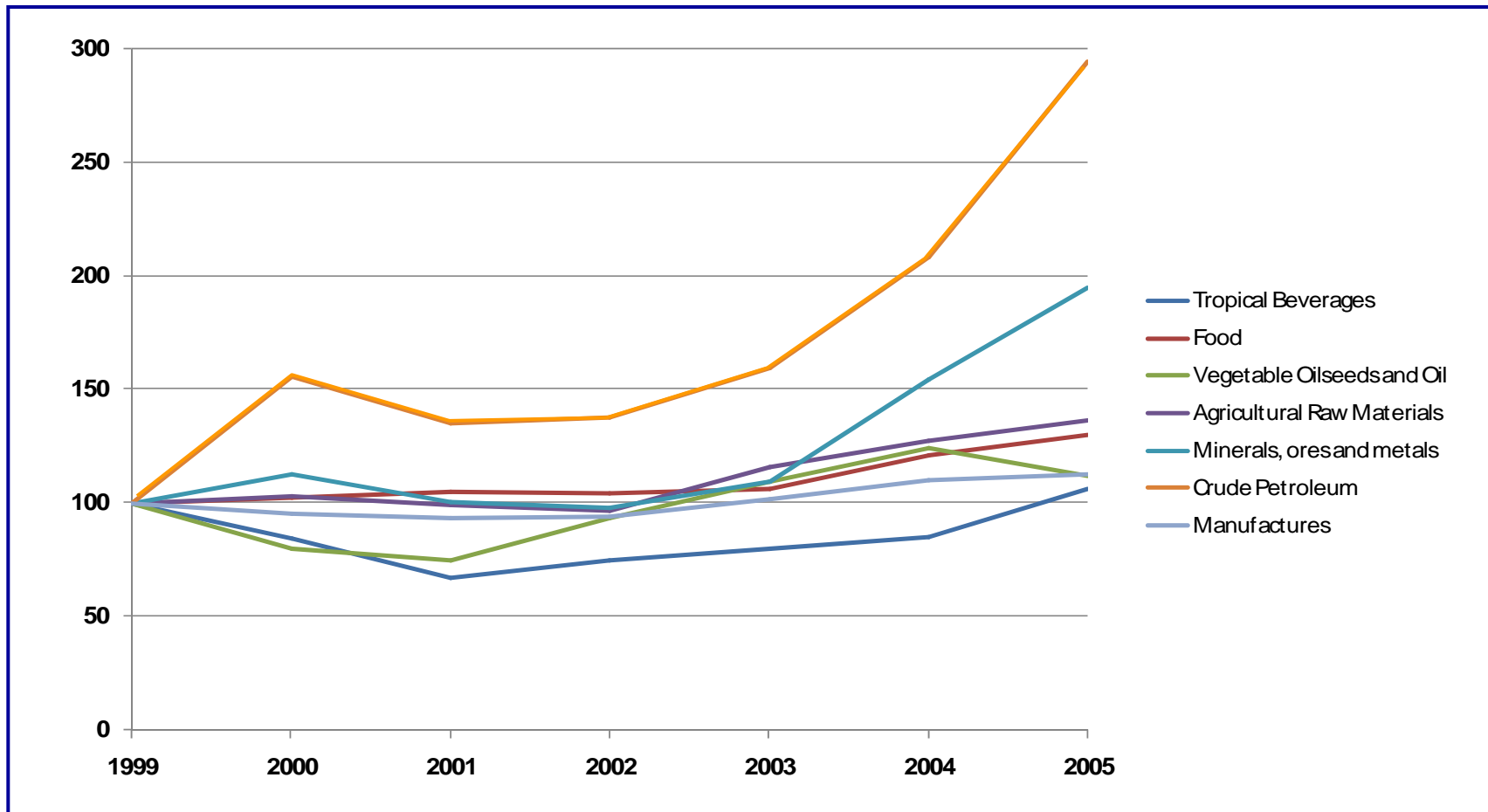
10 Feather by feather the goose can be plucked (French)

11 Trust Allah, but tie your camel (Muslim)

12 You must live with a person to know a person (Irish)

Thanks to: www.corsinet.com/braincandy/proverb.html

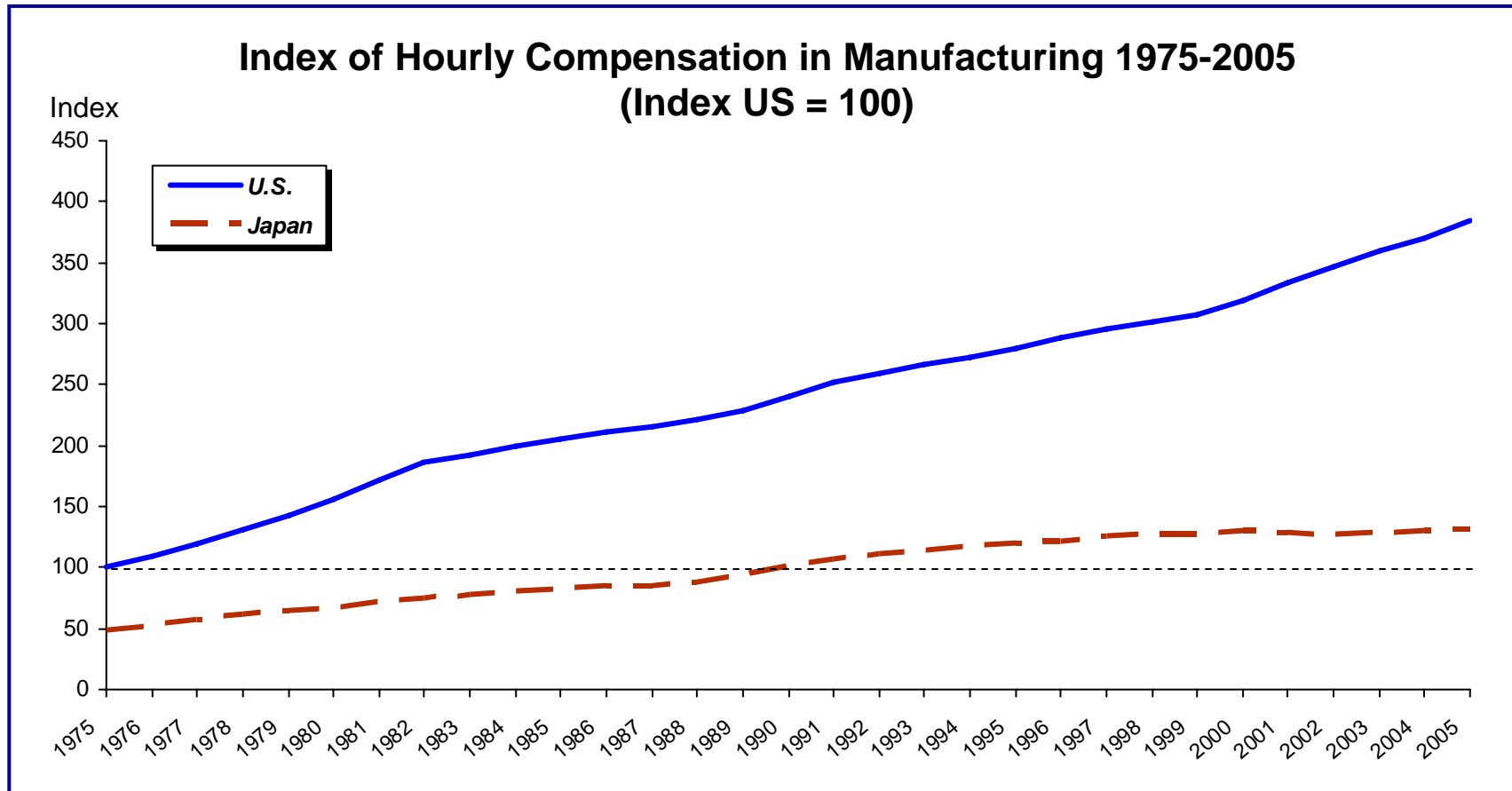
IN A CALM SEA EVERY MAN IS A PILOT: ...But the “Electronic Herd” Creates Tumultuous Seas



Source: UNCTAD, Commodity Price Bulletin, Various issues and United Nations Statistics Division (UNSD), Monthly Bulletin of Statistics, various issues

WONDER IS THE BEGINNING OF WISDOM:

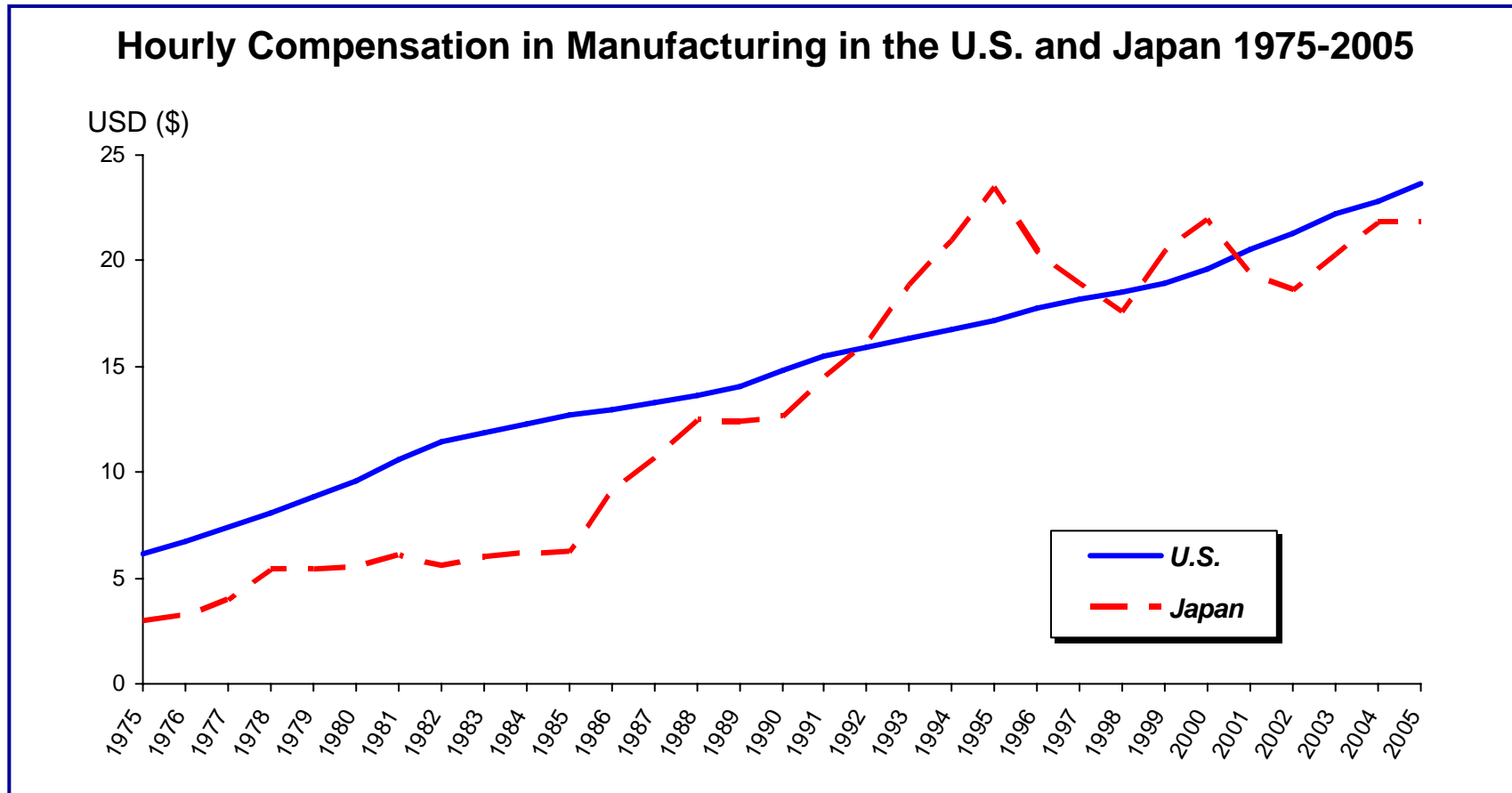
Invest Time to Understand the Drivers of Economic Trends



Note: The data relate to employees and self-employed workers

Source: U.S. Department of Labor, Bureau of Labor Statistics, November 2006

LEAVES STILL FALL FROM TALL TREES: *Remember Currency Effects Drive Towards Equilibrium*



Note: The data relate to employees and self-employed workers

Source: U.S. Department of Labor, Bureau of Labor Statistics, November 2006

BEGIN TOO MUCH, ACCOMPLISH LITTLE: *General Electric Focused to Drive Offshoring in India*



General Electric Company

70:70:70 Philosophy

In the late 90's Jack Welch launched GE into global offshoring with the 70:70:70 rule insisting that 70% of GE's work will be outsourced. Out of this, 70% will be done from offshore development centers. And out of this, about 70% would be done in India to achieve critical mass

GE Evolution in India



Back Office Services

- Basic data entry
- Transaction processing



Knowledge Workers

- Engineering & design
- IT help desk, etc.

Source: Infosys

THE WISE ADAPT TO CIRCUMSTANCES: *China No Longer Dominates the Focus of All Firms*

U.S. Waterborne Container Imports From Asia



CHINA

7.4 million Containers Shipped to US in 2005
22.3% CAGR since 1997

As a vote of confidence in Vietnam, the decision by Intel early in 2006 to spend \$350 million building a new factory in the emerging South-East Asian economy was hard to beat. And yet, before the year was out, the American chipmaker went further and raised its investment to \$1 billion. In eight months Intel had committed as much money to Vietnam as it had to China in the previous ten years.

January 11th 2007

VIETNAM

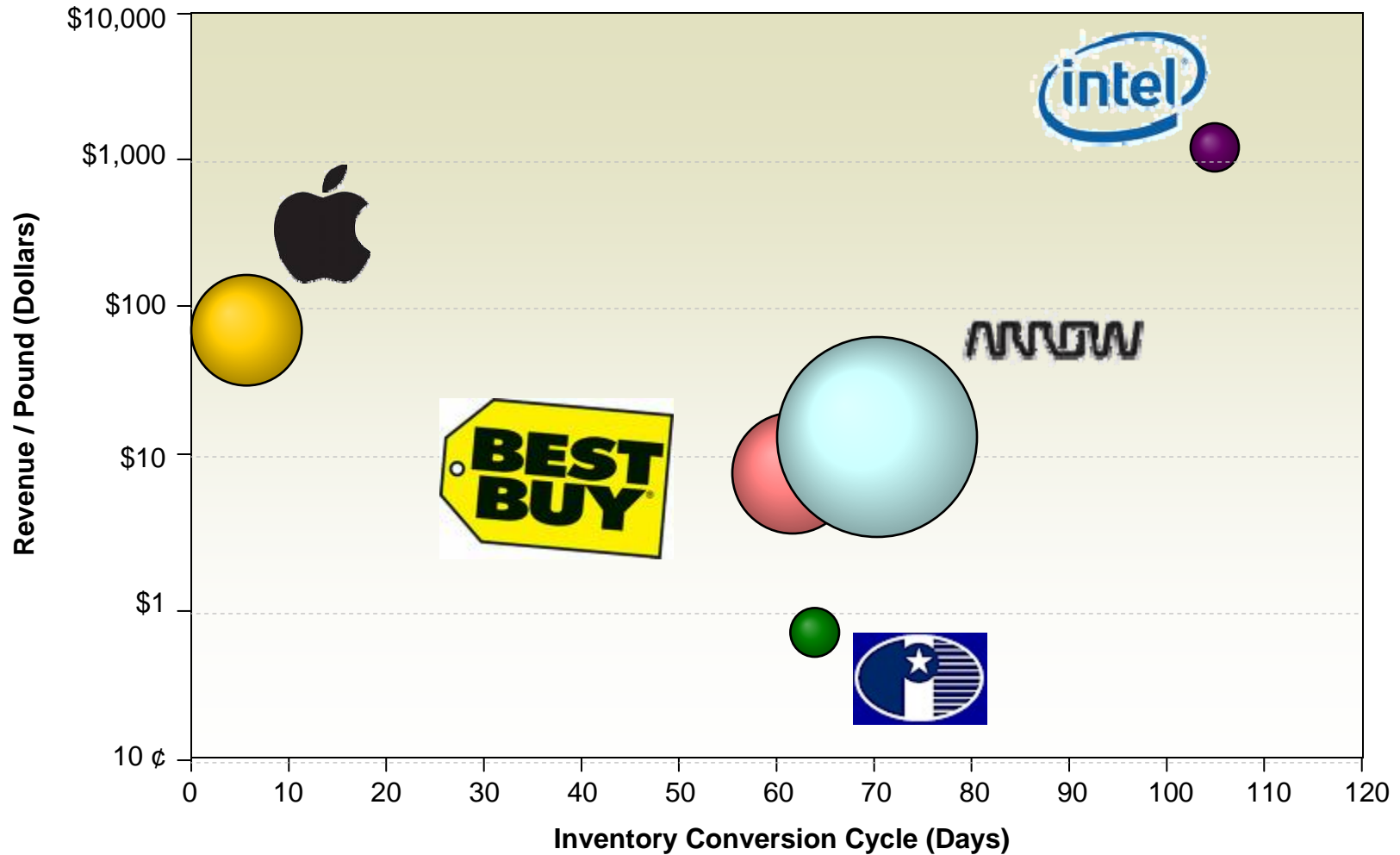
236 Thousand Containers Shipped to US in 2005
42.0% CAGR since 1997



CAMBODIA

35 Thousand Containers Shipped to US in 2005
48.2% CAGR since 1997

THE REVERSE SIDE HAS A REVERSE SIDE: *Footprint Decisions Necessarily Entail Tradeoffs*



TIME IS MONEY: *Manage Lead Times Not Just Unit Cost*

STAPLES

5.0

Inventory Turns

Transit: 20 to 25 Days

Transit: 15 to 20 Days

Inventory: 120 Days

Transit: 30 to 35 Days

TARGET TRANSIT TIMES

THE PREY BECOMES THE HUNTER:

Outsourcing can leave a hollow shell in a new game



Electronics Innovator:

- First portable radio (1924)
- First all-electric radio station (1939)
- First subscription TV system (1947)
- First practical remote (1956)
- Invented Chromocolor (1969)
- First EFL electron gun (1976)
- First flat-screen high-res color tube (1987)
- Defines US Digital TV Standard (1996)

LUCKY GOLDSTAR

Founded 1947

Low Cost Manufacturer:

- | | |
|-------------------------------|---------------------------|
| Korean Packaged Goods (1947+) | Export Company (1958+) |
| • Tooth powder | • Fans (1958) |
| • Facial creams | • Radios (1959) |
| • Detergent | • Refrigerators (1965) |
| • Shampoo | • TVs (1966) |
| | • Elevators (1968) |
| | • Washing Machines (1969) |

**Paths Cross
in 1990s:**

In 1990s, Zenith struggled and outsourced manufacturing to Lucky Goldstar and others. Lucky Goldstar acquired 5% in 1991. Newly named LG Group acquired 58% in 1995. Zenith emerged from bankruptcy in 1999 as fully-owned subsidiary of LG Electronics.



TODAY: Roles Reversed

*LG positioned as premium brand with
Zenith targeting the middle market.*

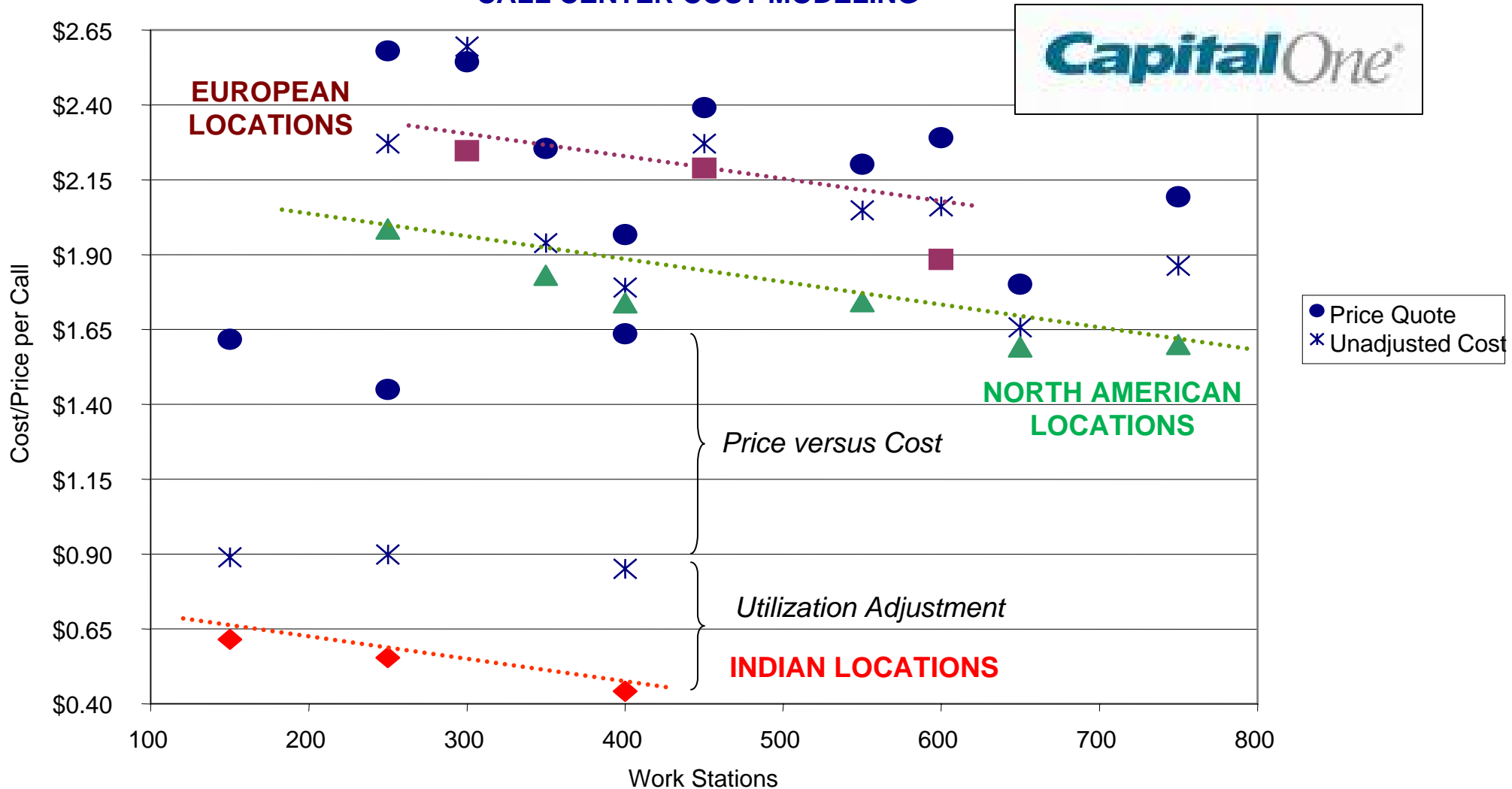


\$60.7 Billion in Revenues

<400 Employees

FEATHER BY FEATHER, PLUCK THE GOOSE: Cost Models Critical to Strategy and Negotiation

CALL CENTER COST MODELING



LOOK WHERE YOU SLIPPED, NOT FELL: Global Networks Need Thoughtful Contingency Plans

THE WALL STREET JOURNAL, October 3, 2002

The Economy: Shippers Look to Bush As Dock Halt Drags On — Manufacturers, Retailers Move to Costly Air Freight With Stoppage in 4th Day



2002 SURVEY RESULTS:
41% Affected by Strike
Only 25% Making Contingency Plans



2004 SURVEY RESULTS
55% have Contingency Plans

- *Identify critical materials and sources* **37%**
- *Perform risk assessment of suppliers* **23%**
- *Build contingency into day-to-day ops* **23%**
- *Set recovery time objectives* **15%**



March 23, 2007

Pet Food Maker to Take Financial Responsibility for Pet Deaths From Poisoning

“Plans are nothing; planning is everything.” – Dwight D. Eisenhower

TRUST ALLAH, BUT TIE YOUR CAMEL: *Intellectual Property Law Issues...And Capabilities*



LIVE WITH A PERSON TO KNOW THEM: *“Genchi Genbutsu” to Truly Understand Possibilities*

Facility Tour Photos from India



DISCUSSION:

- How is the Flat World affecting your organization?
- What have been your experiences?
- What worries you most about this new world?
- Where do you expect the greatest opportunities?
- Other thoughts or questions?

Final Thought: The Curse Becomes Reality?

May you wander over the face of the earth forever, never sleep twice in the same bed, never drink water twice from the same well, and never cross the same river twice in a year.

- Traditional Gypsy Curse

FURTHER RESOURCES:

You can find Tim Laseter's Operating Strategies column in strategy+business magazine and online at www.strategy-business.com

To obtain copies of Tim's books, please use the following link:

“Strategic Product Creation”:

<http://www.amazon.com/dp/0071486550>

“Balanced Sourcing”:

<http://www.amazon.com/Balanced-Sourcing-Cooperation-Competition-Relationships/dp/0787944432>

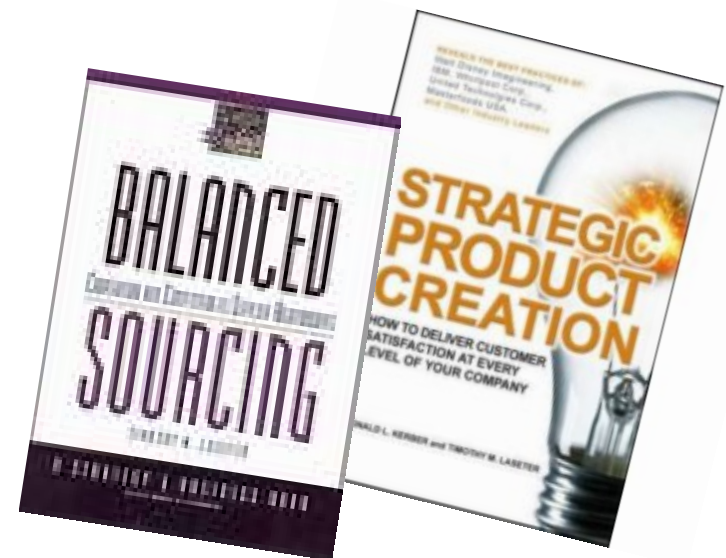
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Slides and recording: A recording of the event and slides will be posted at:

<http://www.strategy-business.com/webinars>

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