

WAR OF MOVEMENT

The defining features of the competitive environment in the current decade concern not only a surge in new demand, buoyed by incomparably broader offerings than just a few years ago, but, even more, rapid shifts in the positions of businesses in new segments. The result is a “war of movement” where the boldest are setting the pace for all contenders in a race to adapt quickly and effectively.

Customer demand is by nature changeable. Over recent years, it has been very firm, with growth in most markets for both consumer goods and industrial goods on a steep upward path, but this has been associated with sometimes massive slippage in prices. The impact of new low-cost offerings from emerging economies and the new business models adopted in response in the developed world is illustrated by price tags of as little as €250 for a laptop or €300 for a full-day’s service from an IT specialist.

At the same time, other markets have headed in the opposite direction, offering new opportunities for businesses making the necessary investments to create value and differentiate offerings. An illustration is the boatbuilding industry, where a handful of firms have taken over a newly emerged segment at the top of the range.

Such developments are extremely swift, as patterns of consumption previously limited to garments take over new segments — a few years ago, no one would have imagined city drivers wanting bull-bars or the sort of special protection built into Hummers.

Success results from adaptation that goes well beyond marketing and sales.

All this is familiar enough. At the same time, businesses remain constrained by their past investments and, perhaps even more, their culture and positioning. For Lou Gestner, the reconfigurer of IBM, such rigidities seriously impair the capacity of businesses to adapt to new markets. As with other great managers who have positioned their business on high-growth markets, his success results from adaptation that goes well beyond marketing and sales. And the starting point in all cases is the need for mobility in products and service offerings.

Products: a shifting front

The example of Apple and its moves into music recording with the iPod and more recently into television might suggest that mobility on the product portfolio is reserved to high-tech businesses. But nothing could be farther from the truth. Food may be one of the most traditional of all markets, yet businesses like Danone and Nestlé are moving into new territory with probiotics and other health enhancers, and all sector leaders are stepping up the pace of change in their product portfolios. In the automobile industry, in just a few years Porsche has completely overhauled its offering, moving into the high-growth 4WD segment and less costly vehicles, while Renault has taken the lead at entry level with the Logan pushing prices even lower.

Similarly, Renault Trucks is to make previous-generation engines for the Russian market and several manufacturers are expanding their used car business in Eastern Europe.

The need for greater mobility of the product portfolio demands a combination of agility and efficiency that hinges above all on restructured, streamlined development processes to speed the launch of new products. It is no accident that the world's top auto manufacturer, Toyota, with its extended ranges for different local markets, also has the industry's most effective product development process.

New organization

In most cases, however, the need for change goes beyond products, with far-reaching consequences for business models in areas that include in particular the relocation of production, outsourcing and co-development.

Such fundamental changes clearly require the courage to face management issues, but that is certainly not the full story. Depending on the approach adopted, the time taken to reconfigure the business can be much longer or shorter and the match with target markets more or less effective. Motorola and Xerox, each on its own market, demonstrated the needed commitment, but lacked the agility of Nokia and Canon. The businesses that have been able to get a grip on the risks of change and, by the same token, accelerate the processes involved, have all adopted, albeit to varying degrees, approaches that include:

- 1. Decentralization of market watch,** treated as a key business function rather than a matter of opportunism dependent on local management. The goal is to learn about new products as early as possible and thus have enough time for an effective response.
- 2. Acceleration of product-development processes.** These need to be reviewed every two or three years to clear out organizational clutter that regularly gets in the way. Illustrating this, Nokia recently reported a fresh gain of over 30% on total development time.
- 3. An overhaul of business models.** This tricky reform may involve in particular reconsideration of past investments and the decision to make new investments, as was the case for yacht-maker Couach as it moved to meet new demand. It can also concern major components of

Selecting core business functions for insourcing

Outsourcing — pros

- ▶ A wide range of sourcing options
- ▶ Uncompetitive in-house resources
- ▶ Advantages of insourcing not perceptible for customers
- ▶ Competitive advantage focused on other functions
- ▶ Easy to isolate from other business processes

Insourcing
as a core
business
function

Outsourcing — cons

- ▶ Investments already made
- ▶ A competitive difference favoring the business
- ▶ Specific competencies and proprietary know-how
- ▶ An insourcing strategy setting the business apart from competitors
- ▶ Proven economic viability of insourcing
- ▶ Advantageous integration and synergies with other functions
- ▶ Possible conflicts with outside providers

product and distribution structures. Dell thus recently announced an overhaul of the system that has made it a world leader. Selling a laptop at €250, a car for €5,000 or a yogurt for €0.50 supposes a business model based on production close to end markets and very cost-effective distribution. Which in turn demands renewal of both processes and investments.

4. Imaginative rethinking of core competence.

If this is too broadly defined, it takes up resources that do not contribute to the competitive advantage of the business. If, on the other hand, it is too narrowly defined, important functions that do contribute are left outside its direct control. Even Nestlé, number one in the food industry, outsource some production, but it keeps control of the brands

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concerned. The factors to be considered in taking decisions on which functions to keep and which to outsource are summarized in the box below.

5. The creation of subsidiaries or business units

in charge of new offerings, getting round the obstacles to change in existing structures. Examples are numerous, among them the subsidiaries set up to deal with the low-cost segment by some service businesses and those set up by consumer products companies to make retailer brands. All the businesses

involved insist on the need for coordination between dedicated units and the core organization to ensure a consistent approach to the market, but also leave these units free to apply business models that in many cases mark a clear break with the past.

Mobility, not recklessness

One thing that is even worse than not investing in time is investing counter to the market trend, and global leaders making far-reaching adjustments to their investments thus take a prudent approach. The guidelines set out above can help ensure that audacity is combined with effective risk control, so that while failures are still possible, the conse-

quences are kept within limits. Bic provides a good illustration of this, having successfully ventured into markets ranging from sailboards to cigarette lighters, and rapidly overcoming a failed foray into perfumes. Fortunately, entrepreneurship still holds the key and the war of movement that is now the rule has made its role more visible than ever.



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