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Globalization: Are We There Yet?

Thomas A. Stewart

Booz & Company's Mission

*To serve the senior agenda of the
world's leading organizations*

Ideas have consequences

Booz & Company Vision



Today: To Help You



The bumpy road to a flat world

Three challenges to globalization

Downturn

Gaining speed and losing altitude

King customer and usurping competitors

The third stage of globalization and the new Right to Win

The world is flat ...

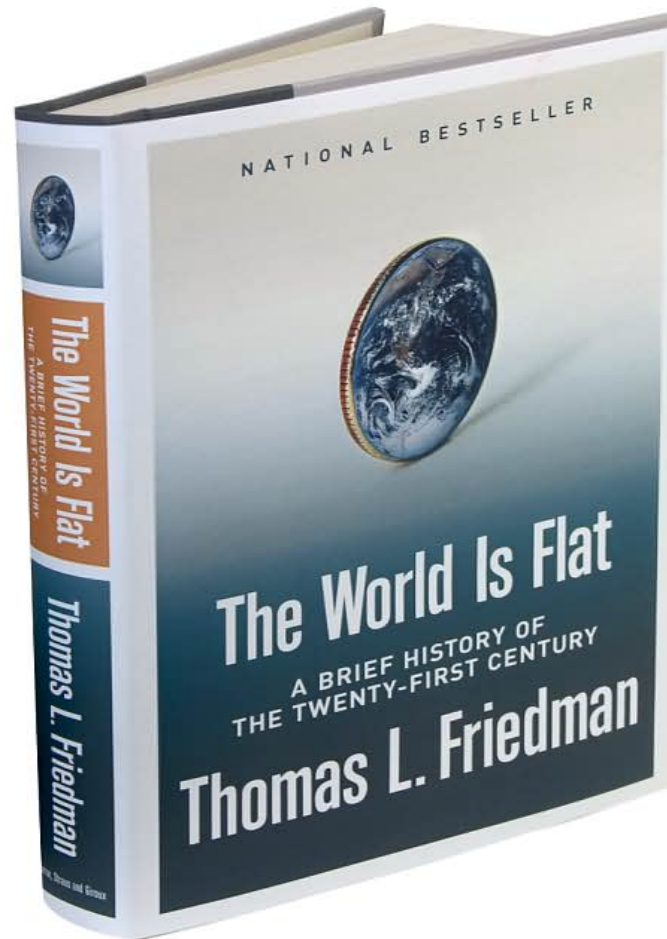
1983

“A powerful force drives the world toward a converging commonality, and that force is technology... Gradually and irresistibly it breaks down the walls of economic insularity, nationalism, and chauvinism... The earth is round, but for most purposes it’s sensible to treat it as flat.”

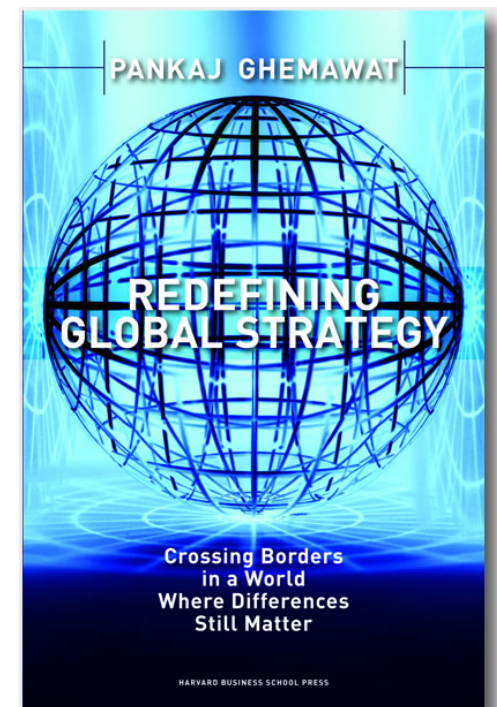
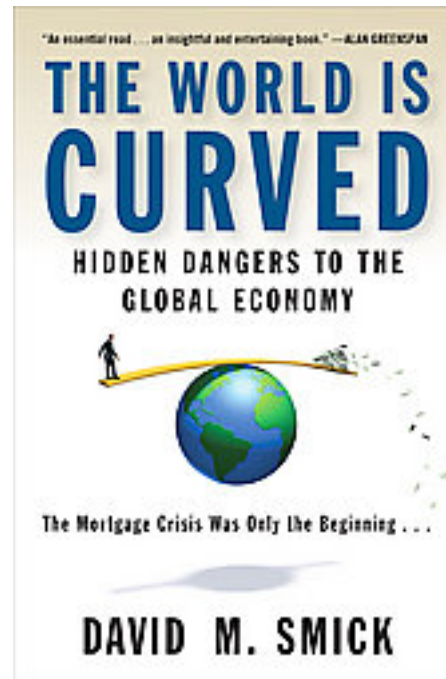
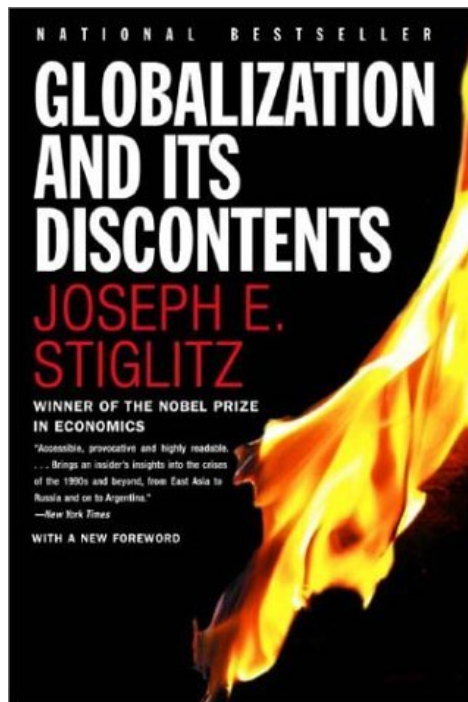
Theodore Levitt,
“The Globalization of Markets”
Harvard Business Review

flatter ...

2005



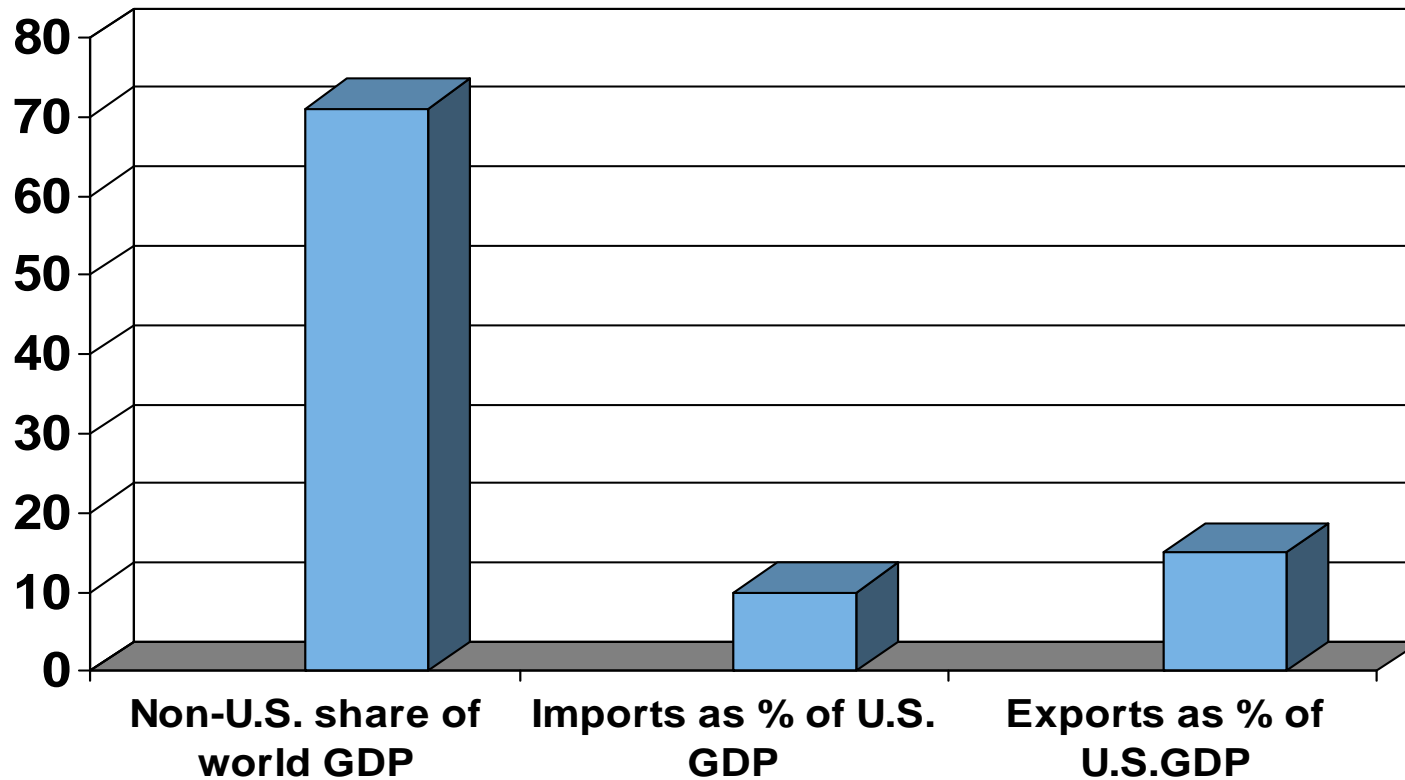
or is it?



The World at Night

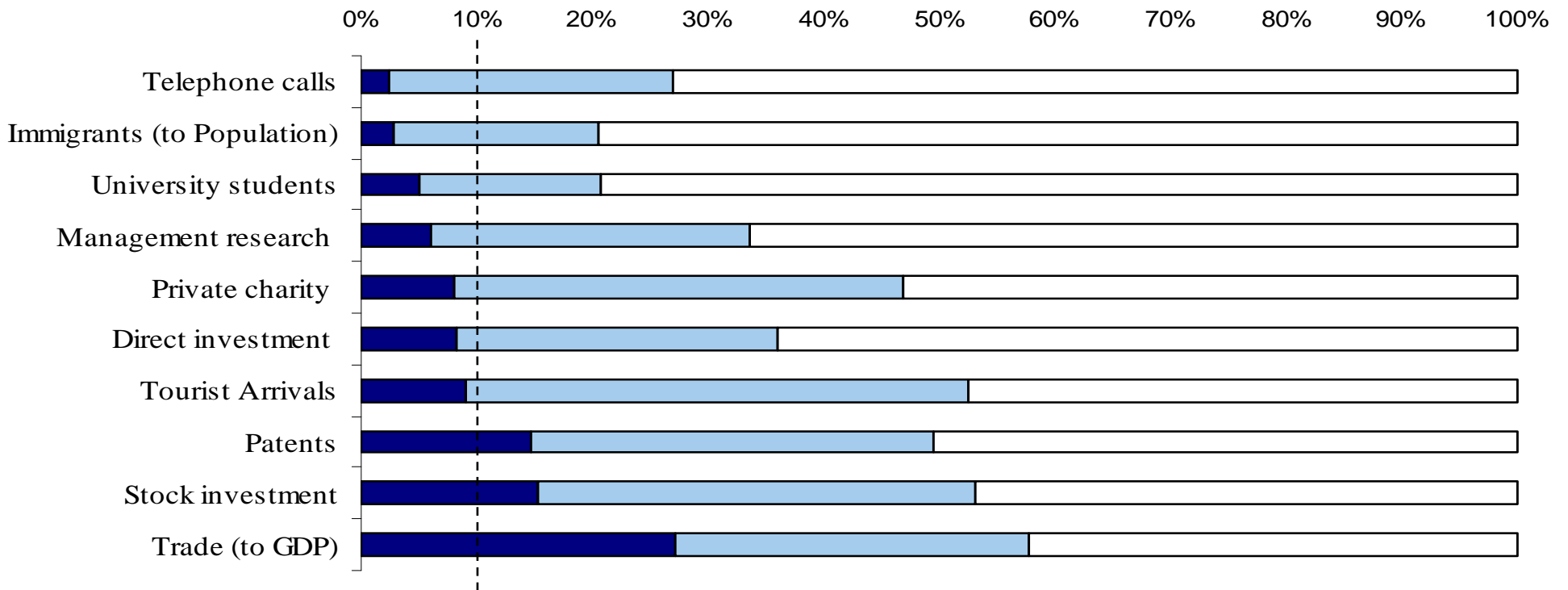


More trade stays within national boundaries than would be expected from the flat-world hypothesis



Source: Pankaj Ghemawat

Come to think of it, how global are *you*?

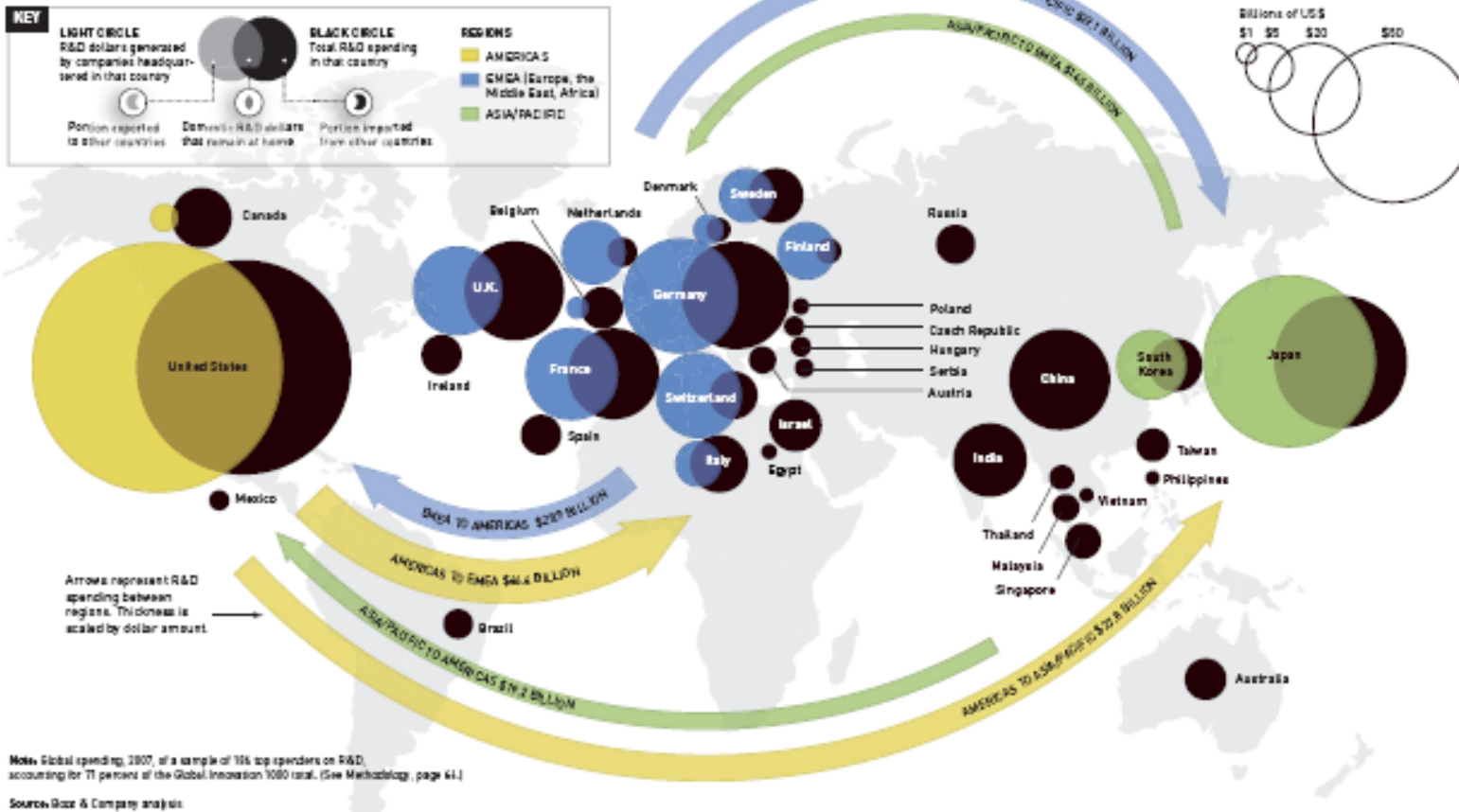


Source: Pankaj Ghemawat

Investment in innovation is anything but equal

Exhibit 1: The World of R&D

As business has become increasingly global, so too has corporate spending on research and development. Here is a look at the 2007 flows of the top R&D spenders between the Americas, EMEA (Europe, the Middle East, and Africa), and the Asia/Pacific region.



TOP R&D GENERATORS
(by home country of HQ)

Country	US\$16.1 bil
U.S.	71.6
Japan	35.7
Germany	18.7
France	18.1
U.K.	14.8
Switzerland	14.8
South Korea	11.1
Netherlands	1.2
Ireland	7.7
Sweden	4.8

TOP R&D USERS
(includes domestic spending)

Country	US\$108.5 bil
U.S.	50.6
Japan	27.8
Germany	24.8
China	23.3
U.K.	19.8
France	13.1
India	9.8
Canada	7.8
Italy	7.2
Sweden	7.2

TOP SOLE R&D "IMPORTERS"
(for countries generating less than US\$1 billion in R&D)

Country	US\$24.7 bil
China	13.8
India	4.5
Israel	4.3
Australia	4.8
Spain	4.8
Ireland	3.7
Russia	3.2
Singapore	2.6
Taiwan	2.3
Brazil	2.3

The bumpy road to a flat world

Three challenges to globalization

Surviving the meltdown

Gaining speed and losing altitude

King customer and usurping competitors

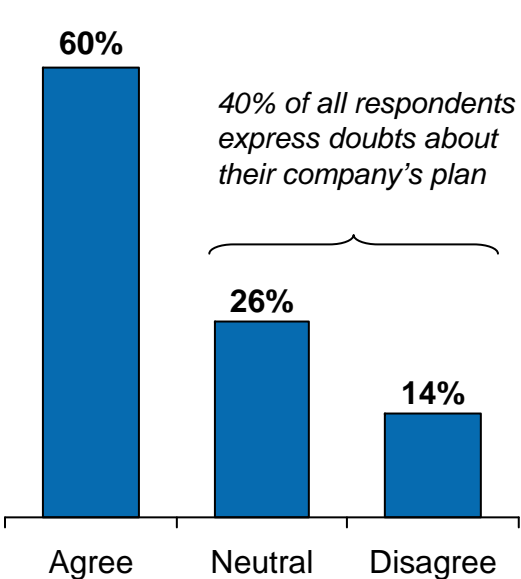
The third stage of globalization and the new Right to Win

Challenge #1: *SURVIVING THE MELTDOWN*

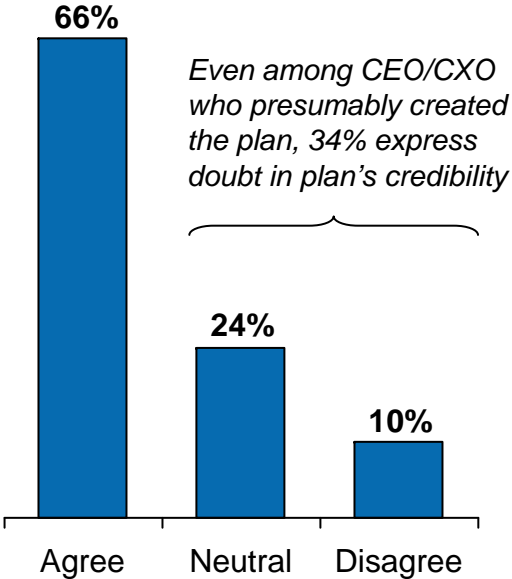
There is doubt among respondents for their leadership's plans for the crisis – even among the leaders who wrote the plans

“My company’s senior leadership has defined a credible plan for navigating through the crisis”

All respondents



CEO & CXO level respondents only



Companies struggle to cope simultaneously with cost and strategy

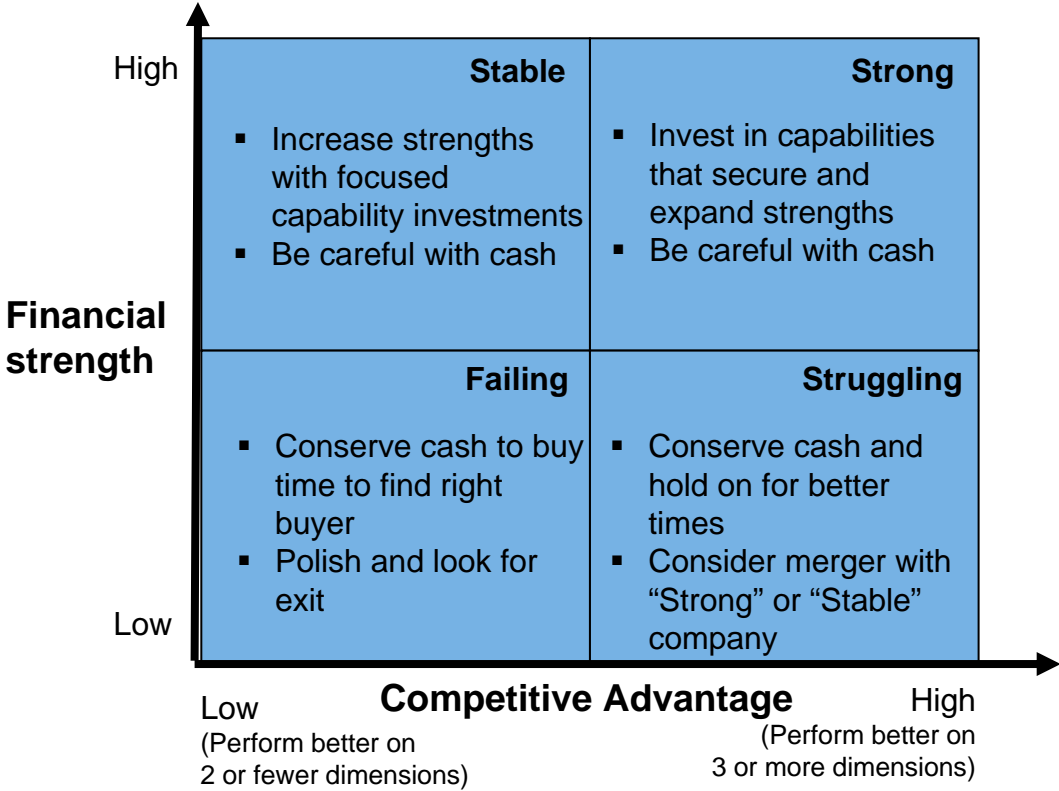
- SG&A costs
- Materials and sourcing
- Rightsizing
- Reducing complexity



- Industry logic
- Portfolio choices
- Investment decisions

Depending on financial strength, companies should respond to the recession in different ways

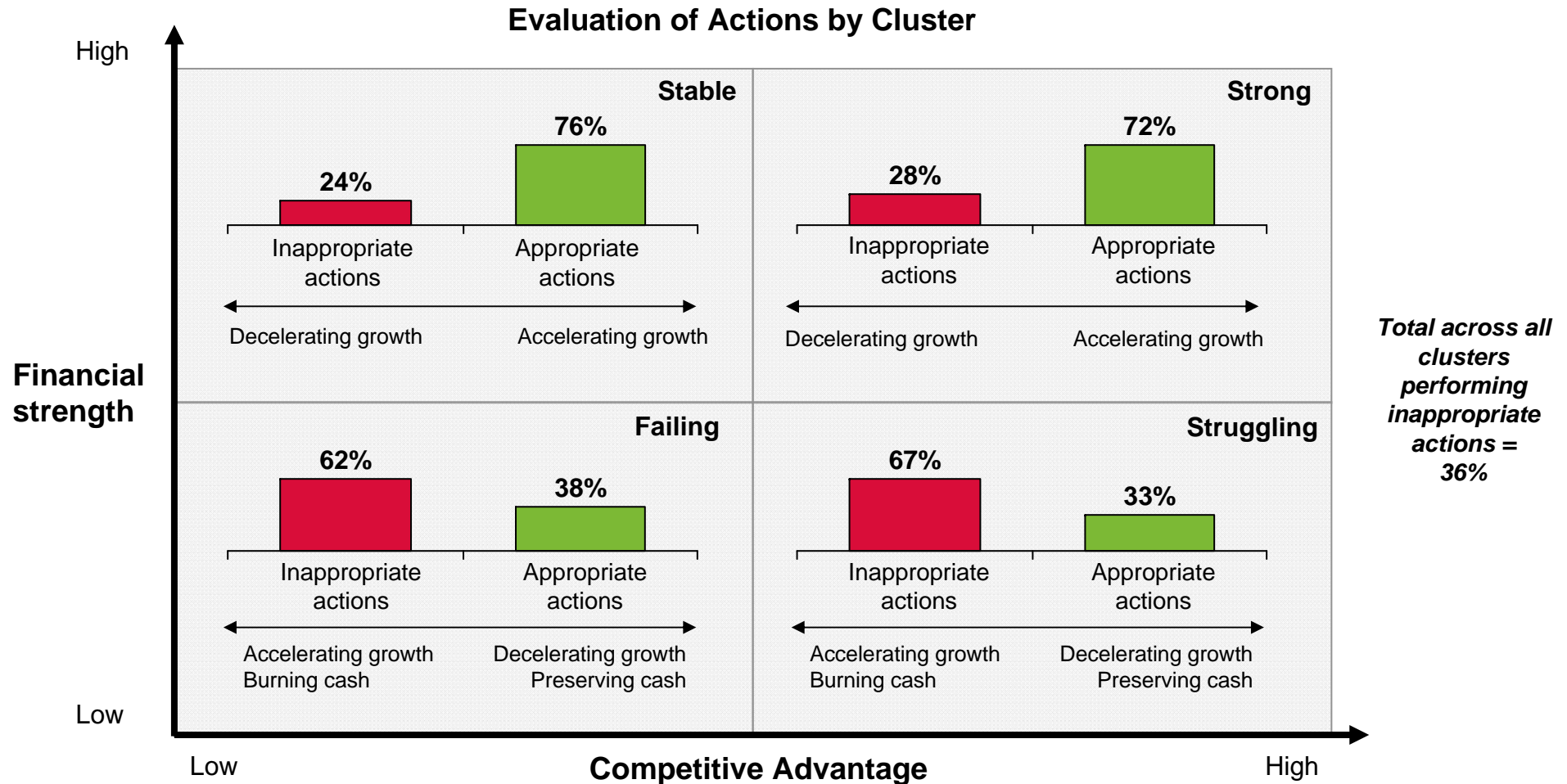
What actions would one expect companies to be taking?



Financial strength Based on response to “My company is financially strong today and is not in immediate need of external financial support”; High includes respondents who agreed; Low includes respondents who neither agreed nor disagreed.

Competitive advantage Five competitive dimensions tested: 1.Cost, 2.Product / positioning, 3.Technology / capabilities, 4.Leadership / management, 5.Ability to influence / collaborate with regulatory authorities

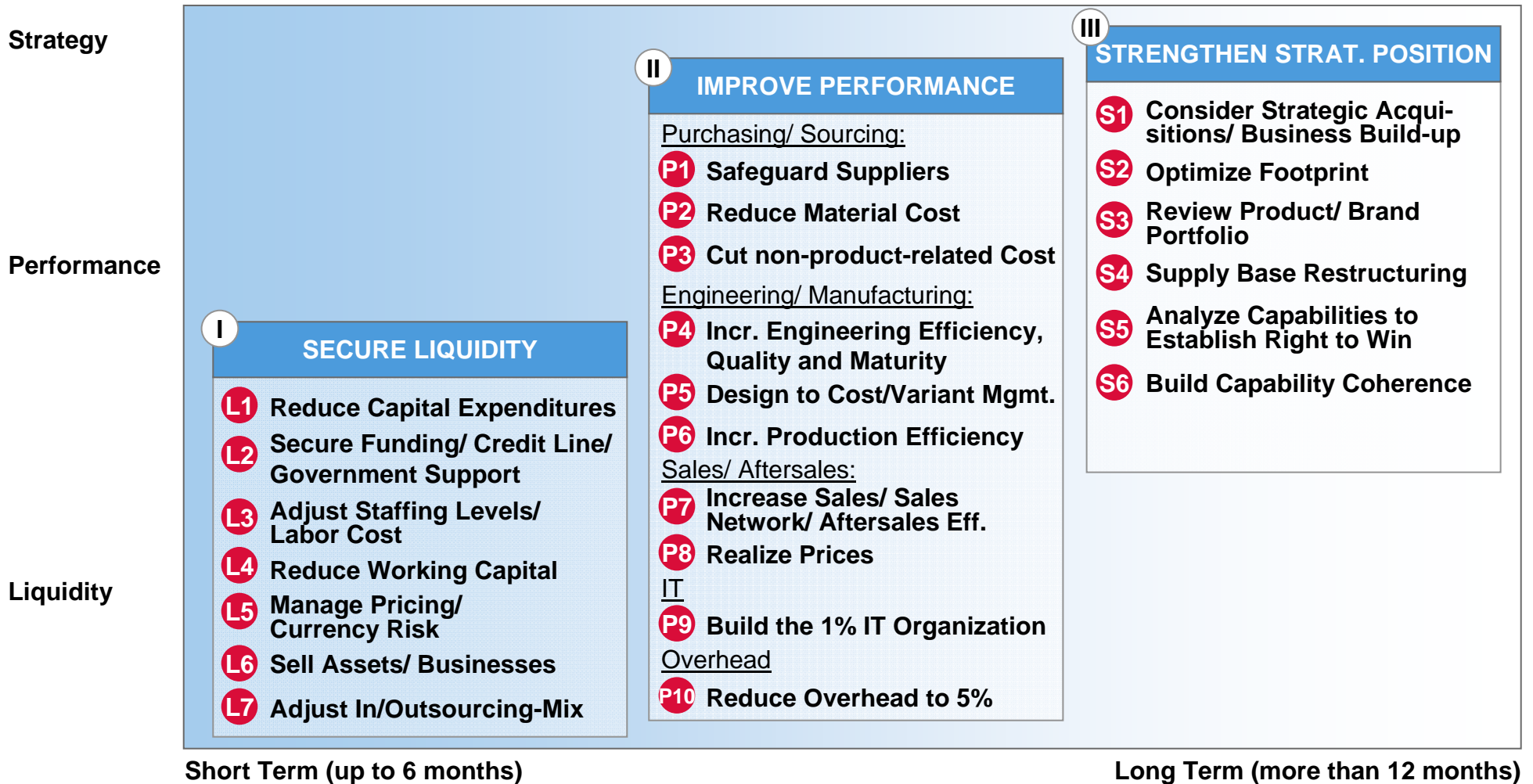
Our latest research suggests that a large number of companies are not making the right moves during the crisis



Source: Global survey on senior manager response to economic crisis - Booz & Company December 2008

Effective large scale restructuring focuses on LPS: liquidity, performance and a sustainable strategic position

Restructuring Program Modules

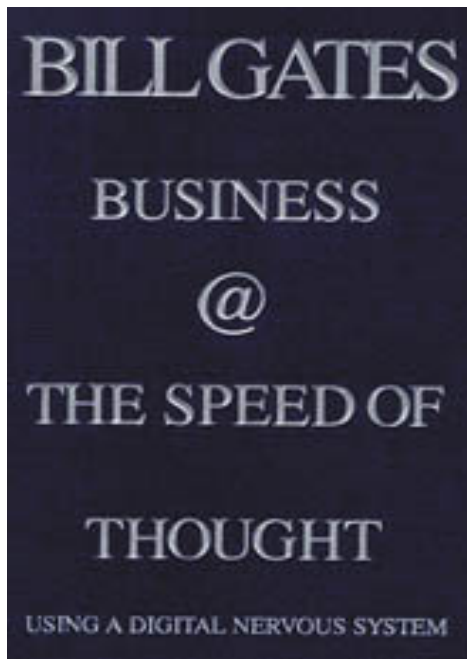


Challenge #2: *GAINING SPEED AND LOSING ALTITUDE*

Speed is increasing across almost every dimension of business

- Product innovation
- Customers
- Communications
- Capital
- Speed to scale

Speed challenges our ideas about decision-making

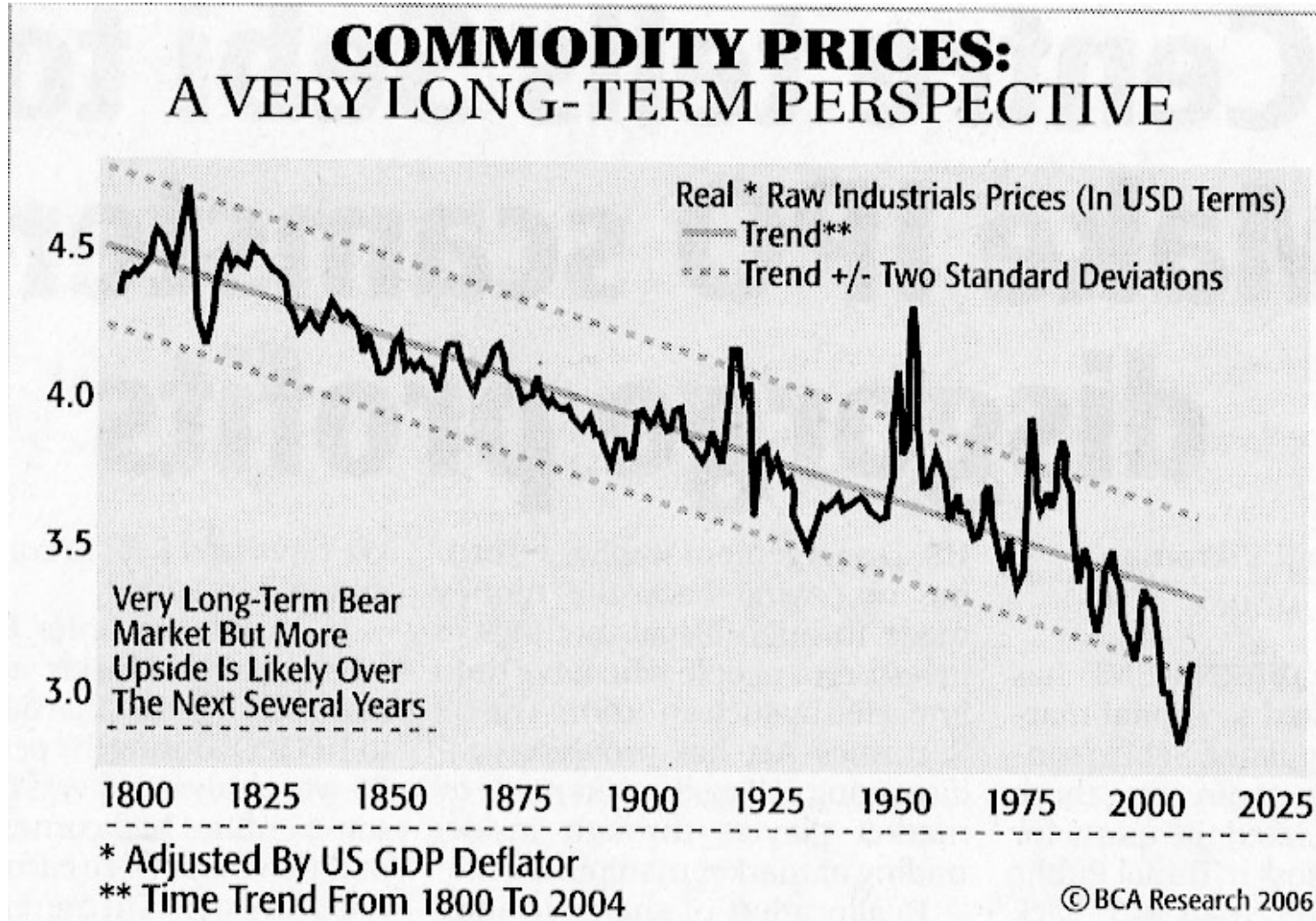




Challenge #3: *KING CUSTOMER and USURPING COMPETITORS*



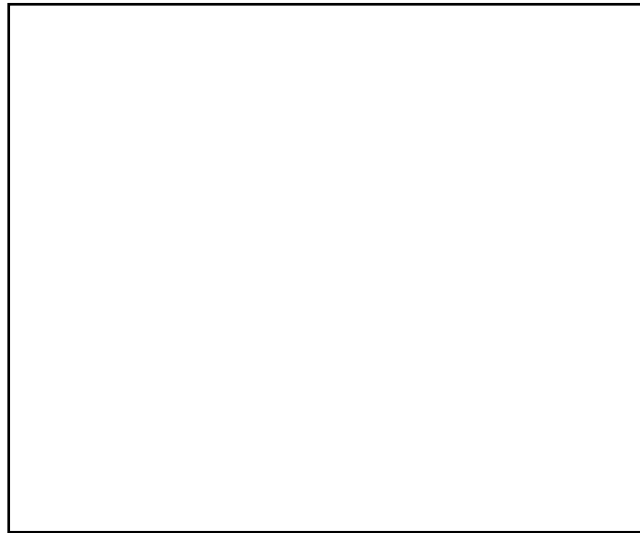
Historically, more and more value is created from our minds, not extracted from our mines



When competition changes dramatically, go back to basics

WHAT DO CUSTOMERS PAY US FOR?

Uniqueness

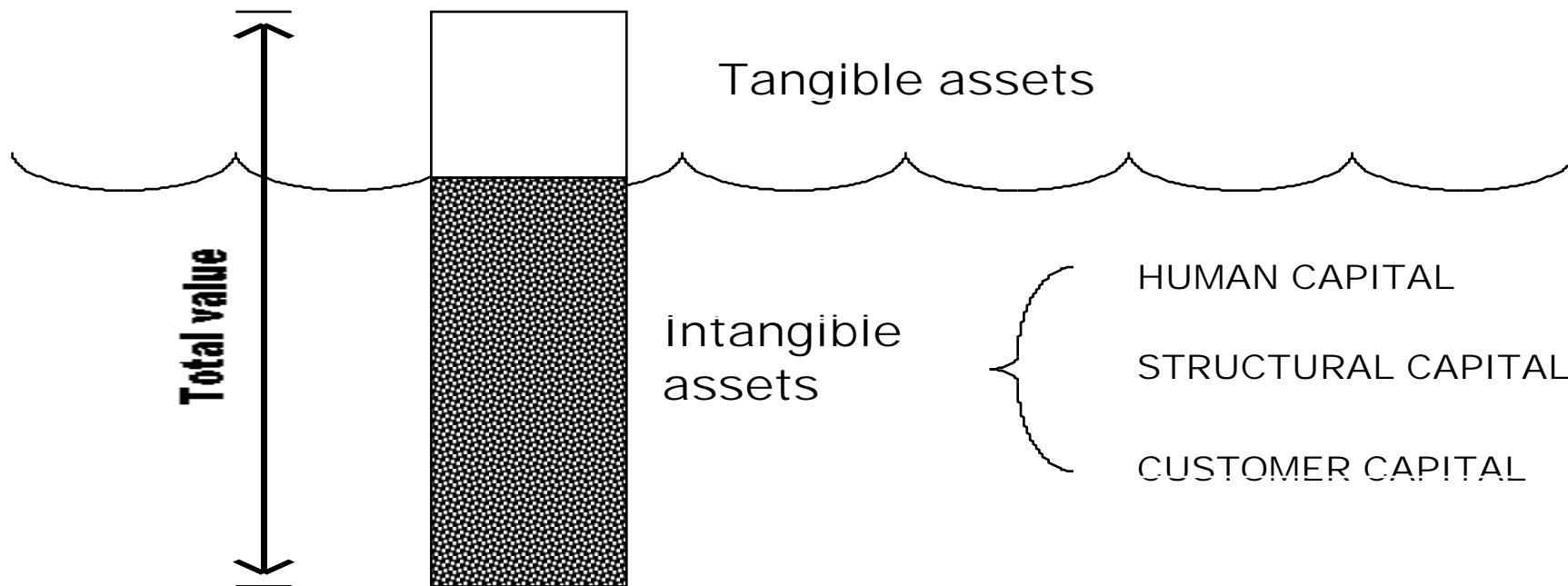


Value

WHAT WE SELL THAT IS UNIQUE AND VALUABLE?

The assets on which modern companies depend are intellectual

The Intellectual Capital Model



Challenge #4: CREATING A RIGHT TO WIN IN THE THIRD STAGE OF GLOBALIZATION

Globalization has entered a third stage--a new era

- **Globalizing markets—selling anywhere**
(Theodore Levitt, “The Globalization of Markets,” *Harvard Business Review*, 1983)
- **Globalizing sources—buying or building where it is most advantageous**
(Thomas Friedman, *The World Is Flat*, 2005)
- **Globalizing the intellect of the company—going where the best brains are**

At the business level, combination of assets and capabilities create a 'right to win' – capabilities are increasingly important

Value of Assets and Capabilities



As the intrinsic value of assets has diminished, the importance of capabilities has become greater

- Pace of technology evolution compromises both defensibility and scale benefits of assets
 - Partnerships/ Outsourcing create virtual scale
- Market of assets is competitive (20-40% acquisition premium)

The right capabilities should be selected to support a 'Right to Win'

Booz & Company 'Right to Win' Framework and Example

EXAMPLE

'Right to Win' Criteria			
Differentiators		Assets	Capabilities
Value Proposition	Consumer Value from Brand Superiority	<ul style="list-style-type: none"> Brand 	<ul style="list-style-type: none"> Premium / luxury brand management Brand Communication - in-store messaging Direct consumer engagement
	Consumer Value from Product Superiority	<ul style="list-style-type: none"> Design Access to high quality materials 	<ul style="list-style-type: none"> Design capabilities that can be trend-setting
	Technology & Innovation	<ul style="list-style-type: none"> Patents - materials and designs 	<ul style="list-style-type: none"> Frequent innovation - materials and quality of products Breakthrough innovation
Delivery	Customer / Channel Management	<ul style="list-style-type: none"> Supply chain network with ability to handle demand variation 	<ul style="list-style-type: none"> Retail Execution - to handle demand variation Customer Relationship - to enter new channels to enhance penetration
Cost	Relative Cost Structure	<ul style="list-style-type: none"> Manufacturing facilities with ability to handle high quality production 	<ul style="list-style-type: none"> High quality manufacturing

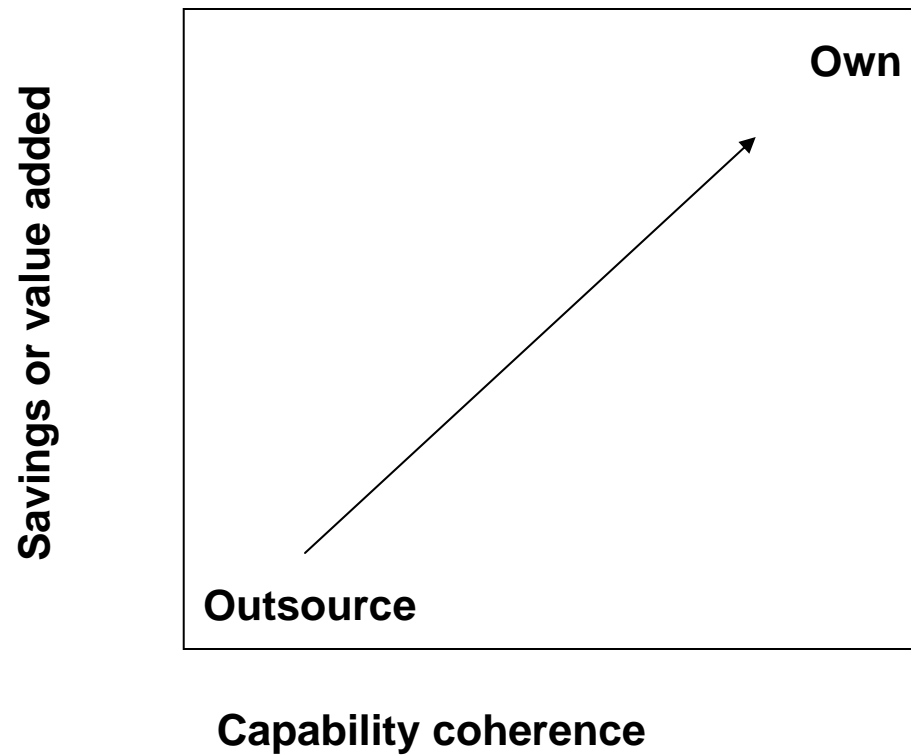


Market 'Right to Win' Assessment	
Company (Self)	Competition
<ul style="list-style-type: none"> Relatively strong brand However, weak direct consumer engagement 	<ul style="list-style-type: none"> Strong brand recognition - established as a luxury brand owner (other categories)
<ul style="list-style-type: none"> High design capabilities 	<ul style="list-style-type: none"> High design capabilities
<ul style="list-style-type: none"> Access to high-end materials and frequent innovation capability 	<ul style="list-style-type: none"> Low innovation capability / access around high-end materials
<ul style="list-style-type: none"> Strong retail execution capabilities Weak presence in fast emerging convenience channel 	<ul style="list-style-type: none"> Weak retail execution capabilities - given the low coverage / scale Weak presence in fast emerging convenience channel
<ul style="list-style-type: none"> Access to high-quality manufacturing, with reasonable scale 	<ul style="list-style-type: none"> No in-house or dedicated production facility

 Right to Win	 Right to Play	 Disadvantaged
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Note: Differentiators in right to win analysis will differ by section -- consumer example shown

Strategic outsourcing decisions manage both cost and capability dimensions



You can't have a Right to Win without having, also, a chance to lose

“[Globalizing the intellect of the company] means using Russian engineering and Indian software—not to arbitrage labor costs, but because these are the best people you can find.

“It's the hardest thing a company can do, because **no one is safe then.**”

—Jack Welch

Bottom line

- The world *is* getting flatter
- Slowly
- A level playing field means *you* don't have an advantage, either
- Find the bumps, and use them