

C H A P T E R

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Globalization amidst Rapid Change

Developing an Aggressive Strategy

The introduction to this book traced the major themes of rapid political, economic, and technological change that have affected business over the past two decades. We argued that globalization is coming even more rapidly than these other types of change, which contribute to it, and that companies need to understand globalization and have the capacity to respond quickly to it.

Examined at any one point in time, the effects of globalization might appear volatile or erratic, but examined over a period of, let's say, 20 years, globalization emerges as far more patterned, consistent, and even inevitable. From a business perspective, the history of the past two decades looks remarkably like the history of integration by the world's market economies and businesses. The contemporary results are dramatic. We have seen mergers of unprecedented scale, like Travelers and Citibank, Olivetti and Telecom Italia, Exxon and Mobil, and Daimler and Chrysler. We have witnessed countries that resist global integration and maintain closed, vertical capital market structures—and suffer badly. They will continue to suffer until they transform their politics and economies. But we have also learned that good intentions

are no guarantee of prosperity. Countries committed to liberalizing their economic and business policies—Brazil comes to mind—have been caught in convulsions of the globalizing economy such as the crisis of the summer of 1998, and they suffered painful setbacks.

Figure 1.1 summarizes the political and economic impact of these changes over the past 20 years, tracking trends in global wealth distribution over the period from 1980 to 1999. It suggests the approximate public capital market value of different regions and countries during this period, as well as the net wealth creation resulting from the various corporate and country strategies employed during these years. While there are significant exchange rate issues embedded in these figures, we assume that currency values as well as corporate market values reflect market and economic conditions and that the charts are an approximate representation of the economic impact of global, political, and economic changes since 1980.

In 1985, the emerging internationalization of the 1984–1990 period was beginning to become evident. Market values in Japan had increased, to some degree at the expense of U.S. companies and their U.S. market share.

By 1990, the sustained growth of the U.S. economy, as well as the market value of Japanese companies, had expanded global market

Market capitalization

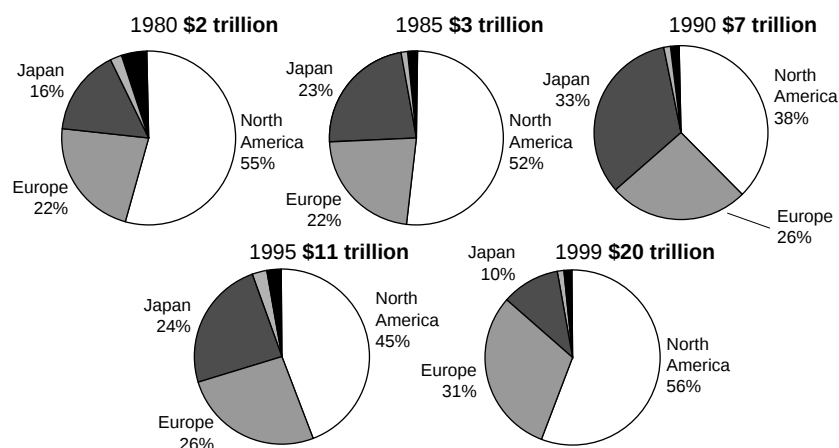


Figure 1.1 The financial impact of the continuing war of globalization.

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capitalization to \$7 trillion. The success of Japanese companies in entering overseas markets and developing strong global share positions dramatically increased the proportional market capitalization of the Japanese companies to 33 percent and reduced the proportional market capitalization of U.S. companies to 38 percent of the global pie.

By 1995, dramatic shifts in the global economy due to democratization and privatization, as well as the response of U.S. companies in developing global strategies and getting the benefit of reduced trade barriers, began to shift the picture again. Market capitalization continued to rise to \$11 trillion and Japan's share began to shrink to 24 percent. The large privatizations in Latin America increased the market cap in that region, although it still represented only a sliver of the worldwide figures. The market cap for North American companies rose to 45 percent of the total, suggesting a substantial rebound during this period of convergence and consolidation.

By 1999, an entirely new picture had emerged. The strong position of U.S. companies and network technologies as well as the relatively sustained expansion of the U.S. economy since 1984 allowed the United States to recapture 56 percent of total global market capitalization. Most dramatically, the severe financial crisis occurring in Asia shrank Japan's share of total global market capitalization to 10 percent and reduced the "other Asia" percentage to 1 percent. Continued privatization and market integration in Europe are reflected in the European expansion of global market capitalization to 31 percent.

While there are many measures of country and corporate success in responding to globalization and global market changes, the amassing of relative proportions of the world's wealth represents one of the most important scorecards. Examining the record, we see a highly consistent expansion of the world's wealth at 12.5 percent per year. The overall beneficiaries have been the countries and companies reacting effectively to the rapidly changing market conditions of globalization and global integration.

There are intriguing implications in this chart. The apparent failure of the vertical capital markets and protected consumer markets of Asia may lead some countries and companies to believe that a change of strategy is appropriate. The low market valuation for many of the companies may make them ideal candidates for joint ventures

or mergers, and their need for investment capital may create a new willingness to engage in attractive ventures. Strategists might argue that globalization has simply continued on to the Asian markets and now will begin to open them to direct investment and trade, making Asia a good candidate for business investment and expansion. Figure 1.1 also suggests that investment in Asia should be conditional on significant political movement toward lowering trade and currency barriers and opening the markets up for serious mergers and direct investment. There is a strong incentive for Asian countries to restructure the debt of their major corporations in order to make them good candidates for mergers and acquisitions.

Principles of Global Strategy

Several strategic principles emerge from this discussion. For instance, globalization and global market integration are inevitable, and companies, as well as countries, need an insightful and aggressive global strategy. Global scale will be increasingly important, since trade and business barriers are largely reduced in most of the world, thus creating a more integrated global market where market share needs to be calculated on a global basis. Similarly, communications and information technology increasingly allow management to lead very large global enterprises more effectively. Consolidation trends will continue and the scale of consolidation and corporate convergence will continue to increase.

A key feature of global strategy and business integration will be market focus. Companies must concentrate on the limited number of major market opportunities. Most companies will try to dominate the markets in 10 to 12 countries as the centerpiece of their overall global strategy. There is a 95-5 rule in global business markets—that is, 5 percent of the countries in the world (10 countries) represent 95 percent of the market opportunities in most business sectors, although the specific countries differ for each company and sector.

Market control and concentration of capital are critically important. While in the past many companies have experimented with joint ventures and alliances to limit risk, the vast majority of these have failed because of lack of scale and commitment, misunderstanding the market, or misunderstanding between partners. In moving forward, sufficient capital needs to be focused on a limited number of

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countries to establish dominant market position. The traditional “look before you leap” strategies of the 1980s are being rapidly replaced by large-scale, high-risk global strategies and consolidations aimed at becoming dominant competitors in particular sectors. To cite just one example, the announcement of the \$86 billion Mobil-Exxon merger in mid-1998, sparked in part by weak oil prices, has been followed by a wave of consolidations actual and attempted across the energy industry.

Telecommunications and information technology will move onto a global basis in order to create speed in operation and management decisions, to share information, and to control global enterprises. Correspondingly, global processes will replace national or regional processes in areas such as supply chain and brand management.

There are some important steps toward a successful global strategy. The first is developing a global strategic point of view for the industry. All industries are changing quickly, consolidating, and converging. For any company, it is important to examine each of the major operating units and agree on a sense of where the related industry is going and what will promote successful competition. For example, most public telecommunications companies in the world have been privatized and are being integrated into the networks of private telecoms. Over the next few years, there will be some dramatic consolidation among the large telecommunications companies, although each may be following a different strategy. Some, such as British Telecom with its educational programs in schools, may be pursuing opportunities to drive more content through their networks. Others, such as MCI Worldcom, may see themselves as a platform for emerging e-business and Internet protocols. Others still, like US West, may want to dominate voice communications in the short term and voice/data and other communications in the long term. And some, finally, may see their future in cable and broadband (AT&T).

In the automotive industry, lower barriers within countries and overcapacity are leading to dramatic consolidation. Companies need to decide how they relate to or own their parts networks, as well as the degree to which they need to control distribution and customer sales and service. In the retail industry, companies need to decide whether global integration and global retail branding will organize disorderly retail markets and whether their “go to market” approaches can dominate in a globally integrated market.

Market selection requires rigorous focus. There are more or less 200 different countries/market economies in the world. Approximately 10 of those countries represent over 95 percent of the world's consumer market. Similarly, approximately 10 countries, although not the same ones, represent over 95 percent of the world's materials, intermediates, and industrial parts markets. Less than 5 percent of the countries in the world manage over 95 percent of the world's financial transactions. Success for most major companies involves understanding and achieving dominant market share in the 5 percent of countries that dominate market opportunities in their particular sector. While the other 190 countries play important roles in the world economy and may be important elements of a global strategy, such as regional manufacturing/distribution centers, they are not the central focus of an effective global strategy. The focus has to be: What is the limited set of countries or regionally integrated markets that must be dominated to create the highest value global enterprise?

The 95-5 rule is obvious from Table 1.1. For companies attacking consumer markets, the chart begins to suggest the regions and coun-

1997	GDP at Market Prices (U.S.\$, in billions)	GDP/ Capita	Urban Population (millions)	Urban GDP/ Urban Capita	95\$ PPP GDP/ Capita	95\$ PPP Urban GDP/Urban Capita
United States	7,801	29,200	204.9	37,400	27,300	35,000
Japan	4,285	34,100	98.8	42,700	22,300	28,000
Germany	3,450	41,800	71.7	47,600	23,300	26,500
France	1,765	30,200	42.8	40,200	22,600	30,200
United Kingdom	1,277	21,800	52.5	23,900	19,800	21,800
Italy	1,116	19,500	38.0	28,600	19,200	28,200
China	959	800	378.4	2,000	3,300	8,300
Brazil	745	4,600	129.7	5,300	6,200	7,100
Canada	616	20,500	23.2	25,900	23,500	29,700
South Korea	549	12,000	37.9	13,600	14,300	16,200
Spain	528	13,500	30.3	16,900	15,200	19,100
Netherlands	473	30,200	14.0	32,900	20,800	22,700
Mexico	393	4,100	72.5	5,100	7,700	9,400

PPP = purchasing power parity

Table 1.1 Convergence Triggered a Focus on Markets

tries meriting focus. The chart includes an adjustment useful for global strategy, which companies are increasingly using. The first adjustment is that companies sell products into large urban concentrations, an activity that requires a minimum level of urban consumers (at least 20 to 30 million) and a minimum level of consumer income (at least \$2,000 to \$3,000 from the point of view of purchasing power parity). The conclusions from this analysis, summarized in Figure 1.2, demonstrate a strategic target frontier of countries with sufficient urban population and sufficient urban income to be attractive markets for major global companies.

For manufacturing markets, where companies are marketing parts, materials, or services to major final assembly manufacturers, the details may be somewhat different, but the result—the need for focus on approximately 10 countries—is the same. As the total GDP figures indicate in Table 1.1, the difference between the largest markets and the next level of markets is exponential, implying that a focus on a large number of small markets never competes with a strategy of focus on a small number of large markets.

To Do: The Management Agenda

The second stage in corporate globalization is to reach consensus among top management on the markets for attack and the handling of several critical issues.

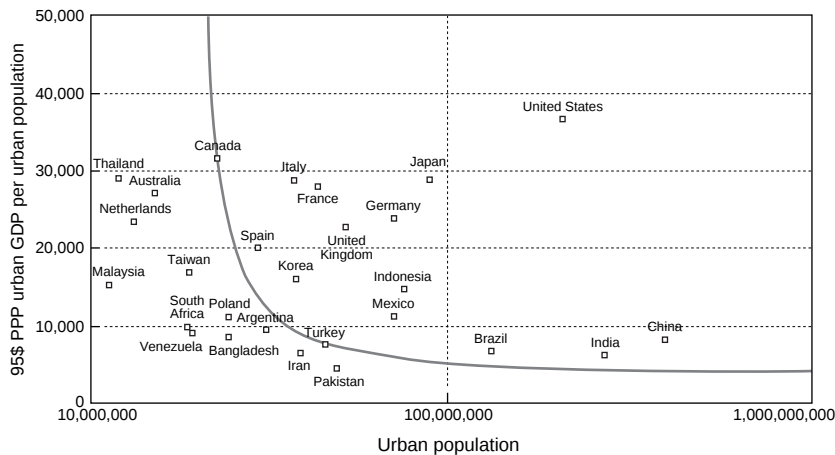


Figure 1.2 Strategic frontier.

Products

The objective is to respect local consumer tastes and at the same time create standardized product platforms. While low-cycle-time manufacturing allows for mass customization and efficient product tailoring for local markets, the integration of global markets has begun a convergence of global tastes so that most large markets are turning toward global brands, styles, and products. Developing products for global markets requires allowing sufficient flexibility to meet a wide variety of consumer preferences while at the same time attempting to limit product complexity, so as to simplify manufacturing inventory management and obsolescence.

Marketing Strategy

Increasingly, urban consumers are aware of global product options and have a variety of channels to desirable products and services. All of the elements of brand management—channel selection, brand identity, fulfillment processes, category management, and frequency drivers—need to be refined into global brand strategies. With more efficient capital markets and the development of regional currencies, consistent pricing management becomes even more important. In short, marketing needs to be developed from a global perspective and customer management systems need to be designed from the perspective of the new global market.

Global Operating Structure

The reduction of trade and currency barriers between countries and regions creates the opportunity to replace country-by-country and regional operating structures with fully integrated global structures. For the most part, manufacturing centers need to be developed close to the ultimate market to support low cycle time and rapid response to shifting customer tastes. Properly distributing manufacturing on a global basis also allows for shortened supply chains and improved management of working capital because of lower inventory and more efficient fulfillment systems. Sourcing and distribution need to be designed on a global basis with the perspective of moving products from manufacturing centers to final assembly points to ultimate markets as quickly and as efficiently as possible. Most international dis-

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tribution systems were designed during an era of trade and currency restrictions and resemble a patchwork designed to meet protectionist requirements. But with the dramatic lowering of trade barriers, most global sourcing, manufacturing, and distribution systems need to be redesigned to match the market opportunities and the company's vision of the ultimate global system.

Financial Structure

With wide-scale privatization, new capital markets have created entirely new sources of financing. It is useful to consider a tailored financial strategy that allows for local financing, close operations, and sales in order to contain foreign exchange and tax exposure, and to embed the financing strategy into the overall global structure of the enterprise.

Global Business Plan

For most global companies, the business plan needs to emphasize concentration of resources. The objective is not to participate in global markets on a country-by-country basis but to be the dominant player in a sector on a global basis. Significant investment and concentration of resources in the selected 10 or so markets that represent the majority of the revenue and profit opportunities in that sector will produce domination of the sector. The business plan must be designed to achieve rapid market domination in the target countries and to integrate the country operations into the overall global strategy and management structure. Companies today are moving toward very large-scale mergers and acquisitions so that they dominate their sector and have the platform for integrating and controlling the global markets. Such business plans require detailed analysis and planning and a major commitment from corporate leadership and the board of directors to move forward. In the era of globalization, major initiatives are very large and high risk with the objective of market control and high returns. Increasingly, there are very few middle-ground, low-risk opportunities.

Organization Structure

In the past, international strategies have often been built around regional and country organizational structures reflecting the differ-

ent policies and restrictions of the various countries, as well as the intent to understand and respond to the local markets. They also reflected the complexity of managing large global enterprises and the view that local control of operations was important. For the most part, this view has been replaced by designing companies that match their global product and category markets. Profit and loss statements organized along global product and service lines allow the business to be organized around a common focus on particular products, customers, and product markets. Horizontal global organizations allow for management teams to focus on particular customers and products and improve customer responsiveness. Information and communications technology allows companies to be managed on a global basis in ways that were not possible even five years ago.

Systems

Companies that traditionally install systems on a country-by-country basis, often utilizing technology platforms that did not interface or communicate well, are now developing new global systems to support global customer understanding, product development, marketing, operations (sourcing, manufacturing, and distribution), and financial management and control. While the conversion from country-by-country systems to truly global systems is a complex undertaking, it is essential if global management teams intend to work smoothly as they manage new global enterprises.

The new global economic and technological environment allows for the development and execution of truly global strategies aimed at global market dominance. The need for a global strategy is imperative, and the strategy must be focused on sector dominance to be effective.

These shifts put tremendous pressure on management to understand the dimensions of the global economy and to develop the right strategy. They also require companies to take enormous risks in developing a global plan, engineering the mergers and acquisitions to dominate the sector, and creating the management organizations and systems to generate value from the complex global enterprise.

Niall W.A. Fitzgerald

Chairman, Unilever PLC

Value from the Center

The notorious Willie Sutton was famously asked why he robbed banks. “Because that’s where the money is,” he replied. Why is Unilever a global company? Because that’s where the consumers for food and personal care products are—spread all around the world.

Our business must have the stimulus that comes from growth. Over the next decade we are committed to grow at a pace that, until now, was beyond our aspiration. Our business is fundamentally driven by population increases. Over the next 20 years, 3 billion people will be added to the world’s population, and they will live almost entirely outside North America and Western Europe. Some 75 percent of the world’s additional disposable income is likely to come from these emerging regions. We will be there to help them improve their standard of living with better products that meet their needs for nutrition, refreshment, hygiene, and personal care. Unilever now derives almost 70 percent of revenues from North America and Western Europe, where population growth is largely static. Our growth in these regions will come as we extend our reach across categories and channels and win a greater share of consumers’ wallets.

Global and Local—All at Once

Unilever is one of the oldest practitioners of global organization. William Lever, a grocer’s son from Bolton, England, pioneered the mass marketing of packaged goods and the concept of the transnational corporation. From the 1890s to the 1920s, he roamed the world setting up subsidiaries in Asia, Africa, and Latin America, giving capital and goals to local managers and then sailing off—returning years later to check on progress. He searched to find the right locations and the best people; he gave his managers clear objectives and then allowed them the room to deliver. So simple. Thus was born a busi-

ness empire, which today has revenues of £29 billion and 260,000 employees in 100 countries.

Lever authored a conundrum that has faced successive generations of our managers: how to preserve the benefits of the independent local units' intimate contact with local conditions, while extracting the advantages of interdependence from the total corporate entity's scale and scope. Stated differently, yet still paradoxically, our aim is to be a large corporate body with many hundreds of small company souls. That is the way to compete optimally in international markets: simultaneously to have the attributes of a small company—simplicity, speed, flexibility, clarity—and the benefits that arise from size and international spread. Striking the right balance between these two goals has been a long (and always unfinished) learning experience at Unilever.

Although our organization has gone through several mutations in seven decades, it has been our unshakable philosophy that the only way to understand consumer needs and how they might be satisfied is with strong local management teams. At Unilever's 300 operating companies, managers are 90 to 95 percent local, with a sprinkling of expatriates. These expats are not (as is typical with international companies) from a single nation. They come from the world over. An Indian leads Chesebrough-Pond's in the United States. Our top man in Brazil is Italian. A Belgian leads the business in China, and our chairman in Arabia is American. Local managers are critical to achieving intimacy with consumers country by country because, while there are global companies, there is no uniform global consumer. Nor will there ever be, though some may seek to convince you otherwise. Companies that believe only in global brands and homogeneous global markets are likely to get into difficulty. The relatively small number of global brands (McDonald's, Coke, Nike, and a handful of others) should be a warning. Diversity of tastes and individualism are on the rise around the globe, reflecting subtle but enduring differences in local customs and cultures. Accordingly, global companies these days must, more than ever, be responsive to local conditions.

There is no better testament to the intensity with which Unilever pursues globalization than the international distribution of our research effort, which employs about 9,000 people. There are major centers for basic research in the United Kingdom and Holland, and

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this is natural in light of Unilever's dual nationality and unique dual CEO structure. Yet there are, in addition, major company research facilities in the United States, India, and, latterly, China. We have no fewer than 70 Innovation Centres operating in 20 countries, each one dedicated to product development on a regional basis. No company in the world has such roots in as many local soils.

Until the mid-1960s, the national management of every country where Unilever operated was fully responsible for all operations in that country. There were advisory product groups at the corporate center, but the local manager had the final word on how products were marketed and distributed. Our management has always been acutely aware of the arguments against a greater role for the center, which can be summarized as follows:

- Operating managers know their business better than the center.
- The center may tend to cushion individual businesses so that in time they become risk averse.
- The center's managers waste time and effort seeking mythical synergies between divisions.
- Technology and outsourcing render many of the center's support functions unnecessary.
- As the pace of change increases everywhere, central planning and control become even more ineffectual and are often a hindrance to speed and flexibility at the divisional level.

The Mythical Beast

While these points all had merit in a simpler time when markets were less globalized and competition less intense, the advantages of 100 percent decentralized autonomy have lately weakened. Corporate centers now have greater scope for adding value, thanks to the extraordinary advances of information technology (IT) and communications, the ease of travel, and the integration of national economies into regional groupings like the European Union, NAFTA, and MERCOSUR. These trends require a corporate center that engages in creative dialogue with the autonomous business

units and stimulates them to cross traditional business boundaries, expand their conceptions of markets, share ideas and insights, and make new lateral connections. A corporate center can challenge, probe, and demand stretch. The centerless corporation is, or should be, a mythical beast.

Political scientists have long observed that centralized power can lead to bureaucratic procedures that ultimately stifle innovation. Accordingly, our corporate center sets out to be a catalyst, an enabler, providing tools and knowledge that influence local behaviors. The center should be lean but activist; it must have strong people with a light touch, and combine central direction with the stimulation of maximum operating freedoms. It must be self-disciplined, seldom compromising the autonomy of business units but intervening decisively if they move off plan, outside the strategic framework, or away from our business principles.

Unilever's multilocal multinationalism contains competing forces and, occasionally, contradictions. Generations of our managers have self-critically examined how we should be optimally organized so that the separate operating companies and the corporate center contribute maximum value to each other and to the business as a whole. In the mid 1990s, after much soul-searching about our performance, we opted for a radically fresh approach: a series of portfolio changes that reduced product diversification and made our business simpler and more coherent. In addition, we created a more focused organizational structure, better able to execute strategy on a global scale and, hence, better able to cope with change and intensifying competition. With this realignment we achieved a much clearer distinction between corporate strategic leadership (call it portfolio management, if you will) and operational execution. The bedrock of local independent businesses, plugged into their unique environments, remained unaltered. But their lateral interconnectedness or interdependence and their links to the center were strengthened.

No company can achieve significant global scale without an activist corporate center. Our 12 business groups develop regional strategies consistent with, and extending, the overall corporate strategy. The 12 groups retain full responsibility for the growth and profitability of their regions. Aside from commonsense aspects of unity such as common accounts, information systems, statutory functions, and shared ser-

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vices like bulk purchasing for business units, the key responsibility at the center is knowledge acquisition, sharing, and dissemination—from which we obtain the leverage implicit in our scale and scope.

A case in point: Eight years ago we took what was then seen as a highly controversial decision. We moved to open information systems and in a matter of months had over 60,000 PCs networked around the company. We did not spend time discussing the commercial justification. The center recognized that linkage and interactivity were just the technological facilitation that had been lacking. Hitherto, if the manager of a soap factory in Durban had a problem at five o'clock one evening, the best he could do would be to call the center and ask for advice. If his contacts at the center didn't have a solution to recommend, the problem might persist for months while information and advice filtered upward and then downward through the company. By contrast, today that manager logs onto the Unilever "soap network," inputs his problem, and the next morning there will be comments and suggestions from soap factory managers in Bombay, Jakarta, Liverpool, or São Paulo. Sounds eminently sensible—but it couldn't happen without a network, and a culture of trust rather than command and control.

The company's human chain of understanding and interactivity is of immense importance. On paper, Unilever's organization does not convey a great deal of information about how our business really works, which is often through a series of informal networks. Unilever people travel relentlessly and are transferred frequently. Most people in top management, myself included, have worked in a half dozen locations in the company. The result is that we are couriers of knowledge. While the role of the center is, in a sense, to be the gatherer and storehouse of knowledge, actual dissemination gets done mostly by managers moving from job to job and by formal and informal networks. We also encourage our people to visit each other in all corners of the world, often without approval of the center and with disregard for hierarchical niceties.

Knowledge Management in the Global Colossus

In the last two to three years we have put greater emphasis on trying to achieve more effective utilization of our single unique asset, our

knowledge. Most large organizations probably manage to use only between 10 and 20 percent of the knowledge embedded in the company and its people. We're anxious to find ways to crank that number up to 50, 60, 70 percent and beyond—as a source of huge competitive advantage. Although this may sound arrogant, it remains true that we have more knowledge of consumers, and of practices that work in very diverse areas worldwide, than do our competitors or for that matter the typical global enterprise. The question is how to access this knowledge within the operating units and make it visible and available to everyone in Unilever—as we must, if we are to meet our growth goals. There is no aspect of our technical or business processes where Unilever does not have an exemplary best practice, somewhere. The trick is to capture this vast reservoir of knowledge and ensure that it is applied everywhere. The challenge is exciting, the payoff extraordinary.

Knowledge sharing has been stimulated by the recent creation of core teams for each of our 12 product categories. Core teams are charged with finding fresh ways to leverage international scale and scope. They ensure that our R&D and our big international brands (like Dove and Lipton) are managed from a global as well as a local perspective. Category core team members come from operations all over the world. Their goal is to blend and balance regional and global needs in the drive for sustained and winning innovation. They also play a key role in brand equity management—increasingly important as we cull peripheral brands and focus resources behind a much smaller stable of power brands.

Core teams are opportunity hunters. They spur the rapid global adoption of new products and processes that have met with great success in one region. In addition, they are catalysts of best practice adoption. One best practice currently being spread around the world is a program called Total Productive Maintenance (TPM), originally a Japanese concept. Under TPM, operators take personal responsibility for production line efficiency and quality. The results have been startling—soap production costs halved in Indonesia, rated capacity doubled in India, highly acclaimed and award-winning team practices in our British food factories.

Here is another concrete example of the leverage obtainable from knowledge sharing. After many decades of struggle and lackluster results, Hindustan Lever has been transformed into an outstand-

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ing growth engine. Recently it has doubled in size and profitability every four years and acquired a market value on the Bombay Stock Exchange of over \$10 billion. It is acknowledged as one of the best-managed companies in Asia. Our managers there do not think of themselves as working for a subsidiary of a multinational, but as a powerful Indian company that feeds off a global network.

Over a decade ago, Hindustan Lever made a mistake. It failed to recognize an unsatisfied demand for affordable detergent products and instead concentrated on the high-end, middle-class market. Then a local company invaded the market with a low-cost alternative that earned instant success. Hindustan Lever promptly rethought the product, the price point, the marketing strategy, and the whole distribution system, and then introduced its own low-cost brand, Wheel, which won back market share and now outsells the high-end product. Hindustan Lever responded with speed and total determination to develop a complex new business system.

This is not only an Indian story. The eye-opening experience rippled throughout Unilever, upward and outward, and initiated a very different approach to meeting the needs of some of the poorest consumers, who constitute half the world's population and earn less than \$200 a month. New products for this market segment have been launched in Brazil and in Africa. They are expected to move ahead rapidly. We will further shift our R&D focus to the vast numbers of our consumers who live in the developing and emerging markets of today, but who will in 2020 drive significant revenue and profit growth.

These days many gurus and policy wonks breathlessly talk about corporate globalization as if it were a great new wonder. The history of Unilever demonstrates that it is an old phenomenon. We've been struggling with, and benefiting from, globalization for several generations. What has changed is the style, tempo, and intensity with which we manage our federation of operating companies. We have moved from laissez-faire to a more activist and integrative approach that fuses strong central direction with maximum business-unit operating freedom. There is no doubt in my mind that this new approach will stimulate growth, employment, and shareholder returns over the coming decade. And after that? Well, the world will have changed again by then, and fresh challenges will spur Unilever to once again remake its organization.

Jacques A. Nasser

President and Chief Executive Officer, Ford Motor Company

Next Frontier of Globalization Consumer Focus

Few manufacturing industries are more global than the automotive industry, and Ford Motor Company is arguably one of the most evolved global players. Over 30 percent of our sales are outside North America, and we have manufacturing facilities in 26 countries on six continents. Ford has sold cars in Argentina since 1913, in France since 1907, in Australia since 1904. Yet I think it significant that our evolution toward full-blown globalization is still in the early stages. True, we have made huge advances, with greatly improved synergies and teamwork across functions and geographies. The speed with which, in 1997, Ford brought new products to market in South America, India, and China showed our capacity for major simultaneous initiatives worldwide. The following year we demonstrated greater global prowess by launching the Ford Focus, global sales of which will very likely reach the magic threshold of a million units per year—previously achieved by only two company models, the Fiesta and the F-150 truck. Yet I emphasize: We are at the beginning stages of true globalization.

In all likelihood it will take a decade more to create a perfectly seamless global machine at Ford. The scope, scale, and complexities of the enterprise are daunting. One factor driving corporate globalization is, of course, the quest for revenue growth. If a company has a broad geographic footprint, then it can leverage innovations, products, marketing tactics, and all of its talents and creativity across a far bigger market than its domestic base. Another key factor powering globalization in automobiles is world overcapacity. Whether you take the position that overcapacity is chronic or simply a short-term phenomenon, it is putting pressure on prices and margins. It also generates pressure to rationalize production. This has spurred a number of large cross-border alliances, like Ford and Volvo, Daimler

and Chrysler, Nissan and Renault, and other combinations will inevitably follow. Within a few years the number of large-scale global producers (those making 5 and 6 million vehicles a year) may well shrink to about half a dozen. A few niche producers in the 100,000-car range will remain.

Six Perspectives for Managing Our Business

In recent years, several automakers have worked toward better global integration of resources. Ford was first out of the box with its Ford 2000 initiative, begun in 1994, which was essentially a \$150 billion internal merger of many individual Ford companies around the world. We consolidated international operations into a single, integrated company; simplified core engineering and production to achieve cost reductions; and designed new products around a reduced number of platforms. The tangible and intangible rewards of this effort have been massive—since 1997 we have reduced total costs by more than \$5 billion, and for the past two years we have been the world's most profitable automaker. In almost every region of the world we have had significant new product launches in 1998. The cumulative cash earned from several years of record-breaking profits allowed us to purchase Volvo's passenger car business for \$6.5 billion, and we still have \$20 billion in cash reserves. And so far we have picked only the low fruit from the Ford 2000 tree, in the form of savings from the elimination of duplicate or overlapping facilities. There is much more, on the drawing boards, to be gained from better sharing of components, sharing of platforms, sharing of architectures and technologies, and obtaining the full benefits of global scale.

We take a portfolio approach to managing our global enterprise by looking at the performances of the global company, regions, business units, functions, product lines, and brands. Each cut provides texture that fosters a better understanding of the business (see Table 1.2).

Regional Product line	Global Brand	Functional Business unit
Consumer		

Table 1.2 Portfolio Approach

Depending on the context, management decides which of the six is the dominant dimension for any particular activity, without neglecting the other five. Take, for example, a business unit such as Jaguar. If I have a marketing problem or a question, I go to the CEO of Jaguar rather than to the marketing experts for the company's brands. The same is true for Hertz: It is an autonomous business unit. Both Jaguar and Hertz are, of course, powerful brands as well as business units, and some issues will be best approached from the brand perspective.

Within our organization, Lincoln has not been as distinct as Jaguar and Hertz as a business unit. I've given the head of Lincoln objectives for strengthening the line, initially from a brand perspective, and with that goes responsibility for revenue growth, profit and loss, market share, and image. In effect, we've created a virtual company and declared, "This is Lincoln—and here are the deliverables for Lincoln."

There is, of course, a distinction between a product and a brand. Mustang is a product line. When I looked at Mustang a few years back, it was losing money. I exploded. I said, "I can't believe this famous brand isn't profitable!"—and I said much more. Today Mustang is profitable because we focused on the product line. We created a different kind of virtual business than that at Lincoln. It even has an internal board of directors—really a cross-functional team dedicated to the product.

We also have the regional dimension. Too much happens too quickly on the ground to be the responsibility of the corporate center: government, taxes, dealers, unions, consumers. All demand a strong, regional, grassroots presence. What, then, does "global" mean at Ford? It means shared strategic focus and shared best practices.

Regarding best practices, we don't expect every business unit to develop best practices. Many best practices emerge somewhere in the functional dimension of our management matrix, and it is our responsibility at the global level to see that they are actually transferred and adopted as widely as need be. Recently, best practices were shared between Jaguar and our plant in Madras, India, which will build a version of the Fiesta. Four engineers and three technicians from India spent 18 months at Jaguar's paint shop to study Jaguar's paint systems and quality methods, which are among the best in the

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world. This knowledge was taken back to India and incorporated into production of the new Fiesta. This sort of cross-fertilization, which we have been striving for, would have been unthinkable at Ford only a few years ago.

The global dimension includes human resources. If you don't think globally about people, and instead let human resources development occur strictly within the perimeters of the business units or regional units, you end up with a disaster—I know from personal experience. I used to lead Ford Europe, equal to about 25 percent of the company, but I had never met many of the top managers in Detroit. That doesn't happen anymore. In order to build the best team in the industry, we have found ways to bond on a personal level—but globally.

I have described the six dimensions for the most part in isolation from one another, but the truth is that they operate simultaneously. None can be left out of our calculations. Historically, we were very good in the regional dimension and also in the functional dimension. The global dimension didn't exist until recently. We were a good deal weaker in the other dimensions of product line, brand strategy, and business unit. Because the global economy has now opened up, we are giving much more primacy to the business unit and product line, supported by the upper three dimensions in the diagram—regional, global, and functional. We've flipped the chart around to reflect our new practice. When I led Ford Europe a few years back, I would say to myself, When I get time, I must look at product line profits. But somehow that time never became available. This neglect of product line profits was exacerbated by a slow reporting system (since corrected) that made much of the information academic.

No Rules, Be Flexible

Since the landmark 1993 launch of the Mondeo world car, we have learned numerous lessons on the dos and don'ts of globalization. The more we learn, the clearer it becomes that there are no rules, no magic bullets, no one-size-fits-all templates. The key thing is flexibility and adaptability in the supply chain, design, assembly, and customer interface. Consider flexibility in design. Today we can often change the design to suit the needs of a particular geography and

adjust the model without a tear-up of the manufacturing, which would have been necessary before. In this respect, common platforms are liberating. They have allowed us to bring to market niche products (i.e., those that sell under 100,000 units a year) which were impossible to justify financially just a few years ago. Many times we looked at reintroducing the Thunderbird, but the numbers were always wrong. Now we are bringing to market a new Thunderbird at an extremely low initial investment because we are using existing processes, facilities, and components. The result will be high value for the consumer, good returns for shareholders, and an exciting, unique product.

I don't wish to sound as if we have all the answers. Some of our approaches are experimental, and on many organizational and management issues we are open-minded. Consider our strategy in Asia. We haven't concentrated our efforts in any one country. We have tended to make what amount to strategic *starts* in several countries. We've tested different models, created joint ventures with local companies and global partners, developed component manufacturing, assembly plants, primary domestic production, and export production. We have sought a varied texture of options with good on-the-ground knowledge. An experienced local partner helps us set a strategy consistent with that country's economy in the longer term. We haven't set out to achieve one comprehensive solution for all of Asia.

The New Ford: Passionate Interaction with the Consumer

By now the reader will have the impression that globalization is a work in progress. Perhaps the greatest global challenge we face is generating a passionate interaction with the consumer. Historically, the big U.S. auto companies have operated by a production and engineering mentality. We grew up believing that the perfect situation is this: Design a wonderful product that people want. Make sure it is defect-free. Ship it to a dealer. The dealer quickly sells it to a customer, and you never hear from the customer again until it is time for another purchase. We were very much nuts-and-bolts and transaction oriented. Everything else was at the outside of the game.

The first part of this sequence remains valid today: We must create desirable products that are defect-free. But the customer-facing part of the sequence is antiquated. We now seek a long-term rela-

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tionship with the consumer and the family, which means developing a two-way communication process—the more unfiltered, the better. To achieve and sustain that relationship and make it authentic, we must be open and sensitive in many ways we have not been in the past, from understanding actual product requirements to understanding people's aspirations for a cleaner environment.

I believe that Ford is on the threshold of discovering all the elements of the new relationships we seek with the world outside the company walls. We have to break up the logjams—old mind-sets, old ways of doing business. We must continually wrestle against a narrow, inward-facing view. That is one of the reasons we moved Lincoln Mercury from Detroit to trendsetting California. Lincoln Mercury is the first major domestic auto company ever to move its headquarters west of the Mississippi. There is symbolism here: We have left the old stomping grounds, we are physically present in a huge regional market that influences taste and fashion worldwide. Proximity to Hollywood, to great designers and leading-edge innovators in many fields, will be energizing for Lincoln—and it's worth noting that Lincoln was the leading luxury brand in the United States for the first time in 1998.

The companies that win in the twenty-first century will be those that look at the whole business from the customer's perspective. They will drive their businesses by customer preferences and go flat out to develop internal processes attuned to and connected with customers' wants. Introverted viewpoints will be dead ends. Great feats of engineering alone will not cut it. Traditional engineering/manufacturing/sales-dominated companies must mutate into more consumer-focused enterprises.

Our goal is to transform Ford from a solid automotive company to a superior performer as the world's leading *consumer company* for automotive products and services. The global automotive industry is in many respects just what it was in the past—a mass manufacturing business. But today's world is very different from the past in which that business model triumphed. The velocity of change is unprecedented. Thanks to the spread of technology and the advent of the global economy, the global consumer has emerged as the force rewriting the rules of business. It is not the banker, the manufacturer, or the retailer who is rewriting the rules. The global consumer is in charge. Consequently, excellence in manufacturing, engineering,

quality, and productivity—important as they are—are not tomorrow's keys to competitive success.

At Ford we must look at ourselves as the consumer sees us. For example, we used to think about costs as *our* costs—supplier costs, manufacturing, warranty, and so on. We must now look at costs as the consumer sees them: repair, service, financing, insurance, residuals, recycling—along with initial purchase price. Understanding the consumer entails more than selling products and providing financing or irresistible value. It requires deep involvement in the consumer's total transportation experience: service, parts, accessories, insurance, and the rest. If you look at market share on that basis, then Ford's share, or the share of any of our rivals, is far smaller than we thought it was, based on traditional measures. The opportunities for growth and new businesses are huge. But so are the challenges. The reinvention of Ford into a consumer-focused company will place new stresses on our technology, our manufacturing efficiencies, our creativity, and our nimbleness.

Yet this strategy is essential if Ford is to fulfill its shareholder value enhancement objectives. Some years ago, shareholder value considerations were not high in the consciousness of many upper and middle managers. We have rectified this situation, in large measure through our Business Leadership Initiative, a program of mentoring and passing on teachable points of view throughout the organization. I have also begun a global weekly e-mail newsletter called *Let's Chat*, which goes to 145,000 people in the company. It is an ongoing, unfiltered dialogue between CEO and employees.

Now that shareholder value thinking is integral to the way we do business, we have turned the spotlight on achieving growth by consumer focus, by striving to delight the end user. What is a consumer company? It is an enterprise that is continually gathering unfiltered consumer insights worldwide. It is an enterprise that strives to:

- Connect with current and potential customers and anticipate their present and future needs.
- Translate consumer needs into a competitive advantage, using fast cycle time and generation of breakthrough products and services.
- Focus on building sustained relationships.

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- Effectively manage a portfolio of brands.
- Continually grow shareholder value.

Consider the shareholder valuations of companies with a consumer focus. The median price-to-earnings (P/E) ratio for the Standard & Poor's 500 in late 1998 was about 27, versus 11 for Ford. At our 1998 earnings per share and our present stock price (\$55), our price-to-earnings ratio is about 11 and our market capitalization is about \$66 billion. If we improve our multiple to 20 (the average for Dow Jones Industrials), our stock price would improve to over \$100 a share and our market value would be about \$120 billion. With a multiple of 30 (the recent average for S&P 500 companies), our stock price would be \$150, with a market value of \$180 billion. Since 20 percent of the company's stock is owned by employees, improving our P/E multiple from 11 to that of the average S&P 500 company would mean more than \$20 billion to share with our employees and their families. Now that is something to strive for!

Although it is early days, some people outside the company recognize that we have the potential to change our spots. John Casesa, an analyst for Merrill Lynch, has written that a "revolutionary development would be Ford's successful transformation to a genuine consumer-oriented marketing company. . . . This ambition is so grand as to hardly be credible. Nonetheless, Ford is serious about this strategy, and if successfully executed, it could meaningfully improve the company's growth, returns, and consistency of results. Such success would radically change the market's perceptions of Ford and would drive its multiple above the upper limits of the 1980s and 1990s."

Acquiring a Customer Headset

This is the fundamental correlation: Consumer focus = less cyclical risk = growth = higher stock multiple. Unfortunately, our industry has heretofore lacked a good grasp of consumer differences around the world. We need to understand the real differences, the ones that matter at both a rational and an emotional level, and respond to them in the product development process.

Did you get that? Or did it run by too quickly—"emotional"? What we are striving for at Ford is a *deeply felt* perception among Ford managers of customer identities, characteristics, and needs. I want all

Our Research Shows That Top Consumer Companies Share 10 Major Characteristics:

1. *Total customer experience.* Leading consumer companies do not focus just on the product or service but on every point of contact with the consumer. Disney, for example, focuses acutely on both current and future products and services to ensure that each reinforces the Disney magic. Unfiltered customer insight is a key to Disney's success. Our own business unit, Hertz, has a visceral understanding of the needs of the time-starved business traveler and has translated that understanding into the Hertz #1 Club Gold Card and the facilities and services that go with it.
2. *Product "hits."* Or the successful launch of new products that people love but perhaps didn't know they wanted. The focus is on consumers' lifestyles and anticipating their future needs. At Ford, our Truck Vehicle Center (VC) has developed a culture that applies candid feedback received from clinics, focus groups, and other research. The Truck VC focuses on getting to know target customers and then does what it takes to satisfy them. Recent winners are the Expedition and Navigator, which, respectively, redefined one segment and created a new one almost overnight.
3. *Customer loyalty.* Or creating intense, sustained relationships over time. Often, loyalty is built by offering a choice of rewards, which invite the customer to make a personal selection. American Express uses this technique, learns from customer choices, and applies that information to develop future rewards. While other credit cards invest to take customers away from their competitors, American Express invests to build relationships with its present customers.
4. *Retailing and distribution.* The retailer and the consumer company work together to bring mutual benefit to one another. Procter & Gamble, the leading packaged goods firm, and Wal-Mart, the largest retailer, share information to help each other with logistics, category management, and promotions.
5. *Brand process.* Coca-Cola has a process to take mature brands and grow them further. Consistency is achieved through the brand name, advertising, packaging, and even the promotions conducted with bottlers. The process is replicated in new markets and segments. Our Jaguar business

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unit has a brand process, characterized by consistent nomenclature, advertising, brochures, and marketing, which has differentiated Jaguar from other brands in Ford's portfolio.

6. *Logistics.* Or creating efficiencies in procurement and distribution to yield the lowest total cost to consumers. FedEx customers may book and monitor cargo to suit their needs. The customer is given more control and logistics are simplified.
7. *Build to demand.* Despite rapid growth, Dell maintains short lead times by marketing to consumers directly and allowing them to configure their own systems. Dell is able to make suggestions via Internet or telephone, and is able to tweak these suggestions on the basis of product availability. Lead times are reduced through communications with suppliers, who are able to keep their inventories in Dell facilities.
8. *Customer knowledge system.* Soliciting, retaining, and drawing insights from the customer base. FedEx surveys its customers several times annually, and the information is shared with its entire organization, not just marketing. The findings are used to improve customer service, promote cross selling, and build competitive advantage.
9. *E-commerce.* Or interacting, distributing, and selling directly online. Microsoft has produced many profitable online subbusinesses. Working with other companies, it has been able to leverage its Microsoft Network to tap into new businesses and create chat rooms to interact directly with customers.
10. *Growth.* 3M reports that 30 percent of its sales are from products developed in the past four years, and two of every three products create all-new categories. 3M boasts a culture of creativity, where 15 percent of every employee's time is dedicated to developing new ideas. Ford's Truck Vehicle Center follows a similar strategy: Dominate by executing new ideas (Expedition and Navigator), and integrate new ideas with existing successes.

Ford people to have a consumer headset (as distinct from mind-set), by which I mean very deep insights into how customers experience our products and services, and how we connect to customers at both the practical and the emotional levels. Ideally, every Ford employee should understand the power of the experience in a company product

or service and be able to translate that knowledge back into decision making. We must learn and feel and touch—as individuals. I don't advocate spending more money on conventional market research, far less setting up a consumer affairs functional specialty.

Ford people need to have a visceral understanding of where customers' expectations and aspirations are moving. Market research provides input, to be sure, but in the final analysis we have to listen, taste, and touch, and from these experiences intuitively grow a customer headset. It isn't easy. Many within the company aren't there yet. They need to learn, need to spend more time on the road talking with customers and dealers. We are also inviting more customers to come in and talk to us about their vehicles, their problems, their sales and service experience. Recently I visited aftermarket personalization shops in California, where they "trick up" vehicles. I needed to see what people ask for beyond what they're getting, to understand how these vehicle owners express themselves. There is a communication about feelings, values, and preferences behind all these add-on features, which go unprovided by the traditional manufacturers.

We have developed new techniques for listening to customers and observing their behaviors, including the use of visual simulations that help them tell us what they feel various brands should look like. We are looking at ways of improving distribution, working with our dealers to improve their customer interface (even investing directly in some to create next-generation dealerships), and exploring new distribution channels, not least the Internet.

Transformation in High Gear

The transformation of Ford is in high gear. We must succeed within a few years, not in a decade. Consumers are demanding better value, more choice, and faster product turnaround. They scorn "me too" products and seek more differentiation between manufacturers, and more innovative and distinctive products in the traditional midsize segments. They want a meaningful correlation between the symbolism of brands and product design and characteristics. They want good value over the life of the vehicle. In all these areas we hope to establish a leading edge. This is what our search for a passionate connection to consumers is all about: to give them such value and delight that Ford Motor Company will earn exceptional shareholder rewards.

Sir John Bond

Group Chairman, HSBC Holdings

Banking Is 90 Percent Action, 10 Percent Strategy

If globalization is so ubiquitous, why is it spelled differently depending on where you come from? We hear so much about it that I'm sure many people have come to think that every significant company in every major industry is hell-bent on foreign expansion. That is just not the case.

Many businesses are international; almost none span the entire globe. With more than 220 countries on our planet, and very few businesses with a presence in more than a handful, the word *globalization* may be a misnomer. HSBC may be one of those few. HSBC Bank International Limited, our telephone banking service for expatriates, serves customers in over 190 countries. That compares to 185 countries belonging to the United Nations.

Globalization is a convenient, if ugly, shorthand for a series of complex interacting factors. One commentator recently defined globalization as the integration of finance, markets, nation-states, and technologies to a degree never witnessed before—in a way that is enabling individuals, corporations, and nation-states to reach further, faster, deeper, and cheaper than ever before.

Globalization means different things at different times to different people. To a banker the emphasis may be on the international movement of capital; for an educator it may be about long-distance learning through new delivery channels; for governments it may be about challenges to national sovereignty. The one thing almost every commentator does agree on is that globalization is here to stay. Whatever globalization consists of, we can expect more of it.

The conventional wisdom about the internationalization of financial services ignores the fact that for many years banks have backed away from foreign ventures, the latest large-scale retreat having occurred in Southeast Asia. Historically, many of the investments made by British, Continental, and Japanese banks to penetrate the

highly competitive U.S. market, for example, have ended up in ignominious retreat. The reason for these misadventures (often destroyers of shareholder value) has nearly always been the same: a failure of the entrants to a national or regional market to achieve a viable domestic base of business within a reasonable time. They didn't appreciate the exacting risk/reward ratios of their geographic extensions of domain.

HSBC is very aware of these risks. Our group has endured as an international entity for over 130 years, while increasing shareholder value more than 20 percent annually, compounded over the last 30 years.

From birth, HSBC was international. It was founded in 1865 in Hong Kong, then a backwater far from the orbit of world money centers, by Scots, along with Parsees, Norwegians, Germans, and Americans on its board. Its initial territorial expansion followed trade routes to the north, south, and west. In the course of our history, we have survived some pretty turbulent times. However, we have endured to create a network of more than 5,000 offices in 79 countries and territories.

This background, which has shaped our character, is very different from that of most other major banks on the world scene, such as Citigroup or Deutsche Bank. Much more typical of international banks is that they have sallied forth in the last few decades from very powerful domestic bases.

A Strong Balance Sheet, an Eye for Opportunity

One key to our success has been something not today as fashionable as it once was, and that is a strong balance sheet. In discussions on globalization, rarely does one hear people speak of the importance of a conservative financial position. Yet because we were founded on Scottish banking principles and because of our history, we have been unswerving in this regard and today operate with considerably less leverage than most of our major competitors. We lend about 50 percent of one of the most conservative balance sheets in our industry, while some of our rivals lend as much as 75 percent of theirs.

Without a conservative balance sheet, a bank cannot long endure the choppy seas of the world's financial oceans. Viewed in long-term perspective, international finance has grown enormously, despite occasional cyclical declines in regional or banking markets that can

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temporarily affect the market capitalization of high-quality institutions. This is when we step in and make strategic acquisitions, preferably without paying premium prices.

Because we have an eye for opportunity when turbulence provides it, we have prospered at a time when others are weak or struggling. At such times, our financial conservatism attracts deposits away from less sound institutions, and we look for acquisition opportunities. When the market is buffeting our competitors, then is the time to be bold. In 1965 we bought Hang Seng Bank in Hong Kong when it was experiencing a difficult period; similarly, Marine Midland in the United States in 1980 and the Midland Bank in 1992 when they were facing problems. In 1997 we purchased Banco Bamerindus in Brazil, one of the largest commercial banks in the country, again at a time when it was experiencing serious difficulties.

Our acquisitions were not merely opportunistic. In each case our decision was based on the belief that here was a good consumer franchise that we could nurture. Where there is a sound fit with our business, we are not afraid to look at good banks.

We use our selective acquisition strategy to grow because of the significant costs of building franchises de novo. It would be impossible today to re-create the client-based branch infrastructure of a Midland Bank: The effort would run out of money many years before a profit was in sight.

We constantly screen acquisition possibilities. Our strategic proclivities are well known to the investment banks, yet they frequently try to interest us in acquisitions where we simply fail to see value. We have been besieged with propositions to buy this or that bank in the United States or in Europe, typically at large multiples. If we did buy these offerings, it would be a ridiculously expensive way to acquire share in overbanked markets, where the only way to expand the client base is at the expense of a competitor.

Contrast this with the situation in an emerging market, such as Brazil, where it is possible to buy a franchise at below net asset value. This in a country where only about a quarter of the population has a bank account, so the prospects for organic growth are excellent. There is also very favorable pricing there: Middle-class Brazilians are pleased to have a bank account and pay \$10 a month for one. There is no way you could get someone in the United Kingdom or the United States to pay that.

One of the prime advantages of our international reach and scope is that the economic impact of our strategies has a ripple effect around the globe. For example, major new product development efforts can readily be migrated across borders and their costs amortized over a larger base than most of our competitors command. What's more, there is a benefit to operating in countries with varying stages of maturity in banking services. Know-how developed in one place can be exported to another. First Direct, our pioneering U.K. telephone banking operation, contributed significantly to later HSBC telephone banking initiatives in the United States and Asia.

If franchise creation in banking is difficult, so too is product innovation. Ours is a very transparent industry with a high degree of homogeneity. If you design a brand new banking product that's a roaring success, you might gain a lead time of six months before somebody copies it. If you come up with an internal process innovation—do something with imaging technology, say—the lead might be as long as 18 months before someone on your staff quits, goes to another bank, and introduces the innovation there. The lasting competitive strength in financial services is having a performance- and action-oriented corporate character, or culture, as some like to call it.

Our financial results have justified our strategy. We are one of the largest financial services organizations in the world and one of the most geographically diversified—a constant source of strength. In 1998, for instance, HSBC suffered the consequences of the Asian financial crisis, which required the largest provisions in our history. Yet in spite of these adverse conditions, we managed to produce a return on shareholders' funds of 15.5 percent and pay a dividend up 11 percent from 1997. In our view, this vindicates our strategy of geographic diversification, and the consequent diversity of risk.

90 Percent Action, 10 Percent Strategy

Banking is not rocket science. The underlying principles of success are simple. They are (1) focus on clients, (2) good credit quality (so that your loan loss experience is better than the competitors'), and (3) tight control over expenses. Banking is about doing: It is 90 percent action and 10 percent strategy. Tried-and-true teamwork is essential to running an international business, which, by definition,

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has more complexity than a domestic one. That is the key to competitive advantage. One of our outstanding characteristics is good teamwork and coordination. We have tremendous talent but, deliberately, very few management stars on the payroll.

Half of our profit is made while I sleep. So I had better know that there are people on the other side of the world who are doing things the HSBC way. If we are to provide our shareholders with something more than a portfolio of banks, there cannot be a loose federation or a do-as-you-please holding company philosophy. We are constantly working to extract cross-border benefit, thereby making the whole worth more than the sum of its parts.

One keystone of our teamwork is that we try to give people life-time careers, which, I recognize, may be a little old-fashioned these days. But we've found no better basis for team building. As quid pro quo for job security, we pay our middle and senior executives sensibly but not excessively, meanwhile offering them a climate of fair reward, a progressive and varied career, and a good pension. Little wonder that there is a canard that HSBC stands for "Home of Scottish Bank Clerks." Jokes aside, the key to good teamwork is a stable and predictable work environment. We are not, however, reluctant to reach for new blood and recruit on the outside.

Expense Discipline: A Matter of Culture

To succeed in the international arena, a company must have competitive fitness across all business functions. We are fanatics about expense discipline: Not only is it good for shareholders, but it permits us to tolerate price wars wherever they might flare up. I'm not bashful about telling people that I know exactly the amount of the electric bill for our headquarters building. When I leave my office, however briefly, I turn off the lights. Since the onset of the Asian financial crisis we have twice tightened the rules for first-class eligibility on our executives' flights abroad. In New York our people don't stay at five-star hotels, they go to middle-of-the-range ones in downtown Manhattan.

So ingrained is this character trait that we make heroes of people who think up expense reduction ideas. The bottom-line benefits are considerable. A U.K. competitor, which is both smaller and predominantly domestic, spends twice as much on travel and entertainment

as we do, even though we are operating on every continent. Our total operating cost as a ratio of revenues is probably the lowest of any large international bank. Accordingly, we are prepared for the huge productivity war brewing in banking. Every advance in information and communications technology and in financial deregulation puts pressure on our revenues by reducing customers' float. Ultimately, success will belong to the lowest-cost producer.

We have obtained fantastic productivity from our homegrown information technology (IT) system. Unlike many banks, we do not buy core IT systems from external providers and we outsource as little as possible. We preserve our systems independence because we believe that it attracts the best people into our IT area—those who like pioneering and original work, not the frustrating game of tying together acquired software packages.

As an international bank we have the ability to exploit the comparative advantage of different locations for IT development. We operate four software and systems development centers: in Vancouver, Buffalo, Sheffield, and Hong Kong. Because of our overall control of IT architectures and applications, there is unusual uniformity of systems throughout the bank; the same screens are available everywhere in the world that we operate a terminal (excepting recent acquisitions, which still have some of their legacy systems).

Rebranding on a Global Basis

A bank so steeped in history stands in some danger of being a little complacent. But we're not backward-looking. When the situation calls for it, we deviate from past patterns and can be creative in our strategies and tactics. A case in point is the global rebranding exercise launched in late 1998 and executed throughout 1999. All our wholly owned commercial banking subsidiaries now carry the HSBC name along with our red and white hexagon logo.

Why the change? A consistent acquirer inevitably ends up with a tapestry of regional and national brands of varying effectiveness. A few years back we operated under about 300 different names scattered around the globe. Recent structural changes in the banking market made us question the multilocal approach to branding. Merely local brands no longer have the old magic, especially in developed economies.

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Symbols and artifacts with a pan-global cachet have become very powerful, from foodstuffs to high-fashion wear. When we analyzed the chief drivers of value within our franchises, it turned out that a very large part of our retail profits is generated by a comparatively small segment of customers. To paraphrase Pareto's law, 20 percent of our customers yielded some 80 percent of the bottom line. Moreover, that 20 percent contained customers who are now highly international and geographically mobile.

Our bank managers in the developed world repeatedly found customers returning from foreign journeys complaining that we didn't have local service when actually we did, albeit disguised by another name. The opportunity to satisfy that customer, and to cement loyalty, was being lost. Among institutional customers in trade finance and wholesale and investment banking, there was a similar story: When making customer contacts, these people wasted time explaining to clients the details of our global network and its complex of names.

People get attached to names and symbols. Midland Bank was a fixture on thousands of U.K. High Streets; the same was true for Marine Midland in the upstate region of New York state. But venerability and/or familiarity should not be confused with brand strength. Our research in the United Kingdom showed that First Direct, our telephone bank, actually had a stronger brand than its Midland parent. First Direct is 10 years old and Midland's name goes back to 1836. This is worth pondering: In less than a decade we created a brand with greater perceived value than a name that has been around for 150 years. The message is clear: Customers are discerning about the sources of value. They think pragmatically. "What have you done for me lately" is critical.

It is our aim that the HSBC brand express differentiation in the depth and quality of our services. In tune with our character, this branding exercise is being done on a very low cost basis. As the *Economist* dryly reported, "HSBC has eschewed the services of expensive image consultants. It is spending a mere \$50 million, and whatever it can filch from local banks' marketing budgets, on launching its new name—barely enough for new notepaper—to alert 30 million customers to the change." (The \$50 million excludes advertising.)

Global branding is in its infancy in the commercial banking field. Ten and twenty years hence it will be as common as in automobiles

today. The institutions boasting dominant brands then will be those that caught the brand-making wave early and that offer the four Ss—service, scale, scope, and synergy. Although the day is a long way off, I think that the leading brands will be able to charge slightly higher prices because of their power to represent value to the customer.

To sum up, the foundations of our success at HSBC are a strong balance sheet, good expense control, a team culture, and the beginnings of a great global brand. We are aware of the perils and opportunities of operating internationally. Globalization is perhaps the last great frontier for business—but frontier life, remember, is exacting and exciting.

Bertrand P. Collomb
Chairman and Chief Executive Officer,
Lafarge Group

**Organizing and Managing for
Global Success**

There are clearly many forces involved in the creation of multinational companies and the environment in which they thrive, the global marketplace. Trade, capital, and technology flows today are all at unprecedented high levels. In the background, many unlikely corporations are forming themselves into global entities and, as they do so, changing the economics of previously indigenous activities.

Lafarge is one of the leading diversified global construction materials companies. Its business mix includes cement (35 percent of total sales), concrete and aggregates (32 percent), gypsum products (7 percent), specialty products (11 percent), and roofing products (15 percent). The Lafarge construction markets are local, and that gives the global business its complexity but also its great opportunities for innovation.

If you go back 20 years, the cement and building materials industry seemed rooted forever in the local soil. I mean that literally, since production is dependent on local mined inputs and the finished products are of such weight and low unit value that they cannot—like computers, autos, and pharmaceuticals, for example—be shipped far and wide. Nor can they be given the attributes of a global brand. If there ever was an industry that seemed entrenched in the hands of local capital, this, surely, was it.

Yet today a growing, albeit still small, portion of the output of this multilocal industry is produced by a handful of global producers—one of which is our own firm, Lafarge. And there continue to be many cross-border acquisitions in any one year, some of them running to big numbers. How did this transformation come about, and what is the economic logic behind it? The answers to this question, I think, tell us a great deal about what is, in effect, the most consistent shaper of globalization. Trade and capital flows surge and ebb across the

globe, but the inner logic of globalization, as I've experienced it, is steady and constant, vibrant in good times and bad.

I think it has taught us some subtle points on how to organize and manage a global company.

Acquisition and Integration Know-How

In essence, a corporation is a body of know-how and a culture. In my industry there has been an enormous increase in the depth and range of that know-how in the past decade. And it is increasingly finding new fields to conquer—some of these (and this is significant) in the already industrialized parts of the world. A few years ago, Lafarge bought a cement plant in Alpina, Michigan, operated by a local outfit that had other assets we liked. Now Michigan is not an underdeveloped country, so you might expect that most of its units of production of almost anything manufactured would be at or near world standard. Not so. The plant was so bad that we initially offered them one dollar for an option to buy it. Management decided to close the plant, and for the next three to four months we weren't sure whether it was worth that dollar. Finally we did buy it and brought in a new team of managers from our own ranks. With practically no new investment, they lowered production costs by 25 percent. Then, with an outlay of about a third of what a new cement plant would cost, we dropped costs of production by another 25 percent.

These benefits sprang from the core of Lafarge: a grasp of optimal forms of organization and how to disseminate them. This particular plant had previously been operated along traditional shop-by-shop lines, in which work is highly compartmentalized. In this case, a man in the grinding shop had never seen the kiln because it was in another building. We changed all that—by orchestrating a lot of little things for which there is no patent, but which cumulatively decide who wins and who loses.

“Low-tech” industries such as cement illustrate some of the purest forms of competition between companies. No player has a big edge from process technology, or from sources of capital or labor. Anyone with a checkbook can call up any one of three or four global suppliers of cement plants, who will deliver a turnkey, state-of-the-art unit in just a few years. Differences in margins and rates of return

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between companies are largely the outcome of management skills and organization.

Lafarge's confidence in these skills has been rising in recent years and finding expression in an aggressive acquisition strategy and an always improving know-how concerning how to integrate and get the best out of a merger. But it was not always so. Many years ago, Lafarge of Canada became the largest shareholder in the much larger Canada Cement. On paper it was a great transaction, but implementation was complicated because local management felt that there were specifically Canadian circumstances that justified unique procedures. It took some time to apply our know-how to fully integrate the acquisition.

This pattern of strong local autonomy led to relatively slow integration. Another big acquisition followed in the United States, where we bought General Portland. Investigation showed that managers of these facilities had expected the acquirer to demonstrate strategic intent and apply some of its systems and methods. When these were not forthcoming, local managers concluded that the people at headquarters didn't know anything more about the cement business than they did, and they went on their merry way. Subsequently, when Paris wanted to intervene, guess what: They resisted.

At this point it became clear that there is a short window of opportunity in every acquisition, and that if we were to be a really effective global company we had to exploit it: We had to calm the anxiety and insecurity in the management of the acquired company and reassure them with our decisiveness.

Our global organization is now designed to exchange valuable knowledge and act quickly. We have developed a 50-page manual, which spells out what we do in the first and second phases of an acquisition, and we have used it to integrate recent acquisitions in the United Kingdom, Poland, the Philippines, and Jordan. It is not a book of rules that amount to headquarters cracking the whip. It is an open-ended framework that allows for adaptation to local situations. In 1998, we acquired the U.K.-based Redland PLC, which had extensive global assets totaling almost \$4 billion—and the integration took roughly six months.

Integration of merged entities is a critical skill in today's environment. Without it a company is likely to stagnate. It is also very dif-

ficult to do well, as can be seen by the many academic studies of poor merger and acquisition outcomes, the majority of which end up in failure. And this, of course, means that those who beat the odds are likely to forge ahead and achieve dominant industry positions. Taking an existing plant situated in a market context, operated by people who may not be ideal, then raising that plant to high standards is a very specific skill, which requires subtle and complex responses. There are no ready-made solutions. We have put our method in the pages of a manual, but solutions based on it are still custom-made. The acquirer gains a kiln with particular characteristics, and a mill that has other characteristics, and raw material sources that will differ in quality and kind from others. All this has to be integrated into a solution with minimum investment and maximum value creation. This is know-how we at Lafarge have clearly developed, and it is one of the main engines of our growth, targeted conservatively at doubling revenues in 10 years.

Authentic Multiculturalism

Another powerful tool is the authentic multiculturalism that we practice. Many companies are global in outlook up to the point where the forces of globalization make personal demands on top managers—when they have to acquire fluency in a foreign language, when they have to get inside a national culture and not just be a bystander. Circumstances forced Lafarge into a rapid evolution of multicultural attitudes. Having achieved a rich 35 percent market share in France in the 1960s, the company sought growth abroad. By the mid-1970s it had achieved 40 percent of sales outside France and the die was cast; we were international. Henceforth, our growing ability to accommodate all kinds of corporate and national cultures, as we make acquisitions around the world, began to be a powerful differentiator against more parochial institutions.

By law, our board meetings must be conducted in French, but our international advisory board uses English. Our executive committee meetings are in English *and* French—recently, nearly always in English because there is a new member whose French is rusty. Of the eight executive vice presidents, four are not French. That is only the tip of the iceberg of a pervasive multicultural outlook that is part of

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our culture, and which we portage to every location where we operate. An acquirer of a company in a foreign country has the option of accepting the extant local corporate culture or, alternatively, of overlaying a transcending corporate culture. We've gone the latter route and place very strong emphasis on respect for the individual and social cohesion. Our people don't work simply because there is a contract, but for something larger.

The factor of social cohesion does not usually feature in management consultants' or security analysts' estimates of competitive ability. But I believe it does influence economic outcomes over the long term. I recently attended a "town hall" meeting at a facility we had recently taken over in China. One of the foremen stood up and volunteered a comment—a pretty unusual act in itself. The comment could be paraphrased as follows: Since Lafarge took over we work harder than before, but we have more clarity about why and what the fruits of our effort are, and we like that.

A Mature Industry—Yet Subject to Unpredictable Scenarios

I believe that a humanistic base will become increasingly important in coming decades. Even an industry as mature as ours, whose main product is over a 100 years old, faces the possibility of serious discontinuities. Aside from the continuing consolidation of the industry, there is a high probability of unpredictable scenarios, of players tangential or adjacent to our industry perhaps coming at it from unexpected angles—although whether this is a likely threat, or even what form it might take, is not at all clear.

Even in such a mature business we cannot claim to know everything about the factors of competitive success in the years ahead. For instance, there is no guarantee that the relatively low rate of technological change will persist. This is why we are investing in research with a view to finding new ways of manufacturing and new products. There are two aspects to this effort: first, better measurement tools that analyze and control the messy process of mixing raw materials that, because they are mined, are never exactly the same. This used to be done empirically, but with better sensing instruments and computers, we are able to do this much more efficaciously. Second, we are

looking at new materials and mixes of materials that include chemical additives. We have, for instance, a joint research project with Rhône-Poulenc and Bouygues that could yield a material with more flexion resistance than steel. This would be a tremendous breakthrough. But even if the material comes up to our expectations, there will then be the formidable problems of getting it accepted and widely used. Innovations in building materials do not race across the world like a new motherboard, or a new ethical drug discovery, or even a hot concept like sports utility vehicles. Construction practices and regulations differ widely from country to country, and in most countries there is built-in resistance to change.

On the other hand, our variety of complex local markets, with differing physical and regulatory conditions, forces innovation and creative solutions. In an important way, this gives a large global player like Lafarge an additional competitive advantage. Only a globally organized and managed corporation has the clout and the economic staying power to significantly spur the adoption of innovation. And this alone, without even considering many other factors, creates value and justifies its continuing existence.