Infor ERP

Leveraging Globalization to Drive Opportunities and Achieve Profitable Growth

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Executive Overview

No matter what their size is, manufacturers both large and small cannot ignore the importance of taking a global view of their business in order to remain competitive in today's increasingly global economy. At one time it was mostly a concern of the Fortune 1000 sized company. Now even the smallest, highly focused manufacturer needs to examine the global implications of their business plan. Although conducting business beyond one's borders has been a reality for centuries, advances in distribution and transportation as well as the worldwide acceptance of the internet, has made globalization an imperative for every product oriented business.

There are obvious benefits to globalization such as the potential to reduce costs and increase revenue and market share through an expanded target audience. But there are also often overlooked benefits that can directly boost a manufacturer's competitive edge and improve customer service and satisfaction, which all contribute to sustained business performance excellence. As an example, more and more companies are realizing that in order to bring innovative new products to market, while maintaining the standard of quality their customers expect, and delivering to market within increasingly smaller market windows, they often times need to engage organizations outside of their own. This can include specialized product design teams, or it might involve the use of new technology or industry unique materials or specialized human resource skills. These capabilities and resources quite often exist beyond the local geographic boundaries of the primary producer.

Consider the American capital equipment manufacturer that decides to incorporate revolutionary safety technology developed only in Germany, or the American cosmetics start-up that offers healthcare products incorporating unique natural ingredients sourced from South America and Asia. Examples such as these are becoming more commonplace as companies strive to compete with other producers in their market segment using industry unique product ingredients and materials.

Therefore an organization's business plan can leverage globalization for the purpose of one or more business reasons, including:

- Reducing costs
- Increasing revenue through expanded market coverage
- Gaining access to industry unique materials and resources for product innovation
- Reducing business risk through greater diversification of suppliers and contractors
- Accelerating product time to market
- Improving product quality
- Enhancing customer service
- Strengthening the brand and perceived value of the company through global strategic relationships and all of the above-mentioned aspects.

Regardless of which aspects of globalization are incorporated into the business strategy, or the size of the organization, conducting business internationally adds significant complexity. And, in order to realize the expected benefits, attention needs to be given to the impact on business practices and procedures, as well as the supporting technology and business application infrastructure. Business procedures need to accommodate expanded communication and collaboration with external organizations and business systems need to consider the impact on areas such as: sales and distribution, inventory management, material sourcing, manufacturing production, engineering and design, customer service, and finance and tax management.

Developing a Global Business Strategy

Setting out to develop a global business strategy should begin with an assessment of the target markets and regional analysis, the competition, comparative production, labor and material costs, tax and legal policies, and the associated supply and demand networks within the industry. A careful assessment will help to determine the potential advantages that can be gained, in cost savings, increased revenue, or both; and whether there is a competitive advantage that can be gained through access to specialized technology, skills or resources not available locally. The costs associated with leveraging these potential assets needs to be considered carefully, in order to ensure that the costs don't outweigh the advantages hoped to be gained.

In developing a financial analysis of a global supply chain, it is critical to base the analysis on process maps that outline the flow of information and goods across the existing borders of the business. It is important to ask questions such as:

- What will be the landed costs of received goods, including freight, in-house handing and inspection, import duties, customer charges, etc.?
- What are the issues and risks associated with manufacturing production in the target foreign country?
- What are the anticipated trends in exchange rates going to be?
- What is the existing competitive market share for comparable products in the target countries?
- What are the market prices and pricing models for comparable products in the target countries?
- What are the comparable labor rates and legal requirements?
- What are the language and translation issues?
- Are there patent implications with either company owned or competitive products in the region?
- Are there product branding issues and costs to be considered?

As with the implementation of any new business system, it is important to develop new process maps and re-defined business procedures that accommodate the newly defined goals in the business plan. The business process map as well as associated business plan and financial analysis should consider all facets of the business, including the global sourcing and inventory management, global demand and distribution management, global customer management, global manufacturing production, global engineering and innovation management, global legal, fiscal and human capital management, and global asset management. Given that global market dynamics can change rapidly, organizations should continually evaluate the effectiveness of the business strategy and plan on an on-going basis by defining global performance management guidelines and metrics within each area of the business in order to ensure that adjustments can be made as theories are tested and new information is acquired. Once the metrics have been established, it is critical to empower those closest to the execution of the business procedures to make recommendations for improvement. For organizations that are new to expanding the operation beyond traditional business boundaries, there can be many unexpected and unforeseen issues that are likely emerge, and if not addressed quickly can result in significant added costs. Management should encourage every employee to voice concerns and make suggestions as these issues present themselves. This can be facilitated through weekly process map review meetings with the key project team members. Like most initiatives, a strategic initiative such as globalization requires a certain amount of unexpected issues and problems to arise and therefore requires an accommodation for adjustment to the plan as it unfolds.

Executing Global Business Practices

Successfully executing a global business plan requires the careful selection of people, process and technology, including a business application solution that can accommodate the newly defined business rules and procedures outlined in the business process maps. Both the people and process aspects of the business will undoubtedly include internal employees as well as the business partners and contractors external to the direct organization. Therefore, consideration should be given to the integration of information between the corporate enterprise system and supplier, distributor and contractor systems. This includes the accommodation for web-based access to selected information.

Global Sourcing and Inventory Management

One of the most obvious reasons for extending an organization's business beyond local business borders is to reduce costs through raw material and component sourcing using lower cost suppliers. There can be many advantages to sourcing product overseas, but care needs to be taken to ensure the proper controls are in place to manage the costs. The use of Supply Chain Optimization (SCO) procedural techniques and related business application software is essential to the management of supplier performance, tracking in-transit materials, balancing inventory levels, and ultimately achieving the anticipated cost savings. SCO tools can also help to identify cost advantages related to the actual placement and location of inventoried goods, as well as identifying the lowest cost distribution routes for delivering product to both end customers and intermediary distribution centers locally and abroad.

Central to global sourcing is to lower the carrying costs of inventoried goods. Using SCO tools, organizations can improve their visibility into transit costs. They gain visibility to the current status of goods being sourced via container shipping vessels for updated delivery status, and they can more accurately evaluate and compare sourcing alternatives. This includes the measurement of supplier delivery performance, supplier costs and product quality. Through the use of these tools, manufacturers can determine the optimal location of inventoried goods. Which locations offer lower storage costs? By relocating inventory, is there an opportunity to reduce costs through the elimination of process steps and added labor? What factors do freight costs play into the equation? And what is the impact on on-time delivery and service to the end customer? In addition, the use of SCO tools can cut labor time and remove human error costs by eliminating the need for manual intervention in managing and distributing vendor delivery schedules, which often time can change unexpectedly.

The supply side of the business should define performance metrics that measure, analyze and manage supplier performance in order to understand the impact on reducing costs, mitigating risks and driving continuous improvement. Key metrics include:

- On-time delivery performance
- Landed cost
- Product quality
- Lead time and order responsiveness
- Vendor service and support
- Contract compliance

Because vendor performance can fluctuate, it is important to address issues as they occur, but also to review performance over a period of time in order to gain a clear sense of a given vendor's ability to deliver as promised and how well global sourcing in general is impacting the bottom line.

Global Manufacturing Production

Although previously considered anti-patriotic, contract or outsourced manufacturing overseas has more recently become more widely accepted in our global economy; particularly as there have been more reciprocal agreements forged with foreign countries that have resulted in the creation of manufacturing jobs within local geographies. Today, many foreign-labeled automobiles that were once criticized for taking jobs away from a local economy are now actually produced in the same local economy. Making it difficult to determine which products are actually supporting a given local economy. Manufacturers have realized on a global level that it is both politically savvy and actually cost effective in many cases to place manufacturing operations closest to the end customer whenever possible. In addition, global manufacturing becomes an issue of a make versus buy decision, as well as whether or not to acquire a competitor organization in order to penetrate a new market or expand through a new product offering.

Traditionally, manufacturers sought to outsource manufacturing operations in foreign countries in order to realize tremendous costs savings through dramatically lower wage rates, which remained cost effective, even in light of the added shipping and tariff costs. Today, while labor and operations cost saving can still be the driving factor for outsourcing, there is also motivation for outsourcing in order to improve delivery performance as well as improve product quality and customer service. Many manufacturers are also finding that the skills and materials needed to produce their products may be best sourced in a foreign country. And more and more "manufacturers" are actually becoming product designers and distributors rather than product producers. The primary driver for this trend is still predominantly cost savings in foreign countries that are not necessarily chosen for their proximity to end customers, but for the lower costs. However, in many cases manufacturers are establishing manufacturing operations in foreign countries in order to cut delivery time, reduce distribution costs, and improve customer service.

This trend of establishing multiple plants in multiple countries can significantly increase the complexity of managing inventory costs, maintaining consistent quality and ensuring customer satisfaction over the long run. The business procedures and associated business system need to consider the advantages of completely independent versus dependent operations. Are there cost savings that can be realized through specialization of sub-assemblies in one plant that feeds the others versus complete autonomy and independence from one plant to another? Are the business systems capable of managing dependent demand across multiple plants? Are there local requirements that can be better satisfied, such as language translation that can be done in a decentralized manner and closer to the customer? Is it more cost effective to buy versus build certain components? As a result the supporting technology infrastructure must be able to handle a variety of functions in order to support a certain amount of flexibility to the management of multiple plants in multiple countries, including:

- Production scheduling flexibility, support lean manufacturing methodologies such as JIT/Kanban, Drum-Buffer-Rope, Finite and Infinite material and resource capacity planning, and Multi-Site Material Requirements Planning
- Multi-site inventory visibility
- Multi-site warehouse management and inter-branch transfers
- Material and labor tracking
- Engineering control and lot and serial number tracking
- Material planning and forecasting
- Multi-language
- Multi-currency
- Centralized order management, and purchasing

Global Customer Management

Managing customers across country borders typically adds additional cost, however the added market share and sales volume often helps to justify the squeezed profit margins. Understanding the sources of these costs and managing them effectively in order to minimize their impact can be accomplished with automated procedures, integrated customer sales and service information. While more businesses are utilizing the Internet to enable customers to place orders and track their delivery status, few organizations have taken the necessary steps needed to integrate the service aspects of their business. The automation of the logging, tracking and communication of customer service records can significantly reduce the cost typically associated with service orders. By extending this information to web based portals and creating workflows in the case of escalation of issues, customers can be served faster, and with less handling by intermediary staff members. Procedures that track common issues in a knowledge base help to reduce the amount of direct service related calls. The deployment of instant messaging communication instead of phone calls can also reduce the costs of handling service requests. Tracking of issues in a knowledge base also helps to identify quality issues that can be shared with engineering and production staff, in order to eliminate problems in the future.

Including application solutions such as EDI (Electronic Data Exchange) that automate the exchange of information with industrial customers are often required but can also help in reducing transactions costs. The use transaction sets that include transactions such as: customer orders, advance shipping notification, order acknowledgments, order status, production and shipment schedules and order releases, and routing and carrier instructions are just a few that can be employed.

There are many other customer requirements that need to be considered, such as compliance labeling and accommodation for customer shipping methods and requirements. Global customer management can impose many new requirements on the business that add cost if not thought through. Some of these considerations include:

- Evaluating direct versus indirect sales models
- Currency conversion rate trends
- Economic considerations of global customer support
- Impact of global distribution and logistics on customer service
- Global demand and pricing trends

Global Legal, Fiscal and Human Capital Management

Perhaps the most challenging area for an organization to tackle when it comes to globalization is handling the myriad of legal, fiscal and human resource issues that are involved. A primary requirement is to employ business systems that are able to handle multi-currency, with support for global, multi-site financial consolidation and the accommodation for managing worldwide statutory tax requirements. Managing financials on a global basis also requires a certain amount of flexibility when it comes to payment terms, tax discounting, and in selected countries handling unique country specific accounting rules. Although most global financial reporting will be consolidated back to a single country of origin and currency, having the ability to report the financials in different currencies is also becoming more commonplace for organizations, particularly those with direct operations in multiple countries. Adding to the complexity, foreign sites operating as independent legal entities must, by law, treat the movement of material in and out of the country between warehouses as purchase and sale transactions rather than simple branch transfers. Each country will also have it's own legal, financial, and tax reporting requirements that need to be considered, and added to the process maps developed. Process maps in many cases, when it comes to the financial and legal aspects of reporting, will need to be constructed for each individual country in order to cover their unique set of needs.

On the human resource side of the issue, workers operating in multiple foreign and domestic locations will be more productive when the applications are available in their native language, given that the information they will be accessing will often be centralized on a common server. Therefore, business systems need to be able to adapt to user specific interfaces with the local language when accessing common data off of a central server. The globalization effort also needs to account for the fact that foreign countries have different policies when it comes to the work environment, work hours, vacation policies, benefits, and employment contracts.

Intellectual property and patents need to be reviewed for coverage in foreign countries as most patents apply to a single country where filed and are not enforceable in other countries. This includes trademarks and product brands. In some countries product names and brands do not translate well, and need to be reviewed for how they are perceived, “translating” positively or whether they are offensive to the local culture. Even marketing literature needs to be reviewed to make sure the language and descriptions of products make sense to the local target audience. A common mistake made by American manufacturers is to apply their American approach to marketing to foreign markets, which view things much differently. Directly involving country specific entities in the strategy and execution process of launching products will greatly improve the acceptance locally and create an atmosphere of shared success.

Global Asset Management

In the industrial sector, effective equipment utilization and the on-going maintenance of capital assets is crucial to maximizing profitability. With the undertaking of a globalization effort, consideration needs to be given to the placement of equipment and expected execution of production within the supply chain. Is there going to be a central location for specific manufacturing processes or functions? Will certain production operations at each plant have common functions or process steps to one another, requiring duplicate equipment at each location? Are there considerations for redundancy in case one production line is undergoing maintenance or is down for service for a period of time? Are end customer products being shipped from local facilities or from a single central final assembly plant? Questions such as these are important to answer during the planning phase and the development of the process maps, in order to accurately determine the financial impact of operations in foreign locations. Global asset management should include preventative, predictive and corrective maintenance planning aspects.

With the deployment of the capital assets throughout a global organization there are a number of proactive steps an organization can take to ensure maximum utilization and efficiency of equipment assets:

- Establishment of periodic preventative maintenance schedules for plant equipment, including visibility and synchronization with production schedules.
- Business system automation of warranty management and claims tracking across all entities, including internal operations, suppliers and contractors, and dealers within the supply chain.
- Scheduling and tracking of labor resources and maintenance tools and consumable supplies required to maintain equipment across multiple plants and entities.
- System generated work orders with cost details for maintenance tasks as well as the tracking of revisions to maintenance work orders.
- Management reporting for both planned and unplanned maintenance, estimated versus actual maintenance job and labor costs, internally used products, and customer purchased products.
- Documented procedures for equipment inspection and periodic maintenance, and cataloging of maintenance contracts.
- Inventory allocation and management of spare parts, materials, and tooling required for preventative and corrective maintenance jobs.
- Record detailed information about unplanned maintenance activities including Fault Type and Fault Codes, Urgency and Escalation Codes, and Response Remedy Type and Remedy Codes.

The effective management of capital equipment, through the use of business systems to help schedule preventative maintenance and to be able to predict potential machine failures will help to minimize the added costs associated with distributed plant operations, and enable the organization to realize a higher percentage of machine utilization. Having the ability to act quickly to equipment failures is the next level of performance needed to ensure that revenue opportunities are not lost due to machine breakdowns. Maintenance issues can have a ripple effect on customer satisfaction due to missed delivery dates, and possible product quality issues. Plant operations and their associated assets should be treated like a customer, although an internal one, and therefore viewed as having predictable and unpredictable trends in demand from the organization. As a customer, the capital equipment side of the business should be considered source of revenue and cost, and as a result major contributor to the company's profit and loss. Having the reporting tools to better understand the root causes for failures and trends in maintenance needs will ultimately enable an organization to drive greater operational efficiency and increase profitability.

Global Performance Management

Making the move to becoming a truly global organization can in many cases make or break a company depending on the approach taken. Once strategic goals have been set and business process maps have been developed to help refine the financial model, it is equally important to determine the metrics that will help to gauge and measure the performance to plan. Using a balanced scorecard approach as a starting point, an organization can outline all of the elements that will be measured, including: financial revenue, cost, and profitability within each department and within each geography and line of business, supplier delivery performance and conformance to contract terms, product quality, customer order delivery performance and customer satisfaction, business process conformance to plan, and employee satisfaction and retention. Clearly defined operational goals should be set and communicated throughout the organization along with goals and objectives with measurable performance criteria for each employee. Rewards and consequences for success and failure should also be clearly defined during the process.

Metrics should be used to evaluate both strategic and tactical goals set by the management team. Typically, organizations will focus solely on the more easily measured tactical goals such as: on-time delivery performance, budget versus actual spending, and forecast versus actual sales. While these are important, expansion of an organization internationally is a highly strategic effort, which warrants a review of more strategic goals such as: percentage of growth in market share, percentage of reduction in new product time to market, customer satisfaction ratings, and company and product brand awareness. Measuring these strategic and tactical performance goals requires taking a fresh look at the business system and its associated data elements to ensure the newly defined metrics can be easily compared. Traditionally, systems have enabled management to run reports showing a historical view of performance, usually at month end. The Infor family of products offers organizations the ability to measure performance more proactively through the use of Business Intelligence and On-line Analytical Processing (OLAP) tools in conjunction with its world class Enterprise Resource Planning (ERP) solutions. The Infor Business Intelligence solution provides real-time integration with the Enterprise data enabling management and line staff to manage the performance of their department on a minute-by-minute basis, allowing for the correction of issues earlier and therefore minimizing their effects.

Business Intelligence (BI) applications also offer the ability to deliver performance data in easily digested graphical representations called dashboards that can be tailored to each individual and their desired metrics, whether within a single department or company wide. Because BI tools can also present data in a format that looks similar to standard spreadsheets, end users can become productive quickly with these tools, and if needed, they can export the data to their familiar spreadsheets. Many organizations continue to use spreadsheets to manage their budgeting and forecasting process, making it difficult to consolidate information between departments or entities. Because the BI tools integrate to the corporate ERP data, managers can develop budgets and forecasts using the centralized corporate data shared by the entire company, and consolidate their departmental information more readily.

Conclusion

Whether the impetus to go global is to reduce costs, capture new revenue, or a combination of the two, preparing the organization through the development of a clearly defined strategy and business plan is essential. Once defined, building process maps that can eliminate the guesswork and test the strategy with a financial model will pay dividends by allowing for the fine-tuning of an operational plan for success. Process maps and metrics should be created within every functional area of the company, including: sourcing and inventory management, demand and distribution management, customer management, manufacturing production, engineering and innovation management, legal, fiscal and human capital management, asset management, and performance management.

Like all new initiatives, the business procedures should be thought through prior to applying business system capabilities in order to ensure the right systems are applied to the right business processes and requirements. Growing a business internationally can significantly increase the value of the company. It can strengthen the company's competitive advantage both at home and abroad with its larger footprint and market share, and provide significant financial returns when the right business solutions, business practices and performance controls are put in place.

Expansion of your business internationally has always been more difficult and complicated than doing the same thing in your local country of origin. International sales subsidiaries, foreign factories and distribution centers that are started from "scratch" offer a level of control that typically ensures long term success when expanding overseas, but this takes experienced, local foreign talent operating under good supervision from your headquarters. The key to international expansion is the hiring of experienced local nationals who have run comparable operations in that location for other well-managed companies in your industry.

When you have done everything in the way of preparations that you believe essential, you still face the biggest challenge of all; the selection of key management and operating personnel. The best way to test candidates for your new positions is to take them through the preparatory steps you have taken to get their reactions and advice. This exposure to your plans will allow you to evaluate their experience and skills based on the real substance of your business strategy and implementation decisions. Interviews and reference checks have their value, but in-depth involvement with your business plans is one way you can calibrate and evaluate your key personnel hires.

Last, but not least, following a professional methodology as outlined in this paper can avoid mistakes and misjudgments, but real success will depend on continued monitoring and readjustment of your plans and measurement of your performance. As they say, "the best laid plans of men" can go astray for unanticipated reasons or factors that are overlooked during the preparation phase. Like a ship being steered through treacherous waters, the Captain has to be alert throughout the entire start-up phase of overseas operations in a strange, new company location. Striking the proper balance between professional planning and analysis and pragmatic operating management will assure you of the results you must have to achieve your company's goals.

About Infor

Infor delivers business-specific software to enterprising organizations. With experience built-in, Infor's solutions enable businesses of all sizes to be more enterprising and adapt to the rapid changes of a global marketplace. With more than 70,000 customers, Infor is changing what businesses expect from an enterprise software provider. For additional information, visit www.infor.com.

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