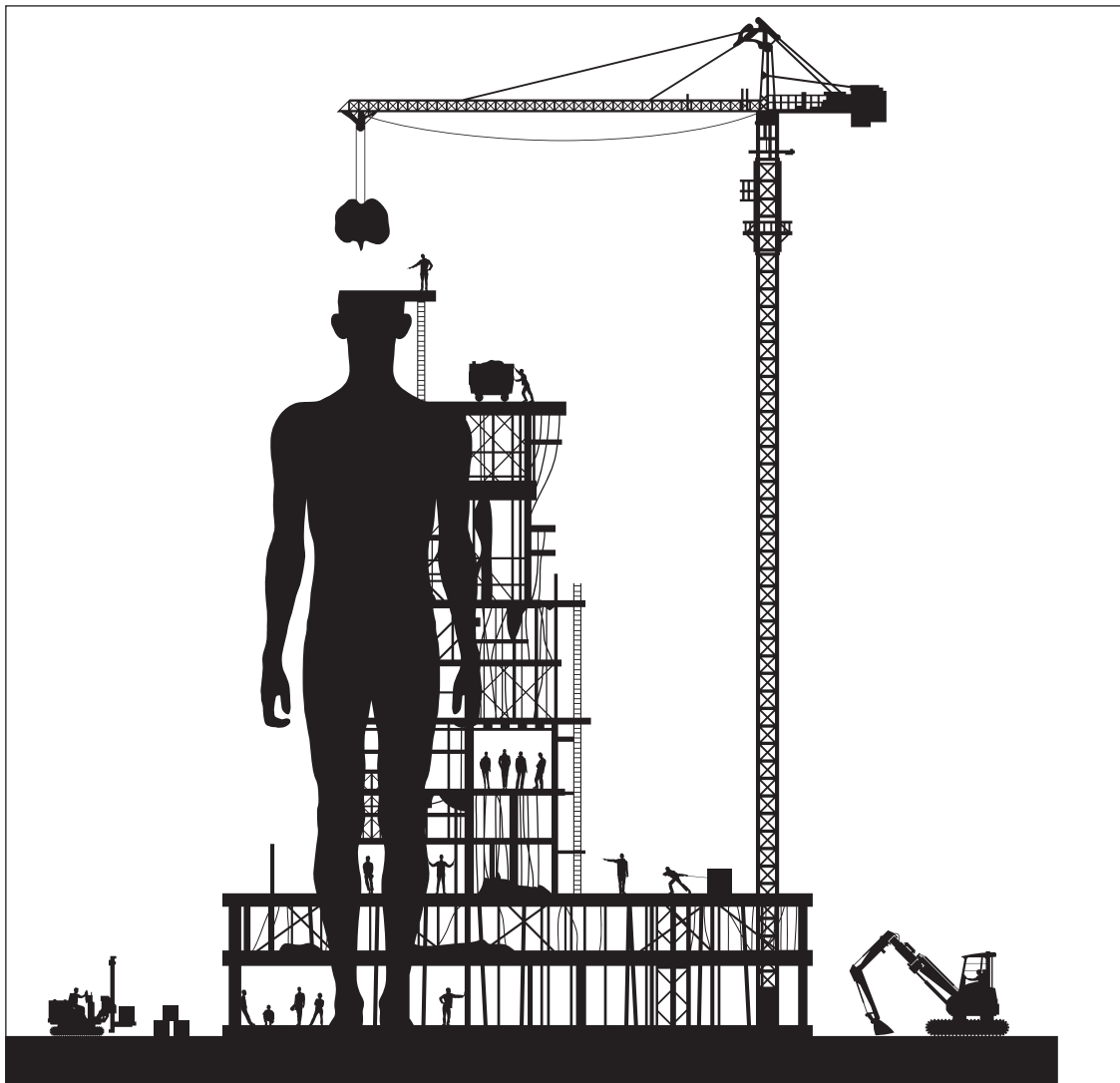


Operational excellence: Enabling sustained growth Spotlight on the Americas



An Economist Intelligence Unit report
sponsored by SAP





Preface

Operational excellence: Enabling sustained growth is an Economist Intelligence Unit report sponsored by SAP. The Economist Intelligence Unit bears sole responsibility for this report. The Economist Intelligence Unit's editorial team conducted the interviews and wrote the report. The findings and views expressed in this report do not necessarily reflect the views of the sponsor. Ken Waldie was the author of the report and Dan Armstrong was the editor. Mike Kenny was responsible for layout and design. Our thanks are due to all of the survey respondents and interviewees for their time and insights.

May 2008



Operational excellence: Enabling sustained growth Spotlight on the Americas

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The Americas should be a hotbed of operational excellence activity. The scientists and businessmen who first applied statistics to process improvement—Deming, Taylor and others—hailed from the United States. In the 1980s, Royal Bank of Canada pioneered the use of customer relationship management (CRM) software, while Procter & Gamble rolled out an early business intelligence (BI) system. In the 1990s, Dell, Southwest, Amazon and Wal-Mart achieved dramatic growth by making their operations world-class. Companies in the Americas should lead the world in growing through operational excellence.

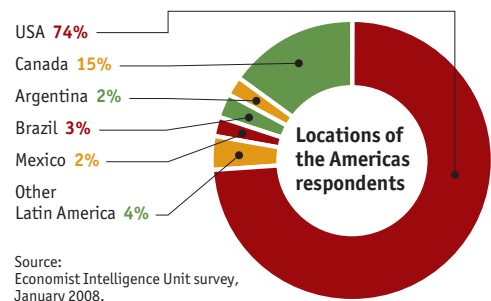
But they don't—at least not among the universe of firms with US\$20m through US\$500m in revenues highlighted in this study. Mid-sized companies in the Americas are as focused on growth as those anywhere in the world, yet they lag their counterparts in achieving growth through operational excellence.

Less than half are promoting visibility into operations by investing in enterprise resource planning (ERP) and customer relationship management (CRM) software, while more than half are doing so in the rest of the world. Mid-sized companies in the Americas also lag Asia-Pacific firms in revenue growth, margin growth, customer satisfaction and new product launches. This is despite the fact that companies in the Americas are more likely to say they recognise operational excellence principles in their strategy and planning.

Of the 946 executives who participated in the 2008 Economist Intelligence Unit operational excellence survey sponsored by SAP, 264 (28%) were located in the Americas. Among the Americas respondents, 235 (89%) came from the US and Canada, while 29 (11%) came from Latin America. This paper—one of three regional papers—is based on their responses as well as follow-up interviews with senior executives in the region.

About the survey

In a survey completed in January 2008, the Economist Intelligence Unit surveyed operational, financial, IT, and sales and marketing executives around the world on the role of operational excellence in their business strategies. The survey yielded 946 responses from mid-sized companies with annual revenues of \$20m-\$500m. Nearly one-third of respondents were from the Asia-Pacific region, followed by 28% in Western Europe and 28% in the Americas. Approximately 34% of the respondents worked in finance, 24% in marketing and sales, 23% in operations and 19% in IT.

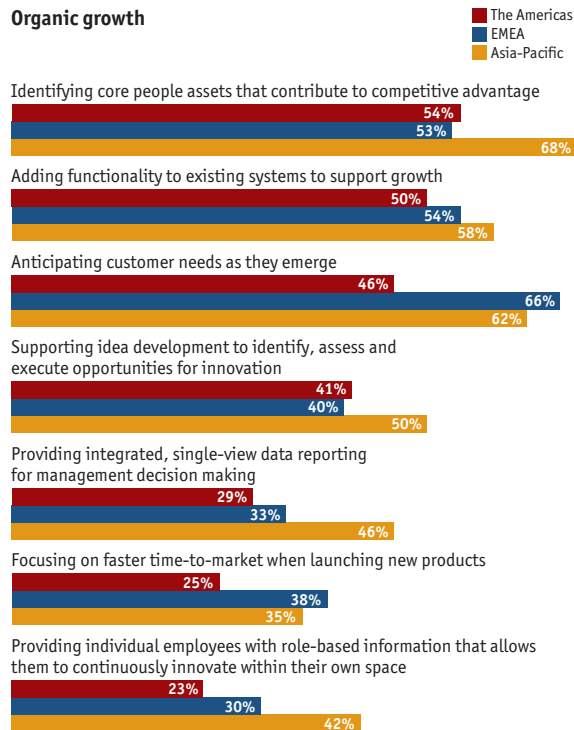




How to build an infrastructure for growth

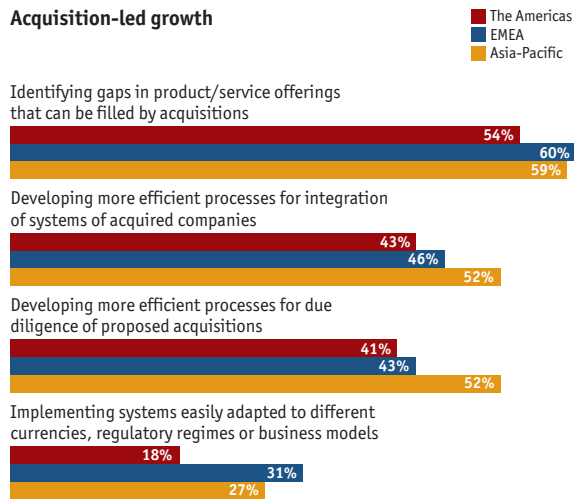
Mid-sized companies in the Americas are inclined to make bold statements about their commitments to operational excellence. But many executives admit that they have failed to back up these commitments with consistent action. As a result, their Asia-Pacific competitors have already left them behind, and now they risk being eclipsed by firms in Eastern Europe. Mid-sized Americas companies lag Asia-Pacific in actions taken on every one of 11 strategies for driving growth included in the survey. And the EMEA region is rapidly overtaking the Americas, which leads it by very slight margins in only two of the 11 strategies.

Regional rank of 11 overall strategies for driving growth



Source: Economist Intelligence Unit survey, January 2008.

Acquisition-led growth



Source: Economist Intelligence Unit survey, January 2008.

In interviews, executives of companies in the Americas described their operational excellence strategies as works in progress. Many said that while they recognised the value of end-to-end visibility, they had not yet fully achieved it. Others pointed to cultural factors as impediments to rapidly rolling out their strategies. They provided frank insights into the obstacles they face—and advice about how these hurdles might be overcome.

Taking an enterprise-wide approach

Operational excellence works best as a growth driver when it is implemented across the enterprise. But less than two-thirds of Americas survey respondents said that their companies are taking an enterprise-wide approach to evaluating and improving business processes, compared with almost 80% in Asia-Pacific.

Recognising the unique role of IT and finance

Enhancing visibility into the value chain often requires investments in building and integrating ERP, CRM other technologies. And establishing performance metrics requires expertise that often resides in the finance function. Yet functional specialists in IT and



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finance complain that organisational silos limit their scope, preventing them from pushing for innovations outside of their own turf.

Making continuous change the new status quo

The Americas ranks last among the three global regions in the use of operational excellence to drive growth. Yet senior corporate leaders say it is difficult to promote continuous improvement among employees that consider their processes to be quite successful. Some executives say that the problem lies in a general tendency to resist change and a failure to recognise that the status quo is not an option.

Promoting ownership and accountability

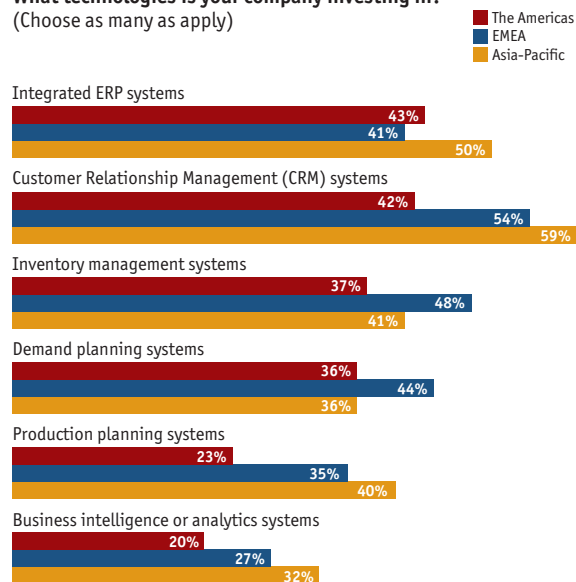
Operations specialists say that empowering people to innovate is difficult in a setting where they see waste in their own processes but have not traditionally been expected to do anything about it. The solution lies in setting up appropriate incentives and giving employees necessary information and control to improve their own processes.

Embracing integration and scalability

The Americas ranks last of the three regions in terms of IT investments to support growth. As the chart at right shows, companies in the Americas lag Asia-Pacific in all six categories of operational excellence technology, and lag EMEA in five out of six. To remain competitive, greater focus is needed on the areas with the biggest deficits: aligning systems with business needs, working to ensure legacy systems can be easily integrated with those of acquisitions and partners, and building scalable systems from the ground up. About a quarter of Americas mid-sized companies say their operational systems are not sufficiently scalable, and the same proportion say that legacy systems represent a constraint on growth.

Operational excellence-related technology investments by region

What technologies is your company investing in?
(Choose as many as apply)



Source: Economist Intelligence Unit survey, January 2008.

Adopting common data standards

Enterprise-wide data standards are essential for breaking down silos, building linkages among departments and creating end-to-end visibility for senior management. However, some IT executives say that they cannot manage their exponentially-growing data holdings because data ownership—and therefore the right to set standards—is spread across the organisation. Often finance (which owns management reporting) sets standards for both financial and operational data. But regardless of who owns it, the standards should be publicised and enforced. Then people will accept the information—even come to rely on it—and use it to make decisions.



How Latin America is different

Latin American firms have an aggressive, but so far underdeveloped, approach to operational excellence. While North American firms are nearly four times as likely to have a formal operational excellence strategy, Latin America is catching up quickly. More than 43% are in the process of developing a strategy, compared with 27% in North America.

North American companies have more experience with operational excellence than their southern counterparts. But Latin American firms report greater success in each of the four performance indicators: revenue growth, margin expansion, launches of new products and customer satisfaction. One explanation for this unexpected result is that Latin American firms operate mainly in developing markets where operational excellence pays off even more than in mature markets. Similar differences are seen between Western and Eastern Europe.

More specifically, Latin American mid-sized firms are aggressively investing in technology to support operational excellence:

- They report more investment than North American companies in integrated ERP systems, production planning systems and business intelligence or analytics systems. They are also much more likely to say they are improving tracking and analysis of customer purchase patterns.
- At a much higher rate than in North America, Latin American firms are refining systems to align more closely with business needs, reducing total cost of technology ownership, and improving IT training systems.
- Two-thirds say they are improving management visibility into operational functions and integrating processes in sales, marketing, manufacturing, product development, customer service and other functional areas. And half say they are establishing end-to-end visibility of processes throughout the organisation.
- Latin American companies are nearly twice as likely as their northern counterparts to cite integration with outside partners as a key to growth. And they say their marketing/sales teams are devoting more effort to building both external collaboration and internal integration of sales, production and delivery systems.



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What is operational excellence?

In its simplest terms, operational excellence means consistently doing things well across the value chain as a way of gaining competitive advantage. In its broadest terms, it is a discipline that drives corporate strategy. In their book *The Discipline of Market Leadership*, Michael Treacy and Fred Wiersema suggest that operational excellence is one of three “value disciplines” that a successful organisation must choose from as its underlying operational model.

In practice, operational excellence is a means to achieving the other value disciplines: product leadership and customer

intimacy. Doing things well across the organisation is fundamental, but most successful companies do one thing exceedingly well and identifying and reinforcing core competitive strengths is part of operational excellence.

The definition in this paper has three elements:

- superior performance and visibility across the value chain
- value-added delivered to customers
- effective integration with external partners.

While the concept of operational excel-

lence is simple enough, execution is another matter. A drive for efficiency is implicit, but this must be achieved in a coordinated way by building links across the organisation so that all functions share a harmonised set of performance metrics. The ultimate goal is a “single source of truth” where senior executives have shared visibility into all parts of the organisation, enabling management by facts. The ideal result is a high-level dashboard for senior executives with the ability to drill down into different business functions, including operations, finance, IT, and sales and marketing. ■



Conclusion

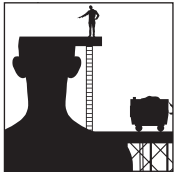
Growth is a priority among companies in the Americas, just as it is elsewhere in the world. And when asked about the impact of operational excellence initiatives, American executives admit that they do help to drive growth. Over 60% say, for instance, that investments in ERP, CRM or other software to streamline and expose business processes have been successful or very successful in driving growth in revenues, margins and customer satisfaction.

The problem is that mid-sized companies in the Americas are falling behind those in the rest of the world. This is particularly true for North America, which lags Asia-Pacific on nearly every indicator and manages to outperform EMEA on only a few more. Latin America does better, exceeding world averages on three of four performance indicators, while still

lagging Asia-Pacific.

The key to better performance lies in more consistent enterprise-wide execution of operational excellence. Companies in the Americas say they recognise operational principles, but in interviews executives point to myriad cultural and practical problems. These hurdles stand in the way of driving operational excellence principles into every corner of the value chain.

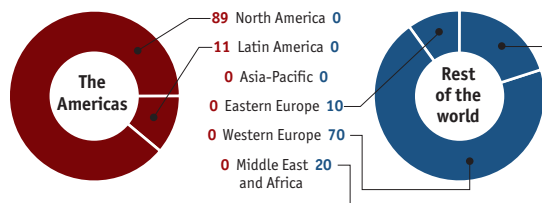
Companies in the region need to more aggressively attack these obstacles if they want to avoid being left behind as companies in the rest of the world—especially in the Asia-Pacific region—entrench operational excellence in their corporate cultures. More bluntly, corporate leaders need to drive the message through their organisations that doing one thing well isn't good enough anymore.



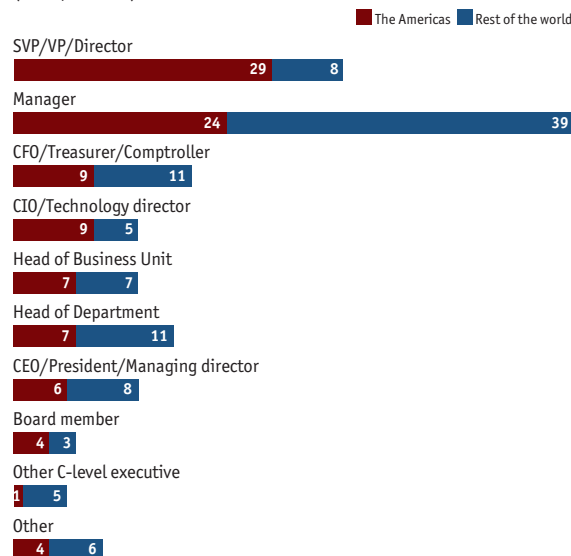
Appendix: Survey results—Americas only

Between November 2007 and January 2008, the Economist Intelligence Unit conducted a global online survey of 946 senior executives from various industries, of which 216 were from the operations function. Please note that not all answers add up to 100% because of rounding or because respondents were able to provide multiple answers to some questions.

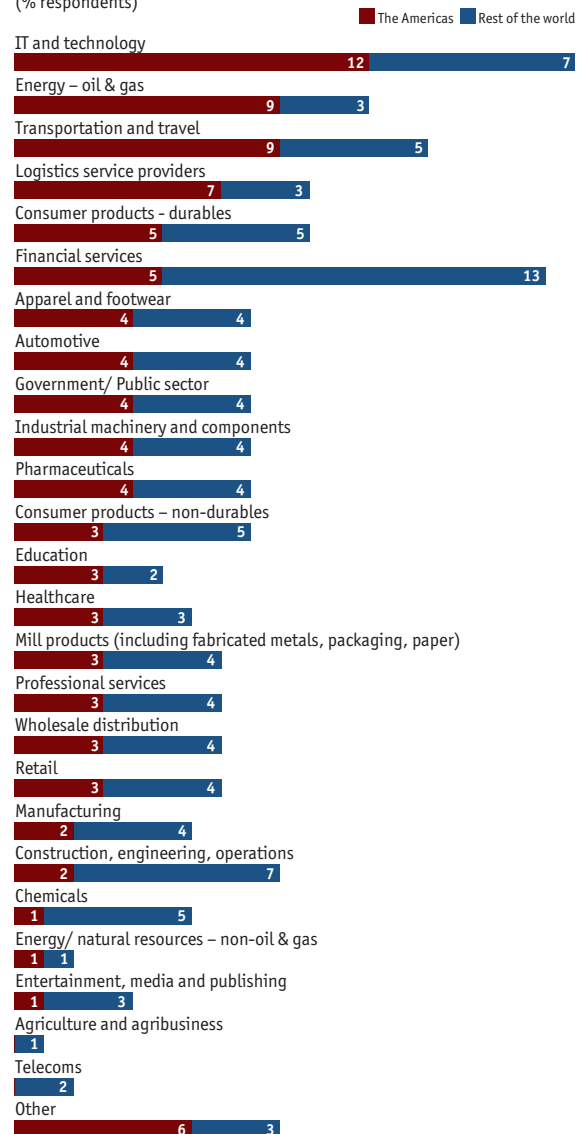
In which region are you personally based? (% respondents)



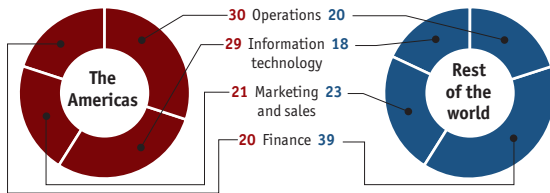
What is your title? (% respondents)



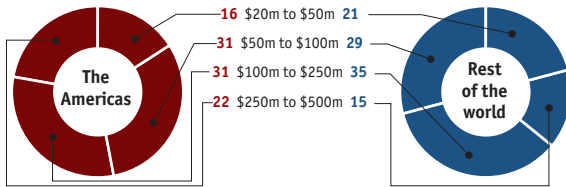
What is your primary industry? (% respondents)



1. What is your principal functional role in your organisation?
(% respondents)



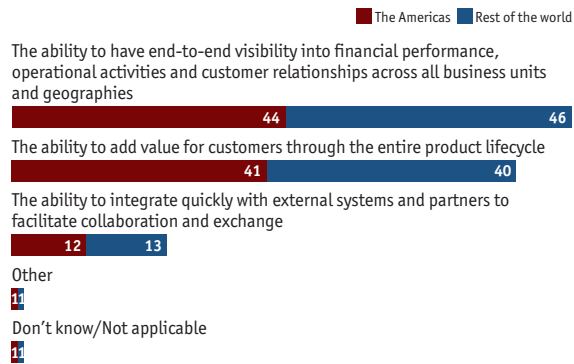
2. What are your company's annual global revenues in US dollars?
(% respondents)



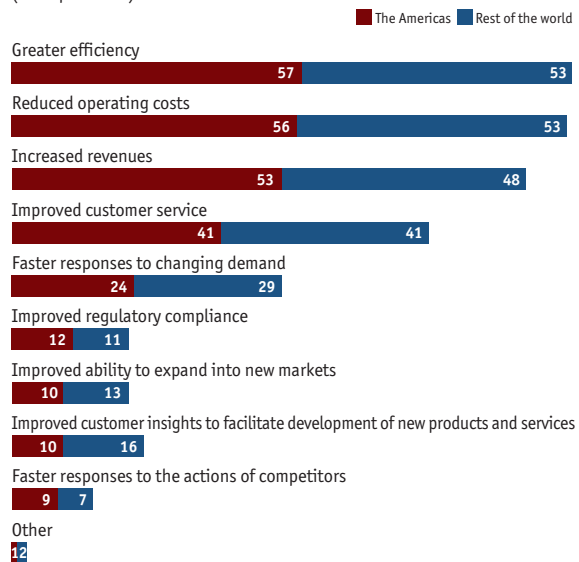
3. Which of the following statements best describes your company's approach to operational excellence?
(% respondents)



4. Which of the following do you consider the most important component of operational excellence?
(% respondents)



5. Which of the following statements best describes your company's view of the perceived benefits of operational excellence? Select up to three.
(% respondents)



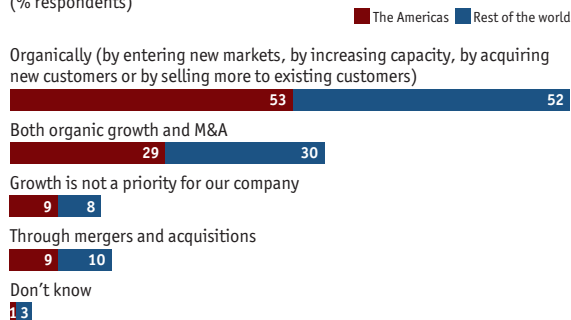
Appendix: Survey results

Operational excellence: Enabling sustained growth

Spotlight on the Americas

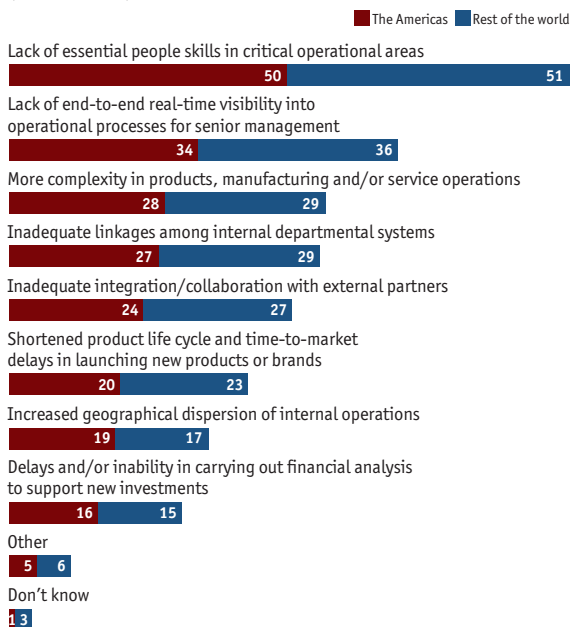
6. How does your company plan to grow during the next two to three years?

(% respondents)



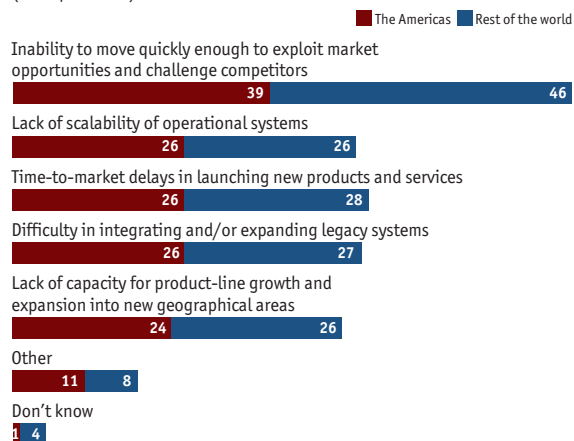
7. What are the biggest obstacles to your company in achieving operational excellence, in your view? Select up to three.

(% respondents)



8. What are the biggest obstacles to your company's ability to grow organically, in your view? Select up to two.

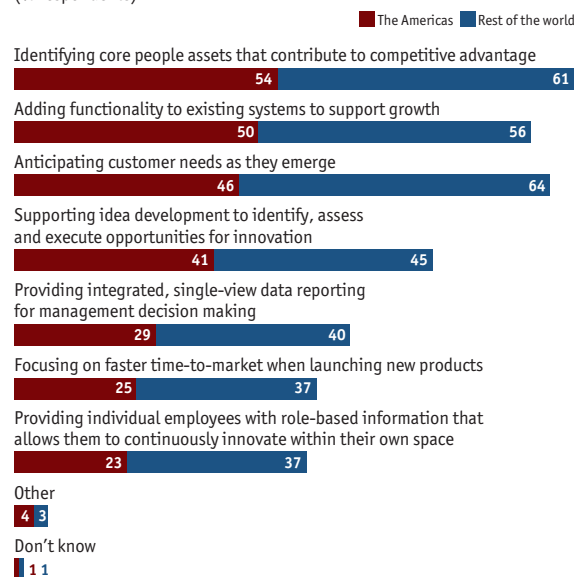
(% respondents)



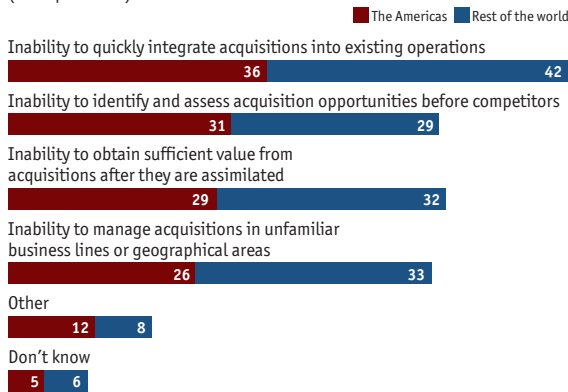
9. How is your company enabling future organic growth?

Select all that apply.

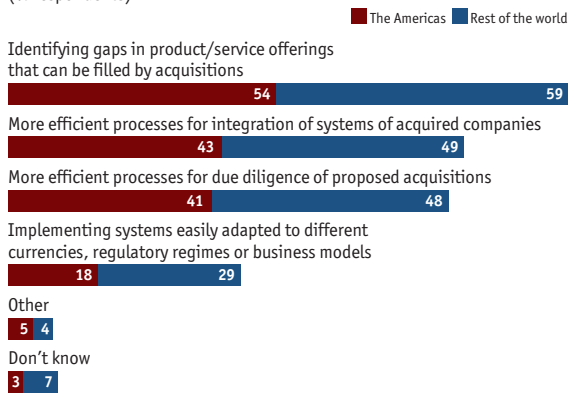
(% respondents)



10. What are the biggest obstacles to your company's ability to grow through acquisitions, in your view? Select up to two.
(% respondents)



11. How is your company enabling future growth through acquisitions? Select all that apply.
(% respondents)



Question for Sales and Marketing respondents only
12. How are your marketing and sales departments aligning to support the organisation's strategy for growth? Select up to two.
(% respondents)



Question for Sales and Marketing respondents only
13. What is your company doing to ensure that your marketing and sales systems can support your organisation's growth strategy? Select all that apply.
(% respondents)



Appendix: Survey results

Operational excellence: Enabling sustained growth

Spotlight on the Americas

Question for Sales and Marketing respondents only

13a. In the previous question, you checked the following actions your organisation is taking to ensure that its sales and marketing systems can support its growth strategy. Which one of the actions you chose is the most important?

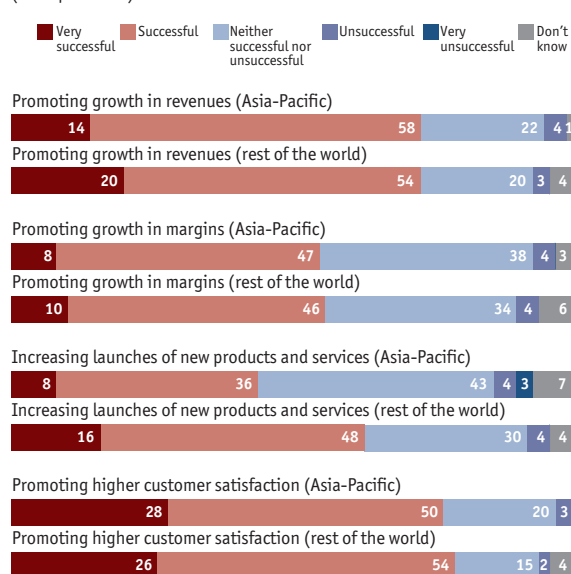
(% respondents)



Question for Sales and Marketing respondents only

13b. What was the effect of your first-ranked choice on the following areas?

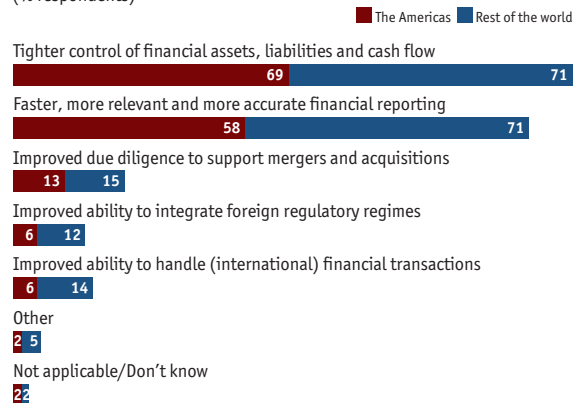
(% respondents)



Question for Finance respondents only

12. How is your finance department aligning to support the organisation's strategy for growth? Select all that apply.

(% respondents)

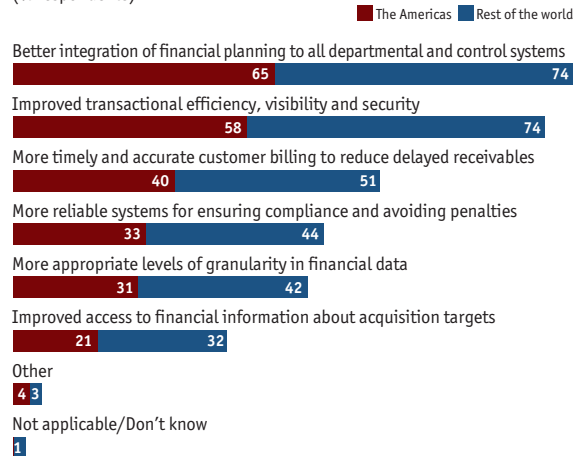


Question for Finance respondents only

13. What is your company doing to ensure that your financial systems can support your organisation's growth strategy?

Select all that apply.

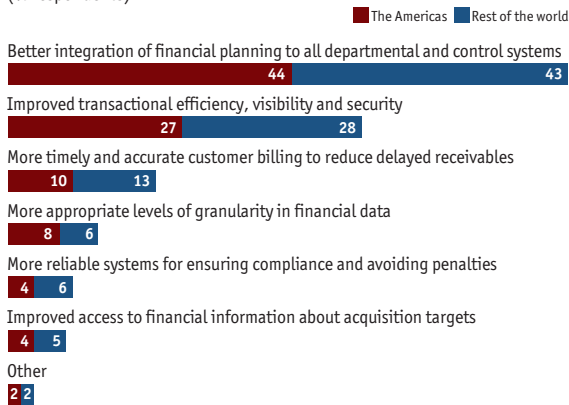
(% respondents)



Question for Finance respondents only

13a. In the previous question, you checked the following actions your organisation is taking to ensure that its financial systems can support its growth strategy. Which one of the actions you chose is the most important?

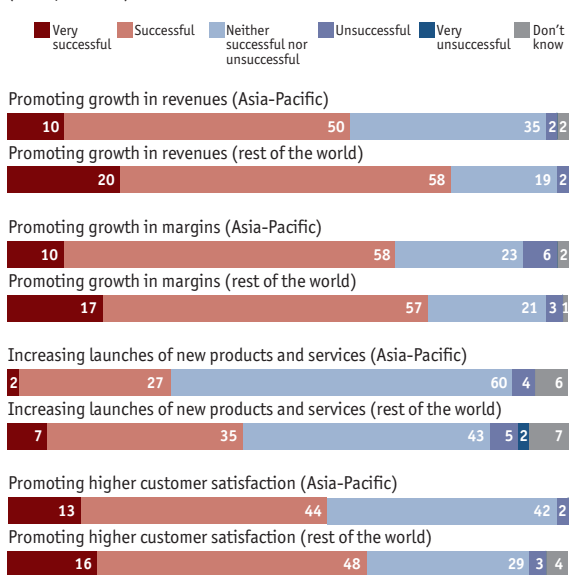
(% respondents)



Question for Finance respondents only

13b. What was the effect of your first-ranked choice on the following areas?

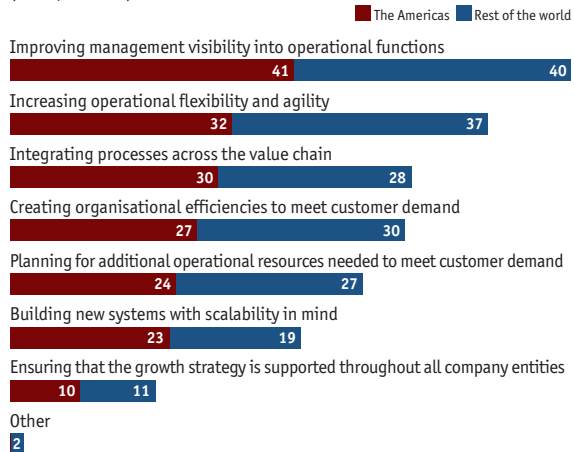
(% respondents)



Question for Operations respondents only

12. How is your operational function aligning to support the organisation's strategy for growth? Select up to two.

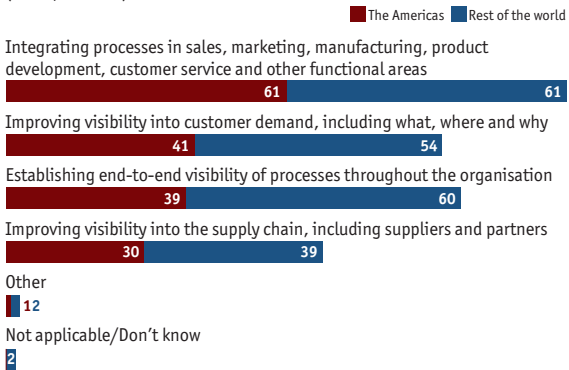
(% respondents)



Question for Operations respondents only

13. What is your company doing to ensure that your operational systems can support your organisation's growth strategy?

(% respondents)



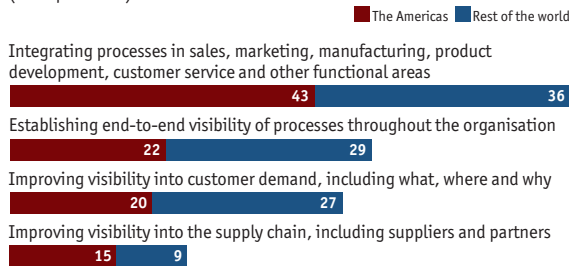
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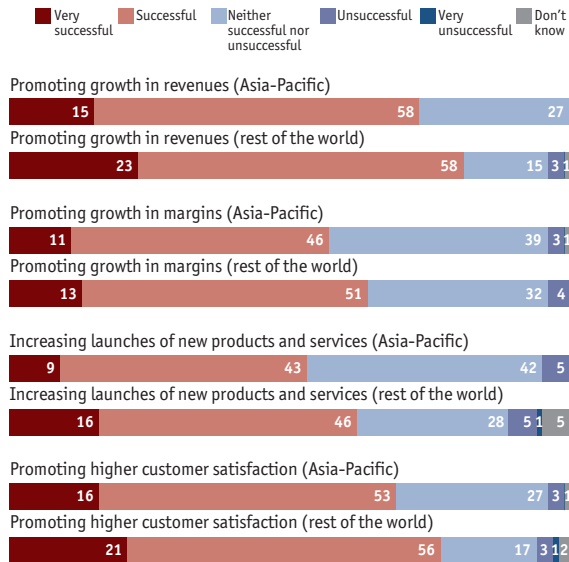
Question for Operations respondents only

13a. In the previous question, you checked the following actions your organisation is taking to ensure that its operational systems can support its growth strategy. Which one of the actions you chose is the most important? (% respondents)



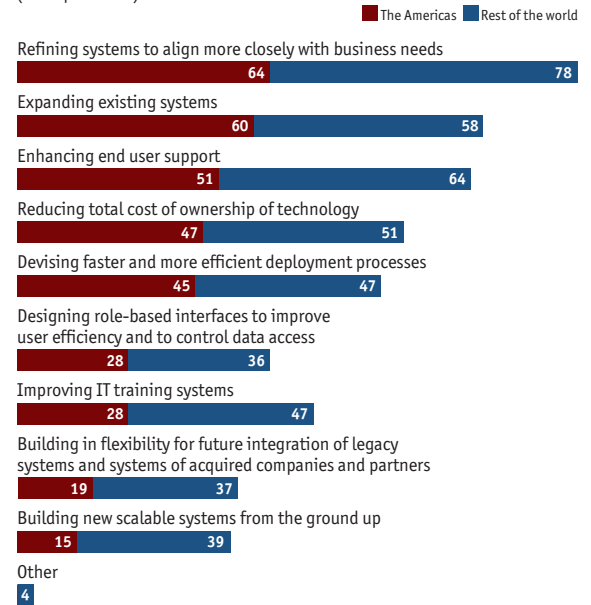
Question for Operations respondents only

13b. What was the effect of your first-ranked choice on the following areas? (% respondents)



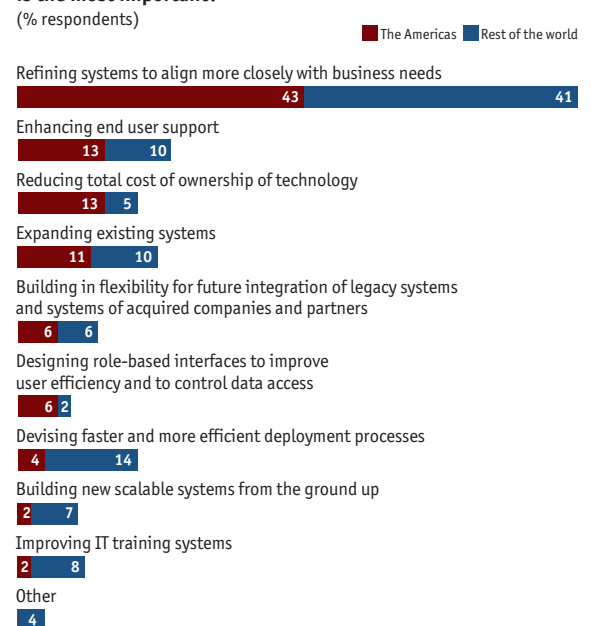
Question for IT respondents only

12. What is your IT department doing to support your organization's strategy for growth? Select all that apply. (% respondents)



Question for IT respondents only

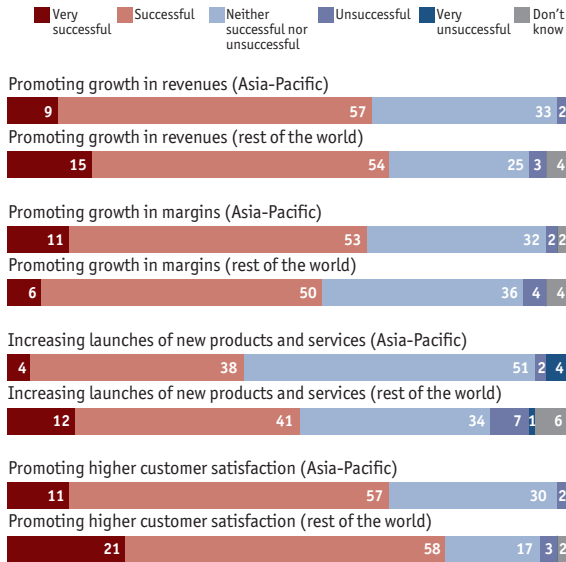
13. In the previous question, you checked the following actions your organisation is taking to ensure that its IT systems can support its growth strategy. Which one of the actions you chose is the most important? (% respondents)



Question for IT respondents only

13a. What was the effect of your first-ranked choice on the following areas?

(% respondents)



14. What is your company doing to improve efficiency?

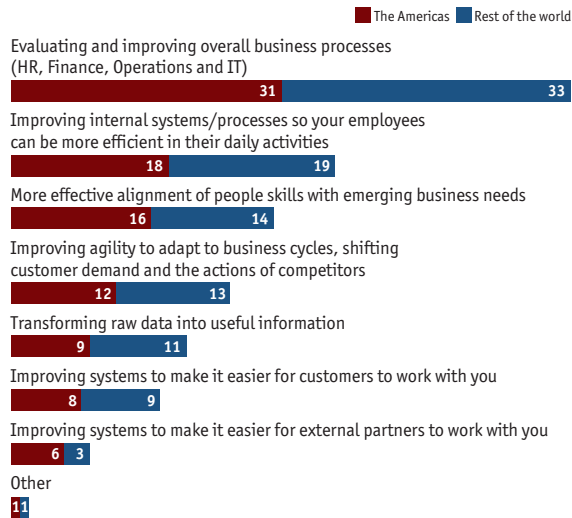
Select all that apply.

(% respondents)



15. In the previous question, you checked the following actions your organisation is taking to improve its efficiency. Which one of the actions you chose is the most important?

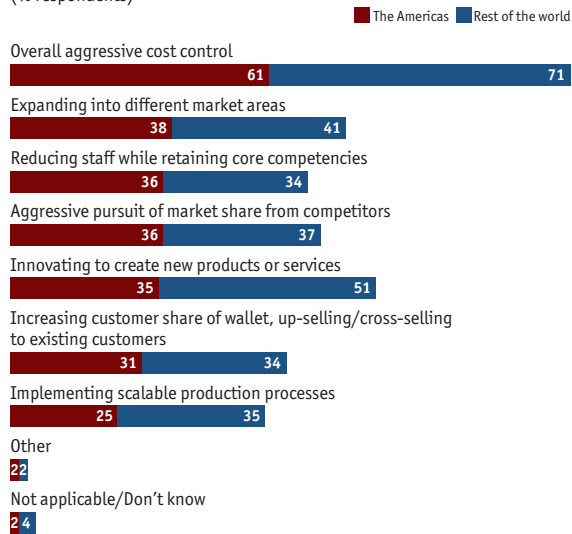
(% respondents)



16. What strategies has your company established to maintain profitability during periods of slow economic growth?

Select all that apply.

(% respondents)



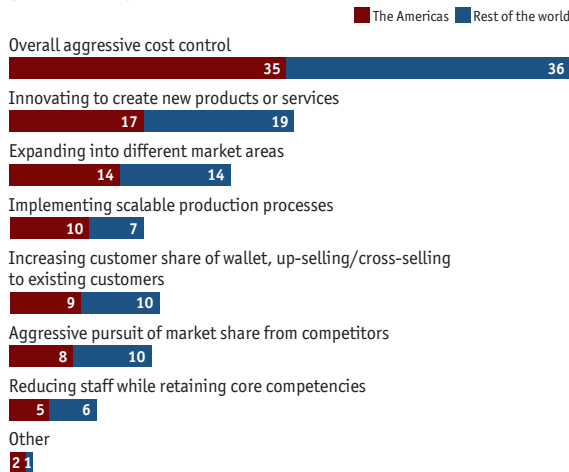
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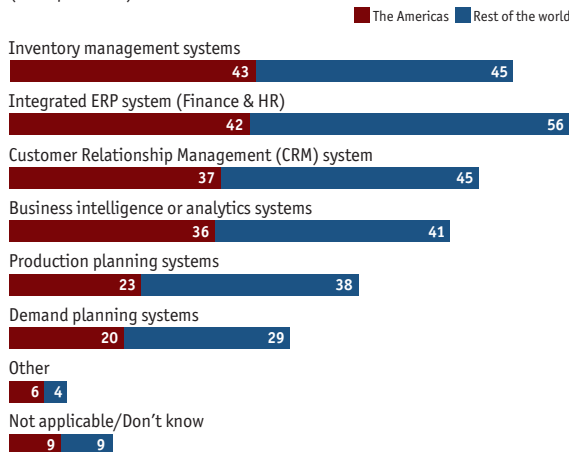
17. In the previous question, you checked the following strategies your company established to maintain profitability during periods of slow economic growth. Which one of the strategies you chose is the most important?

(% respondents)



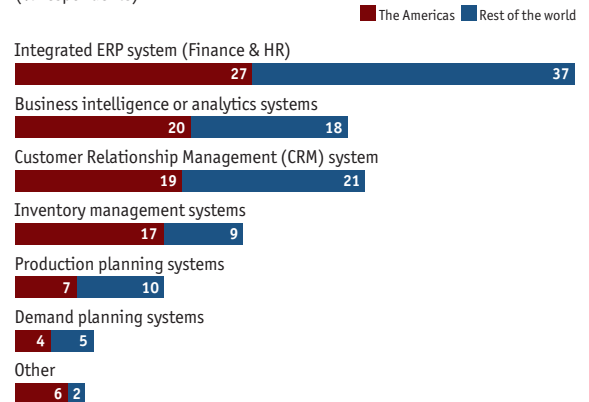
18. Has your company invested in the following technologies to achieve its operational excellence goals? Select all that apply.

(% respondents)



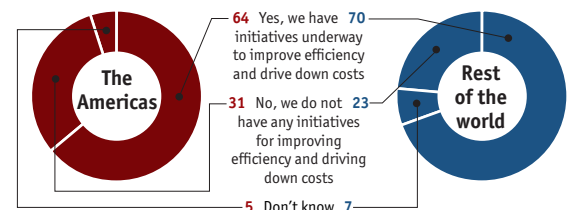
19. In the previous question, you checked the following technologies in which your company has invested to achieve its operational excellence goals. Which one of the technologies you chose is the most important?

(% respondents)



20. Does your company have initiatives underway to improve efficiency and drive down costs in your functional area?

(% respondents)



While every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in the report.

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