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Capturing Corporate Strategies
A case study of Volvo Truck's future strategic direction

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Abstract

Rapidly changing business environments is a challenge that most organizations of today are facing. It is often the case during times of economic difficulty that an organization enters a reactive move instead of attempting to reassess its strategic direction in order to meet new business requirements.

It is the intent of this thesis to attempt to provide tools, which can be used to investigate organizations with a proven track record. The result of these tools will provide an organization in need of strategic change new options and, especially important, an eye-opener to new possibilities.

Three organizations have been chosen that all have excelled in different strategic areas, making them world leaders in their industries. Careful studies of the strategies employed by these companies will be used to form something called Key Areas of Excellence. These areas of excellence form the backbone of this thesis as they explain the origins of successful strategies, which then can be applied to other organizations.

To apply a new strategy within an organization it is necessary to know what capabilities currently exist, therefore a comparison is necessary to ascertain what kind of gaps that might exist. The last step involves the creation of a future corporate vision where the newfound strategies are incorporated within the case company. Steps are then made to explain how implementation should be handled and what risks are associated with these new strategies. If successful, the newly implemented strategies will give strength to the organization and allow it to function more effectively.

Key words: Internal Environment, External Environment, Global Strategy, Comparative Performance Analysis, Scenario Analysis, Volvo Truck

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"Strategy is the gentle art of re-perceiving... Move away from what is known by clearing the mind, clearing the place, and clearing the beliefs."

Professor John Kao, Stanford Business School.

1. INTRODUCTION

The concept of the value chain is a subject that often is discussed both in academic as well as corporate circles. The value chain of Michael Porter illustrates in a simple model the steps that a company is involved in, when producing a product or service. The value chain often starts with product development, going on to manufacturing, distribution and so on. Throughout the chain, functions that create the unique characteristics of the product form the value added which is so crucial when differentiating against competitors.

When a corporation is evaluating what functions within its value chain are adding the most amount of value added to the clients, it sometimes becomes apparent that a change of direction is required. Changing market conditions, consumer behavior or the introduction of new technologies are all part of the flexible environment that every organization faces on a daily basis. How a corporation tackles change is often an indicator of the proficiency of the organization and of the strength of its leadership.

Changing corporate direction deals with the concept of strategy, which has its origins in military warfare but is today part of almost any kind of organization. Strategy deals with the overall direction and often-long term thinking of how a corporation operates. In contrast, there are tactical or functional levels, which deal with the day-to-day operations of the company. Taking a broad overview is necessary when dealing with strategic thinking, taking in concepts such as global economic conditions, competition, and consumers and not to say the least, attempting to predict the future. With all these complex issues involved strategists might at times seem to be faced with an impossible task. Nevertheless, there are ways and tools that can help immensely even in order to predict future trends.

One of the most important changes that have occurred in the business world is the advent of outsourcing. In fact, the drive towards concentration on core activities and total lack of concentration on non-core related activities is today a necessity of doing business in many industries. Refocusing on what exactly are core related activities is also becoming a more and more important part of developing new strategies. Without a clear definition an organization runs the risk of losing focus and applying the wrong resources to solve an incorrect

problem. Part of the problem can be attributed to when an organization is removed from their clients, who will very quickly inform their supplier if they are unhappy. But what if the clients and the producers never meet? Then there is threat of disconnection between management and the true needs of its markets. Moving corporations closer and closer to their clients is a very clear trend. This trend is often referred to as the direct model where there are no or very few middlemen involved in the value chain. In order to fulfill these new demands, companies need to change their strategic direction.

In this regard, organizations do not operate in a vacuum and can benefit from lessons learned by others as well as copy behaviors of successful companies even outside of their own industries. Finding successful templates of how to perform specific strategic choices makes it easier to predict possible outcomes. It is far from a fail-safe approach, as differences from one industry to another might be too great or certain crucial aspects were not investigated thoroughly.

It was these kinds of thoughts that interested us in the subject of strategy and the value chain, as they form key components of the success or failure of a company. Besides, multinational companies (MNC) and their international strategy development has been a subject that caught our attention in the first year of our studies in the International Business program.

How can successful activities within a corporate value chain be identified and how can other corporations draw useful conclusions from these findings in order to enhance their own strategic direction?

As we discussed with Volvo Truck a possible thesis topic concerning a Value Chain analysis, we thought this was the perfect opportunity for an in-depth study of strategic direction reviewing the emphasis of where to concentrate efforts in the value chain. Key successful companies could be used to allow comparisons to be made and predictions as how possible future scenarios will develop if one strategy is chosen over the other. Each of the companies are chosen to give an eye-opener for Volvo Truck, a way to find new and more efficient procedures and possible future directions for the company. It is this process, which forms the main aspect of what many companies spend a lot of time thinking and planning for.

1.2 Problem definition

The red thread in this thesis is changing corporate strategic direction, moreover how an MNC could be effectively repositioned in its Value Chain. The emphasis is on how an MNC, which is willing to change, could facilitate this by comparing its own performance with other organizations and use this information to trigger change.

Change is part of any business environment and there are mainly two categories within which corporations can be divided. Those who have acknowledged that change is necessary and taken appropriate steps, and those who slowly are struggling with change and are not fully able to adapt to new ways of thinking. The main problem deals with the latter organizations, over how to initiate change and move these corporations in their respective value chains. Only then can companies reap the benefits of a global business environment and focus on their core capabilities in order to remain competitive. There are several ways for a corporation to change direction, and in order to understand what direction to take, it could be valuable to observe the behaviors of successful companies, which have gone through these kinds of transitions.

We want to analyze what internal and external factors lay behind the current global strategies and key areas of expertise of these organizations. In line with this, we want to compare these global strategies and key area of expertise against a case company willing to change. Of special interest is the investigation how this MNC could apply corporate strategic direction of organizations in other types of industries within its own industry.

MNCs operating in changing business environments need to monitor their markets and constantly analyze if there are requirements for repositioning in the Value Chain to better accommodate threats and opportunities. Besides, management should not hesitate to get inspired by business practices in non-related industries. An open mind can provide an MNC with interesting strategic angles that could be applied.

Regarding this, a systematic approach is necessary to understand the internal and external push within fellow MNCs for a specific strategic direction. The understanding of their Global strategies and organization alone is not sufficient.

The business environments have represented, or are representing, factors that led to the specific position within the Value Chain. Identifying and understanding this is the first step in applying certain aspects of their global approach to their own organization.

The reasoning mentioned above has led to the following main problem:

Main Problem

How can an MNC operating within the truck industry, position itself more effectively in the Value Chain?

Traditionally, the truck manufacturers have been characterized by engineering based organizations, starting with domestic core products, which later were exported through distributors, followed by the establishment of direct sales channels in key markets.

Additional products and services were added, as new customer demands pointed towards the need for a packaged solution including financing, support and maintenance. This trend offers new opportunities but also the need for closer risk management as control of the value chain no longer solely rests inside of the company.

This situation raises interesting questions. How should truck producers position themselves in the Value Chain? Is it closer to the customers or, on the other hand, to become a production company relying on strong channel operators to distribute their products and services? Are there industries and/or companies who have undergone similar trends? These questions have led to the further division of the main problem into three research problems in order to provide answers and conclusions:

Research Problem 1

How have MNCs in other types of industry positioned themselves in their Value Chain?

Sub-problems

What internal and external factors have led to the specific position of these MNCs within their Value Chain?

What are the MNCs Key Areas of Excellence?

With this first research problem and the three sub-problems, we aim to find out the specific strategic direction of MNCs and their reasoning for this. By including both internal and external factors, the strategic direction and the key areas of excellence can be analyzed from a broad perspective. With Key Area of Excellence, we mean the activities in the Value Chain, which the benchmark companies are specialized in, and which form an integrated part of their strategy.

The second research problem covers a concise gap-analysis of the Key Areas of Excellence of an MNC and this specific area within a truck manufacturer.

Research Problem 2

How is a truck manufacturer performing compared with the Key Areas of Excellence of MNCs in other types of industry?

It is important to consider the impact on our case company if it was to follow a similar strategic approach of the benchmark companies. Is the pursuance of a similar strategy feasible or are there certain essential aspects of other MNCs and/or industries that cannot be matched? With similar strategies, we mean the development and emphasis of a specific activity within the Value Chain.

Research Problem 3

What outcome could be expected if an MNC, operating in the truck industry, pursued similar strategic concepts as those of other MNCs?

Research problem three, summarizes problems one and two in an attempt to develop a future strategy, its implementation and effect on the case company. Part of the outcome of a new strategy also includes the element of risk, especially in relation to what can occur if action is not taken. A comparison with status quo against the strategies developed from the key areas of excellence illustrates the risk involved.

In summation, the questions raised in this thesis are very broad and cover an enormous amount of very complex issues. To keep focus, it therefore becomes the aim of the paper to keep the discussion on a strategic level, avoiding detailed tactical and functional discussions. The end result will be a new strategic direction, based on the experiences and directives put in place by successful organizations operating on a global level.

1.3 Purpose

The purpose of this thesis is to address the issue of future repositioning of a truck manufacturer within its Value Chain. By analyzing global strategies of MNCs in other industries, we aim to identify their motives behind their current positions in the Value Chain. These comparison companies represent organizations, which have gone through transition processes, which currently are facing our case company. It is our goal to establish a pathway for the case company as to guide it through this process of change.

The motives of the comparison companies are made up of both internal and external factors that have provided incentives for changing strategic direction. In this way we are able to identify the key area of excellence of these MNCs. These key areas of excellence form the backbone of each company and give indications regarding how each have dealt with the process of change. The second step comprises a comparative performance study of the key areas of excellence of the companies with the activities of the case company. The result will be a performance analysis that will provide the initial input for the last step, namely scenario analysis. In this third part the goal is to provide a strategic scenario, which will generate new knowledge and insight for further strategic discussions. This strategic scenario is based on the best practices used by our comparison companies and therefore represents strategic directions, which have been proven to be successful. By following the same general

direction applied to their specific situation, the case company stands to benefit from the lessons learned.

One of the main issues of this thesis is to provide the case company with different strategic angles from MNCs in unrelated industries. The aim is to go outside the traditional approach within the trucking industry and research if aspects of certain global business concepts can be applied to the case company. The goal is to offer new insights and recommendations of unconventional strategic approaches.

1.4 Delimitations

- Due to the wide scope of our research paper, the main source of data collected will be of secondary nature, limited to data collected from Internet sources, magazines, literature and internal corporate publications. It is also clear that primary sources of data such as interviews could be biased in our particular case, as top-level management would not disclose unfavorable information. Lack of resources and time are also contributing factors, which makes it more feasible to rely on secondary data.
- The research study include several very large organizations that operate through the world, therefore the study will not concentrate on one particular market or geographic area but more on overall global strategic direction.
- Part of the thesis deals with the issue of identifying key areas of excellence for up to four case companies, a simplified model of how these companies operate in order to reach their performance objectives is needed to better understand the reasons for their strategic decisions. It is not the intention of this study to give an in depth, step by step analysis of operational procedures of the case companies, but to give a broad strategic overview of their corporate direction.

1.5 The Case Company

The Volvo Truck Corporation is one of the world's largest truck manufacturers and has a market share of about 10%. The company has nine assembly plants around the world and Volvo trucks are sold and serviced in more than one hundred countries through over 650 dealerships and 1,450 workshops. About 90% of the sales are in the heavy weight class over 16 tons. Around 70% of the company sales are in Western Europe and North America (see figure 1). In the rest of the world, the demand for new trucks lags behind due to weak economic development.¹

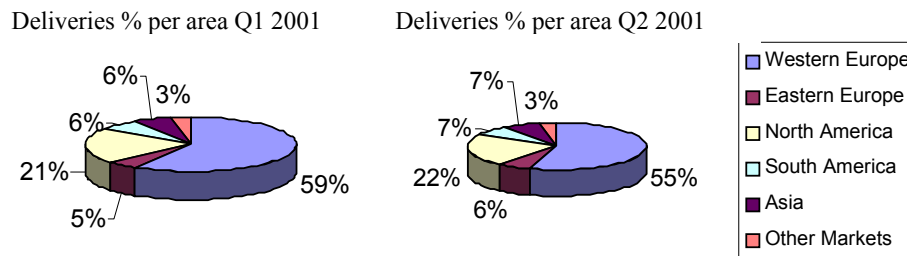


Figure 1.1 Corporate sales for Volvo Truck

Source: Volvo Truck

Volvo Trucks strategy is directed towards offering not only trucks, but also complete transport solutions incorporating customer-specific facilities and products in areas such as service, financing and transport information. Besides, there is a strong emphasis on developing the range of both hard and soft products. As a result of this strategy, the customers are playing an increasingly more important role in the development process of both hard and soft products. An example of this is Volvo's new service and repair agreements. Many customers feel that a first-class overall solution is more important than the truck's initial purchase price. Volvo can now help customers to predict their costs exactly. Customers with such agreements pay an agreed fixed cost per driven kilometer by reporting mileage on a regular basis and by paying once a month. Included in this price are maintenance, repairs, parts, and labor. This offer can be combined with various forms of financing, leasing and short-term or long-term rental.²

¹ www.volvo.com

² www.volvo.com

1.6 Introduction to the Global Truck Industry

The truck industry has changed substantially in the last decade. Globalization, technological development, and cost-efficiencies, have driven the industry towards consolidation and the emphasis of a global presence. The truck industry is characterized by a very diverse business environment and product range. The different geographical markets represent various regulations concerning construction and use of trucks. The global economic outlook has its influence on the industry, as the global demand of trucks is declining. Especially, North America represents a market, which is characterized by a strong decrease in demand for new trucks. Many companies are affected by this situation and are required to restructure operations. The truck sales in Western Europe are expected to decrease in 2001 and 2002, by respectively 8% and 10%, due to a declining economy and weak haulier finances as a result of rising oil prices³. With this development, Europe is following suit with the North American market. Analysts are predicting that the decline will have a sharp impact on European manufacturers like Volvo, Scania, MAN, and DaimlerChrysler⁴.

Due to the developments in the truck industry, the global marketplace is becoming more competitive, and companies have to realize that customer support is increasingly important besides providing high-quality goods and services. Many customers are willing to buy at a reasonable price a new truck or component that can lower the total life cycle costs and ensure a high resale value. Truck operators are increasingly ordering from those suppliers that are committed to providing this and strong customer support before and after the sale. The expectations of customers are increasing due to similar product offerings as a result of strong competition. Competitive advantage for truck producers can therefore be found in customer satisfaction by providing value-adding services. Today, several strategies are emerging in servicing the customer, like Call Centers, Customer Training, and Electronic Parts Ordering and Training.⁵ The needs of the clients, both today and tomorrow, must be understood by truck manufacturers and their supplying partners in order to provide the best solutions.

³ Burt, T., "Western Europe Truck Sales Set for Decline", Financial Times, July 19, 2001

⁴ Burt, T., "Western Europe Truck Sales Set for Decline", Financial Times, July 19, 2001

⁵ www.truckingnet.com

Vehicle performance and the integration of latest technology are essential, especially with the increased competition resulting from the consolidation among fleet operators. Efficient trucks are therefore a necessity. High quality and durable components are factors that are even more important today, as downtime adds costs. Therefore, the need for information has become more important in this industry, for manufacturers, dealers, and customers. In this regard the roles of district sales managers and dealers are becoming more important in providing and gathering valuable information. Usage of Information Technology will be an important tool in future customer contacts.⁶

The current changes in the heavy truck industry are partly due to the traditional business environment, which has caused this industry to move more slowly than other industries. With these factors in mind, the need to carefully evaluate where a company should be located within the value chain to best meet the new global competitive demands, is necessary for continued growth.

1.7 The chosen comparison companies

The three companies, which will be compared with Volvo Truck, are: Danzas, Whirlpool Inc., and Dell Corporation. The companies are chosen in conjunction with Volvo Truck. A prerequisite for the companies was that they could provide different angles of strategic direction. These angles include a company, which is extremely close to its clients and thereby giving an example of a company that is at one extreme of the value chain. Few companies can give example of this better than Dell Corporation that deals directly with clients. To give a contrast to Dell, a company, which is almost at the opposite side of the value chain, was chosen, namely Whirlpool. A second reason was to see how a product oriented organization could use the strength of its brand name and reputation to create competitive advantages. Volvo Truck specifically asked for a company, which had undergone a transformation from a product-oriented organization into one mainly dealing with services. Danzas fit this prerequisite very clearly. It should also be mentioned that Volvo Truck has even considered the possibility to enter markets overlapping those of Danzas, making the point

⁶ www.truckingnet.com

even clearer. The next three sections will give a brief introduction to these three organizations.

1.7.1 Danzas

As one of the world's largest providers of logistic services, with concentration on one source solutions for its clients, makes the company a strong example of an organization which has gone from a product-oriented strategy into becoming a fully fledged services oriented business. Danzas works with specialized service solutions for locating and solving logistic problems for various industry sectors. The company also provides air and ocean freight as well as overland transport logistic capabilities within its European markets.⁷

1.7.2 Whirlpool

Being one of the world's largest manufactures of home appliances, with manufacturing facilities across the globe, makes Whirlpool a global contender in its industry. With manufacturing, being done in 13 different geographical locations to optimize the distribution of their products into local markets, allows the company to produce their products as close as possible to the end consumer. The Whirlpool product range is marketed and sold in over 170 countries. Concentration on brand name recognition in conjunction with production expertise have put Whirlpool into the position of not only achieving very strong customer loyalty put also to become an important supplier of appliances to large scale retailers such as Sears & Roebuck.⁸

1.7.3 Dell

The company was founded in 1984 when Michael Dell started his company with a meager budget of U.S. \$1,000. His idea was very simple and is the same one he uses today, namely to bypass the middleman within the computer hardware industry and sell directly to the end user. This was something new in this industry, which was used by the likes of IBM who used long distribution

⁷ www.danzas.com

⁸ www.whirlpoolcorp.com

channels with high markups and expensive stores to promote their products. This simple concept often referred to as the direct marketing approach was not enough for Michael, who took a direct customer-centric view of his company from the start. By introducing the first customer support and service centers in the industry and adopting information technologies into every part of the company at a very early stage. Today, the company employs over 40,000 people in over 34 countries worldwide and is one of the largest computer companies in the world.⁹

1.8 Definitions and central concepts

Multinational Corporations (MNC): A multinational corporation is a firm, which has the power to co-ordinate and control operations in more than one country, even if it does not own them. (Dicken 1998)

Dealers: either owned partly or fully by the case company or independent operators, which sell, service and promote the company's offerings.

Scenario model: a way to create a future overview of possible corporate operations based on educated guesswork.

Network: "To be successful, a company needs to look for competitive advantages beyond its own operations, into the Value Chains of its suppliers, distributors, and customers. Faced with competition, many companies are partnering with specific suppliers and distributors to create a superior value-delivery network". (Kotler 1997)

Network Strategy: "The MNC is connected to its environment through relationships and networks. One consequence of this inter-relatedness is that strategy is inter-active, where the MNC responds to various activities from other organizations found in the various organizational fields of the external framework". (Jansson 2000)

⁹ www.dell.com

2. METHODOLOGY

In order to provide the reader with a thorough overview of how the research was conducted, this section introduces research models, different approaches that were used and an overview of the work. Three main sections divide this chapter; structure and content, research approach and data collection.

2.1 Structure and content

To better understand the research process involved in this study, Figure 2.1 gives an overview of the steps that were taken.

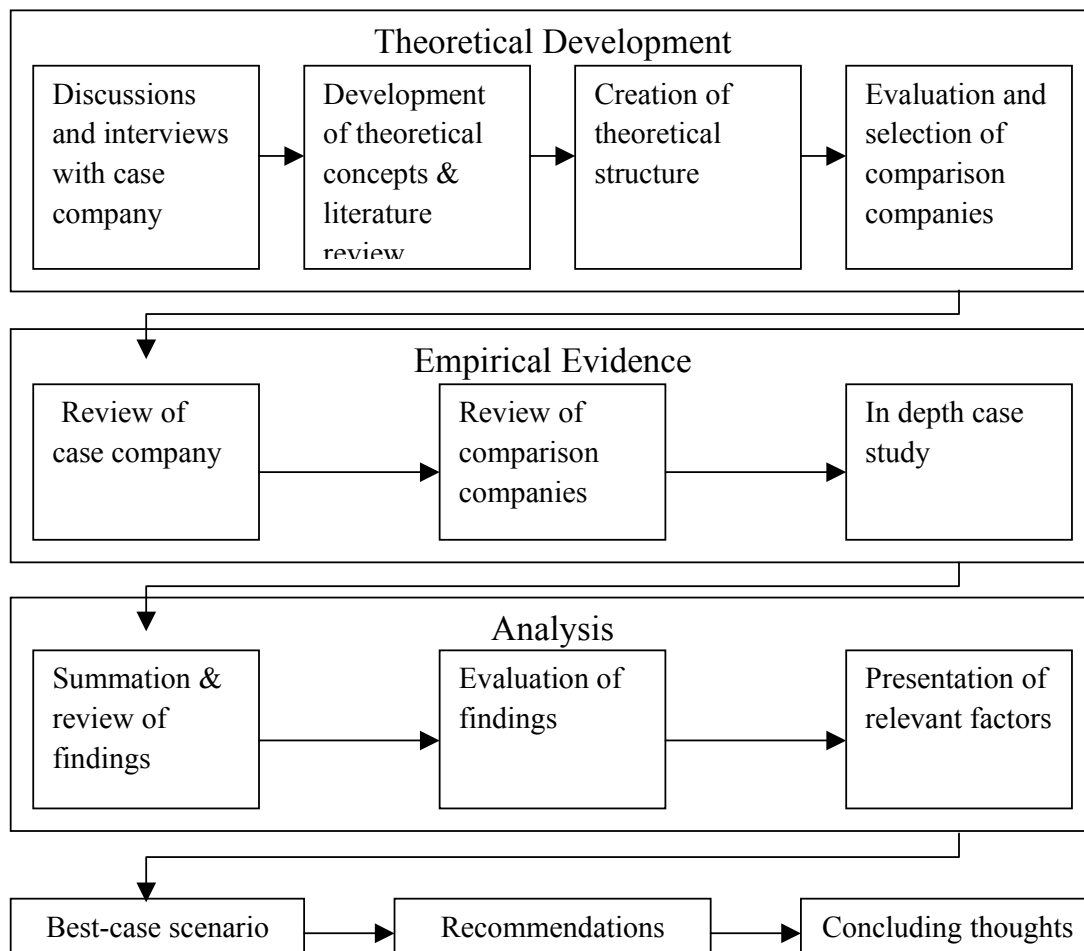


Figure 2.1 Thesis structure
Source: our own

2.2 The research approach

When deciding on a research approach, it became clear very early on that a descriptive method would best fit with our subject. Descriptive research deals with the task of providing information in order to choose one course over another as well as being able to choose a particular way of transference¹⁰. One of the first problems facing this study was to establish key areas of excellence among a set amount of comparison companies in various industries. To do this it was important to describe these occurrences as well as the underlying characteristics and possible predictions of these traits. Descriptive research includes a very detailed description of environmental conditions such as competitors and behaviors in their respective industries. Both internal as well as external factors to the companies in this study were thoroughly investigated which led to the implementation of successful strategies.

Choosing a case study to form the basis of the research method used in this study has to do with several factors, including the focus on a single case company, as well as the ability to grasp a general point of view based on corporate strategic direction. Another aspect that speaks for the case study is the need to learn as much as possible about the company and the topics involved. This is needed in order to draw final conclusions as well being able to create future scenario models used to plot possible future outcomes.

The final stage of the study involves scenario modeling, a subject that is highly debated and more often than not described as professional guesswork. The academic field contains several schools of thought regarding how scenario designs should be constructed, however there is one common denominator. Chances are that the conclusions drawn will be incorrect. Therefore, scenario modeling often has a more important role to play than just simply attempting to predict the future, which often is futile. This role is to make people aware of dangers and opportunities, which might present themselves if one path is chosen over another. In this study, scenario modeling becomes a tool for further discussions as well as an aid to provide eye-opening opportunities for the management team at Volvo Truck. This leads us to the selection of an inductive research strategy which concentrates on building concepts,

¹⁰ Meeriam (1998)

abstractions, or theories instead of using existing theories and models.¹¹ Volvo Truck is looking at pursuing a future strategy along the lines of one or several of the chosen benchmark companies, scenario modeling is a guide, not a solution in itself.

Our approach is unique as it ties together several different schools of thought with a practical implementation plan that in the end can be used directly by the case company. By directly mapping the capabilities behind the key areas of success associated with successful companies and comparing them with those of the case company, illustrates where improvements need to take place. The conclusions drawn, give rise to a scenario model that begins with a perfect picture of what the company should look like, which then is broken apart in order to make implementation more manageable. This makes this approach unique and gives valuable input for future discussions within our case company, which was one of the main reasons for the study in the first place.

2.3 Data Collection

Information can be gathered in many different ways. In a research study there are two main areas, namely primary and secondary data. The differences between them, and which one has been used more widely in this thesis will be discussed in the next paragraphs.

2.3.1 Primary data

Primary data is often conducted for the research study to answer a specific question. Ways of collecting this kind of information include surveys, observations, or controlled experiments. Surveys are one of the most common ways to collect data, where the subject can be contacted through mail, telephone or directly in personal interviews. Primary data has the advantage of observation where the researcher does not have to rely on the subject, who is being observed but not actively participating in the study.¹²

¹¹ Meeriam (1998)

¹² Meeriam (1998)

Informal discussions and brain storming sessions form the main part of the interactive part with the case company. For the sake of the study, it is important to keep an unbiased view of Volvo Truck where actual behavior instead of intended behavior needs to be identified. Part of the study deals with the identification of gaps between the case company and the chosen comparison organizations where inadequacies within Volvo Truck have to be clearly marked without internal interference. At the last stage of this thesis a careful scenario model will be developed where a new strategic direction is presented to Volvo Truck. A part of this process involves key interviews, where our findings are tested against the opinions of people in selected positions that deal with our issues in question. These interviews mainly form the function as a “ball plank” for our thoughts and findings. It is neither the purpose of this study to conduct an in depth research of one particular corporate function but to concentrate on not only the overall strategic direction but also on influential environmental factors on a global basis. Therefore the main means of data collection will be through secondary data, which will be discussed in the next section.

2.3.2 Secondary data

Secondary data is often limited to data collected from Internet sources, magazines, books, trade literature and internal corporate publications. It is often argued that secondary data lacks a direct connection with new research studies as secondary data most likely is conducted with different intent than that of the new study. However, it is less time consuming and faster than primary data collection as well as more economical.¹³

The use of secondary information is very strong throughout this thesis, mainly due to the nature of the subject. Collecting huge amounts of information regarding several MNCs and compiling it into a meaningful form, which create the foundation for further analysis, is almost the only way to cover such a broad subject in the allotted time. Strategic data needed for this thesis is extremely difficult to obtain and is often skewed by personal preferences and beliefs.

¹³ Merriam, (1998)

Secondly gaining access to key decision makers in large MNCs spread across the globe is not feasible due to the time and economic constraint of this study. Even if it might be possible to gain access to this level of personnel, it is certain that their corporate directives will taint their views. Here, secondary data gives a much more objective view based on information that often is unbiased and can be compared with a multitude of additional sources to ensure its validity.

As it is necessary to use up-to-date information, the main source of data during this study was the use of the Internet. Secondly, trade magazines provided insightful information, which often gave rise to angles and questions that at times contradicted the official corporate message. This often led to further questions, that after additional research led to underlying issues that many times were difficult to perceive at first. All in all, a collection of databanks, financial data, and so on, form the backbone of the data collection in this study.

Part of the reason for the heavy reliance on secondary data has to do with the limited resources that were put at our disposal. It was a direct request made by the case company to conduct the study on a local basis where secondary sources would mainly be used. It is also in the nature of the topic itself that such a wide issue as strategic corporate behaviors often is difficult to comprehend through interviews unless they are conducted at a senior management level. It was clearly beyond the scope of this thesis, both time and resource wise, to gain access to the upper echelons of the comparison companies in question. It is questionable if a clear viewpoint could have been found, as management clearly would have been biased.

2.4 Quality of research

How can one ensure that a study is dependable and that it keeps to the highest levels of quality in order to be able to rely on it? There are ways to ensure quality in a thesis through validity and reliability, which deal with how the work is planned, how the analysis was conducted and how the conclusions were made. It should be possible to ask questions regarding the logic behind conclusions, which should be as detailed as possible in order to clearly explain the reasoning behind the result.¹⁴

¹⁴ Merriam, (1998)

2.4.1 Internal validity

While conducting a case study, often the result is tainted by the beliefs of the researchers themselves. This leads to a subjective viewpoint instead of being objective. In order to counter this, multiple sources of data have been used as well as always questioning the objectivity of the information.

A very large collection of data has been gathered from a wide array of Internet sources, which vary greatly. When considering one particular topic, it has been vital to find other sources that discuss the same area and give different viewpoints. By sticking to this approach, different angles have been presented in order to get to the core of the issue where validity is ensured through multiple, independent and objective sources.

2.4.1 External validity

When discussing external validity it is important to note if the findings can be transferred to other cases than the one within the study itself.¹⁵ From the start this thesis was clearly structured in a way to allow the identification of key areas of excellence, which then were compared with the case company. The same steps can be applied to other organizations, where different strategies can be weighted in order to find new directions for an organization.

Our approach of creating a future scenario for the case company is something, which can be applied to most organizations. Be it in the same industry or one completely different, providing either products or services, it can still apply just the same.

2.4.3 Reliability

This thesis is very structured with clear definitions of the theories, which have been applied. Moreover the structure is viewed in a step-by-step process, which

¹⁵ Yin, (1994)

can be tested against almost any organization, which is looking at undertaking a similar study, giving strength to the reliability of the paper. Data is gathered from a range of sources, which are highly reliable and recognized for their objectivity within their respective industries. The fact that data has been continuously verified against other sources adds confidence to the reliability.

3. THEORETICAL FRAMEWORK

In this chapter we will present the theoretical framework of our thesis. The first part comprises a description of the Value Chain, which we believe, will provide an increased understanding of the background to our studies. In the second part of the chapter the different main theories used in this thesis are discussed. Finally, our main framework is discussed and related to the main theories.

3.1 The Value Chain

The Value Chain, developed by Michael Porter, is a concept that is widely used both in the business and academic world. The Value chain allows a highly disaggregated approach to analyzing a company's capabilities, which is particularly useful in outsourcing decisions¹⁶. This concept has emerged as a result of the growing importance of international competition and focuses on questions regarding strategies, which are particular for international competition. Especially, how a company's activities in one country affect or are affected by the situation in other countries.¹⁷

The Value Chain offers a systematic way of showing and categorizing activities, which can be grouped into nine generic categories regardless of the industry. Every organization performs these basic categories of activities in some form, and within each category it may perform distinct activities that are industry and strategy specific. Porter groups the generic categories of activities into two broad types. The primary activities are those activities that are involved in the physical creation of the product or service. This category comprises Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales, and Service. The second group consists of the support activities providing the necessary inputs or infrastructure that facilitate the primary activities. The support activities are Firm Infrastructure, Human Resource Management, Technology Development, and Procurement. The activities in the Value Chain are connected, as the way one activity is performed affects the costs or effectiveness of other activities. The Value Chain of the company is

¹⁶ Grant (1998)

¹⁷ Porter (1985)

part of a larger stream of activities with buyers and suppliers. The connections within such a value system can provide essential competitive advantages.¹⁸

An important question for an MNC is the decision of where to position the activities in the Value Chain among countries. Secondly, a company has to decide about the configuration and coordination for each activity. Configuration options vary from concentrated to dispersed. Concentration of activities deals with the performing of an activity in one location and serving the global market from it, for example one large plant. The performance of every activity in each country is related to dispersion, resulting in a complete Value Chain in each country. Coordination decisions range from none to very high. They deal with the fact that if activities can rather be performed autonomously or if the activities are tightly coordinated through information systems, IT processes, same parts, etc. Configuration and coordination issues exist for every activity in the Value Chain.¹⁹ The concept of the Value Chain has its influence on a company's strategy and there are many different kind of strategies depending on an organization's choices about configuration and coordination throughout the Value Chain.

3.2 Description of Main Theories

Key Areas of Excellence

In order to identify Key Areas of Excellence, we expand on existing strategy models. What factors contribute to the success of a particular organization, are there ways to track the origins of success? This is where global strategies are studied and what factors lead to successful implementation of those strategies.

Comparative Performance Analysis

How is the case company performing compared to other companies, which have excelled in particular areas? Comparing the case company against Key Areas of Excellence gives rise to gaps in the comparison companies, which need to be filled in order to reach the same amount of efficiency.

¹⁸ Porter (1985)

¹⁹ Porter (1985)

Scenario Analysis

What would a perfect scenario for our case company, based on the Key Areas of Excellence provided by the comparison companies, look like? The ability to create a future vision, break it apart, and give examples of how it can be implemented is what scenario analysis is about in this thesis.

3.3 Theories on Strategy

There are many theories on strategy in existence, all with different aspects that need to be addressed in establishing an effective strategy and developing and sustaining a competitive advantage. Due to the scope of our thesis, we have decided to look at two specific strategy analyses, namely the Global Strategy model by Professors Shaoming Zou and S. Tamer Cavusgil, and the framework for Analyzing Business Strategy by Robert S. Grant. These two theories have an integrated approach towards strategy, consisting of many elements of other leading theories. Besides, the two theories allow a highly segregated approach in establishing a strategy, which makes them a sound point of departure for the purpose of our thesis.

3.3.1 Global Strategy Model²⁰

Professors Shaoming Zou and Tammer Cavusgil (1996) have developed an integrated conceptual framework for determining global strategies. In their theory, a global strategy contains six dimensions that all together form the strategy of a corporation operating on a worldwide perspective. The six major dimensions are global market participation, product standardization, uniform market programs, integrated competitive moves, co-ordination and concentration of value adding activities. The result of this global strategy is to maximize both financial and strategic performance on a global scale by sharing and exchanging information. In contrast, a multinational strategy would attempt to maximize performance by maximizing local competitive advantages and profits, not on a combined global basis.

²⁰ Zou, S., Cavusgil, T., "Global strategy: A review and an integrated conceptual framework", European Journal of Marketing, Issue 30, number 1, 1996

There are two main segments that create a global corporate strategy, namely internal organizational factors and external industry globalization drivers. The latter deals with market factors which drive globalization such as emergence of global clients, homogenization of customer needs, existence of global marketing channels, and transferability of marketing practices. There are five categories of external industry drivers: market, cost, competitive, technology and environmental factors that directly influence globalization. One main issue is to create economies of scale within marketing and production in order to drive down cost, additional benefits include economies of scope in transportation as well as synergies created in value added activities. Competition is often a very strong globalization driver, where a company has to globalize in order to stay competitive. New technological developments make globalization effects more feasible, especially within new IT and communications systems that tie global organizations together. Last, governmental regulations often drive globalization where tariffs, barriers to entry etc. force the company to go global. Incentives by many foreign governments for establishing local production, such as in Ireland, is driving companies to take advantage of huge cost savings.

On the internal organizational side there are five factors that affect global strategies: market orientation, managerial commitment and orientation, organizational culture, organizational capabilities and international experience. When discussing market orientation, it is often referred to the organization-wide creation of, dissemination of, and response to market intelligence. IT is often a crucial ingredient to fully implementing such a strategy as it otherwise becomes technically impractical to gather and share vast amounts of information. By tracking customers needs and wants, a company can create competitive barriers of entry to prevent competitors from either entering or taking away market share. When it comes to the commitment of management to global strategies, it is vital to develop an “equidistant” perspective where the synergies of multinational operations are needed.

Organizational culture is one of those topics, which often are very hard to put on paper, but is more than often blamed for corporate failures in such cases as mergers or acquisitions. There are mainly two levels of organizational culture; values shared by a group that persist over time and behavior patterns or styles which are encouraged to adhere to by fellow employees. Culture is a main contributing factor when pursuing global strategies. There are three main

attributes, namely strength, global orientation and adaptiveness. Without these attributes, it will become extremely difficult for a company to implement a global strategy and as these factors are often difficult to quantify it is one of the key influential factors for failure. When it comes to organizational capability, the routines that are used on a day-to-day basis by the organization become indicators of how successful a company will be at transferring information, innovating and benefiting from learning synergies.

Without strong organizational capabilities, management directives will not be executed and strategic goals will not be attained. Another area of importance in regard of successful global strategies is international experience, where the perspective of a geocentric orientation allows the company to see the world as one marketplace.

All these factors result in two main performance indicators, the first being obvious for any business: financial performance. Is the company making money, how much, what kind of growth? This is often a binary indicator, which clearly can be obtained from financial records. The second indicator, strategic performance, is however more elusive.

Factors are included such as improving overall competitive position, keeping market presence, increasing market share and obtaining access to factor inputs. This is where it is important to understand both internal and external environments of the organization as well as the direction of global strategies chosen by the company. Financial performance is an indicator of success, but without comprehensive knowledge of the strategic performance a company cannot be sure to obtain long-term success.

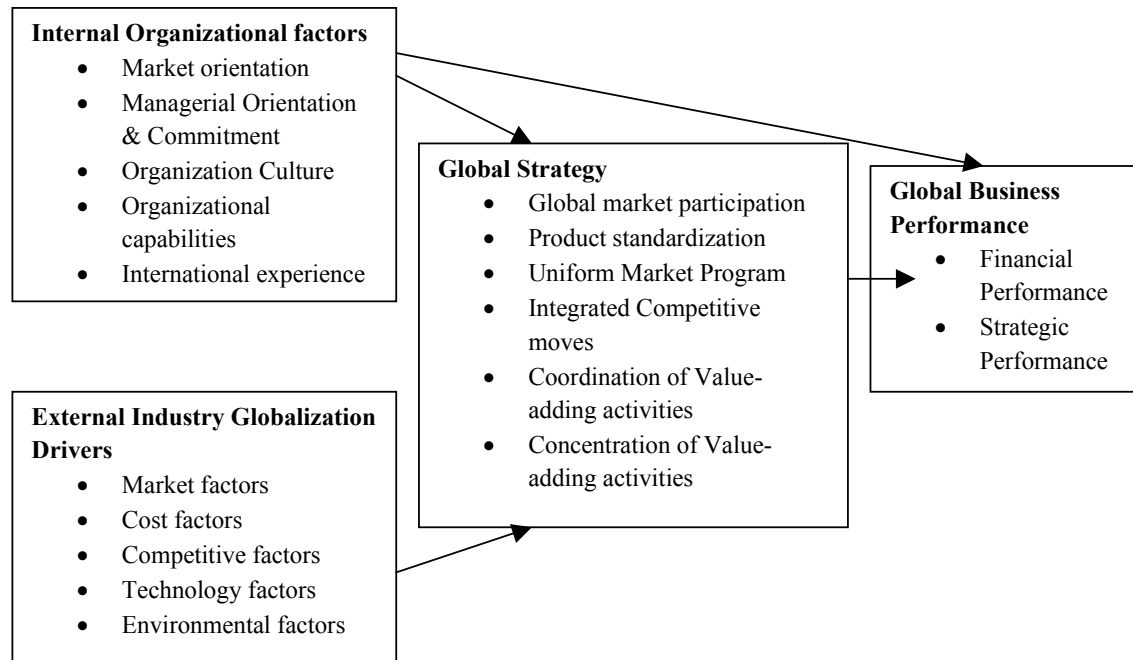


Figure 3.1 Global Strategy Model

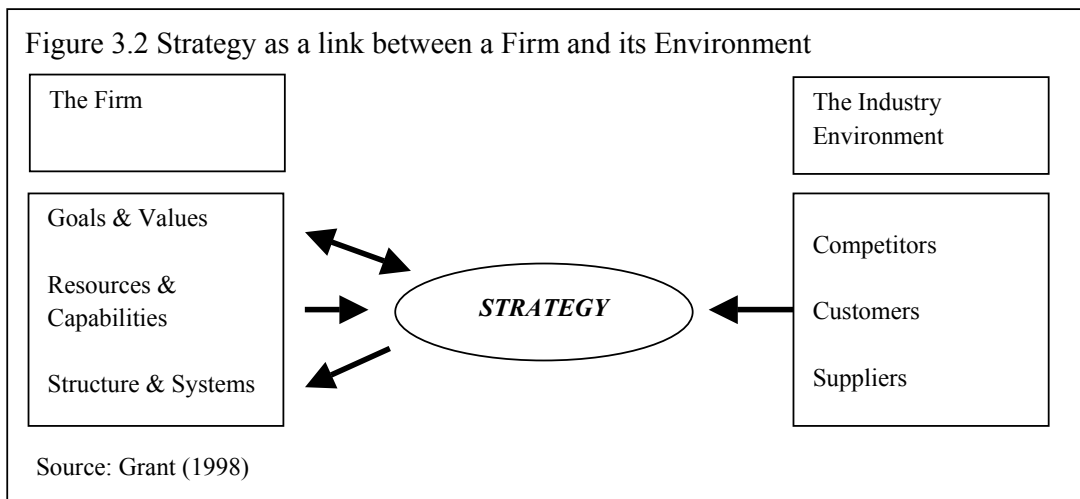
Source: Shaoming Zou and Tammer Cavusgil

3.3.2. Framework for Analyzing Business Strategy²¹

The framework for analyzing business strategy views strategy as the establishing of a link between a firm and its external environment (see figure 3.2). The firm consists of the goals and values, resources and capabilities, and structure and systems. The goals and values form the starting point for the formulation of strategy, as every company has some kind of statement of the company's identity and purpose. The external environment is a factor that is constantly changing, and therefore the resources and capabilities of the organization may form a better basis for formulating a durable strategy. The tangible, intangible, and the human resources are not productive on their own, and the capacity to undertake a certain productive activity refers to organizational capabilities. Therefore, there is a relationship between resources, capabilities, and competitive advantage. Finally, the structure and systems of an organization must facilitate the chosen strategy.

²¹ Grant (1998)

On the other side, the industry environment comprises the competitors, customers, and suppliers. The essence in this framework is the relationship of the company with these stakeholders. By focusing first on the industry environment, the macro-level influences relevant for the organization can be determined. It is essential to determine how these rather general macro environmental factors are impacting the firms' industry environment. The macro-level factors that have to be considered are the International Economy, Technology, Government, Natural Environment, Demographic Structure, and Social Structure.



In summation, a business strategy has the task in this theory to determine how the firm will deploy its resources within its environment and so satisfies its long-term objectives, and how to organize the company to implement that strategy. This will create sustainable competitive advantage. One of the implications of this framework is the concept of strategic fit. A strategy can be successful if it is consistent with the firm's goals and values, with the external environment, with the resources and capabilities, and with the organization and systems.

3.4 Theory on Benchmarking

A deep understanding of the marketplace and the competitive situation are prerequisites in strategic planning. In this regard, benchmarking can be a useful tool for gathering valuable information in the strategic planning process of a company. A business strategy can be changed and shaped in a more realistic

way with this information, or the risks of conducting business in a specific area can be identified.²² Moreover, benchmarking can be a strong tool in strategy development as a support at the implementation and tactical level. It can facilitate the decision process, as it answers how the company could initiate change.²³

Therefore, benchmarking can be defined as:

*"A continuous, systematic process for evaluating the products, services, and work processes of organizations that are recognized as representing best practices for the purpose of organizational improvement"*²⁴

When conducting a benchmark study it is important to keep in mind that it should not be limited to a specific time period but more towards a long-term perspective when considering a corporation's strategy. Benchmarking is often broken up into internal or external benchmarking, where the internal part deals with issues inside of the organization between different divisions. External benchmarking deals with the comparison of other companies, competitions or the industry in general. Another aspect, which goes along those of continual improvement, is bench learning where benchmarking is integrated into the organization as a continuous process that takes place in order to achieve overall improvement.²⁵

To initiate a benchmark study against competitors or excellent non-competitors, the objective assessment of organizational capabilities and performance by companies is often a rather difficult process. In appraising its own competencies, a company is often led by past successes, hopes, and wishful thinking for the future. In this regard, many organizations have fallen into this trap, which made them vulnerable to competitive forces in their own industries. Companies may be overestimating their own competencies, or be unaware of competencies they have. To identify and assess the capabilities companies possess, the organization must look broadly, deeply, and from different perspectives. In order to obtain an objective view of the competencies, quantifiable measures of performance must be established to allow a

²² Spendolini (1992)

²³ Boxwell (1994)

²⁴ Spendolini (1992)

²⁵ www.patech.com

comparison between one specific company and other organizations. This step in the process of benchmarking is important to assess and develop organizational capabilities through comprehensive comparisons with other companies. By comparing with competitors, and leading organizations in related industries, companies are able to increase their organizational capabilities. A traditional benchmark study could consist of the following steps:²⁶

1. Identification of area for improvement
2. Locate a firm which excels in this area
3. Do performance comparisons through the exchange of performance data
4. Identify the reasons for performance differentials
5. Use newly gained knowledge to improve selected area

The ultimate goal of using benchmarking as a tool is to analyze and implement the best practices that can be found. On the other hand, these practices should be suitable and feasible for the specific company to make the organization more efficient and effective. It should not be used as a mere tool to just implement better practices. Therefore, benchmarking should be used as a tool for organizational learning, and not simply to appraise a company against other organizations.²⁷

3.5 Theory on Scenario Analysis

A deep understanding of the forces that are changing the industry is critical to the development of strategies and the survival of a company. The increased inability of predicting the potential direction of an industry, and therefore a company, has led to a greater emphasis on understanding the future. Therefore, less credibility is placed on conventional econometric forecasts, and more emphasis is given to scenario analysis.²⁸ This kind of analysis can be used as a tool for assisting a company to take a long-term perspective in a world that is in a constant state of flux.

²⁶ Grant (1998)

²⁷ Reider (2000)

²⁸ Grant (1998)

Scenarios can be perceived as stories about the way the world might look tomorrow. These stories can help to recognize and adapt to changing factors in the present environment. They form a technique for describing different ways that might exist for tomorrow, and discovering suitable actions down each of those possible paths.²⁹ Developing future scenarios is often considered to be a complex process where a multitude of factors have to be weighted against each other³⁰.

In this regard, Schwartz (1998) defines scenarios as a set of organized ways for dreaming effectively about the future. Moreover, they bear a resemblance to a set of stories constructed around careful build “plots” which make the major features of the business environment stand out. This approach is not a formal methodology, but more a structured way of thinking, or as Grant (1998) describes it: a process for thinking and communicating about the future. The end result of such scenarios is not a precise picture of tomorrow, but more appropriate decisions about the future.³¹

The overall objective of scenario analysis is, therefore, to provide management with different futures that can be used in managing opportunities, threats, and strategic change. By developing different scenarios, models can be created for successful adaptation to the changing environment. Essential is the incorporation of the long-term vision of the company. Management should take a backward approach to structure and reach this envisioned future. This also means that specific potential developments emerging from the future business environment need to be identified and addressed. By bearing the envisioned future in mind, management can identify actions to manipulate outcomes in an advantageous direction.³²

3.6 Conceptual discussions

In many cases there are several ways of approaching a problem in regard to writing a thesis. When we researched different methods, which would allow us to identify specific strategies, we came across several specific approaches with

²⁹ Schwartz (1998)

³⁰ Van der Heijden (1996)

³¹ Schwartz (1998)

³² Lancaster (1996)

which to study our main problem. The first approach we considered was to conduct a full benchmark study with several competitors and excellent non-competitors, in order to point out areas of improvement. Our goal was however much broader, as we wanted to not only pinpoint deficiencies but to develop a new overall strategic direction. In fact it was our goal to obtain strategies, which would surpass those used by the competition of Volvo Truck. A second theoretical approach that could have been used in this thesis was a specific “outside-in” look in the Truck industry to establish specific key areas of success that could be used to develop a strategic approach directed towards these trends and developments. This option was not chosen, as it was decided on from the beginning, in conjunction with Volvo Truck, to go outside the traditional boundaries of the industry for strategic direction and motives for change. Therefore, we decided to develop a specific theoretical approach fitting more specifically to our thesis subject.

There are many models regarding global strategies, best practices, benchmark studies and scenario modeling. In order to best fulfill the requirements of this study, models from various schools of thoughts have been used in modified states to emphasize the area of interest. New models have also been developed, especially in the scenario modeling section, as this field lacked a comprehensive model that would fit our purposes. In the coming sections, our specific approach is discussed.

3.6.1 Key area of excellence model

The theories of global strategy and analyzing of business strategy form the basis for the section of our comparison companies. While combining the two theories in one model we are able to identify and analyze the global strategies, the key area of excellence, and the internal and external incentives behind it. Figure 3.3 gives a graphic summation of the key area of excellence-model, which is based on our own ideas, and will be explained, in the coming sections.

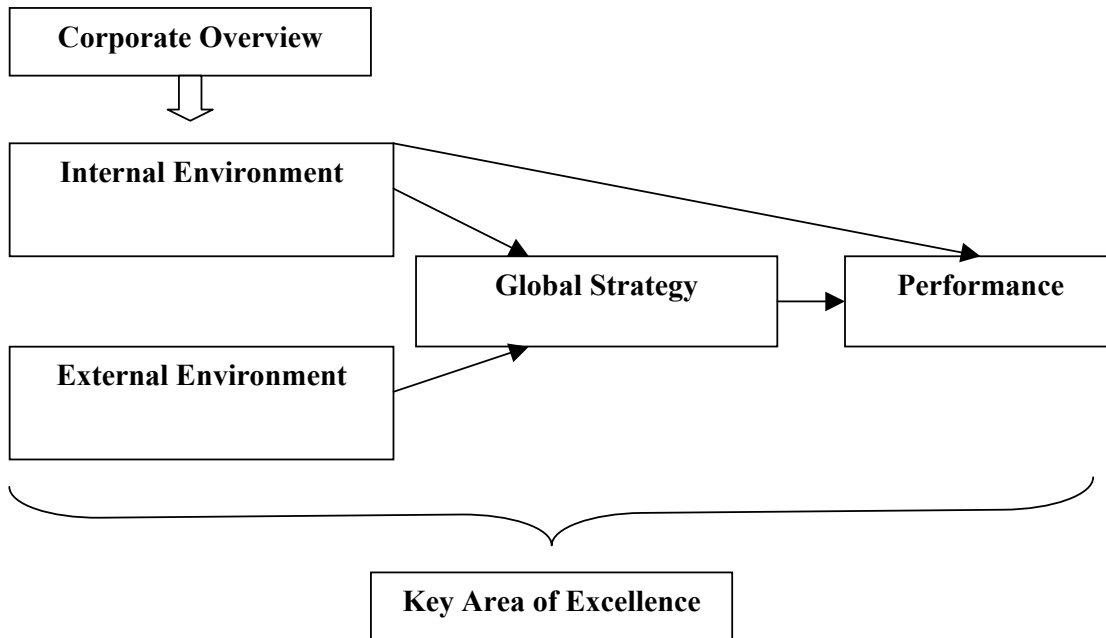


Figure 3.3 Key Area of Excellence Model

Source: Shaoming Zou and Tammer Cavusgil & our own

Corporate Overview

Each chapter of the comparison companies starts with a corporate overview and deals with the analysis of the companies on the top level. In this part the companies' core activities and strategies throughout the recent years are described and explained. It also explains the current positions of the organizations within the Value Chain. It functions as a starting point for both the internal and external environment analysis.

Internal Environment

A wide variety of internal resources influence a company's global strategy and performance, but it is the key resources which are hard to imitate and difficult to substitute, and more valuable within the organization than outside³³. Therefore, in our analysis of the Internal Environment of the benchmark companies we focus on the five types of internal organizational resources most relevant for a global strategy, namely market orientation, managerial orientation and commitment, organizational culture, organizations' capabilities, and international experience. It is these resources that the benchmark

³³ Zou, S., Cavusgil, T., "Global strategy: A review and an integrated conceptual framework" European Journal of Marketing, Issue 30, number 1, 1996

companies excel in and form the basis of their Key Area of Excellence. Therefore, each of these resources is analyzed from the current situation and how they are contributing to the implementation of the global strategy. The five internal resources are complemented with human resources. The human resources are analyzed by determining strategies and policies towards human capital. They form an important facilitator of strategy, change, and sustaining of competitive advantage.

External Environment

The external environment of the comparison companies comprises in this thesis the industry environment and the macro environment. The prerequisite for an effective external environmental analysis is to distinguish the essential factors from the merely important ones³⁴. Therefore, the specific external factors for every organization that have influenced the strategic directions are analyzed and explained. The industry environment deals with those industry specific influences that have their impact on the comparison companies and forced them to alter their strategies. We initially analyze the competitive and global market situation in the industry, followed by an analysis of the main current and future trends within the specific industry. By focusing on the industry environment, the macro-level influences relevant for the benchmark organizations can be determined. It is essential to determine how these rather general macro environmental factors are impacting the firms' industry environment, and therefore our individual comparison companies.

Global Strategy

The Internal and External environments of the different comparison companies have distinct traits and developments that have affected and influenced the strategic directions, and therefore the positions in the Value Chain. In this thesis we want to analyze the global strategies of the companies according to six different dimensions. The first dimension, global market participation, deals with whether the comparison companies are aiming with their strategy to be a truly global organization with a ditto market presence. A certain form of product standardization is a necessity when globally active to reap the advantages of a global presence. A strategic approach, which emphasizes a uniform market program, is an important dimension in a global strategy. A uniform program enables a company to spread a global message both internally

³⁴ Grant (1998)

and externally across markets. As a fourth dimension of a global strategy, integrated competitive moves are essential to compete on a global level with both local and global competitors. The final dimensions for analyzing the global strategies of our benchmark companies are the coordination and concentration of the value adding activities. To profit from the economies of scale and learning within the value adding activities, a truly global strategy should emphasize this to create an optimum competitive edge that can be leveraged worldwide.

To fit within the general purpose of this thesis, the six dimensions within the benchmark companies' global strategic approaches are analyzed, and moreover linked with the various internal and external factors behind this. This results in a specific overview of how these six dimensions form an integrated part of the companies' global strategies and the motives and reasoning behind it.

Financial & Strategic Performance

Financial performance can be an indicator of corporate success. It is however more of a measurement tool of past performance than indicator of corporate strength and future capacity. Strategic performance measures many more factors that often are much harder to quantify, as competitive position and market presence can be subjective to interpretation depending on who is performing the analysis. In this thesis, the main goal has been to keep an objective position in order not to let the result be affected by marketing messages created by the organization. Even financial results can be very misleading, where contradictory sources need to be weighed against each other in an attempt to find the real position of the company. A common denominator is that all companies in this study are generally viewed as champions within their markets, where historical records prove the longevity of their strategic success. Therefore, in order to measure strategic and financial performance, a long-term perspective needs to be taken to obtain possible trends that indicate Key Areas of Excellence.

Key Area of Excellence

With a clear analysis of the global strategic direction of the companies and the internal and external environments thoroughly explained and analyzed, the key areas of excellence within which the company outperforms their rivals can be deducted. The goal of this is to not only identify these areas, but also understand the working mechanisms behind them. This part of the model forms

the main conclusion of our first step in the thesis and brings the different strategies and internal and external factors together in a distinct area of specialty.

3.6.2 Comparative performance model

The result of the strategic business analysis leads to specific Key Areas of Excellence, which indicate areas of interest for improvement within the case company. A comparison between the case company and the Key Areas of Excellence is conducted in order to measure how well the case company has implemented similar capabilities within its organizational structure. In order to define concrete areas of investigation, direct comparison is made between each of the comparative organizations and their key areas of excellence against the corresponding divisions within the case company.

The model used for comparing the performance of the case company against the best practice capabilities of the comparative organizations includes the following steps: Selection of area to study, which company to use, and its accompanying Key Areas of Excellence (see figure 3.4). In order to ascertain how well the case company is doing, performance analysis of the case company against the before mentioned two factors is conducted. The final part deals with the assessment of performance leading to reasons for the differential.

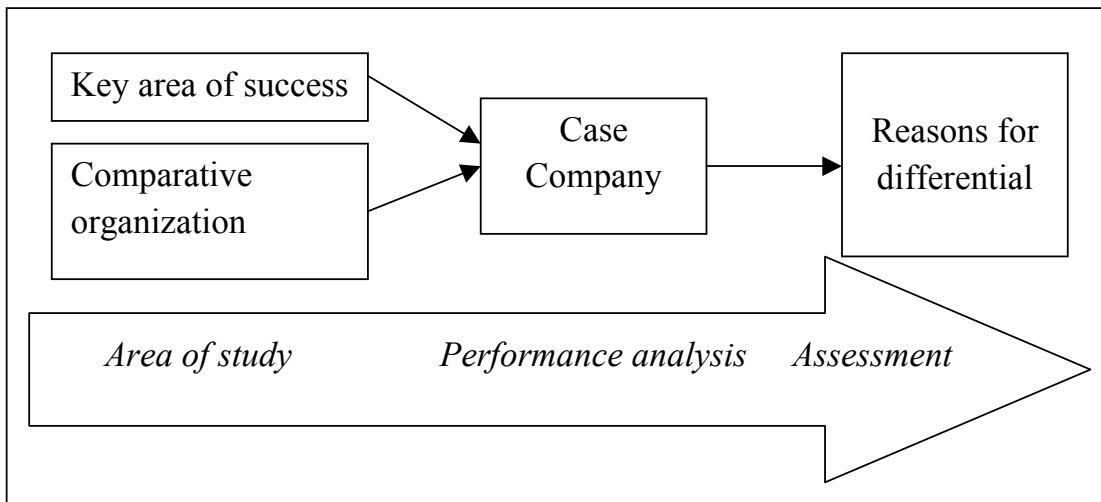


Figure 3.4 Comparative performance model

Source: Grant & our own

The comparative performance analysis used in this thesis does not go into the same amount of detail regarding the exchange of performance differentials as the main purpose of the study is not to provide a benchmark comparison but to identify ways to reposition the case company within the value chain.

3.6.3 Scenario Analysis Model

A large amount of this thesis was spent on developing a process of how to integrate successful practices into the organization of the case company. The scenario analysis involves several steps, starting with presenting an ideal case that contains all the virtues of an already complete implementation. This concept is then broken down into segments, which represent pieces that emanate from best practices found within the comparative organizations. The next step involves an implementation phase where examples are given concerning what is needed in order to fulfill these capabilities within the case company. After that a recommended priority list of which steps are more important to realize initially, form the basis for a structured implementation plan. Lastly, a risk assessment is made comparing a status quo situation of the case company with that of organizations that has implemented the best practices. Figure 3.5 gives an overview of the model.

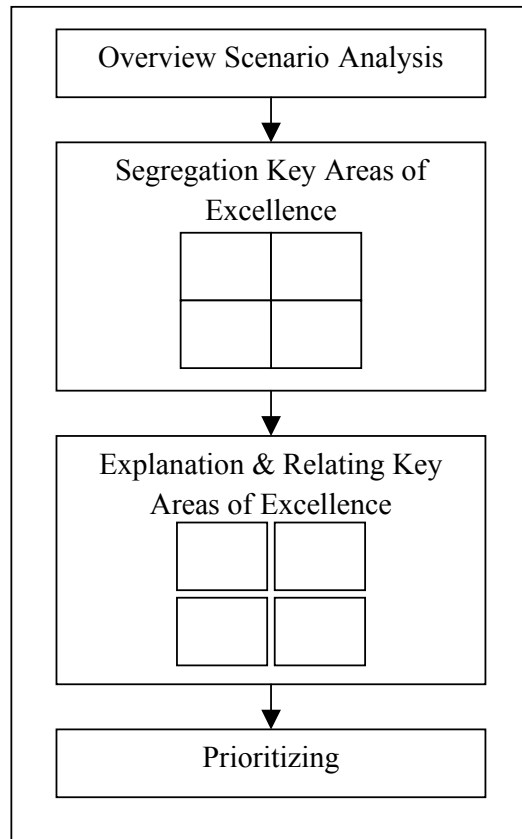


Figure 3.5 Scenario analysis model
Source: our own

4. EMPIRICAL DATA ANALYSIS - DANZAS

This chapter is concerned with the analysis of Danzas. The corporate outlook of this global logistics provider has changed considerably during the last decade, due to some distinct developments in the internal and external environment. This renewed situation combined with the internal and external factors is presented in the first part of the chapter. This is followed by the analysis of Danzas' global strategy. In the final parts, we analyze the financial and strategic performance of the company and its Key Areas of Excellence.

4.1 Corporate overview Danzas

Danzas is part of the Deutsche Post group since 1998, where it forms the logistic pillar of the German organization. Deutsche Post, with a turnover of Euro 32,7 billion in 2000, aims to be a leading global player in the markets for mail, communication, parcels and express, logistics, and financial services. With the Deutsche Post World Net, the group unites three brands, Deutsche Post, Danzas, and Postbank, offering a wide range of transport, logistics, and financial services. The strategy of the German group is directed towards the provision of worldwide logistic networks for the global flow of goods and the flows of information and money. Key to this strategy is the expansion of the Group network and comprehensive one-stop shopping.³⁵

The Danzas Group is the world's largest supplier of advanced logistical solutions. Danzas, with its headquarters in Basel, Switzerland, operates over 800 offices and 400 warehouses and terminals in 135 countries. In 2000, the company generated net sales of over EUR 8,3 billion. This can be compared to 1999 (EUR 4,5 billion) where net sales were half of the 2000 result, illustrating the strong growth of the company and a successful acquisition strategy. Sales by region show that the majority of income is derived from the European markets where Germany and the Scandinavian sector represent net sales of over 35% of total sales.³⁶

³⁵ www.deutschepost.com

³⁶ www.deutschepost.com

In 1995, Danzas was confronted with poor strategic and financial performance and the aftermath of the Single European Market that took away Danzas lucrative custom brokerage.³⁷ This began the process of reorientation of the organization on the core businesses. In 1998, Danzas implemented a new corporate strategy reflecting the trends in the industry. The strategic direction involved four steps: developing business solutions, growth of the intercontinental business, shaping of the Eurocargo business and to create a market oriented organization where advanced IT systems can be leveraged as a competitive advantage. The new strategic direction can be seen as the final step in transforming the company from a traditional freight forwarder to a provider of IT-supported, integrated logistic services. The introduction of IT related services into the industry has revolutionized the way logistics systems work and Danzas has been one of the early adopters within their industry to ensure market leadership.³⁸ This strategic direction complemented Deutsche Post, and that was one of the main reasons for the acquisition of Danzas.

The company has now three main areas of operation that form the core activities and targeted market segments: customized logistics solutions for specific industry sectors, worldwide air, ocean freight and global project forwarding, and European overland transport. The logistics solutions unit offers complete solutions in inbound, outbound and warehousing services for companies of any size. Integrated IT solutions are provided to allow complete outsourcing of logistics handling. Danzas Intercontinental division handles worldwide airfreight services as well as full container handling for shipments overseas. The Euro cargo division deals with overland transport across Europe and is ranked number one in its segment. The three divisions Intercontinental, Eurocargo, and Logistics Solutions generated respectively 46%, 39%, and 15% of net sales in 2000.³⁹

4.2 Danzas' Internal Environment

The previous paragraph showed the changed direction of Danzas from being a product-orientated company towards an IT-integrated and market-orientated organization in the global logistics industry. This reorientation has had its

³⁷ Wild, K., "*Badly Underestimated*", Bilanz, edition 01, 2000

³⁸ www.danzas.com

³⁹ www.danzas.com

effect on the internal situation of Danzas, which is further discussed in the coming sections.

4.2.1 Market orientation

Danzas has gone through extensive steps to improve and integrate the flow of information within its company. Most noticeable is the investment in IT capabilities where over 2.2% of the revenue was invested in new services. This represents the highest level within the industry. There are wide ranges of information tools that have been added to the original system, which went online back in 1997. At first, both customers and employees could track a parcel or shipment anywhere in the world through Danzas T&T system (Tracking & Tracing). This enabled the company to carefully monitor its markets, how customers were behaving, and where the bottlenecks occurred.⁴⁰ This tool allowed management for the first time to fully grasp and understand the logistical flows in a sense of real time.

The traditional way of providing and analyzing market data via extensive reporting units within the company has been completely computerized. Today a manager can geographically pinpoint a region and gain direct access to the current, up-to-date status of all logistic activities in the area. This is essential, as business has spread worldwide and has become increasingly complex and large in pure size. This has enhanced the flexibility towards predicting and dealing with bottlenecks. Therefore, advanced computer software goes through the logistics data, at a fraction of the time that is possible for a human and can react against a list of set criteria that warn against specific occurrences that should not be allowed to happen. This automation process allows Danzas to manage more logistic transactions than anyone else in the world. Additional services were added to provide details of the contents of each shipment. Tying this to the ordering system of its clients allows Danzas to offer unparalleled Just-in-Time warehouse management that is flexible enough to be updated en-route. As competition increases worldwide, flexibility is becoming necessary in order to survive.⁴¹

⁴⁰ Schmeling, U., “*Danzas accelerating in the data fast lane*”, International Transport Journal, Issue 35, 2000

⁴¹ Schmeling, U., “*Danzas accelerating in the data fast lane*”, International Transport Journal, Issue 35, 2000

Danzas is today a knowledge company, dealing with the intricate flow of information on a worldwide scope where millions of pieces of data every second are generated within enormous databases. Few companies can show this amount of control of its market sphere and to be able to draw strategic conclusions from the information gathered. Danzas sees this as a must for the future survival, and cannot function without extensive computer support that assists them in its day-to-day activities.⁴² The use of IT-systems shows the renewed market orientation of Danzas as part of their strategic direction. The company proves to be pro-active in its market approach to better serve the needs of the customers in this global industry.

4.2.2 Managerial Orientation & Commitment

The current strategic direction meant a new way of managing the organization, especially to integrate the acquired companies. The integration of these companies was supported by an organizational structure that allowed Danzas to further develop its international operations. In this way, the potential for synergies have been exploited and a seamless and efficient international network been created where global efficiencies are tailored to local, needs. Synergies are also sought outside the company, by cooperating with organizations that also belong to the Deutsche Post group, e.g. DHL⁴³.

In recent years, management has been dedicated to transforming Danzas into the world's leading provider of logistic services that covers the whole supply chain. In this regard, management has shown a strong orientation and commitment towards the global market and its developments.

4.2.3 Organization Culture

The Danzas' organization has undergone both strategic and operational changes in the recent years. Adding to this the merger and acquisition activities that Danzas was involved in, the organizational culture of Danzas has undergone major changes. The acquisition by Deutsche Post meant the merging of two

⁴² Schmeling, U., "*Danzas accelerating in the data fast lane*", International Transport Journal, Issue 35, 2000

⁴³ Ambül, I., "*Wagner Shows the way with Danzas*", Cash, number 4, January 26, 2001

strong companies. Therefore, the aim was to create a culture for Danzas that reflected the new situation. This on-going process has proven to be very demanding.⁴⁴

After the acquisitions of Nedlloyd and ASG AB, the big challenge for Danzas lay in the creation and further development of a joint culture. This has been done in two phases. First, the organizations were integrated, services rerouted, and personnel trained in the organization's systems. Secondly, the integration of the different methods of the companies was targeted for the medium term, in order to continue jointly.⁴⁵

An essential aspect of Danzas' attempt to merge different organizational cultures is the integration of people. This is reflected in the way people have to perform their job⁴⁶. In the new organization, employees need to be more flexible and able to deal with new situations. A high degree of independence is expected in order to find solutions for internal and external challenges. In this regard, Danzas views its Human Resources as major influencers of corporate culture and facilitators of change. Due to the major merger and acquisition activities, the company was faced with multiple leadership philosophies. Danzas has sought to address this problem by integrating the best parts of all styles. This is reflected by the formation of a Management team, which has a much more international character to reflect the global ambitions and activities of Danzas.

Finally, merger and acquisition activities could prove to be an extra burden to reach an internal and external cultural fit. So far, the relationship with customers and the cultural differences of employees internally are not negatively affecting the company's performance.⁴⁷ This has been avoided by active internal and external communication. Besides, Danzas argues that the ties to a company name in this industry are not as close as previously was the case. The services and quality are much more important.⁴⁸

⁴⁴ Spohn, M., "Size is an absolute must", International Transport Journal, Issue 28, 1999

⁴⁵ Spohn, M., "Size is an absolute must", International Transport Journal, Issue 28, 1999

⁴⁶ www.danzas.com

⁴⁷ Schnell, F., "Interview with Peter Wagner, CEO Danzas", DVZ, number 153, December 23, 1999

⁴⁸ Spohn, M., "Size is an absolute must", ITJ, Issue 28, 1999

4.2.4 Organizational Capabilities

In 1995, Danzas established programs to tighten structures, to eliminate jobs, to cut costs, and to implement a group wide EDP system.⁴⁹ As a result, Danzas has put, since April 1998, a market orientated organizational structure in place, which focuses on four operative Business Units, of Consumer Solutions, Industry Solutions, Intercontinental, and Eurocargo. The first two units focus on specific customer segments, and the other two on specific products. Administrative functions and the management of global and regional service centers are aligned with these Business Units.⁵⁰ The new organizational structure is highly market and performance orientated, designed to react quickly to internal and external changes in the business environment, and to offer customized solutions. This new structure replaces the old federalistic structure where the group was made up of many independent domestic firms with different product ranges and own EDP-systems⁵¹.

Today, Danzas displays excellence in a wide range of fields from fast freight forwarding to a strong management style. Besides, there are key areas where the company has been able to form strong organizational capabilities in. With this in mind, it can be argued that a strong corporate direction has been a major factor of the strategic re-direction and the development of these capabilities. Strong top-level management in conjunction with financial backing from the parent company Deutsche Post allows the company to grow towards new goals.

Due to the corporate re-direction, orchestrated by top-level management, Danzas was shaped into an information handling company. Many non-core related functions were outsourced to partners or even competitors. The key capability was to manage worldwide information flows through logistics services. Management Information Systems have been heralded for a long time as a means of improving decision-making abilities within a company. Danzas had to go much further than developing a decision tool for its management. The company had to develop both an internal and external system that was used continuously at all levels of both its own company and that of its clients. The interconnection between Danzas and its clients is necessary to make this work

⁴⁹ Wild, K., "*Badly Underestimated*", Bilanz, edition 01, 2000

⁵⁰ www.danzas.com

⁵¹ Wild, K., "*Badly Underestimated*", Bilanz, edition 01, 2000

effectively. The key organizational capability therefore becomes information management.⁵²

Tightly knitted operations centres where client information is gathered at local levels and then spread throughout the company using sophisticated computer software, has become a daily routine at Danzas. Today the company employs over 800 people in the IT department. This commitment to information technological knowledge is necessary if the company wants to sustain its strongest organizational capability: information management.⁵³ Continuous training programs tailored towards advanced computer usage, are common within the organization and show the importance to the company.

The renewed structure has facilitated the development and strengthening of Danzas' organizational capability of information management. In its new form, Danzas has developed dynamic routines and functions for transferring information, skills, and knowledge throughout the whole organization to offer customized logistic solutions and building relationships.

4.2.5 International Experience

Danzas has a long history of international trade, which has helped the company to gain a foothold in overseas freight. As early as in 1846 the company was awarded the responsibility of handling the transatlantic mail service between Le Havre and New York. Expansion through acquisition has become a hallmark of the company and has indicated a key competitive edge. During the 20th century, the company continued to grow rapidly, with momentous success and years of strong international expansion.⁵⁴

The year 1993 was a milestone for the company, as new structures were needed to adjust to a changing business environment. The company had an over reliance on the domestic European markets, which became a burden for the company. Therefore, continuous worldwide expansion was necessary and restructuring processes were started all over the organization. By concentrating on a global operational basis, Danzas has been able to restructure their

⁵² www.danzas.com

⁵³ Schmeling, U., "*Danzas accelerating in the data fast lane*", International Transport Journal, Issue 35, 2000

⁵⁴ www.danzas.com

operations and focus on global logistics. The closely linked computer networks provide timely and up-to-date information together with a global freight-forwarding network that is unparalleled in the industry⁵⁵

In conclusion, Danzas has been an early pioneer in international expansion and has been able to establish a foothold multi-domestically. Today, Danzas takes advantage of global rationalization and clearly views its market space as the world. Therefore, they can compete successfully against American, European or Asian logistics companies that have not embraced a global strategy to the same extent. This among other factors has directly led to the creation of the world's largest logistics provider: Danzas.

4.2.6 Human Resources

The recent merger and acquisition activities of the company have more than doubled the workforce. Today, the company employs over 43,000 employees, which represents a 32% increase compared with 1999 (29,000).⁵⁶ To cope with this, a strong and clear Human Resource Strategy is a necessity. The Human Resources of Danzas has therefore refocused its efforts towards the renewed corporate strategy.⁵⁷ The company has stressed the importance of good Human Resource Management in contributing to successful implementation of the corporate strategy and to successfully manage the employees worldwide.

The Human Resource strategy emphasizes the importance of personnel managers in the recruiting, coaching, compensating, development, and retaining of the employees. The realization by Danzas of the importance of employees in meeting strategic goals has resulted in clear efforts to create challenging jobs, which are compensated according to the market and performance. Besides, employees are stimulated to take advantage of the development opportunities within the company.⁵⁸

The transformation process of Danzas organization has resulted in increased qualifications to be met by employees. In line with this development, the

⁵⁵ www.danzas.com

⁵⁶ www.danzas.com

⁵⁷ www.danzas.com

⁵⁸ www.danzas.com

company has developed several programs to stimulate personal development both within the organization as outside the organization. Besides, the search for qualified personnel is an on-going process. The developments, both internally and externally, have made Danzas to change its traditional skills and expertise profile. Danzas is now actively recruiting new employees with college/university degrees, in areas varying from transport and logistics to specialist functions like IT, Marketing, the Environment and Product Development.⁵⁹

The policies towards Human Resources are clear and in line with the strategic direction of the company. The employees are seen as valuable assets who need to be constantly trained and developed to increase expertise, as this is seen as the way to implement strategy and to react to new market conditions. In this way, employees are becoming more adaptable, loyal, and committed. This could increase Danzas' strategic flexibility and a way to maintain its current competitive advantage. Finally, the recruitment of new employees is done from a realization of a changed business concept and knowledge gaps in certain areas.

4.3 Danzas' External Environment

The logistic and transport industry covers a wide range of activities from simple air, sea, road and rail transportation, to warehousing and distribution, Supply Chain Management, specialty services, and IT services.⁶⁰ Danzas is an active player within its industry, which is faced with an ever-changing business environment. In the coming sections the main external factors behind this changing environment are analyzed.

4.3.1 Industry Environment

The global transport and logistics industry has been characterized by concentration, intensive consolidation, and the focus on economies of scale for years now. The recent developments in the world economy have shaped and

⁵⁹ www.danzas.com

⁶⁰ www.logistics.com

determined many of the transformations that are taking place in the global transport and logistics industry. The industry is truly global now, protected markets are being liberalized, and trade barriers are being lifted.⁶¹

Today, the market is very fragmented, and there is a wide recognition that the service range needs to be enhanced and technology processes optimized. The focus in other industries is on the outsourcing of logistic activities. In line with this trend are the growing customer demands on the logistic service providers. Therefore, an international presence is needed, shorter transit times required, and one-stop shopping a must.

In Europe, the industry is currently in a consolidation phase, which, compared with North America, is relatively late. The reason behind this was the doubts expressed by the larger enterprises about mergers and their risks. Partly state-owned companies, like Deutsche post, have initiated the consolidation process, adding new service providers to the market. The liberalization of their markets made them realize the need to reposition themselves in order to defend their markets. It is expected that the European market will have to restructure even further, and that eventually four or five large companies will exist besides several medium-sized and small companies. For now, the European logistics industry is characterized by fragmentation where the eight largest companies together have a market share of around 20%.⁶² The two largest companies, Danzas and Schenker have each around 6%.⁶³

Like many traditionally product-oriented companies, freight-forwarding businesses were faced with the brand new world of information technologies. In some cases, an overnight change occurred where competitors tied themselves closely to the internal logistics operations of their customers. Competitors offered complete logistics services where companies easily could outsource their shipping needs and directly pinpoint cost savings that would affect their bottom line. To understand the full impact of these IT related services into the freight forwarding business, a step back in time is needed to understand the origins of the industry. Most companies were used to the thought of efficient bulk shipping, where as many products as possible were put

⁶¹ www.deutschepost.de

⁶² Gürtler, M., "Danzas: A ruinous price battle is going on", Basler Zeitung, number 198, August 27, 2001

⁶³ Gürtler, M., "Danzas: A ruinous price battle is going on", Basler Zeitung, number 198, August 27, 2001

together in large quantities and then shipped to warehousing facilities. It was believed that large infrequent shipments were the optimal use of logistics shipments. One key aspect that this strategy lacked was flexibility and custom ordered shipments of various sizes and at much higher frequency rates. Customers did not want to maintain large warehousing facilities and the costs associated with them and they wanted fast orders that were issued according to market, not production demands.⁶⁴

New companies have seen a need in the industry where companies have been forced to review their shipping expenditures and found out that they have been paying too much in the past. Handling logistic services, using information technologies, have made it feasible to automate processes and control huge shipping volumes with minimum amount of administrative involvement. It is estimated that the absolute market size of the online logistics market is over \$42 billion and that it will expand to well over \$274 billion by 2004. The abilities of established companies to change with the time, will determine if they can survive in this new and highly competitive marketplace. Old freight forwarding companies that cannot offer the advanced computer tracking needs that their clients have will quickly lose out to other competitors or new entrants.⁶⁵

The future of the logistics business can be viewed as a continuous integration and provision of outsourcing services for companies by the use of advanced information services which functions as the enabler or catalyst of this new industry. The borderlines between what are internal functions within a company will become more diffuse and knowledge management, where core competency is key, will become the true asset of many companies. Cooperation with various other service related organizations within the fields of marketing and finance could allow logistics companies to maintain even higher degrees of efficiency.⁶⁶ Those companies who cannot adopt to this new marketplace will quickly fall by the wayside and leave room for organizations who are much more flexible and responsive to market needs.

⁶⁴ www.logistics.com

⁶⁵ Stuart, A., "*The Traditionalist*", Inc. Magazine, March 15, 2001

⁶⁶ Siekman, P., "*New Victories in the Supply-Chain Revolution*", Fortune, October 30, 2000

4.3.2 Macro Environment

The technological developments in the last decades have impacted the logistics and transport industry considerably, as mentioned previously. Especially the emergence of Information Technology has changed the way companies are competing in the market. This new type of logistics handling demanded a totally new approach to handling goods as well as communicating with a wide range of actors that all had to act in unison to ensure that they functioned effectively. Automation and the introduction of tight computer controlled systems made this possible. Back in 1981 American companies spent well over 7,5% of their gross national product on transporting products, compared to a drop to just over 6% in 1995. At first, it might not seem to be a large difference, but when viewed through a monetary scale the change represent over \$98 billion in savings.⁶⁷ The introduction and increased use of information technologies, to enhance and increase performance, have been largely responsible for this.

Technology has enabled cost savings to become a common word in the industry, and often the small companies will have to take the first added cost of rationalization. Sub-contractors have to deliver products very frequently based on a Just-in-Time (JIT) system employed by their main clients. At first the cost of shipping seemed to be staggering for these companies, but handled correctly they were able to turn that disadvantage to their favor. The key to this problem is shipping automation. When handled correctly, this will allow the company to forge closer relationships with its clients and reduce the cost of inventory. This trend of closer integration of customers is expected to continue and become even more complex with an ever-increasing amount of actors that need to coordinate their efforts. The JIT system has become standardized, and coupled with advanced outsourcing allow companies to focus on their core capabilities. It also allows fringe activities to be handled by partners that are experts in their fields.⁶⁸

The political decisions and legislations by major governmental institutions have had their impact on this industry. The deregulation of the trucking and railway industries, especially in North America and Europe, has changed the

⁶⁷ Macht, J., D., "Delivering the goods", *Inc Magazine*, December 15, 1996

⁶⁸ Macht, J., D., "Delivering the goods", *Inc Magazine*, December 15, 1996

competitive situation. This has led to the entering of new competitors, like former state-owned companies, in various segments of the industry and the pressure of further efficiencies and cost-savings. The removal of the physical borders within the European Union, which took away the lucrative customs brokerage, has changed the industry considerably.⁶⁹ The introduction of the Euro will affect many industries and can result in increased competition, price transparency, and reduced profit margins, a fact that the logistics and transport industry will be faced with as well.⁷⁰

It is widely recognized that the global traffic flows form a significant burden on the environment. Therefore, this global industry is faced with many local and international regulations concerning the protection of the environment. This has resulted in increased efforts of the companies to apply to these regulations, which are largely directed towards environmental friendly means of transport, and safety at handling storage facilities.⁷¹ Companies recognize the importance in creating a competitive edge by applying these policies throughout their whole value chain.

Finally, the logistic market has profited from the improved economic situation of recent years.⁷² However, the increase in fuel prices have somewhat tempered this positive development. The global economy is showing a slowdown in almost all regions of the world and the implications of the terror attack on September 11 in the U.S. embarks a period of even more difficulties for the economies worldwide.⁷³ The economic outlook has its implications for the companies in the logistics and transportation industry. The industry could be faced with fluctuations in demand and pressure for more cost-efficient logistic solutions.

4.4 Danzas' Global Strategy

The internal and external environment of Danzas has some distinct characteristics and developments that have influenced and affected the strategic

⁶⁹ Wild, K., "*Badly Underestimated*", Bilanz, edition 01, 2000

⁷⁰ www.danzas.com

⁷¹ www.danzas.com

⁷² www.deutschepost.com

⁷³ www.imf.org

direction of the company. In this part the global strategy of Danzas is analyzed according to six dimensions and the internal and external factors behind them.

4.4.1 Global Market Participation

One of the corporate objectives of Danzas is to become a Global Logistics Solution provider. Therefore, Danzas perceives it as a necessity to expand its intercontinental and European activities. There have been several external influences behind this reasoning. Changing market conditions, like logistic outsourcing and innovative technologies, are requiring a transportation and logistics company, like Danzas, to have a global presence. Management determination to adapt to the changing market conditions and a global corporate structure that is market focused, are important internal factors that have contributed to the global market participation of the organization. In line with this approach are the merger and acquisition activities of Danzas. This is not only reflected by the acquisitions made by Danzas to fill the gaps ensuring global presence, but also by being part of Deutsche Post as the global logistic pillar of the group. A final internal aspect is the linking of all of Danzas' activities to a global information system. All these internal factors contribute to a global presence with the focus on reaching global efficiencies in serving the needs of the customers.

4.4.2 Product Standardization

Product standardization has been one of the first aspects that have been implemented in the reorientation of the company. Today, Danzas offers their customers a uniform worldwide product and service range. Strong management commitment in transforming the company into a global entity was an important internal consideration for product standardization. Being part of Deutsche Post has given Danzas the advantage of implementing its strategy more effectively and the backing for a wider standardized product range. The adaptation and the drive to innovate new information technologies to serve the customers worldwide, has been both an important enabler and a driver of product standardization. The new market orientation focus of Danzas implies that the organization senses developments in the business environment and takes advantage of them. Therefore, customer demands for total logistic solutions,

the technology boost in the industry, and the increased competition are relevant external influences for striving for product standardization.

4.4.3 Uniform Market Program

The ambition of being a global logistics company requires a uniform market program to communicate the company's intentions and offerings both internally and externally. Besides, there have been a number of internal and external factors contributing to the formation of a uniform market program within the company. As mentioned before, management is very much committed to becoming a truly global player. Its decisions and actions, as mentioned in the previous parts, are therefore made accordingly. Being part of Deutsche Post, representing their logistic pillar, requires the close integration of all of Danzas activities and a uniform market program to fulfill this task. In this way, true value can be created from being part of the Deutsche Post World Net. The external pressures of globalization of the industry, customer demands, and competition, require a uniform market program to be implemented on a global scale.

4.4.4 Integrated Competitive Moves

The competitive strategy of Danzas is directed towards creating competitive advantage through close customer partnerships. There are internal factors that lead to this conclusion, including the development of global logistics solutions, which are integrated into the clients' operational structure. Another factor is the increased use of Information Technologies (IT) in order to enhance communication and enable closer partnership linkages. As with many companies, having well-educated personnel is a highly contributive factor against competitors which is clearly visible within Danzas where educational spending is an important factor. Last, management continuously needs to survey the competitive landscape and attempt to predict behavior in order to take precautionary measures. External factors deal with the very competitive nature of the freight forwarding business, which have seen many companies go bankrupt. Danzas has shown the ability to offer new solutions to the market before its competition, and has therefore been able to gain an advantage. There

is a continuous trend towards consolidation within the industry and as margins are tightened, only the most active operators will survive.

4.4.5 Coordination of Value added activities

Danzas has shown the ability to become a coordination and information management specialist. In fact, these traits form many of the future core abilities of the company. Such internal influences as uniform project templates for how operations and procedures should be handled allow the company to streamline its functions. Danzas has intentionally developed a global structure whose main task is to offer excellent logistics services worldwide. In order to achieve this logistics network, the company had to take advantage of IT usage at an early stage and had to create a strong global network where information management is developed into a form of art. External influences on this strategy include the need for a global presence in the logistics industry as well as taking advantage of global learning. One task mastered in one location can then be copied in other markets. This is also true for lessons learned in one area, which allow others to refrain from making the same mistake twice.

4.4.6 Concentration of Value added activities

When it comes to the concentration of value added activities within Danzas, they can best be described as being market focused while globally concentrated. Danzas has today a very strong software developing staff consisting of over 800 employees that develop advanced logistics software that is used on a worldwide basis in all the Danzas facilities. Through the Deutsche Post World Net, advanced financial services can be offered with extensive lines of credit backed by a very large financial organization. First, Danzas made the focused effort to concentrate on its main market activities, logistics, and made sure that those were complementary and mutually supportive. The development of a domestic network linked on a global basis enables the transfer of information and knowledge to be handled quickly and ensures that information exchange is up-to-date. On the external side, it is mainly related to the nature of the industry with local adaptation of global activities to local needs.

4.5 Strategic and Financial performance of Danzas

The strategy chosen by Danzas in the early nineties to become a global logistics solutions provider has proven a sound one. Internal factors such as management's commitment to development of new IT based solutions and procedures were crucial in meeting the new demands placed upon the company by its clients. A closely knitted communications network between each domestic division allows rapid flow of information and the added benefit of achieving global learning capabilities. Instead of dealing with a client by simply offering freight forwarding services, Danzas is now providing complete logistics outsourcing packages. The client now fully relies on the expertise of Danzas to manage the complete distribution chain from factory to end-consumer, including collections and financial services. The Deutsche Post World Net has given Danzas the chance to become the global player it has to become in order to fulfill the very demanding needs of its global customers.

On the financial side Danzas has undergone immense changes during the last ten years. The acquisition by Deutsche Post meant that the company had the financial backing of one of the leading mail and express companies in the World. The newly focused Logistics division clearly illustrates extensive growth, as it now is only surpassed in revenue size by the Mail division. The Logistics sector of Deutsche Post doubled from 1999 to 2000, showing the extreme growth with which Danzas' new strategy paid returns on Deutsche Post's investment. The Eurocargo division, now the number one land transport provider in Europe, used a successful merger and acquisition strategy to provide a complete coverage across the European continent. Clients can now turn to one company for a complete one-stop shop for logistics services, where Danzas has complete control over every part of the logistics distribution chain. The continuous effort to link information management with close client partnerships has proven a successful strategy that is reflected in the excellent performance in its balance sheets.

4.6 Key Area of Excellence – Information Relationship Management

In the case of Danzas, one definition can be used to explain their main area of excellence, Information Relationship Management (IRM). This concept deals with the combination of efficiently managing various kinds of information in

conjunction with excellent client partnerships. There are many factors that have led to this area of excellence, but in summation, there are certain some that contributed more than others. First, it is very clear that Danzas has developed a clear focus on its clients. The company has gone beyond the normal supplier-client relationship and is creating closely tied partnerships that involve physical integration of business activities within its customers' organizations. During the last ten years, the focus on one specific market, logistics solutions on a worldwide basis, has streamlined and concentrated its efforts into becoming a market leader in its segment.

The international network in conjunction with Deutsche Post World Net is admirable, and allows them to cooperate with very large global clients. Where demands are measured not in country-by-country terms, but in continent-by-continent. The corporate structure reflects a responsive and flexible organization where clear directives are handed down to the functional levels, which are executed in a timely manner. The company has undergone major changes during the last few years in order to follow the new demands of its industry. The introduction and continuous use of advanced computer technology has been one of the areas where Danzas has shown a great deal of commitment and willingness to embrace change. The long corporate history that dates back to the 19th century has given the company a strong foundation to stand on where a clear identity allowed the company to change through time.

It is in the face of change, the true strength of a company is shown, and few industries have undergone such drastic changes as the creation of the single European market or the U.S. deregulation of land transport. Danzas faced the introduction of computerized logistics systems, the trend of companies outsourcing their whole logistics chain, and the adaptation of a new type of electronic commerce, which left the company to choose to either change or fall by the wayside. Danzas is today a very different company compared to only a few years ago. What they are and what they do is clearly stated in their corporate slogan: Logistics Worldwide. Figure 4.1 shows a summary of the establishment of Danzas' Key Area of Excellence and the Internal and External factors behind it.

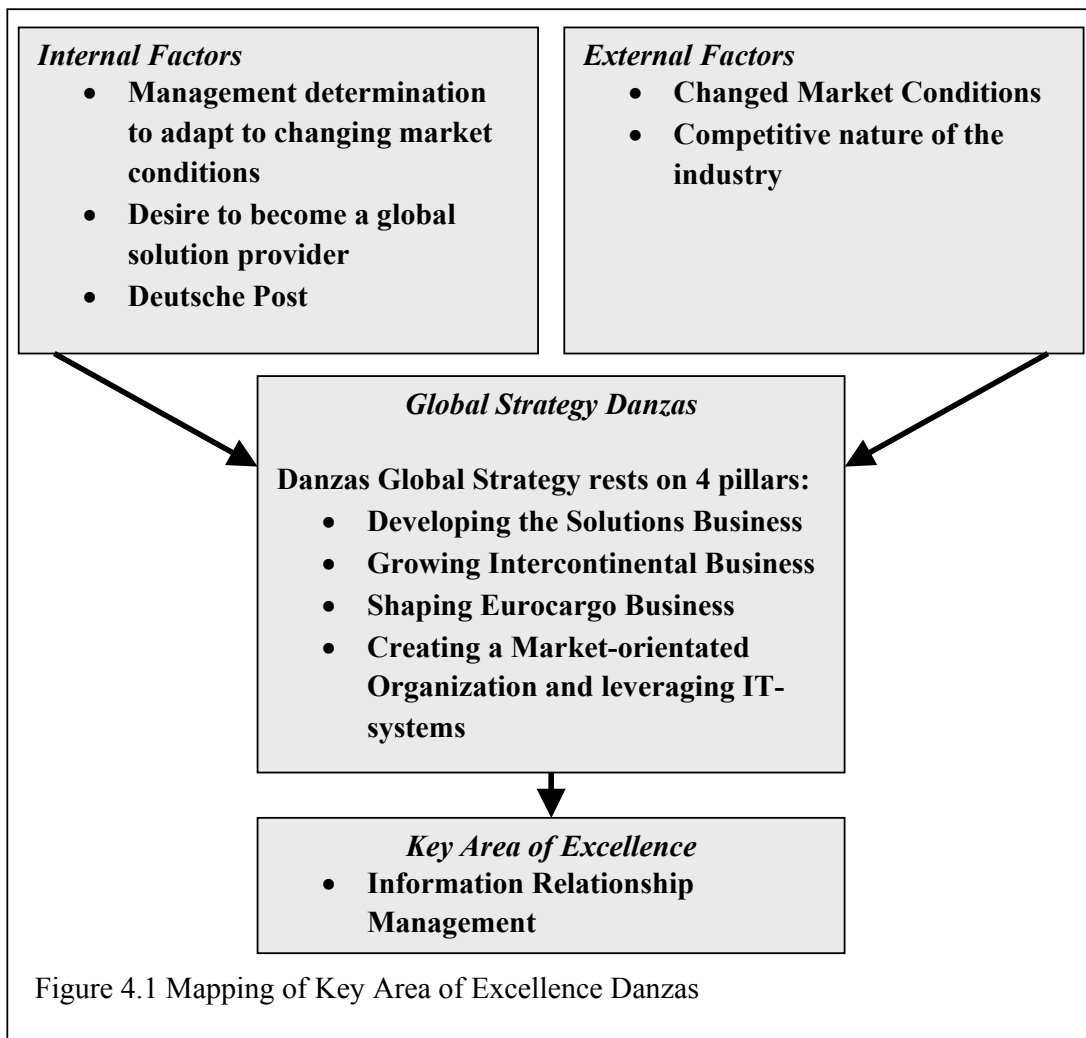


Figure 4.1 Mapping of Key Area of Excellence Danzas

5. EMPIRICAL DATA ANALYSIS - WHIRLPOOL

This chapter gives a thorough strategic analysis of Whirlpool, the major appliance manufacturer. In the first paragraph a corporate overview of the organization is presented, followed by an analysis of the internal and external environment of Whirlpool. Both environments have their influence on the way the organization is positioned in the global market, and therefore what kind of strategy it is using, which is explained accordingly. The fifth paragraph deals with the current performance of the company, followed by the identification of the Key Areas of Excellence of Whirlpool.

5.1 Corporate Overview Whirlpool

The manufacturing and marketing of major home appliances and related products is the core activity of Whirlpool Corporation. This American company has a global presence with its activities and can be regarded as the world leader in its industry. The company has several global and local brands, like for instance KitchenAid, Roper, Bauknecht, Ignis, Brastemp, Consul, and Whirlpool, and these form an integrated part of the corporate strategy and are marketed in over 170 countries. Besides that, Whirlpool is an important supplier of major appliances to the chain Sears & Roebuck with the brand name Kenmore. The product range that Whirlpool markets worldwide varies from clothes washers and dryers, refrigerators, freezers, dishwashers, ranges, compactors, room air conditioners, and microwaves, to portable appliances such as stand mixers, hand mixers and blenders. In 2000, the company's turnover amounted over \$10,3 billion.⁷⁴

The company focuses, now more than ever, its activities outside the U.S. market. It is expected that by 2009 the demand for home-appliances in the U.S. will even out. The demand in the rest of the world will increase by 17%. Its global focus is therefore directed towards this trend. About 70% of the parts in its basic models are the same, which leaves a large margin for tailoring to local

⁷⁴ www.whirlpool.com

needs.⁷⁵ Together with Whirlpool's global factory network, marketing, and local distributors, this has proven very successful.

In its long corporate history, Whirlpool has undergone major changes in the strategic approach of the market. Until 1950, the company aimed at developing strong capabilities in designing and manufacturing quality products at an affordable price. After this period, Whirlpool was characterized by the focus on expanding the product line to become a worldwide supplier of home appliances. The year of 1989 introduced the reorientation of the company to become the leader in the emerging global major home-appliances industry. To strengthen its worldwide network, in 1997, the organization started with fully integrating its global operations at all levels. This program was implemented to better position the company and to profit from leveraging on a global scale. Today, the company wants to take this view a step further by implementing a global strategy offering brands, products, and expanded services closer to the individual needs of each market. This requires Whirlpool to leverage its global resources even further, in order for the company to create innovative solutions and enhanced brand loyalty.⁷⁶

Whirlpool has developed from an American product-orientated company to a truly global one, which aims to use its capabilities to meet consumer needs with unique product and service solutions under the leading brand names worldwide. Therefore, Whirlpool's strategy today is based on three strategic platforms creating a distinctive competitive advantage in a global industry: global scope, reach and structure, global execution and operating capabilities, and global brands. To ensure that this strategy is successfully implemented and sustained, Whirlpool is constantly assessing its cost structure. An example of this is the restructuring plan implemented in 2001 to consolidate and close several facilities around the world and the elimination of about 10 percent of the workforce. Besides, Whirlpool is constantly developing its resources to invest in the brand building strategies and innovation activities.⁷⁷

⁷⁵ Engardio, P., Kripalani, M., Webb, A., "*Smart Globalization*", Business Week, August 27, 2001

⁷⁶ www.whirlpool.com

⁷⁷ www.whirlpool.com

5.2 Whirlpool's Internal Environment

When analyzing Whirlpool's Internal Environment some distinct features have emerged that have influenced how the company is implementing its global strategy. These characteristics also attribute directly to Whirlpool's key area of expertise. In the following sections these underlying internal factors are discussed.

5.2.1 Market orientation

Whirlpool's entry into the global market was not one of conquest where markets were quickly overrun by media blitzes and price wars against local competition. Where many other expansion strategies had failed, Whirlpool concentrated on one issue that many competitors really had not taken the time to understand, namely local adaptation.⁷⁸ Whirlpool has today production facilities in key areas around the world, which facilitate logistics handling. Complete white ware products are however not assembled at these locations, as only 70-80% of the machine is put together and then shipped to a local market for completion⁷⁹. This combination of global production and local adaptation was not something that was thought up in a marketing staff meeting overnight, but was developed slowly over time through global learning experiences.

The road to global marketing was not an easy one for Whirlpool. It is clear that early on, mistakes were made and large investments were needed to be re-adjusted as market estimates did not live up to expectations. Whirlpool started one part of their global expansion strategy by full-scale entry into the Chinese market establishing four large manufacturing facilities locally. The company had to close two of the plants and lost over U.S. \$294 million in the deal as the Chinese market for appliances became saturated much quicker than expected.⁸⁰

With such a close eye on the international market, Whirlpool has been faced with increasing domestic problems. One of the key strategies has been to concentrate on brand development and reliance on existing retail chains to

⁷⁸ Engardio, P., Kripalani, M., Webb, A., "*Smart Globalization*", Business Week, August 27, 2001

⁷⁹ Engardio, P., Kripalani, M., Webb, A., "*Smart Globalization*", Business Week, August 27, 2001

⁸⁰ Engardio, P., Kripalani, M., Webb, A., "*Smart Globalization*", Business Week, August 27, 2001

favor their brands over others. This scenario is changing in the American retail landscape where chains such as Wal-Mart and Home Depot are signing exclusive deals with competitors like General Electric. The workings behind this are the new concentration of the retail channels to a few, very large actors that offer a broad range of products to the consumer. Traditional retailers are feeling the sting, where Sears & Roebucks is under heavy pressure from the competition. Other retail chains are forced out of the appliance business, as they cannot offer the low prices that Wal-Mart can maintain due to their enormous purchasing power. Retail chain Circuit City has had to close their appliance business and Whirlpool is now slowly losing their means of reaching their clients.⁸¹

It is unclear how Whirlpool will face the changing challenges of the retail landscape, especially as the trend of large retail giants are spreading throughout Europe and is estimated to follow the same pattern in Asia. Whirlpool does have the global advantage over their main competitors and this is foreseeably the way that the company can both counter the current domestic threat as well as future European competition. As Wal-Mart enters Europe, Whirlpool is the best long term partner to provide worldwide product offerings for the retail chain, be it in Europe, Asia or the U.S. Therefore, careful management of key account management and partnerships with global retail chains will play an increasingly more important role for the company.

5.2.2 Management Orientation and Commitment

The strategy of Whirlpool is directed towards regarding the world as one market where the products are tailored to local needs. Global efficiencies are reached by linking the global manufacturing network to produce in an efficient and effective way. This requires substantial management effort and commitment in managing the global activities of the organization. In this lies an important task for the management group of Whirlpool to execute the company's vision and strategy in clear plans to achieve the global approach. As mentioned before, the company is constantly assessing its cost structure and the optimal configuration of the activities worldwide and the local responsiveness.

⁸¹ Peterson, T., "A chat with Whirlpool CEO David Whitman", Business Week, September 21, 2000

5.2.3 Organization Culture

As a globally operating company, Whirlpool has recognized the importance of a common corporate culture throughout the whole organization. Therefore, the company implemented a High-Performance Culture (HPC) program in 1997 for all the employees worldwide to strengthen this view. This program is centered on five shared values, respect, integrity, teamwork, learning to lead, and the spirit of winning. These five values represent the essence of what the company wants to stand for and aims to align the organization around a common culture that enables it to view the activities globally.⁸²

One important aspect of these values, representing Whirlpool's global organization, is its diversity view. Whirlpool has, as the largest producer of home appliances, employees all over the world representing a strong multicultural mix with a broad diversity of ideas. The company views this as an opportunity to make use of a wide variety of capabilities that can create value and contribute to the success of the company. Therefore, diversity forms an integrated part of the corporate strategy and vision.⁸³

As a result, the organization culture of Whirlpool can be regarded as very personal where people's contributions are valued and the work environment is collaborative. The company portrays a culture with a strong emphasis on integrity and ethics that is valued by the individual employees and the public.⁸⁴ In conclusion, Whirlpool understands the effect of a strong collective organizational culture as a major facilitator of corporate strategy worldwide. The corporate beliefs and values are clearly communicated and implemented to act as an invisible guiding hand for employees worldwide to perform their jobs in the best possible way. The belief in using diversity as an advantage to create customer value worldwide is an important aspect in this regard.

⁸² www.whirlpool.com

⁸³ www.whirlpool.com

⁸⁴ www.whirlpool.com

5.2.4 Organizational capabilities

Whirlpool has developed an enviable ability to detect local needs and wants of the products that they produce. Gathering this information has been for a long time an essential part of how the company learns about their different market segments. Large databases exist internally that are continuously updated to reflect changing consumer needs. This information is also gathered in the fabric of the employees that have the expertise of how business should be conducted in different markets. The collection and distribution of this information brings great amounts of administrative resources to bear on the company and Whirlpool have pursued a new strategy to improve not only their own organizational capabilities but to link them closer with the environment with which they interact on a daily basis.

The advent of IT has allowed the company to take a hard look at what their future industry will look like. In recent years, it was all about selling white boxes in various sizes, but today and tomorrow it will be a much more complex range of products the company will offer. The control and interaction between appliances, other electrical devices and the Internet is merging into one. However, even more important is the emergence of closer levels of interaction between consumers, suppliers, partners and even competitors. Whirlpool has not only taken the step to change their own organization but also to try to predict and shape the way they will interact with their market environment at large. A three level strategy has been developed to cope with this issue: how to E-enable Whirlpool, how to connect Whirlpool with their consumers, and how to create an integrated home.

Implementing this change is done through a structure of top-down focus of altering the company from being a manufacturer producing white boxes that are pushed onto the consumer, into a “pull-manufacturer” which is based on consumer demand. This is changing how the company conducts business, how it handles its supply chain, shifting inventory management into information management, and e-enable its operations. Whirlpool is pursuing a 365-day, 24 hour, and 7-day-a-week relationship with their clients. This relation is then fed into the organization, reaching all the way to the manufacturing floor where the information reflects the demands of the client. This new way of thinking is opening up new markets for the company. Whirlpool sees itself as having the

understanding of consumer needs much closer at hand than their competitors and intend to use that knowledge to its full extent.⁸⁵

5.2.5 International experience

Looking back at the historical origins of Whirlpool, it all started back in 1911 with the creation of the Upton Machine Company. Initially the main market was the U.S. domestic area, but after a few years, the company decided to investigate and invest in foreign markets. 1936 marked the first venture abroad, in cooperation with Sears International. Facilities were opened in England, Sweden and the Canal Zone. The cooperation with Sears & Roebuck, via the Kenmore brand, had started very early in the history of the two companies. The Kenmore washing machine brand was used throughout the European operations of Sears as their main product line.⁸⁶

However, relying on one single distribution channel was perceived as a risk, and a search for other means of entering the international market were attempted. Therefore, cooperation with the American Steel Export Company allowed Whirlpool to locate foreign distributors that were willing to sell its brands. This first wave of international expansion proved short lived due to the start of the Second World War.⁸⁷ After the war, a new internationalization strategy was pursued through an acquisition strategy that involved buying domestic white ware firms in key markets. South America became one of the first markets with the purchase in 1957 of Brasmotor AS and in doing so gained access to the domestic Brazilian market.⁸⁸

Nevertheless, it was not until the early nineties that the acquisition process really took off. Expansion in South America in regions such as Argentina paved the way for European expansions in Hungary to sell service appliances. Joint ventures were also used as a means for market entry. The largest occurred when Whirlpool and Philips created the third biggest white ware producer in the European market back in 1989. One year later, Whirlpool took control of the complete operation, which at the time exceeded U.S. \$6 billion. Further

⁸⁵ Stepanek, M., "Q&A with Whirlpool's Reuben Slone", Business Week, September 12, 2000

⁸⁶ www.whirlpool.com

⁸⁷ www.whirlpool.com

⁸⁸ www.whirlpool.com

joint ventures followed with Matsushita Electric of Japan and with various firms in the former eastern European Block. 1993 and 1994 marked the first strong entry into the Asian markets with the opening of offices in Tokyo, Singapore and Hong Kong.⁸⁹ The combination of acquisitions, partnerships and careful international expansion has allowed the company to learn how different markets function and understand the varying needs of their clients.

Whirlpool has been extremely successful in adapting to local needs, many times due to their initial entry strategy, which involved acquisitions of local producers. The company was aware of different customer preferences at an early stage and benefited from the input received from local subsidiaries. By partnering with several large Asian companies before entering the market, Whirlpool was able to detect the subtleties of these new business environments and created suitable structures and frameworks. The international partnership strategy has been very clear when embracing new technologies. Instead of investing heavily in new technology the company decided to partner with global experts like Sun Microsystems and Cisco Systems, where mutual benefits could be derived.

Simultaneously, the global brand-value creation strategy came into full use. The importance of instilling the strongest possible brand loyalty into the minds of the consumer allows the company to link itself with other companies that stand for high quality and excellence in their fields. This is illustrated through the partnership with Tupperware and IKEA who have chosen Whirlpool as their main supplier of appliances for their products. The linking of companies and compatible brands is now the new global expansion strategy for the company where mutual synergies are created.⁹⁰ In summation, it is clear that Whirlpool was a late entrant into the international field. Nevertheless, by taking careful and thoughtful steps it has been able to create a global network of brands that are identified by their quality and adaptation to local standards.

⁸⁹ www.whirlpool.com

⁹⁰ www.whirlpool.com

5.2.6 Human Resources

Today, Whirlpool employs over 60,000 people in various locations worldwide. This number will shrink in the coming years as a result of optimizing the global operations network of the organization. The company views part of its success as being attributed to its diversified and skillful personnel. The nature of its operations requires employees, who have specific skills, perspectives, and ideas that can contribute to creating customer value worldwide.⁹¹ The strategy towards Human Resources is therefore directed towards the development and application of new skills throughout the organization. In this way, the corporate strategy of Whirlpool can be effectively executed.

By offering the employees the opportunities to develop within the organization, Whirlpool aims to create a strong and rewarding working environment. Retaining key employees is therefore regarded as essential. The systems concerning rewarding, benefit, and development are aiming to continuously stimulate the employees. Providing the Human Resources with these conditions has several advantages for the company. The employees are working under challenging circumstances in a team-orientated atmosphere. In this way, employees can be retained and strategic performance enhanced. Finally, the customers and their needs, worldwide, can be understood and served better.⁹² This leads to improved financial performance, a fact that has been acknowledged by the company.

5.3 Whirlpool's External Environment

As mentioned before, Whirlpool is active in the major home appliances industry. This industry covers a large range of products and related services from clothes washers and dryers, refrigerators, freezers, dishwashers, to lawn and garden equipment, house wares, medical devices, consumer electronics, business and security equipment⁹³. The external environment of Whirlpool has some distinct characteristics and developments, to which the company has to

⁹¹ www.whirlpool.com

⁹² www.whirlpool.com

⁹³ Chase, D., "*Appliance Line-Think differently*", *Appliance Magazine*, July 3, 2001

adhere to implement its global strategy effectively and maintain its current competitive advantage.

5.3.1 Industry Environment

The different markets in this industry are faced with a wide variety of trends that can affect a company's position in that market. To be successful, a global manufacturing view combined with local awareness is essential to an appliance producer. A trend that in the future can be an important source of competitive advantage is supply chain management. This trend is already in progress in different forms in the markets, but will be emerging in a more global form in the future, like in the automobile industry. It is expected that in the coming 5-7 years about 40% of the appliances sales will be built-to-order. This will lead to increased partnerships with the retailers to reap the advantages of flexible supply chain processes. The advantage for the manufacturers of this approach will be the connection with the customer, as they get a customized appliance when they need it. The producers will move closer to the customers. The actual transformation process of the supply chain from a build-to-inventory to a build-to-order supply chain will take time. The first movers will have the advantage.⁹⁴

The North American appliance industry has been faced with changes in the retail market and developments on the Internet. The growth in the market in recent years can be largely attributed to the retail network. The domination of the retail market by large national chains has increased. Sears is the dominant force in the retail market and together with companies like Lowe's and Best Buy, they make it more difficult for smaller dealers to compete.⁹⁵

The expectation for the appliance industry is that the growth cycle of recent years will not be continued in the near future. Main factors behind this reasoning can be found in variables related to housing such as new construction, which are affected by interest rates and employment. The developments in the retail appliance business will further affect the manufacturers. Circuit City, a retailer responsible for 5% of the North

⁹⁴ Kuglin, F., "Next generation of Supply Chain Management", Appliance Magazine, June 13, 2001

⁹⁵ Ritchey, D., "2001 Appliance Industry Forecasts", Appliance Magazine, July 27, 2001

American market of the appliance business, has decided to stop selling appliance products. Besides, the entrance of Wal-Mart into the major appliance market with low-cost products has affected the performance of the major producers like Whirlpool and Maytag.⁹⁶

The major appliance manufacturers in the North American market are Whirlpool, GE Appliances, and Maytag. The way these companies are dealing with the retail phenomena differs. As mentioned in the previous part, Whirlpool relies heavily on its brand strategies and new product introductions. The company expects that customers in the future will buy even more at the retail outlets where Whirlpool is a dominant force with its brands. Competition will be in Whirlpool's view less on price, as this is not the first purchase-criteria for most of its customers. GE Appliances, on the other hand, has a slightly different stance. This company is currently investing in developing a system that allows the products to be sold through big retailers, but the entire inventory and shipping to the customer is handled by GE Appliances. Currently this formula is very successful in collaboration with Wal-Mart. GE Appliances expects that the traditional retail model will change, as a retailer does not need trucks, systems, and warehouses to be in the appliance business.⁹⁷

The last five years the European market for appliances showed strong growth in volumes, but the value growth was less. Today, the market growth is decreasing. The market is characterized by increased competition. As a result, there have been price pressures, which has made it more difficult for companies to harvest returns on their product innovations. Therefore, the challenge for manufacturers lies in organizing and preparing to become more competitive within the next five years. This situation can be attributed to several factors. The industry is less consolidated than for instance the North American market, where three manufacturers are selling 82% of the appliances. In Europe, this is only 48%, and causes product prices to decrease because of competitive forces. Secondly, the increased concentration of the distributors has made them an important force within the appliance industry. Finally, the consumer is becoming more aware of the possibility of lower prices.⁹⁸

⁹⁶ Ritchey, D., "2001 Appliance Industry Forecasts", Appliance Magazine, July 27, 2001

⁹⁷ Ritchey, D., "2001 Appliance Industry Forecasts", Appliance Magazine, July 27, 2001

⁹⁸ Ritchey, D., "The state of the European Appliance Industry", Appliance Magazine, June 20, 2001

The future of the European market will show fewer players on the distribution side, especially with the establishment of the Euro. European markets are becoming more transparent and many distributors will see this as an opportunity for increased cross-border activity. This will also result in the harmonizing of prices across Europe. A second trend will be the increased personal communication with the customer to create brand loyalty.⁹⁹ The smart home system will be another major development in the European appliance industry. This concept has developed more rapidly in Europe than North America. It offers the industry and trades the opportunity to increase value by developing a system approach instead of a product approach. Key success factors in this concept are a full range of products, strong brands, and additional services. A final future development in the European market is the longer product warranty periods. This implies increased efforts of the manufacturers to offer products that are more reliable in order to avoid increased service costs.¹⁰⁰

There are some main differences between the two most important markets in this industry, North America and Europe. These differences can explain the slightly different developments in these markets. These differences affect the way manufacturers have to approach these markets. In North America, the manufactures are not producing sufficient products to sustain local demand, and imports play therefore an important role. Europe, on the other hand, is a net exporter for appliance products. The European market is very much involved in appliance production with many international and local manufacturers. Another main difference is homogeneity. Europe consists of many markets with dissimilar outlooks. European producers are therefore more or less forced to act differently in various markets. The American market is more concentrated and less dispersed in demand, which offers more opportunities for economies of scale. Finally, the power of the retailers in North America is substantial, a development which will be seen more in Europe in the near future.¹⁰¹

The outlook for the Asian market for the appliances industry is favorable. The situation of many Asian economies is improving, but the pace of progress varies. For the future, it is expected that sales in Asia will increase, especially in the emerging markets of India and China. In this market, the traditional

⁹⁹ Ritchey, D., "*The state of the European Appliance Industry*", Appliance Magazine, June 20, 2001

¹⁰⁰ Ritchey, D., "*2001 Appliance Industry Forecasts*", Appliance Magazine, July 27, 2001

¹⁰¹ Ritchey, D., "*The state of the European Appliance Industry*", Appliance Magazine, June 20, 2001

global producers are faced with cheap local brands. Countries like Japan and South Korea are still coping with strong economic and social change because of the financial crisis in 1997-1998, hampering a strong presence of global brands in these economies.¹⁰² In the last couple of years, Latin America has experienced economic difficulties that have affected the performance of the appliance manufacturers negatively. Nevertheless, the main players in the industry have not given up this region, as the region's nations have made progress towards economic recovery.¹⁰³ Many appliance manufacturers, like Whirlpool, are trying to conquer these markets with local brands.

5.3.2 Macro-economic Environment

The usage of Information Technology is slowly being introduced to the appliance industry. So far, the main usage of this technology is based on informing the clients of new products and features through their homepages. When it comes to online purchases, this is handled through the traditional retail channel with companies such as Sears & Roebuck offering their online catalogue services. Up until now, the Internet has mainly been used as a marketing tool. Nevertheless, for the future there is a whole range of applications where advanced IT can be used in the appliance industry.¹⁰⁴

Nevertheless, the advent of the web enabled home is already here. Companies such as e-hem offer advanced systems that link existing appliances together and allow control with a range of devices such as mobile phones or Internet browsers. Initial response to smart appliances has been limited, as the most common perception is that they are too complex to use and too costly. Consumers feel that browsing the web on the refrigerator door or being told what groceries are needed is not something they are willing to pay a premium price for. More mundane needs, such as access to power sockets, network connections and wireless audio connections throughout the house, rank as being more important.¹⁰⁵

¹⁰² Ritchey, D., "2001 Appliance Industry Forecasts", Appliance Magazine, July 27, 2001

¹⁰³ Ritchey, D., "2001 Appliance Industry Forecasts", Appliance Magazine, July 27, 2001

¹⁰⁴ Levy, E., "Old Economy Meets The Internet", Business Week, June 20, 2000

¹⁰⁵ Levy, E., "Old Economy Meets The Internet", Business Week, June 20, 2000

Keeping the learning curve very short is important when developing new appliances. It has to be clear to the user to know exactly how to work the appliance. The integration of various technologies and the sharing of standards among manufacturers will lead to greater benefits. Due to competitive issues and the lack of visible positive response from the consumer side, it is unclear how long it will take before the appliance industry truly reaches the point where IT is included as an integral part of any networked home.¹⁰⁶

The political and environmental aspects in the appliance industry are rather important factors to consider. Government regulators across the globe have pushed for new technologies, which decrease the amount of water, detergent, and energy used in major appliance products. The home appliance industry has come under scrutiny from environmental organizations as well, as they blame the companies for manufacturing products that pollute the planet. In America, for instance, the Saving Water and Energy Education Program (SWEET) are introducing consumers to products that save both energy and water¹⁰⁷. Therefore many manufacturers have implemented the Energy Star program, where products have to meet strict guidelines to receive this prestigious labeling. They have also developed internal environmental policies which are often more stringent than those envisioned by government agencies.¹⁰⁸ Therefore, the governments play a strong role in this industry as a motivator for change as well as a controlling unit, putting restrictions and guidelines on home appliances.¹⁰⁹

It is in the interest of the manufacturers to anticipate the political and environmental requirements, as it is a very strong marketing benefit, which quickly can create and erode competitive advantages. Companies have seen strong consumer support for “green” products and are promoting these features through successful marketing campaigns. Nevertheless, government and industry standards are increasingly limiting the appliance industry in an attempt to create products that reduce the impact on the natural environment.

¹⁰⁶ Murray, A., “*DashDSP Simplifies Washing Machine Control System*”, Appliance Magazine, March 19, 2001

¹⁰⁷ Ritchey, D., “*AB Electrolux – Success in Stockholm*”, Appliance Magazine, August 16, 2001

¹⁰⁸ Ritchey, D., “*AB Electrolux – Success in Stockholm*”, Appliance Magazine, August 16, 2001

¹⁰⁹ Murray, A., “*DashDSP Simplifies Washing Machine Control System*”, Appliance Magazine, March 19, 2001

Low tech is often a term used when describing the appliance industry, where a refrigerator is a refrigerator and nothing more. The difference between a high priced unit and an inexpensive one has often been related to design and brand name imaging. In fact, many manufacturers produce the same basic machine in a common factory and then brand them according to the targeted market segment. There are however new trends that look to change the social buying patterns of appliances, One is the ever more connected home, mentioned before. Tech savvy and well-off families will in general opt for appliances that have a range of new capabilities that set them apart from the commodity of white box appliances. Consumers will either choose a low cost, commodity based appliance solution or one, which in the future will be connected to a centrally controlled home.¹¹⁰

The different social levels are even greater when compared to different markets, where the Asian, European and U.S. markets illustrate very different social structures that affect the buying behavior of consumers. Who is actually using the appliances varies greatly, be it the mother of the household solely or if the day-to-day chores are shared in the family. Marketing campaigns are carefully targeting these different buying segments and use messages of different kinds that not only deal with cultural issues but also male/female related preferences. There is a wide range of market data that is needed to understand each social segment and the company that can best understand and offer products that fit those needs will be successful.

The appliance industry is very aware of the changing ages of the population, and the increased amount of retirees that are leaving the workforce and spending more time at home. Younger generations are demanding different products. Especially important are time saving devices that take the chore out of daily household life. This time saving trend varies greatly from that of retirees, where suddenly everyday jobs become the cornerstone of daily activity. Appliance manufacturers have found in their research that retirees take pride in doing their dishes by hand, going shopping and taking care of the laundry. In fact, by offering products that take away those elements, they become less desirable for this demographic segment. Instead, appliance manufacturers are offering innovative solutions that make the work easier from a physical standpoint. Research is done with a 10-15 year future time span,

¹¹⁰ Topping, D., "From the Top – Innovation and the Internet", Appliance Magazine, July 24, 2001

where the needs of existing children are forecasted and products are being developed to fit the needs of the next generation.¹¹¹

The appliance industry has been hit hard by the upcoming recession. In conjunction with this, fierce price wars have created a very unstable environment for many manufacturers. The powers of large retailers that dictate price hold the manufacturer in an iron grip where price competition is razor sharp. The Asia crisis had a great dampening effect on consumer spending, especially in the appliance market where the decision to buy a new washing machine is postponed because the old one still is working. The American economy has been doing extremely well during the nineties, but is now facing a downturn, which is bringing down economies across the globe. The economic recession is greatly affecting the appliance industry and the outlook is not very promising with consumer spending on a slow but steady pace downwards.¹¹²

5.4 Whirlpool's Global Strategy

Whirlpool has a clear global strategy to position the organization worldwide and market its brands locally. In the coming parts, this global strategy is analyzed in regard to six dimensions and related to the specific factors in Whirlpool's business environment.

5.4.1 Global Market Participation

The global appliance industry is characterized by rather fierce competition. Therefore, there is a strong external push to pursue global market participation in order to reap the cost advantages of global efficiencies in production and innovation. This important external factor has forced Whirlpool to be an active participant in the global market. Several internal factors are complementary to these external factors, and accelerated global market participation. Since 1989, the management group has initiated the rationalization of the organization to become a truly global company profiting from economies of scale and learning worldwide. In this regard, Whirlpool is actively positioning its appliance

¹¹¹ Ritchey, D., "AB Electrolux – Success in Stockholm", Appliance Magazine, August 16, 2001

¹¹² Ritchey, D., "2001 Appliance Industry Forecasts", Appliance Magazine, July 27, 2001

products in the different markets with their global and local brands. Nevertheless, the company is aware of the need for global market participation, but has never ignored the importance of satisfying local needs.

5.4.2 Product Standardization

This second dimension of a global strategy is in Whirlpool's case very much related to the previous discussed dimension. The competitive nature of the industry has led to a relative high level of product standardization to enable a favorable cost-structure of the products. Currently, Whirlpool sells appliance products that are standardized for 70-80%, and is putting more and more effort into setting international product standards. However, the company maintains a margin for local adaptation to satisfy the needs of consumers in different markets.

5.4.3 Uniform Market Program

Whirlpool's market program is quite clear, as they want their global values to be translated into local needs. The global and local brands have to communicate what the organization stands for in a manner that appeals to the different consumers in the markets worldwide. This local awareness of the needs and beliefs is an important part of the company's global strategy. The external environment of the organization is an important stimulator of this market approach. The consumers in the different markets require a certain uniqueness. Besides, the competition in the various markets is not only coming from the global manufacturers, but also from local producers. A good example is the European and Asian markets.

5.4.4 Concentration of Value Added Activities

One of the key parts of the value added activities that Whirlpool excels at is their production capability. The strategy of sharing up to 70% of the base components in their product across markets allows them to pursue global efficiencies. These activities have then been concentrated in key areas across the world where a combination of logistics handling and market demand dictate

the size and production capacity of each plant. Local adaptation of the remaining 30% of the product is done on a much smaller scale close to the end user. Parts, maintenance and repairs are therefore standardized and save the company time and resources. Channel distributors greatly benefit from this, as it is often them who handle the contact with the client and need readily available spare parts at low cost.

In contrast to the manufacturing proficiency of Whirlpool, which is concentrated to their production facilities, is its strong marketing division. The strategy of acquiring local companies and working closely with distributors, made the company very aware of the shifting market environments. In order to handle this challenge of local marketing messages, Whirlpool has pursued a dispersed strategy to provide strong local marketing support. One central marketing department set the goals and values of the company, which are communicated on a global basis. Local offices take the values and translate them into a message that is accepted and understood by the local customer base. One example of this is the Indian market, where Whirlpool has spent extensive resources learning the thought patterns of their domestic clients. By combining Whirlpool values of quality and efficiency with a message that appeals to its main Indian customer, namely the housewife, a successful local marketing campaign allowed the company to increase their market share dramatically.

By tapping into this great local source of market wants and needs, Whirlpool is able to develop innovative new products that fit nicely into the local market. Choice of color, additional features, how the controls are allocated etc. create a great variety of products that offer a competitive advantage for the company. It is one of the strongest defenses that are used against low cost copycat products that are produced in mass quantities drawing from inexpensive production facilities across Asia.

There are also external factors that affect how concentrated or dispersed value added activities are within the appliance industry. Competition has increased immensely in this market and companies are forced to use every means of cost savings to offer their products. There has been a dramatic trend towards intense price wars where appliances are becoming close to commodity products. Price is the only deciding factor when making a purchase and this has forced Whirlpool to differentiate themselves in order to maintain their market share.

The consolidation of the retail market brings down prices even further, where the retailers rather than the manufacturers dictate prices.

5.4.5 Coordination of Value Added Activities

Whirlpool is carefully managing their portfolio of manufacturing and brand related activities in order to take advantage of lessons learned in different markets. The global learning issue is especially important, as production at one site needs to be communicated clearly to other sites in order to improve overall production. The same is true for marketing and product innovation. New materials or lessons from successful campaigns create strong competitive advantages that the whole organization benefits from. External driving forces behind this involve competition and the need for cost savings on a global basis. Competition is very strong within this industry and without a clear brand name a company will soon find it overrun by inexpensive clones that flood the market. The consumer needs an identifiable and distinguishable differentiation factor that separates a quality brand from the rest.

5.4.6 Integrated Competitive Moves

When observing the competition, it is clear that Whirlpool is facing serious issues that currently are affecting its market position and can in the future play a decisive role in how the company will be able to survive. When observing main competitors in the U.S. market, Maytag and General Electric, it becomes clear that these companies have pursued a more active role in managing their retail chain. Historically, Whirlpool has been closely linked with Sears and Roebuck together with an army of small, independent retailers. This image of how the retail chain function has been changing due to great consolidation efforts mainly spearheaded by Wal-Mart and Home Depot who are forcing smaller retailers out of business mainly due to their size and purchasing power. This is where GE has surpassed Whirlpool in closing exclusive deals with Wal-Mart to only carry their line of products. Whirlpool has become aware of this problem, which is illustrated by their exclusive contract with IKEA. The question is, however, if this is enough and if the Whirlpool strategy of strong brand management carries weight among the new emerging global super retailers. One thing is clear; Whirlpool cannot ignore these new players and

needs to find ways to bring their products into their retail structures. Without their assistance, Whirlpool will risk losing a major part of the market.

It can be argued that Whirlpool has pursued a too narrow strategy of focusing too much on brand reliance instead of managing the distribution chain. Only the future will tell if the company can increase their distribution abilities. Part of this effort include becoming much more aware of competitors positioning in the market and to become more flexible in face of changing market conditions. Being a market leader can sometimes put a company in a situation of over reliance, and resting on its laurels is often a sure sign of problems to come.

5.5 Strategic and Financial performance of Whirlpool

On a strategic basis, Whirlpool has been very successful in implementing their global production capabilities as well as being able to meet diversified customer demands in the different markets. It is however clear, that low cost mass producers from Asian countries have pushed the prices of appliances to a level which is close to being a commodity market. The old adage can be used that a refrigerator is a refrigerator, where the justification to buy one brand over another is becoming less and less important. Prices are decreasing which makes the purchase decision based less on quality and more on price. Whirlpools marketing strategy has been very successful and few other competitors can rival them when it comes to offering global and local brands in conjunction with local acceptance. The creation of domestic homegrown brands, which the customer recognizes while connecting them to the overall quality of Whirlpool worldwide, gives credit to its marketing efforts.

Financially the company has gone through some difficult times. Nevertheless, Whirlpool has been able to reshape itself into a much leaner organization, which has resulted in substantial rewards in its international operations. In Whirlpool's U.S. domestic market, strong competition and consolidation of the retail chain have forced the company into price wars and profits have been limited. It is unclear how the company will meet these challenges at this time, especially as the trend of retail consolidation now is also entering the European market.

Global production excellence and efficient brand management have been strategies, which have both been financially sound and strategically correct. However, these two strategies might not be enough, which is evident in the lack of retail chain management capabilities. This is something that the competition has been very good at, which has made inroads on the bottom line of Whirlpool. Change is necessary for the company, as over reliance on brand management can become a liability because more pieces of the puzzle need to be addressed in order to remain successful in this highly competitive industry.

5.6 Key Area of Excellence – Global vs. Local Marketing

Whirlpool has been able to combine production excellence with brand management that reflects the attitudes of their local consumer to an extent that is unrivaled within their industry. The 70%-30% production strategy has proven a winning concept, which has combined global efficiencies with locally, adapted products. How to adapt products to local tastes is knowledge that has been developed through years of dealings in a variety of countries where close local interaction has been crucial.

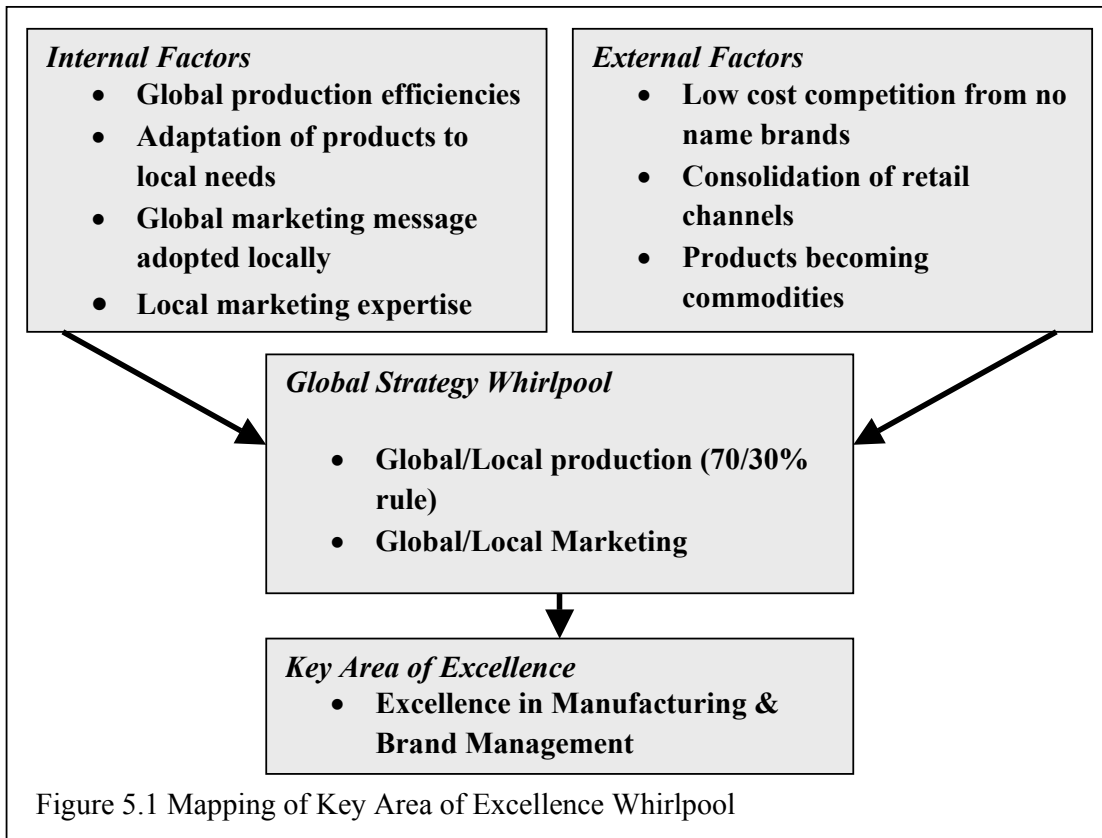
The historical expansion of Whirlpool is largely a contributing factor, as learning through slow examination of what works in one market and not in another, makes it easier to prevent making mistakes in product design and promotion. The strong brand development within Whirlpool reflects a view of the company as a global organization and at the same time local, next to being considered a domestic household name in many markets. These two contributing factors, production and brand management, have met two criteria which are crucial within the appliance industry, namely cost efficiencies and consumer driven product offerings. The company offers appliances that appeal to the market and reflect the thinking and thought processes of their clients. More importantly, they are able to recognize the cultural and sociological differences that exist between different markets and to use that knowledge as a competitive advantage.

Whirlpool can be described as having excellence in global production and creation of strong consumer brands. It is questionable if these two strategies are enough to maintain the company's position in the future though. The consolidation of the retail industry and further price reductions of appliances,

which are becoming close to being a commodity market, is driving companies in the industry to change the way they do business.

One avenue of expansion is the new e-enabled home that connects all kinds of appliances to the Internet. This has been tried before, often with poor results, it is however the hope of Whirlpool that its knowledge base of consumer behavior will give them an edge in this new market. However, in the short term, if careful steps are not taken to strengthen the partnerships with the emerging global retail chains, Whirlpool might find itself without a way to reach their customers.

The following figure gives an overview of Whirlpool’s key area of excellence and the underlying internal and external factors behind it.



6. EMPIRICAL DATA ANALYSIS - DELL

In this chapter we attempt to analyze Dell. This company has a very distinct place within its industry, and this is carefully analyzed in the first parts of the chapter. The unique approach and positioning of Dell has resulted in a clear global strategy, described in the second part of this chapter. The excellent strategic and financial performance of the company, and the specific Key Areas of Excellence are analyzed in the last sections of this chapter.

6.1 Corporate Overview Dell

Dell, headquartered in Austin, Texas, is the world leader in computer systems and a leading provider of products and services. The success of Dell is based on a simple concept by Michael Dell, who formed the company in 1984. Computer systems are directly sold to customers, as in this way Dell can understand their needs and efficiently provide the most effective computing solutions to meet their requirements. In this direct business model the retailers, which in Dell's view add unnecessary time and costs, or can reduce Dell's understanding of the customer expectation, are eliminated. This direct approach enables the company to build every system to order and offer customized systems at competitive prices. Today, Dell has a worldwide turnover of \$32,6 billion. The company operates only six manufacturing locations: Austin and Nashville; United States, Eldorado do Sul; Brazil, Limerick; Ireland, Penang; Malaysia, and Xiamen; China. These six facilities manufacture products for one of the worlds largest computer companies and they are built-to-order for every client.¹¹³

What makes this company very unique is the application of the Internet to its entire business. This enables the company to constantly broaden and increase its competitive advantages of the direct interaction model. Dell has led the industry with Internet activities by launching www.dell.com in 1994 and starting e-commerce in 1996. After one year Dell became the first company to reach online sales of \$1 million. Today, the company's Internet commerce sites generate one of the highest volumes in the world. Dell's site receives

¹¹³ www.dell.com

approximately 500-million page request per quarter at 86 country sites in 21 languages and 40 currencies. Dell is continuously trying to realize Internet-associated efficiencies throughout the whole organization. This includes purchasing, customer support, and relationship management. On Dell's site the customer can place a customized order within the entire product line. Besides, the order can be tracked from production through shipping. The relationship with suppliers is viewed as essential in Dell's business concept and at www.valuechain.dell.com the company shares information with its suppliers.

Dell's approach is very unique and successful in the industry and differentiates the company from the competition. The organization operates a direct-to-customer business model, referred to as the Dell Direct Model. The business strategy of Dell is based on this Direct Model. It aims to deliver superior customer experience through direct, comprehensive customer relationships, cooperative research and development with technology partners, computer systems custom-built to customer specifications, and service and support programs tailored to customer needs¹¹⁴. There are several dimensions in Dell's strategy. The first one is price for performance, which refers to eliminating all the intermediary steps, and the efficient procurement, manufacturing and distribution processes. In this way Dell can offer enhanced systems at competitive prices. Customization plays an essential part, as every system is built to the requirements of the customer. Dell uses the knowledge gained from the interaction process with the client to provide tailored Service and Support. Finally, the efficient implementation of the business model requires the integration of the latest technology in its products and in every step of the processes in the company.

In order to sustain Dell's unique position in the industry, the company is continuously improving its direct approach to production, selling, and servicing personal computing systems.¹¹⁵ An example of this is Dell's relationship with its components and other materials suppliers. The procurement of this, equals up to 70% of its revenue and therefore modest savings in the supply chain costs will have a huge impact. Dell has recognized this and is constantly improving the efficiencies of its supply chain. The first Web initiatives of Dell were in this

¹¹⁴ www.dell.com

¹¹⁵ www.dell.com

area.¹¹⁶ It also targets its product range. Today, about 80% of the company's sales are in PCs and notebooks, a market in which the margins are severely under pressure due to a price war. Therefore, the company is looking to broaden its sales in other product categories with higher margins, like servers, storage, services, and networking. The company will try to conquer and/or develop its activities in these markets with the same concept as it has done before in the PCs and notebooks segments.¹¹⁷ Another objective is to increase the sales, service and support over the Internet, as well as further investing in the broad range of value-added services. Dell regards the Internet as the most effective and efficient form of its Direct Model, which provides convenience and efficiency to customers and Dell.

With Dell's very specific approach to the market, the company aims to be the most successful computer company in the world at delivering the best customer experience in their markets. The emphasis on efficiency and direct interaction has proven to be a very successful concept. In this regard, the company has already earned the respect and admiration of many customers, companies, and institutions in the business world.

6.2 Dell's Internal Environment

Dell has created and shaped an internal organization that is admirable and unique within its industry. This internal environment consists of several specific characteristics, which are hard to capture in a few sentences. Therefore, in the sections below the Internal Environment is analyzed according several dimensions.

6.2.1 Market orientation

Every transaction placed by a client is shared across the Dell network and every customer that the company has dealt with is made available throughout the whole company. When an order is placed through the Internet or over the phone, assembly of that particular product is started and shipped within 24

¹¹⁶ Hagel III, J., Brown, J.S., "*Your next IT strategy*", Harvard Business Review, October, 2001

¹¹⁷ Park, A., Burrows, P., "*How Dell plans to turn up profits*", Business Week, September 24, 2001

hours to the client. Gathering customer data is second nature to Dell, where learning about client needs allows the company to create corporate templates, which can be copied to other units in similar markets.¹¹⁸ The World Trade Center attack on September 11, 2001 showcased this capability to its fullest extent. Dell went into direct action mode, providing exact client data of what was lost in the attack and what needed to be replaced to restore systems to full functionality. The company offered direct hotlines to different market segments such as federal agencies, corporate or private customers. Each order related to the attack was treated according to priority. Clients received immediate assistance and access to complete product solutions and replacement of lost equipment.¹¹⁹

Dell also gathers extensive information on new technology being developed in the industry, creating close relationships to suppliers in order to receive favorable prices and assured deliveries. Complete overview of the whole market chain allows Dell to predict shortfall, market changes and prepare for entering new product segments. This is clear in the corporate strategy, which is focusing the company on new market segments such as networking, and Internet hardware, which previously have been the mainstay of companies such as Cisco Systems. Competition in these markets is very fierce but Dell can use their advantage of having a very broad customer base that is very familiar with the company and is looking to consolidate their computer related purchases with one major vendor.¹²⁰

6.2.2 Managerial Orientation and Commitment

Dell Corporation is managed from a clear direct business concept that is implemented worldwide. The direct model implies the bypassing of all the intermediary steps that add more costs instead of value. For this revolutionary approach to be successful in this industry, a strong managerial orientation and commitment is required. The company has to be managed to continuously facilitate customer relationships and the creation of value worldwide. This asks for substantial management resources to create an optimum global working

¹¹⁸ www.dell.com

¹¹⁹ www.cnn.com

¹²⁰ Evers, J., "Dell to enter networking equipment market", IDG News Service, July 18, 2001

environment where the latest technology is implemented and a structure that facilitates a learning organization.

The company focuses on delivering customized products to its customers at competitive prices. Therefore, Dell makes use of its global presence and utilizes its six production facilities to reach global efficiencies in manufacturing. Management has acknowledged that global manufacturing efforts can deliver excellent products and services at a reasonable price. Together with management's direct approach model, this forms an integrated part of Dell's strategic approach.

6.2.3 Organizational Culture

Dell is one of the MNCs, which is still headed by its founder, and the presence of Michael Dell is very much reflected in the organizational culture. Michael Dell has been awarded many times for his strong visionary leadership of the company throughout the years¹²¹. As mentioned before, when the company was founded it was done from a clear concept. This concept is still the basis of the company today and focuses completely on the customer experience and how to create more value for the customer. Every activity within the company is performed from this stance, and all the employees worldwide are guided in this direction and act accordingly. A strong organizational culture is reflected in the way the company conducts business, in the way the organization interacts with its major stakeholders, and how Dell deals with the ever-changing business environment.

The mission of Dell is to be the most successful computer company in the world by exceeding customer expectations continuously¹²². The direct business concept that Dell uses to reach this objective requires a strong organizational culture. The success of the company partly depends on a strong sense and purpose of all the employees worldwide, and therefore a corporate culture that facilitates this. Dell has recognized this and is constantly training its people in developing excellent customer relationships and creating a working environment that enables this. Besides, the company has created an

¹²¹ www.dell.com

¹²² www.dell.com

organization, which is constantly innovating and implementing topnotch technology to stay ahead in the industry.

6.2.4 Organizational capabilities

Michael Dell has instilled his leadership style and clear corporate direction into every part of his company. It is very clear what the company does and how it does it. Every employee is aware of its part of the structure and how it is related to the clients. When an assembly worker gets an order, it is tailor made for that particular client, and if something is done incorrectly it is immediately clear where the error occurred. A very high level of efficiency prevails throughout the organization and existing capabilities are easily transferred to new employees due to the strong structural nature of the company.¹²³

Dell has been able to shift customer focus, going from being a pure PC vendor into becoming a full service provider of network equipment. This illustrates how the company can change direction. The sales staff had to deal with a whole new line of technical questions and a much different kind of customer than before. New training was required and new support staff had to be added, this was done very quickly and was integrated seamlessly into the organization without disturbing existing operations.¹²⁴ The company has been able to harness the power of the Internet and uses it as a daily tool in all of its operations. More than being an ad-hoc function to normal operations, the Internet is as integrated into the corporate structure as the employees themselves. Few companies have achieved this level of IT integration into their organizations, and even fewer have been able to make it part of how they conduct business.

6.2.5 International Experience

The whole Dell strategy is summed up in doing direct business with their clients. So when going global, the company just copied their recipe, which had worked at home with production facilities at key locations. A typical Dell entry

¹²³ www.dell.com

¹²⁴ www.dell.com

is made up of establishing call centers in the local language, local homepages with online ordering, local support structures and investigation of existing logistics capabilities. At times, some of these activities will be outsourced based on the size and importance of the market. Nevertheless, no contact with traditional retail chain structures exists. The company handles all product returns, complaints, etc., while physical repair work can be outsourced to a local provider.

This strategy has allowed the company to expand internationally much faster than their more traditional competitors. Even more importantly is the flexibility and control the organization has over its business. As often is the case today, retail chains become more and more powerful, playing suppliers out against each other to obtain a better price. This can put restraints on how orders and returns are handled, which makes it difficult to conduct business in many markets. One good example of how Dell circumvented this problem in one of the markets, which has a tradition of being entry resistant, is Japan. By hiring Japanese personnel, contracting repair work out to local providers and becoming a Japanese company allowed Dell to bypass all traditional retail chains which have very high entry barriers.¹²⁵

Competitors have tried to copy Dell's international concept, but have not been able to change their existing organizations far enough to reach the level of integration through the whole production chain that Dell operates.

6.2.6 Human Resources

Due to Dell's special business concept, the company is very active towards its Human Resources. The company perceives the recruiting and attaining of highly skilled people with diverse backgrounds as a business performance strategy. A diverse and skilled workforce is seen as a key success factor. The high-tech industry is constantly changing, and staying customer-focused and competitive is very much related to a well-educated workforce, with people who have the expertise in the latest business solutions and technology. Currently, Dell employs 35,500 people.¹²⁶

¹²⁵ www.theempire.com

¹²⁶ www.dell.com

The recruitment of personnel is directed towards attracting highly skilled people in various fields of expertise. Diversity is an important aspect in the recruiting process, as it is one of the reasons that the organization can be a fast growing world leader that can offer customized computer systems. The company offers its employees many opportunities to develop further within the company. Current knowledge and skills, and moreover future expertise, are essential to the company's ambitions. The effort and commitment of Dell towards education works top-down. Executive-level advisory councils ensure that individual training can be implemented for employees throughout the whole organization. Dell's strategic aim is to create a learning organization that facilitates an advanced company.¹²⁷

Education is playing a large role in building and maintaining corporate knowledge within Dell, training programs are abundant, but with a distinct difference from other programs offered in the industry. Each program is web based and uses a self pace technique where the user goes along at his or her own pace. This enables the worker to sit down during down times and can put the tutorials aside during peak hours. There are many different topics offered and the ability to delve further into areas that customers are having problems with. Sharing and promoting knowledge learning within Dell is a core functionality of the company, without it Dell could not have reached the position it holds today.¹²⁸

Learning is an important aspect within an organization like Dell, but the attaining of key employees is an essential part of the Human Resource strategy as well. Therefore, the company offers its human resources a comprehensive employee benefits package. This package ranges from health plans, profit sharing, and Dell stock purchase plans.¹²⁹ With an active approach towards its human resources, the company can implement its unique direct model effectively and stay a world leading computer, services, and system provider.

¹²⁷ www.dell.com

¹²⁸ www.dell.com

¹²⁹ www.dell.com

6.3 Dell's External Environment

As discussed in the previous paragraph, Dell is an important global computer system designer, developer, manufacturer, and marketer. The industry it is active in covers a large range of products like PCs, desktops, notebooks, computer systems, servers, workstations, and storage products¹³⁰. In the coming sections the external factors of this industry are discussed.

6.3.1 Industry analysis

The computer industry is going through its worse period since 1986, due to a declining demand for PCs and a very fierce price competition. The global sales of PCs decreased by almost 2% in 2000 and this has continued in the first half-year of 2001. The U.S. market suffered a 6% decrease closely followed by lower sales in Europe. The sales in Asia rose only marginally. Dell is the only one of the top five computer makers to show worldwide growth. It is unlikely that the industry will show the growth it had during the beginning of the 1990s.¹³¹ This trend is continuing in 2002. This is partly because PC-users are keeping their computers longer than in past years. A bigger trend for the coming years will be the increase of the average life span of corporate PCs. It is expected that this could rise from 3,3 years in 1999 to 4 years in 2004.¹³²

Dell is widely regarded as the cause of the fierce price competition in the industry. In its ambition to become the world leader, which Dell became recently, the company has implemented an aggressive pricing strategy that has upset the whole industry. The strategy has succeeded so far, as its demands for laptops and servers at discounted prices have increased at a time where customers are more hesitant about investing in, and upgrading of computers. The strategy cuts deep in the profit margins of the company and its competitors, with the difference that Dell can profit from a more efficient cost-structure. The prices for PCs have plunged by as much as 50%.

¹³⁰ www.business.com

¹³¹ Graham-Hackett, M., "A Recovery in PC Sales? Not Just Yet", Business Week, July 20, 2001

¹³² Park, A., Burrows, P., "Dell, the Conqueror", Business Week, September 17, 2001

The problem of this strategy in today's industry is that a price decrease is not boosting sales anymore. The PC market is maturing and price cuts will not attract more new customers into the market, as approximately 75% of sales concern replacement. This is a different situation compared with the last slowdown in the industry in 1992. Price-cuts then led to increased sales and the introduction of a whole new line of low-cost computers. Therefore, the companies are trying to figure out how to best cope with this new situation in the industry. Short-term solutions involve firing of employees and more efficient supply chains to finance innovations. In the worst cases companies are forced out of business. In the long-term, structural changes are necessary to adjust to decreased margins. This can ultimately lead to reduced research and development activities, the heart and soul of this industry. Finally, companies are forced to rethink their business models, or be innovative with new ones like Dell has done.¹³³

The hardware industry is likely to be very different after this fierce competitive battle. Some business models from the old environment will become obsolete. The manufacturers have to learn to cope with low profit margins, or look for related markets with larger margins. The industry is faced with a first consolidation period where the strongest and most adaptive companies will survive. But even a company like Dell has to adjust, as they are doing right now by entering higher-margin markets.¹³⁴ Others, like IBM, HP, and Compaq, are keeping up competitive pressure by streamlining their cost-structures and expanding their business services. Services are expected to be flourishing after the economic downturn on corporate spending on Information Technology, as clients can afford to build more customized systems. Dell has proven to be a large player in enterprise systems as well, by selling low-end servers and storage systems to corporate clients. At the high-end, which contains servers that can handle many users and require substantial support from the manufacturer, Compaq and IBM deliver a full range of total solutions internationally.¹³⁵

The recent developments in the industry have altered the competitive situation. While Dell has been able to remain profitable, the rest of the industry have lost

¹³³ Sager, I., "In Technology, the Mother of all Price Wars", Business Week, July 30, 2001

¹³⁴ Sager, I., "In Technology, the Mother of all Price Wars", Business Week, July 30, 2001

¹³⁵ Popper, M., "Does Dell Compute over the Long Haul?", Business Week, August 23, 2001

\$1,1 billion so far. Michael Dell has described the current situation strikingly: “When we sell products we make money. When our competitors are selling them, they lose money.” In this regard, Gateway Inc. and eMachines are facing bankruptcy and Hewlett-Packard is purchasing Compaq to join forces in the changed industry.¹³⁶ Dell is now the number one PC producer, having increased its global market share from 10,4% in 2000 to 13,1% in 2001. In the U.S. market Dell has a 24% market share. Compaq, the second PC manufacturer both in the world and the U.S., global sales fell about 5% with a market share of 11,9%. Sales in the U.S. decreased by 20%. The company has a 14% U.S. market share, compared with 16% in 2000. Dell will not be able to force Compaq out of business, but with its aggressive price strategy it will affect the second- and third-tier PC producers, as the industry is still fragmented.¹³⁷

The new competitive situation in the industry affects the innovation by PC makers, according to industry analysts. A very dominant market position of Dell in the next 5-10 years could affect the research and development spending of many companies, as they are not likely to risk spending huge amounts of money on these activities. Since Dell’s efficiency activities, the R&D budgets of all the PC manufacturers have been declining in order to stay more cost-efficient. As an example Compaq spend 3,5% of its revenue in 2000 on R&D, compared with 6% in 1991. Dell is following suit, as it believes that all computer technology will become more standardized and therefore has not invested much on hardware engineering and research. It is believed for the future that the innovation has to come from companies like Microsoft and Intel. The conquering efforts of Dell have shifted the industry from a focus on innovation to a focus on efficiency.¹³⁸

The PC industry is going through a tough period, which may change the structural outlook indefinitely. There are several factors contributing to this change. The activities of Dell Corporation and its aggressive approach to the global market is most likely the most dramatic factor behind the change. It has altered the way business has to be conducted by its competitors and commoditized many products, from desktops to low-end servers. Therefore,

¹³⁶ Park, A., Burrows, P., “*Dell, the Conqueror*”, Business Week, September 17, 2001

¹³⁷ Shook, D., “*The Winner of the PC Price Wars: Dell*”, Business Week, May 1, 2001

¹³⁸ Park, A., Burrows, P., “*Dell, the Conqueror*”, Business Week, September 17, 2001

Dell is not only using the changes in the industry to design its global strategy, but is also using its global strategy to actively change a whole industry.

6.3.2 Macro Environment

Technological change, continuous improvements in technology, new product development, product innovations, and shorter life cycles, are aspects of the technology industry that can affect the performance of a computer and systems manufacturer. Even though many companies have strong ties with technological partners, major technological advancements are out of the control of many companies.¹³⁹ The failure to manage these challenges and risks can directly affect the demand and profitability of a company.

There are four main areas of technology that are specifically interesting for companies in this industry, namely external communication, internal communication, computing, and content. Electronic information systems have more than any other advancement in human development increased the flow and composition of how businesses communicate. The link between the client and the supplier of goods can now become not only stronger but be multiplied across many areas of the business interaction. Everything from logistics handling to support services now facilitates a dual interaction between the client and the company. The speed of this progress is increasing at an incredible rate and companies that do not adopt these new technologies find themselves quickly surpassed by their competitors. Response time has not only become a slogan, it is now a way of life for many companies. Instant replies and information updates are now a norm rather than a competitive advantage. Tying together supplier and client systems is an ongoing process that is becoming more and more involved. To stay competitive, companies need to integrate their systems to cut costs and create efficiencies in an effort to thwart competition. The important two-way communication of external content between the supplier and the client, regarding everything the company does, has to flow as easily and quickly as possible.¹⁴⁰

¹³⁹ www.dell.com

¹⁴⁰ www.dell.com

Computing, the storage aspect, is a given, but the more elusive one is that of actually pulling out gold nuggets. This process is called data mining and has to be done well, as too much information can actually paralyze a company. Management needs to be able to pull out the important parts and see the trends. The content of the data can vary greatly from customer information to competitors. More is not necessarily better, but higher quality and accuracy will ensure that the right conclusions can be drawn. The implementation process of technology is a continuous process and should not be seen as something separate from the organization. It is an integrated function, which without it could not function. It is part of the whole and needs to continuously be improved. A static computer system is a dead computer system.¹⁴¹

The companies active in this industry are faced with several regulations by various state governmental institutions.¹⁴² In every country, computer vendors have had restrictions put on them regarding what kind of technology is deemed confidential and what can be exported to other markets. MNCs in the computer industry are under the scrutiny of very strong export regulations regarding how they conduct business abroad and what kind of products they can sell. Internet Explorer, which is Microsoft's web browser, is shipped with many computers, but with a significant difference in Europe compared to America. The level of security is much lower in the European versions due to government restrictions enforced on products dealing with encryption technology. Different nations have accused other countries of attempting to protect domestic development and hinder the spread of technology in an attempt to safeguard domestic companies. Certain industries, the IT sector in particular have often been the target of very favorable tax exemptions and have received unique grants for pursuing certain key technologies. In fact the creation of technology hubs often similar to that of Silicon Valley has been attempted in order to create synergy effects between companies.¹⁴³

The environment is playing an ever-increasing role in many industries today, imposed by governments and the wishes of the customers. In the computer industry, various companies are implementing multistage environmental programs that start with the adherence to local laws and regulations in whatever

¹⁴¹ www.dell.com

¹⁴² www.dell.com

¹⁴³ Hultqvist, J., Wallström, M., "*Microsoft-domare vill bli färdig snabbt*", Computer Sweden, October 1, 2001

country the company operates within.¹⁴⁴ The response to and compliance with the environmental policies worldwide can create substantial competitive advantages.

As mentioned in the industry analysis, 2000 and 2001 have not been good years for the computer industry and the outlook is not very bright with stagnating sales and increased competition. Computer hardware has become a commodity and fierce price wars are raging between different manufacturers. In the U.S. the downturn that has been visible in the economy has developed into a recession, which is spreading throughout the IT industry. Japan has not been able to jumpstart their economy and is faced with low consumer spending for computer products at the same time as companies are very cautious with new investments. Europe has seen the IT bubble burst and many markets are reeling from the after effects, very few investors are willing to sink more money into new IT ventures.¹⁴⁵

The developments in the macro environment have significantly impacted Dell on how to respond to the opportunities and threats. Dell has been able to maintain a leadership in the personal computer arena by staying efficient and being a cost leader. The company is extending its product base and is going into more lucrative growth markets such as networking and Internet connectivity. Dell is counting on their existing distribution network to add new products and services to its list of offerings and at the same time reap the same efficiencies, which it has seen in the personal computer market. Dell is affected by the downturn of the IT community, but it has the speed and flexibility to target market segments which work well and can turn around much quicker than their competition.

6.4 Dell's Global Strategy

The internal and external analysis has shown the active role that Dell is performing within the industry. Dell has directly influenced many external changes. From this background the global strategy of Dell Corporation is analyzed.

¹⁴⁴ www.dell.com

¹⁴⁵ Hultqvist, J., "Compaq sänker prognosen", Computer Sweden, October 2, 2001

6.4.1 Global Market Participation

The company has made it quite clear in recent years that it wanted to be the most successful computer manufacturer in the world. In order to reach this objective, Dell has successfully used their direct model, which was developed in their domestic U.S. market, across every international market it has entered. The ability to copy this model to different markets worldwide has been the major factor for Dell's global market participation. Dell's business concept is aiming at cost-efficiency, and a global presence could facilitate more efficiencies throughout the organization. Finally, several external factors have led to ceasing the opportunities of global market participation. With its unique market approach, Dell has been able to offer a competitive advantage that could be leveraged worldwide. In a very competitive environment, Dell has been able to build up a strong global presence. Its concept worked to overtake competition in the U.S. market, and therefore the company was confident that its model would work on a global scale to become an important player in this global industry.

6.4.2 Product Standardization

The company offers its customers the option of designing a product that best reflects the needs and requirements of the customers. The standardization of its products can be found in the components that the customer can choose as an option for the PC, notebook, service or system. In this way Dell is able to be flexible towards the needs and requirements of the individual customer, but also reap the efficiencies of a high standardization. This approach forms an integrated part of the direct model of Dell. This way of doing business is almost unmatched by competitors. The competitive situation of the industry formed a strong incentive for the company to have this approach towards the offering of its product range. Besides, Dell believes that computer technology will become more standardized and customers will want the option to design their own unique products at a competitive price.

6.4.3 Uniform Market Program

As mentioned before, the company has been able to transfer its direct approach to markets all over the world. The concept of Dell is the same worldwide. Call centers in the local language and local homepages with online ordering are established. Besides, local support structures and existing logistics capabilities are investigated. The ability of the company to use the same template repeatedly has become a hallmark for how to expand the market. Advertising is often conducted in local branch magazines or with folders, where the local adaptation is kept to a minimum. In fact, it is not uncommon to see almost identical ads in Sweden as well as in the U.S. with the only difference being the translation. This approach has created a uniform message. The Dell logotype and the way it conducts business has become similar to what customers expect from MacDonald's. Many companies and consumers have chosen Dell because of these reasons. The ability to order computer products anywhere in the world with the same product numbers and level of service and quality assurance is a very strong selling point.

This uniform market program is unique in the industry, and a direct consequence of Dell's stance of surpassing the conventional retail chains in the different markets. Therefore, Dell has been able to implement one of the purest uniform market programs in the business world. The external push for this approach came from the lack of such a concept in the industry and the, in Dell's view, unnecessary costs added through intermediary activities.

6.4.4 Integrated Competitive Moves

Many competitors have predicted the demise of the Dell direct model, only to see them be proved wrong repeatedly. Dell concentrates on very basic and simple functions, like value for money, service, and cutting away the middleman. By keeping as close to their bones as possible, Dell achieves a built in defense against competition. By being the hardware vendor that is the leanest, it indirectly forces the competition to compete on price where Dell clearly has an advantage. Secondly, Dell has one of the best support structures in an industry that is notoriously infamous for its bad customer service. Competitors sometimes keep their clients on hold for hours and then often have inadequate personnel to resolve the problem. Dell invests heavily in its people

and has built up a knowledge database over problems and how customers use their products. The result is a collection of information that maps out what the clients are looking for in their products. This data is then used when designing new products, allowing for the addition of customer driven features, not design related ones to be put into the products. Companies often rely on market research studies to try to figure out what clients are looking for, but often, the client does not know until it is faced with a problem. Therefore, continuous collection of customer data allows Dell to research what their clients really need as well as what other vendors offer.

6.4.5 Coordination of Value added activities

There are three main areas, which Dell has implemented on a worldwide basis; direct sales, direct support and customer driven products. The direct sales model is one of the most important value added activities, which Dell has. By dealing directly with every single client, they are able to bypass traditional retail operators and lower the end price to the consumer. The direct sales are handled in two ways, either over the telephone or over the Internet, the last being the one which is increasing in importance for the company. Clients actually have found it to be more attractive to buy “online” as they can browse at their own speed, unhindered by pushy salespeople. The second value added activity deals with support relations. Today clients use traditional telephone based support 50% of the time and Internet based support for the remainder. It is estimated that the Internet support usage will increase to over 80%, which shows how customers more and more are embracing information technology. Every support call can then be stored in electronic form, gathering valuable marketing data that is used in enhancing new products and services. The third and last item deals with how Dell provides products, which are both standardized, as well as highly customized. They achieve this by offering a wide range of options that can be added to a standard product which allows the end user greater freedom in designing its “own” product. The client is in full control of what it is buying and creates purchasing templates that can quickly be used repeatedly, making procurement fast and efficient.

6.4.6 Concentration of Value added activities

Dell has located its factories in key logistical areas across the globe in order to reach their customer base within 24 hours. This is a key component of the direct model, where quick and efficient deliveries are necessary. Establishing a local support presence does not mean that the company opens up a complete local office. Instead, it establishes call and Internet centers at central locations, which deal with a multitude of languages. This enables the company to keep down costs and share support know how in central locations. Marketing and sales operations are handled in a similar pattern with the exception of local sales offices dealing with key clients that require a local presence. Dell uses a concentrated approach to their value added activities. This can be compared to Whirlpools local marketing departments. Where Whirlpool collects local data on clients needs, Dell collects global data on how clients use their systems. There are local differences, but far from that extent to which Whirlpool customizes their products to fit local needs. Instead Dell tries as much as possible to maximize on central efficiencies, be it advertising campaigns or support centers.

6.5 Strategic and financial performance of Dell

Dell has clearly proven that the direct model works, which is the cornerstone of their corporate strategy. Very few other companies can give examples of such a clean strategic direction and even fewer have been able to maintain this kind of strategy for longer periods of time. Dell has stuck to their simple concept and has proven that their direct model works, not only in one market but also across other markets worldwide. Part of the success can be attributed to the founder Michael Dell, who went against the stream in the computer hardware market and did not fall for the temptation to use traditional retail chains. Without his strong commitment and belief in his strategy, the company would hardly be where it is today. Even if Mr. Dell would leave the company, the direct model is so engrained as a strategy into the corporate core that it would be hard to change direction. This could be seen as a weakness. However, if sticking close to your clients is a weakness then Dell should have been bankrupt long ago.

On the financial side, Dell was the world's largest computer hardware manufacturer, and it is unclear if it will maintain that position after the merger between Compaq and Hewlett-Packard. One thing that is clear though, is that Dell is making much more money than its rivals and that most competitors have given up competing on price with them. Careful management on the supplier side has allowed the company to cut costs on parts, as well as creating reliable delivery schedules and high levels of quality. The company has steadily been growing over the last decade with increased revenues and international expansion. Return on investments has been very strong, which is unprecedented when many other competitors are facing cutbacks. Increased market share in the server and Internet infrastructure sector has recently become a new and important market for the company. This has resulted in inroads into competitors market segments. These new markets have been very lucrative for the company, and the ability to use the same direct platform as used in the computer sales has worked just as well for network hardware. Dell has been described as being a prototype company for the Internet age and few other companies can show such strong results in face of fierce competition and difficult economic times.

6.6 Key Area of Excellence – Direct Model

Dell's Direct Model encompasses almost every aspect of how Dell conducts its business. The company still adheres to this recipe as its main area of excellence, but it has expanded into many more areas, where three main segments can be identified:

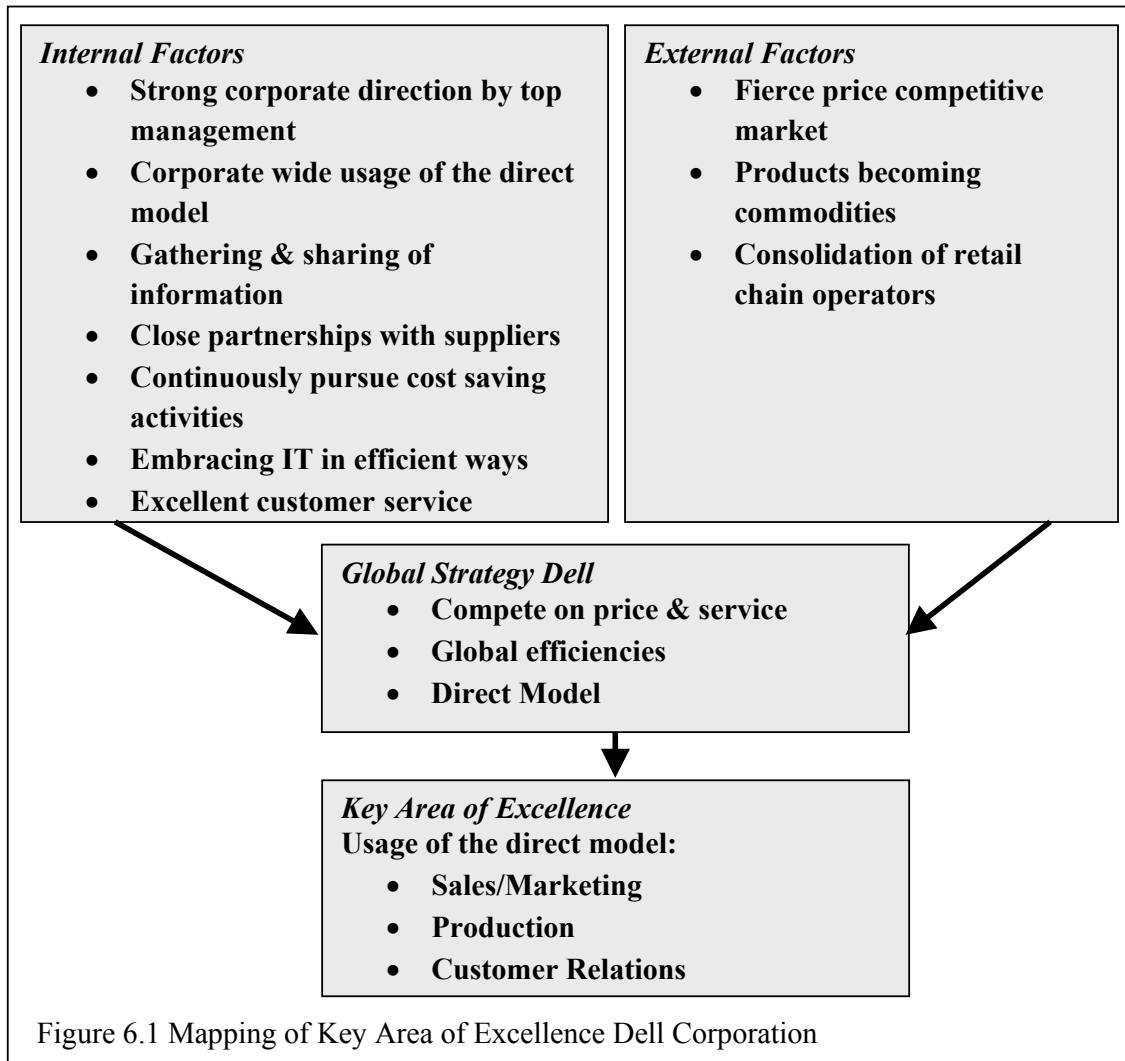
- Sales & Marketing
- Production
- Customer Service

Sales were the first area that was affected by the vision of Michael Dell. Since the start of the company it is impossible to buy a Dell computer in a normal retail store. No retail vendor carries Dell brands, and there are no computer super warehouses that carry the brand or have anything to do with the company. In fact these retail chains are competitors to Dell. Through the Internet and call centers, Dell handles every single order placed, making the company unique in using the direct model fully. There are no channel conflicts,

no price worries between retailers to manage, and the savings are shown in the price tag which the consumer appreciates. The same is true for marketing. Targeting trade magazines and establishing a good rapport with their clients have created an enviable word of mouth effect for the company. When it comes to production, the link from sales is direct and affects each order placed, where the client actually customizes his or her order according to personal tastes. The product does not exist until the order is placed allowing the company to lower inventory and concentrate on a few central production facilities. The third step involves customer service, which the company is investing heavily in. This is Dell's real connection with its clients and it is where many marketing activities pay off in order to create a loyal customer base. It is interesting to note that Dell has achieved a very high percentage of clients using Internet based online support. This has proven to be more efficient than ordinary call centers, not to mention saving both the company and the clients a lot of money.

In short, many companies have disbanded the direct model often as an impossible dream that has worked for Dell. Not only in their domestic U.S. market but also in other nations with very different market characteristics, where the concept could also be copied relatively easily too. Part of the solution can be found in how Dell has embraced technology and uses IT as a day-to-day tool in a very efficient and matter of fact way.

Figure 6.1 gives a summary of the internal and external factors that are related to Dell's current strategic approach and Key Area of Excellence.



7. COMPARATIVE PERFORMANCE ANALYSIS

In the previous three chapters Danzas, Whirlpool, and Dell have been analyzed. This has resulted in the identification of several distinct Key Areas of Excellence for these MNCs. In the coming paragraphs, we would like to present a concise performance analysis of Danzas, Whirlpool, and Dell with Volvo Truck.

7.1 Comparative performance analysis Volvo Truck-Danzas

Currently, the Key Area of Excellence of Danzas, the global logistic solution provider, lies in Information Relationship Management. In Volvo Truck this specific area does not exist. During recent years, the company has attempted to put certain systems in place that have certain elements of Danzas specific excellence.

Volvo Truck operates a website for the provision of general information about the company. Besides, Volvo uses a groupwide intranet, Violin, for its employees' use throughout the business units. To explore the opportunities of e-business, the Volvo Group initiated this two years ago. The Group decided to choose from two options to develop the e-business activities throughout the whole company, namely a group wide strategy or the development of these activities within the different units. The latter approach was chosen to speed up the process and implementation of the e-business activities. One and half years ago Volvo Truck initiated two programs: one in North America and one in Europe, which was done in conjunction with Volvo Buses. On October 15 of this year, the first Volvo Online Services in Europe went operational in the United Kingdom, and more implementations of this concept are expected in other markets during 2002.

The e-strategy of Volvo Truck is directed towards two target groups. The first group is the Truck customers. Volvo Truck has a life-cycle perspective on providing the online services to its customers. The online services are designed to support the business activities of the customers during the whole period of ownership, from purchase planning to the final reselling of the truck. The main focus lies in the increasing of the productivity of the customers. The online

services are accessible 24 hours a day throughout the whole year and tailored to the unique requirements of the customer. Currently, the online services consist of seven specific activities: Parts Online (in conjunction with the dealers), Dynafleet Online, Used Truck Finder, View Vehicle Specification, Dealer Locator, Volvo Truck Offer, Customer Service. The e-business project is now starting on its second developing phase aiming to expand the online services. On the dealer side, as a second target group, Volvo Online Services aims to support the business side of the dealer network. The objective of this portal is to make it easier to do business with Volvo Truck and Buses, as this portal is commonly shared. The online services comprise on-line training, vehicle specifications, and the dealer locator.

The development of the e-business activities within Volvo Truck, as mentioned before, is a strong and committed directive from the Volvo Group management. Translated to Volvo Truck, there are three reasons behind the development of a business strategy. There is a clear threat existing from other truck manufacturers, like Mercedes and Paccar, and online sites offering parts and used trucks, that there was a necessity to implement Internet-based activities. The cost efficiencies that can be reaped from online services in interacting with clients and dealers, was a second contributing factor. Finally, Volvo Truck perceives its e-business activities as an opportunity for revenue enhancement for both the dealers and its organization.

There are certain similarities between the business environments of Danzas and Volvo Trucks and how it requires the companies to adapt to it. The truck industry is faced with changing market conditions and the competition is fierce resulting in further consolidation, like the logistics industry. Besides, Information Technology is for both companies an environmental factor that is changing the way business is conducted. Adding to this the worldwide decline in the truck demand, there is an incentive to further develop the Volvo Truck organization and rethink strategic directions to better accommodate the changes in the business environment. The need to expand the product and service range to provide better solutions to the customers is a given for both MNCs. Danzas has already started with this process and is continuously improving it, while the management of Volvo Truck is in the beginning stage, as it has a strong ambition to become a world leader in supplying trucks and total transport solutions.

Currently, Danzas is a step ahead with the transformation of the company to a total solution provider with a strong key area of excellence. Volvo Truck has just started to implement an e-business strategy and is, compared with Danzas, in the beginning phase of utilizing the opportunities of information management in developing relationships and becoming a total solution provider. Today, Volvo Trucks is not utilizing Information Technology to build up relationships to the extent that Danzas does. The linking together of an integrated information system throughout the organization in order to create efficient total solutions is not yet a common activity within the organization.

As an integrated part of the strategy, Danzas has dedicated its efforts in transforming the organization from being product-orientated towards being market-orientated. The Volvo Truck organization is still very product-orientated, derived from its long history in engineering excellence. The company is manufacturing award-winning trucks, which have a very good reputation for their quality, safety, and environmental friendliness. Besides, the product range consists of various services, including online services, which enhances the truck performance of its customers. The final step of transforming the company into a total market-orientated organization, as in Danzas case, is an aspect in which Volvo is lagging behind.

7.2 Comparative performance analysis Volvo Truck-Whirlpool

Whirlpool and Volvo Trucks have some similarities in their approach and both are communicating a strong brand identity. Nevertheless, there are some distinct differences in the Global-Local Marketing proficiencies. In the following paragraphs, a short comparative performance analysis between Whirlpool and Volvo Truck is presented.

The core values of the Volvo Group, quality, safety, and environment, are a fundamental part of the whole organization. The Volvo Truck brand is an integrated part of this and delivers this clear and consistent message worldwide. In this regard, the company has a very similar position compared to Whirlpool. The objective for the customer services that Volvo Truck is providing, is to offer it under the common Volvo brand name. In this way, the fundamental values of the Volvo trucks can be translated to the services and communicate the same message, namely high quality.

A large part of Volvo Truck's marketing activities towards the dealer network is centralized to develop a common outbound message. The smaller and mid-sized dealers use promotional tools from Volvo Truck, while bigger dealer networks are more self-sufficient in this regard. Certain aspects of the marketing activities are developed within the Volvo Truck regions. The European region, for example, is actively developing pan-European activities to stimulate the sales of original parts. The marketing activities of Volvo Truck are still scattered, leaving too few opportunities for reaching economies of scale and learning throughout the whole organization. Beside, Volvo Truck has the disadvantage of dealing with independent dealers choosing their own approach, which makes it, in the current situation, harder to develop and implement a global uniform market program.

Whirlpool has a strong local presence, in the form of sales offices, and market knowledge, which it has actively developed to use to the benefit of positioning the brands locally. Volvo has a strong local presence in its market as well in the form of the regional offices and dealer networks. Within these organizations, a lot of local knowledge is instilled, but it is not used to the same purpose and extent as within Whirlpool. In the case of Whirlpool, it has strong coordination and communication between their local facilities and central marketing structure, which gives rise to better information flow in both directions. Volvo Truck has more of a one-way approach where data flows to the field and limited information flows back through informal day-to-day means of communication. Market feedback takes the form of official marketing research programs, not through continuous interaction. This leads to the issue of learning synergies, where one market might develop a new system, which has the potential to benefit other, markets as well. It is these kinds of synergy effects, which Whirlpool benefits from and that in the long term lead to efficient global learning capabilities. The backbone to this global/local network is the implementation of IT as a means of enabling communication. Whirlpool has put extensive investments into tying these networks together and Volvo Truck could benefit clearly from adopting some of these practices, especially within the field of gathering market intelligence.

Last, one major factor is measurement tools and follow up studies in conjunction with clear evaluations. Was this marketing campaign successful, what was the result for the bottom line, etc.? Whirlpool has spent considerable

amounts of energy on tying marketing expenditures to results, something where Volvo Truck does not seem to have the same level of measurement tools within their marketing activities, which is crucial in order to measure marketing performance.

7.3 Comparative performance analysis Volvo Truck-Dell

The way Dell and Volvo Truck conduct business are very different. Dell has been able to implement a business concept that has changed the whole computer industry, and their direct interaction approach has inspired many companies in related industries. In the coming parts the main performance differences between Dell and Volvo Truck are analyzed in regard to the Direct Model.

7.3.1 Direct Model: Sales

One of the first differences has to do with the fact that Volvo Truck is locked into using a traditional distribution model while Dell has the advantage of dealing directly with every single client. The differences between the two companies are great and Volvo Truck can only assimilate certain of the aspects of the direct model due to the nature of its industry. It is dangerous to rely on the distribution channel as it hampers the flexibility of the company, especially regarding the amount of control, which can be exerted through the sales process. This becomes evident when gathering sales information. Dell has extensive customer databases, which are updated through automatic IT enabled processes, something where Volvo Truck is lagging behind greatly. This becomes an issue when attempting to forecast sales and avoid filtering of information, which often occurs in a distribution channel. It is often in the distributors' own interest to limit the information, which is forwarded to the supplier, and in so doing emphasize its importance.

The ability to feel the pulse of ones' clients is needed in order to predict changes in the order flow, without automated processes that go through every part of the sales process. This ability is next to impossible to perform on a global scale, yet Dell does this very successfully due to the combination of direct sales tied to an advanced IT network. This technology, which enables

sales, is a very modern approach from which Volvo Truck can gain many advantages, which it is lacking today. Dell has actually enabled sales to occur simply through using IT in an efficient way and in doing so opened up a complete new way to tie their clients closer to them. By offering integrated procurement procedures that both save money and speed up deliveries for clients, it becomes most difficult for competitors to break into the accounts.

7.3.2 Direct Model: Marketing

Gathering customer data should be a cornerstone activity of any marketing department, and is often not valued enough. As Volvo Truck uses a traditional distribution channel model it is difficult to receive customer, market, competitor data in an ongoing and concise way, which is also up-to-date and relevant. Dell has automated many of their marketing procedures and standardized the kind of information that is gathered through direct market data entry, which is often conducted by the clients themselves. Due to the online ordering system of Dell, it is possible to create extremely detailed customer profiles that are updated whenever a client in any way interacts with the company. When a client contacts the online support department, all information is gathered and sorted into categories, which later can be matched and used for marketing purposes. This connection of different parts of the organization is something that Volvo Truck is lacking and could benefit from.

Even though Dell and Volvo Truck operate in different industries, many of these advantages can be transferred, by adapting them to how client interactions take place in the industry environment of Volvo Truck. This capability allows additional partnerships to be forged with suppliers as Dell invites other software vendors to take advantage of their client databases. In doing so, new revenue streams can be created and alliances forged which will hamper competitors. This kind of partnership orientation through client know-how is extremely important to the success of Dell. Volvo Truck has attempted to change corporate direction for several years, and having a fundamental understanding of its clients and the direction of the market enables a company to go through these kinds of changes much quicker and save a lot of money. Dell has undergone these kinds of changes when they introduced network related products into their line of products as the pure PC related part of the business was stagnating. Due to their very strong customer know how and

extensive database, the company was able to offer products at slightly lower cost than the competition, which was tailored to the needs of their clients. Dell has today taken market share of their main rivals in areas in which they did not operate only a few years ago.

7.3.3 Direct Model: Customer Relations

The computer industry has a notoriously bad reputation for support and customer service. This is where Dell initially marked themselves as a company that took the after sales part of their business seriously. Today, over half of the support calls made to the company are done over the Internet, which is easy to collect for database purposes. Volvo Truck has great synergies to reap from implementing similar systems throughout their value chain. Today, though, there is a clear gap between clients and the support organization of Volvo Truck. Moreover, this function is often in the hands of the dealer network. This approach differs from that of Dell, as reliance on third party operators becomes the main point of contact for clients. Dell has used customer relations as an integral part of how they conduct their business, something that Volvo Truck could benefit highly from.

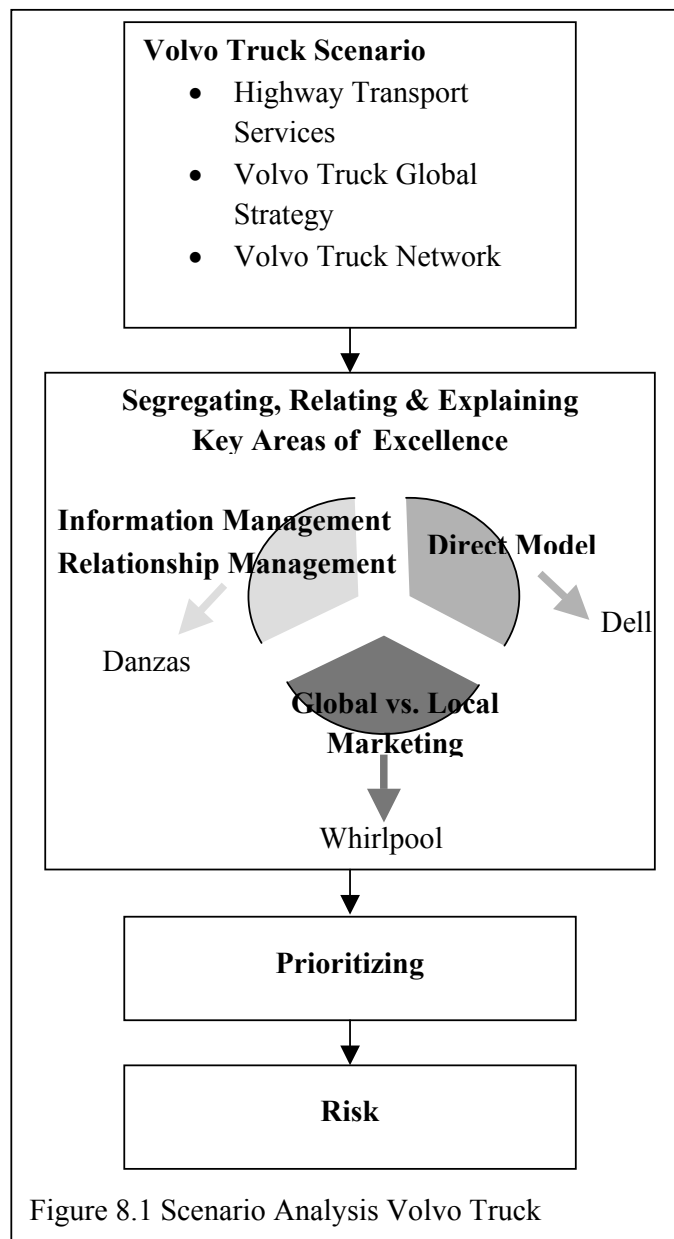
Automation is key, where large support centers can manage key markets within the Dell organization. Volvo Truck does not have the capacity to capture the same volumes of client information and therefore does not use this data in other parts of their operations. The emphasis on providing service is vital at Dell. In fact, this ability has allowed the company to branch out into other new business segments. The ability to gather customer data allowed the company to indirectly prepare for future client needs, something that easily can be translated into the truck industry. Volvo Truck, can through careful investigation of client behaviors and needs create long-term business plans if such monitoring systems were in place as in the case of Dell.

With its Direct Model, Dell has developed a complete integrated system on the business side that allows for synergy effects, and economies of scale and learning throughout the whole organization. Volvo Truck has just recently started exploring the advantages of web-based services in the form of its Volvo Online Services in the UK and North America. Volvo Trucks views this initiative as a possibility to increase productivity of the customers and to

support the dealer network. It does not view this system as an opportunity to conduct business in a new manner, but merely as a tool to overcome the threats of companies already engaged in these activities. In contrast to Dell's commitment to the Internet-based Direct Model, Volvo Truck is not using certain aspects of this approach to streamline systems, gather valuable market information, share cost-efficiencies learning synergies with customers and dealers, and build up relationships to the same extent as Dell.

8. STRATEGIC SCENARIO ANALYSIS

This chapter is devoted to presenting a scenario where Volvo Truck is incorporating aspects of the Key Areas of Excellence of Danzas, Whirlpool, and Dell. The following figure gives a summary of the structure of this chapter.



8.1 Volvo Truck Scenario

Three aspects, namely Highway Transport Services, Volvo Truck Global Strategy, and the Volvo Truck Network, characterize Volvo Truck's scenario. These traits are explained in the first part of the paragraph. The final sections consist of a description of Volvo Truck's network strategy and an example of an activity within the network.

8.1.1 Highway Transportation Services

Volvo Truck will be focusing on delivering market-driven Highway Transport Services to its current and future customer base. The company will be a one-stop shopping organization providing customized packages, with offerings including the Global Truck product range and related services like maintenance, call centers, training and information, financing, insurance, Transport Information systems, and Volvo parts, accessories and equipment. In this way, Volvo is capable of providing customized solutions, which increases the total transport performance of its clients. The close integration with customers, dealers, and other partners will be a key aspect of Volvo Truck's approach. The organization will be the center in managing the relationships and the Highway Transportation offerings to the end-user. Volvo Truck will be constantly looking for new ways to create value with its partners and outsourcing questions in this process are essential.

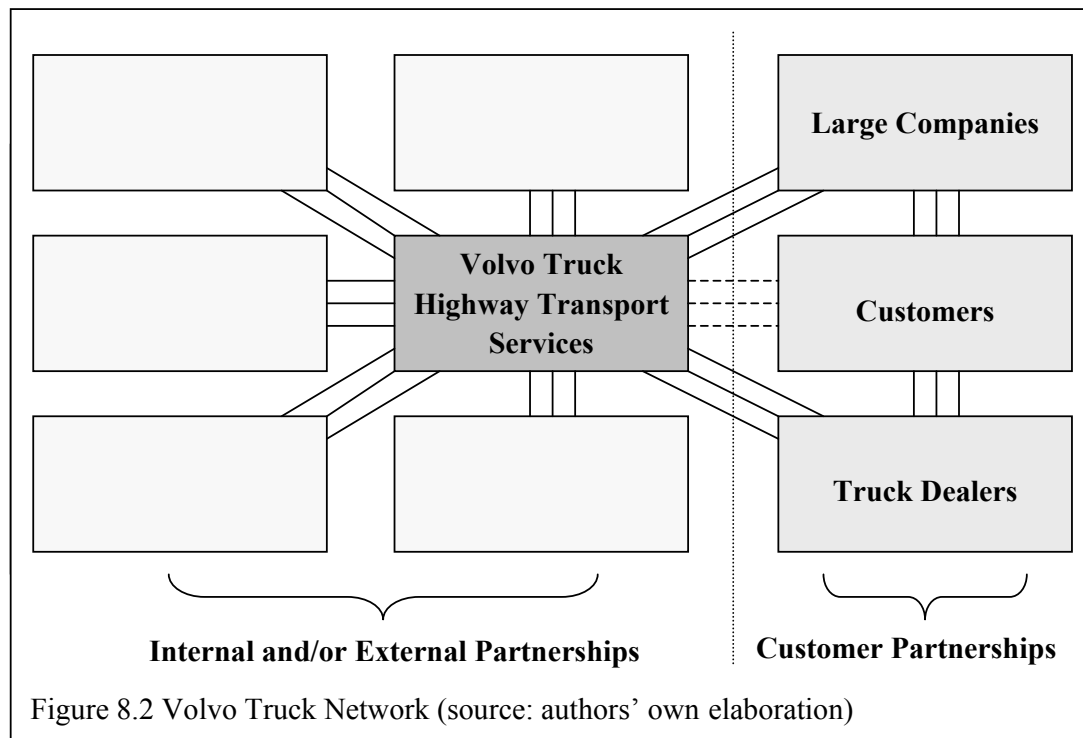
8.1.2 Volvo Truck Global Strategy

The Volvo Group's vision is to become the world's largest Commercial Transport Solutions provider within the manufacturing of Trucks, Buses, and Construction Equipment, as well as drive systems for marine and industrial applications, aircraft engines, and engine components. The product range also includes customer tailored total solutions in financing, leasing, insurance and service, and complete transport solutions for urban traffic. It is in this regard that the renewed Volvo Truck corporate strategy is aiming to increase the profitability of the customers and partners, and therefore contribute to the future development of the Volvo Group.

The corporate strategic direction of Volvo Truck is directed towards the offering of high quality Highway Transport Services to its customers. There are two elements in this strategic approach that are key, namely the establishing and developing of closely integrated partnerships, and the development of the Highway Transport Services. Important is the translation of the core values of the Volvo Group, instilled in its current customer offerings, towards the business side of the organization as well. In this regard, the core values of quality, safety, and environment form the backbone of the business side resulting in cost efficiencies, reliability, and partnering.

8.1.3 Volvo Truck's Network

Figure 8.2 gives a graphical summation of Volvo Truck's network. The Network consists of three core elements: Volvo Truck Highway Transport Services, Internal and/or External Partnerships, and Customer Partnerships.



This first element comprises the core of the network, which forms the center from where all the relations with and between Customer Partners and the Internal and/or External Partners are managed. In this way, the optimum flow

of information is managed within the network to create customized highway transport services. The Internal and/or External Partners consist of the activities like production, finance, insurance, maintenance, spare parts, and IT and related services. This list is not limited and can be supplemented with activities that could provide future value within the network. Volvo Truck is closely integrated with these partners to create relationships that create mutual value. Traditionally, some activities are performed within Volvo Truck or within the Volvo Group. In this network, this will be continued and be supplemented with partners from the outside. Essential is that Volvo's excellent name is related to outsourced activities and that the external partners embrace the same kinds of values. The evaluation of what the core activities of the organization are and what could be outsourced, are important aspects of the weakest link thinking. In this way the network is continuously strengthened in regard to the delivery of value and therefore efficient Highway Transport Services can be offered.

Volvo Truck is also forming the center of the relationship with the customers, without neglecting the importance of the current Dealer network. Therefore Volvo Truck will have a two-arm-approach towards the Customer Partners. On one hand it will cherish and develop the relationship with its dealers, and on the other, it will develop a strong collaborative relationship with large companies. The dealers will be closely integrated with Volvo Truck to establish efficient partnerships to provide end-users with their specific Highway Transport needs. Due to the close integration, the total order handling of the dealers, from initial customized ordering to billing, will be completely computerized to create a cost-efficient process. Once again, Volvo Truck will be the center of this activity. The close integration also means an efficient two-way sharing of valuable information that can benefit the performance of the whole network.

The general idea behind closer integration with the dealers will be establishing cost-efficiencies, creating new revenue streams, and the establishment of long-term relationships with the dealer network for mutual benefits. It will go beyond simply supporting the business of the dealer to make it more convenient to deal with Volvo Truck. The challenge will especially lie with the larger dealers who act rather independently from Volvo. The key is to integrate in such a way that each dealer values this close tie, resulting in dealer-specific relationships. Volvo Truck's current dealer strategic approach, of only owning its dealers when necessary, is continued and supplemented with a clear partnership approach.

By performing Key Account Management, large companies will be centrally handled by Volvo Truck. It is these companies that may have unique requirements and needs that can be better managed centrally. The integration of Volvo Truck with these organizations allows delivery of highly customized Highway Transport Services and an effective way of managing the relationship throughout the whole network. The dealers will be surpassed in this customer interaction, but will perform an important role in delivering certain aspect of the service. An example of close interaction with these large companies can be the fleet management of Logistic solution providers. These logistics companies may have outsourced certain parts of their fleet capacity to local operators or designed a logistic solution for the fleet of their clients. Essential is that Volvo's interactions and offerings incorporate these outsourced activities and clients as well. A second example can be the buying or managing of a company's workshop. These two examples are not limited, as customizing Volvo Truck's offering to the specific needs of the larger accounts is vital. The essence is to provide the best total highway service that offers the most effective Euro per kilometer rate throughout the entire chain of the key account company.

8.1.4 Network Strategy

The concept of a Volvo Truck Network is a new way of thinking within the organization, and needs to be established from a clear strategic point of view. In establishing such a network and respective strategy, nine dimensions need to be addressed.

Collaborative management

This is a new way to view operations and it is a difficult transition where management has to refrain from entering into a protective and self-centered mode when facing difficulties. In fact, protectionism is one of the last things Volvo Trucks management team should focus on in a network-based business. When faced with difficulties, solutions are found through collaborative efforts by consulting partners. In fact the management team is no longer found within the halls of the corporate office but are spread out across the network where partners can specialize in certain operational areas in order to gain expertise. Avoiding overlap is a key feature of collaborative management and the

realization that one cannot be an expert at everything. Critics will argue that this will weaken the company, leaving it open to attack from competitors as well as partners who might change alliances. This is true, and therefore network management is all about ensuring the strength and interdependency of its components as to create both barriers of entry and exit. It should be very costly for a partner to withdraw from the network, it is also important to choose partners carefully and to manage them successfully.

Partnering

Choosing the right partners in a business venture is crucial, in Volvo Truck's network strategy it becomes even more important as divestments may become very expensive if the collaboration has to be terminated. Network strategies involve the formation and management of alliances at many different levels. At its most efficient point, all non-core related activities should be outsourced to a partner who is dedicated to that particular business. In reality there will be a compromise between the need to protect against risk and the ability to reap benefits.

Network revenues

What matters in a network strategy is not the financial performance of Volvo Truck alone, but the total revenue generated by the network. This means that new forms of accounting principles have to be implemented, not necessarily on lower functional levels, but on the strategic management level of the company. It is the performance of the whole network, including the end-user, which should be measured. In certain cases Volvo Truck should go further and try to investigate the performance of the client's client. This is a test to ensure that non-performing activities are kept to a minimum, and to avoid resources being taken from one sector in order to compensate for inadequacies in another.

Concentration of core activities

What is the core business, what is it that forms the real value of the organization? The answer to this question is one of the most important ones that Volvo Truck has to continuously ask itself. The more non-core related activities that can be outsourced to companies specializing in these fields, the more time, energy and financial resources can be put to use in order to enhance the capabilities that create value added for the end users.

Risk and investment sharing

Venturing into new areas often entails large investments in order to build up a new corporate infrastructure. If this can be done in conjunction with several partners that share facilities, overhead costs and so on, the total expenditure for each company will be a lot less compared to if Volvo had done it themselves. There are many synergy effects that can be obtained through investment and risk sharing. Many companies are today pursuing this strategy simply because their competitive environments are forcing them to do so.

Spreading R&D cost

One part of investment sharing that is worth mentioning, as a separate feature, is the high cost of new product development as well as the long lead-times needed to bring a new product to market. In certain industry sectors such as the pharmaceutical industry, it is becoming next to impossible for smaller companies to bear the enormous cost of developing new products. In this particular market, mergers and acquisitions have been used in order for companies to gather the size needed to continue research. A network strategy is a preemptive step that allows companies to conduct shared R&D activities without the problems associated with a mergers and acquisitions strategy. The biggest problem associated with this approach is protection of new technologies, which have to be safeguarded within the network from outside intelligence gathering.

Marketing; collaborative, supportive and sharing costs

One of the strongest marketing tools around is word of mouth via a collection of partner companies that continuously recommend and backup each other's products sending a very clear message to the clients. Supportive efforts can be reached through identification of customers' needs, where solutions provided by the partners are presented as part of a complete package. Sharing advertising, trade show and road show costs allows the marketing budgets of the companies to cover more ground. Whenever a partner is in one market during a trade show, it will indirectly promote the others through joint marketing materials.

Extensive communication

One of the problems with a network strategy is the inability of many organizations to break down communication barriers between themselves and

the surrounding business environment. In fact it is often true that internal boundaries exist which makes external communication next to impossible. One of the first things that Volvo Truck can do when entering into a network strategy is to oversee how it communicates both internally and externally. Almost every organization can make improvements in this area. Therefore it should be viewed as being of top priority.

Focus on the weakest link

Any network is only as strong as its weakest link, especially through the removal of procedural overlap between business units. It is often the case in more traditional organizations that whenever a particular unit is inefficient, the slack could be taken up by others. This luxury is no longer a viable strategy as the highly competitive landscape of global business operations force down redundancy. Within a network-based operation, profit and margin become more complex and it is no longer enough to only keep a watchful eye on the corporate statements alone. In order for Volvo Trucks network to function efficiently, all parts have to generate a positive and sustainable margin. It is the overall profit map of the whole network, which becomes important. But to keep an efficient watch on the whole network makes it difficult to identify problems that are at lower levels which indirectly affect corporate performance. Therefore, the approach of focusing on the weakest business unit allows the organization to continuously enhance itself. Every quarter the focus changes and the units are re-evaluated against each other in order to detect which one needs the most attention. The time period does not have to be a quarter, but should be connected to the normal cycles of the business within which the company operates. These are steps that could be taken in order to efficiently use the weakest link approach:

1. Identify the weakest business unit
2. Identify problem areas
3. Create action plan, with rapid implementation
4. Implement during limited time span, e.g. one quarter
5. Assess success of plan
6. Re-evaluate business units and repeat step 1

Assessment becomes very important, did the action plan work, were the problem areas correctly identified, how well was it implemented and so on?

Continuous performance measures of various kinds have to be linked to every activity as to clearly attempt to measure the success of different programs. After a set time period, re-assessment of the business units will occur and a new unit will be chosen for further study.

These steps, if done correctly will force the network to update itself, always attempting to increase performance where it is at its weakest point. Also, the focus can be narrowed to one problem area at a time, making the process manageable.

8.1.5 Example of network activity

The example that can best illustrate direct benefits for Volvo Truck in using the approach of a network strategy is the weakest link scenario. The following example will explain a fictional scenario where Volvo Truck is identifying one of its weakest business units, how to improve the situation and last what the result of the implementation plan was.

Step one entails the identification within the network of one business unit that has over some time had performance problems. In fact it has at times gone so far that Volvo Truck have had to put substantial investments into acquiring businesses just to maintain market presence. The unit in question is the dealer network, which today has on average a margin of between two to three percent. A clear indication that this area is one that has to be improved greatly is not losing more distributors when the economy falters.

The second step, identifying problem areas, is attempting to locate factors that directly or indirectly cause the problem. In the case of the dealers, it is easy to say that the competitive situation has forced down the margins to such a low level that their business model is hardly viable any more. There are of course many factors that affect this situation. Therefore, one example is given for further studies. It is clear that the revenues earned by the distributors could be improved. Therefore, it is Volvo Truck's task to improve the situation.

Creating an action plan is step three. There are three areas of improvement, namely creation of additional revenue streams, operational and collaborative efficiencies. One area, where additional revenue streams can be generated, is

through the creation of a fleet rental service, which will be operated by the dealer. As often is the case, used trucks continuously flow through the dealer's inventory. Why not put this resource to use? The dealer obtains a revenue stream and Volvo Truck has local access to a rental service, which it can offer to customers that operate in the same geographical area. Operational efficiency is an area where Volvo Truck can assist the dealers in many different ways. Take a simple step such as administration, which in the current situation can be based on a traditional invoice system, which is costly and ties up personnel. Volvo Truck offers their online administration system to the dealers, which allows managers to directly place orders for new products, parts and services and many more administrative tasks.

Within the field of operational efficiencies there is a whole range of solutions that Volvo Truck could use to tie its dealers closer to them. In fact it might be impossible for a dealer to switch once the system is in place. It will be even harder for a competitor to break these connections, which will create barriers to entry. Last, there is the issue of collaborative efficiencies where the synergies of the network can help dealers in many different ways. A simple function such as putting new products onto the dealer's shelf will also increase the revenue stream, especially as these products often are complementary with their existing product offerings.

Step Four, which should be done rapidly, encompasses implementation. In order to as quickly as possible be able to measure the rate of efficiency that the new suggestions might have, the dealer and Volvo Truck work out a time schedule. In this schedule the dealer handles the local implementation, while Volvo Truck handles the communication between the partners.

The fifth step concerns assessment. The careful monitoring of the progress of the implemented processes is vital in order to establish its rate of success. Volvo Truck has developed advanced methods for measuring both financial and strategic indicators of how well a process is implemented. This monitoring will continue over time, as it is part of the overall purpose of the network strategy to gather information regarding every part of its units. If there is a discrepancy, an action plan will be formed to handle it, with a new assessment that will judge its progress.

Finally, step six entails repetition. This is the time when Volvo Truck has established the improved strength of their dealer network in this particular segment. Focus is now shifted to other areas that need attention. These six steps are of course simplified, but they give an overview of what kind of tasks are needed to take in order to implement a successful network strategy within Volvo Truck.

8.2 Segregating, Relating, and Explaining Key Areas of Excellence

The Volvo Truck scenario is based on the Key Areas of Excellence of the comparison companies Danzas, Whirlpool, and Dell, of which some aspects are translated to Volvo Truck's situation. This paragraph segregates, relates, and explains the Key Areas of Excellence of the future scenario of Volvo Trucks. The first part deals with segregating and directly relating Information Management, Relationship Management, the Direct Model, and the Global Marketing versus Local Marketing to the three comparison companies. Finally these Key Areas of Excellence in Volvo Truck's case are explained.

8.2.1 Segregating and Relating of the Key Areas of Excellence

Volvo Truck's scenario, as explained before, can be segregated in four areas of excellence, namely Information Management, Relationship Management, Direct Model, and Global versus Local Marketing. The core capability of Information Management is derived from Danzas' approach. The top-notch web-based approach enabling an advanced management of information is mainly based on Dell's technological approach in this regard. Both companies have established a distinct way of managing information and incorporate the latest technological development to aid their businesses. Relationship Management can be connected to Danzas way of dealing with its business partners throughout its network. The Direct Model is a revolutionary approach implemented by Dell many years ago in the computer industry. In the explanation, some aspects of this direct approach are transferred to Volvo Truck. Finally, the Global Marketing versus Local Marketing concept is directly translated from Whirlpool.

8.2.2 Information management

Effective Information Management to the benefit of the company and its business partners requires a structured approach, as the transition to this capability requires time and planning. Used effectively, the incorporation of this information management capability can create relationships and a competitive edge hard to imitate by the competition. It also offers a better base for accommodating changes in Volvo Truck's business environment. The following paragraphs will describe this transformation process.

Volvo Truck will manage information through the usage of a new approach to corporate information systems. The company will implement an IT strategy consisting of new Internet-based services providing significant cost savings over traditional internal systems, offering new opportunities for collaboration with dealers, customers, and other stakeholders. This new IT strategy provides a Web services architecture, which is completely different from the traditional view on management information systems. The core of this approach is that Volvo Trucks will buy their information technologies as services provided over the Internet, instead of owning and maintaining costly internal networks itself. This offers the company the advantages of becoming more flexible towards the different business processes, adaptive to market changes, new strategic directions, and partnerships. Being Internet-based, offers an open system which does not require a risky capital-intensive investment to implement it. Volvo Truck can focus from the start on the opportunities that will deliver efficiencies by incorporating new capabilities, as the system will develop. In this approach, Volvo Truck sources the functionality they need out to service providers and concentrates solely on the content and managing of information.

This Web services architecture comprises three layers of technology. The first layer consists of software standards and communication protocols that allow information exchange among different applications. This simplifies and streamlines information management. The second layer is made up of shared utilities from security to third party auditing to billing and payment. This allows Web service users and providers to find and connect with each other, and creates reliable environments for carrying out critical business activities. The final layer comprises a wide variety of application services that automate

particular business functions.¹⁴⁶ This layer will be the most visible to Volvo Trucks' employees, dealers, customers, and other partners. Some of these application services will belong to a particular dealer or company or groups of dealers or companies.

Today, Volvo Truck has implemented some online services for its customers and dealers with the purpose of increasing productivity of customers and to support the business of the dealers. These online services exist on top of the legacy systems that Volvo Trucks has built up in recent decades. These information systems are Volvo's propriety and are maintained by the company itself. These systems lock the organization into inflexible business processes, which makes it harder to adapt to changes in the business environment, strategic restructurings, and the establishing of partnerships. The current e-business approach is very product-orientated and not perceived and designed to manage information effectively. Moreover, it is not an integrated part of conducting business within the Volvo Truck organization. With the new information management approach this will be the case. This does not mean that the current investments in the e-business activities are in vain, but should be related to the concept of managing information more effectively. In this way cost-efficiencies can be reaped, knowledge can be shared, and revenue can be increased through stronger partnerships and new services in a stepwise process.

This approach of Volvo Truck will provide the organization advantages over the more traditional way of corporate information systems. Volvo Truck will be able to efficiently manage the information technology, as investments in IT assets will be reduced because of the purchase of the functionality the company needs. Volvo Truck will not be forced to own outdated hard- and software due to the rapid technology development. The owning of the needed hard- and software will be outsourced to an IT-partner, while Volvo Truck can utilize its accumulated and new information to manage the relations more efficiently. The responsibility for the maintenance of systems lies with outside providers, which reduces the necessity of hiring large numbers of IT-employees. The Web services architecture allows for more flexible collaboration between Volvo's business units and between Volvo Truck and its business partners. This will make it much easier for Volvo Truck and its partners to be pro-active in response towards changing market and competition conditions. Finally, this

¹⁴⁶ Hagel III, J., Brown, J.S., "*Your next IT strategy*", Harvard Business Review, October, 2001

approach makes it more flexible to integrate databases and make these resources available to all business partners. In this way, Volvo Truck can concentrate and invest in its core activities of providing and managing Highway Transport Solution.

The construction of the Web service architecture is still in the early stages, and further development and investment is necessary by service providers to create a stable architecture¹⁴⁷. Nevertheless, Volvo Truck should begin with the transition to this new IT strategy, as benefits can already be harvested by moving to a Web service model for certain activities and processes. It requires Volvo to take a structured approach towards this. The Web service architecture is ideal for a stepwise approach because it is based on open standards and it uses the resources and capabilities of third parties¹⁴⁸. Volvo Truck does not have to start with huge investments, as it can carefully plan its investments and learn this new approach gradually. The status of its current e-business system will still be significant, but developed from a different stance.

How will this new IT strategy work for Volvo Truck? With the implementation of this new architecture, Volvo Truck will be concentrating its efforts mainly on the business side of the organization. The applications and activities are aimed to tie Volvo Truck to dealers, customers, and other partners that play an important role in the offering and performance of the Highway transport services. Ordering, sales, marketing, customer support, relationship management are examples of activities within Volvo Truck that can be integrated. The focus on these activities by Volvo Truck in this approach can result in mutual benefits through sharing which is hard and costly to reach with complicated traditional systems that are linked together.

The company should start with integrating the dealers and customers further in the Volvo Truck organization. This surpasses the currently implemented e-business approach. It will result in Volvo Truck being able to communicate and collaborate electronically with its dealers and customers. By using the Web service architecture, Volvo Truck is capable of rapidly integrating them with current applications. Many dealers will not have top-notch IT capabilities and the ability to invest in major new technologies to establish traditional

¹⁴⁷ Hagel III, J., Brown, J.S., "Your next IT strategy", Harvard Business Review, October, 2001

¹⁴⁸ Hagel III, J., Brown, J.S., "Your next IT strategy", Harvard Business Review, October, 2001

information systems. Therefore, using this new approach enables existing applications to be integrated and new processes can be established with relatively low mutual investments.

The first step, besides the existing online services, can be to focus on Web services to improve the build-to-stock model. This will provide the dealers and customers with a wider array of options. It provides, for instance, an order-to-delivery application, which aims to decrease the lead-time between placing an order and delivering the truck to the customer, and optimize administrative processes. A step like this can ultimately lead to an efficient build-to-order model. Another important step will be the linking of dealer databases to effectively share customer and market information. An important fact in this regard can be the further development of the online customer support, which can be an efficient tool for assisting customers and provide valuable market information. The activities mentioned mean that the current e-business has to be taken a step further than the current online services offer, which will still be a part of this.

The cost-efficiencies of establishing such an integrated system can be substantial both for Volvo Truck and its dealers, as it reduces investments in technology, administration, and inventories. Besides, the sharing of information will make Volvo Truck and its dealers more effective and efficient in dealing with customers and the business environment. A clear challenge will lie in convincing the dealer network of the need and benefits of this integration. It is essential that the dealers and customers are part of developing this system in order to give valuable input. The staged approach in implementing the new IT strategy will reduce the risk involved in adopting this new strategy, as the efforts are related to the development of the system. The shift to this kind of IT infrastructure will be gradual and focuses on systems and applications that reap immediate efficiencies in the relationships. By starting with the dealers, Volvo Truck can develop and gain experience with the system. Engaging too fast with too many partners can be a source of failure in establishing an effective and efficient system. The benefits of developing this system in this way surpass the current way of thinking and developing e-business.

The final step will encompass the leveraging of this system to other business partners and key accounts to directly interact with them. It is essential that the same stepwise approach is followed. Making them part of this system will

result in a more efficient way of establishing and delivering the Highway Transport Services. Ultimately, Volvo Truck will be the center of a completely integrated system, assuring an effective management of the flow of information between internal departments, business partners, the dealer network, customers, and larger logistics clients.

8.2.3 Relationship management

One of the aspects of relationship management is that it often is very elusive and at times difficult to define. In contrast the direct model within sales can easily be defined as the elimination of middlemen. Therefore the best way is to look at companies who use this strategy effectively and learn from best practices exercised by these companies.

A company implementing a relationship management strategy would have to create strong partnerships as their services entail a great amount of trust on the customer's side that literally is giving over the distribution system to an outside company. As well as integrating business processes that often include very sensitive information into a foreign organizational structure. To make this work, the clients will have to feel 110% assured that they are in good hands, these kinds of relations are not built overnight. How can then Volvo Truck benefit from this? Well, in many ways, as this chapter will illustrate concrete examples of how Volvo can increase the relationship management capacity. A capacity that in the future might form the core capability of the company within the field of transport services.

Once the initial structure of the information management system is in place, it becomes vital to gather information regarding the content of the system. Interaction with clients, both large and small, both pure product driven and solutions oriented, needs to be established. Distributors, partners, suppliers and so on are key players that are parts of the new network. Their interaction is necessary in order to ensure the success of a network strategy. This might at first become a monumental task, who is going to manage all these activities, who will coordinate it all? To better understand how relationship management can be implemented into an organization, we will look at one particular area which is important for Volvo Truck; the dealer network:

In order to assist the dealers, it is necessary to increase the amount of communication that is occurring between local Volvo Truck channel managers. The task of a channel manager should initially be that of an organizer, collector of data and be foremost a relationship manager. It is often the case that a channel manager is involved in day to day business activities that include generation of forecasts, sales plans and so on. Forecasting alone is very time consuming and goes through several filtering processes as it passes through an organization. By integrating many procedures that both the dealer and the channel manager spend considerable time with into the Volvo organization, more resources are freed up to be used on building relationship strategies. One of the first steps a relationship manager needs to address is that of introducing and structuring new processes, which are aimed at facilitating interaction between the dealer network and Volvo Truck.

It is very important to receive input from the dealers regarding how the integration process should occur and the system should be flexible enough to allow customization to different market needs. Many dealers will raise questions regarding possible investment costs on their side, something that should not be a problem as all new services should be accessible through a normal PC computer through the Internet. The process is ongoing; the dealer will identify in conjunction with Volvo what the needs are, the most attention, implement a new service, test it, evaluate it and make adjustments. In such a manner, new processes are continuously added to the system and the risk of making large investments in services, which are not used, is limited.

As these systems become implemented and used on a daily basis it will cut back on the amount of administrative functions that have to be performed by both the dealer and the channel manager. One of the most important aspects though is the added benefit of data collection, as the system is fully IT based. Every single activity is logged and can be used to form advanced marketing studies. Within the field of forecasting, it becomes an invaluable tool, which will judge the accuracy against forecasts and against order entries. This can give rise to new tools that can improve the forecasting activity and to predict market trends¹⁴⁹. The more of these tools that are made available throughout the network, the more comprehensive the picture of the marketplace will become.

¹⁴⁹ Tamme, T., "*Vi har aldrig varit bättre rustade*", Itrafik, Issue 6, 2000

The real synergy effects will come from the new connections that will be made between the different partner companies within the network. The dealers can now offer new ways of interacting with larger clients and can offer services to smaller customers who earlier did not have the funds needed to invest in new technologies. A small local distribution company would gain access to an advanced tracking system, which is offered through Volvo where the dealer finds himself with a new product in his catalogue. The customer can also see online how much his truck fleet is costing him, day-by-day, hour-by-hour and has access to advanced planning tools, which allows him to predict future costs. In one example, the customer will be able to predict a temporary upsurge of shipping needs due to a local holiday and can through the network arrange additional trucks to be rented during this period.¹⁵⁰ This is all done through the network but with the involvement of the distributor and Volvo Truck, acting as a Highway Transport Service provider.

The case of improving the dealer relationships is just one part of the network strategy, where relationship management plays a crucial part. One of the key aspects of relationship management is that a new viewpoint on the business has to be applied, mutual benefits have to be recognized. Performance within Volvo Truck should not be measured only on the internal department, but on the overall success of the network, which the manager is overseeing.

8.2.4 Direct Model

Dell Corporation has gained an enviable position within their industry in part due to their ability to use the direct model in many parts of their business activities. It is true that Volvo Truck operates in a different market environment than Dell, but there are certain key features of the direct model that Volvo could benefit greatly from.

In order to better understand how Volvo can integrate a direct model strategy within parts of their operations, one area has been chosen in order to give a future structural blue print. Dell started investing in their customer relations department very early on, and have developed a direct after sales relationship interaction with every single client they have. This is done through the use of

¹⁵⁰ *"Tunga lastbilar – hålllar Scania på att dra förbi Volvo för gott?"*, Motorbranschen, Issue 10, 2000

different technologies, efficient outsourcing, and innovative solutions that create added customer value.

Direct model within customer relations

In order to make this more comprehensible, a look will be taken at the European market. Nevertheless, the concept can easily be copied to other markets such as Asia or North America. In Europe, there is a wide collection of national languages, often overlapping geographical borders. There is a multitude of cultural issues and different ways business is conducted from one country to another. There are however companies who specialize in becoming experts in this diversity and it is therefore recommended to outsource some of the customer relations activities to these specialists. Call centers are usually the most commonly outsourced specialist activity, where initial interaction with clients occurs. For a call center to function, there has to be an extensive database as well as access to all kinds of product information.

It might be seen as an additional investment to make this information accessible to another outside organization, but it is a vital step. Let's take an example like a spare parts database. There should be only one spare parts database and it should be accessible through the Internet by a wide range of users including partners, dealers and support organizations. The same accounts for inventory control systems. What parts are available in local inventories? If not, how much time would it take to receive them, etc.? Why is all this data needed? Simply put, customer relations will have the role of an overall coordinator whose task it is to pull together resources and facilitate the work of dealers, clients and key accounts as well as suppliers. When contacting Volvo Truck, there will be one phone number, one Internet address to go to where all questions are answered quickly and efficiently. This is where the direct model comes into play. Volvo Truck becomes the center of the network, the one to turn to with questions and possible issues.

Additionally, to the telephone call centers, there is a growing trend to use Internet based centers. A good example is Dell's online support, which is responsible for well over half of all support calls. Using a chat window technology on a standard PC computer over the Internet guides the user through a series of quick questions that pinpoints the problem and in the end, connects the user with either a live operator or an information database. When

connected with a live operator, the full history of the user is made available along with a summary of the problem at hand. A brief session of questions to pinpoint the problem follows, where the operator has access to experts, who can give detailed answers. This is where language barriers are overcome, the operator acts as a buffer between the English speaking experts and the customer who might be speaking any of the many languages that make up the European continent.

The cost of establishing a call center operation can often be shared among several partners, as the need is evident in most kinds of businesses. The gains made from this service also become greater where more and more partners tie their products, services and resources to one comprehensive network. There are many ways to obtain funding for a strong support network. In fact, one, which is commonly overlooked, is the savings such a system gives to the internal workings of an organization. By creating a central support structure that is part outside, part inside of the company, many internal support processes can be outsourced through the use of the direct model. Dell computer has been mentioned as being at the forefront of using the direct model. Why not outsource all office computer purchases and more importantly computer support functions to them? Dell has far more experience at this than the internal IT department at Volvo and can act much more quickly to environment conditions such as viruses or upgrades of software simply because they do it for hundreds of customers. It all goes back to the identification and concentration on core capabilities.

There are many beneficial effects arising from the direct customer service approach, some that can create new revenue streams. The amount of customer and market data that can be gathered by this system is a treasure trove for many marketing organizations that would gladly pay for access to the system. The sheer amount of tie-ins that can be established is too great to mention in this thesis but there are countless examples of companies who have actually found themselves in brand new businesses being very successful.

The direct model can also be applied to other areas such as marketing and sales. It is doubtful how far Volvo Truck will be able to go in these fields due to the shape and constitution of their market. Dell for one conducts every single sale directly with each client, in fact more and more, there is no human interaction in the sales steps, but the Internet is the only means of contact. Such an

environment is a bit away for Volvo. There are however great benefits within the fields of support and maintenance where this strategy is extremely valuable.

8.2.5 Global – Local Marketing

The Global versus local marketing activities will form an important aspect in communicating both internally and externally. It requires an important collaboration with the dealer network to share information about customers, markets, and the competitive situation. The integration and updating of the databases can translate Volvo Truck's global marketing into an efficient and effective local message tailored to the specific needs and requirements of the local markets.

Volvo Truck will have a Global Marketing platform, which forms the backbone of the marketing activities and the offering of Highway Transportation Services worldwide. This platform incorporates the core values instilled in its customer offerings. The Highway Transport Services, and therefore the Volvo brand, addresses quality, safety, and environment, but also stands for cost efficiencies, reliability, and partnering. This Global platform forms the basis of all the local marketing activities and addresses the key aspects that a local marketing activity has to apply, like for instance promotional activities, customer relationships, and data gathering and dissemination. The advantage of this approach is that the corporate message of Volvo Truck is effectively translated to the dealers and customers in the local market. Besides, the new strategic approach and activities of Volvo Truck can be clearly positioned in the local markets.

As mentioned before, the dealers will play an important role in this global marketing platform. They work jointly with Volvo Truck to develop the most effective local marketing program. The dealer network will therefore not simply function as an implementer of a uniform marketing program delivered by Volvo Truck, but they will actively work together to develop the best local marketing program based on the global platform. The dealers have a strong knowledge of the local market and its customers. It is essential that this information and the results of local marketing activities are stored in databases and shared throughout the whole Volvo Truck organization. In this way, Volvo Truck and its dealers in other markets can learn from one or several markets to

establish an effective and efficient local marketing program. This will result in a learning organization, which can continuously translate the global marketing effectively to a local program. An important aspect of gathering market and customer related information is the online customer support. These questions and problems can be directly translated to valuable information concerning product and service development. Managing this flow of information to the benefit of Volvo Truck is essential.

The Global Marketing versus Local Marketing capability of Volvo Truck is a direct result of the Information and Relationship management capabilities mentioned previously. When these capabilities are functioning within Volvo Truck and its dealers, customers, and other business partners, it will be more efficient at implementing them. These capabilities form an important facilitator of this marketing integration approach. Information management will assure the integration of the databases, while relationship management is necessary to develop dedicated relations that facilitate the mutual commitment of collaborating to create value.

8.3 Priority

Implementation of such wide subjects as relationship management and utilization of the direct model within an organization does not happen overnight. However, stepwise implementation takes time and network strategies usually have functioning problems when pieces are missing. How can a company then both implement key features gradually, allowing the network to grow without the risk of gaps between business units and processes? In truth, there are few examples of problem free implementation phases and there are arguments, though, that it is next to impossible and that the only way is to start from scratch. As this is not an option in the case of Volvo Truck, a look will be taken at what key areas are needed the most, how they could be implemented, and the reasoning behind these choices.

A priority list for Volvo Truck could encompass the following:

1. Creation of cohesive backbone for information management systems
2. Information gathering phase of a relationship management system

3. Dual activity: utilization of information systems as part of building the relationship network
4. Implement the use of direct sales within the information network
5. Initialization of direct model approach for support functions
6. Start of global/local marketing system using the network approach
7. Launch of direct marketing model

Before the details are given, it is important to remember one of the core functionalities within the network strategy: assessment. The weakest link theory has previously been discussed in this thesis. It cannot be stressed enough that careful monitoring of each implementation step is needed.

With this warning out of the way, a look can be taken at the reasoning behind putting one task ahead of another. The first step involves the creation of something called a backbone for an information management system. Engineers usually refer to this as a technical solution involving IT based systems, but information management goes far beyond database management, which simply is a small part of the system. Volvo Truck currently has a myriad of systems for sharing information, not to mention some very old legacy systems. When building an efficient information management system there are two mantras, which should be learned by heart: simplicity and flexibility. Then the question is always raised regarding what should be termed simple and flexible, the answer should always be: whatever gets the job done in the most efficient way possible. This kind of foundation or backbone has to be put into place before other steps in a network strategy can be fully realized due to the need for points of connections. Once in place, an evaluation phase of the relationship management process is started. There are some basic questions that need to be asked: what activities generate money for our clients? How do you find the answer to this question? Simple: ask. Collect information and create a model of how the business could work, then test it, assess the validity and add pieces, which directly enhance the bottom line result. This is where we get into step three, where relationship and information management merge.

If done correctly, it is possible to very quickly start implementing a direct approach to the sales process. The underlying structure is in place and the partners needed to make it work are motivated to make the system show results. Tying a dollar amount to every activity is very important, partly

because of the weakest link approach as well as justifying the existence of the network itself.

Support in its many varied functions has to be implemented quickly at this stage, as without it friction might occur as well as the lack to capture problems in the network. The support function should allow seamless integration of all business units with one point of contact worldwide. The importance of this step cannot be stressed enough, and it is a revenue generating activity and should be treated as such. The next step involves a global/local marketing process, which is closely followed by implementation of a direct marketing model that is tied directly into the support system of the network.

As clearly can be reviewed from this process, there are functions that have to be in place before others can function clearly. It is however important to keep in mind that the system is only as good as its weakest link and that without assessing performance and quality of implementation, the whole system might falter.

8.4 Risk

In every what if scenario, it is important to include a description of what could happen if the status quo is maintained and no change is made. Therefore, assessing risk in this case can be done through the creation of a possible future competitor offering the new services, which would compete directly against Volvo Truck. The examples given below are meant to show an extreme case where Volvo Truck meets the experts in this area, namely the comparison companies themselves. If Volvo Truck faced a competitor with exactly the same strategic capabilities as Danzas, Dell and Whirlpool, could Volvo Truck compete? Imagine if Scania had the same relationship and information management capabilities as Danzas, could Volvo Truck compete against such an organization? The answer to this question can best be illustrated through fictionally facing Danzas as a competitor and evaluating the outcome. Then take it to the next level and let Scania obtain the same strategic capabilities as Dell and Whirlpool and compete against Volvo Truck, what would be the result? In the coming sections this fictional risk analysis is illustrated through a scenario where Volvo Truck will face each of these organizations and their specific strategies.

8.4.1 Information and relationship management

What if Danzas were a direct competitor to Volvo Truck? This scenario is not so far fetched as during the process of this thesis, questions have been raised regarding this possibility as a future scenario. What would the outcome be of such a comparison, Volvo Truck on one side maintaining its status quo and not enhancing their information and relationship management capabilities, facing Danzas – an expert in these fields?

Let us take a look at one particular example in order to focus attention on one particular type of risk; concentration on core capabilities. By using a network strategy, Danzas has a clear focus on their core business, while at the same time offering a complete package solution through their partnership offerings. Volvo Truck lacks the same kind of clear focus regarding the direction of their core activities and is unclear over what to outsource, how to communicate internally and externally as well as missing out on important synergy effects. Volvo Truck also lacks the strength of partnerships where Danzas uses the network as a competitive tool Volvo stands alone and will most likely enter a reactive mode attempting to counter competitive moves. In the end this will lead to inefficient use of resources and an unfocused corporate direction, making the company vulnerable. Without change that will counter the strengths of its competitors and Volvo Truck might find its market decreased and overall influence on the market very limited.

8.4.2 Direct Model

Dell versus Volvo Truck is of course not a fair comparison as the companies are in such different markets. But by taking a look at one particular segment, which affects both companies, parallels can be made; marketing research. While conducting this thesis, a test of Dell's support system was made, where a simple question was asked: "What is the greatest issue facing homeowners of desktop computer systems? The answer was found in less than 10 minutes by using the Dell support network with the backing of over 48,000 posts clearly indicating that hardware upgrades was their worst problem area. In second place were users who had problems with their graphics cards and so on. Dell

has an enormous database of “real-time” information, which is, updated every second giving clear snapshots of current user trends and behaviors. If the same question was put to Volvo Truck, it could sound something like this; “What is the greatest issue facing small truck operators driving FH16 trucks?”. To find the answer to this question, a marketing research firm would be contacted and a survey would be sent to 1,000 owners in order to find the result. The process would probably take the better part of two months, be quite expensive and the information might get outdated. Dell’s direct support model is linked into the information management system of the company and allows even outside users to gain access to extensive information.

The risk to Volvo Truck of not having this kind of system is obvious as understanding the market is a key requirement to maintain a competitive edge. There are many other parts of the direct model, which can create great amounts of risk if Volvo does not implement them, the case given in the example however gives a good direction and pause for reflection over future scenarios.

8.4.3 Global - Local marketing

When it comes to comparing Whirlpool and Volvo Truck, it becomes more subtle as Volvo has an excellent brand and has a clearly defined image to live up to. There are however changes in the market which are moving towards a trend where suppliers in the truck industry look more and more alike. Trucks can in some instances be viewed as a commodity, where price is often the decisive purchasing factor. Whirlpool has been faced with this issue for some time and has developed a dual marketing strategy of a global marketing message translated into a locally acceptable product. Where Volvo has a strong overall product identity, Whirlpool is going one step further. By adjusting the marketing message carefully to fit local market idiosyncrasies, Whirlpool is able to gain a competitive advantage. Volvo Truck lacks the same amount of local market know-how and the sharing of information related to learning marketing lessons from one area to another. In the end it comes down to keeping an ear close to the ground and to understanding the needs of the market. Whirlpool clearly has a proven track record of knowing their clients in order to produce products, which surpass that of their competitors. Not knowing your market can become an issue for Volvo Truck, and therefore they should take action towards becoming closer to their clients both on a global and

local level. Local know-how is clearly an Achilles heel for Volvo Truck and faced with Whirlpool, Volvo could not provide the same level of local service.

Risk assessment is very difficult to say the least, these three examples given above point out weaknesses in the status quo, which if not corrected could severely damage the company. Whichever route chosen by Volvo Truck, status quo is clearly not a viable option and for every day that passes by the need for a clear strategy becomes more important, because without it the consequences might become unacceptable.

9. CONCLUDING THOUGHTS

In this chapter, we will address a few last issues in regard to our thoughts and ideas that have come to bear at the end of this thesis. How important is it for companies to re-evaluate their strategic position? Secondly, how will a new strategy reposition an organization within its value chain? And finally is it viable to use other companies in different industries to locate successful business practices, which can be transferred?

9.1 Reposition an organization within its value chain

Changing one's position in the value chain can be illustrated clearly through the comparison companies, which give distinct examples of different strategies. Danzas has clearly moved closer to its clients within the value chain, as is indicated in the new strategy of being a service provider. Whirlpool is using its strong brand to communicate with customers, while at the same time, refraining from direct customer interaction. The company relies solely on its distribution channels. Dell on the other hand, has been able to remain where it always has been in the value chain, namely right in front of its clients. It is clear that Dell is an exception, as very few organizations can maintain a business strategy for decades upon end. It has to be added though, that Dell has streamlined itself and continuously sought new ways to utilize the original strategy to the fullest. In this way, it has been able to maximize the position in its value chain.

Volvo Truck is facing a situation where the need to re-evaluate its position in the value chain is apparent. It seems clear that the company needs to move closer to the clients, as the consumers demand more services. With the right implementation and strong management commitment it should be possible for the company to make an efficient transition. With this thesis, we aimed to provide Volvo Truck with valuable information of comparison companies with a specific position in the value chain that can provide input for further strategic discussions. As has been seen through our research, it is possible for a product-oriented organization to move towards the services sector and completely reposition itself in the value chain.

9.2 The importance of re-evaluating strategic positions

In the case of such companies as Dell corporation, the question might be raised, how often a new strategic direction should be pursued as their current one seems to work so well. Even companies like Dell have to continuously re-evaluate their strategic concept and assess the future viability. The real test comes down to the level of success one strategy has over another, where the breaking point is when a company is under performing. It is often then, at that time when management is forced to change direction, that a new strategy is drafted. A clear example of this is Danzas, which was forced to completely change its business model during the nineties.

In a way, this is the wrong path to follow. Instead, a company should proactively pursue new possible strategies that will allow it to make the change before it is forced to. Instead of doing business as usual and maintaining the status quo as long as possible, management should embrace change and use it as means for revitalization within the organization. The search for new strategic opportunities should be ongoing and be as much a part of corporate activities as competitive intelligence gathering. In the case of Whirlpool, which did not plan for the consolidation trend of the retail chains, measures were not taken preemptively. In contrast, its main competitor General Electric saw an opportunity where a close partnership with one of the rising stars in the retail business, Wal-Mart, could benefit them greatly.

In short, it is clear that companies need to predict change and form strategies, which are flexible enough to react to the changing geography of the business map. Without this forward-looking ability, corporations will risk losing out to opportunities where the competition will be quick to seize the moment and take the initiative. In the case of Volvo Truck, they are no exception to the general norm of how companies tend to stick to their old ways of doing business. It is however clear that attempts to redirect the organization have been undertaken, although with limited success. It is now more important than ever to reshape the organization according to the new conditions existing within the truck industry of today and tomorrow. In conclusion, strategic change is present in every global organization, where the ability to preemptively take steps for change will ensure success more often than when remaining inactive. This is

and has been the case in our comparison companies and we believe is also true for Volvo Truck.

9.3 The usefulness of comparisons in strategic discussions

During the course of this thesis, it became clear that one of the best ways to find new strategies was that of observing other companies. There are great amounts of information and ideas, not to mention lessons learned and experiences gained. One of the key issues involves finding the underlying factors behind successful strategies and it is here that most people fail. The problem is that what might at first be a contributing factor might be indirectly affected by more obscure issues which are the real influencers.

In the case of Whirlpool, it initially seemed that the combination of global/local marketing and production excellence was a sure means of success. However it quickly became clear that this was not enough to ensure the success of the company as disregard of good channel management now is causing great problems for the company. Nevertheless this can be an important lesson to learn from when drafting strategic plans. It is important to look at the whole picture, often including the client's client in the equation in order to ensure that the business model is viable.

In the case of Volvo Truck, it is clear that learning synergies can be obtained by observation of other successful companies. Once the underlying factors have been found, certain key capabilities can be transferred, although slightly modified to ensure that they will function in a different business environment. Looking at different angles, going outside the boundaries of the existing business model is important in order to locate new ways of conducting business. Volvo Truck has an excellent opportunity to reshape itself as their industry is in a state of flux, where opportunities for new approaches can create a new direction for the company. This thesis has given three very different examples of strategic direction, picking the best parts of different worlds and bringing them home is what strategic change is all about. Finally, when Volvo Truck has been able to initiate change and proven that this process can be successful, it might pose as an example for other companies willing to change. In this regard, imitation is the highest form of flattery.

10 SUGGESTIONS FOR FURTHER RESEARCH

In this final part of our thesis, we will discuss certain areas for further research that could be conducted in connection to this thesis. Due to the scope of our thesis, we did not have the time or opportunity to expand in these areas. In our opinion, the research suggestion made could be interesting for Volvo Truck in further discussion and implementation of strategic change.

How to strengthen the links between business units operating within a network strategy?

Establishing a network and an appropriate strategy has been an important recommendation within our thesis. This topic has been discussed on a strategic level rather than on an operational level. Besides, this concept is a new process within the Volvo Truck organization. Therefore, it could be interesting to conduct research on how to strengthen the links between partners to develop a strong and dedicated network.

Further studies in the field of scenario models

The scenario model presented in this thesis has been structured in a few distinct steps to provide an eye-opener and input for further strategic discussion. Therefore, it might be interesting to enhance the scope of the scenario model and add more features when conducting a more detailed analysis.

Testing the model against another case company

The model developed in this thesis has been tested on one specific case company, and jointly comparison companies have been chosen. In this regard, it can be interesting to conduct a similar study for another case company with different comparison companies. Will the outcome be the same, namely a strategic scenario for future repositioning based on Key Areas of Excellences?

Add competitor to the list of comparison companies

It would be beneficial to incorporate a competitor, such as Scania or Mercedes, in order to see how the strategies differ between Volvo Truck and these competitors. This would indicate how the industry is moving into a particular direction and if so, how these companies are coping with this.

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APPENDIX 1

Interview guides (in order of when the interviews were conducted)

Questions E-business (Anders Winqvist, 6/11)

Short introduction of what we are doing:

- What is the thesis about
- Why this meeting
- What we try to find out for our thesis – Status Quo, how IT/E-business is used within Volvo.

Can you give an overview of the activities within your department?

How is Volvo Truck using IT/E-business in regard to its Dealers and customers?

How is IT connecting Volvo Truck both internally and externally?

What are the future developments of IT/E-business within Volvo Truck?

Discussion of our ideas/thoughts

Business Solutions (Hans Börjesson, 6/11)

Short introduction of what we are doing:

- What is the thesis about
- Why this meeting
- What we try to find out for our thesis – Status Quo, how Volvo is providing business solutions.

Can you give an introduction about the activities of your department?

How is Volvo Truck providing Solutions to its customers?

What kinds of clients are provided with these solutions?

Does Volvo Truck work together with large customers to give customized solutions?

How is Volvo Truck working together both internally and externally, with e.g. business partners or dealers in providing business solutions?

Regarding these solutions, what is the role of the dealers in this process?

What will the future of the business solutions be?

How is the gathering and dissemination of market information?

Discussion of our ideas/thoughts

Strategic Development (Jan Stridsberg and Gunnar Eliasson 6/11)

Short introduction of what we are doing:

- What is the thesis about
- Why this meeting
- What we are trying to find out for our thesis

Can you give an introduction to your department?

How do you view the provision of business solutions to the customers for now and the future?

How do you see the role of the dealers for now and the future?

Will they be tied closer to the company?

How do you view RM with dealers, customers, and other business partners?

What will the role of Information management be?

What is Volvo Truck's core activity?

What will it be for the future?

Discussion of our ideas/thoughts

Operational Services (Anita Lennerstad 7/11)

Short introduction of what we are doing:

- What is the thesis about
- Why this meeting
- What we are trying to find out for our thesis

Can you give an introduction about the activities of your department?

How is Volvo Truck providing Operational Services to its customers?

What kinds of clients are provided with these services?

Does Volvo Truck work together with large customers to give customized services?

How is Volvo Truck working together both internally and externally, with e.g. business partners or dealers in providing operational services?

Regarding these services, what is the (future) role of the dealers in this process?

What will the future of the Operational Services be?

How is the gathering and dissemination of market information?

Discussion of our ideas/thoughts