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Cost Neutral growth during recessions – too good to be true? Or a real possibility?



Recessions do not impact all companies equally. The impact an economic recession will have on your company will depend on a number of factors including:

- The strength of your balance sheet
- The industry in which you operate, and
- How you manage the recession.

Some companies grow during recessions, and many gain ground on their competitors – particularly those that can achieve growth without adding to their cost base.

Many Western companies operating in Asia do so through a myriad of supplier and distributor relationships. Operations grow organically over time. Distributors are engaged in what are deemed attractive markets, and a regional sales office is eventually established. The network of internal and external parties is often extensive and spread across vast geographies, different languages, and distant cultures.

In managing international operations, firms rely on processes and structures that have been successful in optimizing operations and governance structures in home markets. However, in Asia, business practices and industry dynamics may be fundamentally different in ways that are not readily apparent.

Opportunities to achieve cost-neutral growth can be created by optimizing operations and governance structures and adapting them to the fundamental differences in business practices and market structures encountered in Asia. Value Network Analysis (VNA) is an effective methodology that enables firms to uncover these differences and retool their approach to Asian markets.

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VNA views the entire value creation system from the top down. It enables firms to visualize and understand how value is created, reveal gaps in collaboration, and develop effective governance capabilities. It encompasses in its scope the internal and external participants in a value network and captures both tangible transactions and intangible knowledge flows.

Many Western firms with operations in Asia Pacific struggle with the complexity of operations and face challenges in governing a disparate value network. VNA offers a high level, efficient way to gain clarity and pinpoint deficiencies in operations and governance before committing significant resources to new infrastructure.

Woodward Partners Conducts VNA For Dakota

Dakota, an American industrials company, had years of experience in Asia, but was experiencing stagnant growth. Like many companies, Dakota had grown organically over time. It had engaged a range of distributors in various countries and established a regional sales office. The network of internal and external parties was extensive and spread across vast geographies, different languages, and distant cultures.

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In managing international operations, Dakota relied on processes and structures that were successful in the US and Europe. Dakota's operations and governance structures were not optimized for Asian markets. The industry value chain in Asia was different from that in the US and Europe – decision makers and purchasing processes were unique in each country.

Without understanding the different business practices of Asia at a sufficient level of detail, Dakota's efforts to optimize operations and governance structures with traditional tools (e.g. processes, procedures and organization charts) were ineffective. As a result, Dakota was missing significant value-creating opportunities, by not maximizing potential profits or minimizing costs.

The Response

Woodward Partners assisted Dakota identify ways of achieving cost-neutral growth by undertaking Value Network Analysis (VNA). Beginning at the source of revenue (the customers), Woodward Partners worked with Dakota's management to identify the internal and external participants in delivering value to the customers, capturing both the tangible transactions and intangible knowledge flows. We developed a map of the industry value chain and captured the current and potential ways that Dakota interacted within the industry value chain. We identified new opportunities for Dakota to participate in the industry value chain. Dakota's new mode of operating in Asian markets included a new customer base that the company did not interact with in other markets. We helped

Dakota understand these new customers and design new regional team structures to capture these new segments.

The Result

Woodward recommended specific action steps to assist Dakota manage their network more effectively and grow their market share, including:

- Refocused primary investment from China to Japan which provided the option to sell differentiated, higher price product
- Revitalized joint venture relationship in Japan by identifying profitable new segments to focus on
- Developed segment focused teams and regional support structures to effectively target profitable market segments in key Asian markets

"Woodward clearly understood our needs right from the beginning... Outstanding work... Woodward delivered real value for us"

Regional Director, Asia Pacific

How VNA Can Help You Achieve Cost Neutral Growth

The concept of the value network is important for large and small companies, for those firms operating in Asia, and for those who are considering entry into Asian markets. VNA offers firms a new methodology for efficiently and effectively managing the complexity of operations in Asia, for understanding how to build and manage the relationships which are critical for success in the region.

Mathew Cobbett is Director of Woodward Partners Asia Pacific, based in Singapore. He specializes in helping companies understand their networks in Asia and identify ways to manage the network to improve organization profitability.