Building a Globally integrated Enterprise

Terence William Hopkins
Vice President, IBM Asia Pacific
May 9, 2007
What is Globally Integrated Enterprise? - The story of a simple jar of face cream

- The jar’s pump is a packaging innovation created by an independent inventor in Sweden. The jar itself is manufactured in China—an arrangement made by a global procurement center in Manila. The natural ingredients in the cream are sourced by a wholesaler in Italy. The finished product is assembled in the US. Customer service is provided by a call center in Nova Scotia. And all of these functions integrate seamlessly across a shared, standard global technology infrastructure, allowing the consumer-packaged goods company that owns the face-cream brand to sell its moisturizer in seven different scents and three sizes for $8.00 less than the competition. Welcome to the Globally Integrated Enterprise.
Discussion topics

- The evolution of companies – international, MNC, and GIE
  - The integrating world and the changing of business models
  - A story of our own – how IBM evolved over time?
  - Successful cases on GIE transformation
  - How to make it happen in your organization?
The evolution of companies – from International, MNC to GIE

- **International (Middle 19th Century)**
  - Motivations
    - Mass production enabled
    - Modern transportation network established
  - Characteristics
    - Hub-and-Spoke
    - Controlling int’l trade routes – home country manufacturing and int’l distribution
  - Examples
    - Almost all industries
    - Importing raw material and exporting finished good
The evolution of companies – from International, MNC to GIE

- **Multinational Corporation**  
  (1920s ~ 1970s)  
  - Motivations  
    - World War I & II  
    - Protectionism and trade barriers in the 1920s and 1930s  
  - Characteristics  
    - National hubs to overcome trade barriers  
    - A collection of country-based subsidiaries, business units, or product lines.  
  - Examples  
    - Coca-Cola, Sony Walkman  
    - Building local production, hybrid w/ global R&D
The evolution of companies – from International, MNC to GIE

- Globally Integrated Enterprise (1980s ~ present)
  - Motivations
    - Receded trade and investment barriers
    - Revolution in global IT and communication infrastructure
    - Rise of China, India, Brazil...
  - Characteristics
    - Flexibility of where & who produce things.
    - An array of specialized components: distribution, sales, manufacturing, procurement, research, etc.
  - Examples
    - Manufacturing in China, sell to worldwide customers
    - American radiologists send x-rays to Australia for interpretation
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Under the pressure of economic and environmental changes, the business world is transforming from multi-national to **globally integrated**

- The growth of global trade, capital and information flows, enabled by a “flat world,” is changing *where and how* business value is created and captured

- Three market forces are shaping the path of Global Integration:
  - **Economics**: growth and profit potential
  - **Expertise**: access to talent, ideas and innovation
  - **Openness**: the degree of open systems, standards and approaches

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65% of the world’s top corporate CEOs declared that due to pressures from competitive and market forces, they plan to radically change their companies in the next two years

*Source: IBM CEO Study 2006 (n = 765)*
Global Integration is fast becoming a *business requirement* not only for growth but for survival

**Everyone is Impacted**

“The question… is not whether to participate in global integration and the global economy, but how to compete, how to win in it, and how we make the benefits fair and inclusive.”

*Harold McGraw III, January 2007*

*Chairman, President, and CEO, The McGraw-Hill Companies*

**The Scale of Change Is Large**

“The conditions we confronted (in 2005) represented a turning point in our industry unlike anything we’ve experienced in the last 50 years. The automotive business had shifted, completely and permanently, to full-scale global competition.”

*William Clay Ford, Jr., March 2006*

*Chairman and CEO, Ford Motor Company*

**The Speed of Change Is Unprecedented**

“… we are seeing by the week, there are small companies which are shutting down, companies which did not wake up to the realities of a globally connected world.”

*Sunit Bharti Mittal, Chairman & Managing Director, Bharti Enterprises*

*2006 IBM Global Briefing, Bangalore, India*

**Significant Benefits Are There To Be Realized**

“Today we find ourselves operating 2,285 international stores, buying products from 70 countries, and doing 20% of our business abroad. Wal-Mart’s marketplace is clearly the world.”

*Lee Scott, 2006 Annual Report*

*President and Chief Executive Officer, Wal-Mart Stores, Inc.*
Global integration impacts all businesses

- All firms, regardless of size, must address global pressures and competition
- However, the specific nature of opportunities created by global integration varies by industry, size, and nature of business
- Each business must determine its own unique path to global integration based on its history, competencies and market realities

<table>
<thead>
<tr>
<th>Business Value</th>
<th>Key Questions</th>
<th>Impact of Global Integration</th>
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<tbody>
<tr>
<td>Client Selection</td>
<td>Which clients to serve?</td>
<td>• New geographic markets</td>
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<td></td>
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<td>• New customer segments</td>
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<tr>
<td>Value Proposition</td>
<td>What are criteria for differentiation?</td>
<td>• New Value proposition to define</td>
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<tr>
<td>Value Capture</td>
<td>How do we make money?</td>
<td>• New and unprecedented efficiency gains</td>
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<tr>
<td></td>
<td>How do our partners make money?</td>
<td></td>
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<tr>
<td>Scope and Location of Activities</td>
<td>Which activities do we perform?</td>
<td>• New set of partners to consider</td>
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<td></td>
<td>Where can the work best be performed?</td>
<td>• New resources to leverage</td>
</tr>
<tr>
<td>Sustained Value Add</td>
<td>How do we create a sustainable profit stream</td>
<td>• New service profit models to develop</td>
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Companies are looking globally for new routes to growth and profitability

- The global market is a source of growth for local and regional companies/brands
  - 2006 Emerging Markets
    - Average GDP Growth: 6.5%
    - More than double developed markets
    - Share of World Demand: 51.8%
      - Developed markets represent only 43%

- Emerging economies continue to provide low-cost, high-quality talent for companies trying to streamline costs

- Cross border M&A deals create opportunities for global partnerships
  - To drive growth
  - To enhance capabilities
  - To rationalize activities

Increased openness of business and technology standards enables process flexibility and specialization

Open Standards...

...Enable Global Componentization...

... With Seamless Integration

- Services Oriented Architecture
- Enterprise Resource Planning
- Internet and Wireless Communications
- Trade Regulations

- Global centers of excellence
- Best in class partnerships
- Flexible sourcing capabilities

- Global marketplaces
- Global resource optimization
- Streamlined infrastructure
- Internal & external collaboration

“When everything is connected...work flows to the places where it can be done best” – Sam Palmisano
The transformation impacts the entire organization, from its growth strategy through its culture

**From Multinational…**

<table>
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<tr>
<th>Growth</th>
<th>Operations</th>
<th>Culture</th>
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<tr>
<td>Traditional markets</td>
<td>Work performed where the organization dictates</td>
<td>“Home country” and “foreign offices”</td>
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<tr>
<td>Growth vs Profitability</td>
<td>Ability to manage complex internal ecosystem</td>
<td>Geographical domains</td>
</tr>
<tr>
<td>Build scale</td>
<td>Interconnected</td>
<td>Isolation</td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td>Emerging and global markets</td>
<td>Work flows to where it is done best</td>
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<tr>
<td></td>
<td>Growth and Profitability</td>
<td>Ability to specialize and manage complex partner ecosystem</td>
</tr>
<tr>
<td></td>
<td>Partner for scale</td>
<td>Integrated</td>
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**…To GIE**
A Globally Integrated Enterprise (GIE) actively manages a unified global organization

Globally Integrated Enterprise: A business that is woven into the fabric of the new global economy

GIE Attributes….

The path to Global Integration:
Requires Business Model Innovation affecting the majority of an organization

- Global Marketplace
  - Customer
  - Products
  - Sales
  - Partnerships

- Global Support Functions
  - Supply Chain
  - Finance
  - Marketing/Brand
  - HR
  - Information Technology
  - Research & Development

- Global Cultural and Management Systems
  - Values
  - Leadership
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IBM’s transformation: An ongoing journey

From regaining customer and shareholder confidence during the “burning platform” days of the early ’90s to building a new model for growth in the 21st century, IBM has more than a decade of deep experience in business transformation.
Transformation simplified infrastructure and governance

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<th>1992</th>
<th>YE 2006</th>
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<tbody>
<tr>
<td>CIOs</td>
<td>128</td>
<td>1</td>
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<tr>
<td>Host Data Centers</td>
<td>155</td>
<td>6</td>
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<tr>
<td>Web Hosting Centers</td>
<td>80</td>
<td>6</td>
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<tr>
<td>Network</td>
<td>31</td>
<td>1</td>
</tr>
<tr>
<td>Applications</td>
<td>16,000</td>
<td>4,757</td>
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The globally integrated enterprise: The new global business

**Globally Integrated Enterprise**

- Lowering the center of gravity closer to the customer
- Driving process excellence for back-office efficiency and client-facing productivity
- Capitalizing on talent and scale worldwide
- Creating culture of innovation
- Operating by common set of values

**Globalization**

- Deregulation
- Commoditization
- Internet
- Changing Demographics
- Open Standards

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“The emerging globally integrated enterprise fashions its strategy, management and operations in pursuit of value delivery worldwide. State borders define less and less the boundaries of corporate thinking or practice.”

Sam Palmisano
IBM Chairman and CEO
Five years of transformation investments delivered a cumulative benefit yield of $3.4+B by year-end 2006
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Multiple industries are seizing the benefits of Global Integration

Customer Service Centers in Nova Scotia handling warranty inquiries for US Shoppers

Global Investment Banks send derivatives processing to Dublin

Between 2000 and 2003, foreign firms built 60,000 manufacturing plants in China

Asian clothing manufacturers outsourcing design to Italian designers

Chipmakers such as Samsung using US Engineers for expertise

Patients in the US are traveling to India for medical procedures

US Radiologists sending x-rays to Australia for Integration

McDonald’s drive through orders routed to the Philippines

Industry Examples
Globally Integrating Enterprises: Selected examples where firms describe benefits exceeding $500 million

**P&G**
- GIE Action: • Global Market Development
  • Global Shared Services
- Enabled By: • Global Reorganization
  • Systems Standardization

**Nestle**
- GIE Action: • Global Business Process, Data and IT Standardization
- Enabled By: • Global ERP

**Yan Sha**
- GIE Action: • Supply Chain Integration
- Enabled By: • Services Oriented Architecture

**Tetra Pak**
- GIE Action: • Standardized Supply Chain
  • Enhance partner collaboration
- Enabled By: • Global ERP

**Medtronic**
- GIE Action: • Back-Office Consolidation
  • Supply Chain Optimization
- Enabled By: • Global ERP

**Li & Fung Limited**
- GIE Action: • Specialization
  • Enhance partner collaboration
- Enabled By: • Integrated IT

**bharti**
- GIE Action: • Global Partnerships
  • Global Sourcing
- Enabled By: • Globally Integrated Support Functions
Building a Globally Integrated IBM – driven by the new globally integrated business environment and strategy

**Business Strategy**

- Realign the portfolio to optimize expertise and openness through divestitures, acquisitions, and new areas of focus for innovation
- Invest in India, China, and Brazil as growth markets – and as key engines of globalization and specialization

**Management & Culture**

- Create a values-based management system to form decisions and build relationships
- Lower the center of gravity – pushing decision-making closer to the work and the client

**Operations**

- Integrate global operations – from procurement led out of China to services delivery from India
- Build shared services and centers of excellence to improve efficiencies -- and innovate new products and services
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Five steps to building your Global Integration Strategy

1. Global Integration Assessment – “Where am I today?”
   - What is the level of globalization and specialization in the industry?
   - What are competitors doing?
   - What is the potential for global integration for your Enterprise?
   - What is your current level?
   - What is your maturity against the 6 core competencies of a Globally Integrated Enterprise?

   - Where and what to globalize – What markets and customers?
   - How will the company differentiate and capture value?
   - What to do internally vs externally?

3. Define Global Capabilities – “What Capabilities do I need?”
   - Serve Distinct Global Markets
   - Leverage Global Assets
   - Build Specialized Enterprise
   - Enable Collaboration
   - Manage Value in an Open Network
   - Address shared Risk & Control

4. Design Target Operating Model – “What Operating Model?”
   - What to do local vs global?
   - What is the right global model for our processes, organization, assets & locations, governance?
   - What is the right technology model and architecture?

5. Execution Roadmap – “How can we get there?”
We have Identified Six Essential Competencies for the Globally Integrated Enterprise

- Understand where, when and by whom value is created
- Use global resources most economically
- Enable modular business
- Leverage new clients, potential partners
- Globally Integrated Enterprise
- Lead in both collaborative as well as traditional innovation
- Manage Value in an Open Ecosystem
- Build a Specialized Enterprise
- Address Shared Risk and Control
- Enable Collaboration
- Take innovative approaches to risk management and IP
- Leverage Global Assets
- Serve Distinct Global Markets
Thank you very much!

May 9, 2007