

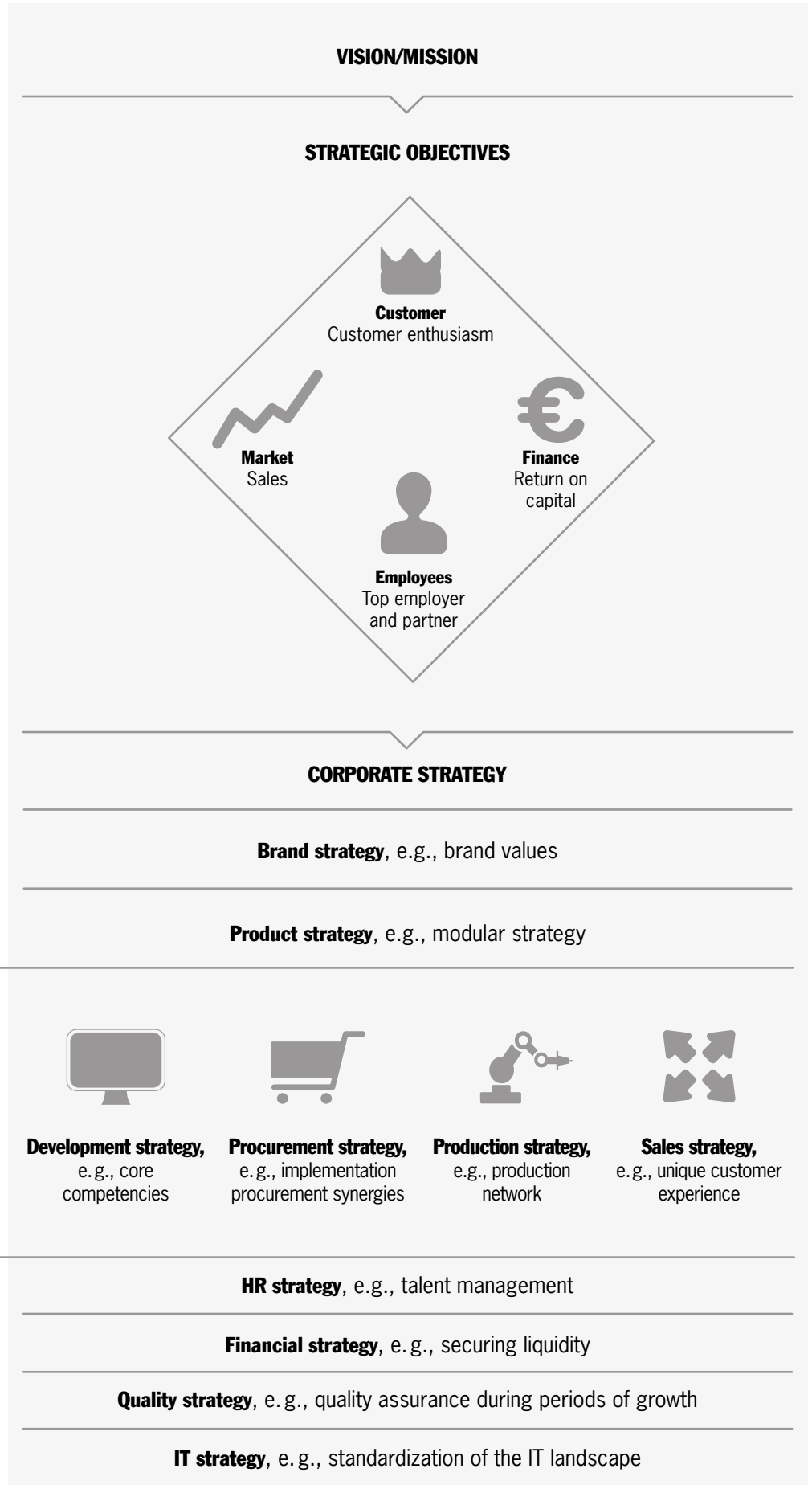
# THREE STEPS TO AN EFFECTIVE STRATEGY

“Of course we have a strategy,” is the answer any business leader would give when asked whether he or she has set mid- to long-term goals. Our captain of industry may even have his or her own strategist. And the strategy can surely be read somewhere; it’s been summarized in a presentation and announced to staff. But is that enough?

Porsche Consulting’s observations have shown that many companies’ strategies do not have the desired effects. Poor implementation is the most frequent cause. “Employees, in particular those on the lower rungs of the hierarchy, are not involved enough in implementation,” says Dirk Pfitzer, a partner at Porsche Consulting. In many cases, poor communication is at fault. And: “Resolute and continuous control quickly falls by the wayside,” adds Principal Fabian Piontek. Porsche Consulting demonstrates how to develop an effective strategy in three steps.

# STEP 1: CORPORATE STRATEGY

The company needs to define its vision and mission for the company as a whole as well as objectives in the customer, finance, employee, and market dimensions. The product strategy and core and cross-departmental strategies are then derived from the overarching company and brand strategy.



**STEP 2: CORE STRATEGIES** Every core department has to do its part to ensure that the company's strategic objectives in the customer, finance, employee, and market dimensions are achieved. To this purpose, appropriate objectives are defined for the development, procurement, production, and sales strategies and stored as key figures.

**POSSIBLE KEY FIGURES FOR MEASURING THE SUCCESS OF THE CORE STRATEGIES**

	 <b>DEVELOPMENT STRATEGY</b>	 <b>PROCUREMENT STRATEGY</b>	 <b>PRODUCTION STRATEGY</b>	 <b>SALES STRATEGY</b>
<b>CUSTOMER</b> 	Customer satisfaction with the product	Initial maturity of purchased parts	Delivery quality	Customer satisfaction with service
<b>FINANCE</b> 	Compliance with development budget	Purchasing performance	Productivity gain (per year)	Establishment of price premium
<b>EMPLOYEES</b> 	Staff core competencies	Employee satisfaction	Employee health	Profitability
<b>MARKET</b> 	Products as per development plan	Ability to deliver during capacity adjustments	Fulfillment of sales requirements	Acquisition and loss of customers

**STEP 3: MEASURES** The third step in developing an effective strategy is breaking each core strategy down into areas of activity. For each area, measures are then defined that lead to accomplishment of the strategic objectives. We demonstrate how this works using the example of the production strategy, for which we have looked at five areas of activity: the production process, production network, production portfolio, production organization, and product design. You will also find all important points on our checklist for your company (p. 66).

#### **Production process**

Lean production principles—above all, just-in-time manufacturing—have already been implemented in many companies: These organizations know how important it is to keep inventory low, reduce wait times and spaces, and minimize error rates. What separates excellent companies from merely good ones, however, is going one step further to develop innovative logistics concepts, to name one example. In other words, recognizing that it is important not only to master your own production processes, but also to harmonize all up- and downstream processes along the entire value chain. The Porsche plant in Leipzig is a perfect example: The average inventory coverage is less than a single workday—with an external production rate of 85% and delivery reliability rate of 98% to end customers.

#### **Production network**

Here the central question is which products are produced where and whether domestic or foreign production makes more sense. Companies often make the mistake of opting for foreign production too quickly because they only look at manufacturing costs. To determine the optimal locations and optimal production networks, marketing and sales factors should be taken into account as well. For instance, it must be assessed where relevant growth markets are located, what kind of image the product has in the individual

countries, and what customs and currency risks exist overseas. If production stages are very wage-intensive, overseas manufacturing in low-wage countries can make good economic sense.

Having appropriate control mechanisms in place is crucial when a company's plants are spread around the globe. Many lean companies are therefore applying a “global” approach in their production networks. The idea is to manufacture products locally but manage production on a global level. A central location decides how to utilize which plants or what products to produce in which countries.

Flexibility is key in plant utilization. Take Porsche: The production facility in Stuttgart-Zuffenhausen can manufacture both the Porsche 911 and the Boxster. This is possible thanks to uniform standards for press shops, paint shops, and bodyshells. This also makes it possible to reduce complexity, by the way. When demand is high, capacity is insufficient to produce both series—Zuffenhausen concentrates on the 911 and the Boxster is made by a contract manufacturer. If demand goes down again as it did during the financial crisis in 2008, production of the Boxster can quickly be shifted back to Zuffenhausen. In this way, Porsche ensures full utilization of its production capacity.

#### **Production portfolio**

The production portfolio describes which parts are manufactured by the company itself and which parts are produced by other companies—this is the vertical integration of production. To define this, the company must know what its core competencies are—that is, which of its capabilities is most likely to convince customers in their purchasing decisions. Parts that are crucial to the distinctiveness of a product should generally be kept within the company. Standard parts, however, can often be supplied more cheaply by external suppliers. Nevertheless, many companies continue to make the mistake of sticking too closely to the status quo. Companies from risk-averse industries such as the pharmaceutical industry in particular seek to preclude potential risks with a high degree of vertical integration. However, it is often counter-productive to rely only on one's own capabilities, as suppliers are often more competent.

When companies produce with a low degree of vertical integration, good coordination between the company and suppliers is essential. Selecting the right suppliers is the first step towards efficient production. Porsche recognized this as early as 1994 and has maintained a successful partnership program that integrates suppliers in the process ever since. →

### Production organization

In times of heightened competition, production must be organized in a way that allows companies to react flexibly to fluctuating demand. Flexible working time models such as lifetime working accounts enable companies to adjust to rising or falling demand. With highly qualified employees and continuing education opportunities, staff can be deployed in different areas according to present requirements. It is imperative to involve employee representatives at an early stage in all such decisions. This enables not only effective responses to changing economic conditions, but also flexible planning of capacity spikes and troughs when products are launched or discontinued, respectively.

### Product design

Many companies neglect to involve the production department in the product development phase. Involving production makes it possible to design subcomponents so that later in the production process they can be assembled more easily and flexibly. After all, the goal of product design is to reduce complexity. Components should be distinguishable, but able to be put together in the same way. The different product variants should emerge as late as possible in the process. At Porsche, for instance, the emblem that customers can opt to have embossed on the head rests is only added to the leather once the seats have been assembled. The carmaker has also standardized assembly concepts for all model series, such as the procedure for mounting rear lights. And it works despite the fact that each model's lights look different. From the mechanic's perspective, they're the same.

These examples demonstrate that there is some overlap between the different areas: For example, flexible, standardized assembly plays a role both in product design and the production network. Coordination between the areas is therefore also very important. Effective coordination is achieved through regular dialogue between employees and the departments. ←

# SIMPLE, CLEAR, AND CAPTIVATING – KEY FACTORS FOR AN EFFECTIVE STRATEGY

It has to be well constructed and the three steps must be followed to the letter—that much is clear. But what makes a good strategy truly effective? “Ideally, the strategy is developed over a short period of time by a small project team,” says Eberhard Weiblen, President and CEO of Porsche Consulting. After developing the strategy in a sprint, the marathon of implementation begins. To ensure the success of the project, it goes without saying that the strategy must enjoy the support of the entire staff. But how does it work in practice? “The strategy must be simple and clear and it must be associated with emotions and an experience. This is the only way to generate interest and enthusiasm among the employees,” says Weiblen.

# PORSCHE

## *Strategy 2018*

### **How the carmaker Porsche developed an ambitious growth strategy—and continues to follow it today**

Porsche knows how important an effective corporate strategy is to continue growing profitably and enhance the prestige of the exclusive brand. Following the three aforementioned steps, the carmaker developed a new strategy leading up to the year 2018 and defined concrete goals and fields of activity for the dimensions customer, finance, employees, and market. By 2018, Porsche AG aims to have accomplished its vision of becoming the most successful manufacturer of exclusive sports cars in the world. Consultants from Porsche Consulting accompanied the process of developing the “Porsche Strategy 2018” every step of the way. “With the assistance of Porsche Consulting we have succeeded in developing an effective strategy that actually works in practice and is deeply ingrained in the company and the thinking of our employees,” says Jürgen Rittersberger, head of corporate development at Porsche AG. “The main reason why it has worked so well is that we put the new strategy in place over the relatively short period of time of six months and involved our employees in the process from the very beginning,” says Rittersberger, offering a glimpse of the Porsche recipe for success. Communication also played a key role, beginning with a large company-wide management conference and followed up by managers at the department level. Implementation of the individual measures as well as their actual contribution to achieving the strategic objectives is monitored continuously. This is also important to enable the company to respond to changed market requirements with new measures. This is the only way to ensure the sustained effectiveness of Strategy 2018.

# PRODUCTION STRATEGY CHECKLIST

The following topics must be considered when developing areas of activity as part of the production strategy:

## PRODUCTION PROCESS

- LEAN PRODUCTION**  
e.g., lean philosophy; just-in-time system; pull, takt, flow, and zero-defect principles
- MATERIAL/INFORMATION FLOW**  
e.g., supply chain and logistics concept, IT systems
- SUSTAINABLE OPERATIONAL EXCELLENCE**  
e.g., continuous improvement and innovation, benchmarking, monitoring of competition and industry transfers, try-storming

## PRODUCTION NETWORK

- DOMESTIC/FOREIGN**  
e.g., proximity to customers, customs duties and taxes, wage costs, infrastructure, sociopolitical situation, qualification levels, brand image
- PRODUCTION TYPE**  
e.g., product selection, partial/complete manufacturing, SKD, MKD, CKD
- PLANT-SPECIFIC FACTORS**  
e.g., legal form, operating concept, layout, capacity, supplier park
- CONTROL**  
e.g., global, local, "glocal"

## PRODUCTION PORTFOLIO

- VERTICAL INTEGRATION/MAKE-OR-BUY**  
e.g., core competencies, current/future economic developments, market trends, bargaining agreements, technical/capacity-based and internal/external feasibility, quality assurance

## SUPPLIER MANAGEMENT

e.g., efficiency, order processing, verification, back-up/second source, flexibility

## PRODUCTION ORGANIZATION

- ORGANIZATIONAL AND PROCESS STRUCTURES**  
e.g., organizational structures, centralized and decentralized responsibilities, depth and span of control
- PLANNING AND CONTROL**  
e.g., leveling/smoothing, infinite/finite planning philosophy, launch/wind-down
- FLEXIBILITY**  
e.g., qualification level, temporary/permanent staff, turntable concept, working time models

## PRODUCT DESIGN

- PRODUCTION-OPTIMIZED PRODUCT DESIGN**  
e.g., collaboration of development, production, and assembly in the product design process
- PRODUCT COMPLEXITY**  
e.g., number of variants, product structure, and product function
- PLATFORM/SHARED COMPONENT CONCEPTS**  
e.g., use of cross-brand/-product components and assemblies
- PRODUCT TECHNOLOGY**  
e.g., opportunities/risks with familiar and unfamiliar technologies