

Change Management: The Fit is Important! Part 2: Practicable Application

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Abstract:

The article details that the use of the St. Galler Management Concept can help achieve the orientation towards successful commonality management. The case study describes a global company that so far has engaged a multi-brand strategy and not been able to realize any opportunities that commonality management offers.

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Change Management: The Fit is Important!

Part 2: Practicable Application

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Initial Situation

In companies that have multiple brands, each brand does not only serve different markets and have their own marketing strategy, but also uses its own product structure and product variants. The product development is separated and unique corporate cultures are developed over many years. Even though the company in our case study manufactures and sells twice as many products as the next smaller competitor, the advantages that are created through economies of scale cannot be translated into acceptable profitability. At first glance the solution lies in standardizing the product structure in order to increase the amount of common parts across the product range. When taking a closer look however, this approach does not go far enough. Without the alignment of structures, activities and behavior in the different organizational units and brands, the envisioned success will not be realized.

A customer notices the multi-brand strategy through region-specific, high product variety and a strong individualization of the product range. The results for a company are high complexity costs in the actual product, its creation and related support processes. In the case study, according to the set project goal “turning scale into profit”, the economies of scale should be translated into corporate success without restricting market specific and brand specific differentiation.

It is important however to keep in mind that commonalities always have to be considered alongside the following factors:

- Product cannibalization (through missing differentiating features)
- Revenue losses (through decreasing amounts of variants)
- Efficiency increase (through economies of scale)

Attempts to implement commonality management in some of the business units at our client's company failed. Management realized that commonality management could not be implemented successfully if it only considers the product.

Approach

As a basic assumption for sustainable commonality management the fit with regard to structures, activities and behavior on a normative, strategic and operative management level for the single business units is important. Only when such a fit is guaranteed, can commonality management be sustainable, successful and implemented across the company. A solely technical solution just does not reach far enough.

In our case, many resourceful ideas on commonality management already existed. But would the company even allow for an implementation? Or would preventative forces take charge? To answer these questions and develop an overall concept, in a first step we conducted interviews with the top management along the St. Galler Management Concept (Fig. 1). These structured interviews collect the statements of each executive with regard to the normative and strategic alignment of their business unit. Sixteen specific questions detail the normative and strategic levels and the qualitative answers can be described in scales. The structured scan of the current situation in the company is therefore carried out across the 32 dimensions of the normative and strategic level of management. The configuration of the single questions into quadrants allows for the creation of profiles in a second step (Fig. 2).

With the introduction of change measures in the scanned fields of the profile, the alignment and therefore the profile will change.

The profile represents the company. A company has a balanced fit, when the profile is comprised of even circles with consistent radii on all management levels. The size of the circle is completely objective and has no influence on the success of the company. Only the fit is important for a successful introduction of a commonality management system.

While the size of the circle is objective, the results of different fits can be interpreted in relation to commonality management. They can be used to derive

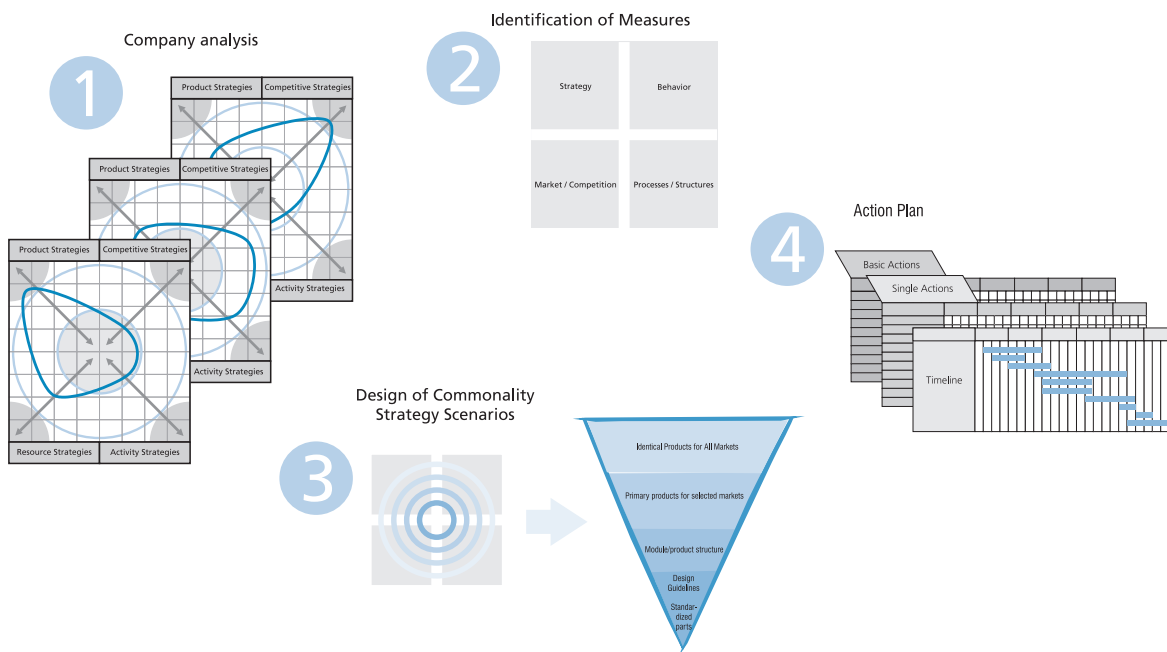


Figure 1: Approach in the Project

general commonality strategies. The nearer the circle is to the center, the higher the amount of common parts. If the company is positioned as a multi-brand company with an individual pioneering spirit and serving niche markets, the commonalities can only be achieved through design guidelines for standard parts. The complete opposite would be a global product that is sold in all markets. The strategy to manufacture a global product for example, would correspond with a hierarchical and functional corporate organization with a central development unit based on the fit according to the St. Galler Management concept.

The next step calls for a clear strategic positioning and alignment of all corporate dimensions to achieve the fit. As a working hypothesis, four possible circles (as a representative basis) were identified and characterized. They are represented in figure 3 with their potential to achieve commonalities. The smaller the circle within the Fit, the larger the amount of commonalities.

Following are four generic commonality strategies, represented by circles that move from close to the center to 1/3-distance, 2/3-distance and completely along the exterior.

- Identical products for all markets: Standardized personnel and product structures are necessary. Most of the business functions are decentralized. Only few

product customizations exist for the different regions. The decision processes are mostly centralized within the top management functions.

- Primary products for selected markets: The concentration on the main markets results in a deliberate function for niche markets. To consolidate market

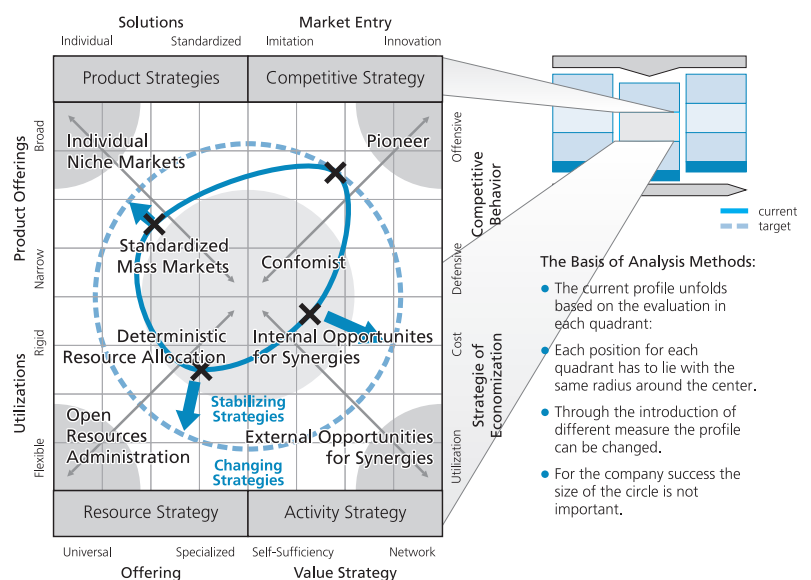


Figure 2: Example: Profile of Strategic Programs

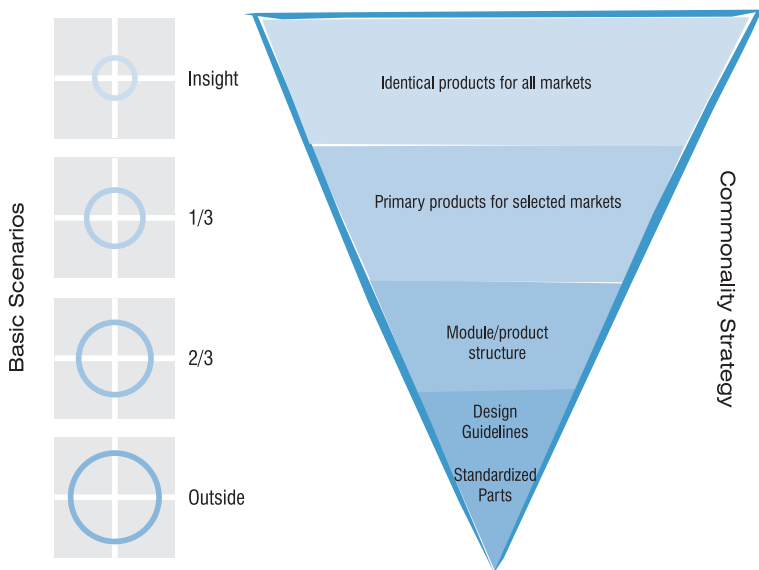


Figure 3: Which Strategy Are We Going to Choose?

requirements and transform them into the primary products, highly centralized development efforts are needed. A functional and hierarchical leadership that is able to make technical decisions and define objective goals is also necessary.

- **Module/Product structure:** The concentration of commonality management towards the same module/product structure would allow to cover most markets with a modular product concept. This solution supports the development of innovative

products. By elimination unprofitable niche markets, the individuality of products is reasonably limited.

- **Design guidelines/Standardized parts:** The full potential of efficient commonality management would not be achieved by limiting design guidelines and standardized parts. Regions and business units act strongly self-sufficient. The company tries to serve the largest amount of niche markets and to achieve a cooperative coordination interest through goals and resource allocation internally.

Results

In our case, the following questions with regards to the new corporate positioning arose:

- **Strategy:** Which dimensions should the commonality strategy capture?
- **Behavior:** Which corporate culture is optimal for our commonality strategy?
- **Market/Competition:** Which market position do we have to adopt in order to embrace the commonality strategy?
- **Process/Structures:** How do the processes and structures need to be adjusted to implement the commonality management successfully?

A need to make a decision was created with regards to the characteristics of the commonality strategy and their respective activities (Fig. 4).

Because of the current organization of the company, the 1/3-distance (Primary products for selected markets) and 2/3-distance (Modules/product structure) emerged as preferred options. After several management discussions and decisions, the more practicable and promising solution was selected. The organizational structure, business process and management structures were adjusted accordingly. The changes were expressed in measures that arose from the analysis of the current and target positioning within the St. Galler Management Concept and would create a fit to implement the commonality management successfully.

Figure 5 illustrates via examples that the size of the circle is not important for the company success, instead the holistic alignment of all departments is decisive.

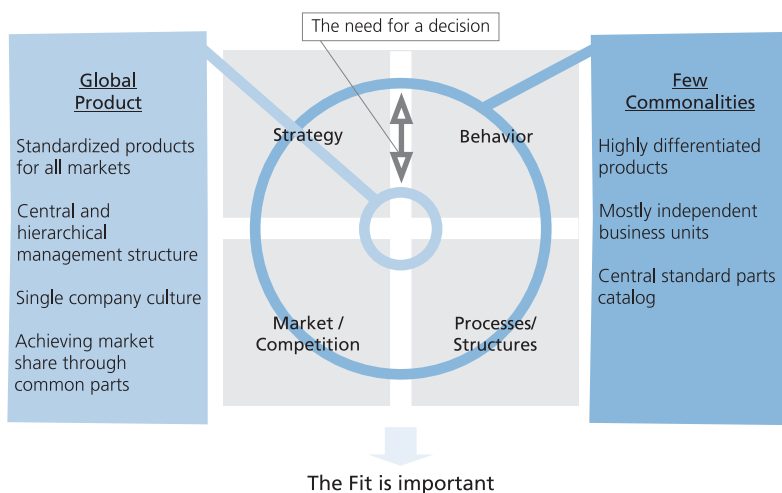


Figure 3: Adjustment of all areas along the St. Galler Management Concept: Extreme Alternatives

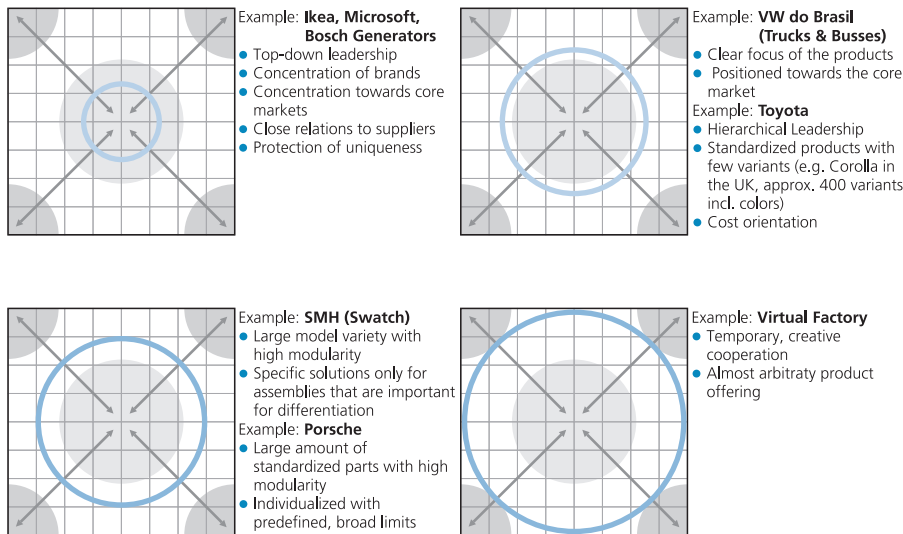


Figure 5: Examples for the Fit

IKEA, Microsoft and Bosch Generators represent examples of companies that are closely positioned around the center. They all have a very homogenous product range in all served markets and are managed globally and top-down. A little bit further from the center, with the 1/3 solution, Toyota represents a distinctive example. Toyota operates with a very cost-oriented management team and certain basic car models that allow few variants.

A representative example for the 2/3 solution is SMH. With modular built products SMH realizes a large model variety and at the time is able to keep the costs for individualization relatively low. Specific solutions are only produced for sub-assemblies that are relevant to the company's differentiation.

Conclusion

Purely technical solutions do not reach far enough to capture all opportunities commonality management offers to multi-brand companies. A holistic view that results in the right fit is necessary. Our client in the sample case reached the conclusion that besides a technical description of the commonalities, also significant organizational changes were necessary.

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