

OEC OERTLI CONSULTING

INTERNATIONAL BUSINESS DEVELOPMENT AND OFFSHORING

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Executive Summary on “MMP® Strategy Audit” :

Turbulent times in the corporate world often lead to **defensive** measures, which produce questionable results for long-term business development.

OEC offers you a state-of-the-art **alternative**:
OEC has developed an **offensive** tool, to activate **innovation** and strengthen your firm's international **competitiveness** that has successfully been applied in several companies mainly in Germany, Switzerland, USA, Japan, China and in India. But not in the ivory towers of central planning. Our experience relies on the strengths of the direct bottom-up MMP-approach.

OEC's “**MMP® Strategy Audit**” utilises the internal know-how of the firm, discloses hidden taboos and transfers new ideas and perceptions from other cultures, mentalities, businesses and industries.

Most importantly: OEC invests time to thoroughly examine your **satisfied, and not so satisfied, customers** with in-depth interviews that expose and review the current status of your product quality, service quality, image and positioning in the market. This systematic approach quickly identifies innovative improvement potentials as well as actions that must subsequently be realised as a newly defined robust and flexible **Multiple-Market-Positioning Strategy MMP®**, including Outsourcing and Offshoring potentials too.

What to do in a Turbulent World? “MMP Multiple Market Positioning®” - Strategy is a practical tool to implement basic principles of Strategy Professor C. K. Prahalad's book “The Fortune at the Bottom of the Pyramid” (University of Michigan, 2005).***

Results: Satisfied customers, higher sales and share of market & increased profits.

Basic innovations are important but not enough in order to achieve sustainable success.

Times of rapid change should not only affect your structures and operational issues. On the contrary, these turbulences are an opportunity to re-think your basic strategies and analyse the requirements of your key clients in a systematic way. We have come to the conclusion that – apart from **defensive** measures – it is necessary nowadays also to look into the future in an **offensive** way, always taking **all** the clients' needs as the leading principle, not only in Berlin, London, Osaka and Detroit, but in Shanghai, Hong Kong, Taipei, Bangalore, Mumbai and Noida too. We help corporate planners to leave their centralistic and deterministic view, by carefully analysing the main requirements in the emerging **“Pentad Power” of the 21st century: USA, EU, India, China, and Japan.**

Furthermore we help corporations to outsource IT and offshore business processes. OEC Oertli Consulting (Short: OEC) has developed an appropriate tool, which has successfully been applied in several **high-tech industries' projects on a worldwide scale.** The method of undertaking a “**MMP Strategy Audit**” is a practical approach utilising **knowledge** - also overseas - in a systematic and efficiently structured way.

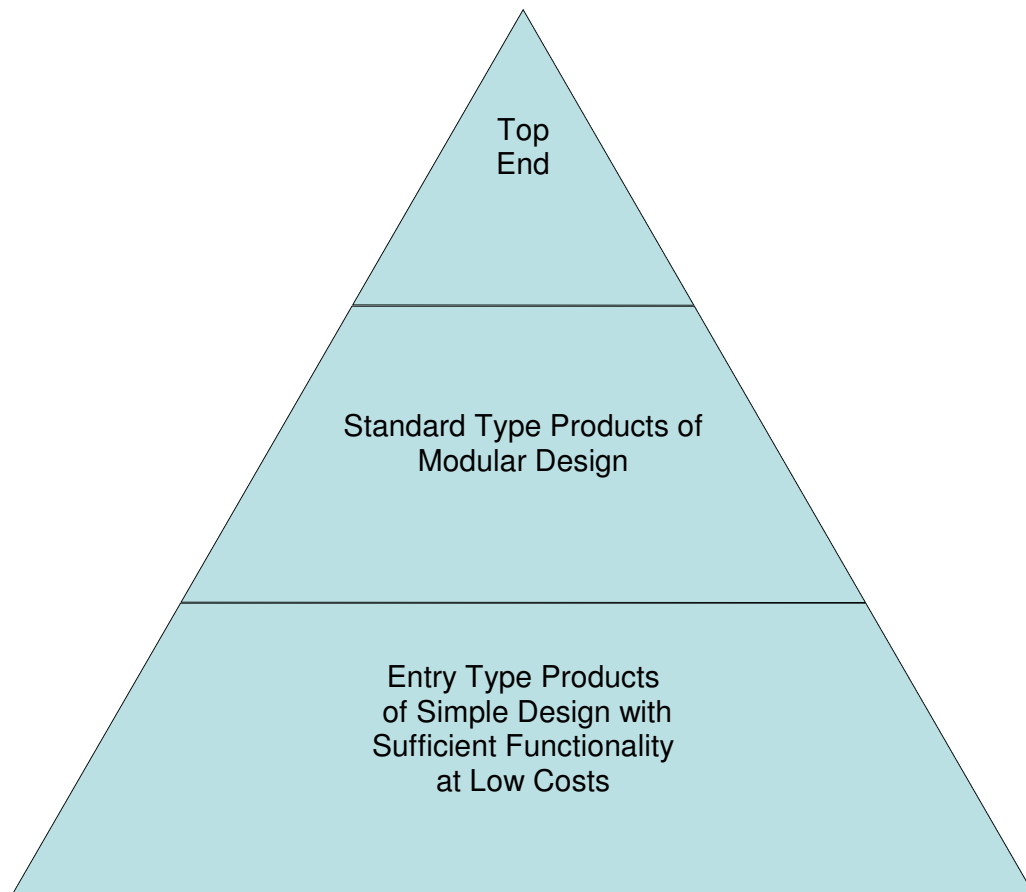
***The recent Book of Professor C. K. Prahalad, Wharton School Publishing, 2005, has been independently written from the work of P. Oertli, but leading to similar conclusions. The main aim of Prahalad's BOP (Bottom of the Pyramid) concept is to eradicate poverty for the huge masses in the developing world by creating affordable but profitable products. MMP's target is slightly different but leading to the same results: To secure and develop the competitiveness of companies (both MNCs and SMEs) and to increase their market share and profitability by introducing new “good quality but simple & no frills products” at far lower costs. The first project was designed for a Swiss client in 1993, followed by other projects in USA, Switzerland, Japan, India, and China.

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The Problem of Strategic Planning in Multinational Companies (MNCs)

On paper MNCs usually have quite reasonable corporate planning systems. They are designed to start top-down from corporate HQ with corporate visions and targets and end up – after the planning processes everywhere have been finished – with collecting and harmonising bottom-up feedback information from decentralised worldwide market organisations. In theory this approach works perfectly, in practise it doesn't. Usually, there is a filter at corporate headquarters that suppresses urgent innovative initiatives from decentralised units which are decisive for the medium-term development. This suppression is done out of fear of failure, to risk dispersing corporate resources for nothing and of losing focus. What is often forgotten at corporate HQ is the following: Too highly focussed companies are reluctant to adapt their products and services to the needs of their local customers and prospects in the fastest growing emerging markets and thus run the risk of losing market share. Our case study* of Coca-Cola in India, as an example, has shown an unnecessary loss in the late 1990ies of almost one billion US\$. Positive case studies* of the Swatch Group, the Agie-Charmilles Group and Nokia show us the benefits of parallel market positioning strategies that end up with adapted products, more satisfied customers, higher growth & market share, finally ending in increased profits*. The success stories of all these companies show us that good global strategies end up in differentiated market approaches in at least three to four levels of product sophistication.

* All case studies can be downloaded in pdf-format in the "Papers" section of the OEC-website www.oecweb.com

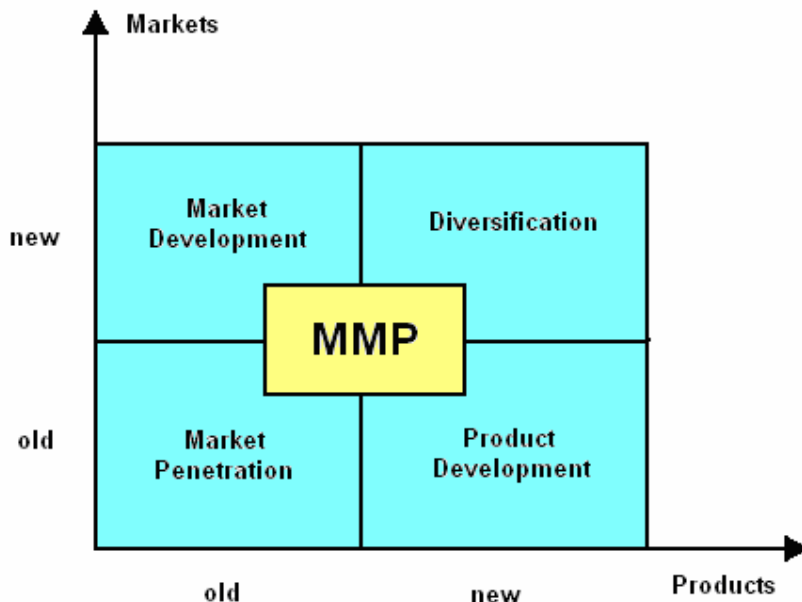


Objectives of the MMP® Strategy Audit

The objective is to define and implement a flexible, “Adaptive Strategy” to ensure and reinforce the global competitiveness of your company and to increase its value. For this purpose, the internal strengths and weaknesses as well as the external opportunities and threats are analysed thoroughly, including the customers’ needs also in Emerging Markets. A portfolio of possible global strategies and innovations is developed bottom-up and evaluated systematically. The optimum strategy will then be defined and proposed, including an action programme for offshoring. The Audit will be adapted to the individual needs of our client (from very broad to highly focussed audits, e.g. M&A) and especially to the needs of the prospects and customers of our client, which will lead to our unique, highly flexible and robust “MMP Multiple Market Positioning Strategy®”. MMP will finally lead you to adapted products at lower costs, satisfied clients, higher sales and increased profits.

The Definition of MMP Multiple Market Positioning ®

MMP is a flexible and intelligent way that shows you how to adapt the technology and market positioning of a company to the various needs of its suppliers and customers worldwide. It focuses on a targeted or specific market segment/niche via a concentric kind of vertical diversification. MMP is the narrow but successful path between the two risky extremes of too highly focussed and too broadly dispersed market positioning strategies. In most cases therefore, a lateral diversification is excluded. The sketch below shows us how the MMP product/market approach is located in **Ansoff’s Matrix**: Thanks to effects of **cross selling**, all four fields of the Matrix are further developed in a third dimension.



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MMP®: The New Dimension for Growth Strategies in the 21st Century

The best is to visualise the new positioning of **MMP®** in **Ansoff's** and **M. Porter's Matrix**:

In the previous page we have shown MMP in the centre of **Ansoff's Matrix**, representing a **new dimension for growth** to the classical way of thinking, to be completed as follows:

Market Penetration: Existing products can be sold even more to existing customers thanks having more extensive contacts by offering a higher range of adapted products.

Market Development: By offering an adapted range of products that fit better to the actually desired level of product sophistication a **new audience** of customers is gained.

Product Development: By having a higher choice of adapted products in the range of established products, existing customers will very likely have an **additional demand**.

Diversification: Thanks to its focused approach of adapting existing products to local needs, new customers can be gained with all the benefits of a limited diversification, but without its disadvantages. We can summarise these points with **"cross selling benefits"**.

Another matrix of representing **profitable growth strategies** is illustrated as follows:

Michael Porter's Generic Strategies (MMP® added here by OEC)

	Competitive Advantage		
Target Scope	Low Cost	Product Uniqueness	
Broad (Industry Wide)	Cost Leadership Strategy	Differentiation Strategy	
Narrow (Market Segment)	Focus Strategy (Low cost)	® MMP	Focus Strategy (Differentiation)

So far **M. Porter's Matrix** does not include MMP as sketched above. His three strategies are *cost leadership, differentiation, and focus*. In order to be successful a company should only follow **one single generic strategy**, i.e. **either** focus on low cost **or** on differentiation. Otherwise Porter says the firm will be "stuck in the middle" with no competitive advantage. This may have been the case in the 20th century, but this theory is definitely not anymore true for the 21st. However, in other parts of Porter's books you can also read that firms can **succeed at multiple strategies** by creating separate business units for each strategy. By separating the strategies into different units having different policies and cultures, a corporation is less likely to become "stuck in the middle". There is very strong evidence that within the same product customers often seek multi-dimensional satisfactions such as a combination of quality, style, convenience, and price. In **MMP** you can classify high-end and standard type of products being part of a **differentiation strategy** (2/3) and entry-types of products definitely being part of a **low cost strategy** (1/3).

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Overview over the Five Stages and Budget of the OEC MMP® Strategy Audit

No	Stages	Activities / Results
1	Preparatory Stage	Clients adapt and fill in OEC Checklists for most executives, customers and stake holders
2	Interview Stage	OEC clarifies, verifies and completes in detail the answers given by its client etc
3	Conceptualisation	Report on Options to realise 2 – 3 MMP-Strategies and evaluation of preferred strategy
4	Implementation	Final Decision on MMP-Strategy and implementation of all planned measures
5	Monitoring Stage	Supervision on project progress and feedback control of the process

Start → Preparation → Interviews → Conceptualisation → Implementation → Control

Contents No 1-3 of MMP Strategy Audit is usually included in Project Budget

Separate Budget for 4-5 after Decision

The Five Stages of the OEC MMP Strategy Audit in Detail

This OEC method has been especially developed for clients who want to have optimum involvement in the project, highly efficient/standardised procedures and quick results. At first the *targets and the scope* of the audit will be well defined then the five stages follow:

- **Preparatory Stage 1:** The key executives are informed about the methodology and instructed how to answer a checklist of 2-3 pages for each function. Later, the key executives answer the questions in writing within a given period of 3-6 weeks. At first an existing standard checklist is adapted to the individual structure, products and markets of the company. The checklists should enable the persons who will be interviewed in Stage 2 to prepare themselves thoroughly for their discussion with the consultant. *The answering of the listed questions is only a first important step and does not replace the interview itself. It is important that the interviewees do not co-ordinate the contents of their answers within the company. This will show us possibly conflicting views of the situation, which will lead to deeper discussions and thus to more creative results.* The average required time per interview usually is 1½ to 2 hours. All information and the sources will be treated with strictest confidentiality by the consultant. There are 7 types of checklists of 1-3 pages each:

1. Checklist 1 for CEO and CFO jointly (2 pages)
2. Checklist 2 for Director Sales and Marketing (3 pages)
3. Checklist 3 for Director Manufacturing & Assembly (2 pages)
4. Checklist 4 for Director Research & Development (2 pages)
5. Checklist 5 for Sales Representatives worldwide and / or local (3 pages)
6. Checklist 6 for Potential Partners and / or Suppliers, Competitors (1 page)
7. Checklist 7 for Customers, including a. *satisfied* and b. *unsatisfied* clients, but also *potential* clients or "*no-clients*" too, so-called c. *prospects* (2 pg).

After Checklists have been completed, they will be handed over to OEC in a folder.

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Checklists: Quality and Productivity Issues.

Among many general, technical, marketing, financial and other kinds of questions, one central point of the checklists is the evaluation of the quality of the company's products and services. Of course most companies believe that they offer high quality products. They try to show this by achieving **ISO 9001** certification. But ISO 9001 only proves that the company has standardised, well defined **processes** that are maintained and kept. It is **by no means** a certificate that proves the **quality** of the products from the **customers'** point of view. This is what our checklists help to identify: The quality of the products and services of the company from their customers' and prospects' point of views. For this purpose we structure 25 - 35 quality criteria according to following categories in detail:

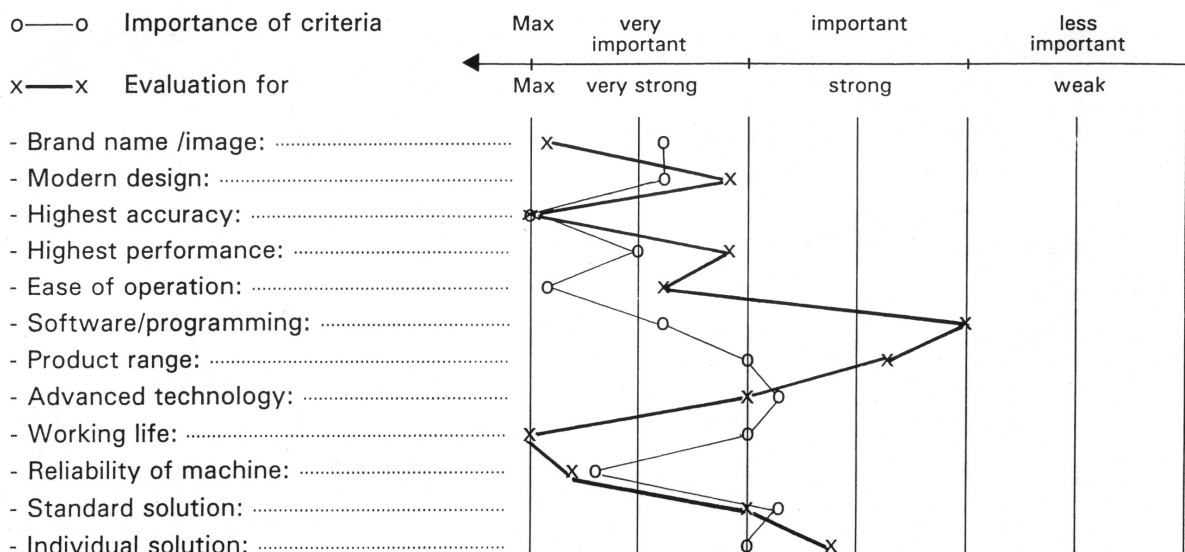
- **Product quality**, such as performance, reliability, accuracy, design, ease of operation
- **Service quality**, such as lead time, response time, reliability of delivery, consulting, etc
- **Commercial conditions**, such as price/performance, terms of payment, financing, etc

At first the importance of these criteria are checked and after that the evaluation takes place for the company as a whole and its main competitors. If requested, this evaluation is repeated for individual product lines too. Most importantly, this evaluation is made for all major economic regions, that can be structured in following clusters (see example below):

- Switzerland, Germany and Japan, generally with **high-end** quality requirements,
- USA and most of the other OECD countries, with **standard** high quality demand,
- Emerging Markets such as China, India, Brazil, with **low-cost**-solutions demand.

Depending on the results of the interviews, the **productivity requirements** for all of these regions will be well defined as a basis for a MMP Multiple Market Positioning Strategy ®.

- **Interview Stage 2:** The consultant (OEC) studies the files with the answers of Stage 1 and based on the results, interviews the executives for further clarification. If required, more material and documents will be searched, collected and studied. The results of the Preparatory and Interview Stages can be drawn graphically in diagrams that represent the importance and the evaluation of each of the **up to 35 quality criteria** at one glance. See example below, taken from one of our projects:



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- **Conceptualisation Stage 3:** Based on the results of the previous stages, all data and information will be evaluated critically in its context and in detail. Alternative strategies – based on core competencies – are then worked out and evaluated systematically. A preferred strategy is clearly defined, including a detailed action plan, showing the essential steps for implementation. At stage 3 the evaluation will be on a general strategic level with qualitative criteria. The results of stages 1-3 are summarised and presented in a Report that is usually structured as follows:
 1. Executive Summary
 2. Objectives of the Business Audit
 3. Brief Historical Outline of the Company
 4. Main Products, Services, Clients and Markets
 5. Main Competitors
 6. Internal Strengths and Weaknesses
 7. External Opportunities and Threats
 8. Portfolio of Strategic Options and Possible Innovations, including Outsourcing
 9. Recommended Strategy and Innovations (e.g. Multiple Market Positioning)
 10. Recommended Actions and Measures to Implement the Main Strategy.

In order to work out and evaluate alternative Strategies, also in the context of the *positioning of the company relative to its competitors*, it is important here to sum up the multitude of deviations in quality criteria into one key-figure or index. We offer four different indexes to be selected according to each projects' and clients' requirements, on a case by case basis (there is no general rule/index for all cases):

- a. The sum of all squared deviations between importance and evaluation of quality criteria
- b. The sum of selective squared deviations of quality criteria (*see case study and example below*)
- c. The sum of all weighted deviations of quality criteria (importance – evaluation)
- d. The sum of selective weighted deviations of quality criteria (importance – evaluation).

Case Study: The smaller the deviation between importance and evaluation of all criteria is, the higher the corresponding customer satisfaction. The index as defined above can therefore be called **Customer Satisfaction Index**.

OEC was assigned to conduct a Strategic Business Audit for an European Capital Goods Manufacturer, let's call him David, who had an unsatisfactory share of market of only 3%. He wanted to increase his market share by improving his quality level in criteria that were important to his customers and prospects. Our analysis of David's positioning relative to its main competitors showed concrete areas where improvement could be made. At first the Index for b. SSD (selective squared deviations) was at about 16 units. After improving the most important criteria the SSD sank to 7 units. Three years after implementation of the proposed improvements David nearly achieved its target of a share of market of 8%.

The simple diagram below illustrates this complex case in two axes: The vertical y-axis shows the average growth in sales over a period of 5 years, the horizontal x-axis shows the degree of Customer Satisfaction respective the SSD in a logarithmic scale. In the strategy development stage we have discussed three clusters of areas in which the main players operate (*see diagram shown in next page 7*):

A: The area of the quality leaders Sandra/Viktor with market shares of 14 and 19%

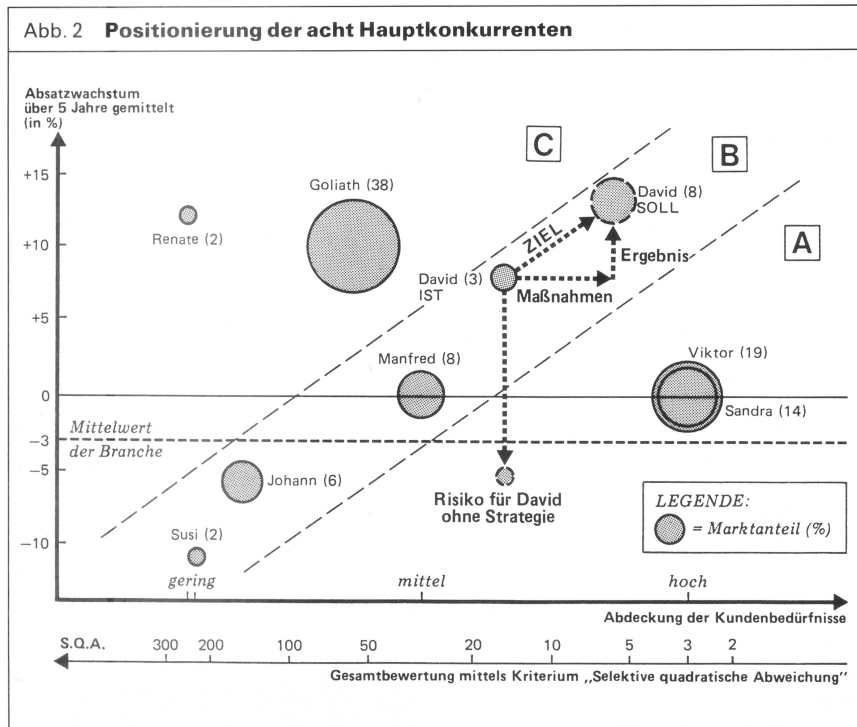
B: The field of rational expectations (the higher the quality, the higher sales growth)

C: The area of political special cases where low quality can lead to high growth too.

We cannot elaborate here on this most remarkable case study. Those who are interested may ask for the original paper which was published in German.

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The diagram presents the **positioning of David** within the competitive environment. The vertical axis shows average sales growth and the horizontal axis the fulfilment of customer needs via the sum of selective squared deviations (S.Q.A. in German):



- **Implementation Stage 4:** The proposed MMP-Strategy will be reviewed, adapted and accepted by the top-executives of the client. If necessary, an operational feasibility study will be added, showing the consequences and benchmarks of implementing the proposed strategy. Depending on the preferences of the client, a task force is defined to implement all actions as planned in Stage 3.
- **Monitoring Stage 5:** The task force supervises the project progress, continuously takes measures, monitors the results and reports to the CEO and other responsible executives and recommends further actions and measures if required.

The references below in similar projects in high-tech industries show that these Audits can either be applied in a broad sense (M&A) or can be applied in a more focussed way, e.g. in Sales:

- **Strategy Audit of ABC* Geneva:** OEC has been assigned by the leading Banks UBS and SBC to make a Business Audit of this Ultra-High Precision Manufacturing Technology company that has lead to a solution in which bankruptcy was avoided. Based on the Business Audit, potential investors could be found and briefed. Apart from 35 measures to be implemented, OEC recommended also to build a completely new product line that was absolutely unique in the market. *Name confidential

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- **Strategy Audit of XYZ** in India:** OEC has been assigned by the owners of this high-level company, because it had heavy losses due to fierce Korean/Taiwanese competition after liberalisation of the Indian Economy. The Strategy Audit has shown ways of how to improve product and service quality, better sourcing, and introducing professional Sales and Marketing. After only one year of implementing the proposed measures, the company profitable again. **Name confidential
- **Strategy Audit incl. M & A for Zevatech/Juki:** OEC was appointed by the leading banks UBS and SoBa to undertake an Audit and search for an industrial investor who would be fit to take over the Zevatech Group. Based on the Audit a Profile was made that motivated three world-class investors to want to take over Zevatech. Zevatech was sold to the Emesco Group, who in turn sold Zevatech to **ESEC** at a later stage. Zevatech (now ESEC) is world's leading manufacturer of the Ultra-High Precision Micron 1 and **Micron 2** Pick & Place Machines (Flip Chip Bonders) used in most of the top high-tech plants.
- **Sales & Distribution Audit for ESEC in India:** OEC was appointed by ESEC to make a partial Business Audit in the areas of Marketing, Sales and Distribution in this most interesting emerging market in Asia. Based on Interviews with ESEC's agents and direct interviews with its customers, strategic recommendations were worked out that not only related to the above topics, but also to the question of how to adapt certain product lines and services to the specific needs of the local and regional markets. OEC's conclusion was: *"The threshold customers of today are the great customer of tomorrow ..."*.
- **Optimum Market Entry for WAFER*** in India:** OEC was asked by WAFER to look for alternative entry strategies for a joint venture in India. WAFER had already identified a possible JV partner in India, but was not sure that the proposed legal structures were feasible. The situation was very critical, because the industry was defined as belonging to the highly protected Small Scale Industries SSI. OEC has organised a thorough market and distribution study and finally convinced WAFER that an EOU, which at the beginning of the project was completely out of question, really was the optimum solution for this very complex case. *** Real name confidential

These five examples above show the expertise of OEC in strategic Audits for high-tech clients. Following clients can also be mentioned from the high-tech area (they have partially been taken from our list "Abstract of Clients in Strategic Projects"):

- AVL Medical Instruments AG, Schaffhausen (CH) and Graz, Austria
- Swiss Commission for Technology and Innovation (CIM-Programmes)
- BRUKER AG, Fällanden, Switzerland (NMR Spectrometers)
- DYCONEX AG, Zurich, Switzerland (High-end micro via flexible boards)
- Schindler Management, Corporate R&D, Ebikon CH (Search and benchmarking of suppliers & developers for embedded control systems from India).

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