

Table of Contents

| | |
|--|-----------|
| 1 Why Go Global? The Multinational Imperative | 2 |
| FRANK JACOB, GERNOT STRUBE | |
| 1.1 Phases of Globalization..... | 3 |
| 1.1.1 Before 1930: Mainly Sales Offices Abroad | 3 |
| 1.1.2 1930 to 1980: Largely Independent Production Abroad | 5 |
| 1.1.3 Since 1980: Globally Networked Production and Cross-Functional Collaboration | 6 |
| 1.2 What Are the Forces Accelerating Global Production?..... | 9 |
| 1.2.1 Huge Factor Cost Differences..... | 9 |
| 1.2.2 High Growth in Emerging Markets..... | 10 |
| 1.2.3 Lower Transaction Costs | 10 |
| 1.2.4 Fewer Trade Barriers..... | 12 |
| 1.3 Goals of Global Production | 14 |
| 1.3.1 The Growth Impact | 15 |
| 1.3.2 The Cost Impact..... | 16 |
| 1.3.3 Secondary Objectives: Tapping Resources and Minimizing Risks | 24 |
| 1.4 Current Production Networks of the Three ProNet Focus Industries | 26 |
| 1.4.1 Automotive Industry | 27 |
| 1.4.2 Electrical and Electronics Industry | 30 |
| 1.4.3 Machine Tool Manufacturing | 31 |

| | | |
|----------|--|------------|
| 2 | Selection Criteria: Assessing Relevant Trends and Indicators | 34 |
| | TOBIAS MEYER | |
| 2.1 | The Relevance of Selection Criteria for Global Production Locations | 35 |
| 2.1.1 | Interaction Between Location Parameters and Process Parameters | 35 |
| 2.1.2 | How Varying Perspectives Affect the Importance of Different Location Parameters..... | 37 |
| 2.2 | Markets and Market Development | 41 |
| 2.2.1 | Market Growth – Industrialization and Transition to a Service-Based Economy | 42 |
| 2.2.2 | Market Growth in Developing and Newly Industrialized Countries – General Trends and Regional Specifics..... | 43 |
| 2.2.3 | The Elephant and the Dragon – Asia’s Impact on the World Market | 48 |
| 2.3 | Factor Costs – Labor, Capital, and Materials | 50 |
| 2.3.1 | Labor Costs..... | 51 |
| 2.3.2 | Capital Costs and Depreciation | 59 |
| 2.3.3 | Cost of Materials | 59 |
| 2.4 | Productivity and Economies of Scale in Manufacturing | 61 |
| 2.4.1 | Physical Productivity and Skills | 61 |
| 2.4.2 | Economies of Scale, Synergies and Production Technology | 67 |
| 2.5 | Logistics – Direct and Indirect Costs | 71 |
| 2.5.1 | Direct Transportation Costs..... | 71 |
| 2.5.2 | Costs of Inventory – Tied Capital and Depreciation | 76 |
| 2.5.3 | Modes of Transport – Untapped Optimization Potential | 76 |
| 2.6 | External Factors – Boundary Conditions and Risks | 78 |
| 2.6.1 | Subsidies and Taxes..... | 78 |
| 2.6.2 | Customs Duties and Non-Tariff Trade Barriers | 80 |
| 2.6.3 | Exchange Rate Effects and other External Risks | 84 |
| 2.7 | Handling Migration – Transition Financials | 94 |
| 2.7.1 | Investments | 94 |
| 2.7.2 | Cost of Production Ramp-Up | 96 |
| 2.7.3 | Restructuring Costs..... | 98 |
| 3 | Investments Abroad: Using the Right Evaluation Techniques | 102 |
| | TOBIAS MEYER | |
| 3.1 | Basic Models | 104 |
| 3.1.1 | The Simple Knockout Process | 105 |
| 3.1.2 | Portfolio Analysis | 108 |
| 3.1.3 | Strategic Location Concept | 110 |

| | |
|--|------------|
| 3.2 Dimensions of the Analysis | 112 |
| 3.2.1 Narrow Versus Extended Functional Scope..... | 113 |
| 3.2.2 Tactical Versus Strategic Choice of Location | 113 |
| 3.2.3 Static Versus Dynamic Analysis..... | 115 |
| 3.2.4 Single-Stage Versus Multi-Stage Supply Chain..... | 115 |
| 3.2.5 Qualitative Versus Quantitative Evaluation | 116 |
| 3.2.6 Deterministic Versus Stochastic Perspective | 116 |
| 3.2.7 Simulation Versus Optimization..... | 117 |
| 3.3 Specific Tools and Analysis Methods..... | 118 |
| 3.3.1 Investment Analysis..... | 118 |
| 3.3.2 Decision Support Systems..... | 121 |
| 3.3.3 Sensitivity Analyses | 123 |
| 3.3.4 Central Guidelines and Templates | 124 |
| 3.4 Survey Results and Case Studies..... | 124 |
| 3.4.1 How Companies Prepare Investment Decisions | 124 |
| 3.4.2 Case Studies | 126 |
| Appendix: Investment Analysis Techniques | 137 |
| | |
| 4 Network Design: Optimizing the Global Production Footprint..... | 140 |
| TOBIAS MEYER, FRANK JACOB | |
| 4.1 Holistic Approach | 142 |
| 4.1.1 Principles for Redesign | 142 |
| 4.1.2 Approach for Generating a Strategic Location Concept..... | 144 |
| 4.1.3 Identifying Strategic Objectives and Urgency | 146 |
| 4.1.4 Modeling Existing Production | 154 |
| 4.1.5 Assessing the Potential of Current Locations | 159 |
| 4.1.6 Generating the Strategic Location Concept | 160 |
| 4.1.7 Implementation and Management..... | 162 |
| 4.2 Network Phenotypes..... | 164 |
| 4.3 Production Footprint Redesign: Case Studies | 167 |
| 4.3.1 Case Study 1: Passenger Car Gearboxes..... | 169 |
| 4.3.2 Case Study 2: Consumer Electronics | 182 |
| 4.3.3 Case Study 3: Structural Component for the Aviation Industry | 184 |
| 4.3.4 Case Study 4: Appliances Manufacturer | 187 |

| | | |
|----------|---|-----|
| 5 | Production Technology: Adapting to Maximize Local Advantage | 192 |
| | TOBIAS LIEBECK, TOBIAS MEYER, EBERHARD ABELE | |
| 5.1 | Reasons for Adaptation..... | 193 |
| 5.1.1 | Factor Costs..... | 195 |
| 5.1.2 | Skills/qualifications..... | 195 |
| 5.1.3 | Unit Volume and Flexibility | 197 |
| 5.1.4 | Customer Requirements and Local Supply..... | 199 |
| 5.1.5 | External Conditions and Risks | 200 |
| 5.2 | The Options for Adaptation | 201 |
| 5.2.1 | Basic Adaptation Models | 201 |
| 5.2.2 | Adapting to Local Requirements – Concepts and Case Examples | 204 |
| 5.3 | Evaluation and Selection | 221 |
| 5.3.1 | Creating Transparency Around the Trade-Offs | 222 |
| 5.3.2 | Analyzing the Impact for a Specific Location | 225 |
| 5.3.3 | Broadening the Perspective to the Entire Production Network..... | 225 |
| 6 | Implementation: Ramping Up New Facilities for Top Performance | 236 |
| | SEBASTIAN SIMON, MARINA DERVISOPOULOS, FRANK JACOB, ULRICH NÄHER | |
| 6.1 | Improvement Potential Revealed by the Survey..... | 237 |
| 6.2 | Detailed Regional Planning..... | 239 |
| 6.2.1 | Balancing Complexity Versus Capabilities..... | 239 |
| 6.2.2 | Selecting the Right Site | 241 |
| 6.2.3 | Going it Alone Versus Partnering..... | 245 |
| 6.3 | HR Management | 247 |
| 6.3.1 | Filling Skilled and Executive Positions..... | 248 |
| 6.3.2 | Recruiting and Training Operational Staff..... | 256 |
| 6.4 | Production Ramp-Up | 261 |
| 6.4.1 | Ramp-Up Strategies..... | 261 |
| 6.4.2 | Equipment Transfer Versus Purchase..... | 265 |
| 7 | Management: Applying Best-Practice Structures and Processes | 270 |
| | RAIMUND DIEDERICHS, TOBIAS MEYER, MARKUS LEOPOLDSIEDER, FRANK JACOB | |
| 7.1 | Organization Structure..... | 271 |
| 7.1.1 | Form of Organization | 271 |
| 7.1.2 | Cost or Profit Center?..... | 276 |
| 7.1.3 | The Difficulties of Internal Transfer Pricing with Cost and Profit Centers..... | 279 |

| | |
|---|-----|
| 7.2 Supply Chain Management | 282 |
| 7.2.1 Challenges for Global Supply Chain Management..... | 283 |
| 7.2.2 Three Approaches to Setup and Optimization..... | 286 |
| 7.2.3 Logistics in Emerging Markets..... | 304 |
| 7.3 Production Systems | 313 |
| 7.3.1 Design and Pilot Phase..... | 314 |
| 7.3.2 Rollout Phase..... | 317 |
| Appendix A | 320 |
| Appendix B | 321 |
| | |
| 8 Sourcing: Extending the Footprint Reconfiguration to Suppliers | 324 |
| MICHAEL STOLLE, ULRICH NÄHER, FRANK JACOB, NICOLAS REINECKE, JAMES HEXTER, MARINA DERVISOPOULOS | |
| 8.1 Why Sourcing is so Significant in a Production Network | 325 |
| 8.1.1 Cost Potential..... | 326 |
| 8.1.2 Challenges..... | 326 |
| 8.2 Segmentation of Sourced Parts | 329 |
| 8.3 First Wave: Sourcing Simple Parts Locally | 330 |
| 8.3.1 Setting up a Systematic Process..... | 330 |
| 8.3.2 Establishing a Local Sourcing Organization..... | 337 |
| 8.4 Second Wave: Sourcing more Complex Parts | 340 |
| 8.4.1 Targeted Development of Local Suppliers..... | 340 |
| 8.4.2 Methodical Skill-Building for Purchasers..... | 342 |
| Appendix | 346 |
| | |
| 9 R&D: Aligning the Interface with Production | 350 |
| SEBASTIAN SIMON, ULRICH NÄHER, MADS D. LAURITZEN | |
| 9.1 The Challenge: Finding the Right Constellation | 351 |
| 9.2 Design of the Interface with Production | 354 |
| 9.2.1 Option 1: Independent Networks with Minimal Collocation..... | 356 |
| 9.2.2 Option 2: Collocation of Process Development..... | 359 |
| 9.2.3 Option 3: Relocation of Application Development..... | 359 |
| 9.2.4 Option 4: Relocation of Platform Development..... | 361 |
| 9.2.5 Option 5: Full Collocation..... | 362 |
| 9.3 Outlook: Globalization of R&D | 365 |

| | |
|---|-----|
| 10 Macroeconomic Implications: Accelerating Growth | 372 |
| JÜRGEN KLUGE, HARALD PROFF | |
| 10.1 Impact on Industrializing Economies | 375 |
| 10.2 Impact on Highly Industrialized Economies | 375 |
| 10.3 Impact on Post-Industrial Economies | 376 |
| 10.4 Breakpoints Between the Phases | 378 |
| 10.5 Accelerating Industrial Development | 379 |
| Appendix | 380 |