

ANNIVERSARY
EDITION

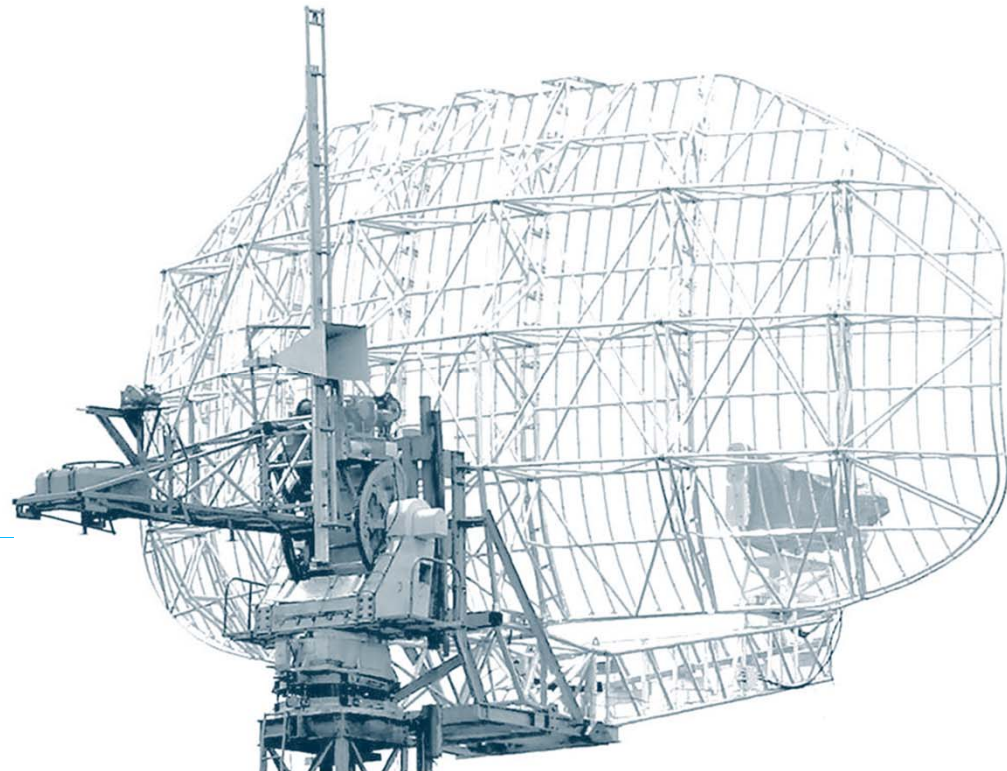
5TH OPERATIONS EFFICIENCY RADAR

Top levers in 2014 – A decision-making aid for CFOs



Study results

Munich and Stuttgart, October 2013



FOREWORD

THANK YOU VERY MUCH!



This is now the **5th edition of the Operations Efficiency Radar**. With **continuously rising numbers of participants over the years**, the 5th edition now includes responses from **200 participants**. This is an **excellent result** that highlights how well-established the study has become in just 5 years. We would therefore like to thank our **regulars** as well as the **newcomers** among you! We hope that this edition of the Operations Efficiency Radar once again gives you **informative insights** and **helpful suggestions** for planning in 2014 and look forward to discussing them with you. We hope to welcome you to the 6th Operations Efficiency Radar next year. Thank you once again.

Oliver Knapp

Conrad Günther

Thomas Rinn

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A joint study by the **International Controller Association (ICV)** and **Roland Berger**

A.



Management summary

Roland Berger
Strategy Consultants

icv

Management summary (1/3)

BACKGROUND & OBJECTIVES

- > **Our Operations Efficiency Radar for 2014** predicts an **environment characterized by slow growth**:
 - The **triad** markets will **grow** only **slowly** in the coming year – in **Germany** for example, **GDP growth of approx. 1% is assumed**
 - **Emerging markets** will continue to grow but much more slowly, leading to a **slow-growth scenario** for this region too – in **China** for example, **GDP growth** of just over **6% in 2014** is the assumption, after primarily **double-digit growth rates** over the last few years
- > This gives rise to **two questions** for companies:
 - How can they continue to grow profitably in a **slow-growth scenario**?
 - What are the **top levers in 2014** to do so?
- > In our experience, especially in a slow-growth scenario it is all the more important to offer the **products customers really want** – with the **right features**, at the **right price** and at **minimal cost**
 - For **triad markets** this means first and foremost **evolutionary refinement of existing products** using product value-based methods
 - For **emerging markets** this means **revolutionary development of new products** based on frugal product approaches (focus on low-end segments)

Management summary (2/3)

FINDINGS

- > The **special analysis** of the **Operations Efficiency Radar** confirms that
 - Only 38% of participants offer their customers products they really want at minimal cost
 - Just 8% of participants have so far seized the opportunities of frugal products to the full extent
 - In addition, just one-third of companies achieve their target costs
- ➔ **Significant catching up to be done – starting point** for profitable growth in the expected **slow-growth scenario**
- > In 2014, **"the product"** will continue to be the focus of the **5th Operations Efficiency Radar** – the CFO agenda for 2014 can be summarized as follows:
 1. **Product in focus**, e.g.
 - Identify growth opportunities
 - Optimize product features in a customer-oriented manner
 - Cut product costs across all functions
 2. **Better transparency & control**, especially:
 - Stronger controlling
 3. **Selective efficiency improvement in the functions**, e.g.
 - Efficiency improvement in production
 - Efficiency improvement in sales and marketing

Management summary (3/3)

RECOMMENDATION

- > Especially in a slow-growth scenario, it is **important to put the customer and product at the heart** of all considerations
- > In **2014**, companies should thus focus **on activities/levers** that help **offer customers products they really want at minimal cost** – both for the **triad markets** and **emerging markets**

B.



Background and objectives

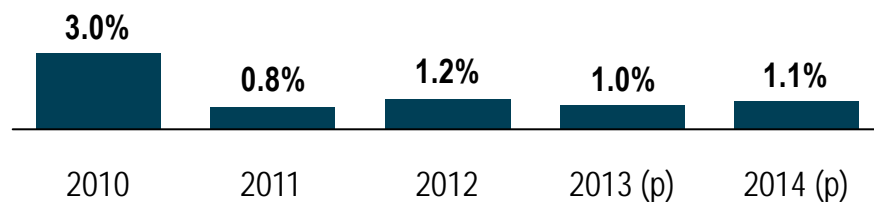
Roland Berger
Strategy Consultants

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Companies will be facing slow growth in 2014 – Our 5th Operations Efficiency Radar at a glance

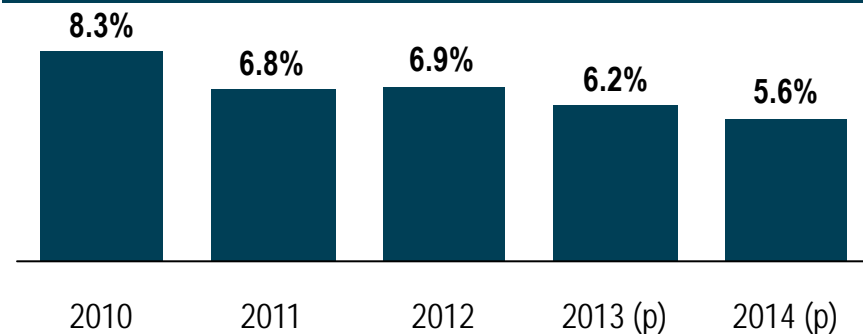
Overview of the results – Top levers in 2014

TRIAD MARKETS



- > The **triad** markets will **grow** only **slowly** in the coming year
- > In **Germany** for example, **GDP growth of approx. 1% is assumed**

EMERGING MARKETS



- > **Emerging markets** will continue to grow but much more slowly, leading to a **slow-growth scenario** for this region
- > In **China** for example, **GDP growth** of just over **6% in 2014** is the assumption, after primarily **double-digit growth rates** over the last few years

Resulting in more intensive competition & cost pressure

- > How can companies continue to **grow profitably** in a **slow-growth scenario**?
- > **What** are the **top levers in 2014** to do so?

It helps CFOs pinpoint the top levers for profitable growth in 2014

Objective and benefits

THE GOAL

Determine the top levers for 2014 for manufacturing companies to **grow profitably**

THE Operations Efficiency Radar



THE BENEFIT

- > **Decision-making aid** for CFOs in planning for 2014
- > **Basis** for **discussion** by CFO ("sparring") with the corporate functions

How do "neutral" CFOs view their own company ("inside-in" perspective)?

C.



Top levers for CFOs in 2014

Roland Berger
Strategy Consultants

icv

In 2014, the focus will be on levers for optimizing the "product"

Top levers for CFOs in 2014

1. PRODUCT IN FOCUS

- > Identify growth opportunities
- > Optimize product features in a customer-oriented manner
- > Cut product costs across all functions



3. SELECTIVE EFFICIENCY IMPROVEMENT IN THE FUNCTIONS

- > Efficiency improvement in manufacturing
- > Efficiency improvement in sales and marketing

2. BETTER TRANSPARENCY & CONTROL

- > Stronger controlling

The 5th Operations Efficiency Radar covers four perspectives

I REVIEW 2013



IV RECOMMENDATION

II OUTLOOK 2014

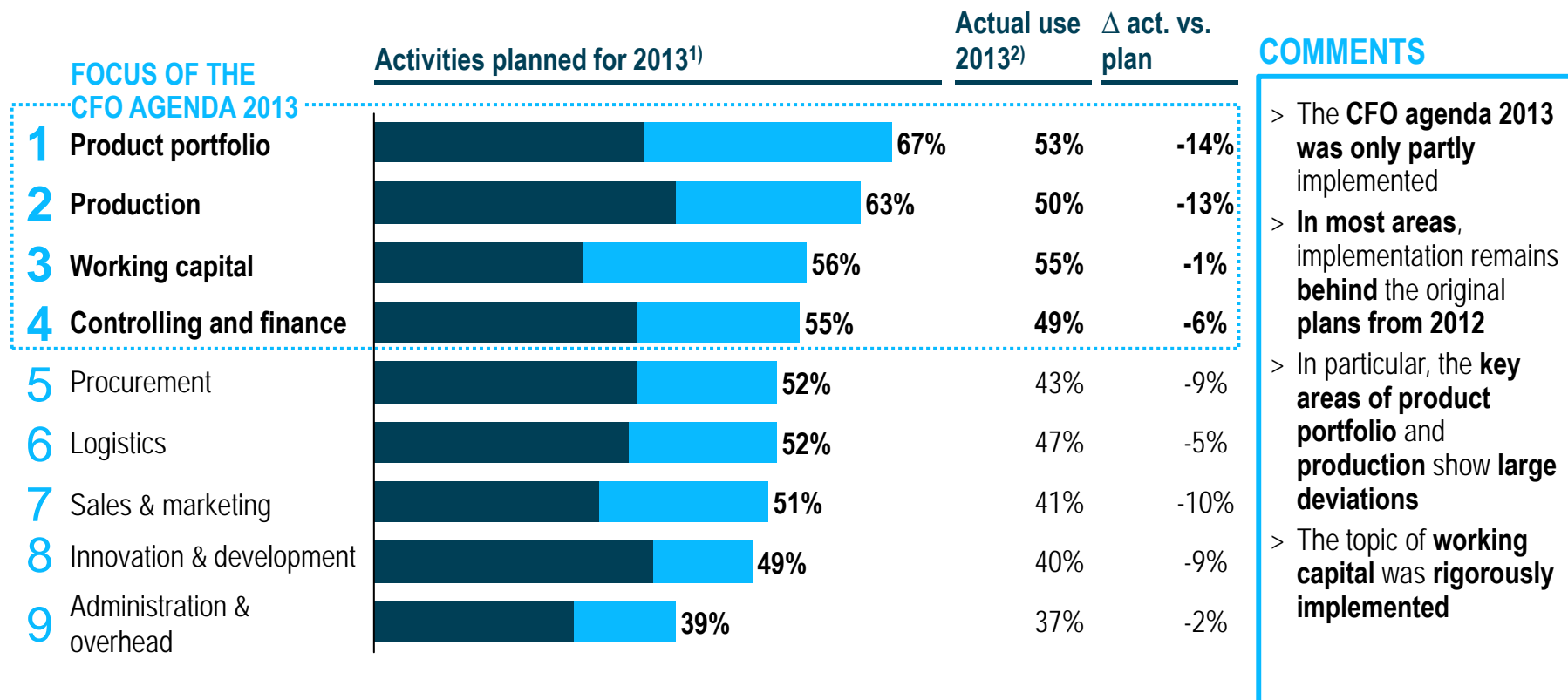


III SPECIAL EVALUATION



The 2013 CFO agenda was not fully implemented – In most areas, implementation remains behind schedule

Implementation of the CFO agenda in 2013



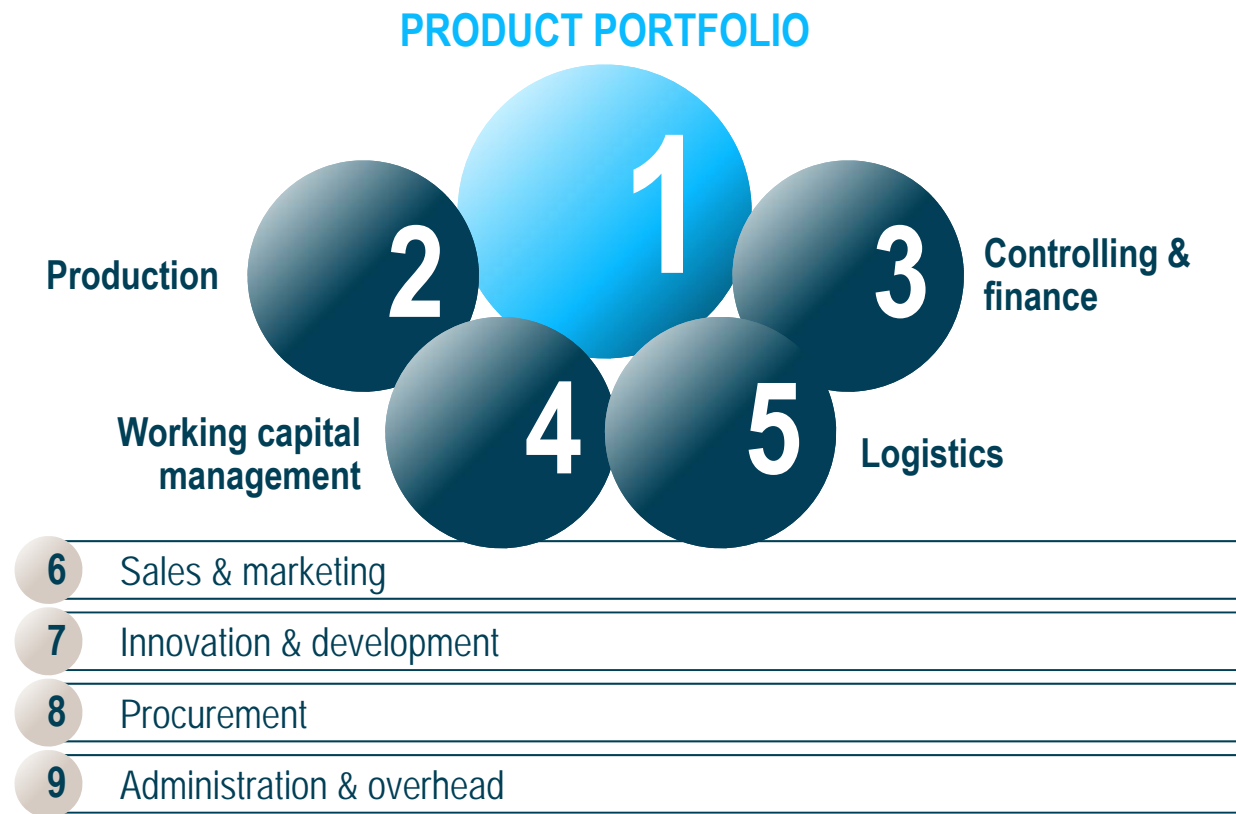
 CFO agenda focus
 4 4 = certain
 5 5 = very certain

1) Percentage of companies planning activities in 2013

2) Percentage of companies judging the actual use of the levers to be high (4) or very high (5)

Controlling & finance is among the top 3 for the first time – Product portfolio still the key area

Focal areas in 2014



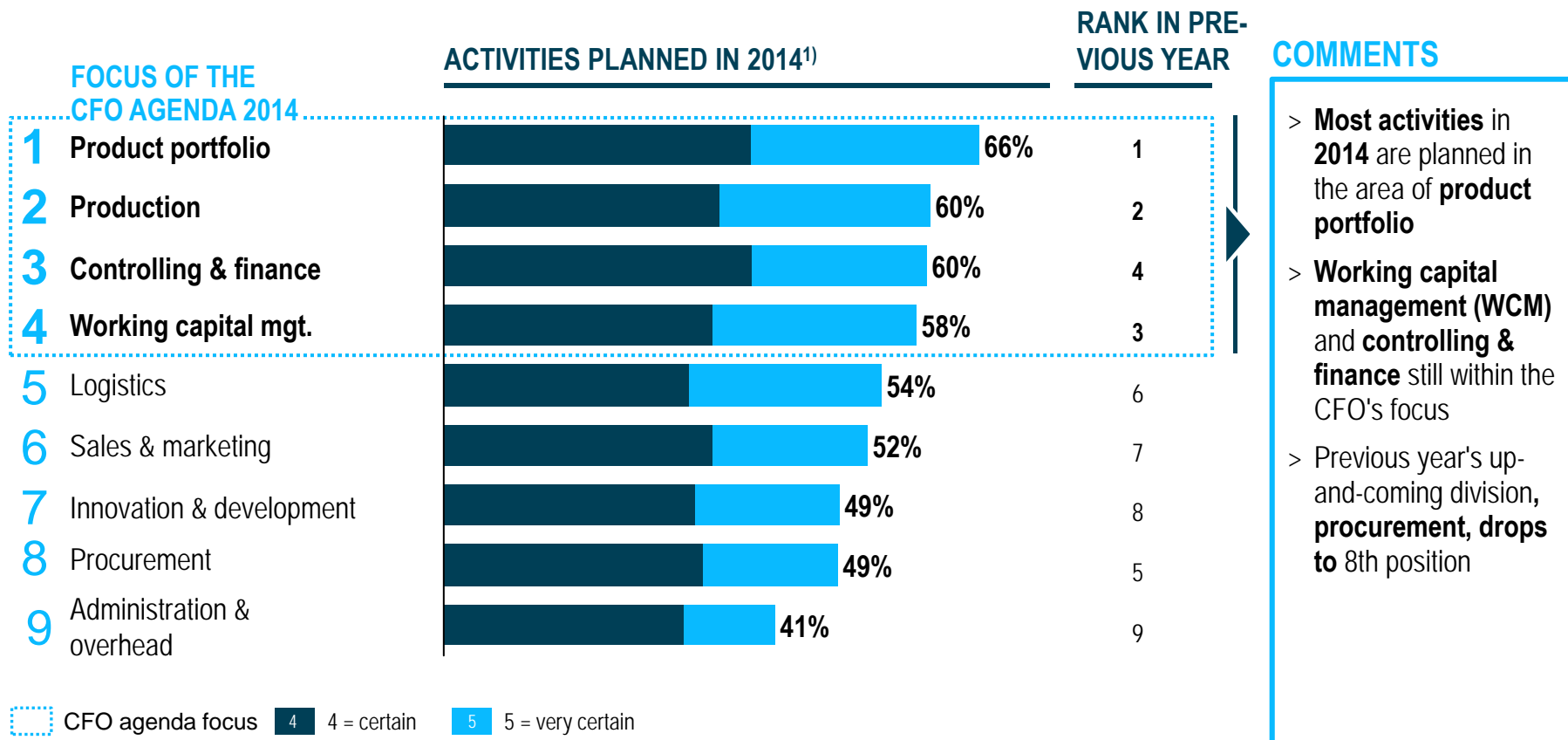
COMMENTS

- > The **product portfolio** has become established as a **key area**
- > **Alongside this, four areas** are in focus in **2014**
 - **Production**
 - **Controlling & finance**
 - **Working capital management**
 - **Logistics**
- > **Controlling & finance** among the **top 3** for the first time

ⓧ Ranking in 2014

Product portfolio remains the focus – Controlling & finance more important, while Procurement has fallen farthest down the rankings

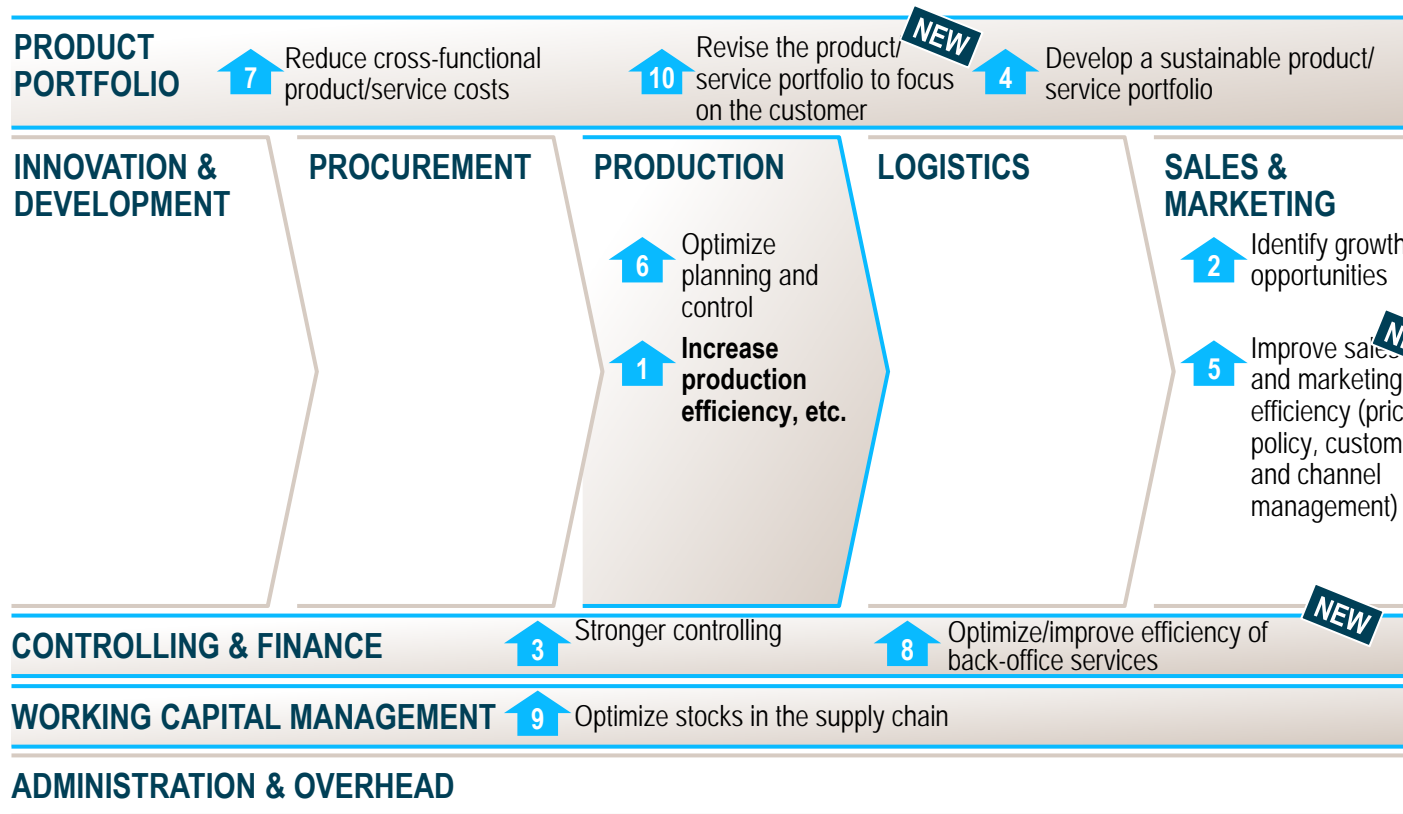
Activities planned, 2014 overview



1) Percentage of companies planning activities in 2014

Top levers in 2014 focus on production efficiency, growth and stronger controlling

Top 10 levers: Activities planned



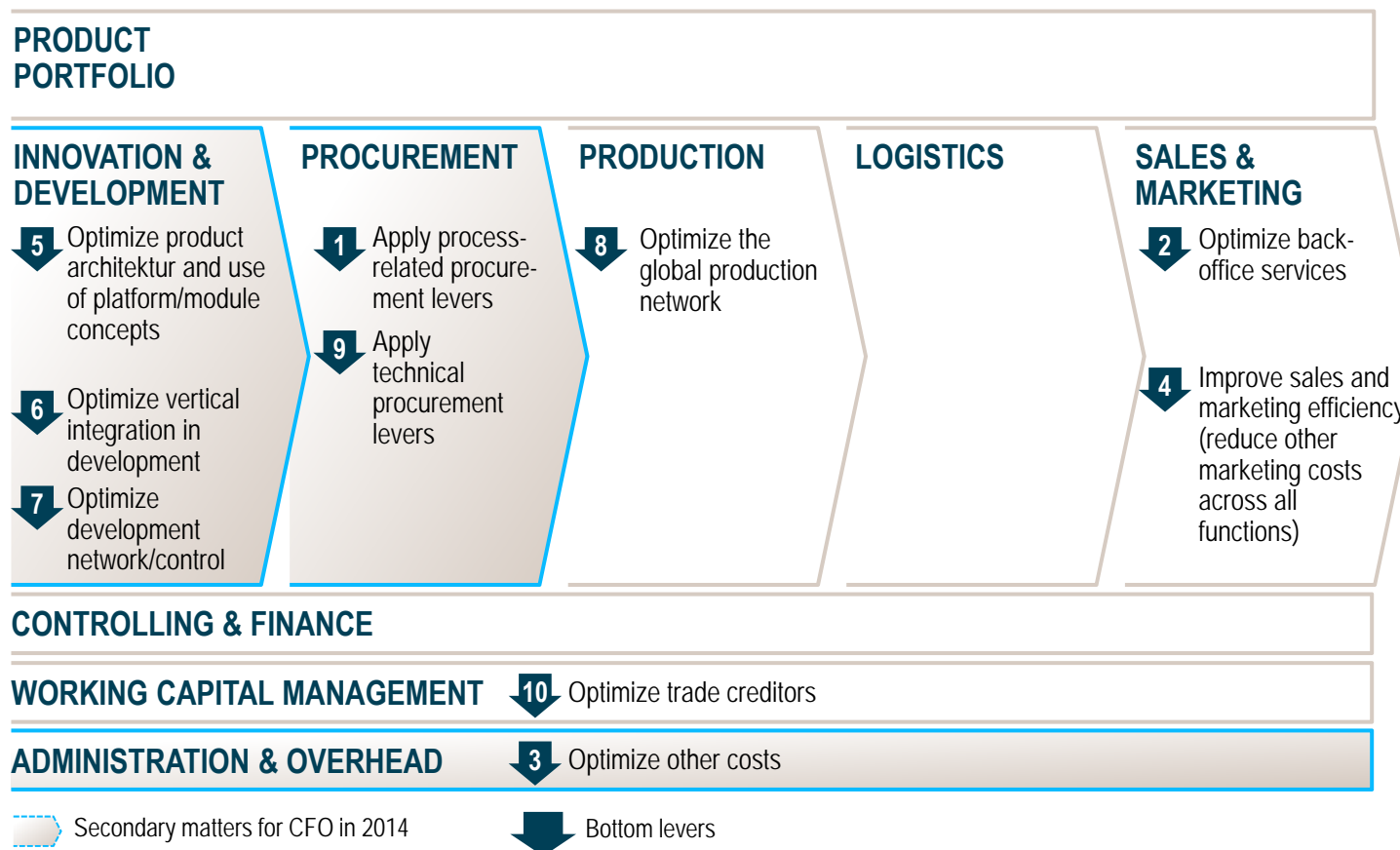
COMMENTS

- > **Efficiency improvement in production** is the most important lever for CFOs in 2014
- > Despite the clear focus on the product portfolio, **there is no "innovation & development" lever** among the top 10
- > Most important "newcomer" is **improving sales & marketing efficiency** (price policy, customer and channel management)

 Focus areas of the CFO agenda 2014
 ↑ Top levers
 NEW New in top ten compared to previous year

By contrast, process-related procurement levers and optimizing sales, marketing and administration are not in focus

Bottom 10 levers: No activities planned

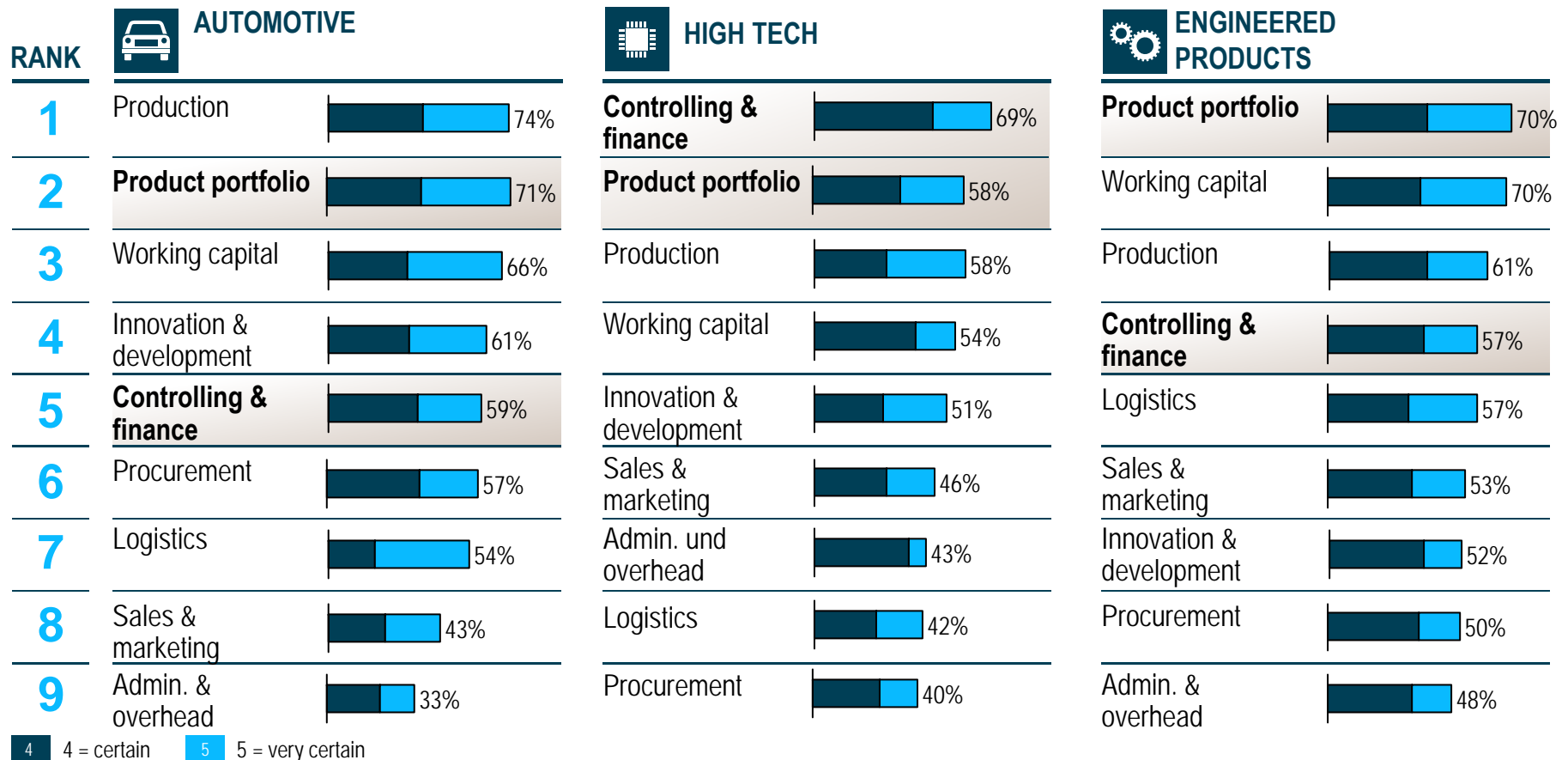


COMMENTS

- > Although efficiency improvement in production is the most important lever, **module and platform concepts** will not be used to optimize costs in 2014
- > **Technical and process-related procurement levers** are not planned either

Product portfolio activities are consistent across industries – Major differences in controlling & finance

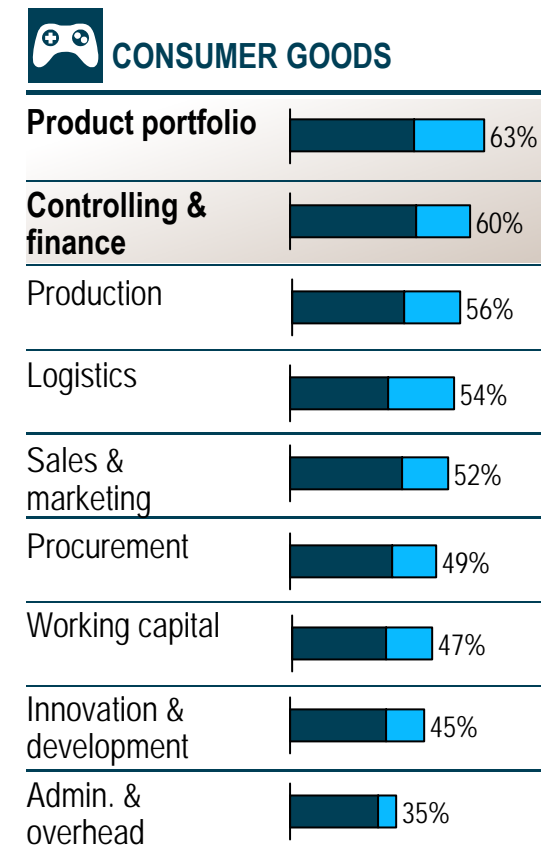
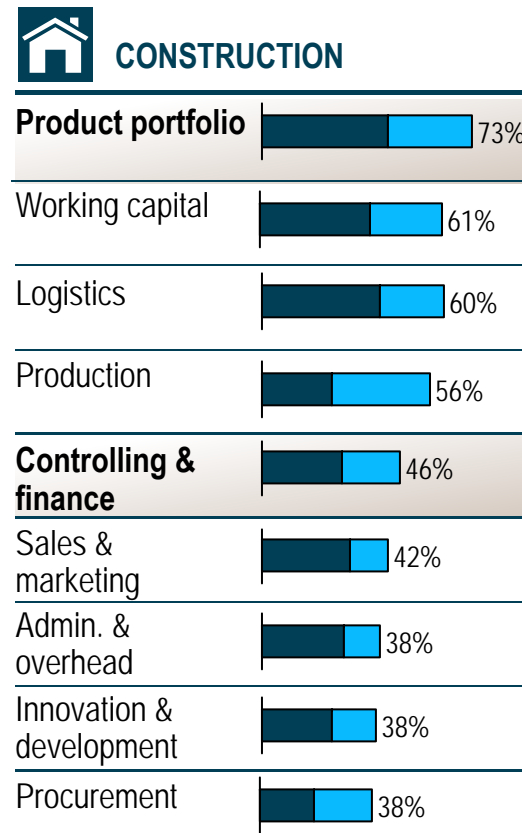
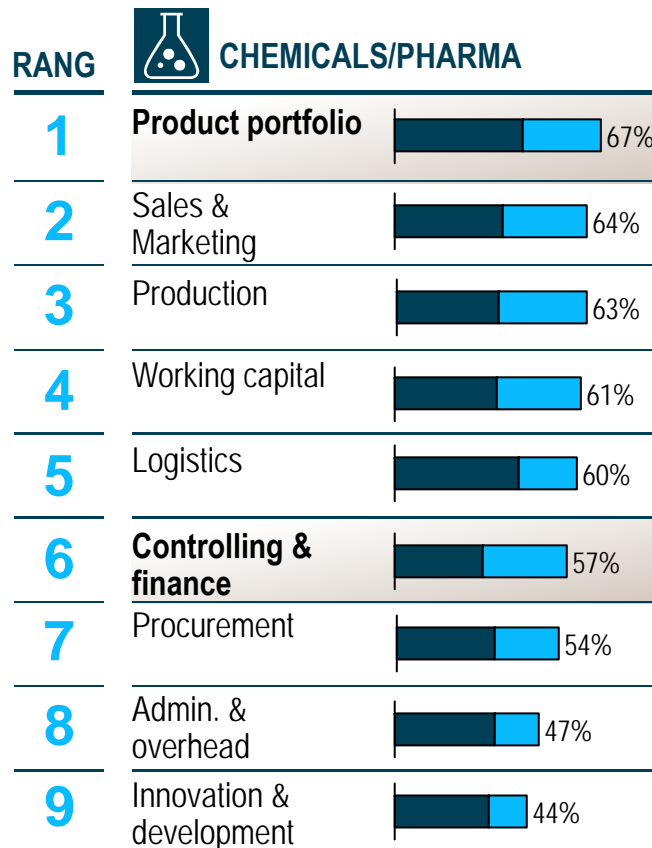
Activities planned in 2014 by industry (1/2)



Source: Roland Berger

Product portfolio activities are consistent across industries – Major differences in controlling & finance

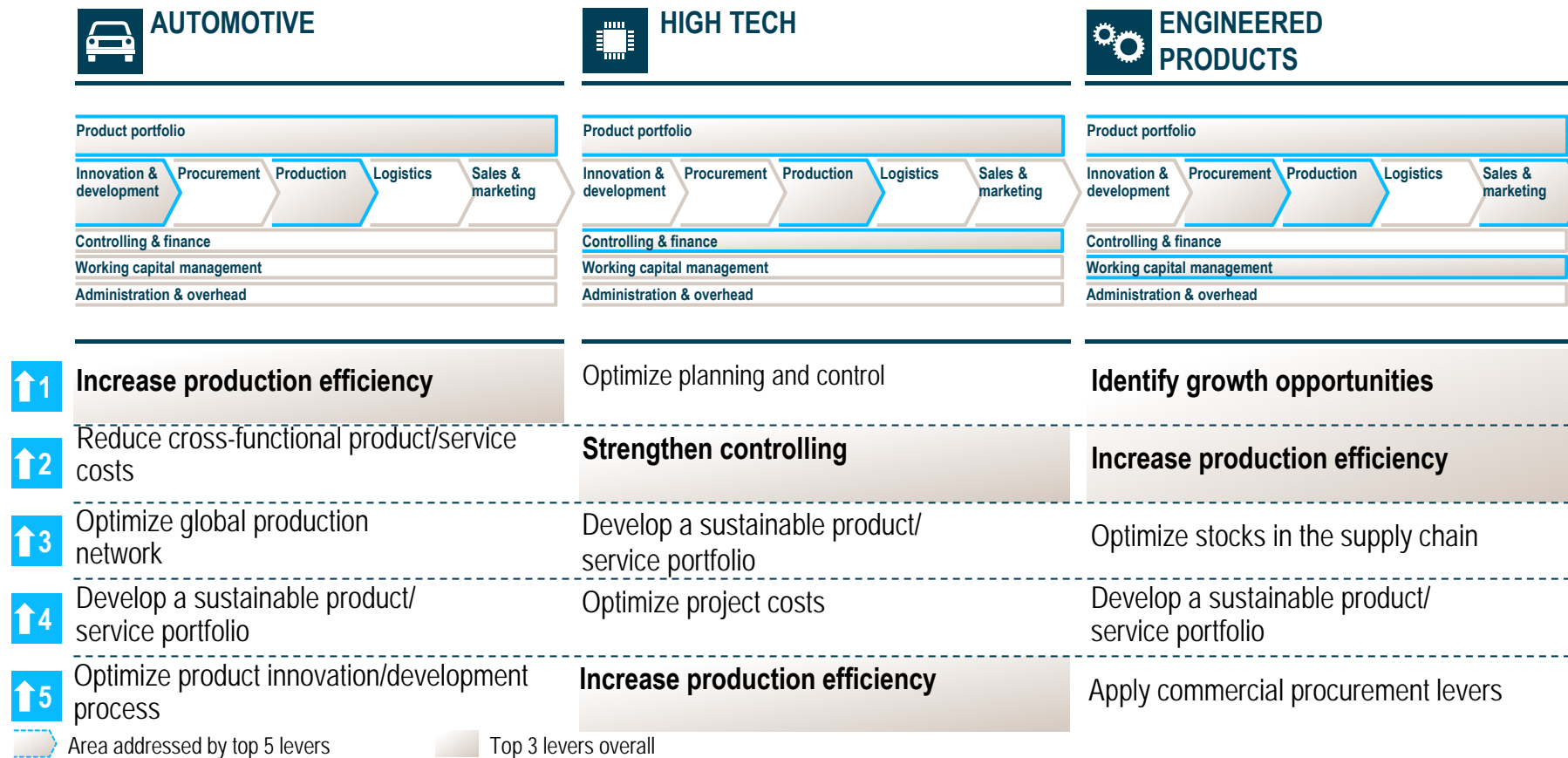
Activities planned in 2014 by industry (2/2)



4 = certain 5 = very certain

The top levers vary greatly between industries – Even the top 3 levers are applied differently

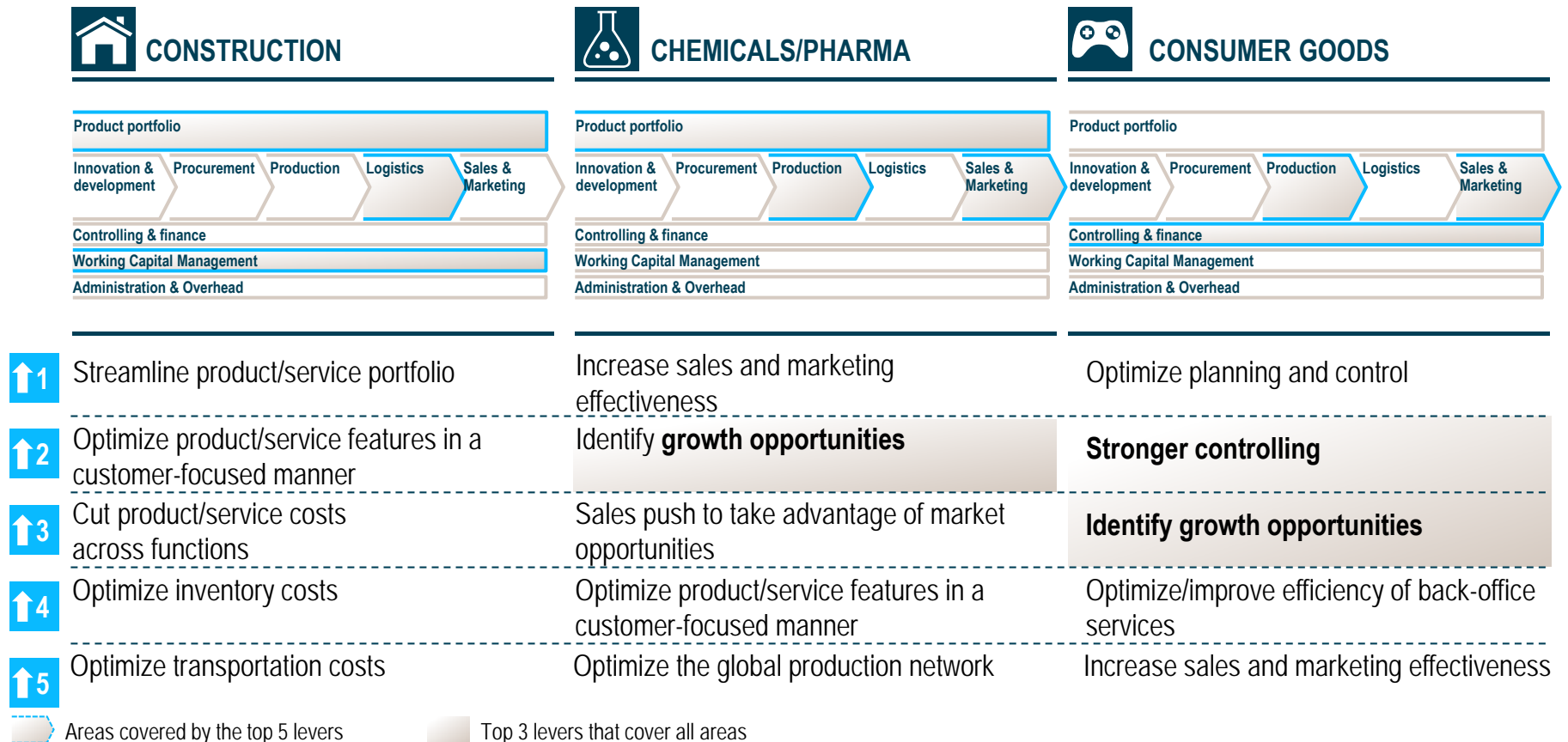
Top 5 levers by industry (1/2)



Source: Roland Berger

The top levers vary greatly between industries – Even the top 3 levers are applied differently

Top 5 levers by industry (2/2)



The special evaluation for 2014 focuses on products for the triad and emerging markets

Product optimization

PRODUCTS FOR THE TRIAD MARKETS

Use **evolutionary products** to improve customer satisfaction and product profitability. Successful products offer features that customers really want and at minimal cost – **Triad markets**

PRODUCT-BASED-ORIENTED APPROACHES

Example of packaging costs

- > Reduce packaging size
- > Optimize production
- > Eliminate side window
- > Change material
- > Use smaller crowner
- > Reduce logistics costs



PRODUCTS FOR EMERGING MARKETS

FRUGAL PRODUCTS

Capture new markets using **revolutionary products**. FRUGAL (functional, robust, user-friendly, growing, affordable, local) products are products from the low- to mid-tech segments – **New markets**

Example of a ultrasound device

- > Small, portable and PC-based based ultrasound device that is sold in rural China for approx. USD 15,000
- > The device was developed in China and is manufactured there too
- > Today, the device is also sold in the US to encourage new approaches, e.g. to cut healthcare costs

Ultrasound device



Companies are failing to seize opportunities both in the triad and emerging markets

Action areas

PRODUCTS FOR THE TRIAD MARKETS

Use **evolutionary products** to improve customer satisfaction and product profitability. Successful products offer features that customers really want and at minimal cost – **Triad markets**

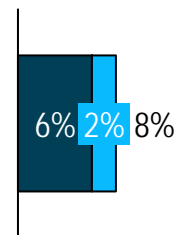
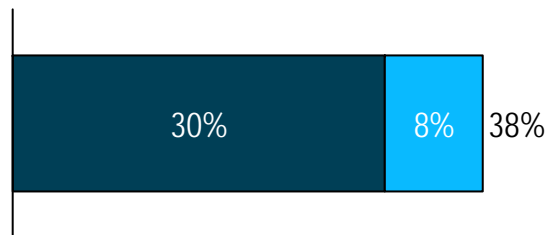
PRODUCT-BASED-ORIENTED APPROACHES

PRODUCTS EMERGING MARKETS

FRUGAL PRODUCTS

Capture new markets **using revolutionary** products. FRUGAL (functional, robust, user-friendly, growing, affordable, local) products are products from the low- to mid-tech segments – **New markets**

Seizing opportunities in 2014



4 = certain 5 = very certain

Only 2/3 feel they have a deeper understanding of what their customers really want – Achieving target costs is a big problem

Optimizing products for the triad markets

LEVER

Importance

1) We have a deep understanding of the product features our customers want and know what they are willing to pay for this

Know-how

2) We "translated" the customers' needs into technical specifications at the start of product development

3) We achieve the defined target costs

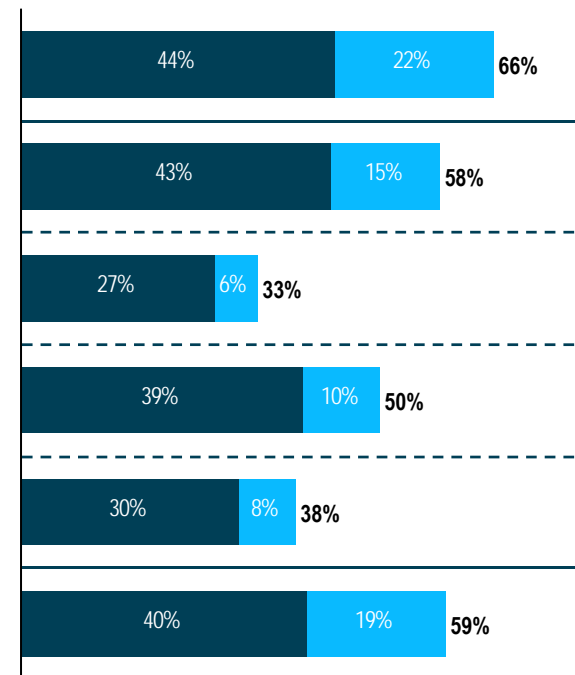
4) We make sure that the products developed with the corresponding features are also appreciated by the customers, e.g. through market tests

5) Overall, we offer our customers exactly those products that have the desired features and at minimal cost

Use

6) We will actively revise our product portfolio by focusing on product-value-based approaches in 2014

Agreement with the statements



COMMENTS

- > Only 2/3 of the companies feel they have a deeper understanding of their customers' wishes
- > Furthermore, only 1/3 of the participants stated that the target costs will be achieved
- > This means there's catching up to do in product optimization, even though innovation & development did not rank among the top areas

4 = strongly agree with the statement

5 = Very strongly agree with the statement

There is much catching up needed in exploiting the potential of frugal product approaches

Product optimized for "emerging markets"

LEVER

Importance

1) We have a deep understanding of the market needs in emerging markets

Know-how

2) We also believe we can seize opportunities in emerging market using frugal products

3) The share of frugal products in our industry will be increasing significantly over the next five years

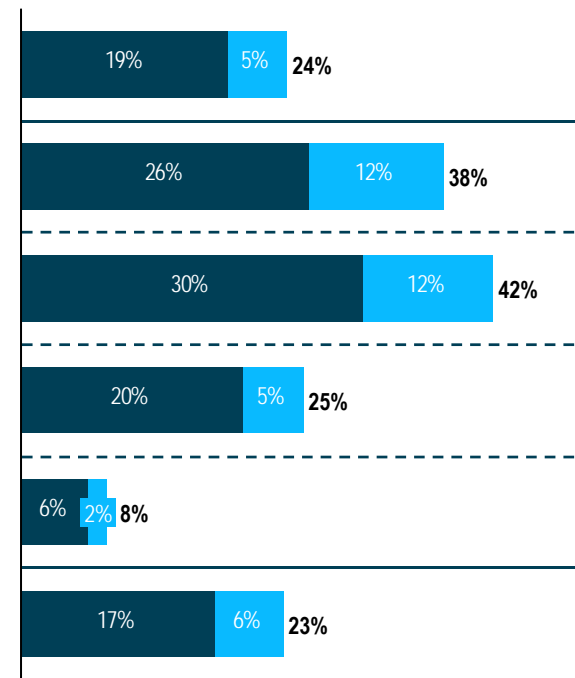
4) We are in a position to also successfully develop products for emerging markets in the low- to mid-tech segments

5) Overall, we already completely seize all opportunities from frugal products

Use

6) We will actively revise our product portfolio by focusing on frugal in 2014

Agreement with the statements



COMMENTS

- > **3/4** of those surveyed lack an understanding of emerging markets
- > Even though **40%** of the participants believe that frugal products are becoming increasingly relevant
- > And only **8%** state that they fully seize the opportunities offered by frugal products
- > **Usage planned for 2014** is correspondingly low (23%)

4 = strongly agree with the statement 5 = very strongly agree with the statement

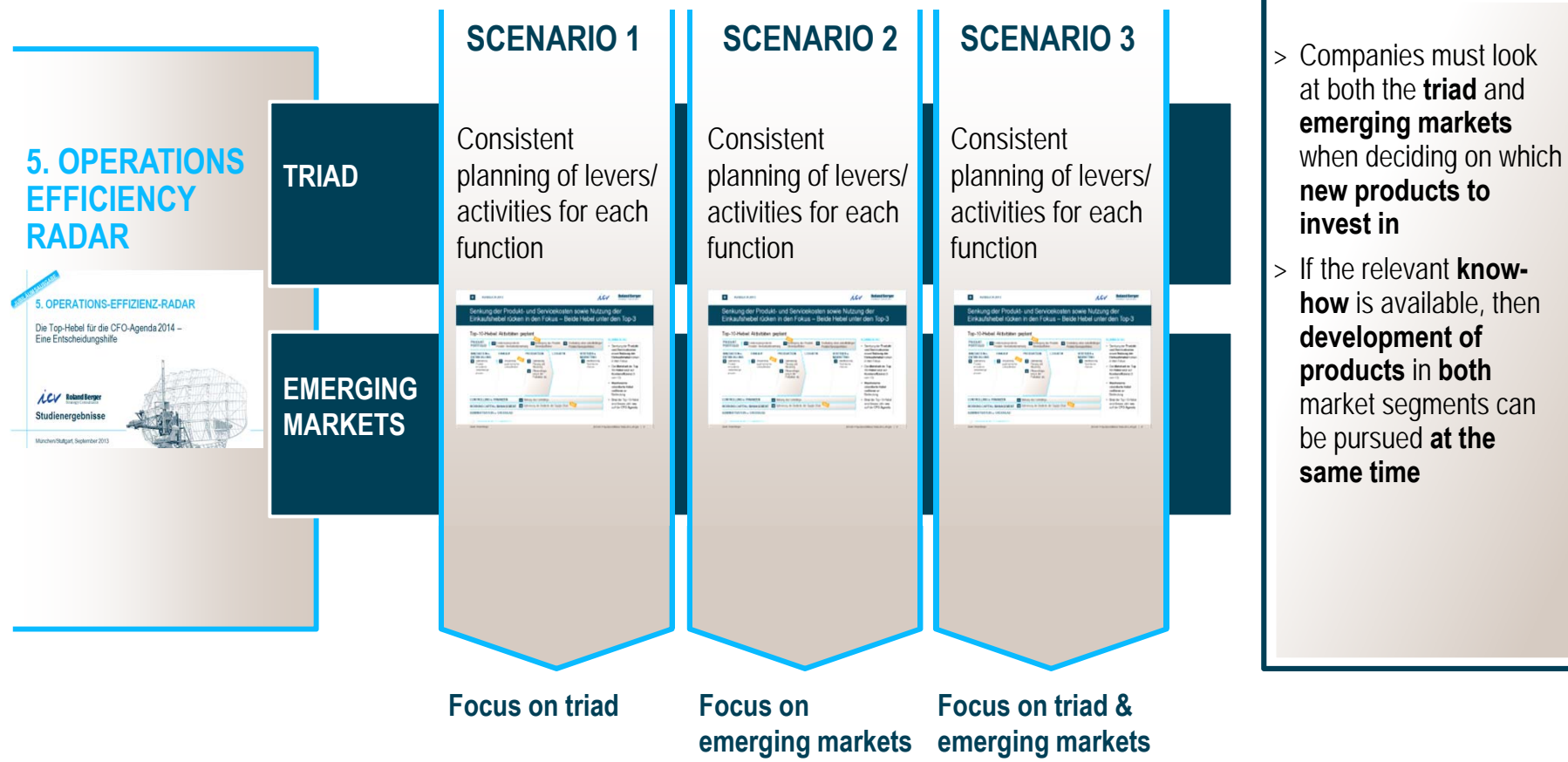
Recommendation: Focus on customers and their demands, i.e. align activities to achieve this goal

THE GOAL of each company is to **GROW PROFITABLY** –
How can this work given the prevailing growth conditions?

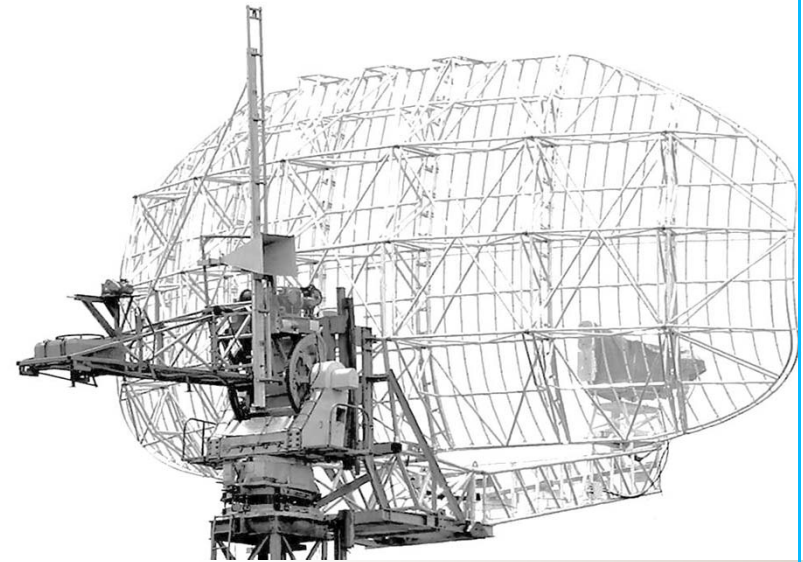
- > Especially in slow-growth scenarios, it is **vital to focus on the customer** and the **product**
- > This means companies should focus on **activities/levers** in **2014** which help provide **customers with products** they **really want** at minimal cost – for both **triad** and **emerging markets**

Companies now need to evaluate which markets their growth focus should be on in 2014 planning

Impact on planning



D.



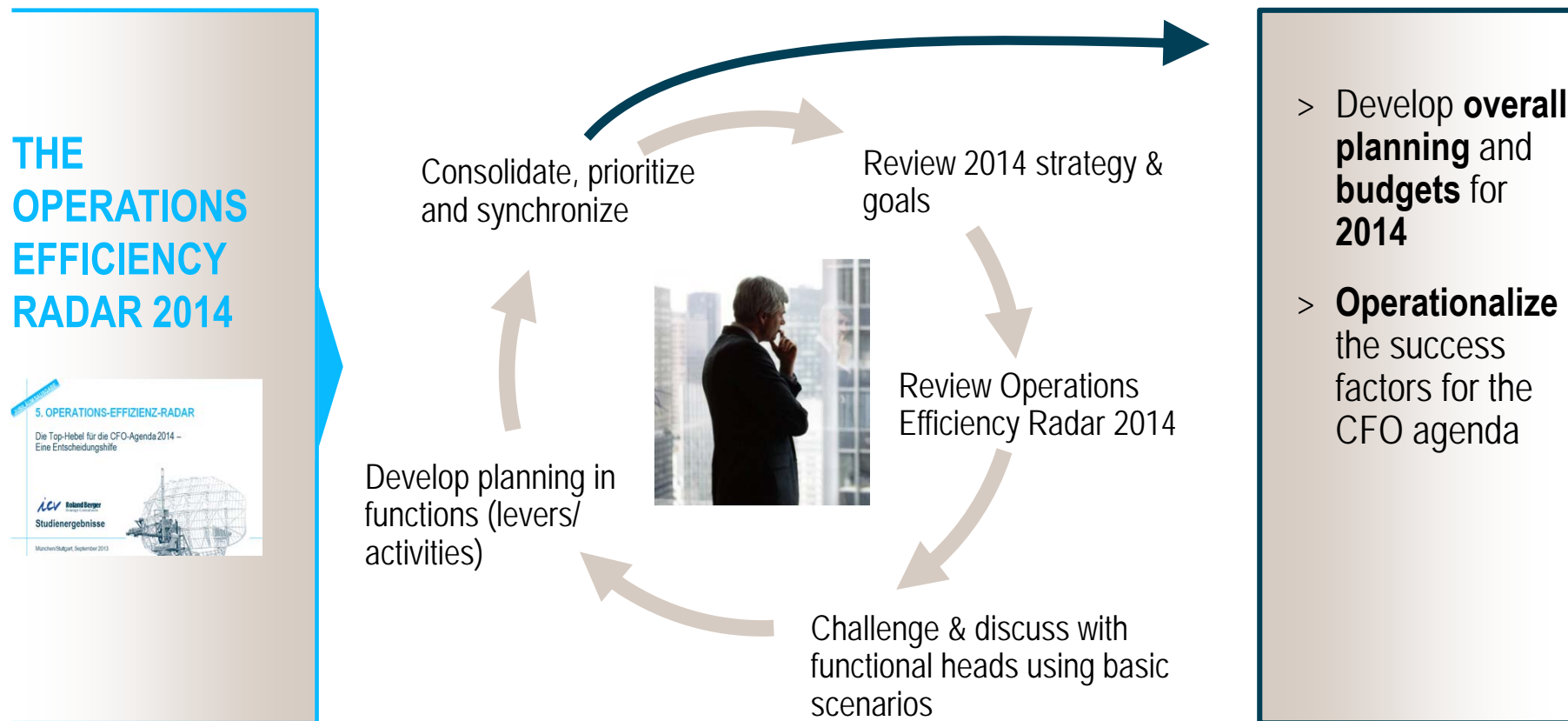
Integrating the Operations Efficiency Radar in planning

Roland Berger
Strategy Consultants

icv

The Operations Efficiency Radar helps CFOs discuss issues with functional heads and is a decision-making aid when planning for 2014

Process



ICV and Roland Berger have identified 10 key success factors

Success factors for the CFO agenda

- 1 **LEVERS** – Select the most promising levers for the company
 - 2 **GOALS** – Define clear, measurable and ambitious goals
 - 3 **SYNCHRONIZATION** – Synchronize the levers to minimize friction losses
 - 4 **PLAN** – Plan application of the levers: approach, milestones, results
 - 5 **REQUIREMENTS** – Ensure that the basic requirements are met: resources, budgets, etc.
 - 6 **TEAM** – Define cross-functional teams
 - 7 **EMBEDDING** – Integrate the goals into personal target agreements
 - 8 **CONTROL** – Establish an effective project monitoring system
 - 9 **REVIEW** – Conduct regular reviews with management
 - 10 **COMMUNICATION** – Launch supporting communication within the organization
- SPEED** – Define the **CFO agenda** in a way that **ensures a dynamic start** to the following year

Close
**SYNCHRONI-
ZATION**
with the
**RELEVANT
FUNCTIONS**



E.



Your contacts & study design

Roland Berger
Strategy Consultants

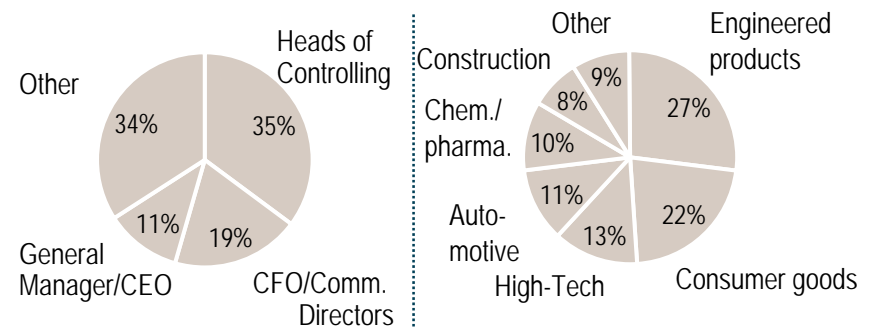
icv

The Operations Efficiency Radar is designed for CFOs and Heads of Controlling – All key industries in Germany are represented

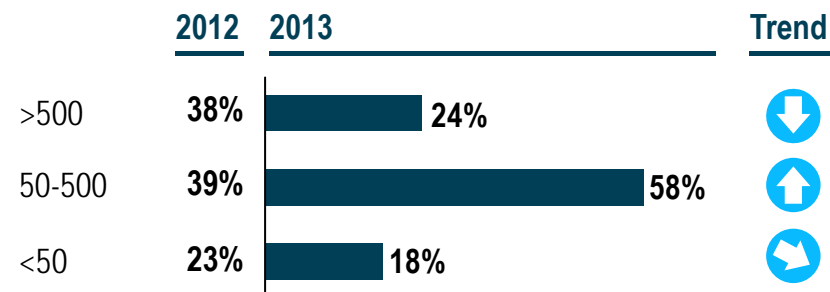
Survey focus and responses for 2014

TARGET COMPANIES	<ul style="list-style-type: none"> > Manufacturing companies > SMEs with up to EUR 5 bn in sales
TARGET GROUP	<ul style="list-style-type: none"> > CFOs/Commercial Directors > Heads of Controlling > CEO/General Managers
PROCEDURE	<ul style="list-style-type: none"> > Quick survey by e-mail and questionnaire > Check off listed levels > Levers based on ICV's and Roland Berger's experience
TIMEFRAME	<ul style="list-style-type: none"> > August/September 2013
RESPONSE	<ul style="list-style-type: none"> > Over 200 participants with a favorable response rate of ~14%

PARTICIPANTS' FUNCTIONS AND INDUSTRIES



SALES OF THE PARTICIPATING COMPANIES – [EUR m]



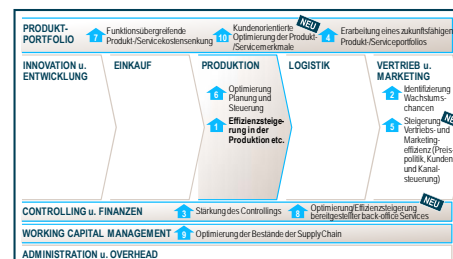
The study examines levers along the value chain and according to three questions – Special evaluation for 2014 on product optimization

Study design

VALUE CHAIN



SET OF LEVERS THE VALUE CHAIN



QUESTIONS

Lever importance:
How high to you rate the importance of the lever?

Current lever usage:
How high do you rate the lever's usage currently at your company?

Activities focusing on the lever in 2014:
Are you planning specific activities to make better use of the lever in 2014?

Special evaluation for 2014: "Product optimization"

Comparing a bottom-up approach (triad market) to a top-down approach (emerging markets)

Your contacts



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We have prepared numerous studies designed for the product-focused CFO agenda 2014 – Get in touch with us!



MODULAR PRODUCTS
How to leverage modular product kits for growth and globalization
Study – Long version
Munich/Stuttgart, March 2012



FRUGAL products
Study results
Stuttgart, October 2012



Mastering product complexity
Düsseldorf, October 2012



COO INSIGHTS
THE MAGAZINE FOR CHIEF OPERATING OFFICERS
NOV 12, 2013
— SCARCITY —
MYTH OR REALITY?
Is there enough oil? Could there be a trade war over rare earths?
How Winfried Seltz, COO at BSH, manages resources



Schriften zum europäischen Management
RESEARCH
Marc Graner
Der Einsatz von Methoden in Produktentwicklungsprojekten
Eine empirische Untersuchung der Rahmenbedingungen und Auswirkungen
Roland Berger
Springer Gabler



ROLAND BERGER STRATEGY CONSULTANTS
think:act CONTENT
Fresh thinking for decision makers
Product Value Management | Better products | With more satisfied customers | Using higher prices and lower costs to make products more profitable | Is this possible? | If yes, how?

IT'S CHARACTER THAT CREATES IMPACT

Please do not hesitate to get in touch with us

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