

Industry structure and business models

Summary/ reminder of presentations

I'll just very quickly go through each of the presentations and try to draw some of the high points to remind you of the key messages that were made.

Structural change in the W&C industry

John Segal, CRU International

- Many (drivers of) change
- Industry still relatively fragmented (excl. NA)
- Large public and small private firms predominate
- Majority of companies (still) generalists
- Declining, and relatively poor financial performance since 1997; a downward spiral threatens
- But a brighter future is possible; growth and productivity opportunities

Starting off with John Segal of CRU International. John indicated with copious data that change is proceeding very quickly in the wire & cable industry and that there are several important drivers, drivers included increasing customer power, overcapacity, the demands of financial markets. As you will recall, the changes included consolidation, rationalization, sectorization, disintegration and several other “-ations”. John asked the question, which I think is extremely important, as to whether or not these changes were in fact going quickly enough to deal with the challenges of the industry. He had, as you’ll recall, that very interesting circular diagram, which drew out the issue as to whether in fact the industry was in fact changing in a positive manner or was in fact standing still. John also pointed out with very interesting information that the industry is still relatively fragmented with the exception primarily of North America, that within the industry large public companies and small private firms predominate both in terms of numbers and also in terms of financial performance, that in several sectors the majority of companies were still generalist covering multiple sectors of the market. He also sounded the warning, that financial performance has been declining since around 1997. At the end he held out the prospect of a possible brighter future, noting that unlike steel for example there is structural growth in the market. John pointed to the fact that there are productivity opportunities out there both in terms of people productivity, space productivity and most importantly that he emphasized capital productivity.

Sector structures and business models

Graham Sharman, Eindhoven University

- Trend towards sectorization
- Decline of 'peaceful national oligopolies'
- 3 emerging sector structures
- 3 winning business models
- Natural structure-model fit?
- Still a brighter future is possible; limit diversity and seek V-A and collaboration opportunities

In my own presentation, firstly I pointed out that I believe there is a long term trend towards sectorization, to companies focusing on individual sectors within the market. I personally believe that the chances of returning to the days of the peaceful national oligopolies are very slim indeed. Instead of those types of oligopolies, we will have three emerging sector structures: the open market, hierarchy and network. There are three potential winning business models: operational effectiveness, customer intimacy and product leadership with which to respond to those structures. I indicated that there was something of a natural fit between the external structure the company was facing and the winning model that it might choose, although there seem to be plenty of exceptions to that rule as well. Lastly, I tried to echo John's point that a brighter future is possible. In my case, I believe that it's necessary to increase sector focus, to limit diversity and also to look for value added opportunities and collaboration possibilities

Steel industry analogy

Wiebe Draijer, McKinsey and Company

- 6 key factors determine industry attractiveness
- Steel scores poorly; declining (financial) performance
- Company and industry response required
 - decommoditize
 - improve operations
 - and consolidate/‘MSA’ the industry)
- W&C scores better, but similar lessons/opportunities apply

Wiebe Draijer from McKinsey then presented us with an overview of the steel industry and the analogy that may exist to the wire & cable industry. He identified six key factors which determine the attractiveness and financial performance of an industry: capacity utilization, the existence of barriers to entry or to exit, the ratio of suppliers to customers, the opportunities to differentiate the offering, the potential to confine competition within regions and, last but not least, the opportunity to have a steep cost curve. Unfortunately, in the case of steel, in most of those factors it scored rather poorly. As a result, we saw that dramatic decline in the financial performance over the last 20 or 30 years. He also pointed to the fact that there are possible ways of meeting these challenges and that these challenges have to be met at the company as well as at the industry level. He focused on the idea of de-commoditization, ways to add value. He talked about the opportunities to improve operations and he gave several examples of how that might be done which are food for thought, I think, for the cable industry. He added the point that not only companies must act alone, but probably to avoid that spiral downwards, it was important that there was some consolidation at the industry level and initiatives, in particular, to reduce the growth (capacity creep). His conclusion was that looking superficially at least at the wire & cable industry, we were doing rather better than steel. But he also felt there were some similar lessons and opportunities that applied to the wire & cable industry.

Managing human resources

Nigel Purse, EuMan Group

- HRM is strategic, not administrative only
- Costs and benefits of 'people quality' are very high
- EVP the key tool; treats people like customers
- 5 key dimensions of EVP
- Many potential improvement tools
- Doing projects/problem solving is more effective than traditional training

Nigel Purse from Oxford Group focused on managing human resources, last but certainly not least in the importance of what was talked about this morning. He made the point that HRM is strategic, it's not only an administrative activity. It is worthy of the attention of senior management. He also pointed out dramatically the costs and benefits of people quality as being very high both on the downside in terms of the cost of choosing the wrong people or putting them in the wrong jobs, but also on the upside in terms of having high quality people. He identified employee value proposition as a key tool and he also dissected that into five key dimensions: linking the job to the company's customer value proposition, giving the individual a reason why he is working and why he is contributing to that value proposition, recognizing that feedback and recognition is important, that opportunities for individuals to develop themselves are also a key and that individuals want to be heard in the organization. He identified many potential improvement tools on the chart that you saw in terms of the importance and the effectiveness of different tools. He made the point, that in fact doing projects or doing problem solving plus mentoring and feedback in general were far more effective than the traditional training tools. He added three very practical examples to back up his case.

In summary...

- Tremendous changes underway
- Challenges to management are ongoing
- Many opportunities too
 - long term demand growth
 - Productivity/operations improvement potential
 - Value-added and collaboration
 - Restructure/consolidate at industry level
- HRM and EVP are key to meeting the challenge and seizing the opportunities!

In summary, this morning I think we've seen that there are tremendous changes on the way in the wire & cable industry.

The challenges to management are ongoing, if anything they are tougher now as we stand in the middle of a serious downturn. On the other hand, I think all of those who have spoken this morning have found cause for optimism in terms of the fact that there are many opportunities as well. These opportunities are not only possible but necessary. John talked about the long term demand growth so different from the steel situation.

John and Wiebe both talked about the possibility to improve productivity and operations. Wiebe and myself also focused on value added possibilities and the potential for collaboration within the industry. Wiebe made the point that restructuring, consolidation at the industry level and initiatives there would also be important.

Finally, Nigel pointed out that HRM and EVP are key to meeting that challenge that the industry faces at the moment and seizing the opportunities that all the panel members saw.

Thank you!