



Cost Value and Strategic Alignments

Bloomhead

consulting | business development | merger and acquisition

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STRATEGY-COST LEADERSHIP OR DIFFERENTIATION

In order to attain a sustainable competitive advantage, a company must select strategy as the translation of its vision. Michael Porter once suggested that there only one selection at a time, between cost leadership and differentiation. Absurdity may come to surface when company tries to combine the two strategies or run in between. Performance grade of the company can not be optimized and it is undertaken below

capacity level. Porter defined cost leadership as a strategy to gain competitive advantage and increase market share by being the lowest cost producers in the industry. While differentiation is defined as a strategy to position company in the marketplace with a distinct identity that satisfies the desires of its customers (through speed, product quality, product innovation), allowing the company to charge a premium price.

To complement the ideas that were initially coined by Porter, we will address another strategy combining cost leadership and differentiation. 'Cost value', as so called, along with the alignments creating synergetic interactions and communication from multi aspects is perceived as a strategy to achieve sustainable competitive advantage. Any corporate institution able to leverage simultaneous low cost and delivering superior customer value at a certain value aspect (through speed, product quality or product innovation) is at better chance to gain from arket competition. Discussing 'cost value' strategy, we should refer to an emerging exceptional company that can outperform its competitors both on cost and differentiation: Samsung Electronics.

STRATEGIC ALIGNMENTS

Countless companies have been striving to adopt strategic alignment. However, too often, grand declarations as to the alignment are followed with mediocre execution that misses connection among elements. As a result, the strategy has proven less than satisfactory as a road map to competitive edge. Many of these ventures do not meet their target expectations as set by each element of organization.

Samsung domination on consumer electronics is attributed to cost and product innovation factors. It builds the new standard of management practices by bypassing the conventional

approaches. Value of the approach has generated breakthroughs by stimulating the evolution of new products. It also allows other companies to build a unique positioning. Most importantly, the focus on one particular category of practice builds expertise that a more general organization could not match. And in overall, it is likely to be achieved by a total approach of alignment.

Alignment requires more than teamwork and system. It involves cross interactions and intense communications. It should be part of strategic corporate agenda. Whenever plans are changed at the corporate or business unit levels, management needs to realign the organization with the new direction to cater market competition. In other part of this paper, we will examine and explore linkages evolved on elements of product innovation, internal communication and learning culture.

SAMSUNG: RIDE WAVES OF ASIAN FINANCIAL CRISIS

Back to 1997, Asia countries were severely hit by currency fluctuations affecting nearly entire aspect of financially-related sectors. Many companies were forced to restructure their operations and financial compositions. Significant drops in consumer buying power even made it worse. In contrast, in other part of the globe, Samsung found right momentum to make a turnaround. Once financially tightened and known

primarily for its cheap microwaves and TVs, Samsung used the momentum to create a combination of low cost and value differentiation. Since then, it leaps from a technology follower to a leader. New product innovations have been in routine agenda of the corporate center of R&D and Marketing department.

From its foundation in 1968, Samsung is cracking up as a top player in consumer electronic today. With 63 affiliates over the world and total global sales of US\$58 billion in 2005, Samsung solidifies its position as a market leader. It ranks 20th on 2005 *BusinessWeek / Interbrand* list of The Top 100 Global Brands, ahead of Sony (once the undisputed leader in consumer electronics, No. 28) and Motorola (once the leader in cellular phones, No. 78). It ranks 12th on Boston Consulting Group's list of the most innovative companies in the world. While other big players are struggling to flip over their financial ratios for the last few years, Samsung records its sales triple and operating income increase by five-fold since Asian financial crisis 1997.

**ALIGNMENT FOR CREATING 'COST VALUE'
ALIGNING PRODUCT DEVELOPMENT AND
BUSINESS STRATEGY – SAMSUNG CASE**

All the ways of processes to carry out product development is centralized in Research and Development (R&D). The R&D corporate center collaborates with other centers, particularly with

business units' R&D and Marketing, to determine latest market patterns. R&D should be able to cope with various degrees of needs from different business units. For the case of Samsung, the R&D center took two decades to achieve solid alignments with business strategy.

The new center was set to complement some short-term and applications-oriented projects R&D centers. Initiated in 1987, the new center was aimed to deal with developments of future waves of technology and pursue new business opportunities and set the orientation more in long-term perspective. In early implementation, management set high expectation to the center. New technology inventions that can replace current platforms were expected to come out from the center. For nearly 5 years, the center had to ease tensions with business units' R&D. Aligning the two different poles of long and short terms made it difficult at the beginning.

During the route of R&D system improvements, Samsung went to strategic changes on organization culture and structure. It changed the resource allocations by giving more portions to potential products possessing technology ingredients that were not yet in market. Samsung strived to be known as an innovative company by reaching larger consumer base with new technology features, yet affordable price. The center began to focus on long-term and basic R&D

projects rather than short-term and development-oriented R&D projects.

ALIGNING INTERNAL COMMUNICATION AND CORPORATE STRATEGY

Internal communication, in standard application, is aimed to be an information tool. It is used as a media for informing policies and procedures to employee. However, it is not meant just that. A company that can reinvent it from the original objective as an information tool into a tool for aligning employee initiatives and performances with corporate vision and strategy may gain utmost advantage. Staffs are connected to personal works by aligning their objectives with corporate strategies in clearer way. A series of systematical approaches of communication platforms, including selection of media and frequency level, give the opportunity to enhance level of awareness and comprehension on goals set by company. To keep it official and bring impact to company-wide, a regular communication using e-media is handled by a certain department, usually Human Resource.

Conventional and still the mainstay media used by companies is magazine. It may help to elaborate messages conveyed with colorful illustrations and attractive layouts. However, in contrast with electronic media (e-media), magazine is less effective. E-media costs insignificantly to produce, but able to provide similar even higher features of

attractiveness. In distributing the e-media, some alternatives are available. Placing the media in company's internal website gains longer placing period to any who need to look at any moments. Distributing by attachments has wider possibility to get target readers informed timely.

Corporate staffs, from bottom to top levels, are relentlessly encountered to make decision makers on daily basis. They need to align their personal objectives with company strategies. Any shifts on the strategies that need immediate communications can easily be digested and linked to each staff objective. To gain impact, adjustment of frequency levels depend on the urgencies and needs that company set to bring about employee understanding.

ALIGNING LEARNING CULTURES OF PERSONAL AND ORGANIZATION

Continuous learning creates dynamic and interactive process to take company together with all staffs to keep up with the pace of changes. Creating the learning culture is easier said than done. Learning culture is a necessary adjunct to business strategic success. Sharing knowledge constitutes a learning culture. Sharing knowledge involve personals to give and gain from others. When a collective of individuals steadily build systems and interactive discussions across organization silos, a learning organization arises in the company.

Many companies are managing transition toward learning organization in various degrees. The approach moves progressively with the goal to spreading knowledge of each level within organization, ranging from corporate, business unit, department to individual levels. At further stage, individual can interact with each other and link the knowledge for productivity improvements resulting greater flexibility of response.

Budi juda

Managing director of Bloomhead
mail@bloomhead.com