

Thinking Dimensions Global

Insights and Actions for Executives

CEO P.O.V.

**Mind-Based Competition:
Building the Golden Bridge to China**

CHALLENGE: Organizations are now forced to make customer, supplier and competitor decisions regarding China—solving the complexity of the business practices, geographic distances and cultural diversity require a clear process creating a sustainable competitive advantage.

RESPONSE: Leading European companies recognize the need to shift their organizations and supplier networks from solely price-based to mind-based competition – leveraging their technical, design and innovational know-how into expertise-based products and services that deliver higher more differentiated.

The decade long explosion of China onto the world market has affected your business, your customers and your suppliers. If it has not already – it will soon. Evolving your existing business strategy to regain or affirm your ability to compete effectively requires a shift from price based to mind- based competition. To facilitate this organizational change requires a solid strategic decision making process and the ability to gather, sort, organize and analyze information on the Chinese threat and opportunity into a simple, actionable strategic vision.

Successful companies who create their own golden bridge to China will exploit a combination of their knowledge, process and leadership expertise to differentiate themselves in creating a sustainable competitive advantage.

Strategy formulation is about making choices and seeing them through - to build your golden bridge to China and establish your company's future competitive positioning you need to answer the following questions:

- What are the key concerns that make China an opportunity and/or threat for your organization?
- What strategic formulation process will guide your decision making and facilitate change and communication in your company and supplier network?
- What relationship is China to your company - customer, supplier, competitor or some combination of all three?
- What knowledge process and behavioral expertise can be leveraged to reconfigure your competitive advantage with regards to China?
- What information do I need to understand to manage the business, geographic and cultural differences between China and Italy?

CIMBA's global research and strategic alliance network has collaborated to provide some systematic steps to help you audit, test, and take some practical steps in building your companies golden strategic bridge from Italy to China.

STEP 1: Engage a Visible Strategic Situation Appraisal Process to Understand the Issues Affecting Your Business

Make no mistake about it: The world has changed and China has accelerated that change. To begin to understand the issues and concerns that are affecting your organization's feel of need to take action, conduct a Strategic Situation Appraisal with your key stakeholders by asking the following questions:

- What about China causes me not to sleep at night?
- What are my strategic assumptions about China?
- What products/markets will drive my strategic growth?
- How will I compete against China?
- Who do I need to involve in winning with and competing against China?

The output of these questions should be a separated and clarified set of actionable issues that then need to be prioritized and integrated into your strategy formulation process regarding China. Making your organizational and supplier issues visible and real – enables you to focus and delegate the appropriate next steps.

STEP 2: Employ a Common Formulation Process to Guide Decision Making on China

To guide decision making companies must make visible a process to determine the nature and direction of their organizations. Kepner-Tregoe, a global consultancy based in Princeton New Jersey, a Strategic Learning Alliance Partner of CIMBA, defines strategy as “a framework within which the choices about the nature and direction of an organization are made”. Framework means boundaries or parameters defined by clear criteria which help determine what lies inside or outside the scope of the organization’s strategy. The choices your organization needs to make in addressing your concerns regarding China include:

- What is your Strategic Time-Frame?
- What Products and Services will you offer/ NOT offer?
- What Markets will you serve /NOT Serve?
- What is your competitive advantage?
- What capabilities do you need to build/develop?
- What will your organization have to do differently?

Integrating your situation appraisal information from Step 1 into the resolution of these questions above will create a solid base of focus to guide your decision making on China.

STEP 3: Decide if China is a Competitor, Suppliers, or Customer – by understanding your strategic objectives

To gain clear focus regarding your decision with China as a Competitor, Supplier, Customer or some combination of all three – your next actionable step is to outline the criteria that determines how each of the possible roles performs against your strategic intent with China.

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An example of this thinking is outline below as a guide for your company to audit:

Decide the role china will play with my company during the next 2 years

	Objectives	Alternative Roles with China			
Weight	MAXIMIZE	Customer	Competitor	Supplier	Do Nothing
10	The Future Viability of my Business	5/50	10/100	10/100	1/10
9	Ability to protect Intellectual Property	7/63	10/90	5/45	1/9
8	First hand understanding of Chinese market	10/80	7/56	10/80	1/8
8	Creation of relationships and contacts	10/80	5/40	7/56	1/8
TOTAL		273	286	281	35
		STEP 3	STEP 1	STEP 2	

Based on the analysis company ABC went through it became overwhelmingly apparent that the “do nothing” alternative would not address their strategic needs. The application of this process allowed them to recognize and take action in the following steps.

- One, recognize they are a competitor
- Two, research and understand how they can be used as a supplier to lower- costs
- Three, begin developing a hands on understanding on the requirement to serve the Chinese Market.

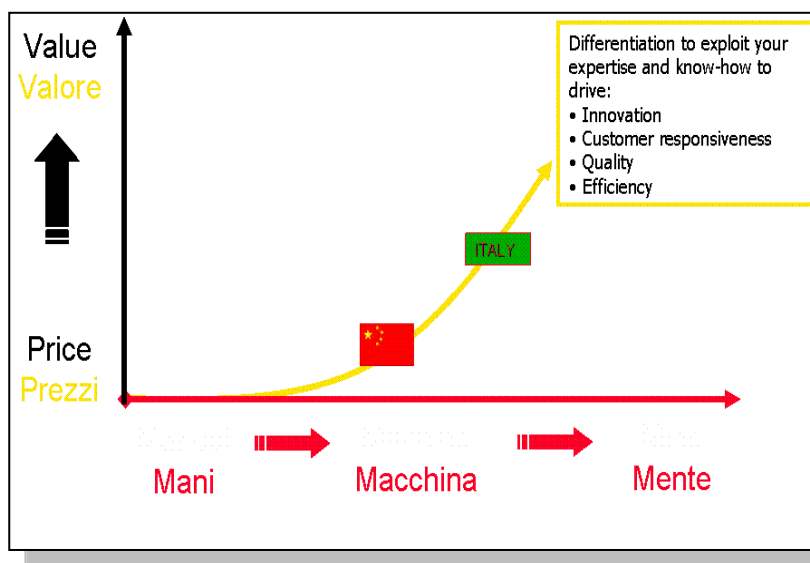
By following this order and steps – company ABC positioned themselves to address both the opportunities and threats of China.

STEP 4 -Mind Based Competition: Understand and Reconfigure Your Competitive Advantage to Exploit Your Expertise

Companies who attempt to compete with China solely based on price will find a difficult road to travel. With labor costs 1/8 of Italy and a population over 300% larger than the European Union – competing “mano e mano” will not be a successful long-term endeavor. Italian companies who are succeeding in competing against China have discovered and exploited their existing know-how and expertise to differentiate themselves and make it harder for the Chinese to intimate—this is known as mind- based competition. The instructions for your company to reconfigure competitive advantage are outlined below.

The first step in changing to mind based competition is to recognize the true value your organization provides to its customers. A comprehensive interview process with your top customers- and competitors’ customers will allow you to recognize what you can charge a premium for- and what future needs can be addressed with the core competencies of your organization.

The second step is to redefine and/or create new products and services that deliver the value of your company expertise to the market. This involves building new capabilities and processes in your organization – taking it from “working with hands” to working with minds.



Mind Based Competition in Practice

A leading organization in the Northeast of Italy was facing increased competition from Asia- based on price of products. While many competitors chose to lower their margins, this company developed a comprehensive plan to deliver consulting and advisement services to their customers that yielded large price premiums – leveraging their 30 years of know-how. They reconfigured their people and process systems over a one year time frame to differentiate themselves based on innovation and customer responsiveness. At the same time, the company set out to find a Chinese partner to license their existing technologies to- allowing a true picture of the new Asian market- and a revenue stream to finance future innovation. The principal activities in Italy are now migrating even further to develop innovation- while the Chinese partner contributes a dedicated workforce to deliver existing products and services at a lower cost.

The third step is to communicate this information throughout your organization- and develop an implementation plan to reconfigure your company to compete in the new market.

The fourth step is to instill in your organization a process for innovation- that allows you to gather, sort, organize, analyze, and confirm the knowledge currently existing within your organization- and present future innovation for the scrutiny and development of all.

**STEP 5: Cultural Best Practices iMind Based Competition:
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Exploit Your Expertise**

A critical step which is too frequently overlooked in developing a mutually beneficial venture in China- is to recognize the cultural differences and develop a plan to manage a successful negotiation. The recommendations for negotiating with Chinese people are:

- Compile a good background about cultural differences that may affect a business relationship, which means learning the influences of Confucianism and Communism in the Chinese society.
- Conduct thorough due diligence on potential partners- a good partner is as important as the deal itself. Ask others in your industry how the Chinese partner has behaved- and verify the information with a Chinese agency.
- Be aware of developing “Guanxi”- the formation of relationships with connected individuals is key to venture success.
- Never insult or criticize your business partner, since losing face is a terrible embarrassment. In negotiations, provide a “way out” so that either party can decline a contractual point without embarrassment.
- Adapt your approach to Chinese approach in negotiating which is focused on the personal relationship rather than the contractual relationship.
- Remember that the signed contract is only a means to get a deal. Mutual trust and respect are paramount to the business relationship.
- Be patient, Chinese negotiators needing time to build consensus. Do not dwell on a point if an agreement cannot be reached- proceed to other points and return to visit the potential “deal breakers” later in the negotiation.

This article was authored by Tim Lewko, Managing Partner of the Global Strategy Practice and Executive Director of Thinking Dimensions.

Thinking Dimensions is a global consultancy that assists clients in resolving strategic and operational issues.

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Thinking Dimensions is led by Drs. Charles Kepner and Mat-Thys Fourie who have over 60 years of combined thought leadership in decision making and process consulting. Today, Thinking Dimensions Partners and Associates in over 20 countries throughout the ASIA-PACIFIC, EMEA and AMERICAS regions deliver expedited results on pressing business issues.