

When East meets **WEST**

What can European business leaders learn from Asia?

One specific aspect of Asia, its culture and beliefs, has helped establish global leadership in manufacture – in industries such as automotive, consumer electronics and engineering. It's our opinion that applying the lessons learned here could revolutionise the services sector, including IT, in the coming five to ten years.

Roger Camrass

WHEN EAST MEETS WEST

Asia is growing in importance in our business lives. We experience it in many different ways: as the 'workshop' of the world (most products are now manufactured in China and elsewhere in Asia); as the emerging 'back office' of the world, where the majority of IT, shared services and customer contact will take place in the future; and as a vast and relatively untapped market for goods and services, as countries like India, Russia and China reach affluence.

FIGURE 1: APPRECIATING THE SCALE OF ASIA



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LEARNING FROM THE EAST**

Asia is a collection of large and very diverse nations representing well over half the world's population and with cultures that are both older and dramatically different from ours. India and China, for instance, accounted for over half the world's GDP some 250 years ago. Europe accounted for less than one quarter.

Asian culture and beliefs have helped to establish global leadership in manufacture, in industries such as automotive, consumer electronics and engineering. It's our opinion that applying the lessons learned here could revolutionise the services sector, including IT, in the coming five to ten years.

MANUFACTURING EXCELLENCE AND THE TOYOTA WAY

Toyota's global success comes from unrivalled standards of quality and a unique ability to assemble mass-customised cars on a standard production line. Toyota and other Japanese car manufacturers are top of the rankings as Ford and General Motors witness a steady decline in sales and customer satisfaction.

FIGURE 2: THE TOYOTA SUCCESS STORY

	Global market share (%)		Operating margin (%)
	1998	2004	2004
Toyota	9	12	9
Daimler Chrysler	10	11	4
General Motors	15	13	0
Ford	13	13	1
Toyota is forecast to overtake GM as world's largest car producer during 2006			
Market Capitalisation			
Toyota	\$150 billion		
GM/Ford/Daimler Chrysler	\$90 billion		
Source: CSM Worldwide (McLaughlin) 2006/The Economist 2006			

Toyota's success has at its core some simple cultural attributes. These are intangible but highly significant in the way Asian companies organise and conduct themselves. Some of the basic operating principles that are incorporated in The Toyota Way and emerge from these cultural attributes are shown in Figure 3.

FIGURE 3: CULTURAL ATTRIBUTES OF ASIAN BUSINESSES

Cultural attributes	Commercial consequences
Long term relationships	Improved product experience
Continuous improvement	Front line empowerment
Collective harmony	Standardisation/re-use
Individual respect	Mass customisation

Commitment to long term relationships rather than short term transactions drives the desire to deliver lasting quality within the 'product experience'. A deep belief in improvement of the self translates into front line empowerment on the factory floor. This leads to a culture of continuous improvement.

A quest for collective harmony and social consensus favours standardisation and re-use over individual or fragmented solutions and re-invention.

Respect for the individual favours mass-customisation of product, enabling each consumer to exercise personal choice.

These cultural attributes have contributed to global leadership in manufacturing and customer experience by companies such as Toyota, Sony and Toshiba.

FIGURE 4: TOYOTA IS A WORLD LEADER IN MANUFACTURING



Toyota pre-fabricates and pre-tests its factories in Japan before establishing production in new territories

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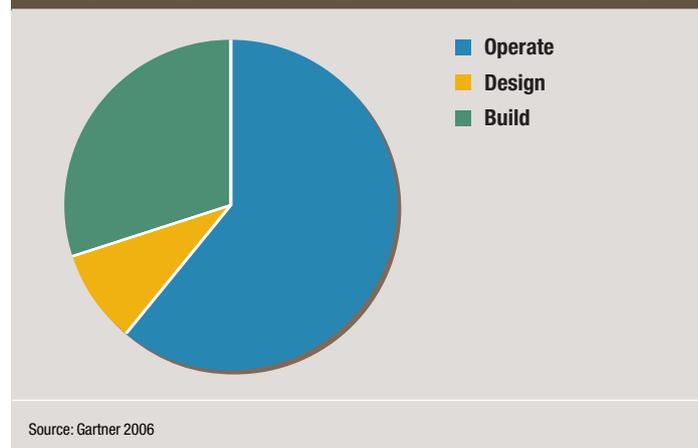
Manufacture is a mature and highly repeatable process in sectors such as automotive. The processes employed in Toyota factories are well documented and replicated in every factory across the world. Each new manufacturing plant is pre-fabricated in Japan, pre-tested and transported to its destination for re-assembly and test prior to full scale production. As a result, cars produced in the new plant are as reliable as the best plants worldwide – from the first day of production

APPLYING ASIAN PRODUCTION PRINCIPLES TO SERVICES

Comparisons between mature manufacturing sectors such as automotive and rapidly evolving services such as IT and financial services present a sharp contrast. Imagine if software companies built cars! Few if any vehicles would make it out of the garage – the world's congestion problems would be eliminated at a stroke!

The reality is that the IT world – customers and suppliers alike – has been too tolerant of poor design and inadequate operation. Defects, or 'bugs', are an integral part of any IT system or service and contribute to a highly inflated total cost of ownership (TCO). In the typical case, illustrated below, operating represents 61% of total life cycle cost – disproportionately high when compared with Japanese product standards.

FIGURE 5: TOTAL COST OF OWNERSHIP OF IT INFRASTRUCTURES



Fujitsu, too, suffers from the high cost of 'operate', and has been seeking to transform the economics and culture of this activity for several years.

In the last decade an IT revolution has been quietly taking place in Asia. We will shortly see the results in the West, and these come primarily from applying Japanese manufacturing principles. The new methods are based on an 'industrialisation' process that has at its core the same cultural attributes that we discussed above. These translate into the service sector as follows:

- Focus on high quality product experience (reflecting a culture of long term relationships) translates into improved service quality with an emphasis in removing points of failure at the operational level
- Front line empowerment (originating from self improvement) translates into a deeply responsive attitude towards customer needs – as embodied in ‘sensing’ organisations
- Standardisation and re-use (reflecting harmony and social consensus) translates into industrial strength processes and repeatability as the drivers of service efficiency
- Mass customisation (based on individual respect) translates into utility based services that can be continuously re-configured to reflect changes in individual customer need

FIGURE 6: INDUSTRIALISATION OF IT (AND COMPARISON WITH MANUFACTURE)

Manufacturing	Services
Improved product experience	Improved customer experience
Front line empowerment	Sense and respond
Standardisation/re-use	Industrialisation
Mass customisation	Utility-based services

The impact of these drivers could be dramatic, with new services designed in a fraction of the time and cost of traditional methods. But of greater consequence is the dramatic cost reduction and increased user satisfaction of a ‘near zero-defect’ operating environment. This is ‘lean service’, built on the foundations of lean manufacture.

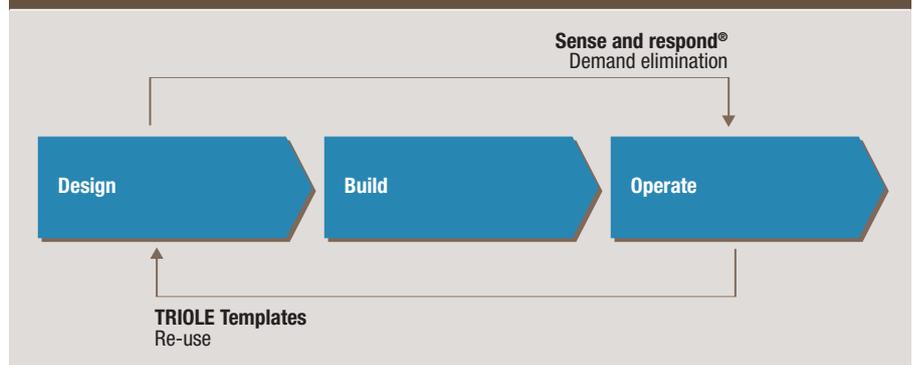
Most customer-facing activities today are overwhelmed with problem solving – whether this is an IT help desk or a customer facing call centre. By eliminating common sources of problems, for instance, hardware and software failure, customer service can concentrate on improving the use of facilities – that is, on value-adding activities rather than wastage.

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INTRODUCING 'LEAN IT'

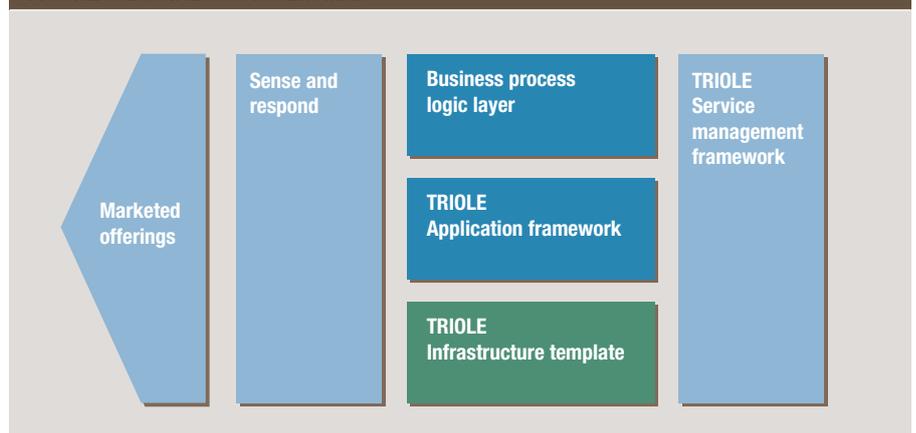
Fujitsu has worked with Toyota in a 35 year global partnership. During this time we have contributed to the Toyota Way, both as the design and operations partner of its manufacturing systems and as suppliers of the in-car electronics that makes up over 40% of the value of a modern vehicle. We have recently adopted the Toyota Production System throughout our own manufacturing plants and offices.

FIGURE 7: TRIOLE AND SENSE AND RESPOND



This experience has led us to introduce two new capabilities that we believe will transform not only IT services but broader service sectors such as banking and retailing. The two components span the entire 'Design-Build-Operate' cycle for IT systems such as infrastructure and new business applications.

FIGURE 8: BUSINESS SYSTEM MAP



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- TRIOLE® – our approach to standardisation (or what we call service industrialisation), is based on prefabricated, pre-validated templates, so that IT subsystems can be designed and replicated in a fraction of the time of traditional design methods, and produce a ‘near zero-defect’ operating environment
 - Sense and Respond™ – our approach to continuous improvement, that encourages service staff in the front line to identify and implement process improvements on a continuous basis and thus transform service quality over time

These two components fit neatly into a proven and effective IT infrastructure environment, and enable large and complex structures to operate at a fraction of the cost of earlier systems. In Japan we have produced over one thousand templates, categorised into ten standard ‘blocks’ such as business applications, databases etc., that are available off the shelf for new design and build programmes.

More recently, we have extended TRIOLE to cover applications design and maintenance – with equally impressive outcomes. We are working with global software providers such as Microsoft and Oracle to pre-test and pre-validate new generations of product such as Vista. This could revolutionise future generations of IT infrastructure and applications by eliminating costly ‘bugs’ and improving worker productivity as a result.

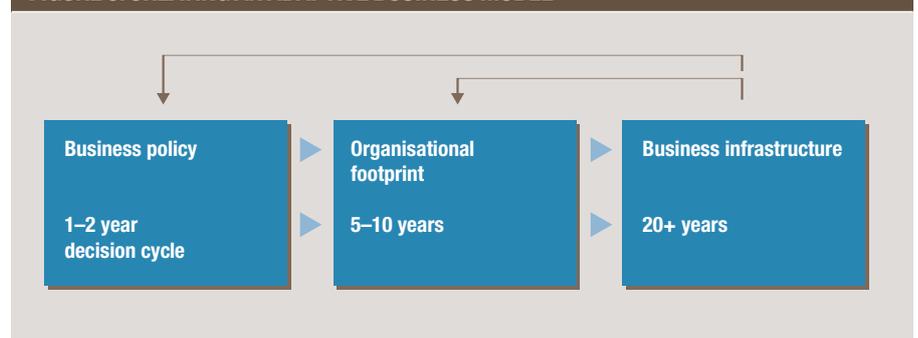
We are also applying Sense and Respond to the entire end-to-end customer services journey to improve process efficiency and effectiveness. In cases such as Virgin Mobile and Tesco telecommunications services we have demonstrated exemplary service quality levels.

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CREATING THE 'SENSING' SERVICES ORGANISATION

Inertia-bound and inflexible structures often frustrate business leaders in their attempts to anticipate and respond to new market conditions. Any change in business practice – such as the launch of new services or adoption of new distribution channels – is frequently hampered by inappropriate organisation structures, backed up by inflexible processes and systems.

FIGURE 9: CREATING AN ADAPTIVE BUSINESS MODEL



One approach to solving this problem is to invest in new and agile business applications and infrastructures that can adapt rapidly to changing conditions. This so-called 'Big Bang' approach has haunted CIOs for years and produced near-cataclysmic results. Remember the 'reengineering' era? Few organisations would contemplate such a move today given the historic likelihood of failure.

The Asian philosophy here is to progressively re-equip core infrastructures, applications and processes with re-usable elements that can be configured according to changing demands – the 'Lego' model. It also introduces a continuous improvement culture into operations to root out and eliminate waste – so frequently the cause of inertia and complexity. By so doing, many Asian service companies are transforming themselves into 'learning' or 'sensing' organisations that can identify and respond to emerging customer needs at the front line – well ahead of back-room planners. This gives them greater agility and ensures progressive market dominance.

TOWARDS FULL SCALE 'INDUSTRIALISATION'

The introduction of Asian manufacturing techniques into the mainstream services sector is relatively new and unproven. We hear frequently of lean service and Six Sigma as the antidotes to inefficiency and inflexibility, but a full scale 'industrialisation' model for services extends well beyond these methods, valuable though they are. It is, in effect, a fundamental change in culture that requires an eastern rather than western mindset to contemplate and adopt.

The prize is dramatically improving performance (customer experience and organisational agility) while reducing cost (through componentisation and reusability) across all service industries and so narrowing the performance gap between them and manufacturing. The causes of this gap can be separated into issues of component design, such as the robustness of underlying IT applications and infrastructure, and getting the components to work intelligently together, i.e. to create an effective operational infrastructure. TRIOLE® and Sense and Respond™ address both these aspects and, more importantly, are applicable and relevant to real world, legacy-ridden, sclerotic, environments.

Through the progressive industrialisation of IT systems, applications and business processes we believe that public services, retailers, banks, telcos, travel operators and others engaged in customer services can improve dramatically the economics of their operations in the West and be better prepared to expand in Asia to meet the likely needs of a billion plus consumers over the next decade.

Inaction – as typified by the leading automotive companies in the West – is likely to put us at a competitive disadvantage with the newly emerging Asian service companies and ultimately lead to the decline of our core wealth creating capabilities.

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Whose **OPINION?**

ROGER CAMRASS



Roger Camrass is the director of the Business Transformation Group at Fujitsu Services.

He is the co-author of 'Atomic: reforming the business landscape into the new structures of tomorrow'.

Based in London, Roger spends his days in a relentless quest to drag the IT sector and its long-suffering customers into the twenty first century.

roger.camrass@uk.fujitsu.com

ASK ROGER CAMRASS

He would welcome your comments by email or at uk.fujitsu.com/opinion





ASK FUJITSU

Contact us on +44 (0) 870 242 7998 or
askfujitsu@uk.fujitsu.com or visit uk.fujitsu.com

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