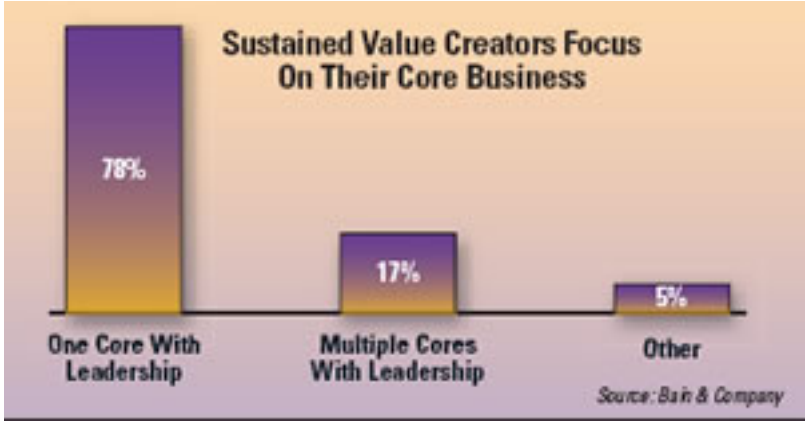
Written by Magnus Pousette, Vice President and General Manager, ABB Reliability Services North America
Tuesday, 01 August 2006 18:35

Saying global competition is the main trend facing manufacturers is both dimly trivial and deeply true.

Manufacturers are faced with high-quality, lowcost products from countries where quality competition was previously unseen. We face global competition in our own companies as corporate planners weigh financial benefits of existing plants in developed economies, or new plants in growing economies.Contrary to those declaring manufacturing's demise, we believe manufacturing will continue to be important here. But, we also believe manufacturing can no longer play by "old rules."

We believe capital expenditures as a panacea is the biggest "old rule" that no longer applies. According to ARC Advisory Group1, capital expenditures as a percent of revenue have declined annually by 4.3% since 1997, due to efficiencies gained through mergers, productivity increases and a shift in manufacturing competencies to partners.



Driving partnering is the willingness to recognize that we can't be good at everything. In Profit From the Core2, Christopher Zook notes that achieving sustained, profitable growth is difficult without having at least one strong, differentiated core business. Operational execution of this core business requires selecting core business processes. Maintenance is a process that more manufacturers are deciding is not core (see Fig. 1).

A major paper mill in the southern U.S. chose ABB as a partner to assume maintenance responsibility, deciding ABB can better improve reliability. A greenfield mine in Canada chose ABB as maintenance partner, banking (successfully) that ABB's deep reliability knowledge would help start the mine faster. A major tire company, with a tough automotive

industry, rising material costs and Chinese competition, selected ABB as a maintenance partner to help improve efficiency, productivity and competitiveness.

Transferring maintenance to a partner is a big step. Yet, it is possible to decide maintenance is not core without transferring it.

A major North American chemical maker identified core businesses, and then chose ABB to coach it to higher reliability. A major North American food company selected ABB to coach it to more efficient MRO processes. A major building products company with few maintenance people chose ABB to develop and implement its maintenance practices.

With global competition as our primary challenge, we must ignore the old rule of "spend capital and make more," and embrace the new rule of focusing on core products and processes. Then, we should consider partners who are world-class at the remaining processes. **MT**

References

[1]"Capital Expenditure Survey 2006," by David Humphries. Published in 2006 by ARC Advisory Group [2] Profit From the Core, by Christopher Zook. Published in 2001 by Harvard Business School.