BOER & CROON

vrije Universiteit amsterdam

The Power of Networks

First highlights from our survey

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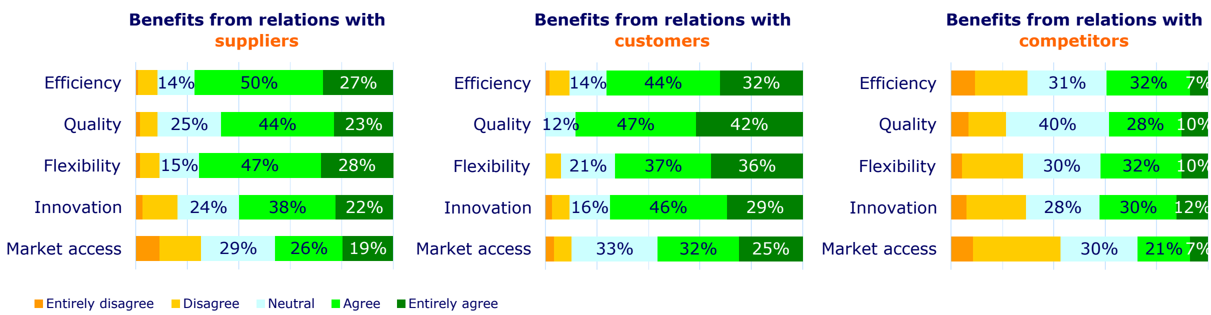
Network management is clearly a relevant issue for senior management: 92% (!!) of the respondents answered agree or entirely agree to the statement that network management is essential to the future success of their business.

The primary focus in the network is on direct suppliers and direct customers: more than 80% of the respondents have close relationships with both. However, less attention is paid to the next network level:

- only 28% works closely together with the customers of their strategic customers
- only 9% maintains close relationships with the suppliers of their strategic suppliers

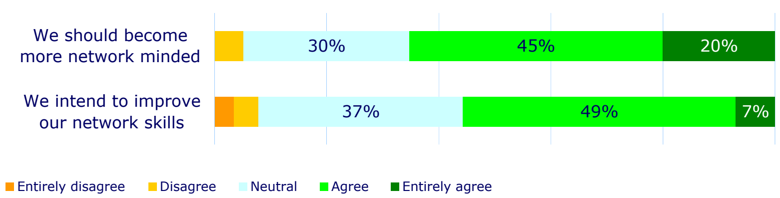
Network management can deliver many benefits. The top 3 benefits in the relationship with suppliers are efficiency (77% agree or entirely agree), flexibility (75%) and quality (67%). The top 3 benefits in customer relationships are quality (89%) efficiency (76%) and innovation (75%). Relations with competitors are considered less valuable.



Many companies (83%) have one or more strategic alliances. However, strategic alliances with direct competitors are still not very popular: 73% of the respondents does <u>not</u> have a strategic alliance with a direct competitor. The competitive conflict that is inherent to alliances with direct competitors obviously still is a major obstacle.

In line with the strategic importance of network management, most respondents intend to invest in their network management competence:

- more than 60% of the respondents intends to become more network minded
- 56% intends to improve the network management skills of their organisation

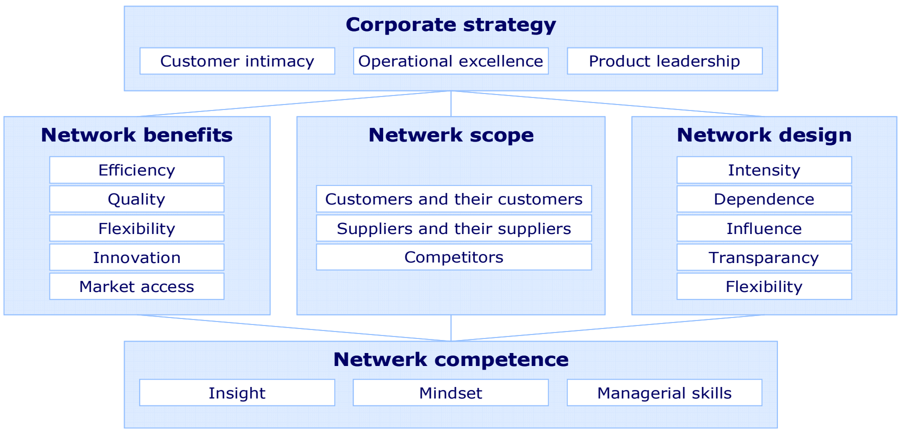


The power of Networks
Companies can improve their competitive position by capturing the potential that their business networks offer. This calls for a proactive approach and a broader network view than just the direct suppliers and customers.

The objectives of this survey in which 118 companies participated were to gain insight in:
- the importance of network management and the expected benefits
- the degree to which companies already use the power of their network to its full potential
- their ambitions for the future

In our research we have focused on five elements that determine the development and success of business networks (see exhibit below).

First of all the network benefits that are pursued. These are obviously linked to the corporate strategy. These benefits determine which network scope (suppliers, customers or competitors) and which network design are most effective. Finally, the network competence the company determines whether they will actually capture the full potential of their network.



Want to know more?
For an analysis of your network position or advice on how to strenghten your network and how to capture its true potential, you can contact us at:

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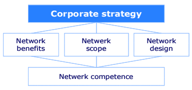
Corporate strategy

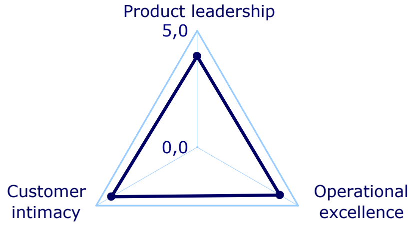


The company's strategy will determine the benefits that are pursued within the network. Treacey and Wiersema have defined three generic strategies in their book 'The discipline of market leaders':
- Product Leadership
- Customer intimacy
- Operational excellence

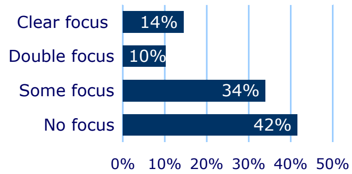
The average scores in the spider web show that on average all three generic strategies are perceived as important. A surprising 42% of the companies indicates that all three generic strategies are pursued.

Only 14% of the companies in our research have chosen for a clear focus on only one of these generic strategies.

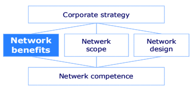
Key elements in corporate strategy



1 = entirely disagree , 5 = entirely agree



Network benefits



Networks benefits can range from improved efficiency in the value chain to gaining access to new markets. The exhibits below show which network benefits respondents realise through the relations with their various network partners (suppliers, customers and competitors).

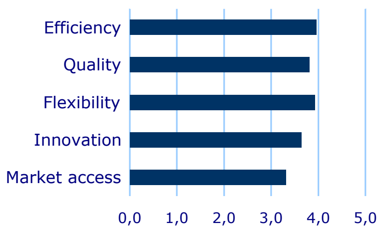
Our survey shows that all 5 benefits are important in the relationships with both suppliers and customers.

The top 3 benefits in the relationship with suppliers are
- efficiency (77% agree or entirely agree)
- flexibility (75%)
- quality (67%)

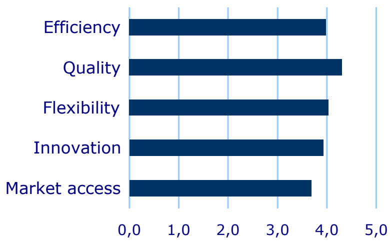
The top 3 benefits in customer relationships are
- quality (89%)
- efficiency (76%)
- innovation (75%)

Relationships with competitors deliver less benefits according to our respondents, with market access as the lowest rating benefit (only 28% agree or entirely agree).

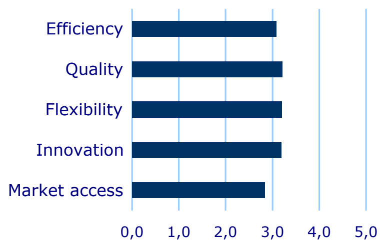
Benefits from relations with Suppliers



Benefits from relations with Customers

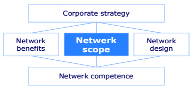


Benefits from relations with Competitors



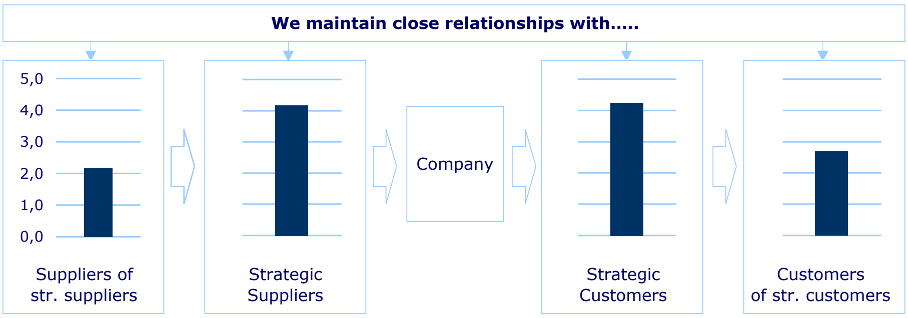
1 = entirely disagree , 5 = entirely agree

Network scope



The network scope is determined by the type of network partners. Direct suppliers and direct customers are a logical first focus, which is confirmed by our survey:
- 83% of the respondents maintains close relationships with their strategic suppliers
- 83% maintains close relationships with all their strategic customers

However, not many companies maintain close relationships with their wider network:
- only 28% works closely together with the customers of their customers
- only 9% maintains close relationships with the suppliers of their strategic suppliers



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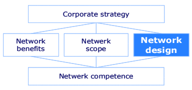
Network design



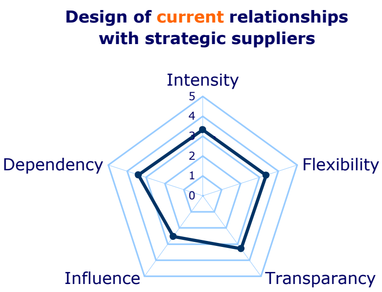
When developing a network of business partners it is essential to define which network design best fits your business objectives. When designing your network there are five dimensions to be taken into account:
- Intensity: how closely do you cooperate with your network partners
- Flexibility: how flexible are the relationships within your business network
- Transparency: to what extent do network partners openly share strategic and tactical information
- Influence: how much influence do you have on your network partners (and their network)
- Dependency: to what extent are you dependent on your network partners

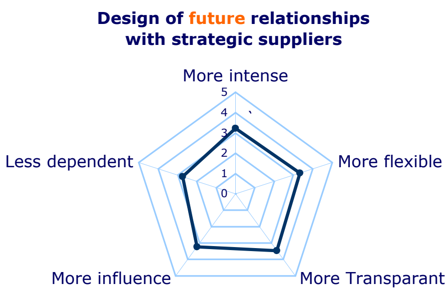
Our survey measured each of these dimensions for the current situation and the desired development.

Strategic suppliers

The graph on the left shows that the direct influence on strategic suppliers is relatively low with 2.5 on average. However, dependency on strategic suppliers rates a relatively high 3.4.

Respondents are not satisfied with this (the graph on the right): the desired future development is:
- less dependency and more influence
- but also more transparent and more flexible relationships





1 = low , 5 = high

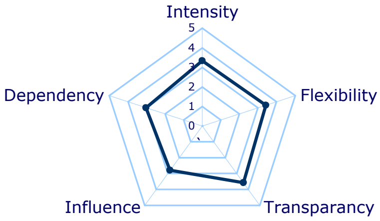
Strategic customers

Our survey shows that in the current situation (see the graph on the left) the relations with strategic customers are:
- rather transparant and intense (both average 3.6)
- and rather flexible as well (average 3.4)

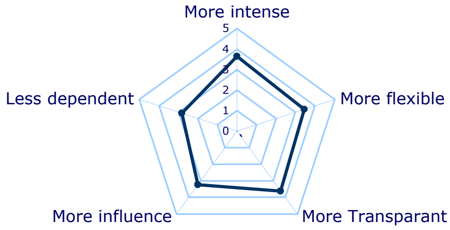
Interestingly enough, the influence on strategic customers rates somewhat higher (2.8) than the influence on strategic suppliers (2.5). Our first analysis indicates that relationships with strategic customers are in general better developed than relationships with strategic suppliers.

With respect to the desired future development (the graph on the right) our respondents on average want to develop even more transparant and more intense relationships with their strategic customers.

Design of current relationships with strategic customers



Design of future relationships with strategic customers



1 = low , 5 = high

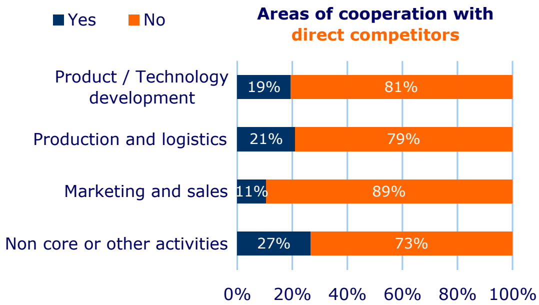
Competitors and companies outside the own industry

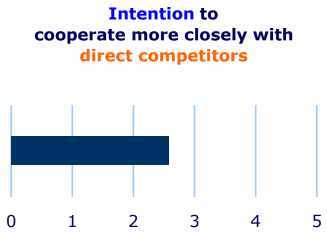
There is an obvious higher alliance activity on all functional areas with companies outside the own industry than with direct competitors.

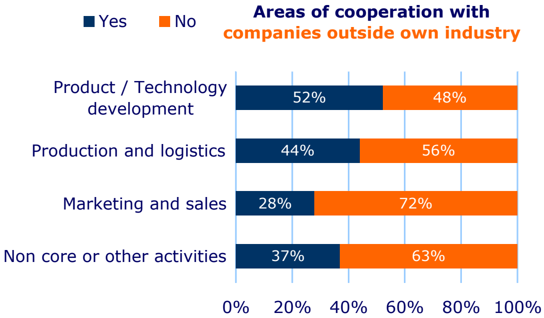
Relatively few the respondents cooperate with direct competitors in critical business functions like development (19%), production and logistics (21%) or marketing and sales (only 11%).

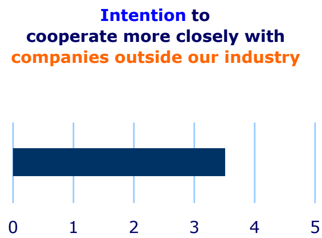
Cooperation with partners outside the own industry, which obviously has less inherent competitive conflict, is more popular; especially in product and technolgy development (52% of the respondents) and production and logistics (44%).

This focus on non competitors is not likely to change:
- only 20% of the respondents intends to cooperate more closely with direct competitors
- yet 55% intends to cooperate more closely with companies *outside* their own industry



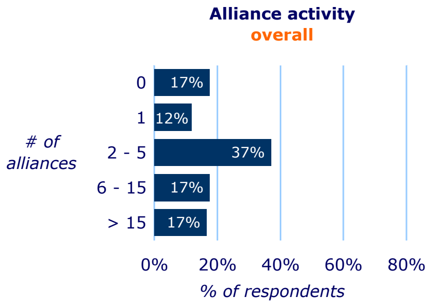


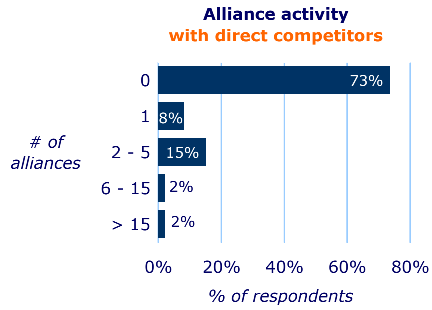




1 = entirely disagree , 5 = entirely agree

Alliance activity
Obviously, not all network relations are <u>strategic</u> alliances (i.e. a cooperation in which partners pursue a joint strategic objective). In our survey we have asked respondents:
- how many strategic alliances they have in general (the graph on the left)
- how many alliance they have with direct competitors (the graph on the right)

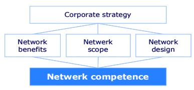




Over 80% of the respondents has one or more strategic alliance. 34% of the companies can be characterised as active alliance developers with more than 6 alliances.

This picture is totally different when focusing on alliances with direct competitors. 73% of the respondents does <u>not</u> have a strategic alliance with a direct competitors. The companies that do cooperate with competitors are relatively active: 60% of them have between 2 and 5 alliances with direct competitors (versus 16% for all respondents).

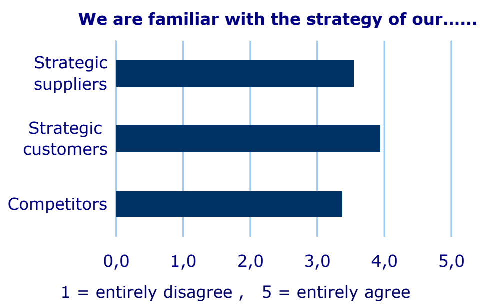
Network competence

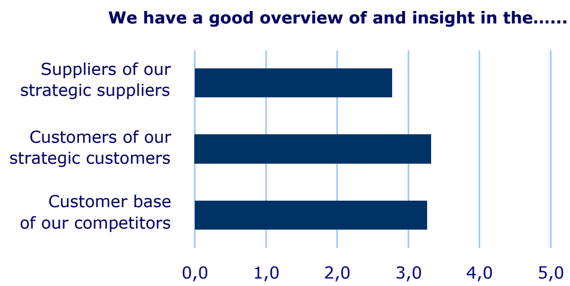


In a networked economy different demands are made on management if you want to capture the true potential of your network. This starts with *insight* in your network. Secondly, traditional competitive behavior should be complemented with a *mindset* that is open to network opportunities. Thirdly, your company must have sufficient network management *skills* .

Network insight
On average the participants in our survey are quite familiar with the strategies of their customers (3.9 on average) and reasonably familiar with the strategies of their suppliers (3.5) and competitors (3.4).

However, the insight in the <u>next</u> network level is less developed:
- Only 26% has a good overview of the suppliers of their strategic suppliers
- Only 33% knows the other customers of their strategic suppliers
- 50% has a good insight in the customers of their own customers



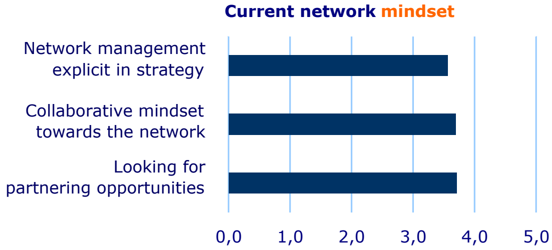


Network mindset

The second element of network competence, the mindset, is also reasonably developed.

For almost 50% of our respondents network management is an explicit element in their strategy and tactics.

Almost 70% indicates that their company has a collaborative mindset and is actively looking for partnering opportunities within their network.

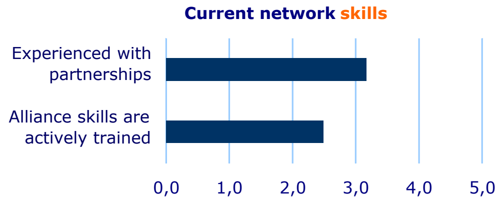


Network skills

The network management skills are, however less well developed.

Only 36% of the respondents considers their company as experienced with partnerships.

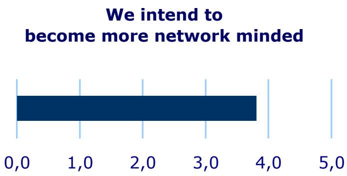
Despite this, only 15% of the respondents actively train their managers in alliance management skills.

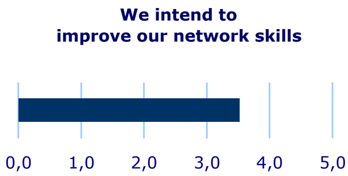


Future development

This survey has cleary demonstrated the importance of network management: more than 90% of the respondents considers network management essential to their future success.

However, there is a gap between this strategic importance and the development of network skills in particular. Therefore, most respondents want to invest in network management.
- more than 60% of the respondents intends to become more network minded;
- and 56% intends to improve the network management skills of their organisation.





To conclude

The potential of your business network is already there. By having the right network strategy and design, as well as a network competence companies can capture this potential and develop a powerful business network.

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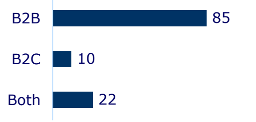
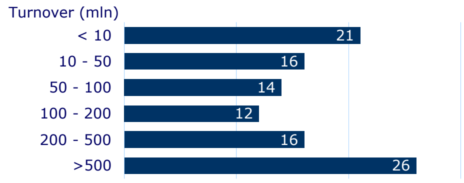
Appendix: List of participating companies

Customer focus of respondents



Number of respondents per turnover Category



AirFrance KLM	Aviation
Alcatel-Lucent	Telecommunications & ICT
ALD Automotive	Marketing & Sales
Alliance Healthcare	Pharmaceutical wholesale & retail
Amstellease	Pin Services
AND	Software
Annexum	Real Estate Investment Funds
Argos Groep	Mineral trading, storage, supply
AVEBE	Production / sales of potato sturch
BBP	Media
Biothane systems international	Anaerobic waste water treatment
Blauw Research	Research
Blycolin Groep	Linnen rental
Boer & Croon Nextrategy	Consultancy
Bostik Nederland	Manufacturing
Cinemec	Cinema
Concepts ICT	Internet Service Provider
Continuon Netbeheer	Grid operation & smart Metering
Cordys	Software
Cordys	Busines Process Mngt Software
Croon elektrotechniek	System integgatutor
Communication Concert	Strategic communication advice
Danone Medical Nutrition	Baby & Medical Nutrition
deVoorde	Training
DHL Global Mail Benelux	Mail distribution
Driessen Aerospace Group	Aircraft interior equipment
Echelon	Technology solutions
EDSN	Faciliteren energiemarkt
Eneco	Energy distribution
EPZ	Electricity production
Ericsson Telecommunicatie	Telecommunications
Europe Container terminals	Service provider
Evelop International	Renewable Energy Projects
Fairchild	Consulting
FBNed	Networking and education
FEI Company	Electron microscopes
Festo	Industrial Automation
Forbo Flooring	Resilient flooring
Founter	Smart metering
Friesland Foods Cheese	Cheese making and M&S
Fujifilm	Production
Gijs Frankenhuis	unknown
GN-IX	Exchange point for ISP's
Graydon	Credit information
HanzeConnect	Training and advice
HCN	Contact center
Heineken	Alcoholic beverages
Holland Colours	Colours for plastics and coatings
Human inference	Software
IHC Merwede	Ships and shipequipment
Intelligence for business	Consultancy
Ion-ip	Internet infrastructures
Jakajima	Market intelligence
Kappé international	Airport retailing
Kobalt	Communication Services
Koninklijke Lemkes Groep	Wholesaling of plants
Koopmans Kon. Meelfabrieken	Production of Wheat and Flour
KPN	Telecommunication Services
Kuiken	Construction and agri equipment
Kwik-Fit Europe	Retail automotive
Leaf International	Food / Confectionary
LeasePlan International	Leasing and fleet management
LeasePlan Nederland	Leasing and fleet management
Mei architects	Architecture
Mevo Precision Technology	Sub-assemblies and parts
NDC VBK de Uitgevers	Publishing
NNZ Beheer	Packaging materials
Noble Chemicals	Chemical and polymers
NS NedTrain	Train maintenance and overhaul
NXP Semiconductors	Semiconductors
Nyrstar Budel	Zinc Metal Production
Oseven	Party service
Oterap Holding	Food
Pemco international	Glass coatings
PeterPyriad	Interim Management
Pfizer	Pharmaceutical industry
Pieterman Chocoladewerken	Chocolate products
Port of Rotterdam	Port authority
PPG	Coatings systems
Proven Partners	Consultancy
Quaron	Chemical distrubutor
RAM Mobile Data	ICT
Remeha	Boilers
ROOK Groep	Harbour/ construction
Rosa Security	Security
Rotterdam Airport	Airport management
Royal Haskoning	Architecture, cons. and engineering
Royal Joh. Enschede	Security & commercial print, media
Sabic Europe	Petro chemicals
SAS Institute	Business Intelligence Software
Schaffenburg Office Furniture	Office furniture
Sekisui S-lec	PVB Interlayer film
Servex	Food retailing
Service Point	Document Management
Shanks Nederland	Environmental services
Shell	Sales & marketing fuels
Siemens Nederland	Electronics
Springer Uitgeverij	Publishing
Star Engineering	Secondment and consultancy
SYMPACT	Interim management
Synergia Capital Partners	Private equity
Telecats	IVR and Speech Recognition
TenCate	Production of functional materials
Tennet TSO	Power grid operator (high-voltage)
Time Tell	ICT
TNS NIPO	Marketing research and advice
TNT Post	Mail
Trespa	Compact decorative laminates
Twentsche Kabelfabriek	Cable solutions
Van Ede & Partners	HRM consultant
VanderzandeFlorpartners	Alliance mngt in hortibusiness
Vegro verpleegartikelen	Verpleegartikelen
Vivacadena	Supply Chain Mngt Software
Voestalpine Polynorm	Automotive supplier
Vopak	Tank storage (logistics - ports)
Wyeth Pharmaceutical	Pharmaceuticals