Beyond the familiar

Global integration for metals, mining, and forest and paper companies

Globalization is placing new demands on today's metals, mining and forest and paper companies – especially in running effective operations on a global scale and sustaining a strong, profitable business. The real goal for these companies is to become globally integrated enterprises, where the company is focused on connecting and leveraging various sources of production and value creation, regardless of the physical location or organizational ownership of these resources.

What is a globally integrated enterprise?

A "globally integrated enterprise" is a company focused on connecting and leveraging various sources of production and value creation, regardless of the physical location or organizational ownership of these resources. The globally integrated enterprise is different from a traditional enterprise. It involves the close interaction among internal and external stakeholders, including employees, customers, partners, government agencies and other third parties with a stake in a product or service. It locates operations and functions anywhere in the world based on the right cost, skills and business environment. And it integrates those operations horizontally and globally.

Global integration addresses two key issues for metals, mining and forest and paper companies today:

- *Operational efficiency and effectiveness on a global scale* – New markets are emerging in new regions, and new production locations are needed in these regions.

- *Sustainable growth* – Metals, mining, and forest and paper companies deal mostly in commodities, traditionally a cyclic business. While many of these companies are successful today, they should begin laying the foundation for success in leaner times.

Assessing selected companies

How well do metals, mining and forest and paper companies fit the model of a globally integrated enterprise? A recent IBM study that assessed 30 major firms found that today's leading companies in metals, mining and forest and paper tend to be those already more globally integrated than their peers. We believe the long-term business winners in these industries will be those companies that continue to become even more globally integrated.

We also found that strong globally integrated enterprise scores correlate to stronger financial performance. Collectively, companies high on our scale have higher profits, earnings per share, compound annual growth rates, return on assets and less debt. Benchmark scores were also established by assessing ten leading oil companies (a similar industry) and five leading automotive companies (a leading customer for metals). The results show that automotive companies, with a more consumer-oriented product, are approaching the mature globally integrated enterprise range, followed by oil companies and then mining and metals. Forest and paper tend to be less globally integrated.

Becoming more globally integrated

There's plenty of room for most companies in metals, mining and forest and paper to improve their global integration. How can they do that? Research and studies of various industries suggest that a company can follow three general steps to become more globally integrated:

1. Reassess target markets.

2. Identify all the important business components of the company.

3. Ask five questions about each important business component of the company

(Where should the business function be done? Who does the function? What enablers are used? How well does the business function integrate? How innovative is it?).

Success strategies for today

Metals, mining and forest and paper companies can use three strong business strategies for success in today's increasingly competitive, global environment. The first two strategies support the fundamentals of global integration and should fit well with those companies aiming for a global footprint. The third strategy supports the fundamentals of global integration, but also works well for those companies working with a more limited footprint.

- **Market Share Grabbing** – This strategy encourages a company to expand its market share and global reach quickly via mergers and acquisitions with companies that are strategic fits.

- **Value Chain Stretching** – A company embarking upon this strategy expects to expand into higher-value products in the value chain

- **Niche Playing** – A company striving for a niche position plans to base its business on specialized products, services or business models.

We believe the winners will be those that find innovative ways to become more globally integrated than their competition.

How can IBM help?

- *Strategy and Change:* Help to define your strategy and manage change throughout standardization and simplification of processes and technologies
- *Component Business Modeling (CBM) tools and Service Oriented Architecture (SOA):* Help with selecting where to focus your organization and building flexible IT infrastructures
- *Selected Industrial Product Solutions:* Shared Services, Enterprise Application Integration, ERP services, Supply Chain Management

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