

MOVE BEYOND TRADITIONAL SUPPLY CHAINS
MULTIPLY YOUR PROFITS USING THE FULL POWER OF

THE **5**-STAR BUSINESS NETWORK

AND THE CEOs WHO ARE BUILDING THE NEXT
GENERATION OF SUPER-CORPORATIONS WITH IT



VIVEK SOOD

AWARD WINNING AUTHOR

5STARBUSINESSNETWORK.COM

PRAISE FOR THIS BOOK:

The speed of innovation is multiplied many times over - the head of Airbus recently complained that new Airbus planes coming into the market are already outdated in terms of ICT (information and communication technology). Use of 5-STAR Business Networks help to multiply this speed of innovation and if your company is not using these 5-STAR Business Networks for Innovation then it is likely very soon your company will fall behind your competitors. That is how the chemicals companies are changing their business models from sellers of commodity chemicals to solution sellers, and most other industries are creating new business models today.

Dr Hanns Zeltinger

*Former CIO DaimlerChrysler,
Financial Services Asia Singapore*

The rules of the business world have changed - and few have a grasp of the new reality. This book is a pivotal wake-up call for business leaders to get them on track towards a whole new step change or two in performance. From the use of technology to outsourcing to innovation - the breadth and depth of thinking is seminal and intense. The best aspect of this book is the actionable nature and practicality of the content.

Tony Fedorowicz

*Ex Head of Supply Chain Asia/Australia -
Orica Mining Services, Sydney*

In the high volatility environment, if you are running a portfolio of supply chain purchases worth hundreds of millions of dollars a year, there is no other way to mitigate the enormous risk than by managing the business network extremely carefully. This book expounds and builds on some of the techniques I have utilised for risk management and value creation in a soft commodity supply chain through roller-coaster highs and lows of the recent commodity cycles. There is no doubt Business Networks are powerful beyond belief and useful beyond comparison.

Hugh Robertson,

Ex Director - Commodities and Risk, Weston Milling, Sydney

This book offers a breath of fresh air in the world of business strategy dominated by the staid Ivy League thinking which cannot see beyond its very own doorsteps. When everybody is thinking alike - in general - nobody is thinking at all. This book will force you to think afresh, and it will show you how to apply your thinking in the changing business environment to create new business models that suit the modern business reality a lot more.

PRAISE FOR THIS BOOK

Gennady Teplitsky

Ex Vice President - JPMorganChase New York

From the outset, it is clear that Vivek Sood brings passion, intelligence, and uncommon insight to his topic - understanding and interpreting for the reader the powerful influence and value of the business networks that underlie success in the modern world. Well-researched, broad-reaching, and with a refreshing "outsider" perspective free of academic jargon, this practical book will give you insights you can use to create and leverage these powerful networks in your own business - a must-read for anyone who wants to understand and use one of the most powerful forces at work in today's hyper-connected world.

Tony Coretto

Co-Founder and Co-CEO, PNT Marketing Services

I have been most impressed with the business acumen and insights in these pages. The author has clearly become an authority in his logistics and management field worldwide. His book is a gem to be read and appreciated by all those who desire to be on top of current managerial thinking and desire to reap the benefits of his experience and capacity. I recommend this to all. I certainly will use this book in my practice and benefit from it personally. I recommend it to my students interested in consulting, operations and logistics. A must and worthwhile read!

Lin Giralt

*Adjunct Professor and Lecturer, Rice University
Jones Graduate School of Business, Houston*

This book shines out of the pile not because it is an in-depth and original look into the power of the business networks, but because its author applied in it his rare passion, vision, common sense and innovation, which are core for today's business evolution, achieving results and leading and inspiring for a better world. Read this book if you want to be inspired in your daily activities, regardless of whether you are a chairman or a student - it has it all for everybody!

Andrey Manev

CEO, HUS

5-Star Business Networks is the new model that makes the existing model obsolete. In these rapidly changing times, new systems and tools are needed. Authentic leadership and emotional intelligence are being used within global 5-Star Business Networks to build trust and better results. This is the new economic currency.

Phil Johnson

*Organisational Development Author, Speaker, Teacher and
Coach President, Master of Business Leadership Inc., Toronto*



ABOUT THE AUTHOR

VIVEK SOOD

Managing Director

For over 25 years Vivek Sood has empowered corporations on 5 continents to achieve their peak potential - in operations, in strategy, and in all components of their entire supply chains. In January 2000, he co-founded and managed Global Supply Chain Group, a high impact services company made up of supply chain pioneers and thought leaders who work only on selected high impact strategy projects with some of the largest corporations in the world.

Prior to that, Sood was a management consultant with top-tier strategy consulting firm Booz Allen & Hamilton. The Sydney resident travel 60% of his time around the world for a single passion - creating, configuring, and formulating effective, secure and sustainable supply chains globally. A dynamic, high impact professional and presenter, Sood has a unique ability to shake-up the status quo and transform operations to maximise returns. His work experience spans more than 80 countries on 5 continents, and the clients range from fortune 500 companies to some of the best known brands on earth.

He has also worked with some of the most innovative green technology companies to help create outstanding supply chains from scratch for hundred of millions of dollars' worth businesses in periods as short as 18 months. His work has added cumulative value in excess of \$500M, incorporating projects in major supply chain infrastructure investment decisions, profitable growth driven by global supply chain realignment, supply chain systems, negotiations and all other aspects of global supply chains. Sood is also an acclaimed author of two very highly regarded books. He writes regular path breaking articles and lectures at business schools, supply chain conferences , forums and workshops in various parts of the world.

SPECIALTIES

Business and Supply Chain Transformations on Global Scale to make millions of dollars for the corporations.

THE 5-STAR BUSINESS NETWORK

www.5starbusinessnetwork.com

Published by: Jardine Thompson Pty Ltd,
Level 6, 621 Pacific Highway, St Leonards, NSW, 2065, Australia

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ISBN-13: 978-0615794198

ISBN-10: 061579419X

Typesetting by: Margaux Sorel

Cover Design by: Tab Satti

This book is not intended to provide customised advice about strategy, supply chain management, finance, organisation design or any other aspect of running a business to any individual or organisation. The intention of the author and publishers is to provoke thoughts and discussions that will ultimately lead the companies and individuals to critically examine the appropriateness of their current strategies, supply chains, operations, organisation design and performance. We encourage you to think relentlessly and apply the knowledge that emerges. The author and the publishers specifically disclaim any liability, loss or risk which is incurred as a consequence, directly or indirectly, of the use and application of any of the contents of this book.

MOVE BEYOND TRADITIONAL SUPPLY CHAINS

The 5-STAR Business Network

*And The CEOs Who Are Building The Next
Generation of Super-Corporations With It*

by Vivek Sood

 Jardine Thompson

ALSO BY VIVEK SOOD

- *Green Supply Chains -
An Action Manifesto
(Stuart Emmett & Vivek Sood)*

- *Outsourcing 3.0 -
Outperform - Outsource - Outprofit*

DEDICATION

This book is dedicated to the future generations - they will make the world an even better place. In particular this book is dedicated to our sons - Raman, Jay and Dev - who make every day for me a joy to live.



“

Life is no brief candle to me. It is a sort of splendid torch which I have got a hold of for the moment, and I want to make it burn as brightly as possible before handing it on to future generations. ”

George Bernard Shaw

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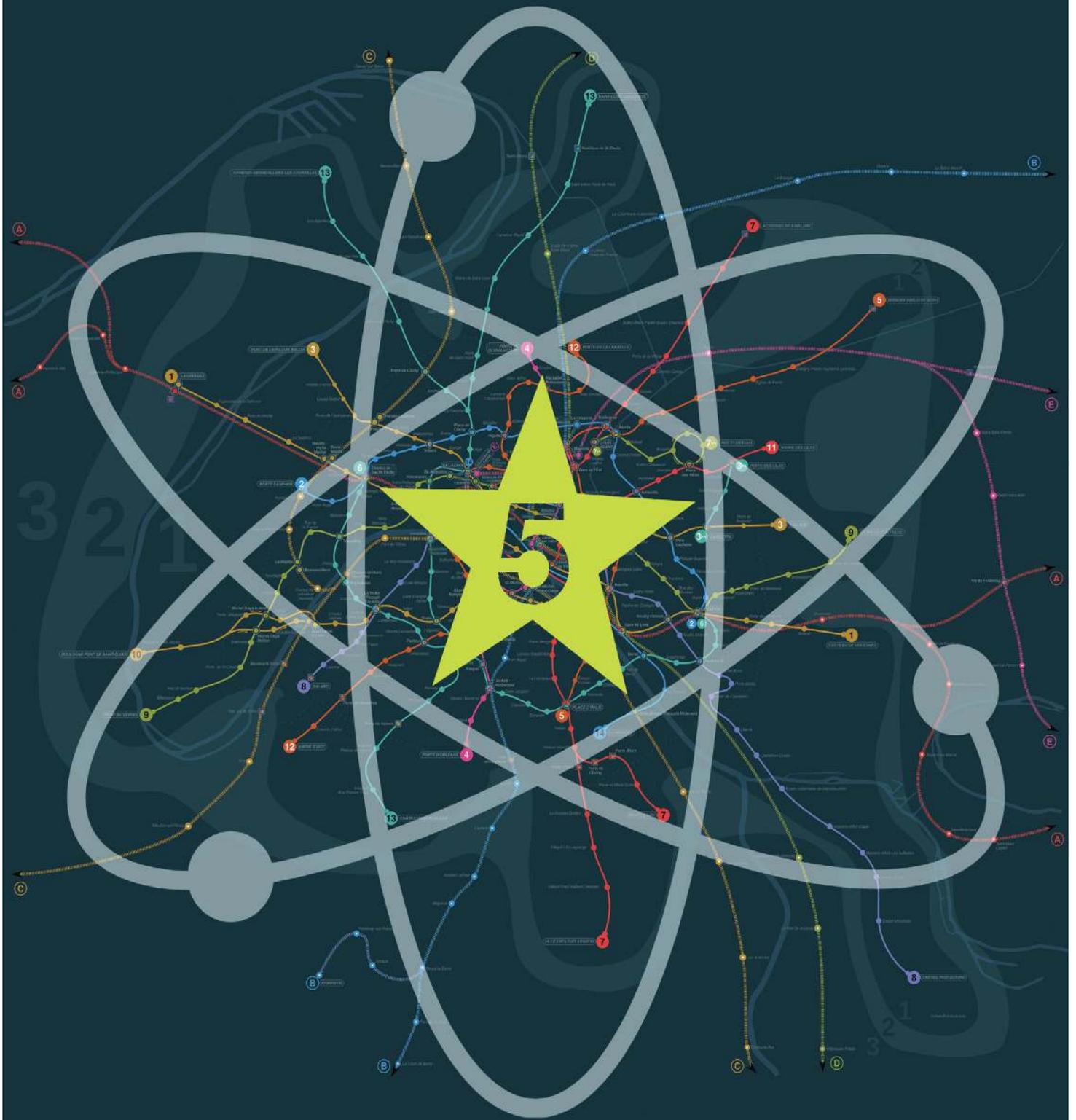
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“

I love QUOTATIONS because it is a joy to find thoughts one might have, beautifully expressed with much authority by someone recognised wiser than oneself.

”

Marlene Dietrich (1901 - 1992)



5-STAR BUSINESS NETWORKS

FOREWORD

Dear reader,

Congratulations. By taking this book into your hands, you will discover many new concepts applicable in the real business world. It is not written for everyone, but it is an absolute must to own and read for those who want to embrace the developments of traditional businesses into modern networks, to go beyond existing boundaries by adopting the key principles of modern supply chain management and to understand why being a stable and trustful part of a network can multiply the value of your own business many times over.

Business networks without legal or political restrictions will dominate and determine our future. The needs of individuals and the ultimate end-users of the value chain will be in the foreground and will shift the priorities of the past, where manufacturers and suppliers of products dominated the business. Today's business models must be turned upside down to create new and effective structures, including innovative procedures. Supply Chain Management and Sup-

ply Chain Excellence, as well as innovative Network Management, are the keys to success.

This book will show you where and how to walk into the future with your business. Proven and good examples lead the way forward, but do not copy them, take your own route or take a scout to avoid mistakes and disappointments. If you are on the right track, I can guarantee you to multiply the value of your business by many times. Being a trustful partner in a stable and reliable network increases the value of a company to unbelievable dimensions. Investors will pay you a premium for this strategy! And the costs will decrease dramatically because you use the strengths and resources of other network partners without investing in expensive capacities.

Therefore, this book can change the world into a better one if the messages are understood and applied thoroughly.
Be excited and enjoy reading!

Dr Wolfgang Partsch

Co-Founder of Supply Chain Management

Munich, April 2013

PREFACE TO THE THIRD PRINT

The response to the first and second prints have been overwhelming, which has made this third print necessary in a short period of one year. I am thankful to all the managers, executives and CEOs who have taken time to comment, recommend and pass on this book to their colleagues. Primarily, they are the target audience of this book and their engagement has been extraordinary as seen from the numerous emails and positive comments that I have received for this book, as well as the brisk dispersion of this material. This certainly makes the effort to write, revise, edit, proof and revise this book worthwhile. Many of the readers have commented on extraordinary pressures faced by the executives and CEOs, and why new business models discussed in this book are so important to them.

Executives, CEOs and boards carry an extraordinary amount of burden in today's society. There is no doubt that they are the primary producers of wealth in the society, via the companies they lead and products those companies create. Not many other forms of organisations create or commercialise products and services to any great extent. Yet, the

CEOs carry a huge burden.

First, there is pressure to do more with less. The constant market clamor for enhanced profitability, for increased revenue and for less cost, can get overwhelming in today's economic climate

Not just the boards, but also other key shareholders and pressure groups can create an environment where CEOs and key executives simply must produce more results with less and less resources. New technologies and techniques, new way of doing things, and new business models are the only savior in this environment. While most executives adopt this change with the proper diligence, rarely do these new business models and techniques emerge from the Ivy league, or other traditional sources of knowledge. Most CEOs have to search around and find their own sources for these new business models and techniques.

Second, as the traditional command and control organisations of the past have broken down, leadership of generation "Why" has become an intense challenge. With the current eroding organisational loyalty, a culture of job-hopping and attitude of cynicism, leadership challenges facing today's CEOs are far more intense than faced by any generation in the past. While the socio-cultural causes and effects of these changes are beyond the scope of this book, the challenges they bring to today's CEOs are worth noting here because of their impact on the growing pressure on CEOs' top executives.

Third, the intense scrutiny from the pressure groups, NGOs, environmental lobbyists and other such sundry groups has

created an atmosphere where the “business of business” is becoming increasingly difficult. While serving a useful function in many instances, it is easily possible to go overboard with all this activity so that the playing field is tilted in favour of businesses in countries where such activity is not permitted or possible. The CEOs and executives have to live with - and work amongst - all this intense activity and operate successful businesses under the very vocal scrutiny of self-appointed guardians of societal wellbeing.

Finally, the CEOs face a unique situation where the buck stops with them, but they rarely get told the pure, unadulterated truth. I do not want to say that everyone lies to their boss, but the reality is that in most instances, almost all the internal and external messengers know that their own career progression and economic well-being is attached to the message they bring to the person at the helm. Under such circumstances, it is quite easy to temper the message and carry only the good news, lest the message harms the messenger. Most companies survive a long time while operating in this mode. However, if a company fails to face unpleasant reality in good time, it is quite easy to fall behind in the marketplace and gradually lose privileged market positions.

When supply chain management became popular, it was seen as a new way of doing business because it helped break down the barriers between various silos within the business. The extraordinary success of the discipline of supply chain management is attested by the fact that today more than 90 percent of the business schools, even the Ivy League institutions, offer a course in supply chain management or

one of its related disciplines.

The most progressive executives and CEOs are looking beyond breaking the internal barriers now. They are seeking to work seamlessly with teams of internal and external personnel in order to rapidly create products and services, and then profitably deliver them to appreciative customers. The teams could come from multiple companies – large or small – and work together for a short or a long time for their intended purpose.

The feedback to this book has consistently emphasized this aspect of the content, where readers have created new business models and used them to increase profitability, turnaround stressful situations, and salvaged businesses. While most consultants, especially from larger top-tier companies, are reluctant to put their best ideas out because they like to make once and sell multiple times, I face no such pressure. Firstly, my own time is limited and there is no way I can work on all the projects that can use my ideas expressed in this book and in my other books. Secondly, the CEOs who use these ideas can still find a way of harnessing them with my assistance, if they choose to do so. Finally, an idea is only as good as it proves to be in practice. After all, when Booz Allen and Hamilton created the original idea of supply chain management they put it in the public domain leading to a vast revolution in how companies do business today.

This is my hope - that you will use what is usable for you in this book, and share with me how you used it. This is also important because we are all learning from one another and constantly improving this material, and noting what other

users can learn from your experiences. To share, to comment, to commend, to discuss, or to ask, send an email to me at v.sood@globalscgroup.com. While you already know this, in today's world there is no such thing as one-way communication. That has been my primary learning from the feedback I got so far from this book. I am looking forward to more of the same.

Some executives who received a copy of the book have enquired how they can contribute. In my view, there is no better way than paying forward - share the ideas, the content, web-links, even the book with your own business network of executives who can benefit from these concepts. There is no doubt that on this round planet, what goes around comes around. You will not only enrich your own business network, but also yourself in this process. After all, in this modern interconnected economy, your network is your net worth.

To your continued success,

Vivek Sood

Sydney, Australia

April, 2014

PREFACE

“
*I have no special talent.
I am only passionately curious.*”

Albert Einstein

Most effective business leaders relish the challenge of answering questions such as the following:

- Why did Apple sue Samsung while it continues to buy critical parts for its winning products from Samsung?
- Why did Google create Android OS for mobile applications, and is now talking about opening its own retail stores?
- Why did Amazon create Kindle when the market was already saturated with other tablets and similar products?
- How did Nokia Mobile phone lose its shine?
- Why did Apple build its own retail presence?

- How will shale gas discoveries in North America change the business world and perhaps the geopolitical balance in the next 10 years?

If you are as deeply passionate about the world of business and supply chain networks as I am, and enjoy exploring similar questions, and coming up with answers that will help immensely in using this wisdom to build your business, then join me. This book is a journey of exploration through the world of business networks that run the commercial world today.

When General Motors filed for Chapter XI protection in 2008, it also marked the closing of a chapter in modern commerce. General Motors was seen as the paragon of modern American management theory as popularised by Peter Drucker in the middle of the 20th century. It was at this venerable company that Drucker formed his early thoughts about management as a profession, separation of the ownership from management of enterprise, the key functions of management, division of labour, theory of leadership of enterprise, indeed the very concept of the corporation. His writings filled the needs of the time, and were picked up by the Ivy League business schools and corporations alike, to form the basic foundation of management profession.

Indeed there was a time when General Motors and US commerce were thought of as interchangeable entities, with the popular aphorism that "what is good for GM is good for America and vice versa." Some people still think this is the case. They see the decline of General Motors as symptomatic of a wider malaise in the US economy. Others think General

Motors will rise like a phoenix to become an industrial powerhouse.

While we do not know what will eventually happen to General Motors, we know that new models of commerce, new industries, new technologies and new ways of solving old problems will be required to build a stronger economy at a global level. All of these will not necessarily come out of one country, one continent or even one region.

The world is changing fast

Drucker foresaw some of these changes, as shown in his writings on the information age, post-capitalist society and post-industrial man. Prescient as he was, he did not yet fully see the majority of the changes that have happened since his death in 2005. The rise of China and India, the global financial crisis, the zombification of the Western economies as a result of the intense focus on the rapid gains from the FIRE (finance, insurance, real estate) industries, hollowing out of real capabilities are nowhere to be seen in his writings. However, this is not just true of Drucker; a majority of the management thinkers, writers, academics and authors can be painted with the same brush.

It is not a surprise that the established minds find it difficult to think outside the box. Since the times of Aristotle, Socrates and perhaps even before that, new ideas must come from new places - from outside the established order of thinking. No wonder then, that the most innovative companies in the US still choose to locate on the West Coast. Many of the most successful corporations were formed by college drop-outs and the most successful business models

do not even have names yet.

In this book, I will not only name some of these models, but also study them closely and understand these new methods. The aim is not to copy or even emulate, but to gain a deeper understanding of their workings, to learn how to formulate similar models under different circumstances that your company faces.

A bit about me

At this point, you may ask, 'What entitles you to write this book?' Let me include a couple of brief biographical paragraphs that will hopefully spur you on to devote your full attention to get the best use out of this book.

The foregoing paragraphs might have already signalled to you that I see myself as an outsider. I do not have a Bachelor's degree and did not really start my college education until the age of 29 - but both circumstances helped me succeed immensely in life. At the age of 17 and straight out of a boarding school in Northern India, I joined a merchant marine company as a deck cadet after a brief training.

My first assignment was to go to a shipyard in Japan to work with the ship's captain, chief engineer and other officers to take delivery of a brand-new vessel being built there. At this time, due to the severe depression in the global shipping industry, I saw many super tankers worth million dollars sailing on their maiden voyage straight from the shipyard to the demolition yard.

It was like seeing a baby being killed at birth. It aroused in me an intense desire to study the causes of economic cycles

- I had already seen their effects. Over the next three years, I circumnavigated the globe many times on ships, working 12-16 hours a day, 6-7 days a week. I spent all my spare time reading voraciously about economics, finance and modern commerce. I kept my day job for another eight years, as it afforded me the luxury of visiting exotic ports and harbours, where I had the experience of working with stevedores, logistics companies, commodity producers and traders, importers, exporters and various other wheelers and dealers around the world. I earned a good living - enough to put some money aside for what I then considered a proper education.

In 11 years I travelled to more than 100 countries, rose in rank from a cadet to a master mariner with progressively more responsibility and a wider perspective. I saw thousands of different ways to do similar things in the different places I visited and worked. All of these methods had some qualities worth emulating, yet there were many others that were of little value. In my spare time, I added another pursuit to my economic studies - combining alternate ways of doing things to find the best method to suit the circumstance in question. These two pursuits had already become my twin passions long before I studied for my MBA at one of the best business schools in Australia and took a job as a management consultant in Sydney with a top-tier global consulting company.

For the past 15 years, I have been a management consultant to CEOs, boards and top executives in Asia, Australia and other parts of the world. I have focussed on empower-

ing corporations on five continents to achieve their peak potential – in operations, strategy and all components of their entire supply chains. In January 2000, I co-founded and managed Global Supply Chain Group, a high-impact services company made up of supply chain pioneers and thought leaders who work only on selected high-impact strategy projects with some of the largest corporations in the world. I spend 60 percent of my time travelling the world for a single passion – creating effective, secure and sustainable supply chains.

Why I wrote this book

With that said, let me also use one paragraph to talk about why I wrote this book. With more than 10,000 business books released each year, it is clearly not a worthwhile exercise to add to the cacophony, unless you have a meaningful message to convey. The returns are paltry and I have already written another book, listed with a respected publisher under my name (albeit with shared credits as a co-author). I do not particularly relish the long work hours any more. What motivated me to spend nearly every spare moment in the past 18 months to write this book?

Business is the engine of society and it will need newer models of commerce to fast-track any recovery. The hollowing out of skills from entire societies, without replacing them by other competencies, high levels of youth unemployment (often disguised by serious-looking play on iPads and tablets), and growing economic imbalances risking implosions of unrest, civil commotion or even a great war, have all com-

bined to create an alarming set of circumstances. Whatever transpires in the short-term, eventually business people will have to lead the way to recovery around the world.

New business models are leading the way

It is evident that I am passionate about newer models that work better. In my projects and work around the world, I have noticed that, in almost all circumstances, there is always some way to make things better. We only have to look around and see where the guidelines and trends are and which models will suit best.

Eleanor Roosevelt (1884-1962) famously said:

*“ Great minds discuss ideas,
Average minds discuss events,
Small minds discuss people. ”*

While it is very tempting to discuss just one of the three key ingredients of life - ideas, events, or people - in this book we discuss all three because they are inextricably linked.

People make events and create ideas. Ideas create events and help people become successful. Events shape people and give impetus to ideas. A book full of concepts and ideas, with no stories about people or events, would be extremely boring and dry. On the other hand, a book with just chronicles of events or people would hardly be worth bothering to read unless its author had an immensely entertaining style of writing (which I do not), and even then would be of little practical value besides entertainment. I mostly use

events and people to illustrate ideas and concepts to make them more tangible to the readers.

Conceptual thinking creates new business models

Primarily, then, this book is about ideas and concepts - yet you will see enough discussion about people and events to be able to use the concepts. Most of the people and events discussed are relatively well-known, so that background contextual information is already present in the readers' domain. Occasionally I use events from case studies based on our work - only because we could not find a well-known event illustrating the concept. I do not make apologies for that, or for disguising some data or names of the entities for obvious reasons of confidentiality.

Is your company reaping the full rewards of all the effort put into the activities within the company? Are you happy with the results - sales, profits, costs, competitive positioning, new product pipelines, supplier performance and other myriad details of your company's business? This book is for every executive, every CEO, every manager and every management student - no matter which business they are working in, or which part of the business they are part. I can scarcely think of a business situation in which the concepts of this book will not lead to a massive, positive shake-up of the status quo.

INTRODUCTION

What can you expect from this book? You probably already have a network of hundreds, if not thousands, of business associates and wonder what more can you do with networking. In the new world, it is not enough just to know people. A network is not sufficient unless your value-added potential is transparent and has top-of-mind awareness for your network.

This book discusses a multitude of ways in which business networks add and communicate value in the modern business world. In particular, I will show the five useful business trends, and new ways of looking at them, to create, grow and reap outstanding and sustainable business advantages.

As of early 2013, the global financial crisis is a five-year-old memory. The stock market is bouncing up and down, and people are hopeful of an eventual recovery. On the other hand, the situation in Europe, particularly in Greece and other Mediterranean rim nations, is still grim. The abysmally high level of debt remains and the capacity to repay it is elusive. On that measure, even the recovery in the United States appears suspect. China is the only bright light on the

global economic horizon. And even it is faltering like the last domino.

Business are engines of growth

Whatever the reasons for or the outcomes of this current global economic scenario, it cannot be denied that eventually only businesses will lead economic recovery. The failures of command economies in the erstwhile Soviet bloc have demonstrated beyond doubt that statist policies, while good short-term Band-aid solutions, can rarely lead to true economic prosperity.

Globalisation has been blamed by both the extreme right and extreme left for a host of economic ills facing various nations. Having seen its effects at close quarters in more than 100 countries, I cannot disagree more. In my view, the results attributed to globalisation are more attributable to other factors, such as human malfeasance, institutionalised corruption (even in the highest places), laziness, a sense of entitlement to riches without working for them and herd mentality leading to action without thinking and similar such factors - all part of basic human nature.

It is fair to say that one of the most alarming trends is the continued shifting of the global manufacturing capacity to China. Like a giant vacuum cleaner, China has sucked in the manufacturing capability from rest of the world at an intense pace over the past 15 years. .

In the midst of this macro situation, businesses continue to suffer from intense uncertainty and anxiety. Investment decisions are delayed for months, if not years, by the inabil-

ity to project cash flows and the expected rate of returns for the investors. Waiting for consumer spending to pick up has been futile so far.

There is no doubt that businesses large and small are suffering around the world. Hardly a business exists which was not affected by the GFC of 2008. While there has been recovery in business confidence, hiring has been sparse, investment in research and development, as well as property, plant and equipment outside of mining, has been negligible and profitability has scarcely improved. Inevitably, all eyes are upon the business section to find a way out of the economic morass.

Innovation is critical

If business is the ladder to economic salvation, then innovation forms the rungs. New products, new methods to create, design, distribute and service these products, alongside new ways to relate to the customer and understand their world are all equally important sources of innovation. While product innovation looks sexy and garners all the attention in expositions and the media, process innovation is equally lucrative - just ask Mr Henry Ford and Mr Roy Kroc, the founder of the McDonald's franchise model. Every couple of decades, powerful juxtaposition of trends leads to unique and revolutionary way of commerce. Contrary to the gushing accounts and adulations of the commentators, most pioneers merely stumble on these trends by a process of trial and error. Other companies, the more nimble and hungry ones, follow the pioneers closely and build strong busi-

nesses in their lead. More established companies then follow suit and try and recover lost ground, using their financial muscle and market power, sometimes succeeding and sometimes failing. Many other companies are so caught up in the hubris of their past success, internal politics or other attention-sapping device and they fail to move at all, or move too late, often with disastrous consequences.

We can learn from Success and Failures of Others

Chronicles of such disasters would perhaps be more instructive than the starry-eyed accounts of success. As Daniel Coyle points out in his book, *The Talent Code*, the only way to succeed massively is by failing repeatedly at progressively more complex, smaller tasks until you master them. However, most writers and authors persist with the formula that has succeeded since the first bard told stories of the victories of war, and I have no doubt that we will continue to see many romantic accounts of success for centuries to come.

It is difficult not to get caught up in the current of adulation that surrounds some companies at certain times. Any such apparent adulation in this book is despite my effort to be objective and cognisant of the cyclical nature of success.

The biggest trend sweeping the world - business and non-business - today is networking. When Facebook announced its IPO filing, it valued the company at \$100 billion. Analysts, pundits and business school professors are still debating what entitles it to that kind of valuation when many websites with similar business model - Orkut, Myspace and a

plethora of wannabes - failed to monetise the eyeballs to any great extent. It was not even validated how many of those numerous Facebook accounts were authentic.

Other contenders to high valuation - LinkedIn, Twitter and a few others - do not command the stratospheric valuation claimed by Facebook. LinkedIn was valued at “mere” \$9 billion, while Twitter languishes in third place among the winning triad at a “meagre” \$8 billion.

These high valuations, whether justified or not, inspire awe and wonder. How can a company which has no manufacturing, no traditional customers, no suppliers, no products, no warehouses and no logistics, command a valuation roughly equivalent to 10 percent of the GDP of the entire continent of Australia? By what magic is the projected cash flow so high, or, the risk-adjusted cost of capital so low? How can a company that did not even exist 10 years ago be suddenly more valuable than roughly 95 percent of the corporations in the USA - many of them earning billions of dollars of steady cash every year for decades, if not centuries?

Our purpose, however, is not to justify or critique the valuation of these social networking enterprises. It is to look at the power of the networks in the business world. Here, we will discover a set of Business Networks even more valuable than those mentioned above. In fact these Business Networks, rarely recognised at first, are so valuable that not a business can exist without one in today’s world. Unfortunately, most executives and CEOs fail to harness the full potential of this network adequately.

This book is about the 5-STAR Business Networks that

run the modern world. It should spur thinking about how to design your own business model that works for your circumstances. It is about new ways of doing things based on observations from the real world.

But that is not the only benefit you will get from reading this book. On a personal front it also looks at the secrets of successful executives.

Why most CXOs never make it to CEO unless they use 5-STAR business networks?

It is usually the case that for every open position of a CEO, by default, there are between 5-10 internal candidates, in addition to all the potential external hires. While many of them may not have the most serious intention or calibre, there are still enough contenders to make each race interesting.

Is this scenario familiar to you?

Let us look at an example: Kevin (disguised example) was a brilliant finance executive. After a few years working in an accountancy practice, he joined an in-house finance department and steadily rose in rank over the years to become its Chief Finance Officer. The board trusted his numbers as well as his prudent judgment.

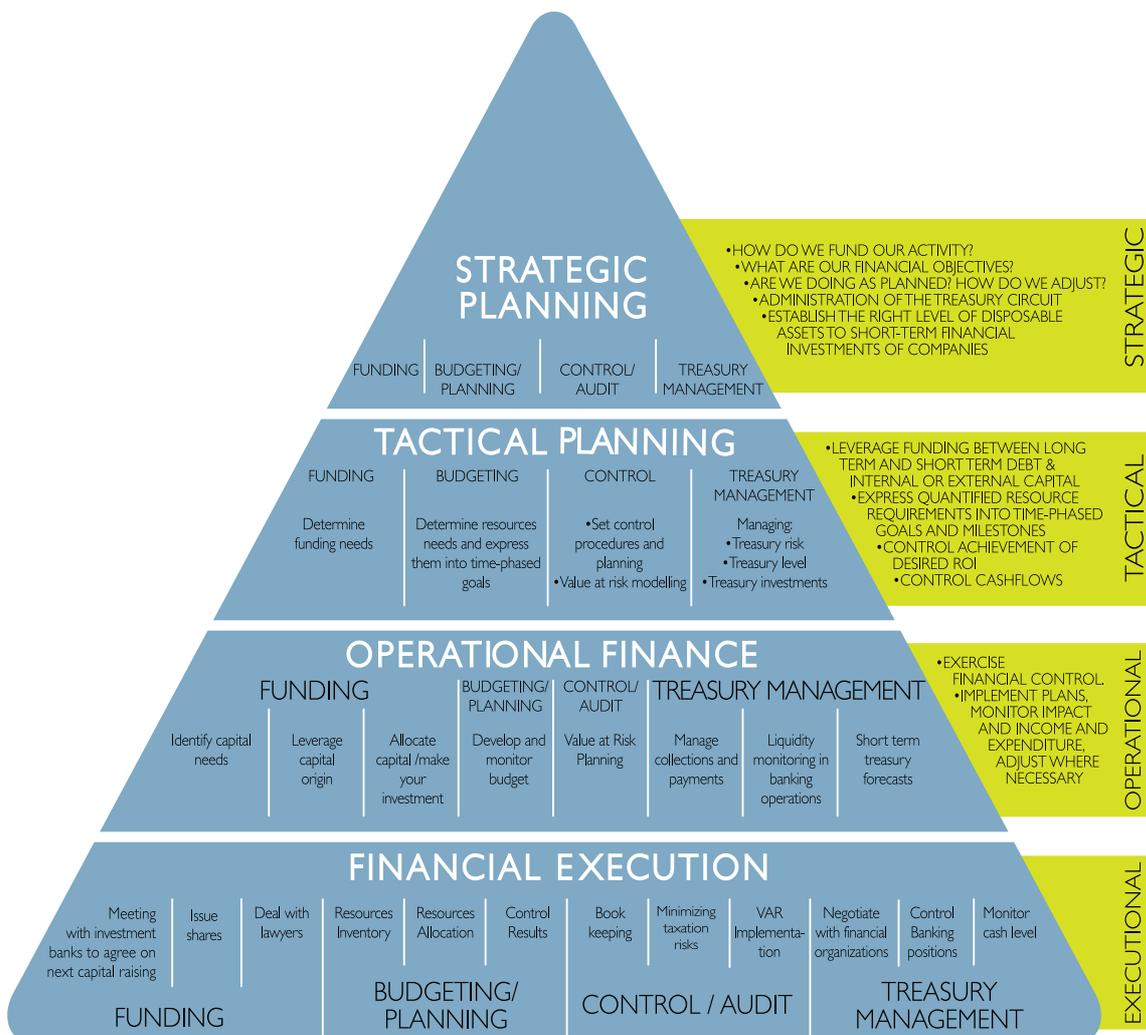
Yet, when for the third time in five years Kevin was overlooked for promotion to the CEO role, he shared his frustration with me. He had worked his way up to the board, and known each and every member, even the new ones, well enough to be regarded as a reliable 'colleague'. They knew that he would not mind taking on the challenge and were

INTRODUCTION

also aware that two of their last three choices did not turn out to be that brilliant. Yet they were reluctant to hand over the mantle to him.

He had already proven his case by his excellent leadership of the finance function as well as his strategic thought process. What else did he need to do to prove to the board the most

Figure 1: Activities carried out in a typical Finance Department

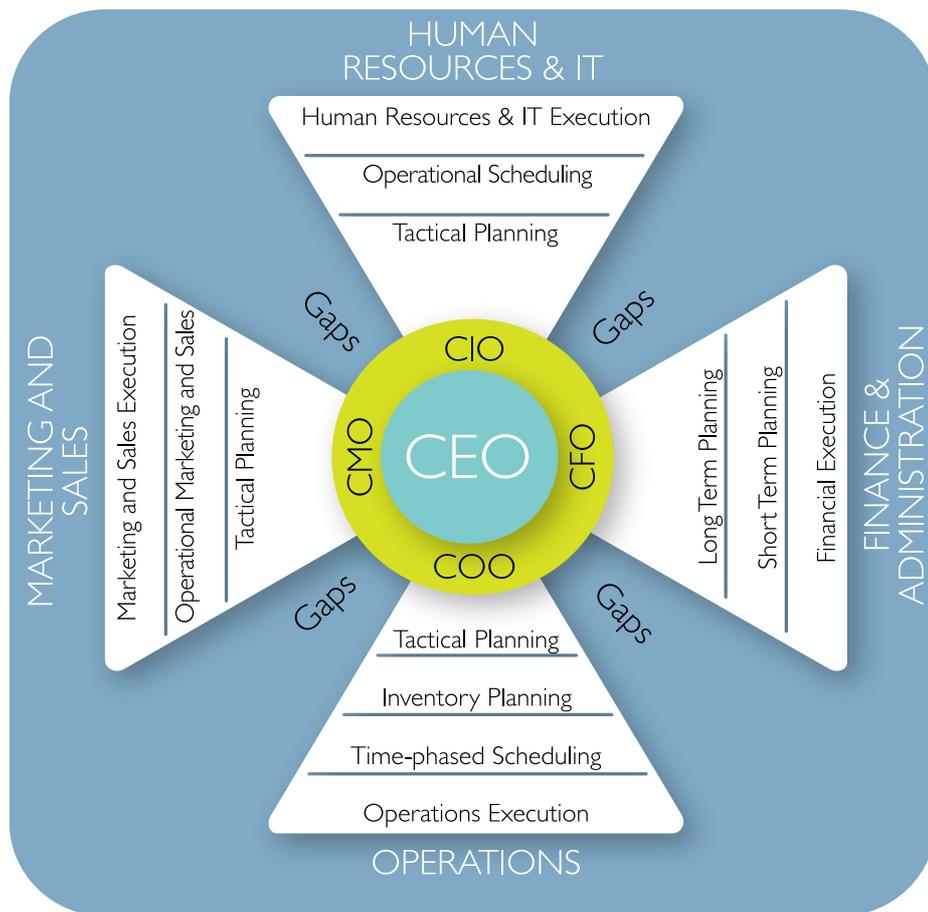


obvious thing – that they were ignoring the best candidate for the job.

We started discussing perceptions and his indispensability as the CFO, but soon we found ourselves drawing figures on paper napkins. It was clear that he had a great coverage of the entire length and breadth of the finance function as we went through the pyramid that later turned into Figure 1.

Whether it was funding, budgeting, financial control or treasury management, he had made his mark on the business. He was proud that the auditors, investment bankers as well as

Figure 2: CEO's core team



commercial bankers all complimented his accomplishments. Despite knowing all this, the board would not give him the final nod. As the discussion meandered from the finance function to the CEO's role, another figure on the paper napkin illustrated the conundrum. This figure was later turned into Figure 2 after a few revisions.

As I discussed my experience from shipboard command that most captains had to rely a lot on the chief engineer and hence seemed to favour chief engineers over chief officers. After all, most captains were fully capable of being chief officers if they ever had to. Moreover, despite all their engineering knowledge, most captains could never replicate the knowledge base of a chief engineer. Successful captains were those who seemed to get the best co-operation from the chief engineers and knew how to get it.

A modern organisation is made up of specialists

A modern organisation is far more complex than a shipboard company. Reporting to a CEO is a complement of 5-10 people and each of them is a potential candidate for the role. It appeared in Kevin's case that, whether by design or not, the board preferred an executive for the CEO role who could integrate the gaps between the various points of views and get the best performance out of the entire team.

While each contender with a real chance is already good at the functional area they come from – whether it is sales, marketing, finance or operations – the one that can coordinate the entire team and engineer a unique shared vision of the future that the board can buy into generally get the nod.

Inevitably there are gaps between different functional areas, parts of which could be outsourced to third parties. Integrating these external parties into the organisation's fabric in such a way that they start sharing organisation's vision as responsible parts of the team is even more difficult. In my view Chief Executives of the future will distinguish themselves on this capability – to integrate useful outsiders into the organisation's fabric, to outsource strategically, to build a business network of mutually dependent entities and to get this network working in unison towards the shared vision.

CEOs integrate the specialists into a team of internal and external experts

As the significance of manoeuvring external parties within a business network increases, outsourcing is now among the hottest topics for every Board of Directors, every CEO and CXO. Knowing when to outsource, and how to do it well will distinguish the CEOs of the future. In some shape or form, this requirement has already shown up in the selection criteria of most selection committees, and it will become increasingly explicit and important in the coming years. That is the strategic thrust underpinning this book.

I ask the reader to use the concepts, materials, models and ideas presented as guidelines. As in all other situations, blind adherence to diktats or empty slogans (such as think global, act local) is neither practical nor beneficial. Take what makes sense in your situation, mould it to your circumstance and use it. For this reason, the readers will benefit from coming back to this book again and again - rather unlike most mod-

ern business books which present a single idea with a lot of anecdotes, statistics and examples.

In the first section, we will discuss the trends of networks and the value they are creating in today's society. We will see the reasons why these networks are valued so highly, despite being merely social networks of a virtual nature.

In the second section, we will examine the trends of business networks of real nature and how they are taking over the entire business modus operandi. This growing trend counters most of the traditional wisdom about how to run business. Great thinkers – from Peter Drucker to Tom Peters to Michael Porter – all dispensed valuable business wisdom. Many of the basic tenets of their thinking do not apply under the current circumstances, as you will see. Newer business models - such as Barry Nalebuff's Co-opetition - apply a lot more closely to these business networks. Collectively, they are worth several trillion dollars - far more than Facebook, LinkedIn and Twitter combined. We will see how these business networks are now configured and harnessed.

GLOSSARY

APP: Advanced Product Phasing

C2C: Cash-to-Cash

FAR: Fire-Aim-Ready

IT: Information Technology

JIT: Just-In-Time

PE: Price Earnings

R&D: Research & Development

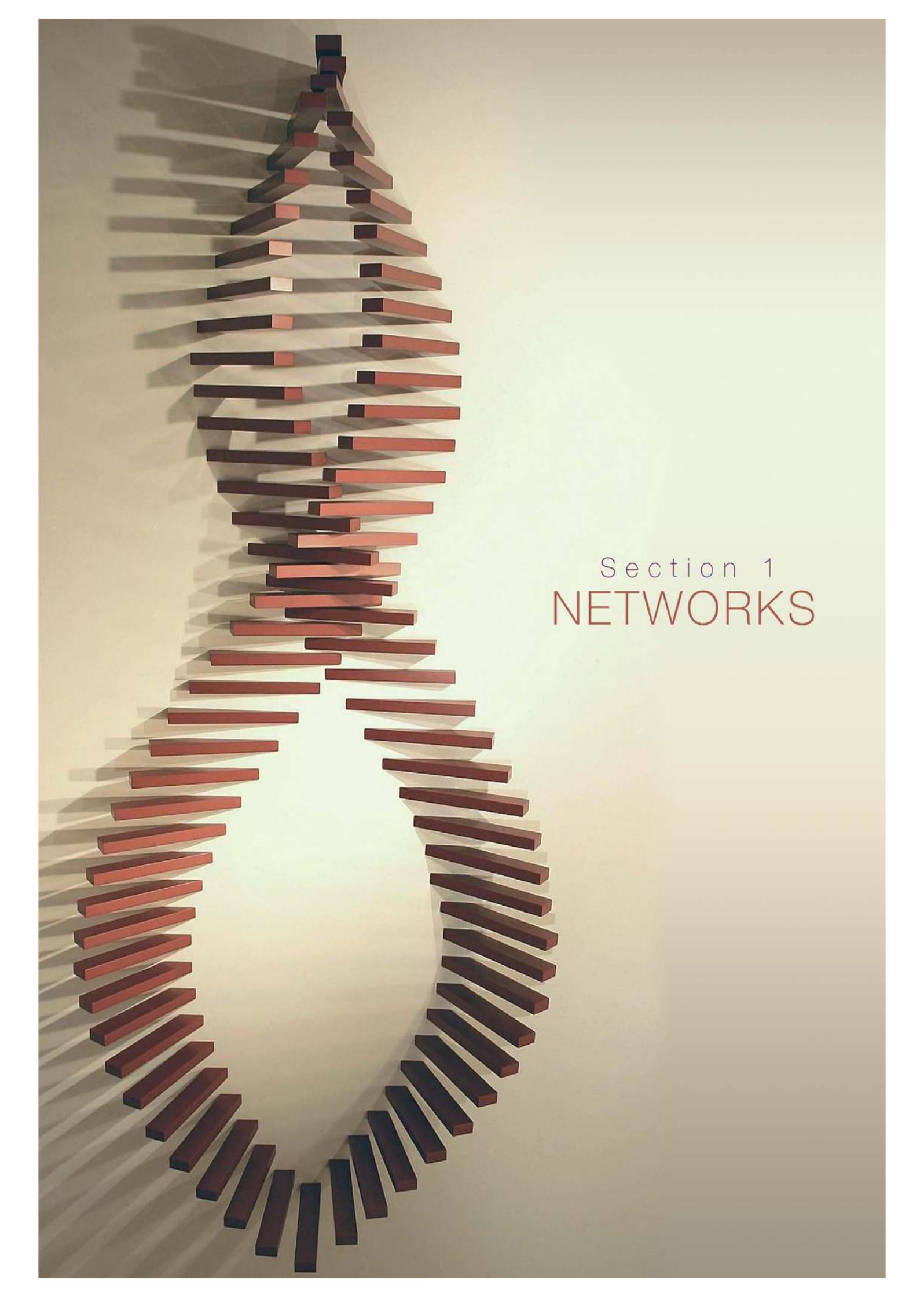
RFP: Request For Proposal

SCOR: Supply Chain Operations Reference

\$t\$: \$eed-to-\$tore

TOP: Transaction Optimisation Profitability

TQM: Total Quality Management



Section 1
NETWORKS

SECTION 1

NETWORKS

“ *All men are caught in an inescapable network of mutuality.*

Martin Luther King Jr. (1929-1968) ”

Chapter 1 - The Most Important Network on Earth

- Business networks give more value than your business infrastructure
- Business networks make your business more resilient and responsive
- When cash is the king, business networks triumph.
- In boom times business networks give you speed.
- Business networks help smooth out the volatility - especially during times of extreme volatility
- How does this make business networks valuable?
- If you cannot make your business networks more visible

and manage them proactively, you may be silently yielding the competitive advantage to others who can

Chapter 2 - Open Secrets from Ancient Networks

- The Silk Road - a vast ancient business network
- Venice - the powerful business network of the Middle Ages
- The Spanish Empire - an imperial business network
- The East India Company - first multi-national company
- American Railroads - a business network opens up the continent
- Global Finance Houses - winning business networks of the 20th century

Chapter 3 - Lessons from Modern Networks

- Plethora of options in social networks are mind-boggling
- Social networks are popular, but business networks are more lucrative
- Basis of competition long ago shifted from competition among companies to competition among supply networks.
- Now, the market leaders only network with those suppliers and customers who are themselves market leaders in their own chosen arena
- Valuation of business networks ranges into trillions of

dollars

- Supply networks are rapidly undergoing massive transformations as CEOs adjust their business strategies to global realities
- Other examples of networks abound

Chapter 4 - The Hidden Power of Business Networks

- The network effect
- Beyond Synergy - the multiplier
- Synchronicity - the real power of effective business networks
- Value accretion vs. value synergy vs. value synchronicity
- Key principles that highlight the differences between the three strategies
- The three levels on Jacob's ladder
- The journey from free markets to networks

Chapter 5 - Truth about the IT Systems Required for Great Business Networks

- Why we need a discussion of the 5-STAR Business Networks IT systems
- Flexibility/complexity trade-off in IT systems
- Common mistakes in business network IT systems
- The mistakes encountered in the supply network IT de-

ployment during all four steps

- IT outsourcing strategy development is rarely well thought through
- IT software and vendor selection is muddled and features driven
- During the IT solution implementation by IT vendor, users frequently lose control of the project
- In IT service provider relationship management and service usage, there is insufficient way to measure, manage and improve
- It is important to understand the evolution and trends that have underpinned the complex business networks.
- Supply network management strategy and capabilities evolved from primitive to esoteric in the four decades since mid-seventies
- Supply network management processes evolved in concert with the strategies and capabilities of the business
- Software and information and technical architecture evolution underpinned the development of supply network processes, strategies and capabilities



IMPORTANT

Chapter 1

The Most Important Network on Earth



Call it a clan, call it a network, call it a tribe, call it a family. Whatever you call it, whoever you are, you need one.



Jane Howard, "Families"

There was a time, not more than a few decades ago, if you were General Motors you would attempt to own every part of your business. The assembly lines, the parts manufacturing plants, the stamping units, the ancillary units and even the software that runs the business, the dealerships that sold the cars, the steel mills, even the mines that produce iron ore for the mills. This was for good reason - you either could not trust others to be savvy enough to produce and send you the material you wanted when you wanted it, or the margins in each of those businesses were big enough for you to try and own all those operations.

There was only one thing wrong with this structure. Your business became an insular behemoth - far removed from the customers and moving slowly in a marketplace going through a

rapid transformation. Your more nimble competitors, with loose networks of aligned companies, could easily run rings around you in no time - both in terms of developing and launching new products, and producing and selling high quality products at lower prices.

Business networks are more important than your business infrastructure

Eventually, realising the truism inherent in the folk wisdom of farmers when they say you do not have to own the cow if all you want is the milk, you would investigate ways of carving out parts of your business into independent entities that could be run as a loosely aligned network of businesses, similar to what your competitors had evolved into. This is not a book extolling the virtues of keiretsu, chaebols or similarly exotic-sounding Japanese and other Asian business structures. It is, however, useful to take some lessons from the evolution and success of these business networks.

Over the past several decades, both the global economy, as well as business structures, have evolved dramatically to such an extent most businesses have no recourse but to create business networks akin to those mentioned above. So what is the magic of these business networks? Why are they so important? What makes one business network better than another? Is there a way to systematically assess, measure, report upon, improve and monitor the quality of your business network? What outcomes should you expect out of a well-tuned business network? These are some of the ques-

tions we will answer in this book.

Business networks make your business more resilient and responsive

When the tsunami flooded the eastern coastal stretch of Japan in March 2011, the ensuing nuclear disaster combined with the devastation caused by the ocean to disrupt businesses around the world. The Japanese economy sits right in the middle of the global business network and it was natural for businesses as diverse as auto manufacturing, electronics, chemicals, petroleum products, computers and metals to experience the disruptive shock. For example, the price of the Toyota Prius went up by nearly \$2,400 after rumours of shortages. While it is natural for a variety of businesses to experience the disruption, it was remarkable to note that those which had the most responsive and resilient business networks were the ones to recover from this catastrophe the quickest. Later on in this book, we will see how to recognise the quality of business networks and make them more resilient and responsive at the same time.

Another stark example of the power of business networks is the fire that tipped the balance within an industry. Two stalwarts in the mobile phone industry were equally impacted by the same event - a lightning fire in the chip manufacturing plant of their common supplier, Philips, in New Mexico in March 2000. Nokia and Ericsson experienced the business disruption to an equal extent as a result. Fire damage to their stock was extensive.

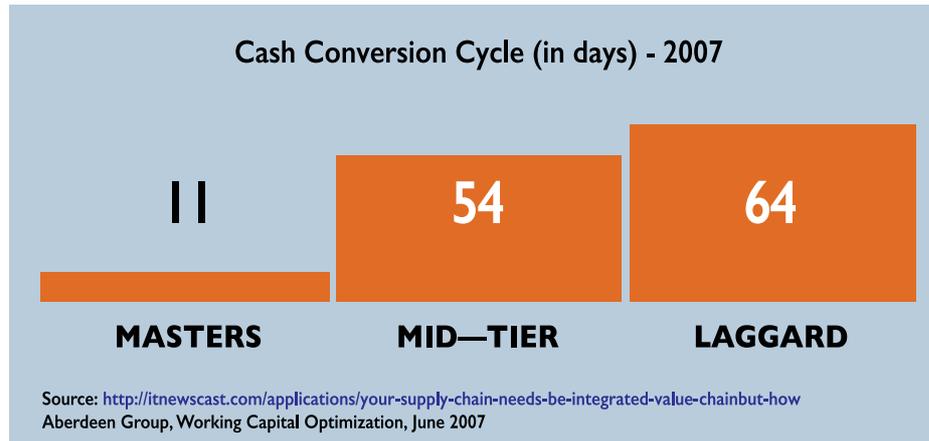
More importantly, the manufacturing capacity was damaged and it was difficult to estimate the time for repairs. Nokia had invested months, if not years, in creating and perfecting a robust and responsive business network, while Ericsson's business network was a relatively middle-of-the-line affair that worked well when things were good. After the fire, Nokia was able to see the full impact of the chip shortage on its own business, as well as the entire industry, with a lot more clarity than Ericsson, or even Philips. Moving quickly, it activated other points of its business network to shore-up supplies, to re-design some of the chips to manufacture them in other plants and to take other pre-emptive steps in the network. Ericsson let the situation evolve at its own pace and made decisions more reactively. The resulting gain in profitability and market share for Nokia and the loss of these for Ericsson, tipped the balance of the industry to an extent where, within a few years, Nokia pulled far ahead of Ericsson, which never caught up with its rival.

When cash is the king, business networks triumph

This is not a unique example of a more robust business network trouncing a relatively ordinary one at a crucial time. The story is repeated in industry after industry whenever challenging times arrive, as eventually they do. In fact, the data from a systematic study carried out by the Aberdeen Group reveals two critical insights. Firstly, the companies with more robust business networks have far superior cash conversion cycles (we will discuss

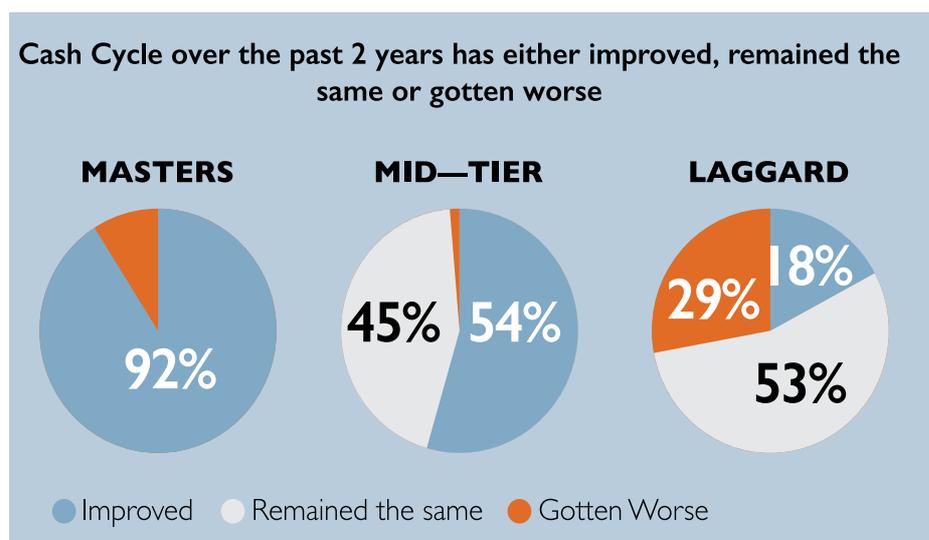
this in Chapter 9) - nearly five times better.
Take a look at Figure 1.1 below.

Figure 1.1



Secondly, and more importantly, their cash conversion cycle actually improved during the two years of challenging times leading up to the Global Financial Crisis (GFC), while the rest of the industry went backwards. As you can see in Figure 1.2,

Figure 1.2



92 percent of business network masters improved their cash cycle over the two years leading up to the GFC while only **18 percent of business network laggards** had seen improvement; and 29 percent suffered worse cash cycles.

Is the result shown in Figure 1.2 surprising? Hardly, if you reconsider the story of Nokia vs Ericsson. The same catastrophic fire nearly decimated one company, while leaving the other one even stronger to face the onslaught of another heroic business network - iPhones. We will examine that story in Chapter 8 when we discuss how new product development cycles are shortened immensely by appropriate use of robust business networks.

In boom times, business networks give you speed

The above examples and data might lead you to conclude that strong business networks are useful only during times of duress and catastrophe. However, this is far from the truth. In economic booms, whether accompanied by economic volatility or stability, business networks allow you to quickly realise higher profits. In fact, the potential of your company's capabilities is multiplied many times over, perhaps by a factor of as much as 100 or more, by the leverage effect provided by your business network. We will discuss the leverage effect and other key characteristics of the business networks in Chapter 4.

Let us consider another example - the booming commodities industry. In the past 10 years, no other industry has

grown as much. Prices of iron ore, copper, coal, gold, etc. have gone up exceptionally during this period. Within this industry, iron ore is one of the largest and most capital intensive operations and this industry is dominated by three global giants; BHP Billiton and Rio Tinto of Australia and Vale of Brazil. To build a large iron-ore producer and exporter from scratch, took Andrew Forrest of Fortescue Metals the full extent of his business network. To raise finances, build mining infrastructure, build and gain access to the logistics infrastructure and market the product in the international commodities trade, Fortescue Metals built a capacity in three years would have taken its much larger rivals would have taken more than 30 years to build. This was only possible through extensive use of business networks that the company built, nurtured and managed effectively. Most executives grossly under-estimate the value and efficacy of business networks in ramping-up capacity rapidly in times of boom.

Business networks help smooth out the volatility

Now, let us look at another example in a highly volatile industry. Global bulk shipping is one of the most volatile industries, with the shipping rates falling by as much as 94 percent within a period of four weeks, or rising by up to 400 percent within a period of few months. In such a volatile business environment, budgeting and planning can become a nerve-racking exercise for all companies, except those which use their business networks to cushion the lean periods with long-term contracts and find scarce capacity during

the boom periods.

In fact, if we examine the key success indicators through the economic cycles, a clearer picture emerges, as shown in Figure 1.3.

Figure 1.3: Basis of Competitive Advantage

ECONOMIC ENVIRONMENT	VOLATILE	<ul style="list-style-type: none"> • BUSINESS NETWORK • ASSET SHARING CAPABILITY • ENTREPRENEURSHIP • AGILITY AND FLEXIBILITY 	<ul style="list-style-type: none"> • BUSINESS NETWORK • FIXED ASSET RAMP-UP AND TURN DOWN SPEED • BUSINESS INFRASTRUCTURE AND CAPITAL • REVENUE YIELD MANAGEMENT 	
	STABLE	<ul style="list-style-type: none"> • BUSINESS NETWORK • KNOW-HOW AND INNOVATION • PRODUCTIVITY 	<ul style="list-style-type: none"> • BUSINESS INFRASTRUCTURE AND CAPITAL • BUSINESS NETWORK • FIXED ASSET PRODUCTIVITY • REVENUE YIELD MANAGEMENT 	
		LOW	MODERATE	HIGH

We will see these examples, and many others, in a lot more detail throughout the pages of this book. Suffice to say here that the business networks quoted in the above examples, also called the supply chain in many instances, are unique to every company and industry, formulated over a number of decades in many cases, and are worth several trillions of dollars in value. In the retail industry alone, the entire business network is worth more than \$1.5 trillion according to one estimate. Now, contrast that with the much-heralded valuation of Facebook, currently pegged at more than \$80 billion, to put things into perspective. Obvi-

ously, social networks are not the same as the business networks. We will compare and contrast these two in Chapter 3 to understand what they can learn from each other.

Valuation of business networks is astronomical, though difficult to quantify

The total valuation of the business networks in just six industries - retail, automotive, electronics, FMCG, aerospace and mining - is estimated to be more than \$4 trillion. These hidden business networks are reformulated and reconfigured on a continual basis - sometimes leading to massive transformations on global scale, while at other times leading to gradual transformations that only manifest fully over a decade or more.

Mark Zuckerberg is obviously the hero of the social networking world. Tonnes of ink has been spilt writing about his exploits in the social networking scene. So, who are some of the heroes in the business networking scene? How about the likes of Michael Dell, Steve Jobs, Dietrich Mateschitz (founder of Red Bull) for some obvious examples. Michael Dell reconfigured the entire business network in the electronics and computers industry to reduce the cash conversion cycle of his company from 56 days which was the industry norm, to -4 days over a period of four years. We will talk about the Dell story in a lot more detail in Chapter 9.

Let us now look at Steve Jobs' role in business networking. His, and Apple's, exploits in new product development are well-known and highly regarded. However, what is less well-

known is the role of the business network of suppliers, collaborators, partners and other such entities who have aligned their own interests with that of Apple, in order to reduce the new product development cycle to nearly eight months, from an industry norm of approximately 26 months. Again, the magic of business networks has made it possible to design, build, launch and sell revolutionary products in less than one-third time of the industry. We will examine the role of business networks in new product development in detail in Chapter 8.

Finally, to wrap up this chapter, let us examine the role of an unlikely business networking hero - Dietrich Mateschitz, the founder of Red Bull. Mateschitz, a marketing genius, rolled out his drink Red Bull in more than 100 countries in less than 17 years – a feat that took its much larger rival nearly 69 years. How did he manage to do that with a much smaller capital base and a smaller product range? The answer lies in his vision and business networking skills to formulate supply chain outsourcing relationships rapidly and manage these effectively. We will examine the role of business networking in modularised outsourcing design in Chapter 12.

These are just some of the most well-known examples in the realm of successful business networks. A vital question arises at this point. What are the differences between the successful and not-so successful business networks? What distinguishes the business networking masters from the mid-tier players and the laggards? After all, the whole point of reading a book is to get some practical and actionable advice on how you can ascertain the nature your own business

network and take steps to improve it, if you deem fit. We refer the super networked businesses as having a 5-STAR network and will compare and contrast the masters and the rest in Chapter 6.

So fasten your seat belts, come with us on a journey through the business networks around the world and see how successful businesses are configuring the business networks of tomorrow to thrive through the economic gyrations of the 21st century. It will be a worthwhile journey, not only for broadening the horizons, but for profiting from experiences of other masters of the game.

SUMMARY

Business networks are more important than your business infrastructure. Typically your business infrastructure is static, rigid and cost accruing. Your business network, on the other hand, is evolutionary, flexible and revenue accruing. Business networks make your business more resilient and responsive at the same time. When cash is the king, business networks triumph. Data is clearly conclusive that, in times of cash crunch, the quality of their business networks help save companies.

Besides, in boom times business networks give you speed - even relatively smaller businesses can achieve remarkable results quickly based on the responsiveness of their busi-

ness networks. Business networks help smooth out volatility - especially during times when it is extreme. No wonder we see airlines and shipping companies forming global service alliances to ride out the seasonal and economic peaks and troughs. Valuation of business networks is astronomical, though difficult to quantify. Estimates range into trillions of dollars, may still be underestimating the full extent and power of these hidden business resources. If you cannot make your business networks more visible and manage them more proactively, you may be silently yielding the competitive advantage to others who can.



BUSINESS NETWORKS
Through the Ages-



Chapter 2

Open Secrets from Ancient Networks

“*Plus ça change, plus c'est la même chose.*”

Alphonse Karr, Les Guêpes 1849

Before we embark on the journey of exploration into the current realms of business networks, let us take a journey into the past. A logical question always is whether this is new or has it been done before. After all, as the quotation above says, the more things change the more they remain the same. This is true of the business networks too.

In a way, the networks we are talking about in this book are not new at all. Some features, such as speed, trust-building mechanisms, outcomes and science of network creation and harnessing are new. However, similar networks have existed in formally or informally through the ages. And each time, they have been very effective in creating value for the participants, business community, and society in general. In this chapter, let us briefly visit some

of these networks through the centuries and see what we can learn from them. History is our best teacher.

At this point it is appropriate to note that we will keep these discussions of historical business networks brief, neutral and non-controversial. The reason, besides efficiency, is that our objective is not a detailed study of characteristics, pros and cons, or even moral rectitude of the participants. Rather, it is the more mundane exercise of finding parallels with the current business networks and their key characteristics.

The Silk Road - a vast ancient business network

Without going too far back into antiquity, let us start our journey at the Silk Road of the Middle Ages. At its peak, the Silk Road extended nearly 4,000 miles from the coast of China through the territories of China, Central Asia, India, Persia and Assyria to the Mediterranean coast of Levant and onwards by sea to the fabled city of Venice and beyond. The term Silk Road creates an image of a road, perhaps even a boulevard traversed by a camel train laden with expensive cargoes, well protected by security. The truth is, however, far more complex. In reality, it was a complex network of caravans, camel trains, serais, traders, money lenders and ships extending across the known world of the time to carry merchandise as diverse as silk, spices, wool, fabrics, tea, porcelain, carpets, ivory and other items of high value. Each of the main cities in this network - Kashgar, Samarkand, Turfan, Baghdad, Tyre, Aleppo and Alexandria - was a veritable hub of activities related to trade facilitation. Participants in this network - whether a Sogd merchant, a Chinese caravan owner, or a Florentine ship captain

- were handsomely rewarded for their enterprise and their ability to work their part in harnessing the power of the network.

Let us look at how the network was organised in practice. In the agrarian society of the Middle Ages, the most precious commodity traded by the business network was spice. Before the advent of refrigeration, spices were necessary to preserve food, as well as mask the flavor of spoilt or rancid ingredients. Many spices, such as pepper, cloves, mace and cumin, ginger, nutmeg, cinnamon and saffron, traded for margins up to 3000 percent and some were regularly sold for prices more than their weight in gold. With such high margins, demand was never a constraint, the extent and security of the supply route was. It was usual for the goods to change ownership more than 25 times between the producers in the East and the eventual consumer in the West. Each middleman added his own margin, as well as embellishment to the story. For example, Arab merchants told their European buyers that the cloves were netted out of the river Nile and cinnamon came from the birds.

Without any central command, the entire network was organised towards one end - production, collection and transportation of the spices and similar produce to destinations in Europe. Numerous middlemen, camel caravan owners, merchants, ship owners, and financiers, participated in this chain - each within their own territory and with their own margin. It is estimated that the middlemen's share of the profit in this enterprise was more than 90 percent. ^[1]

Venice - the powerful business network of the Middle Ages

No wonder, then, that the Venetian merchants - the middlemen closest to the end customers and with the most visibility of the entire network - moved to take greater control of the network. In the late Middle Ages, the bankers, merchants, and ship owners of Venice controlled the trade into Europe. At the peak of its power, the Venetian Republic had a fleet of ships exceeding 3000 vessels and controlled all trade from the eastern shore of the Mediterranean Sea to Europe. To assure security of the supply network, the Venetian Republic controlled territories on the Adriatic coast, so pirates could not attack their ships coming from the east. Using their financial power, the Venetian Merchants' Guild began to dis-intermediate the middlemen in the entire supply chain. The simultaneous rise of strong Arab empires with central command, first in Baghdad and later in Cairo controlling a vast territory, aided this process of dis-intermediation as the caravans could traverse a much greater distance and were assured relatively more security in their travels. A key feature of the Venetian business network was the role of political power, as well as finance, in shaping desirable business outcomes and securing these outcomes for the key participants in these networks. Evidently the network had become a lot more formal in its form and functioning (or possibly more records are available to give us an impression that it had become more formal). It should not sur-

prise us that consolidation of political power made the business network more effective and efficient at the same time. There are ample historic records, as well as anecdotal writings - from Shakespeare's "*The Merchant of Venice*" to Horatio Brown's historical reviews - that make great reading about the business network centered around the Venetian merchants of the later Middle Ages. [2]

The Spanish Empire - an imperial business network

In the pre-Renaissance period, spice was still the commodity in demand and the margins were still extraordinarily high. Despite dis-intermediation of many middlemen, the land route, with its camel trains and shifting political fiefdoms, was always the second-best alternative to a sea route that directly accessed the sources of supply. With this in mind, Christopher Columbus set out in search of the sea route to India and discovered America instead. However, another explorer, Vasco da Gama did manage to open the sea route to India for Portuguese traders. The business network over the next two centuries came to be dominated by Spain and Portugal - trading with the new world of the Americas, as well as the old world of Asia. The key feature of the business network of this era was a complete merger of political and economic action in the name of the Sovereign and the rise of colonialism as a result. An exploitative business network of this nature, with its one-sided value exchange, could not last very long. At one time Vasco da Gama captured the local

king's emissary, who had earlier afforded him a grand welcome during his much celebrated first visit to Calicut in May 1498 - called him a spy, ordered his lips and ears be cut off and after sewing a pair of dog's ears to his head, sent him away. This network was gradually replaced by a more benevolent form of colonialism - the East India Company and its peers. [3]

The East India Company - the first multi-national company

The East India Company started trading in spices and gradually took control of almost the entire spice network. As it expanded its reach through political and business alliances and skirmishes, it established beachheads in trading centres around the world and extended the trade itself. Tea was cultivated in Ceylon and India for export to Europe. Opium was cultivated in India for export to China and silk and silver were exported from China to Europe. With the advent of the industrial revolution, the business network become more diverse - covering greater areas and a larger number of commodities - as well as more efficient, as faster steamships and railways replaced the sailboats and camel trains. Other, less dignified trades, including those in slaves and opium, became more lucrative and perhaps reduced the brain power invested in more legitimate trades, such as industrial goods and raw commodities. While the pros and cons of the rule of the East India Company are well debated, we will restrict our discussion to the business impact of the network created by the company. The key noteworthy feature of this business

network was the use of alliances to establish the network, and use of technology to improve efficiencies in its results. [4]

American railroads - a business network opens up the continent

As the business network of the East India Company was getting embroiled in exploitative trades of opium and slaves, another network, far more effective, was being established on the continent of North America. Having won the American War of Independence, the colonies of the eastern seaboard were expanding far into the continent of North America - in all directions. When the technology of railroads eventually arrived, this expansion boomed. With the rapid industrialisation and growth of railroads, it became possible to mine, establish factories and build all the modern transportation and communication networks that underlie modern commerce today. Besides opening up the entire continent and establishing the United States of America as the pre-eminent industrial power of the 20th century, the railroad network also formed the basis of massive fortunes of tycoons such as Stanford, Pullman and Vanderbilt.

Oil, steel, coal, chemicals, power stations, mining operations, grain and passenger transportation were all greatly boosted by the railroad network. It is fair to say these formed the basis of the modern industrial economy of the USA. The key feature of this business network was the clear enunciation of the positive reinforcement cycle, or flywheel effect, whereby other industries got a boost from establishment of

the railroad network, which in turn further benefited the railroad networks themselves. [5]

Global finance houses - winning business networks of the 20th century

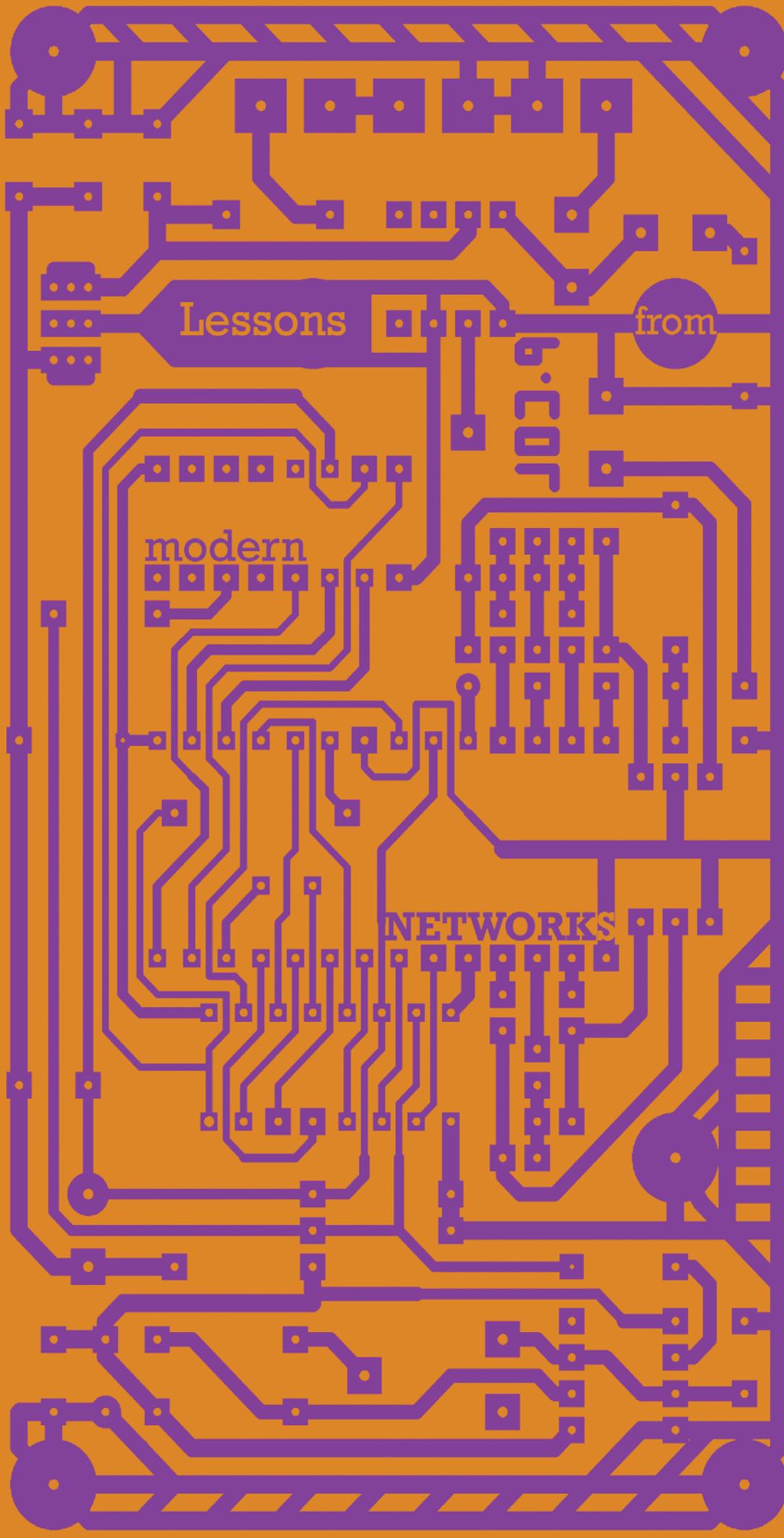
The last business network we will consider in this chapter is the network of finance houses of New York, London and Frankfurt that gained strength in the 20th century. With massive industrialisation came the need for massive financing of the industry. At the same time, growing world trade needed the finance network to be global in nature. Imagine an oil trader in Singapore buying oil from a Russian producer and selling it to a buyer in China for use in Chinese automobiles. The trader has no way to ensure that the seller will deliver him exactly what he purports to offer and that the buyer will pay for the oil on time - unless the modern finance house steps in with supply chain financing solutions, such as a humble letter of credit. From such simple finance instruments, the modern world of commerce and industry finance has developed into complex and bespoke financial arrangements that suit the needs of investors, commerce, industry and speculators. Facilitating all these transactions, and keeping trust in the system, is a network of businesses involved in the business of finance. Without going into the history of the finance houses, such as Barings, Rothschild, JP Morgan and others, we will take the key lessons from the outstanding success of these business networks. Undoubtedly, the first reason for their success is the value they create for their customers, since no business can

thrive for any length of time without that. This is underpinned by their ability to understand a diverse set of business circumstances that their own customers face and to readily come up with flexible solutions to meet those circumstances. Ability to attract, train and retain talent is the key to understanding your customers. Patience, ability and willingness to shape legislature, ability to formulate and enforce a trust-building mechanism in the network and a willingness to work through the ups and downs of the business cycles, are some of the other drivers for success. A key feature enabling the success of this business network is the overwhelming practical nature of the participants, without any dogmatic adherence to outdated ideas. To the extent this network retains its ethos of service and humility, it will continue to prosper and retain its relevance in the coming era of simultaneous globalisation and fragmentation.

SUMMARY

Business networks have thrived through the ages in various forms. In this chapter, we briefly examine six relatively well-known business networks from the history. The Silk Road - a vast, ancient business network - comprised hundreds of sub-networks, each functioning on its own, in order to achieve a vastly superior business outcome. Venice - the powerful business network of the middle ages - started the trend towards consolidation of power for achieving business outcomes. The Spanish empire - an imperial business network

- took this trend to extremes, where it became impossible to distinguish between the business goals and the imperial goals of the network. The East India Company - the first multi-national company - established commercial networks that still thrive after more than 250 years. American railroads, a business network that opened up the continent to thriving commerce and led the industrial revolution in the new world. Global finance houses, winning business networks of the 20th century, funded the industrial Revolution and benefited from its vast reach.



Lessons

from

modern

NETWORKS

PC

Chapter 3

Lessons from Modern Networks



Every man takes the limits of his own field of vision for the limits of the world. ””

Arthur Schopenhauer (1788-1860)

Let us cast our field of vision on modern networks, which come in a vast array of structures and forms. Depending on the value they provide to participants some of these networks are successful, while others are quickly replaced by more efficient models.

In this chapter, we will explore key distinctions between the various types of networks and their respective strengths and benefits. In Chapter 5 we will take an intensive look inside the IT systems used by business networks. This chapter is an extensive exploration of the networks themselves. Many of these networks use the kind of IT systems we will examine in Chapter 5.

Plethora of options in social networks are mind boggling

When researching the social networking scene, I was aghast to find the plethora of options depicted by the following chart shown in Figure 3.1 on the next page.

Obviously, Facebook and Twitter are the dominant gorillas on the social networking scene. Whole gaming networks and other apps have cropped up to service the participants on Facebook and Twitter. A plethora of other structures, such as social brand engagement, social marketing networks, social intelligence, social scoring and social referrals are cropping up. Most of them are too new to discern which models will eventually survive. However, in this clamour, one thing is abundantly clear - social networking itself is revolutionising the way humans live, work, interact and govern. While the Arab Spring in Tunisia, Egypt and many other countries is now a fading memory, the role of social networks in creating impetus and sustaining momentum cannot be underestimated.

Social networks are popular but business networks are lucrative

In this book, our focus is on business networks. We will not spend much more time on the social networking phenomenon; powerful, diverse and exploding though it is. A far more powerful, diverse and well-established network exists in the business arena. Every business relies on a network of suppliers and customers to sustain its operation and place in mod-

ern society. So powerful is this network, in fact, that the basis of competition has long ago shifted from competition among companies to competition about supply networks. Market leaders network with suppliers and customers who are market leaders themselves in their own arena to co-create, design, produce, market, sell and service a whole range of products and associated services the customers take for granted each day.

We have already gone over the example of the Red Bull supplier network in some detail. Let us take another example, this time in the growing field of renewable energy. For reasons of confidentiality (due to my assistance in this network's configuration and functioning), the company is not named and the industry information is disguised, without losing any context or relevance. The renewable energy field is not only growing rapidly, but there are also many different applications - ranging from geo-thermal to wind and solar energy, which are competing with each other, as well as the traditional sources of energy. In a rapidly shifting economic landscape, with the volatile pricing of coal and oil, the relative attractiveness of any one energy source not only depends on the technological superiority of the concept itself, but also on rapid deployment of technologies to demonstrate superior results in action.

A number of technologies find themselves almost on the verge of major breakthrough that will lower the cost per unit significantly below existing norms. However, they often cannot achieve those breakthroughs on their own because of the research and development time and investment required.

On the other hand, there exist other well-established businesses quite capable of providing additional research and development capability, even though renewable energy is not their area of expertise and interest.

In such a scenario, the challenge emerges: How to create a network of businesses with complementary capabilities that can bring in the required expertise in research and development and use it to co-create a product or technology, where each business is also satisfied while optimising its resource usage in pursuit of its core mission.

Almost all the companies in a similar scenario create a complex business network of suppliers, collaborators and co-creators that can rapidly form and deploy teams for the purposes of research, development, testing, prototyping and deployment of technologies. If any company was to rely on its own resources using traditional purchasing practices, the time to market and effectiveness would be vastly diminished. A concrete example we will examine in greater detail in a later chapter, Apple reduced its new product development and time-to-market cycle to nearly one-half of the industry norm by using its supply networks wisely. No wonder Apple's current market capitalisation is larger than that of Greece and Spain combined.

Valuation of business networks ranges into trillions of dollars

How big are the business networks we are discussing? One estimate puts the combined worth of these supply networks into trillions of dollars. The following figure (on page 39)

shows the estimates for only a handful of industries:

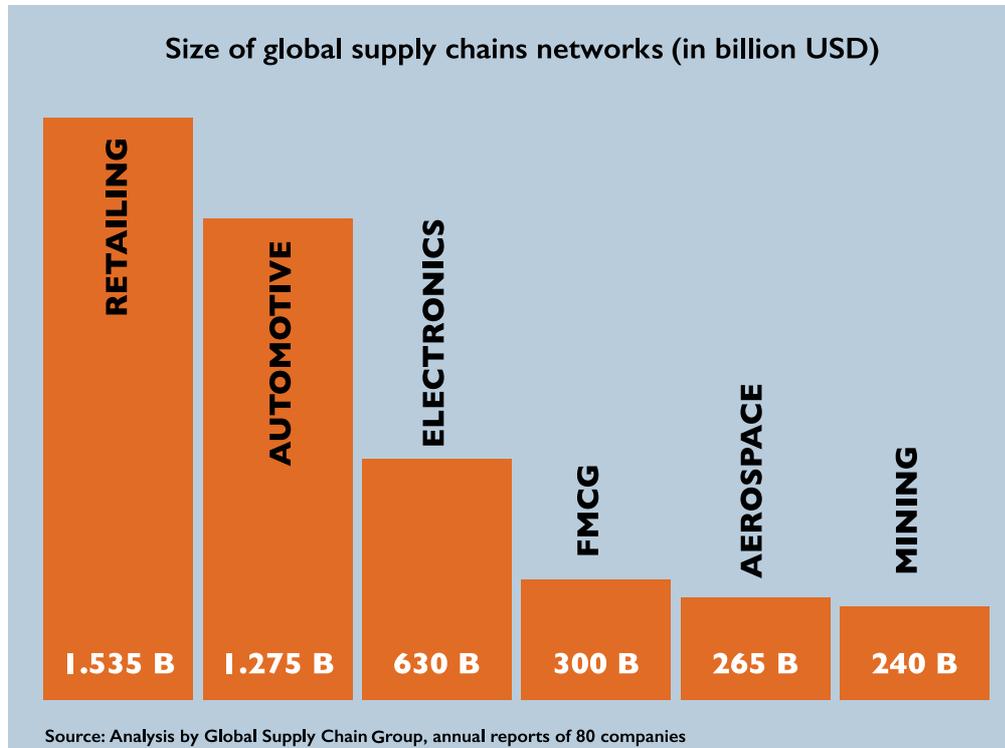
Each industry has a highly **unique** and **valuable** supply network that its participants have created in response to the circumstances, regulations, customer needs, and economic situation in the industry.

Either by trial and error or by intelligent design somewhere along the way, each of these networks has **evolved** over the past several decades to reach into its current state as a result of all the changes in economics, technology, regulatory requirements and customer tastes. Sometimes a new player, such as Red Bull, enters the industry and causes a major disruption to the established supply relationships and networks. In most cases, the established supply relationships and networks in every industry will go through a gradual evolution as the environment evolves. Most CEOs are now familiar with the power of supply networks transformation. Currently in many industries these supply networks are rapidly undergoing **massive transformations** as CEOs adjust their business strategies to global realities.

We will cover business networks and supply networks in great detail in Sections II and III. For this reason, we will devote the rest of this chapter to looking at some other types of networks familiar to you.

The most familiar network to you is your own. A network of business associates and contacts. Inevitably, they come to your rescue when you need help and vice versa. They are also good sources of information, job leads, business leads and even guidance or inspiration. LinkedIn and Plaxo have put the Rolodex of old online and added far more functionality and possibilities

Figure 3.2: Valuation of business networks



with their web versions. In that sense, online networks enhance the possibilities and functionalities far beyond what is possible with the offline networks. An enriching, quasi-structured and purpose oriented interaction is possible using online networking tools - it would be difficult to replicate this (and adhere to it) in an offline context.

Other examples of networks abound

Other examples of offline networks are alumni networks from your schools, colleges, previous work places and similar locations. Many of these are now online, though very few are doing much beyond basic database creation and sharing. Just this year, one of my graduate schools has

started systematically co-creating executive education programs with the help of its alumni network - even though the possibility has existed in technological capability for almost a decade.

Some of the more well known formal networks are organisations such as the Freemasons, the Rotarians and clubs including the chambers of commerce. Each of these was created for a different mission and most still adhere to their original formal charters. Many of these formal networks are moving online, at least for the purpose of database creation and sharing. Contrary to some beliefs, most of them are rather benign associations that create a forum for gathering and sharing interests.

Many networks of professionals with similar interests exist online either at LinkedIn or through professional bodies where the only condition of entry is your interest in the topic of discussion. One such offline network where I served on the Global Advisory Board broadened its membership by tens of thousands during the five years I was on the board. The professional courses, seminars, forums and lecture series run by the organisation contributed significantly to the body of knowledge on the subject. At the same time, numerous individuals found suitable jobs and professional progression advancement through the network.

Another online informal network I have created on a social networking website has grown to more than 6,500 members globally and business opportunities worth more than \$650 million are offered every year. It is difficult to estimate the actual trade that results from the network as trade is

mostly carried out offline. This network is growing rapidly. Now I am grappling with the question of how to keep its informal nature and yet enhance its usefulness and relevance to the participants of the network.

An interesting phenomenon that is just emerging is online currencies being traded between the informal networks. These go far beyond online payment and clearance systems such as PayPal and serve as crypto-currency. So far these crypto-currency networks including Bitcoin and its clones are operating near the legal fringes of most economies. Further developments are being watched with interest by the central banks, supra-national bodies and the political economists. We will draw the line here for our discussion of semi-underground networks because one can go too far in researching and describing these and stray into illegal or unethical networks quite unknowingly.

Not all networks are benign

However, in addition to the online and offline networks more informal networks exist. Some are even sinister, the most notorious of them being Al-Qaeda. Some of these informal networks are even online where the identities of the individuals are not fully known, like the hacker group Anonymous.

CONCLUSION

In conclusion, I would like to point out that the breadth, as well as the depth of a network varies according to the need and purpose of the network itself. Most networks - whether online or offline, formal or informal, social or business - are evolving slowly to meet the needs of the participants, and continue to make themselves more useful by adding depth of interaction and/or breadth of coverage.

In the rest of this book, we will focus primarily on the business networks, their efficacy - efficiency and effectiveness and their utility to the participants. More specifically, we will demonstrate how the business leaders of the future are busily building networks that will underpin their business aspirations. There are five key leverage points of the business networks and we will discuss these in details in the next section.

SUMMARY

Plethora of options in social networks is mind-boggling. Social networks are popular, but business networks are lucrative. Basis of competition has long ago shifted from the competition among companies to competition about supply networks. Market leaders network only with those suppliers and customers who are market leaders in their arena to co-create, design, produce, market, sell and service a whole range of prod-

ucts and associated services that the customers take for granted on a daily basis. Valuation of business networks ranges into trillions of dollars. Most CEOs are now familiar with the power of supply networks transformations in many industries. These supply networks are rapidly undergoing massive transformations as CEOs adjust business strategies to global realities. Other examples of networks abound and range from beneficial to sinister networks that operate offline or online. Our understanding of such networks is still evolving.

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ACKNOWLEDGEMENT

This book is the distillation of the experiences and knowledge I have gained from working, reading, applying concepts, learning, experimenting and observing results across multiple decades. All this could not have happened in isolation and depended on many incredible people. Many people who I have worked with, who have written books that I read, who participated in numerous workshops, training and coaching sessions and who otherwise collaborated with me in business interactions have left some mark on this book. If you fall under one of these categories, you know who you are - and I gratefully acknowledge your contribution to the evolution of my thinking reflected in this book.

Today, as I write this acknowledgement on the day celebrated as the Teachers' Day across India in memory of one of our great teachers, I am reminded of all the great teachers I have had.

First and foremost of these is the Greatest Teacher of the Universe, who sends the right lesson packaged as an intriguing problem at the right moment in life. I count myself as one of the luckiest people on earth - and these lessons are the

biggest reason I do so.

My next teacher in life was my mother whose persistence and relentless thinking was exemplary and infectious. In a part of the world where little girls are still gunned down for daring to ask for education, she managed to do the near impossible. In an era when girls were sternly told that learning to read and write was the end of education rather than the start, she fought insurmountable odds to complete a high school diploma, a bachelor's degree, a master's degree in economics and then another master's degree in sociology - and then she made it her mission to provide knowledge and opportunities to girls across the country.

My father taught me the lesson of self-reliance so well that I easily left home to start work at the age of 18 and went on to self-fund all my higher education and training. Even after his untimely death, his encouragement, trust and counsel continue to give me the self-confidence and assurance to make the toughest decisions today without any hesitation. If I can teach my three boys even half of what he taught me, I would consider my debt repaid.

My wife Mamta has been a constant source of compassion and joy who miraculously manages to create time for me to travel, work, lecture, conduct workshops, write and study for up to 18 hours a day for several weeks in a row. All this amid a career of her own and educating our three young boys cheerfully. I cannot acknowledge enough her contribution to all my activities, including writing this book.

I was fortunate to learn from the masters - both in the education institutions I attended, and in the workplace. To para-

ACKNOWLEDGEMENT

phrase Sir Isaac Newton - *If I have seen far, it is because I was standing on the shoulders of the giants*. It is impossible to name all of these giants but I will try to name a few in no particular order: Dr. Wolfgang Partsch, Gene Tyndall, Ben Gordon, Garry Baddock, Malcolm Broomhead, Shaun O'Sullivan, Julian Segal, Philippe Etienne, Neil Hawker, Hugh Robertson, John D'Souza, Ian Alexander, Marc Potter, Parag Mehta, Hanns Zeltinger, Martyn Hay, Gavin Solsky, Jeremy Barrett, Daniel Wise, Cluny Randall, Andrew Liveris, Essa Al Saleh, Samir Wagdy, Mark Aquilina, Andrew Wilson, Jim Camp, Frank Cascante, Paul Lim, Stephen Chan, Alex Bauer, Stephen Chey, Nick Bain, Bernhard Voll, Kevin Daly, Norm Fricker and many others - contributed to insights and ideas that are crystallized throughout this book.

In addition, during the formative years, Mr. Aggarwal (our Chemistry teacher in year 7 introduced us to the writings of Ayn Rand and changed the direction of my career in that year), Alistair MacLean (the writer whose novels gave me a strong yearning for sea by the time I was in year 10), Captain Rewari (whose humorous lectures on navigation and ship stability made the nautical college tolerable), Fred Hilmer (the Dean of Australian Graduate School of Management who somehow created and ran an institution far above any other in the country at that time), Simon Wheately (the lecturer for International Finance in MBA for his bravery in persisting with the concepts when half the class was getting overwhelmed), Tim Jackson and Wayne Henderson at Booz Allen and Hamilton for showing me the ropes in the new world of management consulting,

Dr. Wolfgang Partsch and many other colleagues who have collaborated with me on projects and workshops around the world, and finally the clients and participants in the workshops who have always shared their enthusiasm and thoughts on the topics under discussion.

This book started as an attempt to answer to a few simple questions that we were brainstorming in a small team with David Ball and Estelle Berger. Some of the answers grew into the concepts you see throughout this book. Estelle Berger then took on the additional responsibility of fleshing out the ideas into a PowerPoint presentation describing the core story woven through the pages of this book. As the idea of writing this book based on the PowerPoint came to me, I invited Lalit Panda, a key industry expert to co-write this book. His initial commitment, could not translate into actual writing given his busy schedule and we will likely co-write a sequel, on the implementation of the concepts expounded in this book.

Tony Fedorowicz has kindly edited parts of the first edition of this book - if you find it easy to understand what I write, it is mainly due to his effort to simplify my writing. Kelsey Claflin and James Barger have helped with, research and analysis for parts of this book. Nick Georgandis and Geoff Adams did the final edits and proofing for a professional production. Many other experts have provided feedback, suggestions for improvement and testimonials - which are all gratefully received and acknowledged. Finally, Jhernilyn Velasco, Tayyaba Satti and their teams have created the artwork, the print ready proof and the e-book edition ready for

ACKNOWLEDGEMENT

publication.

It has a humungous effort to write, produce and publish a book and put it into your hands. I gratefully acknowledge the help I got all along the way and hope I can return the favor in an equal manner.

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As I am a strong believer in networks and ideas, I find the effort to write this book, and its outcome, outstanding. It is so true, that only new and fresh ideas can change the world for a better one. I started it with the art of Supply Chain Management in the late 70s and early 80s. From "Chains" we came to "Networks" but, it needs the visionary leaders who grasp bright ideas and transform them into new realities. New ideas, great people who grasped these ideas, and the break-through events made it possible for me to create and lead the unprecedented Supply Chain Network at Ernst & Young Consulting within only four years from zero to more than a billion US\$ in revenues.

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