

## Setup of an R&D Competence Center in China: Project management for a low-cost product

### Introduction

Successful companies have shown that profitable growth in Asia is possible.



Successful companies have expanded the product portfolio with entry products. Companies with a claim to global market leadership have found answers to the frequently mentioned risks such as product cannibalization, down selling and brand dilution. On the other hand, companies have come under severe pressure or even disappeared from the market because they have not taken up the challenge of low-cost competitors - or have done so too late. This situation is likely to apply to many companies in the DACH region.

### Environment / initial situation of the client company

The company is a global manufacturer of precision instruments for use in laboratories and industry. The company is considered the global market leader in several product categories. Until now, the company has been able to maintain or expand its market position without making significant price concessions.

However, the major growth markets are in the emerging countries, namely China and India. The willingness to pay the prices common in Europe and the USA (willingness-to-pay) is limited, especially in Asia. Substantial growth is not possible without entry products. Even in the traditional markets, sales in price-sensitive market segments are becoming more difficult.

The market potential in the emerging countries represents an enormous opportunity for the company. For products in the medium and lower price ranges, the potential is in some cases factors larger - and is enjoying great growth momentum. Local competitors (low-cost competitors, LCC) are emerging in these markets. The

risk is that products from these manufacturers will also appear in the high-cost countries. Some traditional competitors already produce low-cost "entry" products in China, often in cooperation with local manufacturers.

The attractive market potential on the one hand and the threat from LCC on the other hand forces the company to extend the product range downwards. "Good enough" products are to be defined, specified and developed and produced in cooperation with the Chinese subsidiary.

The head of the business unit manages the projects very closely by means of a steering committee and intervenes in the line organization when difficulties arise.

## **Solution provided by the interim manager**

Based on a business and product vision, the entry product was specified as a "good enough" product. A serious market analysis was necessary to correctly position the product to be developed and to derive the target costs from this (target cost approach).

Subsequently, the development project was defined. The development team consisted of employees from the head office and from the local development partner. A competence analysis showed the gaps that had to be filled in order to successfully implement the project.

In parallel to the development project, a collaboration program was set up with the aim of ensuring the transfer of know-how, establishing the necessary project infrastructure, aligning the organization and processes as required, and regularly ensuring that the objectives of both organizational units support the project.

## **Results**

The new product was launched very successfully. It became apparent that a customer need could also be satisfied in the traditional markets of Europe and the USA - at higher selling prices and as a start for a very profitable upselling process.

Over time, the local partner, in this case a subsidiary, was developed into a competence center for "low-cost" products. The full responsibility to further develop the products and to develop product lines for price-sensitive customer segments could be transferred.

## **Customer References**

Head Quality Management

"Mr. Strotz has distinctive abilities to shape organization, projects, forms of cooperation across cultural boundaries - specifically in China."

GM, Head of Global Business Are

"Mr. Strotz is an expert in low-cost competition for capital goods and their markets - positioning, markets, customer value. He is an excellent, experienced Asia expert with focus on China/SEA – for markets, culture, business practices."

GM, Head of China Organization

"Mr. Strotz has a wealth of global business experience - covering supply chain, R&D, marketing and sales. He understands both Western and Eastern cultures and their critical role in business. He has strong leadership and networking skills in a complex global matrix organization."

## Keywords of the mandate

Client	Business unit of a global manufacturer of precision instruments
Industry	Precision instruments - measurement technology in laboratory and industry
Location	Zurich, Shanghai
Turnover	2500 million USD
Employees	14000