Operations Strategy

3.1 What is strategy and what is operations strategy?

Business strategy includes:

- Setting broad objectives that direct an enterprise towards its overall goal
- Planning the path that will achieve these goals
- Stressing long-term rather than short-term objectives
- Dealing with the total picture rather than stressing individual activities
- Being detached from, and above, the confusion and distractions of day-to-day activities

Strategic decisions = define the position of the organization relative to its environment and moves the organization closer to its long-term goals

Strategy = the total pattern of the decisions and actions that influence the long-term direction of the business

Operations strategy = the pattern of decisions and actions that shape the long-term vision, objectives and capabilities of the operation and its contribution to the overall strategy of the business

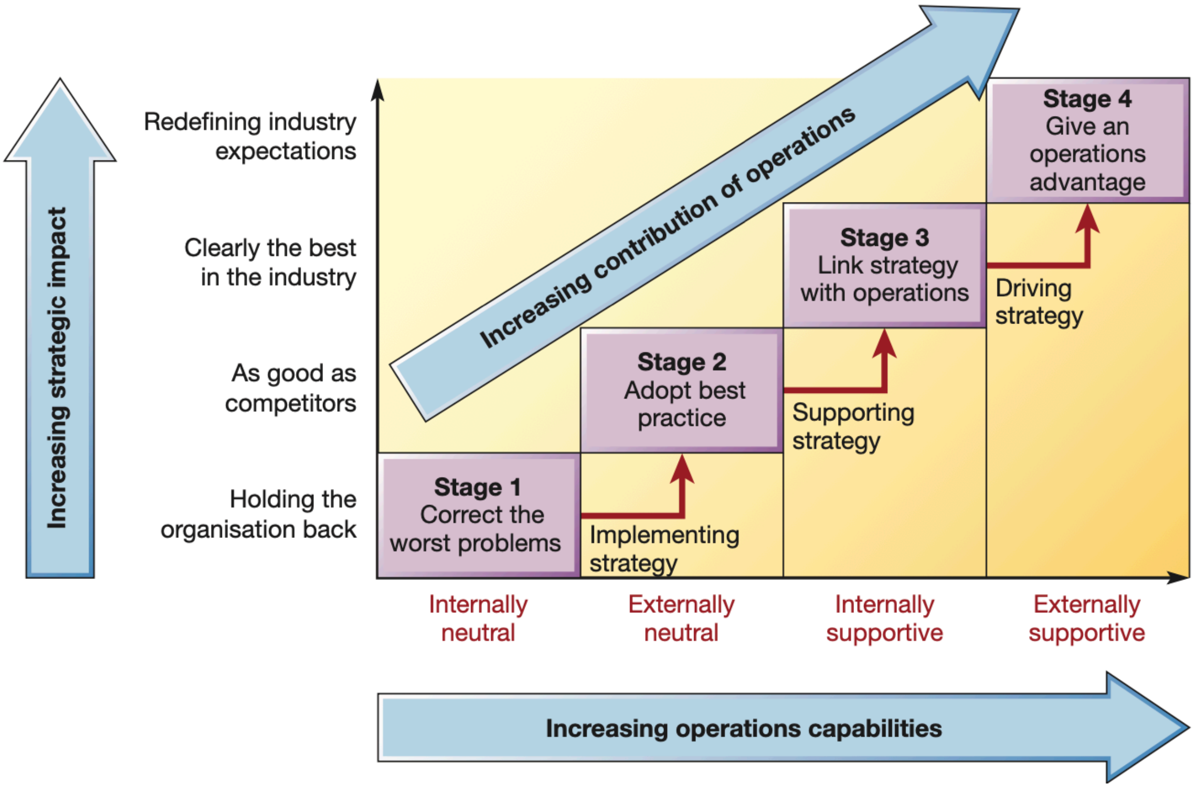
The content of operations strategy = the specific decisions and actions that set the operations role, objectives and activities

The process of operations strategy = the method that is used to make the specific content decisions

Using operations strategy to articulate a vision for the contribution of operations

Vision of an operation = a clear statement of how operations intend to contribute value for the business – an idea of what it must become and what contribution it should make

Hayes and Wheelwright four-stage model = traces the progression of the operations function from what is the largely negative role in stage 1 operations to a position where it is the central element of competitive strategy in stage 4



Stage 1: Internal neutrality

The operations function is inward-looking and reactive with very little positive to contribute towards competitive success.

Its vision is to be **internally neutral** so as to stop holding the organization back in any way and attempts to do this by avoiding making mistakes

Stage 2: External neutrality

To break out of stage 1, the operations function begins comparing itself with similar companies or organizations in the outside market

By measuring itself against its competitors' performance they can try to implement best practice.

Stage 2 vision is to become **externally neutral** with operations in the industry

Stage 3: Internally supportive

Stage 3 operations have typically reached the first division of their markets and those operations' vision becomes to be clearly and unambiguously the very best in the market which it achieves by gaining a clear view of the company's competitive or strategic goals and supporting it by developing appropriate operations resources.

The operation is trying to be **internally supportive** by providing a credible operations strategy

Stage 4: Externally supportive

A stage 4 operations function is one that is providing the foundation for an organization's competitive success.

It is forecasting likely changes in markets and supply, and it is developing the operations-based capabilities that will be required to compete in future market conditions

Stage 4 operations are innovative, creative and proactive and are driving the company's strategy by being one step ahead of competitors = **externally supportive**

Critics argue that operations should not take a leading role in shaping a company's strategy, as the market's needs should always be the primary driver, with operations serving a supporting function. They also contend that Hayes and Wheelwright's model should end at stage 3, focusing on aligning operations with market demands rather than operations driving strategy.

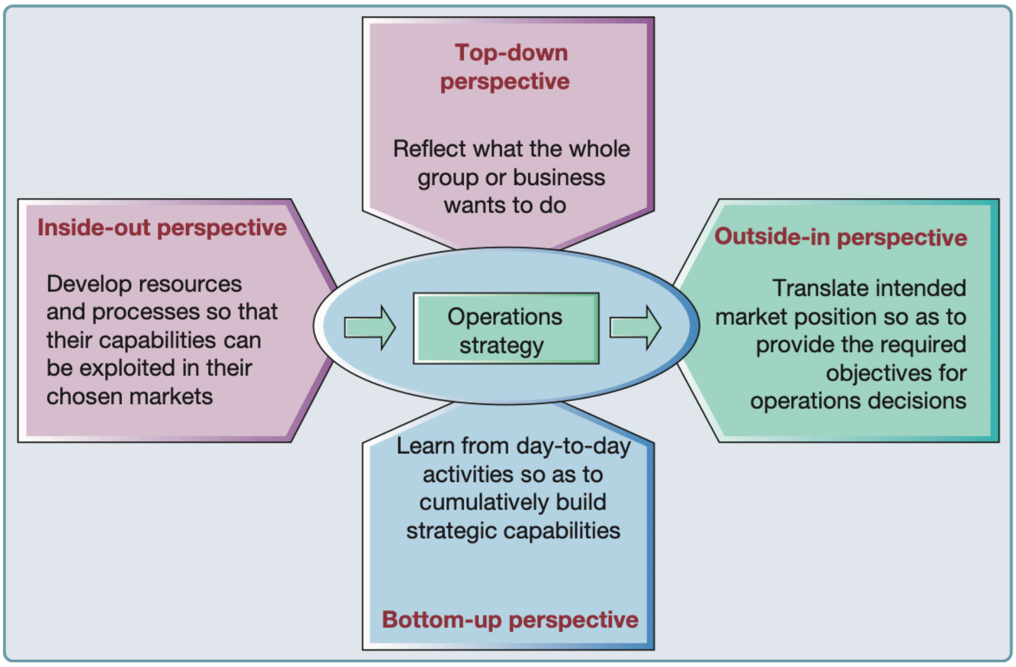
The four perspectives on operations strategy

Top-down perspective = operations strategy should align with what the whole group or business wants

Outside-in perspective = operations strategy should translate the enterprise's intended market position so as to provide the required objectives for operations decisions

Bottom-up perspective = operations strategy should learn from day-to-day activities so as to cumulatively build strategic capabilities

Inside-out perspective = operations strategy should develop the business' resources and processes so that its capabilities can be exploited in its chosen markets



3.2 How does operations strategy align with business strategy (top-down)?

Top-down perspective often identifies 3 levels of strategy: corporate, business and functional

Corporate strategy = should position the corporation in its global, economic, political and social environment. Consists of decisions about what types of business the group wants to be in, what parts in the world to operate in and how to allocate its cash between its various businesses

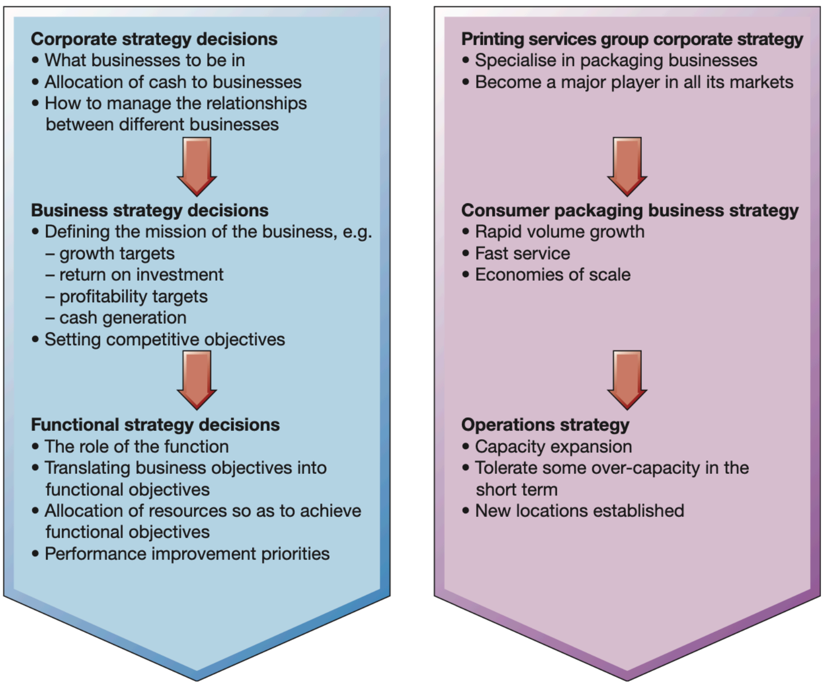
Business strategy = each business unit within the corporate group puts together its own business strategy which sets out its individual mission and objectives. Business strategy guides the business in relation to its customers, markets and competitors and the strategy of the corporate group it is a part of

Functional strategy = how the functions (marketing, product/service development, operations) consider how best they should organize themselves to support the business's objectives. Need to consider what part each function should play in contributing to the strategic objectives of the business

In the top-down perspective, the role of operations is largely one of implementing or operationalizing higher-level strategy

In order to understand strategy at any level, one has to place it in the context of what it is trying to do (the level above) and how it is trying to do it (the level below). At any level, a good top-down perspective should provide clarity and connection

Clarify what an operations strategy should be prioritizing and giving **guidance** on the strategy to be achieved.



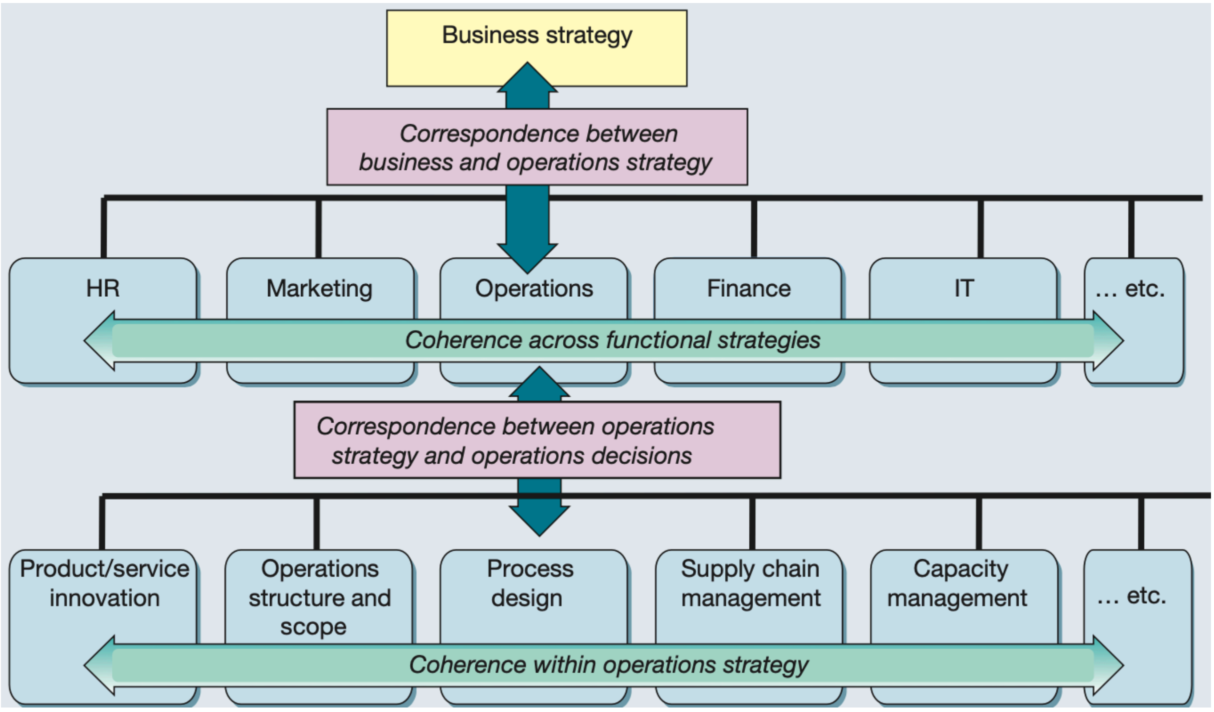
Correspondence and coherence

To develop a functional strategy from a business strategy, ambiguities must be clarified and conflicts reconciled. There should be a clear, explicit and logical connection between each functional strategy and the business strategy.

There should be **correspondence** between different levels of strategy (a clear, explicit and logical connection between a functional strategy and the decisions taken within the function)

Operations strategy must be **coherent** with other functional strategies and within itself

Coherence = all decisions should complement and reinforce each other, not pull the operation in different directions



The concepts of the 'business model' and the 'operating model'

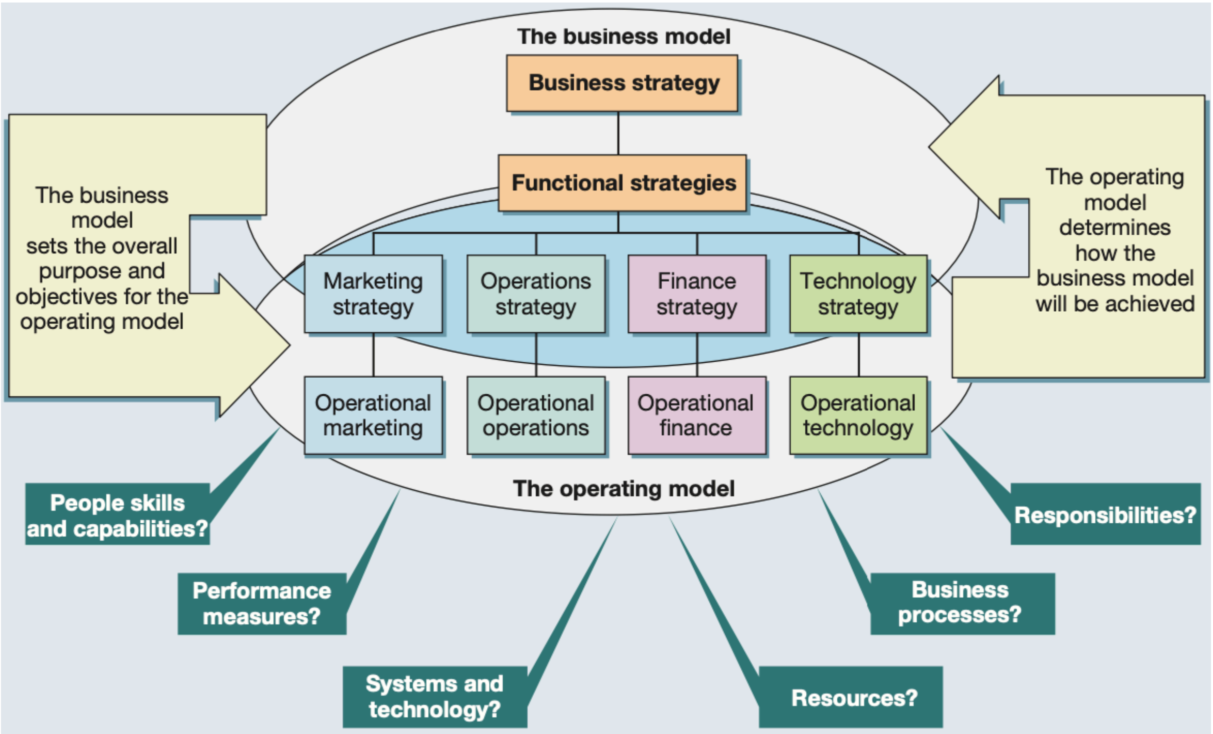
Business model = the plan that is implemented by a company to generate revenue and make a profit (or fulfil its social objectives if a not-for-profit enterprise). Includes the various parts and organizational functions of the business as well as the revenues it generates and the expenses it incurs. The idea of a business strategy and says how to achieve it. Usually includes:

- **Value proposition** of what is offered to the market
- **Target customer segments** addressed by the value proposition
- **Distribution channels** to reach customers
- **Core capabilities** needed to make the business model possible
- **Revenue streams** generated by the business model

Operating model = high-level design of the organization that defines the structure and style that enables it to meet its business objectives. Should provide a clear description of what the organization does and how it does it. It defines how the critical work of an organization is carried out and provides a way to examine the business in terms of the key relationships between business functions, processes and structures that are required for the organization to fulfil its mission

The operating model can include elements such as **key performance indicators** (KPI) with an indication of the relative importance of performance objectives, new investments and intended cash flows; **who is responsible** for products, geographies, assets, specific processes etc; the **structure** of the organization

An operating model is like an operations strategy but applied across all functions and domains of the organization



3.3 How does operations strategy align with market requirements (outside-in)?

Any operations strategy should reflect the intended market position of the business. The operations function should provide the ability to perform in a manner that is appropriate for the intended market position and is called a **market perspective** (outside-in) on operations strategy

How market requirements influence operations strategy performance objectives

Operations adds value for customers and contributes to competitiveness by being able to satisfy the requirements of its customers – can be ensured by achieving the right priority between its operational performance objectives

Operational performance objectives = quality, speed, dependability, flexibility, cost

Whatever competitive factors are important to customers should influence the priority of each performance objective

Order winners, qualifiers and less important factors

One can determine the relative importance of competitive factors by distinguishing between **order-winning, order-qualifying** and **less important** factors

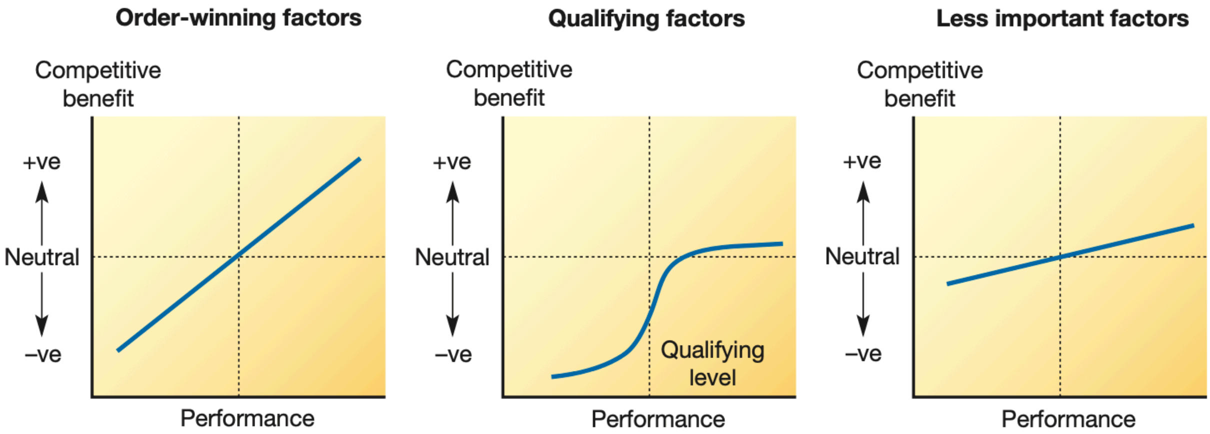
Order winners = those things that directly and significantly contribute to winning business. Customers regard them as **key reasons for buying** the product/service

Raising performance in an order-winning factor will either result in more business or at least improve the chances of gaining more business

Order qualifiers = factors where the operation's **performance has to be above a particular level** just to be considered by the customer – performance below the qualifying level often disqualifies the organization from being considered by many customers.

Further improvement above the qualifying level is unlikely to gain the company much competitive benefit.

Less important factors = do not influence customers in any significant way. Worth including in any analysis only because they **may be of importance in other parts of the operation's activities**



The sequence that organizations can follow in seeking to align the requirements of the market with the capabilities of its operations looks like:

1. **Segment the market**: allows identifying the differing requirements of different customer groups

2. **Assess current performance**: review performance for each market segment before making any decisions about how to change direction
3. **Decide which segments to serve**: if weak in one segment it may be worth pursuing ways to compete
4. **Determine what is necessary for the business to compete**: to pursue one segment one might have to improve in one aspect and cut down in another
5. **Determine what operations has to do**: Based on the above results actions has to be taken

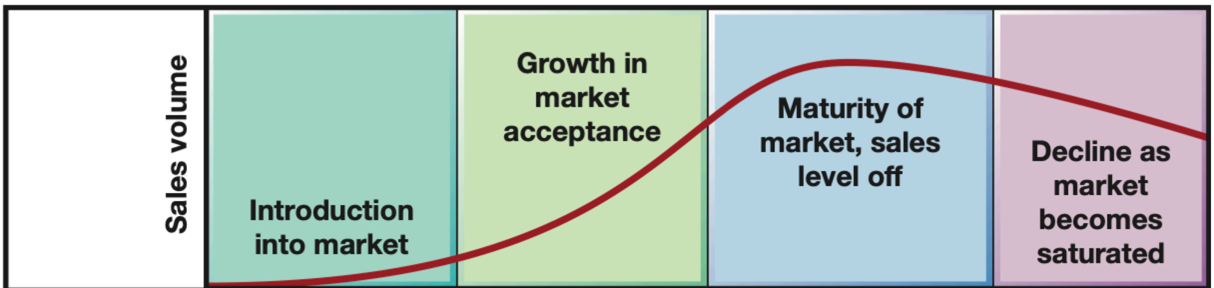
The impact of product/service differentiation on market requirements

If an operation differentiates its services based on different customer segments it will need to determine the performance objective for each segment

The impact of the product/service life cycle on market requirements

The behavior of both customers and competitors can be generalized by linking it to the life cycle of the products/services that the operation is producing

Product/service life cycle = usually shown as the sales volume passing through 4 stages – **introduction, growth, maturity** and **decline**



Customers	Innovators	Early adopters	Bulk of market	Laggards
Competitors	Few/none	Increasing numbers	Stable numbers	Declining numbers
Likely order winners	Product/service specification	Availability	Low price Dependable supply	Low price
Likely qualifiers	Quality Range	Price Range	Range Quality	Dependable supply
Dominant operations performance objectives	Flexibility Quality	Speed Dependability Quality	Cost Dependability	Cost

Introduction stage = when a product/service is first introduced it is likely to be offering something new in terms of design or performance with few competitors offering the same thing. The needs of customers are unlikely to be well understood → operations management needs to develop the flexibility to cope with any changes and be able to give the quality to maintain product/service performance

Growth stage = as volume grows, competitors may enter the growing market. Keeping up with demand could prove to be the main operations preoccupation. Rapid and dependable response to demand will help to keep demand buoyant while maintaining quality levels can ensure that the company keeps its share of the market as competition starts to increase

Maturity stage = when demand starts to level off, some early competitors may have left the market and the industry may be dominated by a few larger companies. Operations will be expected to get the costs down in order to maintain profits or to allow price cutting → cost and productivity issues together with dependable supply are likely to be the operation's main concerns

Decline stage = after time sales decline with more competitors dropping out of the marked. There might be a residual market but unless a shortage of capacity develops, the market will continue to be dominated by price competition → operations objectives continue to be dominated by cost

3.4 How does operations strategy align with operational experience (bottom-up)?

Bottom-up perspective = when reviewing strategies, organizations consult the individual functions about their capabilities and constraints and incorporate the ideas that come from each function's day-to-day experience

It accounts for the fact that in many cases organizations move in a particular strategic direction because their ongoing experience at an operational level convinces them that it is the right thing to do

The high-level strategic decision-making provides the resources to make the strategic direction happen

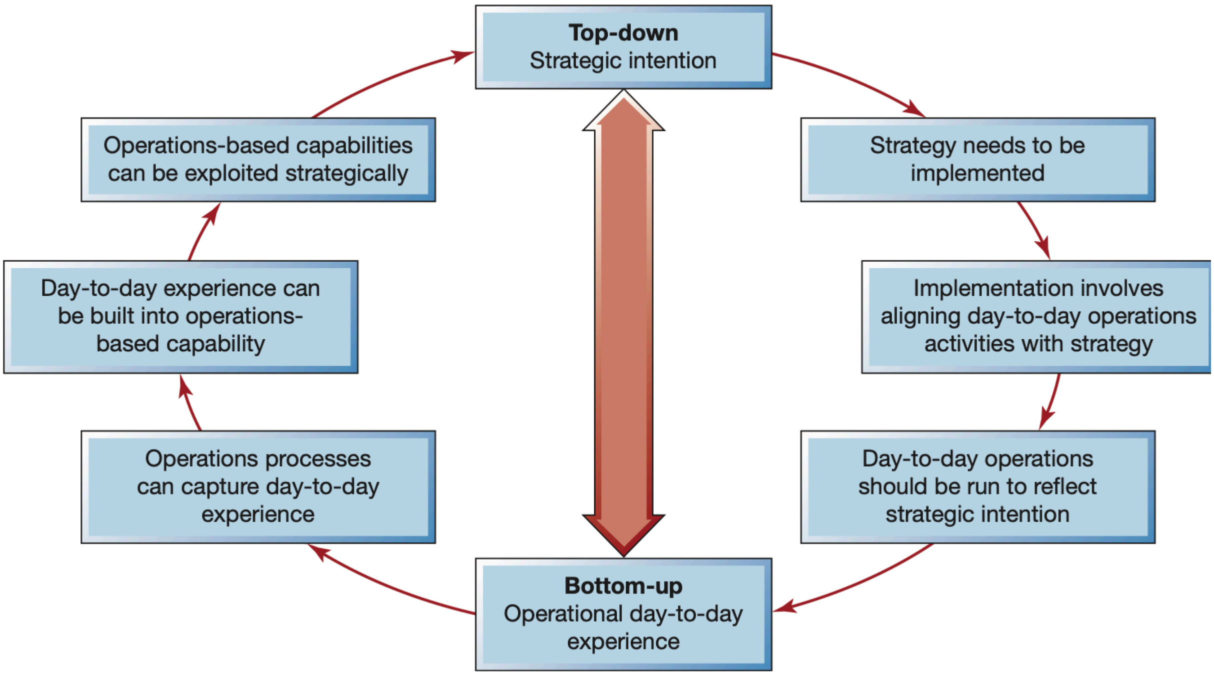
Emergent strategies = sees strategy making as a relatively unstructured and fragmented process to reflect the fact that the future is at least partially unknown and unpredictable

The reinforcing effect of top-down and bottom-up perspectives on operations strategy

The top-down perspective sets the overall direction and objectives for operations decisions and activities. During implementation, the day-to-day activities of the operation must be aligned with the strategy

A way of judging operational day-to-day activities of an operation is to check that they fully reflect the overall top-down strategy of the organization

The experience gained from day-to-day activities can be accumulated and built into capabilities that an organization could possibly exploit strategically



3.5 How does operations strategy align with operations resources (inside-out)?

Resources (inside-out) perspective = long-term competitive advantage can come from the capabilities of the operation's resources and processes and these should be developed over the long term to provide the business with a set of capabilities or competences

The way an organization inherits, acquires or develops its operations resources can form the basis of the business's ability to engage in unique and/or "difficult to imitate" activities

The impact of an organization's **operations resource capabilities** will be at least as great as if not greater than that which it gets from its market position

Strategic resources and sustainable competitive advantage

Resource-based view of a firm = organizations with above-average strategic performance are likely to have gained their sustainable competitive advantage because of their core competences.

Traditional view believes that companies protect their competitive advantage by creating **barriers to entry** through product differentiation or making it difficult for customers to switch to competitors or controlling the access to distribution channels.

RBV sees firms being able to protect their competitive advantage through **barriers to imitation** = building up "difficult-to-imitate" resources

Understanding capabilities and constraints

Resource perspective understands the resource capabilities and constraints within the operation by examining the transforming and transformed resource inputs of the operation. Within the operation are processes, and they have **intangible resources**

Scarce, not very mobile, difficult to imitate or substitute for

The resource-based explanation of why some companies manage to gain sustainable competitive advantage = they have accumulated better or more appropriate resources

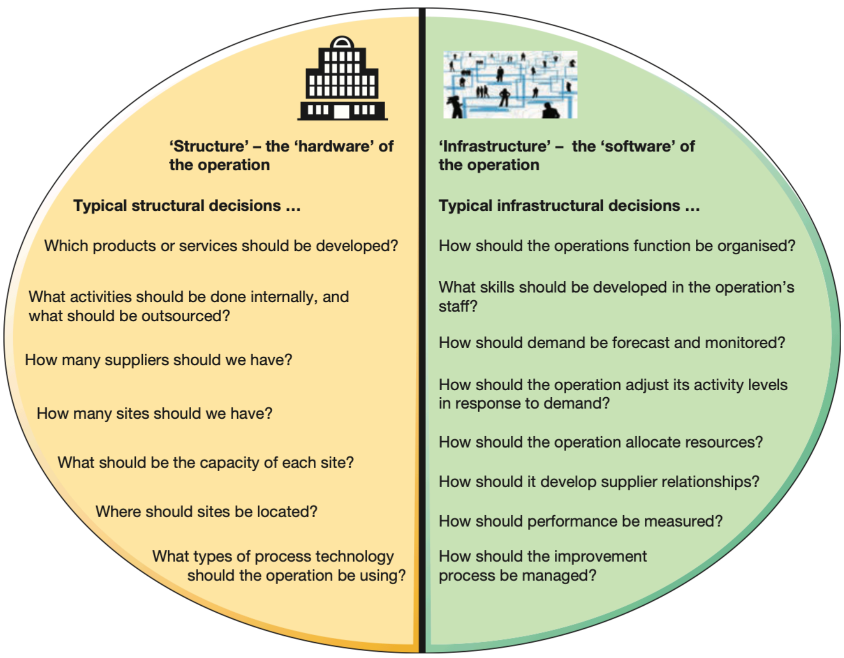
Resources can have influential impact on strategic success if they exhibit some of these properties:

- **They are scarce** = unequal access to resources. If a firm had bad foresight and did not manage to acquire a strategic resource when it was inexpensive will have to try to acquire it after it has become expensive since other firms also want it
- **They are not very mobile** = some resources are difficult to move out of a firm (if certain expertise in a process is developed by the company, it is difficult to sell to another company)
- **They are difficult to imitate or substitute for** = it is not enough to have unique and/or immobile resources, if they can be copied or replaced with alternative resources their value can deteriorate. The less tangible resources are and more connected with the tacit knowledge in the organization, the more difficult for competitors to understand and copy

Structural and infrastructural decisions

Structural decisions = decisions influencing design activities

Infrastructural decisions = decisions influencing the workforce organization, planning and control, and improvement activities



3.6 How are the four perspectives of operation strategy reconciled?

None of the 4 perspectives alone can describe an organization's operations strategy, but they can when put together. For an effective operations strategy the 4 perspectives must be reconciled. 2 models that help with the reconciliation are **line of fit** and **importance performance matrix**

The line of fit between market requirements and operations capabilities

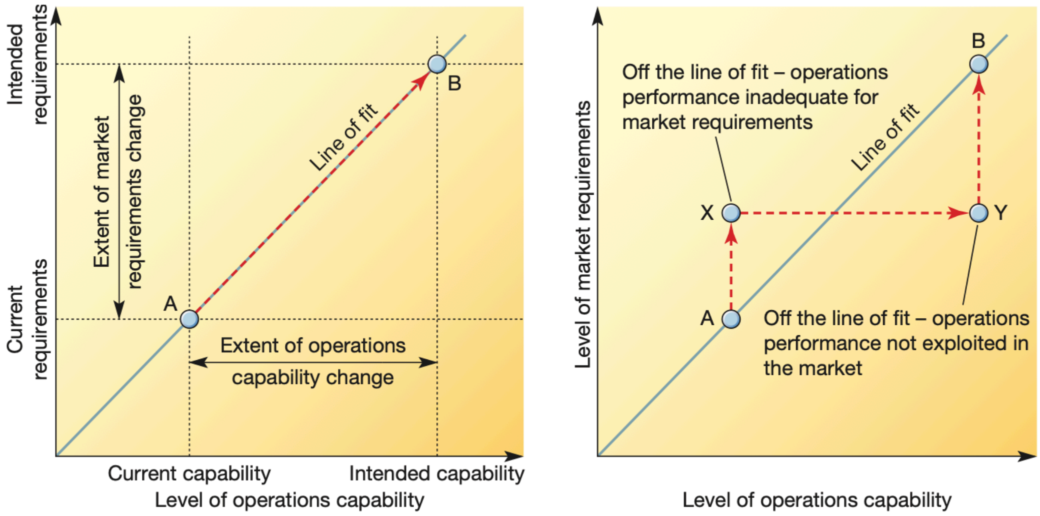
Operations strategy matrix = good model for testing whether market requirements and the operations capability perspectives fit together. Makes explicit the specific aspects of market requirements (quality, speed, dependability, flexibility, cost) and the decisions that support operations capability (design, delivery, development)

Disadvantage is that it gives little sense of the dynamics of reconciliation (how the balance between market requirements and the operations capability changes over time)

Line of fit = based on that it should be a reasonable degree of alignment/fit between the requirements of the market and the capabilities of the operation. The **vertical dimension** represents the (**outside-in**) nature of market requirements that reflect the intrinsic needs of customers and their expectations. The **horizontal dimension** represents the level of the organization's operations capabilities (ability to achieve its competitive objectives and effectiveness of which it uses its resources)

Improvement means:

1. **Achieving alignment** = approximate balance between required market performance and actual operations performance
2. **Achieving sustainable alignment** = not enough to achieve some degree of alignment to a single point in time, must be able to adapt to new market conditions
3. **Improving overall performance** = undemanding requirements results to low corresponding level of operations capabilities. Demanding requirements require higher level of operations capabilities. **High levels of market performance** achieved as a result of high levels of operations performance are **more difficult for competitors to match**



Deviating from the line of fit

The improvement path (red arrow in image above) may not be able to maintain balance between requirements and performance – there are risks deriving from any deviation from the line of fit (i.e. delays in improvements can result in not giving customers promised service). **Market expectations exceed performance** → reputation might suffer

Using the importance-performance matrix to determine operations strategy improvement priorities

Importance-performance matrix = to gain understanding of the relative importance to customers of the various competitive factors. The needs and preferences of customers shape the **importance** of operations objectives

Competitors are the comparisons to judge the operations performance. Improved performance matters when it takes the operation past the performance levels achieved by the competitors.

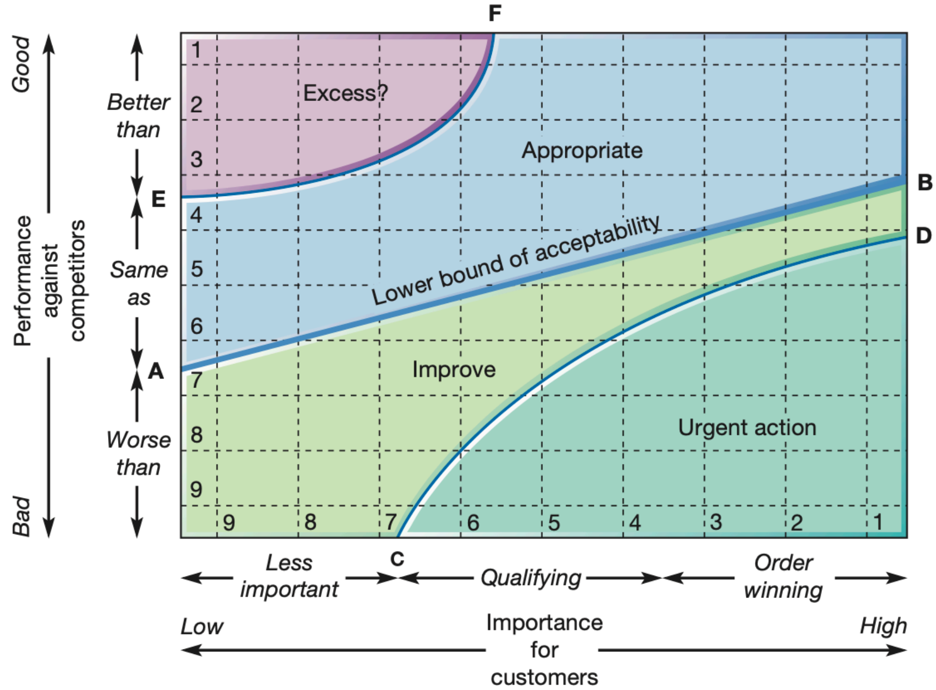
Priority for improvement is that each competitive factor should be given can be assessed from a comparison of their importance and performance

Judging importance to customers = divides order-winning, qualifying and less important into three further points representing strong, medium and weak positions

(a) Importance scale for competitive factors		
Rating	**Description**	
1	Provides a crucial advantage to customers	High
2	Provides an important advantage to customers	
3	Provides a useful advantage to customers	
4	Needs to be up to good industry standard	
5	Needs to be up to median industry standard	
6	Needs to be within close range of rest of industry	
7	Not usually important but could become so	
8	Very rarely considered by customers	
9	Never considered by customers	Low

Judging performance against competitors = a **performance standard** would consist of judging whether the achieved performance of an operation is better than competitors but this can be derived in a performance scale

(b) Performance scale for competitive factors		
Rating	**Description**	
1	Considerably better than similar organisations	Good
2	Clearly better than similar organisations	
3	Marginally better than similar organisations	
4	Sometimes marginally better than similar organisations	
5	About the same as similar organisations	
6	Slightly worse than the average of similar organisations	
7	Usually marginally worse than similar organisations	
8	Generally worse than most similar organisations	
9	Consistently worse than most similar organisations	Poor



Lower bound of acceptability = line AB and the boundary between acceptable and unacceptable performance.

The appropriate zone = competitive factors in this area lie above the lower bound of acceptability and is considered satisfactory

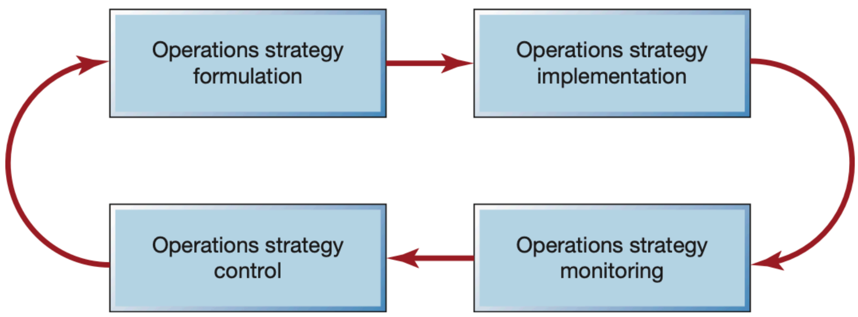
The improve zone = lying below the acceptability bound, any factors in this zone must be candidates for improvement

The urgent-action zone = important factors to customers but performance is below that of competitors, must be considered as candidates for immediate improvement

The excess zone = factors are high performing but not important to customers, ask if the resources could be used better somewhere else

3.7 How can the process of operations strategy be organized?

The process of operations strategy is used to understand how improvement will happen. It is concerned with the method used to determine what an operations strategy should be and how it should be implemented and consists of 4 stages: **formulation, implementation, monitoring, control**



Operations strategy formulation

Formulation of operations strategy = process of clarifying the objectives and decisions that make up the strategy and the links between them. Likely to be an occasional activity

Should include all important issues, coherence by directing all decision areas in the same strategic direction while complementing and reinforcing each other. Correspondence when strategies pursued correspond to the priority of each performance objective. Are critical issues identified – the more critical decision, the more attention it should get.

Operations strategy implementation

Operations strategy implementation = the way that strategies are operationalized/executed. Attempting to make sure that intended strategies are achieved

There are 3 key issues in achieving successful implementation:

1. **Clarity of strategic decisions** = clarity makes it easier to define the intent behind the strategy
2. **Motivational leadership** = needed to bring sense and meaning to strategic aspirations and modify the implementation plan in the light of experience
3. **Project management** = breaking a complex plan into a set of distinct activities

Operations strategy monitoring

Tracking ongoing performance to make sure that changes are proceeding as planned

Monitoring = should provide early indications by diagnosing data and triggering appropriate changes in how the strategy is being implemented

Operations strategy control

Strategic control = evaluation of results from monitoring the implementation by assessments with the intention of correcting future action if required. Can be difficult since strategic objectives can be ambiguous