

# *Chapter 4*

## **Developing Strategy, Missions And Competitiveness**

# Introduction

- Corporate strategy - overall plan of a firm that defines its specific businesses and how its resources will be acquired and allocated
- Strategy relates to the plans that determine the direction an organization takes in pursuing its goals.
- A strategy is a “game plan” to attract customers and distinguish firms from their competitors.
- Strategies have long-term impact on the nature and characteristics of the organization.

# Principles for Effective Management

- A secure base/locating facility
- Establishing a winning strategy
- The need for a vision and goals
- Focusing on operational goal
- Initiating action (being innovative)
- Mobilization of resources
- Economy of resources

# Principles for Effective Management

- Surprise response to customer needs and wants
- Flexibility and adaptability
- Partnerships, cooperation and networking
- Building strong barriers of entry
- Pursuit of strong research and development (i.e. new products, process improvement)
- Branding and forming public opinion

# Benefits of Effective Strategies

- Meeting challenges of increased competition in a globalized business environment.
- Keeping up with technology advances.
- Learning to do more with less - (efficiency).
- Staying ahead of copycat competitors.
- Keeping an eye on the future.

# Strategic Business Units

An SBU is a stand-alone business within a conglomerate (parent firm) that operates like an independent company. Business Strategy focuses on how an SBU addresses the specific markets it serves and products it provides.

# Types of Business (Generic) Strategy

Cost Leadership – Producing at the lowest cost to provide affordable products to customers

Differentiation – Providing uniquely different products usually for price insensitive customers

Market Segmentation (Niche) – Satisfying the needs of a smaller segment of the market that has peculiar needs.

# Strategic Issues

Overall organizational game plan -  
Captures broad objectives (i.e. mission and long term goals) -  
Could also relate to the functions  
- Long-term in nature - They represent the road map



# Tactical Issues

Relate to formulation of methods and actions (guidance and direction) required to accomplish organizational and functional strategies - Usually cover shorter time spans - Are more specific in nature. They represent 'how to' travel the road map

# Operational Issues

Relate to the most specific and detailed plans and decision making. They represent the 'doing' or actual movement along the road map.

# Models

To answer questions like: where, when, how, by whom and what is required to design and produce products, OM often rely on models.

## What is a Model?

- A model is a simplified representation of something or reality. It has all the features of what it represents, aiding an understanding of the real thing or issue.

# Classes of Models

- Physical models – Look like their real-life counterparts. Visually correspond with the reality. E.g. miniature-model building, toy car.
- Schematic models – Quite abstract, i.e. Have less resemblance to the physical reality they represent. Are relatively simple to construct and change. E.g. graphs, charts, drawn plan of a building.

# Classes of Models

- Mathematical models – Most abstract. i.e. bear no resemblance at all of realities they represent. Easiest to manipulate – inputs for computers and calculators. E.g. formulas, numbers.

# Importance of Using Models

- Enable managers to analyze 'what if' questions
- Require users to organize and sometimes quantify information
- Often indicate areas where additional information is needed.
- Are generally easy to use
- Are less expensive than dealing directly with the actual situation
- Increase understanding of problems
- Serve as consistent tools for evaluation
- Provide standardized formats for analyzing problems

# Limitations of Using Models

- Quantitative information may be emphasized at the expense of qualitative information and vice versa
- Their use doesn't guarantee good decisions
- Models may be incorrectly applied and the results misinterpreted.
- Highly sophisticated models, particularly computerized ones may be difficult to comprehend and adapted by people with insufficient knowledge

# Modern Trends Affecting Operations Strategy Decisions

Globalization – with its hyper-competition creates:

- Continuous I.T advances
- Lower trade barriers
- Lower transportation costs
- Emergence of newly industrialized countries (NIC) with high-growth markets and high standards of living – (Demand opportunities)



# Modern Trends Affecting Operations Strategy Decisions

- Technology connecting anyone, anywhere, anytime.
- Technology and speed that ensure instantaneous transactions
- Intangibility yet focus on innovative services to gain competitive advantage
- Simultaneous and multi-faceted competition.

# The New Sources of Competitive Advantage

1. The use of environmentally friendly processes and production of environmentally friendly products
2. The use of information given the inexpensive nature of storing and transmitting large amounts of data.

# Developing Operations Strategies from Competitive Priorities

- ‘Focus and trade-offs’ as factories cannot focus on all four competitive priorities (cost, quality, delivery, and flexibility).  
‘Win some- Lose some’
- Plant-within-a-Plant (PWP) concept - (Skinner) - Engage different locations within a facility which would focus on their own competitive priority.

# Strategy formulation – Key Steps

- Link strategy directly to vision or mission statement
- Assess SWOT and identify core competence
- Identify order qualifiers and order winners
- Select one or two strategies such as low cost, speed, high quality etc. to focus on

# Formulating Effective n' Successful Strategies

- Find out what competitors are doing and planning to do.
- Critically conduct SWOT analysis: SW (Internal) - typically evaluated by OM managers. OT – typically evaluated by marketing people.

SWOT analysis links organizational strategy and operations strategy.

# Formulating Effective n' Successful Strategies

- **Identify Order Qualifiers** - (minimum acceptable standards in the eyes of potential customers) and
- **Order Winners** – Qualities that potential customers perceive as better than the competition.
- **Environmental Scanning** - monitoring events and trends that present either threats or opportunities for your products. (PESTEL –C factors) E.g. competitors' activities, changing consumer needs,.

# Major External Factors

- P – Political: Favourable or unfavourable. Peaceful? Civil War?
- E – Economic: Economic – How healthy. Inflation? Utility costs?
- S – Social: Demographics, Lifestyles, Culture, Education. Etc.
- T – Technology: – Level of innovation applied to production, marketing etc. (equipment, materials, handling) and design technology
- E – Environmental: Sustainability and safety issues.
- L – Legal: – Government regulations, trade restrictions, standards etc.
- C – Competition – Numbers and basis of competition – Price? Quality? special features etc), Entry barriers?

# Major Internal factors

- Human resources – Skills, abilities, creativity, experience of managers and workers.
- Facilities and equipment – Capacities, maintenance and replacement costs etc.
- Customers – ensuring understanding of customer needs, loyalty issues etc
- Product and services – quality, improvement to products and services etc.



# Internal factors

- Suppliers – dependability of suppliers, quality etc.
- Technology – integration of new with existing technology, impact on present and future operations.
- Financial resources – cash flow, accessibility of extra funding, debts etc.
- Others - Product image, distribution channels, etc.

# Focusing on Core Capabilities

- Core Capabilities -specific strengths to achieve competitive priorities.
- Skills OM function develops to differentiate products from that of competitors.

## Focusing is achieved by:

- Divesting non-critical activities.
- Subcontracting      /outsourcing      ancillary activities

# Integration of Mfg. & Services

- Adopt customer activity cycle: comprising
  - a) Pre-purchasing – Attending to customer enquiries
  - b) Purchase Activities -Actual sale & delivery, collecting payments
  - c) Post Purchase Activities: - After-Sales Service
- Demonstration of knowledge and expertise to reassuring customers - by allowing them to view the production process and have access to production employees.
- Product Training for Customers - to build loyalty and increased usage

# Missions & Mission Statements

## Mission

- The basis of the organization—the reason for its existence. Vary depending on nature of business. Tells where organization is going

## Mission Statement

- This is a statement of purpose that serves as a guide or directional tool for strategic decision making.
- Must be clear and simple, answering the question, “What business are we in?” ‘What do we provide society?’ where are we going?
- Provides organizational boundaries and focus

# Components of Mission

- Philosophy and Values
- Environment
- Customers
- Public Image
- Profitability and Growth
- Technology
- etc

# Competitiveness

- Competitiveness relates to how effectively an organization meets the wants and needs of customers relative to others that offer similar goods or services.
- A company's position in the marketplace relative to its competitors.
- Determines whether a company prospers, survives or fails.
- Firms compete through combination of their marketing and operations functions.

# Competing through Marketing

- **Identifying consumer wants and or needs:** The ideal is to achieve a perfect match between those wants and needs and the firm's products.
- **Price and quality:** Firms must understand the trade off decision consumers make between price and quality.
- **Advertising and promotion:** To inform potential customers about features of products and attract buyers.

# Competing through Operations

- Product and service design
- Cost
- Location
- Quality
- Quick response time
- Flexibility



# Competing through Operations

- Inventory management
- Supply chain management
- Service.
- Managers and workers

Competitive priorities include low cost, high quality, fast delivery, flexibility, and service.

# Competitive Priorities

1. Low cost – check costs. Sell ‘low-priced’
2. Quality – Producing and providing quality
3. Delivery – Reliable and quick delivery
4. Flexibility – Provide choice, innovate quick
5. Service – Provide quality in every non-product interaction with customers.

# Why Some Businesses Fail

- Emphasis on short-term financial performance at the expense of R & D
- Not harnessing strengths; exploiting opportunities.. not recognizing competitive threats.
- Neglecting operations strategy.
- Emphasizing product n' service design; ignoring process design and improvement.

# Why Some Businesses Fail

- Neglecting investments in capital and HR
- Failing to ensure good internal communication and inter-functional cooperation.
- Ignoring pertinent customer needs.
- Lack of needed support from executive management.

# Introducing & Implementing New & Special Projects - Issues

With new projects, you usually find:

- Lack of user involvement
- Inexperienced project or product manager
- Lack of skilled supervision personnel
- Lack of clear business objectives
- Lack of standard infrastructure
- Lack of formal methodology/process
- Unrealistic and unreliable estimates

# Primary Ways Firms Compete

To be competitive, firms must develop solid and winnable strategies for dealing with issues of:

- Better quality
- Higher productivity
- Lower costs
- Quick response to customer needs and wants

# Specific Competitive Tactics

- **Price:** Implies settling for lower profit margins – so focus on lowering production costs.
- **Quality:** Buyer's perception of fitness of a product for its purpose. Depends on materials, workmanship n' design.
- **Differentiation:** Features that buyer perceives as making a product more desirable than a substitute. (e.g. design, cost, quality, ease of use, convenient location)
- **Flexibility:** is the ability to respond to changes in demand regarding volume, design, services etc.

# Specific Competitive Tactics

- **Time:** Speed of - new product development; product improvements, production processes and delivery
- **Service:** Customers' perception of 'during' and 'after-sale' activities such as: delivery, setup, warranty work, technical support, courtesy, attention to little details.
- **Managers and workers:** Skills and creativity in: E.g. Manner in which customer 'phone-in' complaints are handled – rudely? Cheerfully?



# Customer Value Propositions

It connotes giving customers a reason to choose one's products over others and that spells the essence of business strategy. Three broad categories.

Customer: Understanding and responding to customer needs better.

Operational excellence: Delivering products faster, more conveniently and cheaper.

Product leadership. Offering higher quality products than competitors"

# Self Assessment questions

1. Identify and explain four reasons why some business organizations suddenly fail in today's competitive global market.
2. Explain four factors to consider when formulating an effective and successful business strategy
3. Write short note on the following term
  - Order winners
  - Order qualifiers
  - Customer value proposition
4. Explain the various ways firm compete to gain competitive advantage in the growing market
5. Differentiate between mission and vision; suggest four factors that would affect the mission of an organization.
6. Identify five principles that in the current spate of business dynamic when followed would help guarantee successful business operations.