Chapter 2 - Operations Strategy

Fundamentals of Operations Management

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Learning Objectives

- Understand Global Focus of Operations
- Learn how **Missions & Strategies** are developed
- Define the role of **Business Strategy** & explain how it is developed
- Business **Strategy** and **Competitive Advantages**

Learning Objectives

- Explain the role of **Operations Strategy** in the organization and describe how it is developed
- Explain the relationship between business strategy and operations strategy
- Explain the strategic role of technology

Global Focus of Operations

- Reduce Costs
  - Offshoring to countries with lower wages, lower taxes, less rigid government regulations, etc.
  - Trade agreements have facilitated businesses. Eg: WTO, NAFTA, SAARC, EU, etc.
- Improve the Supply Chain
  - Relocating to countries or location where unique resource is available
  - Resources may be labour, expertise or raw material

Global Focus of Operations

- Provide better Goods and Services
  - products suited to local market
  - higher quality and on time delivery
- Understand Markets
  - learn about suppliers, customers, and so on in different geography
  - learn opportunities for new products

Global Focus of Operations

- Learn to Improve Operations
  - Learning to improve operations from collaboration with foreign partners
- Attract and Retain Global Talents
  - Human resource is key to any successful business
  - It is highly important to recruit global talents to become competitive in the global market

Developing Missions & Business Strategies

- Consider these factors and strategic decisions:
  - What business is the company in (mission)
  - Analyze and understand the market (environmental scanning)
  - Identify the company strengths (core competencies)
- Strategies
  - organisations's action plan to achieve its mission

Three Inputs to a Business Strategy

Key Examples

- Mission: Dell Computer- “to be the most successful computer company in the world”
- Environmental Scanning: political trends, social trends, economic trends, market place trends, global trends
- Core Competencies: strength of workers, modern facilities, market understanding, best technologies, financial know-how, logistics

Business Strategy & Competitive Advantages

- Four Key Operations Questions:

Will you compete on –

Cost?

Quality?

Time?

Flexibility?

- All of the above? Some? Tradeoffs?

Competing on Cost

- Offering product at a low price relative to competition
  - Typically high volume products
  - Often limit product range & offer little customization
  - May invest in automation to reduce unit costs
  - Can use lower skill labor
  - Probably uses product focused layouts
  - **Low cost does not mean low quality**

Competing on Quality

- **Quality is often subjective**
- **Quality is defined differently depending on who is defining it**
- **Two major quality dimensions include**
  - **High performance design:**
    - Superior features, high durability, & excellent customer service
  - **Product & service consistency:**
    - Meets design specifications
    - Close tolerances (precision)
    - Error free delivery
- **Quality needs to address**
  - Product design quality – product/service meets requirements
  - Process quality – error free products

Competing on Time

- **Time/speed one of most important competition priorities**
- **First that can deliver often wins the race**
- **Time related issues involve**
  - **Rapid delivery:**
    - Focused on shorter time between order placement and delivery
  - **On-time delivery:**
    - Deliver product exactly when needed every time

Competing on Flexibility/Response

- **Company environment changes rapidly**
- **Company must accommodate change by being flexible**
  - **Product flexibility:**
    - Easily switch production from one item to another
    - Easily customize product/service to meet specific requirements of a customer
  - **Volume flexibility:**
    - Ability to ramp production up and down to match market demands

The Need for Trade-offs

- Decisions must emphasize priorities that support business strategy
- Decisions often required trade offs
- Decisions must focus on **order qualifiers** and **order winners**
  - Which priorities are **"Order Qualifiers"?**
    Must have excellent quality since everyone expects it

  - Which priorities are **"Order Winners"?**
    Dell competes on all four priorities
    Southwest Airlines competes on cost
    McDonald's competes on consistency
    FedEx competes on speed
    Custom tailors compete on flexibility

Translating to Production Requirements

- **Specific Operation requirements include two general categories**
  - Structure – decisions related to the production process, such as characteristics of facilities used, selection of appropriate technology, and the flow of goods and services
  - Infrastructure – decisions related to planning and control systems of operations

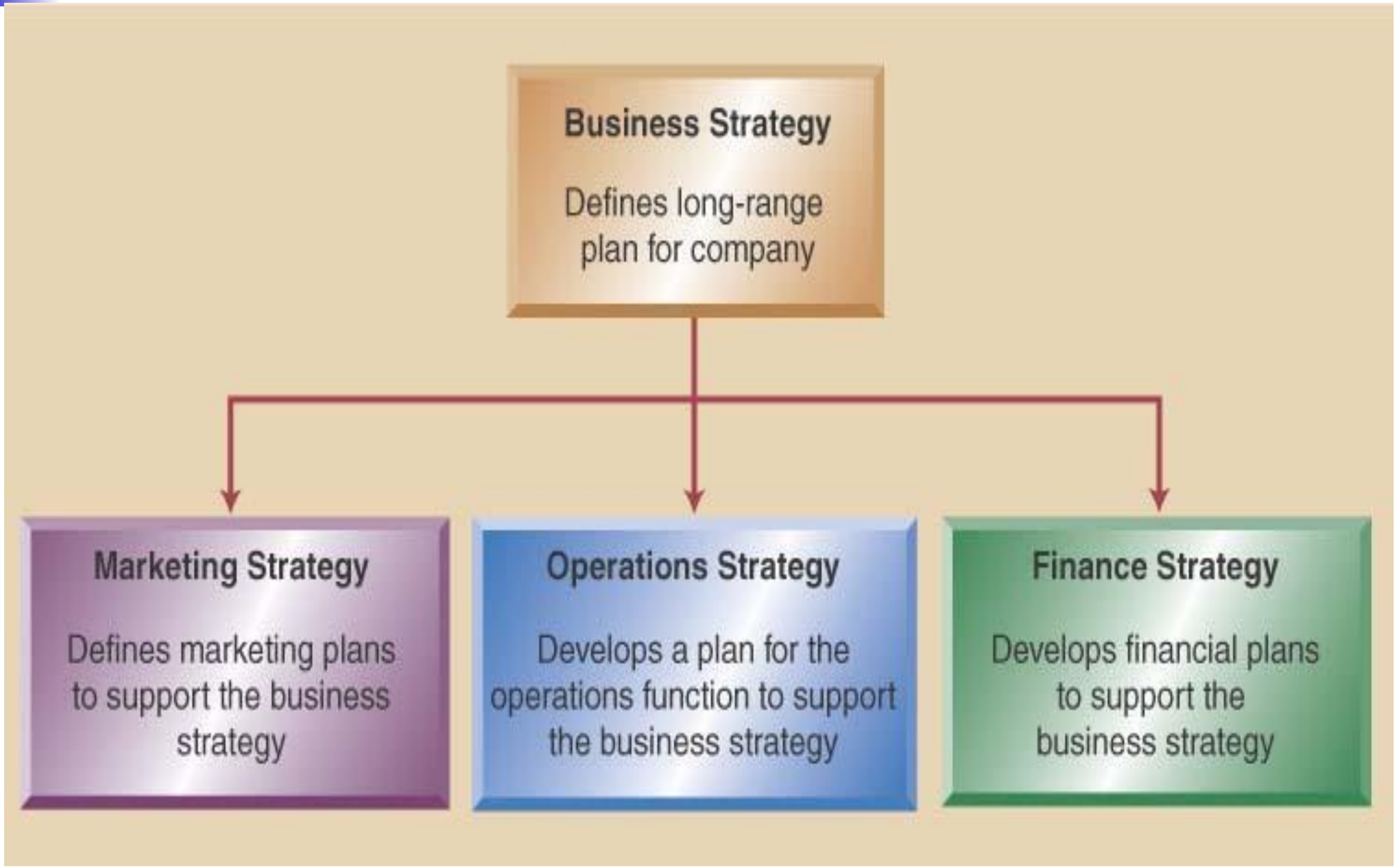
Translating to Production Requirements

- **Dell Computer example – structure & infrastructure**
  - They focus on customer service, cost, and speed
  - ERP system developed to allow customers to order directly from Dell
  - Product design and assembly line allow “make to order” strategy – lowers costs, increases turns
  - Suppliers ship components to a warehouse within 15 minutes – VMI (Vendor Managed Inventory)
  - Dell set up a shipping arrangement with UPS (United Parcel Service, Logistics Company)

The Role of Operations Strategy

- Provide a plan that makes best use of resources which;
  - Specifies the policies and plans for using organizational resources
  - Supports Business Strategy as shown on next slide

Business/Functional Strategy



Importance of Operations Strategy

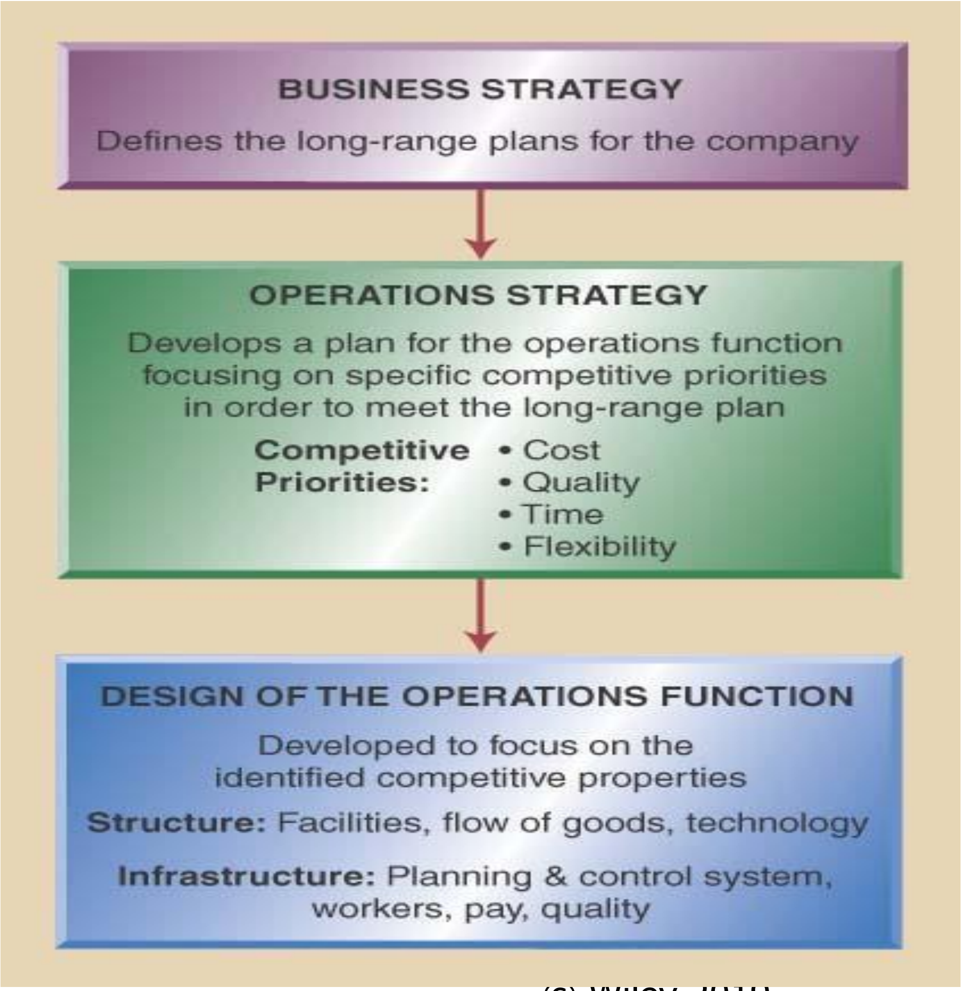
- Essential differences between **operational efficiency** and **strategy:**
  - Operational efficiency is performing tasks well, even better than competitors
  - Strategy is a plan for competing in the marketplace
- Operations strategy ensures all tasks performed are the right tasks

Developing an Operations Strategy

Operations Strategy: a plan for the design and management of operations functions

- is developed after the business strategy
- focuses on specific capabilities which give it a competitive edge – **competitive priorities**

Operations Strategy – Designing the Operations Function



Strategic Role of Technology

- **Technology should support competitive priorities**
- **Three Applications:** product technology, process technology, and information technology
  - **Products** - Teflon, CD's, fiber optic cable
  - **Processes** – flexible automation, CAD
  - **Information Technology** – POS, EDI, ERP, B2B

Technology for Competitive Advantage

- Technology has positive and negative potentials
  - Positive
    - Improve processes
    - Maintain up-to-date standards
    - Obtain competitive advantage
  - Negative
    - Costly
    - Risks such as overstating benefits

Technology for Competitive Advantage

- Technology should:
  - Support competitive priorities
  - Can require change to strategic plans
  - Can require change to operations strategy
- Technology is an important strategic decision

Operations Strategy Across the Organization

- Business strategy defines long-term plan
- Operations strategy support the business strategy
- Marketing strategy needs to fully understand operations capability
- Financial plans in effect support operations activities.

Chapter 2 Highlights

- Business Strategy is a long range plan and vision. Each individual business function develop needs to support the business strategy
- An organization develops its business strategy by doing environmental scanning and considering its mission and its core competencies.
- The role of operations strategy is to provide a long-range plan for the use of the company's resources in producing the company's primary goods and services.
- The role of business strategy is to serve as an overall guide for the development of the organization's operations strategy.

Chapter 2 Highlights con't

- The operations strategy focuses on developing specific capabilities called competitive priorities.
- There are four categories of competitive priorities: cost, quality, time, and flexibility
- Technology can be used by companies to gain a competitive advantage and should be acquired to support the company's chosen competitive priorities
- Productivity is a measure that indicates how efficiently an organization is using its resources
- Productivity is computed as the ratio or organizational outputs divided by inputs