

Operations Strategy

Vinay Kumar Kalakbandi

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STRATEGIC x TACTICAL x OPERATIONAL



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Competitive Advantage

- Firm's ability to achieve market and financial superiority over its competitors
 - Requires:
 - Understanding customer needs and expectations
 - Building and leveraging operational capabilities to support desired competitive priorities

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OM and Strategic Planning

- Pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole
- Effective strategies
 - Develop around competitive priorities
 - Provide focus for an organization and exploit its core competencies
 - **Core competencies:** Strengths unique to an organization

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Strategic Planning

- Process of determining long-term goals, policies, and plans for an organization
- Helps an organization build a strong position to achieve its goals, despite unforeseen external forces

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Levels of Strategy, Part 1

- Corporate strategy
 - Defines businesses in which corporations participate and develop plans for:
 - Acquisition and allocation of resources among strategic business units (SBUs)
- Business strategy
 - Helps make decisions about the competitive priorities that SBUs need to pursue to gain competitive advantage

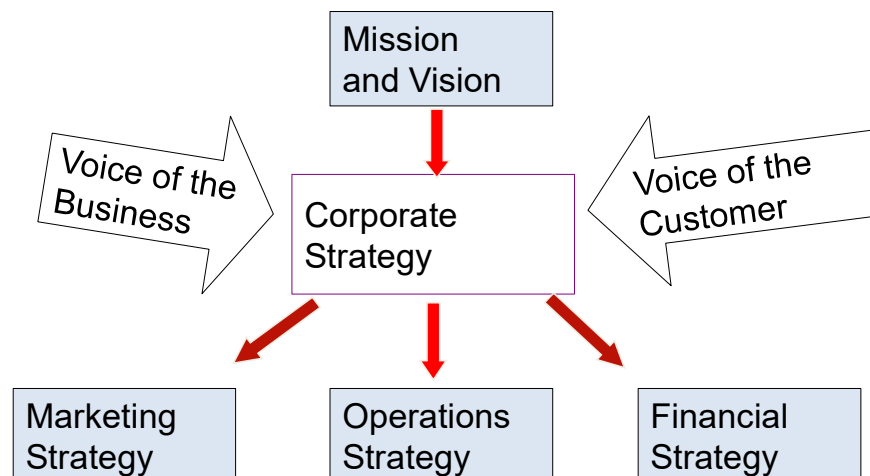
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Levels of Strategy, Part 2

- Functional strategy - Set of decisions that each functional area develops to support its particular business strategy
- Operations strategy
 - Set of decisions made across value chains that supports implementation of higher-level business strategies
 - Developed by translating competitive priorities into operational capabilities

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Strategic Planning



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Understanding Customer Wants and Needs

- Understood by segmenting customers based on their unique wants and needs
 - **Order qualifiers:** Basic customer expectations
 - Minimum performance level required to stay in business
 - **Order winners:** Goods and service features and performance characteristics that differentiate one customer benefit package from another
 - Help win the customers' business

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Order Winners and Order Qualifiers

- Order qualifiers are those dimensions that are necessary for a firm's products to be considered for purchase by customers
 - Features customers will not forego
- Order winners are criteria used by customers to differentiate the products and services of one firm from those of other firms
 - Features that customers use to determine which product to ultimately purchase

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Competitive Priorities

- Strategic emphasis that a firm places on certain performance measures and operational capabilities within a value chain
 - Types
 - Cost
 - Quality
 - Time
 - Flexibility
 - Innovation

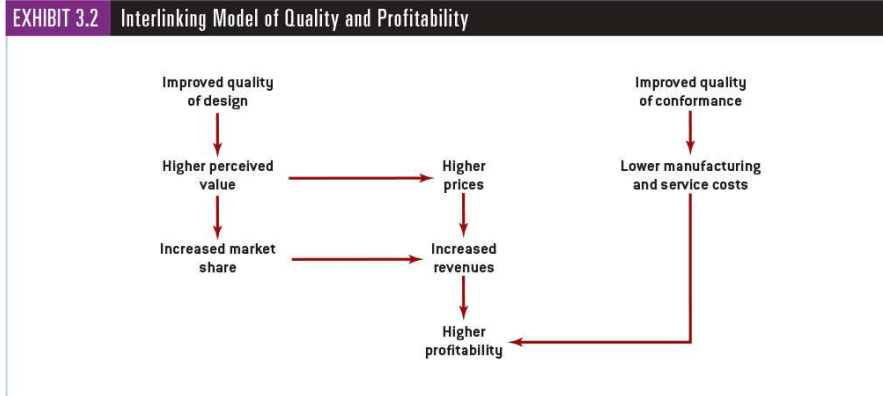
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Cost

- Help firms gain a competitive advantage
 - Low prices can be achieved by:
 - High productivity
 - High capacity utilization
 - Achieving economies of scale
 - Efficient design and operation of the supply chain
 - Improvement in quality

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Interlinking Quality and Profitability Performance



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Time

- Important source of competitive advantage
 - Customers demand quick responses, short waiting times, and consistency in performance
 - Speeding up processes in supply chains improves customer response
- Reductions
 - Accomplished by streamlining and simplifying processes and value chains
 - Drive improvements in quality, cost, and productivity

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Flexibility

- Manifests in mass-customization strategies
 - **Mass customization:** Ability to make goods and services that global customers require at any volume and time

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Innovation

- Discovery and practical application or commercialization of a device, method, or idea that differs from existing norms
 - Innovative companies focus on:
 - Outstanding product research, design, and development
 - High product quality
 - Ability to modify production facilities to produce new products frequently

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Extended list of Competitive Dimensions

Price

- Make the product or deliver the service cheap

Quality

- Make a great product or delivery a great service

Delivery Speed

- Make the product or deliver the service quickly

Delivery Reliability

- Deliver it when promised

Coping with Changes in Demand

- Change its volume

Flexibility and New-Product Introduction Speed

- Change itself

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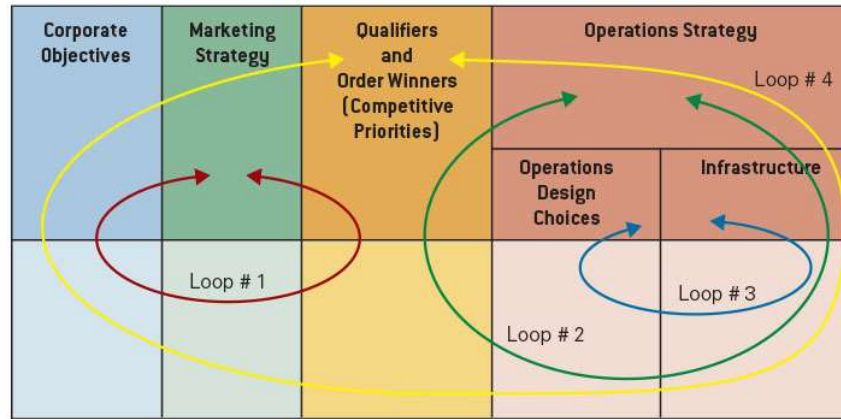
Trade-Offs

- Management must decide which parameters of performance are critical and concentrate resources on those characteristics
- For example, a firm that is focused on low-cost production may not be capable of quickly introducing new products
- Straddling – seeking to match a successful competitor by adding features, services, or technology to existing activities
 - Often a risky strategy

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Four Key Decision Loops In Terry Hill's Generic Strategy Framework

EXHIBIT 3.4 Four Key Decision Loops in Terry Hill's Generic Strategy Framework



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Hill's Strategy Development Framework

Corporate Objectives	Marketing Strategy	How Do Goods and Services Quality and Win Orders in the Marketplace?	Operations Strategy, Operations Design Choices	Operations Strategy, Infrastructure
<ul style="list-style-type: none"> • Growth • Economic sustainability (survival)* • Profit • Return on investment • Other market and financial measures • Social (welfare) sustainability* • Environmental sustainability* 	<ul style="list-style-type: none"> • Goods and services markets and segments • Range • Mix • Volumes • Standardization versus customization • Level of innovation • Leader versus follower alternatives 	<ul style="list-style-type: none"> • Safety • Price (cost) • Range • Flexibility • Demand • Goods and service design • Quality • Service • Goods • Environment • Social (community) • Brand image • Delivery • Speed • Variability • Technical support • Pre- and postservice support 	<ul style="list-style-type: none"> • Type of processes and alternative designs • Supply chain integration and outsourcing • Technology • Capacity and facilities (size, timing, location) • Inventory • Trade-off analysis 	<ul style="list-style-type: none"> • Workforce • Operating plans and control system(s) • Quality control • Organizational structure • Compensation system • Learning and innovation systems • Support services

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