Operations Strategy

Learning Objectives

- Understand
  - Operations Strategy
  - Major Operations Competitive Dimensions
  - Trade-off Model of Operations Strategy
  - World-Class Operations
  - Order Qualifiers and Order Winners
  - Various Productivity Measures

Mission and Strategy

- Mission - where are we going?
- Strategy - how are we going to get there?

> A firm’s ability to compete in the marketplace depends on developing strategies that are properly aligned with its mission
Example

McDonald’s Mission

…be the world’s best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness and value, so that we make every customer in every restaurant smile.

Example

McDonald’s Strategy

… focus on three worldwide strategies:
♦ Be the best employer for our people in each community around the world
♦ Deliver operational excellence to our customers in each of our restaurants
♦ Achieve enduring profitable growth by expanding the brand and leveraging the strengths of the McDonald’s system through innovation and technology

Strategic Planning Hierarchy

Mission Statement

Corporate Strategy

Marketing Strategy  Operations Strategy  Financial Strategy
Developing Corporate Strategy

- Position in the market place
  - What business should we be in? Where should we put our efforts?
- Internal focus
  - What are our unique capabilities?
- Match
  - Is there a good fit between business and capabilities?

Operations Strategy

- Operations strategy
  - Policies and plans for using the operations resources to best support the firm’s long term competitive strategy
- Operations’ role in corporate strategy
  - Operations provides support for a differentiated strategy
  - Operations serves as a firm’s distinctive competence in executing similar strategies better than competitors

Operations and Strategy

“...In many companies, the key to success is often an operations-based advantage. Superior operations effectiveness not only serves to buttress a company’s existing competitive position, but, when based on capabilities that are embedded in the company’s people and operating processes, is inherently difficult to imitate.”

Operations and Strategy

“Operations is our strategy”
--Joe Lee, chairman and CEO, Darden Restaurants Inc.

“Strategy at HP had become too high-level. The important thing for us is to be able to take strategy down to operations. If the strategy isn’t clearly driving operations, my argument is that you don’t have a strategy.”
--Mark Hurd, CEO, Hewlett-Packard Co.

McDonald’s Operations Strategy

- To provide unmatched consistency in operations in support of high product quality. This must be accomplished with adequate speed, low cost, and process innovation to accommodate changes in consumer tastes.

Operations Competitive Dimensions

- Cost
- Quality
- Speed
- Flexibility
  - Responses to changing demand
  - Variety of choice
  - New product introduction
Trade-off Model of Operations Strategy

- Basic logic: difficult or impossible for companies to do everything equally well; so concentrate on one priority at a time. ("focused factory" or "PWP"—W. Skinner)

Cost

- Quality

- Delivery

- Flexibility

FOCUS

FOCUS

FOCUS

Plant within a Plant (PWP)

World-Class Operations’ View on Operations Strategy

- Cost, quality, speed, and flexibility are not viewed as tradeoffs. Rather, they are **Order Qualifiers**

- To compete effectively, you either develop new competitive dimension(s) to win customers (**Order Winners**), or achieve excellence on each of the competitive dimensions

Order Qualifiers vs. Order Winners

- **Order Qualifiers**
  - Minimum qualifications for consideration

- **Order Winners**
  - Unique features that win orders

- Winners become qualifiers over time

Order winner: cost | quality | delivery | flexibility

Order qualifier: cost | cost + quality | cost + quality + delivery | ?

Time
World-Class Operations

Example: Competing on Service

Service can be an “order winner”

- Warranty
- Travel Planning
- Leases
- Roadside Assistance

Journey to World-Class Operations

- If you lead a company on a journey to become world-class operations and you realize that it is best to focus on one dimension at a time, which area are you going to focus first? Last?

Productivity for Competitiveness

- Productivity is a common measure on how well resources are being used. In the broadest sense, it is defined as the following ratio:

  \[
  \text{Productivity} = \frac{\text{Outputs}}{\text{Inputs}}
  \]

- Productivity is a relative measure. To be meaningful, it needs to be compared with some benchmarks or over time.
Productivity Measures

- Partial measure
  - output/one input

- Multifactor measure
  - output/a group of inputs

- Total measure
  - output/all inputs

Example 1

- 10,000 units produced in a week
- Sold for $10/unit
- 500 labor hours used during the week
- Labor rate: $9/hr
- Cost of raw material: $5,000
- Cost of purchased parts: $25,000

1. What is the labor productivity?

\[ \frac{10,000 \text{ units}}{500 \text{ hrs}} = 20 \text{ units/hour} \]

or \( \frac{10,000 \text{ unit} \times \$10/\text{unit}}{500 \text{ hrs} \times \$9/\text{hr}} = 22.22 \)

2. What is the productivity for labor and materials combined?

\[ \frac{\text{OUTPUT}}{\text{Labor + Materials}} = \frac{10000 \times \$10}{500 \times \$9 + \$5000 + \$25000} = 2.90 \]
**Productivity**

**In-class Exercise**

Posey Ceramics makes ceramic vases. Labor costs $10/hour and material are $4/lb.

<table>
<thead>
<tr>
<th>Week</th>
<th>Units of output</th>
<th># workers</th>
<th>Hours per week</th>
<th>Labor cost per hour</th>
<th>Material (lbs.)</th>
<th>Material cost per lb.</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>2,000</td>
<td>4</td>
<td>40</td>
<td>$10</td>
<td>286</td>
<td>$4</td>
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<tr>
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<tr>
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<td>6</td>
<td>70</td>
<td>$10</td>
<td>1,000</td>
<td>$4</td>
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</tbody>
</table>

- Labor productivity
- Material productivity
- Multifactor productivity

Using dollar ($) as unit of measure for all inputs

**Case: TimBuk2**

1. What are the key competitive dimensions for the custom messenger bag? For the laptop bags?
2. Comparison of assembly line in China and San Francisco

<table>
<thead>
<tr>
<th>Dimension</th>
<th>China</th>
<th>San Francisco</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Volume/rate of production</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Required skill of workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Level of automation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Inventory (raw vs. finished)</td>
<td></td>
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</tbody>
</table>

3. Other than manufacturing cost, what other costs should be considered in sourcing?