

LECTURE 2

OPERATIONS STRATEGY

Instructor: Lu Wang

College of Business

Shanghai University of Finance and Economics



上海财经大学
Shanghai University of Finance and Economics

WHERE ARE WE

Lecture 1 Introduction

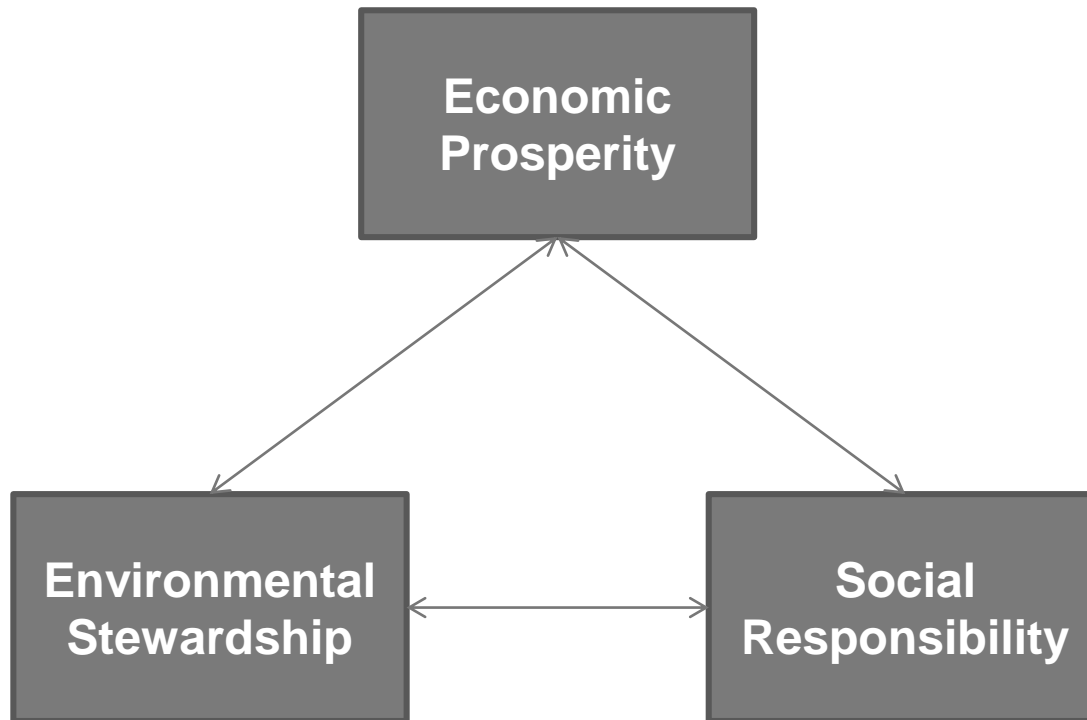
- What is Operations Management?
- Goods and Services
- Productivity Measures

Lecture 2 Operations Strategy

LEARNING OBJECTIVES

- Know what is operations strategy.
- Understand the competitive dimensions of operations and supply strategy.
- Know what order winners and order qualifiers are.
- Notion of Tradeoffs and the efficient frontier

GOOD SUSTAINABLE STRATEGY



OPERATIONS STRATEGY

- **Operations and supply strategy is concerned with setting broad policies and plans for using the resources of a firm to best support its long-term competitive strategy.**
- **Is a portfolio best suited to adapt to the changing product / service needs of the firm's customers.**

OPERATIONS STRATEGY: THE COMPETITIVE EDGE



A company's "operations" function is either a **competitive weapon** or a **corporate millstone**. It is seldom neutral.

-- C. Wickham Skinner

- Operations should be fully **connected to the business strategy**
- Operations should **add competitive advantage** to the firm.

COMPETITIVE DIMENSIONS

Cost or Price: “Make the Product”

- Price may not be the only basis on which the firm competes

Quality: “Make the Great Product”

- Design quality: to establish the proper level of quality
- Process quality (conformance quality) : to deliver reliable product or service

Delivery Speed: “Make the Product Quickly”

Delivery Reliability: “Deliver it When Promised”

Coping with Changes in Demand

Flexibility and New-Product Introduction Speed

Other Product-Specific Criteria

... officinalis (Sage) ...
... Clove) Flower Extract, Ginkgo
... Hamamelis Virginiana (Witch
... Root Extract, Pelvetia Canaliculata
... Shell Extract, Laminaria Digitata
... PEG-40 Hydrogenated
... Propylene Glycol, Dimethicone, Ethylhexyl
... Chloride, Tocopheryl Acetate, Triethanolamine
... Alcohol, Vinyl Caprolactam / VP / Dimethylamino
... Diazolidinyl Urea, Methylparaben

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ORDER WINNERS AND ORDER QUALIFIERS

- **Order Winner** is “a criterion that differentiates the products or services of one firm from another”
- **Order Qualifier** is “a screening criterion that permits a firm’s products to even be considered as possible candidates for purchase”

WHAT ARE THE ORDER QUALIFIERS / WINNERS FOR THESE COMPANIES?

Canteen of Shufe

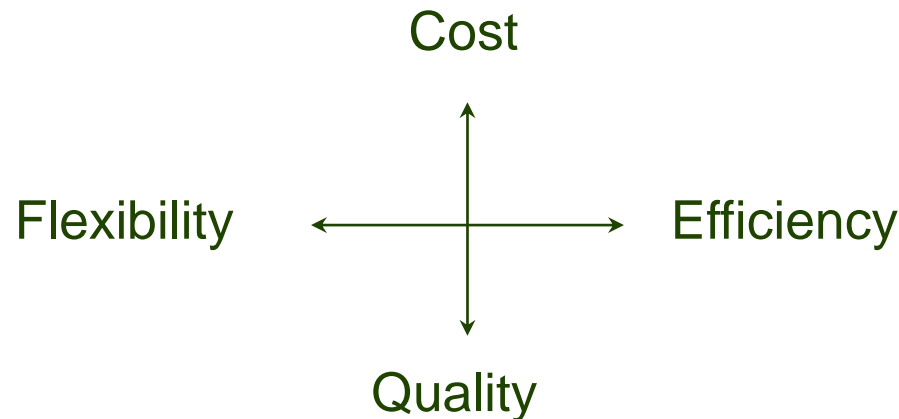


ORDER WINNER AND ORDER QUALIFIER CHANGE OVER TIME

	Entry Period	Growth	Mature	Recession
Customers	Innovator	Early adopters	Majority	Laggards
Competitors	Few/None	Increasing	Stable	Reducing
Order winner	New features	Quality, accessibility	Quality, price	Price
Order qualifier	Price	Price, Quality	Quality	Quality

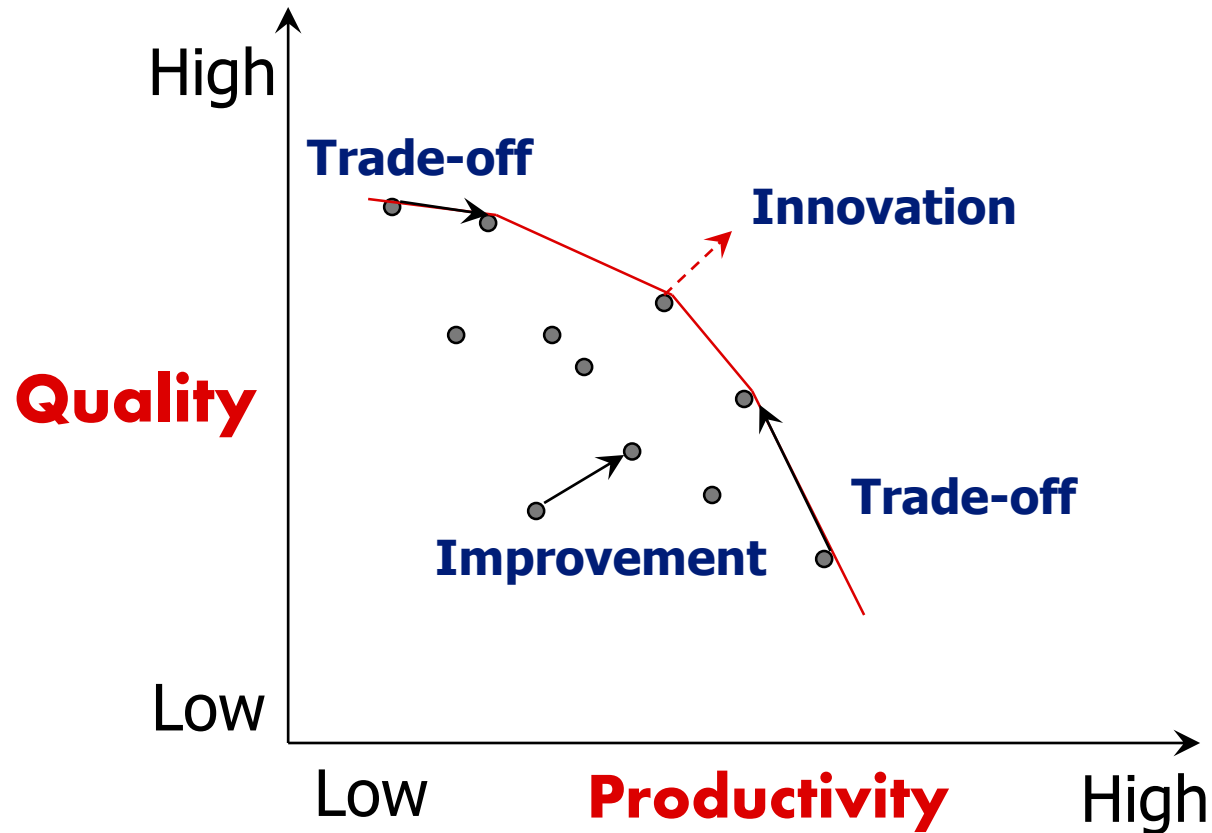
THE NOTION OF TRADE-OFFS

- **Trade-Off:** An operation cannot excel simultaneously on all competitive dimensions
- If we reduce costs by reducing product quality inspections, we might reduce product quality
- For example, if we improve customer service problem solving by cross-training personnel to deal with a wider-range of problems, they may become less efficient at dealing with commonly occurring problems.



WHAT IS "GOOD" OM?

TRADE-OFFS AND INNOVATION



THE NOTION OF TRADE-OFFS

Straddling(骑墙): When a firm seeks to match the benefits of a successful position while maintaining its existing position, may cause risky or negative situations



CASE STUDY OF GOOD OPERATIONS STRATEGY

“The mission of Southwest Airlines is dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.”



STRATEGIC FIT



- **Corporate Strategy (Positioning) : price- and convenience-sensitive travelers.**
- **Operational Activities – Tailored for strategic fit.**

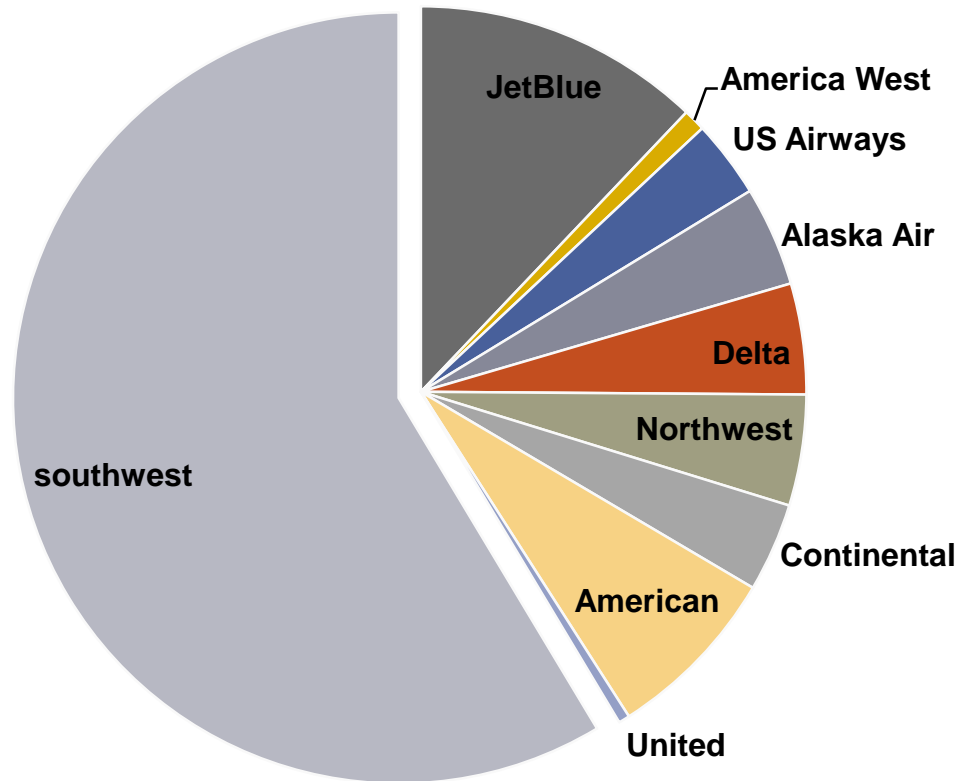
	Full-Service Airlines	Southwest
Route Structure	Hub-and-spoke	Point-to-point
First-Class Service	Available	N/A
Meal Service	Available	N/A
Seat Assignment	Available	N/A
Fleet of Aircrafts	Full Fleet	Boeing 737
Ticketing	Through Agents	No Agents

COMPETITIVE ADVANTAGE



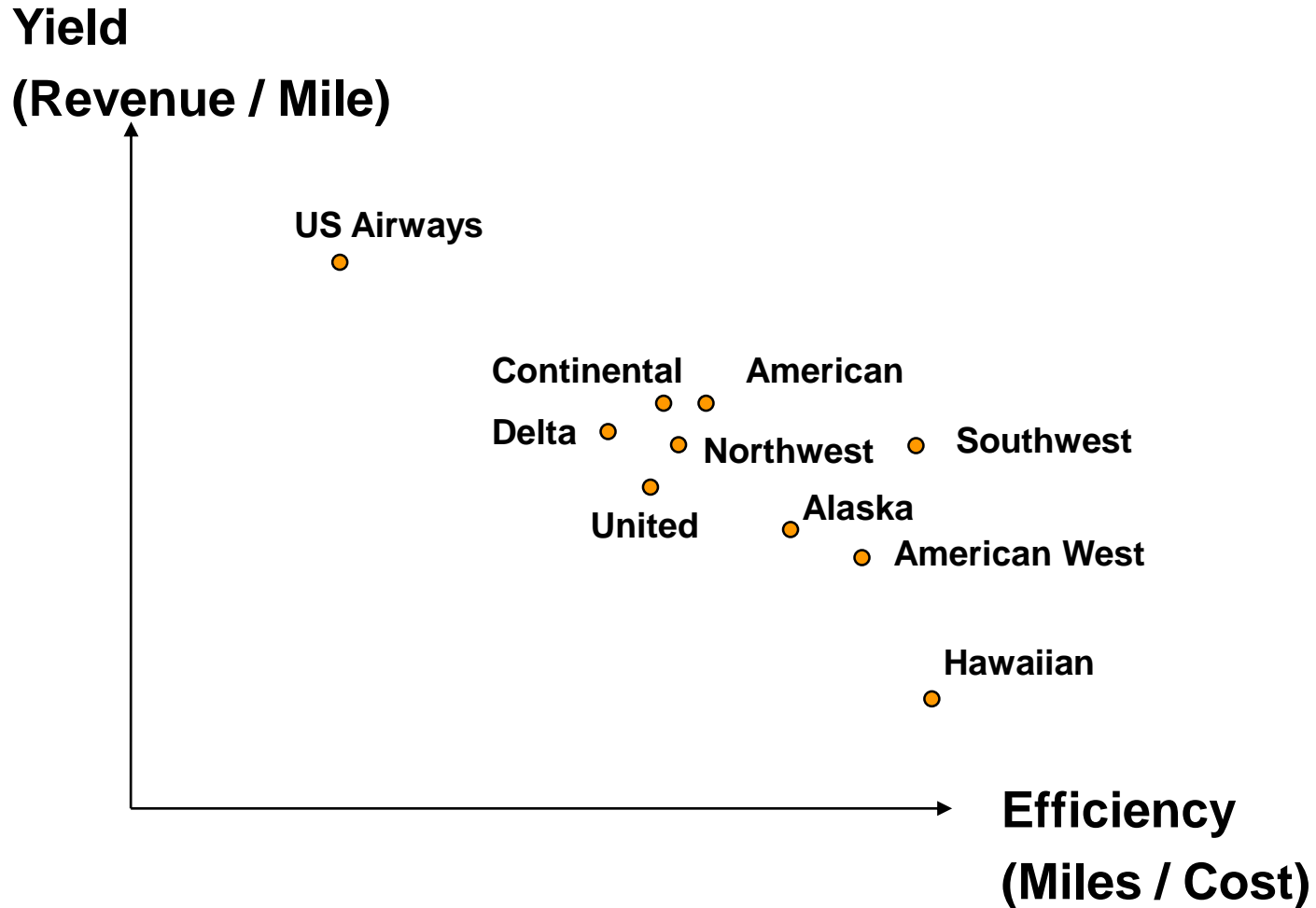
- **Department of Transportation (DOT)**
 - Best on time performance
 - Fewest complaints, delays, lost/mishandled bags
- **Lowest cost per available seat mile**
 - 7 cents/mile (vs. industry average 9.3)
- **Fewest employees/aircraft**
 - 81 (vs. industry average 148)
- **Most passengers/employee**
 - 2443 (vs. industry average 916)
- **The only consistently profitable airline**

REWARD

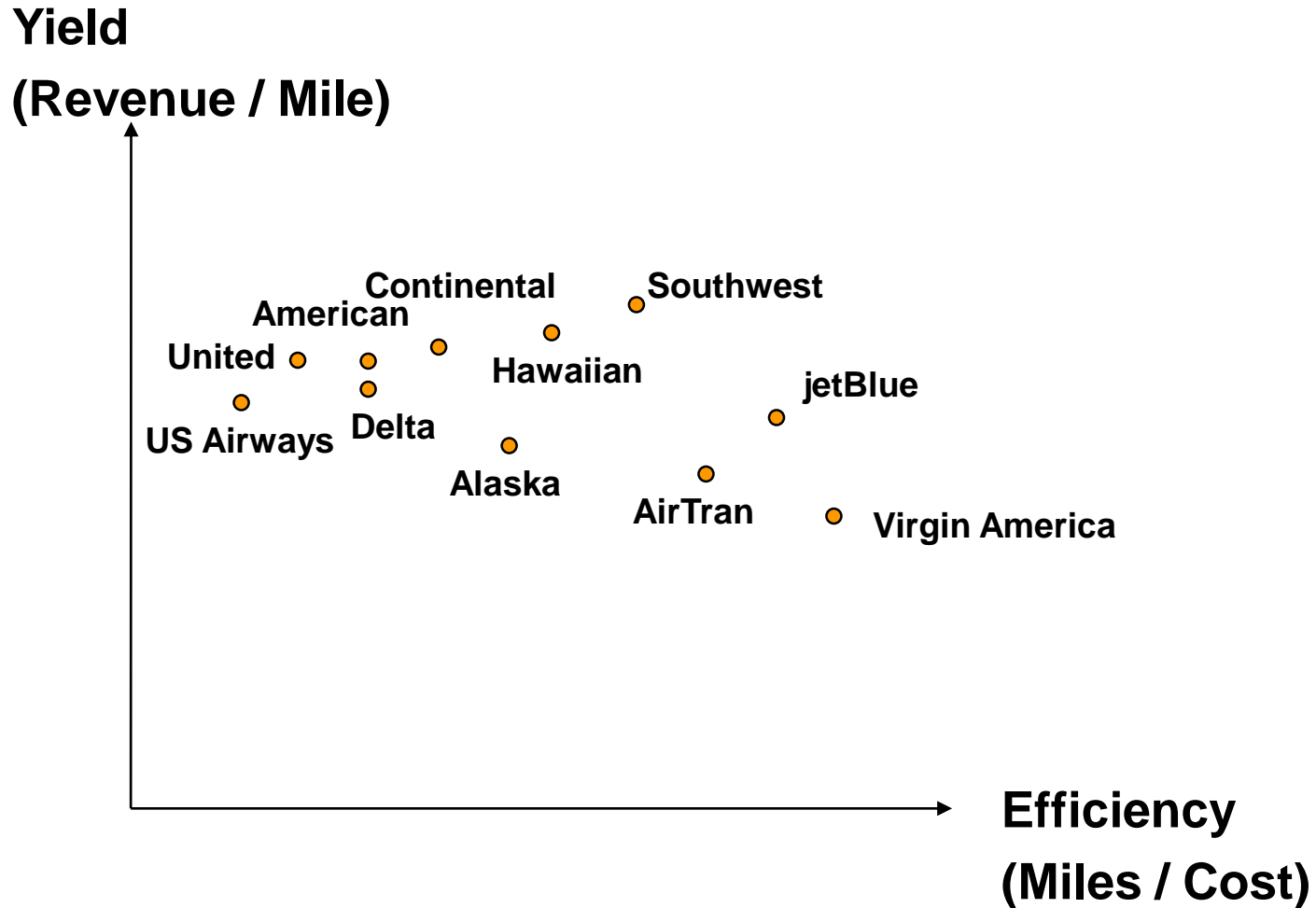


Market Capitalization of Major airlines (2004)

YIELD VS EFFICIENCY (1996)



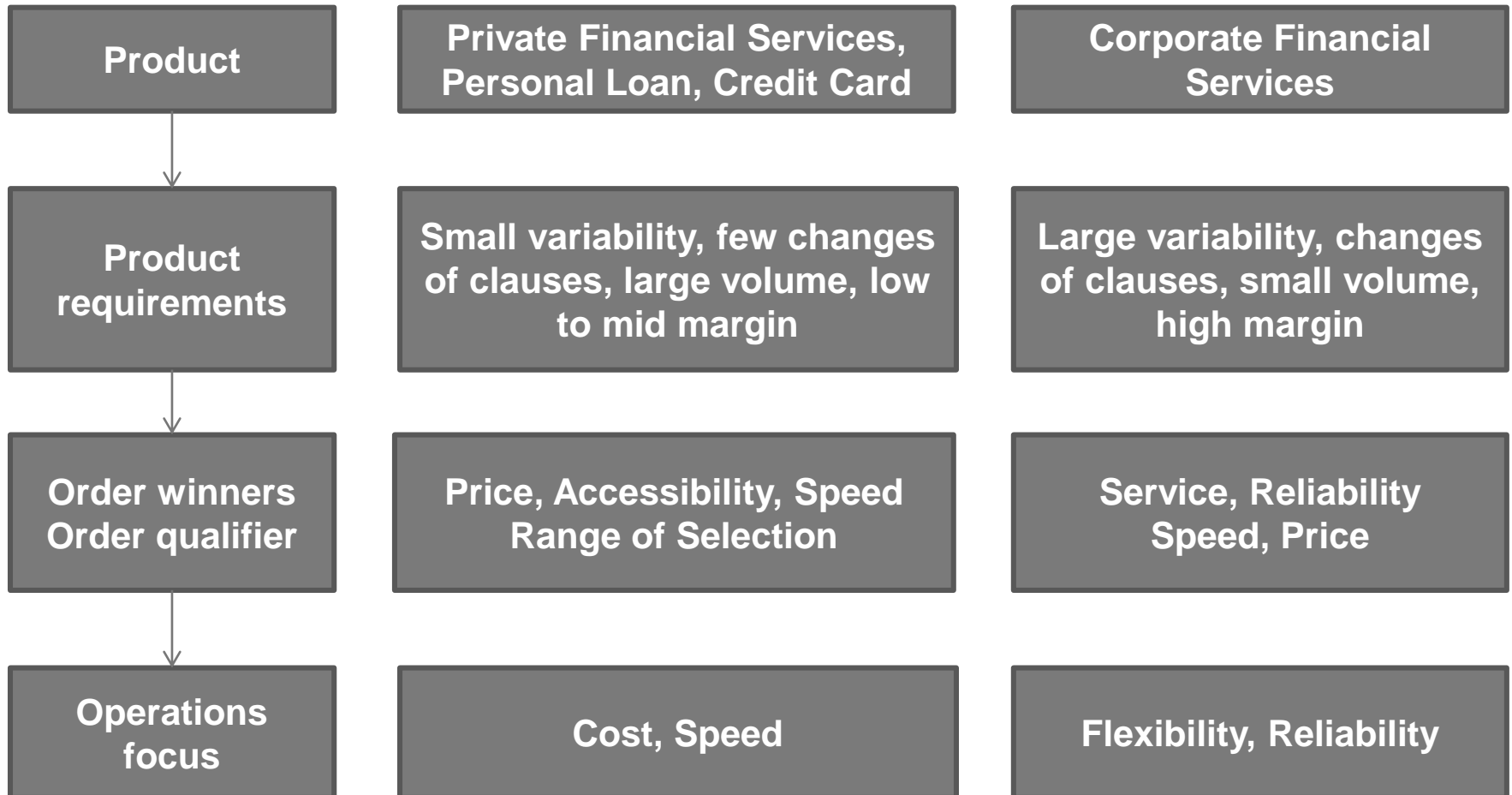
YIELD VS EFFICIENCY (2011)



DEVELOPING OPERATIONS STRATEGY – MARKET ORIENTED APPROACH

- **Segment the market according to the product group**
- **Identify product requirements**
- **Determine the order winners and order qualifiers**
- **Convert order winners into specific requirement and target**

DEVELOPING OPERATIONS STRATEGY



HOW IKEA DESIGNS ITS SEXY PRICES

- **Low cost**
- **Customer self service: Trade service for cost**
- **Designs modular, ready-to-assemble furniture**



CASE STUDY OF GOOD OPERATIONS STRATEGY (2)

Sam Walton's Formula: "Buy cheap, sell for less than the other guy, and make your profit on high volume and fast turnover."



COMPETITIVE ADVANTAGE



- “Which of the following discount stores do you most closely associate as being the best at each of the following aspects of the shopping experience?” (Source: Shoppers Rank Wal-Mart, Target And Kmart, Consumer Technographics north America, July 23, 2003)

	Wal-Mart	K-mart	Target
Price	84%	6%	11%
Product Selection	70%	5%	25%
In-stock merchandise	66%	5%	28%
Convenience	57%	14%	29%
Parking	48%	14%	38%
Service	48%	6%	46%

WAL-MART IS MOST POWERFUL EFFICIENCY MACHINE

Low costs (outsourcing), power of information hidden in the barcode (information), right mix of products (inventory control), sales spikes (Demand variability), streamlined its supply chain (Supply chain coordination), speedup delivery (just in time), information sharing.....

STRATEGIC TRADEOFF



“Which of the following discount stores do you most closely associate as being the best at each of the following aspects of the shopping experience?”

	Wal-Mart	K-mart	Target
Quality of products	44%	5%	51%
Cleanliness	30%	3%	67%
Checkout	40%	10%	50%

SUMMARY

- **Sustainable Strategy Criteria**
- **Operations strategy must fit into the corporation's overall mission and customer needs**
- **Competitive Dimensions**
- **Order Winners, Order Qualifiers**
- **Trade-offs**