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## Operations Strategy and Competitiveness

Operations Management

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## What is strategy?

- ▶ How a firm intends to create and sustain value for its shareholders (p. 24)
  - ▶ Major components:
    - Operations effectiveness
    - Customer management
    - Product innovation
  - ▶ Competitiveness:
    - A firm's relative position in comparison to other firms in the marketplace
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## Satisfying the Customer

- ▶ Mission: the organization's purpose, what it hopes to achieve; rationale for its existence.

*To provide society with superior products and services--innovations and solutions that improve the quality of life and satisfy customer needs--to provide employees with meaningful work and advancement opportunities and investors with a superior rate of return.*

*(Merck mission statement)*

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## Mission Statement

- ▶ "Without a clear mission, an organization is unlikely to achieve its true potential, because there is little direction for formulating strategies."
- ▶ Wouldn't the same be true about people?



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## Strategy

- ▶ Strategy: a plan for achieving the mission
    - Each functional area (accounting, finance, marketing) determines its "supporting mission"
  - ▶ Tactics: the methods to be used to achieve the strategic goals.
    - Must support mission, corporate values
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## Michael Porter

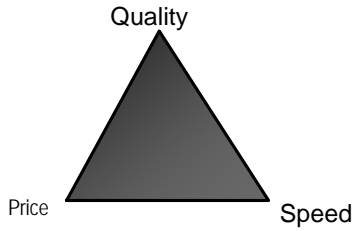
Three ways to achieve corporate mission:

1. Differentiation: Make your product different and / or better
  2. Cost Leadership (lower prices): Wal- Mart, Southwest Airlines
  3. Quick Response: Pizza Hut, FedEx
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## Purchasing Triangle

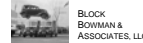


**"Don't be sad; two out of three ain't bad"**  
-- Meatloaf



## Competitive Dimensions

- ▶ Cost -- make it cheap
- ▶ Quality and Reliability -- make it good
- ▶ Speed -- make it fast
- ▶ Reliability -- deliver when promised
- ▶ Cope with Change -- change volume
- ▶ New product speed
- ▶ Customer support



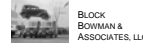
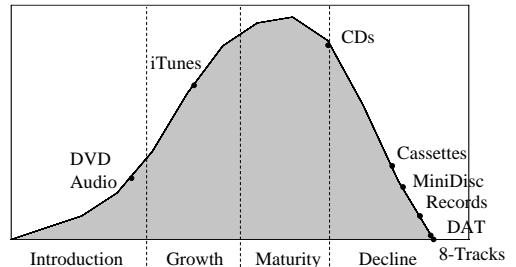
## Focus

### ▶ What is Merck's strategy?

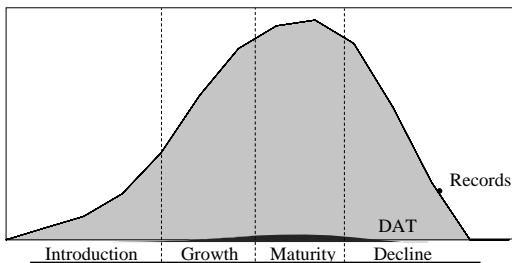
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## Impact of Life Cycle

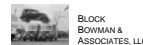


## Impact of Life Cycle



## Impact of Life Cycle

- ▶ Introduction: develop product, small-scale production
- ▶ Growth: ramp up production, marketing
- ▶ Maturity: standardized, volume production, optimization
- ▶ Decline: cost minimization, eliminate unprofitable products



## Competitiveness

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- ▶ Order qualifiers: screening criterion that allows your products to be considered
  - deliver on-time, reliability, general quality
- ▶ Order Winners: criterion that differentiates your service/product above the competition
  - price, quality, reliability



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## Balanced Scorecard – track performance from following perspectives:

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- ▶ Financial: revenue or productivity growth
- ▶ Customer: Product leadership, customer intimacy, operational excellence
- ▶ Internal: innovation, customer management, operational excellence, corporate citizenship
- ▶ Learning and Growth: strategic competencies and technologies, climate for action
  - Kaplan and Martin, 1992, "The Balanced Scorecard: Measures that Drive Performance"  
*Harvard Business Review*



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## Operations Strategy

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- ▶ Core capabilities: the skills that differentiate the firm from its competitors.
- ▶ What is the thing you do better than everyone else, that you could never dare trust to anyone else?
  - Soft drinks: the secret sauce
  - Automobiles: designing engines



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## Productivity

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- ▶ Productivity = Outputs / Inputs
- ▶ Partial: Output/Labor or Output/Capital
- ▶ Multifactor:  
Output / (Labor + Capital + Energy)
- ▶ Total Measure:  
Output / Inputs



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## Productivity

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- ▶ Services have always been a large portion of U.S. economy
- ▶ Services' share continues to grow
- ▶ U.S. has higher service % than others
- ▶ U.S. productivity growth has lagged other countries in past.
- ▶ What explains this phenomena?



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## U. S. Productivity Gain

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- ▶ Increased 1.37% per year 1990-95
- ▶ Increased 2.37% per year 1995-98
- ▶ Potential sources of productivity gains:
  - Capital investment (1.13%)
  - Labor Quality (0.25%)
  - Technological progress (0.99%)
- ▶ Computers really are making us more productive. Source: WSI



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## Improving Productivity

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- ▶ Develop productivity measurements– you can't improve what you can't measure
- ▶ Identify and Improve bottleneck operations first
- ▶ Establish goals, document and publicize improvements



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