Operations Management

Operations Strategy in A Global Environment

Chapter 2

Outline
♦ Global Company Profile: Boeing
♦ Identifying Missions and Strategies
  ♦ Mission
  ♦ Strategy
♦ Achieving Competitive Advantage Through Operations
  ♦ Competing on Differentiation
  ♦ Competing on Cost
  ♦ Competing on Response

Outline - continued
♦ Ten Strategic OM decisions
♦ Issues in Operations Strategy
  ♦ Research
  ♦ Preconditions
  ♦ Dynamics
♦ Strategy Development and Implementation
  ♦ Identify Critical Success Factors
  ♦ Build and Staff the Organization
  ♦ Integrate OM with Other Activities

Learning Objectives
When you complete this chapter, you should be able to:
♦ Identify or Define:
  ♦ Mission
  ♦ Strategy
  ♦ Ten Decisions of OM
♦ Describe or Explain:
  ♦ Specific approaches used by OM to achieve strategic concepts
  ♦ Differentiation
  ♦ Low Cost
  ♦ Response

Global Strategies
☑ Boeing – sales and production are worldwide
☑ Benetton – moves inventory to stores around the world faster than its competition by building flexibility into design, production, and distribution
☑ Sony – purchases components from suppliers in Thailand, Malaysia, and around the world

Global Strategies
☑ Volvo – considered a Swedish company but it is controlled by an American company, Ford. The current Volvo S40 is built in Belgium and shares its platform with the Mazda 3 built in Japan and the Ford Focus built in Europe.
☑ Haier – A Chinese company, produces compact refrigerators (it has one-third of the US market) and wine cabinets (it has half of the US market) in South Carolina
Some Multinational Corporations

<table>
<thead>
<tr>
<th>Company</th>
<th>Home Country</th>
<th>% Sales Outside Home Country</th>
<th>% Assets Outside Home Country</th>
<th>% Foreign Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citicorp</td>
<td>USA</td>
<td>34</td>
<td>46</td>
<td>NA</td>
</tr>
<tr>
<td>Colgate-Palmolive</td>
<td>USA</td>
<td>72</td>
<td>63</td>
<td>NA</td>
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<td>Dow Chemical</td>
<td>USA</td>
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<td>NA</td>
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<tr>
<td>Gillette</td>
<td>USA</td>
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<td>53</td>
<td>NA</td>
</tr>
<tr>
<td>Honda</td>
<td>Japan</td>
<td>63</td>
<td>36</td>
<td>NA</td>
</tr>
<tr>
<td>IBM</td>
<td>USA</td>
<td>57</td>
<td>47</td>
<td>51</td>
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<tbody>
<tr>
<td>ICI</td>
<td>Britain</td>
<td>78</td>
<td>50</td>
<td>NA</td>
</tr>
<tr>
<td>Nestle</td>
<td>Switzerland</td>
<td>98</td>
<td>95</td>
<td>97</td>
</tr>
<tr>
<td>Philips</td>
<td>Netherlands</td>
<td>94</td>
<td>85</td>
<td>82</td>
</tr>
<tr>
<td>Siemens</td>
<td>Germany</td>
<td>51</td>
<td>NA</td>
<td>38</td>
</tr>
<tr>
<td>Unilever</td>
<td>Britain &amp; Netherlands</td>
<td>95</td>
<td>70</td>
<td>64</td>
</tr>
</tbody>
</table>

Boeing Suppliers (777)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Country</th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dassault</td>
<td>France</td>
<td>Design and PLM software</td>
</tr>
<tr>
<td>Messier-Bugatti</td>
<td>France</td>
<td>Landing gear</td>
</tr>
<tr>
<td>Thales</td>
<td>France</td>
<td>Electrical power conversion system and integrated standby flight display</td>
</tr>
<tr>
<td>Diehl</td>
<td>Germany</td>
<td>Interior lighting</td>
</tr>
<tr>
<td>FR-HiTemp</td>
<td>UK</td>
<td>Fuel pumps and valves</td>
</tr>
<tr>
<td>Smiths Aerospace</td>
<td>UK</td>
<td>Central computer system</td>
</tr>
</tbody>
</table>

Boeing Suppliers (777)

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<tr>
<th>Firm</th>
<th>Country</th>
<th>Component</th>
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<tbody>
<tr>
<td>BAE SYSTEMS</td>
<td>UK</td>
<td>Electronics</td>
</tr>
<tr>
<td>Alenia Aeronautics</td>
<td>Italy</td>
<td>Upper center fuselage &amp; horizontal stabilizer</td>
</tr>
<tr>
<td>Toray Industries</td>
<td>Japan</td>
<td>Carbon fiber for wing and tail units</td>
</tr>
<tr>
<td>Fuji Heavy Industries</td>
<td>Japan</td>
<td>Center wing box</td>
</tr>
<tr>
<td>Kawasaki Heavy Industries</td>
<td>Japan</td>
<td>Forward fuselage, fixed section of wing, landing gear well</td>
</tr>
</tbody>
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Boeing Suppliers (777)

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<th>Component</th>
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</thead>
<tbody>
<tr>
<td>Teijin Seiki</td>
<td>Japan</td>
<td>Hydraulic actuators</td>
</tr>
<tr>
<td>Mitsubishi Heavy Industries</td>
<td>Japan</td>
<td>Wing box</td>
</tr>
<tr>
<td>Chengdu Aircraft Group</td>
<td>China</td>
<td>Rudder</td>
</tr>
<tr>
<td>Hafei Aviation Group</td>
<td>China</td>
<td>Parts</td>
</tr>
</tbody>
</table>

Reasons to Globalize

<table>
<thead>
<tr>
<th>Tangible Reasons</th>
<th>Intangible Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce costs (labor, taxes, tariffs, etc.)</td>
<td>Learn to improve operations</td>
</tr>
<tr>
<td>Improve supply chain</td>
<td>Attract and retain global talent</td>
</tr>
<tr>
<td>Provide better goods and services</td>
<td></td>
</tr>
</tbody>
</table>
Reduce Costs

- Foreign locations with lower wage rates can lower direct and indirect costs
  - Maquiladoras
  - World Trade Organization (WTO)
  - North American Free Trade Agreement (NAFTA)
  - APEC, SEATO, MERCOSUR
  - European Union (EU)

Improve the Supply Chain

- Locating facilities closer to unique resources
  - Auto design to California
  - Athletic shoe production to China
  - Perfume manufacturing in France

Provide Better Goods and Services

- Objective and subjective characteristics of goods and services
  - On-time deliveries
  - Cultural variables
  - Improved customer service

Understand Markets

- Interacting with foreign customer and suppliers can lead to new opportunities
  - Cell phone design from Europe
  - Cell phone fads from Japan
  - Extend the product life cycle

Learn to Improve Operations

- Remain open to the free flow of ideas
  - General Motors partnered with a Japanese auto manufacturer to learn
  - Scandinavian design ideas have been used to improve equipment design and layout

Attract and Retain Global Talent

- Offer better employment opportunities
  - Better growth opportunities and insulation against unemployment
  - Relocate unneeded personnel to more prosperous locations
  - Incentives for people who like to travel
Cultural and Ethical Issues

- Cultures can be quite different
- Attitudes can be quite different towards
  - Punctuality
  - Lunch breaks
  - Environment
  - Intellectual property
  - Thievery
  - Bribery
  - Child labor
  - Intellectual property
  - Thievery
  - Bribery
  - Child labor

You May Wish To Consider

- National literacy rate
- Rate of innovation
- Rate of technology change
- Number of skilled workers
- Political stability
- Product liability laws
- Export restrictions
- Variations in language
- Work ethic
- Tax rates
- Inflation
- Availability of raw materials
- Interest rates
- Population
- Number of miles of highway
- Phone system

Match Product & Parent

<table>
<thead>
<tr>
<th>Product</th>
<th>Parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Braun Household</td>
<td>Volkswagen</td>
</tr>
<tr>
<td>Appliances</td>
<td>Bridgestone</td>
</tr>
<tr>
<td>Firestone Tires</td>
<td>Campbell Soup</td>
</tr>
<tr>
<td>Godiva Chocolate</td>
<td>Ford Motor Company</td>
</tr>
<tr>
<td>Haagen-Dazs Ice Cream</td>
<td>Gillette</td>
</tr>
<tr>
<td>Jaguar Autos</td>
<td>Nestlé</td>
</tr>
<tr>
<td>MGM Movies</td>
<td>Pillsbury</td>
</tr>
<tr>
<td>Lamborghini Autos</td>
<td>Sony</td>
</tr>
</tbody>
</table>

Match Product & Country

<table>
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<td>Switzerland</td>
</tr>
<tr>
<td>Lamborghini Autos</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Alpo Petfoods</td>
<td>Switzerland</td>
</tr>
</tbody>
</table>
Mission

- Mission - where are you going?
  - Organization’s purpose for being - reason for existence
  - Provides boundaries & focus
  - Answers “How can we satisfy people’s needs?”
  - Expressed in published statement

Mission

- Mission: overall purpose of an organization (misyon; varoluş nedeni). The mission of an organization defines its reason for existence.

  It asks the question “Why are we in business?”

Mission

- Organization’s purpose for being
- Answers ‘What do we provide society?’
- Provides boundaries and focus

Sample Mission - Merck

The mission of Merck is 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.

Some Examples of Mission Statements

- Eastern Mediterranean University, as an institution of higher learning, is dedicated to the dissemination (yayma) of knowledge through high-quality teaching; to promoting the discovery of knowledge through scholarly research; and to the application of knowledge for the good of humanity.

Some Examples of Mission Statements

NETAŞ’S MISSION

To provide excellent telecommunication solutions within the framework of Total Quality Management philosophy.
Some Examples of Mission Statements

ARÇELİK’S MISSION
Fully satisfying customer expectations and requirements is the guiding mission of Arçelik. In order to achieve and maintain the high standards it has, Arçelik has a continual programme of investment which encompasses plants, manufacturing equipment, research & development and most importantly personnel.

Some Examples of Mission Statements

TURKISH AEROSPACE INDUSTRY’S MISSION
TAI is a company of dedicated, dynamic and resourceful people searching for excellence and continued growth in the field of aerospace. Our mission is to fulfil the aerospace requirements of our nation and world markets with commitment to high quality, value and on time delivery.

Some Examples of Mission Statements

FEDERAL EXPRESS' MISSION
“To produce outstanding financial returns by providing totally reliable, competitively superior global air-ground transportation of high priority goods and documents that require rapid, time-sensitive delivery.”

Factors Affecting Mission

Mission/Strategy
- Mission - the purpose or rationale for existence “where you are going”
- Strategy - how an organization expects to achieve its mission and goals. It is an action plan - “how you are going to get there”

Strategy
- Action plan to achieve mission
- Shows how mission will be achieved
- Company has a business strategy
- Functional areas have strategies
Strategy Process

Business Strategy

Company Mission

Marketing Decisions

Operations Decisions

Functional Area Strategies

Fin./Acct. Decisions

Achieving Competitive Advantage Through Operations

- competitive advantage: a unique advantage over competitors
- Competing on differentiation - “uniqueness” “better”
- Competing on cost “cheaper”
- Competing on quick response “more responsive”

Competing on Differentiation

- Uniqueness - can go beyond both the physical characteristics and service attributes to encompass everything that impacts customer’s perception of value
  - SONY - 100 mhz TV
  - HONDA in Arab countries
  - MS mouse - 3 buttons (one is actually a wheel)
  - Landsend stores in the U.S. “Guaranteed. Period.”
  - “Replay Radio” software (for recording streaming radio on the Internet)

Competing on Cost

- Maximum value as perceived by customer
- Does not imply low value or low quality
  - computers made in Taiwan
  - Wal-Mart stores in the U.S.
  - Landsend stores in the U.S. (quality at a low price + fast service)
  - Amazon.com in the U.S.
  - Germanwings airlines (European flights; as low as 19 euros)

Germanwings

Leaders in safety and comfort

Top marks for Germanwings, The readers of Europe’s biggest business magazine “Capital” have awarded Germanwings best no-frills airline in the categories “Feeling of Safety” and “Comfort of Seats”. In the latest edition of the business magazine Germanwings is also named as best value for money among the German no-frills carriers.

For the 17th year running, “Capital” asked its readers and online users to rate the performance of international airlines. With more than 6,000 responses, the 2003 flight survey of this respected business magazine saw bigger than ever, with the participants drawing on their collective experience of around 40,000 flights.

“We are delighted that we at Germanwings were able to beat the competition and claim the top ranking among business travellers, not only in the categories which are the most important for us: “Feeling of Safety” and “Comfort of Seats”, said Dr. Joachim Klein, Managing Director of Germanwings. “We see it as particularly positive that this market sector which is so important to us voted Germanwings as the best value no-frills airline.” The results of the survey can be seen in the latest edition of “Capital”.

Competing on Response

Response: set of values related to rapid, flexible, and reliable performance
- Flexible response - ability to match changes in the market (design and volume changes)
- Reliable scheduling for timely delivery
- Speed in design, production and delivery (quickness)
OM’s Contribution to Strategy

<table>
<thead>
<tr>
<th>Operations Decisions</th>
<th>Examples</th>
<th>Specific Strategy Used</th>
<th>Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Sony’s constant innovation of new products</td>
<td>Design</td>
<td>FLEXIBILITY</td>
</tr>
<tr>
<td>Quality</td>
<td>HP’s ability to follow the printer market</td>
<td>Volume</td>
<td>Low cost</td>
</tr>
<tr>
<td>Process</td>
<td>Southwest Airlines No-frills service</td>
<td>LOW COST</td>
<td>DELIVERY</td>
</tr>
<tr>
<td>Location</td>
<td>Plaza Hot’s five-minute guarantee at lunchtime</td>
<td>Speed</td>
<td>Dependability</td>
</tr>
<tr>
<td>Layout</td>
<td>FedEx Express’s “absolutely, positively on time”</td>
<td>QUALITY</td>
<td>Cost leadership</td>
</tr>
<tr>
<td>Human resource</td>
<td>Motorola’s automotive products ignition systems</td>
<td>Performance</td>
<td>Customer responsiveness</td>
</tr>
<tr>
<td>Supply-chain</td>
<td>Motorola’s pagers</td>
<td>Conformance</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>IBM’s after-sale service on mainframe computers</td>
<td>Performance</td>
<td></td>
</tr>
<tr>
<td>Scheduling</td>
<td>Fidelity Security’s broad line of mutual funds</td>
<td>BROAD PRODUCT LINE</td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10 Decision Areas of OM (Strategic OM Decisions)

- Goods & service design
- Quality
- Process & capacity design
- Location selection
- Layout design
- Human resource and job design
- Supply-chain management
- Inventory
- Scheduling
- Maintenance

Implementation of 10 OM Decisions

- Operations managers implement these 10 decisions by
  - Identifying key tasks and staff needs
  - Implementation is influenced by nature of goods & services
    - few products are either all goods or all services
    - many are mixtures

Let us take a look at goods and services vis-a-vis the implementation of OM decisions

Goods & Services and the 10 Operations Management Decisions

<table>
<thead>
<tr>
<th>Operations Decisions</th>
<th>Goods</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location Selection</td>
<td>May need to be near raw materials or labor force</td>
<td>May need to be near customer (car rental)</td>
</tr>
<tr>
<td>Layout Design</td>
<td>Layout can enhance production efficiency</td>
<td>Subjective quality standards</td>
</tr>
<tr>
<td>Human Resources and Job Design</td>
<td>Workforce focused on technical skills, Labor standards consistent, Output-based wage system</td>
<td>Customer may be directly involved in process, Capacity matches demand to avoid lost sales</td>
</tr>
</tbody>
</table>

Goods & Services and the 10 Operations Management Decisions

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<th>Goods</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply chain management</td>
<td>Supply-chain relationships critical to final product</td>
<td>Supply-chain relationships important, not necessarily critical</td>
</tr>
<tr>
<td>Inventory</td>
<td>Raw materials, work-in-process, and finished goods</td>
<td>Most services cannot be stored</td>
</tr>
<tr>
<td>Scheduling</td>
<td>Ability to convert inventory may allow leveling of production rates</td>
<td>Primarily concerned with meeting the customer’s immediate schedule</td>
</tr>
</tbody>
</table>
Goods & Services and the 10 Operations Management Decisions

<table>
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<tr>
<th>Operations Decisions</th>
<th>Goods</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance</td>
<td>Maintenance is often preventive and takes place at the production site</td>
<td>Maintenance is often &quot;repair&quot; and takes place at the customer's site</td>
</tr>
</tbody>
</table>

An Example: Process Design

![Process Design Diagram](image)

Operations Strategies for Two Drug Companies

<table>
<thead>
<tr>
<th>Brand Name Drugs, Inc.</th>
<th>Generic Drug Corp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive Advantage</td>
<td></td>
</tr>
<tr>
<td>Product Differentiation</td>
<td>Low Cost</td>
</tr>
<tr>
<td>Product Selection and Design</td>
<td>Heavy R&amp;D; Extensive Labs</td>
</tr>
<tr>
<td>Quality</td>
<td></td>
</tr>
<tr>
<td>Quality is a major priority; Standards exceed regulatory requirements</td>
<td>Meets regulatory requirements on a country-by-country basis as necessary</td>
</tr>
</tbody>
</table>

Operations Strategies for Two Drug Companies - continued

<table>
<thead>
<tr>
<th>Brand Name Drugs, Inc.</th>
<th>Generic Drug Corp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processes</td>
<td></td>
</tr>
<tr>
<td>Product &amp; modular production processes</td>
<td>Process focuses General production processes; Job Shop approach, short run; Focus on high utilisation</td>
</tr>
<tr>
<td>Long product runs in specialized facilities Build capacity ahead of demand</td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td></td>
</tr>
<tr>
<td>Still located in city in which it was founded</td>
<td>Recently moved to low tax, low labor cost environment</td>
</tr>
<tr>
<td>Scheduling</td>
<td></td>
</tr>
<tr>
<td>Central production planning</td>
<td>Many short run products complicate scheduling</td>
</tr>
</tbody>
</table>

Operations Strategies for Two Drug Companies - continued

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<thead>
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<th>Brand Name Drugs, Inc.</th>
<th>Generic Drug Corp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td></td>
</tr>
<tr>
<td>Hires the best; nation-wide searches</td>
<td>Very experienced top executives provide direction; other personnel paid below average</td>
</tr>
<tr>
<td>Supply Chain</td>
<td></td>
</tr>
<tr>
<td>Long term supplier relationship</td>
<td>Tends to purchase competitively to find bargains</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
</tr>
<tr>
<td>Maintains high finished goods inventory, primarily to ensure all demands are met</td>
<td>Process focus drives up WIP inventory. Finished goods inventory tends to be low</td>
</tr>
</tbody>
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Operations Strategies for Two Drug Companies - continued

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</thead>
<tbody>
<tr>
<td>Maintenance</td>
<td></td>
</tr>
<tr>
<td>Highly trained staff; Extensive parts inventory</td>
<td>Highly trained staff to meet challenging demands</td>
</tr>
</tbody>
</table>
Issues in Operations Strategy

Characteristics of High ROI Firms
- High product quality
- High capacity utilization
- High operating efficiency (actual / expected)
- Low investment intensity (amount of capital required to produce a dollar of sales)
- Low direct cost per unit (relative to the competition)

ROI = Gross profit/Total assets

From the PIMS (Profit Impact of Marketing Strategy) study of the Strategic Planning Institute

Strategic Options Managers Use to Gain Competitive Advantage

In a study, 248 businesses were asked to indicate the importance of 32 categories that led to competitive advantage
- 28% - Operations Management
- 18% - Marketing/distribution
- 17% - Momentum/name recognition
- 16% - Quality/service
- 14% - Good management
- 4% - Financial resources
- 3% - Other

Strategic Options Managers Use to Gain Competitive Advantage

- 28% Operations Management
  - Low-cost product
  - Product-line breadth
  - Technical superiority
  - Product characteristics/differentiation
  - Continuing production innovation
  - Low-price/high-value offerings
  - Efficient, flexible operations adaptable to consumers
  - Engineering research development
  - Location
  - Scheduling

Preconditions - To Implement a Strategy

One must understand:
- Strengths & weaknesses of competitors and new entrants into the market
- Current and prospective environmental, legal, and economic issues
- The notion of product life cycle
- Resources available within the firm and within the OM function
- Integration of OM strategy with company strategy and with other functions.

Dynamics - Reasons for Strategy Change

- Strategies change for two reasons:
  - Changes in the organization
    - One example - product life cycle
  - Changes in the environment
    - economic, social, legal, political, market, etc.

Stages in the Product Life Cycle

- Introduction
- Maturity
- Growth
- Decline
Strategy & Issues During Product Life

**Introduction**
- Company Strategy & Issues
  - Best period to increase market share
  - R&D engineering are critical
  - Product design and development are critical
  - Frequent product and process design changes
  - Over-capacity
  - Short production runs
  - High skilled-labor content
  - High production costs
  - Limited number of models
  - Utmost attention to quality
  - Quick elimination of market-revealed design defects

**OM Strategy & Issues**
- Forecasting critical
- Product and process reliability
- Competitive product improvements and options
- Shift toward product oriented
- Enhance distribution

**Growth**
- Company Strategy & Issues
  - Practical to change prices or quality image
  - Marketing is critical
  - Strengthen niche
- OM Strategy & Issues
  - Forecasting is critical
  - Product and process reliability
  - Competitive product improvements and options
  - Shift toward product oriented
  - Enhance distribution

**Maturity**
- Company Strategy & Issues
  - Poor time to increase market share
  - Competitive costs become critical
  - Poor time to change price, image, or quality
  - Defend position via fresh promotional and distribution approaches
- OM Strategy & Issues
  - Standardization
  - Less rapid product changes and more minor annual model changes
  - Optimum capacity
  - Increasing stability of manufacturing process
  - Lower labor skills
  - Long production runs
  - Attention to product improvement and cost cutting
  - Re-examination of necessity of design compromises

**Decline**
- Company Strategy & Issues
  - Cost control critical to market share
  - Little product differentiation
  - Cost minimization
  - Overcapacity in the industry
  - Prune line to eliminate items not returning good margin
  - Reduce capacity

**Process of Strategy Development and Implementation**
- Identify critical success factors (CSF’s)
  - those activities or factors that are key to achieving competitive advantage
  - “what tasks must be done particularly well for a given operations strategy to succeed?”
- Build and staff the organization
  - group activities into an organizational structure
- Integrate OM with other functional areas such as marketing, finance, HR, MIS, etc.
CSF’s in OM are the 10 Decision Areas of OM

- Goods & service design
- Quality
- Process & capacity design
- Location selection
- Layout design
- Human resource and job design
- Supply-chain management
- Inventory
- Scheduling
- Maintenance

SWOT Analysis Process

- Organizational & Environmental Analysis
- Determine Corporate Mission
- Formulate a Strategy

Identifying Critical Success Factors

- After the process of SWOT analysis, critical success factors (CSF) should be identified.
- What are “Critical Success Factors”?
- CFS’s are those activities or factors that are key (i.e. very significant) to achieving competitive advantage.

Identifying Critical Success Factors

Microsoft & HP

- They focus on one business (software and hardware only)
- They are global
- Their senior management is actively involved in defining and improving the product development process
- They recruit and retain the top people in their fields.
- They understand that speed to market reinforces product quality
Activity Mapping: Southwest Airline’s Low Cost Competitive Advantage

- Courteous, but limited passenger service
- Lean, productive employees
- High aircraft utilization
- Standardized fleet of Boeing 357 aircraft
- Short haul, point-to-point routes, often to secondary airports
- Frequent, reliable schedules

Low Cost Competitive Advantage:

- Competitive Advantage: Low Cost

Activity Mapping: Southwest Airline’s Low Cost Competitive Advantage

- Lower gate costs at secondary airports
- High number of flights, reduces employee idle time between flights
- Short haul, point-to-point routes, often to secondary airports

Activity Mapping: Southwest Airline’s Low Cost Competitive Advantage

- Pilot training on only one type of aircraft
- Reduced maintenance inventory required because of only one type of aircraft
- Excellent supplier relations with Boeing has aided financing
- Standardized fleet of Boeing 357 aircraft

Activity Mapping: Southwest Airline’s Low Cost Competitive Advantage

- No seat assignments
- No baggage transfers
- Automated ticketing machines
- No meals
- Frequent, reliable schedules

Activity Mapping: Southwest Airline’s Low Cost Competitive Advantage

- High number of flights reduces employee idle time between flights
- Saturate a city with flights lowering administrative costs per passenger for that city
- High aircraft utilization
- Flexible employees and standard planes aids scheduling
- Flexible union contracts
- Maintenance personnel trained on only one type of aircraft
- 20 minute gate turnarounds
Activity Mapping: Southwest Airline’s Low Cost Competitive Advantage

- High level of stock ownership
- Hire for attitude, then train
- High employee compensation
- Empowered employees
- Automated ticket machines

Lean, productive employees

Courteous, but limited passenger service

Leany, productive employees

Short haul, point-to-point routes, often to secondary airports

Frequent, reliable schedules

High aircraft utilization

Competitive Advantage:
Low Cost

Standardized fleet of Boeing 357 aircraft