

CHAPTER TWO

Operations and Supply Chain Strategy

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Where We Are Now

| Chapter | Relationships | Sustainability | Globalization | Organizational Culture/Ethics Change | Management | Measurement |
|---|---------------|----------------|---------------|--------------------------------------|------------|-------------|
| Part 1 Supply Chain: A perspective for Operations Management | | | | | | |
| 1. Introduction to Managing Operations Across the Supply Chain | X | X | X | | | |
| 2. Operations and Supply Chain Strategy | | | | | | |
| Part 2 Foundations of Operations Management | | | | | | |
| 3. Managing Processes and Capabilities | X | | | | | X |
| 4. Product/Process Innovation | X | X | X | | X | |
| 5. Manufacturing and Service Process Structures | X | | X | X | | X |
| 6. Managing Quality | X | X | X | X | X | X |
| 7. Understanding Inventory Fundamentals | X | | X | | | X |
| 8. Lean Systems | X | | X | X | X | X |
| Part 3 Integrating Relationships Across the Supply Chain | | | | | | |
| 9. Customer Management | X | | | | | X |
| 10. Supplier Management | X | X | X | X | | X |
| 11. Logistics Management | X | X | X | | | |
| Part 4 Planning of Integrated Operations Across the Supply chain | | | | | | |
| 12. Demand Planning: Forecasting and Demand Management | X | | X | | | X |
| 13. Sales and Operations Planning | X | | X | | | X |
| 14. Independent Demand Inventory Planning | X | | | | | X |
| 15. Materials and Resource Requirements Planning | X | | X | | | X |
| Part 5 Managing Change in Supply Chain Operations | | | | | | |
| 16. Project Management | X | X | X | X | X | X |
| 17. Evolving Business Models and Change Drivers in the Supply Chain | X | X | X | X | X | |

Learning Objectives

1. Describe link of operations and strategic planning
2. Describe the links between the essential elements of operations strategy
3. Describe customer desired outcomes
4. Explain product- and process- priorities and links to competitive advantage
5. Explain the use of various performance metrics

2-3

Levels of Strategic Planning

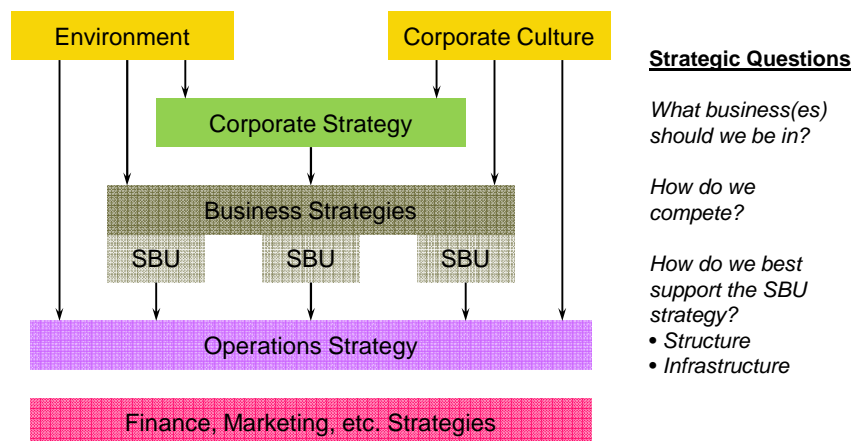


Figure 2-1

2-4

Corporate Strategic Planning

- **Corporate Strategy:** overall mission and target businesses
 - Long time horizon
 - Overall values, direction and goals
 - Acquisitions and divestitures
 - Performance metrics
 - Risk management



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Business Unit Strategic Planning

- **Strategic Business Unit (SBU):** semi-independent organization for different products or markets
 - Identification of customer or market segments
 - Appropriate competitive priorities
 - Constrained by corporate strategy
 - More detailed
 - Shorter time horizon



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Functional Strategic Planning

- **Functional strategy:** determines how functions support business unit strategies
 - Most detailed
 - Most constrained
 - Determines specific focus
 - Management of critical resources
 - Key metrics
 - Identification of capabilities
 - Coordination of activities



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Developing an Operations Strategy

- **Critical Customer:** critical to firm's success and receives firm's focus
- **Value Proposition:** tangible and intangibles that customers expect from a firm
- **Capabilities:** what a firm does well, defines types of problems a firm can proficiently address

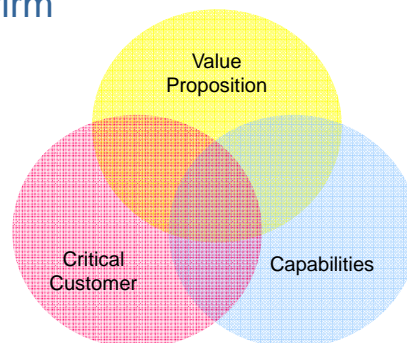


Figure 2-2

2-8

Critical Customers

- Assessing Customers wants and needs:
 - **Order Winners:** why customers choose your firm
 - **Order Qualifiers:** minimum standards to be met
 - **Order Losers:** why customers avoid your firm

Example: Dell Computers

- Order Winner: Flexibility (Customization - A million combinations!)
- Order Qualifier: Affordable price, high level of quality and reasonable delivery estimates

Purely You

2-9

Activity

- Identify the order winners and qualifiers for:
 - A mini-van
 - A sports car
 - A fast food restaurant
 - The 'finest' restaurant in your town
 - A recent purchase of your choice



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Value Proposition

- **Value Proposition:** firm's offerings that are valued by customers and different from competitors
 1. Features that customers value and will pay for
 2. A difficult to imitate source of differentiation
 3. Satisfies financial and strategic firm objectives
 4. Deliverable using the firm's capabilities and supply chain

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Product Related Competitive Priorities

- How customer's problem is 'solved'
 - **Quality:** fitness for consumption in terms of meeting customer needs & desires
 - **Timeliness:** delivery or availability when customer wants
 - **Cost:** expenses incurred in acquiring or using the product

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Competitive Priorities

Quality

Performance
Features
Conformance
Reliability
Durability
Aesthetics
Service/support
Perceived quality

Timeliness

Reliability
Speed
Availability

Cost

Purchase
Transaction
Maintenance/repair
Operating
Salvage/disposal



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Process Related Competitive Priorities

• *How the firm's supply chain operations run over time*

- **Innovation:** radical and incremental changes in products and processes
- **Flexibility:** ability to respond efficiently to changes in products, processes and competitive environment
- **Sustainability:** operations that are profitable and nondamaging to society or the environment
- **Risk Management:** anticipating and dealing with unexpected events

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Activity

Seven Cycles Mission Statement: “Our mission at Seven Cycles is to enhance your cycling experience through the optimum fit, function, performance, and comfort of your bicycle. We've built our business on understanding what you really want and value in a bicycle and delivering precisely that, accompanied by a level of service unparalleled in the industry (see also page 35 of text)”

- Identify and discuss Seven Cycles’

- Order winners

- Order qualifiers

- Order losers

<http://www.sevencycles.com/>

<http://www.youtube.com/watch?v=QJwD48taeOo>



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Capabilities

- **Capabilities:** unique and superior abilities based upon the firm’s routines, skills and processes
- **Core capabilities:** enable firm to meet customer expectations and are difficult for competitors to imitate
- **Fit:** alignment with capabilities, value proposition and critical customer



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Strategic Areas in Operations Management

| | Decision Domain | OM Issues Considered | Other Functional Groups |
|-----------------|---------------------------------|---|--|
| Structural | Capacity | Amount, timing and type | Finance, Marketing |
| | Facilities | Size, location, specialization | Finance, Marketing |
| | Technology | Hardware, software, IS | Finance, Engineering, IT, HR |
| | Supply Chain Network | Supply network Customer network | Finance, Engineering, Marketing, Sales |
| Infrastructural | Workforce | Skills, training, policies, etc. | Human Resources |
| | Production Planning and Control | Procedures, workflow, costs, controls, metrics, etc. | Finance, Human Resources |
| | Product/Process Innovation | Improvements, NPI, intellectual property, etc. | Engineering, Human Resources |
| | Organization & Management | Centralization, hierarchy, relationships, metrics, etc. | Human Resources, Marketing |

Table 2-2

2-17

Strategic Profit Model

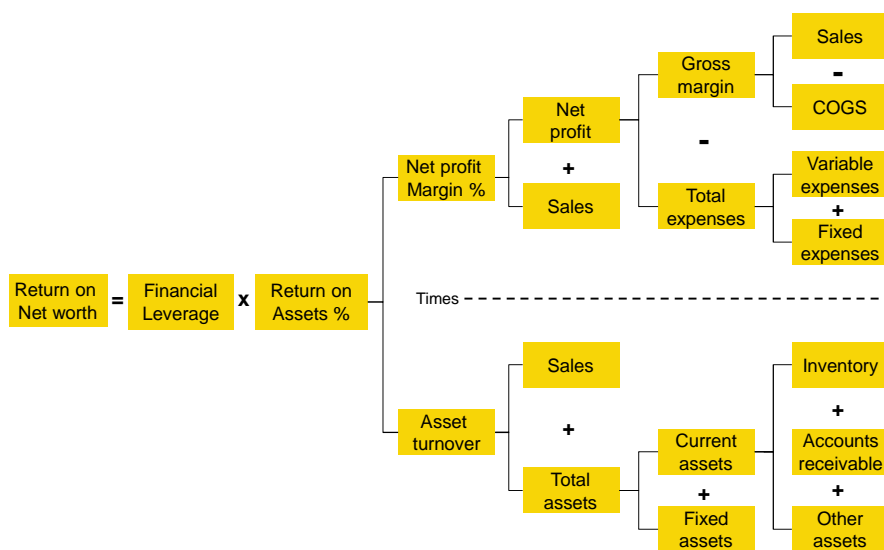


Figure 2-3

2-18

Balanced Scorecard

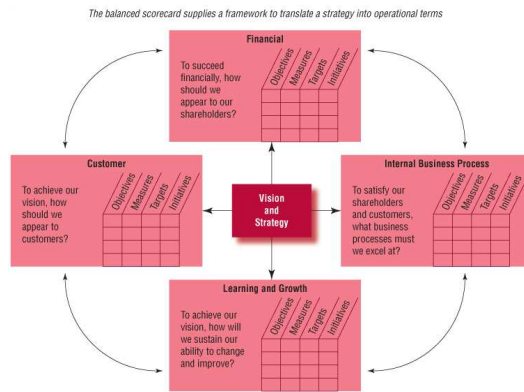


FIGURE 2-4 Balanced Scorecard

Source: Robert S. Kaplan and David Norton, *The Balanced Scorecard* (Cambridge, MA: Harvard Business School Press, 1996). Reprinted with permission of Harvard Business School Press from Robert Kaplan and David Norton, *The Balanced Scorecard—Measures That Drive Performance*, © 1996 by the Harvard Business School Publishing Corporation. All rights reserved.

Robert S. Kaplan and David Norton, "The Balanced Scorecard—Measures That Drive Performance," *Harvard Business Review*, January/February 1992, pp. 71–79.

Figure 2-4

<http://www.balancedscorecard.org/bscresources/aboutthebalancedscorecard/tabid/55/default.aspx>

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Supply Chain Operations Reference Model

- **SCOR** identifies basic management practices at different operations levels, for benchmarking and strategy deployment

Internal {

- **Delivery reliability**: correct items, place, time, condition, quantity, documentation and customer
- **Responsiveness**: supply chain velocity to customer
- **Flexibility**: agility to respond to change

External {

- **Costs**: operational costs of the supply chain
- **Asset management**: effectiveness of assets in supporting demand satisfaction

<http://www.supply-chain.org/>

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OM and SC Strategy Summary

1. Strategic planning happens at multiple levels
2. Strategic planning begins with the customer
3. OM strategy brings together: critical customers, value propositions and operations capabilities
4. Competitive priorities address product and process issues
5. Future capabilities depend on existing core competencies
6. Strategy involves multiple functions and SC partners
7. Must be fit between the elements of #3 above
8. Strategic assessment tools are needed

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