Welcome to Session Three of MAN308 Operations Management.

In this Session we will be investigating Operations Strategy.

In the context of the global environment, an organisation's Operations Management must set goals that will guide the realisation of systems that combine to maximise profit. As we have seen in the previous Sessions there are many impacting factors that Operations Management must consider. In needing to ensure organisational goals are met while recognising the myriad of impacting factors Operations Management will normally develop strategy which is called Operations Strategy.

Simply stated, an organisation's Operations Strategy is a plan specifying how an organization will achieve its strategic goals through the management and allocation of resources to optimise support for infrastructure and production while minimising cost. For example, a company begins developing an operating strategy for achieving its strategic goal of widespread distribution of its Crocodile Leather products in the Northern Territory. The operating strategy might include hiring a marketing manager with Territorian experience, identifying NT distributors with which the firm might establish a relationship, and redesigning its products to match the specific tastes of target market.
In investigating Operations Strategy, during this Session we will treat the following:

- Explain how organizations seek to gain competitive advantage.
- Explain approaches for understanding customer requirements.
- Describe how customers evaluate goods and services.
- Explain the five key competitive priorities.
- Explain the role of OM and operations strategy in strategic planning.
In the highly competitive global market place, organisations and their products need to be more attractive to the consumer and so need to develop a competitive advantage over its rivals.

A Competitive Advantage of an organisation is an advantage that a firm has over its competitors that allows it to generate greater sales or margins and/or retain more customers than its competition. There can be many types of competitive advantages including the firm’s cost structure, product offerings, distribution network and customer support.

Competitive advantage is an organisation’s ability to achieve market and financial superiority over its competitors.

There are two main types of competitive advantages: comparative advantage and differential advantage.

Comparative advantage, or cost advantage, can be seen when a firm can produce a good or service at a lower cost than its competitors, and which results in the firm being able to sell its goods or services at a lower price than its competition or alternately to realise larger margins on sales.

On the other hand, a differential advantage is created when a firm’s products or services differ from its competitors and are seen as better than a competitor’s products by customers.
Gaining Competitive Advantage

*Competitive advantage* denotes a firm’s ability to achieve market and financial superiority over its competitors.

Creating competitive advantage requires:

1. Understanding customer needs and expectations and how the value chain can best meet these through designing and delivering customer benefit packages.

2. Building and leveraging operational capabilities to support desired competitive priorities.

Again, *Competitive advantage* is an organisation’s ability to achieve market and financial superiority over its competitors.

The creation of competitive advantage requires two things of operations management:

1. Have an in-depth understanding for the customers needs and expectations and how the value chain can best meet these through designing and delivering customer benefit packages, and

2. Build and leverage operational capabilities to support desired competitive priorities described by organisational goals and strategy.
We keep bumping into this idea of needing to address the customers wants and needs.

This is because the organization’s *raison d'être* or fundamental purpose is to provide goods and services of value to the customer and the value we speak of is that which the customer perceives. As such, it is important to understand the customers desire and how they evaluate goods and services. Of course organizations cannot accommodate all customers’ and all needs and wants, and so a Customer Benefit Package is designed to address a specific segment of the market. These segments might be based on natural groups such as buying behavior, geographic location, demographic character traits, sales volume, profitability or even expected level of service.

By understanding their customer, organisations can design CBPs, competitive strategies, systems and processes to produce goods and services that best meet the unique needs of the targeted segment. The key to understanding the customer is Market Research which comes in many forms such as focus groups, sales staff and employee feedback, complaints analysis, customer interviews, recorded customer interactions, mystery shoppers, telephone hotlines, internet monitoring, customer surveys and there are many more approaches.
From what we have discussed in this and previous Sessions you might have deduced a very important fact, and this is that the absolute minimum organisation performance measure is the customers expectations and the target should be to exceed their expectations.

Minimum performance levels are normally a minimum required to stay competitive and as such in business, and are often called Order Qualifiers. For example you would expect to have sugar and napkins on the table in a café, or safe fencing on the tour around the Crocodile farm.

The performance measure of features that will give an organisation a competitive advantage are those that the customer does not expect and positively differentiate the goods and services such that the customer has an increase value perception and one that is greater than the competition. These types of features are referred to as Order Winners.

As we saw in an earlier Session, time whittles away at the customers value perception such that what the customer perceives today as being Order Winning features will tomorrow be the expected standard or minimum expected feature and thus they will become to Order Qualifier.
Evaluating Goods and Services

• **Search attributes** are those that a customer can determine prior to purchasing the goods and/or services.

• These attributes include things like color, price, freshness, style, fit, feel, hardness, and smell.

Quality, as we have discussed many times now, is a key aspect that affects the customers' decision to purchase from a certain organisation. There are three types of attribute the customer will normally use when judging quality of a good or service, these are:

• Search attributes,
• Experience attributes, and
• Credence attributes

Search Attributes are types of detail that the customer will search and are normally classification attributes such as colour, flavour, prices, freshness, style, fit, hardness, smell, brand and so on. These attributes will help the customer characterise exactly what they are looking for and who can supply it. You might also have noticed that this type of attribute lends itself more to physical goods than services.

What is important to an organisation about this attribute is that if you do not make this information available to the customer, they will not even consider your product. As such this type of information must be in the location or locations the customer is likely to search and in a form the customer can easily understand.
Experience attributes are obviously “experiential” in nature and those attributes that the customer can only evaluate after purchasing a good or service or during its consumption or use. Some examples of this attribute are friendliness, taste, wearability and fun.
Finally, Credence Attributes are intangible and based in the customer’s personal belief constructs. These characteristics mean they cannot be evaluated *per se*, even after purchase or consumption. These attributes evolve from the customer experience and can often have no reasoning behind their existence other than a feeling or perception the customer had or has. Examples might include the perceived (imaginary or real) expertise a surgeon or mechanic has, the perceived (imaginary or real) knowledge a tax advisor has, or the perceived (imaginary or real) accuracy and reliability of a software package.
Importantly, these attributes must be considered by the operations managers as they have to be factored into product design and the systems and processes that design, produce or deliver the Customer Value Package.

Interestingly, these different attributes are used by customer to evaluate different purchases. As can be seen in the continuum above goods are normally high in Search Attributes where pure Services are high in Credence Attribute and packages that offer a mix of both good and service are high in Experience Attributes. This is important because it gives the Operations Manager an idea of what attributes should be focused on the and why.

In the continuum, we can see that goods like jewelry, cars and clothing are high in Search Attribute and so management should focus on identification and management of these. Purchases like holidays, restaurant meals and household repairs are high in Experience Attributes. Finally, the more service oriented a product the more customers will rely on Credence attributes to develop their perception of value.
Customers evaluate services in ways that are often different from goods, such as:

- Customers seek and rely more on information from personal sources than from non-personal sources when evaluating services prior to purchase. Operations must ensure systems are in place to support the emotional state of the customer such as personal-to-person communications and follow-up contact.

- Because people are normally risk averse and information is less tangible and quantifiable when purchasing Services, customers perceive greater risks when buying services than when buying goods, because services are intangible and customers cannot get hard data such as looking or touching the product prior to the purchase decision.

The upshot of all that, is to simply say that, customers evaluate Goods and Services differently, for example:

Customer use more personal intuitive information to evaluate Services than they do for Goods. So, Operations Management must ensure systems are in place to support the emotional state of the customer, such as person-to-person communications and follow-up contacts.

Because people are normally risk averse and the information is less tangible or quantifiable when purchasing Services, customers perceive greater risks when buying services than when buying goods.

These are two of the main factors that explain why it is more difficult to design services and service processes than goods and manufacturing operations.
Pause this presentation for 10 – 15 minutes to:

**Imagine you own a Fudge Factory –**

1. Make a list of 20 fudge flavours you think you should sell.
2. Produce a **pre-business launch plan** (1-2 pages) that describes how you would test the market in order to reduce the list to only 10 of the most popular flavours.
3. Produce a **post-business launch plan** (1-2 pages) that describes how you would test the market in order to ensure you really do have the correct 10 flavours.

**NOTE:** Be prepared to discuss your ideas in class.

Your plans should include:

- The identification of an appropriate market segment, its characteristics and reasoning for its selection,
- Description of techniques you would use to access that market segment,
- How you would collect the data and why you would collect the data in that fashion.
NOTE: Be prepared to discuss your ideas in class.
As we have discussed, an organisation might (some not for profit orgs may not) need to strive to have a product that is more attractive to the customer. To do so is to realise a competitive advantage over the rival organisation’s product.

In developing a competitive advantage over rival organisations, operations management must identify those attributes of the organisation’s value chain that make its product or service more attractive to the customer. In doing this, operations management will produce a priorities list that ranks the different value chain aspects relative to its strategic importance. These aspects of the value chain might be anything from performance measures, low cost of production, speed of order to market, an ability to change or alter product or production characteristics, a high level research and development targeting innovation, and so on.

Simply stated Competitive Priorities represent the strategic emphasis that a firm places on certain performance measure and operational capabilities within a value chain. Key competitive advantages are:

- Cost
- Quality
- Time
• Flexibility
• Innovation

We will now spend some time describing these priorities.
Competitive Priority – Cost

• Almost every industry has a low price market segment. Examples include Honda Motor Co., Marriott's Fairfield Inns, Merck-Medco On-line Pharmacy, Southwest Airlines, and Walmart.

• Low cost results from high productivity, high capacity utilization, and economies of scale. Continuous improvement is essential to achieve a low-cost competitive advantage.

Cost as a Competitive Priority

Most industries have a low market price segment for example:

• Car manufacturers almost always offer a cheaper base model,
• Hotels often have cheaper rooms,
• Supermarkets often offer cheaper generic brands,
• Jewelers often offer cheaper cut-price items

As already stated, most industries have a low market price segment and so offer product or service to address that segment. However, to produce lower priced items organisations need to realise economies of scale to support lower cost production and may also need capacity to manage the higher capacities normally need to appropriately supply a lower cost segment.

This type of segment is often fairly competitive and so to remain competitive organisations need to continually improve production and the product.
Competitive Priority – Quality

PIMS Associates, Inc., a subsidiary of the Strategic Planning Institute, found that:

• Businesses offering premium quality goods usually have large market shares and were early entrants into their markets.
• Quality is positively and significantly related to a higher return on investment for almost all kinds of market situations.
• A strategy of quality improvement usually leads to increased market share, but at a cost in terms of reduced short-run profitability.
• High goods quality producers can usually charge premium prices.

Quality as a Competitive Priority

We have often discussed the need to recognise stakeholder perceptions. In recognising stakeholder perceptions, organisations must understand how quality affects their perceptions. The role of quality has been extensively researched, this research has found that:

• Businesses offering premium quality goods usually have large market shares and were early entrants into their markets.
• Quality is positively and significantly related to a higher return on investment for almost all kinds of market situations.
• A strategy of quality improvement usually leads to increased market share, but at a cost in terms of reduced short-run profitability.

• Producers of high quality goods can usually charge premium prices.

These findings clearly indicate a continuum between:

• **Premium Goods** with larger market segments and lower prices and

• **High Quality Goods** with premium prices.

Affecting all aspects of the continuum is that stakeholders perception of quality and how that effects the delivery of product by the organisation.
Operations Managers deal with quality issues on a daily basis; these include ensuring that goods are produced defect-free, or that service is delivered flawlessly.

The diagram on this slide summarises the impact of quality on profitability. If you study this you will get a feeling for the relationship between quality, price and market segment.

If you improve quality as perceived by customer, the customers perception of value improves and this normally results in increased market share. With higher perceived value the organisation can demand increased prices. With increased market share and/or higher prices the organisation might realise increased revenues which then leads to higher profitability.

On the production side, with improved quality and production systems the organisation can realise lower manufacturing and service costs which should also translate into higher profitability.
Competitive Priority – Time

• Time is perhaps the most important source of competitive advantage.

• Customers demand quick response, short waiting times, and consistency in performance.

• Many firms use time as a competitive weapon to create and deliver superior goods and services, such as Charles Schwab, CNN, Dell, and FedEx.

Time as a Competitive Priority

As a competitive advantage, Time is perhaps the most important.

The customer will demand quick response, short waiting times, and consistency in performance. If you have ever order something online you know how quick turnaround time and delivery of your order impresses however, if an order takes weeks to get to you get disappointed and this will reduce you tendency to order from that firm again.

Many firms use time as a competitive tool to leverage positive customer perceptions of quality. They strive to deliver high quality goods and services in as little time as possible.
Competitive Priority – Time

- Speeding up work processes improves customer response. Deliveries can be made faster, and more often on-time.

- Time reductions can only be accomplished only by streamlining and simplifying processes and value chains to eliminate non-value-added steps such as rework and waiting time.

- Time reductions also drive improvements in quality, cost, and productivity.

Time as a Competitive Priority

Fairly obviously, improvements in appropriate time-to-turnaround can only be achieved through improvements of process such as simplifying or streamlining. These improvements would normally eliminate non-value-adding segments of a process.

A very important part of time reductions is that Operations Management must always ensure appropriate levels of quality, cost, and productivity are achieved.
Flexibility as a Competitive Priority

As we have discussed, customers now expect a level of flexibility. In global markets this flexibility refers to an organisation ability to be flexible in design and demand. 

- **Mass customization** is being able to make whatever goods and services the customer wants, at any volume, at any time for anybody, and for a global organization, from any place in the world.

Today’s global markets often require that flexibility is available at a mass market level. **Mass Customisation** strategies are common place, these strategies see organisations being able to make whatever good and service the customer wants, at any volume, and at any time for anybody. For global organisations this may also mean the ability to deliver from any of its facilities across the globe.
Innovation as a Competitive Priority

Innovation can place a product or service at an advantage to others and is a key to maintaining a competitive advantage in the market. Innovation is the discovery and practical application or commercialization of a device, method, or idea that differs from existing norms.

Innovative companies focus on outstanding product research, design, and development; high product quality; and the ability to modify production facilities to produce new products frequently.
Task

Using the “Solved Problem” on page 73 of your textbook to guide you, imagine a new business and define the customer benefit package for it recreation center and use this to describe the organization’s strategic mission, strategy, competitive priorities, and how it wins customers.

Pause this presentation for 10 – 15 minutes to:

Review the “Solved Problem” on page 73 of your text book.

Imagine you own new business -

Be inventive and imaginative in coming up with your own business. Define the customer benefit package for your business and use this to complete the following:

1. Name you organisation.
2. Write a short strategic mission statement (1 - 2 sentences),
3. Outline a strategy for realising this mission (0.25 pages),
4. List the organisation’s competitive priorities (1 - 2 lines per priority),
5. Describe how the organisation might win customers (1 - 2 paragraphs).
NOTE: Be prepared to discuss your ideas in class.
On page 73 of your textbook you will find the “Solved Problem” you used in the previous task to guide your activities.

The mission statement in the example is stated as:

The mission of our health club is to offer many pathways to a healthy living style and body.

The Strategies listed in the example are stated as:

We strive to provide our customers with superior:

• Ways to improve and maintain your body and mind’s health and well-being.
• Friendly professional staff that care about you.
• Clean facilities, equipment, uniforms, parking lot, food service, and the like.
• Customer convenience (location, food, communication, schedules, etc.).
Example Solution (continued)

**Competitive Priorities:**
1. Many pathways to healthy living and a healthy body (design flexibility)
2. Friendly professional staff and service encounters (service quality)
3. Everything is super-clean (goods and environmental quality)
4. Customer convenience in all respects (time)
5. Price (cost)

**How to win customers?** Providing a full service health club with superior service, staff, and facilities.

The Competitive Priorities listed in the example are stated as:

1. Many pathways to healthy living and a healthy body - in this you can see design flexibility,
2. Friendly professional staff and service encounters - in this you can see service quality,
3. Everything is super-clean - this telegraphs a high level of quality of goods,
4. Customer convenience in all respects - This indicates a focus on time, and
5. Price - finally, this targets price.

The “How to win customers” statement is:

Providing a full service health club with superior service, staff, and facilities.
An organisation will direct its efforts and manage its priorities using specified strategies.

**Strategy** is a pattern or plan that integrates an organization’s major goals, policies, and action sequences into a cohesive whole.

- Effective strategies develop around a few key competitive priorities, such as low cost or fast service time, which provide a focus for the entire organization and exploit an organization’s **core competencies** (*the strengths unique to that organization*).
Strategic Planning

- **Strategic planning** is the process of determining long-term goals, policies, and plans for an organization.

- The businesses in which the firm will participate are often called **strategic business units (SBUs)**, and are usually defined as families of goods or services having similar characteristics or methods of creation.

- Strategy is the result of a series of hierarchical decisions about goals, directions, and resources.

Any Strategy will need planning and implementation.

*Strategic planning* is the process an organisation uses in producing and implementing long-term goals, policies, and plans.

Each specific business the organisation is comprised of is normally called **strategic business units (SBUs)**. These are usually defined by families of goods or services which have similar characteristics or methods of creation.

The strategies that address long-term goals, policies, and plans will normally emanate from a series of hierarchical decisions about goals, directions, and resources.
Strategies are normally described using the three levels of Corporate, Business and Functional.

A **corporate strategy** is used to define the businesses in which the corporation will participate and develop plans for the acquisition and allocation of resources among those businesses.

A **business strategy** defines the focus for SBUs. The major decisions involve which markets to pursue and how best to compete in those markets; that is, what competitive priorities the firm should pursue.

A **functional strategy** is the set of decisions that each functional area—marketing, finance, operations, research and development, engineering, and so on—develops to support its particular business strategy.
An operations strategy will normally define how an organisation will execute its chosen business strategies.

Developing an operations strategy involves translating competitive priorities into operational capabilities by making a variety of choices and trade-offs for design and operating decisions.
As we have seen, sustainability is an important factor in leveraging customer impressions of quality and value. Sustainability is defined as either environmental, social, and economic sustainability.

Introducing sustainability into an organization is not a straightforward process as it requires major changes in systems and most importantly the culture of an organization.

Many companies pursue sustainability through their operations, for example, Dell's "Design for Environment" initiative is designed to control raw material acquisition, manufacturing processes, and distribution programs while most importantly linking these activities with green policies that will influence customers such as green disposal of old hardware.
Thanks you for your time and attention. This session of slides is complete and you should now prepare for your workshop and tutorial tasks.