



Operations Management

Session 2 – Operations Strategy, Competitive Priorities & Alignment of Strategies

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A Cold Hard Fact

Customized, better quality, higher productivity, lower costs, and the ability to respond quickly to customer needs are more important than ever, and...

the bar is getting higher

Operations Strategy

- An **operations strategy** supports a company's overall **business strategy** to maximize profits.
- Operations strategy is a **guiding principle used to plan, analyze, and execute a company's operations.**
- Businesses use operations strategies to identify and implement cost-effective processes for creating and distributing products and services.

Competitiveness

- How **effectively** an organization meets the wants and needs of customers relative to others that offer similar goods or services
- Organizations compete through some **combination** of their marketing and operations functions.
 - What do customers want?
 - How can these customer needs best be satisfied?
- Marketing's Influence
 - Identifying consumer wants and/or needs
 - Pricing and quality
 - Advertising and promotion

Businesses Compete through

1. Product and service design
2. Cost
3. Location
4. Quality
5. Quick response
6. Flexibility
7. Inventory management
8. Supply chain management
9. Service
10. Sustainability

Many of these competing priorities are interrelated.

Sample Operations Strategies

Organizational Strategy	Operations Strategy	Examples of Companies or Services
Low Price	Low cost	Southwest Airlines Wal-Mart
Responsiveness	Short processing times On-time delivery	McDonald's restaurants; Express Mail FedEx
Differentiation: High Quality	High performance design and/or high quality processing Consistent quality	Sony TV Five-star restaurants/ hotels
Differentiation: Newness	Innovation	Zara, Apple
Differentiation: Variety	Flexibility Volume	Burger King ("Have it your way") McDonald's ("Buses Welcome")
Differentiation: Service	Superior customer service	Disneyland Amazon
Differentiation: Location	Convenience	Supermarkets; mall stores; ATMs
Differentiation: Sustainability	Energy-efficient operations	Aditya Birla Group Patagonia

Core competencies –

- The special attributes or abilities that give an organization a competitive edge
- To be effective, core competencies and strategies need to be aligned

Strategic OM Decision Areas

Decision Area	What the Decisions Affect
Product and service design	Costs, quality, liability, and environmental issues
Capacity	Cost, structure, flexibility
Process selection and layout	Costs, flexibility, skill level needed, capacity
Work design	Quality of work life, employee safety, productivity
Location	Costs, visibility
Quality	Ability to meet or exceed customer expectations
Inventory	Costs, shortages
Maintenance	Costs, equipment reliability, productivity
Scheduling	Flexibility, efficiency
Supply chains	Costs, quality, agility, shortages, vendor relations
Projects	Costs, new products, services, or operating systems



Air Deccan – India's first low cost airline

- Pricing at 30-40 percent of regular airline services

Operations Strategy at Air Deccan

- More flying hours per aircraft – point-to-point flying as against Hub & Spoke.
- Cutting out all frills – in-flight food, business class and lounges at the airport
- Elimination of inter-airline arrangements for baggage – cost and delay reduced
- New distribution model
- Airbus on heavy traffic routes and smaller aircraft for lower traffic routes
- No refunds, compensations or accommodation facilities for missing a flight
- Computerised reservation system & Ticket booking through call centres – e-ticketing
- Hub and spoke vs point-to-point flying
- Outsourced facilities in all airports - on an hourly basis – reduced capital costs.
- Local employment

- 30% of passengers on every Air Deccan flight were first-time travellers in India.

Operations Strategy at ZARA – Innovative/Responsive

- Inditex (Zara) is one of the world's largest clothing manufacturers.
- In 2019, Inditex manufactured more than 840 million garments annually via 6,300 stores in 85 countries.
- **Vertical Integration**
 - Manages the design, production, shipment, display, promotion, sales, and feedback, relying only minimally on outsourcing.
 - Zara leverages this control into precise data acquisition and forecasting, seamless modifications, and reliable product quality.
- **Logistical Trade-Offs**
 - Zara manufactures most of its products in Europe, where it gets about 66% of its sales.
 - Outsourcing to Asia necessitates costly transportation costs back to its biggest market, although Asia has less costly labour for manufacturing.
- **Product Replacement Cycle**
 - Control over design, quality and manufacturing by keeping manufacturing processes close to management centres
 - Easy to manipulate designs (1st) and churn out new ones very quickly (2nd strategy)
 - Adapt to consumer demands quickly, aligning itself with demand in a meaningful way.
 - Encourages customers to buy promptly because the particular product or design that strikes your fancy today may be replaced by something else tomorrow.
- **Product Quality**
 - Impulse buys are common at Zara stores, and Zara creates such an environment by providing quality products and keeping customers returning for more Zara products.
- **Low Inventory Strategy**
 - I need to buy this now, or else it will be sold out.
 - Low inventories enable Zara to decrease the number of price reduction events.
 - Sample products before committing to them - Zara's low-inventory strategy
- **Proprietary Software and Design Flow**
 - Analyzing fashion trends from each store enables Zara to realize the newest trends, sample them through stores, and decide to increase or stop production.
 - Rapid product replacement enables Zara to sample many different designs
- **Location Strategy for retail outlets**
 - Zara's strategy is to project high-class fashion from all of its retail locations and to do so right next door to its luxury brand competitors.
- **Trade-offs**
 - While Zara is fast at responding to demand by ramping up manufacturing, it cannot match high demand quickly.
 - Sometimes products can cannibalize each other

IKEA – Home Furnishings

- IKEA had the vision to provide well-designed, quality, functional home furnishings at the lowest possible price point to ensure affordability.
- **Product Design and Production**
 - Designers at IKEA excel at creating high-quality products while maintaining low manufacturing costs to ensure affordability.
 - The ready-to-assemble design of each item in its inventory also drastically reduces the price of production and distribution.
 - Each design phase starts by setting a price point for a particular product.
 - The company's standardized production process uses a limited selection of raw materials to reduce waste and overall cost.
 - Extensive forecasting system to predict trends and begin production plans years in advance.
 - The strategic allocation of production based on supplier resources and capacity allows IKEA to balance production volumes across its network of third-party manufacturers.
- **Packaging and Distribution**
 - Packages the disassembled furniture into flat boxes that optimize storage space and transportation costs.
- **Inventory Management**
 - The first and second floors consist of stunning showrooms displaying the assembled products, while the pallet floor serves as a storage facility for products in stock.
 - By merging retail locations with warehouse facilities and a self-service model, IKEA can reduce distribution and product storage costs to maintain a competitive edge.
 - Each retail facility has an in-store logistics manager and a store goods manager responsible for ordering and material handling, respectively.
- **IKEA's Supply Chain**
 - Long-term business relationships with suppliers ultimately reduce the cost of goods sold.
 - IKEA works directly with suppliers to innovate efficient, low-cost ways to bring its designs to life.

Café Coffee Day: A Strategy for Affordable Luxury

Café Coffee Day (CCD) is India's favourite coffee shop for the young and the young at heart. It is a part of India's largest coffee conglomerate, Amalgamated Bean Coffee Trading Company Limited. In Asia, it has the second largest coffee estate ownership, which endows it with abundant source of coffee. In addition, there are 11,000 small growers from whom CCD sources coffee beans. These choices with respect to the supply chain for coffee beans enable them to provide single origin coffee to the connoisseur.

In some sense, CCD has brought in the concept of cafés to India. The first CCD outlet opened in 1996 on Brigade Road in Bangalore continues to be one of the most happening places in the city. Since then, CCD has grown into the largest organized retail cafe chain in the country. CCD outlets are also present in Vienna, Austria, and the Czech Republic. There are about 1700 outlets in India, and there are plans to increase it to over 2000 outlets in India and 200 in overseas by December 2014.

The concept, strategic intent, service delivery design, and various other choices made at CCD makes it unique. A typical CCD outlet is a smart, simple space where the customers could sit down, talk, and listen to conversations, hold short meetings, or even have a lot of good fun, all over steaming cups of coffee. A typical customer is about 25 years old and never visits the CCD outlet alone. In a CCD outlet, the coffee is served efficiently; the outlet is clean and the setting relaxed yet peppy. What distinguishes CCD from the other competitors such as Barista, Au Bon Pain, and Costa Coffee is the pricing strategy, which the MNCs struggle to get after a few iterations. CCD offers a single-serve coffee machine that can dispense a cup of tea in about

20 seconds. They have also developed a 5 Kg, 30 cm tall machine called Coffee Day Wakeup, which is likely to be priced under ₹5,000 compared to Italy's Lavazza's ₹15,000 product. The service delivery design of CCD is unique and is based on the strategic intent of providing an affordable luxury to the chosen customer segment. There are four formats available. These include **Café Coffee Day, The Lounge, The Square, and XPRESS Outlets**. There are over 1500 Cafés spread across 200 cities in India where over 300,000 customers step in on a daily basis. The Lounge offers a wide range of food and beverages, targeting a more mature and affluent group of customers. The Square is a premium range of cafés catering to the connoisseur and widely travelled. The Lounge and the Square outlets are designed in such a manner that it can be used for a serious business conference or for a relaxed meeting. Facilities available include a free wi-fi, a presentation screen, single-origin coffee, and exquisite cuisine.

The XPRESS Outlets offer quick coffee to the moving population and are located in the city's key spots. Each of these outlets is designed to suit the targeted customer segment. The XPRESS Outlets occupy just 60 square foot of space, whereas The Square and the Lounge are much bigger.

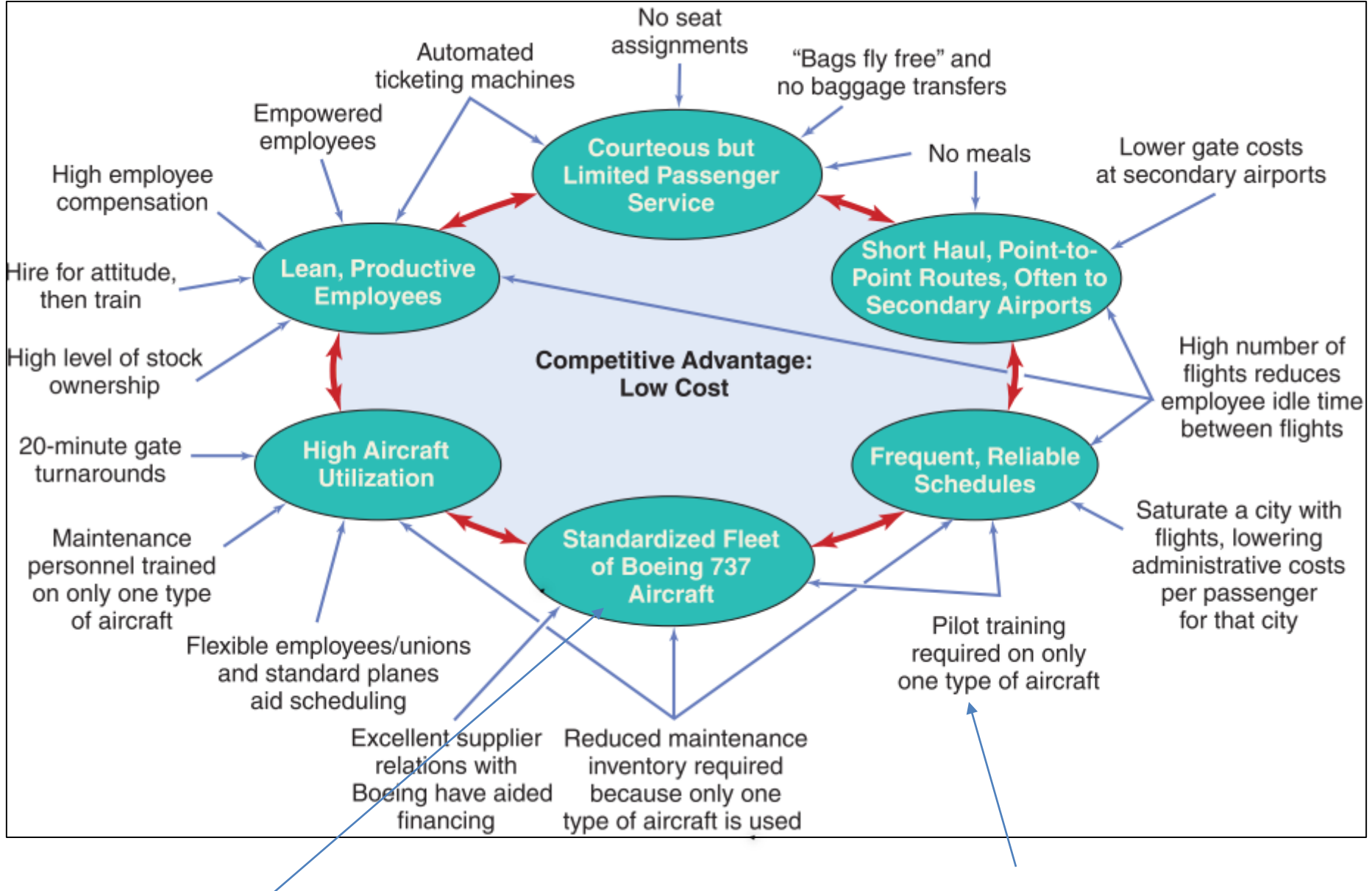
The strategy of CCD is to be the best Café chain by offering a world-class coffee experience at affordable prices. A closer look at various aspects of CCD suggests the importance of developing a corporate strategy and aligning various aspects of operations to the overall strategy. We shall see some of these aspects in detail in this chapter.

Source: <http://www.cafecoffeeday.com>; "Tomorrow's Goliaths: Café Coffee Day", *Business Today*, December 2, 2011, pp. 80–84.

Activity Mapping at Southwest Airlines



Activity Mapping at Southwest Airlines



Key Success Factors

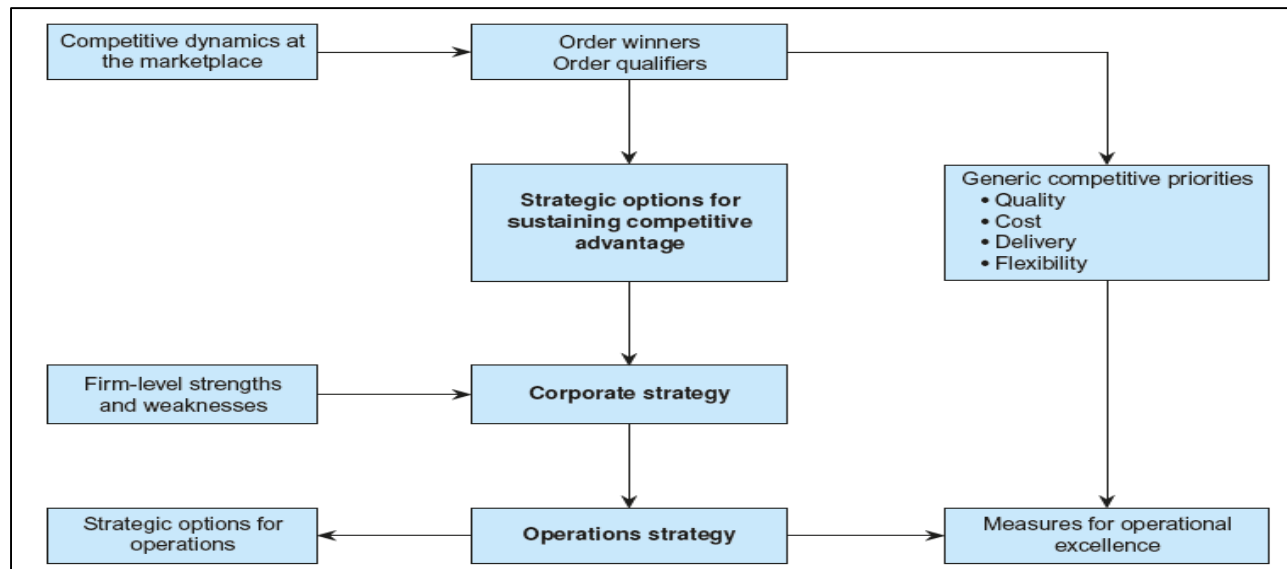
Support activities

Key to Successfully Competing

Understand

- **What do customers want?**
- **What is the best way to satisfy those wants?**

Strategy Formulation Process



1. **Understanding** the competitive dynamics at the marketplace,
2. **Identifying** order-winning and order-qualifying attributes,
3. **Deciding** on strategic options for sustaining competitive advantage,
4. **Matching** the strategic options with the resources, constraints, values, and objectives of the organization to arrive at the overall corporate strategy. (SWOT)
5. **Developing** the operations strategy on the basis of the corporate strategy, and;
6. Using the operations strategy to **select appropriate options** for configuring an operations system and establishing relevant measures for operational excellence.

- **Order qualifiers** - Characteristics that customers perceive as minimum standards of acceptability for a product or service to be considered as a potential for purchase
- **Order winners** - Characteristics of an organization's goods or services that cause it to be perceived as better than the competition (consumer response, speed, variety, and convenience.)

This changes over time.

Why Some Organizations Fail

1. Neglecting operations strategy
2. Failing to take advantage of strengths and opportunities and/or failing to recognize competitive threats
3. Too much emphasis on short-term financial performance at the expense of R&D
4. Too much emphasis on product and service design and not enough on process design and improvement
5. Neglecting investments in capital and human resources
6. Failing to establish good internal communications and cooperation
7. Failing to consider customer wants and needs