Operations Strategy in a Global Environment
Outline

- Global Company Profile: Boeing
- A Global View of Operations and Supply Chains
- Developing Missions and Strategies
- Achieving Competitive Advantage Through Operations
- Issues in Operations Strategy
Outline – Continued

- Strategy Development and Implementation
- Strategic Planning, Core Competencies, and Outsourcing
- Global Operations Strategy Options
### Boeing’s Global Supply-Chain Strategy

#### Some of the International Suppliers of Boeing 787 Components

<table>
<thead>
<tr>
<th>SUPPLIER</th>
<th>HEADQUARTERS COUNTRY</th>
<th>COMPONENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latecoere</td>
<td>France</td>
<td>Passenger doors</td>
</tr>
<tr>
<td>Labinel</td>
<td>France</td>
<td>Wiring</td>
</tr>
<tr>
<td>Dassault</td>
<td>France</td>
<td>Design and PLM software</td>
</tr>
<tr>
<td>Messier-Bugatti</td>
<td>France</td>
<td>Electric brakes</td>
</tr>
<tr>
<td>Thales</td>
<td>France</td>
<td>Electrical power conversion system</td>
</tr>
<tr>
<td>Messier-Dowty</td>
<td>France</td>
<td>Landing gear structure</td>
</tr>
<tr>
<td>Diehl</td>
<td>Germany</td>
<td>Interior lighting</td>
</tr>
</tbody>
</table>
# Boeing’s Global Supply-Chain Strategy

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<th>SUPPLIER</th>
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<th>COMPONENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cobham</td>
<td>UK</td>
<td>Fuel pumps and valves</td>
</tr>
<tr>
<td>Rolls-Royce</td>
<td>UK</td>
<td>Engines</td>
</tr>
<tr>
<td>Smiths Aerospace</td>
<td>UK</td>
<td>Central computer systems</td>
</tr>
<tr>
<td>BAE Systems</td>
<td>UK</td>
<td>Electronics</td>
</tr>
<tr>
<td>Alenia Aeronautica</td>
<td>Italy</td>
<td>Upper center fuselage</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>
</tbody>
</table>
## Boeing’s Global Supply-Chain Strategy

### Some of the International Suppliers of Boeing 787 Components

<table>
<thead>
<tr>
<th>SUPPLIER</th>
<th>HEADQUARTERS COUNTRY</th>
<th>COMPONENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kawasaki Heavy Industries</td>
<td>Japan</td>
<td>Forward fuselage, fixed sections of wing</td>
</tr>
<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</td>
<td>China</td>
<td>Rudder</td>
</tr>
<tr>
<td>Hafei Aviation</td>
<td>China</td>
<td>Parts</td>
</tr>
<tr>
<td>Korean Airlines</td>
<td>South Korea</td>
<td>Wingtips</td>
</tr>
<tr>
<td>Saab</td>
<td>Sweden</td>
<td>Cargo and access doors</td>
</tr>
</tbody>
</table>
Learning Objectives

When you complete this chapter you should be able to:

2.1 Define mission and strategy

2.2 Identify and explain three strategic approaches to competitive advantage

2.3 Understand the significant key success factors and core competencies
Learning Objectives

When you complete this chapter you should be able to:

2.4 Use factor rating to evaluate both country and provider outsources

2.5 Identify and explain four global operations strategy options
Global Strategies

- Boeing – sales and supply chain 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, purchased by a Chinese company, Geely. The current Volvo S40 is assembled in Belgium, South Africa, Malaysia and China on a platform shared 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 U.S. market) and wine cabinets (it has half of the U.S. market) in South Carolina
Growth of World Trade

Figure 2.1

World trade as a % of World GDP

Year


Figure 2.1
Reasons to Globalize

1. Improve the supply chain
2. Reduce costs and exchange rate risks
3. Improve operations
4. Understand markets
5. Improve products
6. Attract and retain global talent
Improve the Supply Chain

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

- Risks associated with currency exchange rates
- Reduce direct and indirect costs
- Trade agreements can lower tariffs
  - Maquiladoras
  - World Trade Organization (WTO)
  - North American Free Trade Agreement (NAFTA)
  - APEC, SEATO, MERCOSUR, CAFTA
  - European Union (EU)
Improve Operations

- Understand differences between how business is handled in other countries
  - Japanese – inventory management
  - Germans – robots
  - Scandinavians – ergonomics
- International operations can improve response time and customer service
Understand Markets

- Interacting with foreign customers, suppliers, competition can lead to new opportunities
  - Cell phone design moved from Europe to Japan
  - Extend the product life cycle
Improve Products

- Remain open to free flow of ideas
- Toyota and BMW manage joint research and development
  - Reduced risk, state-of-the-art design, lower costs
- Samsung and Bosch jointly produce batteries
Attract and Retain Global Talent

- Offer better employment opportunities
  - Better growth opportunities and insulation against unemployment
  - Relocate unneeded personnel to more prosperous locations
Cultural and Ethical Issues

- Social and cultural behavior differs
- International laws, agreements, codes of conduct for ethical behaviors
- Mobility of capital, information, goods, and people
Companies Want 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
- Transportation infrastructure
- Communication system
Match Product and Parent

- Braun Household Appliances
- Firestone Tires
- Godiva Chocolate
- Haagen-Dazs Ice Cream
- Jaguar Autos
- MGM Movies
- Lamborghini Autos
- Alpo Petfoods

1. Volkswagen
2. Bridgestone
3. Campbell Soup
4. Tata Motors Limited
5. Proctor and Gamble
6. Nestlé
7. Pillsbury
8. Sony
Match Product and Country

- Braun Household Appliances
- Firestone Tires
- Godiva Chocolate
- Haagen-Dazs Ice Cream
- Jaguar Autos
- MGM Movies
- Lamborghini Autos
- Alpo Petfoods

1. Great Britain
2. Germany
3. Japan
4. United States
5. Switzerland
6. India
Developing Missions and Strategies

Mission statements tell an organization where it is going.

The Strategy tells the organization how to get there.
Mission

- Mission - where is the organization going?
  - Organization’s purpose for being
  - Answers “What do we contribute to society?”
  - Provides boundaries and focus
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.
Our mission is to be the world's premier consumer products company focused on convenient foods and beverages. We seek to produce financial rewards to investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate. And in everything we do, we strive for honesty, fairness and integrity.
<table>
<thead>
<tr>
<th>Arnold Palmer Hospital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arnold Palmer Hospital for Children provides state of the art, family-centered healthcare focused on restoring the joy of childhood in an environment of compassion, healing, and hope.</td>
</tr>
</tbody>
</table>

Figure 2.2
Factors Affecting Mission

- Philosophy and Values
- Profitability and Growth
- Environment
- Customers
- Public Image
- Benefit to Society
Strategic Process

Organization’s Mission

Functional Area Missions

Marketing

Operations

Finance/Accounting
## Sample Missions

<table>
<thead>
<tr>
<th>Sample Company Mission</th>
</tr>
</thead>
<tbody>
<tr>
<td>To manufacture and service an innovative, growing, and profitable worldwide microwave communications business that exceeds our customers’ expectations.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sample Operations Management Mission</th>
</tr>
</thead>
<tbody>
<tr>
<td>To produce products consistent with the company’s mission as the worldwide low-cost manufacturer.</td>
</tr>
</tbody>
</table>

Figure 2.3
## Sample Missions

<table>
<thead>
<tr>
<th>Sample OM Department Missions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product design</strong></td>
</tr>
<tr>
<td>To design and produce products and services with</td>
</tr>
<tr>
<td>outstanding quality and inherent customer value.</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Quality management</strong></td>
</tr>
<tr>
<td>To attain the exceptional value that is consistent</td>
</tr>
<tr>
<td>with our company mission and marketing objectives by</td>
</tr>
<tr>
<td>close attention to design, procurement, production,</td>
</tr>
<tr>
<td>and field service operations</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Process design</strong></td>
</tr>
<tr>
<td>To determine, design, and produce the production</td>
</tr>
<tr>
<td>process and equipment that will be compatible with</td>
</tr>
<tr>
<td>low-cost product, high quality, and good quality of</td>
</tr>
<tr>
<td>work life at economical cost.</td>
</tr>
</tbody>
</table>

Figure 2.3
Sample Missions

<table>
<thead>
<tr>
<th>Sample OM Department Missions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
</tr>
<tr>
<td>Layout design</td>
</tr>
<tr>
<td>Human resources</td>
</tr>
</tbody>
</table>
# Sample Missions

<table>
<thead>
<tr>
<th>Sample OM Department Missions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply-chain management</strong></td>
</tr>
<tr>
<td>To collaborate with suppliers to develop innovative products from stable, effective, and efficient sources of supply.</td>
</tr>
<tr>
<td><strong>Inventory</strong></td>
</tr>
<tr>
<td>To achieve low investment in inventory consistent with high customer service levels and high facility utilization.</td>
</tr>
<tr>
<td><strong>Scheduling</strong></td>
</tr>
<tr>
<td>To achieve high levels of throughput and timely customer delivery through effective scheduling.</td>
</tr>
<tr>
<td><strong>Maintenance</strong></td>
</tr>
<tr>
<td>To achieve high utilization of facilities and equipment by effective preventive maintenance and prompt repair of facilities and equipment.</td>
</tr>
</tbody>
</table>
Strategy

► Action plan to achieve mission
► Functional areas have strategies
► Strategies exploit opportunities and strengths, neutralize threats, and avoid weaknesses
Strategies for Competitive Advantage

1. Differentiation – *better*, or at least different
2. Cost leadership – *cheaper*
3. 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

- Safeskin gloves – leading edge products
- Walt Disney Magic Kingdom – experience differentiation
- Hard Rock Cafe – dining experience
Experience Differentiation

Engaging a customer with a product through imaginative use of the five senses, so the customer “experiences” the product

- Theme parks use sight, sound, smell, and participation
- Movie theatres use sight, sound, moving seats, smells, and mists of rain
- Restaurants use music, smell, and open kitchens
Competing on Cost

Provide the maximum value as perceived by customer. Does not imply low quality.

► Southwest Airlines – secondary airports, no frills service, efficient utilization of equipment
► Walmart – small overhead, shrinkage, and distribution costs
► Franz Colruyt – no bags, no bright lights, no music, and doors on freezers
Competing on Response

- Flexibility is matching market changes in design innovation and volumes
  - A way of life at Hewlett-Packard
- Reliability is meeting schedules
  - German machine industry
- Quickness in design, production, and delivery
  - Johnson Electric, Pizza Hut
## OM’s Contribution to Strategy

<table>
<thead>
<tr>
<th>10 Operations Decisions</th>
<th>Strategy</th>
<th>Example</th>
<th>Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>DIFFERENTIATION: Innovative design .......... Safeskin’s innovative gloves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>Broad product line ........ Fidelity Security’s mutual funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process</td>
<td>After-sales service .......... Caterpillar’s heavy equipment service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td>Experience .................. Hard Rock Café’s dining experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Layout</td>
<td>COST LEADERSHIP: Low overhead .......... Franz-Colruyt’s warehouse-type stores</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human resource</td>
<td>Effective capacity ...... Southwest Airline’s aircraft utilization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply chain</td>
<td>Inventory .................. Walmart’s sophisticated distribution system</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>RESPONSE: Flexibility .......... Hewlett-Packard’s response to volatile world market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scheduling</td>
<td>Reliability .............. FedEx’s “absolutely, positively, on time”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td>Quickness .................. Pizza Hut’s 5-minute guarantee at lunchtime</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 2.4**
Issues In Operations Strategy

- Resources view
- Value-chain analysis
- Porter’s Five Forces model
- Operating in a system with many external factors
- Constant change
## Product Life Cycle

<table>
<thead>
<tr>
<th>Company Strategy/Issues</th>
<th>Introduction</th>
<th>Growth</th>
<th>Maturity</th>
<th>Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Best period to increase market share</td>
<td>Practical to change price or quality image</td>
<td>Poor time to change image, price, or quality</td>
<td>Cost control critical</td>
</tr>
<tr>
<td></td>
<td>R&amp;D engineering is critical</td>
<td>Strengthen niche</td>
<td>Competitive costs become critical</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hybrid engine vehicles</td>
<td>Defend market position</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Boeing 787</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3D printers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electric vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3-D game players</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Life Cycle Curve</td>
<td>3-D printers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Apple SmartWatch</td>
<td>Electric vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3-D game players</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Video physical rentals</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>DVDs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Laptop computers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Product Life Cycle

<table>
<thead>
<tr>
<th>OM Strategy/Issues</th>
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<th>Growth</th>
<th>Maturity</th>
<th>Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product design and development critical</td>
<td>Forecasting critical</td>
<td>Standardization</td>
<td>Little product differentiation</td>
</tr>
<tr>
<td></td>
<td>Frequent product and process design changes</td>
<td>Product and process reliability</td>
<td>Fewer rapid product changes, more minor changes</td>
<td>Cost minimization</td>
</tr>
<tr>
<td></td>
<td>Short production runs</td>
<td>Competitive product improvements and options</td>
<td>Optimum capacity</td>
<td>Overcapacity in the industry</td>
</tr>
<tr>
<td></td>
<td>High production costs</td>
<td>Increase capacity</td>
<td>Increasing stability of process</td>
<td>Prune line to eliminate items not returning good margin</td>
</tr>
<tr>
<td></td>
<td>Limited models</td>
<td>Shift toward product focus</td>
<td>Long production runs</td>
<td>Reduce capacity</td>
</tr>
<tr>
<td></td>
<td>Attention to quality</td>
<td>Enhance distribution</td>
<td>Product improvement and cost cutting</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 2.5**

Little product differentiation
Cost minimization
Overcapacity in the industry
Prune line to eliminate items not returning good margin
Reduce capacity
SWOT Analysis

Mission

Internal Strengths

Internal Weaknesses

External Opportunities

External Threats

Analysis

Strategy
Strategy Development Process

Analyze the Environment
Identify the strengths, weaknesses, opportunities, and threats. Understand the environment, customers, industry, and competitors.

Determine the Corporate Mission
State the reason for the firm’s existence and identify the value it wishes to create.

Form a Strategy
Build a competitive advantage, such as low price, design, or volume flexibility, quality, quick delivery, dependability, after-sale service, broad product lines.

Figure 2.6
Strategy Development and Implementation

- Identify key success factors
- Integrate OM with other activities
- Build and staff the organization

The operations manager’s job is to implement an OM strategy, provide competitive advantage, and increase productivity
Key Success Factors

Support a Core Competence and Implement Strategy by Identifying and Executing the Key Success Factors in the Functional Areas

Marketing
- Service
- Distribution
- Promotion
- Channels of distribution
- Product positioning (image, functions)

Finance/Accounting
- Leverage
- Cost of capital
- Working capital
- Receivables
- Payables
- Financial control
- Lines of credit

Production/Operations

10 OM Decisions Sample Options Chapter

<table>
<thead>
<tr>
<th>Product</th>
<th>Customized, or standardized; sustainability</th>
<th>5, S5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>Define customer quality expectations and how to achieve them</td>
<td>6, S6</td>
</tr>
<tr>
<td>Process</td>
<td>Facility size, capacity, how much automation</td>
<td>7, S7</td>
</tr>
<tr>
<td>Location</td>
<td>Near supplier or near customer</td>
<td>8</td>
</tr>
<tr>
<td>Layout</td>
<td>Work cells or assembly line</td>
<td>9</td>
</tr>
<tr>
<td>Human resource</td>
<td>Specialized or enriched jobs</td>
<td>10</td>
</tr>
<tr>
<td>Supply chain</td>
<td>Single or multiple suppliers</td>
<td>11, S11</td>
</tr>
<tr>
<td>Inventory</td>
<td>When to reorder, how much to keep on hand</td>
<td>12, 14, 16</td>
</tr>
<tr>
<td>Schedule</td>
<td>Stable or fluctuating production rate</td>
<td>13, 15</td>
</tr>
<tr>
<td>Maintenance</td>
<td>Repair as required or preventive maintenance</td>
<td>17</td>
</tr>
</tbody>
</table>
Activity Mapping at Southwest Airlines

Courteous, but Limited Passenger Service

Lean, Productive Employees

Competitive Advantage: Low Cost

High Aircraft Utilization

Standardized Fleet of Boeing 737 Aircraft

Short Haul, Point-to-Point Routes, Often to Secondary Airports

Frequent, Reliable Schedules

Figure 2.8
Activity Mapping at Southwest Airlines

- Courteous, but Limited Passenger Service
- Lean, Productive Employees
- Standardized Fleet of Boeing 737 Aircraft
- Short Haul, Point-to-Point Routes, Often to Secondary Airports
- Automated ticketing machines
- No seat assignments
- “Bags fly free” and no baggage transfers
- No meals
- Frequent, Reliable Schedules

Figure 2.8
Activity Mapping at Southwest Airlines

- Courteous, but Limited Passenger Service
- Standardized Fleet of Boeing 737 Aircraft
- Competitive Advantage: Low Cost
- Lean, Productive Employees
- Short Haul, Point-to-Point Routes, Often to Secondary Airports
- High Aircraft Utilization
- Frequent, Reliable Schedules

- No meals
  - Lower gate costs at secondary airports
  - High number of flights reduces employee idle time between flights

Figure 2.8
Activity Mapping at Southwest Airlines

Courteous, but Limited Passenger Service

Lean, Productive Employees

Short Haul, Point-to-Point Routes, Often to Secondary Airports

Frequent, Reliable Schedules

High number of flights reduces employee idle time between flights
Saturate a city with flights, lowering administrative costs per passenger for that city
Pilot training required on only one type of aircraft
Reduced maintenance inventory required because of only one type of aircraft

Figure 2.8
Activity Mapping at Southwest Airlines

- Courteous, but Limited Passenger Service
- Standardized Fleet of Boeing 737 Aircraft
- Lean, Productive Employees
- Short Haul, Point-to-Point Routes, Often to Secondary Airports
- High Aircraft Utilization
- Frequent, Reliable Schedules

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

Figure 2.8
Activity Mapping at Southwest Airlines

- Courteous, but Limited Passenger Service
- Standardized Fleet of Boeing 737 Aircraft
- Competitive Advantage: Low Cost
- Lean, Productive Employees
- Short Haul, Point-to-Point Routes, Often to Secondary Airports
- Reduced maintenance inventory required because of only one type of aircraft
- Flexible employees and standard planes aid scheduling
- Maintenance personnel trained on only one type of aircraft
- 20-minute gate turnarounds
- Flexible union contracts
- High Aircraft Utilization
- 737 Aircraft

Figure 2.8
Activity Mapping at Southwest Airlines

- Lean, Productive Employees
- High Aircraft Utilization
- Standardized Fleet of Boeing 737 Aircraft
- Courteous, but Limited Passenger Service
- Automated ticketing machines
  - Empowered employees
  - High employee compensation
  - Hire for attitude, then train
  - High level of stock ownership
  - High number of flights reduces employee idle time between flights
- Point-to-Point Routes, Often to Secondary Airports
- Frequent, Reliable Schedules

Figure 2.8
# Implementing Strategic Decisions

## TABLE 2.1 Operations Strategies of Two Drug Companies

<table>
<thead>
<tr>
<th>COMPETITIVE ADVANTAGE</th>
<th>BRAND NAME DRUGS, INC.</th>
<th>GENERIC DRUGS CORP.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRODUCT DIFFERENTIATION STRATEGY</strong></td>
<td></td>
<td>LOW COST STRATEGY</td>
</tr>
<tr>
<td>Product selection and design</td>
<td>Heavy R&amp;D investment; extensive labs; focus on development in a broad range of drug categories</td>
<td>Low R&amp;D investment; focus on development of generic drugs</td>
</tr>
<tr>
<td>Quality</td>
<td>Quality is major priority, standards exceed regulatory requirements</td>
<td>Meets regulatory requirements on a country-by-country basis, as necessary</td>
</tr>
<tr>
<td>Process</td>
<td>Product and modular production process; tries to have long product runs in specialized facilities; builds capacity ahead of demand</td>
<td>Process focused; general production processes; “job shop” approach, short-run production; focus on high utilization</td>
</tr>
<tr>
<td>Location</td>
<td>Still located in city where it was founded</td>
<td>Recently moved to low-tax, low-labor-cost environment</td>
</tr>
</tbody>
</table>
## Implementing Strategic Decisions

### TABLE 2.1 Operations Strategies of Two Drug Companies

<table>
<thead>
<tr>
<th>COMPETITIVE ADVANTAGE</th>
<th>BRAND NAME DRUGS, INC.</th>
<th>GENERIC DRUGS CORP.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRODUCT DIFFERENTIATION STRATEGY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Layout</td>
<td>Layout supports automated product-focused production</td>
<td>Layout supports process-focused “job shop” practices</td>
</tr>
<tr>
<td>Human resources</td>
<td>Hire the best; nationwide searches</td>
<td>Very experienced top executives provide direction; other personnel paid below industry average</td>
</tr>
<tr>
<td>Supply chain</td>
<td>Long-term supplier relationships</td>
<td>Tends to purchase competitively to find bargains</td>
</tr>
<tr>
<td>Inventory</td>
<td>Maintains high finished goods inventory primarily to ensure all demands are met</td>
<td>Process focus drives up work-in-process inventory; finished goods inventory tends to be low</td>
</tr>
<tr>
<td>Scheduling</td>
<td>Centralized production planning</td>
<td>Many short-run products complicate scheduling</td>
</tr>
<tr>
<td>Maintenance</td>
<td>Highly trained staff; extensive parts inventory</td>
<td>Highly trained staff to meet changing demands</td>
</tr>
</tbody>
</table>
Strategic Planning, Core Competencies, and Outsourcing

- **Outsourcing** – transferring activities that traditionally been internal to external suppliers

- Accelerating due to
  1) Increased technological expertise
  2) More reliable and cheaper transportation
  3) Rapid development and deployment of advancements in telecommunications and computers
Strategic Planning, Core Competencies, and Outsourcing

- Subcontracting - contract manufacturing
- Outsourced activities
  - Legal services
  - IT services
  - Travel services
  - Payroll
  - Production
  - Surgery
Theory of Comparative Advantage

▶ If an external provider can perform activities more productively than the purchasing firm, then the external provider should do the work
▶ Purchasing firm focuses on core competencies
▶ Drives outsourcing
## Risks of Outsourcing

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost savings</td>
<td>Increased logistics and inventory costs</td>
</tr>
<tr>
<td>Gaining outside expertise that comes with specialization</td>
<td>Loss of control (quality, delivery, etc.)</td>
</tr>
<tr>
<td>Improving operations and service</td>
<td>Potential creation of future competition</td>
</tr>
<tr>
<td>Maintaining a focus on core competencies</td>
<td>Negative impact on employees</td>
</tr>
<tr>
<td>Accessing outside technology</td>
<td>Risks may not manifest themselves for years</td>
</tr>
</tbody>
</table>
Rating Outsourcing Providers

- Insufficient analysis most common reason for failure
- Factor-rating method
- Points and weights assigned for each factor to each
## Rating Provider Selection Criteria

**TABLE 2.3 Factor Ratings Applied to National Architects’s Potential IT Outsourcing Providers**

<table>
<thead>
<tr>
<th>FACTOR (CRITERION)</th>
<th>IMPORTANCE WEIGHTS</th>
<th>OUTSOURCING PROVIDERS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>BIM (U.S.)</td>
</tr>
<tr>
<td>1. Can reduce operating costs</td>
<td>.2</td>
<td>3</td>
</tr>
<tr>
<td>2. Can reduce capital investment</td>
<td>.2</td>
<td>4</td>
</tr>
<tr>
<td>3. Skilled personnel</td>
<td>.2</td>
<td>5</td>
</tr>
<tr>
<td>4. Can improve quality</td>
<td>.1</td>
<td>4</td>
</tr>
<tr>
<td>5. Can gain access to technology not in company</td>
<td>.1</td>
<td>5</td>
</tr>
<tr>
<td>6. Can create additional capacity</td>
<td>.1</td>
<td>4</td>
</tr>
<tr>
<td>7. Aligns with policy/philosophy/culture</td>
<td>.1</td>
<td>2</td>
</tr>
<tr>
<td>Total Weighted Score</td>
<td>1.0</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Score for BIM = \((.2 \times 3) + (.2 \times 4) + (.2 \times 5) + (.1 \times 4) + (.1 \times 5) + (.1 \times 4) + (.1 \times 2) = 3.9\)
Global Operations Strategy Options

- Import/export or license existing product

**Examples:**
- U.S. Steel
- Harley-Davidson

**Local Responsiveness**
(Quick Response and/or Differentiation)

**Cost Reduction**

- High
- Low

**International strategy**
- High
- Low

Figure 2.9
Global Operations Strategy Options

- Import/export or license existing product

Examples:
- U.S. Steel
- Harley-Davidson

Cost Reduction

High

Low

International strategy

- Import/export or license existing product

Examples:
- U.S. Steel
- Harley-Davidson

Local Responsiveness

(Quick Response and/or Differentiation)

High

Low

Figure 2.9
Global Operations Strategy Options

- Import/export or license existing product
  - Examples: U.S. Steel, Harley-Davidson

- Standardize product
  - Economies of scale
  - Cross-cultural learning
  - Examples: Texas Instruments, Caterpillar, Otis Elevator

Cost Reduction

Local Responsiveness
(Quick Response and/or Differentiation)

Figure 2.9
Global Operations Strategy Options

**Global strategy**
- Standardize product
- Economies of scale
- Cross-cultural learning

**Examples:**
- Texas Instruments
- Caterpillar
- Otis Elevator

**International strategy**
- Import/export or license existing product

**Examples:**
- U.S. Steel
- Harley-Davidson

---

Cost Reduction

Local Responsiveness
(Quick Response and/or Differentiation)
Global Operations Strategy Options

**Multidomestic strategy**
- Use existing domestic model globally
- Franchise, joint ventures, subsidiaries

**Examples:**
- Heinz, McDonald’s
- The Body Shop
- Hard Rock Cafe

---

**Cost Reduction**
- High
- Low

**Local Responsiveness**
- (Quick Response and/or Differentiation)
- High
- Low
Global Operations Strategy Options

- **Global strategy**
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  - Cross-cultural learning
  - Examples: Texas Instruments, Caterpillar, Otis Elevator

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- **Multidomestic strategy**
  - Use existing domestic model globally
  - Franchise, joint ventures, subsidiaries
  - Examples: Heinz, McDonald’s, The Body Shop, Hard Rock Cafe

Cost Reduction

Local Responsiveness
(Quick Response and/or Differentiation)
Global Operations Strategy Options

**Transnational strategy**
- Move material, people, or ideas across national boundaries
- Economies of scale
- Cross-cultural learning

**Examples:**
- Coca-Cola, Nestlé

---

**Global strategy**
- Use existing domestic model globally
- Franchise, joint ventures, subsidiaries

**Examples:**
- Heinz, McDonald’s, The Body Shop, Hard Rock Cafe

---

**Multidomestic strategy**
- Import/export or license existing product
- Examples:
  - U.S. Steel
  - Harley-Davidson

---

**Options**

- **Standardize product**
- **Economies of scale**
- **Cross-cultural learning**

---

**Cost Reduction**
- **High**
- **Low**

---

**Local Responsiveness**
- **Low**
- **High**

*(Quick Response and/or Differentiation)*
Global Operations Strategy Options

**Global strategy**
- Standardize product
- Economies of scale
- Cross-cultural learning

**Examples:**
- Texas Instruments
- Caterpillar
- Otis Elevator

**Transnational strategy**
- Move material, people, or ideas across national boundaries
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**Examples:**
- Coca-Cola, Nestlé

**International strategy**
- Import/export or license existing product

**Examples:**
- U.S. Steel
- Harley-Davidson

**Multidomestic strategy** (e.g., Heinz, McDonald’s, The Body Shop, Hard Rock Cafe)
- Use existing domestic model globally
- Franchise, joint ventures, subsidiaries

---

**Cost Reduction**
- High
- Low

**Local Responsiveness**
- (Quick Response and/or Differentiation)
- High
- Low
Ranking Corruption

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>2015 CPI Score (out of 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Demark</td>
<td>91</td>
</tr>
<tr>
<td>2</td>
<td>Finland</td>
<td>90</td>
</tr>
<tr>
<td>3</td>
<td>Sweden</td>
<td>89</td>
</tr>
<tr>
<td>4</td>
<td>New Zealand</td>
<td>88</td>
</tr>
<tr>
<td>5</td>
<td>Netherlands, Norway,</td>
<td>87</td>
</tr>
<tr>
<td>6</td>
<td>Switzerland</td>
<td>86</td>
</tr>
<tr>
<td>8</td>
<td>Singapore</td>
<td>85</td>
</tr>
<tr>
<td>9</td>
<td>Canada</td>
<td>83</td>
</tr>
<tr>
<td>10</td>
<td>Germany, UK</td>
<td>81</td>
</tr>
<tr>
<td>16</td>
<td>USA</td>
<td>76</td>
</tr>
<tr>
<td>18</td>
<td>Japan</td>
<td>75</td>
</tr>
<tr>
<td>17</td>
<td>USA</td>
<td>74</td>
</tr>
<tr>
<td>30</td>
<td>Taiwan</td>
<td>62</td>
</tr>
<tr>
<td>37</td>
<td>South Korea</td>
<td>56</td>
</tr>
<tr>
<td>83</td>
<td>China</td>
<td>37</td>
</tr>
<tr>
<td>119</td>
<td>Russia</td>
<td>29</td>
</tr>
</tbody>
</table>