**CHAPTER TWO**

**OPERATIONS STRATEGY AND COMPETITIVENESS**

**2.1 What is strategy?**

Strategy is a plan for achieving organizational goals. If you think of goals as destinations, then strategies are the roadmaps for reaching destinations. Organizations have over all strategies called organizational strategies, which relate to entire organization. Functional strategies are strategies related to functional areas of the organization. Functional strategies should support the overall strategies of the organization, just as organizational strategies should support the goal and mission of the organization.

##### Strategies are the means by which long – term objectives will be achieved. Strategies are major course of action that the organizational plans to take in order to achieve objectives. Strategies do not attempt to outline exactly how the organization is to achieve its objectives. They finish a framework for guiding thinking and action. It is important to notice that every objective must have at least one strategy. This means that management should at least have one stated course of action to accomplish every objective.

**Vision** statement defines what the organization what to be in the future. It answers the question “What do we want to become/ what do we want to be”.

**A mission** is defined as “the fundamental purpose of the organization and its scope of operation”

**A goal** is a future expectation. It is something the organization is trying to accomplish.

**Polices** provide a general guideline to action. It is a framework for managers to follow in decision-making and handling problem situational.

**procedures** are specific steps required to achieve goals. They guides to action, rather than to thinking and they detail the exact manner in which certain activities must be accomplished.

**A rule** is a statement that tends to restrict actions or prescribe specific activities with no discretion. In other words **a rule** is a specification for actions that must be taken, or must note be taken in particular circumstances.

**Program.** Program **e**ncompasses a complex whole of goals police, rules, task, recourse required, etc. that are desired to chart a desired course of action.

**Budget.** Budget refers **to a** statement of expected results expressed in numerical terms.

**2.2 Levels of Strategy**

Strategy can be seen as to exist three major levels within the organizations. At the highest or corporate level, the strategy provides very general long-range guidance for the whole organizations often expressed as a statement of its mission. The mission statement describes in a general term what key decision maker want the company to accomplish and what kind of company they want it’s to become. Thus, the mission focuses the organization on specific market area and the basis on which it must compete. Corporate strategy is the set of decisions that answer the questions, what business are we in?

Corporate Level Strategy occupies the highest level of strategic decision-making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance. Such decisions are made by top management of the organization. Top management of the organization is responsibility to achieve the planned financial performance of the company in addition to meeting the non-financial goals viz. social responsibility and the organizational image. Corporate strategy defines the business in which a company will compete preferably in a way that focuses resources to convert distinctive competence into competitive advantage.’ Corporate strategy is not the sum total of business strategies of the corporation but it deals with different subject-matter. The corporate level strategies translate the orientation of the stakeholders and the society into the forms of strategies for functional or business levels. Corporate Level Strategies is the level where vision statement of the companies emerges

**What Business should we be in**

The second level of strategy is termed as a business strategy, which is the set of decisions that answers the question, **how will we compete in this business?**

According to porter three types of business strategies;

* **Low-cost strategy**: focus on producing the lowest cost products.
* **Market segmentation:** focus on satisfying the needs of a particular market.
* **Product differentiations**; focus on offering products that differ significantly from the competitor products.

The third level of the strategy is operation strategy. The organization strategy provides the overall direction for the organization. It is broad in scope, covering the entire organization. Operations strategyis narrower in scope, dealing primarily with the operations aspect of the organization. Operations strategy relates to products, processes, methods, operating resources, quality, costs, lead times, and scheduling. Operation strategy refers to how the operation management function contributes to a firm ability to achieve its competitive advantage in that marketplace. Operation strategy can be divided in to two major categories.

* **Structural elements**: consists of facility location, choice of process and strategy in nature.
* **Infrastructure element**: consist of the workforce (in terms of size and skill), quality issue, planning and control.

Any business strategy needs to be translated downward in to operations strategy. Operation strategy has a narrower focus and covers the breadth of the operations functions-input, transformation and output. In developing an operations strategy, the identification of relevant order winners and qualifiers for specific products is a key step.

**Order winners and qualifiers**

The terms ‘order winner’ and ‘order qualifier’ were coined by Terry Hill, professor at the London business school, and refers to the process of how internal operational capabilities are converted to criteria that may lead to *competitive advantage and market success*. In his writings, Hill emphasized the interactions and co-operations between operations and marketing. The operations people are responsible for providing the order winning and order qualifying criteria-identified by marketing – that enables products to win orders in the market place. This process starts with the cooperatives strategy and ends with the criteria that either keeps the company in the running (i.e. order qualifier) or wins the customers business.

Terry Hill has coined the terms order winner and qualifies to describe marketing oriented priorities that are key to competitive success.

\* *An order winner is a criterion that differentiates the products or services of one firm from another. In general, order winner is a characteristic of a firm that distinguishes it from its competition so that it is selected as the source of purchase.*

*\*An order qualifier is a screening criterion that permits a firm’s products to even be considered as possible candidates for purchase. In short, order qualifier can be defined as the minimum elements or characteristics that a firm or its products must have in order to even be considered as a potential supplier* or source.

In net shell, an order winner is a characteristic that will win the bid or customers purchase. Therefore, customers must provide the qualifiers in order to get in to or stay in a market. To provide qualifiers they need only to be as good as their competitors. Failure to do so may results in los of sales. However, to provide order winners, firms must be better than their competitors.

It is important to remember that the order winning and order qualifying criteria may change over time*.* Order winner and order qualifiers are both market specific and time specific. They work in different combination in different ways in different markets and with different customers. While, some general trends exist across the markets, these may not be stable over time. For example, in the late 1990s, delivery speed and product customization were frequent order winner while product quality and price, which previously were frequent order winners, tend to be order qualifiers. Hence, firms need to develop different strategies to support different marketing needs and this strategy will change over time. When a firm’s perception of order winners and qualifiers matches the customer’s perception of the same, there exists “*FIT*” between the two perspectives. When a fit exists, one would expect a positive sales performance and this is the reason for having a strategy.

When very few firms offer specific characteristics, such as high quality, customization, or outstanding services that characteristics can be defined as an order winner. However, over time as more and more firms begin that same enhancement, the order winner becomes an order qualifier. In other words, it becomes the minimum acceptable level for all competitors. As a result, the customer uses some other enhancement or characteristics to make the final purchase.

In Europe, for example, the vast majority of companies today require that their vendors be ISO-9000 certified. (This certification ensures that a firm has documented all of its processes). Thus, ISO-9000 certification is an order qualifier in Europe. In contrast, most companies in the united states at this time are not ISO-9000 certified. As a consequence, ISO-9000 certified company in the united states uses their certification as an order winner i.e. ISOO-9000 distinguishes them as being better than their competition.

From the manufacturing future survey, it would appear that in general, conformance quality, on time delivery, and product reliability are now order winners for most large manufacturers. Low price is emerging as the order winner.

**2.3 Competitive advantage**

Many firms strive for competitive advantage, but few truly understand what it is or how to achieve and keep it. Competitiveness refers to how effectively an organization meets the needs of customers relative to others that offer similar goods and services.

Competitive advantage can be viewed as any activity that creates superior value above its rivals. The strongest competitive advantage is a strategy that can’t be imitated by other companies. In general, a competitive advantage can be gained by offering the customer a greater value than the competitors.

The key to developing an effective operations strategy lies in understanding how to create or add value for customers i.e. how to gain competitive advantage. Specifically, competitive advantage can be gained (value can be added) through the competitive priority (priorities that are selected to support a given strategy). Generally, there are 8 possible competitive priorities for process which fall in to four groups:

1. **Cost:**With in every industry, there is usually a segment of the market that buys strictly on the basis of low cost. To successfully compete in niche market, firm must necessarily, be the low-cost producers and even doing this does not always guarantee profitability and success. Products sold strictly on the basis of cost includes commodity like flour, petroleum, sugar etc. In other words, customers can’t easily distinguish the products made by one firm from those of another. As a result, customers use cost as the primary determinant in making a purchase. To compete based on cost, operations managers must address labor, materials, scrap, overhead and other cost to design a system that lower the cost per units of the product or service. Low cost operation /make it cheap is thus, one of the competitive priority.
2. **Quality:**quality is a dimension of a product or services that is defined by the customer. Today, more than ever, quality has important implications. As for operations, two competitive priorities deal with quality.
* ***High performance design***: - is determination of the level of operations performance required in making products or performing services. This may include:

 \**superior features, close tolerance, and greater durability.*

 *\* Helpfulness, courteousness and availability of service employees.*

 *\* Convenience of access to service locations*

 *\*Safety of product or service.*

* ***Consistent quality:***  measurement of the frequency with which the product or service meets design specifications.Customers wants product or service that consistently meets the specifications they contracted for, have come to expect or saw advertised. For example, bank customers expect that the bank will not make errors when recording transactions. To compete on the basis of consistent quality, managers need to design and monitor operations to reduce errors. A firm that does not have consistent quality does not last long in a competitive global market place.
1. **Time:** As the saying goes,” time is money”. Three competitive priorities deal with time include:
* *Fast delivery time (delivery speed):* is the elapsed time between the customer’s order and filling it. An acceptable delivery time depends on the nature of the products. For example, an acceptable lead time can be a year for a complex customized machine, several weeks for scheduling elective surgery and minutes for ambulance. Manufacturers can shorten delivery time by storing inventory or by having excess capacity.
* *On time delivery:* measurement of the frequency with which delivery time promises is met.
* *Development speed:* measures how quickly a new product or service is introduced, covering the elapsed time from idea generation through final design and production. Development speed is especially important in the fashion apparel industry.
1. **Flexibility*:*** flexibility is a characteristic of a firm’s operations that enables it to react to customer needs quickly and efficiently. Some firms give top priority to two types of flexibility: customization and volume flexibility.
* ***Customization***: is the ability to satisfy the unique needs of each customer by changing product or service design. For example, a hairdresser works with the customer to design a hair style that may be unique to the individual. Customization typically implies that the operating system must be flexible to handle specific customer needs and changes in design.
* ***Volume flexibility*:** is the ability to accelerate or decelerate the rate of production quickly to handle large fluctuations in demand. Volume flexibility is an important operating capability that often supports the achievement of other competitive priorities.