		Management Level	Time Horizon	Scope	Level of Detail	Relates to
The Overall Organization	Mission	Top	Long	Broad	Low	Survival, profitability
	Strategy	Senior	Long	Broad	Low	Growth rate, market share
Production/ Operations	Strategic	Senior	Moderate to long	Broad	Low	Product design, choice of location, choice of technology, new facilities
	Tactical	Middle	Moderate	Moderate	Moderate	Employment levels, output levels, equipment selection, facility layout
	Operational	Low	Short	Narrow	High	Scheduling personnel, adjusting output rates, inventory management, purchasing

TABLE 2–2

Comparison of mission, organization strategy, and operations strategy

OPERATIONS STRATEGY

The organization strategy provides the overall direction for the organization. It is broad in scope, covering the entire organization. **Operations strategy** is 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. Table 2–2 provides a comparison of an organization's mission, its overall strategy, and its operations strategy, tactics, and operations.

operations strategy The approach, consistent with the organization strategy, that is used to guide the operations function.

In order for operations strategy to be truly effective, it is important to link it to organization strategy; that is, the two should not be formulated independently. Rather, formulation of organization strategy should take into account the realities of operations' strengths and weaknesses, capitalizing on strengths and dealing with weaknesses. Similarly, operations strategy must be consistent with the overall strategy of the organization, and formulated to support the goals of the organization. This requires that senior managers work with functional units to formulate strategies that will support, rather than conflict with, each other and the overall strategy of the organization. As obvious as this may seem, it doesn't always happen in practice. Instead, we may find power struggles between various functional units. These struggles are detrimental to the organization because they pit functional units against each other rather than focusing their energy on making the organization more competitive and better able to serve the customer. Some of the latest approaches in organizations, involving teams of managers and workers, may reflect a growing awareness of the synergistic effects of working together rather than competing internally.

Operations strategy can have a major influence on the competitiveness of an organization. If it is well designed and well executed, there is a good chance that the organization will be successful; if it is not well designed or executed, the chances are much less that the organization will be successful.

In the 1970s and early 80s, operations strategy was often neglected in favor of marketing and financial strategies. That may have occurred because many chief executive officers did not come from operations backgrounds and perhaps did not fully appreciate the importance of the operations function. Mergers and acquisitions were common; leveraged buyouts were used, and conglomerates were formed that joined dissimilar operations. These did little to add value to the organization; they were purely financial in nature. Decisions were often made by individuals who were unfamiliar with the business, frequently to the detriment of that business. Meanwhile, foreign competitors began to fill the resulting vacuum with a careful focus on operations strategy.

In the late 1980s and early 90s, many companies began to realize this approach was not working. They recognized that they were less competitive than other companies. This caused them to focus attention on operations strategy. Toward that end, many firms are developing strategies that have *quality* or *time* as their central concern.

This correlates with a survey of manufacturing executives and managers who were asked to identify strategic and tactical issues that U.S. manufacturers must focus on to be

TABLE 2-3

Examples of distinctive competencies

	Competency	Examples of Companies or Services
Price	Low cost	U.S. first-class postage
		Motel-6, Red Roof Inns
		Mail-order computers
Quality	High-performance design and/or high quality	Sony TV
		Lexus, Cadillac
		Disneyland
		Five-star restaurants or hotels
	Consistent quality	Coca-Cola, PepsiCo
		Kodak, Xerox, Motorola
		Electrical power
Time	Rapid delivery	McDonald's restaurants
		Express Mail
		UPS
		Domino's Pizza
	On-time delivery	One-hour photo
		Federal Express
		Express Mail
Flexibility	Variety	Burger King ("Have it your way")
		Hospital emergency room
	Volume	McDonald's ("Buses welcome")
		Toyota
		Supermarkets (additional checkouts)
Service	Superior customer service	Disneyland
		Hewlett-Packard
		IBM
		Nordstroms
Location	Convenience	Supermarkets, dry cleaners
		Mall stores
		Service stations
		Banks, ATMs

Toyota, Japan's largest automobile manufacturer, also markets the upscale, award winning Lexus line. Quality is highly valued, and workers have the authority to stop the production line if quality problems are encountered.

www.lexus.com/

Automatic teller machines (ATMs) are numerous, carefully located for customer convenience, and available 24 hours. Networks have expanded to serve international customers.

Delivering groceries and specialty food items directly to the customer is a successful new e-based business. This organic produce truck delivers perishables to a customer in San Rafael, California.

competitive on a global basis in the 1990s.[1] The top two strategic issues were quality management and manufacturing strategy. The top two tactical issues were quality control, and manufacturing planning and control systems. A key element of both organization strategy and operations strategy is strategy formulation.

STRATEGY FORMULATION

To formulate an effective strategy, senior management must take into account the *distinctive competencies* of the organizations, and they must *scan the environment.* They must determine what competitors are doing, or planning to do, and take that into account. They must critically examine other factors that could have either positive or negative effects. This is sometimes referred to as the *SWOT* approach (strengths, weaknesses, opportunities, and threats).

In formulating a successful strategy, organizations must take into account both order qualifiers and order winners. Terry Hill, in his book *Manufacturing Strategy,* describes **order qualifiers** as those characteristics that potential customers perceive as minimum standards of acceptability to be considered as a potential for purchase. However, that may not be sufficient to get a potential customer to purchase from the organization. **Order winners** are those characteristics of an organization's goods or services that cause them to be perceived as better than the competition.

order qualifiers Characteristics that customers perceive as minimum standards of acceptability 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.

Characteristics such as price, delivery reliability, delivery speed, and quality can be order qualifiers or order winners. Thus, quality may be an order winner in some situations, whereas in others, it may be an order qualifier. Over time, a characteristic that was once an order winner may become an order qualifier, and vice versa.

Obviously, it is important to determine the set of order qualifier characteristics and the set of order winner characteristics, and it is also necessary to decide on the relative importance of each characteristic so that appropriate attention can be given to the various characteristics. Marketing must make that determination and communicate it to operations.

distinctive competencies The special attributes or abilities that give an organization a competitive edge.

Distinctive competencies are those special attributes or abilities possessed by an organization that give it a *competitive edge.* In effect, distinctive competencies relate to the ways that organizations compete. As noted previously, these can include price (based on some combination of low costs of resources such as labor and materials, low operating costs, and low production costs); quality (high performance or consistent quality); time (rapid delivery or on-time delivery); flexibility (variety or volume); customer service; and location. Table 2–3 lists the major distinctive competencies and examples of services and companies that exhibit those competencies.

The most effective organizations seem to use an approach that develops distinctive competencies based on customer needs as well as on what the competition is doing. Marketing and operations work closely to match customer needs with operations capabilities. Competitor competencies are important for several reasons. For example, if a competitor is able to supply high-quality products, it may be necessary to meet that high quality as a baseline. However, merely *matching* a competitor is usually not sufficient to gain market share. It may be necessary to exceed the quality level of the competitor or gain an edge by excelling in one or more other dimensions, such as rapid delivery or service after the sale.

Some of the strategies various Japanese manufacturing companies have employed since World War II are:

- *Low labor cost strategy.* Immediately after the war, exploited the (then) inexpensive labor pool.
- *Scale-based strategy.* During the 1960s, used capital-intensive methods to achieve higher labor productivity and lower unit costs.

[1]Manoj K. Malhotra, Daniel C. Steele, and Varun Grover, "Important Strategic and Tactical Manufacturing Issues in the 1990s." *Decision Sciences* 25, no. 2 (March/April 1994), pp. 189–214.