

# Operations Strategy

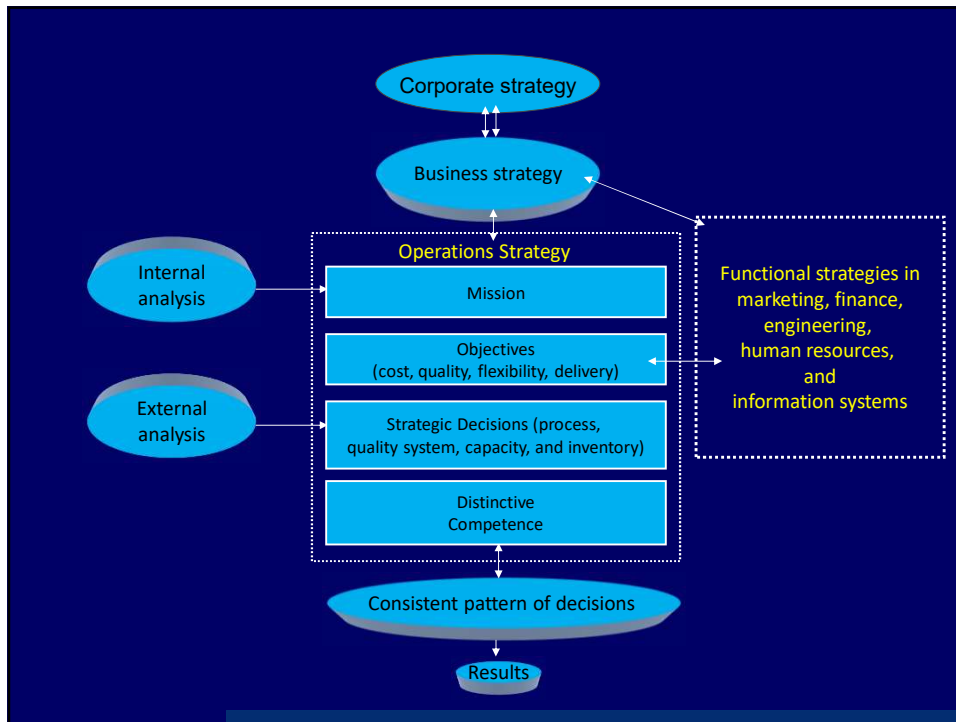
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## Operations Strategy

*“A consistent pattern of business decisions for operations and the associated supply chain ...*

*... that are linked to the business strategy and other functional strategies, leading to a competitive advantage for the firm.”*

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## Operations Strategic Objectives

- Cost – resources used
- Quality – conformance to customer expectations
- Delivery – quickly and on time
- Flexibility – ability to rapidly change operations

How does a firm use these objectives to gain a competitive advantage?

What trade-offs exist among the objectives?

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## Distinctive Competence

- *Something an organization does better than any competing organization that adds value for the customer.*
- *Examples: patents, proprietary technology, operations innovations*

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## McDonald's Operations Strategy

- First restaurant started in 1955 by Ray Kroc in Des Plaines, Illinois, USA
- Mission: *fast product/service, consistent quality, low cost, clean/friendly environment*
- Operations Objectives: *cost, quality, delivery and service*
- Strategic decisions: *process, quality, capacity, inventory*
- Distinctive Competence: *today - continuous improvement of the transformation system, and brand* (originally: unique service/supply chain)

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## McDonald's Operations Strategy

- Service system was designed on the idea of a very limited menu and fast production of standardized food and service with convenience and low price
- Operation strategy:

*“to provide a unique service operation and a supply chain that would provide fast food to customers in clean environment at low prices”*

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## Environment & Sustainable Operations

**Sustainability:** minimizing or eliminating environmental impact of operations.

The ‘greening’ of operations:

- Product development
- Sourcing
- Manufacturing
- Packaging
- Distribution
- Transportation
- Services
- End-of-life management (e.g. recycling)

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# Capacity Planning For Products and Services

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## Capacity Planning

Capacity is ....

*.....Maximum output that can be produced  
over a given period of time.*

.....the upper limit or ceiling on the load  
that an operating unit can handle.

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## Capacity Planning

- The basic questions in capacity handling are:
  - What kind of capacity is needed?
  - How much is needed?
  - When is it needed?

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## Importance of Capacity Decisions

1. Impacts ability to meet future demands
2. Affects operating costs
3. Major determinant of initial costs
4. Involves long-term commitment
5. Affects competitiveness
6. Affects ease of management
7. Globalization adds complexity
8. Impacts long range planning

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## Capacity

- Design capacity
  - maximum output rate or service capacity an operation, process, or facility is designed for
- Effective capacity
  - Design capacity minus allowances such as personal time, maintenance, and scrap
- Actual output
  - rate of output actually achieved--cannot exceed effective capacity.

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## Determinants of Effective Capacity

- Facilities
- Product and service factors
- Process factors
- Human factors
- Operational factors
- Supply chain factors
- External factors

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## Steps for Capacity Planning

1. Estimate future capacity requirements
2. Evaluate existing capacity
3. Identify alternatives
4. Conduct financial analysis
5. Assess key qualitative issues
6. Select one alternative
7. Implement alternative chosen
8. Monitor results

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## Key Decisions of Capacity Planning

1. Amount of capacity needed
2. Timing of changes
3. Need to maintain balance
4. Extent of flexibility of facilities

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## Factors Affecting Facilities Strategy

- Predicted demand
- Cost of facilities
- Likely behavior of competitors
- Business strategy
- International considerations