

OPERATION MANAGEMENT AND STRATEGY

Operation function should be guided by strategies which are consistent with the organisation strategies



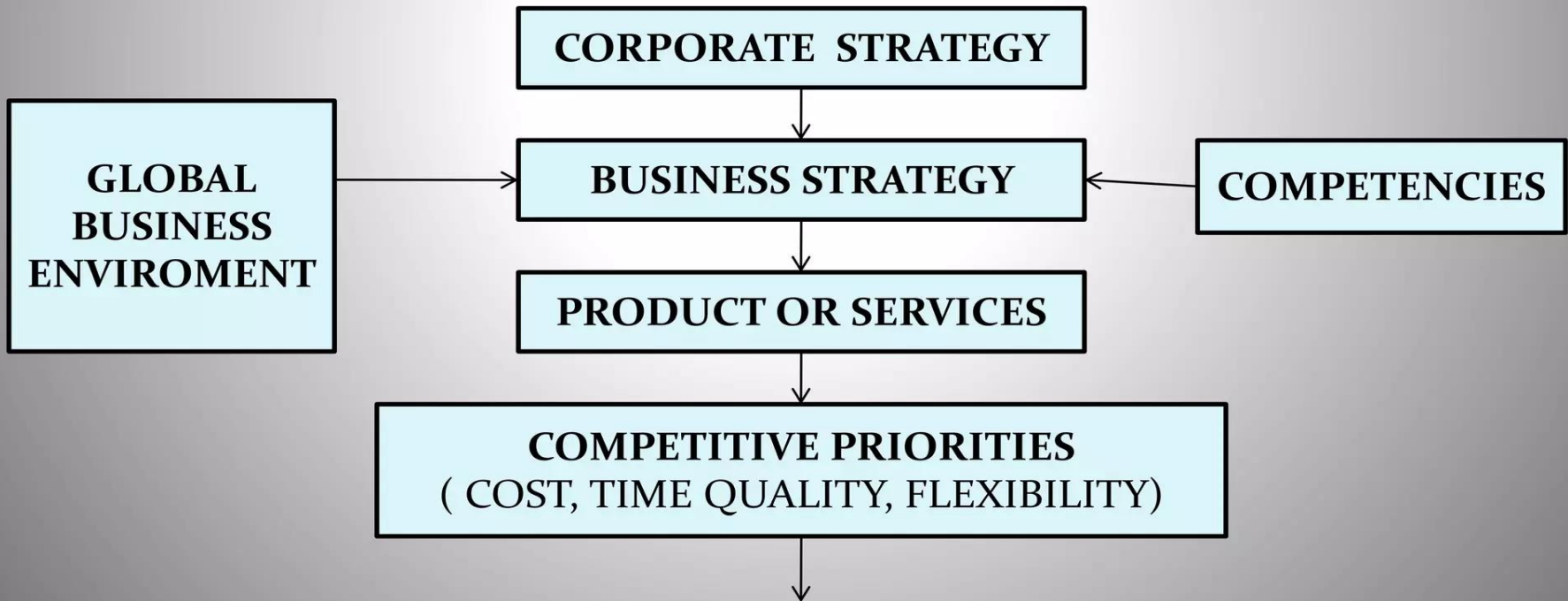
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OPERATION STRATEGY

The set of decision that are warranted in the operational processes to support the competitive of the business. To develop organizational strategies at three level of operation:

- Corporate Level
- Business Level
- Functional Level



LINKAGE BETWEEN CORPORATE, BUSINESS & OPERATION STRATEGY

OPERATION STRATEGY

- Production Systems (Make to stock/ Order, Assemble to order)
- Product Plans
- Outsourcing
- Process Decisions
- Quality Decisions
- Capacity Decisions (Facility planning, location, layout)
- Operating Decisions.
- Technology Decisions.
- Resource Planning.

ELEMENTS OR COMPONENTS OF OPERATION STRATEGY

The six elements of operation strategy are:

- 1) **Designing of the production system** – The product design has two varieties -
 - Customised product design – The design is customised when the volume is low and special features are inbuilt. Eg: Turbines, boiler, air compressors etc.
 - Standard product design – The designer adopt a universal design so that the product will have wide acceptance across the customer. Eg: Air conditioners, TV.

There are two types of production systems:

- Product focussed – system is adopted where mass production is using a group of machines. Eg: Automobiles, computer.
 - Process focussed – system is based on a single task like painting, packing, heat.
- 2) **Facilities for the production and services** – Production allows the firm to provide the customer with products of low cost, faster delivery, on-time delivery.

ELEMENTS OR COMPONENTS OF OPERATION STRATEGY

3) Product & service design and development –

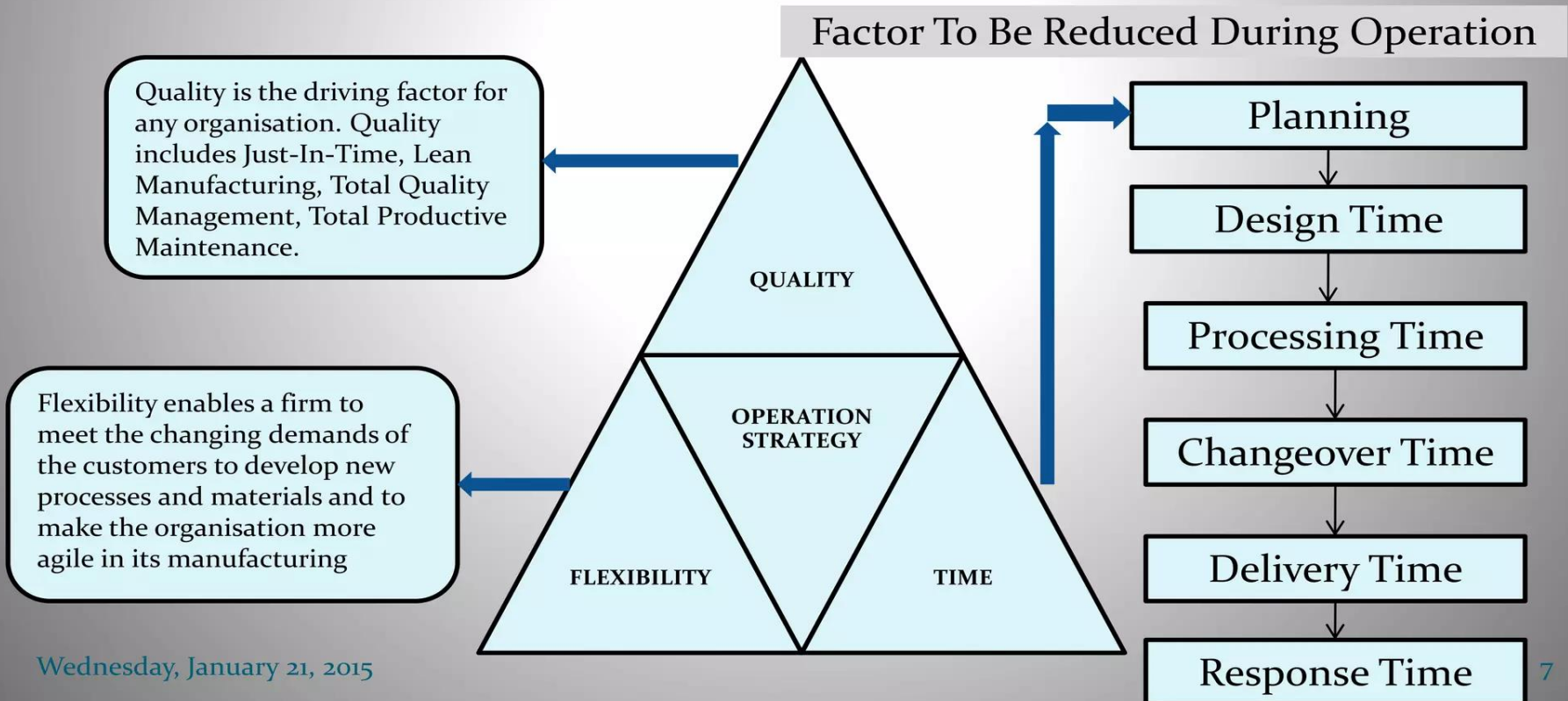
- Generating the idea.
- Creating the feasibility reports.
- Designing the prototype
- Preparing a production model.
- Evaluating the economies of scale for production.
- Testing the product in the market.
- Obtaining feedback.
- Creating the final design and starting the production.

Product life cycle introduced in the market has its own life cycle.

- 1) Introduction stage.
- 2) Growth stage.
- 3) Maturity stage.
- 4) Decline stage.

OPERATION MANAGEMENT AND STRATEGY

➤ Phases of Operations Strategy



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OPERATION MANAGEMENT AND STRATEGY

➤ **Strategic Decision Making-** is most crucial management function. Decisions commit the organisation and its members to activities which have financial repercussions and effect the functioning of others departments or division. Strategic Decision making consist of :-

- Data Gathering
- Analysis
- Predicting outcomes
- Environmental Scanning
- Core competencies

Environmental Scanning

- Competitors may be gaining an edge by diversification, making forays into firm niche market by making new and better products.
- Suppliers could be forming cartels and preparing to drive hard bargains.
- Government could be passing laws and issuing order which could affect the supply of materials. Now it is used to be SWOT analysis and PESTLE analysis.

OPERATION MANAGEMENT AND STRATEGY

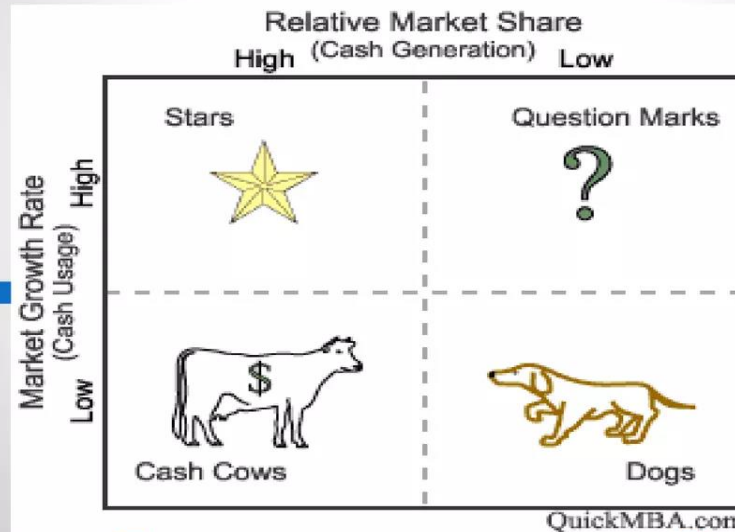
➤ Strategic Decision Making

- Core competencies – The objective to use unique strengths to create and develop an organisation. Core processes of an organisation are determined by the core competencies. Four main core processes are mentioned:



OPERATION MANAGEMENT AND STRATEGY

➤ **Differentiation Strategic** - is referred to the long term priorities or goal achieve. “Companies have different potential in terms of maneuverability along with target market place (channels), promotion and price. These are affected by the company’s position in the market, and the industry structure”. The BCG growth-share matrix displays the various business units on a graph of the market growth rate vs. market share relative to competitors:



A business unit that has a large market share in a fast growing industry. Stars may generate cash, but because the market is growing rapidly they require investment to maintain their lead. If successful, a star will become a cash cow when its industry matures

A business unit that has a small market share in a high growth market. These business units require resources to grow market share, but whether they will succeed and become stars is unknown.

a business unit that has a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be used to invest in other business units

A business unit that has a small market share in a mature industry. A dog may not require substantial cash, but it ties up capital that could better be deployed elsewhere. Unless a dog has some other strategic purpose, it should be liquidated if there is little prospect for it to gain market share

BCG Matrix

INTRODUCTION

- ***BOSTON CONSULTING GROUP (BCG) MATRIX*** is developed by **BRUCE HENDERSON** of the ***BOSTON CONSULTING GROUP IN THE EARLY 1970's***.
- According to this technique, businesses or products are classified as low or high performers depending upon their market growth rate and relative market share.



Market Share



- Out of **total purchases of a customer of a product or service, what percentage goes to a company defines its market share.**
- In other words, if consumers as a whole buy 100 soaps, and **40 of which are from one company, that company holds 40% market share.**

Relative Market Share and Market Growth

To understand the *Boston Matrix* you need to understand how market share and market growth interrelate.

MARKET SHARE

- Market share is the percentage of the total market that is being serviced by your company, measured either in revenue terms or unit volume terms.
- ***RELATIVE MARKET SHARE***
- $$\text{RMS} = \frac{\text{Business unit sales this year}}{\text{Leading rival sales this year}}$$
- The higher your market share, the higher proportion of the market you control.



MARKET SHARE FORMULA



$$\text{MARKET SHARE} = \left(\frac{\text{Your Business Revenue}}{\text{Total Industry Revenue}} \right) \times 100$$

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MARKET GROWTH RATE

- Market growth is used as a measure of a market's attractiveness.
- $$\text{MGR} = \frac{\text{Individual sales this year} - \text{Individual sales last year}}{\text{Individual sales last year}}$$
- Markets experiencing high growth are ones where the total market share available is expanding, and there's plenty of opportunity for everyone to make money.

THE BCG GROWTH-SHARE MATRIX

- It is a *portfolio planning model* which is based on the observation that a company's business units can be classified in to four categories:
 - ✓ *Stars*
 - ✓ *Question marks*
 - ✓ *Cash cows*
 - ✓ *Dogs*

- It is based on the combination of market growth and market share relative to the *next best competitor.*

Relative Market Share (Cash Generation)

Market Growth Rate
(Cash Usage)

High

Low

High

Low

Stars



Question Marks



Cash Cows



Dogs

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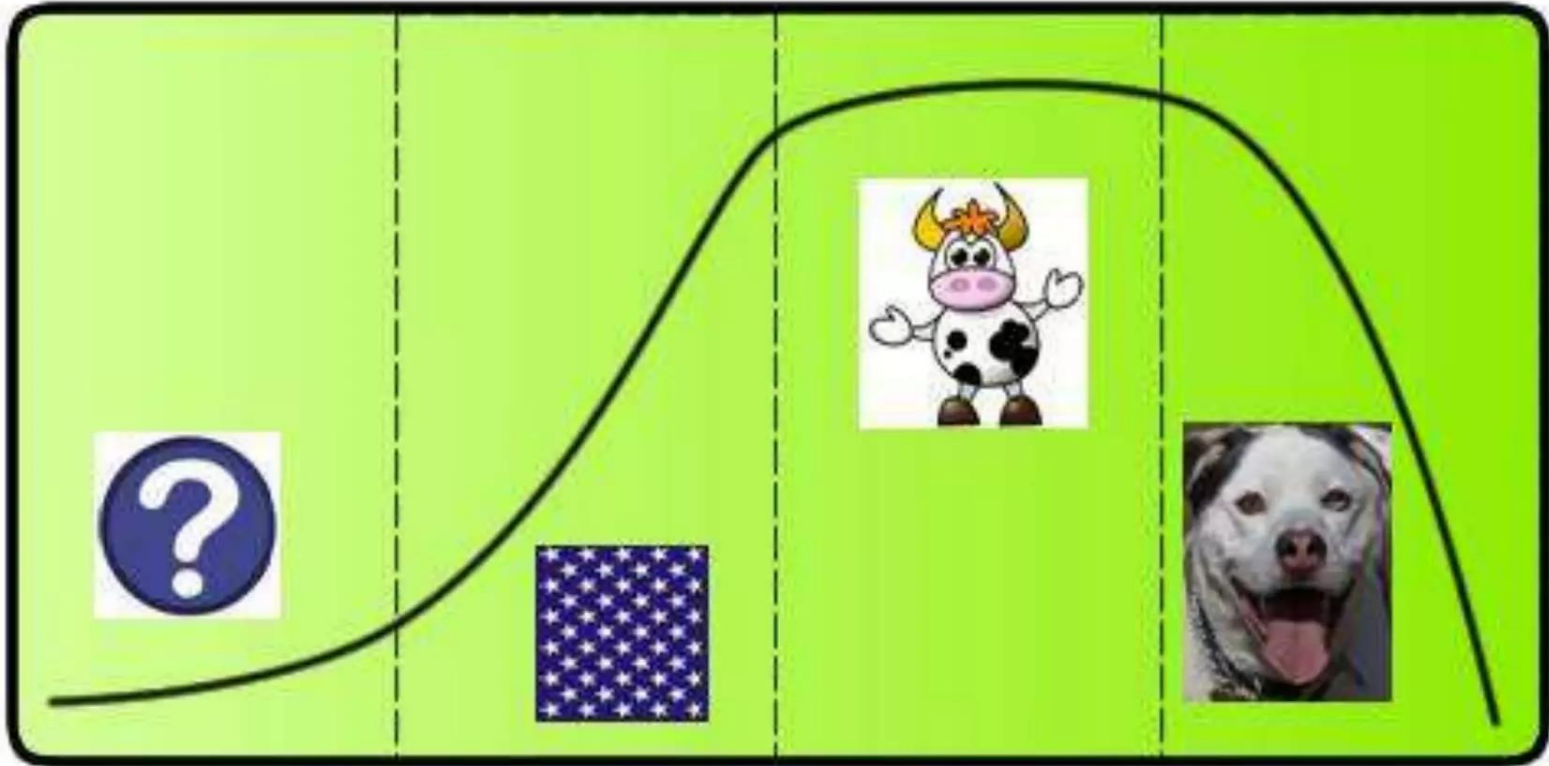
Introduction

Growth

maturity

decline

Sales



Time on market



High growth, High market share

- Stars are leaders in business.
- They also require heavy investment, to maintain its large market share.
- It leads to large amount of cash consumption and cash generation.
- Attempts should be made to hold the market share otherwise the star will become a CASH COW.



CASH COWS



Low growth , High market share

- They are foundation of the company and often the stars of yesterday.
- They generate more cash than required.
- They extract the profits by investing as little cash as possible
- They are located in an industry that is mature, not growing or declining.

Low growth, Low market share

- Dogs are the cash traps.
- Dogs do not have potential to bring in much cash.
- Number of dogs in the company should be minimized.
- Business is situated at a declining stage.



QUESTION MARKS

High growth , Low market share



- Most businesses start of as question marks.
- They will absorb great amounts of cash if the market share remains unchanged, (low).
- Why question marks?
- Question marks have potential to become star and eventually cash cow but can also become a dog.
- Investments should be high for question marks.

WHY BCG MATRIX ?

To assess :

- Profiles of products/businesses
- The cash demands of products
- The development cycles of products
- **Resource allocation and divestment decisions**

Practical

BCG-MATRIX FOR THE PRODUCT LINE OF

Coca-Cola

Coca-Cola



QUESTION MARKS (HIGH GROWTH, LOW MARKET SHARE



STARS

(HIGH GROWTH, HIGH MARKET SHARE)



CASH COWS (LOW GROWTH, HIGH MARKET SHARE)



DOGS

(LOW GROWTH, LOW MARKET SHARE)

