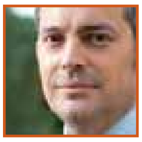
IDEAS

OPERATIONS MANAGEMENT FOR EXECUTIVES

FIVE STRATEGIES FOR INNOVATIVE OPERATIONS



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As globalization and new technologies open the door to innovative ways of working, improvements in operations management are becoming an important competitive edge for companies.

INNOVATION AND CHANGE • DECISION ANALYSIS • SERVICE AND OPERATIONS MANAGEMENT

What do companies like Toyota, Zara, Amazon and Ikea have in common? In addition to occupying a leading position in their respective sectors, each of them has marked a watershed moment in the operations of their industries, transforming them and making operations management their main source of competitive advantage. That's why we've chosen them to illustrate the ideas in the chapter on innovation in operations in our book *Gestión de operaciones para directivos. Destapa el pleno potencial de tu empresa* (to be published in English in 2017 as *Operations Management for Executives: Unleash Your Company's Full Potential*), McGraw-Hill.

We're not talking about implementing quality and continuous improvement programs within the existing operations of a company. Instead, we propose coming up with entirely new ways of operating: new ways to manufacture products, manage orders and provide customer service. In order to do this, it's not enough to rethink *how* things are done (operations). We also have to examine *what* we offer (value proposition) and to *whom* (target customers).

WHY INNOVATING OPERATIONS

When compared to other sources of competitive advantage, innovating operations has three great benefits. First, it can have dramatic effects on the bottom line. Second, and contrary to popular wisdom, innovating operations does not necessarily require large investments. And third, it often takes competitors a while to recognize the changes that have been implemented, and even when they do, they have a hard time replicating them.

WHERE TO START

There is no hard-and-fast rule about which processes are best suited to operational innovation, but these strategies can have a radical effect on the way a company operates:

1 Exploring ways to reach dissatisfied or underserved customers
In developing products and services, companies tend to give priority to their most demanding – and profitable – customers. Other customers get left out of the market because existing offerings are too complicated, cumbersome or expensive for them. Focusing on underserved customers sometimes makes it possible to simplify both the value proposition and the operations system, resulting in significant savings.

Low-cost airline companies like Southwest and Ryanair are a perfect example. These companies focus on the very specific niche of passenger transport at low prices, innovating in industry operations (point-to-point flights with a single type of aircraft)

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and simplifying for flexibility and efficiency (online billing and boarding without seat assignment).

2 Incorporating value-added and personalized services

This strategy takes us in exactly the opposite direction. Here a company expands the value proposition beyond offerings in the traditional sector. This can be done either by adapting the product to the needs of the customer (personalization) or including value-added services (servitization).

Personalization can be based on products (Nike and Adidas sneakers), experiences (Nespresso stores), training (online tutorials), or customer participation in design communities and processes (Lego).

Adding services can provide a competitive advantage. Services tend to have better margins than the product itself. Also, they require a local presence, helping a company stay ahead of offshore competitors. Finally, they help retention by intensifying company-customer relationships.

Companies that stand out for servitization focus on services associated with equipment purchases (financing or leasing, maintenance and support, logistics) or aimed at improving customer processes and results (process consulting, team building, information management). Or they completely rethink the business model, to the point of reconsidering equipment ownership and location (cloud computing).

3 Restructuring the value chain by changing the roles of its members

Typically, this involves adding or subtracting links and activities and changing roles or members. This type of innovation focuses mainly on changes in operations and not necessarily changes in the value proposition or in customer management.

We find examples of these strategies in businesses committed to disintermediation (the elimination of traditional distribution channels). These companies develop direct sales models between suppliers and consumers, as in the case of manufacturers that sell their products directly online. Another example is the online distribution giants, like Amazon and Alibaba, which serve as supply consolidators, reducing the number of companies competing in a given link.

At the same time, we also have companies that opt for a change of roles and functions within the distribution chain. For example, distributors that play not only a logistical role, but also a commercial or financial one. This model has been found traditionally in the pharmaceutical distribution sector. Other companies choose to re-

KEYS: STRATEGY TO STRATEGY

1 Exploring ways to reach dissatisfied or underserved customers

- Identify and thoroughly analyze these market segments.
- Define clearly the key aspects of the value proposition to the customer (and also make clear which features won't be included).
- Make sure that the key aspects chosen will make it possible to simplify operations processes.
- Design a delivery system that industrializes processes, gaining efficiency.

2 Incorporating more value-added and personalized services

When opting for "servitization," first review the value proposition, keeping three major questions in mind:

- What exactly is the "task" that the customer hopes to complete or the "experience" he or she hopes to have in acquiring the product?
- How can additional services improve the customer's results and the total costs required for using the product?
- How can the experience of using the product be improved?

design the supply and manufacturing structure. One route is outsourcing production to large industrial conglomerates in low-cost countries specialized in contract manufacturing, as done by most fashion or electronics brands. Another option is to leverage a structure of exclusive suppliers to develop a brand, like Mercadona or Aldi in the food retail sector.

4 Betting on customer collaboration to create value

Another way to radically transform company operations is to invite customers to create value in the provision of service. With this strategy, a company can kill two birds with one stone: customers are more satisfied because they have participated in offering the service and their participation lowers costs.

Examples of this innovation go from pure self-service models (vending machines, self check-in at airports, mobile banking apps), to hybrid models (IKEA's bid to transfer design and assembly of furniture partially to customers), or even business models based on "using" the customer. For example, customers are invited to recommend and evaluate services (Booking.com or TripAdvisor), identify market trends, test prototypes, or develop business models inspired by the collaborative economy and based on communities of users that provide each other with services. There are various examples of companies in sectors like urban transport (Uber) or room rental (Airbnb).

5 Taking advantage of new technologies to innovate operations

Using new technologies can reduce the cost of activities in the value chain, increase supply personalization and improve access to customers.

Applying technologies like big data or the Internet of Things to industrial processes can drastically reduce the cost of carrying out certain activities, such as monitoring the logistics chain (What merchandise do I have where?) or equipment operation and performance (automated processes analysis, demand forecasts). Additionally, new technologies make it possible to do this in real time in a reliable, cost-effective way.

Digitalization also speeds up the transmission of information and coordination among actors in the value chain, makes processes more efficient, facilitates multi-channel access to customers and suppliers, reduces search costs for the customer and brings down costs for market analysis and the development of new products and services. 7-Eleven Japan, Amazon and Netflix are a few companies that have turned these opportunities into a key competitive advantage.

MORE INFORMATION:
P. Moscoso y A. Lago, *Gestión de operaciones para directivos. Destapa el pleno potencial de tu empresa*, McGraw-Hill, 2016.

3 Restructuring the value chain by changing the roles of its members

- If you opt for disintermediation, be clear on what the added value is, in terms of both final and intermediary customers.
- When innovation means that activities will be outsourced, ask yourself *what* and to *whom* you outsource. Make sure that outsourcing doesn't amount to a loss of key know-how. Or a loss of control over customer relationships or of cost leveraging.
- Maintain a holistic view of the entire value chain; don't focus attention exclusively on the part that your company is involved in.

4 Betting on customer collaboration to create value

- Pay special attention to usability and convenience to encourage customers to keep collaborating.
- Develop management and monitoring systems to make sure that customers "do a good job." It is especially important to prevent mistakes that can negatively affect other users.
- Foster a sense of community to ensure the long-term sustainability of the model.

5 Taking advantage of new technologies to innovate operations

- Understand that a new technology should be an enabler and not an end in itself.
- Keep in mind that any competitive advantage based on new technologies is temporary, because competitors will also begin to adopt them.
- Don't underestimate the organizational and adaptive work involved in using new technology to innovate operations (change management).