OPERATIONS STRATEGY

COURSE OUTLINE

1. Introduction & Objectives

“We have too many specialists and too few men and women who can design a coherent set of manufacturing policies and keep them coherent in dynamic, changing competition, technologies and economics.”

The past decades are full of buzz words that turned out to be just that: e.g., during the 1980s “strategic diversification” and “synergies” (e.g., Daimler-Benz and its venture into aerospace), during the 1990s “disintermediation” (e.g., Webvan) and the 2000s the decade of “irrational exuberance” (e.g., the total market volume of financial services was a multiple of the “real” economy), leading to the global financial crisis which still dominates headlines today. During these decades companies that did not follow the crowd were often frowned upon and criticized for being overly cautious. The past decade, however, has shown that organizations with a stringent focus on adapting their core competencies to the needs of their customers have not only survived the crisis, but are doing extremely well.

Many of these companies have one thing in common: small profit margins that force them to think very carefully about any “strategic” ideas. Closely linked to this process of adapting their business to their customers’ needs is the question of operations strategy: operations management is about how an organization does things, while operations strategy is about how it does things in the most intelligent way to support its business strategy. Most companies that have been successful over the past decade are companies that have achieved a higher strategic coherence between their business strategy and their operations strategy than their competitors. In this course we will learn why strategic coherence is important - and how we can strive to achieve it.

2. Learning Outcomes and Competences

The objective of this course is to develop an understanding of how to design a company’s operations model so that it meets the criteria established in a company’s competitive strategy while employing the company’s resources in the most efficient way. If this is achieved, we speak of strategic coherence between operations and
strategy. As Skinner (1969) put it: “A company’s operations function is either a competitive weapon or a corporate millstone. It is seldom neutral.”

Knowledge: Acquire frameworks to design an effective operations strategy that is aligned with the competitive strategy of the organization, taking into account the following:

- The impact of process design on fixed assets, working capital and cost figures, as well as organizational competencies
- The trade-offs around capacity footprint (centralization and diversification)
- The different types of planning approaches, from push to pull
- The trade-offs around vertical integration vs. using outside partners (make or buy)
- The role of capabilities in making operations more competitive over time

Skills: To give students an opportunity to apply some of the learnings of this course (as well as other courses!) to a course project, conducted together with an internationally renowned company and present to top management. Opportunity to practice how to balance the hard aspects of operations with the conceptual considerations of strategy.

Attitudes: Critical thinking about the societal and ethical consequences of operations strategy choices.

3. Content

We will discuss the key decision categories of operations strategy and see how they can be used to shape the operations of a company. In doing so, the ultimate goal is to achieve consistency between a company’s business strategy and its operations. This requires a clear understanding of how a firm chooses to differentiate its products and services from those of its major competitors, i.e., how to provide a superior product or service to the customer. From an operations perspective, the relevant goals are: efficiency (cost, quality, response time), attractiveness (knowledge, innovation) and attachment (motivation, sustainability). Companies within a given sector usually chose one or two of these attributes to focus on. Once a company has gone from defining its competitive strategy, to identifying key operational goals, it has to develop an operations strategy to achieve these goals. To give structure to the process of defining an operations strategy, we use some of the ideas from Porter (1985), Hayes, Pisano, Upton and Wheelwright (2005) and Beckman and Rosenfield (2008).

In this sense, we borrow the instruments developed in Operations Management (MBA-I 2nd term) to support business strategy. We structure the different levers at our disposal in five categories: (1) process design, (2) capacity strategy, (3) planning of flows, (4) partner choices and (5) capability development.
4. Methodology

This course will be taught using lectures, case discussions and a course project. Students are expected to come to class prepared, having read the case and accompanying material.

5. Evaluation

You will be evaluated along the following dimensions:

- Participation (40%)
- Midterm project presentation (20%)
- Final project report (40%)

There will be no midterm and no final exam in this course. Instead, each team will work on a course project: your initial analysis will be presented in a midterm presentation, and your final report will be submitted and presented at the end of the course.

Class participation will be an individual grade. The midterm project presentation will provide a team grade. Finally, at the end of the term every member of the team will evaluate the effort of his/her peers in the team, so that the final project will be a team grade corrected by everyone’s individual contribution.

Project instructions will be distributed at the beginning of the course, please read them carefully!

**Session Guidelines**

- Please be punctual
- Please be prepared for each session - we need your input!
- Please do not leave the class during a session
- Please turn off your mobile phone at the beginning of the session
- There will be cold calls during this course!
- All rules outlined in the MBA Program Guidelines apply (the “20% missed sessions” rule in particular)
# 6. Course Outline & Bibliography

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<tr>
<th></th>
<th>Introduction to Operations Strategy</th>
<th>Lecture</th>
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| 2 | Process: Supply chain management    | Case: Hewlett-Packard Company (Stanford GS-3A)  
Reading: Callioni et al., “Inventory-driven Cost” (HBR R0503J March 2005) |
| 3 | Process: Time is money              | Case: Famosa (IESE P-1085-E, PE-71-E)  
Reading: Fisher, “What is the right supply chain for your product” (HBR R97205 March 1997)  
| 4 | Process: Industry vs. art           | Case: Privalia (IESE P-1131-E)  
Reading: Hayes and Wheelwright, “The Dynamics of Process-Product Life Cycles” (HBR 79201 March 1979) |
| 5 | Process: Technology                | Case: BYD Company (HBS 9-606-139)  
Reading: Takeuchi, Osono and Shimizu, “The Contradictions That Drive Toyota’s Success” (HBR R0806F June 2008) |
| 6 | Capacity: Networks (I)             | Case: Applichem Abridged (HBS 9-694-030)  
Reading: Ferdows, “Making the Most of Foreign Factories” (HBR R97204 March 1997) |
<p>| 7 | Capacity: Networks (II)            | Lecture, continued from previous session |</p>
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<th>Week</th>
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| 8    | Capacity: Short vs. long term | Case: Aernnova: Industrial Turbulence Ahead (IESE P-1136-E)  
Reading: Ricart and Agnese, “Adding Value Through Offshoring” (IESE Insight 10 3rd Quarter 2011) |
| 9    | Project toolkit | Lecture |
| 10   | Planning: Decentralization(I) | Exercise: The Beer Game (PE-65-E) |
| 11   | Planning: Decentralization(II) | Lecture, continued from previous session |
| 12-13| MIDTERM PROJECT REVIEW |
| 14   | Planning: Coordination mechanisms | Case: Barilla SpA (HBS 9-694-046)  
Reading: Lee, Padmanabhan and Whang, “The Bullwhip Effect in Supply Chains” (SMR Reprint 3837 Spring 1997) |
| 15   | Planning: Priorities | Case: Edentel (IESE P-987-E and P-988-E) |
| 16   | Partners: Sourcing | Case: Locar (IVEY79-D028)  
Reading: Kraljic, “Purchasing must become supply management” (HBR R83509 September 1983) |
| 17   | Partners: Make vs. buy | Case: The Handball Section at FC Barcelona (IESE P-1127-E)  
Reading: Venkatesan, “Strategic Sourcing: To Make or Not to Make” (HBR 92610 November 1992) |
| 18   | Partners: Industry dynamics | Case: Flextronics (HBS 9-604-063)  
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| 19   | Partners: Managing customers | Case: Shouldice Hospital Limited (HBS 9-683-068)  
Reading: J.L. Heskett, “Lessons in the Service Sector” (HBR R87206 March 1987) |
| 20   | Capabilities: Aligning strategies | Case: Mercadona-Conservas Ubago: The intersupplier concept (IIST PI-67-E)  
Reading: Aoki and Lennerfors, “The New, Improved Keiretsu” (HBR R1309J September 2013) |
| 21   | Capabilities: Turnarounds | Case: Porsche: Crisis of 1992 (IESE P-1100-E) |
| 22   | Capabilities: Adaptation | Case: Seven Eleven Japan (Stanford GS-18-A)  
Reading: Lee, “The triple-A supply chain” (HBR R0420F October 2004) |
| 23   | Wrap-up | Lecture |
| 24-25| COURSE PROJECT FINAL PRESENTATIONS |