

Stay ahead, make history by innovating your operations

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While most companies are busy outsourcing to Asia, Zara has done the opposite, sticking close to home for production.

Many executives looking for profitable growth opt for the usual solutions: diversifying their business, entering new markets, investing in R&D or marketing, even buying out their competitors. All too often, however, these strategies do not produce the desired results.

In his article, "[Innovar en operaciones, fuente de ventaja competitiva](#)" ("Operational Innovations: A Source of Competitive Advantage"), IESE Prof. [Philip Moscoso](#) suggests a rather more intriguing - and relatively reliable - way to get ahead of the competition: improving your operations. The risks of doing so are fewer, and it will keep you on top of the latest trends, he says.

Let's face it: the way a company operates is something that most likely evolved in a hit-and-miss fashion over time rather than being the product of intelligent design. Moscoso says it's time for managers to rethink and revamp. He doesn't recommend a minor tweak here or there, but a radical overhaul of your entire operational processes, from handling orders to manufacturing products to delivering services.

True operational innovation allows a company to take better advantage of its existing customer base while at the same time boosting its market share. And because operational innovation generally does not require large investments in technology and resources, it becomes one of the most sustainable, long-term sources of competitive advantage that a company can create without too much cost or effort.

Success stories

The practice and experiences of some of the world's most admired companies reinforce his point. Using Toyota and Dell as examples, Moscoso shows how these companies managed to unseat such giants as General Motors and IBM by radically rethinking the way they operated.

Take Dell. It found success not so much through product innovations, which could be easily imitated by the competition, nor through sophisticated advertising campaigns, but rather through its direct-sales approach and a supply chain involving on-demand orders.

In the case of Toyota, its success is also based on something more than just having a good product. Its operating model, known as the Toyota Production System (TPS), has long been the subject of study for business schools and, of course, its competitors.

As with many success stories like these, the competition never believed these unorthodox strategies would work. Confounding the competition creates an interesting opportunity in itself, says Moscoso. Competitors, he writes, "often take much longer to realize the potential of operational innovations than they do with new products and business plans."

Something similar happened with the low-cost airline Southwest, a pioneer in the United States whose competitors took more than a decade to realize the challenge that this new operating model posed for them.

Obstacles to overcome

Copying operating models is no easy task, says Moscoso. First, as in the case of Zara, the innovators have already made their operations not only faster and less costly, but truly agile and adaptable, which leaves the rest trying to catch up.

Second, operational innovations may require changes to the company's DNA, which could mean decentralizing decisions or the way suppliers are dealt with. Not every company is prepared to make the fundamental changes that may be necessary, says Moscoso.

This, he adds, is the real challenge when it comes to overhauling operations, much more than the question of costs involved. After all, companies that have solid operations units "spend a lower percentage of their sales on operations activities, such as their supply chains," he explains. "Doing it right costs less in the long run."

Mindsets that kill

Moscoso identifies several deeply ingrained mindsets that prevent managers from imitating the extraordinary success achieved by Dell, Ikea, Southwest Airlines, Toyota, Zara and the like.

- **It's not glamorous.** In the author's experience, there's a mental hierarchy among managers that puts strategy and finance at the top, sales and marketing in the middle, and operations at the bottom. "I have seen cases where the main tasks - the activities that create value for the customer - have ended up being considered of low status or interest."
- **What operations?** Very often no one on the board knows about operations. Naturally, this makes it harder to win support or drive efforts in this area. Worse than companies' general ignorance is managers' unfamiliarity with the way operations work within their own companies in particular.
- **It's not my job.** Most companies do not have a manager in charge of operations but leave it to middle managers or spread it among multiple departments. The end result, says Moscoso, is that no one owns the overall vision or takes responsibility to innovate operations.

"At the very least, someone in upper management should have a clear vision and, of course, knowledge and interest," if for no other reason than better coordination between departments and an awareness of what the other is doing when innovations are made.

Having an operations director will prevent "operational innovations from getting lost in a sea of improvement projects, which are often the byproduct of a technology change, such as the implementation of systems like ERP (Enterprise Resource Planning) or CRM (Customer Relationship Management), and can end up crippling operational innovation."

According to Moscoso, successful innovation starts with just a few people within the organization who, in order to turn their ideas into action, reach an agreement regarding what is truly important and seek out a leader from management who is capable of leading the change. Given the amount of disruption an innovation will bring the company, this leader "must convince the organization of its need to take action."

Once introduced, however, there's no guarantee that any innovation, no matter how good, will last forever: the case of Dell attests to that. What was innovative yesterday may not be tomorrow. Therefore, he adds, companies must work hard at getting all their employees on

board, so that operational innovation becomes the cornerstone of their corporate philosophy and a source of continuous development and improvement.

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