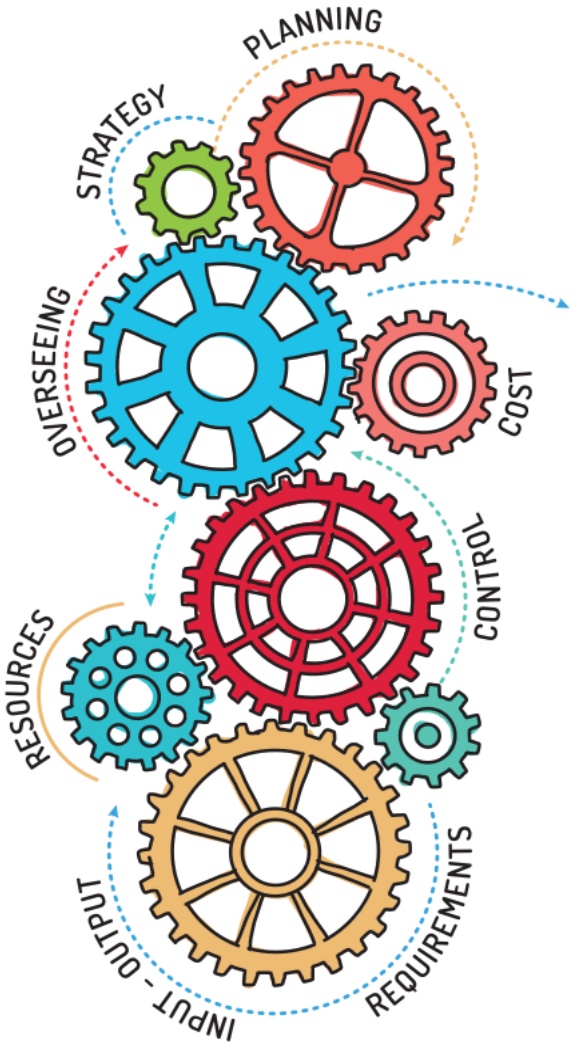
# MANAGEMENT OF OPERATIONS

LECTURE 3




# Today's agenda

- Operations strategy
- Levels of strategy
- Competitiveness
- Productivity improvement
- Benchmarking
- Reengineering
- Outsourcing

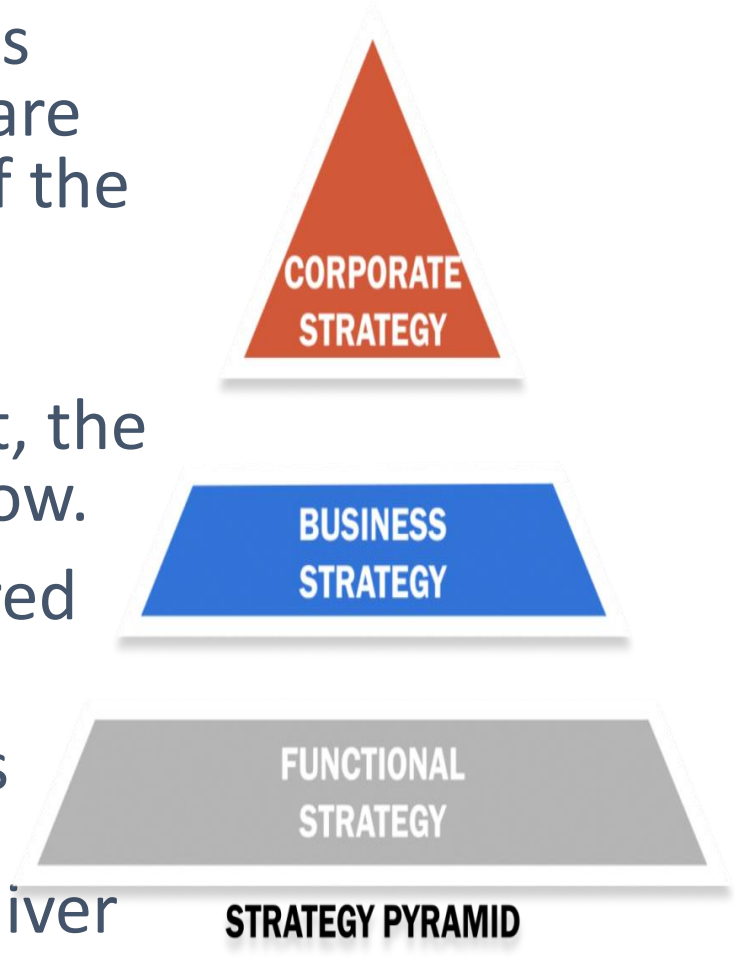
# Strategy

- Strategy consists in **planning for the long-term to reach companies' goals**.
- For this, companies use their own competences to create **sustainable competitive advantage**.
- Strategy plays an essential role in companies, more than ever before.
- **Strategy is to define the long-term goals, adapt the appropriate methods to do this and ensure the necessary resources.**
- Company's environment changes faster than ever as well as technologies.
- Many companies disappear as they loose contact with it and its customers. In this globalized world new competitors may appear at any time.
- To survive and remain in the leading positions companies have to:
  quickly respond to market changes, gain access to the newest and best technologies, be efficient and continuously improve their key competencies.

# Operations strategy

# Levels of strategy

- Strategy can be subdivided into three  main levels. This particular model follows a top-down approach: goals are communicated from the top (executives) to the rest of the business.
- **Corporate strategy**: long run guidance for the whole organization often expressed in the mission statement, the basis of how the company wants to accomplish and how.
- **Business strategy**: concerns products or services offered to markets defined in the corporate level of strategy.
- **Operations strategy** (or **functional** strategy): concerns functions of the business (f.e. marketing, operations, finance) . Core activities that produce a product or deliver a service.



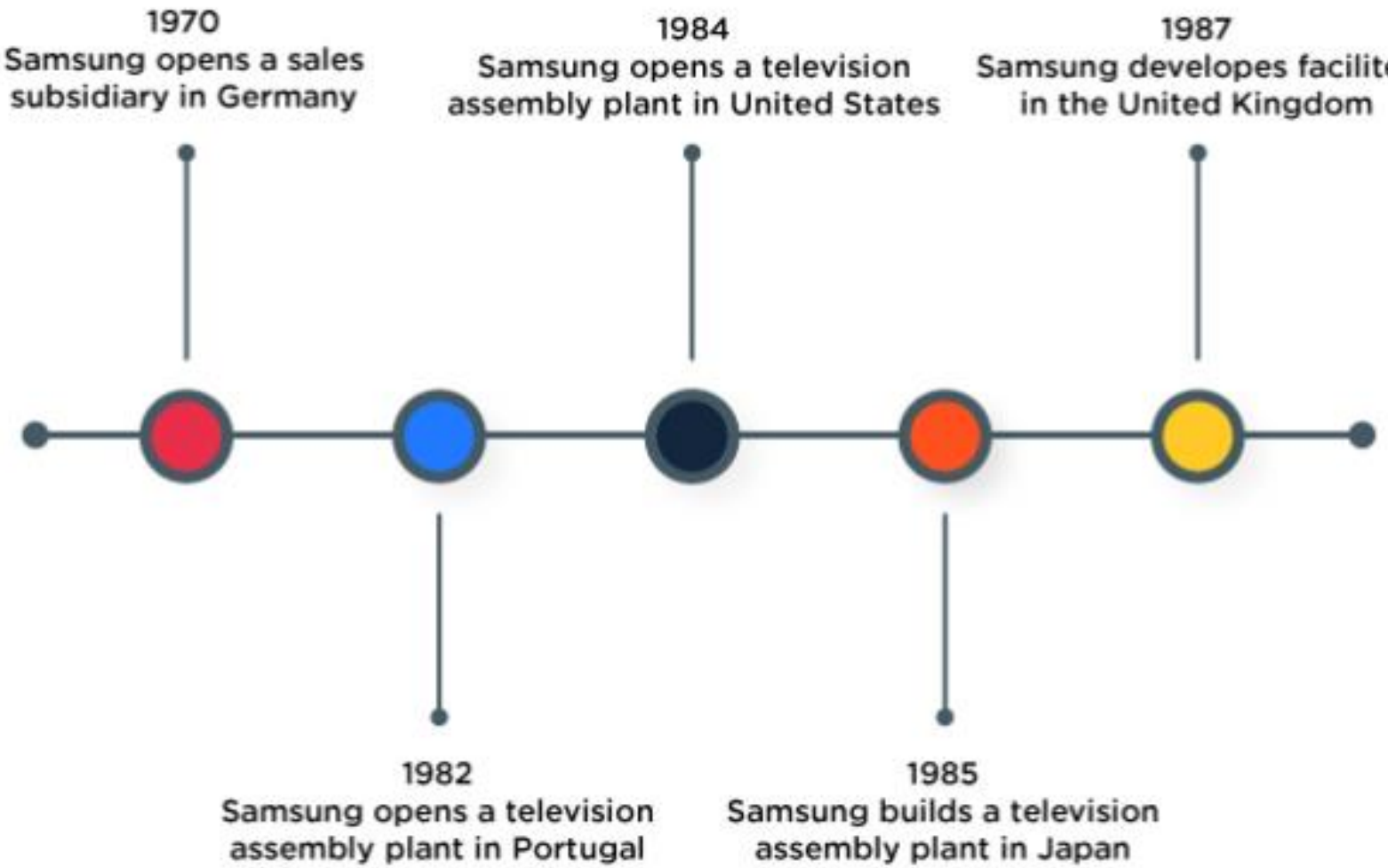
# Levels of strategy: corporate strategy


- It is about what business areas to be active, the direction in which the organization should go and how to allocate resources in an efficient way across multiple business activities.
- Scope should determine how much to diversify a company in two dimensions:

  products and markets (a very diversified company is Samsung).
- Usual questions made at this level are:
  - more convenient to *outsource* or to produce in your own company's facilities?

# Samsung - diverzification

- Samsung, a South Korean Multinational, which is synonyms with smartphones, consumer electronics, has a diversified business portfolio
- Samsung started as a small trading company selling groceries and noodles
- Samsung has a diversified product and service portfolio which operated under the Samsung Brand
- Samsung's **product portfolio** includes apparel, automotive, solid state drives, telecommunications equipment, chemicals, consumer electronics, electronic equipment, medical equipment, home appliances, semiconductors and electronic components.
- Samsung's **service portfolio** includes advertising, construction, hospitality, entertainment, financial services, medical and healthcare services, information and communications technologies, shipbuilding and retail.
- You must be wondering; how did Samsung turn into a diversified multinational business from its humble beginnings as a small grocery trading business?
- Samsung has utilized every growth strategy to its advantage **to grow from a small grocery trading business** in a small town in South Korea to become one of the **largest brands in the world**.
- Samsung has diligent in analyzing its strengths and weakness along with the external business environment before selecting and deploying the growth strategies.


1970
Samsung opens a sales subsidiary in Germany
1982
Samsung opens a television assembly plant in Portugal
1984
Samsung opens a television assembly plant in United States
1985
Samsung builds a television assembly plant in Japan
1987
Samsung developes facilites in the United Kingdom

# Levels of strategy: business strategy

- It concerns products or services offered to markets defined in the corporate level of strategy.
- How we should compete in a marketplace?
- What business model should we adopt? Is ours still valid or should we renew it?
- **Business model**: plan to succeed in operations of a business, how value is created for the company, identifying sources of revenue.
- Should a company be **cost-leader** or should it offer **something unique** (and so can charge more)?

# Levels of strategy: operations strategy

- Operations strategy is the set of decisions made to support the strategic direction of the firm. It revolves around the core business processes, such as production, supply chain, logistics, etc.
- It is concerned with how different parts of the organization deliver the strategy effectively in terms of managing resources, processes and people (this includes: material acquisition, manufacturing, inventory management, delivery, etc).
- **Focus:** reducing process costs and improving profits for the entire business. Additionally: product development, market penetration, customer engagement, supply chain, etc

- It is the actual plan to accomplish the preplanned goals.
- For the aim, internal and external analyses should be conducted in order to identify strengths, weaknesses and make considerations about competitors, customers and supply chain.

# Operations in strategy development

- Important role in the formulation and implementation of the organization's strategy.
- Market changes and so companies should be able to **adapt quickly** (e.g. from mass production to customization; use new technologies; improve key competencies).
- Changes are now faster than ever → *UNCERTAINTY*!!
- Emphasis is now on short-term objectives.
- In a dynamic market traditional forecasting techniques and development of objectives are limited.
- The strategic plan of an organization should be built on the capabilities and values it possesses.

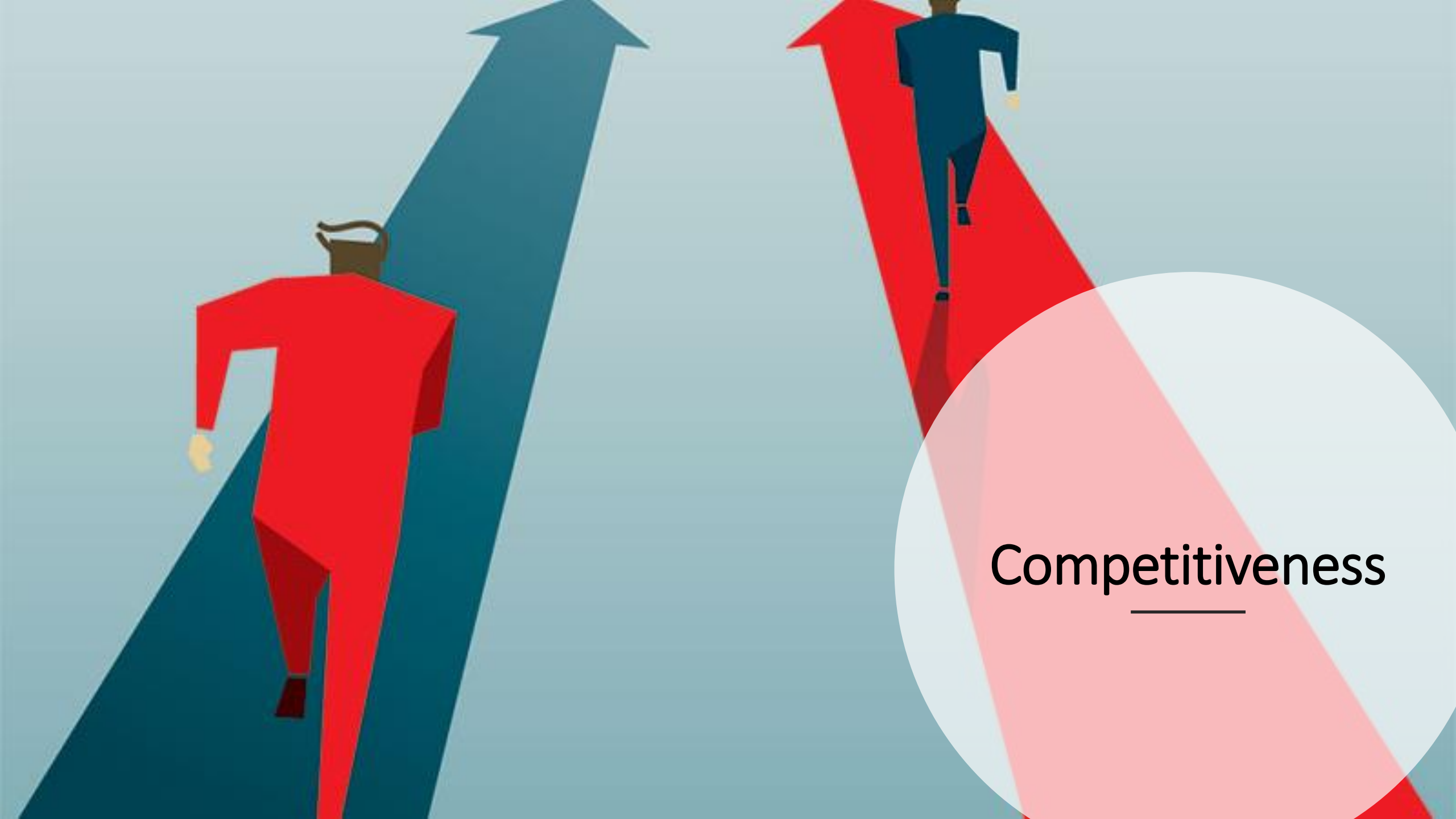
# Operations strategy examples





With the rapidly changing marketplace in recent years, some companies have excelled in part due to their strong operations strategies. Here a few examples:

- ***Amazon***: Once known for books, Amazon is now known as the go-to platform for online shoppers of any product. Its distribution network is widely touted and even includes experiments with drone delivery.
- ***Apple Computers***: Apple is long recognized in operations circles for its operational excellence and supply chain management.
- ***Walmart***: This retailing giant managed to undercut many competitors on the price and variety of a wide range of products.
- ***FedEx***: FedEx made speed of delivery its calling card, achieving it with excellent operations.
- ***IKEA***: The world's largest furniture retailer undercut many home goods


Competitiveness

# Competitiveness

- The focus of operations should be on competitive priorities, that is those specific capabilities which allow a company to gain **competitive advantage.**
- **Competitive advantage:** factors that allow the entity to generate more sales or superior margins compared to rivals by offering clients better and greater value.
- Factors can be: lower price, higher quality or lower cost.

**Competitiveness** in business: **ability and performance of a firm to sell and supply goods and services in a given market, in relation to the ability and performance of other firms**.

How a firm will win over customers to become the product or service of choice

# Key purchasing criteria

**Price** – Firms need to understand how much the customer will pay for an item. If products are seen to be very similar to one another, the customer will choose based on price.

**Quality** – Many customers are willing to spend more in order to obtain a product with specific characteristics or brand reputation. Not only are we considering a product with a great design, but also, one that is long lasting and defect free.


**Variety** – There is a part of the market that value the opportunity to choose from a wide variety of products. They look for options to change the style, colour, dimensions or technical characteristics.

**Timeliness** – Some customers care greatly about how long it will take to obtain the product or service. Key necessity to gain new customers for companies is the transportation business. This can also be related to the capability of companies to deliver at the agreed time.

# Competitive priorities

- **The ways in which the operations management function focuses on the characteristics of cost, quality, flexibility and speed.**

The firm's customers will determine which of the competitive priorities are emphasized.

- A trade-off must be made about which competitive priority to pursue: it is **impossible to excel on all competitive priorities at once**!!
- Cost and quality, flexibility and speed are examples of trade-offs.

Main competitive priorities are:

**Cost**


**Delivery**

**Quality**


**Flexibility**


# Cost

- If a company competes on price, then costs should be lower than the competition. Companies that successfully pursue this strategy are known as **cost-leaders**
  - Two ways: under-price competitors or offer a better value to gain market share.
- Even companies not competing on price want to keep their costs as low as possible.
  - Example: IKEA with its cheap yet appealing furniture. How IKEA is able to do that?

- These companies are typically paying close attention to **identifying and eliminating waste** within their operations.
- Factors such as resource utilization and efficiency will be important.


# Cost/2

(Low) **Cost-leadership** can be achieved through, among the others:

- **Input costs** (such as labor or raw materials): companies would seek their inputs from where it is the most convenient (f.e. locating call centers abroad, set plants whereby labor is cheap etc.).
- **Economies of scale**: come from spreading fixed costs over high levels of output. This verifies when average cost per unit decreases as a certain optimal volume is reached.
- **Experience**: the cumulative experience gained by an organization with each unit of output leads to reductions in unit costs. The more experience an organisation has in an activity, the more efficient it gets at doing it.

# Delivery

Delivery (reliability and speed)

- – Firms whose customers prioritize speed of product/service delivery must be quick, reliable and efficient at providing their products and services to customers. McDonald's and Amazon are examples of this.
- **Being faster than rivals** can imply customers will choose your company instead of another.
- Important to keep quality high.
- Fast delivery means also saving costs → f.e. less time in warehouse.
- Speed: **The ability to do things quickly in response to customer demands and thereby offer short lead times between when a customer orders a product or service and when they receive it.**

# Delivery/2

- In competitive terms:

  - Speed decreases costs (of e.g. inaccurate forecasts)

  - Delivery time is reduced (customer service thus improve).

**Dependability: concept close to delivery.**
The ability to deliver products and services in accordance with promises made to customers (e.g. in a quotation or other published information).

# Quality


- **Quality covers quality of the product/service as well as the process that delivers the product/service.**
  Manufacturing must ensure that the process is able to produce the products defect-free.
  Excellence will ensure customers' expectations are met.

With relatively higher quality, possible to compete on **differentiation strategy**: distinguishing from rivals and opportunity to increase costs.

- Advantage:

- increased dependability of consumer to company (consumers that come back to company for a future purchase or recommend company to others).

- improved customer service

- reduced costs and saved.

- Costs related to quality will be of two kind:

  1. **cost to achieve good quality (cost of quality assurance);**
  2. **cost of poor quality (cost of not conforming to specifications);**

# Quality/2

1. Good quality costs can include prevention costs (following the philosophy of “doing it right the first time”) and appraisal costs (control of quality through measuring and testing products and processes).
2. Poor quality cost is the difference between what it actually costs to produce a good or provide a service and what it would cost if no poor quality or failures were there (this can account for 70-90% of total quality costs!).
3. This cost can come from both internal and external failures.

- **Internal failure costs:** replacing/fixing parts of defective products;  downtime cost of machine time lost needed to fix equipment or replacing defective products.
- **External failure costs:** responding to customer complaints, handling and replacing poor-quality products.


# Flexibility

- Firms whose customers prioritize variety must prioritize the ability to change rapidly.
- Firms who value flexibility usually do so by carefully choosing equipment that is general-purpose and able to perform multiple functions.
- Workers must be multi-skilled. *Note: the more variety, the more additional complex to operations.*
- They will often strive to keep a small amount of spare capacity in case it is needed.
- The ability of changing an operation to match customer's requirements. More and more important nowadays, because **customers want a unique design to meet their requirements** (customization).
- Also, it is the ability to react to change in demand and to customer needs with a new product mix or design.
- **Flexibility allows an organization to be agile**—receptive to changes in the marketplace and to introduce innovations and new technology.
- Volume flexibility may be needed for seasonal changes in demand. Any example of seasonal demand? What to do during the rest of the year?

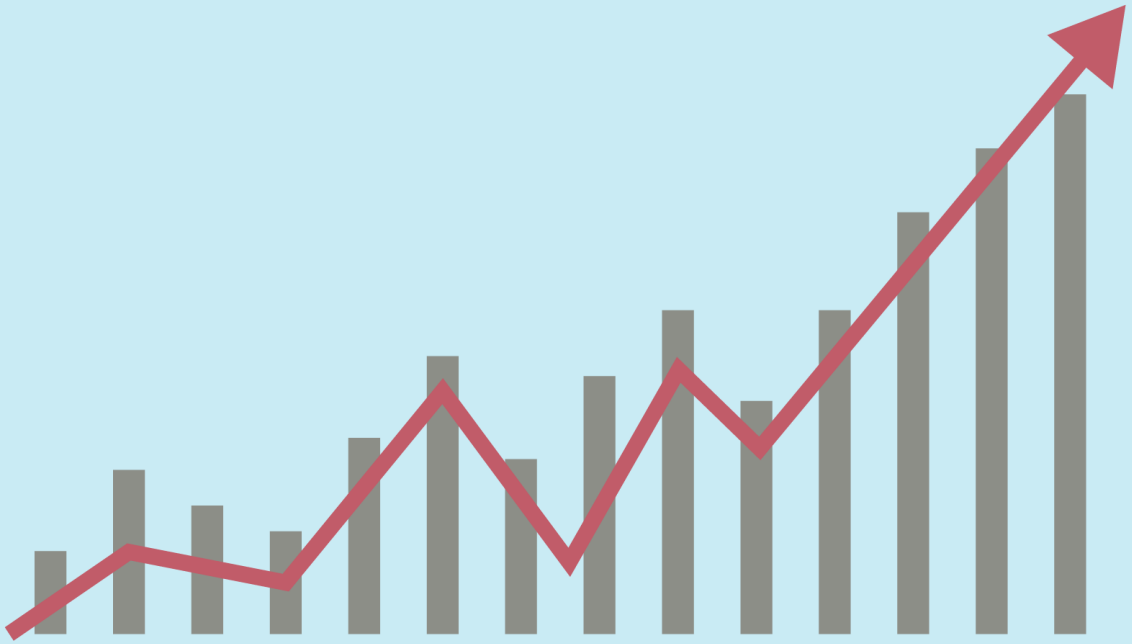

# Flexibility/2

Flexibility: The ability to change operations. Flexibility can comprise up to four aspects:

- i. The ability to change the volume of production.
- ii. The ability to change the time taken to produce.
- iii. The ability to change the mix of different products or services produced.
- iv. The ability to innovate and introduce new products and services.

| EXCELLENT OPERATIONS PERFORMANCE IN . . . | GIVES THE ABILITY TO COMPETE ON . . . |
|---|---|
| Cost | Low price |
| Quality | High quality |
| Speed | Fast delivery |
| Dependability | Reliable delivery |
| Flexibility | Frequent new products/services<br>Wide range of products/services<br>Changing the volume of product/service deliveries<br>Changing the timing of product/service deliveries |

Operations excellence and competitive factors



# Productivity Improvement

# Productivity

- Productivity: **how efficiently** a certain output of goods and services is produced, and the **value** created by the production process.
- Developments in technology often drive **productivity improvements**. As organizations invest in technology, they can optimize time, expand options, and reduce costs.
- At the corporate level, productivity allows to produce **superior quality** and high-value goods and services at the **lowest possible cost**.
- Classic concept of productivity expressed the formula:

**Productivity = output/input**

For example, productivity improves as I can produce the same output, I produced with older technology and processes with lower inputs.

- Modern concept of productivity **expanded** to concerns like job creation and security, poverty alleviation, improvement in the quality of life, resource conservation and environmental protection.
- Effectiveness of production management: measured by the efficiency through which the inputs are converted into outputs, i.e., effectiveness of outputs and inputs.
- This efficiency is called productivity of the system. The higher the productivity, the more efficient is the production system.

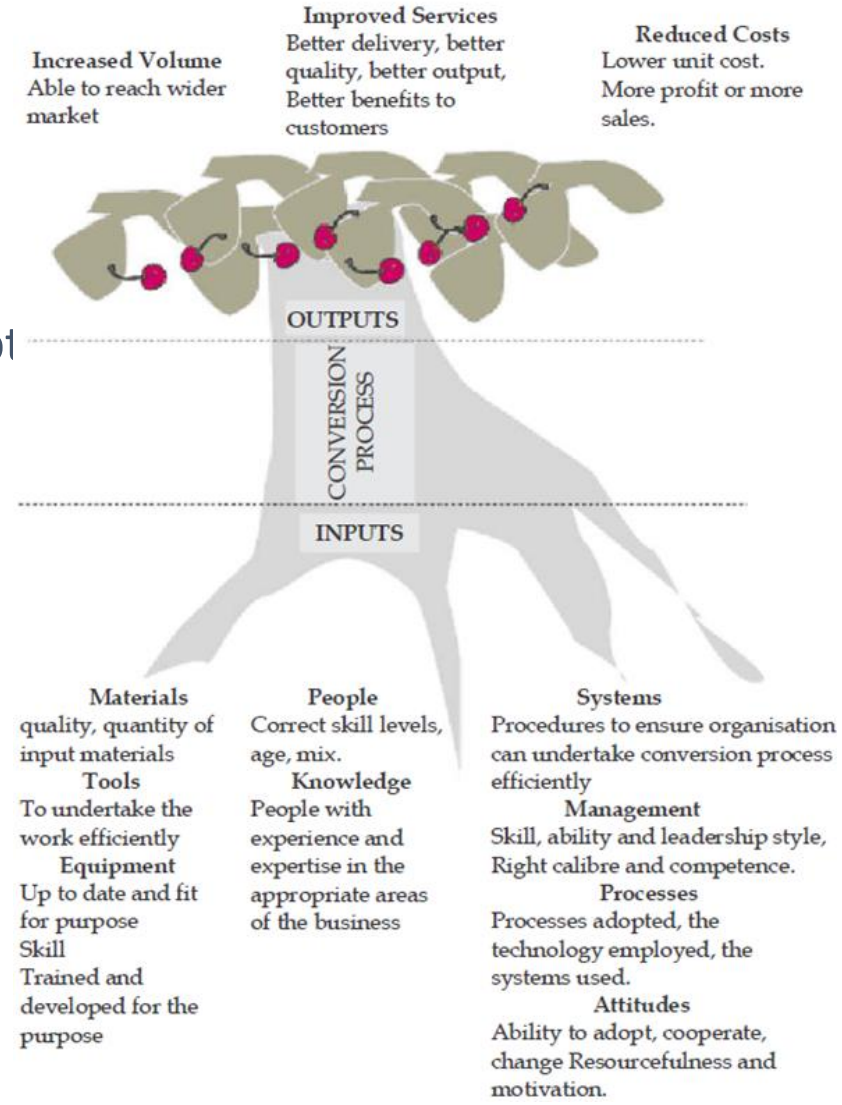
# Productivity improvement

There are several concepts of productivity:

- Single factor measure of productivity;
- Multifactor productivity measures: relating a measure of output to a bundle of inputs. Another distinction, of relevance at the industry or firm level, is between productivity measures that relate some measure of gross output to one or several inputs and those which use a value-added concept to capture measurements of output.

| *Type of output measure* | *Type of input measure* | | | |
|---|---|---|---|---|
| | *Labour* | *Capital* | *Capital and labour* | *Capital, labour and intermediate inputs (energy, materials, services)* |
| *Gross output* | Labour productivity (based on gross output) | Capital productivity (based on gross output) | Capital-labour MFP (based on gross output) | KLEMS multifactor productivity |
| *Value added* | Labour productivity (based on value added) | Capital productivity (based on value added) | Capital-labour MFP (based on value added) | - |
| | *Single factor productivity measures* | | *Multifactor productivity (MFP) measures* | |

Dutta, A., Lee, H. L., & Whang, S. (2007).




Source: http://www.accel-team.com/productivity_01_what.html#

# Computing productivity

- Productivity is an attitude of mind and prevention of all kinds of waste.
- Mathematically:

$$\text{Productivity (\%)} = \frac{\textbf{Output}}{\textbf{Input}} = \frac{\textbf{Goods or Services Produced}}{\textbf{All Factors of Production}}$$

$$\text{Productivity growth} = \frac{\textbf{Change in Output}}{\textbf{Change in Input}}$$

- It is also expressed as  OMS : Output per man-shift
- Ex: A coalminer produces coal @ 2 tons per day, we say that his OMS is 2t/day.
- Production per month:
- 1. For better understanding in an industry, e.g., in a steel plant, it is expressed as 10,000 tons (of steel produced) per month.
- 1. GNP (Gross National Product): National productivity is given as per capita income.
- 2. In agriculture sector: Output per hectare, etc.

For industries having incentive Schemes:

- Productivity = SMH/AMH = Standard Man-Hours Earned/Actual Man-Hours Worked

# Wastivity

- **Wastivity = 1 / productivity**
- Alternative way to look at productivity and measure efficiency: amount of wastage generated in the system. Wastage can be: an unnecessary input, a defective output, wasting of resources, etc.
- For an effective and efficient production system, wastage of all kinds must be eliminated or at least minimized.
- Reduction of scrap or rejections, or percentage increase in yield, just by one (1) % can save an organization tremendously as compared to an increase in production and sales efforts by at least 10-15 %.
- **Example: The typical examples of wastes are:**
- 1. Wasting of resources, e.g., materials waiting in the form of inventory in the stores, machines waiting to be loaded, job orders waiting to be processed, patients waiting for service at a doctor's clinic customers waiting for reserving a berth/seat at a reservation counter.
- 2. Production of defective goods and services, e.g., components/parts not conforming to specifications, higher conversion costs resulting from inefficient/poor methods of working or process not set correctly, poor quality of materials used, excessive maintenance delays, etc.

# Increasing productivity

Productivity can be increased by any of the following three ways:


1. By **increasing output**, keeping input constant.
2. By **decreasing inputs** for producing the same output.
3. By **increasing outputs** proportionately higher than increases affected in inputs.

Various **factors contributing** to increase of productivity can be summarized as below:

a. Better utilization of resources like men, machines and materials.

b. Using efficient and effective methods of working.

c. Through good and systematic plan-layouts using guidelines and principles of motion economy.

d. Reducing material handling through better layouts and using appropriate material handling equipment/facilities.

# Increasing productivity

HRM: Human Resource Management

MBO: Management by Objectives

SQC: Statistical Quality Control

e. Selection of appropriate technology suiting the product(s) and the production process selected.

f. Selection of proper maintenance policy, keeping in mind the service level, preventive maintenance and breakdown maintenance.

g. Provision of healthy and safe working conditions to workers.

h. Through modern HRM methods; management by MBO rather than management by crisis, counselling rather than threatening workers – through participation of them in management including quality circles etc. This shall ensure better working environment and keep the workforce motivated.

i. Provision of fair wages and proper compensation through incentive schemes.

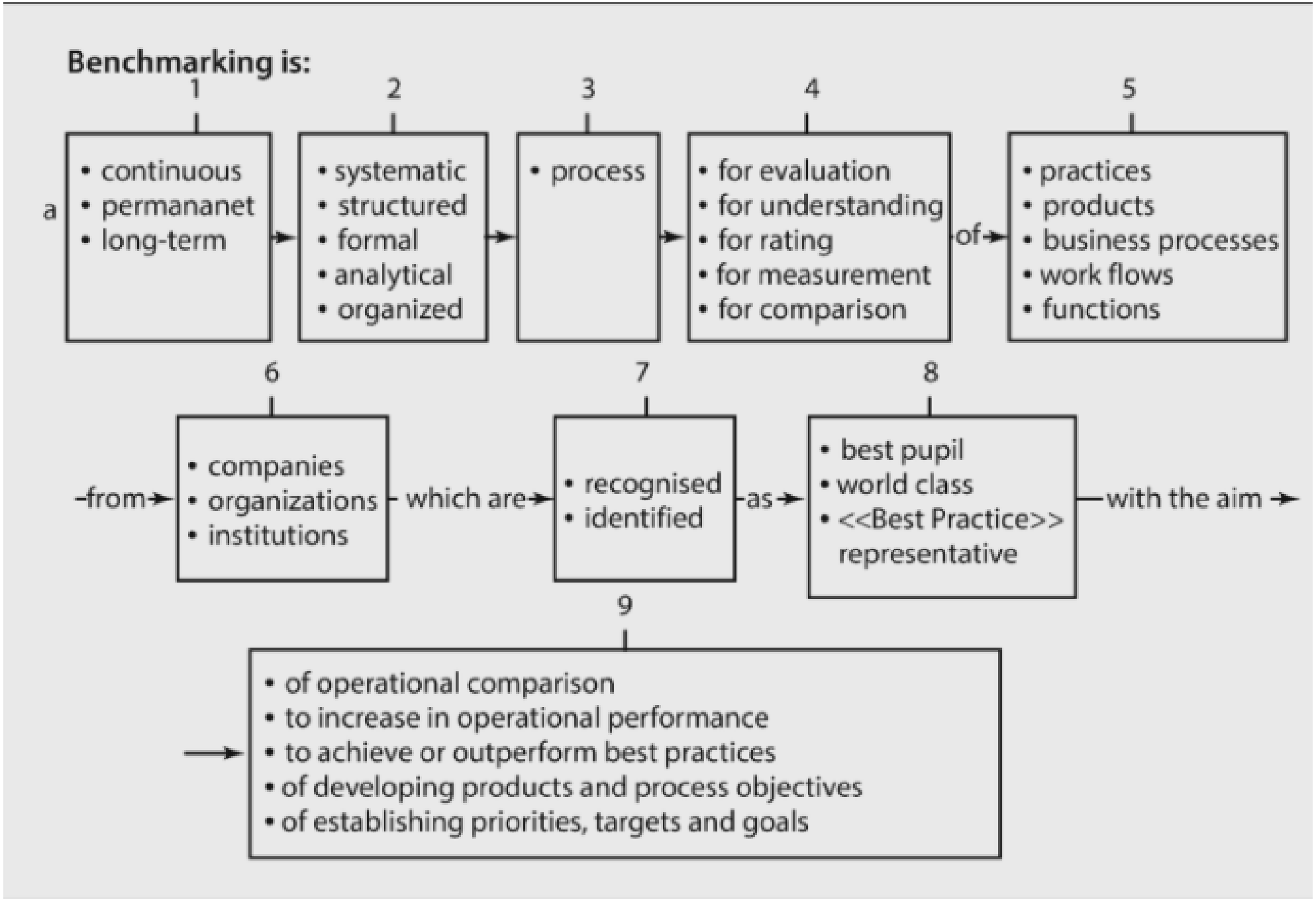
j. Through better quality by use of SQC techniques sampling plans in purchase and statistical process control in production.


BENCHMARKING
IMPROVEMENT
BUSINESS
WORK
DEVELOPMENT
MEASUREMENT
STRATEGY
SYSTEM
COMPARE
RESEARCH

# Benchmarking

- It is the process by which a company **compares** its products (or services), quality and production processes against  organizations known to be the best in one or more aspect of their operations (for instance, comparing the impact of advertising campaigns on market share);
- Benchmarking is implemented in practice mainly in the following three areas:
    - **Quality management**: to improve customer satisfaction, employee work and achieve better economic efficiency.
    - **Productivity**: effort to get to an excellent level in the use of inputs (resources) or to find opportunities to reduce capital intensity and use industry-specific processes.
    - **Time**: if an enterprise applies benchmarking in terms of gaining time savings in business processes, it saves costs and consequently increases productivity.


- By comparing its performance with rivals, a company can learn what and how it should intervene to increase its own performance (identify areas, systems, or processes requiring improvements).
- It can also be helpful to challenge certain managers' mindsets to accept the need for changes in resources or capabilities that would allow improvements in organization's performance.


Benchmarking is:
1
2
3
4
5
a
• continuous
• permananet
• long-term
• systematic
• structured
• formal
• analytical
• organized
• process
• for evaluation
• for understanding
• for rating
• for measurement
• for comparison
of
• practices
• products
• business processes
• work flows
• functions
6
7
8
from
• companies
• organizations
• institutions
which are
• recognised
• identified
as
• best pupil
• world class
• <<Best Practice>> representative
with the aim
9
• of operational comparison
• to increase in operational performance
• to achieve or outperform best practices
• of developing products and process objectives
• of establishing priorities, targets and goals

# Benchmarking/2

- It can be done **internally**, comparing different business units: such as regional offices' sales production; these are analyzed to determine the level of activities carried out..
- **Functional benchmarking**: against a noncompetitor, i.e. some companies not active in the same sector or industry.
  - Example 1: comparing a department store's customer service training with existing training for an oil-change franchise).
  - Example 2: Southwest Airlines was able to improve refueling time by studying the processes surrounding Formula One Grand Prix motor racing pit stops.
- **Limitations**:
- Surface comparisons: in case the benchmark is limited to a comparison of outputs, without identifying the reasons why this occurs, in terms of underlying resources and capabilities.
- Simply achieving competitive parity: with this practice, companies obtain a threshold level. This is not enough as it is necessary for a company to develop its own distinctive resources and capabilities.

# Benchmarking - Phases

1. Initiation phase – aimed at defining the needs of the organization and identifying the reasons for making a change.
2. Planning phase: object of the benchmarking: what area(s) to benchmark? Which companies to compare with? How are we going to collect data?
3. Analytical phase: evaluation of collected data. Differences with the best companies are identified. Statistical methods may be used.
4. Integration phase: summarizes the results of the analytical part and discusses the findings and results of benchmarking. First of all, it is about recording and disseminating better practice in your own organization. The objectives of self-improvement shall be identified.
5. Action (implementation) phase: starts with the planning of an improvement project, which identification of activities of self-improvement and the definition of their mutual links. The duration of individual activities and the establishment of a timetable for the self-improvement project are estimated and the costs of implementing changes shall be quantified and the potential risks identified.

# Benefits of applying benchmarking

- Determining how the organization stands compared to other competitors in its sector,
- Provides good information about the strengths and weaknesses of the organization,
- Promotes innovative behavior of employees and business management,
- Allows managers to make more informed decisions,
- Can be connected with other management tools (a more comprehensive approach to the management of the organization),
- Upskilling of employees through learning from others,
- Achieving better results through the implementation of best practices into the organization.

# Examples

- **Process Benchmarking:** This type of benchmarking helps you to better understand how your processes compare to others in your industry. By looking at other companies in the industry you can improve your processes to make them more efficient and cost-effective.
- **Strategic Benchmarking:** Strategic benchmarking, similar to process benchmarking, is all about improving parts of your company through looking at others in the industry. Strategic benchmarking relates to strategy and how to create a strategy that will allow you to be more competitive in your area.
- **Performance Benchmarking:** Performance benchmarking is the hardest process to improve as it involves learning about competitor performance metrics and procedures, and also making changes to processes within your business on the lower levels. Introducing new processes is a challenging action in any business as it requires buy-in from many different levels in the company. Performance benchmarking can uncover findings that might not be possible to implement in the business without creating a long-term change plan. These can be also the most effective and successful changes for a company.

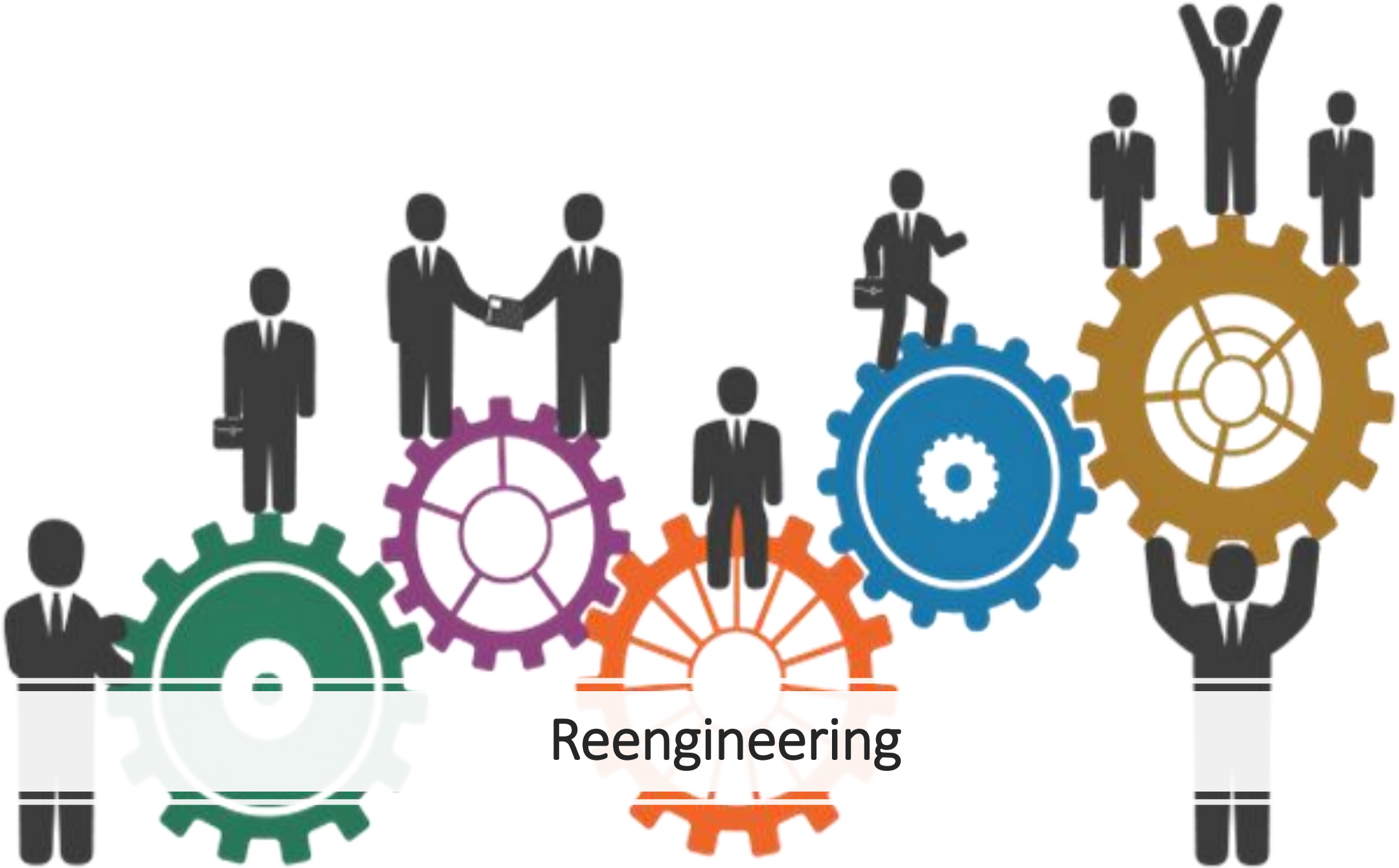
# Characteristics of benchmarking types

| | Internal benchmarking | Competitor benchmarking | Functional benchmarking | Generic benchmarking |
|---|---|---|---|---|
| **Performance Benchmarking** | Important and necessary process, but do not show what performance is really possible | Gives external reference points. Good comparability of performance indicators | Useful for certain aspects, but comparability not always given | Low comparability of pure figures due to differences in processes and products |
| **Process Benchmarking** | Good place to start and learn about benchmarking, but no breakthrough ideas can be expected | Very useful, but legal and ethical limitations to sharing process information | Good way for finding new ideas, and less ethical and legal limitations than competitor benchmarking | Best way for finding breakthrough ideas and achieving fundamental improvement |
| **Strategic benchmarking** | Difficult to find clues on better strategies internally | Competitors are best partners to get ideas about strategies and planning | Not too useful because of differences in business sector | Not too useful because of differences in business sector |

# Product benchmarking

Benchmark

| Features | Product Quality (5 being highest;1 being lowest) | Cost / Serving | After Sales Service | Customer Service (5 being highest;1 being lowest) | Price | Text Here |
|---|---|---|---|---|---|---|
| Our Company | 3.5/5 | $1.86 | yes | 3.5 | $3.72 | Text Here |
| **Competitor 1** | **4.5/5** | **$1.16** | **yes** | **$4.98** | **$4.98** | **Text Here** |
| Competitor 2 | 3.5/5 | 1.68 | | 4.5 | $3.66 | Text Here |
| Competitor 3 | Text Here | Text Here | Text Here | Text Here | Text Here | Text Here |
| Competitor 4 | Text Here | Text Here | Text Here | Text Here | Text Here | Text Here |
| Competitor 5 | Text Here | Text Here | Text Here | Text Here | Text Here | Text Here |



# Reengineering

# Reengineering

- One of the most radical methods of change in management.
- According to Hammer and Champy, pioneers in reingeneering, it is a fundamental rethink and radical overhaul of business processes in terms of critical performance rates: e.g. cost, quality, service and speed.


- 1. fundamental: focus on what we want to achieve staying away from status quo
- 2. radical: the change is a total renovation, not just an improvement
- 3. dramatic: setting high reincarnation targets
- 4. processes: a systemic concept expressing principles in all components of the business

Essentially reengineering based on changing the three ***Cs***: customers, competition, change.

# Reasons for Reengineering

Basic **reasons** for it:

- creation of increased utility value for the customer, based on identified customer requirements, creation of a customer-oriented company,
- finding new markets, getting new customers,
- competition, trying to limit business risks,
- striving to keep up with technology and technological innovations,
- changes in the internal and external environment of the enterprise, adoption of new laws, response to opportunities and threats.

Reingineering are **mainly used by** undertakings which:

- have major problems and have no other option for survival, have high costs, low quality, customer outflows and so on,
- they do not yet have problems, but their leadership has enough foresight and realizes that they can occur,
- they are in an excellent position, the management of these enterprises is ambitious and aggressive, but it sees reengineering as a means of consolidating their leadership.

# Reengineering: 3-step process

- **Rethinking**: necessary to look for a new sense and purpose of the work of the whole enterprise.
- **Redefinition**: fundamentally rethink the model of corporate governance.
- **Redesign**: redesign key and auxiliary business processes.


The process of reengineering (Murgaš 2001)

# Reengineering business processes/ symptoms


**Symptoms that may suggest a reengineering is needed**. If the enterprise has them, it is appropriate to apply change. The following symptoms are **particularly common**:

- gradual loss of human potential and personality competences,
- not to see changes in the market, the departure of customers to competition,
- a decrease in value added per employee,
- the emergence of liquidity problems,
- the emergence or threat of insolvency or extension,
- a gradual decline in the share of new products in turnover for more than three years.

# Reengineering: strategic principles


The following strategic principles need to be applied in the framework of reinengineering:

- Increasing revenues aimed at increasing production volumes, market share, product innovation and improved quality,
- Cost reduction oriented to the application of lean production, implementation of new technological processes and technology, optimization of processes,
- Growth in the value of the company through investment development.

# Process approach to reengineering

**Process approach** to reengineering forms the basis for the transformation of a functional enterprise organization into a process one.

- Involves **process analysis** that defines the processes necessary to meet the enterprise's objectives.
- The main processes are **defined in terms of their content,** inputs and outputs.
- **Support processes** are then **characterized**. Each process must have its own internal or external customer. A good process is a process that gets to the customer at the right time, in the required quantity, quality and in the specified budget.

The steps:

**Definition of the process**: basic characteristics, i.e. name and purpose of process inputs and outputs of it, related processes, owner and customers, content and time limit of the process.

**Mapping**: clear and detailed description of the process, progressing from the end (from the end product) to the beginning. Identified are problem processes and the largest losses; a procedure for improving the status quo is presented.

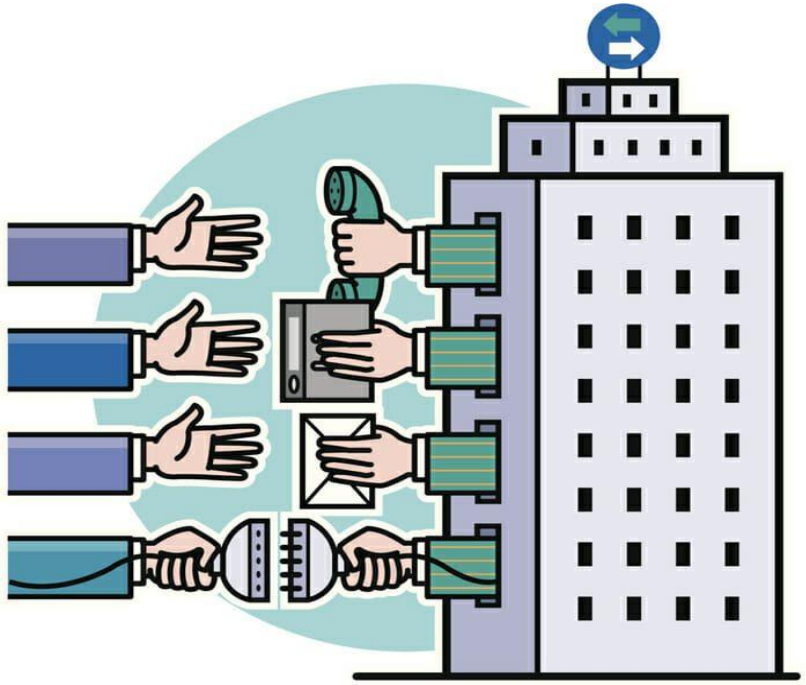
**Result**: a process map by which various alternatives to measures in the enterprise can be modelled. The aim of process mapping and reinengineering is to maximize the adaptation of business processes to customer requirements, to allocate all unnecessary from them and to constantly increase added value.

# Reingeneering strategy as part of business strategy

Reingeneering must be **part of business strategy**. Strategic procedures usually apply:

- Elimination of redundancy: for example, elimination of similar activities and capacity reduction to sales level, in order to save money and reinvest them (allocate) somewhere else.
- Capacity expansion: represents investments in production to benefit from series production (but risk of market changes must be considered).
- Integration: vertical (production of inputs, distribution and services; can be the acquisition of, say,  suppliers or distributor) or horiziontal (extension of product range; for example, Disney acquiring 1st Century Fox)
- Diversification: which reduces business risk
- Organizational changes: take place in case of mergers and acquisitions (M&A), creation of strategic partnerships or joint ventures


Contract
Corporation
BUSINESS
Costs
Resources
CLIENT
OFFSHORE
Solutions
contracting
Labor
Process
People
24/7
CONTRACTING
Outsourcing
Call Center
SALES
Transferring
GROWTH
offshoring
Telemarketing
THIRD PARTY
Performance
RESOURCES
Assets
BUSINESS
CALL
COMPANIES
Contract
SERVICE
Staff



# Outsourcing

- It is becoming an increasingly **popular option** among manufacturers (manufacturers have outsourced software development and product design to engineers in India)
- It is a **contract** consisting in letting other companies make a product for which the former does not have the expertise to do it or enough capacity in its factories. “Do what you do best and outsource the rest.” (Tom Peters)


- In other words, It is the **use of external resources** to complement or completely replace functions previously provided inside the enterprise or not provided at all.
- So, a company can **specialize** in the processes in which they **perform best**. they also want to take advantage of outsourcing by linking up with suppliers located in regions with lower labor costs.
- A long-term contractual relationship with someone outside the organization who provides services in one or more areas of activity of the enterprise.

# Outsourcing/ 2

- Outsourcing can be local, regional, or international.
- Nike and Apple are well-known outsourcers.
- Outsourcing in the service sector: outsourcing non-core functions (some universities outsource functions such as food services, maintenance, bookstore sales, printing and security, accounting firms outsources tax preparation to India).
- **Advantages** of outsourcing: eliminate excess organizational degrees, organizational structure is slimmed down, and management is simplified.

When **choosing** a strategic outsourcing partner, the most **common criteria** are used:

- Price
- Quality and expertise of the services provided,
- The experience of the provider,
- References and guarantees,
- The form and content of the service requested,
- Technical and personnel equipment of the provider.

In addition, the **relation** should be **win-win**: equally beneficial cooperation with a long-term perspective. The profit must be mutual. The contract should therefore be balanced and should not be hampered by any of the undertakings.

# Main Outsourcing Tasks



The main **outsourcing tasks** can be summarized as follows:

- Division of **powers and responsibilities** between cooperating enterprises (customer and outsourcing provider),
- Development of **a methodology**, clear rules on the use of outsourcing in the enterprise,
- Establishment of **a communication system** and identification of the persons responsible for that system in the two cooperating undertakings,
- Set a limit on the price the customer is willing and able to pay,
- Assessment of the level of services provided about the price and date of implementation.

**Types** of **outsourcing**:

- Internal (partner is a division or separate plant part of organizational structure),
- Dependent (separate legal entity in which outsourcing company has capital participation and to which it asks for outsourcing activities),
- Independent (external, the most common: partners are independent).

# Benefits of Outsourcing

The basic **benefits** of outsourcing include:

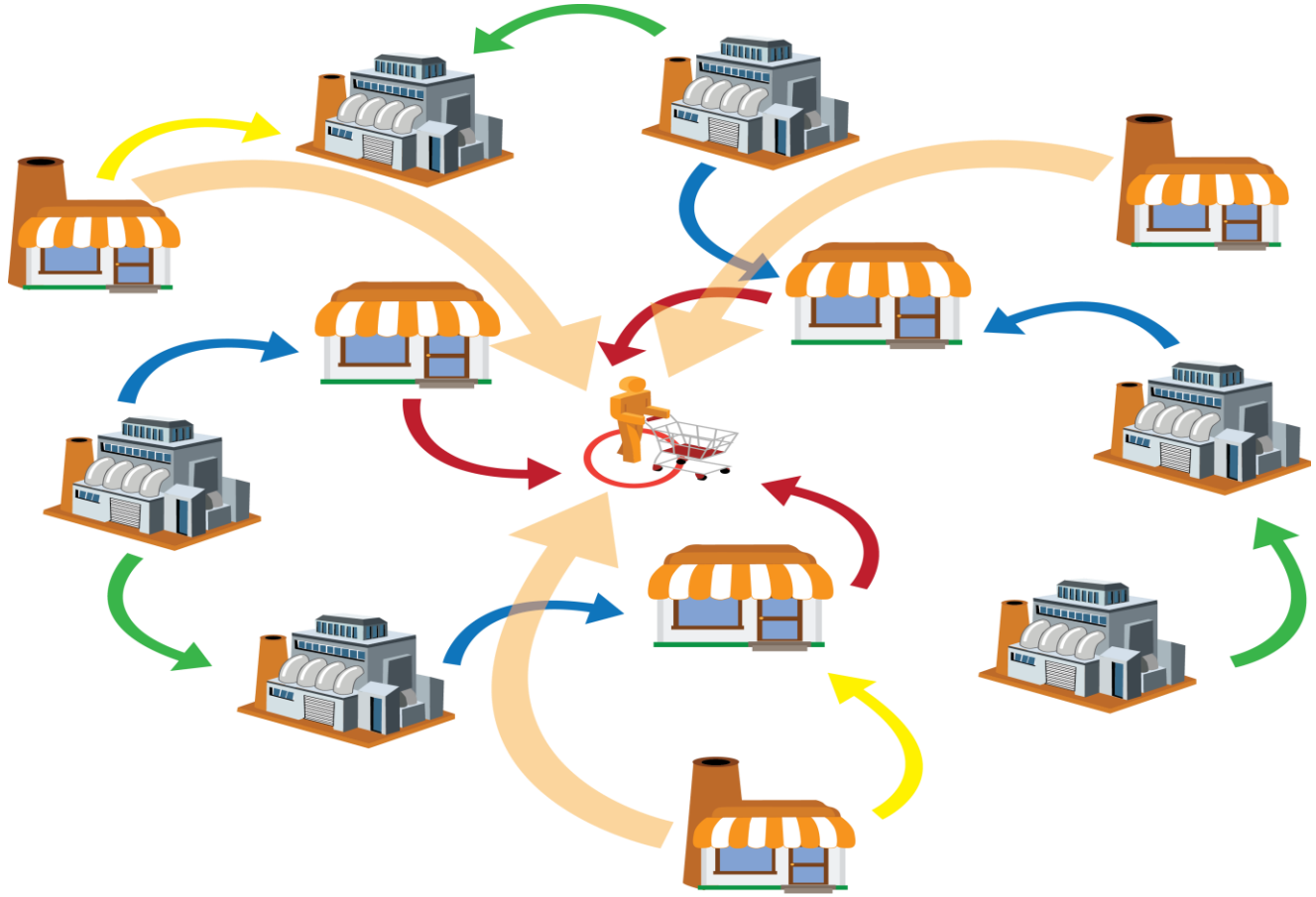
- saving time and concentrating on key areas of the business,
- guaranteed level of quality,
- greater flexibility of the supplier,
- more easily calculable (foreseeable) costs,
- elimination of the costs of professional development of specialists in the field,
- Application of newer technologies,
- Transfer of responsibility for the managed area to the partner,
- reduction of wage and overheads.

# Downsides of Outsourcing


**Downsides** deriving from excluding activities include:

- Loss of control over the activities set aside or loss of control not corresponding to the savings made,
- The outsourcing company does not know the environment of the enterprise as well as its own workers,
- Loss of direct contact with the customer (if direct customer relations activities are excluded)
- The need to negotiate with foreign entities instead of their own employees,
- Earmarking of areas where the organisation possesses unique know-how,
- Loss of savings from synergies.

# Exercise



Structure Of Production

# Exercise: Production structure

Product portfolio: the complete collection of products or services that a business sells.

It can be:

- **Diversified** product lines (multiple products)
- **Straightforward** (single product)

Larger organizations organize similar products into **product lines** or **product families**.

Group of related products all marketed under a single brand sold by the same company (ex skin care: face cream, hand cream and moisturizer)

Group of related goods under the same brand made by the same company (Oreo)

# STRUCTURES OF PRODUCTION OF SELECTED COMPANIES

| Apple Inc. | | | | | |
|---|---|---|---|---|---|
| iPhones | iPads | Macintosh | Apple Watch | TV | Music |
| iPhone 11 Pro | iPad Pro | MacBook Pro 13" | Apple Watch Series 5 | Apple TV+ | Apple Music |
| iPhone 11 | iPad Air | MacBook Pro 16" | Apple Watch Studio | Apple TV pp | AirPods Pro |
| iPhone SE | iPad | MacBook Air | Apple Watch Nike | Apple TV 4K | AirPods |
| iPhone Xr | iPad mini | Mac mini | Apple Watch Hermes | Apple TV HD | HomePod |
| | | iMac | Apple Watch Edition | AirPlay | iPod touch |
| | | iMac Pro | Apple Watch Series 3 | | Beats |

- The entire Apple product portfolio is complex: six product lines and numerous products within each line.
- On the left, the complete list of the products in their portfolio.

Source: https://www.smartsheet.com/content/product-portfolio-examples

# CASE STUDY: Fisco Consulting

## What do they do?

### IR Platform Service

Using the FISCO Group's well-established financial information distribution network, we support customers' communication with a wide range of investors, both institutional and individual.

### Communication Tools

IR communication tools facilitate dialogue with investors. We offer a full range of support, from upstream to downstream, for planning, production, and publishing (both paper-based and digital) and IR website construction. *(We handle all Japanese and English texts, as well as web content)

*https://www.fisco-ir.co.jp/en/*

### Creation of English and Multilingual Disclosure Materials

With over 40 years' experience in producing English annual reports, we have expertise and an English language editing team ready to support the production of documents in natural native English.

### IR Professional Services

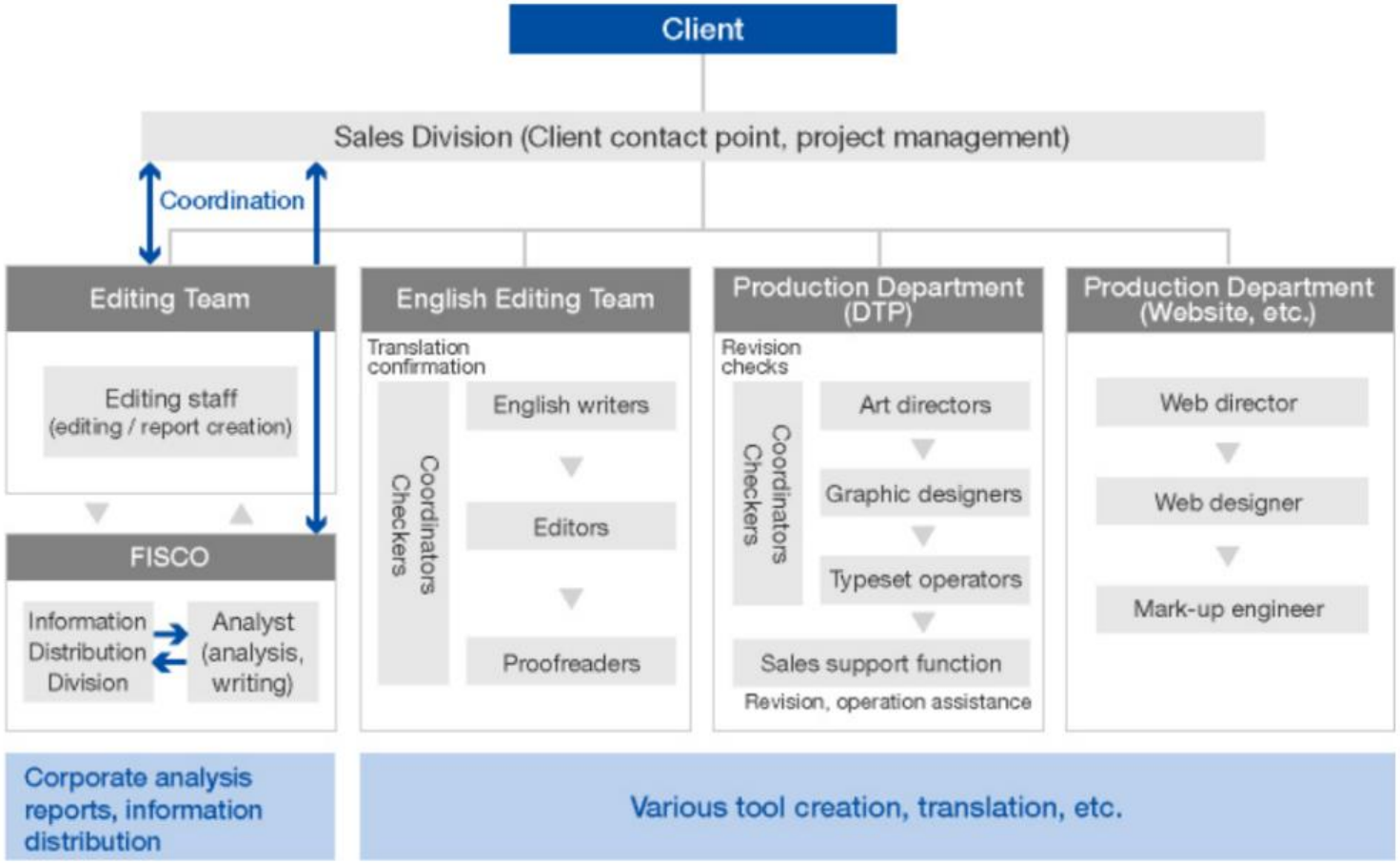
We provide IR support services for listed companies, including drafting of discretionary and timely disclosure documents, investor perception studies, and briefing-related services.

FISCO

FISCO IR Ltd.

# CASE STUDY: Fisco Consulting

**Industry's only service structure based on total in-house production.**



# CASE STUDY: Fisco Consulting

**Full line of support from upstream to downstream to help companies create IR communication tools that promote dialogue with investors.**