



CHAPTER 2

OPERATIONS, STRATEGY AND OPERATIONS STRATEGY

INTRODUCTION

An organization's operations function is concerned with getting things done; producing goods and/or services for customers. Chapter 1 pointed out that operations management is important because it is responsible for managing most of the organization's resources. However, many people think that operations management is only concerned with short-term, day-to-day, tactical issues. This chapter will seek to correct that view by considering the strategic importance of operations.

All business organizations are concerned with how they will survive and prosper in the future. A business strategy is often thought of as a plan or set of intentions that will set the long-term direction of the actions that are needed to ensure future organizational success. However, no matter how grand the plan, or how noble the intention, an organization's strategy can only become a meaningful reality, in practice, if it is operationally enacted. An organization's operations are strategically important precisely because most organizational activity comprises the day-to-day activities within the operations function. It is the myriad of daily actions of operations, when considered in their totality that constitute the organization's long-term strategic direction. The relationship between an organization's strategy and its operations is a key determinant of its ability to achieve long-term success or even survival. Organizational success is only likely to result if short-term operations activities are consistent with long-term strategic intentions and make a contribution to competitive advantage.

The relationship between operations and the other business functions is similarly important. The objective of the operations function is to produce the goods and services required by customers whilst managing resources as efficiently as possible. This can lead to conflicts within an organization. Conflicts between the operations and the

LEARNING OBJECTIVES

On completion of this chapter, you should be able to:

- Understand the relationship between operations and strategy.
- Explain the roles that operations can play within organizational strategy.
- Understand the strategic significance of operations management to organizations of all kinds.
- List the key strategic decision areas of operations management that constitute an operations strategy.

marketing functions are likely to centre on the desire of marketing to ensure that operations concentrate on satisfying customers. Whilst this may seem desirable, marketing will usually want operations to be able to meet customer needs under any circumstances. This is likely to lead to demands to produce greater volumes, more variety, higher quality, a faster response, and so on, all of which are likely to lead to less efficient operations. Conflicts between the operations and the accounting and finance functions, on the other hand, are likely to centre on the desire of accounting and finance to want operations to manage resources as efficiently as possible. This will tend to pull operations in exactly the opposite direction of that desired by marketing. Conflicts between operations and the human resource management function are likely to centre on issues of recruitment, selection, training, management and the reward of those employed within operations. For example, operations managers may want to vary organization-wide policies in order to meet local needs; a move likely to be resisted by human resource managers. The operations function lies at the heart of any organization and interacts with all the other functions. As such, achieving agreement about what decision areas lie within the remit of operations, and what should be the basis of decision-making within operations is an essential part of ensuring the consistency of action over time necessary for a successful organizational strategy.

THE NATURE OF STRATEGY

Strategy is one of the most over-used words in the business dictionary. Yet, surprisingly, there is no agreement on what the term actually means. No-one challenges its military origin, used with regard to how a commander might deploy his resources (i.e. armed forces) throughout a campaign aimed at achieving a particular objective (e.g. conquering territory or thwarting an invasion). The idea that a business organization could have a strategy seems to have first emerged in the 1960s, when the techniques of long-term business planning were first popularized. Since then many different interpretations of the concept and practice of strategic management have been developed. Indeed, entire books have been given over to contemplating the nature of strategy. For example, Mintzberg *et al.* (1998) characterize ten 'schools of thought' in their consideration of what constitutes strategy. A widely accepted definition is offered by Johnson *et al.* (2005), who define **strategy** as 'the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources with the aim of fulfilling stakeholder expectations'. In its determination of the long-term direction of an organization, strategy involves the interplay of three elements: the organization's external environment, its resources and its objectives (in meeting the expectations of its stakeholders). Operations management is principally concerned with the organizational resources. However, the way that the operations function manages resources will impact both the way that the organization interacts with its external environment and its ability to meet the needs of its stakeholders. Thus, operations management is an integral part of an organization's strategy.

Strategy can be considered to exist at three levels in an organization (see Table 2.1):

- **Corporate level strategy:** Corporate level strategy is the highest level of strategy. It sets the long-term direction and scope for the whole organization. If the organization comprises more than one business unit, corporate level strategy will be concerned with what those businesses should be, how resources (e.g. cash) will be allocated between them, and how relationships between the various business units and between the corporate centre and the business units should be managed. Organizations often express their strategy in the form of a corporate mission or vision statement.

strategy

The direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources with the aim of fulfilling stakeholder expectations (Johnson *et al.*, 2005).

STRATEGY LEVEL	KEY ISSUES
Corporate	<ul style="list-style-type: none"> • What businesses shall we be in? • What businesses shall we acquire or divest? • How do we allocate resources between businesses? • What is the relationship between businesses? • What is the relationship between the centre and the businesses?
Business	<ul style="list-style-type: none"> • How do we compete in this business? • What is the mission of this business? • What are the strategic objectives of this business?
Function	<ul style="list-style-type: none"> • How does the function contribute to the business strategy? • What are the strategic objectives of the function? • How are resources managed in the function? • What technology do we use in the function? • What skills are required by workers in the function?

TABLE 2.1 Levels of strategy

Consistency (Is the strategy consistent . . .?)	<ul style="list-style-type: none"> • Between the operations strategy and business strategy • Between operations strategy and the other functional strategies • Between the different decision areas of operations strategy
Contribution to competitive advantage (Does the strategy . . .?)	<ul style="list-style-type: none"> • Enable operations to set priorities that enhance competitive advantage • Highlight opportunities for operations to complement the business strategy • Make operations strategy clear to the rest of the organization • Provide the operating capabilities that will be required in the future

TABLE 2.2 Criteria for evaluating an operations strategy

(ADAPTED FROM HAYES ET AL., 2005 P. 71)

- *Business level strategy:* Business level strategy is primarily concerned with how a particular business unit should compete within its industry, and what its strategic aims and objectives should be. Depending upon the organization's corporate strategy and the relationship between the corporate centre and its business units, a business unit's strategy may be constrained by a lack of resources or strategic limitations placed upon it by the centre. In single business organizations, business level strategy is synonymous with corporate level strategy.
- *Functional level strategy:* The bottom level of strategy is that of the individual function (operations, marketing, finance, etc.) These strategies are concerned with how each function contributes to the business strategy, what their strategic objectives should be and how they should manage their resources in pursuit of those objectives.

The remainder of this chapter will consider in more detail what constitutes an operations strategy and what its relationship is with the other constituents of organizational strategy. As Hayes *et al.* (2005) point out, effective operations strategies need to be consistent and contribute to competitive advantage (see Table 2.2).

Details of the constituents of an operations strategy are explored in more detail in Chapters 5 through 14.

OPERATIONS AND STRATEGY

Strategy in a business organization is essentially about how the organization seeks to survive and prosper within its environment over the long-term. The decisions and actions taken within its operations have a direct impact on the basis on which an organization is able to do this. The way in which an organization secures, deploys and utilizes its resources will determine the extent to which it can successfully pursue specific performance objectives.

Slack *et al.* (2004) argue that there are five **operations performance objectives**:

- 1 Cost:** The ability to produce at low cost.
- 2 Quality:** The ability to produce in accordance with specification and without error.
- 3 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.
- 4 Dependability:** The ability to deliver products and services in accordance with promises made to customers (e.g. in a quotation or other published information).
- 5 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.

Excelling at one or more of these operations performance objectives can enable an organization to pursue a business strategy based on a corresponding competitive factor. These relationships are outlined in Table 2.3. However, it is important to note that the success of any particular business strategy depends not only on the ability of operations to achieve excellence in the appropriate performance objectives, but crucially on customers valuing the chosen competitive factors on which the business strategy is based. Matching operations excellence to customer requirements lies at the heart of any operations based strategy. How this might be done is discussed later in the chapter.

It is unlikely that any single organization can excel simultaneously at all of the five operations performance objectives. Trying to do so is likely to lead to confusion if operations managers pursue different objectives at different times. This lack of clarity

operations performance objectives

A criterion against which to evaluate the performance of operations. There are considered to be five possible operations performance objectives: cost, quality, speed, dependability and flexibility.

TABLE 2.3 Operations excellence and competitive factors

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 Wide range of products/services Changing the volume of product/service deliveries Changing the timing of product/service deliveries

is likely to lead to suboptimal performance and result in a failure to excel in any of the operations performance objectives. Consequently, organizations need to choose which performance objectives they will give priority to. This may result in having to 'trade-off' less than excellent performance in one aspect of operations in order to achieve excellence in another. The concept of trade-off in operations objectives was first proposed many years ago by Skinner (1969). He argued that operations could not be 'all things to all people'. What was needed was to identify a single goal or 'task' for operations; a clear set of competitive priorities to act as the objective. The task would then act as the criterion against which all decisions and actions in operations could be judged. The airline EasyJet offers an example of a company that has a clearly defined task for its operations, namely achieving the lowest possible operating costs.

It is worth noting, that some operations management scholars reject the concept of the trade-off. They point to the ability of some organizations to outperform their competitors on multiple dimensions. They appear to have better quality, greater dependability and a faster response to changing market conditions and lower costs. Ferdows and de Meyer (1990) argue that certain operational capabilities enhance one another, enabling operations excellence to be built in a cumulative fashion. In their 'sandcone' model of operations excellence (see Figure 2.1), they maintain that there is an ideal sequence in which operational capabilities should be developed. The starting point, the base of the sandcone is excellence in quality. On this should be built excellence in dependability, then flexibility (which they take to include speed), then cost. They emphasize that efforts to further enhance quality should continue whilst commencing efforts to build dependability. Similarly, actions on quality and dependability need to continue whilst building flexibility. Finally efforts to reduce costs take place alongside continuing efforts to improve quality, dependability and flexibility. They claim that operational capabilities developed in this way are more likely to endure than individual capabilities developed at the expense of others.

Skinner (1985) argued that operations could become a 'Formidable Competitive Weapon' if the function was allowed to play a full strategic role in the organization. That this was not the case in some organizations, was due to there being inappropriate expectations of and attitudes towards operations.

In their four-stage model, Hayes and Wheelwright (1984) categorize different types of organizations based on their attitude towards their operations (see Table 2.4).

Hayes and Wheelwright's four stage model is underpinned by their belief that an organization's operations can provide a source of competitive advantage. It can

trade-off

The concept based on the premise that it is impossible to excel simultaneously at all aspects of operations. This means that an operations strategy can be successful only if it is based upon a single clear goal, determined by a prioritization of operations performance objectives (e.g. cost, quality, speed, dependability and flexibility).

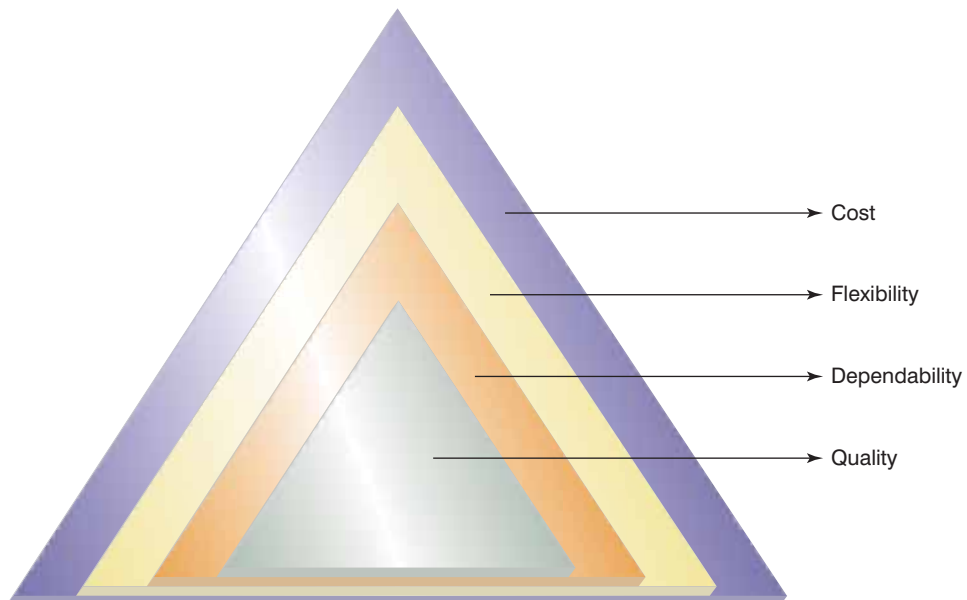


FIGURE 2.1 The 'sandcone' model of operations excellence

SOURCE: *THE JOURNAL OF OPERATIONS MANAGEMENT*, FERDOWS, K. AND DE MEYER, A. 'LASTING IMPROVEMENTS IN MANUFACTURING PERFORMANCE', PAGES 168–184, © ELSEVIER, 1990. REPRODUCED WITH PERMISSION.

CASE STUDY EasyJet: Low cost air travel

Although EasyJet only undertook its first flight in 1995, when it only operated two routes (London Luton to Glasgow and Edinburgh), ten years later the budget airline offered 212 routes to 64 European airports and transported over 29 million passengers in 2005. EasyJet now carries more passengers within Europe than British Airways. Analysts expect EasyJet and its Irish-based rival Ryanair, to both overtake all traditional airlines to become the largest short-haul operators in Europe by the end of the decade.

The Luton-based airline is continuing to expand, recently announcing the purchase of a further 20 Airbus A319 planes to service the ever increasing number of routes it operates. In 2005 EasyJet carried nearly 30 million passengers, up from 25.7 million in 2004, making it a £1.3 billion business. Despite record high fuel costs, profits were up around 10 per cent to £68 million. Passenger numbers rose 21 per cent to 29.6 million and the load factor, indicating how many seats are filled, was 85.2 per cent, reflecting the airline's popularity.

The low cost lines like EasyJet have revolutionized the airline industry in Europe. Modelled on SouthWest Airlines in the USA, these airlines have not only helped create a whole new market of cost-conscious travelers but have taken market share from established operators like British Airways and become the most profitable airlines in Europe. To be profitable, these airlines have to achieve low costs to match the low fares, which are the main attraction to their passengers.

With its head office as a large tin shed adjacent to the main taxiway at unfashionable Luton Airport, all of EasyJet's operations are aimed at minimizing costs. This is done in a number of ways:

- **Use of the Internet to reduce distribution costs.** EasyJet sells around 95 per cent of all seats over the Internet. Its online booking system uses a variable pricing system to try to maximize load factors. (Prices start very low – sometimes free, and rise as seats are filled.) The fuller the aircraft the lower the unit cost of travel.
- **Ticketless travel.** Passengers are emailed with their travel details and booking reference. This helps reduce significantly the cost of issuing, distributing, processing and reconciling millions of tickets each

EasyJet has really taken off in the last decade



year. Neither does EasyJet pre-assign seats on-board. Passengers sit where they like. This eliminates an unnecessary complexity and speeds up passenger boarding.

- **No free on-board catering.** Eliminating free catering on-board reduces cost and unnecessary bureaucracy. Passengers can purchase food and refreshments on-board.
- **Efficient use of airports.** EasyJet flies to the less crowded airports of smaller European cities and prefers the secondary airports in the major cities. These also have lower landing charges and normally offer faster turnarounds as there are fewer air movements. EasyJet's efficient ground operations enable it to achieve turnarounds of less than 30 minutes. This means EasyJet can achieve extra rotations on the high-frequency routes, maximizing the utilization of aircraft. EasyJet's ability to offer point-to-point travel means that it does not have to worry about onward connections for passengers and their baggage, further simplifying its operations.
- **Paperless operations.** EasyJet has embraced the concept of the paperless office, with all its management and administration undertaken entirely on IT systems. These can be accessed through secure servers from anywhere in the world thereby enhancing flexibility in the running of the airline.

(Source material www.EasyJet.com and www.bbc.co.uk)

Questions (Suggested answers can be found on the companion website www.thomsonlearning.co.uk/barnes)

- 1 List all the ways in which EasyJet achieves low cost operations.
- 2 Evaluate EasyJet's operations strategy against Hayes *et al.*'s criteria of consistency and contribution to competitive advantage (see Figure 2.2).
- 3 To what extent does EasyJet's concentration on low costs limit its ability to perform well against the other operations performance objectives?
- 4 What are the risks associated with EasyJet's strategy?

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TABLE 2.4 The four-stage model of the strategic role of operations

Stage 1	Internally Neutral	The operations function is internally focused and reactive. They are viewed as a 'necessary evil'. The best that the organization hopes for is that operations 'don't screw up'.
Stage 2	Externally Neutral	The operations function tries to be as good as the competition, or to achieve parity with industry norms. Such an organization is likely to benchmark its operations against its competitors, and adopt best practice in its industry so that it does not hold the organization back.
Stage 3	Internally Supportive	The operations function seeks to provide credible support for the organization's business strategy. An operations strategy will be developed which will be derived from, and support, the business strategy. The organization's operations are likely to be amongst the best in its industry.
Stage 4	Externally Supportive	The operations function provides the basis of competitive advantage for the organization, by setting the standard in their industry. The operations function is likely to aim to be world class by seeking to emulate best practice wherever it is to be found. Operations will be seen as the means of exceeding customer expectations by delighting the customer. Operations will be managed proactively to drive the business strategy of the organization.

only do this if the operations function is managed strategically. As such, they argue, all organizations should aspire to reach the highest level possible, ultimately reaching stage 4.

A stage 1 organization finds it impossible to manage its operations strategically, as its operations performance objectives are continually changing between low cost, increased flexibility, improved quality, etc. Because operations managers never have the time to focus on a consistent set of objectives, a stage 1 organization is characterized by a reactive approach to operations management. In such an organization, operations can never provide a source of competitive advantage.

A stage 2 organization manages its operations by seeking to emulate those of its competitors. It is likely to copy the prevailing best practices of its industry, such as JIT (just-in-time), TQM (total quality management), BPO (business process outsourcing) etc. However, as they always adopt these techniques in the wake of industry leaders, they are never likely to have developed the same level of expertise in their application. The best that such an approach can achieve is to match the operations performance of its competitors. Although the combination of operations practices adopted by a stage 2 organization may be considered by some as amounting to an operations strategy in that they are consistent, they will not be overtly linked to business strategy. Indeed, it may be that such an operations strategy is inappropriate for the organization's business strategy. In any event, a stage 2 organization's operations can not provide the basis for competitive advantage.

A stage 3 organization has an operations strategy that is linked to and derived from its business strategy. This means that its operations performance objectives are aligned with, and supportive of, its business objectives, offering the possibility that operations can provide the means of achieving a competitive advantage. The chances of achieving competitive advantage will be considerably increased if the organization has adopted industry best practice in its operations.

A stage 4 organization is radically different to one at any of the other stages. A stage 4 organization uses its operations excellence as the basis for its business strategy – an operations-based strategy. The operations of a stage 4 organization are at the forefront of developments in best practice in that they set industry standards in ways that delight customers. Thus, the organization's operations enable it to retain its existing customers and attract new ones. For an operations-based competitive advantage to be sustainable, the organization must continually develop its operations, as any source of advantage is liable to be imitated by competitors. To remain at stage 4, an organization needs to learn how to make the most of its existing resources and competences to learn how to develop new capabilities. Recent advances in the understanding of organizational performance have emphasized the importance of path dependency (i.e. how organizations got to their present position), the dynamic nature of the capabilities on which organizational success ultimately depends and the role of organizational learning. (See for example Teece and Pisano, 1994; Cohen and Levinthal, 1990.)

OPERATIONS STRATEGY

The foregoing discussion has highlighted the strategic importance of operations to organizational performance. An appropriate operations strategy is essential to an organization not only as this will determine the extent to which its business strategy can be implemented, but also as its operations can be a source of competitive advantage. But what exactly is meant by the term **operations strategy**?

Slack *et al.* (2004: p.67) argue that an 'operations strategy concerns the pattern of strategic decisions and actions which set the role, objectives and activities of operations'. Their use of the term 'pattern' implies a consistency in strategic decisions and actions over time. This concept is consistent with management guru Henry

operations strategy

This concerns the pattern of strategic decisions and actions which set the role, objectives and activities of operations (Slack *et al.*, 2004).

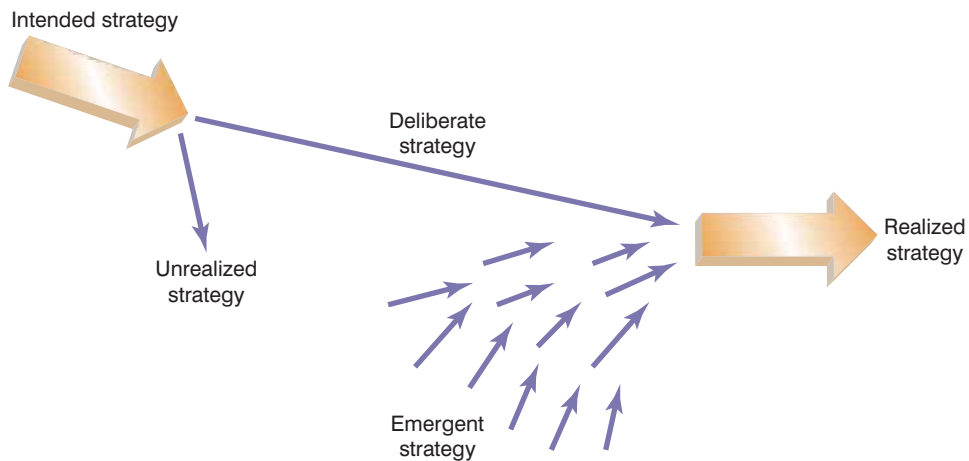


FIGURE 2.2 The strategy formation process

SOURCE: STRATEGIC MANAGEMENT JOURNAL, MINTZBERG, H. AND WATERS, J. 'OF STRATEGIES, DELIBERATE AND EMERGENT', 1985. © JOHN WILEY & SONS LTD. REPRODUCED WITH PERMISSION.

Mintzberg's view of strategy as being a 'pattern in a stream of actions' (Mintzberg and Waters, 1985). Mintzberg sees strategy as being realized through a combination of deliberate and emergent actions (see Figure 2.2). An organization can have an intended strategy, perhaps as a set of strategic plans. However, only some of this intended strategy may be realized through deliberate strategy. Some of the intentions may be unrealized. Strategies which take no regard of operational feasibility are likely to become unrealized, remaining merely as a set of intentions. Strategy may also emerge from actions taken within the organization, which over time form a consistent pattern. Actions of this kind will, almost inevitably, arise from within the operations of the organization. So, whether planned or otherwise, the organization's operations are bound to have a major impact on the formation of organizational strategy.

It is often believed that strategy is an issue that is somehow separate from day-to-day organizational activities. Taken to extremes this can result in strategy being regarded as some kind of cerebral activity performed by superior beings who need to be removed from day-to-day operational pressures. Mintzberg is amongst those who point to the dangers of managers becoming detached from the basics of the enterprise. Mintzberg and Quinn (1991) call this the 'don't bore me with the operating details; I'm here to tackle the big issues' syndrome. They caution that, 'the big issues are rooted in little details'.

The remainder of this chapter will address two related issues concerning operations strategy, namely its process and content:

- a Operations strategy process: How an organization sets about developing an appropriate operations strategy
- b Operations strategy content: What the key decision areas that need to be addressed in developing an operations strategy are.

OPERATIONS STRATEGY – PROCESS

As discussed above, operations strategy has a vertical relationship in the corporate hierarchy with business and corporate strategies, and horizontally with the other functional strategies, most notably with marketing strategy. Operations strategy might come about in a top-down or a bottom-up process with regard to business and corporate strategies. Similarly, an operations strategy might be developed in response to market requirements (i.e. market-led) or be based on the capabilities of its operations

WHEN THINGS GO WRONG Eyes off the ball at Mercedes-Benz?

Luxury German car maker Mercedes Benz has been having a bad time of it recently. For many years the company's cars were considered to be a byword for quality and reliability but in the last few years Mercedes' famous three pointed star has become a little tarnished in the eyes of many buyers. These days Mercedes lags behind arch-rival BMW in terms of sales and profits and, some argue, image.

Its problems seem to stem from the tie-up between Mercedes' parent company, Daimler-Benz and America's Chrysler in 1998. The merger created the world's fifth biggest car manufacturer, employing 385,000 workers worldwide.

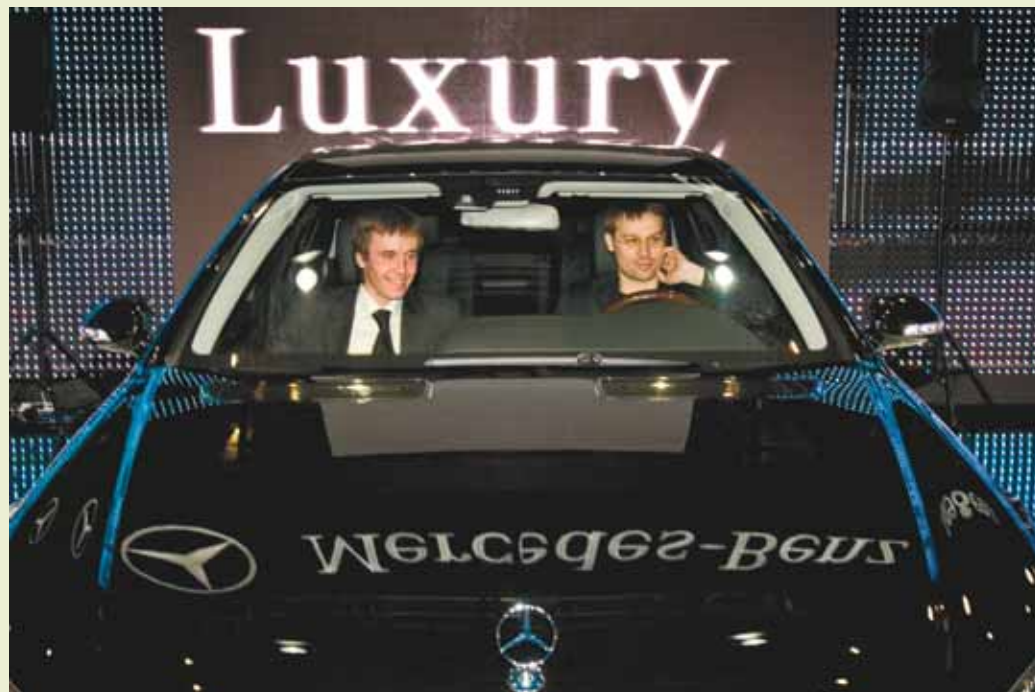
At that stage Chrysler was the struggling third placed volume manufacturer in the US behind General Motors and Ford. By 2005, however, efforts to turn around Chrysler's fortunes seemed to be paying dividends as the company reported a 5 per cent annual increase in unit sales and a 10 per cent increase in revenues in its results for 2004.

Meanwhile Mercedes Benz's operating profits fell in 2004 on the back of poor sales of the luxury brand and restructuring costs at its Smart car division; the ultra-small 'citycar' division had failed to perform as expected since its launch in 1998.

Mercedes itself has been struggling with quality control problems on many of its vehicles and increasing numbers of its previously loyal customers have been moving to competitors such as Audi or BMW. In 2005, the company even had the embarrassment of having to issue the biggest product recall in its history. Problems with batteries, alternators and brakes on a number of models made since 2001 necessitated 1.3 million cars having to be returned to dealers to be fixed. The move is likely to cost many millions of euros, hampering efforts to improve its product image, and hitting profits.

Many analysts believe that the many initiatives being undertaken at DaimlerChrysler have distracted from the management of its previously highly profitable Mercedes business. Some accuse the company's

Another happy customer for Mercedes-Benz?



managers of 'taking their eye off the Ball' as far as Mercedes operations are concerned. Some question whether the highly technologically sophisticated gadgetry on its latest top of the range S-class cars can be trusted to perform. They fear that any electronic gremlins could further damage the entire marque's image and further alienate its customers.

In an effort to improve performance and financial results, Mercedes is cutting more than 8,500 jobs at its Sindelfingen plant in Germany. DaimlerChrysler's newly appointed Chief Executive, Dieter Zetsche said the firm is determined to retain Mercedes' position as the world's most successful luxury brand. He said efforts to improve productivity, which is well behind rivals such as BMW and Toyota's Lexus, would not be allowed to compromise efforts to tackle Mercedes' recent quality problems.

(Source material www.bbc.co.uk)

Questions (Suggested answers can be found on the companion website www.thomsonlearning.co.uk/barnes)

- 1 What has been the source of Mercedes' competitive advantage?
- 2 What seems to be the cause of its recent problems in operations?
- 3 Is it possible for the firm to simultaneously improve its performance in both productivity and quality?
- 4 Where would you position Mercedes Benz on the Hayes and Wheelwright four-stage model? Give your reasons.

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resources (i.e. operations-led). As illustrated in Figure 2.3, this gives rise to four perspectives on operation strategy (Slack and Lewis, 2002). Each perspective places a different emphasis on the nature of the operations strategy process.

Top-down

The top-down perspective is one in which the operations strategy is derived from, and is supportive of the organization's business strategy; an operations strategy that



FIGURE 2.3 The four perspectives on operations strategy

SOURCE: OPERATIONS STRATEGY, SLACK AND LEWIS, PEARSON EDUCATION LTD. REPRODUCED WITH PERMISSION.

the organization uses to realize its business strategy. This concept is in line with that of the Hayes and Wheelwright stage 3 organization. According to this perspective, the process of developing an operations strategy would follow Skinner's approach of identifying an operation's 'task' (Skinner, 1969). The task for operations would be determined logically from the business strategy. Using Slack *et al.*'s (2004) five operations performance objectives is one way of articulating the operations task. For example, if the organization's business strategy is one of offering low prices, then the operation's task should be one of achieving low costs in operations. If the business strategy is based on offering customers fast delivery, the operations task should be one of achieving speed in operations, and so on.

In a multi-business organization, the top-down perspective envisages operations strategy being linked to corporate strategy via the business strategy of each business unit. This then raises the question of whether it is possible to talk of a 'corporate' operations strategy. If a corporate operations strategy means commonality in all aspects of operations, then this would only be possible if each business unit had similar business strategies and similar operations tasks. However, some authors (e.g. Hayes *et al.*, 2005) argue that a corporate operations strategy does not mean that every facet of operations must be the same in each business unit. Rather, operations decisions are considered holistically at the corporate level with a view to meeting corporate strategic objectives. A failure to do this means that operations decisions are taken only at the level of the business unit, with a view to meeting the immediate needs of that business unit. The dangers of doing this have been pointed out by Prahalad and Hamel (1990), who caution against letting the needs of the business unit dominate strategic thinking. This can lead to operational competences being confined within individual business units, thereby restricting their future development, preventing their spread to other business units and limiting opportunities for synergistic developments across the corporation. This can be particularly important in multi-site, multi-national enterprises.

Bottom-up

The bottom-up perspective is one which sees operations strategy emerging through a series of actions and decisions taken over time within operations. These actions and decisions might at first sight appear somewhat haphazard, as operations managers respond to customer demands, seek to solve specific problems, copy good practices in other organizations, etc. However, they can build over time to form a coherent pattern recognizable as an operations strategy. The actions taken within this kind of strategy are likely to be characterized by a continuous series of incremental improvements rather than the large one-off technologically led changes that require large capital investments in new plant and machinery. The bottom-up perspective is one in which the organization learns from its experiences, developing and enhancing its operational capabilities as operations managers try new things out in an almost experimental fashion using their workplaces as a kind of 'learning laboratory' (Leonard-Barton, 1992). Many of the manufacturing practices that are now considered leading edge (such as JIT, TQM, Statistical Process Control) were developed in just such a fashion by Japanese manufacturers responding to the constraints placed upon them in the aftermath of the Second World War. One of the problems associated with this perspective is that the organization may not recognize what its operations strategy is. Mills *et al.* (1998) have developed a technique that aims to overcome this by enabling managers to construct a visual representation of operations strategy as realized. It does this by tapping into the organization's collective memory (whether written or verbal) to map all the most significant events in operations over the previous number of years. This should enable managers to recognize the patterns that now make up the existing operations strategy.

Market-led

The market-led perspective is one in which the operations strategy is developed in response to the market environment in which the organization operates. There are a number of approaches in the operations strategy literature that suggest how this might be done.

The best known of these is that of Terry Hill (1985). He suggests that an organization's operations strategy should be linked to its marketing strategy by considering how its products and services win orders in the market place. He believes it is possible to identify two types of competitive criteria in any market. Market qualifying criteria are those factors that must be satisfied before customers will consider making a purchase in the first place. Order winning criteria, on the other hand, are the factors on which customers ultimately make their purchasing decision. For example, for many airline passengers, the order winning criteria is price, with criteria such as destination city, time of flights and convenience of travel to and from airports being market qualifying criteria. For others, notably business travellers, the order winning criteria may be factors such as in-flight service or total travel time. Consequently, an operations strategy should be developed which will satisfy market qualifying criteria, but excel at order winning criteria for the market segment that the operation wishes to serve.

Platts and Gregory (1990) use an approach that audits the products or groups of products that the organization offers to its markets. The aim is to identify any gaps between market requirements for particular products and services and the performance of the organization's operations in delivering those products and services. First the market requirements for the product or service are analyzed in terms of various competitive factors (such as cost, quality, reliability). The performance of the organization's operations against those factors are then assessed. An operations strategy should be developed which will enable operations to match the level of performance required by customers in each of the competitive criteria.

Operations-led

The operations-led perspective is one in which its excellence in operations is used to drive the organization's strategy. This is in line with the Hayes and Wheelwright stage 4 organization and fits with the resource-based view (RBV) of strategy that currently dominates the strategic management literature. The premise of the RBV is that superior performance comes from the way that an organization acquires, develops and deploys its resources and builds its capabilities rather than the way it positions itself in the market place (Barney, 1991; Wernerfelt, 1984). Thus, the process of strategy development should be based on a sound understanding of current operational capabilities and an analysis of how these could be developed in the future. This can then provide the basis for decisions about which markets are likely to be the best in which to deploy current and future capabilities, which competitors are likely to be most vulnerable and how attacks from competitors might best be countered (Hayes *et al.*, 2005). Mills *et al.* (2002) have developed methods through which organizations can apply these ideas in practice. This involves undertaking an analysis of the resources that have underpinned the activities of a business unit over an extended period of time (at least the previous three to five years). Six resource categories, which are not mutually exclusive, are used: tangible resources, knowledge resources skills and experience, systems and procedural resources, cultural resources and values, network resources and resources important for change. The resources are evaluated against three criteria: value, sustainability and versatility. Resources that individually or collectively score highly in these criteria are considered to be important resources. They are sources of existing or potential competitive advantage to the organization.

CASE STUDY Operations strategy development at Askeys

Askeys has been manufacturing ice cream cones, wafers and other biscuits normally eaten with ice cream since 1910. The ice cream cone was first introduced in 1904 at the St Louis World Fair in America. Six years later, Askeys brought the ice cream cone to the UK when founder, Italian Laurens Tedeschi, set up business in Kensal Road, London. The company moved to Aylesbury, a small town some 35 miles north-west of London, in the 1960s.

The business was sold to Kellogg's, the American food manufacturing giant, most famous for its breakfast cereal in the 1970s. Under their ownership, Askeys was used solely as a manufacturing site, with all marketing, sales and distribution, together with all support services such as purchasing and personnel being run from Kellogg's UK head office in Manchester. During this period, the factory concentrated on the mass production of a limited range of standard cones and wafers. These were mostly sold to ice cream parlours and kiosks, ice cream vans and other outside caterers. Sales to this market were highly seasonal, and also weather dependent, and so such stocks were considered essential if peak summer demand was to be met. Indeed, the storage area for finished products was built to be as large as the manufacturing facility itself. However, through the 1980s, the market was changing and sales through supermarkets became much more important. By the 1990s, the vast majority of Askeys products were sold via

Some of Askeys' products



the major national supermarkets. Although most of these sales were still under the Askeys brand, some products were provided under supermarket own labels. A large, but diminishing quantity of business remained destined for the catering trade and ice cream vendors. During this time production processes were labour intensive, particularly in the packaging areas. The handling and packing of such large numbers of low value extremely brittle products like ice cream wafers and cones was considered best entrusted to human dexterity. Production continued uninterrupted around the clock Monday to Friday with a shift system. Extra hours including weekends were worked if required in the summer. During this time, Askey's profitability declined under the relentless downward price pressure exerted by the supermarkets. Nonetheless, Askeys retained its position as the largest British manufacturer of ice-cream accompaniments, producing literally millions of wafers and cones of all shapes and sizes every year. Very little effort was put into developing new products.

In 1995, Askeys was acquired from Kellogg's in a management buy-in led by two experienced food industry executives, financed by venture capitalists. The new owners set about extending the product range. Over the next decade other ice cream biscuits were added to the Askeys range, including the waffle cone, supplied to ice cream manufacturers for the production of 'cornetto' type ices, and a wide range of fans, curls and dessert baskets aimed at the catering trade (including fast food outlets and restaurants) and home sales via supermarkets. A range of crumb products, used by caterers and food manufacturers as toppings, or as ingredients for cakes and biscuits was also developed. They also experimented with the manufacture of non-related products with the installation of a 'dry mix' plant. This was intended to be used for the production of powdered soups and desserts.

Askeys now has a wide range of products aimed at home consumers, the catering trade and other food manufacturers. To meet the demand for these, the factory has had to learn to cope with a vastly increased product range. Many of these products have a very variable demand and are often made in relatively small batch sizes. Alongside this, they have had to continue to meet large-scale demand for the traditional cone and wafer products. Although this has not been without its problems, Askey's manufacturing operations have gradually developed the new competencies required.

In 2004 Askeys was sold to The Silver Spoon Company, Britain's largest sugar and sweetener producer. The company says it intends to continue expanding the business through exploring new markets, expanding existing ones and new product development.

(Source material www.askeys.co.uk and interviews with company managers)

Questions (Suggested answers can be found on the companion website www.thomsonlearning.co.uk/barnes)

- 1 How has Askeys' operations strategy changed over the years?
- 2 In which aspects of performance has Askeys' operations had to excel in order to compete in its chosen markets?
- 3 Which of the four perspectives of operations strategy best describes the operations strategy process at Askeys at the different stages of its history? Give your reasons.

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OPERATIONS STRATEGY – CONTENT

What then are the key decision areas of operations management that need to be considered when an organization is developing an operations strategy? Although there are a number of classifications in use, operations management scholars generally agree (e.g. Leong *et al.*, 1990) that the major strategic decision areas in operations can be conveniently divided into ten categories under two broad headings: structure (the physical attributes of operations; the hardware) and infrastructure (the people and systems of operations; the software).

The structural decision areas comprise:

- **Facilities:** the location, size and focus of operational resources. These decisions are concerned with where to locate production facilities, how large each facility should be, what goods or services should be produced at each location, what markets each facility should serve, etc.
- **Capacity:** the capacity of operations and their ability to respond to changes in customer demand. These decisions are concerned with the use of facilities, for example through shift patterns, working hours and staffing levels. Decisions about capacity will affect the organization's ability to serve particular markets from a given location.
- **Process technology:** the technology of the equipment used in operations processes. For example, the degree of automation used, the configuration of equipment, and so on.
- **Supply network:** the extent to which operations are conducted in-house or are outsourced. Decisions about vertical integration are also concerned with the choice of suppliers, their location, the extent of dependence on particular suppliers, and how relationships with suppliers are managed.

Structural decisions often involve major capital investment decisions, which once made will set the direction of operations for many years to come. They invariably impact the resources and capabilities of an organization, determining its potential future output. It may be prohibitively expensive to change such decisions once implemented, and hence these must be considered to be truly strategic decisions for the organization. It may be much easier to change the organization's marketing strategy (e.g. its target markets, or its promotional activities) than it is to change its operations strategy with respect to the structural decision areas.

Infrastructure decision areas comprise:

- **Planning and Control:** the systems used for planning and controlling operations.
- **Quality:** quality management policies and practices.
- **Work Organization:** organizational structures, responsibilities and accountabilities in operations.
- **Human Resources:** recruitment and selection, training and development, management style.
- **New Product Development:** the systems and procedures used to develop and design new products and services.
- **Performance Measurement:** financial and non-financial performance management and its linkage to recognition and reward systems.

These issues are also important to an organization, involving the use made of the operating hardware discussed above. It is possible to change aspects of operations infrastructure more quickly and easily than is the case for operations structure. Nonetheless the difficulty of so doing should not be underestimated, neither should the impact of making inappropriate infrastructural decisions.

The key decision area of operations management will be considered in greater detail in Part Three – Structural Issues and Part Four – Infrastructural issues. First however, Part Two will consider the challenges for operations posed by the growing internationalization of business created by the forces of globalization and the new economy.

SUMMARY OF KEY POINTS

Strategy is concerned with the actions an organization takes in order to survive and prosper in its environment over the long-term. Strategy can exist at three levels in an organization: corporate, business and functional.

An organization's operations strategy comprises the totality of the actions and decisions taken within the operations function. The decisions and actions taken have a direct impact on an organization's business and corporate strategy.

An organization's operations can be a source of competitive advantage if they are managed strategically in pursuit of a clear goal for operations.

There are five possible operations objectives (cost, quality, speed, dependability and flexibility). It is unlikely that any operation can excel at all of these simultaneously, so competitive priorities must be determined on which to base the operations strategy.

The process of operations strategy concerns the way in which an organization develops its operations strategy. This might be top-down (i.e. formed in pursuit of its business and corporate strategy), bottom-up (i.e. formed from the actions and decisions taken with operations), market-led (i.e. formed in response to market requirements) or operations-led (based on the resources and capabilities within its operations).

The content of operation strategy consists of the key decision areas concerned with the structure (i.e. the physical attributes of facilities, capacity, process technology and supply network) and infrastructure (i.e. planning and control, quality, organization, human resources, new product development and performance measurement) of operations.



EXERCISES (Suggested answers can be found on the companion website www.thomsonlearning.co.uk/barnes)

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- 1 Why are an organization's operations crucial to its strategic success?
- 2 What is operations strategy? Explain its relationship within the model that depicts organizational strategy as existing at three different levels.
- 3 Explain how excelling at each of the five operations performance objectives (cost, quality, speed, dependability and flexibility) could provide an organization with a competitive advantage.
- 4 How can an organization use its operations as a 'formidable competitive weapon'?
- 5 Explain how the following types of organization might use their operations to gain a competitive advantage (i.e. like a Hayes and Wheelwright stage 4 organization):
 - a an airline
 - b a hospital
 - c a university
 - d a domestic appliances manufacturer
- 6 Toyota seems to perform well in all five operations performance objectives. Do you think the sandcone or the trade-off model of operations offers the better explanation for this?

- 7 What are the four perspectives on operations strategy? Which of these do you find most convincing in explaining operations strategy process in practice?
- 8 What are the key decision areas that organizations need to take into account when determining their operations strategy?
- 9 What advice would you give to an organization that wanted to ensure that it had an operations strategy that was consistent with its business strategy and made a contribution to competitive advantage?
- 10 Choose a well-known organization (or an organization for which you can easily access relevant information).
 - a Identify its business objectives and strategy (perhaps as stated in its mission statement).
 - b Identify its operations strategy by analyzing its actions in the key decision areas of structure and infrastructure.
 - c Identify its operations performance objectives. (You may need to infer these by assessing its performance in the five operations performance objectives (e.g. cost, quality, speed, dependability and flexibility).)
 - d Compare its business objectives and strategy with its operations objectives and strategy using Hayes *et al.*'s (2005) criteria of consistency and contribution.
 - e Classify the organization in terms of the Hayes and Wheelwright four-stage model of strategic role of operations.

CASE STUDY EXERCISE Giordano

Company background

From small beginnings in Hong Kong in 1981, Giordano International Limited expanded throughout the Asia Pacific region to become one of its most well-known and established apparel retailers. By 2005, it employed over 11,000 staff in over 1,700 shops operating in 30 territories in Greater China, Japan, Korea, South East Asia, Australia, India and the Middle East. Giordano specializes in casual clothing for both men and women, and operates under the brand names 'Giordano', 'Giordano Ladies', 'Giordano Junior' and 'Bluestar Exchange'. In 2005, sales of HK\$4,413 million (up from HK\$4,003m in 2004), delivered after tax profits of HK\$431m (HK\$418m in 2004).

As early as the 1980s, Giordano realized that it was difficult to achieve substantial growth and economies of scale if it operated solely in Hong Kong. The key was to expand, both in the region and beyond. Moreover, after surviving the Asian economic crisis of 1997–1999, Giordano has also been endeavoring to move up-market to avoid the fierce price competition prevalent in the discount sector. However, as it moved into new segments and territories, Giordano had to consider how to adapt its marketing and operations strategies to suit these different markets.

Giordano was originally founded as a wholesaler for Hong Kong-based manufactured clothing going to the USA. However, in 1983 it scaled back its wholesale operation and set up its own retail shops in Hong Kong. It soon expanded into Taiwan through a joint venture and in 1985 opened its first retail outlet in Singapore. Until 1987, Giordano sold exclusively men's casual apparel. When it realized that an increasing number of women customers were attracted to its stores, Giordano started selling unisex casual apparel.

It began to re-position itself as a retailer of discounted casual unisex apparel with great success; its sales more than quadrupled from HK\$712 million in 1989 to HK\$3,479 million in 2001. A willingness to try new ways of doing things and learning from past errors was an integral part of management at Giordano. The occasional failure represented a current limitation and indirectly pointed to the right decision for the future.

Operations

Besides the willingness to accept mistakes, Giordano's success is also firmly grounded on its dedicated, well-trained and ever smiling sales force. Its front-line customer service workers are its heroes. Stringent selection procedures ensure that only candidates matching its strict requirements are employed. Training workshops further test the service orientation and character of new employees before they make it into the shops. Giordano has extended its philosophy of quality service to its overseas outlets. Its Singapore operations, for example, have achieved ISO 9002 certification. This obsession with providing excellent customer service is exemplified by an insistence that even office employees work in a store for at least one week as part of their training. For Giordano, investment in service meant investment in people. The company also offers one of the most attractive salary packages in the industry, which helps to ensure low staff turnover and an eager-to-please sales force. Managing its human resources has become an even greater challenge to Giordano as it expands into global markets. For example, its recruitment, selection and training practices may require modifications in countries with different cultures, education and labour regulations. Also, policies for expatriate staff helping to run Giordano outside of their home country need to be considered.

Giordano believes that its flat organizational structure and relaxed management style help it to react speedily to market changes on a day-to-day basis. There are no separate offices for higher and top management in Giordano; rather their desks are located alongside their staff, separated only by shoulder-high

Giordano: One of Asia's most successful fashion retailers



panels. This closeness allows easy communication and speedy decision-making. Speed also enables Giordano to keep its product development cycle short. Similar demands for speed are also expected of its suppliers.

Giordano's home base, Hong Kong, is flooded with retailers, both large and small. Although many retail outlets in Hong Kong compete almost exclusively on price, Giordano has long believed that there are other key factors for success to beat the dog-eat-dog competition prevalent in Asia. Giordano has looked to Western retailers to benchmark key aspects of its activities: (1) computerization (from The Limited), (2) a tightly-controlled menu (from McDonald's), (3) frugality (from Wal-Mart), and (4) value pricing (from Marks & Spencer).

Giordano has achieved great success with a distinctive competitive advantage based on value-for-money and service. Its commitment to excellent service has been reflected in a long list of service-related awards. Giordano was ranked number one by the *Far Eastern Economic Review*, for being innovative in responding to customers' needs, for eight consecutive years from 1994 to 2001. Its stores and employees in Hong Kong and Singapore have been frequent winners of customer service awards in those cities. To ensure that every store and individual employee provides excellent customer service, performance evaluations are conducted at each store twice a month, while individual employees are evaluated once every two months. Shoppers can nominate individual employees for the monthly 'Service Star' in each store. In addition, every store is evaluated by mystery shoppers. Based on the combined results of these evaluations, the 'Best Service Shop' award is given to the top store. Customer feedback cards, available at each store, are posted at the office for further action.

Giordano is able to provide value-for-money merchandise through the careful selection of suppliers, strict cost control and by resisting the temptation to increase retail prices unnecessarily. For example, in markets with expensive retail space, Giordano maximizes sales from the square foot of the store by not having a storeroom, but replenishing stock from a central distribution centre. Giordano uses IT to skillfully manage its inventory and forecast demand. When an item is sold, the barcode information, identifying size, colour, style and price is recorded by the point-of-sale cash register and transmitted to the company's main computer. This information is used to compile the store's order for the following day. Orders are filled during the night ensuring new inventory is on the shelves before the store is opened for business. Another advantage of its IT system is that information is disseminated to production facilities in real time. This allows customers' purchase patterns to be understood and this provides valuable input to its manufacturing operations. This close integration enables Giordano to minimize the retailer's twin nightmare of slow-selling items being stuck in the warehouse and fast-selling popular items that are out of stock. Savings from more efficient inventory holding can then be passed to customers, thus reinforcing Giordano's value-for-money philosophy.

When a business becomes successful, there is always a temptation to expand into more products and services to meet customer needs. However, Giordano has retained its belief in keeping stores simple, managing inventory carefully and getting the best out of limited resources. Whilst its stores typically have no more than 100 items, with approximately 17 core items, other retailers typically have 200–300 items. Giordano believes that merchandizing a wider range of products makes these retailers much slower to react to market changes.

The Asia apparel industry

The apparel industry was severely hit by the Asian economic crisis from 1997 to 1999, resulting in dramatic restructuring and consolidation. Many retailers reduced the number of shops in their chains, or closed down completely. Almost everyone in the industry implemented cost-cutting measures while at the same time cajoling reluctant customers with promotional strategies. Yet, there was a silver lining, as the more competitive firms were able to take advantage of lower rentals and the departure of weaker companies. Some firms, including Giordano, worked towards strengthening their positioning and brand image to compete better in the long run. Some retailers also explored opportunities, or accelerated their presence in markets that were less affected by the Asian crisis – mostly in markets outside Asia.

Until recently, Giordano's main competitors for low-priced apparel were Hang Ten, Bossini, U2 and Baleno. United States-based Hang Ten and Italian-based Bossini were generally positioned as low-price

retailers offering reasonable quality and service. While Hang Ten and Baleno were more popular among teenagers and young adults, Bossini had a more general appeal. These companies also focused on different markets. For instance, while Hang Ten was only strong in Taiwan, Baleno was increasingly strong in China and Taiwan. On the other hand, Bossini was very strong in Hong Kong and relatively strong in Singapore but had little presence in Taiwan and China.

The squeeze of the retailing sector caused by the crisis, had pushed formerly more upmarket firms such as Esprit and Theme to compete for Giordano's value-for-money segment. Esprit is an international fashion lifestyle brand, selling a wide range of women's, men's and children's apparel, footwear accessories and other products. Esprit's good quality and value-for-money offering placed it in direct competition with Giordano. Theme originally served a niche in the Hong Kong market, for high-quality, fashionable ladies business wear, although it subsequently expanded into casual wear. Theme had expanded from a single store in 1986 to a chain comprising over 200 outlets throughout Asia Pacific, competing directly with Giordano Ladies. A threat from US-based The Gap was also looming. The Gap was already operating in Japan, and was expected to expand into the rest of Asia.

In general, although these firms had slightly different positioning strategies and targeted dissimilar but overlapping segments, they all competed in a number of similar areas. In the years after the crisis, industry analysts predicted that opportunities would continue to be driven by value. However, the retailing environment was becoming more dynamic, a change that was perhaps led by growing sophistication of tastes and rapid advances in the media, communications and logistics environment. Giordano's response to these trends would be the key to its ability to compete in the future, especially as these trends seem to commoditize its current competitive edge in IT, stock control and logistics.

Marketing

Giordano has been able to distinguish itself from its competitors with its high-quality service and cost leadership that together provided great customer value that none of its competitors have been able to match. In a study by *Interbrand* on top Asian brands, Giordano was Asia's highest-ranking general apparel retailer. However, Giordano was still far off being a world label. As a spokesman on consumer insights for advertising agency, McCann-Erickson said, 'It is a good brand, but not a great one. Compared to other international brands, it doesn't shape opinion'.

In the past four to five years, Giordano has begun to reposition its brand, shifting slowly away from its low pricing strategy to one of margin enhancement. Giordano's relatively mid-priced positioning worked well during the Asian economic crisis, when its inexpensive yet contemporary looking outfits appealed to Asia's frugal customers.

However, this position has become inconsistent with Giordano's attempts to gradually re-market its core brand into a trendier label. In order to continue to cater to the needs of customers who favored its value-for-money positioning, in 1999 Giordano launched a new product line Bluestar Exchange (BSE), to cater to the needs of its budget-conscious customers (similar to The Gap's Blue Navy). The good market responses to this new line triggered plans to expand to up to 20 Bluestar stores in Hong Kong, 15 in Taiwan, 2 in Singapore and 100 in Mainland China.

Giordano's willingness to experiment with new ideas could also be seen in its introduction of the sister brands, Giordano Ladies and Giordano Junior. Giordano Ladies with its line of smart blouses, dress pants and skirts is a venture into mid-priced women's fashion. Aiming at the executive woman, the company was hoping to target the fatter profit margins enjoyed in the more upscale niches of women's clothing. This, however, brought them into direct competition with more than a dozen established brands, including Theme and Esprit. Initial market feedback was that whilst there were no complaints about the look or quality of the line, Giordano failed initially to differentiate its new clothing line from its mainstream product line. Nevertheless, it persisted in its efforts and has since made a success of Giordano Ladies, which now has outlets in Hong Kong, Taiwan, China, Indonesia and the Middle East. Giordano Ladies offers a highly personalized service with, for example, staff being trained to memorize names of regular customers and recall past purchases.

Giordano has now cast its sights on markets beyond Asia, driven partially by its desire for growth and partially by its desire to reduce its dependence on Asia in the wake of the 1998 economic meltdown. As part

of its globalization process, Giordano already has outlets in Australia in Brisbane, Melbourne and Sydney. It plans to add new outlets to existing stores in Germany and Japan.

While the crisis had made Giordano rethink its regional strategy, it was still determined to enter and further penetrate new Asian markets. This led to the successful expansion into mainland China. Since entering in 1992, China had become particularly important to Giordano. By 2001 it had overtaken Hong Kong to become Giordano's main market, its 680 outlets accounting for about 45 per cent of its total operations. China is also the main manufacturing base for Giordano; it produces 80 per cent of all its clothes there. This helps it to achieve higher than industry average gross margins. China's consumer market is expected to grow rapidly as incomes rise. Some analysts estimate that China's leisurewear retail sector will nearly double between 2004 and 2010, to be worth US\$58 billion. However, this is a crowded market, with more than 2,000 brands of casual clothes according to some estimates, with newcomers like Spain's Zara and Japan's Uniqlo also joining in. Giordano has enjoyed a good level of growth in China. In 2005, for example, sales grew by 6 per cent, although this was less than the company's overall 10 per cent sales gain. Giordano has continued to open new stores, particularly in China's second and third tier cities. However, this has been at the expense of sales per square foot, which has been falling since 2000. Analysts project retail growth for Giordano ranging from 3 per cent to 6 per cent per year through 2008. Giordano has also been rolling out its brand segmentation strategy across China. For example, Giordano Ladies is targeted at more affluent working women in big cities like Shanghai and Beijing and BlueStar Exchange for more price-sensitive consumers. Giordano had also opened up more stores in Indonesia in Jakarta, Surabaya and Bali. It would also increase its presence in Malaysia, refurbishing its outlets and converting some of its franchised stores into self-managed stores to improve their profitability.

Giordano's success in these markets would depend on its understanding of them, and consumer tastes and preferences for fabrics, colours and advertising. In the past, Giordano had relied on a consistent strategy across different countries, with common marketing and operations strategies, with local managers only allowed limited tactical discretion (e.g. promotional campaigns) in their respective countries. Each country's performance (e.g. sales, contribution, service levels and customer feedback) was monitored by regional headquarters (e.g. Singapore for South East Asia) and at the head office in Hong Kong. Weekly performance reports were made accessible to all managers.

Future issues

Giordano was confronted with some important issues as it prepared for the next five years. Although it had been extremely successful, the question was how it could maintain this success. In the past it seemed to have a clear understanding of the core competencies that formed the basis of its competitive advantages. However, as it moved into new market segments and territories it needed to consider whether these would be sustainable, or whether strategic adaptations to its operations and marketing strategies would be required.

—Adapted from a case by Jochen Wirtz in 'Business Strategy in Asia', Singh, Pangarkar and Heracleous (Thomson Learning Asia)

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Questions (Suggested answers can be found on the companion website www.thomsonlearning.co.uk/barnes)

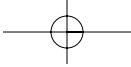
- 1 Describe Giordano's operations strategy. Assess its internal consistency and its contribution to the company's competitive success.
- 2 How consistent is Giordano's operations strategy with its marketing strategy?
- 3 What are the biggest operations management challenges for Giordano as it expands into new market segments and territories?
- 4 What advice would you give to Giordano regarding its operations strategy in the future?

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Useful websites

<http://www.smsweb.org> The Strategic Management Society is a US-based association that brings together the worlds of reflective practice and thoughtful scholarship. It aims to focus attention on the development and dissemination of insights on the strategic management process. It has a membership of academics, business practitioners and consultants in 50 different countries.

<http://www.sps.org.uk> The Strategic Planning Society is a UK-based organization that fosters and promotes research and best practice in strategic thought and action. It aims to create a link between the academic and practitioner worlds of strategy by keeping strategists up-to-date with developments in strategy-related research and practice.

