Operational Strategy

Idea In Short

For most businesses, success is not a random occurrence, but rather a series of right decisions taken at the right instances. Meticulous planning, preparation, and execution determines success for most organizations. All this starts with defining the right strategy. A business strategy is a clear set of plans and actions that outline how a business will compete in particular markets with its current portfolio of products and services. The general managers of a business convert the mission and vision articulated in the high-level corporate strategy into concrete business strategies that form the blueprint of the entire business.

A company's operations are the core activities that produce and deliver a product or service. business operations constitute many processes, such as material acquisition, manufacturing, inventory management, delivery, etc. Hence, operational strategy focusses on reducing process costs and improving profits for the entire business. Operational strategies revolving around the core business processes, such as production, supply chain, logistics, etc. Operational strategies also include additional parameters, such as the capacity of production facilities, their location, product lines, procurement, etc. Hence, you may find several operational strategies within the same company. Operational strategies usually include additional strategies, such as product development, market penetration, customer engagement, supply chain, etc.

Why is it important?

Operational strategy involves refining and specifying a company's business strategy and developing strategic initiatives and operational plans, aimed at enabling departments and business units to successfully implement the overall business strategy. The work involves, among others:

- Providing management with feedback regarding the overall effectiveness of the

corporate and business strategies
- Performing detailed operational analysis to identify any omissions / problems / improvement areas in the overarching strategies
- Developing SMART (Specific, Measurable, Actionable, Realistic, Timebound) plans to deliver the outcomes, and
- Implementing the action plans and measuring the results against predefined goals and key performance indicators

Some of the techniques used to achieve the operational strategy are:

- Value chain analysis
- Benchmarking
- Value proposition analysis
- Activity Based Costing
- Etc.

Market penetration

This operational strategy focuses on capturing larger segments of the target customer market. An insurance company might define market penetration success by the number of new automobile policies sold. In this regard, it may also decide to hire additional insurance sales agents, open additional branch offices in new locations, partner with online portals, etc. to gain additional customers.

Product strategy

An operational strategy around product development aims to develop compelling products and services that resonate with a firm's customers. This strategy goes beyond developing and delivering new products. For example, Apple releases new products each year, but also provides free updates, patches and software tools for existing products. This is part of Apple's product strategy.

> When Apple releases new products each year, its customers eagerly expect to discover the new features and functionalities. Customers not only compare these features with other products in the market, but also previous versions of Apple's products. Being the best is a good strategy. This also means that competitors will immediately work to innovate and match customers' high expectations of the new

products available in the market to defend their customer base.

Customer engagement strategy

A rental car that eliminates long lines at the airport is pursuing a customer engagement strategy. Likewise, a customer support / call center company that eliminates long wait times is pursuing a strategy to improve its customer centricity. Through this strategy, the company aspires to improve an existing system for both new and repeat clients. The better this service process is, the higher the company's customers are. This reflects in high satisfaction ratings the company receives. This, in turn, builds loyalty and referral business.

Supply chain strategy

The strategy refers to the process of creating excellence through superior delivery capabilities. One strategy might be reduce product costs through bulk purchases or production line automation. Another strategy might look at offering product customizations to deliver more customer value, while simultaneously making the delivery of goods more efficient.

Case – Dell

Dell impressed many in its early years with its distinct model of supply chain management, selling customized computers directly to customers to meet burgeoning PC demand. By using this innovative sales model, Dell became an industry and shareholders' darling as well as a high-tech pioneer. As a multinational enterprise, Dell competently executed its global strategy, giving the company a competitive advantage that was unrivaled in the first half of the 2000s.

Inventory Management

During this time, almost all of its competitors pre-built standard machines based on market forecasts and stuffed their channels with inventory. However, Dell maked each machine to order and maintained only 12 days of inventory. Dell's just-in-time [JIT] strategy allowed it to operate with the lowest inventory level in the industry. Reducing excess inventory provided Dell with a significant cost advantage as component costs depreciate as much as 1% weekly in the electronics industry.

Direct selling

Direct selling has also allowed Dell to bypass intermediaries such as wholesalers and retailers, reducing costs even further. In addition, Dell offered customization options that proved to be customer-centric and attractive. Dell's network of 200 suppliers had access to real-time information, such as demand trends and volume expectations for different components. This close integration with suppliers and the direct selling model has allowed Dell to balance demand and supply remarkably well.

Manufacturing locations

Dell's successful direct sales business model, superior supply chain management, and its choice of manufacturing locations gave it a superior competitive advantage. Dell chose to locate its manufacturing plants close to such regional markets for better market access, lower shipping costs, and improved responsiveness in delivery. The success of Dell in India was attributed to having a manufacturing plant in the country, which cut delivery time by 50% and improved its sales dramatically. In the past, customers in India would have to wait for up to a month for their computers, which were manufactured in Malaysia.

Summary

Operations strategies drive a company's operations, the part of the business that produces and distributes goods and services. Operations strategy underlies overall business strategy, and both are critical for a company to compete in an ever-changing market. With an effective ops strategy, operations management professionals can optimize the use of resources, people, processes, and technology.