



Strategy and Performance

Ken Platts and Dominic Oughton

IfM Briefing Day, Tuesday 21 May 2013

Agenda

Overview of the Centre for Strategy and Performance

Approaches to strategic analysis

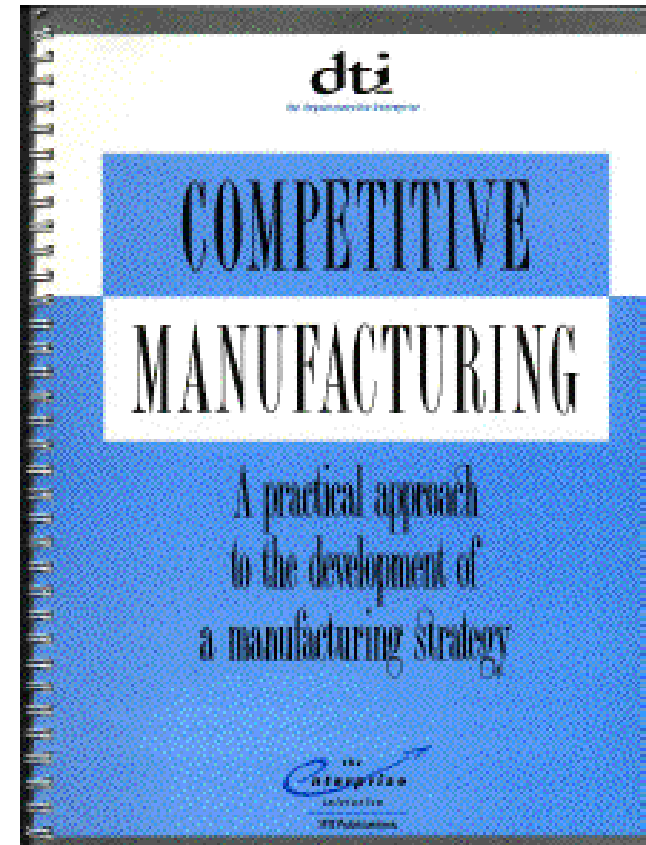
An example of a tool - Make vs Buy

Centre for Strategy and Performance



Aims of the Centre

- to develop effective research-based techniques for strategy-making and performance measurement system design
- to develop practical tools for industrial managers and consultants
- to interpret and disseminate research findings
- to support and provide an industry-academic community focused on strategy and performance
- to deliver educational and training materials



Themes

Strategic Decision Making

Building structured approaches that support strategy making

Strategy Modelling and Visualisation

Developing visual approaches to support strategy development

Competence, Capability and Resource Analysis

Studying the way companies create and exploit competences

Innovation Capability

Understanding how resources and routines enable product and process innovation

Strategy Options for Start-ups

Exploring the strategic challenges for start-up companies

Performance Measurement

Designing, developing and implementing performance measurement systems

Taking a Process View

- **Aims to understand ‘how’ operations management activities are carried out, with a view to improving them**
 - **especially ‘high’ level processes - e.g. strategy formulation, performance measurement design**

Output

- **Processes and tools which will help managers manage their operations better**

Typical output - workbooks



Competing through competences



Creating a winning business formula



Getting the measure of your business



Winning decisions -translating
business strategy into action
plans

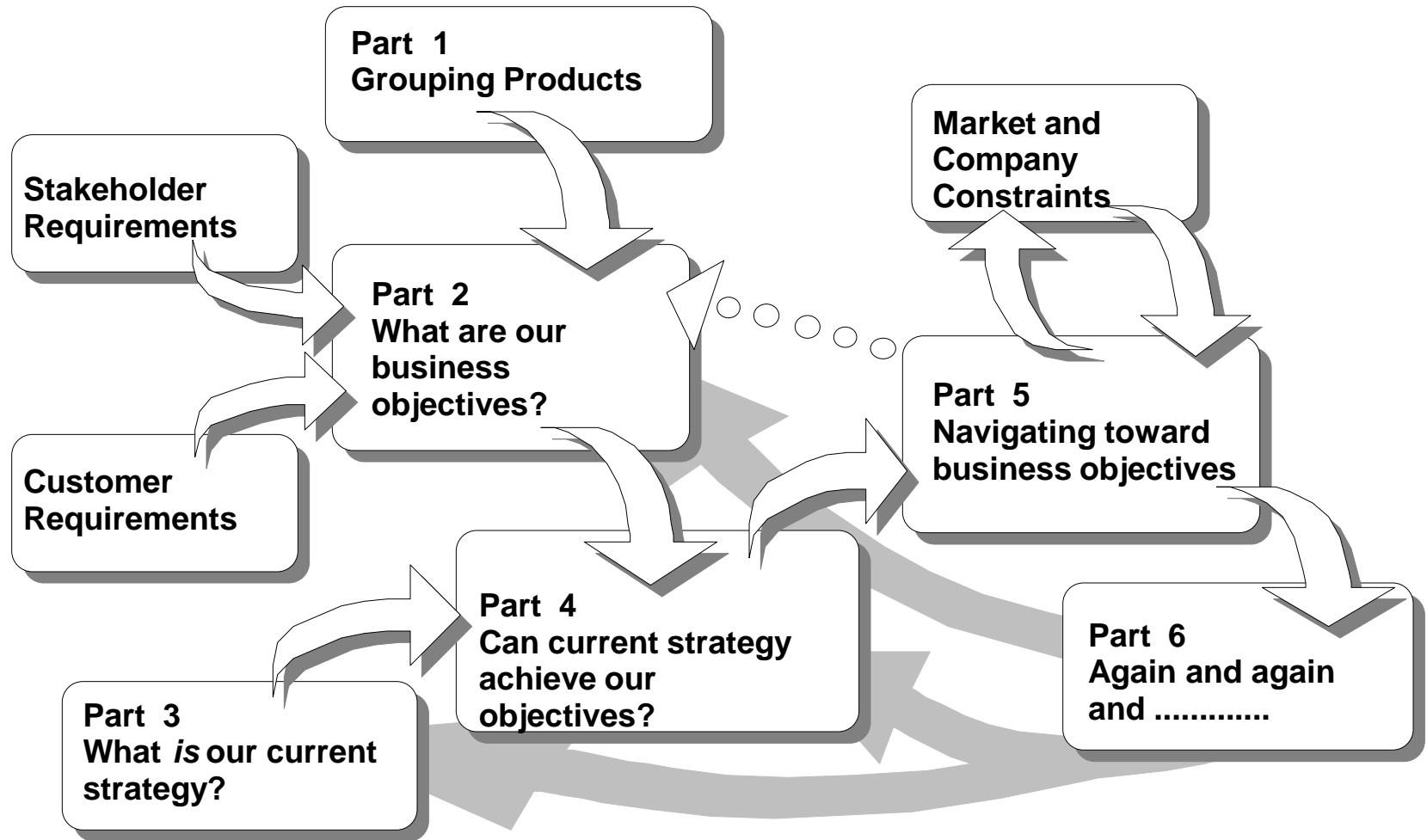


Competitive Manufacturing



Make-or-Buy

Strategy Development Procedure



A Procedure

is a sequence of

Steps

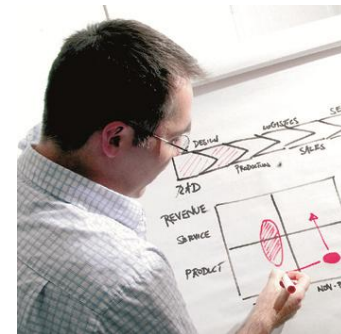
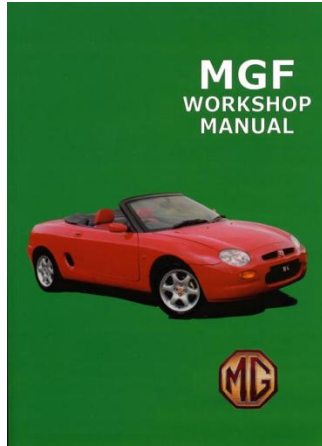
involving the use of

Tools

that are applied using correct

Techniques

Analogy

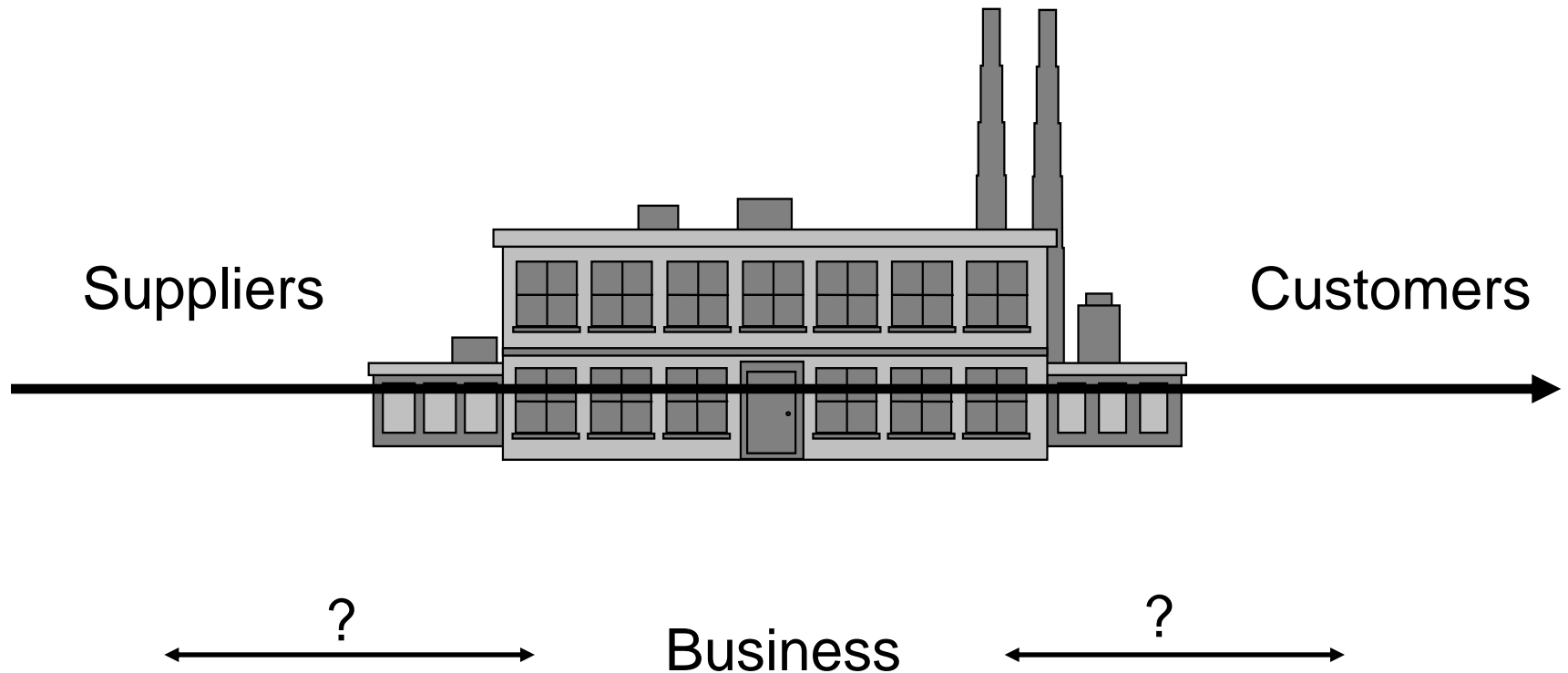




Make vs. Buy Strategy: Example of a tool and case studies

Dominic Oughton, Principal Industrial Fellow

Positioning the boundaries of the business is a strategic decision....



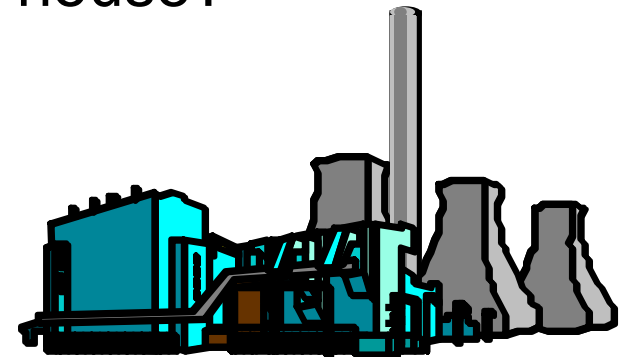
Make-or-buy?

Do-or-buy?

Sourcing Strategy?



- How big should our enterprise be?
- What to in-source, what to outsource?
- How much to buy?
- What is important to keep in house?
- What is our real strength?



Thoughts from earlier in the day...

Cisco – Hon Hai – Lloyds – Zara

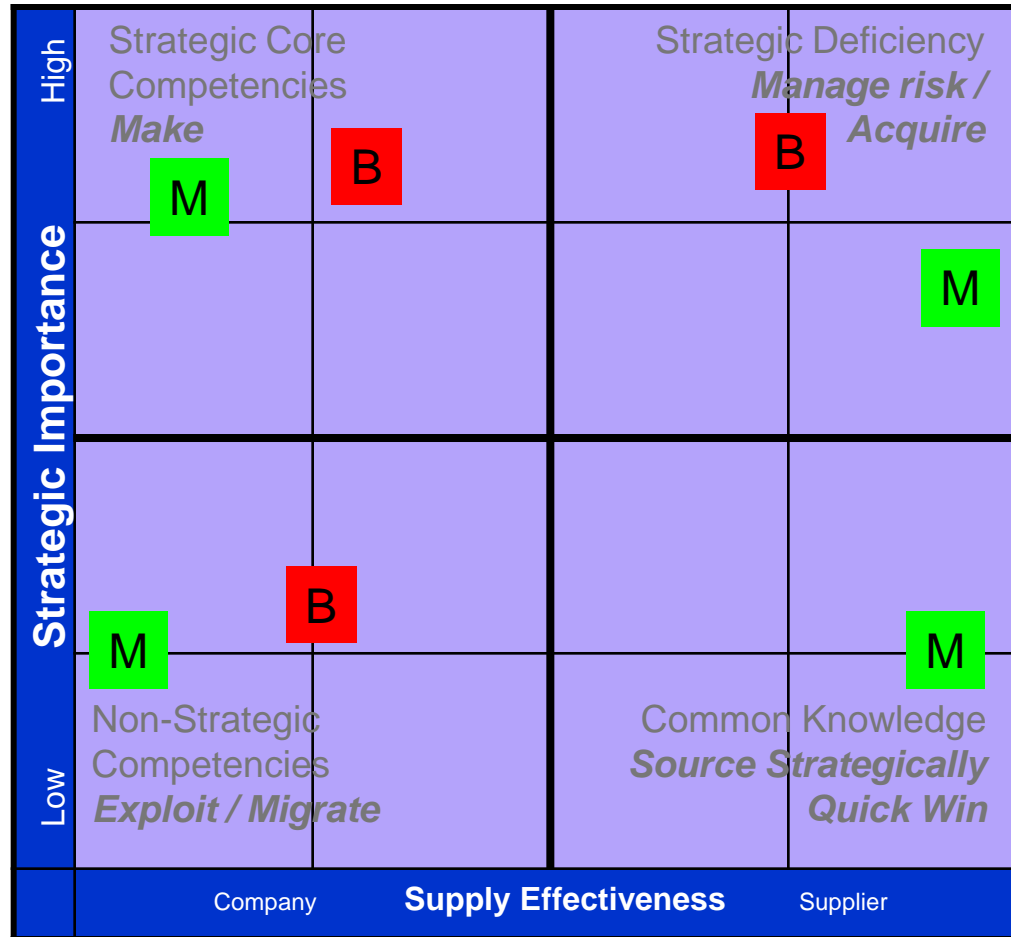


- No single right answer
- Some outsource, some make process-ownership a virtue
- Some offshore, some go close to customer or ‘knowledge’

Make or Buy Matrix

Strategic Importance	High	Strategic Core Competencies <i>Make</i>	Strategic Deficiency <i>Manage risk / Acquire</i>
	Low	Non-Strategic Competencies <i>Exploit / Migrate</i>	Common Knowledge <i>Source Strategically Quick Win</i>
		Company	Supplier
		Supply Effectiveness	

Make or Buy Matrix

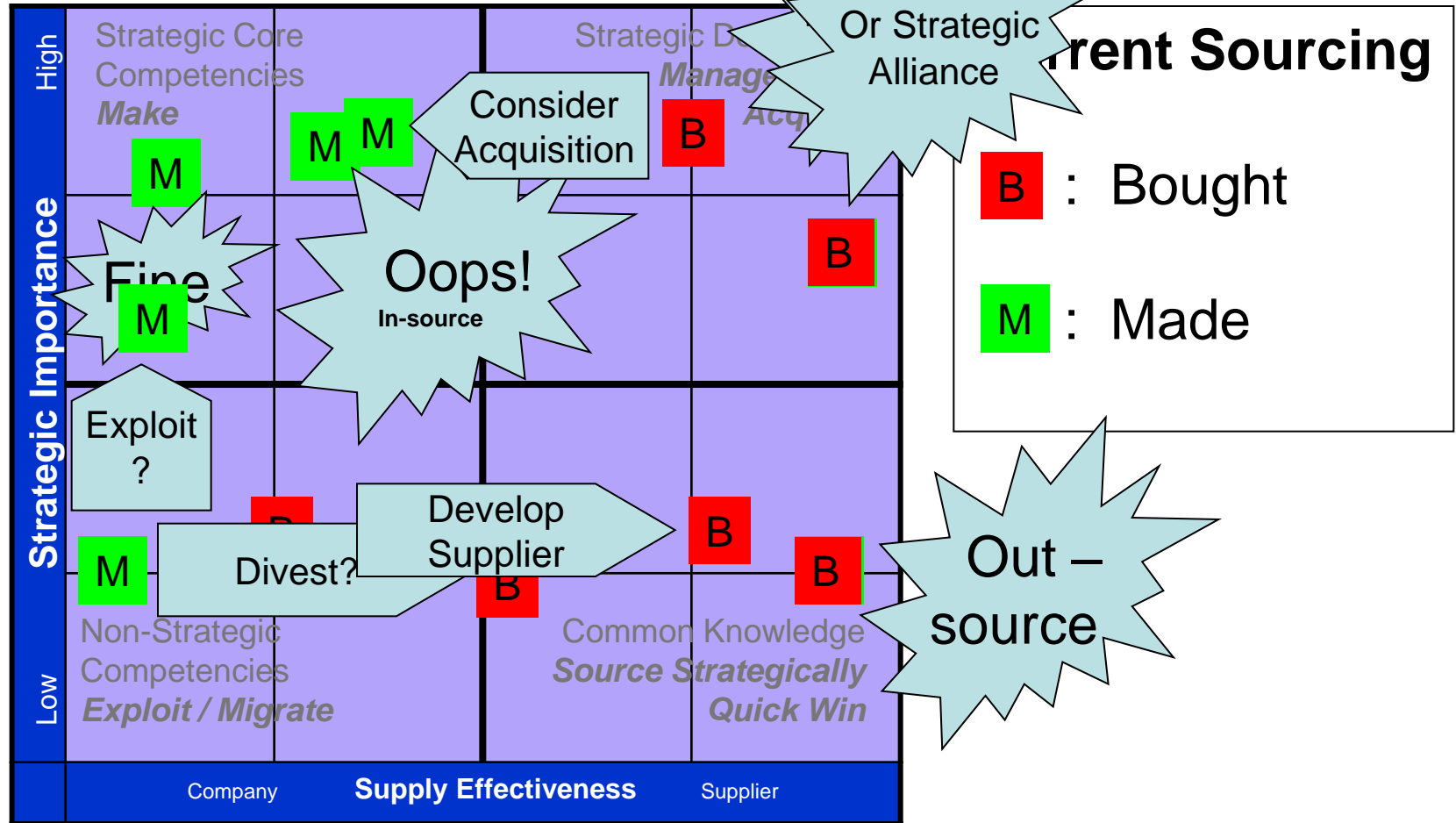


Current Sourcing

B : Bought

M : Made

Make or Buy Matrix

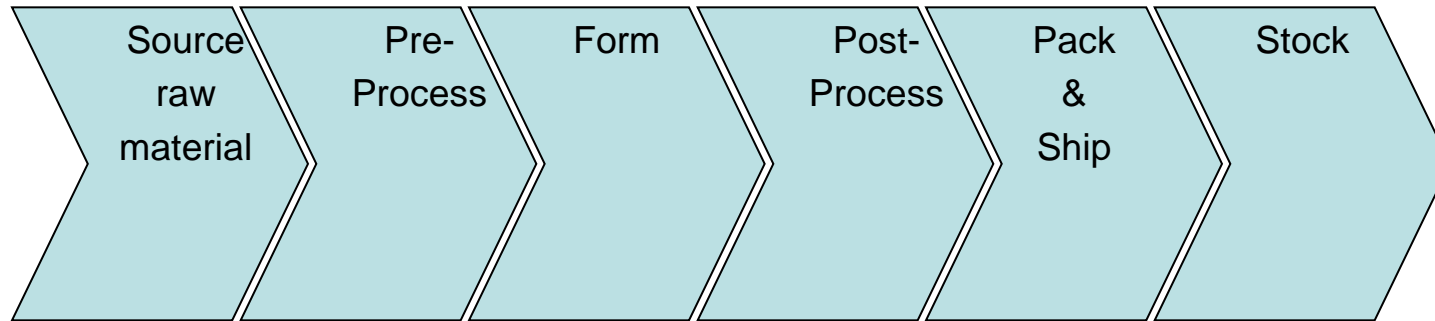


Industrial Case Study 1 - Make v Buy in Practice European Capital Goods

Background

- European Capital good manufacturer
- Serving global market
- Highly-engineered / bespoke core product
- Entered related market for “commodity product”
 - Full product line offering
 - Customer service
 - Same customers & channels
- Sourced product for market entry from Chinese manufacturer
- 3 years on
 - Number 2 in commodity market
 - Price pressure
 - Time for review...

Make v Buy – Processes



Make v Buy – strategic analysis

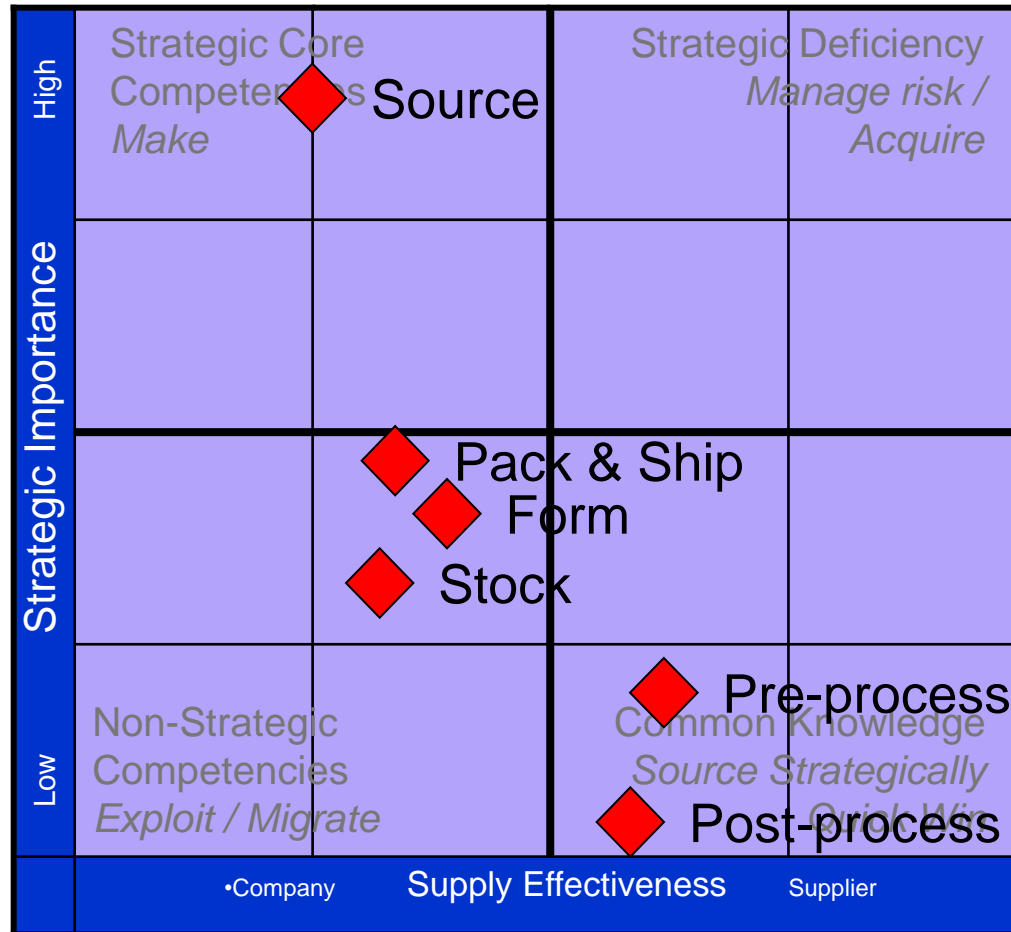
Process strategic importance

- Brand & customer relationships
- Profit Generation
 - Margin (Price – Cost)
 - Customer order winning criteria
- Intellectual Property

Process supply base effectiveness compared to us?

- Quality
- Delivery
- Cost
- Flexibility

Make or Buy Matrix



Outcomes

- In-source:
 - Raw material sourcing is critical competence
 - Remaining processes are necessary to enable strategic sourcing
- Quality & Delivery benefits from in-sourcing
- Network approach to optimisation
 - Shipping costs v labour costs
 - Benefits of being close to customer
- Regional service centre network
 - China / South America / CIS / ME
- 17% reduction in costs = Euro 3.4 million annual saving

Case Study 2 – IMI plc

- A dynamic, international business delivering innovative, knowledge-based engineering and system solutions for global customers
- Focused on strong niche markets
- Quoted on the London Stock Exchange
- Turnover £1.9bn , recent market cap approximately £1.6bn
- 19,000 employees in more than 35 countries
- Two core business areas: Fluid Controls & Retail Dispensing



Context

- International business expansion requiring linkage between business, customers manufacturing a supply chain
- Significantly high value of manufacturing output, IMI has manufacturing sites in 25 countries
- Considerable part of manufacturing in high cost countries, however major business expansion in emerging regions
- Many activities considered non-core
- Significant shift in manufacturing strategy processes
- **Need for Strategic Manufacturing Decisions Linked With Business Strategy**

IMI Identified the need for a structured approach to manufacturing decisions

“We need to be in China”

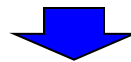
“Labour in Asia is much cheaper”

“We can make it internally much more efficiently”

“Eastern Europe seems to be better solution”



“Why don't we go to Mexico?”



Need for a structured approach to manufacturing decisions

IMI: Benefits of a structured approach

- A **holistic understanding** of strategic manufacturing decisions
- Alignment with **business strategy**
- A **review of the relevant factors** to be taken into account
- An **improved understanding** of internal **capabilities**
- A more informed **understanding of key costing issues**
- A **team committed to implementing** the decision
- An opportunity to **record the rationales behind the decision** so that lessons learned can be applied in the future

IMI: Benefits of sourcing in Eastern Europe



Major Cost Drivers
(average industry standard)

Labour
70 – 80%

Equipment
20 – 30%

Labour
20 – 30%

Material, Overheads
60 – 70%

Labour
50 – 70%

Site, Equipment
30 – 50%

Labour
30 – 50%

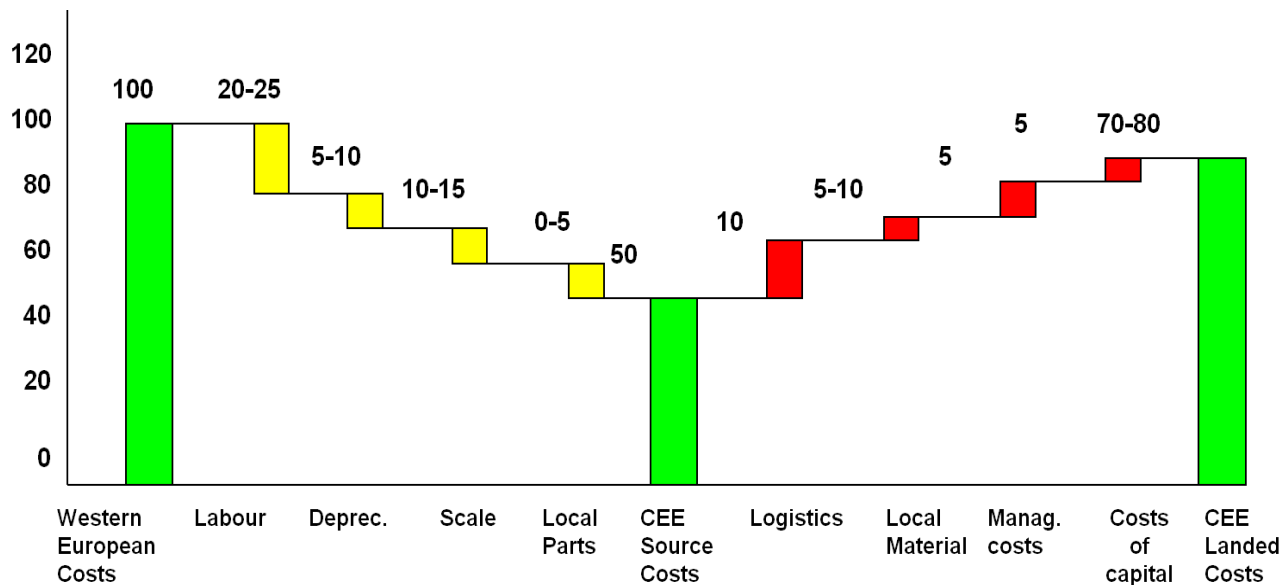
Equipment
50 – 70%

Labour
80 – 90%

Equipment
10 – 20%

Total savings in CEE based on significant differences in labor costs can reach up to

- 20% on sourcing
- 50% on production
- 60% on engineering



Questions?

For further information

Research collaboration opportunities

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