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

Part 1
Grouping Products

Part 2
What are our business objectives?

Part 3
What is our current strategy?

Part 4
Can current strategy achieve our objectives?

Part 5
Navigating toward business objectives

Part 6
Again and again and ............
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

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

- **High Strategic Importance**
  - Strategic Core Competencies
    - Make
  - Strategic Deficiency
    - Manage risk / Acquire

- **Low Strategic Importance**
  - Non-Strategic Competencies
    - Exploit / Migrate
  - Common Knowledge
    - Source Strategically
  - Knowledge
    - Quick Win

- **Company**
- **Supplier**
- **Supply Effectiveness**
Make or Buy Matrix

<table>
<thead>
<tr>
<th>Strategic Core Competencies</th>
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<th>Current Sourcing</th>
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<tbody>
<tr>
<td>Make</td>
<td>Manage risk / Acquire</td>
<td>Bought</td>
</tr>
<tr>
<td>Non-Strategic Competencies</td>
<td></td>
<td>Made</td>
</tr>
</tbody>
</table>

Company | Supply Effectiveness | Supplier
---|----------------------|---
B | M | B
M | B | M
M | B | M
B | M | B

IfM MANAGEMENT TECHNOLOGY POLICY
UNIVERSITY OF CAMBRIDGE
Make or Buy Matrix

Current Sourcing
- Bought
- Made

Make or Buy Matrix

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- Sell Supplier
- Source Strategically
- Quick Win
- Common Knowledge
- Source Strategically

- M: Make
- B: Bought

- Strategic Deficiency
- Manage
- Acquire

- Exploit
- In-source
- Develop Supplier

- Danger!
- Oops!
- Fine

- Consider Acquisition
- Or Strategic Alliance
- Out – source

Company
Supply Effectiveness
Supplier
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

- Source raw material
- Pre-process
- Form
- Post-process
- Pack & Ship
- Stock
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

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### Company
- **Supply Effectiveness**
- **Supplier**
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

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

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