

Operations Management

Chapter 2 – The Global Environment and Operations

*PowerPoint presentation to accompany
Heizer/Render, Operations Management, 12th Ed.*

Globalization

Globalization
means that



domestic production and exporting may no longer be a viable business model;



domestic production and exporting no longer guarantee success or even survival.

The globalization strategy contributes to efficiency and adds value to products and services,



complicates the operations manager's job.

Why organizations are going global? (Reasons to Globalize)

We have identified six reasons why domestic business operations decide to go global (change to some form of international operation). They are:

Reasons to Globalize

1. Reduce costs (labor, taxes, tariffs, etc.)
2. Improve supply chain
3. Provide better goods and services
4. Understand markets
5. Learn to improve operations
6. Attract and retain global talent

Reduce Costs

Many international operations seek to take advantage of the opportunities to reduce their costs.



Foreign locations with **lower wages** can help lower both direct and indirect costs.

Less stringent government regulations on a wide variety of operation practices (e.g., environmental control, health and safety, etc.) reduce costs.

Opportunities to cut the **cost of taxes and tariffs** also encourage foreign operations.

Improve the Supply Chain

- The supply chain can often be improved by locating facilities in countries where unique resources are available. These resources may be **expertise**, **labour**, or **raw material**.
- Athletic shoe production to China
- Perfume manufacturing in France

Provide Better Goods and Services

- local presence permits firms to customize products and services to meet unique cultural needs in foreign markets. On-time deliveries
- Another reason to have international operations is to reduce response time to meet customers' changing product and service requirements
- Improved customer service

Understand Markets

- Interacting with foreign customers and suppliers can lead to new opportunities

Learn to Improve Operations

- Remain open to the free flow of ideas
- General Motors partnered with a Japanese auto manufacturer to learn
- Equipment and layout have been improved using Scandinavian ergonomic competence

Attract and Retain Global Talent

- Global organizations can attract and retain better employees by offering more employment opportunities.

Cultural and Ethical Issues

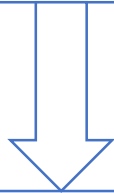
- While there are great forces driving firms toward globalization, many challenges remain. One of these challenges is reconciling differences in social and cultural behaviour.

- Attitudes can be quite different towards
 - Punctuality
 - Lunch breaks
 - Environment
 - Intellectual property
 - Thievery
 - Child labor

What Types of Competitive Pressures Exist in the Global Marketplace?

Two competitive pressures:

1. Pressures for cost reductions



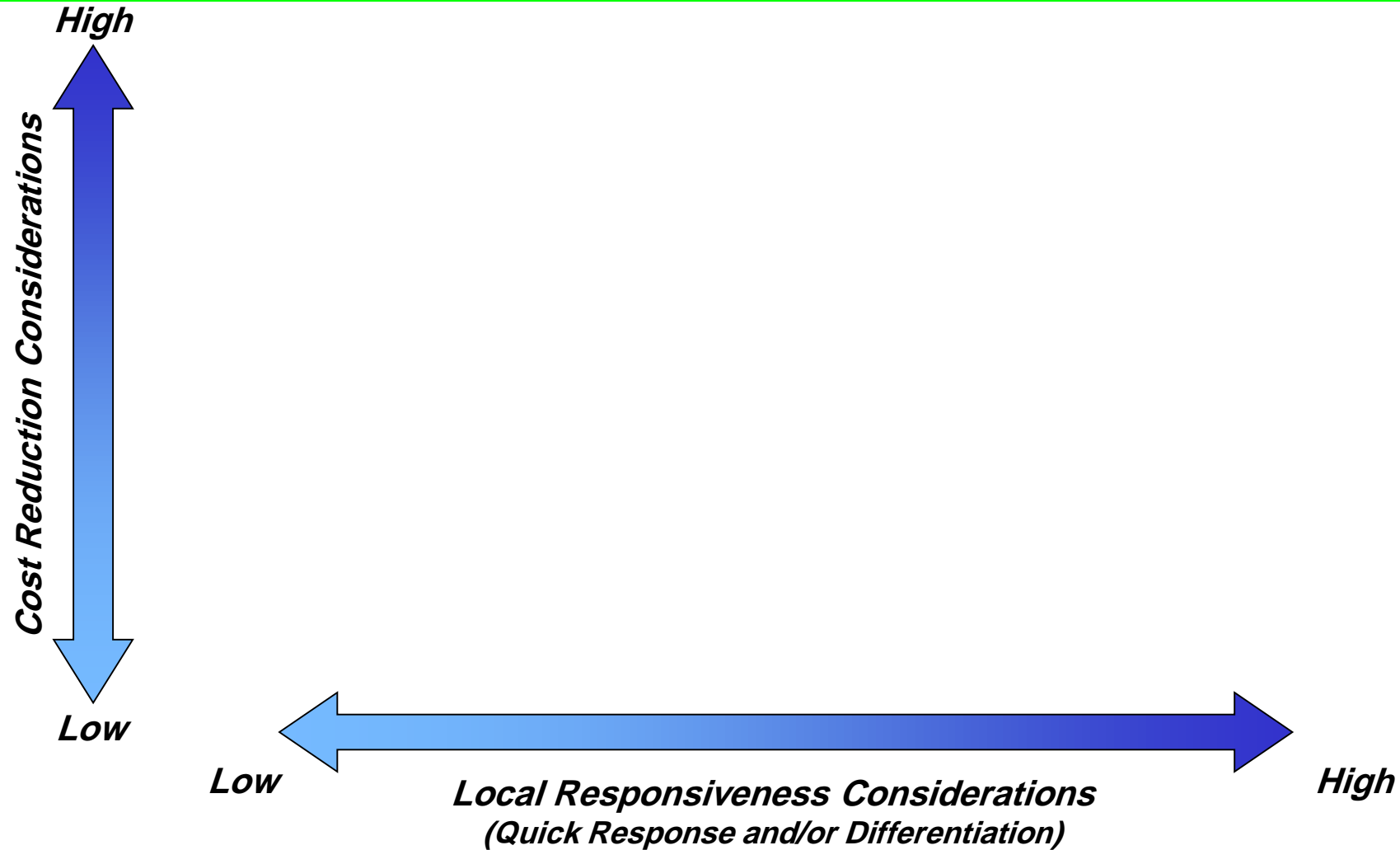
force the firm to lower unit costs

2. Pressures to be locally responsive



require the firm to adapt its product to meet local demands in each market

What Types of Competitive Pressures Exist in the Global Marketplace?



Which Strategy Should a Firm Choose?

- There are four basic strategies to compete in international markets
- the appropriateness of each strategy depends on the pressures for cost reduction and local responsiveness in the industry

Four International Operations Strategies

1- International Strategy الاستراتيجية الدولية

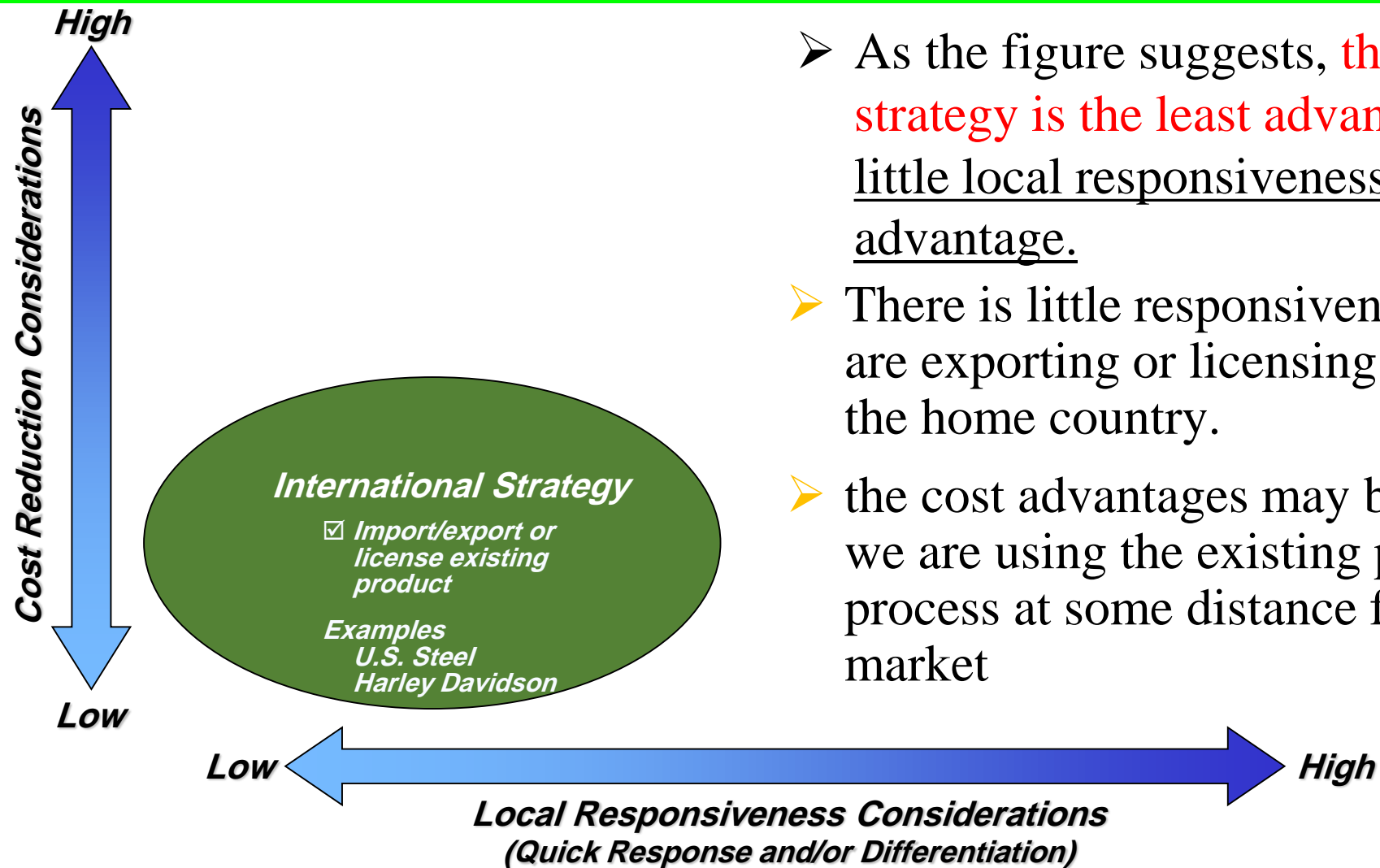
An international strategy uses exports and licences (الترخيصات) to penetrate the global arena.

This strategy makes sense (appropriate) when there are low cost pressures and low pressures for local responsiveness

Four International Operations Strategies



Four International Operations Strategies



- As the figure suggests, **the international strategy is the least advantageous**, with little local responsiveness and little cost advantage.
- There is little responsiveness because we are exporting or licensing goods from the home country.
- the cost advantages may be few because we are using the existing production process at some distance from the new market

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2- Global Strategy

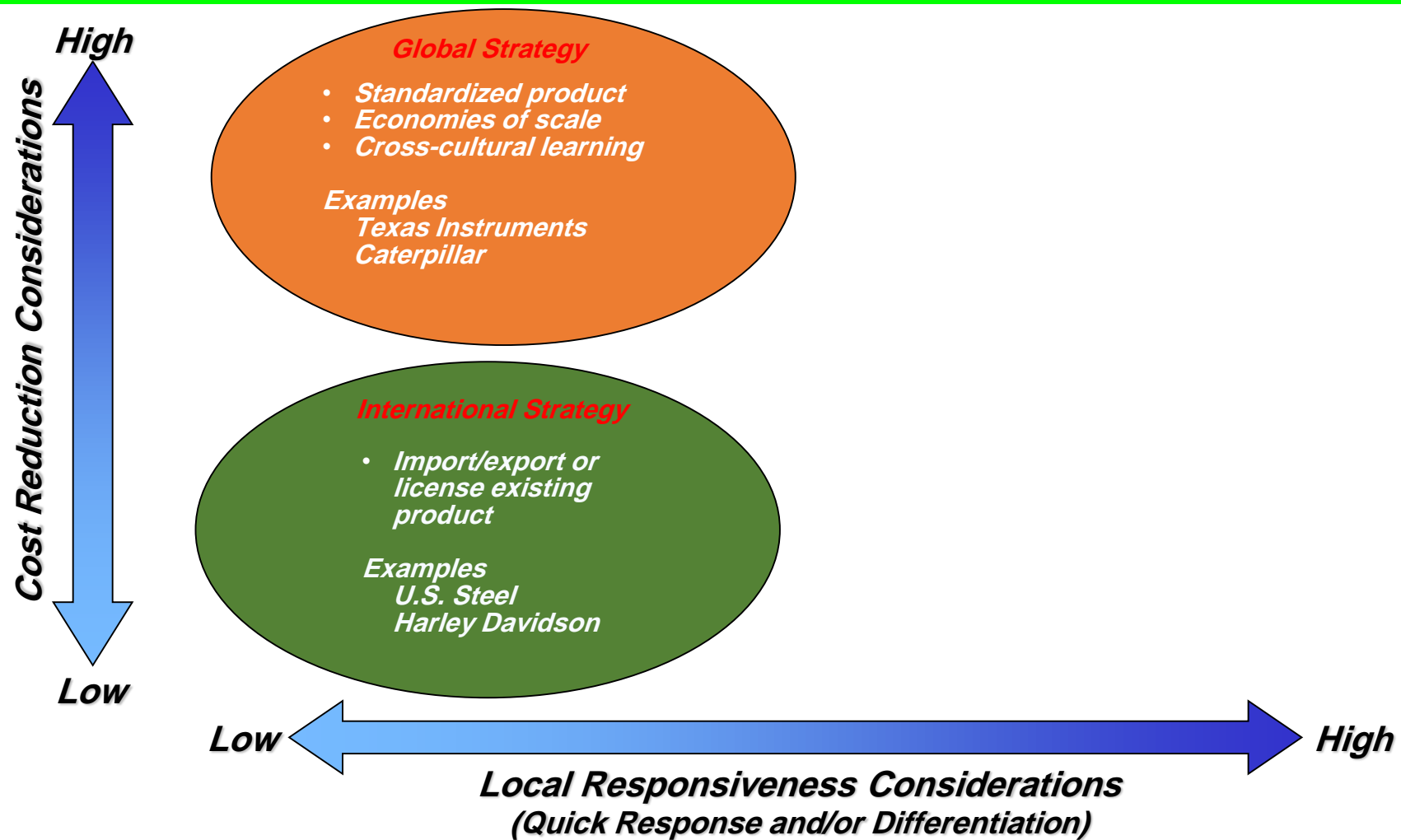
الاستراتيجية العالمية

- This strategy is appropriate when the strategic focus is cost reduction
- Often lacks responsiveness to local markets.
- Products are standardized across national markets.
- Business-level strategic decisions are centralized in the home office.

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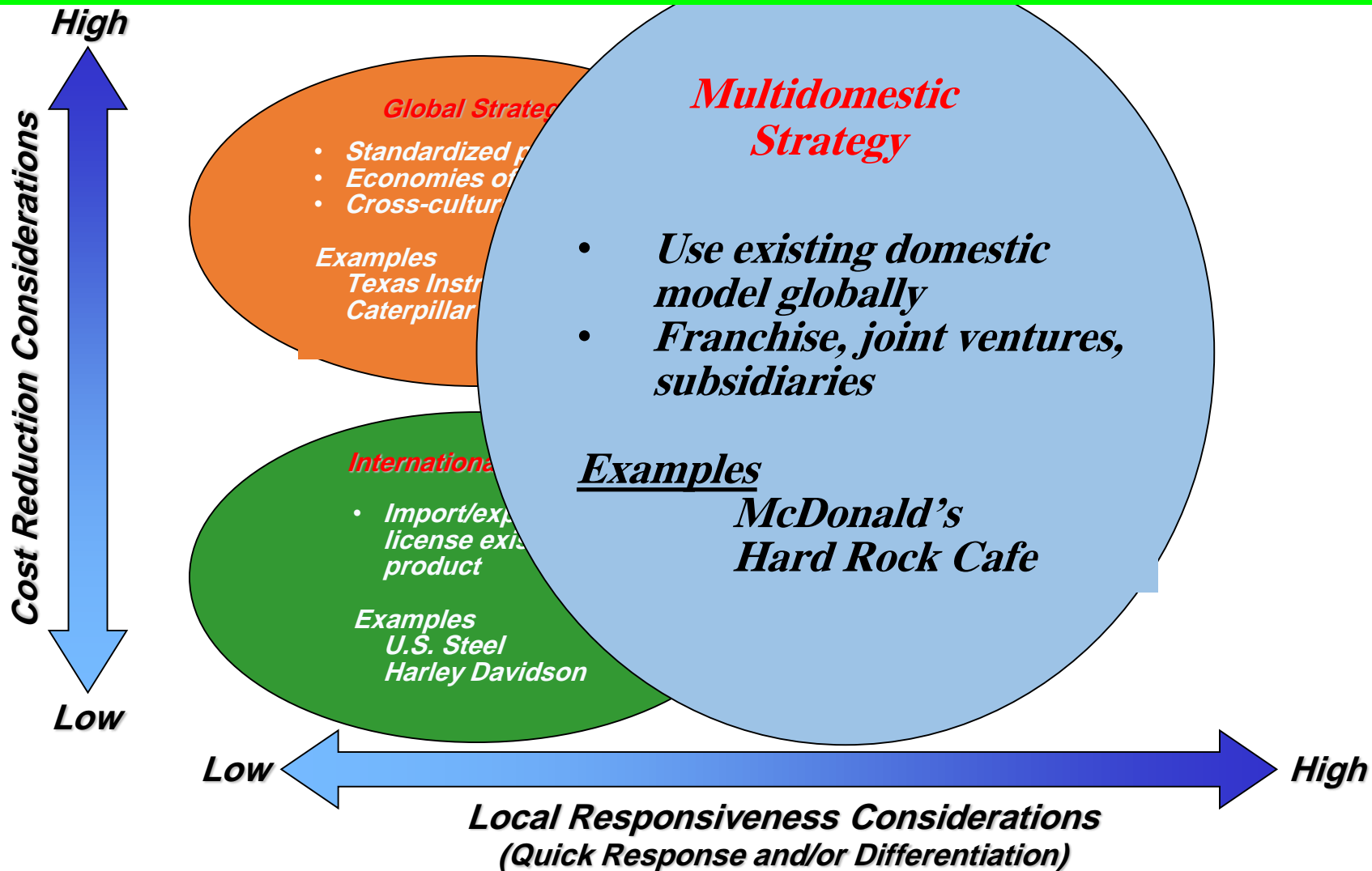


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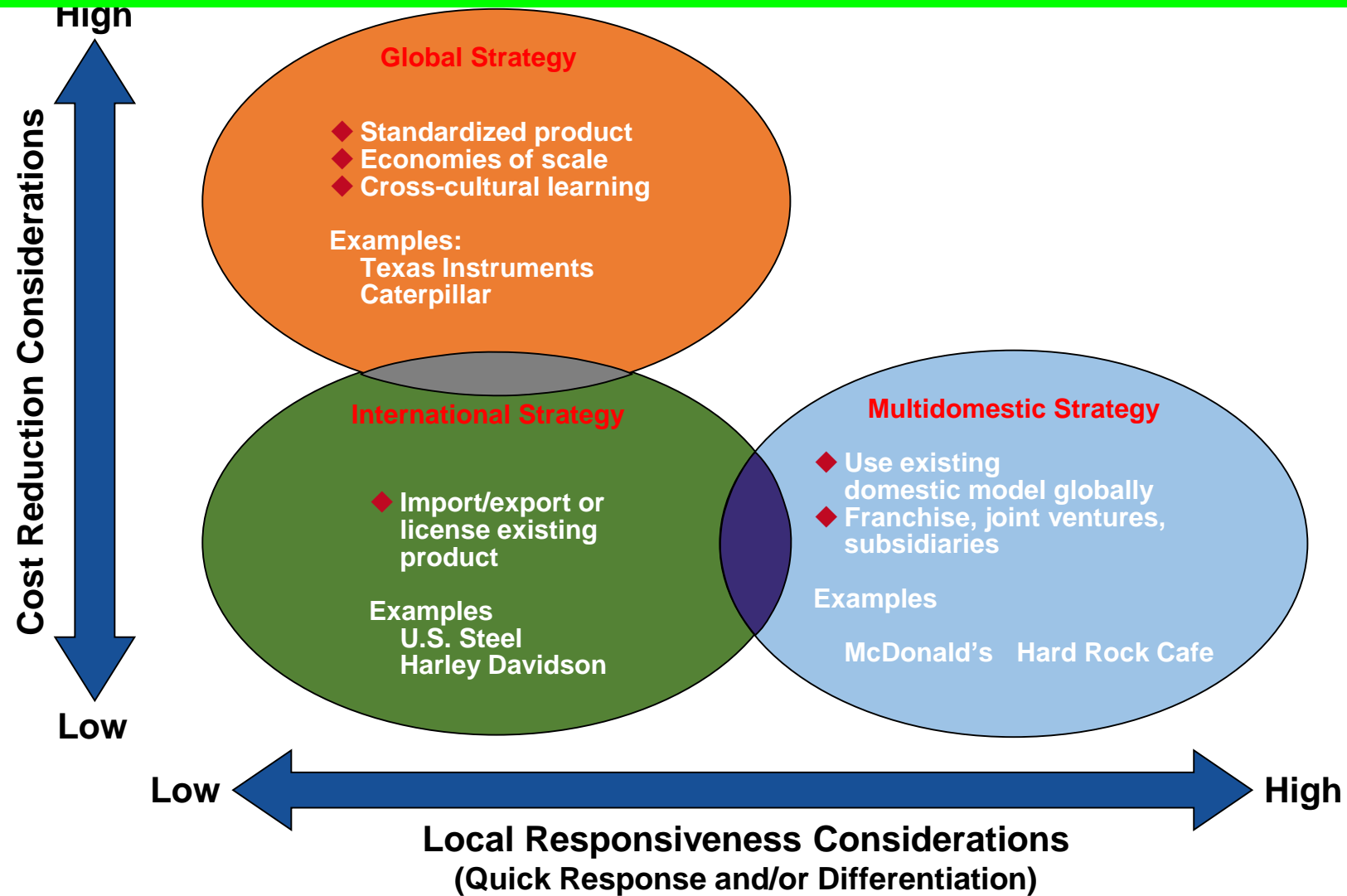
3- Multidomestic Strategy الاستراتيجية متعددة الأسواق المحلية

- Strategy and operating decisions are decentralized to strategic business units (SBU) in each country.
- Business units in one country are independent of each other.
- Assumes markets differ by country or regions.
- The advantage of this strategy is maximizing a competitive response for the local market; however, the strategy has little or no cost advantage

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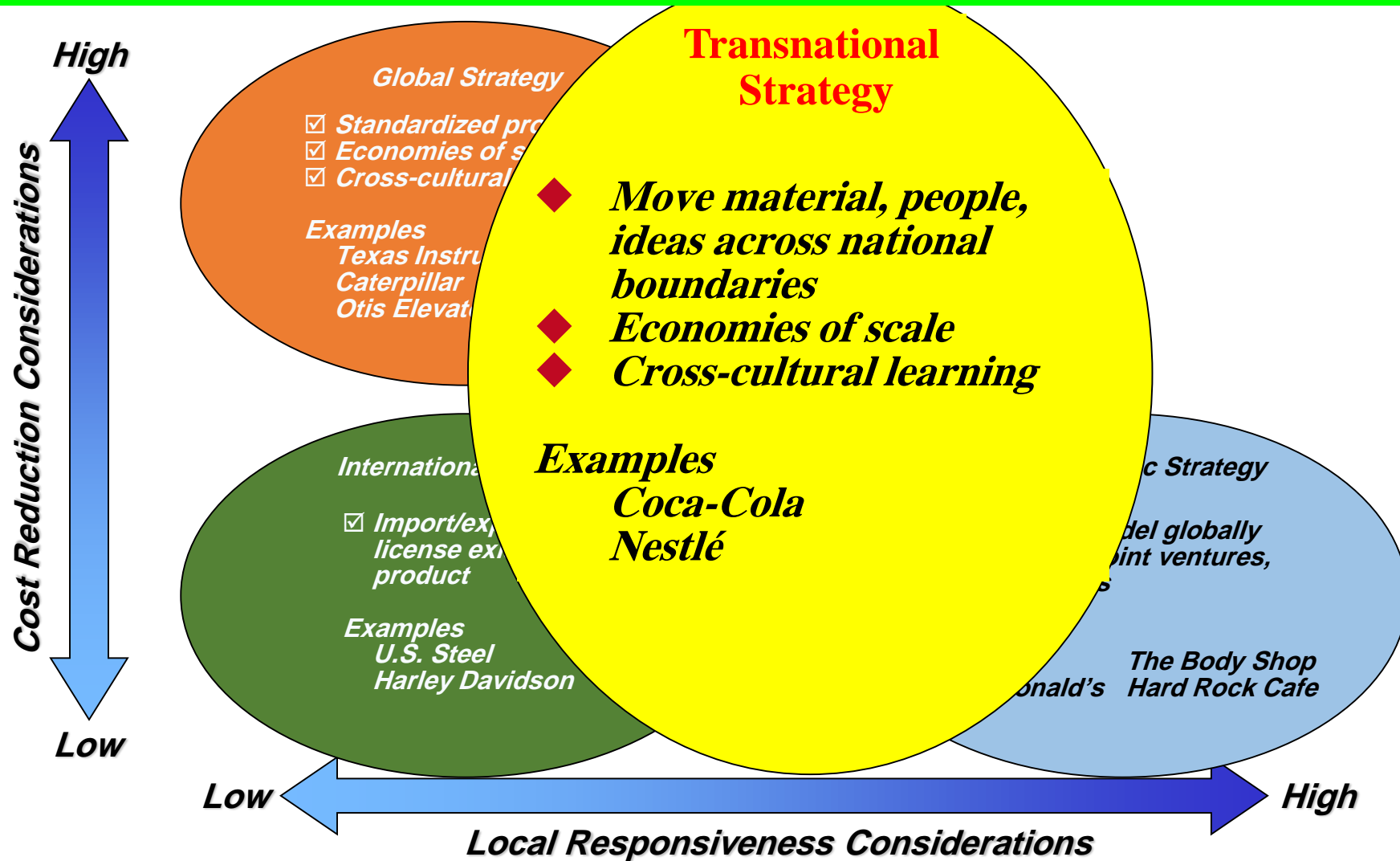


Four International Operations Strategies

4- Transnational Strategy الاستراتيجية الاممية

- Seeks to achieve both global efficiency and local responsiveness.
- Transnational describes a condition in which material, people, and ideas cross—or transgress—national boundaries.
- These firms have the potential to pursue all three operations strategies (i.e., differentiation, low cost, and response).
- Such firms can be thought of as “world companies” whose country identity is not as important as its interdependent network of worldwide operations

Four International Operations Strategies



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