

Sourcing within company strategies

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Introduction

-- Alfred Chandler

“... the determination of the long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.”

-- Kenneth Andrews

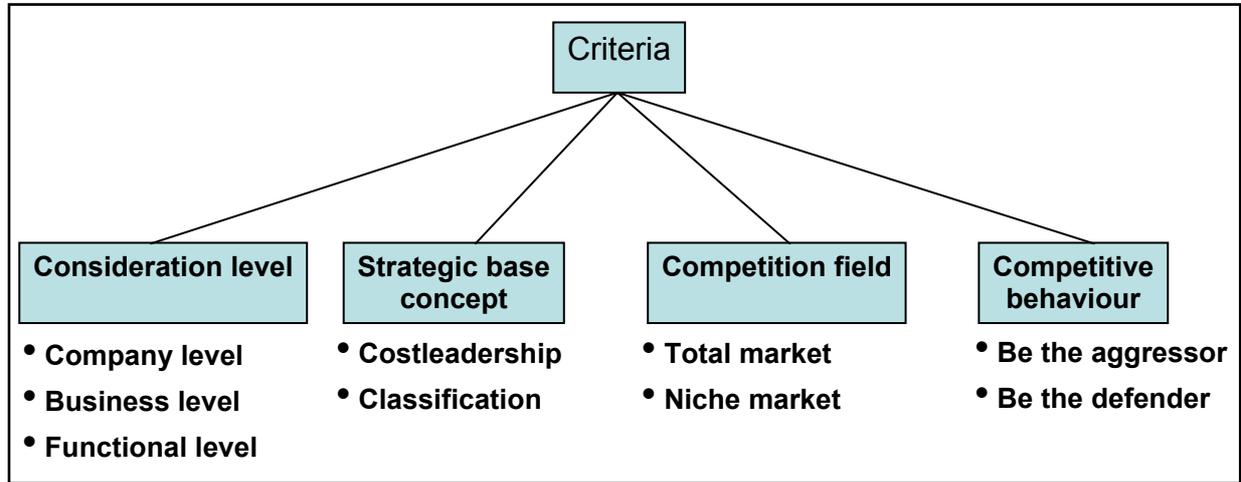
“... the pattern of objectives, purposes or goals, and the major policies and plans for achieving these goals, stated in such a way to define what business the company is in or should be in and the kind of company it is or should be.”

--Hiroyuki Itami

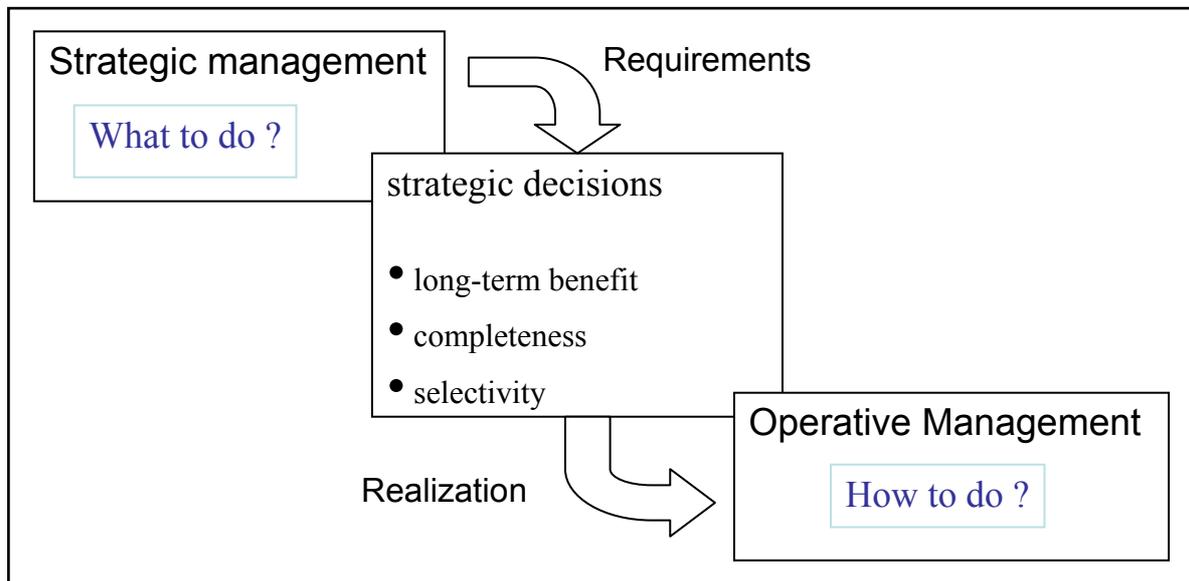
“... what determines (bestimmen) the framework of a firm’s business activities and provides guidelines for coordinating activities so that the firm can cope with (fertigwerden) and influence the changing environment. Strategy articulates the firm’s preferred environment and the type of organization it is striving to become.”

Strategy and management

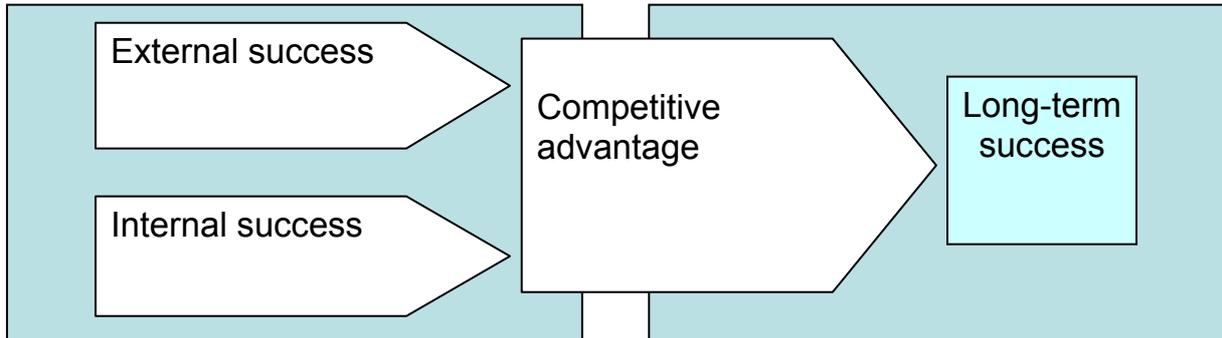
Scope of strategy (Strategiedimensionen)(examples)



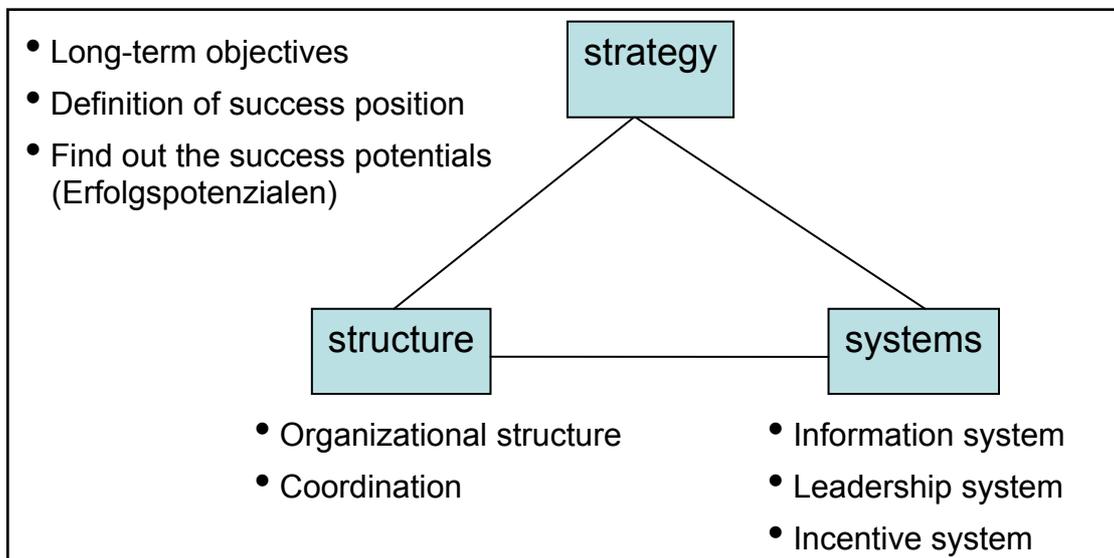
Characteristics of strategic decisions



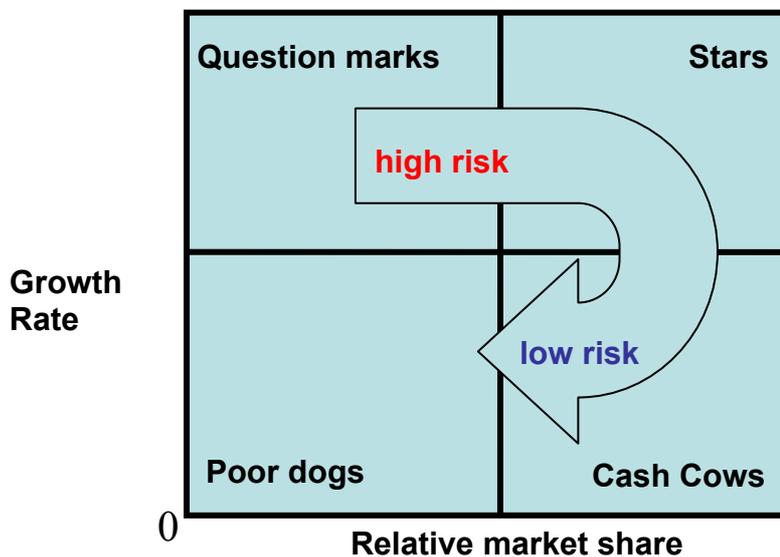
Main Understanding of strategic management



Objects of strategic management



Changing of risks within the lifecycle of a product (BCG- Portfolio)



Standard strategies:

- Invest!
- Harvest!
- Get rid off!

→ Today's Stars will finance the question marks

→ Later their status change to run-out products Auslaufprodukte

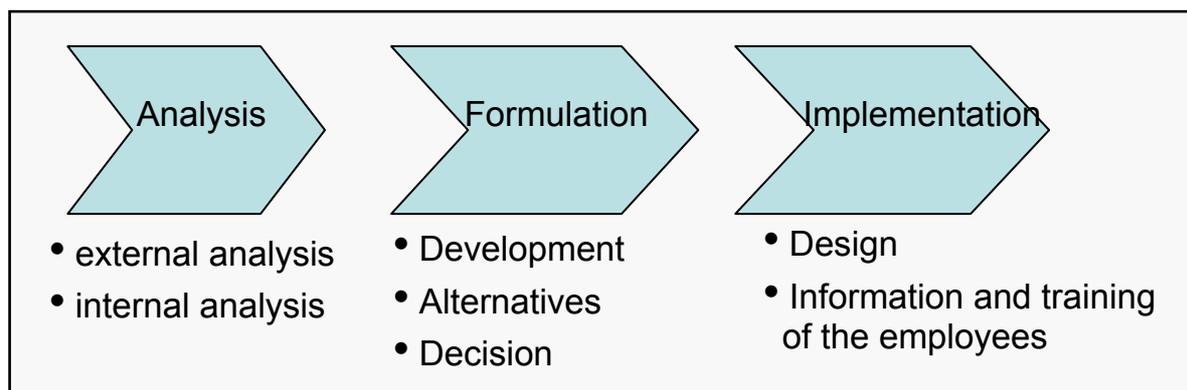
Critics regarding BCG:

- Lifecycle doesn't fit all the times
- with run-out products Auslaufprodukte you can earn money too!
- the market share can lead to sole volume oriented strategies
- synergy effects will be recognized

→ BCG is only a generator of options

Concepts of company strategy

Traditional Concept (Hungenbergs point of view)

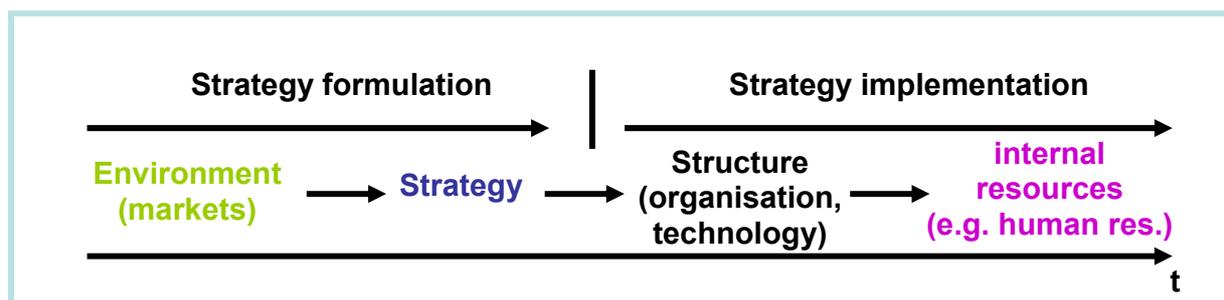


Traditional Concept (Harvard point of view)

Traditional Concept of company strategy (Porter, Harvard): Starting with analyzing of:

- chances within the environment of competitors and
- internal advantages and disadvantages (Stärken und Schwächen)

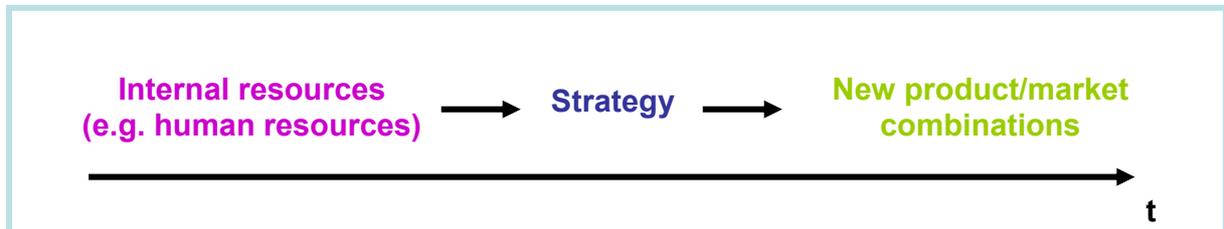
...to get the strategy and their implementation.



Resource oriented company strategy

Resources of the enterprise are more important than the success with end-consumer-products.

→ This strategy is used increasingly



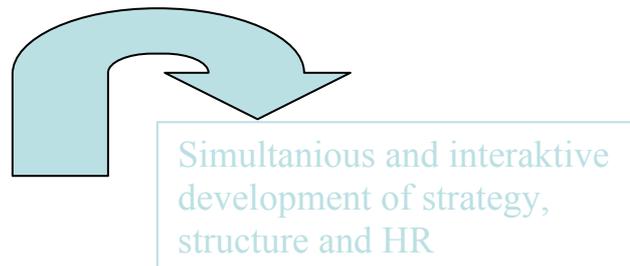
Disadvantages of traditional and resource- oriented strategy

... Regarding the environment – oriented strategy:

- formulating too demanding strategies for the actual human resources

... Regarding the resource-oriented concept:

- dangerous sticking festhalten on (old) known and established



Simultaneous and interactive Strategy



Outsourcing strategy

In 1998 the Outsourcing Institute (see section 11) conducted a survey of 600 of its corporate end-user members regarding their perceptions of outsourcing. It claims that the 10 major reasons for outsourcing are to:

10 major reasons for outsourcing

- Reduce and control operating costs
- Improve company/corporate focus
- Gain access to world-class capabilities
- Free up internal resources for other purposes
- Obtain resources not available internally
- Accelerate the benefits of re-engineering
- Deal with a function that is difficult to manage/out of control
- Make capital funds available
- Share/reduce risks
- Obtain cash infusion

An increasing number of executives see outsourcing as a way to reshape their corporation, to move away from the vertically integrated organisations of the past and to create more flexible, focused organisations that rely on outsourcing to enhance their core abilities and optimise relationships with their customers. For example, one of the largest outsourcing deals in the UK was The Halifax (now HBOS) agreement to outsource all its credit card processing to EDS.

The benefit of outsourcing for the purchaser

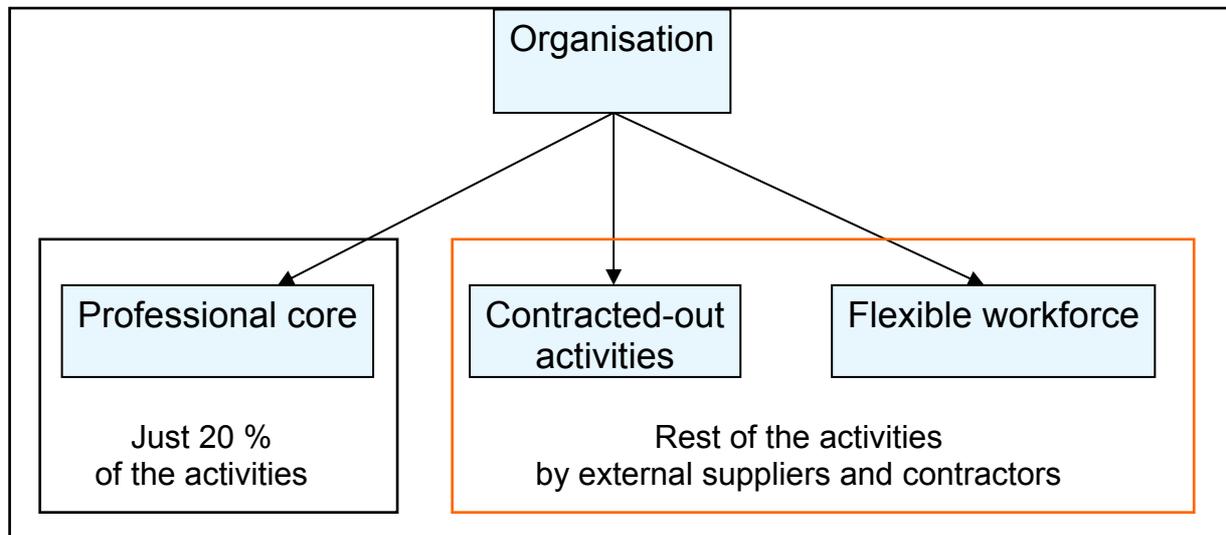
Short-term benefit

- Reduction of the costs of obtaining the service
- Extra management time
- Less need for capital investment
- Cash inflow

Long-term benefit

- Reduction of the headcount of the organisation
- Flexibility in terms of the service delivery
- Improved service, improved quality
- Access to know – how
- Focus on core business

Organisational model by Charles Handy



Charles Handy, in 'The Shamrock organisation', put forward an organisational model consisting of three parts: the professional core, contracted-out activities and the flexible workforce. He suggested that for many organisations, the 'permanent' core of highly skilled employed staff might well amount to only 20% of the total activity, the remainder being accounted for by external suppliers, contractors and the self-employed. In Handy's model, almost all functions other than those directly concerned with the organisation's primary business activity take on a support role and are, therefore, candidates for outsourcing. This includes the bulk of the operation: administration, finance, personnel, legal, property and IT functions (Institute of Personnel and Development 1998). However, as Gopal (1999) points out, "... how much can you chop away from a business before it ceases to be a business?"

Core business with outsourcing

What is core business?

Consideration of the end-consumer-products is only a simplification of the reality. Successful resources are being considered.

→ Products, Functions and Resources are important to find the core business.

Core Business – the „Hoechst“- Example

Core businesses are those businesses which are successful; they are the supporting pillars of the company.

Some criteria:

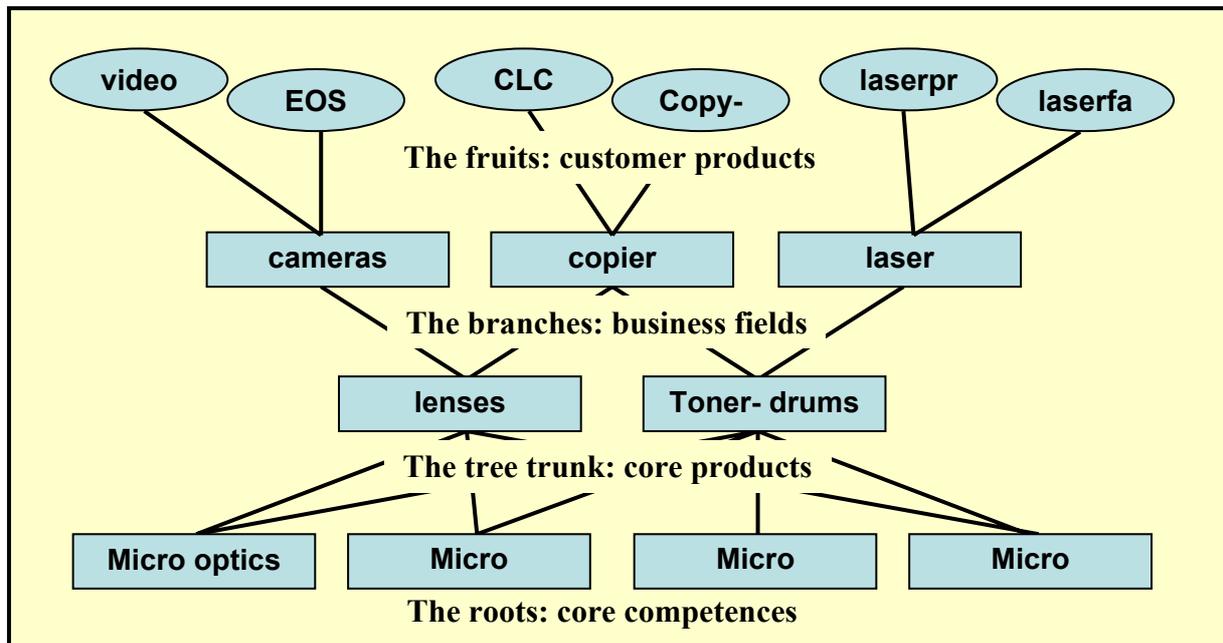
- core businesses standing together with the understanding of a global chemistry company

- core businesses are a main part of the companies gross revenues
- in core businesses we want to strike for the technology- and cost leadership
- core businesses are in a market where Hoechst has large growth potential
- core business are given priority when distributing resources

Core Business again (examples)

Having good core competencies is the ability of the company to differ from competitors in a successful way.

See it as a tree (example of Canon):



Example Canon:

- is supplier of 84 % of all aggregates of desk-laser-printer (the market share of consumer-products is very low)
- in the 90s Canon was getting ahead of Xerox in copy- units because of their long term strategy (1970 Xerox had 93 % market share in this business -> copying was „Xeroxing“)

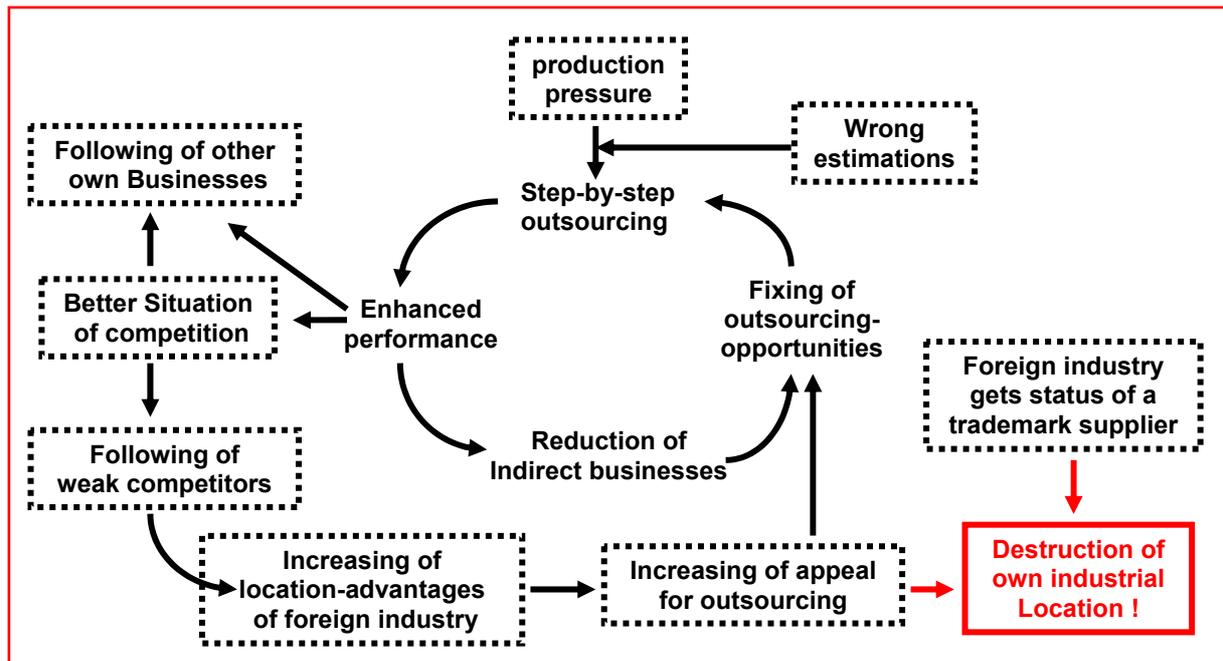
Example Matsushita:

- is supplier of 45 % of key-elements of video recorders with its own market share of 20% in consumer-products
- the goal of these strategies is to take the motivation from competitors to produce core products

The danger of outsourcing for companies

Is it right to ask only: What can the others do better than we do?

- TFT- screens are invented in Germany but today the production of these products creates job opportunities in Asia. (Compaq gets their displays from Citizen, TI from Sharp, Apple from Sony)
- Notebooks from Olivetti and Compaq are not produced in Italy nor in the US, they come from Korea
-
- in the area of electronics, cars or notebooks, the products come from Japan or Korea as OEM products with the Trademark of the selling company
- Successful Japanese companies define themselves as a portfolio of core competencies.
- American companies make company strategies which are only based on the core businesses of consumer products (end- products).
- Outsourcing can be viewed as economical achievement, but should equally be considered as capitulation of companies to their competitors.



Experiences of such outsourcing decisions are questionable assumptions such as:

- Is the strategy mainly pointed to the market position of end- consumer-products?
 - Is the market share without own parts of production justifiable?
 - Can market know how be separated from the production?
 - Is know-how about the market and production separable?
- You can't play tennis only by reading good tennis books or buying the best tennis racket
- The existence of the company will be endangered if core competencies are a part of a outsourcing program

False strategic estimations

1880 Thomas Edison	“Photography has no commercial value”
1898 Werner v. Siemens	“The electric light bulb will never triumph over the gaslight”
1908 Head of Patent Office (U.K.)	“My suggestion is to close the patent office, all essential invention are made”
1927 Harry Warner (Warner Bros.)	“Who in the hell wants to hear actors talk?”
1977 Ken Olsen (Founder of DEC)	“There is no reason why somebody should have a computer at home.”

Resume

„You can't live off strategies.“

That means: strategies can be wrong or old, but nobody doubts that they are necessary to lead a company.

Strategic or integrated management includes the process of the alternating fit of relevant management divisions:

(strategy, structure, systems, skills, staff and style).
“hard factors” *“soft factors”*

This field have to be developed with the fit to each other.

Sources:

- Das Boston-Consulting-Group-Strategiebuch
- Strategy of Economics
- Outsourcing Management
- Internet