

thereby reducing the trade deficit. Some experts have estimated that the dollar is overvalued by about 40%; however, in 1987 a coordinated effort among the U.S. and the central banks of many of the developed nations was able to cut the value of the dollar by 50% against some currencies without a serious impact on the economy.

8. The text notes that other areas of focus may lie outside the operations function, such as in marketing or finance. However, even in operations there may be a focus on the distribution system, purchasing capabilities (especially for difficult-to-obtain materials), or the use of advanced technologies.
9. China possesses a core capability of cheap, abundant labor. India possesses a core capability of abundant and skilled, English-speaking labor. Japan has always had a strong capability in teamwork and execution, while the U.S. has always been known for its creativity, innovativeness, and flexibility.
10. Obviously, the student will have to choose a point of reference to determine if an action is ethical, a topic worth discussion all by itself. That is, the student can look at the action from the view of the one taking the action, from the one affected by the action, or from a disinterested observer. Whose laws are relevant: home country, foreign country, both?
11. The cost savings largely arise from the discipline required to produce quickly: Fewer errors, fewer operations, smoother processes, less labor, fewer inventories. Other savings also accrue to fast response, however, such as less time for engineering changes to the product and, more important, less time for the customer to request changes, or even cancel the order! Last, though not a cost, faster response means faster revenue generation too.
12. One example of a company that has moved the performance frontier of its industry is Southwest Airlines—Southwest offers delivery speed, dependability, and low costs. A second example would be Dell in entering the market for plasma televisions by offering televisions with high quality at a cost lower than competitors' prices.
13. In Japan, protectionism was used to nurture infant industries and protect them from foreign competition until they could compete on their own. In particular, after WWII, Japan began to emphasize product and process quality. At the same time, U.S. producers, believing that they already manufactured the world's best products, emphasized marketing of those products. The American proficiency in marketing enables U.S. producers to continue to sell products/services that in some cases are of lower quality than those sold by Japanese producers. The Japanese emphasis on engineering enables their producers to introduce products faster, to improve processes more dramatically, etc.
14. Based on Figure 1.6, we would expect between  $1/5$  and  $3/5$  of the reduction in the response time, with an average of  $1/2$ . Since a cut by a factor of ten means a 90%

reduction, we would thus expect a unit cost reduction between 18% and 54%, with an average of 45%.

15. With the increasing trend of offshoring, workers in the U.S. should expect that they will be forced to accept lower wages, will lose their jobs, and/or they will need to prepare themselves for new jobs demanding core capabilities not found offshore. However, the cost of living should also decrease with lower prices for goods and perhaps some services also. Yet, some economists who have always favored free trade for the improved overall efficiency of global production are now worried that the great majority of the fruits of that efficiency may accrue to the owners of the businesses instead of the public.
16. Wal-Mart's order winners are price and product variety. Wal-Mart's qualifiers include quality and delivery reliability. Toyota's order winners are quality, innovation, product reliability, and performance. Toyota's qualifiers include price and delivery reliability. BMW's order winners include performance and innovation while BMW's qualifiers include quality and delivery reliability. Sony's order winners include innovation and performance. Sony's qualifiers include price and delivery reliability.
17. Given the recent trends in products and services, i.e. consumers demanding better performance on all competitive dimensions, one could make a valid argument for use of the Sand Cone model over the focus strategy because companies must be able to deliver multiple core capabilities.
18. We do not see more mass customization in products and services because some products and services do not lend themselves to this practice. Examples include commodities such as sugar, delivery of electricity, gas, chemicals, flour, etc. In addition, companies must develop the ability to deliver high quality outputs at low cost and at the same time increase flexibility.

## ***APPLY YOUR UNDERSTANDING***

### ***Incident 1: Taracare, Inc.***

#### **Teaching Tips for Case**

This case is designed to illustrate the problem of sub-optimization. The case can also be used to demonstrate how individual components of a system interact and/or the roles played by various functional departments. In addition, the case can be referred to when the topic of strategy is discussed in the next chapter. For example, the case can be discussed in conjunction with the strategy formulation process to demonstrate how a vision and mission statement might help align the decisions being made in different

functional areas. In addition, appropriate core competencies for Taracare can be identified and discussed.

1. On the surface, it might appear as though outdoor furniture and replacement windows have very little in common. Therefore, it might be argued that Jorge made a mistake in hiring a new manufacturing manager without the proper qualifications. Thus, some students may argue that Alfredo be given some period of time to familiarize himself with the operations of the new production facility. However, the evidence in the case suggests that Jorge is not overly concerned with the plant's performance and that the pressure for improvement is coming from Alfredo himself. On the other hand, it should be noted that in actuality both products do have much in common. For example, both products are assembled from extruded aluminum. Second, aluminum and glass are key raw materials of both products. Finally, both products are sold to similar customers. Thus, to the contrary, it would appear that Alfredo's previous experience does qualify him for the position at Taracare (assuming he performed well in his previous position).
2. Given Alfredo's responsibility and concern for meeting delivery commitments and product quality he would likely make recommendations such as the following:
  - Have the purchasing agent consult with someone in production before switching suppliers to determine the impact on operations of such a switch.
  - Include someone from production on product design teams.
  - Get the accounting and finance people off his back so he can do his job.
3. Given Jorge's background in sales, it is reasonable to assume that this is the area with which he is most concerned. The evidence in the case certainly supports this view. For example, Jorge's first initiative was to triple the sales force. Also, he did not seem to be overly concerned with production's performance:
  - Rather than address the issues Alfredo raised in the meeting, he deferred them to be resolved at a later date.
  - He gave no indication that he believed the issues were important and that he would deal with the issues ("Then *perhaps* I will call a meeting...")
  - In actuality, it appeared that he was inclined to dismiss the problem ("... our production is no worse than our competitors..." "we don't expect you to solve all our problems overnight..." "Keep up the good work..." "send me that memo at your *earliest convenience*" not *as soon as possible*).

Although Jorge may be giving sales his highest priority, it is a reasonable assumption that his real objective is to maximize his wealth. Clearly, the way to do this is by maximizing Taracare's profits given his 75 percent stake. Thus, given Jorge's previous experience and background in sales, it is not surprising that he has chosen to focus his efforts on the sales function.

For Alfredo to get Jorge to buy into improving operations, he first needs to demonstrate the connection between operations and Taracare's profits. Jorge must recognize that maximizing profits is his primary objective and that each functional