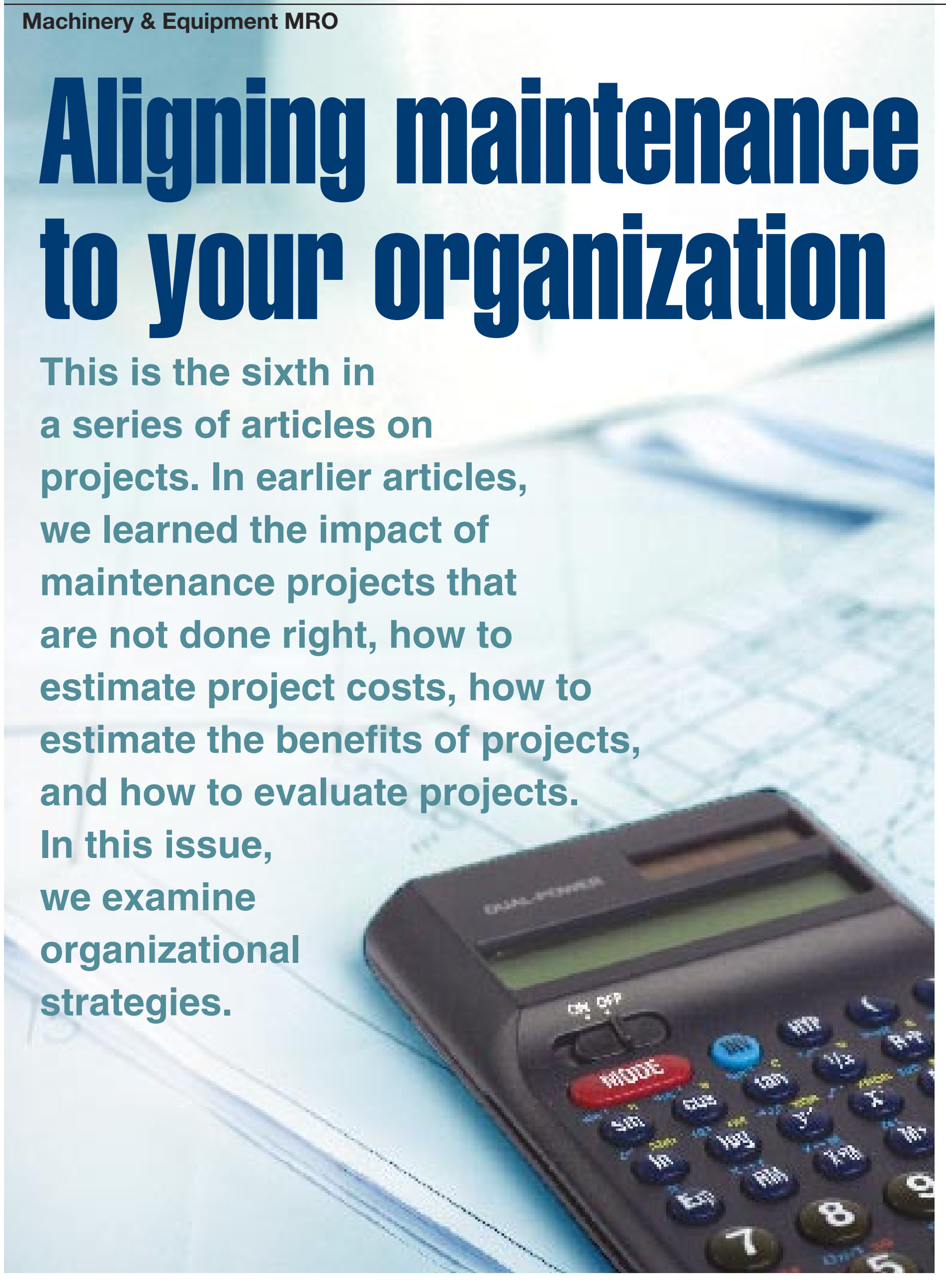

Aligning maintenance strategies to your organization

This is the sixth in a series of articles on projects. In earlier articles, we learned the impact of maintenance projects that are not done right, how to estimate project costs, how to estimate the benefits of projects, and how to evaluate projects. In this issue, we examine organizational strategies.

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Why is organizational strategy important? Effective organizational strategy turns the organization's focus upon those things it needs to do well to succeed. It is more important that the organization's efforts are effective, rather than focusing on efficiency.

Doing the right things is better than doing unimportant things right! An example in the maintenance and engineering world is that it is more effective to focus on eliminating failures than getting good at making repairs.

An effective organizational strategy is well-communicated and well-supported throughout the organization, up and down and across it. Site objectives support corporate objectives, and operations, maintenance and engineering objectives complement and support site objectives. The result otherwise can be one part of the organization optimizing its results and sub-optimizing the overall organizational results.

An effective organizational strategy provides direction and helps in the development of the criteria needed for effective decision-making. Otherwise, what criteria would be used to determine which decisions and actions are suitable and supportive of the organization and its objectives? Whose values and objectives get used — those of the individual making the decision or those of the organization?

In his book *Competitive Strategy,* Michael E. Porter identifies five key structural features of industries that determine the strength of competitive forces and the resulting profitability of the industry participants. These five key structural features are: Rivalry among existing firms, Threat of new entrants, Threat of substitute products or services, Bargaining power of suppliers, and Bargaining power of buyers. Let's look at these structural features individually.

Rivalry among existing firms: Intense rivalry can be the result of a number of factors, including: numerous competitors or equal competitors; slow industry growth (mature market); high fixed costs (large capital investment); lack of product/service differentiation (commodity-like); easy/low cost of switching for customers; difficulty in matching capacity to market demand (frequent overcapacity); diverse competitors (differing objectives/strategies); high strategic stake in industry (still in industry even if not economic to remain); and high exit barriers (value of organization greatly reduced if it exits with industry-specific assets).

These factors can change over time and with changes in the economic environment. The good news is that you likely know who your significant industry competitors are and may even be able to able to monitor their activities in your industry.

Threat of new entrants: If the industry is viewed as attractive (potentially high growth/profitability), then other organizations may enter the industry, thereby increasing competition and potentially reducing profitability of existing participants. There are a number of risk factors to those in an industry that relate to new entrants. As these are outside the industry, their entrance into the industry may not be revealed until they are already in, thereby blindsiding current participants and upsetting their plans.

The new entrants are entering the industry by choice, and with the expectation that they will be successful. That belief in their success may come from a different business model, a new proprietary process, a significant advantage in input costs, or other advantageous factors not held by current industry participants.

Threat of substitute products or services: A substitute product or service is one that could provide a similar function to that being offered by the industry. The presence of a substitute limits the price an industry can charge. Sometimes the substitute may not be obvious (e.g. the new Apple iPhone that can replace several devices — a PDA, cell phone, Internet browser and MP3 player).

Bargaining power of suppliers: Powerful suppliers can reduce the profitability of an industry by transferring part of their customers' profit margin to themselves. The industry could be dominated by a few large suppliers, with a large number of smaller buyers whose customers could have few options (no substitutes, key input to customers' product/service, high switching costs, etc.). Or the supplier poses a credible threat to directly compete in the customers' market.

An example would be if you chose to enter the PC manufacturing industry. You have a very limited number of very large suppliers for the CPU (Intel, AMD) and for the operating system (Microsoft) and they are able to exert considerable power over a large number of their relatively smaller buyers. How would their profit margin compare to their suppliers?

Bargaining power of buyers: Similar to the situation with powerful suppliers, powerful buyers can also reduce the profitability of an industry by transferring part of their customers' profit margin to themselves. The buyers could be dominated with a few but large companies, with a large number of smaller suppliers. Their suppliers could have few options (high purchase volumes, low profits, little differentiation amongst suppliers, low switching costs, etc.). Or the supplier could pose a credible threat to directly compete in their suppliers' market.

Generic competitive strategies

To address the competitive forces, Porter recommended three generic strategies that could be used individually or in combination to successfully compete. To attempt to use all three would result in a muddled, sub-optimal approach. These generic strategies are: Overall cost leadership, Differentiation, and Focus.

Overall cost leadership: As the names suggests, the focus is upon being the low-cost leader in the industry. This can come from economies of scale, learning curve benefits, low-cost of industry inputs, large market share, etc. This provides a strong defence against competitive pressures in the industry, as the low-cost position will mean it can still be profitable even if others are 'bleeding'.

Differentiation: It may be possible to move the product/service offering away from appearing to be a commodity. The differentiation comes from the customers' perspective and value. This reduces customer price sensitivity and reduces the need to compete entirely upon price, thereby allowing above-average returns.

Focus: By targeting on a market segment, a product line, or geographic market, an organization might be better off than by using an industry-wide approach. This too can provide above-average returns.

Impact on maintenance and engineering

Do you know what forces have a significant impact on your industry? Do you know your organization's competitive strategy in response to those forces? You will need to ensure that your asset decisions effectively support the organizational strategy. Remember the importance of effectively communicating organizational strategy.

If low-cost leadership is your organization's strategic response, then a focus on factors that affect OEE (Overall Equipment Effectiveness) is critical. Anything that has an impact on output — including downtime, equipment speed, quality rejects and rework — needs to be addressed. As well, controlling cost is an organizational focus, but it can become sub-optimal if it has an impact on output.

Differentiated and focussed strategies mean knowing what is important to your customer base and ensuring your assets can deliver this need. MRO

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