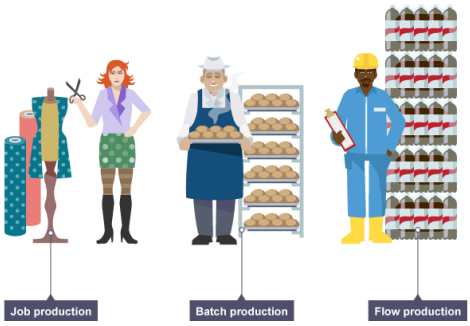
Business Operations and production

Operations is the business function that organises, produces and delivers goods and services.



Production methods

JOB PRODUCTION

When items are made individually and each item is finished before the next one is started

Advantages

- One off or bespoke products
- Focus on customer needs / individual service
- High Profit margins

Disadvantages

- Specialist skilled workers = increased costs
- Can only do one job at a time
- Long production process

BATCH PRODUCTION

Groups of items are made together. Each batch is finished before starting the next one.

Advantages

- Products made in batches
- Lower unit costs than Job production
- Some flexibility (e.g. different flavours)
- Semi-skilled workforce (cheaper than job)

Disadvantages

- Lower Productivity (switching equipment)
- Machinery can be expensive
- Overproduction could lead to wastage

FLOW PRODUCTION

Where identical, standardised items are produced on an assembly line.

Advantages

- Lots of products made at the same time
- Increased productivity
- Lower unit costs = lower prices
- Standardised product

Disadvantages

- Setting up machinery can be expensive
- Low profit margins
- Can't meet individual customer needs

Impact of technology on production

Technology used in business operations include;

- Computer aided design (CAD)
- Electronic point of sale (EPOS)
- 3D printing
- E-commerce

The impact of technology on operations

- Speeds up the production process
- Keeps businesses in touch with customers
- Can increase productivity*
- Lowers production costs
- Ensures fewer mistakes and defects
- Can be initially expensive
- Can become obsolete quickly
- Requires employees to be trained = higher costs

Productivity

Productivity is output per worker.

The number of products an average worker produces over a period of time.

Greater productivity leads to **lower costs** and **greater competitiveness** in the market.

Productivity can be increased by:

- Employing more technology.
- Motivating the workforce.
- Training the workforce.

Factors affecting the use of technology

When choosing what technology to use a business needs to balance several factors:

- **Productivity**
- **Cost**
- **Flexibility**
- **Quality**

(Examples)

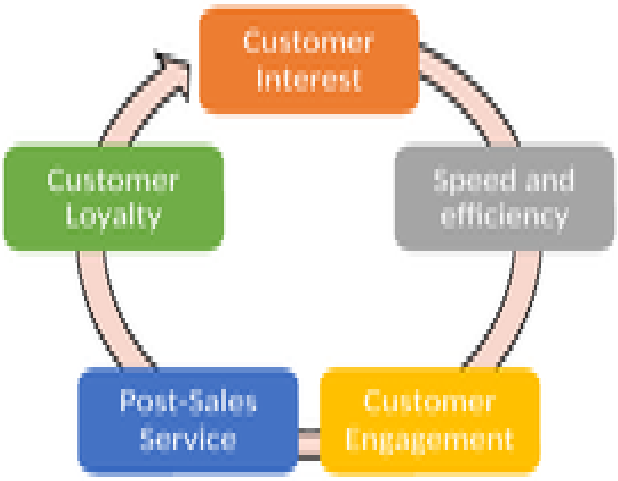
Technology that improves productivity may have a negative impact on quality.

Investing in new technology to increase productivity could have a negative impact on costs

The Sales process

The sales process identifies the key stages of buying a product or service

The sales process may differ from product to product but it usually follows the same model



1. Customer interest can be achieved by:

- Marketing techniques – e.g. advertising, branding
- Product knowledge of good sales people

2. Speed and efficiency can be achieved by:

- Ensuring the sales process is quick and easy
- Ensuring products are delivered quickly
- Making websites easy to use

3. Customer engagement can be achieved by:

- Building a relationship with the customer
- Providing high levels of customer service

4. Post-sales service can be achieved by:

- Dealing with complaints quickly
- Offer after sales support
- Offering free warranty or servicing
- Using customer satisfaction surveys

5. Customer loyalty can be achieved by:

- Offering loyalty schemes
- Informing customers about new products
- Offering exclusive promotions

Customer Service

Customer service is very important in attracting and retaining customers

Good customer service leads to:

- Satisfied and loyal customers
- Positive reputation and brand image
- Differentiated products
- Ability to charge premium prices (Added value)
- Competitive advantage

Poor customer service leads to:

- Low customer loyalty
- Poor brand image and reputation
- Falling sales and revenue

Impact of logistics and supply decisions

Suppliers and logistics can have a significant impact on the operations of a business.

A business needs to be able to trust their suppliers

Three main impacts

COSTS

Well organised logistics can…

- Reduce transport and packaging costs
- Reduce the amount of damaged stock

REPUTATION

Well organised logistics can …

- Help provide a fast and efficient service
- Can gain a reputation for reliability
- Can attract and retain customers

CUSTOMER SATISFACTION

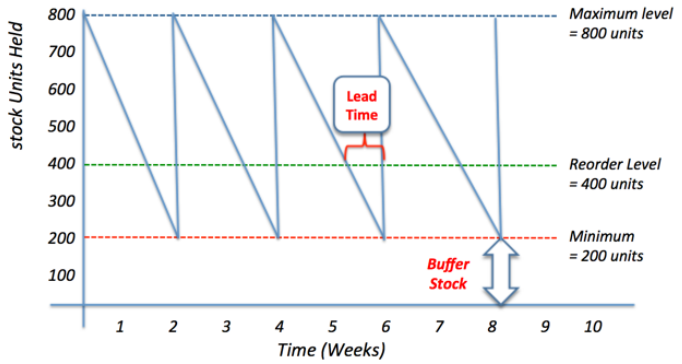
Well organised logistics can …

- Enable a business to meet customer needs
- Can result in repeat purchases
- Can develop high degrees of customer loyalty

Managing Stock

Stock relates to materials, work in progress and finished goods.

Stock control diagrams



Buffer stock
Buffer stock is the minimum level of stock a business will hold. It is a safety net in case there is a surge in demand

Re-order level
The level of stock at which new stock will be ordered

Maximum stock level
The maximum level of stock that a business can or is willing to hold

Lead Time
The time it takes for an order to arrive.

Benefits of holding stock

- Any surges in demand can be met
- Damaged goods can be replaced
- Businesses can get bulk buying discounts
- Limited risk of running out of stock

Drawbacks of holding stock

- Increased storage costs
- Money tied up in stock –> cash flow issues
- Opportunity cost -> cash could be used somewhere else

Procurement and Suppliers

Procurement refers to the process of managing a business's purchases.

Suppliers have a significant impact on a business's success.

What makes a good supplier?

- A good price
- Flexible deliveries
- Reliable deliveries
- Discounts for large orders
- High quality supplies
- Availability of products (short lead times)

Just in Time Stock Control

- A stock control system where stock is delivered only when it is needed by the production system.
- No stock is kept by a business
- To operate JIT a business needs good relations with their suppliers

Benefits
1. Lower storage costs – due to no stock being held
2. Can improve business competitiveness

Drawbacks
1. Increased risk of running out of stock
2. Businesses won't benefit from bulk buying discounts

Managing Quality

Quality refers to a product being 'fit for purpose'

Impact of good quality

- A premium price can be charged
- Can help build a strong brand image
- Meeting customer needs can boost sales
- Can differentiate the product

Costs of good quality

- Can increase costs (e.g.) more costly materials

Methods of managing quality

QUALITY CONTROL

This is seen as a stage of the production process

Products are only checked at the end of production

Features of Quality control

- Focuses on identifying faulty goods
- Finds and eliminates problems
- Responsibility of the Quality control team
- Quality Control is focused on the product

QUALITY ASSURANCE

Involves focusing on quality at every stage of the production process

The aim is to achieve zero defects

Features of Quality Assurance

- Focuses on improving the production process
- Establishes a good quality management system
- Every one of responsible for quality
- Quality assurance is focussed on the process