

Operation management of nike flashcard



Operation management Nike's Operations management concerned about forecasting, controlling, designing, operating, and scheduling business operations in the production of Nike foot ware. Its excellent management that has been developed and ameliorated during the long term operation has enabled that business operations to be efficient and at the same time using as few resources as required. It is also effective in terms of satisfying customer demands, and thus it has become one of the key issue that Nike develop prosperously despite the fierce competitions with other foot ware giants such as Adidas, Reebok, Puma, etc.

The operation management system includes manufacturing and production systems, equipment maintenance management, production control, industrial labor relations and skilled trades supervision, strategic manufacturing policy, systems analysis, productivity analysis and cost control, and materials planning. Nike started with dispersed production strategy as it is too small to construct its own production line and cannot support to recruit a large number of staff as well, especially in USA.. Every thing has both sides, and such strategy become its superiority in later time.

It invited European designers to design for Nike sport shoes, then produce them through Asian manufacturers. It was its utmost objective to minimize its cost at that time in order to survive. The management strategy had been successful, and has greatly reduced the production cost. Nike had no more than 48 staff in 1972, compared with 3000 in Adidas at that time. However, the sales volume has increased nearly 1000 times during 12 years based on such operation management, from 1 million to 10 milliard dollar.

The forward-looking operation management strategy had been an effective support for the brand to become the biggest foot ware company in USA.

After the explosive development, Nike started to expand through merger and acquisition, and thus increased the divergence of product line. After it acquired progressively Cole Haan, Bauer, Hurley International and Converse, it started to restructure the organization of the company, and changed the management strategy. It splited the general shoe department into several more specialized ones, and each of them is in charge of one kind of sport shoes.

Changes in company volume lead to changes in operation management.

Nike thus started to create a more disciplined operation management system for its better sustainability in the foot ware industry. The main pressure of competition is to keeping costs low and delivery time short on to suppliers. The company decided to develop the spirit of the previous strategy, and then it is mainly driven by lean manufacturing in order to eliminate waste, reduce cost and achieve improved labour conditions while creating highest quality products.

In this way, it realized the minimal holding of materials and stock, and produce based on actual production need. With the elimination of wastes of material and time, it become possible for Nike to provide best products at lowest price. Such management strategy reveals its increasing advantage with the help of information management system, and enabled better control of each order. However, Nike also adopts a rather flexible strategy in certain situation, that allows distributor to choose whether they prefer the “ make to stock”, “ assemble to order” or “ build to order” way for their own order.

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For example, if they decided to reserve 80% of the total amount 6-8 months in advance, they can get a 10% discount. In this way, it balanced the risk and cost of the production, and assumed the best control of time for both producer and distributor. The distributor can get its ideal manufacturer's price according to its own situation. Being a global company who benefits from its exclusive brand recognition, is also an important issue to provide better labour conditions for worker, as this is an important part of expectations of Nike's customer.

Nike has developed the code of conduct called " Generation I" to " Generation III". This requires factories to provide at least the minimum wage to every worker; a clear and written accounting record for each pay period; ban the factory owners from reducing employee pay for disciplinary infractions; and at last, absolutely prohibits child labor. A comprehensive monitoring tools were developed based on this management regulation. They hired compliance specialists in order to help, estimate and monitor all the contract factories in 51 different countries and conducted factory audits.

The method helped increase the company's reputation, added glory to the brand, and as a result become incentive of sales. The protection to worker is not only humanistic but also beneficial to the company. With the increase of staff salary, some of them would be more willing to buy Nike products that they may not be able to buy before, and may be more willing to promote the brand to their friends and relatives. Nike is almost a virtual company, as the company itself doesn't produce a single pair of shoes itself. All of the production activities, from design, production, storage to sales, are outsourced to the contract companies.

However, it is the spirit, and the head quarter of the whole production. Such management strategy has greatly reduced labour cost, and this is one of the major reason why Nike shoes can compete with other famous or local foot ware brands at a relative low cost. Hence, the core competency of the virtual company is its management. Through ameliorating its organization structure can it realize the biggest productivity. It is a huge advantage for the virtual company to be flexible in any location, and are easier to move and adjust to the changing situation compared with those who run the real industry.

It is eventually the contract company who take to risk of the transitions in market preferences, as they process the equipments that produce specific kind of product. However, this may also have problems and threats. For example, the contract factories of Nike lies in 51 different countries that have huge differences between each other. Even though there is compliance systems, it is still difficult to monitor and keep the production quality of each factories to remain at the same level, not to say that the monitoring system can also be expensive if high standard is required.

It would become a problem if Nike declares to promote a product globally. In addition, as Nike is the branding that is finally labelled on the product, all of the problems that occur in these contract companies will be counted on Nike. This requires high public relationship cost to resolve the problem, as well as maintaining good relationship with press and relevant sectors. Plus, the huge logistic system that are necessary for effective lean manufacturing may be a burden when facing changes of market.

It is inevitable that in certain period of time, or in certain region, the market may experience recession, and customers may reduce purchasing. Then the under-used logistic center may become quite luxury to maintain. Such worrying provision may not be too ridiculous, regarding the long term global recession in the future. Logistic strategy Logistics is the management of the flow of goods between the point of origin and the point of destination in order to meet the requirements of customers or corporations.

It involves the integration of different aspects in production and sales: information, transportation, inventory, warehousing, material handling, and packaging, and often security, etc. For Nike, logistics is an important channel of the supply chain that decides the success of the company operation, which allows the maximum value of time and place utility to be arranged properly. Undoubtedly, Nike provides an excellent response to the control of logistics. Nike's logistics operation strategy are quite complicated, as it involves three different product lines: footwear, apparel, and equipment and four regions managing orders.

All need to be realized through Nikes's global logistics service provider network, rather than working separately within each region. Considering that Nike is a lean manufacturing company, the logistics management become particularly important in its production chain. Many evidence can assist Nike's great attention on this perspective: for example, it has now opened the largest Asian distribution center in China. Nike always aims at creating the world's premium logistic support system that are efficient to manage the storage and support of the shoes.

Nike used informatic collection and processing system to support its huge sales volume. It constructed huge logistics center worldwide in order to obtain the minimum time from order to delivery. Each of the product has its own electronic label, and are processed and delivered according to it. All information are connected to Nike through specific data port, and are 100% shared with the relevant departments globally. The relevant technologies has been developed for the same purpose, and several logistics equipments and facilities are also invented and patented by Nike in the process of establishing the system.

Nike is now introducing its new technology to enhance the strategy, especially in the new Chinese distribution centers, and it has already 6 other ones in Belgium, Canada, Japan, South Korea and the United States. Its internally developed Warehouse Management System (WMS), as a part of integrated management system, is used to determine whether all activities should go through terminals or through light-weight radio frequency units carried by operators. Due to the continuous effort, the storage center achieved the world's highest standard in delivery effectiveness and handling capacity and thus become one of the core competitiveness of Nike.

These High-tech sorting equipment make the system much easier to achieve customer's goal than ever, and increased substantially the efficiency and accuracy of sorting compared with traditional methods. The advantage become especially evident when facing complicated situations, such as large orders that requires multiple products in the same shipping carton. This is also a growing trend in delivery service worldwide, and the Nike's priority

position in this direction ensures its advantage when competing with other rivals in the foot ware industry.

The advanced system can also be a good selling point on its own, and make extra profits for the company. It is becoming popular for large companies to provide consulting services to enterprises in other industries, to introduce their advanced working structure and services, so as to help them improve their own capacity. Such information system requires highly educated employees and may need continuous training, which may be a challenge to the labour cost. According to the estimation, the new delivery center in China will need up to 1, 500 permanent jobs by 2015, which is not a small amount.

They may not be satisfied with minimum wage, while it is quite doubtful if the company would like to provide higher salary. And when it become permanent job, such a large group of worker need to be treated with care. It may not only be a huge fiscal burden but also the origin of trouble if the economical recession occur, and not enough work can provide to them. From one side, a large amount of staff will still be necessary even though during the recession, as the large delivery center need maintenance every day. And from nother, if the company decide to limit the redundant staff number, then there will be a sunk cost for the training. And once the economy get recovered, new recruitment will further increase the training course. Another risk may be the concentration of the delivery. This means that a great amount of product, or we may also say a large proportion of product of the company, gather in one space at a time. If the company rely too much on a

single delivery center, it may become a larger threat if it is attacked under unexpected condition.

For example, natural disasters such as typhoon or flooding may easily cause huge loss to the storage, and make the system not functional for quite a long time. Nike has its own fire alarm system, but possible danger are much more than that. How long will it need to recover from it, and how much will it lose during this period of time? Even though the company may get compensations from the insurance agency, the interruption of the service and the confusion of management will inevitably harrass the company operation and cause fluctuations in the market as well as equity capital, and will give precious chances to the rival company.

A back-up strategy may be necessary for such an indispensable department in the world renown enterprise, and an assessment of the lose when facing different kind of disasters may need to be carry out in order to find out rescue solution. The same crucial risk exist also in the information system, if it is not even more severe. What if the company's information system is hacked by whatever reason? How can the company maintain the logistics system under the alarm situation? In fact the attack may be more severe because the risk can occur in the entire system, rather than in one single area.

Even though it is not attacked, a single mistake of the software programmer in the system may be amplified and result in huge loss worldwide. In addition, if information leaks also occur, it will menace profoundly the security of the company. The information logistics system, which is a

powerful tool in regular condition, can be a double blade sword other time. If it can be an effective multiplier of the operation, and then when it is destroyed, its threat will also be multiplied.