

Tim hortons design of goods services



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\n[[toc title="Table of Contents"](#)]\n

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1. [II. Literature Review](#) \n \t
2. [III. Company Analysis](#) \n \t
3. [IV. Executive Summary](#) \n

\n[/toc]\n \n

Tim Hortons Inc. is a fast food giant operating in North America and Canada. The Company’s offerings includes premium coffee, flavored cappuccinos, specialty teas, home-style soups, fresh sandwiches, wraps, hot breakfast sandwiches and fresh baked goods. While the company is expanding it is challenged by the concerns of “ design of goods” and “ just in time” concepts of operations management.

II. Literature Review

Operations Management is the science and art of ensuring that goods and services are created and delivered successfully to customers. Applying the principles of OM entails a solid understanding of people, processes, and technology, and how they are integrated within business systems to create value.

The way in which goods and services, and the “ processes” that create and support them, are designed and managed can make the difference between a delightful or unhappy customer experiences.

Operations management is the only function by which managers can directly affect the value provided to all stakeholders – customers, employees,

investors, and society. Effective operations management is essential to providing high-quality goods and services that customers demand, motivating, and developing the skills of the people who actually do the work, maintaining efficient operations to ensure an adequate return on investment, and protecting the environment.

Operations management focuses on carefully managing the processes to produce and distribute products and services. Major, overall activities often include product creation, development, production and distribution. Related activities include managing purchases, inventory control, quality control, storage, logistics and evaluations of processes. A great deal of focus is on efficiency and effectiveness of processes. Therefore, operations management often includes substantial measurement and analysis of internal processes. Ultimately, the nature of how operations management is carried out in an organization depends very much on the nature of the products or services in the organization, for example, on retail, manufacturing or wholesale (1).

Understanding Design of Goods and Services

A good is a physical product that one can see, touch, or possibly consume. Examples of goods include oranges, flowers, televisions, soap, airplanes, fish, furniture, coal, coffee, lumber, and personal computers. A durable good is a product that typically lasts at least three years. Vehicles, dishwashers, and furniture are some examples of durable goods. A nondurable good is perishable and generally lasts for less than three years. Examples are toothpaste, software, shoes, and fruit.

A service is any primary or complementary activity that does not directly produce a physical product. Services represent the nongoods part of a transaction between a buyer (customer) and seller (supplier). 1 Common examples of services are hotels, legal and financial firms, airlines, health care organizations, museums, and consulting firms.

Product (or service) management includes a wide range of management activities, ranging from the time that there's a new idea for a product to eventually providing ongoing support to customers who have purchased the new product. Every organization conducts product development, whether it's done intentionally or unintentionally (2).

Goods and services have many similarities. They are driven by customers and provide value and satisfaction to customers. They can be standardized for mass market or customized to individual needs.

Just in Time

Just-in-time (JIT) is a management philosophy that originated in the 1970s. Taiichi Ohno is credited with developing JIT and perfected it for Toyota's manufacturing plants in Japan. The main goal of JIT is to eliminate anything that does not add value from the customer's perspective. Non-value-added activities are referred to as "waste" in JIT (4). Examples of waste include:

overproduction beyond what is needed to satisfy immediate demand

waiting time (work-in-process, customer waiting)

unnecessary transportation (material handling, customer travel through a facility, etc.)

processing waste (yield rates, start-up costs)

inventory storage waste (space, deterioration, obsolescence, etc.)

unnecessary motion and activity (waste in work techniques, etc.)

waste from product and service defects (rework, scrap, warranty, etc.)

Just-in-time (JIT) refers to a collection of practices that is designed to eliminate waste. These organizational practices encompass the entire logistics flow of materials from purchasing through production and distribution.

The elements of JIT may include shared product design with suppliers and customers, movement toward single sourcing, proximate suppliers and customers, reduced set-up times, preventive maintenance, reliance on analytic tools to identify sources of defects and plant optimization layout (re)configurations, among others.

The benefits are pervasive and can include lower total system costs and improved product quality when managed at optimum levels. A fair amount of evidence is available to support the claim of improved performance derived from the adoption of JIT or some of its components. Companies have reduced in-process inventory more than 50% and lead times by more than 80%. An inventory system managed to the extreme with JIT principles correlates inversely with the level of labor efficiency. Outsourcing is an essential tool

for every business executive. JIT Inventory Modeling brings a unique perspective that can help clients make and implement the best decisions even in these unprecedented times (5).

The use of JIT in services

A review of the major academic research journals found most articles focused on JIT in manufacturing firms. Non-manufacturing environments have been given little emphasis in the research literature. However, a review of recent applied journals revealed articles describing JIT precepts migrating to non-manufacturing environments. These non-manufacturing environments include typical service businesses such as insurance firms, retailers and mail-order firms.

Continuous improvement of the process

As part of JIT implementation, organizations must instill the habit of expecting continuous small improvements in the process. The operators must never be satisfied with the current environment, but always be moving closer to the ideal situation. Service operations are ripe for significant productivity gains that can be achieved through process improvements. However, recognizing processes that can be improved through the implementation of JIT techniques has been difficult.

Holistic approach to elimination of waste

The JIT philosophy must be adopted throughout all levels and in all functions of the organization. Chase (1991) provides an excellent argument for and examples of the need to consider the service aspects of the manufacturing

firm as potential areas for competitive advantage. He argues further that service innovations typically cut across departmental boundaries and cross-functional support is required for a successful implementation. From a non-manufacturing perspective, inventory and purchasing are the most obvious areas for implementing JIT techniques because of the common vocabulary, of which many examples can be found. According to Schonberger and Gilbert (1983), “ the just-in-time concept as applied to purchasing translates into frequent releases and deliveries”. They developed a list of characteristics describing a JIT purchasing environment. As can be seen from the items listed below, these characteristics could be descriptive of almost any purchasing operation, be it in a manufacturing or service environment:

(1) Suppliers:

few suppliers;

nearby suppliers;

repeat business with same suppliers;

active use of analysis to enable desirable suppliers to become/stay price-competitive;

clusters of remote suppliers, competitive bidding mostly limited to new part numbers;

buyer plant resists vertical integration and subsequent wipeout of supplier business;

suppliers are encouraged to extend JIT buying to their suppliers;

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(2) Quantities:

steady output rate (a desirable prerequisite);

frequent delivery in small quantities;

long-term contract agreements;

minimal release paperwork;

delivery quantities variable from release to release, but fixed for whole contract term;

little or no permissible overage or underage of receipts;

suppliers encouraged to package in exact quantities;

suppliers encouraged to reduce their production lot sizes (or store unreleased material);

(3) Quality:

minimal product specifications imposed on supplier;

help suppliers to meet quality requirements;

close relationships between buyers' and suppliers' quality assurance people;

suppliers encouraged to use process control charts instead of lot sampling inspection;

Inman and Mehra (1991) examined the potential for JIT in service industries through three purchasing-oriented case studies. These cases highlight the

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application of JIT to three areas identified as: the purchase of sub-components/ services; maintenance, repair and operations (MRO) goods; and quasi-MRO goods. They concluded that the utilization of JIT in a service industry is more than justifiable. They also offered suggestions for implementing JIT in service industries that strongly resembled those offered to manufacturing firms contemplating adoption of JIT.

Flexibility in the use of resources

Firms should have the ability to change processes rapidly to meet customer demands without wasting resources. Because the output from service processes is often highly customized, flexibility is a key element for many successful service organizations. Improving the timing and quantity of resource allocations for performing a process to avoid employing human and material resources when they are not needed is another facet of JIT.

Decreasing the cost of maintaining patient accounts was the purpose of applying JIT techniques in a hospital as reported by Groenevelt (1990). While this implementation also could have fallen under the improving work flow emphasis, many of the JIT techniques discussed in this article reflect employee centred techniques increasing the flexibility of the workforce. Workers were involved in decisions; training and education programmes were established to create a pool of multi-skilled workers; standardized procedures were established; performance standards were created and monitored; and a special emphasis was placed on fostering co-operation and commitment to the JIT philosophy.

Another mathematical model is offered by Ramasesh (1990) for the implementation of JIT techniques in purchasing systems that have not yet advanced to the ultimate level of JIT purchasing (lot size of one). He treated the fixed costs associated with the adoption of JIT as investment, and justified it based on the savings generated using any of the techniques of investment analysis. He modified the traditional economic order quantity model to include explicitly the costs of small-lot shipments. He also provided guidelines and formulae for determining the order quantity and the optimal number of shipments.

Respect for people

Because customers are directly involved in the service delivery process, service employees play a crucial role in affecting the customer's perception of the quality and value of the service. Employees must respect customer requirements and provide service in a timely and efficient manner. Those same employees deserve the respect of the company's management. This means helping employees work smarter, not harder, through training and supervisory assistance, and involving all employees in problem solving and process improvements.

Many of the articles discussed in other categories mentioned the need to implement various techniques for helping employees work smarter, not harder (Billesbach and Schneiderjans, 1989; Carlson, 1989; Groenevelt, 1990; Savage-Moore, 1988; to name a few). Most of these articles focused primarily on operational changes. However, they also recognized the vital

role employees have in service industries and emphasized methods for improving their performance.

Service firms working for JIT manufacturing firms must be aware of the impact of the customers' JIT emphasis on their own companies. Bagchi et al. (1987) investigated the importance of various service factors considered by both JIT and non-JIT firms when selecting a transportation carrier. They concluded that executives in JIT firms regard customer service-related factors as more important than others. JIT firms place significantly more emphasis on service-related determinants, such as frequency of service, delivery predictability, transit time, service schedule changes and service flexibility. Carriers and other service providers must design effective service offerings which include the customer service requirements of their JIT customers.

III. Company Analysis

Company Profile

Tim Hortons has been founded in 1964 as a coffee and donut shop and opened its first outlet in Hamilton, Canada. As of today, they have more than 2600 stores in Canada. There is one outlet for every 8, 707 people in Ontario, compared with one outlet for every 18, 906 people in the western provinces of Canada. Also, Tim Hortons has more than 250 outlets in USA. Tim Hortons has generated revenue of US \$1. 2 billion for its corporate parent, Wendy's International, in 2005.

Tim Hortons is committed to offer “ always” fresh, fast, convenient, and wide varieties of the products. One of the specialities of Tim Hortons is they want
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to make sure that their menu is being embellished by adding a new taste. Hot Smoothee is one of their new tastes, and it was launched in October 2005.

Goods and Services Selection

Tim Hortons Inc. is a quick service restaurant operating in North America and Canada. The Company's offerings includes premium coffee, flavored cappuccinos, specialty teas, home-style soups, fresh sandwiches, wraps, hot breakfast sandwiches and fresh baked goods. It directly owns and operates small number of company restaurants in Canada and the United States. The Company also has warehouse and distribution operations, which supplies paper and dry goods to the Canada-based restaurants, and supply frozen baked goods and some refrigerated products to the Ontario-based restaurants. In the United States, the Company supplies similar products to system restaurants through third-party distributors. The operations also include coffee roasting plants in Rochester, New York and Hamilton, Ontario, a joint-venture bakery, and a fondant and fills manufacturing facility. In July 2009, the Company began serving its signature coffee in New York City.

Competitive Advantage

Tim Hortons is a dominant player in Canada, and the chain has a 75 per cent market share in Canadian coffee-doughnut industry. Starting March 2006, Tim Hortons Inc. started trading publicly on the Toronto and New York Stock Exchanges and made itself more valuable. The company is now one of the strongest franchises in Canada, with annual sales of \$1. 6 billion, 1700 outlets, and an aggressive expansion plan into the United States.

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One in three cups of coffee sold in Canada comes from Tim Hortons, and Canada—a country with more donut shops per capita than any other country—seems to be a country in love with coffee and donuts. Canadian soldiers even take tins of Tim Hortons coffee with them on overseas deployment, and one of the competitors, Country Style Donuts, recognizes the dominance and sets its sights on becoming number two in the market—they are not even considering challenging the company's dominant position. Even the purchase of the company by U. S.-based Wendy's International doesn't seem to have slowed the company down or tainted its image as a Canadian icon.

Customers are able to find Tim Hortons outlets more than competitor café-shops across country. This is one of the advantages Tim Hortons has. They have more than 2600 stores in Canada. There is one outlet for every 8,707 people in Ontario. This advantage makes Tim Hortons more competitive, but just only in the caffeine product. Hot Smoothie has shown their banner all around Tim Horton store, but they couldn't catch consumers.

Whereas Starbucks has about 600 outlets in Canada, Second Cup operates more than 370 outlets across country.

Issues Encountered with the Design of Goods

Obesity levels are reaching unprecedented levels and the rates of diabetes are skyrocketing. Canadians, and North Americans in general, are becoming increasingly health conscious. With almost a quarter of Canadians obese, obesity is—no pun intended—at epic proportions, and that could affect Tim Hortons in terms of lawsuits, regulation, and complaints from public interest groups. For example, a group of obese U. S. teenagers sued McDonalds',

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claiming its food had made them fat. While a judge threw the case out, any fast-food restaurant could be a target and the cost of defending the company could easily exceed several million dollars per case, and that's only if you win.

The concern about fat and carbohydrates pretty much focuses on what a donut is-fat and carbohydrates. If the growing interest in eating health food wasn't worrying enough, an aggressive new U. S. competitor is entering your market-Krispy Kreme. Although Krispy Kreme has only about a third of the sales (all U. S.) of Tim Hortons, its growth rate has been phenomenal. It has doubled its sales and stores over the last five years, including an incredible 40 percent increase in sales in the last year alone. Even Hollywood has jumped on the Krispy Kreme bandwagon, with Nicole Kidman declaring them " God's gift to donut lovers," and the product has been seen on over 80 TV shows. It now has plans to aggressively enter the Canadian market and take Tim Hortons head on. In the meantime, Tim Hortons's U. S. expansion plans haven't gone well, with the company losing millions of dollars.

New Product Opportunity

The latest taste of Tim Hortons is non-caffeinated hot beverage: Hot Smoothee. It was introduced in October 2005 with four flavors: butter caramel, raspberry, hazelnut, and orange. Tim Hortons' Hot Smoothee is served either in carton or ceramic cup. Specially, ceramic cups made customers feel like at home. Hot Smoothee has no special design for their cups. In addition, they organized the label together with the description for the flavor which might lead to confusion.

At Tim Hortons, customers don't expect the ambience and quality of service that Starbucks and Second Cup provide. Customers' expectations are not high as much as when they go to Tim Hortons. They only expect to have hot drink, fast service and convenient place. This factor makes Tim Hortons' and competitors target audience different.

Product-by-Value Analysis

In terms of place design/atmosphere, Tim Hortons is more about convenience and saving time. Starbucks is more than that drinking coffee; it has been about sitting in the cafe and enjoying the ambience. Meanwhile, Second Cup provides their customers cozy environment as Starbucks does. But also, starting from 2005, customers are able to bring their laptops or handheld devices and surf the Internet over coffee. This factor makes Second Cup more competitive comparing to Starbucks.

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A Starbucks experience is each cup is made to a customer's personal order. Especially that baby boomers are looking for quality, individual choice and personalized service. They have the money and they are willing to pay for it. They are looking for more than having coffee. Tim Hortons also serves to baby boomers for more than 40 years in Canada, but they are falling behind

competitors like Starbucks when it comes to quality, unique choices and excellent service.

IV. Executive Summary

Tim Hortons, as a fast-food company giant is challenged by issues concerning operations management's concepts of design of goods and just in time. North America is beset with alarming rate of obesity, and Tim Horton's whose products involves doughnuts, which main ingredients are fat and sugar. Due to this, Tim Horton's is besieged by a challenge to come up with products that are keener to the health of its customer.

Just-In-Time touches on all operations in a firm including design, accounting, finance, marketing, distribution among other. The application of the concept of Just-In-Time to a service and product company like Tim Horton will further enhance customer experience and allow the company to eliminate waste and make true their statement to “ always” serve fresh, fast, convenient, and wide varieties of the products.