

Operations management strategy: hard rock cave



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Hard Rock is one of the most globally trademarks in the world with 40 years history its. At the beginning it was a small café located in London, What have made Hard Rock to be success, and their business cover all the world consists of 169 venues in more than 50 countries, Hard Rock has become a truly phenomenon. We could evaluate how Hard Rock Cafe achieve that phenomenon in many points of view . One of these is operation management strategy of Hard Rock . Now we study and analysis the strategy to manage its operations

1. Location selection

With the first place in London, Hard Rock expands its cafes to major big “ destination” cities on the world where there are huge population and tourist.” Mr Oliver Munday, Hard Rock’s vice president is looking heavily into global expansion in Europe, Latin American and Asia ” He said that “ We’ve got to look at political risk, currency, and social norm-how does our brand fit into the country ”[i]. Therefore, the new choice for Hard Rock Cafe is to locate in other cities, they focus on the tremendous resurgence of the central of the city where nightlife is concentrated like Bang Coc, Ho Chi Minh.... which are not rush tourist cities in order to less depend on such a fragile business.

For the good position to be choose, an market research is deeply surveyed and analyzed base on Hard Rock’s Standard market report. The analysis is based on these following fundamental elements including demographics, visitor market trend, transportations, restaurants and nightclubs, risk of politics, real estate market and comparable market, t. This serious quantitative market research supports Hard Rock Cafe to make right

decisions for its business. Moreover, the success of every cafe in each location is also contributing the useful information for Hard Rock café to expand these other one and also to improve their efficiency of the whole chain's success.

“ Hard Rock now aims to the area of Europe, Latin America and Asia. Not all cities selected Hard Rock café operated by itself but choose to franchise because of risks, economic challenges such as culture, inflation, exchange rate, may affect its operating. Hard Rock chose to expand its chain to 2 big and busy cities (Bogota and Moscow) in nightlife , but they had both franchise to local partners there. Other Hard Rock Cafes in other place like Honolulu, Dubai .. will be opening soon.

2. Goods and service design:

With the name of Hard Rock Café we can image the a typical their service with an electronic guitar and a simple logo, Hard Rock Cafe impress for all people entering its places the environment full of rock music which We can't see in any other kind of Café or pubs and bars. Hard Rock Cafe not only serves its clients food, rock enthusiasm but also the special type of enjoying its place. Environment is also very typical way of Hard Rock Café It is easy to recognize from its outside or inside even other advertising that make its client remember Hard rock café.

Food and drinking does not mean that they are not taken into consideration, courses in Hard Rock's menu are modified, upgraded and concentrated to fit client where it located For example, Thai Snack Combo is added into Hard Rock Cafe Bangkok.

Regardless of age, class or gender, Hard Rock Cafe slogan “ Love all – Serve all” has been going together with its development throughout the years. All people putting their steps into Hard Rock’s door feel that they are always welcome by an enthusiastic attitude, good quality of service.

3. Quality

As other business, Hard Rock café’s quality is one of the most important factor during their operating. Keeping food, drinking and service quality (employee’s behavior ...) as well as music, environment ...is carried out regularly and it is required to get the highest assessment from customers. Improving quality at the cafe is always be ensured and achieved their quality in the highest scale – basing on the customer evaluation.

Beside that, Hard Rock Cafe always update by time the music as well as change menus, environment, layouts, memorabilia, services and strategy to improve quality and adapt with the demand as its clients’ responses.

4. Process and capacity design

Design of capacity and its process is studied be long-range issue. Hard Rock is a very big chain of cafes which provides 100, 000 meals per day only referring within the U. S. (3, 500 at Orlando’s Universal Studios), therefore it has to consider very carefully and carry out efficiently. Non-current asset is always well manage and renew. Labor, materials, inventory, other current asset, scheduling are all elements related which are described with more details in the following decisions. It depend on the location and culture where Hard Rock café to be located, but the design of capacity and its process must be follow standard of Hard Rock café.

5. Layout design

Layout is the most key factor to make decisions in the long-term of operating of Hard Rock café. It depends on the scale which follow the market demand or the social norms in different areas. Café module is differently designed in each city, such as Hard Rock Cafe in Las Vegas is decorated by a huge, outstanding guitar in front of the building and most of the seats are organized in a large space for outside view while the cafe in Ho Chi Minh is designed according to a little eastern style with ceiling lights and chairs. Hard Rock café design is considered whether they must lease in a long term, the structure of construction should be set up or remodelled for its operating smoothly and efficiently. its places do not show the same module design of Hard Rock Café's chain.

6. Human resources and job design

Good human resource strategies are expensive, difficult to achieve, and hard to sustain, like other many organizations, Hard Rock café concentrate to build the human resource strategy. The purpose of human resource is that how employees contribute to firm and set up a reasonable quality operating of work life. Service industry is a industry employing around 75% of the people in the U. S, and Hard Rock have had huge network which creates a lot of jobs for people in the area it stands. All staff of Hard Rock Cafe must be required to have not only job skills, job description but also passion of rock music as well as to engage their personalities. Before working for Hard Rock Cafe, they are trained by Hard Rock café and received a “ Hard Rock value” card. Hard Rock employees will be proud to joint in a unique working environment and culture which appreciates the substantial diversity and

individuality, personal and professional manner. Hard Rock has their promotion policy as well to encourage their employees' loyalty, 60% managers of Hard Rock Cafe are promoted from their worker. Managers' performance is evaluated by a target, and they will receive bonus when exceeding the target. It encourages all managers of Hard Rock Cafe to become better not only depend on the available data, but also they have to forecast other impacts and effects on sales then set up these countermeasure to improve or prevent for their operating .

All of above human resource policy always helps Hard Rock take a competitive advantage, increase more revenues and saving costs for their success.

7. Supply-chain management

Outsourcing is a creative management strategy that is popular method that a big-scale company, like Hard Rock, using for its supply-chain management to improve efficiency working such as capital, inventory management and operating margins. Qualified suppliers or vendors are chosen and controlled to ensure enough, fresh and quality meals. Risk of outsourcing is considered carefully for Hard Rock café operating

Hard Rock café also manage the supply-chain risk by “ Hard Rock café is reducing environment (political) risk by franchising and licensing, rather than owning, when the political barriers seem significant”[ii]Hard Rock café in 2003 had the successful engagement of Avicon – architects of the new supply chain and provided expertise in logistics for Hard Rock.

8. Inventory

All company must establish system for managing inventory. Costs and expenditure can be substantial to store and move inventory. The way to manage inventory by ABC analysis, record accuracy... make Just-in-Time inventory control, can save costs and let products and services to customers more quickly. The best management of supply-chain support Hard Rock to keep a safe and effective inventory. Foods and drinking need to be fresh and provided on time. Also Hard Rock café manage inventory base on the market demand to avoid long-term stock A huge valued memorabilia are controlled by locations and catalogues and are renewed every few years.

9. Scheduling

Types of scheduling decisions depend on type of company and its operating. Hard Rock Cafe applies short-term forecasting scheduling to their services. It can be based on the real daily activities and data from whole restaurants in right Hard Rock chain. Every manager of each cafe set up its database to prepare the daily forecast which is recorded daily working. Next other factors, like upcoming events, major conventions, concerts, etc. are referred to. And then hourly sales are examined and Hard Rock is possible to calculate the time for rush or low hours in order to allocate suitable jobs for all employees..

This way of above managing schedule support Hard Rock Cafe managers Who can predict the volume of people, their feeling may get in and enjoy in its restaurants and prepare a right human, foods and services to serve Hard Rock's people with the way, Just-In-Time to save the costs.

10. Maintenance

Maintenance is the way to keep quality that is the key to success in all industry sectors. Hard Rock Café use preventive maintenance for inspection and serving to keep their facilities in good condition. They also adjusted its menus and music time by time, it depend on locations, basing on the survey done. All kitchens, bar, restaurants or other equipments are maintained regularly under supervising.

In order to strengthen the brand name, Hard Rock Cafe creates its own website: www.hardrock.com and maintain a cable television program weekly on VH-1.

Task 2: In the light of the above, discuss the operations management challenges and opportunities for Hard Rock when considering an expansion of its business into Hanoi.

Hard Rock Cafe just established in Ho Chi Minh city. When expanding business into Hanoi, Hard Rock needs to survey the Hanoi market as Hard Rock's Standard market report following conditions:

A- Demographics

As Hard Rock's focus Hanoi is the city center and have the nightlife with many small satellite city to be built around like Ha Dong, Trung hoa - Nhan chinh, Bac Thang long. Total is over 6, 000, 000 people (See table 2 below) with rapid urbanization , so tendency of population will surely increase in near future. Hard Rock may have is more and more people (Foreigner and Vietnamese) in Hanoi love Rock & Roll music in Hanoi. And Hanoi is a choosier market for all cultural activities than Ho Chi Minh, it has quite loyal audiences if Hard Rock café can convince them by the unique culture,

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interesting activities. Moreover, the cheap labor is an important advantage that affects to its cost and particular the company's human resources strategy (See table1 below). Beside that the economic indicator of Hanoi and Hanoi area is attractive for all business sector(See table 1 below)

Table 1 (Economic index of Hanoi)

Content

2009

2010

2011 (forecast)

GDP per capita (UD\$)

1710

1900

2120

GDP growth rate (%)

6. 70%

11%

11. 50%

CPI

8. 22%

9. 56%

10%

Exchange rate (VND/US\$)

17500

19500

21000

“ Source: VnEconomic-December 2010”[iii]

B-Visitor market and market trend

“ Hanoi have Tourists and business visitor growth rate increasing with 20, 5% for foreigner (1. 227 million people) and 10% for Vietnamese(7. 392 million people) in the year 2010. Total revenue in tourist industry increased 26. 9% in Hanoi” -Report of Hanoi general statistic office’s data – December 2010(See table 2 below)

Table 2 (Population and tourist of Hanoi

Content

2009

2010

2011 (forecast)

Population (1000)

6480

6617

6750

Population growth rate (%)

2%

2. 10%

2%

Tourist

Foreigner (1000)

1080

1227

1472

Foreigner growth rate(%)

11%

20. 50%

20%

Local tourist (1000)

6720

7392

8130

Local tourist growth rate (%)

5%

10%

10%

“ Source: Report of Hanoi general statistic office’s data – December 2010.”[iv]

As above data, Hanoi market of population and visitors is potential market for all kind of business, especially for service industry

C-Transportation

Because Both population and tourist/ visitor have been increasing, so the trend of infrastructure such as Hotel, Convention center, Entertainment service place .. to be increased . Transportation is concentrated priority, Phase two of Noibai airport is going to start within 2011 with ODA fund from Japan. Four lines subway are studying to build soon and some bridges have been built crossing Red river. Also Hanoi have expanded the wide of many road and built the new road with high standard from Northern part to southern part, from eastern part to western part, they try to connecting center Hanoi to the rest of Hanoi by road, subway, rail...

D-Restaurants and nightclubs

Right location is a very important element for Hard Rock cafe to be successful in Hanoi, where is the most tourist to stay and also there are many restaurants and nightclubs located, that is HoanKiem district in the center Hanoi which is called tourist town. But the lease cost for a centre position is too high and most of them are dominated by both foreign and local cafe brands, consist of Highland, Trung Nguyen with trademark G7..... There are also many potential competitors such as Coffee Bean and other foreign brands who really want to enter Hanoi markets as well like Gloria Jean's Coffee, etc.

E-Political risk

Besides, Vietnam is evaluated one of the most stably politic regimes. This situation allows Hard Rock café to feel safe to invest the business in Hanoi. Vietnam government established a system of open policies, encouraging foreign investors to invest by foreign country investment law, develop Vietnam country and create jobs for local people.

However, many environment challenges that Hard Rock Cafe has to consider before entering in Hanoi. Hanoian has the way to drink coffee and enjoy it in differently way. Almost them like to sit in a street-cafe with a cheap cup of coffee, making cafe by the traditional and simple method, talk each other, read newspapers and look people passing by. There are not many people to spend high price (around VND 80, 000, 000)on drinking a cup of coffee that Hard Rock may serve that average price for its items. One thing, the local people's taste of coffee and foods in is different. They are drinking stronger taste than the other countries. Robusta coffee in Viet Nam is more popular

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than Arabica. The type of cafe with live-music is more and more popular in Hanoi and its price is various from low-end to high-end level. With Hard Rock's price set (Hard Rock Ho Chi Minh), it can not only aim to rich people but also change client's mind or their consumption behavior.

Local labor will be a issue that Hard Rock need to care about . The labor cost is cheap, but the tendency of labor cost is increasing year by year and local people are not familiar with the high international working intensiveness, style of unique business of Hard Rock cafe and they may not satisfy with standard required. Hard Rock café must train them and change their thinking, all labor need to be trained regularly and intensively. Furthermore, the Vietnamese is too modest, so they may not feel confident to show their thinking, personality as expected by Hard Rock Café.

F-Real estate market

The real estate market is rapidly increasing in recent years in whole country , particularly in Hanoi and Hochiminh City, the tendency of market is also increasing of capital investment, sector investment , source investment as well as management investment. The real estate price is too high where is good location (See table 3 below)

Table 3 (Rental fee of office and shopping mall of Hanoi)

Content

2009

2010

2011 (forecast)

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Rental fee (\$/m2/month)

Office (\$/m2/month)

35. 7

34

35

Office growth rate (%)

-6%

-5%

3%

Shopping mall (\$/m2/month)

40. 1

42. 2

45

Shopping mall growth rate(%)

-13%

5%

7%

“ Source : CB Richardsd Ellis Viet Nam -December -2010”[v]

These information of the market brings information to Hard Rock if managers want to study and set up its business in Hanoi. They must have a comparable market analysis carefully then making their decision whether Hard Rock café expand its business in Hanoi or not. Vietnam has not developed the information system and its information is some time not unclear, so it is difficult for researchers to collect exactly data for studying all business.

In summary, all above information which mention in this topic is only for us to have a look of Hanoi market, that is surely a potential market for doing business, but it is not sure for Hard Rock café or other business to be successful when they set up business in Hanoi.

So Hard rock need to analyse many factors and index such as breakeven point, IRR, RCE, ROCE...inflation, exchange rate, GDP, GDP growth rate.. before they make final decision for expand their business in Hanoi

In this topic we only concentrate to analyse the breakeven point and we assume that all data collect from all sources to be accepted

Assumption that We will set up Har rock café in Hanoi with capacity as follow:

-Area : 400 m², Labor : 16 persons (2 shift/day), Facility investment : 200, 000 USD, design and reconstruction: 100, 000USD, training cost : 30, 000USD and other: 16, 500 USD, other figure refer Table 1, 2, 3 above.

Option 1

Option 2

Definition

Description

Explanation

Change rental fee

Change cost/unit

50

42. 2

35

1. 5

1. 25

1

Area (400 m²)

400

Labor (2 shift)/day total 16 persons, 8persons/shift

Non-current asset

Design and construction (400m²)

250\$/m2

100, 000

100, 000

100, 000

100, 000

100, 000

100, 000

Total Facility (USD)

Full set

200, 000

200, 000

200, 000

200, 000

200, 000

200, 000

Training (USD)

Full course

30, 000

30, 000

30, 000

30, 000

30, 000

30, 000

Other (5%)(USD)

Allowance

16, 500

16, 500

16, 500

16, 500

16, 500

16, 500

Total(USD)

346, 500

346, 500

346, 500

346, 500

346, 500

346, 500

Depreciation (10 years)

Depreciation/month(USD)

Straight-line

2, 888

2, 888

2, 888

2, 888

2, 888

2, 888

Fixed cost

Rental fee (500m2)(USD)

Option 1

20, 000

16, 880

14, 000

16, 880

16, 880

16, 880

Labor cost for 16 employees

200\$/p/month

3, 200

3, 200

3, 200

3, 200

3, 200

3, 200

power consumption (lighting..

per /month

500

500

500

500

500

500

Depreciation(USD)

per /month

2, 888

2, 888

2, 888

2, 888

2, 888

2, 888

Total fixed cost / month(USD)

26, 588

23, 468

20, 588

23, 468

23, 468

23, 468

Variable cost

Raw material (coffee, ice, sugar...)(USD)

cost /unit

1

1

1

1

0.75

0.75

Material consumption (Gas , tissue ...(USD)

cost /unit

0.5

0.5

0.5

0.5

0.5

0.25

Total cost /unit(USD)

Option 2

1.5

1. 5

1. 5

1. 5

1. 25

1. 00

Sale price

Sale price/unit(USD)

4

4

4

4

4

4

Breakeven point

Breakeven point

Total fixed cost + total variable cost= total revenue; X : breakeven point

How many units will be sold/month

10, 635

9, 387

8, 235

9, 387

8, 534

7, 823

How many units will be / day

355

313

275

313

284

261

Above analysis just give Hard Rock a data about the breakeven point which depend on the difference level of rental fee and unit cost, they must analysis more other variable. So Hard Rock café should compare with its data of Hard Rock Café's chain. Hard Rock' decision maker will make decision whether they are going to expand their business in Hanoi or not.