

Demand components and trends business essay

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Executive Summary To maintain the sustainability of their operations, Disneyland uses several Capacity Management methods to improve their efficiency. This report explores key operations concepts involved with Capacity Management. A case analysis focussing on Disneyland is also incorporated which will demonstrate ideas of Capacity Management being used in practice. Many different sources of information from online databases including articles, journals and other publications were used. The resources obtained suggested that Disneyland had adopted capacity management strategies. This will explain these concepts along with how it is put in practice by Disneyland independently by topic.

Table of Contents Thesis How Disneyland uses Capacity Management to operate around issues with changes in demand for its services.

Introduction: Capacity Management With the ever growing global population, the demand for goods and services are limitless. Therefore firms are constantly met with the challenge of ensuring its supplies are able to meet fluctuating demand without losing out. This raises issues for all companies far and wide. To combat the issues around fluctuating demand, the concept of capacity management was formed and until this day, is put in practise by organisations to meet consumer demand in an efficient way. This report will evaluate the underlying aspects within capacity management and correlate these notions case examples from Disneyland throughout its discussion.

Disneyland Disneyland is a theme park that started operations in 1955 under The Walk Disney Company and has operated as a division underneath The Walk Disney Company ever since (The Walt Disney Company, 2012). Although it was first established in the United States in Los Angeles, Disneyland has since established a second theme park in Orlando.

Disneyland found its theme park to be reaching out to many tourists and so erected a third and fourth theme park in Japan and France. Recently in 2005, Disneyland expanded with Hong Kong and is now scheduled to expand a sixth theme park in Shanghai (Travel Guide China, 2010). Forecasting and capacity management

Forecasts are projections of future demand are essential for any organisation to succeed when it comes to planning capacity. Without forecasting, organisations would not have any guide as to the quantity of its product they should produce or when it should be provided. In the case of a service provider, demand forecasting is particularly important for planning out staff work rosters. (William, Davis & Farmer, 2012). With regards to Disneyland, forecasts are based on the number of attendees the theme parks host in a given day or, with regards to its hotels, the number residents it accommodates within its fixed number of rooms. Therefore forecasts are based on maintaining the number of attendees or resident levels.

Strategy: Chase, Level and Mixed Strategy

According to Gardiner (2010), the production planning strategy is undergone by firms to enhance production to meet consumer demands by setting production levels, inventory levels and backlog levels. Primarily level capacity and chase capacity or a mix of both are the main methods adopted by firms. In addition a demand management strategy can also be added to the mix bringing a new dimension to operations strategy. Level strategy can be defined as a planning strategy that sustains constant production. This incorporates varying customer deliver lead time, keeping varying levels of queues or even inventory to separate the operations from demand (Olhager and Johansson, 2012). On the other hand level strategy presents a strain on product warehousing in low demand periods. Likewise, for services, if a provider is

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incurring customers waiting in queues, then a strategy must be put in place to counter waiting times (Gardiner, 2010). With a chase strategy, firms aim to have production levels to parallel with demand as it changes (Olhager and Johansson, 2012). Unlike level strategy, a chase strategy ensures a consistent customer delivery lead time with no backorders and a steady stock level maintained. This involves adding and pulling resources from production to maintain the stable inventory. Firms that sell products with unstable demands patterns with the flexibility of adding or pulling resources in production will adopt this strategy. The advantage this is that there is no finished goods inventory and warehousing costs to store these goods.

Likewise, queuing lines are maintained to a consistent extent. However this gives rise to the disadvantage of higher labour and material costs resulting from the constant adjustments to resources of production (Gardiner, 2010).

Yield Management Yield Management is the application of segmenting customer markets and charging different prices to the different segments so that capacity can be used in its entirety while maximising revenue (Gardiner, 2010). Yield management is simply a profit maximizing strategy centred on a fixed capacity (Donaghy, McMahon and McDowell, 1995). It is a very common practise put in place by organisations without them even realizing it. This occurs when firms alter their prices and hire or fire staff according to peak and off peak seasons. By being aware of predictable fluctuations in demand these firms use a yield management approach to coordinate their capacity with demand to entice a greater return. However according to Gardiner (2010) there are four main requirements that must be met in order to put yield management into practise. Firstly, the customer market must be able to be segmented based on their needs, behaviour and spending ability.

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In an economic sense, those that need a service on a when and where basis are price-inelastic which give the fundamentals to increase prices dramatically for last-minute reservations. Secondly the demand for a product must fluctuate over a time cycle. Thus yield management is able to be used to increase demand in periods of low demand and reduce it during booming periods. Thirdly, products must also be able to be sold in advance giving customers the opportunity to pre-purchase very early on or make a last minute purchase. This gives the suppliers the opportunity to sell at lower prices during the early stages and charge immense prices to those that need and are willing to pay at the last minute. Lastly this demand must be able to be projected with a strong degree or reliability. This is gives the firms the knowledge of how much capacity to retain for last minute customers and is often based on experience from past operations (Gardiner, 2010). This is strategy is usually adopted by service providers, in particular, those that take on a lot of pre-bookings. In many cases, it is not uncommon for such companies to book a number that exceeds their capacity because people tend to cancel bookings closer to the tim

Capacity Terminologies and Ideas: I

Economies of scale Nowadays, economies of scale is a key concept in almost every business. It means that production becomes more efficient as the number of goods being produced increases. In most cases, Company that achieve economy of scale lower their average cost of products by increasing production. The reason for this is that the fixed costs for producing the product are spread out over a larger number of goods. Scale economies can be present in nearly every function of a business, including manufacturing, purchasing, research and development, marketing, service network, sales force utilization, and distribution.(Porter M., 2008)

I Diseconomies of Scale On

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the other hand, It is arguable that economies of scale in some sectors can be exhausted when enterprises reach a relatively modest size. At some point a facility can become so large that diseconomies of scale set in; that is, the average cost per unit increases as the facility's size increases. The reason is that excessive size can bring complexity, loss of focus, and inefficiencies that raise the average unit cost of a product or service. There may be too many layers of employees and bureaucracy, and management loses touch with employees and customers. The organization is less agile and loses the flexibility needed to respond changing demand. Many large companies become so involved in analysis and planning that they innovate less and avoid risks. The result is that small companies or perform corporate giants in numerous industries. | Economies of flow Taiichi Ohno was the man who developed the Toyota Production System which is a system design to produce the vehicles not at the machines demanded but at the rate of customer demand in order to achieve economies of scale. Each time product is pulled of the shelf one is made to replace it. This gives less inventory, less time, less waste and good service. Systems thinking organizations understand the problems of economies of scale (push) and that a better way is to achieve economies of flow (pull). Not only in the manufacture industries but also in many service organisations, economies of flow is a much better way to maintain the service quality by designing the service from customer's perspective. It focused on how efficient and confident the workflow is that would lead to lower overall cost. | Best operating level The best operating level for a facility is the percent of capacity utilization that minimizes average unit cost. Rarely is the best operating level at 100% of capacity. In the field of production, there is an optimum level (one that between the <https://assignbuster.com/demand-components-and-trends-business-essay/>

minimum and maximum) of operating machines or using resources that can result in the lowest possible cost of production of a product or service. In another word, the motivation and drive to produce the good or service to the lowest possible level without sacrificing quality objectives is to be able to offer the products or services at the lower market price in the hope that the firm becomes competitive. An typical example in the hotel industry, when the hotel chain consider to opening a new business there are choices of different types of facilities, for instance a motel which has the capacity of 50 rooms, or a larger holiday inn with 150 rooms capacity, or a very large hotel like Hilton or Sheraton with at least 300 rooms, or even an extremely large resort which can accommodate thousands of guests (e. g. Madinat Jumeirah, the Arabian Resort of Dubai). Each type of hotel businesses running it's own economies of scale. If the small motel only have less than half of the rooms occupied, the business is likely to lose money, as there is not enough revenue to cover the fixed cost of running the facility. If the customer flow reaches full capacity of a hotel, it becomes more difficult to maintenance. Public facilities like swimming pool or restaurant may be crowded, extra staff would certainly needed. At this stage extra cost begins to become a problem while diseconomies of scale kicks in. Hereby, what is the ' best operating level' for hotel businesses? It depends on which demand level of the hotel is expecting at the particular location. The decision should follow the the theory of choosing the type of facility that can provide cheapest unit cost. The key consideration of which capacity level should be targeted usually answered by the best operating level curve which generated by the demand forecast.

(Michel Leseure, 2010)SH disneylandThe Shanghai Disneyland within the the Shanghai international tourism resort first phase is one of the largest foreign
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investment in China, which broke ground a \$4.4 billion theme park and resort. This will also include two hotels, and a shopping district for Disney and Pixar's augmented products. According to David, B and Barnes, B., (2010), how Disney plan to drive demand among China's 1.3 billion residents for its International entertaining resort idea? Like many global companies in hotel or entertainment industries, the rising Chinese's consumer economy absorb huge foreign investment. Like the Hilton group, they achieves economies of scale by the expansion of their hotel chain. they revealed that they are planning to open nine new hotels in China this year and 10 more next year to meet rapidly growing customer demand. However, the problem of the large organisation scale sometimes related with political constraints. By partnering with a government-owned company, Disney shouldered about 43% of the initial cost and reduce the risk of political influence. Cooperation and mutual benefit with Shanghai government, it is much easier for Disney to establish the best operating level from the local statistical analysis and further development operations. With residents of 20 million, 330 million more live within a three hour trip and a massive international airport nearby, Shanghai Pudong is a location where the capacity planning would be able to achieve at this optimal level. | Sales and Operations Planning

According to Olhager, J., Johansson, P. (2012), sales and operations planning () is the long- term planning of production and sales relative the forecasted demand and the supply of capacity. The purpose of this process is to realigns the tactical plans for all business functions in all branches (marketing, HR, accounting, purchasing department, etc.) to support the company's strategies, business goals, and targets. It helps to create a balanced scale between sales and production. Basis the case study <https://assignbuster.com/demand-components-and-trends-business-essay/>

of Oliver Wight Inc., Caterpillar which is an industry leader in manufacturing construction and mining equipment, well known by its CAT brand, gain a competitive edge by implementing S&OP. Caterpillar's North American Commercial Division (NACD) S&OP manager Dale Roberts comments: " S&OP helps you get a good, accurate forecast number. the framework allows you to respond very quickly. A quick response avoids or minimize disruption which can yield more sales." Sales projections and production plans had been formally reviewed quarterly and that was proving not frequent enough to handle a volatile market and inevitable changes in retail demand.

Demand Components and Trends: There are four demand components which are trend, seasonal, cyclical and random components. Trend component shows an increase or decrease of demand over time. Seasonal component describes the variation that occurs because of the time of year, month or week. It generally repeats itself at least once per year whereas a cyclical component usually takes more than one year. Random demand forecasting has no predictable pattern. For instance, sales data may vary around a forecast value with no specific pattern forming and no way of more accurately determining the actual demand other than by the forecast.

Disneyland theme parks face a seasonal trend with its peak seasons usually during summer seasons and school holiday periods (The Walt Disney Company, 2012, p. 20). Statistics have shown positive seasonal trends with its revenue increasing from 40.9 billion to 42.3 billion in 2012 compared to 2011. This give evidence of overall demand increasing of about 3% (The Walt Disney Company, 2012, p. 36). This demand trend shows positive patterns for the future of Disneyland so long as unpredictable random events to not intervene. Some examples that could affect random demand forecasting for <https://assignbuster.com/demand-components-and-trends-business-essay/>

Disneyland are natural disasters, weather conditions, trends of tourist industry, transportation prices, fluctuations in exchange rates and the business cycle. Demand Management Strategy: Demand management strategy focuses less on capacity, but instead looks at manipulating customer demand quantities to suit the organization's capacity via market forces. Tools used in demand management include changing the price or changing the level or advertising. Evidently, this shows that to an extent of marketing is involved in demand management strategy in order to influence demand to suit a firm's capacity capabilities. Disney advertises through media networks to attract more customers in off-peak season (The Walt Disney Company, 2012, p. 20). An organisation such as Disney that experiences demand highs and demand lows could smooth out the highs and fill in the lows by varying prices. Furthermore, Disney evaluates the waiting time before people get distracted by using queuing models. The company also identifies the exact point to engage the waiting customers. The waiting lines are designed as serpentine fashion so the waiting customers can experience a feeling of constant progress because they can't see the length of lines (Byrnes, 2011). Moreover, the company also adds wandering characters, video games, mirrors in the waiting areas and experiments a smartphone application that provides the nearest restaurant within the waiting time and give directions to characters and attractions (The New York Times, 2010). However, Disney also has to face some challenges. Historical data, flight bookings, weather informations and hotel reservations have to be analysed in order to meeting demand and maximizing customer satisfaction. Disney's capacity utilization, asset productivity, and profitability are maximized when the company are maximizing customer enjoyment. Having <https://assignbuster.com/demand-components-and-trends-business-essay/>

targeted technology, creative insights, and systematic knowledge are critical to the company, especially for managers. Thus, Disney can continuously examine its demand and fit it to its supply (Byrnes, 2011). Pooling states the adding together of multiple sources of variability makes the whole less variable. The more "pooling" that occurs the easier it is to forecast demand, plan production, and schedule personnel (Gardiner, 2010). As the new Disney theme park in Shanghai will operate with hotels, restaurants, theme park, castle, English school and shopping district (Los Angeles Times, 2011). In order to maximize customer enjoyment and minimize variability of customer complaints, Disney provides a lot of choice for customers such as different theme parks and recreation facilities. During peak seasons, the company should hire more staff in restaurants and shops to minimize the waiting time of each customer. Grouping together of resources (assets, equipment, personnel, effort, etc.) for the purposes of maximizing advantage and/or minimizing risk to the user: the sum of different sources of variability is inherently less variable than the individual components.