

The role and importance of effective operation management marketing essay



The concept of operation management could be well understood by its very definitions. There are various definitions of operation management and hence I would be describing two definitions as given below.

Operations management can be defined as an activity of managing resources which are devoted to the production and delivery of products and services. The operations function is the part of the organization that is responsible for this activity” [1]

Another definition describes operation as “ an action or series of actions done to produce a particular result” [2]

Figure 1. 1 all operations are input-transformation-output processes

As per the two definitions and the illustration of figure 1. 2 operations management encompasses the activities, decisions and responsibilities of managing the production and delivery of products and services.

Essentially the whole process starts from a point where organization identifies it's customers and their requirements consequently impinging upon managing the responsibility of product designing, manufacturing and its delivery.

Operations may vary from organization to organization as organizations are different from one to another depending on the extent of tangibility of production. This extends from tangible goods to intangible services. For example, firstly an organization that produces motor cars could be considered as a tangible good manufacturer. Secondly a company providing services such as financial services, and a surgeon who performs surgeries

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could be classified as providing exclusive intangible service. Thirdly, organizations do manufacture and providing services to satisfy customers. Airline services and restaurants are classic examples in this regard. This analogy describes as to why operations have become paramount of importance in all three categories in above illustrations. Therefore operation management has become the engine of growth in any kind of business activity.

IKEA Summery

Operations management is vital part of IKEA success

IKEA provide good example of why operations management is so important for the success of almost any type of organization. IKEA is a Swedish based company formed in 1926 as a small retail store. It expanded its business to position itself as furniture solution provider for a typical house. This includes furniture for living area, bed rooms and kitchen in a more coordinated way.

IKEA widen its horizons in early 80's to UK, USA and some parts of Asia in more intensive, comprehensive solution provider specializing is selling home appliances. It made its presence felt across the globe but predominantly in Europe.

The following are the glimpse vital activities, IKEA operations managers are responsible for:

Arranging the store's layout to give smooth and effective flow of customers-
process design

Designing stylish products that can be flat-packed efficiently- product designing

Making sure that all staff can contribute to the company's success - job design

Locating stores of an appropriate size in the most effective placed - supply network design

Arranging for the delivery of products to stores - supply chain management

Coping with fluctuation in demand - capacity planning

Maintaining cleanliness and safety of storage area - failure prevention

Avoiding running out of products for sale - inventory management

Monitoring and enhancing quality of service to customers - quality management

Continually examining and improving operations practice - operations improvement

Although these activities represent only a small part of operations management of IKEA, they do give an indication as to how operation management should contribute to the business's success.

1. 2 Strategic objectives of IKEA

To optimize economy in transporting IKEA products

Flat packs are synonymous with IKEA. Flat packs enable IKEA to optimise the loads with less transport cost. Recyclable packs also require only fewer raw materials.

To ensure safety of every one, and respect for people of all ages.

IKEA has introduced “ IWAY of purchasing raw materials, products and services from its suppliers. In this endeavour IKEA has set minimum standards for their suppliers and they do not tolerate child labour.

To have abrupt knowledge and continuous innovation in designing of products.

IKEA always strive to upgrade its designing to be their products as flat as possible in order for fitting into their flat packs. This keeps IKEA ahead of competition.

Cut CO2 emission and use legal wood as much as possible in their operations.

IKEA use only legal wood as their raw materials to manufacture products.

1. 3 Ikea has aligned its operational objectives with its organisational objectives.

IKEA’s operational objectives are;

Efficiency in Operation – this will achieve through exploiting the factor cost across the boundaries, maximising the economies of scale in each activity and sharing the investment and costs.

Achieve Operational flexibility – thus accommodate any market and policy induced changes, balancing the scale advantages with strategic and operational risks and diversify the portfolio.

Innovation and Learning – minimise the societal differences in management and organisation, experimenting cost reduction and innovating and sharing learning across activities.

Having evaluated IKEA's strategic and operational objectives, it is evident that company's operational objectives are well aligned with its strategic objectives. IKEA's self – serving retailing strategy is aimed at eliminating certain value chain activities towards in order to gain cost advantage.

1. 4 Objectives of operation management and it's fit with organisational goals and objectives

The business process of IKEA

What is evident from IKEA's self serving retailing business process is that, it reduces the number of value chain activities that is embedded in customer service in a typical operation. IKEA operationally manage this end by eliminating operational activities such as workmanship, last mile delivery, and customer assistance there by contributing towards reduction of overall cost. Further IKEA has reduced operational costs in various cost drivers throughout the company. More significant drivers are being:

Economies of scale

Economies of learning

Process technology

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Product design

Process design

Capacity utilisation

Input costs

Residual efficiencies.

Task 02

2. 1 IKEA's resources, tools and systems to support quality in operation

What is realistic in a changing ambience is to tactfully manage change in order to survive on the long run. As people's needs are changing constantly IKEA needs to foresee these changes in order to succeed. They have been so far successful in this endeavour as they relentlessly scrutinize changing customer needs and providing coordinated furniture solutions for a typical house hold from living area to kitchen including bedroom decor and toiletries. They have irradiated production oriented focus to a more customized orientation in their operations.

Furniture market is an overcrowded market where competition is so intense. Customers have so many options in accessing to quality furniture yet at differential pricing options. What is more appealing for customers is to have access to more comprehensive quality furniture solutions to entire home under one roof which exactly IKEA is providing and most of the competitor firms have failed to match. This has been made possible due to what IKEA

identifies itself as providing “ democratic designs” affordable to many people.

Centralized designing

One design for all countries is something remarkable in their operations which make operation of supply chain more efficient. IKEA produces one design, one brand to the whole world that reduces unit cost tremendously, through economies of scale which in turn allows them to have competitive advantage over its rivals.

From the drawing board onwards, cost-consciousness is omnipresent in every part of operations of IKEA. Operation managers of IKEA are working with product development, production, purchasing, and distribution and sales and are able to keep costs down at every stage in the value chain.

In many cases the final cost of the product is determined at the very outset of the design process.

Designers and product developers of IKEA working together with their suppliers on the floor of their factories across the globe.

This has enabled IKEA to use expertise and know- how of the suppliers for producing more appealing designs. IKEA also have access to inexpensive good quality raw materials which blend with quality designs to make final finished product more competitive than the offerings of rivals.

Zero waste in product development

IKEA product development team ensure that there is zero waste in developing products. For example remnants of fabric left over after

manufacturing the heart-shaped FAMNIG cushion are used to make small FAMNIG cushions. Door manufacturers produce table-tops for IKEA and the subtle shades of colour used for BANG mugs not only cut production costs, but also reduce the environmental impact of the manufacturing process.

IKEA lets the opportunities that rational production governs the design process.

IKEA sources suppliers to manufacture their products prescribing very strict conformance guidelines. The main aim is to find those suppliers who are willing to partner with IKEA in the long run. By this they have rationalized the design and raw material suppliers to keep in line with the values of IKEA.

IKEA code of conduct is tough when it's come to working conditions and natural environment.

The unique IKEA supply chain consists of a trading organisation working together with 165 suppliers in 55 countries all over the world. The operative purchasing work is divided up among four trading agents supported by 43 trading service officers in 33 countries. This means that IKEA always strive to be close as possible to its suppliers. These trading office employees ensure frequent visits are done to suppliers to follow IKEA code of conduct and scrutinize production process enabling good quality control are carried out by the suppliers without damaging the natural environment.

IKEA's resources, tools and systems to support quality in operation

The main aim of IKEA is to provide furniture solutions for as many numbers of households at lowest prices. In order to achieve this IKEA signs long term contract with its suppliers. This enables them to make necessary investment

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and ensure supply of raw materials over long period of time which in turn ensures large volumes for suppliers for them to economize the scale of operations consequently lowering the unit price of their supplies. IKEA usually buy production capacity rather than production volumes from its suppliers. For instance, IKEA order 10000 hours of production from their suppliers rather than 10000 units. In certain instances IKEA may also support their suppliers by giving financial assistance. The suppliers, in turn have the faith and confidence in IKEA for long term bond.

2. 2 Define and implement quality audit system to monitor and manage quality standard in IKEA

Quality is being one of the operational objectives of IKEA. There are number of definitions and approaches to quality,[3]

David M. Dolts, Professor of the Faculty of Science at the University of Waterloo, Waterloo Ontario, Canada made a list of quotations according to 5 different targets:[4]

1. Customer – based

“ Quality consists of the capacity to satisfy wants.”(C. D. Edwards, “ The Meaning of Quality”, in Quality Progress Oct. 1998)

“ Quality is fitness for use.” (J. M. Juran, ed. Quality Control Handbook 1998)

2. Manufacturing – based

“ Quality is the degree to which a specific product conforms to a design or specification” (H. L. Gilmore: Product Conformance Cost. Quality progress June 2004)

“ Quality [means] conformance to requirements.” (P. B. Crosby: Quality Is Free)

3. Product – based

“ Quality refers to the amount of the un-priced attributes contained in each unit of the priced attribute.” (K. B. Leifler: Ambiguous Changes in Product Quality,

American Economic Review Dec. 2002)

4. Value – based

“ Quality is the degree of excellence at an acceptable price and the control of variability at an acceptable cost.” (R. A. Broh: Managing Quality for Higher Profits, 1992)

5. Transcendent

“ Quality is neither mind nor matter, but a third entity independent of the two, even though Quality cannot be defined, you know what it is.” (R. M. Pirsig: Zen and the Art of Motorcycle Maintenance, 2005)

American Society for Quality (ASQ) defines quality as;

“ Quality denotes an excellence in goods and services, especially to the degree they conform to requirements and satisfy customers.” [5]

Considering all the above definitions of quality, from a operational stand point quality can be defined as:

‘ Quality is consistent conformance to customer’s expectations’.

One problem with basing this definition of quality on customer expectations is that individual customer’s expectation may be different. Customer’s perception on product and services may differ under different circumstances. Therefore quality needs to be understood from a customer’s stand point. The existence of any gaps in defining quality is likely to result in a mismatch between expectations and perception consequently resulting in poor perceived quality. This demands the importance of doing a quality planning and controlling activity. Quality planning and control can be divided into six sequential steps. [6]

Step 1 Define the quality characteristics of the product or service.

Step 2 Decide how to measure each quality characteristics.

Step 3 Set quality standard for each quality characteristic.

Step 4 Control qualities against those standards.

Step 5 Find and correct causes of poor quality.

Step 6 Continue to make improvements.

GSI standards at IKEA

During the 2007, worldwide warehouses of IKEA and its 400 largest supplier network started using GSI's system of barcodes and SSCCs. Before introducing GSI system IKEA carried out a pilot project which showed that the GS1 system quickly improves traceability, exception handling, and product quality. Having known the benefits of GSI system, company gradually implemented the system in all IKEA stores across the globe. IKEA is now trying to leap ahead by introducing RFID.

IKEA embed a quality culture to ensure continuous monitoring and development of the process.

In April 2004, IKEA commenced a study of which systems and methods were being used for traceability in the group and how these could be improved. In general, the situation was that, goods could not be traced at pallet level outside an individual IKEA warehouse, but traceable only at truck level. As the deliveries arrived from the suppliers, they were logged at the incoming goods dock. The pallets were given unique numbers by each individual warehouses. However, if a pallet was sent from one warehouse to another, it needed to be re-registered, which is a very time consuming process.[7]

IKEA found that the structure for traceability and identification of products was too fragmented and it was obvious the need of introducing a better and standardized structure.

IKEA decided to invest in the GS1 system and its package number SSCC.

This consists of 18 digits and is bar-coded using GS1-128. Using this key, a

package can be uniquely identified by everybody involved: suppliers, transporters, and, in this case, IKEA's warehouses and stores.

The system was used in the pilot project for Ikea's warehouses in Älmhult and Torsvik together with their three largest suppliers. The system quickly demonstrated many positive effects. Previously when the warehouse had received pallets these stood around in the dock area awaiting logging and processing before they could be moved further into the warehouse. In the pilot project the barcode was read as the pallet was unloaded allowing it to be fetched immediately by a truck driver and put into the store. The time to unload a truck was reduced by 44%. The turnover in the warehouse's dock area was increased by 55%.

Inventory control was improved, stock information has become more accurate, and the pallets' traceability got much better. This also applies to the three suppliers who have started to use the system for internal traceability in their own warehouses.

Traceability at the pallet level also improves product quality by simplifying the warehouses' exception reporting to the suppliers since all information about the pallets origin was readily available.

The idea was that, due to the different legal demands on product quality and product content in different countries, the company could easily trace the raw materials from which products are made thus further improving quality.

The pilot project was completed at the beginning of the 2007. In the end of 2007, the system had gone into use in all of Ikeas warehouses worldwide.

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Together these handle over 20 million cubic meters of goods each year.

Warehouse staff has already received training in the GS1 system. IKEA already uses a warehouse management system which can process pallet numbers which means that it is ready for the traceability functions provided by the GS1 system.

IKEA implemented SSCC and got all IKEA's other IT systems to process this information and GS1's identification procedures continued. Rollout of the system to the warehouses has begun in September 2007. At the same time, it has been implemented by IKEA's 400 largest suppliers worldwide. More suppliers will be included in the next phase and the system will finally be used by nearly 900 suppliers.

The cost advantages achieved by introducing the GS1 system will in general automatically result in price reductions for customers. Costs and prices will be reduced even further through a parallel project for the implementation of the GS1 system in IKEA stores. Within two years IKEA has introduced GS1 system to all other stores worldwide.

Task 3

Monitoring systems and work activities and identify problems and opportunities for improvement.

By dropping the customer service and high quality from strategic objectives, IKEA has gone against two main stream conception, or belief, that has been prevalent among their competitors.

IKEA can offer low prices and high quality with friendly service through

knowledgeable customer service staff at the customer's convenience.

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Customers usually have to pick up, carry and assemble furniture by them self.

Out of town locations often with poor accessibility.

Limited ways of purchasing - customer must visit crowded stores.

3. 1 Recommendations for improvement

Even the best operation will need to be improved because even the competitors are striving to improve all the time. In this endeavour operation managers have an endless job of keep on improving the operations.

Operations at IKEA are not devoid of any failures. Failures in any operation can occur for many reasons. IKEA has not been an exception in this regard. Failures have occurred due to faulty designs, faults in materials and information inputs to the operations. Some failures have caused by failure of staff.

Design failures have occurred due to unexpected circumstances, where production line have been installed to a particular capacity which could not meet a particular demand from the market which eventually malfunctioned the machines due to over work. This could have been overcome if demand forecasters were accurate with market sizing.

Supplier failures have occurred particularly supply of products non-conforming to the IKEA code of conduct. IKEA have signed long term contracts with their suppliers and hence contracts are inextricable tied to long term agreements. This could be avoided if IKEA sign renewable contract with suppliers.

Staff failures have occurred due to errors and violation of rules in the organization. Errors are due to mistakes in judgement. This could be rectified through regular training session and more supervision of the staff. Violations should be dealt with more severely with punishment to avoid operational failures.

IKEA shopping experience also could be further improved by more convenient ways to shop. In addition shoppers have cover quite a considerable distance to have access to most of the IKEA stores as showrooms are located remotely from town centres.

IKEA also could improve on their online retail performance as it has been underutilized to the full capacity by customers.

3. 2 Evaluation of wider implications of proposed changes with in the organisation

Providing a alternative shopping methods, however requires more strategic planning and operational systems in place than just a motive to follow suit. This is because finding ways to respond better to the cultureral changes and of consumers in a local market, and establish a company- wide operational platform to add new mode of delivery, has vastly different implications.

3. 3 Plan, implement and evaluate changes within an organisation.

There are number of operational issues to be address in order to accommodate future organisational objectives.

Accessibility to stores and products - IKEA needs to locate their stores at convenient locations where people can easily access as opposed to remote locations.

Product variation and localisation - The Company needs to improve its quality and product variation in order to meet changing demographics and local consumer flavours.

Alternate channels of sales - IKEA has to improve internet sales which showed a dramatic growth in recent years in many industries.

The internal capacity has to be well planned to accommodate and sustain its future rate of expansion into new opportunities in existing and emerging markets to be the retailer truly " for the many".