

2.3.1 Business Operations

The Purpose of Business Operations

- ❑ **To Produce Goods**- Some businesses produce goods, they will take raw materials and produce goods. By taking raw materials and producing goods they are adding value.
- ❑ **To Provide Services** – Some businesses may provide services to customers. Services are intangible items that can not be touched.

Production Process

Job Production

Job production is where a single product is made at a time. These types of products would be made for a specific client with specific needs. The products made are of a high quality and therefore a high price can be charged. The process may be slow and labour intensive

| Advantages | Disadvantages |
|---|---|
| Bespoke, unique products for clients | Employing skilled labour is a large expense |
| High prices can be charged | Wide range of tools required |
| Motivated workers who like to see one item made from start to finish | |
| Motivated workers, work harder, more productive and low rate of absenteeism | |

2.3 Making Operational Decisions

Batch Production

Batch production is where a small quantity of identical products are made. This is used where a business wants to make more than one item at a time. An example would be bread

Batch production can be switched over and a new product can be made e.g. muffins

| Advantages | Disadvantages |
|--|---|
| Production can be changed to meet customer needs / demand | Less motivated workers as work can be repetitive |
| More machinery can be used as less labour is involved than job production | The production process stops while the machines are changed to make the next product |
| Employees can specialise in certain areas which makes the process more effective | If one batch overruns then all batches are held up causing a decrease in productivity |



Flow Production

Flow production uses production lines with continuous movements of items through the process.

Mass produced items are made this way like soft drinks. A lot of capital is required to set up this process as you require a lot of machinery.

Products can be made 24/7 and high quantities can be made each day.

| Advantages | Disadvantages |
|--|---|
| Large quantities made, businesses can buy bulk materials and save money (economies of scale) | High set up costs (machinery & factory) |
| Automated processes by computers can result in high quality in shorter time scales | Low motivation of staff due to repetitive tasks |
| As production is continuous, raw materials do not need to be stored. So a business can use a just in time (JIT) system | Breakdown of machinery can lead to a loss of production which can be very costly |
| | Can be harder to change production to produce a new product. Normally set up to produce one item e.g. canned food |

Impact of Different Types of Production
keeping productivity up and costs down and
allow for competitive prices

Job Production

This is the the best production to choose when only one product needs to be produced at a time.
E.g. building a ship

Batch Production

This is the correct production process to choose when a group of products need to be created e.g. a batch of chocolate muffins

Flow Production

This is best for producing large quantities of a product e.g. chocolate bars

Impact of Technology on Production

- ❑ **Lower costs-** Initial cost of buying machinery will be expensive. However the business will reduce wastage and see an improvement in quality of the products. Machinery also does not need to be paid so the savings will build up
- ❑ **Improvement in Quality** – No human error can occur and computers can now be used to aid designs of new products
- ❑ **Improvement in Productivity-** Robots can work 24/7, require no breaks and will have a higher productivity per hour
- ❑ **Improvement in Flexibility-** Machinery can produce a wide range of products if programmed right saving time skilling up the workers

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2.3.2 Working With Suppliers

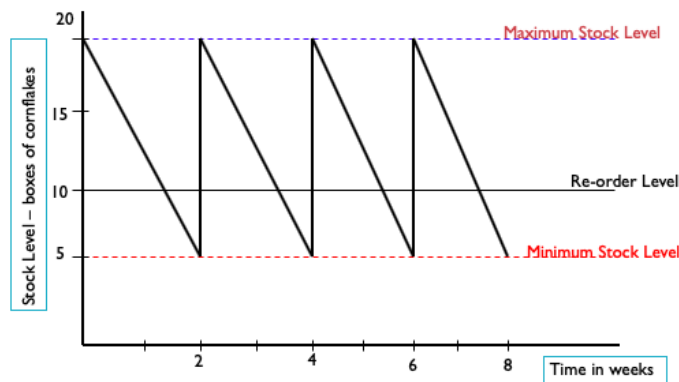
Stock – this can be raw materials, a work in progress or finished goods

Managing Stock – Bar Gate Diagrams

Note

For the exam you will not be expected to draw a bar gate diagram. You will only be expected to be able to read and analyse them

Bar gate diagrams are used to make sure a business does not run out of stock.



Above is an example of a bar gate graph. It shows the maximum stock (most you can store) & minimum (least you should store). It also shows the reorder level, this is the point at which stock should be reordered

Buffer Stock

Buffer stock is the lowest amount of stock you should store. In this case the buffer stock is 5. The buffer stock is the minimum to keep you going so you do not run out of stock

Reorder Level

This is the point at which a business should reorder their stock. This will ensure that they never run out of a product. In this case the reorder level is 10. At this point it will leave enough time for a delivery of new stock to arrive.

Delivery Time



The time difference between the reorder level and minimum stock level indicates the deliver time for new stock. In this case it is 0.5 weeks



Managing Stock: Just In Case

Just in case means that a business would stock products just in case they need them.

Managing Stock- Just in Time (JIT)

Just in time means that the business does not keep stocks within its shop/ warehouses.

Instead they would receive their goods on the day that they need them. An example would be a mechanic, they order the parts they need to fix a car on the day.

JIT & Supplier Relationship

In order for JIT to work the business needs to have a very good relationship with their suppliers.

If they do not have a good relationship then this method will not work and there could be delivery and quality issues.

There are no buffer stocks to keep a business going using this method so if the delivery is not on time the product/service can not be delivered/produced.



2.3 Making Operational Decisions

Advantages and Disadvantages of JIT

| Advantages | Disadvantages |
|---|---|
| As parts are ordered as they are needed there is no wastage | The business won't be able to meet unpredicted increases in demand |
| Parts are not warehoused which is a massive cost saving in terms of premises and staff | The business won't be able to quickly replace damaged parts |
| Stock is less likely to go out of date | If the delivery does not turn up in time this can stop the whole production line, which is costly |
| The business will improve their cash flow, as their money is not tied up in stock | |



The Role Of Procurement

Procurement is the process by which businesses buy raw materials, products, services, and other resources from a supplier to produce their own products and services

Sometimes a business can set up a procurement agreement with a supplier.

The role of procurement needs to ensure the following from the suppliers:

- ☐ **Quality** – The business wants to make sure the suppliers are providing the best quality products
- ☐ **Delivery** – The JIT method requires deliveries to be on time because without this the production can stop
- ☐ **Availability** – If the business has an agreement with a supplier they need to make sure that the stock is available. If it is not available their production could stop and customers end up shopping elsewhere
- ☐ **Cost** - Once a supply deal has been made the two sides would agree on pricing for materials etc. There would be initial costs to set up administration and design of any new software to process orders.
- ☐ **Trust** – this can be built through reliable deliveries and high quality products/services.



2.3.3 Managing Quality

Quality can be described as how well a product is made. It also a state of being free from defects and deficiencies

The Production Of Goods And The Provision Of Services

Quality Control

Quality control inspectors check that standards have been met at the end of the production process.

They ensure that the quality standards are consistent and customers do not receive a sub-standard product.

By doing this there could be a lot of waste if a fault has been identified.

Quality control is concerned with checking and reviewing work that has already been done
For example, quality control includes:

- ☐ Inspection
- ☐ Testing
- ☐ Sampling

Quality control is mainly about "detecting" faulty output - rather than preventing it



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Quality Assurance

This is how a business can design the way a product is produced to minimise the chance of errors or a sub standard product.

It is a way of preventing mistakes and defects in manufactured products and avoiding problems when delivering products or services to customers

They focus on the design & development stages, if the production is controlled the quality will be "built in" to the product. If you have a reliable production process there is less need to check outputs (quality control)

Quality assurance will build quality into each stage of production. Rather than just checking a product at the end.



All workers are responsible for meeting quality standards, and this can be more time consuming for a business. Each work may have different standards to meet and this can cause consistency issues.

Controlling Costs to Gain a Competitive Advantage

If goods are faulty then this can be costly to a business as resources are wasted.

Controlling the quality of your products means there will be less wasted resources and materials.

By having less waste the cost of production is therefore lowered

If a businesses costs are lowered they can charge a lower price or make a higher profit.

Businesses can use quality to build a competitive advantage by:

- ☐ Differentiating their products
- ☐ Meeting customer needs
- ☐ Building a strong brand
- ☐ Charging premium prices for their products



2.3.4 The Sales Process

When selling products to the end user there are several skills which are essential for providing customers with knowledge as well as a good quality service

- ❑ **Product Knowledge** – Understanding a products features allows the sales person to showcase the products benefits. Customers respond well to this and can be persuaded to make a purchase
- ❑ **Speed / Efficiency of Service** – Customers expect their orders to be correct and of a sufficient speed. For example if a customer was to purchase fast food they would expect a quicker service than in a restaurant
- ❑ **Customer Engagement** – This is the relation that the customer has with the business, it can be a reaction, response or an experiences of a customer with a brand. It can be done various types of mediums such as online or offline.
- ❑ **Responses to Feedback** – All feedback is important to businesses, as it helps them to improve their services and products. The way a business responds can be the difference between a success or a failure.

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Post Sales Service – This is the service a customer receives after they have purchased a product. It can be the warranty, any repairs or maintenance they need to perform on their product

Reasons For Customer Loss:

- ❑ Customers feel poorly treated by a business
- ❑ Failure to solve issues and problems in a timely manner
- ❑ Poor after sales services
- ❑ Uncompetitive prices
- ❑ Products not meeting customer expectations

The Importance To Business Of Good Customer Service

A business needs to make sure they offer a high quality service.

- ❑ Unhappy customers have the ability to tell potential customers and persuade them not to buy from a certain brand
- ❑ Happy customers will come back and buy again from brands that offer a good service.



Customer Service Methods

One customer service method which can be employed by a business is the LAST method.

- Listen to the customers problem
- Apologise for the inconvenience caused
- Solve the issue
- Thank them for the services

By using methods such as these businesses can provide a service which corrects any issues keeping the customer happy.

Effects of Customer Service

| Good Customer Service | Poor Customer Service |
|--------------------------------------|------------------------------|
| Brand name will be viewed positively | Brand name will be damaged |
| Increased loyalty from customers | Customer loyalty will fall |
| Increased sales | Lower sales |
| Customers will stick with your brand | Customers will switch brands |
| Increased market share | Lower market share |
| Increased revenue | Lower revenue |

Revision Questions

These questions are based around the previous slides. Test your knowledge to see if you can answer them!

1. What is the purpose of business operations?[2]
2. What is meant by Job Production? [1]
3. What are the advantages and disadvantages of Job Production [6]
4. What is meant by Batch Production? [1]
5. What are the advantages and disadvantages of Batch Production [6]
6. What is meant by Flow Production? [1]
7. What are the advantages and disadvantages of Flow Production [6]
8. How can technology impact on the production process? [4]
9. What is the purpose of a bar gate graph? [2]
10. What is meant by buffer stock?[2]
11. What is the reorder level on a bar gate diagram?[2]
12. How can you work out the delivery time from a bar gate diagram?[2]
13. When managing stock what is meant by the "Just In Case" method? [1]
14. When managing stock what is meant by the "Just In Time" method? [1]
15. What are the advantages and disadvantages of the "Just In Time" method of stock management [6]
16. What is meant by procurement?[1]



2.3 Making Operational Decisions

17. State the differences between quality control and quality assurance [4]
18. How can controlling the production costs put a business at a competitive advantage?[3]
19. What are some of the skills that should be demonstrated as part of the sales process?[4]
20. What is meant by post sales service [1]
21. What are some of the reasons a business could lose its customer base?[3]
22. Why is it important to provide good customer service? [2]
23. What are the effects of providing a bad customer service?[4]
24. Which of the following is NOT shown on a bar gate diagram
 - ☐ Maximum Stock Level
 - ☐ Reorder Level
 - ☐ Current Stock Level
25. What is a characteristic of Job Production
 - ☐ Very cost efficient
 - ☐ Premium priced products
 - ☐ Increased output compared to other production processes
26. What is a characteristic of Quality Control
 - ☐ Performed at the end of the production process
 - ☐ Actioned during the design stages
 - ☐ Increased output



Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- ☐ Read through the question underlining any key points
- ☐ For these types of questions an extended answer is expected.
- ☐ Discuss both the advantages and disadvantages of the given context
- ☐ When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario

Leslie started a business in the form of a bakery last year. She bakes her own products rather than buying them from a supplier. She currently employs 3 people in her bakery to help with the running of the business day to day. When each batch of products has been made, a selection is tested to ensure that the quality is of a satisfactory standard.

Evaluate the impacts of performing quality control at the end of the production process. [12]

