

University of Wales Trinity Saint David

Operations analysis

Assignment 1

*Critically assess the development of the strategic importance of
operation management*

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Abstract

This report will deal with the development of the strategic importance of operation management. Firstly, we will talk about operation management, about its definition and its history but also about the 5 objectives performance. Then we will talk about Starbucks, the history of the company and how this company use operation management and the 5 objectives performance. To finish, we will talk about what could be improved in the company.

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1. Introduction

Since many years, the main objective of every company is to be more efficient, to reduce their costs of production and to give a good image to customers. To answer to this problematic production management is the best subject. Indeed, production management help companies to be more efficient and productive and nowadays, every company search this kind of attribute to be the more competitive possible. Production management exists since the 18th century and never stopped to improve and to be develop.

« Operations is not only about manufacturing. Operations is and has always been what gives an organization the power to act: to create value for its customers; to capture value for its shareholders; and to share value with its ecosystem. » (Marco Iansiti, 2015)

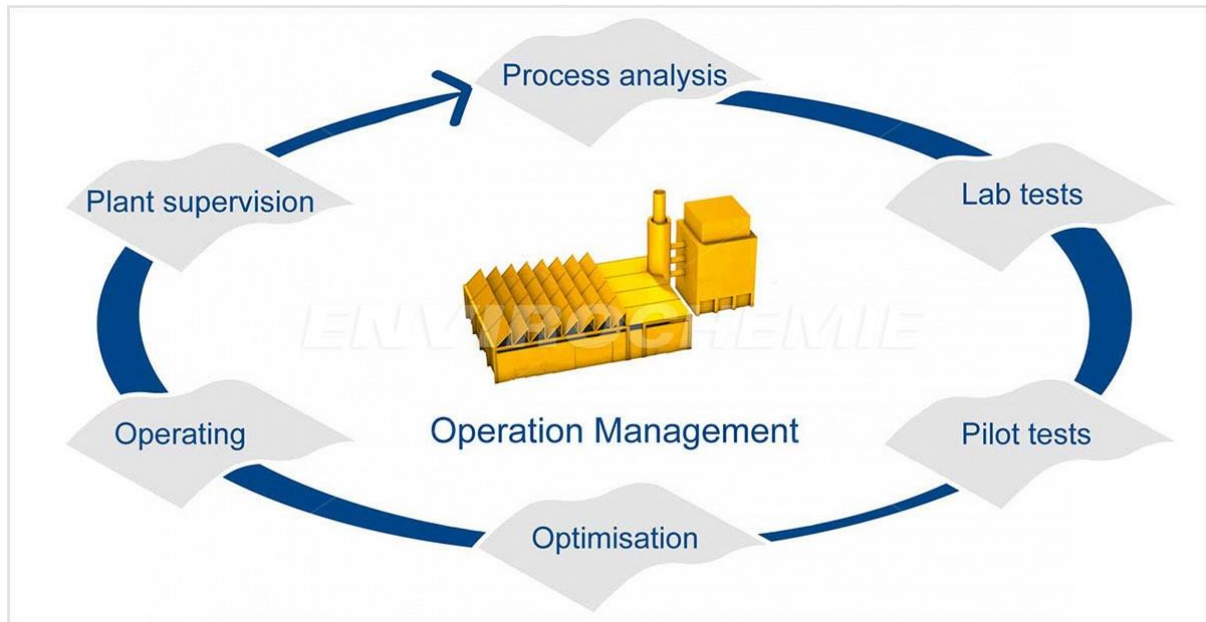
In the 21st century, production management leads automatically to the 5 objectives performance, by following them those objectives help companies to focus on some tasks which are going to help them improve to minimize their production, to do economy of scale, ... Some companies focus only on some objectives and not the 5 because it's difficult to manage every objective. Other companies, like the bigger one as Amazon, for example, succeed in manage all the 5 objectives performance because they have people to work on it and improve the company every day.

A very good example of a company which use those 5 objectives performance is Starbucks. Indeed, the company share an image of high-quality and need to be efficient to be able to keep this image. The 5 objective performance help them to reach this goal. But how important and strategic is operation management for Starbucks?

2. Operations management

a. Definition

Operations management concerned many things, that's why it can be sometimes misunderstood. Its concerned planning, organizing and supervising in the contexts of production, manufacturing or the provision of services in short and medium term.



The objective of operation management is, first, to compose a team, by hiring or promote an intern worker. Then the manger has to motivate, federate and group his team through the idea of the head of the company. To finish, the manager of operation needs to control the results of his team.

The role of operation management is to coordinating and planning the use of resources to ensure products are designed, created and dispatched to customers. The goal of an operation manager is to ensure that business operations are efficient by using just the amount of resources as needed and effective in terms of client's satisfaction.

b. History

Operations management appear just before the industrial revolution in the 18th century in England. At this time, Adam Smith published a book “An inquiry into the nature and causes of the wealth of nations”, in this book he talks about the division of labour. If people are concentrated only on one task, they are more efficient than by building all the product from start to finish. At this time, production became fast and low costly one, companies can make economies of scale, factories grew rapidly and provided countless jobs.

In the 19th century, components are standardized to develop interchangeable parts to develop highly efficient production systems. In those systems, workers simply build components and after those components are assembled at the end of the process

The century after, operation management became famous thanks to Henry Ford who use this idea to build car by creating he assembly line. A new modern economy is born from the phenomenon of volume manufacturing.

In the 20th century, Operations management gradually led to the concepts of logistics, supply chains or assembly lines. But in the first half of the 20th century, operations were focused on manufacturing only, we can take the example of Frederick Taylor and the “mass production”.

Nowadays, operation management reunify strategy, global supply chain and service operation. The 3 themes help operation management to extend to new areas of comprehension and improve always more the competitiveness of companies.

c. The 5 performance objectives

The 5 performance objectives permit to companies to achieve efficiency and business prowess.

i. Cost

The “cost” objective concerned the price of products. The goal of this objective is to know the cost of products according to the variation of the unit cost of the product and the volume ordered. All those characteristics influences the price of the product, the cost of production and the profit the company can make obtained from this product.

ii. Quality

The “quality” objective concerned customers. The goal of this objective is to do things right, the quality of the service, the quality of the product, the quality of the production, the quality of work environment. But it’s also about the reliability, the durability, the desirability, and how well the product performs its goal.

iii. Speed

The objective “speed” concerned both the production and the research. The goal of the objective is to measure the time to build a product or to the time that it takes to research and develops a new product. Obviously, the goal is to minimize the time between the customer requesting a product and them receiving it, as much as possible.

iv. Dependability

The objective « dependability » concerned the delivery of products. The goal of this objective is to deliver product on time to the customers. The dependability of a product is measure by the ability of the product to function in the way intended and constitutently on a period of time predefined.

v. Flexibility

The objective “flexibility” concerned the ability to change. The goal of this objective is to have be capable of changing things when it’s necessary, to be able to adjust to all requirements possible as the quality of the product and to be able to adapt to different market conditions and delivery schedules.

3. Starbucks

Starbucks is a coffee chain worldwide known. Today, Starbucks it's more than 29 000 stores in 78 countries, it becomes the first coffee roaster and dealer select in the world.

Starbucks has strong values and to stay faithful to those values they created an equation:

Diversity = Inclusion + Equity + Accessibility

Inclusion = Human relations and commitment

Equity = Impartiality and justice

Accessibility = ease of use and absence of barriers.

a. History

Starbucks is a coffee chain created in 1971 in Seattle by Jerry Baldwin, an English teacher, Zev Siegel, a history teacher, and the writer Gordon Bowker. The name "Starbucks" comes from the book Moby Dick evoking a high sea of legends and the maritime tradition of the first coffee traders. From the beginning, Starbucks choose to be a company different which celebrate the coffee and its rich tradition but also promote human relationship. In its beginning, Starbucks was only a coffee bean's vendor.

Then in 1982, the contractor Howard Schultz join the company and suggests to sell also coffee's beverage. This idea was first rejected, but then 2 years later, Schultz has a chance to try his idea. But the company is in debt and no more coffee are opened. Schultz finally buy Starbucks' assets and improve every shop to be able to have an espresso bar and the sale of coffee beans.

From 1988, many new shops see the lights. 15 shops are open in 1988, 20 in 1989, 30 in 1990, 21 in 1991 and 53 in 1992. Then Starbucks wanted to expend, first Starbucks is implanted in North-California and the following was just a formality. First, Starbucks expend in Asia and Oceania, then in Middle East. In 1998, and then Starbucks is implanted in United Kingdom. Starbucks wants now to conquer Europe, the first European Starbuck opened in 2001 in Zurich. And then it's Mexico, Germany, Spain, France, Belgium, Morocco, ...

In May 2018, Nestle obtain a licence to sell Starbucks product in retail.

b. Products

Starbucks offer various type of products: coffee, obviously, with more than 30 different coffees, blend or single-origin. They offer the best quality of coffee of the world. But they also offer many fresh beverages as: iced coffee, Starbucks Refreshers, Frappuccino, ... Starbucks also sell merchandises like mugs, accessories, books, gifts, ... and fresh food with some pastries, sandwiches, salads and more.

c. Client expectations

Customers viewed Starbucks as a coffee shop where they want to spend as much time as possible, that's why every Starbucks is different and provide an inviting environment. With the high prices that offer Starbucks, customers' expectations are high as well, they want a very good coffee and a warm welcome.

d. Principles

Starbucks have 4 main principles:

- Their coffee: the quality of the coffee is in the centre of the attention. Starbucks select coffee from responsible culture and ethical trade to help improve farmer's life.
- Their partners: In Starbucks, their work is also their passion so they cultivate diversity to create an environment where everyone can be himself.
- Their customers: they promise a drink prepared perfectly but also, they want to go meet customers just with one smile or with some words exchange to makes their day unforgettable.
- Their coffee rooms: Starbucks wants his coffee rooms to be the mix of customers work and their home. Or to be the place where they meet friends and have a good time.

e. 5 performance objectives in Starbucks

Starbucks operations management is focused on forecasting, quality control, just in time production, material requirements planning, scheduling and technology.

i. Cost

The objective of cost is mostly in link with the acquiring of coffee beans. Because Starbucks is very specific about the type of coffee they want, the costs of the product and the transport is moreover high. To minimize this cost, they started growing their own coffee beans. This permit to have more control over their costs by reducing supplier costs.

ii. Quality

The objective of quality is developed in 3 different parts in Starbucks. First, the quality in this company go through the design of Goods and Services. Starbucks sports an image of quality which has to be seen through their products and services. To design some of the goods (like Starbucks mugs), other firms are involved, such as manufacturers. For this kind of companies, Starbucks ensures that its goods and services reflect the firm's high-end brand image.

Second, Starbucks give also a big importance to the quality of management. For example, the company has created a quality standard that the coffee farmers need to have to be sell in Starbucks and also the Starbucks Coffee and Farmer Equity (CAFE) program. The company carefully sources its coffee beans from farmers who have the quality standard or certificated under CAFE. The high-quality service in Starbucks is ensured through servant leadership and a warm friendly culture.

The third parts of the objective of quality in Starbucks is the layout design and strategy. The configuration of every Starbucks cafés is made to maximizes workflow efficiency. Starbucks also privilege the quality over the quantity by having comfortable seats and enough place for legs which increase prices. The environment in every café is made to give a warm and friendly ambiance. The company privilege customer experience over space utilization.

iii. Speed

To increase the speed of the service Starbucks can give you, every café is assisted by computer software. They increase the speed of the preparation of drink order thanks to asynchronous processing. This process consists in arranges the coffee along a line that reaches to the barista and then to the coffee machine.

To increase this speed, Starbucks possesses also very good equipment, machines and skilled and trained staff. They continually try to improve the speed of their process and of machines. “Some improvements include saving 8 seconds per transaction by not requiring signatures on purchases for under \$25, saving 14 seconds per drink by changing the size of the ice scooper and saving 12 seconds per shot with new espresso machines.” (Elaine, 2012). These small improvements have a big effect on the yearly revenue of the company. In six years, the company increase yearly revenue per outlet by \$200,000 to \$940,000.

iv. Dependability

In the objective of dependability, Starbucks give a big importance to the supply chain management. The company have a global supply chain, so the majority of the coffee beans for the company come from developing countries. The strategy of the company involves to have divers’ suppliers to ensure the stability of supplies. The CAFE program uses criteria for ethical practices, including emphasis on sustainability, this help the company ensure that they will always have coffee from those farmers.

A second things that respond to the objective of dependability is the inventory management. Inventory management is always linked with the supply chain in every company. Inventory management involves office automation and manual monitoring in every Starbucks café. In the supply hubs, automation is more used because it’s more effective. Starbucks want to minimize stockout and be sure to have coffee beans all over the year for its cafés.

v. Flexibility

In the objective of flexibility, Starbucks has two ways to manage this. First, there is scheduling. Scheduling is a vector of success in many companies. In Starbucks, they use automated and manual scheduling approaches for every business activity. For the personnel’s management, Starbucks applies flexible schedules.

Last but not the least, there is the process and capacity design. This is one of the contributors to Starbucks’ success. Highly efficient, the company’s processes are observable in its cafés. Also, the company is able to adapt to every situation. The company use optimizes capacity and capacity utilization to meet fluctuations in demand. This permit to the company to adjust personnel to a sudden increase in demand during peak hours.

f. 5 objectives or focus on 1 or 2

The company already do a great job about using the 5 objective performance and the better for them is to continue in this direction.

Every objective is important for the success of Starbucks and if they privilege just 1 or 2 of these objectives, they are going to lose market place and the quality of their service because Starbucks' customers have a very high expectation when they go in one of their cafés.

4. Possible issues + recommandations

Starbucks don't have many issues; they are very sustainable and provide high quality product. Even the price of products is not a big issue for them because of the premium services they provide. But this price can be a brake on buying for poor population. If Starbucks want to reach even more market shares, maybe they could create low price products and implement café in more places.

One of the only issues they can have is their disposable cups. Indeed, nowadays, industry and customers trend to reduce their waste and disposable cups go against this trend. They are very use and they are not recyclable because of the product used to made them, a mix between plastic and paper which made them non-recyclable. So, Starbucks needs to develop new recyclable cups or push customers to use reusable cups. Starbucks already reward customers who comes with reusable cups by taking off 30 pennies of their bills, but these cups can only be Starbucks reusable cups. So, people need to buy a specific Starbucks cups just for that, while many people already have thermos and reusable cups.

Furthermore, between what Starbucks said in his website and what the reality is there is a difference. A couple years ago, Starbucks baristas said that their manager does not want them to talk too much to customers and do the work quicker even if one of the main objectives of Starbucks is to have a welcoming environment. Baristas were focus only on the speed of command preparation and not on the contact with customers. Some of them also said that they were not enough in the café and that they struggled with the amount of preparation to do and that's why they had less contact with customers. Baristas struggle also with the amount of different beverage that exist and the fact that Starbucks always create new beverage.

5. Conclusion

To conclude to the question: How important and strategic is operation management for Starbucks? We saw that, operation management was created to help companies to be more efficient and productive. And the 5 objectives performance help them define areas to work on them.

Starbucks really know how to use these 5 objectives performance and this why they are successful. They use each objective and find solution to improve the company thanks to them. To minimize costs, they grow their own coffee beans. To improve the quality, they created the Starbucks Coffee and Farmer Equity (CAFE) program and privilege the comfort over the quantity for the number of tables in every café for example. To increase the speed of order's preparation they are equipped with high technology and their machine and well prepared every member of the staff. They, also, use automation in their logistic hub and office automation in every café to increase the dependability of the company. Finally, Starbucks is very good at adjusting personnel when this is peak hours and respond to the demand to reach the objective flexibility.

By using all the objectives performance, the company is very efficient and competitive. They are already really good in every objective and do offers many ways to reach every of these objectives but still have some issues with the relation between manager and baristas, and baristas and customers. So, how Starbucks is going to evolve?

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