

# CHAPTER 1

## INTRODUCTION TO OPERATIONS MANAGEMENT

### Teaching Notes

The initial meeting with the class (the first chapter) is primarily to overview the course (text), and to introduce the instructor and his/her interest in Operations Management. The course outline (syllabus), the objectives of the course and topics, chapters, and pages of text covered in the course, as well as problems/cases to be done in class, videos to watch, Excel worksheets to use, etc. are announced to the class.

Many students may know little about OM and the types of jobs available. This point can be addressed in order to generate enthusiasm for the course. The Learning Objectives at the beginning of the chapter indicate the highlights of the chapter.

### Answers to Discussion and Review Questions

1. Operations management is the management of activities and resources that create goods and/or provide services.
2. Production/operations planner/scheduler/controller, demand planner (forecaster), quality specialist, logistics coordinator, purchasing agent/buyer, supply chain manager, materials planner, inventory clerk/manager, production/operations manager.
3.
  - a. Because a large % of a company's expenses occur in the operations, e.g., purchasing materials and workforce salaries, more efficient operations can result in large increases in profits.
  - b. A large number of management jobs are in OM.
  - c. Activities in all other areas of any organization are all interrelated with OM.
4. The three major functions of organizations are operations, finance, and marketing. Operations is concerned with the creation of goods and services identified by marketing, finance is concerned with provision of funds necessary for operation and investment of extra funds, and marketing is concerned with promoting and/or selling goods or services.
5. The operations function consists of all activities that are directly related to producing goods or providing services. It is the core of most organizations. It adds value during the transformation process (the difference between the cost of inputs and price of outputs). An operations manager manages the transformation function. He/she is responsible for planning and use of resources (labour, machines, and materials). Not all jobs which are primarily OM are called as such. The kinds of jobs that operations managers oversee vary tremendously from organization to organization largely because of the different goods or services involved. For example, a store/restaurant manager is in effect an operations manager. See Figure 1-6 for examples of typical activities performed by operations managers.
6. Design decisions are usually strategic and long term (1–5 years or so ahead), whereas planning and control decisions are shorter term. In particular, planning decisions are tactical and medium term (1–12 months or so ahead), and control decisions (including scheduling and execution) are

short term (1–12 weeks or so ahead). *Design* involves decisions that relate to goods and service design, capacity, acquisition of equipment, arrangement of departments, and location of facilities. *Planning/control activities* involve management of personnel, quality control/assurance, inventory planning and control, production planning, and scheduling.

7. Important differences between producing goods and performing services are:
  - (1) Customer contact, use of inventories, and demand variability
  - (2) Uniformity of input
  - (3) Labour content of jobs
  - (4) Uniformity of output
  - (5) Measurement of productivity
  - (6) Quality Assurance
8. Answers might vary for each student. Teaching; personal services such as haircut, lawn mowing, maid service, and car wash. The customer or something belonging to the customer is being transformed.
9. From Figure 1-6:
  - dealing with labour difficulties, solving personnel problems, solving management problems, solving technical problems
  - making OM decisions, including general management decisions (planning, organizing, controlling, and directing)
  - innovating, personal initiatives, improving productivity
  - representing operations in upper management
10.
  - a. Industrial Revolution began in the 1770s in England, and spread to the rest of Europe and North America in the late eighteenth century and the early nineteenth century. A number of inventions such as the steam engine, the spinning jenny, and the power loom helped to bring about this change. Later machines made of iron were built. Two concepts assisted in large-scale production: division of labour and interchangeable parts. Despite the major changes that were taking place, management theory and practice had not progressed much from early days. What was needed was a systematic approach to management.
  - b. Frederick W. Taylor spearheaded the scientific management more than a century ago. The science of management was based on observation, measurement, analysis, improvement of work methods, and economic incentives. He also published a book titled *The Principles of Scientific Management* in 1911. Other pioneers who contributed to scientific management include Frank Gilbreth, often referred to as the father of time and motion study, and his wife Lillian Gilbreth, and Henry Gantt.
  - c. An interchangeable part is a part made to such precision that all units of the part would fit any particular product it is made for. It meant that individual parts would not have to be custom-made (they were standardized). The standardized parts could also be used for replacement parts. The result was a tremendous decrease in assembly time and cost.

- d. Division of labour is breaking up a production process into a series of tasks, each performed by a different worker. It enabled a worker to learn the job and become proficient at it more quickly, and avoid the delays of having a single worker shifting from one activity to another.
11.
    - a. Service involves a high degree of customer contact and are much more sensitive to demand variability. Services often require a higher labour content and the output is variable. Quality assurance is more challenging in services because performance and consumption occur at the same time. The service sector accounts for more than 78 percent of jobs in Canada and this continues to increase. Some examples include government services, finance and insurance, healthcare, education, professional and technical services.
    - b. Manufacturing is important because it produces the goods that we use, and many service jobs are dependent on manufacturing because they support manufacturing. It allows a separation between production and consumption permitting a fair degree of latitude in selecting work methods, assigning jobs, scheduling work, and exercising control over operations. Since high mechanization generates products with low variability, manufacturing tends to be smooth and efficient. Manufacturing produces food and beverage, textile and clothing, petroleum, chemicals, machinery, computer and electronic products, electrical equipment, and transportation equipment.
  12. A model is an abstraction of reality, a simplified representation of something. Models can be mathematical, schematic, or statistical. Models ignore the unimportant details so that attention can be concentrated on the most important aspects, thus increasing the opportunity to understand a problem and its solution. Models allow experiments that could be very costly to do in real life.
  13. From Table 1-6: e.g., Frederick W. Taylor, Frank Gilbreth, Henry Gantt, Henry Ford, F.W. Harris, W. Shewhart, W. Edwards Deming, Joseph Orlicky, and Taiichi Ohno.
  14. Answers might vary for each student.
    - a. Pros (for owning a car): convenience, flexibility  
Cons (for owning a car): costs (initial, insurance, maintenance & repairs, gas), parking
    - b. Pros (for buying now): availability  
Cons (for buying now): technology change, reduced cost in future
    - c. Pros (for new car): reliability, warrantee  
Cons (for new car): more expensive, higher insurance, higher depreciation
    - d. Pros (for speaking up in class): develop favourable image with instructor, feel more confident  
Cons (for speaking up in class): risk of being wrong, appearance of showing off
  15. Craft production: involves skilled workers producing high variety of customized goods at low quantity, utilizing general-purpose equipment. The main advantage is the flexibility to produce a wide variety of goods providing many choices for customers. The main disadvantage is its inability to produce at low cost. Examples: custom tailor, machine shop, print shop, and landscaping.  
  
Mass production: involves low-skilled workers producing a few standardized goods at high quantity, utilizing specialized equipment. The main advantage is low cost, efficient production. The main disadvantage is that it does not allow easy changes in quantity of output, the product, or the process. Examples: paper, sugar or salt or crude oil refining, and soft drink-bottling.

Lean production (or just-in-time): involves highly skilled workers producing a high variety of goods at high quantity, using flexible equipment. It requires high level of employee involvement and teamwork. It combines the advantages of both mass production (high quantity, low cost) and craft production (variety, flexibility). Examples: automobiles, computers, and appliances.

16. Compared to workers in mass production, much more is expected of workers in lean production systems. They must be able to function in teams, and play active roles in operating and improving the system. This can lead to pressure and anxiety. Moreover, a flatter organizational structure means career paths are not as steep in lean production organizations. Unions often oppose conversion to a lean system because they view the added responsibility and multiple tasks as an expansion of job requirements without comparable increases in pay. In addition, workers sometimes complain that the company is the primary beneficiary of employee-generated improvements.
17. Answers might vary for each student. Use of modern technology like computers, cell phones, and microwaves has had positive effects on people's lives. Instant communication and easy access to information are some of the advantages. However, there are some downsides. As a result of technology, many of us are less active, thus have gained weight and are less healthy. Another downside is the automation of jobs that were previously done by manual labour, e.g., robots for welding car bodies.
18. Long-term trends in OM include increasing use of Internet & e-commerce, other technologies, globalization, supply chain management, and sustainability. Personally, it is likely that the use of Internet for purchasing has increased, more machines and computers are being used in one's daily life, more international purchases is being made, more use of package delivery services, such as Purolator, FedEx, and UPS, is being made, and there is more recycling at work and at home.
19. Many examples are possible. These may include
  - cheating in an exam
  - copying someone else's homework assignment
  - lying in the resume
20. Value added is defined as the difference between the cost of inputs and the value or price of output. In nonprofit organizations, the value of outputs is their value to society; the greater the value added, the greater the efficiency of these operations. In for-profit organizations, the value of outputs is measured by the prices that customers are willing to pay for those goods or services. As the inputs are transformed to outputs, value is added to products in a number of different ways. For example, value can be added by changing the product structurally (physical change) or transporting it (it may have more value somewhere else).
21. A supply chain is the sequence of organizations involved in producing and delivering a product. . Supply chain management is the coordination and collaboration of members of a supply chain.

22. Sustainability refers to reduced use of resources and reduced harm to the environment so that future human existence is not threatened. Sustainability is important because life depends on clean air, water, and soil, and concern about global warming and pollution is having an increasing effect on how businesses operate. Governments are imposing stricter environmental regulations. Furthermore, businesses are coming under increasing customer pressure to reduce their carbon footprint. Activities that are most affected are product design, purchasing and supply chain management, production process, and disaster preparation and response.

Answers to Taking Stock Questions1. Trade-offs is the comparison of the consequences of a decision. It is important to consider *all* the consequences of a decision in order to make a measured decision which will have the best net result. Forgetting one advantage or disadvantage may result in a wrong decision.

2. An organization, by definition, is a group of individuals who work together to achieve a goal, make goods, or provide services. If functional areas do not collaborate, the organization is like an out-of-tune engine or unsynchronized orchestra, clearly not as effective and efficient as it could be. For example, if marketing and operations don't communicate well, either there will be lost sales or unwanted goods.
3. Technology has affected Operations in terms of computer usage (Internet, office and manufacturing software, e.g., CAD, ERP), machines (automation, e.g., CNC), and new materials (e.g., recycled plastic).
4. Because they will be deprived of education. It is well-known that level of education is a major determinant of life-long income.

### **Answers to Critical Thinking Exercises**

1. Manufacturers have the luxury of making the products earlier than the time the customer needs them. Therefore, quality and timing problems can be fixed. Also, production can be evenly distributed over the work day (e.g., 8-hour a day shift as opposed to operating in the evenings or nights for services). Service providers have to present their staff and their facility in an attractive way because the customer will be able to see them. Importance of servers implies more time spent on recruiting, training, evaluating, and motivating. Services should be prepared for a wider variety of inputs (customers) and outputs. For example, an airline should be prepared to deal with problem passengers. Defining a service and measuring it are generally more difficult. Hence, improving productivity and quality are generally more difficult.

2. Jobs that involve creativity are usually not well-defined. Consider, for example, teaching. There is no unique process for teaching a topic. However, there are some common steps that should be followed. Students should have the right background, the topic should be divided in easy-to-learn segments, qualified instructors are employed, and students are tested frequently. This is a process and can be managed. OM doesn't usually involve the technical aspects of work.
1. **Answers to the Experiential Learning Exercises** Quality in a fast restaurant refers to quality of food and quality of service. Quality of food pertains to the quality of raw material and cooking process. These are usually determined by tasting the food. Quality of service refers to both the servers and the environment of the restaurant. Are the employees wearing clean uniforms? Are they polite? Is the restaurant clean? Also, a broad definition of quality includes whatever customers expect, which includes a short wait time.
2. Other than food, packaging material, condiments, napkins, and cleaning products should be stocked.
3. Employee scheduling is very important in a service, because the customers expect a short wait time and food is not usually made before customer orders.
4. Capacity (size) of a restaurant should match its peak demand (the busiest time and day). If the restaurant is too small, it will lose a lot of customers and revenue, whereas if it is too large, then its lease cost and property tax will be too high. In either case, its profit will be less than what it could have been.

### **Answers to the Internet Exercises**

1. Supply Chain Management Association has recently been formed by merger of Purchasing Management Association of Canada (PMAC) and Supply Chain & Logistics Association Canada (SCL). PMAC's members are organizational buyers or purchasing agents/managers. SCL's members are transportation coordinators and others interested in logistics. SCMA provides a certification program, an annual conference and some regional ("institute") meetings, research reports, job listing, news and events announcements, Internet links, etc.  
  
Canadian Institute of Traffic and Transportation (CITT)'s members are transport professionals. CITT provides a certification program, an annual conference, career center, news and events, etc.  
  
Canadian Supply Chain Sector Council is a Federal-government initiative to find solutions to human resource challenges in supply chains. They provide job descriptions and occupational standards, job fairs and conferences, accreditation of programs and courses, and labour market information to all the stakeholders.  
  
American Production and Inventory Control Society (now called The Association for Operations Management)'s members are primarily professionals in Operations Management. Note that APICS has regional branches in Canada. APICS provides certification programs, an annual conference, an online bookstore, job listing, news and events announcements, research reports, APICS magazine, and Industry Internet links.  
  
American Society for Quality (ASQ)'s members are primarily professionals in quality management and engineering. Note that ASQ has regional branches in Canada. ASQ provides certification programs, an online bookstore, job listing, news and events announcements, and several magazines and journals.

Project Management Institute (PMI)'s members are primarily professionals. PMI provides a certification program, an online bookstore, job listing, news and events announcements, and few magazines and a journal.

2.
  - a. Inputs are coal, iron ore, and scrap metal. There are two different processes to make steel slabs. One requires converting the coal into coke, melting the iron ore in a blast furnace using the coke, and making liquid iron into liquid steel in a basic oxygen furnace using some scrap steel. The other process is using the electric arc furnace to melt scrap steel. Both processes then test the liquid steel in their ladle metallurgy facility, and then use continuous casting to make steel slabs which are stored. When needed, slabs are reheated and rolled thinner in the roughing mill, and then rolled into rolled sheets in the finishing mill. These hot rolled sheets are stored. Later most are further processed in the cold roll mill into galvanized and tin-coated sheets. Also, some tubes are made. A process flow diagram for Dofasco is given in Chapter 6's Internet Exercises. The outputs are steel slabs, hot-rolled steel, cold-rolled steel and tubes.
  - b. The quality is controlled in the metallurgy facilities.
  - c. The inventories include iron ore, coal, scrap steel, slabs, hot rolled, and cold rolled steel.

### **Answers to Lynn Mini-case**

1.
  - a. Demand for her services (number and size of yards) need to be forecasted.
  - b. Inventories probably include mower parts, fuel, lubricants, fertilizer, chemicals, tools, etc.; replenishment decisions.
  - c. She must schedule jobs (lawns) and her staff; Weather, illness, rush orders, emergencies, breakdowns can force rescheduling.
  - d. Quality assurance (of worked lawn, staff, equipment, etc.) is very important. Repeat business would be greatly affected and new business depends on word of mouth and reputation.
  - e. Oil change, blade sharpening, motor tune-up, blade and filter clean-up, etc.
2.
  - a. Pros (for working for herself): being one's own boss (control).  
Cons (for working for herself): uncertainty of income, more time consuming, harder,
  - b. Pros (for expanding business): possibility of more profit  
Cons (for expanding business): more investment, more workload, more employee problems
  - c. Pros (for launching a web site): more customers (it is a form of advertising)  
Cons (for launching a web site): initial & on-going costs, time for updating the information
3. Yes, because Lynn promised the student a bonus of \$25 for a good idea and this idea appears to be good.
4. Using eco-friendly pesticides, weed-killers, and fertilizers; finding a use for the cut grass (e.g., animal feed); buying more efficient, less polluting lawn mowers, etc.

### **Answers to Sobeys Mini-case**

1.     Inputs: groceries, staff, building, fixtures (shelves, stands, displays, etc.), tills  
Transformation process: making the groceries available to customers (purchasing, transportation, receiving, and stocking shelves, etc.)  
Output: satisfied, loyal customers  
Feedback/control: inventory control, quality control, customer service
  
2.     a.   Forecasting: to plan the store size, workforce level, and purchase quantities & inventory levels  
b.   Product design & selection: to determine the merchandise mix to carry for the particular market  
c.   Capacity planning: to determine the store's right size (floor size) and store hours  
d.   Layout design: to determine a good floor plan (directing customers through the store)  
e.   Location: to determine the right location in the city (most important for a service)  
f.   Quality: a system to assure and control quality in groceries (e.g., keeping meat, dairy, etc. fresh and at the right temperature), and in customer service  
g.   Inventory: to avoid stock-outs and excess inventory levels  
f.   Staff scheduling: to achieve minimal customer waiting *and* minimal employee idle time