

# **Essentials of operations management**

# Contents

Guide to 'Operations in practice' examples **xviii**

Preface **xxii**

To the instructor. . . **xxv**

To the student. . . **xxvi**

Ten steps to getting a better grade in operations management **xxvii**

About the authors **xxix**

Authors' acknowledgements **xxxi**

Glossary **466**

Index **478**

Publisher's acknowledgements **492**



## Operations management and performance

Introduction **3**

Key questions **3**

### 1.1 What is operations management? **4**

Operations management in not-for-profit organisations **6**

The new operations agenda **7**

### 1.2 What is the input–transformation–output process? **8**

Inputs to the process **9**

Outputs from the process **11**

Servitisation **14**

Customers **15**

### 1.3 Why is operations management important to an organisation's performance? **15**

Operations performance at a societal level **16**

Operations performance at a strategic level **18**

Operations performance at an operational level **19**

### 1.4 What is the process hierarchy? **21**

Operations management is relevant to all parts of the business **22**

### 1.5 How do operations (and processes) differ? **24**

The volume dimension **25**

The variety dimension **25**

The variation dimension **25**

The visibility dimension **26**

The implications of the four Vs of operations processes **26**

## 1.6 What do operations managers do? 30

- Operations management impacts social–environmental sustainability 30
- The model of operations management 31
- Summary answers to key questions 34
- Problems and applications 36
- Want to know more? 38
- Notes on chapter 39



## Operations strategy

- Introduction 41
- Key questions 41

### 2.1 What is strategy and what is operations strategy? 42

- Using operations strategy to articulate a vision for the contribution of operations 43
- The four perspectives on operations strategy 46

### 2.2 How does operations strategy align with business strategy (top-down)? 47

### 2.3 How does operations strategy align with market requirements (outside-in)? 48

- How market requirements influence operations strategy performance objectives 48
- Order winners, qualifiers and less–important factors 49
- The impact of product/service differentiation on market requirements 52
- The impact of the product/service life cycle on market requirements 52

### 2.4 How does operations strategy align with operational experience (bottom-up)? 57

### 2.5 How does operations strategy align with operations resources (inside-out)? 59

- Strategic resources and sustainable competitive advantage 59
- Understanding existing capabilities and constraints 59
- Scarce, not very mobile, difficult to imitate or substitute for 60

## 2.6 How are the four perspectives of operations strategy reconciled? 62

The 'line of fit' between market requirements and operations capabilities 62

## 2.7 How can the process of operations strategy be organised? 65

Operations strategy formulation 66

Operations strategy implementation 66

Operations strategy monitoring 67

Operations strategy control 67

Summary answers to key questions 69

Problems and applications 72

Want to know more? 74

Notes on chapter 75



## Product and service innovation

Introduction 77

Key questions 77

### 3.1 What is product and service innovation? 78

Creativity, innovation and design 78

Incremental or radical innovation 79

Innovation is influenced by later stages in the value chain 80

### 3.2 What is the strategic role of product and service innovation? 82

The process of design 82

Performance objectives for the product and service innovation process 83

### 3.3 What are the stages of product and service innovation? 88

Concept generation 89

Concept screening 90

Preliminary design 90

Design evaluation and improvement 92

Prototyping and final design 94

### 3.4 What are the benefits of interactive product and service innovation? 95

Simultaneous development 96

Early conflict resolution 97

Project-based organisation structures 98

Summary answers to key questions 102

Problems and applications 104

Want to know more? 106

Notes on chapter 107



## 4

## Process design – resources

Introduction 109  
Key questions 109

### 4.1 Why is choosing the right resources important? 110

Process design and product/service design are interrelated 110  
Process networks 111

### 4.2 Do processes match volume–variety requirements? 112

The product–process matrix 113  
Moving off the natural diagonal 114  
Process types 114  
Project processes 114  
Jobbing processes 116  
Batch processes 117  
Mass processes 117  
Continuous processes 117  
Professional services 117  
Service shops 118  
Mass services 118

### 4.3 Are process layouts appropriate? 120

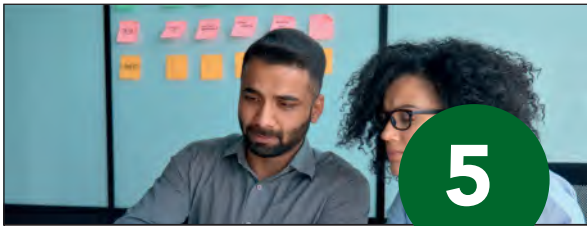
Layout should reflect volume and variety 120  
Layout selection 122  
Advantages and disadvantages of layout types 123  
Layout and ‘servicescapes’ 123

### 4.4 Are process technologies appropriate? 124

Does the process technology fit the volume–variety characteristics of the task? 124

### 4.5 Are job designs appropriate? 127

Job design should reflect volume and variety 128  
How should tasks be allocated? The division of labour 128  
To what degree should jobs be defined? 129  
How should job commitment be encouraged? 130  
Summary answers to key questions 134  
Problems and applications 136  
Want to know more? 137  
Notes on chapter 138



## Process design – analysis

Introduction 141  
Key questions 141

**5.1 Why is it important to get the details of process design correct? 142**

**5.2 What should be the objectives of process design? 143**

'Micro' process objectives 144  
Standardisation of processes 146  
Environmentally sensitive process design 147

**5.3 How are processes currently designed? 149**

Process mapping 149  
Mapping visibility in process design 150  
Designing the customer experience 152

**5.4 Are process tasks and capacity configured appropriately? 154**

Throughput time, cycle time and work-in-progress 154  
Workflow 157  
Process bottlenecks 158  
Balancing work time allocation 161  
Arranging the stages 162  
Automating processes 163

**5.5 Is process variability recognised? 165**

Summary answers to key questions 168  
Problems and applications 170  
Want to know more? 172  
Notes on chapter 173



## Supply chain management

Introduction 175  
Key questions 175

**6.1 What is supply chain management? 176**

Internal and external supply networks 177

**6.2 How should supply chains compete? 178**

Performance objectives for supply networks 180  
Lean versus agile supply networks 181

**6.3 How should relationships in supply chains be managed? 184**

'Transactional' versus 'partnership' relationships 185

**6.4 How is the supply side managed? 186**

Sourcing strategy 186  
Making the sourcing strategy decision 187  
Supplier selection 190  
Managing ongoing supply 190  
Perception differences in supply chain relationships 193  
Improving supplier capabilities 194

**6.5 How is the demand side managed? 194**

Logistics services 194  
Customer relationship management (CRM) 195

**6.6 What are the dynamics of supply chains? 197**

Controlling supply chain dynamics 201  
Summary answers to key questions 204  
Problems and applications 206  
Want to know more? 208  
Notes on chapter 209



## Capacity management

Introduction 211  
Key questions 211

- 7.1 What is capacity management?** 212  
Capacity management performance objectives 213
- 7.2 How is demand measured?** 215  
Qualitative approaches to forecasting 215  
Quantitative approaches to forecasting 216
- 7.3 How is capacity measured?** 221  
Capacity depends on activity mix 221  
Capacity depends on the duration over which output is required 221  
Understanding changes in capacity 224
- 7.4 How is the demand side managed?** 225  
Yield management 226
- 7.5 How is the supply side managed?** 227  
Setting base capacity 228  
Level capacity plan 228  
Chase (demand) capacity plan 230
- 7.6 How can operations understand the consequences of their capacity management decisions?** 233  
Using cumulative representations of demand and capacity 233  
Using queuing principles to make capacity management decisions 235  
Taking a longitudinal perspective that considers short- and long-term outlooks 237  
Summary answers to key questions 239  
Problems and applications 241  
Want to know more? 243  
Notes on chapter 244



## Inventory management

Introduction 247  
Key questions 247

- 8.1 What is inventory?** 248  
All processes, operations and supply networks have inventories 248
- 8.2 Why do you need inventory?** 252  
So why have inventory? 252  
Reducing physical inventory 255  
Day-to-day inventory decisions 258
- 8.3 How much should you order? (The volume decision)** 258  
Inventory costs 259  
Inventory profiles 261  
The economic order quantity (EOQ) formula 261  
Gradual replacement – the economic batch quantity (EBQ) model 264  
Criticisms of EOQ 267
- 8.4 When should you order? (The timing decision)** 269  
Continuous and periodic review 270
- 8.5 How can you control inventory?** 275  
Inventory priorities – the ABC system 275  
Measuring inventory 278  
Inventory information systems 280  
Summary answers to key questions 281  
Problems and applications 283  
Want to know more? 285  
Notes on chapter 286



## Resource planning and control

Introduction 289  
Key questions 289

### 9.1 What is resource planning and control? 290

### 9.2 What is the difference between planning and control? 292

Long-, medium- and short-term resource planning and control 292

### 9.3 How do supply and demand affect planning and control? 294

Uncertainty in supply and demand 294  
Dependent and independent demand 294  
Responding to demand 295  
*P:D* ratios 297

### 9.4 What are the activities of planning and control? 298

Loading 299  
Sequencing 301  
Scheduling 305  
Monitoring and control 311  
Drum, buffer, rope 313

### 9.5 What is enterprise resource planning (ERP)? 314

How did ERP develop? 315  
Summary answers to key questions 318  
Problems and applications 320  
Want to know more? 322  
Notes on chapter 323



## Operations improvement

Introduction 325  
Key questions 325

### 10.1 Why is improvement so important in operations management? 326

Radical or breakthrough change 326  
Continuous or incremental improvement (kaizen) 327  
Exploitation or exploration 328  
The structure of improvement ideas 329

### 10.2 What are the key elements of operations improvement? 330

Improvement cycles 330  
A process perspective 333  
End-to-end processes 333  
Evidence-based problem solving 333  
Customer-centricity 333  
Systems and procedures 334  
Reduce process variation 334  
Synchronised flow 334  
Emphasise education/training 334  
Perfection is the goal 335  
Waste identification 335  
Include everybody 335  
Develop internal customer–supplier relationships 335

### 10.3 What are the broad approaches to improvement? 336

Total quality management as an improvement approach 336  
Lean as an improvement approach 337  
Business process reengineering (BPR) 337  
Six Sigma 338  
Differences and similarities 341



## 10.4 What techniques can be used for improvement? 343

- Scatter diagrams 343
- Process maps (flow charts) 343
- Cause–effect diagrams 349
- Pareto curves 349
- Why–why analysis 350

## 10.5 Why is risk management also improvement? 350

- What is risk management? 350
- Identify, prevent, mitigate, recover 350
- How can failures be prevented? 351
- Redundancy 351
- Fail-safeing 351
- Maintenance 352
- How can operations mitigate the effects of failure? 352
- How can operations recover from the effects of failure? 352
- Summary answers to key questions 354
- Problems and applications 356
- Want to take it further? 358
- Notes on chapter 359



## Lean operations

- Introduction 361
- Key questions 361

### 11.1 What is lean? 362

- Lean is a philosophy, an approach to planning and control, and a set of improvement ideas 363
- The evolution of lean 364

### 11.2 How does lean consider flow? 365

- Improving flow through using pull control 365
- Improving flow through reducing inventory 367
- Improving flow by decreasing capacity utilisation 368

### 11.3 How does lean consider (and reduce) waste? 369

- Causes of waste – muda, mura, muri 370
- Types of waste 370
- How improving layout design reduces waste 372
- How improving process flexibility reduces waste 374
- Eliminating waste through minimising variability 376

### 11.4 How does lean consider improvement? 379

- The Rapid Process Improvement Workshop (RPIW) 379
- Encouraging improvement by ‘stopping the line’ 380
- Gemba walks – the principle of go-see 381
- Value stream mapping for understanding flow and identifying sources of waste 382
- Keeping things simple – the 5S technique 382
- Adopting visual management 383
- Adopting total productive maintenance (TPM) 384

**11.5 How does lean consider the role of people? 384**

**11.6 How does lean apply throughout the supply network? 385**

Summary answers to key questions 390

Problems and applications 392

Want to know more? 394

Notes on chapter 395



12

## Quality management

Introduction 397

Key questions 397

### 12.1 What is quality and why is it so important? 398

The operation's view of quality 398

Customers' view of quality 399

Reconciling the operation's and the customer's views of quality 402

How can quality problems be diagnosed? 403

### 12.2 What steps lead towards conformance to specification? 404

Step 1 – Define the quality characteristics 405

Step 2 – Decide how to measure each characteristic 406

Step 3 – Set quality standards 406

Step 4 – Control quality against those standards 407

Steps 5 and 6 – Find and correct causes of poor quality and continue to make improvements 413

### 12.3 What is total quality management (TQM)? 414

TQM as an extension of previous practice 414

The meaning of TQM 415

TQM means meeting the needs and expectations of customers 416

TQM means covering all parts of the organisation 416

TQM means including every person in the organisation 417

TQM means all costs of quality are considered 417

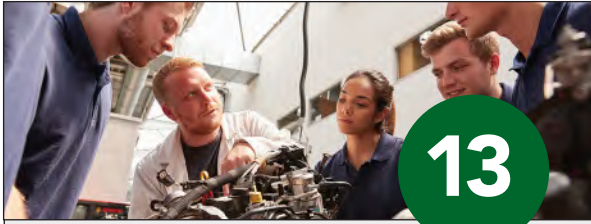
TQM means developing the systems and procedures that support quality and improvement 420

Summary answers to key questions 424

Problems and applications 426

Want to know more? 428

Notes on chapter 429



## Project management

Introduction 431  
Key questions 431

### 13.1 What are projects? 432

Common features of projects 433  
Differentiating between projects 433

### 13.2 What is project management? 437

Project managers and their skill sets 437

### 13.3 How is the project environment understood? 441

The role of stakeholders in the project environment 441

### 13.4 How are projects defined? 445

Project objectives 446  
Project scope 447  
Project strategy 447

### 13.5 How are projects planned? 449

Identify project activities – work breakdown structure 449  
Estimate activity times and resource requirements 449  
Identify the relationships and dependencies between activities 451  
Identify time and resource schedule constraints 452  
Fix schedule for time and resources 452

### 13.6 How are projects controlled and learned from? 453

Project monitoring 453  
Assessing project performance 453  
Intervention in projects 456  
Project learning 459

Summary answers to key questions 460

Problems and applications 462

Want to know more? 464

Notes on chapter 465