BUSS 2
Student Revision Booklet

Topic Title: Quality

Key Terms:

- **Quality- The features of a product or service that allow it to satisfy customers**
- **Quality Control- Is a system that uses inspection as a way of finding any faults in the good or service being provided. This system usually involves a human checking the finished product which have been made by machines.**
- **Quality Assurance- Is a system which aims to achieve or improve the quality by organising each process to get the product correct each time to prevent mistakes happening in the first place.**
- **Total Quality Management (TQM)- This type of quality involves all employees of a firm. Which is where quality is checked at every stage of the production process rather than just at the end.**

ADVANTAGES	DISADVANTAGES
IMPACT ON SALES VOLUME- if the	COSTLY- Quality systems cost a lot of money to set

quality is good, demand for the product or service increases.	up.
CREATES A UNIQUE SELLING POINT- The level of quality of the product or service can be used as a unique selling point to increase demand.	TRAINING- For quality assurance, training is needed so that workers are skilled enough to get the product right first time. Workers may then take their skills elsewhere.
IMPACT ON SELLING PRICE- Businesses can increase their selling price if their product or service is of good quality.	DISRUPTION TO PRODUCTION- To get employees ready for the improved production line, they will need to be taken off the current one, this therefore can damage the quality and quantity of products produced in the short term.
THE FIRM'S REPUTATION- The better the quality of a product/service, the less likely that poor quality can damage a business's reputation.	

Why is it important to have good quality?

It's important to have good quality so that the product is completed to its best standard, to increase its value, another reason it's important to have good quality is because your product would be more liable to get good reviews. It also may give it a unique selling point from other products making you stand out in the market.

Operations – Customer service

Meeting the needs and wants of the customer

Key terms

-Customer	-Positive Language
-**Training**	-**Add-ons**
-**Listening**	-**Training**
-**Innovation**	-**Loyalty**
-**Standard** of service	-Quality assurance
-**quality**	
-Expectations	

Monitoring and improving customer service.

Monitoring customer service can be done in many ways. One of these can be asking the customers for feedback. If they received bad customer service they will tell the person asking what the problem was. This means that they can pinpoint the area that they need to improve on.

Another is a mystery shopper. Some companies employ mystery shoppers to perform transactions and then report on the level of service they received. The advantage of this monitoring technique over customer feedback is that the mystery shopper knows what to look for the moment he sets foot in the business.

Complaints and compliment letters are also used. This is because if several similar complaints are received, there is obviously a problem that needs immediate attention.

Staff feedback is a valuable piece of monitoring customer service. This is because many staff receive or overhear customer comments, both positive and negative. In addition, if staff are unhappy and leave to work elsewhere, it is sensible to find out why.

Methods of meeting customer satisfaction

Know your customer

Try to gather information about as many of your customers as possible.

- Try to find out what your customers are buying
- Why they are buying and the frequency of their purchases

This information could be gathered using many different methods however the main one is using a **survey**.

Understand your customers' needs

Each customer will have a different perception of what customer service means to them. To provide good customer service, knowing the needs of the customer and how to fulfil those needs helps.

- Find out how your **customers' expectations** of the businesses **customer service**
- **Research your marketplace** and your **target markets** to find out what your **customers expect of your business in your location**.

Meet your customers' needs

Match your level of service to suit your customers' needs. Or go beyond their expectations.

Some ways to go beyond customer expectations are:

- **Introducing initiatives** - for example customer survey cards or a suggestion box. These send a clear message to customers that you are interested in their input.
    - **Promotions and deals for buying your product**
- **Add-ons** – Add ons **add to the value of the product**. If the customer service is good then the added things to the product e.g. boxing, gift wrap. Adds even more to the service which encourages more buying from the company.
- **Training** –Staff need to be trained so that the quality of customer service will be greater than it would be without trained staff. This is because the will know how to deal with the customers.
    - **Quality assurance** - A system of checks designed to ensure that products are free of faults. This means that customer service will always be at a high quality as the products or service will constantly be without

faults.

Benefits of high levels of customer service

- The potential benefits to a business from providing a consistently high level of customer service include:
- • **Increased sales** – more likely to try out other products/services too
  • **Customer loyalty** –more likely to be a source of repeat business and to recommend the business to friends and family
  • **Enhanced public image** – helps build a brand and provides protection if there is a slip-up in customer service
  • **More effective workforce** – satisfied customers help create a positive working environment

Profit

Key Terms

Profit- the money available to the business after the total cost of production and tax has been deducted

Net profit margin- net profit/ Revenue

Gross profit margin- When analysing a company, gross profit is very important because it indicates how efficiently management uses labour and supplies in the production process. More specifically, it can be used to calculate gross profit margin.

Return on capital – the amount of profit that production brings to the business

Methods to reducing cost of production

- Employ more capital intensive labour depending on the output of the business
- Change to a cheaper supplier- but this may reduce the quality of the supply and decrease the reputation of the business
- Minimise waste
- Decrease overheads
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Methods of improving profits

- Reduce costs
- Increase productivity of staff
- Develop new production lines
- Find new customers
- Find new market s
- Customer service
- Increase prices
- Price discounts

Formulas

- Total Revenue -Total Expenses = Net Profit
- Gross Profit = Gross Sales – Cost of goods sold]
- ROCE = Earnings Before Interest and Tax (EBIT) / Capital Employed
- Gross Profit Margin
- Net profit Margin

CA$H FLOW

Key Terms

Cash Flow - the total amount of money being transferred into and out of a business, especially as affecting liquidity.
Liquidity – when the business runs out of money or the money is entering negative figures.
Overdraft - An extension of credit from a lending institution when an account reaches zero.
Factoring of debts - The sale of a business' invoices to a third party. The third party is charged with processing the invoices, and the business lending the invoices is able to receive loans based on the expected payments on the invoices
Sale and leaseback - An arrangement where the seller of an asset leases back the same asset from the purchaser. In a leaseback arrangement, the specifics of the arrangement are made immediately after the sale of the asset, with the amount of the payments and the time period specified.

Advantages of cash flow

- A reduction in stress and pressure. The ability to spot trends and anticipate a cash flow crunch. The sooner you can anticipate a tight cash flow period the more time you have available to take contingency action. For example:
- Asking for an extended overdraft over the tight period.
- Speaking to suppliers about extended lines of credit.
- Having a sale to raise cash from slow moving stock.

Drawbacks of a cash flow

- The main disadvantage of Cash flow accounting is that it ignores the accrual or matching concepts

Steps to solve a cash flow problem

- Offer discounts to customers who pay their bills rapidly.
- Ask customers to make deposit payments at the time orders are taken.
- Require credit checks on all new noncash customers.
- Get rid of old, outdated inventory for whatever you can get.

- Issue invoices promptly and follow up immediately if payments are slow in coming.
- Track accounts receivable to identify and avoid slow-paying customers. Instituting a policy of cash on delivery (c.o.d.) is an alternative to refusing to do business with slow-paying customers

Working with and choosing Suppliers

Key term

Prices	The price that the supplier is willing to accept will heavily influence whether a firm does business with them or not. It often gets better with greater numbers of output.
Payment terms	This is the terms in which the supplier demands to be paid. They may demand payment up front on every order, pay on credit or a customised deal.
Quality	The quality of the product or service that the supplier provides will influence a firm's decision in whether or not to deal with them.
Service level agreement	Agreements or contracts with suppliers that clearly lay down the service they must provide.
Capacity	How many units of a product or service your firm needs or can take will affect which supplier you choose.
Reliability	Whether you can depend on the firm and there reputation from past deals will affect the firms decision to deal with them. If you do not think they will supply the product for when you agree, you are less likely to buy from them.
Flexibility	How easily the supplier can change orders to meet the changing demands of the firm. If the firm has a changing demand it would be best to use a flexible supplier.
Supplier relationships	The links with the company that supply a business with goods and services. The better the relationship, the better the quality or price the firm will get from the suppliers. It is normally built up through bulk buying and return custom.

Suppliers are vital in business as they provide what a firm needs to have a business. Without products a firm cannot make sales.

A firm would base their decisions on choosing their supplier on their own needs, but the main factors would be the price, quality and payment methods. Firms may choose to use multiple suppliers, but there are different advantages and disadvantages for doing so.

Advantages and disadvantages of having a good relationship with your supplier

Advantages

- Possible chance of discounts
- Better transport times
- Priority over competition
- Receive new products before competition

Disadvantages

- Stuck with that supplier, others may be cheaper or higher quality
- May not be able to stay competitive
- May take advantage and raise prices

Technology in operations

Key Words
Robotics
Stock control
Computer aided design
Computer aided manufacturer
Communication
Technology

Types of technology in Operations management

- Robotics - Robotics are now widely used in nearly all manufacturing industries. Using robots for this purpose is called computer-aided manufacturing.

- Technology – the application of scientific knowledge for practical purposes.

- Stock control – Allows the business to make decisions on stock management, it involves keeping constant up to date records and it can be done by scanning barcodes at an EPOS to establish stock levels.

- Computer Aided Design – Designs can be sent, modified and worked on by multiple people easily. Designers can try various designs and try changes easily without having to completely redraw the designs.

- Computer aided manufacture; this method is used to be more efficient as machines can operate 24/7, without having any kind of break. Bu using CAM, there is no motivation or salary needed, which would lead to reduced costs in the long run. Also there is no risk om employee's striking. CAM can also be modified to complete different which is cheaper and quicker than training current or new staff.

Operations – Capacity Utilisation

Term	Definition
Non-Standard orders	Orders for products or services that the business does not usually provide or deliver, e.g. a restaurant produces a special menu for a large group.
Production	The action of making or manufacturing from components or raw materials, or the process of being so manufactured.
Demand	An economic principle that describes a consumer's desire and willingness to pay a price for a specific good or service.
Overtime	Time worked in addition to one's normal working hours
Temporary	Lasting for only a limited period of time; not permanent.
Part-time	For only part of the usual working day or week.
Rationalisation	Making things smaller, e.g. making the workforce smaller.
Sub-contracting	A firm or person that carries out work for a company as part of a larger project.
Stocks	A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings.
Output	The amount of something produced by a person, machine, or industry.
Unit Costs	Calculated cost for a given unit of a product
Quality	The standard of something as measured against other things of a similar kind; the degree of excellence of something.
Capacity Utilisation	

Content

Dealing with non-standard orders:

Whether a firm should accept a non-standard order depends on:

- Whether they will make a profit for the order
- Whether further orders may follow
- How important the customer is
- Whether other potential customers exist for the non-standard product/service.

How does the firm increase output or deliver the extra service?

- Outsourcing
- Hiring machinery and employing temporary workers
- Using job production – this is a method of production where a one-off, customised product is produced to the exact business specification.

Calculating and managing capacity utilisation

Capacity is the maximum output that a business can produce in a given period with the available resources

- Usually measured in production units (eg 1000 cars per month)
- Production capacity can change:
  - When machines are having maintenance
  - Linked to labour – more shifts worked = more production
- Needs to take account of seasonal or unexpected change in demand
  - Chocolate factories need to make Easter eggs in November/December to ship to shops after Christmas
  - Ice cream factories need to quickly increase capacity during a heat wave

Capacity utilisation is the percentage of total capacity that is actually being achieved in a given period

Capacity utilisation formula is expressed as a percentage

(Actual level of output / maximum possible output) x 100

- Often used as a measure of productive efficiency
- Average production costs tend to fall as output rises
- Firms usually aim to produce as close to 100% as possible

Why produce at <100%

- Lower demand
  - General reduction in overall market demand
  - Loss of market share
  - Seasonal variation in demand
- Increase in capacity
  - Possibly new technology introduced
  - Provide some "slack"
- Inefficiency
  - Poor maintenance, quality, employee disruption

How to produce > 100%

- Tends to be in the short term
- Increase workforce hours
    - Extra shifts, encourage overtime, temporary staff
- Sub contract some production activities
    - Eg assembly of components
- Reduce time spent maintaining production equipment

Problems working at high capacity

- Negative effect on quality
    - Production is rushed
    - Less time for quality control
- Employees suffer
    - Added workloads & stress
    - Demotivating if sustained for too long
- Loss of sales
    - Less able to meet sudden or unexpected increases in demand
    - Production equipment may need repair

Operational targets/ objectives

Key Terms

Content Coverage

Cost and Volume Targets
A business needs to ensure that operations are cost effective
The traditional measure of cost effectiveness is "unit cost"
Businesses in the same industry face similar cost structures, but each varies in terms of productivity, efficiency and scale of production
The business with the lowest unit cost is in a strong position to be able to compete by being able to:
-offer the lowest price, or
-make the highest profit margin at the average industry price

You can work out the average cost per unit using this formula:
Total production costs in period (£)/ Total output in period (units)

Example: Productivity and efficiency
Unit costs per item
Contribution per unit
Number of items to produce
Quality
Quality is one of the most important challenges facing a business
Markets are more competitive: customers are more knowledgeable, demanding, prepared to complain about poor quality and able to share info about poor quality
If a business can develop a reputation for high quality, then it may be able to create and advantage over its competitors.

Efficiency and flexibility
Closely linked to cost targets

Look at how effectively the assets of the business are being utilised
Also measure how responsive the business can be to short-term or unexpected changes in demand
Efficiency and flexibility are key determinants of unit costs

Examples – labour productivity, output per time period, capacity utilisation, order lead times

Environmental
An increasingly important focus of operational targets
Businesses face more stringent environmental legislation
Customers increasingly base their buying decisions on firms that take environmental responsibility seriously
Targets usually closely integrated into a firm's approach to corporate social responsibility
Examples – proportion of production or packaging materials that are recycled
Compliance with waste disposal regulations / proportion of waste to landfill
Supply of raw materials from sustainable sources

USING BUDGETS

Key Terms:

Budget

Variance

Adverse Variance

Favourable Variance

Content Coverage

Definitions

Budget: **A budget is a plan of expenditure in a business.**

Income Budget: **The plan of inflows in a business.**

Expenditure Budget: **The plan of outflows in a business.**

Variance Analysis: **The process by which the outcomes of budgets are examined and then compared with the budgeted figures, the reason for the difference is then analysed.**

Adverse Variance: **A prediction higher than the actual for expenditure and lower than the actual for income.**

Favourable Variance: **A prediction lower than the actual for expenditure and higher than the actual for income.**

E.G.	Budget (£000's)	Actual (£000's)	Variance (£000's)	Favourable or Adverse
Total Revenue	100	90	-10	Adverse
Total Costs	80	75	5	Favourable
Profit	20	15	-5	Adverse

BENEFITS	*DRAWBACKS*
They provide direction and coordination	They are difficult to monitor fairly
Help control finance	Allocations may be incorrect
They motivate staff	Savings may be sought that are not in the interests of the firm
They improve efficiency	Changes may not be allowed for when a budget is reviewed
They asses forecasting ability	Training requirements