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INTERNATIONAL OPERATIONS MANAGEMENT

Abstract

International operations management is the set of activities used by an international firm to transform resources into goods or services. Effective operations management is a key ingredient in any firm's success.

Key words: *operations management, bar codes, scanners, information technology, chain.*

Аннотация

Международный операционный менеджмент – это совокупность действий, осуществляемых международной фирмой для преобразования ресурсов в готовые товары и услуги. Эффективный операционный менеджмент – ключевой элемент успеха любой фирмы.

Ключевые слова: *операционный менеджмент, штрих-коды, сканеры, информационные технологии, сеть.*

Аңдатпа

Халықаралық операциялық менеджмент – бұл жүзеге асып жатқан халықаралық фирмалардың тауарлар мен қызмет көрсетулер үшін ресурстардың өзгеру жиынтығы. Тиімді операциялық менеджмент – кез-келген фирмалар жетістіктерінің қайнар көздері.

Түйін сөздер: *операциялық менеджмент, штрих-кодтар, сканерлер, ақпараттық технологиялар, желі.*

COLORING THE WORLD

Benetton Group SpA, the trendy Italian clothing chain, has grown up from a two-person operation in 1955 to a multinational clothing empire. The first Benetton retail store opened in a fashionable ski resort in the Italian Alps in 1968. Other stores quickly followed in the leading fashion capitals of Europe. When the Iron Curtain fell, Benetton was among the first western European retailers to set up shop in central Europe and Eastern Europe. It now has hundreds of stores throughout the former communist bloc, as well as stores in such far-flung locations as Turkey, Japan, and Egypt. Benetton is also opening stores in China at an aggressive pace. In total, Benetton distributes its goods through 5,000 outlets in some 120 countries. Almost all Benetton outlets are independently owned; Benetton licenses its name to these shop owners, who in turn must carry only Benetton goods.

What are the keys to Benetton's success? Italian styling and reasonable prices are certainly two of the main ones. However, it is Benetton's expertise in operations management that has enabled the firm to stay a world-class competitor in the fashion industry. Benetton has a commitment to achieving quality and meeting customer needs through its manufacturing and distribution systems. Design and production are centralized in Italy so the firm can maintain tight control over manufacturing costs, quality, and related considerations. The starting point in the Benetton system is information technology. Each retail transaction in a Benetton store is electronically coded and transmitted to a central information-processing center in Italy. Managers there can track three vital pieces of information that are critical to success in any retailing operation: absolute sales levels, sales trends and patterns, and inventory distributions. This information also can be analyzed for individual stores, for clusters of stores in an area, by country or on a global basis.

Managers use this sales information to plan and adjust production activity. Whenever a new garment is designed, its creators try to plan for possible variations and alterations. For example, a new shirt will be designed so it can be produced with short, mid-length, or full-length sleeves and with or without a collar. Early production runs and shipments will include all six possible styles. A portion of those runs also will be devoted to making shirt bodies without sleeves or collars. As sales figures begin to arrive, managers very quickly can tailor production adjustments to these inventoried shirt bodies to finish them out according to customer demand. If shirts with mid-length sleeves and a collar sell much faster than other variations, more of this type of shirt can be finished quickly and shipped to stores. The same approach also is used for colors.

Bar codes and scanners are used throughout Benetton factories and warehouses. Using fully networked computer workstations, managers can plan and initiate production runs based on style and color demand. Partially completed products are pulled from shelves by robots and placed on final production lines. As those products are finished out, bar codes are attached, and the products are

automatically wrapped, packaged, and shipped to those stores that need inventory replenishment. Through the use of this sophisticated system Benetton can fill an order from any of its 5,000 stores spread throughout the globe in 13 to 27 days. Yet another key to Benetton's success is that it continues to invest in information technology to keep its operations management systems and processes at the forefront of the industry. For instance, in 2003 the firm implemented a new integrated software system for managing its supply chain.

Benetton has flourished for various reasons. Among them are its ability to track demand for each of its products and then to take the appropriate steps to satisfy that demand promptly and efficiently. By centralizing its design and manufacturing systems in its home country of Italy, Benetton is able to maintain tight control over those and related functions. By building flexibility into design, production, and distribution, the firm is able to get new inventory to its stores around the world much faster than most of its competitors. The basis for planning and implementing these activities is operations management.

Some firms, such as Shell, Exxon Mobil, and BP, are concerned with physically transforming natural resources into various products through complex refining processes. Others, such as Dell, Sony, and Philips, purchase completed component parts from suppliers and then assemble the parts into electronics products. Still others, such as Air France and JAL, use a global travel network to provide transportation services to people. Regardless o9f a firm's products, however, the goal of its international operations managers is to design, create, and distribute goods or services that meet the needs and wants of customers worldwide – and to do so profitably.

Operation management is the set of activities an organization uses to transform different kinds of inputs into final goods and services. International operations management refers to the transformation-related activities of an international firm. Figure 1 illustrates the international operations management process. As shown, a firm's strategic context provides a necessary backdrop against which it develops and then manages its operations functions. Flowing directly from the strategic context is the question of standardized versus customized production. The positioning of a firm along this continuum in turn helps dictate the appropriate strategies and tactics for other parts of the operations management process. The next part of international operations management is the activities and processes connected with the acquisition of the resources the firm needs to produce the goods or services it intends to sell. Location decisions – where to build factories and other facilities – are also important. In addition, international operations managers are concerned with logistics and materials management – the efficient movement of materials into, within, and out of the firm.

Operations management is also closely linked with quality, productivity, and information technology. A firm's operations management system largely determines how inputs are transformed into goods or services. Properly designed and managed operating systems and procedures play a major role in determining product quality and productivity. For example, Benetton is able to squeeze extra measures of productivity from its distribution centers because of its highly efficient and flexible design. Conversely, poorly designed operating systems are a major cause of poor quality and lower productivity. They promote inefficiency and can contribute in various ways to higher costs and suboptimal profit performance.

The central role of operations management is to create the potential for achieving superior value for the firm. That is, operations management is a value-adding activity intended to create or add new value to the organization's inputs in ways that directly impact outputs. If operations can take $2 worth of inputs to create $10 worth of goods or services, it has created considerable value. However, if it requires $9 worth of inputs to create the same $10 worth of goods or services, it has created much less value.

Figures 1 indicates that international operations management must be aligned closely with a firm's business strategy. Indeed, the business strategy set by top managers at the firm's corporate and regional levels will affect all facets of the planning and implementing of operations management activities, such as supply chain management strategies, location decisions, facilities design, and logistics management. For a company pursuing a differentiation strategy, the operations management function must be able to create goods or services that are clearly different from those of the company's competitors. For a firm like Porsche or Rolex that wants to compete on the basis of product performance and status, costs will be less important than product quality and design. As a result, production facilities may need to be located where there is a skilled labor force, even if the cost of employing that labor is relatively high. For example, Porsche has never considered shifting its production from Stuttgart to a lower-labor-cost locale because its highly skilled workforce is vital to producing its high-quality cars.

Conversely, for a firm following a cost leadership strategy, the operations management function must be able to reduce the costs of creating goods or services to the absolute minimum so the firm can lower its prices while still earning an acceptable level of profits. In this case cost and price issues are central, whereas quality may be less critical. As a result, locating production facilities where labor costs are especially low may be highly appropriate. Hong Kong's Roly International Holdings, for example, annually sells over$200 million worth of low-priced home decorations, such as Christmas tree lights and plaster bird baths, made in its factories in China. Its goods are shipped via slow but low-cost cargo ships to be distributed by discounters such as Wal-Mart and Walgreen's.

Another factor affecting the firm's choices is the extent o which it uses standardized or customized production processes and technologies in every market where it does business, then its operations systems can – and almost certainly should be – globally integrated. Such firms may choose to adopt global product designs, for example, to capture more easily global efficiencies generated by their operations. On the other hand, if a firm uses a unique operations system in each market where it does business, such global integration is not only unnecessary but also likely to be impossible. Often such firms adopt a global area design to promote responsiveness of their operations managers to local conditions.

For example, Toyota uses a standardized operations management strategy in that it makes the same cars using the same manufacturing processes around the world. Thus it can share technology between plants and freely ship component parts between factories in different countries. Conversely, Nestle tailors its mix of products, as well as their ingredients and packaging, across markets. So although there may be some sharing of production technology, Nestle tends to operate each production facility as more of a self-contained unit.

Complexities of International Operations Management: International operations management presents one of the most complex and challenging set of tasks managers face today. The basic complexities inherent in operations management stem from the production problem itself – where and how to produce various goods and services. Operations managers typically must deal with important and complex issues in three areas:

1. Resources: Managers must decide where and how to obtain the resources the firm needs to produce its products. Key decisions relate to supply chain management and vertical integration.
2. Location: Managers must decide where to build administrative facilities, sales offices, and plants; how to design them, and so on.
3. Logistics: Managers must decide on modes of transportation and methods of inventory control.

All firms, whether domestic or international, must address these issues. However, resolving them is far more complicated for international firms. A domestic manufacturer may deal with only local suppliers, be subject to one set of government regulations, compete in a relatively homogeneous market, have access to an integrated transportation network, and ship its goods relatively short distances. An international manufacturer, in contrast, is likely to deal with suppliers from different countries and confront different government regulations wherever it does business, as well as very heterogeneous markets, disparate transportation facilities and networks, and relatively long shipping distances. International operations managers must choose the countries in which to locate production facilities, taking into account factors such as costs, tax laws, resource availability, and marketing considerations. They also must consider potential exchange rate movements and noneconomic factors such as government regulations, political risk, and predictability of a country's legal system. Further, they must consider the impact of facilities' locations on the firm's ability to respond to changes in customer tastes and preferences. Finally, they must factor in logistical problems. Just as long supply lines doomed Napoleon's invasion of Russia, locating factories far from one's suppliers may impede timely access to resources and materials.

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