

# GCSE Business Studies Unit 3: Business Operations:

The production process, The Role of Procurement, The concept of Quality, Good Customer Service



The transformation process describes what happens inside the business.  
This is where value is added to inputs to create outputs

The production process: Methods of production:



Job: Products are supplied to meet the exact requirements of a customer.



Flow: Products move continuously from one stage of the production process to another

<u>Advantages of Flow Production</u>	<u>Disadvantages of Flow Production</u>
High volumes of output, high sales if demand	High initial costs buying the production line
Allows specialisation of workers (therefore more efficient as workers have fewer tasks to learn/complete)	RISKY: if demand is low or falls the machines may not be used and therefore the costs per unit is high.
Long Term cheap to produce = reduced costs per unit as the cost is spread over millions of units	Lack of flexibility: millions of similar items are produced
	Specialisation can lead to boredom and demotivated workers (High Labour Turnover, High Absenteeism – this is expensive)

Efficiency in production: How well a business uses its resources to produce products. Including:

1. How well employees are managed - link to motivation and cost per unit
2. How good suppliers are - reliability, quality, efficiency, cost per unit
3. Investment in technology and machinery - faster/ efficient = reduced cost per unit
4. Job or flow production used – faster/efficient = reduced costs per unit
5. How lean the business = minimising waste

**Lean production:** Minimise waste

**Just in time (JIT)** Holding as little stock as possible. Items are ordered just as they are needed

The Role of Procurement

<b>Just In Time (JIT)</b> Businesses hold as little stock as possible, items are ordered just in time to be used	<b>Just In Case (JIC)</b> Businesses hold stock just in case there is a delay from suppliers or a sudden unexpected increase in demand
Less money tied up in stock (lower opportunity cost)	Purchasing economies of scale could be gained as the business buys in larger quantities
Materials can't be damaged/stolen while waiting to be used	Stock is available for production good if demand increases = SATISFY DEMAND
Less space is needed to warehouse the materials (reduced rent/fixed costs)	Fewer deliveries and delivery costs
More deliveries, higher costs, less E of S and environmental impact	Larger factory needed for storage
Vulnerable to supplier delays, production may halt	

Procurement:

Selecting suppliers. Considerations include: price, quality, reliability.

The effects of procurement and logistics including: efficiency, lower unit costs.

Supply chain:

All the businesses, people and activities that take place in the production process from the start until it gets to the customer

Considerations when choosing Suppliers:

Costs	Quality	Range of product they supply
Speed of delivery	Reliability	Flexibility to change orders
Contract terms – compensation if late?	Reputation	Payment terms – Trade credit

## The concept of Quality

Staff, Customers and Mystery Visitors can measure the quality of what a business is doing!

<u>Benefits of good Quality</u>	<u>Consequences of Poor Quality</u>
Recommendations and positive word of mouth	Customer dissatisfaction – damaging the brand
Saves money – cheaper to get it right the first time	Cost of recalling faulty products
Charge higher prices, higher revenue, higher profit margins	The cost of replacing goods
Improved brand name and reputation	The cost of waste: items thrown away that are poor or not demanded
	The cost of legal action

### Total Quality Management (TQM)

- Everyone in the business to focus on improving quality.
- Prevent mistakes occurring rather than fixing them.
- Internal Customers: you pass the product onto the next worker/customers the product needs to meet the set standard before you pass it on. If it's not perfect the worker must send it back.
- Clear targets for quality for all workers.
- Workers must have the training and resources needed to complete their part of the production process to the required standard.

### How does a firm maintain consistent quality?

1. Reliable suppliers that use good quality products themselves.
2. Train staff so they know how to do their job and so they know what the desired standards are.
3. Invest in equipment
4. Inspect products throughout the production process to check for defects (easier/cheaper to amend as you go not at the end)
5. Involve staff in improving the process (Kaizen groups)
6. Check suppliers and make sure they can deliver what you want when you want it.

As a business grows including franchising and outsourcing it may be difficult to monitor all aspects of production and quality.

## Good Customer Service

The product	Product or service meets customer Needs and Wants
Reliability	Goods should do what they are meant to do
Safety	Products and businesses should focus on customer safety
Customer Engagement	Businesses build a positive relationship with customers
Good product Information	From labels, trained knowledgeable staff, websites
Post sales service (after sales)	Delivery, exchanging goods, repairing goods, dealing with complaints
Premises	Clean, clear signage, disabled and baby facilities
Different Methods of Payment	Cash, cheques, electronic payment
Managing Customer Expectations	Businesses should not disappoint customers they should meet/exceed their promise.

Benefits of good customer service, including:

- Increase in customer satisfaction
- Customer loyalty
- Increased spend
- Profitability

Dangers of poor customer service, including:

- Dissatisfied customers
- Poor reputation via word of mouth
- Reduction in revenue

The ways in which advances in ICT have allowed customer services to develop:

- Websites:

Pictures, Videos, lots of product information so customers can make a well informed choice.

Advertises a small business to the mass market leading to increased sales.

Frequently asked questions (FAQ's) provides information/answers to customers.

Emails can be sent to check information, solve problems or complain.

- E-commerce/M-commerce

Customers can view items 24/7 all over the world

Customers can read other peoples reviews

Online support teams enable customers to ask questions

Customers may get suggestions of other products to look at

Customers benefits from lower prices than the high street

- Social media.

Facebook, twitter, snapchat, Pinterest: Promote and communicated to existing and potential customers

- Data Analysis

Using data to inform decision making

