GLOBALISATION

Globalisation refers to the movement around the globe of goods, people and capital. This has been facilitated by the reduction and removal of trade barriers. Globalisation provides many opportunities for business.

This trend has had significant impacts on the Operations function. Manufacturing is often located overseas to take advantage of lower employment costs. Check your iPhone, iPad or iPod. It will say 'designed in California, made in China'. The hourly rate of pay in China is lower than in the US and China's Occupational Health and Safety laws are not as strict, again allowing for lower costs. Foxconn produce computers for Apple and Dell, their labour rates are $2.30 per hour. iPhones are sent to Singapore, Portland or direct.

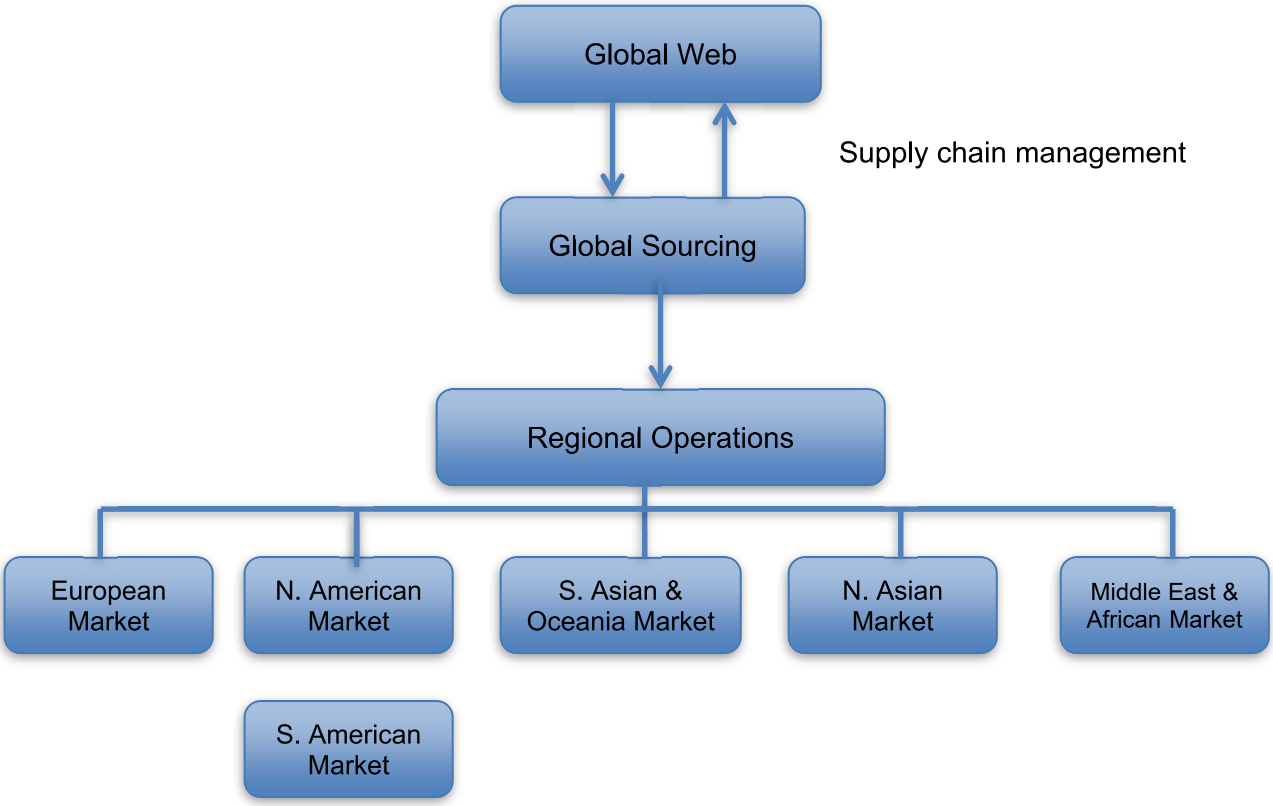
Relocating production overseas can also make the supply of raw materials easier and cheaper to source. Some countries have reputations for particular skills and expertise and this can also be a driver for relocation of production. For example, Italy has a reputation for contemporary design whilst Japan is associated with technological innovation. Over the past five years or so, businesses have relocated aspects of their operations to India to take advantage of a computer literate workforce and lower rates of pay. Optus customer service operates from India and Readers Digest Australia transferred its IT section over there in 2009. However, outsourcing is not limited to South East Asia. In 2013, Flight Centre announced outsourcing some of their operations to New Zealand to take advantage of higher productivity rates.

The emergence of global consumers cannot be overlooked. In countries like India and China, the middle class is expanding rapidly. In April 2015 Apple announced a 70% increase in sales from China and this is now the largest market outside the US. With this affluence, comes a demand for consumer goods. India is tipped to be the 5th biggest consumer market globally by 2025. Most businesses cope with this by offering standardised products. There will be times, however when a product will have to be differentiated, as in the IKEA US experience referred to earlier. It is essential that markets are thoroughly researched to ensure that products are culturally sensitive. Language in particular can be a difficulty and over the years products have failed in new markets as a result. The gold iPhone 6, large screens and watches are designed for the China market.

In 1988, the General Electric Company (GEC) and Plessey combined to create a new telecommunications giant. A brand name was desired which suggested technology and innovation. The winning proposal was GPT for GEC-Plessey Telecommunications. Not only was the name uninspiring in English, it was disastrous from a European branding point of view. GPT is pronounced *'J'ai pété'* which means 'I've farted'.

The German word *'mist'* means manure or dung. Consequently, over the years there have been some marketing mishaps. Clairol introduced its 'Mist Stick' curling iron into the German market, without changing the name. It didn't sell very well! Despite this, 'Irish Mist Liqueur', a whiskey liqueur was marketed in Germany with the semi-Germanised *'Irischer Mist* brand name, which translates to 'Irish Dung' so unsurprisingly, sales were slow! It is now marketed as *'Irish Moos'* which means Irish Moss and it is a very popular product.

The ***Global Web*** refers to 'the network of suppliers a business has chosen on the basis of lowest overall cost, lowest risk and maximum certainty in quality and timing of suppliers', (Chapman et al., 2011).



(Adapted from 'Business Studies in Action', Chapman et al., 2011)

Supply chain management is crucial. A global business needs to have reliable suppliers who are able to respond to changes in demand. Without suppliers, the operations process will not have the inputs necessary to produce outputs. Once again, cost leadership principles will be integral to the selection of suppliers. The Global Web strategy aims to achieve this by locating reliable suppliers who are close to the manufacturing facilities.

Some companies like Apple and McDonalds adopt an innovative model to operations and management practice. This approach allows a business to be a market leader. Other organisations are imitators. Burger King for example, waits for McDonalds to innovate and then produce a similar product, at a lower cost. Toyota patented the hybrid technology in the Prius model to preserve their place in the market. Innovation not only builds a business **brand**, but is also enables a higher price to be charged and hence higher profit margins.

TECHNOLOGY

Technology is a driver of globalisation. In other words, advances in technology have encouraged and facilitated global expansion. Administration and operations rely on technology.

A business can gain a competitive advantage through the use of technology. Woolworths was the first supermarket chain to introduce self-checkout robots. This technology allows customers to spend less time queuing and is particularly aimed at shoppers who are just popping in for a few items. While the technology is expensive, it has resulted in savings in human resources. One attendant can monitor six checkouts, answering customer queries and troubleshooting glitches in the program.

When deciding whether or not to invest in new technology, management has to consider the following:

- Technology being used by the competitors.
- The cost of the technology and how that cost will be financed.
- The time taken to introduce the technology – will production have to stop, etc.
- The speed of innovation in that area – will the technology have to be constantly upgraded etc.
- Staffing implications – cost of training, potential redundancies, etc.
- Ethical consideration – unmanned NSW trains.
- Apple use people as they are a cheap source and rates can be easily varied.
- India is still popular but Virgin notes that in 2015 the Currency Rupee appreciated considerably and now are looking at replacing finance outsource with technology.

Computer Aided Design (CAD) technology allows architects, engineers and designers to draw and manipulate three-dimensional designs using a computer. This allows designs to be viewed from a number of different angles and the design can be emailed to clients anywhere in the world.

Computer Aided Manufacture (CAM) technology links the design to the manufacturing process through computers. CAM software means that fewer workers are needed in the manufacturing process and fewer errors are made.

Game show to big data cruncher, IBM Watson to boost customer service

22 May, 2013

IBM has today launched new big data tool IBM Watson Engagement Advisor with launch customers including ANZ and Nielsen. The Engagement Advisor uses the firm's artificial intelligence technology IBM Watson it created two years ago to win American quiz show Jeopardy.

The new cloud-delivered service and online chat session is designed to empower customer-facing employees to better respond to customer queries by crunching a business's big data quickly.

"IBM Watson will empower a brand's customer service agents to provide fast, data-driven answers, or sit directly in the hands of consumers via mobile device," the company said in a release.

"In one simple click, the solution's "Ask Watson" feature will quickly help address customers' questions, offer feedback to guide their purchase decisions, and troubleshoot their problems."

Brands using the tool include ANZ, Nielsen, Celcom, IHS and the Royal Bank of Canada. Joyce Phillips, CEO of global wealth and group managing director of marketing, innovation and digital at ANZ Banking Group, said he envisions the technology will "empower our regional bank advisors" to better serve its clients.

"We are pleased to explore with IBM how Watson can enable smarter, faster financial recommendations – yielding a customer experience that is simple, personalized and steeped in data-informed insights."

Randall Beard, global head of advertiser solutions for Nielsen, said: "Watson's unique capacity to uncover insights from Big Data by simply posing a question in natural language is incredibly powerful."

"Using Watson, we will explore the ways we can help agencies and their client brands more effectively engage with consumers across devices and improve the impact of their advertising and media plans."

Source http://www.bandt.com.au/news/digital/game-show-to-big-data-cruncher-ibm-watson-to-boost

QUALITY EXPECTATIONS

Consumers have an expectation that the goods and services that they purchase are of a good quality and offer value for money. This means that operations must be completed to a basic minimum standard. The consumer expectations for goods and services are summarised below.

Quality expectations – goods	Quality expectations – services
Quality of design: • Quality of raw materials (inputs) • Innovative design • How well it meets the needs of the customer	**Professionalism of the service:** • Cleanliness and layout of the facility • Courtesy of staff and attention to detail
Fitness for purpose: • Does it do what its designed to do • Is it easy to use	**Reliability of the service-provider:** • Efficiency of the service provision • Overall levels of competence
Durability: • Is it reliable and long lasting • Is it easy to maintain and repair • Is there good after sales service	**Level of customisation:** • How well the particular needs of the customer are met through the expertise and experience of the service provider

(Adapted from 'Business Studies in Action', Chapman et al., 2011)

Apple users expect quality to match innovation. Note the considerable uproar when iPhone 6 bent and scratched.

COST-BASED COMPETITION

Cost-based competition occurs when operations management employ a cost-leadership approach as outlined earlier. Businesses may seek to do this by reducing the cost of their inputs – sourcing cheaper suppliers etc. This will allow lower prices whilst still maintaining profit margins. Some businesses will choose to use a differentiation strategy. Costs are divided into two categories, fixed costs and variable costs. You learned about this last year when you looked at break-even analysis. Fixed costs are those costs that do not change and must be covered, even if no sales are made (e.g. rent). Variable costs are those costs directly related to output. The higher the level of output, the greater these costs will be.
If SCM and IM are cheaper than lower costs mean prices can be set at below the market.