

PGDM/PGDM-IB, 2013-15

OPERATIONS STRATEGY (DM- 541/IB-511)

Trimester-V, End-Term Examination: December 2014

Time Allowed: 2 ½ hours

Max Marks: 50

Roll No:

Instruction: Students are required to write Roll No on every page of the question paper. Writing anything except the Roll No will be treated as Unfair Means. In case of rough work please use the answer sheet.

Section A

Please attempt any THREE questions. Each question carries 5 marks.

- A1. Is there an inherent contradiction in the term 'operations strategy'? Explain.
- A2. Distinguish between range flexibility and response flexibility. Give examples.
- A3. What are the typical decisions that managers may need to consider when dealing with capacity strategy?
- A4. What do you understand by process technology? Give two examples each of material, information, and customer processing technologies.
- A5. Write two positives and two negatives associated with global outsourcing.

Section B

Please attempt any TWO questions. Each question carries 10 marks.

- A6. Do performance objectives need to change with time? Please elaborate with examples.
- A7. As the demand increases with time, the operations capacity needs to increase too. How does this impact the breakeven point? Please explain with fictitious (assumed) numbers for demand (number of units), fixed cost, and variable cost.
- A8. Automation has many advantages – it can repeat tasks 'endlessly' with precision and speed. What could be some of the disadvantages of automation? Please discuss.

SECTION C

Read the case given below and answer the questions that follow. This section carries 15 marks.

7-Eleven Japan

Economic stagnation and lack of consumer confidence in Japan over most of the last decade hit its retail sector particularly hard. An exception was 7-Eleven Japan, a franchise convenience store chain, with over 11,500 outlets in Japan. The 7-Eleven organization has maintained its position in the industry by growing profits to a level almost unequalled in the Japanese retail industry and is now

the largest retailer in Japan. Its secret behind years of growth has been its advanced inventory management system supported by sophisticated information technology.

Company legend has it that Toshifumi Suzuki, the Chairman and CEO of 7-Eleven, was inspired to devise his item-by-item control when he tried to buy a shirt at a retail shop. He did not find a suitable size because the shop had sold out, even though he was himself average sized. On enquiry, the shop assistant told him that they always ordered the same amount of stock in all sizes irrespective of demand. 7-Eleven determined never to run needless risks of this type with its customer loyalty.

The company's Total Information System (TIS) integrates all information from its stores, head office operations, district offices, suppliers, combined distribution centres and its field 'counsellors'. This system drives the company's inventory management and distribution/delivery systems. 7-Eleven has, over the years, encouraged its vendors to open common distribution centres where similar categories of goods, such as milk and dairy products, are combined for delivery to the stores on one truck. Thus, small deliveries are made on a regular basis which reduces the need for stock space in the stores but also guards against stock-outs. These common distribution centres also reduce the total number of deliveries a day to individual stores. In 1980 a typical store would receive over 30 deliveries per day; by 1999 this had shrunk to under 10.

The company further refined this common distribution centre process by grouping items for each centre, not by type but rather by storage temperature, for example frozen foods, chilled foods, room temperature process foods, hot foods, etc. This grouping helps to maintain product quality. The TIS also allows the company to respond to changes in trends and customer demand. With an average floor space of just over 1000 square feet, 7-Eleven stores must make sure that every product sold is earning its shelf space. Networked cash registers and hand-held terminals allow sales staff to input details of the type of customer making each purchase. This is tracked, along with the time of the day when the products are purchased, and analysed daily by product, customer type, and store. The aggregated results as well as the data from individual stores, are used by 7-Eleven's field counsellors whose job it is to develop franchisees and 'help the stores make more money'. By combining advanced information and distribution systems, 7-Eleven has been able to minimise the time between the receipt of orders from stores and the delivery of goods.

7-Eleven's expansion was carefully planned to ensure that it has a minimum presence of 50 stores in any area, thus reducing advertising and distribution costs. Franchisees were chosen partly for their willingness to fit in with 7-Eleven procedures. To maintain the welfare of franchisees, the company tries to ensure that skills and learning are shared between stores to continually enhance operations best practices. It seems to be paying off. Average daily sales per 7-Eleven store are more than 30% higher than its main rival. Presumably this is why 7-Eleven's franchisees are prepared to pay relatively high royalty fees compared with its rivals.

- C1. What are the performance factors on which 7-Eleven Japan is competing in the market?
- C2. What implications does it have on its operations strategy?