

PGDM/PGDM-IB, 2014-16

OPERATIONS STRATEGY (DM- 543/IB-513)

Trimester-V, End-Term Examination: December 2015

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. Please be brief.

- A1. What do you understand by the term 'operations'? What is the significance of operations in any business?
- A2. Consider the performance objective of low cost. How can the operations strategy decision areas lead to low cost?
- A3. Distinguish between mix flexibility and volume flexibility. How can an organization achieve response flexibility?
- A4. Consider the strategy of capacity leading demand. What is the impact of this strategy on the generic performance objectives of quality, cost, speed and flexibility? Which of these objectives would you pursue with a capacity leading demand strategy?
- A5. What do you understand by process technology? Give two examples each of material, information, and customer processing technologies.

#### Section B

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

- B1. 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.
- B2. The business environment facing a firm, or changes therein, often influences its strategy. Exemplify this statement using any appropriate case that has been discussed during the course. Please use only one case study used in class.
- B3. Briefly discuss the stages of the product development cycle. Why is IDEO so successful in producing winning designs consistently?

#### Section C

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

### McDonald's 24/7

It is 3:36 a.m. Thursday at McDonald's in Garner, N.C., a bedroom community just beyond the city limits of Raleigh. Although the town's taverns closed more than an hour ago, the last clubgoers are

straggling home. Their cars barrel by ones driven by waitresses, commercial cleaners, musicians, nurses, and computer analysts heading home from work. The McDonald's sign, posted high along a commercial strip of big-box stores and chain restaurants, is one of the few still glowing.

Inside the McDonald's kitchen, Julia Diaz is mixing buttermilk biscuit dough by hand in a giant stainless steel bowl, while Silvia Roldan is grilling sausage patties and eggs for breakfast, which begins in 24 minutes. Outside, at the drive-through window, D.C. Chavis is picking up a Premium Crispy Chicken Ranch BLT sandwich and a large order of fries. Chavis, 24, has just clocked out after 12 hours at a nearby food warehouse. He used to pick up an after-work snack at an all-night convenience store or diner. Now he swings by McDonald's at least five times a week for the premium sandwich combo meal or, if it's later, a McGriddle and a side of hash browns. The food is a lot better at McDonald's, he says, adding that the prices are cheaper and the brand is one he trusts. Says Chavis: "I was raised on McDonald's."

McDonald's went 24/7 in Garner in April, 2005, after a push by corporate headquarters to boost profits by extending store hours. Franchisee Fred Huebner had doubts at first. He doesn't anymore. By catering to the area's night owls and early birds on U.S. Highway 70, Huebner, who put on his first McDonald's uniform almost 35 years ago, figures he has increased his restaurant's revenue by 4.5%, or \$90,000, over a year. "There are so many customers out there all times of the day," he says. "We have to be out there, too."

Over the course of an average day, 1,500 people—the equivalent of 1 out of every 16 people in the middle-class suburb of 24,095—drive in to the Garner McDonald's. The clientele is every bit as diverse as the town's population. Old-timers joshing with one another over morning coffee. Office workers zipping from the pickup window for breakfast behind the wheel. Repairmen on a midshift break. Mothers taking a breather while their preschoolers scamper in the Play Place. Families ordering dinner in Spanish. And, in caravans, twenty-somethings after a night of carousing.

It wasn't always like this. When Ray Kroc launched his first drive-in in 1955, McDonald's was a two-meal place, opening just before lunch and closing not long after dinner. It kept those hours for the next 20 years. Then, with the national introduction of the Egg McMuffin in 1975, the company turned breakfast into a fast-food meal, too. Now the world's biggest restaurant chain wants to take over the rest of the day. Since 2003 more than 90% of the 13,700 McDonald's in the U.S. have extended their hours beyond the basic 6 a.m. to 11 p.m. day. Nearly 40% operate nonstop, up from 0.5% in 2002. Breakfast is busting out of its old boundaries. It now stretches up to seven hours at many locations, and the company is considering making it an all-day option. Next on the agenda: snack foods and fruit smoothies for between-meal refuelings and late-night munchies.

The all-hours offensive reflects a strategic shift at McDonald's. For most of its history, growth meant one thing: more locations. And until the late 1990s it worked. Like a juggernaut, McDonald's rolled over the competition and across the nation, opening hundreds of outlets each year and cranking out a run of hit products. Then the company reached a saturation point. While overall revenue kept climbing, the new sites stole customers from existing locations. Margins and same-store sales slid into 2002, reflecting diminishing returns on the \$1.2 billion a year that the company was plowing into new restaurants during this period. By spending so much time on real estate, recalls James Skinner, a 35-year veteran who was promoted to chief executive in late 2004, "we had lost our focus. We had taken our eyes off the fries."

Today the mantra is "better, not just bigger." Instead of building more restaurants, McDonald's is increasing its financial results by squeezing more from the ones it has. The new focus has forced it to rethink every element of its business, from product development and marketing to restaurant design and technology. In the process, McDonald's, which seemed out of touch with consumers just a few years ago, has attempted to realign itself with contemporary tastes.

The changes are obvious at the newly refurbished McDonald's in Garner. The dark wood and glass display case of its McCafé—think Starbucks (SBUX)—tempts customers with its desserts and sandwich wraps. Sheryl Crow and Norah Jones play on the restaurant's piped-in soundtrack, while flat-screen TVs show cable news. Amid live plants and wrought-iron magazine racks, four leather lounge chairs round out a den. Hand-blown light fixtures cast a warm glow. And that trademark McDonald's smell of burgers and fries? There isn't even a whiff of it. The restaurant's air system whisks kitchen odors outside before they can seep into the dining room. This is a place set up to make customers comfortable. The service is still fast, but the meal itself no longer has to be.

McDonald's is, of course, much more than an ordinary fast-food chain. It is a cultural mirror. The changes at the burger company reflect the evolution of American eating habits. Traditional meals are getting pushed and pulled into nontraditional hours as longer drive times and hours on the job combine with busier after-work schedules to take up more and more of the day. The idealized vision of a family gathering for a home-cooked dinner seems as dated as Father Knows Best. These days, with the typical American eating out five times a week, according to market researchers at npd Group in Port Washington, N.Y., the dining room is likely to be a car seat in the family SUV. "People don't sit down and have an organized meal today," observes Marlene Schwartz, director of research and school programs at the Rudd Center for Food Policy & Obesity at Yale University. "Eating is something you check off."

Early morning: at 5:50 a.m. on Thursday in Garner, CNN is on the restaurant's two wall-mounted flat-screen TVs. In the back of the dining room, a few retirees are drinking coffee. The first to arrive, David Scott, a former Raleigh police officer, had driven 14 miles to wait outside for the doors to open at 5 a.m. McDonald's is this group's social center. The men, joined sometimes by a few wives, are there every morning, each taking his usual chair.

Meantime, Julie Brown has driven up in her Hummer to fetch breakfast for her daughter, Jasmine, and the rest of the high school swim team while they practice. Brown's order includes more than \$30 worth of Egg McMuffins, sausage breakfast biscuits, egg-and-sausage bagels, hash browns, orange juice—and a peach-mango smoothie for herself. Brown, 37, loves the wider variety of foods and drinks available at McDonald's today. "I used to have to go to five different places for everyone. I'd have to go to one place to get bagels. Smoothies at another. Coffee at another," she says. "Now I can get everything here, all at once."

Thanks to icons like the McMuffin and the McGriddle—a pork patty between two syrup-infused pancakes introduced in 2003—McDonald's dominates mornings. It owns a quarter of the \$25 billion market for fast-food breakfast. In fact, morning is now the most important part of the day for McDonald's in the U.S., accounting for a quarter of domestic revenue and nearly half of profits. Those numbers roughly approximate the breakdown in Garner, a fairly typical store, where breakfast accounts for 30% of the store's \$2.5 million in annual sales. Lunch is 24%, afternoon 15%, dinner 15%, and overnight 16%. The single hour that generates the most revenue annually at the store, about \$200,000, is the traditional lunch period, from noon to 1 p.m.

The success in Garner's overnight business speaks volumes about McDonald's role today. Although it is well known for the sameness of its food and restaurants, McDonald's is really a lot of different restaurants that cater to a lot of different people. When Huebner started working at McDonald's, there was no breakfast. No Big Mac and no drive-through window, either. Now six of the Huebners' dozen McDonald's are open 24/7, and the rest are open at least 18 hours a day. "Ten years ago we saw every customer as a transaction count," Huebner recalls, "not as a person who needed to use the restaurant in a different way."

- C1. The first McDonalds stores (drive-in) started in 1955. The organization, its business, and the brand has not just survived but grown from strength to strength in the 60 years since then. What changes have happened in its business environment during this period? How has McDonalds responded to these changes?
- C2. On what performance objectives did McDonalds compete in the market till the nineties? Have these performance objectives undergone changes in the recent past? If yes, what are they now? How have these changes been complemented by McDonalds using the various operations decision areas? Please discuss using evidence from the case.