

Operations Management

Twelfth Edition



William J. Stevenson

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Twelfth Edition

William J. Stevenson
Saunders College of Business
Rochester Institute of Technology





This book is dedicated to you.

OPERATIONS MANAGEMENT, TWELFTH EDITION

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Preface

The material in this book is intended as an introduction to the field of operations management. The topics covered include both strategic issues and practical applications. Among the topics are forecasting, product and service design, capacity planning, management of quality and quality control, inventory management, scheduling, supply chain management, and project management.

My purpose in revising this book continues to be to provide a clear presentation of the concepts, tools, and applications of the field of operations management. Operations management is evolving and growing, and I have found updating and integrating new material to be both rewarding and challenging, particularly due to the plethora of new developments in the field, while facing the practical limits on the length of the book.

This text offers a comprehensive and flexible amount of content that can be selected as appropriate for different courses and formats, including undergraduate, graduate, and executive education.

This allows instructors to select the chapters, or portions of chapters, that are most relevant for their purposes. That flexibility also extends to the choice of relative weighting of the qualitative or quantitative aspects of the material and the order in which chapters are covered because chapters do not depend on sequence. For example, some instructors cover project management early, others cover quality or lean early, etc.

As in previous editions, there are major pedagogical features designed to help students learn and understand the material. This section describes the key features of the book, the chapter elements, the supplements that are available for teaching the course, highlights of the eleventh edition, and suggested applications for classroom instruction. By providing this support, it is our hope that instructors and students will have the tools to make this learning experience a rewarding one.

What's New in This Edition

This edition has been revised to incorporate and integrate changes in the field of Operations Management, and the many suggestions for improvement received from instructors around the world who are using the text. The following are key among the revisions:

- New examples, discussion questions, and problems have been incorporated throughout.
- Some content has been rewritten or added to include current information, improve clarity and help understanding.

- New material and more emphasis have been devoted to these topics:
 - Service
 - Supply chain management
 - Sustainability
 - Step-by-step problem solving
- Throughout the text, there are new, updated readings, and photos to provide students with a motivating view of the critical importance of operations management today.
- Connect Plus for Operations Management is now available with LearnSmart, McGraw-Hill's adaptive learning component. LearnSmart provides assignable modules that help students master core concepts and come to class better prepared.

Acknowledgments

I want to thank the many contributors to this edition. Reviewers and adopters of the text have provided a “continuously improving” wealth of ideas and suggestions. It is encouraging to me as an author. I hope all reviewers and readers will know their suggestions were valuable, were carefully considered, and are sincerely appreciated. The list includes post-publication reviewers.

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William J. Stevenson

Walkthrough

MAJOR STUDY AND LEARNING FEATURES

A number of key features in this text have been specifically designed to help introductory students learn, understand, and apply Operations concepts and problem-solving techniques.

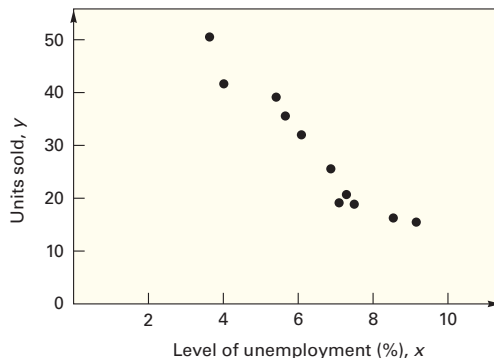
Examples with Solutions

Throughout the text, wherever a quantitative or analytic technique is introduced, an example is included to illustrate the application of that technique. These are designed to be easy to follow.

Sales of new houses and three-month lagged unemployment are shown in the following table. Determine if unemployment levels can be used to predict demand for new houses and, if so, derive a predictive equation.

Period	1	2	3	4	5	6	7	8	9	10	11
Units sold	20	41	17	35	25	31	38	50	15	19	14
Unemployment % (three-month lag)	7.2	4.0	7.3	5.5	6.8	6.0	5.4	3.6	8.4	7.0	9.0

1. Plot the data to see if a *linear* model seems reasonable. In this case, a linear model seems appropriate *for the range of the data*.



2. Check the correlation coefficient to confirm that it is not close to zero using the Web site template, and then obtain the regression equation:

$$r = -.966$$

This is a fairly high negative correlation. The regression equation is

$$y = 71.85 - 6.91x$$

Note that the equation pertains only to unemployment levels in the range 3.6 to 9.0, because sample observations covered only that range.

EXAMPLE 10

eXcel

mhhe.com/stevenson12e

SOLUTION

Solved Problems

At the end of chapters and chapter supplements, “solved problems” are provided to illustrate problem solving and the core concepts in the chapter. These have been carefully prepared to help students understand the steps involved in solving different types of problems. The Excel logo indicates that a spreadsheet is available on the text’s Web site, to help solve the problem.

SOLVED PROBLEMS

Problem 1

The tasks shown in the following precedence diagram are to be assigned to workstations with the intent of minimizing idle time. Management has designed an output rate of 275 units per day. Assume 440 minutes are available per day.

- Determine the appropriate cycle time.
- What is the minimum number of stations possible?
- Assign tasks using the “positional weight” rule: Assign tasks with highest following times (including a task’s own time) first. Break ties using greatest number of following tasks.
- Compute efficiency.

```

graph LR
    a((a)) --> c((c))
    c --> e((e))
    e --> g((g))
    b((b)) --> d((d))
    d --> f((f))
    g --> h((h))
    f --> h
    h --> i((i))
            
```

Solution

a. Cycle time = $\frac{\text{Operating time}}{\text{Desired output}} = \frac{440 \text{ minutes per day}}{275 \text{ units per day}} = 1.6 \text{ minutes per unit}$

TABLE 16.5 Excel solution for Example 2a

Job	Process. Time	Due Date	Remain Oper.	CR Sequence	Critical Ratio	Slack	S/O	Flow Time	Days Late
A	2	7		3		5		2	0
B	8	16		5		8		10	0
C	4	4		1		0		14	10
D	10	17		6		7		24	7
E	5	15		4		10		29	14
F	12	18		2		6		41	23
Totals	41		0			36		120	54

Method	FCFS
Average Flow Time	20.00
Average Tardiness	9.00
Average Number of Jobs	2.93

See notes below.

Notes:

- Enter Job Name, Processing Time, and Due Date for each job.
- For the FCFS, SPT, and DD rules, simply press the appropriate button.
- For the CR rule, perform the following BEFORE pressing the CR button:
 - Select job with lowest Critical Ratio
 - Schedule that job next by entering next sequence number (start with 1) in the CR Sequence column.
 - Add the processing time for that job to the current date.
 - Repeat steps a, b, and c until all jobs have been scheduled (i.e. the CR Sequence column is filled in).
 - Then press the CR button.
- Fill in the Remaining Operations column and then press the S/O button.

Excel Spreadsheet Solutions

Where applicable, the examples and solved problems include screen shots of a spreadsheet solution. Many of these were taken from the Excel templates, which are on the text’s website. Templates are programmed to be fully functional in Excel 2013 and earlier.

CHAPTER ELEMENTS

Within each chapter, you will find the following elements that are designed to facilitate study and learning. All of these have been carefully developed over many editions and have proven to be successful.

Chapter Outlines

Every chapter and supplement includes an outline of the topics covered.

4

CHAPTER

Product and Service Design

CHAPTER OUTLINE

<p>4.1 Introduction, 136</p> <p>What Does Product and Service Design Do? 136</p> <p>Key Questions, 136</p> <p>Reasons for Product or Service Design or Redesign, 137</p> <p>4.2 Idea Generation, 139</p> <p>4.3 Legal and Ethical Considerations, 141</p> <p>4.4 Human Factors, 142</p> <p>4.5 Cultural Factors, 143</p> <p>4.6 Global Product and Service Design, 143</p> <p>4.7 Environmental Factors: Sustainability, 144</p> <p>Cradle-to-Grave Assessment, 144</p> <p>End-of-Life Programs, 144</p> <p>The Three Rs: Reduce, Reuse, Recycle, 144</p> <p>Reduce: Value Analysis, 145</p>	<p>Reuse: Remanufacturing, 145</p> <p>Recycle, 146</p> <p>4.8 Other Design Considerations 149</p> <p>Strategies for Product or Service Life Stages, 149</p> <p>Degree of Standardization, 151</p> <p>Designing for Mass Customization, 151</p> <p>Reliability, 153</p> <p>Robust Design, 154</p> <p>Degree of Newness, 155</p> <p>Quality Function Deployment, 155</p> <p>The Kano Model, 158</p> <p>4.9 Phases in Product Design and Development, 159</p> <p>4.10 Designing for Production, 160</p> <p>Concurrent Engineering, 160</p> <p>Computer-Aided Design, 160</p>	<p>Production Requirements, 161</p> <p>Component Commonality, 162</p> <p>4.11 Service Design, 162</p> <p>Overview of Service Design, 163</p> <p>Differences between Service Design and Product Design, 163</p> <p>Phases in the Service Design Process, 164</p> <p>Service Blueprinting, 164</p> <p>Characteristics of Well-Designed Service Systems, 165</p> <p>Challenges of Service Design, 166</p> <p>Guidelines for Successful Service Design, 166</p> <p>4.12 Operations Strategy, 167</p> <p>Operations Tour: High Acres Landfill, 170</p> <p>Chapter Supplement: Reliability, 171</p>
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The essence of a business organization is the products and services it offers, and every aspect of the organization and its supply chain are structured around those products and services. Organizations that have well-designed products or services are more likely to realize their goals than those with poorly designed products or services. Hence, organizations have a strategic interest in product and service design. Product or service design should be closely tied to an organization's strategy. It is a major factor in cost, quality, time-to-market, customer satisfaction, and competitive advantage. Consequently, marketing, finance, operations, accounting, IT, and HR need to be involved. Demand forecasts and projected costs are important, as is the expected impact on the supply chain. It is significant to note that an important cause of operations failures can be traced to faulty design. Designs that have not been well thought out, or incorrectly implemented, or instructions for assembly or usage that are wrong or unclear, can be the cause of product and service failures, leading to lawsuits, injuries and deaths, product recalls, and damaged reputations.

LO4.1 Explain the strategic importance of product and service design.

The introduction of new products or services, or changes to product or service designs, can have impacts throughout the organization and the entire supply chain. Some processes may change very little, while others may have to change considerably in terms of what they do or how and when they do it. New processes may have to be added, and some current ones may be eliminated. New suppliers and distributors may need to be found and integrated into the system, and some current suppliers and distributors may no longer be an appropriate fit. Moreover, it is necessary to take into account projected impact on demand as well as financial, marketing, and distribution implications. Because of the potential for widespread effects, taking a "big picture" systems approach early and throughout the design or redesign process is imperative to reduce the chance of missing some implications and costs, and to understand the time it will take. Likewise, input from engineering, operations, marketing, finance, accounting, and supply chains is crucial.

In this chapter you will discover insights into the design process that apply to both product and service design.

Learning Objectives

Every chapter and supplement lists the learning objectives to achieve when studying the chapter material. The learning objectives are also included next to the specific material in the margins of the text.

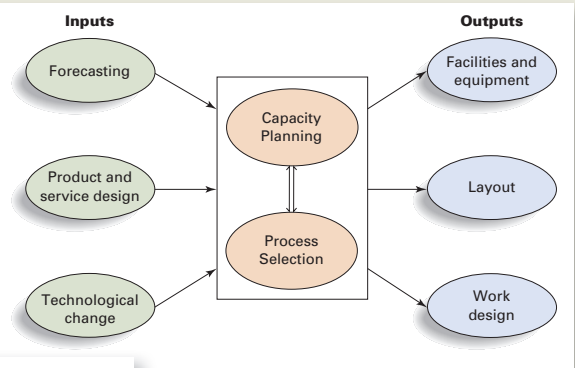
Opening Vignettes

Each chapter opens with an introduction to the important operations topics covered in the chapter. This enables students to see the relevance of operations management in order to actively engage in learning the material.



Figures and Photos

The text includes photographs and graphic illustrations to support student learning and provide interest and motivation. Approximately 100 carefully selected photos highlight the twelfth edition. The photos illustrate applications of operations and supply chain concepts in many successful companies. More than 400 graphic illustrations, more than any other text in the field, are included and all are color coded with pedagogical consistency to assist students in understanding concepts.

FIGURE 6.1
Process selection and capacity planning influence system design



Icons

Icons are included in the text, to point out relevant applications in a discussion or concept. These include: Excel icons  to point out Excel applications; and ScreenCam Tutorial icons  to link to the tutorials on the text's website.

5.12 OPERATIONS STRATEGY

The strategic implications of capacity decisions can be enormous, impacting all areas of the organization. From an operations management standpoint, capacity decisions establish a set of conditions within which operations will be required to function. Hence, it is extremely important to include input from operations management people in making capacity decisions.

Flexibility can be a key issue in capacity decisions, although flexibility is not always an option, particularly in capital-intensive industries. However, where possible, flexibility allows an organization to be agile—that is, responsive to changes in the marketplace. Also, it reduces to a certain extent the dependence on long-range forecasts to accurately predict demand. And flexibility makes it easier for organizations to take advantage of technological and other innovations. Maintaining excess capacity (a capacity cushion) may provide a degree of flexibility, albeit at added cost.

Some organizations use a strategy of maintaining a capacity cushion for the purpose of blocking entry into the market by new competitors. The excess capacity enables them to produce at costs lower than what new competitors can. However, such a strategy means higher-than-necessary unit costs, and it makes it more difficult to cut back if demand slows, or to shift to new product or service offerings.

Efficiency improvements and utilization improvements can provide capacity increases. Such improvements can be achieved by streamlining operations and reducing waste. The chapter on lean operations describes ways for achieving those improvements.

Bottleneck management can be a way to increase effective capacity, by scheduling non-bottleneck operations to achieve maximum utilization of bottleneck operations.

In cases where capacity expansion will be undertaken, there are two strategies for determining the timing and degree of capacity expansion. One is the *expand-early* strategy (i.e., before demand materializes). The intent might be to achieve economies of scale, to expand market share, or to preempt competitors from expanding. The risks of this strategy include an oversupply that would drive prices down, and underutilized equipment that would result in higher unit costs.

The other approach is the *wait-and-see* strategy (materializes, perhaps incrementally). Its advantage is more accurate matching of supply and demand, but it has the disadvantages of loss of market share and the inability to meet demand.

Operations Strategies

An Operations Strategy section is included at the ends of most chapters. These sections discuss how the chapters' concepts can be applied and how they impact the operations of a company.

Readings

Readings highlight important real-world applications, provide examples of production/operations issues, and offer further elaboration of the text material. They also provide a basis for classroom discussion and generate interest in the subject matter. Many of the end-of-chapter readings include assignment questions.

Dutch Boy Brushes Up Its Paints

READING

Sherwin-Williams' Dutch Boy Group has put a revolutionary spin on wall/house painting with its new square-shaped Twist & Pour™ paint-delivery container for the Dirt Fighter interior latex paint line. The four-piece square container could be the first major change in how house paint is packaged in decades. Lightweight but sturdy, the Twist & Pour "bucket" is packed with so many conveniences, it's next to impossible to mess up a painting project.

Winning Best of Show in an AmeriStar packaging competition sponsored by the Institute of Packaging Professionals, the exclusive, all-plastic paint container stands almost 7½ in. tall and holds 126 oz., a bit less than 1 gal. Rust-resistant and moisture-resistant, the plastic bucket gives users a new way to mix, brush, and store paint.

A hollow handle on one side makes it comfortable to pour and [carry]. A convenient, snap-in pour spout neatly pours paint into a tray with no dripping but can be removed if desired, to allow a wide brush to be dipped into the 5¼-in.-dia. mouth. Capping the container is a large, twist-off lid that requires no tools to open or close. Molded with two lugs for a snug-finger-tight closing, the threaded cap provides a tight seal to extend the shelf life of unused paint.

While the lid requires no tools to access, the snap-off carry bail is assembled on the container in a "locked-down position" and can be pulled up after purchase for toting or hanging on a ladder. Large, nearly 4½-in.-tall label panels allow glossy front and back labels printed and UV-coated to wrap around the can's rounded corners, for an impressive display.

Jim MacDonald, co-designer of the Twist & Pour and a packaging engineer at Cleveland-based Sherwin-Williams, tells *Packaging Digest* that the space-efficient, square shape is easier to ship and for retailers to stack in stores. It can also be nested, courtesy of a recess in the bottom that mates with the lid's top ring. "The new design allows for one additional shelf facing on an eight-foot rack or shelf area."



The labels are applied automatically, quite a feat, considering their complexity, size, and the hollow handle they likely encounter during application. MacDonald admits, "Label application was a challenge. We had to modify the bottle several times to accommodate the labeling machinery available."

Source: "Dutch Boy Brushes Up Its Paints," *Packaging Digest*, October 2002. Copyright © 2002 Reed Business Information. Used with permission.

END-OF-CHAPTER RESOURCES

For student study and review, the following items are provided at the end of each chapter or chapter supplement.

Summaries

Chapters contain summaries that provide an overview of the material covered.

Key Points

The key points of the chapter are emphasized.

Key Terms

Key terms are highlighted in the text and then repeated in the margin with brief definitions for emphasis. They are listed at the end of each chapter (along with page references) to aid in reviewing.

Discussion and Review Questions

Each chapter and each supplement have a list of discussion and review questions. These precede the problem sets and are intended to serve as a student self-review or as class discussion starters.

1. Demand forecasts are essential inputs for many business decisions; they help managers decide how much supply or capacity will be needed to match expected demand, both within the organization and in the supply chain.
2. Because of random variations in demand, it is likely that the forecast will not be perfect, so managers need to be prepared to deal with forecast errors.
3. Other, nonrandom factors might also be present, so it is necessary to monitor forecast errors to check for nonrandom patterns in forecast errors.
4. It is important to choose a forecasting technique that is cost-effective and one that minimizes forecast error.

KEY POINTS

Taking Stock and Critical Thinking Exercises

These activities encourage analytical thinking and help broaden conceptual understanding. A question related to ethics is included in the Critical Thinking Exercises.

This item appears at the end of each chapter. It is intended to focus your attention on three key issues for business organizations in general, and operations management in particular. Those issues are trade-off decisions, collaboration among various functional areas of the organization, and the impact of technology. You will see three or more questions relating to these issues. Here is the first set of questions:

1. What are trade-offs? Why is careful consideration of trade-offs important in decision making?
2. Why is it important for the various functional areas of a business organization to collaborate?
3. In what general ways does technology have an impact on operations management decision making?

This item also will appear in every chapter. It allows you to critically apply information you learned in the chapter to a practical situation. Here is the first set of exercises:

1. Many organizations offer a combination of goods and services to their customers. As you learned in this chapter, there are some key differences between production of goods and delivery of services. What are the implications of these differences relative to managing operations?
2. Why is it important to match supply and demand? If a manager believes that supply and demand will not be equal, what actions could the manager take to increase the probability of achieving a match?
3. One way that organizations compete is through technological innovation. However, there can be downsides for both the organization and the consumer. Explain.

TAKING STOCK

CRITICAL THINKING EXERCISES

Problem Sets

Each chapter includes a set of problems for assignment. The problems have been refined over many editions and are intended to be challenging but doable for students. Short answers to most of the problems are included in Appendix A so that students can check their understanding and see immediately how they are progressing.

PROBLEMS

1. Determine the utilization and the efficiency for each of these situations:
 - a. A loan processing operation that processes an average of 7 loans per day. The operation has a design capacity of 10 loans per day and an effective capacity of 8 loans per day.
 - b. A furnace repair team that services an average of four furnaces a day if the design capacity is six furnaces a day and the effective capacity is five furnaces a day.
 - c. Would you say that systems that have higher efficiency ratios than other systems will always have higher utilization ratios than those other systems? Explain.
2. In a job shop, effective capacity is only 50 percent of design capacity, and actual output is 80 percent of effective output. What design capacity would be needed to achieve an actual output of eight jobs per week?
3. A producer of pottery is considering the addition of a new plant to absorb the backlog of demand that now exists. The primary location being considered will have fixed costs of \$9,200 per month and variable costs of 70 cents per unit produced. Each item is sold to retailers at a price that averages 90 cents.
 - a. What volume per month is required in order to break even?
 - b. What profit would be realized on a monthly volume of 61,000 units? 87,000 units?
 - c. What volume is needed to obtain a profit of \$16,000 per month?
 - d. What volume is needed to provide a revenue of \$23,000 per month?

Operations Tours

These provide a simple “walkthrough” of an operation for students, describing the company, its product or service, and its process of managing operations. Companies featured include Wegmans Food Markets, Morton Salt, Stickley Furniture, and Boeing.

Bruegger's Bagel Bakery

OPERATIONS TOUR



Bruegger's Bagel Bakery makes and sells a variety of bagels, including plain, onion, poppyseed, and cinnamon raisin, as well as assorted flavors of cream cheese. Bagels are the major source of revenue for the company.

The bagel business is a \$3 billion industry. Bagels are very popular with consumers. Not only are they relatively low in fat, they are filling, and they taste good! Investors like the bagel industry because it can be highly profitable: it only costs about \$.10 to make a bagel, and they can be sold for \$.50 each or more. Although some bagel companies have done poorly in recent years, due mainly to poor management, Bruegger's business is booming; it is number one nationally, with over 450 shops that sell bagels, coffee, and bagel sandwiches for takeout or on-premise consumption. Many stores in the Bruegger's chain generate an average of \$800,000 in sales annually.

Production of bagels is done in batches, according to flavor, with

output at each step in the process. At the stores, employees are instructed to watch for deformed bagels and to remove them when they find them. (Deformed bagels are returned to a processing plant where they are sliced into bagel chips, packaged, and then taken back to the stores for sale, thereby reducing the scrap rate.) Employees who work in the stores are carefully chosen and then trained so that they are competent to operate the necessary equipment in the stores and to provide the desired level of service to customers.

The company operates with minimal inventories of raw materials and inventories of partially completed bagels at the plant and very little inventory of bagels at the stores. One reason for this is to maintain a high degree of freshness in the final product by continually supplying fresh product to the stores. A second reason is to keep costs down; minimal inventories mean less space is needed for storage.

Harvey Industries

CASE



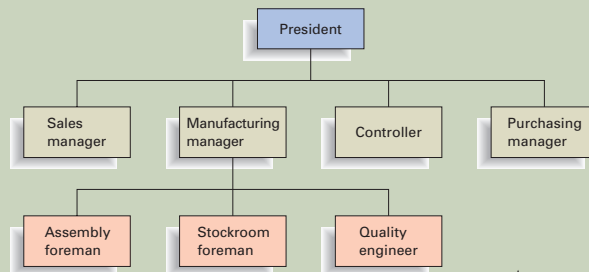
Background

Harvey Industries, a Wisconsin company, specializes in the assembly of high-pressure washer systems and in the sale of repair parts for these systems. The products range from small portable high-pressure washers to large industrial installations for snow removal from vehicles stored outdoors during the winter months. Typical uses for high-pressure water cleaning include:

Automobiles	Airplanes
Building maintenance	Barns
Engines	Ice cream plants
Lift trucks	Machinery
Swimming pools	

Industrial customers include General Motors, Ford, Chrysler, Delta Airlines, United Parcel Service, and Shell Oil Company.

Although the industrial applications are a significant part of its sales, Harvey Industries is primarily an assembler of equipment for coin-operated self-service car wash systems. The typical car wash is of concrete block construction with an equipment room in the center, flanked on either side by a number of bays. The cars are driven into the bays where the owner can wash and wax the car, utilizing high-pressure hot water and liquid wax. A dollar bill changer is available to provide change for the use of the equipment and the purchase of various products from dispensers. The products include towels, tire cleaner, and upholstery cleaner.



ons

ger's maintains relatively little inventory at either its plants or retail stores. List the benefits and risks of this policy.

ity is very important to Bruegger's.

What features of bagels do customers look at to judge their quality?

Cases

The text includes short cases. The cases were selected to provide a broader, more integrated thinking opportunity for students without taking a full case approach.

INSTRUCTOR RESOURCES

Online Learning Center (OLC) www.mhhe.com/stevenson12e

The Online Learning Center provides complete materials for study and review. At this book's website, instructors have access to teaching supports such as electronic files of the ancillary materials: Solutions Manual, Instructor's Manual, test bank, PowerPoint Lecture Slides, Digital Image Library, and Excel Lecture scripts.

Instructor's Manual. Prepared by Michael Godfrey, University of Wisconsin-Oshkosh, with contributions from William J. Stevenson, this manual includes teaching notes, chapter overview, an outline for each chapter, and solutions to the problems in the text.

Test Bank. Prepared by the Alan Cannon, University of Texas-Arlington, the Test Bank includes over 2,000 true/false, multiple-choice, and discussion questions/problems at varying levels of difficulty.

EZ Test Online. All test bank questions are available in EZ Test Online, a flexible electronic testing program. The answers to all questions are given, along with a rating of the level of difficulty, chapter learning objective met, Bloom's taxonomy question type, and the AACSB knowledge category.



PowerPoint Lecture Slides. Prepared by David Cook, Old Dominion University, the PowerPoint slides draw on the highlights of each chapter and provide an opportunity for the instructor to emphasize the key concepts in class discussions.

Digital Image Library. All the figures in the book are included for insertion in PowerPoint slides or for class discussion.

Excel Lecture Scripts. Prepared by Lee Tangedahl, University of Montana, the scripts provide suggestions on using Excel and the Excel templates in class.

Operations Management Video Series

The operations management video series, free to text adopters, includes professionally developed videos showing students applications of key manufacturing and service topics in real companies. Each segment includes on-site or plant footage, interviews with company managers, and focused presentations of OM applications in use to help the companies gain competitive advantage. Companies such as Zappos, FedEx, Subaru, Disney, BP, Chase Bank, DHL, Louisville Slugger, McDonald's, Noodles & Company, and Honda are featured.

STUDENT RESOURCES

Online Learning Center (OLC) www.mhhe.com/stevenson12e

Students have access to study materials created specifically for the text.

- Quizzes—self-grading to assess knowledge of the material.
- PowerPoint Slides—give an overview of the chapter content.
- Excel Data Files—import into Excel for quick calculation and analysis.
- Study Outlines—provide a framework for taking notes.
- Screencam Tutorials—describe how to solve problems in the text (see below).

- Excel Templates—provide a handy Excel-based tool for solving problems in the text (see below).
- And more . . .



SCREENCAM TUTORIAL

ScreenCam Tutorials

These screen “movies” and voiceover tutorials explain key chapter content, using Excel and other software platforms.

Trend-Adjusted Exponential Smoothing

A variation of simple exponential smoothing can be used when a time series exhibits a *linear* trend. It is called **trend-adjusted exponential smoothing** or, sometimes, *double smoothing*, to differentiate it from simple exponential smoothing, which is appropriate only when data vary around an average or have step or gradual changes. If a series exhibits trend, and simple smoothing is used on it, the forecasts will all lag the trend: If the data are increasing, each forecast will be too low; if decreasing, each forecast will be too high.

The trend-adjusted forecast (TAF) is composed of two elements: a smoothed error and a trend factor.

$$TAF_{t+1} = S_t + T_t \quad (3-11)$$

where

S_t = Previous forecast plus smoothed error
 T_t = Current trend estimate

and

$$S_t = TAF_t + \alpha(A_t - TAF_t) \quad (3-12)$$

$$T_t = T_{t-1} + \beta(TAF_t - TAF_{t-1} - T_{t-1})$$

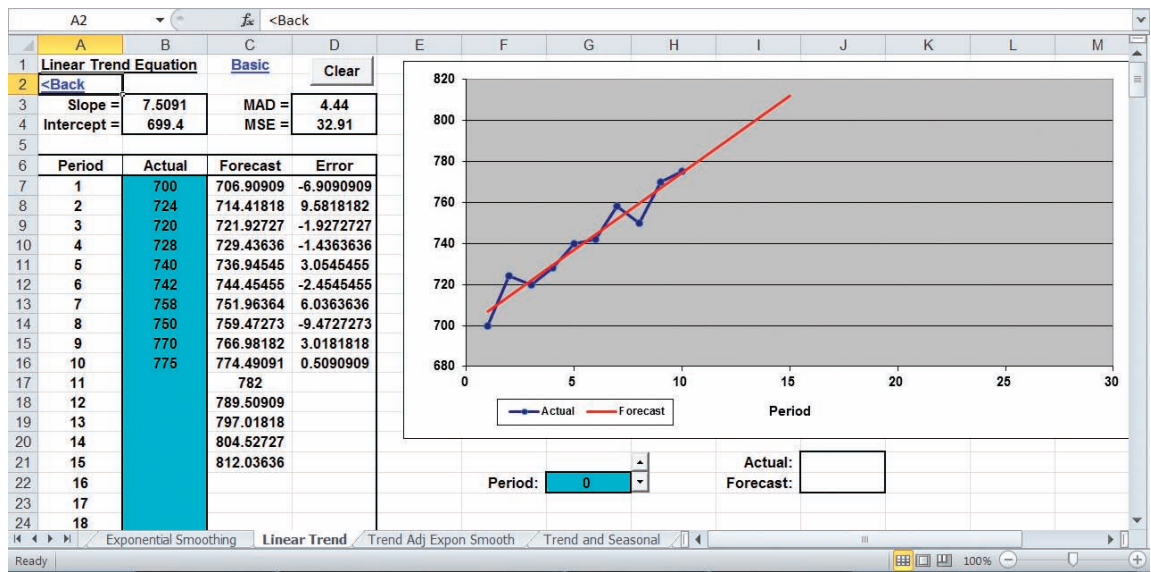
Trend-adjusted exponential smoothing Variation of exponential smoothing used when a time series exhibits a linear trend.

LO3.12 Prepare a trend-adjusted exponential smoothing forecast.

Excel Templates

Templates created by Lee Tangedahl, University of Montana, are included on the OLC. The templates, over 70 total, include dynamically linked graphics and variable controls. They allow you to solve a number of problems in the text or additional problems. All templates have been revised to allow formatting of all cells, hiding rows or columns, and entering data or calculations in blank cells. Many of the templates have been expanded to accommodate solving larger problems and cases.

TABLE 3.1 Excel solution for Example 5



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E-LEARNING AND ASSESSMENT

McGraw-Hill Connect® Operations Management

McGraw-Hill *Connect*® *Operations Management* is an online assignment and assessment solution that connects students with the tools and resources they'll need to achieve success through faster learning, higher retention, and more efficient studying. It provides instructors with tools to quickly pick content and assignments according to the topics they want to emphasize.

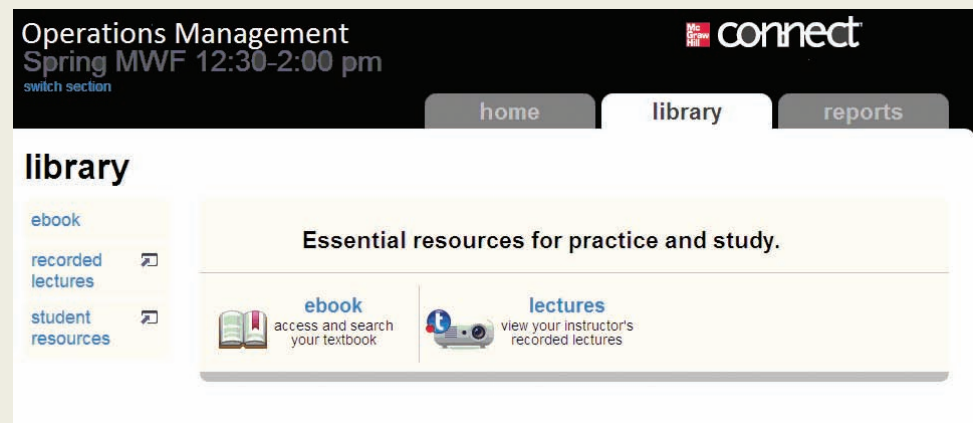


Online Assignments. *Connect Operations Management* helps students learn more efficiently by providing practice material and feedback when they are needed. *Connect* grades homework automatically and provides feedback on any questions that students may have missed.

Title	Shared	Info	Start-due	Show/hide
Assignment 1 - Homework			10/25/13- none	
Quiz 1			10/25/13- none	
Test 1			10/25/13- none	

Integration of Excel Data Sets. A convenient feature is the inclusion of an Excel data file link in many problems using data files in their calculation. The link allows students to easily launch into Excel, work the problem, and return to *Connect* to key in the answer.

Student Resource Library. The *Connect Business Statistics* Student Library is the place for students to access additional resources. The Student Library provides quick access to recorded lectures, practice materials, eBooks, and more.



Guided Examples. These narrated video walkthroughs provide students with step-by-step guidelines for solving problems similar to those contained in the text. The student is given personalized instruction on how to solve a problem by applying the concepts presented in the chapter. The narrated voiceover shows the steps to take to work through an exercise. Students can go through each example multiple times if needed.

LEARNSMART **LearnSmart.** LearnSmart adaptive self-study technology with *Connect Operations Management* helps students make the best use of their study time. LearnSmart provides a seamless combination of practice, assessment, and remediation for every concept in the textbook. LearnSmart's intelligent software adapts to students by supplying questions on a new concept when students are ready to learn it. With LearnSmart students will spend less time on topics they understand and instead focus on the topics they need to master.

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- View scored work immediately (Add Assignment Results Screen) and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.
- Collect data and generate reports required by many accreditation organizations, such as AACSB.

Operations Management
Section One: MWF 11:30-1:30
[switch section](#)

connect

home library reports

assignment results

report type: Assignment Results

Use the options below to view assignment scores.

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assignment results: Multiple Sections
report created: 09/09/2012 9:57 AM CDT
report date range: -
attempt: Best **score style:** Percents (Averaged)
assignment type: Homework, Practice, Quiz, Exam

Select the checkboxes on columns you want to export or print.

export to excel

Section	<input checked="" type="checkbox"/> Assignment 1	<input checked="" type="checkbox"/> Assignment 2	<input checked="" type="checkbox"/> Exam 1
Total Value (Points)	20	25	20
Townsend, Rachel Section One: MWF 1:30-3:30	89%	91.50%	89%
Mann, Becky Section One: MWF 1:30-3:30	85.33%	93%	85%
Dalo, Danielle Section One: MWF 1:30-3:30	89%	91.50%	91%
Billows, Nancy Section One: MWF 1:30-3:30	85.33%	93%	93%

Instructor Library. The *Connect Operations Management* Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The *Connect Business Statistics* Instructor Library includes:

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Operations Management

Chapter 4. Product and Service Design

reading images [my notebook](#)

Chapter 4 Sections

4.1 INTRODUCTION

This section discusses what product and service designers do, the reasons for design (or redesign), and key questions that management must address.

What Does Product and Service Design Do?

The various activities and responsibilities of product and service design include the following (functional interactions are shown in parentheses):

1. Translate customer wants and needs into product and service requirements. (marketing, operations)
2. Refine existing products and services. (marketing)
3. Develop new products and/or services. (marketing, operations)
4. Formulate quality goals. (marketing, operations)
5. Formulate cost targets. (accounting, finance, operations)
6. Construct and test prototypes. (operations, marketing, engineering)
7. Document specifications.
8. Translate product and service specifications into *process* specifications. (engineering, operations)

Product and service design involves or affects nearly every functional area of an organization. However, marketing and operations have major involvement.

Key Questions

- Test Bank
- Instructor's Manual
- Digital Image Library



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ASSURANCE OF LEARNING READY



Many educational institutions today are focused on the notion of *assurance of learning*, an important element of some accreditation standards. *Operations Management* is designed specifically to support your assurance of learning initiatives with a simple, yet powerful, solution.

Each test bank question for *Operations Management* maps to a specific chapter learning outcome/objective listed in the text. You can use our test bank software, EZ Test and EZ Test Online, or Connect Operations Management to easily query for learning outcomes/objectives that directly relate to the learning objectives for your course. You can then use the reporting features of EZ Test to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

AACSB STATEMENT



McGraw-Hill Education is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Operations Management* recognizes the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the test bank to the six general knowledge and skill areas in the AACSB's Assessment of Learning Standards.

The statements contained in *Operations Management* are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Operations Management* and the teaching package make no claim of any specific AACSB qualification or evaluation, we have within the test bank labeled questions according to the six general knowledge and skill areas.

Note to Students

The material in this text is part of the core knowledge in your education. Consequently, you will derive considerable benefit from your study of operations management, *regardless of your major*. Practically speaking, operations is a course in *management*.

This book describes principles and concepts of operations management. You should be aware that many of these principles and concepts are applicable to other aspects of your professional and personal life. You can expect the benefits of your study of operations management to serve you in those other areas as well.

Some students approach this course with apprehension, and perhaps even some negative feelings. It may be that they have heard that the course contains a certain amount of quantitative material that they feel uncomfortable with, or that the subject matter is dreary, or that the course is about “factory management.” This is unfortunate, because the subject matter of this book is interesting and vital for all business students. While it is true that some of the material is quantitative, numerous examples, solved problems, and answers at the back of the book will help you with the quantitative material. As for “factory management,” there is material on manufacturing as well as on services. Manufacturing is important, and something that you should know about for a number of reasons. Look around you. Most of the “things” you see were manufactured: cars, trucks, planes, clothing, shoes, computers, books, pens and pencils, desks, and cell phones. And these are just the tip of the iceberg. So it makes sense to know something about how these things are produced. Beyond all that is the fact that manufacturing is largely responsible for the high standard of living people have in industrialized countries.

After reading each chapter or supplement in the text, attending related classroom lectures, and completing assigned questions and problems, you should be able to do each of the following:

1. *Identify the key features* of that material.
2. *Define and use terminology*.
3. *Solve typical problems*.

4. *Recognize applications* of the concepts and techniques covered.
5. *Discuss the subject matter* in some depth, including its relevance, managerial considerations, and advantages and limitations.

You will encounter a number of chapter supplements. Check with your instructor to determine whether to study them.

This book places an emphasis on problem solving. There are many examples throughout the text illustrating solutions. In addition, at the end of most chapters and supplements you will find a group of solved problems. The examples within the chapter itself serve to illustrate concepts and techniques. Too much detail at those points would be counterproductive. Yet, later on, when you begin to solve the end-of-chapter problems, you will find the solved problems quite helpful. Moreover, those solved problems usually illustrate more and different details than the problems within the chapter.

I suggest the following approach to increase your chances of getting a good grade in the course:

1. Look over the chapter outline and learning objectives.
2. Read the chapter summary, and then skim the chapter.
3. Read the chapter and take notes.
4. Look over and try to answer the discussion and review questions.
5. Solve the problems, referring to the solved problems and chapter examples as needed.
6. Take the quizzes on the text’s website.

Note that the answers to many problems are given at the end of the book. Try to solve each problem before turning to the answer. Remember—tests don’t come with answers.

An Online Learning Center (www.mhhe.com/stevenson12e) is also available, containing many of the same study tools found in the text.

And here is one final thought: Homework is on the Highway to Happiness! Enjoy the journey!

W.J.S.

Chapter-by-Chapter Revisions for the Twelfth Edition

All Chapters

Major sections within each chapter are numbered for easy reference.

Learning objectives are positioned with related content within each chapter.

Many minor changes have been made to improve clarity and understanding.

The Bibliography & Additional Reading sections have been updated/revised.

Most Chapters

Learning Objectives have been revised to incorporate new content. Questions have been added to some readings that did not have questions.

Additional Changes

Chapter 1: Updated product examples to make them more current; changed the sequence of some content; updated the reading on why manufacturing matters; added operations management job descriptions; added new readings on analytics and agility; and added a format to guide problem solving.

Chapter 2: Added examples of Balanced Scorecard factors; added new reading on productivity advantage; and added the USPS sustainability scorecard to the USPS reading

Chapter 3: Added a simpler example to illustrate seasonal computations; revised Discussion and Review question 4; revised problems 2, 5, and 23; renumbered problems 8-18; added new problem 13.

Chapter 4: Added a reading; added several Discussion and Review Questions; and updated Problem 1.

Chapter 5: Added formula (and renumbered the formulas); added a new example; added a new Solved Problem; added a new Critical Thinking Exercise; and added five new problems.

Chapter 6: Modified the introduction to process selection and the figure that relates volume and variety to process type; added content on RFID tags; added a reading and deleted two readings; added material on restaurant and hospital layouts and a reading on the hospital room of the future; and added a Critical Thinking Exercise.

Chapter 7: Changed the sequence of topics slightly to improve the flow; shortened the chapter by deleting a few lists

and a table; add a solved problems and three new problems; and provided additional guidance in the use of several formulas.

Chapter 8: Added content on automation; added a reading and deleted several readings; and moved the Clicks or Bricks reading to the supply chain chapter.

Chapter 8S: This supplement has been moved to the Online Learning Center.

Chapter 9: Rearranged the sequence of some topics to improve the flow; shortened the chapter; Deleted several readings; and added material on Six Sigma.

Chapter 10: Modified several diagrams to improve understanding; added a Critical Thinking Exercise; and modified the formula summary table to make it easier to select the appropriate formula.

Chapter 10S: This supplement has been moved to the Online Learning Center.

Chapter 11: Added more explanation of aggregation; added three new problems and renumbered some problems; and added an excel screenshot.

Chapter 12: Revised the introduction completely; added detail to the starting tree diagram; added new material on ERP, including a new figure; added a setup guide for developing an MRP plan; added a new solved problem and a new problem; and deleted the last part of problem 9.

Chapter 13: Revised the chapter opening material; updated Example 3; added more explanation of the EPQ model; and added a new problem 1 and revised problems 2, 11, 27 and 28.

Chapter 14: Added a description of the characteristics of lean systems; added benefits and risks of lean systems; deleted a reading; added a reading; and added more material on value stream mapping.

Chapter 15: Added new sections on risk and resiliency, shortening the supply chain, and small businesses; added a new reading; added material on ERP and the supply chain; added some material on CPF and SCORE; and added the Clicks and Bricks reading from chapter 8.

Chapter 16: Added some excel screen shots for clarity.

Chapter 17: Revised the description of project cycle and definition of terms; added a new Solved Problem; revised problems so they can be solved using either AOA or AON.

Chapter 18: Deleted readings on hotels and waiting at stop lights; added some starter problems.

Brief Contents

Preface vii

- 1 Introduction to Operations Management 2
- 2 Competitiveness, Strategy, and Productivity 40
- 3 Forecasting 74
- 4 Product and Service Design 134
SUPPLEMENT TO CHAPTER 4: Reliability 171
- 5 Strategic Capacity Planning for Products and Services 184
SUPPLEMENT TO CHAPTER 5: Decision Theory 216
- 6 Process Selection and Facility Layout 236
- 7 Work Design and Measurement 288
SUPPLEMENT TO CHAPTER 7: Learning Curves 325
- 8 Location Planning and Analysis 336
- 9 Management of Quality 366
- 10 Quality Control 410
- 11 Aggregate Planning and Master Scheduling 456
- 12 MRP and ERP 494
- 13 Inventory Management 546
- 14 JIT and Lean Operations 604
SUPPLEMENT TO CHAPTER 14: Maintenance 640
- 15 Supply Chain Management 648
- 16 Scheduling 688
- 17 Project Management 730
- 18 Management of Waiting Lines 782
- 19 Linear Programming 822

Appendix A: Answers to Selected Problems 854

Appendix B: Tables 867

Appendix C: Working with the Normal Distribution 872

Photo Credits 877

Company Index 878

Subject Index 880

Contents

Preface vii

1 Introduction to Operations Management 2

- Introduction 3
- Production of Goods Versus Providing Services 7
- Why Learn About Operations Management? 9
- Career Opportunities and Professional Societies 11
- Process Management 12
- The Scope of Operations Management 14

Reading:

Why Manufacturing Matters 17

- Operations Management and Decision Making 17

Reading:

Analytics 20

- The Historical Evolution of Operations Management 21
- Operations Today 24

Reading:

Agility Creates a Competitive Edge 26

- Key Issues for Today's Business Operations 27

Readings:

Universities Embrace Sustainability 28

Diet and the Environment: Vegetarian vs. Nonvegetarian 29

- Summary 36
- Key Points 36
- Key Terms 36
- Discussion and Review Questions 36
- Taking Stock 37
- Critical Thinking Exercises 37

Case:

Hazel 37

- Selected Bibliography and Further Readings 38
- Problem-Solving Guide 38

2 Competitiveness, Strategy, and Productivity 40

- Introduction 41
- Competitiveness 42
- Mission And Strategies 44

Reading:

AMAZON Tops in Customer Service 45

- Operations Strategy 51

Reading:

Productivity Gains Curb Inflation 53

- Implications of Organization Strategy for Operations Management 54
- Transforming Strategy into Action: The Balanced Scorecard 54
- Productivity 56

Readings:

Why Productivity Matters 59

Dutch Tomato Growers' Productivity Advantage 60

Productivity Improvement 62

- Summary 62
- Key Points 62
- Key Terms 63
- Solved Problems 63
- Discussion and Review Questions 64
- Taking Stock 64
- Critical Thinking Exercises 65
- Problems 65

Cases:

An American Tragedy: How a Good Company Died 66

Home-Style Cookies 67

Hazel Revisited 69

"Your Garden Gloves" 69

Operations Tour:

The U.S. Postal Service 70

- Selected Bibliography and Further Readings 73

3 Forecasting 74

- Introduction 75
- Features Common to All Forecasts 77
- Elements of a Good Forecast 78
- Forecasting and the Supply Chain 78
- Steps in the Forecasting Process 79
- Forecast Accuracy 79

Reading:
High Forecasts Can Be Bad News 80

Approaches to Forecasting 82
 Qualitative Forecasts 82
 Forecasts Based on Time-Series Data 84
 Associative Forecasting Techniques 100
 Monitoring Forecast Error 106
 Choosing a Forecasting Technique 110
 Using Forecast Information 112
 Computer Software in Forecasting 112

Reading:
Gazing at the Crystal Ball 113

Summary 114
 Key Points 115
 Key Terms 117
 Solved Problems 117
 Discussion and Review Questions 123
 Taking Stock 124
 Critical Thinking Exercises 124
 Problems 124

Cases:
M&L Manufacturing 132
Highline Financial Services, Ltd. 133
Selected Bibliography and Further Readings 133

4 Product and Service Design 134

Introduction 136

Readings:
Design as a Business Strategy 136
Product Redesign, Not Offshoring, Holds Cost Advantage for U.S. Manufacturers 137
Dutch Boy Brushes Up Its Paints 138

Idea Generation 139

Reading:
Vlasic on a Roll with Huge Pickle Slices 140

Legal and Ethical Considerations 141
 Human Factors 142
 Cultural Factors 143
 Global Product and Service Design 143

Reading:
Do You Want Pickled Beets with That? 143

Environmental Factors: Sustainability 144

Readings:
Best Buy Wants Your Junk 145
Kraft Foods' Recipe for Sustainability 146
Xerox Diverts 2 Billion Pounds of Waste from Landfills through Green Initiatives 147
Recycle City: Maria's Market 148

Other Design Considerations 149

Reading:
Lego A/S in the Pink 151

Phases in Product Design and Development 159
 Designing for Production 160
 Service Design 162

Reading:
The Challenges of Managing Services 166

Operations Strategy 167
 Summary 167
 Key Points 168
 Key Terms 168
 Discussion and Review Questions 168
 Taking Stock 169
 Critical Thinking Exercises 169
 Problems 169

Operations Tour:
High Acres Landfill 170
Selected Bibliography and Further Readings 170

SUPPLEMENT TO CHAPTER 4: Reliability 171

5 Strategic Capacity Planning for Products and Services 184

Introduction 185

Reading:
Excess Capacity Can Be Bad News! 186

Capacity Decisions Are Strategic 187
 Defining and Measuring Capacity 188
 Determinants of Effective Capacity 189
 Strategy Formulation 191
 Forecasting Capacity Requirements 192
 Additional Challenges of Planning Service Capacity 194
 Do it In-House or Outsource It? 195
 Developing Capacity Strategies 196

Reading:
My Compliments to the Chef, er, Buyer 196

Constraint Management	201	Methods Analysis	299
Evaluating Alternatives	201	Motion Study	303
Operations Strategy	207	Work Measurement	305
<i>Summary</i>	207	Operations Strategy	316
<i>Key Points</i>	208	<i>Summary</i>	317
<i>Key Terms</i>	208	<i>Key Points</i>	317
<i>Solved Problems</i>	208	<i>Key Terms</i>	318
<i>Discussion and Review Questions</i>	211	<i>Solved Problems</i>	319
<i>Taking Stock</i>	211	<i>Discussion and Review Questions</i>	319
<i>Critical Thinking Exercises</i>	211	<i>Taking Stock</i>	320
<i>Problems</i>	212	<i>Critical Thinking Exercise</i>	320
Case:		<i>Problems</i>	320
<i>Outsourcing of Hospital Services</i>	215	Case:	
<i>Selected Bibliography and Further Readings</i>	215	<i>Making Hotplates</i>	323
SUPPLEMENT TO CHAPTER 5: Decision Theory	216	<i>Selected Bibliography and Further Readings</i>	324
6 Process Selection and Facility Layout	236	SUPPLEMENT TO CHAPTER 7: Learning Curves	325
Introduction	237	8 Location Planning and Analysis	336
Process Selection	238	The Need for Location Decisions	337
Technology	244	The Nature of Location Decisions	338
Reading:		Global Locations	340
<i>Foxconn Shifts Its Focus to Automation</i>	246	General Procedure for Making Location	
Process Strategy	249	Decisions	342
Strategic Resource Organization: Facilities		Identifying a Country, Region, Community, and Site	343
Layout	250	Reading:	
Reading:		<i>Innovative MCI Unit Finds Culture Shock in</i>	
<i>A Safe Hospital Room of the Future</i>	260	<i>Colorado Springs</i>	344
Designing Product Layouts: Line Balancing	262	Service and Retail Locations	351
Reading:		Reading:	
<i>BMW's Strategy: Flexibility</i>	270	<i>Site Selection Grows Up: Improved Tech Tools</i>	
Designing Process Layouts	271	<i>Make the Process Faster, Better</i>	352
<i>Summary</i>	275	Evaluating Location Alternatives	353
<i>Key Points</i>	276	<i>Summary</i>	358
<i>Key Terms</i>	276	<i>Key Points</i>	358
<i>Solved Problems</i>	276	<i>Key Terms</i>	359
<i>Discussion and Review Questions</i>	280	<i>Solved Problems</i>	359
<i>Taking Stock</i>	280	<i>Discussion and Review Questions</i>	360
<i>Critical Thinking Exercises</i>	280	<i>Taking Stock</i>	360
<i>Problems</i>	281	<i>Critical Thinking Exercises</i>	361
<i>Selected Bibliography and Further Readings</i>	287	<i>Problems</i>	361
7 Work Design and Measurement	288	Case:	
Introduction	289	<i>Hello, Walmart?</i>	364
Job Design	289	<i>Selected Bibliography and Further Readings</i>	364
Quality of Work Life	294	9 Management of Quality	366
Reading:		Introduction	367
<i>Choosing Incentive Plans</i>	298	The Evolution of Quality Management	368

Reading:		Statistical Process Control	417
<i>Whatever Happened to Quality?</i>	368	Process Capability	435
The Foundations of Modern Quality Management: The Gurus	369	Operations Strategy	440
Insights on Quality Management	372	Reading:	
Readings:		<i>Bar Codes Might Cut Drug Errors in Hospitals</i>	441
<i>The Sounds of Quality</i>	374	<i>Summary</i>	441
<i>Hyundai: Kissing Clunkers Goodbye</i>	378	<i>Key Points</i>	441
Quality Awards	380	<i>Key Terms</i>	441
Reading:		<i>Solved Problems</i>	443
<i>Rework and Morale</i>	380	<i>Discussion and Review Questions</i>	447
Quality Certification	381	<i>Taking Stock</i>	448
Quality and the Supply Chain	383	<i>Critical Thinking Exercises</i>	448
Total Quality Management	384	<i>Problems</i>	448
Reading:		Cases:	
<i>Improving Quality and Reducing Risk in Offshoring</i>	384	<i>Toys, Inc.</i>	454
Problem Solving and Process Improvement	388	<i>Tiger Tools</i>	454
Reading:		<i>Selected Bibliography and Further Readings</i>	455
<i>What Keeps Six Sigma Practitioners Up at Night?</i>	391	11 Aggregate Planning and Master Scheduling	456
Quality Tools	392	Introduction	458
Reading:		Reading:	
<i>Benchmarking Corporate Web Sites of Fortune 500 Companies</i>	400	<i>Duplicate Orders Can Lead to Excess Capacity</i>	462
Operations Strategy	400	Basic Strategies for Meeting Uneven Demand	465
<i>Summary</i>	400	Techniques for Aggregate Planning	468
<i>Key Points</i>	401	Aggregate Planning in Services	475
<i>Key Terms</i>	401	Disaggregating the Aggregate Plan	477
<i>Solved Problem</i>	401	Master Scheduling	477
<i>Discussion and Review Questions</i>	402	The Master Scheduling Process	478
<i>Taking Stock</i>	403	<i>Summary</i>	483
<i>Critical Thinking Exercises</i>	403	<i>Key Points</i>	483
<i>Problems</i>	403	<i>Key Terms</i>	484
Cases:		<i>Solved Problems</i>	484
<i>Chick-n-Gravy Dinner Line</i>	405	<i>Discussion and Review Questions</i>	487
<i>Tip Top Markets</i>	406	<i>Taking Stock</i>	487
<i>Selected Bibliography and Further Readings</i>	408	<i>Critical Thinking Exercise</i>	487
10 Quality Control	410	<i>Problems</i>	487
Introduction	411	Case:	
Inspection	412	<i>Eight Glasses a Day (EGAD)</i>	492
Reading:		<i>Selected Bibliography and Further Readings</i>	492
<i>In the Chips at Jays</i>	415	12 MRP and ERP	494
		Introduction	495
		An Overview of MRP	495
		MRP Inputs	496
		MRP Processing	500
		MRP Outputs	507
		Other Considerations	508

MRP in Services	510
Benefits and Requirements of MRP	510
MRP II	511
Capacity Requirements Planning	513
ERP	516

Readings:

<i>The ABCs of ERP</i>	518
<i>The Top 10 ERP Mistakes</i>	522

Operations Strategy	524
---------------------	-----

<i>Summary</i>	524
<i>Key Points</i>	524
<i>Key Terms</i>	525
<i>Solved Problems</i>	525
<i>Discussion and Review Questions</i>	534
<i>Taking Stock</i>	534
<i>Critical Thinking Exercises</i>	535
<i>Problems</i>	535

Cases:

<i>Promotional Novelties</i>	540
<i>DMD Enterprises</i>	541

Operations Tour:

<i>Stickley Furniture</i>	541
---------------------------	-----

<i>Selected Bibliography and Further Readings</i>	544
---	-----

13 Inventory Management 546

Introduction	547
The Nature and Importance of Inventories	548
Requirements for Effective Inventory Management	551
Reading:	
<i>Radio Frequency Identification (RFID) Tags</i>	553
Inventory Ordering Policies	557
How Much to Order: Economic Order Quantity Models	557
Reorder Point Ordering	569
How Much to Order: Fixed-Order-Interval Model	573
The Single-Period Model	576
Operations Strategy	581
<i>Summary</i>	581
<i>Key Points</i>	581
<i>Key Terms</i>	582
<i>Solved Problems</i>	583
<i>Discussion and Review Questions</i>	588
<i>Taking Stock</i>	588
<i>Critical Thinking Exercises</i>	588
<i>Problems</i>	589

Cases:

<i>UPD Manufacturing</i>	596
<i>Harvey Industries</i>	596
<i>Grill Rite</i>	598
<i>Farmers Restaurant</i>	599

Operations Tours:

<i>Bruegger's Bagel Bakery</i>	600
<i>PSC, Inc.</i>	601

<i>Selected Bibliography and Further Readings</i>	603
---	-----

14 JIT and Lean Operations 604

Introduction	606
Reading:	
<i>Toyota Recalls</i>	608
Supporting Goals	609
Building Blocks	610
Readings:	
<i>General Mills Turns to NASCAR to Reduce Changeover Time</i>	612
<i>"People" Firms Boost Profits, Study Shows</i>	617
Lean Tools	627
Transitioning to a Lean System	629
Reading:	
<i>Nearby Suppliers Match Ford's Mix</i>	629
Lean Services	630
Reading:	
<i>To Build a Better Hospital, Virginia Mason Takes Lessons from Toyota Plants</i>	632
JIT II	633
Operations Strategy	633
<i>Summary</i>	634
<i>Key Points</i>	635
<i>Key Terms</i>	635
<i>Solved Problems</i>	635
<i>Discussion and Review Questions</i>	636
<i>Taking Stock</i>	636
<i>Critical Thinking Exercises</i>	636
<i>Problems</i>	636
Case:	
<i>Level Operations</i>	637
Operations Tour:	
<i>Boeing</i>	638
<i>Selected Bibliography and Further Readings</i>	639

SUPPLEMENT TO CHAPTER 14: Maintenance 640

15 Supply Chain Management 648

Introduction 649

Reading:*Veggie Tales* 652

Trends in Supply Chain Management 653

Reading:*At 3M, a Long Road Became a Shorter Road* 655

Global Supply Chains 656

ERP and Supply Chain Management 656

Ethics and the Supply Chain 657

Small Businesses 657

Management Responsibilities 658

Procurement 660

E-Business 663

Readings:*IBM's Supply Chain Social Responsibility* 663*Desperately Seeking E-Fulfillment* 665*E-Procurement at IBM* 666

Supplier Management 667

Reading:*NestléUSA and Ocean Spray Form Strategic Operations Alliance* 669

Inventory Management 670

Order Fulfillment 671

Logistics 672

Operations Tour:*Wegmans' Shipping System* 673**Readings:***Springdale Farm* 675*RFID Tags: Keeping the Shelves Stocked* 675*Active RFID vs. Passive RFID* 676*Rise of the 3PL* 677

Creating An Effective Supply Chain 678

Reading:*Clicks or Bricks, or Both?* 679

Strategy 683

Summary 683*Key Points* 684*Key Terms* 684*Discussion and Review Questions* 684*Taking Stock* 684*Critical Thinking Exercises* 685*Problems* 685**Cases:***Master Tag* 685*B&L Inc.* 686*Selected Bibliography and Further Readings* 687**16 Scheduling 688**

Scheduling Operations 690

Scheduling in Low-Volume Systems 693

Scheduling Services 711

Readings:*Servicing Passenger Planes* 713*Summary* 716*Key Points* 716*Key Terms* 716*Solved Problems* 716*Discussion and Review Questions* 721*Taking Stock* 721*Critical Thinking Exercises* 721*Problems* 722**Case:***Hi-Ho, Yo-Yo, Inc.* 728*Selected Bibliography and Further Readings* 728**17 Project Management 730**

Introduction 732

Project Life Cycle 732

Behavioral Aspects of Project Management 733

Reading:*Project Managers Have Never Been More Critical* 737

Work Breakdown Structure 739

Planning and Scheduling with Gantt Charts 739

PERT and CPM 740

Deterministic Time Estimates 743

A Computing Algorithm 744

Probabilistic Time Estimates 751

Determining Path Probabilities 754

Simulation 756

Budget Control 757

Time–Cost Trade-Offs: Crashing 757

Advantages of Using PERT and Potential Sources of Error 760

Critical Chain Project Management 761

Other Topics in Project Management 761

Project Management Software 762

Risk Management 763

Summary 764

Key Points 765

Key Terms 765

Solved Problems 765

Discussion and Review Questions 772

Taking Stock 772

Critical Thinking Exercises 772

Problems 772

Cases:

The Case of the Mexican Crazy Quilt 779

Time, Please 781

Selected Bibliography and Further Readings 781

18 Management of Waiting Lines 782

Why is There Waiting? 784

Managerial Implications of Waiting Lines 785

Goal of Waiting-Line Management 785

Reading:

New Yorkers do not Like Waiting in Line 785

Characteristics of Waiting Lines 786

Measures of Waiting-Line Performance 790

Queuing Models: Infinite-Source 790

Queuing Model: Finite-Source 805

Constraint Management 810

The Psychology of Waiting 811

Readings:

David H. Maister on the Psychology of Waiting 811

Managing Waiting Lines at Disney World 812

Operations Strategy 812

Summary 812

Key Points 813

Key Terms 813

Solved Problems 813

Discussion and Review Questions 815

Taking Stock 815

Critical Thinking Exercises 815

Problems 816

Case:

Big Bank 819

Readings:

Stopped at a Light? Why Not Read This, You May Have Time 819

Selected Bibliography and Further Readings 821

19 Linear Programming 822

Introduction 823

Linear Programming Models 824

Graphical Linear Programming 826

The Simplex Method 838

Computer Solutions 838

Sensitivity Analysis 841

Summary 844

Key Points 844

Key Terms 844

Solved Problems 844

Discussion and Review Questions 847

Problems 847

Cases:

Son, Ltd. 851

Custom Cabinets, Inc. 852

Selected Bibliography and Further Readings 853

Appendix A Answers to Selected Problems 854

Appendix B Tables 867

Appendix C Working with the Normal Distribution 872

Photo Credits 877

Company Index 878

Subject Index 880

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1

CHAPTER

Introduction to Operations Management

CHAPTER OUTLINE

- 1.1 Introduction, 3
- 1.2 Production of Goods versus Providing Services, 7
- 1.3 Why Learn about Operations Management?, 9
- 1.4 Career Opportunities and Professional Societies, 11
- 1.5 Process Management, 12
 - Managing a Process to Meet Demand, 13
 - Process Variation, 13
- 1.6 The Scope of Operations Management, 14
 - Managing the Supply Chain to Achieve Schedule, Cost, and Quality Goals, 15
- 1.7 Operations Management and Decision Making, 17
 - Models, 18
 - Quantitative Approaches, 19
 - Performance Metrics, 19
 - Analysis of Trade-Offs, 19
 - Degree of Customization, 20
 - A Systems Approach, 20
 - Establishing Priorities, 20
- 1.8 The Historical Evolution of Operations Management, 21
 - The Industrial Revolution, 21
 - Scientific Management, 21
 - The Human Relations Movement, 23
- Decision Models and Management Science, 23
- The Influence of Japanese Manufacturers, 24
- 1.9 Operations Today, 24
- 1.10 Key Issues for Today's Business Operations, 27
 - Environmental Concerns, 27
 - Ethical Conduct, 29
 - The Need to Manage the Supply Chain, 31
 - Elements of Supply Chain Management, 32

Operations Tour: Wegmans Food Markets, 33

Case: Hazel, 37
Problem Solving Guide, 38

LEARNING OBJECTIVES

After completing this chapter, you should be able to:

- L01.1** Define the terms *operations management* and *supply chain*.
- L01.2** Identify similarities and differences between production and service operations.
- L01.3** Explain the importance of learning about operations management.
- L01.4** Identify the three major functional areas of organizations and describe how they interrelate.
- L01.5** Summarize the two major aspects of process management.
- L01.6** Describe the operations function and the nature of the operations manager's job.
- L01.7** Explain the key aspects of operations management decision making.
- L01.8** Briefly describe the historical evolution of operations management.
- L01.9** Describe current issues in business that impact operations management.
- L01.10** Explain the need to manage the supply chain.



This book is about operations management. The subject matter is relevant for you regardless of your major. Productivity, quality, e-business, competition, and customer satisfaction are important for every aspect of a business organization. This first chapter presents an introduction and overview of operations management. Among the issues it addresses are: What is operations management? Why is it important? What do operations management professionals do?

The chapter also provides an interesting description of the historical evolution of operations management and a discussion of the trends and issues that impact operations management.

You will learn about (1) the economic balance that every business organization seeks to achieve; (2) the condition that generally exists that makes achieving the economic balance challenging; (3) the line function that is the core of every business organization; (4) key steps in the history and evolution of operations management; (5) the differences and similarities between producing products and delivering services; (6) what a supply chain is, and why it is essential to manage it; and (7) the key issues for today's business operations.

1.1 INTRODUCTION

Operations is that part of a business organization that is responsible for producing goods and/or services. **Goods** are physical items that include raw materials, parts, subassemblies such as motherboards that go into computers, and final products such as cell phones and automobiles. **Services** are activities that provide some combination of time, location, form, or psychological value. Examples of goods and services are found all around you. Every book you read, every video you watch, every e-mail or text message you send, every telephone conversation you have, and every medical treatment you receive involves the operations function of one or more organizations. So does everything you wear, eat, travel in, sit on, and access the Internet with. The operations function in business can also be viewed from a more far-reaching perspective: The collective success or failure of companies' operations functions has an impact on the ability of a nation to compete with other nations, and on the nation's economy.

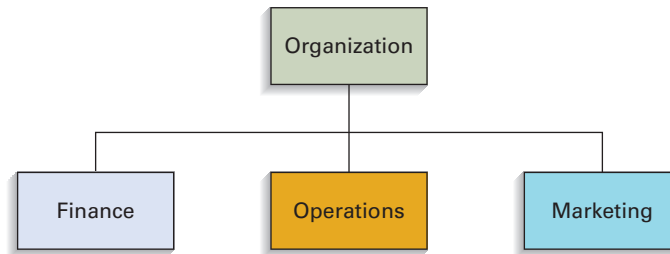
Recalls of automobiles, foods, toys, and other products; major oil spills; and even dysfunctional state and federal legislatures are all examples of operations failures. They underscore the need for effective operations management. Examples of operations successes include the many electronic devices we all use, medical breakthroughs in diagnosing and treating ailments, and high-quality goods and services that are widely available.

Goods Physical items produced by business organizations.

Services Activities that provide some combination of time, location, form, and psychological value.

FIGURE 1.1

The three basic functions of business organizations



The ideal situation for a business organization is to achieve an economic match of supply and demand. Having excess supply or excess capacity is wasteful and costly; having too little means lost opportunity and possible customer dissatisfaction. The key functions on the supply side are operations and supply chains, and sales and marketing on the demand side.

While the operations function is responsible for producing products and/or delivering services, it needs the support and input from other areas of the organization. Business organizations have three basic functional areas, as depicted in Figure 1.1: finance, marketing, and operations. It doesn't matter whether the business is a retail store, a hospital, a manufacturing firm, a car wash, or some other type of business; all business organizations have these three basic functions.

L01.1 Define the terms *operations management* and *supply chain*.

Operations management

The management of systems or processes that *create goods and/or provide services*.

Supply chain A sequence of activities and organizations involved in producing and delivering a good or service.

Finance is responsible for securing financial resources at favorable prices and allocating those resources throughout the organization, as well as budgeting, analyzing investment proposals, and providing funds for operations. Marketing is responsible for assessing consumer wants and needs, and selling and promoting the organization's goods or services. Operations is responsible for producing the goods or providing the services offered by the organization. To put this into perspective, if a business organization were a car, operations would be its engine. And just as the engine is the core of what a car does, in a business organization, operations is the core of what the organization does. Operations management is responsible for managing that core. Hence, **operations management** is the management of systems or processes that create goods and/or provide services.

Operations and supply chains are intrinsically linked, and no business organization could exist without both. A **supply chain** is the sequence of organizations—their facilities, functions, and activities—that are involved in producing and delivering a product or service. The sequence begins with basic suppliers of raw materials and extends all the way to the final customer, as seen in Figure 1.2. Facilities might include warehouses, factories, processing centers, offices, distribution centers, and retail outlets. Functions and activities include forecasting, purchasing, inventory management, information management, quality assurance, scheduling, production, distribution, delivery, and customer service. Figure 1.3 provides another illustration of a supply chain: a chain that begins with wheat growing on a farm and ends with a customer buying a loaf of bread in a supermarket. Note that the value of the product increases as it moves through the supply chain.

Supply chains are both external and internal to the organization. The external parts of a supply chain provide raw materials, parts, equipment, supplies, and/or other inputs to the organization, and they deliver outputs that are goods to the organization's customers. The internal parts of a supply chain are part of the operations function itself, supplying operations with parts and materials, performing work on products, and/or performing services.

FIGURE 1.2

A simple product supply chain

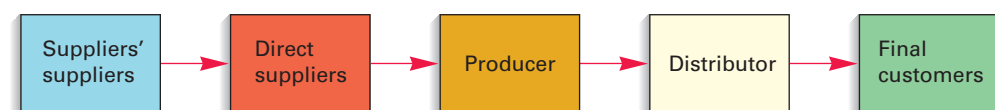
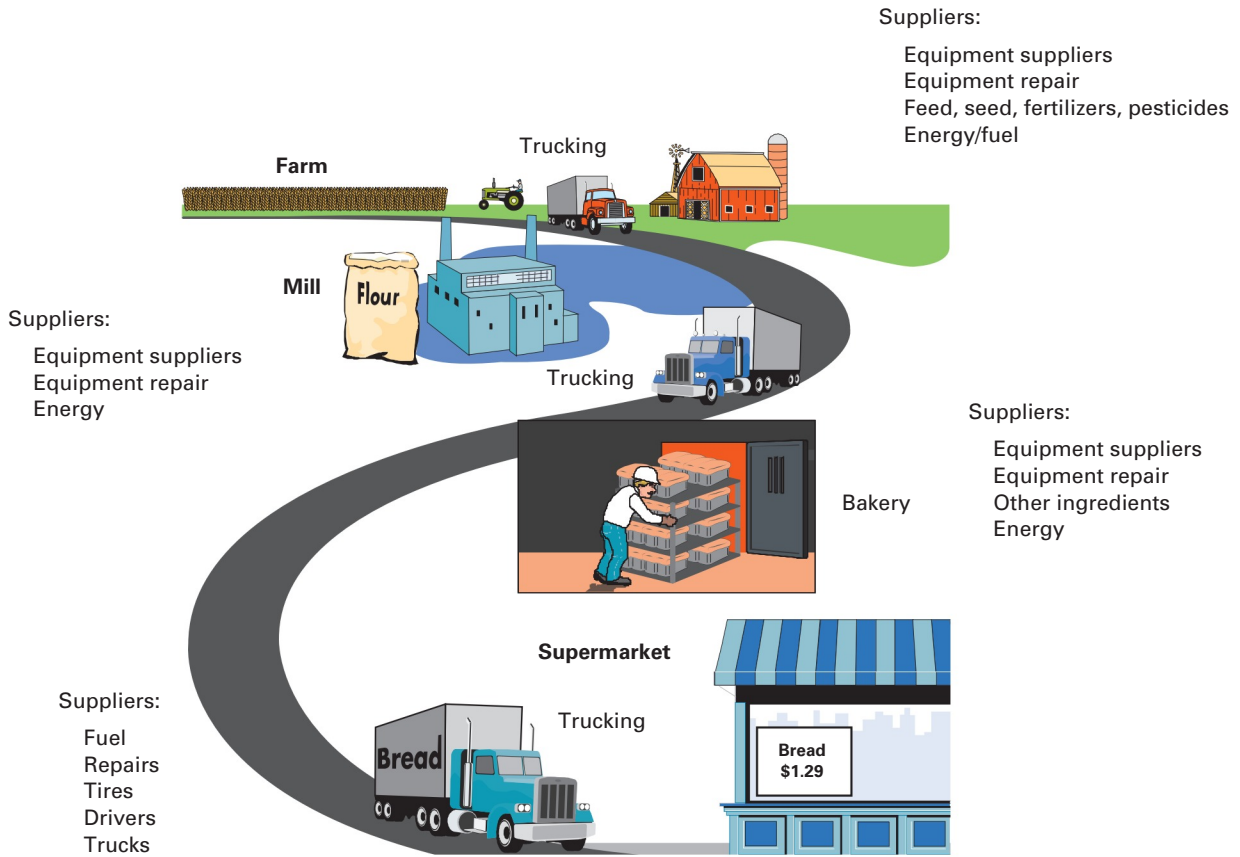


FIGURE 1.3 A supply chain for bread



The creation of goods or services involves transforming or converting inputs into outputs. Various inputs such as capital, labor, and information are used to create goods or services using one or more *transformation processes* (e.g., storing, transporting, repairing). To ensure that the desired outputs are obtained, an organization takes measurements at various points in the transformation process (*feedback*) and then compares them with previously established standards to determine whether corrective action is needed (*control*). Figure 1.4 depicts the conversion system.

Table 1.1 provides some examples of inputs, transformation processes, and outputs. Although goods and services are listed separately in Table 1.1, it is important to note that

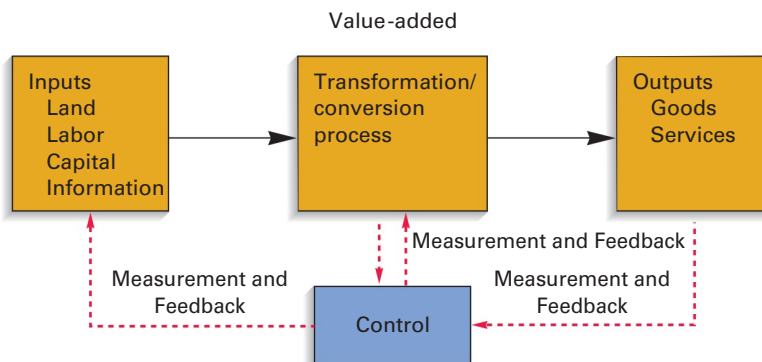


FIGURE 1.4 The operations function involves the conversion of inputs into outputs

TABLE 1.1

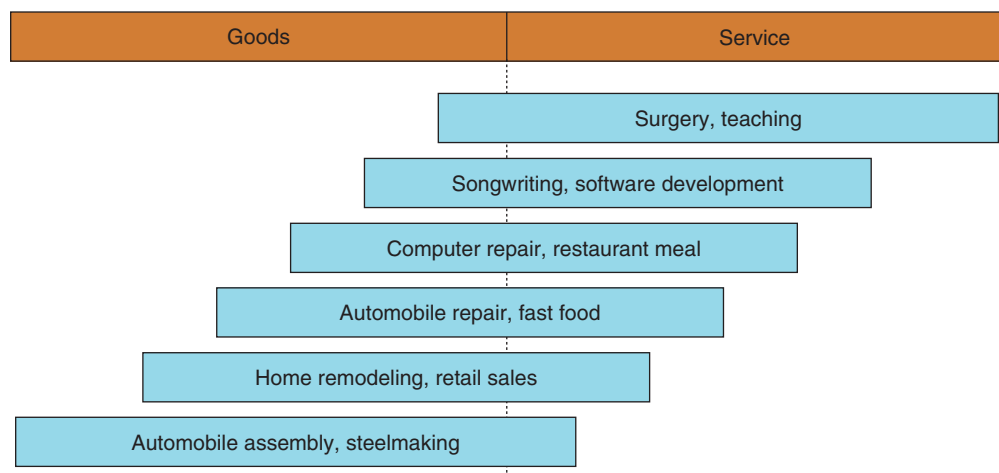
Examples of inputs, transformation, and outputs

Inputs	Transformation	Outputs
Land	Processes	High goods percentage
Human	Cutting, drilling	Houses
Physical labor	Transporting	Automobiles
Intellectual labor	Teaching	Clothing
Capital	Farming	Computers
Raw materials	Mixing	Machines
Water	Packing	Televisions
Metals	Copying, faxing	Food products
Wood	Analyzing	Textbooks
Equipment	Developing	CD players
Machines	Searching	High service percentage
Computers	Researching	Health care
Trucks	Repairing	Entertainment
Tools	Innovating	Car repair
Facilities	Debugging	Legal
Hospitals	Selling	Banking
Factories		Communication
Retail stores		
Energy		
Other		
Information		
Time		
Legal constraints		
Government regulations		

goods and services often occur jointly. For example, having the oil changed in your car is a service, but the oil that is delivered is a good. Similarly, house painting is a service, but the paint is a good. The goods–service combination is a continuum. It can range from primarily goods, with little service, to primarily service, with few goods. Figure 1.5 illustrates this continuum. Because there are relatively few pure goods or pure services, companies usually sell *product packages*, which are a combination of goods and services. There are elements of both goods production and service delivery in these product packages. This makes managing operations more interesting, and also more challenging.

FIGURE 1.5

The goods–service continuum



	Inputs	Processing	Output
Food Processor	Raw vegetables	Cleaning	Canned vegetables
	Metal sheets	Making cans	
	Water	Cutting	
	Energy	Cooking	
	Labor	Packing	
	Building	Labeling	
	Equipment		
Hospital	Doctors, nurses	Examination	Treated patients
	Hospital	Surgery	
	Medical supplies	Monitoring	
	Equipment	Medication	
	Laboratories	Therapy	

TABLE 1.2
Illustrations of the transformation process

Table 1.2 provides some specific illustrations of the transformation process.

The essence of the operations function is to *add value* during the transformation process: **Value-added** is the term used to describe the difference between the cost of inputs and the value or price of outputs. In nonprofit organizations, the value of outputs (e.g., highway construction, police and fire protection) is their value to society; the greater the value-added, the greater the effectiveness of these operations. In for-profit organizations, the value of outputs is measured by the prices that customers are willing to pay for those goods or services. Firms use the money generated by value-added for research and development, investment in new facilities and equipment, worker salaries, and *profits*. Consequently, the greater the value-added, the greater the amount of funds available for these purposes. Value can also be psychological, as in *branding*.

Many factors affect the design and management of operations systems. Among them are the degree of involvement of customers in the process and the degree to which technology is used to produce and/or deliver a product or service. The greater the degree of customer involvement, the more challenging it can be to design and manage the operation. Technology choices can have a major impact on productivity, costs, flexibility, and quality and customer satisfaction.

Value-added The difference between the cost of inputs and the value or price of outputs.

1.2 PRODUCTION OF GOODS VERSUS PROVIDING SERVICES

Although goods and services often go hand in hand, there are some very basic differences between the two, differences that impact the management of the goods portion versus management of the service portion. There are also many similarities between the two.

Production of goods results in a *tangible output*, such as an automobile, eyeglasses, a golf ball, a refrigerator—anything that we can see or touch. It may take place in a factory, but it can occur elsewhere. For example, farming and restaurants produce *nonmanufactured* goods. Delivery of service, on the other hand, generally implies an *act*. A physician’s examination, TV and auto repair, lawn care, and the projection of a film in a theater are examples of services. The majority of service jobs fall into these categories:

- Professional services (e.g., financial, health care, legal).
- Mass services (e.g., utilities, Internet, communications).
- Service shops (e.g., tailoring, appliance repair, car wash, auto repair/maintenance).
- Personal care (e.g., beauty salon, spa, barbershop).

L01.2 Identify the similarities and differences between production and service operations.

Government (e.g., Medicare, mail, social services, police, fire).

Education (e.g., schools, universities).

Food service (e.g., catering).

Services within organizations (e.g., payroll, accounting, maintenance, IT, HR, janitorial).

Retailing and wholesaling.

Shipping and delivery (e.g., truck, railroad, boat, air).

Residential services (e.g., lawn care, painting, general repair, remodeling, interior design).

Transportation (e.g., mass transit, taxi, airlines, ambulance).

Travel and hospitality (e.g., travel bureaus, hotels, resorts).

Miscellaneous services (e.g., copy service, temporary help).

Manufacturing and service are often different in terms of *what* is done but quite similar in terms of *how* it is done.

Consider these points of comparison:

Degree of customer contact. Many services involve a high degree of customer contact, although services such as Internet providers, utilities, and mail service do not. When there is a high degree of contact, the interaction between server and customer becomes a “moment of truth” that will be judged by the customer every time the service occurs.

Labor content of jobs. Services often have a higher degree of labor content than manufacturing jobs do, although automated services are an exception.

Uniformity of inputs. Service operations are often subject to a higher degree of variability of inputs. Each client, patient, customer, repair job, and so on presents a somewhat unique situation that requires assessment and flexibility. Conversely, manufacturing operations often have a greater ability to control the variability of inputs, which leads to more-uniform job requirements.

Measurement of productivity. Measurement of productivity can be more difficult for service jobs due largely to the high variations of inputs. Thus, one doctor might have a higher level of routine cases to deal with, while another might have more-difficult cases. Unless a careful analysis is conducted, it may appear that the doctor with the difficult cases has a much lower productivity than the one with the routine cases.

Quality assurance. Quality assurance is usually more challenging for services due to the higher variation in input, and because delivery and consumption occur at the same time. Unlike manufacturing, which typically occurs away from the customer and allows mistakes that are identified to be corrected, services have less opportunity to avoid exposing the customer to mistakes.

Inventory. Many services tend to involve less use of inventory than manufacturing operations, so the costs of having inventory on hand are lower than they are for manufacturing. However, unlike manufactured goods, services cannot be stored. Instead, they must be provided “on demand.”

Wages. Manufacturing jobs are often well paid, and have less wage variation than service jobs, which can range from highly paid professional services to minimum-wage workers.

Ability to patent. Product designs are often easier to patent than service designs, and some services cannot be patented, making them easier for competitors to copy.

There are also many *similarities* between managing the production of products and managing services. In fact, most of the



Characteristic	Goods	Services
Output	Tangible	Intangible
Customer contact	Low	High
Labor content	Low	High
Uniformity of input	High	Low
Measurement of productivity	Easy	Difficult
Opportunity to correct problems before delivery	High	Low
Inventory	Much	Little
Wages	Narrow range	Wide range
Patentable	Usually	Not usually

TABLE 1.3

Typical differences between production of goods and provision of services

topics in this book pertain to both. When there are important service considerations, these are highlighted in separate sections. Here are some of the primary factors for both:

- a. Forecasting and capacity planning to match supply and demand.
- b. Process management.
- c. Managing variations.
- d. Monitoring and controlling costs and productivity.
- e. Supply chain management.
- f. Location planning, inventory management, quality control, and scheduling.

Note that many service activities are essential in goods-producing companies. These include training, human resource management, customer service, equipment repair, procurement, and administrative services.

Table 1.3 provides an overview of the differences between production of goods and service operations. Remember, though, that most systems involve a blend of goods and services.

1.3 WHY LEARN ABOUT OPERATIONS MANAGEMENT?

Whether operations management is your major or not, the skill set you gain studying operations management will serve you well in your career.

There are many career-related reasons for wanting to learn about operations management, whether you plan to work in the field of operations or not. This is because every aspect of business affects or is affected by operations. Operations and sales are the two line functions in a business organization. All other functions—accounting, finance, marketing, IT, and so on—support the two line functions. Among the service jobs that are closely related to operations are financial services (e.g., stock market analyst, broker, investment banker, and loan officer), marketing services (e.g., market analyst, marketing researcher, advertising manager, and product manager), accounting services (e.g., corporate accountant, public accountant, and budget analyst), and information services (e.g., corporate intelligence, library services, management information systems design services).

A common complaint from employers is that college graduates come to them very focused, when employers would prefer them to have more of a general knowledge of how business organizations operate. This book provides some of the breadth that employers are looking for in their new hires. Apart from the career-related reasons is a not so obvious one: Through learning about operations and supply chains, you will have a much better understanding of the world you live in, the global dependencies of companies and nations, some of the reasons that companies succeed or fail, and the importance of working with others.

L01.3 Explain the importance of learning about operations management.