Noesis Lead« »Time

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► The Operations Newsletter

Operations Club of SIMS

The operations club in SIMS was formed somewhere in mid of 2010. Why so late? Because it is formed by first batch of operations majors which itself was formed in the last quarter of 2009.

When it was formally formed it was named "Noesis".

noesis [nəʊ'iːsɪs] *noun*
1. intellectual intuitive thinking and understanding; a process of the mind to analyze complex things with simplicity
2. the mental process used in thinking and perceiving; the functioning of the intellect

The Operations Club of SIMS promotes rational thinking and helps making complex things simple. Operations is the core of every business and plays a pivotal role in any business's success.

Noesis enables students to think beyond classroom learning which aligns them with current industry practices activities. Noesis aims to inspire students to come up with improvements in terms of cost, quality, and time – by innovating on, and simplifying day-today processes and activities.

The best ideas are simple ones. This is done through nonconventional and practical ways of learning and knowledge sharing. This helps students to enhance their analytical power, objective decision making skills, and provide them with a practical mindset towards solving problems.

Noesis is all about polishing student managers into World Class Managers!

The Logo Story... So Far!

The current logo of Noesis, and the caption "Action Simplified" was designed by Mohit Sharma (2011-13/OPS/MARK) with slight inputs/suggestions from Mohit Deshpande (2011-13/HR/OPS). This was done primarily because the old logo was thought to be unsuitable (by many people!) to depict the essence of the Operations club.

Noesis Action Simplified

The significance of the logo and colours is given below.

1. In the logo, the circle in two different colours signifies unity in disjointedness, and also represents the first letter of the word Operations.

2. The stylized N represents the first letter of Noesis, the name of the club.

3. In the "Noesis" text, the different coloured O also represents the connection to Operations, which is (of course!) what the club is about.

Our Very Own Newsletter!

Lead« »Time

Conceptualized in September of 2011 to replace the formerly discontinued newsletter which went by the name of "Focus", the current name was thought up to emphasize the importance of "LeadTime" as a concept to Operations as a whole. The arrows of course denote the shortening and compression of the lead time as far as possible.

lead time [liːd] *noun*
1. the time between the design of a product and its production
2. the time from the placing of an order to the delivery of the goods

That is all there is to it! The name was thought up by Satish Solanki (Batch 2012-14) as far as the editors remember, and for that Noesis is grateful! It was one of many that were put to vote, and it came out on top as the favourite, and Lead-Time it was.

Inside This Issue

Operations management in Service Industry-A new McWAY!!

Tarun Shukla (Batch 2012—2014)

Operations management is basically the application of certain techniques that ensure that business operations are efficient in terms of using as few resources as needed, and effective in terms of meeting customer requirements. Typically we say that it is concerned with managing of the process that converts the input into output (which can be goods, services or both).In the present scenario with companies reaching very efficient supply chain management and delivery system –maintaining desired quality levels, the aim should be now to enhance the satisfaction level of the end customer via better services.

The process of site selection and demand estimation are there in both manufacturing and service field but there are certain key areas which are crucial for the service industry. If we take example of McDonald's they have the approach of make-to-stock in which the same product is prepared in advance. Now, if we take up an example in which a customer requests for a burger without onions/ tomato then he/she would have to wait for extra time in comparison to the customer who ordered simple burger. The concept of having semi finished preparations if implemented efficiently will lead to better results in a short span of time so that the delivery time is reduced by 30 -40%.If we look upon the overall process of ordering anything in these outlets there are surely problems with the long queue that we face mostly .

The analysis of this problem if done carefully will show that the person who is responsible for billing does the work of completing the order by taking burgers / drink and making the order complete Now while he/she is doing this work the customer is waiting for turn and this delay of 20seconds when considered for 1000 customers visiting per day the delay comes out to be 20000seconds(5.5 hours) which is huge ,so if better processes like having a person dedicated for the work of taking burgers and getting the order ready. Also, there can be time reduction if the tray for the order can be made half ready keeping 2 tomato ketchup sachets and tissue papers with the empty tray(Also they can add drinking straw also depending on the frequency of customers buying drinks).

Another important aspect is the position of the chairs, tables, LCD screens and speakers. If we observe any McDonald's outlet we will see long queues of people during the peak hours (6 pm to 9 pm), these long queues often cause problem to those who sit the chairs which are in front of the billing area so better positioning of chairs and tables should be done. We all know there are strict regulations by the Govt. of India on the quality of the food items of these big food chains .

The problem is not the quality of material used but the level of service they provide ,the process of receiving the tray with burgers and drinks –there is no separate counter to collect tray ,customers after placing the order wait till they receive the food stuff .What they can do is having a separate counter -in the last end of the billing section to handle this for this they can have a system of counter no. for each and every order and displaying the same in a LCD screen near the counter so that the problem of receiving the order .The overall process can be efficiently managed via interconnected computers so that as when the order is placed the information is transmitted to workers preparing the burgers and also to the person who will be responsible for giving the customers burgers etc. Newly opened McDonald's outlet near E-square mall, the lack of coordination is there which also leads to further delays .If we consider their home delivery service calling 66 000 666 one would be waiting for more than 30/40 minutes to get the home delivery.

The introduction of the "Speedee Service System" in 1948 by the owners of McDonald's is nowhere in place now and proper restructuring is needed for better service.

Two falling economies, which will rise

Mayurika Handa (Batch 2012 –2014)

China, one of the fastest growing economies is showing signs of a plateau. A weaker dollar and Euro have caused a credit crunch in the manufacturing sector and has pushed the economy into a decelerating mode.

HSBC's purchasing managers' index declined to 48.2 from May's 49.2 on a 50-point scale on which numbers below 50 show a contraction. A separate measure by an industry group, the China Federation of Logistics and Purchasing, showed activity declined to 50.1 from May's 50.8.

The export growth in May has weakened and the country has not been able to meet its projected targets by the government for retail sales in the month of June.

India showed a similar story when its own growth rate stagnated from the last quarter. The RBI then stated that it will not cut the key rates to facilitate growth. This has adverse effects on our own manufacturing sector as a tight economy was doing nothing but constricting growth.

The slowdown in Chinese manufacturing could have global repercussions, depressing demand for iron ore and other commodities from Australia and Brazil and for industrial components from Southeast Asia, Taiwan and South Korea.

Manufacturers were hurt by falling orders and a shortage of credit in June as Chinese regulators try to cool a lending boom they worry could race out of control. A shortage of cash in financial markets caused interest rates paid by banks for loans from other banks to spike to a record high.

China has always followed a policy of an equal ratio of savings versus expenditure in their economy growth. Moreover, they have encouraged growth based on their own production sector as compared to credit and foreign inflow.

China's economic growth decelerated to 7.7 percent in the first quarter from 7.9 percent the previous quarter. Forecasters have said the clampdown on bank lending could cause growth to dip below 7 percent in coming quarters. That would be China's weakest performance since the early 1990s.

With this constriction on their growth, are they restraining the iron dragon? If the world's second largest economy starts going into a downward spiral, who will take its place? More importantly, does India, a weakened animal in the race have enough strength to take this position?

The falling rupee has led to cheaper exports and expensive imports. Every sector of the country has taken a hit. An inner turmoil with political parties pointing fingers at each other has not led to any constructive solution. India was once looked at as an emerging super power. With the onset of FDI in retail, the economy should have got the boost it needed. The country should have seen infrastructure development and a booming retail sector. What one sees are promises gone sour and a continued recessive market.

India is still concentrating on foreign inflow as a path for growth. Instead of being a production led economy, we are content being an export led economy. The country has massive scope if it looks into its own recesses and takes measures to expand its economy while controlling inflation. India has to find innovative ways to maintain this delicate balance between inflation and growth as these are testing times.

As China is showing signs of a slowdown, India should use this opportunity to its own advantage by going into expansionary mode to move its economy into a fast forward track. An economy which concentrates on its own production sector is a sustained economy and is less susceptible to outward shocks.

What remains to be seen is whether India can overcome its own shortcomings and inner conflicts to project a strong and stable economy which shows signs of continued growth and proves that it is still a contender, a mighty one at that, in this race to be a super power.

Lessons for India's Retailing Giants???

Sarath Kolli (Batch 2012 –2014)

Very few would know that the extremely low-profile, Mumbai-based supermarket chain, D- Mart, made a topline of Rs 3,350 crore in 2012-13. That makes it the third-largest among the branded retail chains in the country, after Kishore Biyani's Future Retail (Future) and Mukesh Ambani's Reliance Retail (Reliance). While Future clocked a turnover of Rs 14,201 crore in the las financial year, Reliance did Rs 10,800 crore, recording a cash break-even.

But if Reliance operates with over 1,450 stores and Future runs over 1,000 stores, D-mart, on the other hand, operates just 65 stores in Maharashtra and Gujarat and one each in Hyderabad and Bangalore. Its sales per store, then, is the highest among grocery chains at Rs 53 crore (Reliance makes about Rs 7.45 crore per store).

The 13-year-old D-Mart, founded by the stock-market icon, R K Damani, is not only profitable (making around 2.5 per cent of sales), but most of its stores are in the black too, says a company executive, who did not wish to be quoted to maintain the chain's low profile. In comparison, more illustrious player such as Spencer's, of the RP-Sanjiv Goenka Group, and one of the oldest retailers and Aditya Birla Retail's More are yet to break even. The Tata Group-owned chain of hypermarkets, Star Bazaar and Shoppers Stop-owned Hypercity, too are waiting to achieve profits.

So how did D-Mart crack the code? By doing business differently from its larger counterparts.

For a start, the chain offers prices that are 6-7 per cent lower than its competition, no matter where it operates, which are a huge draw among its customers, say retail consultants. "*We sell at a price lower than others as we keep our costs low and run the business efficiently*," explains the same company executive.

What lets it achieve such pricing tactics is its operational style. Out of the 65 stores it runs, D-Mart owns 55 properties, saving substantially on rent, which constitutes 6-10 per cent of retailers' sales.

D-Mart, also refrains from opening stores inside malls unlike other hypermarkets. "*Since rent is a big element of a retailer's operations costs, that burden goes away, boosting operating profits*," says an executive of Reliance Retail. "*By not being present inside malls, D-Mart saves on high common maintenance charges and exorbitant rents*," he adds. But when opening a store, D-Mart is wont to select areas neighbouring residential societies, setting an easy catchment area.

Costs are further kept low by a no-frills layout without any flashy interior. "*They do not spend much on interiors unlike bigger retailers who spend a bomb on them*," says an executive from Aditya Birla Retail. The stores are also large, measuring 30,000 to 35,000 sq ft. For D-Mart, it makes business sense to extend the low profile to its stores too. "*We have discovered a level of profitability. Whatever rent we pay for a store, we assess whether we can make money from that store or not within one or two years. We are tough negotiators*," says the D-Mart executive.

The executive explains the chain's idea of a slow and steady growth: "*We will look at adding at eight-10 stores. We have seen a growth of 30 per cent in our revenues for the past four years*." "*Its stores are down-to-earth and cost-effective and the staff highly-motivated*," says Sanjay Badhe, a Mumbai-based retail consultant.

But D-Mart's cost efficiencies may be difficult to replicate. Larger chains point out that its practices are not commercially viable on a bigger scale. "*It is not possible for bigger chains to own stores as it requires huge capital expenditure. A smaller chain can still afford to do so*," says a top executive from Tata Group's Trent, which runs Westside and Star Bazaar.

Not just by way of foot-print, D-Mart extracts a few brownie points even from its suppliers. It pays them within 48 hours of delivery, and they, in turn, allow for an additional 2-3 per cent gross margin to the chain, enabling it to keep the prices low at most of its locations.

Organised retailers often buy goods on credit from suppliers on 30-60-days credit. A senior executive in Kishore Biyani's Future Retail says a short credit cycle cannot be adopted by large retail chains as credit plays an indispensable role in generating return on capital for large volumes as theirs.

"*It responds very quickly to vendors. A lot of suppliers say D-Mart listens to them. For example, it initiates promotions within a few days*," comments Badhe. Badhe also attributes its popularity to its understanding of the consumer in the locality it opens shop in.He points out the "good mix" of national products and local products even in towns such as Kolhapur and Sangli in Maharashtra. "In areas where rice consumption is high, they stock a large variety of rice," he says.

Given its size, D-Mart has been able to remain nimble-footed in financials too. It has not taken on a lot of debt, unlike its bigger peers and has cut advertising budgets by 30-40 per cent in the last couple of years to save costs. Its debt to equity ratio is 0.65.

But the real challenge for the brand will surface now that it is hoping to expand to more cities in Karnataka and Andra Pradesh. "*It is difficult to expand. It is difficult to find stores which match our expectations*," says the D-Mart executive, explaining why it has just one store in Bangalore.

The Reliance Retail executive says, "*Its first phase (of growth) has been successful. Replicating it in the next phases will be the challenge. When you are a regional player, you will run a people-driven business. But when you go national, you have to have fool proof and strong processes*." For D-Mart, its task will be cut out – of retaining its advantages even as it builds scale.

Dream Believe Achieve

A column covering some of the biggest personalities from the field of Operations Management. In this edition we cover

TIM COOK

Tim Cook is the CEO of Apple and serves on its Board of Directors.

Before being named CEO in August 2011, Tim was Apple's Chief Operating Officer and was responsible for all of the company's worldwide sales and operations, including end-to-end management of Apple's supply chain, sales activities, and service and support in all markets and countries.

He also headed Apple's Macintosh division and played a key role in the continued development of strategic reseller and supplier relationships, ensuring flexibility in response to an increasingly demanding marketplace.

Prior to joining Apple, Tim was vice president of Corporate Materials for Compaq and was responsible for procuring and managing all of Compaq's product inventory.

Previous to his work at Compaq, Tim was the chief operating officer of the Reseller Division at Intelligent Electronics.

Tim also spent 12 years with IBM, most recently as director of North American Fulfillment where he led manufacturing and distribution functions for IBM's Personal Computer Company in North and Latin America.

Tim earned an M.B.A. from Duke University, where he was a Fuqua Scholar, and a Bachelor of Science degree in Industrial Engineering from Auburn University.

By far he is the most accomplished supply chain professional present today. Many analysts credit him for the speed with which Apple Products become available for the customers soon after its release.

Storyboard

SUNIL ALBAL

A Column Written by our Operations Management Alumni describing their journey in the corporate

Sunil Albal
Senior Team Leader
(Maersk Line Global Service Centres India Pvt. Ltd.)

MBA – (Marketing and Operations)
SIMS batch '08-'10
Six Sigma Green Belt Certified
PMP-PMI Trained (PMI USA)

<u>Reason for Operations:</u>

Operations is the place where all the action lies. While marketing may create the necessary pull or push for a product and finance will provide the means to do so but all plans will hit a wall if the best laid plans are not executed well by Operations.

In addition Operations is not restricted to a certain industry. It ranges from manufacturing to ITES, from health care to banking, from hospitality to retail. Some of the challenges and practices are common across industries and this opens a host of opportunities for an individual to apply his/her learning and make a career across industries.

Experience at Maersk:

<u>1) Project Management:</u> The project was migration of Inland Operation activities from Across 3 Regions namely, Far East Asia, Africa and Latin America. The Project was to travel to various countries, study the process as it took place on ground, map the process to create a system around it and ship it back to India to perform the process form here.

Responsibilities included Project planning and budgeting, Onsite travel, Process Mapping, Documentation, SOP creation, KPI and SLA creation, IT System and support planning, Ensure compliance of legal laws and restrictions, signoff of migrations from Senior Management, resource planning, hiring, training and going live with the project.

Some important tools used – GANTT Chart, RACI Matrix, ARIS Maps, Swimlane Diagram, FMEA Analysis, Hypothesis testing, Poka Yoke, SOP Creation, Data Baselining and manpower calculation

<u>2) Operations Management:</u>

Responsible for Inland Operations across Central and South America and the scope of responsibilities were spread across almost 25 nations covering approximately 100 Ports. Inland Operations mainly consist of all activities which take place before loading a container on a vessel and post discharging a container from a vessel.

Inland Operations and my responsibilities could be broadly classified into following categories:

1) Equipment Management:
- Inventory Management of containers, chassis, gensets, seals to identify surplus and deficit
- Off hire and On hire of containers
- Equipment maintenance and Repair
- Handling activities at terminal, depots and container yards.
- Pre trip inspections

2) Intermodal Activities:
- Handling mode of transport – Rail/Road/Barge, before and after container is discharged from the vessel and maintain optimum mix of transport modes to minimize time and costs
- Negotiate and finalize contracts with vendors
- Create Transport plan, load lists and workorders for vendors

3) Cost Control and Payment:
- For all activities mentioned above, request Performa/invoice, and verify the same for authenticity and accuracy of volume, rate and time period.
- Create PO and proceed for payment
- Handle discrepancies in payment and ensure completion of dues within payment cycle
- Create Monthly financial report for reconciliation

<u>3) Operations Consulting:</u>

Handle a Terminal Operations consulting project in South Africa.

Solve Bottle neck issues in Cape Town terminal to increase throughput of containers imported or exported at the terminals

ABC analysis to identify A1 customers to give high priority

Better inventory planning and movement of empty and full containers

Increase turn-around time of container loading and discharge at Terminals through linear programming and optimization

Service customer in shorter time period and make entire Operations more predictable with reduced buffer time for full containers waiting to be loaded on vessel at the terminals

Tools used – ABC Analysis, Decision Trees and PERT-CPM, Linear Programming, Solvers and Sensitivity analysis (softwares such as @Risk)

<u>4) Quality Control</u>

Used Six Sigma Principles to ensure quality of process

Created Visual Management System for performance visibility

Carry out daily performance checks and map process on control charts for visibility

Use six sigma principles to bring about improvements in the process and save costs *(saved almost $2 million in 3 years.)*

Tools like 5 Whys, Statistics, ANOVA, Pareto Charts, Control charts, Run charts, Fish bones, Cause and Effect, FMEA Analysis, SIPOC, Swimlanes, Value Stream Mapping, etc

<u>5) Team and Customer Handling</u>

Handled a Team of almost 50 FTE (Full Time Employees) out of which 30 were in India and 20 overseas.

Maintaining close relationship with clients and customers (internal and external)

Ensuring high Business Partner Satisfaction Score for every quarter

Manpower planning for 24x7 rotational shifts

Skill building, skill testing and Performance Mapping for team members

Ensuring process are not people dependent though automation and standardization

Coaching and mentoring for creating leadership pipeline.

Awards and Recognition for Team members

Important Tool - Erlang Tool