

BE AN Entrepreneur

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Chapter 7

THE OPERATING PLAN



Components of the Operating Plan:



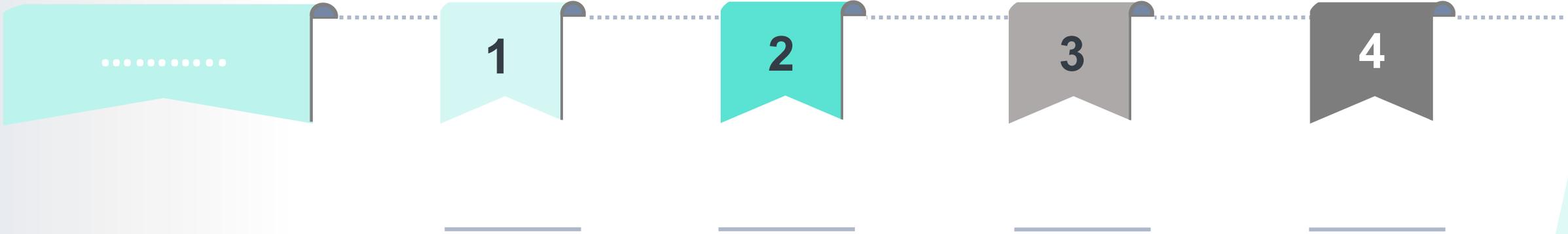
Production activities

Capacity Planning

Business Location



Chapter 7 overview



The product or service that you offer to the public through your marketing plan is just the tip of the iceberg.

Unseen to the customer is a host of activities that create the product or make the service available.

The term “operations” covers these behind-the-scene activities.

You may say that marketing is the face your business presents to the outside world. Its inner workings fall under operations.

Learning Objectives



State

State the subject and goal of an operating plan



Define and distinguish

Define and distinguish production activities from support activities



Illustrate a simple production process as a process flow or a flowchart.



State

State the goal of capacity planning and the sources of inefficiency

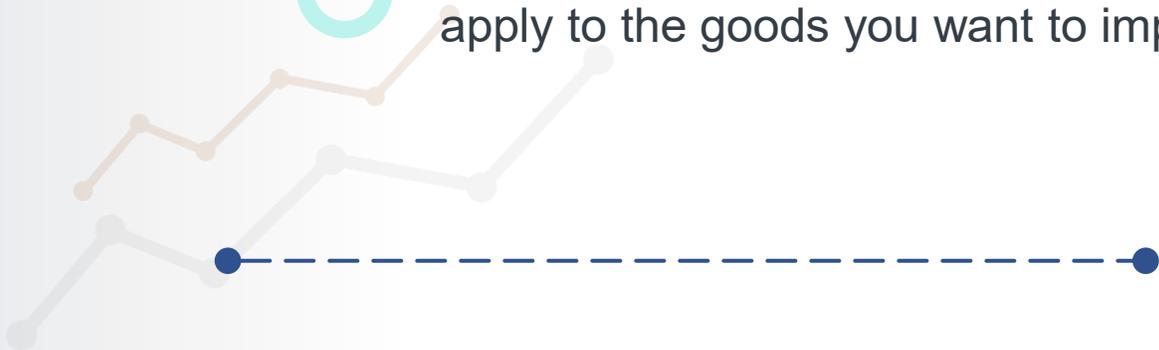


Distinguish

Distinguish start-up costs from running costs.

Story from Real Life

- Mystic Masala is a small business in Canada. It offers handmade aromatherapy soy candles and body and shampoo bars made with spice, herb, and flower oils.
- Importing is vital to its operations.
- Based on her experience, the owner has several suggestions when importing.
- Do your homework before you begin. Know the product codes and laws that apply to the goods you want to import.



Story from Real Life



Customs brokerage fees vary depending on the agent.



Shop around for a cost-effective and reliable option.



If you're good with paperwork, doing them yourself could save several hundred dollars a shipment.



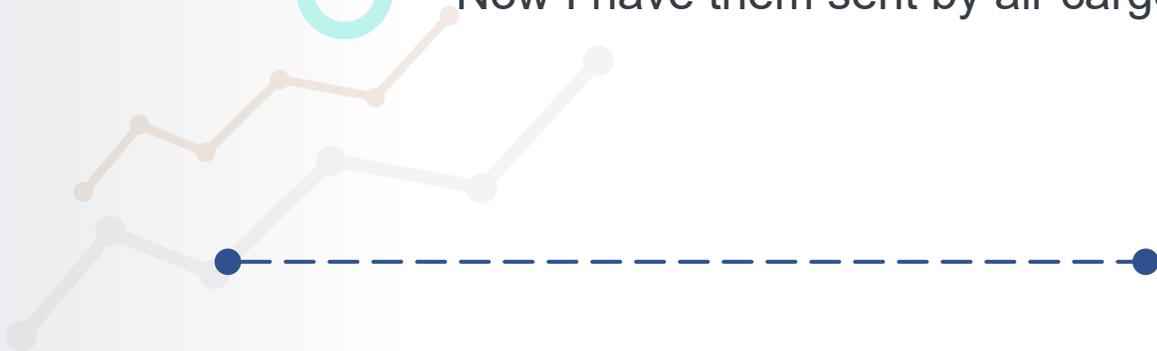
It can be more difficult to guarantee quality when shipping merchandise.



“Originally, I had my soaps shipped via boat but after coming all the way from Nepal in the heat and through the monsoon season, they didn't always arrive in the best shape.



“Now I have them sent by air cargo.”



The operating plan

ROADMAP

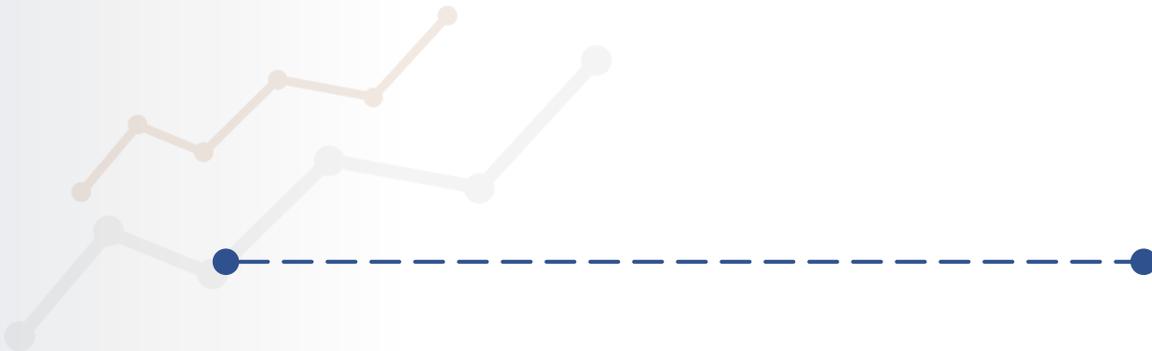


CONSISTS

Your operating plan lays down the roadmap that will show how you will convert inputs into products in a cost-effective manner.

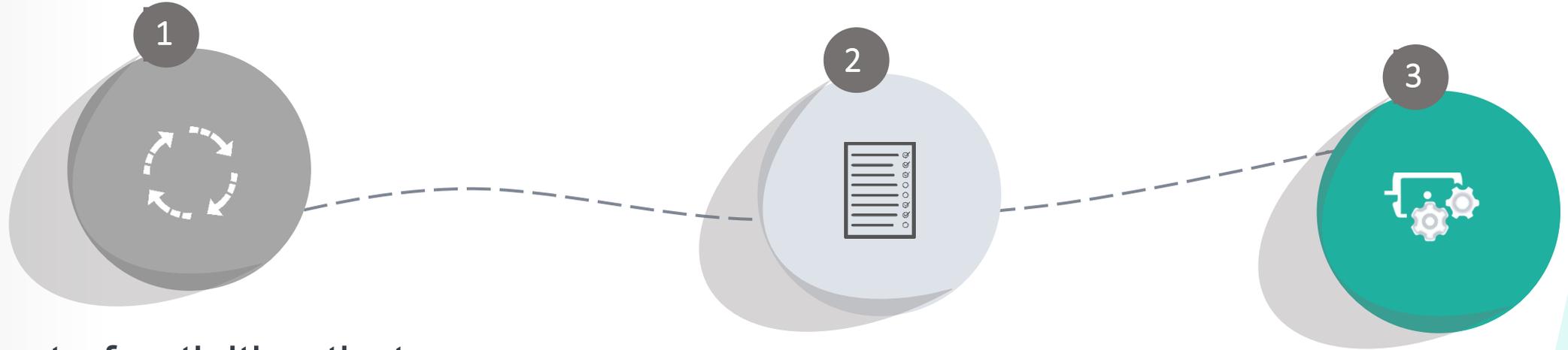
The operating plan consists of the following sections:

- Production activities
- Support activities
- Capacity planning – start-up costs
- Estimating Costs – now includes running costs



The operating plan

Operations:



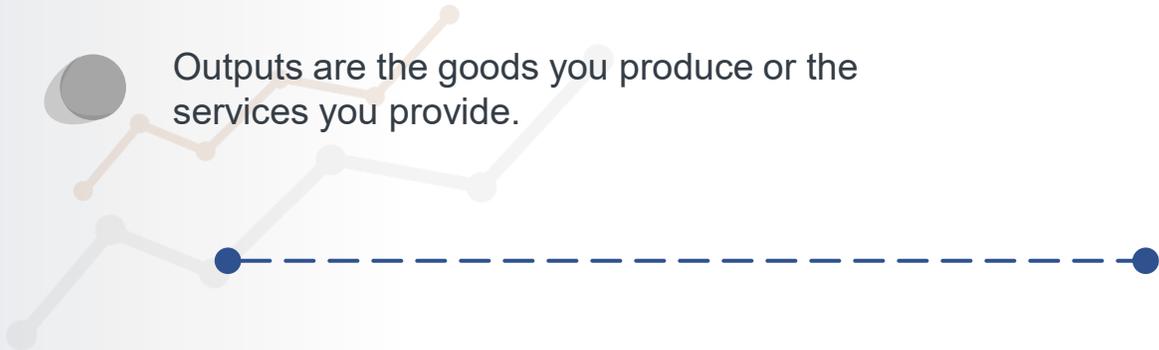
The set of activities that convert inputs into outputs.

The marketing plan should determine the operations plan.

By having marketing as the driver of the enterprise, you ensure that your product and the activities that create it are aligned with the needs of the customer.

Inputs are the resources used by your business such as materials, labor, and machines.

Outputs are the goods you produce or the services you provide.



The operating plan

Production activities



Production activities are the business activities that are directly related to making goods or providing services.

Process flow is a visual representation of the steps and sequence required to make a product. The steps are normally limited to production activities.

The operating plan

Flowchart:

The activities and sequence of a process represented in symbols. Each step in the process is shown as a symbol with a short description of the step. The symbols are linked together with arrows to show the proper sequence of the activities.

Flow chart symbols

Flow Chart Symbol	Meaning	Explanation
	Start and end	The symbol denoting the beginning and end of the flow chart.
	Step	This symbol shows that the user performs a task. (Note: In many flow charts steps and actions are interchangeable.)
	Decision	This symbol represents a point where a decision is made.
	Action	This symbol means that the user performs an action. (Note: In many flow charts steps and actions are interchangeable.)
	Flow line	A line that connects the various symbols in an ordered way.

A flowchart represents in symbols, the activities of a process and their sequence.

The operating plan

Support activities:

Activities

Activities that help production activities to function as intended though they do not produce the goods themselves.

Support activities

Support activities: are there to aid production. They add value to the production process.

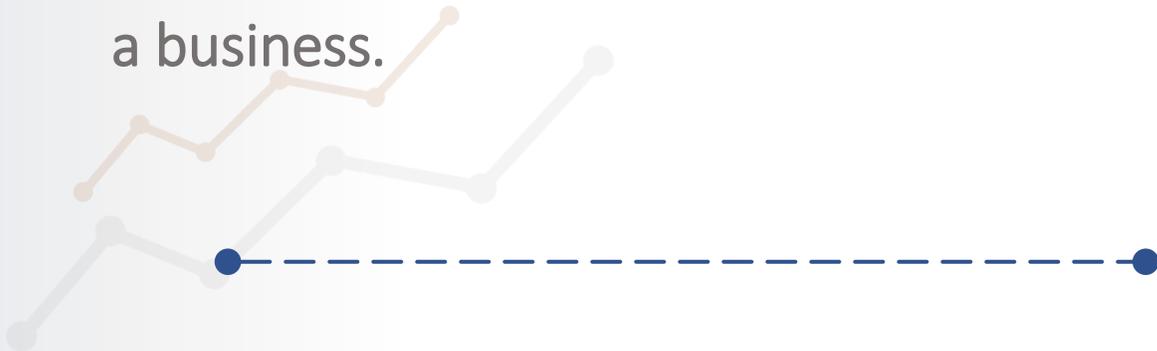


The operating plan

Capacity planning:

PROCESS

The process of deciding the production capacity to meet the demand for the products of a business.



CAPACITY PLANNING

Capacity planning: means to schedule over time, the investments and resources you business will need to produce at a desired level.

The operating plan

Cost estimates ▶ Start-up costs:

Costs associated with putting up the production capacity of a business. These costs enable your business to begin operations though you have not done so yet.

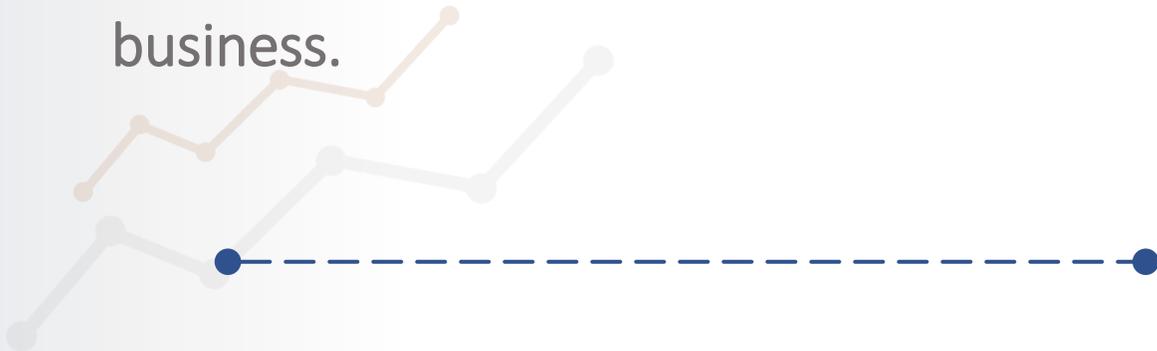


The operating plan

Cost estimates

START-UP COSTS

Start-up costs are costs associated with setting up the production capacity of a business.



RUN OPERATIONS

To run operations, your business will require inputs like raw materials, supplies, rent, labor and electricity. These are the running costs.



The operating plan

RUNNING COSTS

Recurring costs associated with inputs to continuing operations.



Differences between

UNIT COST

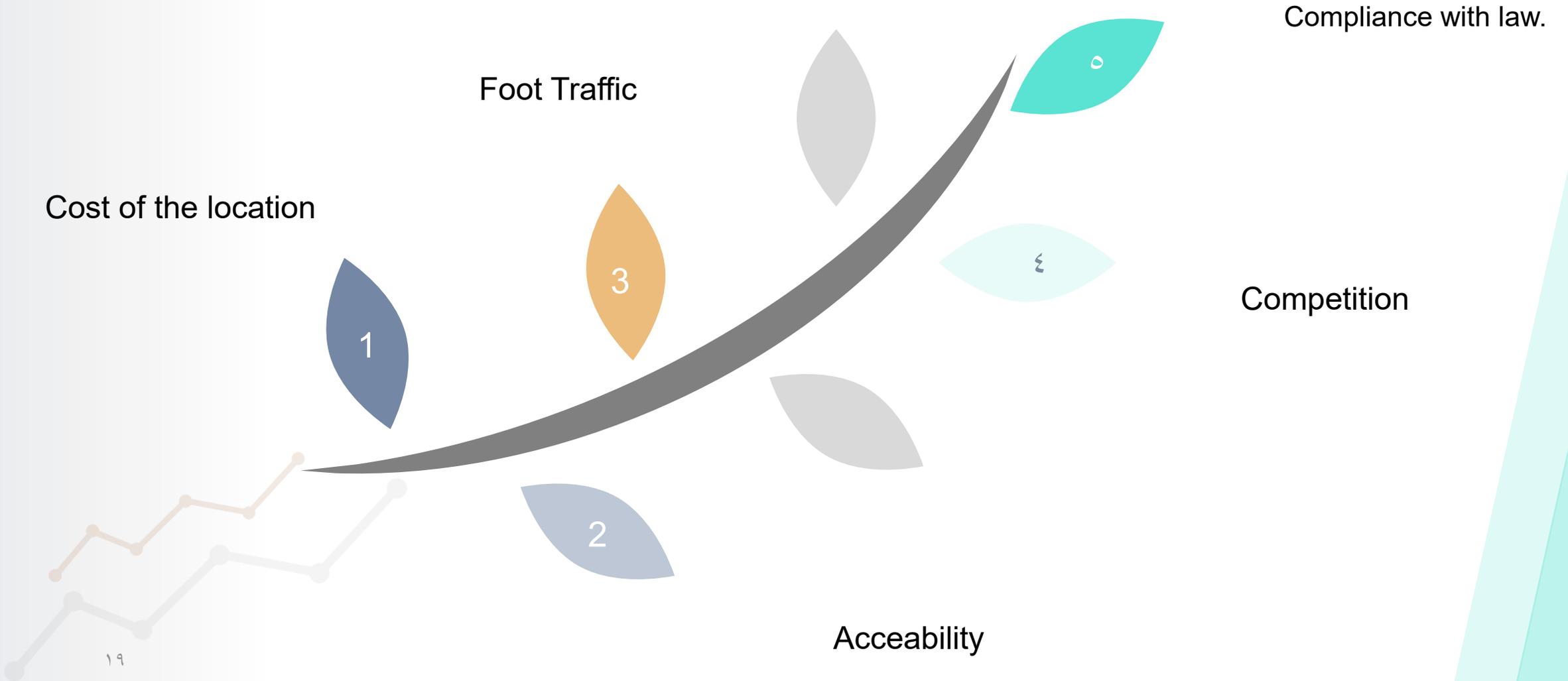
The total cost to produce one unit of a product or service.

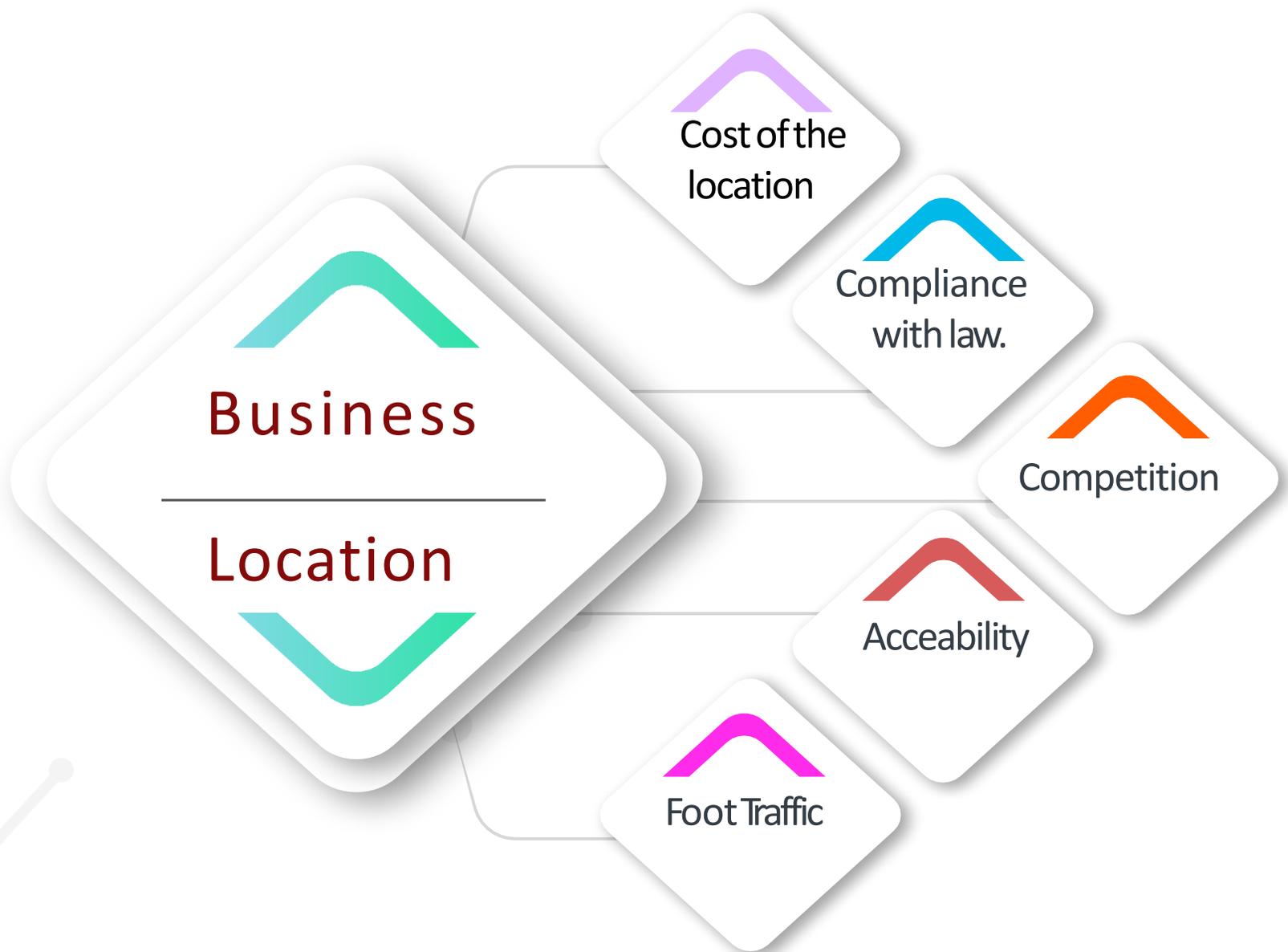
Business Location



Choosing a business location is one of the most important aspects of starting a small business. It can dictate foot traffic, business atmosphere and long-term success for your small business. Finding the right location means understanding the right qualities to look for in a potential space. Analyzing your area, reading about potential customer demographics, and considering where competitors are located are all important aspects to finding and choosing the right location.

Business Location





Business Location

1 Cost of the location



Budget is the most important reason for location while choosing a suitable business location. Think of how much can you afford to spend on your business location and find ways for it. You might have many business location ideas, but it should be affordable. While city centers and main streets might be great for talent and accessibility, they are usually very expensive. Real estate, utilities and rates in big cities can be expensive if you're looking to lease a building.

Business Location

2 Accessibility



It sounds simple but, whether it's accessing new markets, customers or resources, transportation is crucial for not just your people but everyone you work with to get around effectively. Finding a location that can be easily accessed by both your customers and your staff can make or break a business. For example, you might find the perfect bricks and mortar store in the city center for a reasonable price, but there is no parking nearby.

Business Location

3 Foot Traffic



More than many businesses look for foot traffic and this is one of the top factors to consider when choosing business location. No business wants to be swayed away in a corner where potential customers will pass them. On the contrary, if some business needs confidentiality, they should opt for a low-traffic area. Try to monitor the traffic outside a certain location at different times of the week.

Business Location

4 Competition



The business location factor creates both an advantage and a disadvantage. Consider if a location has a huge number of consumers because of the business competitors, your business might attract them as well.

Therefore, competing is an important factor while selecting a city or town as a business location. However, it might backfire if both sides sell the same product, one team will end up losing.

Business Location

5 Compliance with law



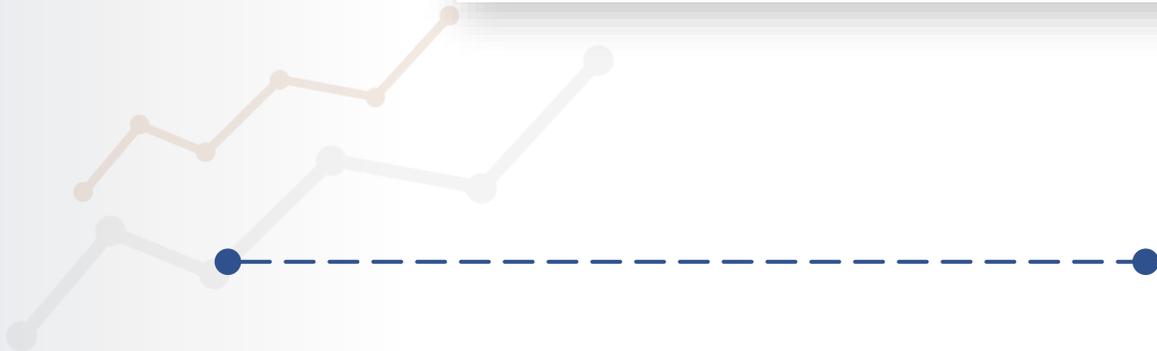
Local zoning regulations might limit small business locations. Zoning rules might restrict what plot or buildings can be used for commercial purposes, hours of operation, noise levels, signage types, and chemical usage. The need for selecting a suitable location can be competitive and hard, which is why it must be made sure the building's zoning designation matches the business's requirements.



Do your operation plan

Operation plan

<https://knowhow.ncvo.org.uk/tools-resources/business-plan-template/writing-your-business-plan/8-operational-plan>



Review Questions

1

What is the goal of an operating plan?

3

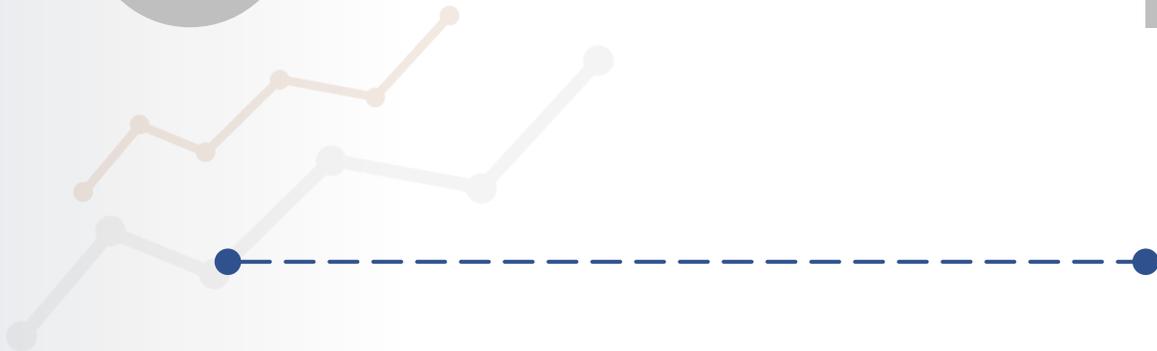
Should marketing determine operations or the other way around? Why?

2

What are the sections of an operating plan?

4

What happens when support activities are neglected?



Review Questions

5

What is the output of capacity planning?

7

Why can demand still be different from capacity despite careful planning?

6

What happens when there is too much (or too little) capacity compared to demand?

8

How are start-up costs different from running costs?



Case Study questions



Would you say that ZARA is very successful? What facts in the case tell you this?



Many other successful fashion retailers outsource production to countries where labor cost is low rather than producing the items themselves.



ZARA produces 50% of its sales with its own facilities.



Why did ZARA do this? What are the pros and cons of this strategy?



Case Study questions



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What is your own view of using operations as the main means to compete in an industry like fashion retailing?

