**The nature of operations**

Operations managers oversee all the processes involved with converting inputs into outputs. They complete this job with two goals in mind—**efficiency** (keeping costs low) and **effectiveness** (keeping customers satisfied). When the operations function is performed well, it adds value to the company's product. While operations managers certainly care about legality, productivity, and reputation, their main goals are to maintain efficiency and effectiveness.

Checking a sample item for defects after it has already been produced is part of a process known as **quality inspection**. Quality assurance is a process businesses use to prevent defective products from being created, not just to eliminate or correct them after they've already been produced. Quality guarantee and quality delivery are not traditional terms used in operations or quality control.

Running out of inventory can result in **lost sales**, lowered productivity, unhappy customers, and a decrease in profits. These are known as stockout costs, and businesses try to avoid them as much as possible. Running out of inventory should not increase a business's taxes.

Complying with environmental laws is part of safety and security. Operations managers are responsible for keeping employees and customers safe, as well as for protecting the environment. Logistics refers to managing the flow of goods and services from production to consumption. Purchasing is the buying of goods and services for a business. Inventory control is tracking the amount, the kind, and the value of inventory that a business has on hand.

Because operations managers control so much of a business's money, they must focus on keeping costs low. Operations managers are not responsible for hiring employees, creating advertising campaigns, or generating publicity.

**The nature and scope of purchasing**

A **wholesale** buyer purchases goods from manufacturers to resell to retailers. Retail buyers purchase goods from wholesalers or manufacturers to resell to customers. Industrial buyers purchase raw materials or components for transformation and sophisticated machinery and equipment for business use. Purchasing specialists who buy for business use, buy goods and services for internal use by her/his own company.

A buyer needs to know whether the company has storage space for the raw materials. If the company does not have space, then either the buyer needs to postpone her/his purchase or locate space to store the materials. The purchasing specialist doesn't need to know how the finished product will be marketed, which employees will be converting the raw materials into finished products, or who will be purchasing the finished products.

If the purchasing specialist reduces the materials' cost of the company’s donuts, the profit margin for the donuts will **increase**, not decrease. As long as the company does not lower the price of donuts, using less expensive sugar will not have an impact on donut sales.

Conducting competitive bidding involves sending out a request for bids, reviewing proposed prices (bids), and selecting the best supplier for the job, based on cost and/or quality. Purchasing specialists sometimes conduct negotiations in addition to or instead of competitive bidding. A make-or-buy decision is the act of determining whether to produce a needed part or purchase it from a supplier. Jaron is not a retail buyer. He is not purchasing the computers to resell to consumers.

One way to evaluate supplier performance after the purchased goods or services have been delivered is to review the invoice. By reviewing the invoice, a purchasing specialist can determine whether the supplier charged the agreed upon price. A purchasing specialist should contact the supplier's references, visit the supplier's plant, and/or check the supplier's credentials *before* doing business with that supplier.

**The nature of production**

One of the benefits of production is that it creates form utility—usefulness created by altering or changing the form or shape of a good to make it more useful to the consumer or user. Without production, many resources would be of little use to consumers. All of the other alternatives are benefits of production to businesses.

Production is important to businesses because without production, businesses would have nothing to sell. All businesses must have products to sell in order to remain in business. Businesses must control production costs so that they do not have to charge higher prices than competitors. Marketing research, not production, informs businesses about consumers' wants and needs. Only if production is efficient does it prevent businesses from wasting resources.

Producing efficiently enables businesses to be competitive by keeping their prices at or below those of competitors. This is likely to increase sales. Many businesses try to obtain advance orders for goods and services in order to make their production as efficient as possible. An accurate sales forecast helps in planning efficient production, not the reverse.

A wide variety of marketing-research data is available from libraries, government agencies, and trade publications. Or, the business can conduct its own research. The data can help the business **to produce products that consumers need or want** and are willing to buy. Determining how products will be produced is a planning step that involves deciding what equipment will be needed, the number of workers, and the time required. Identifying the resources needed in production is part of the purchasing function. Setting the timetable to be used in production is part of scheduling.

Routing is the production activity that determines the sequence for the steps in the production process. It **establishes the path that inputs take** as they move through the conversion process to become salable products. Scheduling is the production activity that establishes a timetable for production. Dispatching is the production activity that issues orders for production to start. Follow-up makes sure production was carried out according to plan and that the products produced met company standards.