BUSINESS OPERATIONS

BY JOHN MASON AND STAFF OF ACS DISTANCE EDUCATION

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CHAPTER 5 PRODUCT MANAGEMENT

Product management is the process of the organization of a business. It consists of planning, producing, forecasting and marketing your product or service. It also covers the viability and relevance of your product or service (it is easy to lose sight of what your customers need when you get too caught up in the production process).

Product management will ensure that the product or service you are producing aligns with market demand and expectations. It means that your clients will receive the product or service they expect and will therefore continue to buy it.

The product is what you are selling. It can be goods, services or both. Production in the context of this book can encompass any of the following:

1. Primary industries (e.g. farming or mining).
2. Manufacturing something (e.g. factory production).
3. Intellectual property creation (e.g. art, a book, a computer program).
4. A service (e.g. hospital, school, house cleaner, performer, garden designer etc.).

There are traditionally several different categories of manufacturing processes, including:

- Extraction – removing a valuable substance from otherwise discarded raw materials (e.g. taking diamonds or gold from mined ore)
- Analysis – breaking up a raw material into its component parts (e.g. processing crude oil)
- Fabrication – changing raw materials into something else (e.g. processing wool into cloth or extracted metal into metal sheeting).
- Synthesis – combining two or more products to create a new manufactured item (e.g. making a toaster or computer from a variety of components).

Product management defines what the product should be and is a reflection of what customers need and also what they desire. A product manager is responsible for product direction and often (in larger organization) head up a team of others that include product developers, project managers and marketing staff. They plan the product, do forecasts and initiate the marketing team.

So when looking at your business, consider:

- Planning
- Forecasting
- Marketing

PLANNING

Planning and forecasting require similar insights and are closely interlinked. We could perhaps consider forecasting then planning or vice versa, as forecasting may take place before planning or after

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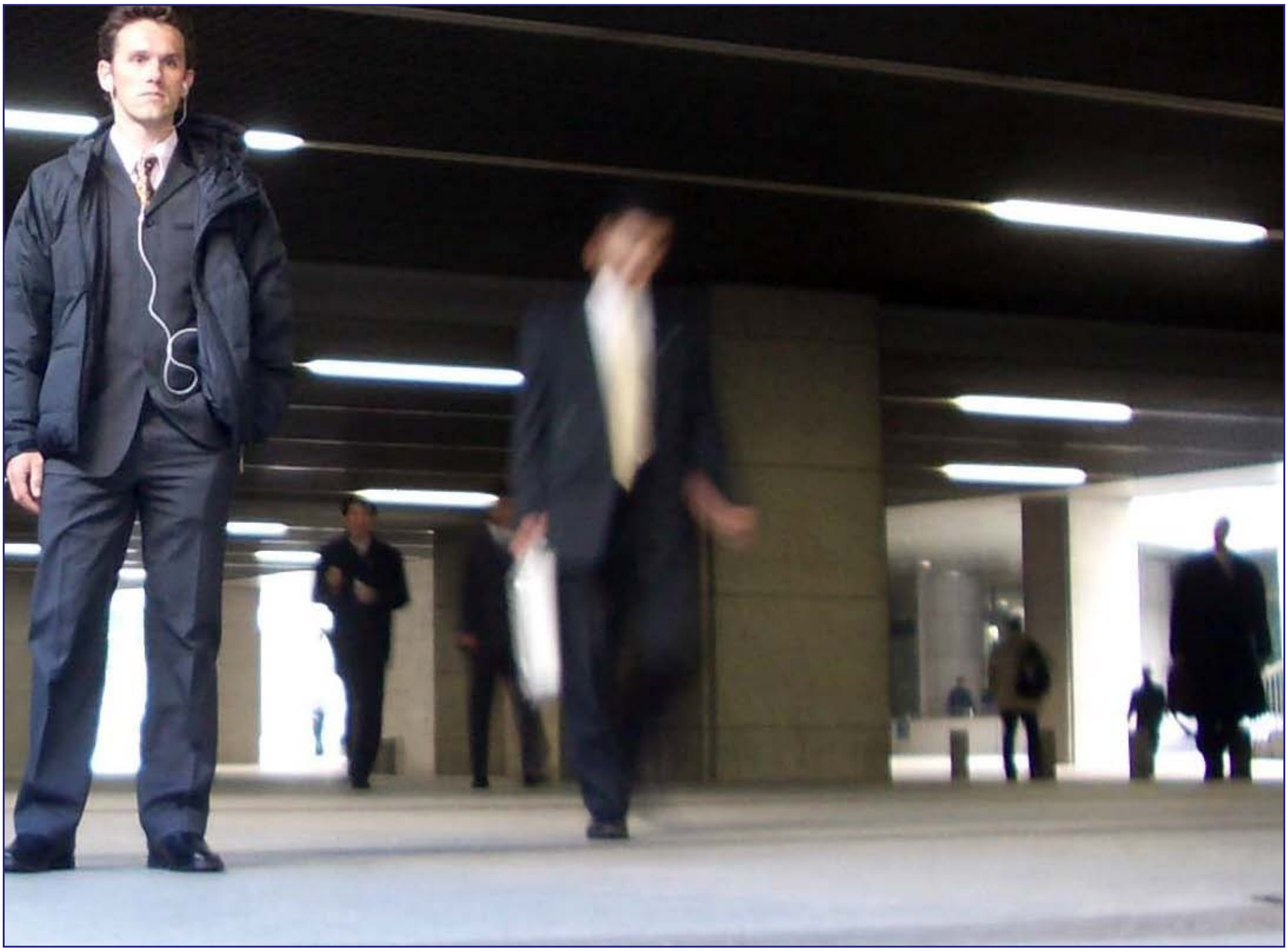
planning. But forecasting can take place throughout the life of a business, so we will consider this shortly.

Here we will talk about planning your business in terms of organizing your product and services, rather than planning how to start your business. There is a lot of good advice available on how to develop a business plan and start your own business. Here we will consider planning - beyond that stage.

So you have decided on your business and the product you are going to sell. You have set up your premises/office at home. You have set up your internet/ phone lines and so on, and now you are ready.



Now you need to have your product.

By this stage, you have presumably already decided what your product is and where you are going to source it from. So your first step is to actually resource the product. You have probably already done this and found the best product or service for your requirements.

But do it again.

Have a look around. You may have thought about your business a year ago and things may have changed since you first found a gap in the market or a good product range to sell. Have another look at it. You may still find that this is the best product for you. But you may find something better or cheaper or different to what you originally thought of.

As an example: Nigel wanted to set up his own video store. He spent three years researching it; looking at the titles he wanted to offer, where he would locate his business. He planned his website, what he would need to charge on each video and so on. He was ready to set up his business. He was about to order £10,000 of stock when he suddenly noticed that videos were going out of fashion and being replaced by DVDs. He had been so focused on videos and his plans that he had not really taken into account how the market was changing.

So, BEFORE you buy any stock – CHECK again:

- See if the product is still the one you want to sell.
- Is it the best at the price?
- Is it still wanted in the current market?
- Is it still suitable?
- Yes? Great, carry on with your plans. No? Reconsider and research again.

This is not just a one-off process. Throughout the life of your business, you must keep track of related products, what competitors are offering, prices and so on, to ensure that YOUR business is offering the right product at the right price in the right way for your customers.

Case Study: Terry was based in the UK. She saw mobile phones as a good way to make money. She found a German website where she could buy a mobile phone for £5. She purchased 1000 of the phones getting a discount, so each phone actually cost her £4.50. She then advertised the phones on various online stores and her own website. She then charged £9.99 for the phone. She added only £2 postage costs, which covered her costs and she made around £2 profit on each phone after other costs were taken into account. With 1000 phones, she should have made £2000 in profit.

She started to send the phones out to her customers. Within a few days, all twenty of the first phones she had sent out were returned to her for a refund. She was not sure why, until she discovered that the plugs with the phones to charge them were actually European two prong plus, which were not suitable to the UK's three prong plus electricity system. To get them to work, the customer would have to purchase an adaptor, so that they could use the plug with the UK electricity sockets. Terry then had a choice of also supplying the adaptor or telling the customer that they would need to buy one. This cut into her profits and future sales.

With careful planning and checking, Terry would have realized that a German phone plug would not be suitable for the UK electricity system.

So, after carefully planning what product you are going to sell and where you are going to get it from, you also have to consider quanitity. You may get discounts for bulk purchases and some firms will only supply larger amounts. You need to consider the risk involved in this.

Case Study: Melanie set up her own small business selling handmade cards. She continued to work, but her eventual aim was to give up her job and concentrate on the cards full time. She did not have very much capital at all, so went to her local craft shop and purchased items to make the cards with. She was therefore paying top costs for the supplies. She sourced the same products online and found that the shop was adding a 75% mark up on the goods. Buying them from the craft store, she was hardly making any profit at all. If she could get them 75% cheaper, then the profit would obviously increase, but to buy the goods direct from the supplier, she would have to order 1000 each of each product she required. Melanie was not sure if this was worth the risk. She wanted the business to succeed but did not want to invest a lot of money, so continued making the cards purchasing from the craft store.

- Option A – She did not make very much money and it was time consuming for what she was earning, so eventually she gave up.

- Option B – Melanie thought outside the box. She contacted the craft shop and asked them if she could get a discount on the goods. They agreed.

- Option C – Melanie asked if she could get a discount on the goods. They agreed. They also said she could sell the cards in their shop if she wanted to, if they could retain 10% of the sales. She agreed. With this in mind, Melanie then approached other card shops and came to the same agreement with them that they could sell her cards and retain a percentage of the sales.

Consider Everything You Do Carefully

OK, sometimes a business will not work, but sometimes you do need to think about your business differently. Think about what you are doing and what you CAN do.

So when planning some things to consider are:

- How much of the product do I need to buy?

- Do I need to buy other products to produce my goods?

- Can I get a discount if I ask?

- Can I come to a reciprocal agreement with another business?

- How much money do I need to make on each product I sell?

- When will I need to reorder more goods?

- Can I sell other goods and services?

Reciprocal Agreements - Martin had always wanted to set up a coffee shop. As coffee shops became more popular, he trained to be a barista and then started to look around at coffee shops. He found that many were pretty similar. He approached Karen, a friend of his who ran a bookstore in a local town selling new and second hand books. She had a large unused storeroom out the back. They agreed that Martin would set up a coffee shop in the storeroom. They hoped that customers would come into the shop and stop for a coffee. Or come in for a coffee and buy a book. They shared the rent on the premises and the shop did well. Karen started selling books online as well, so Martin also started to sell ground coffee online. They were able to do special offers with each other, such as spend £20 on books and get a free coffee. Or get this new book with a coffee for £6 and so on. The reciprocity of their arrangement worked.

PRODUCING

Producing a product (or service) can involve the business operator in the following ways:

- Purchasing (e.g. buying the raw materials needed)
- Production (e.g. growing produce, mining, manufacturing, creating something)
- Managing the finished product – marketing, sales, product reviews
- Controlling credit

Businesses often fail when they do not balance these four components of production.

Consider:

- A business with excessive raw material, waiting to be used, but an inability to process the material into something that is saleable
- Having a farm with heaps of produce, but nowhere to store it, let alone sell it
- Having a team of consultants, all ready to provide a great service, but no clients to work for or sell to
- Producing a product that is no longer wanted – all good businesses must review clients, needs and forecast new directions and requirements
- Having produced and supplied products and services to lots of customers, but also having piles of unpaid customer accounts on your desk

IN AN IDEAL BUSINESS:	THIS IS OFTEN THE REALITY
You don't buy raw materials until they are needed, and they get delivered immediately.	You order raw materials but delivery is delayed, and unless you have reserves in stock, your production slows; and productivity suffers.
You find a buyer for your product or service as soon as you are ready to supply it.	Anticipated buyers go elsewhere, or delay their purchasing.
You have ample room to warehouse products as soon as they are produced.	You fill your storage area, and end up storing excess in your home, or in an inappropriate place where goods become damaged.
Your sales run hot from day one.	It will take time to build up your business.

IN AN IDEAL BUSINESS:	THIS IS OFTEN THE REALITY
Your product is in demand for many years.	New developments mean products are quickly superseded with bigger or better models.
Once you have marketed your product you can rely on word-of mouth.	You need to keep your customers informed and ensure that you have a 'face in the market place' and that this is under regular review.
Clients pay on time.	You will need to chase up payments from at least some of your customers - regularly.

Money Down-Time is the amount of time that your financial investment is not working for you (e.g. if you buy a lot of raw product and it sits in a warehouse for months before being processed, this constitutes months where the investment in that raw product is not giving you any financial return).

Many modern businesses use the 'just in time' principal in their production systems: buying in raw materials at just the right time, deciding on how much they buy in (never more than needed), never producing more than is required and getting to the right place at the right time. This has worked for many large manufacturers but it requires skill in planning and forecasting in order for it to work. Contingency plans should always be part of such a system.

THE MANUFACTURING PRODUCTION PROCESS

Think of this as a 3 part closed system:

1. Inputs
2. Operations
3. Outputs

- Inputs may be things such as raw materials, component parts of goods being created, energy and manpower used
- Operations refer to the processing or converting of inputs
- Outputs refer to the goods that are produced, as well as any waste (e.g. pollution, energy losses, etc.)

PRODUCTION ACTIVITIES

A typical manufacturing plant might involve the following production operations:

- Purchasing
- Receiving
- Shipping (dispatch)
- Quality Control
- Research and Development
- Maintenance
- Stock-keeping

FORECASTING

When a business does forecasts, they are establishing what the expectations of customers, or customer opinions or trends will be at a later date. They do this by using data collected in the past (such as past sales, marketing data etc.). This is an important process for any business, because forecasting will also tell them how much money the business will need today, in order to capitalize on future opportunities. Forecasting also establishes the benefits of such long term investments. It allows you to decide whether such long-term investments are worthwhile or not.

We talked about Nigel and his video store earlier, Nigel became so wrapped up in his video store, looking at what he wanted to do and so on, he did not notice that DVDs were becoming more and more popular and would eventually overtake video. When we are inspired by something, it can become the sole focus of our attention, until we do not notice other factors that could impact on this business – DVDs in Nigel's case. When running any business, you need to be aware of possible changes in the market.

The market can change due to:

- Changes in consumer tastes
- New products becoming available
- New legislation and regulations changing how products must be made
- An increase in visibility of the product

CHANGES IN CONSUMER TASTES

People are becoming more and more sophisticated. They want more choice. A particular product may be very popular for a time, but products can go out of fashion (the same as anything else). A product might be the "thing you must have" in December, but by April, no one is really interested in it. This is particularly the case when dealing with items such as children's toys. The toy everyone wants for Christmas can be discarded and out of fashion before the end of January. Try to be aware that a product is becoming less popular. The slowing of sales in January, for example, can be attributed to an after Christmas lull. However if sales have not bounced back by February then you will need to consider what you will do:

- Just keep the stock until it might become popular again? This is a courageous decision to make as the product may never be popular again.
- Sell it off at a discount to get rid of the stock? At least this way you continue to have cash flow.

These actions contain risk.

With the first approach (keeping the stock until it becomes popular again), you may be left with a lot of unwanted stock and therefore loss of turnover, but also a loss of your original investment.

With the second course of action, you may sell off at a loss so you also crystalize your losses with no hope of recouping this loss once the goods are sold.

Sell just above cost to cover your initial outlay for the goods and your administration and selling costs – you cover losses and get your money back – however the goods may not be cheap enough to attract customer's attention.

Although all these actions contain risk – the first one (no action) is the riskiest. The others have less risk.

You are the only one who can decide which action to take and how much risk you are willing to take. Experience, understanding your market, and analyzing your sales will all help minimize your exposure to risk. This will also help you to make better decisions when faced with these types of situations.

NEW PRODUCTS BECOME AVAILABLE

When a new product becomes available, interest in the older product may reduce drastically. This is when you see stores offering the old product at reduced prices. So find out about the types of goods and services that are becoming available in your line of business and see if something else is coming out. Then make reasoned but quick decisions about whether you should be carrying old stock.

NEW LEGISLATION

Legislation, rules and regulations about products and what they offer can change, so ensure you are aware of any changes. Many websites offer newsletters that update people on changes, so find a website that applies to the products and services you offer and sign up for their newsletter or join their association. Keep your knowledge up to date! Otherwise you may find yourself with a product that you cannot sell, such as a children's toy that is illegal because it is unsafe.

INCREASED VISIBILITY

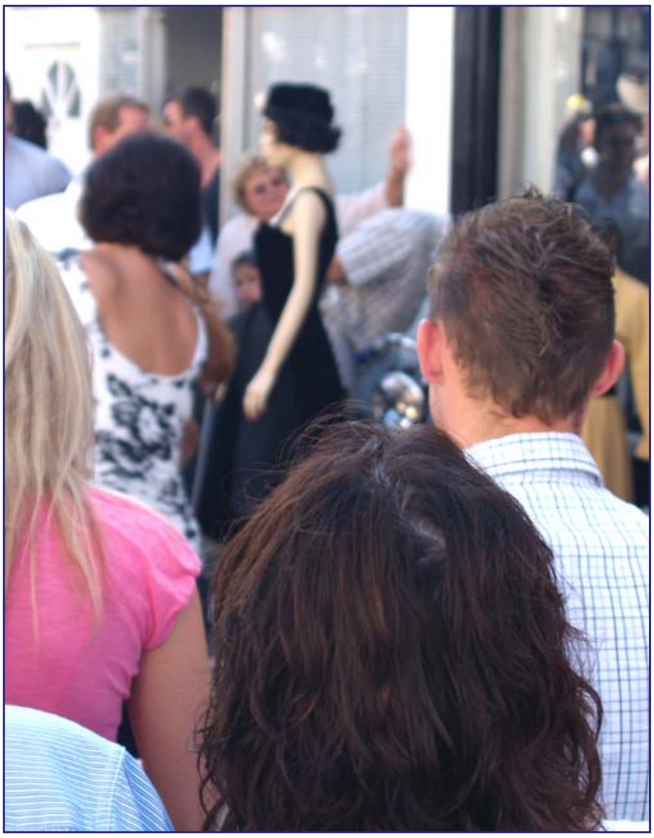
A product may gain increased attention for some reason such as a handbag, phone or car sported by a celebrity. All of the publicity received as a result of this can bring the product to the customer's attention. If you see that a celebrity has been using a product you sell, you might consider quickly buying new stock as there might be a surge in sales.

In other words, with forecasting and planning, the most important thing that you have INFORMATION about your product and any changes in the market. Keep informed!!

MARKETING

Marketing your product is another important area of product management. You may have the most wonderful product in the world, but if no one knows you sell it, then no one will buy it.

There are many, many ways of marketing your product. The traditional way is word of mouth.



Colin comes into your shop and buys a cup of coffee, thinks it is great and goes and tells his friends, you start to get more customers.

Word of mouth is still is a valid way to expand business but word of mouth can go beyond simple ‘Person A talking to Person B’ in a face-to-face situation about your product. Word of mouth can also be used online. Look at social media such as facebook and twitter. If a person with 5000 followers on twitter tells his/her followers that your coffee is great, some of them may live close to you and may come in for a coffee. They may tell their followers and so on.

This may not work so well with local businesses, as your followers may be spread around the world. If you offer services online or by post, it can be a great way to get some free marketing, so make use of social media as a way to encourage word of mouth. Websites can also do the same; we talked about tripadvisor earlier. This is the same as a person saying “That hotel was great”, or “That hotel was filthy.”

Obviously word of mouth can go the other way too and lose business for you, but harnessed correctly, it can be a useful way to get people to know about your product.

Another way to market your product is through advertising.

There are a lot of ways to advertise today such as:

Paid advertisements

- TV
- Newspapers
- Websites
- Magazines
- Billboards

Unpaid advertisements

- Some websites allow you to list your products for free, for example, there are many free websites where educational providers can list their courses.
- Some websites offer unpaid adverts with the option of paying for greater promotions on the website.
- Joining associations – often if you join particular associations, you are listed as a member and customers may come to the association or organization to see if your services are recommended. For example, if you are a member of a plumbing guild that promises high quality services, a customer may go to the website to see if you are a member.

Paying for advertising can of course be costly and there is some debate now as to how effective it is, given that many people will look on the internet for information when thinking about buying new products. When considering paying for advertising, think carefully about your budget and what you hope to gain for the advert. Look at the readership or membership of the medium you are considering advertising in. Will it attract your potential customers?

MAIL-OUTS/EMAIL-OUTS AND BROCHURES

Another way to market your product is through mail outs, email outs, posting out brochures, producing newsletters and so on. These can also be effective. They can, however, be expensive.

The down side of mail-outs:

- Producing brochures that end up in someone's recycling bin
- Mail-outs cost postage
- Letters require postage
- You might have to pay someone else to stuff envelopes if you don't have time yourself etc.
- Email-outs are obviously less expensive as there is nothing to post or stuff into envelopes. But emails can easily be put into a spam bin or just deleted, so need to be eye catching and appropriate.

GOLDEN RULES

- Use strategic analysis to determine production activities based on customer needs and your business goals
- Analyse and understand the components of production
- Implement programs that support and improve the production processes
- Review each component of production systematically when something goes wrong
- Evaluate risks and formulate risk minimisation or trade-offs – have a set of contingency plans
- Minimise money down time
- Communicate with everyone who can affect production – be aware of changes in supply of raw product, production rates, stock stored in warehouse, workloads of staff, machinery breakdowns, etc.
- Tightly manage contracts for production and sales – always be aware of and across the sales, marketing and production processes in your business (even if they are handled by staff)
- Forecast sales as accurately as possible – this is critical to your production decisions
- Understand the importance of brand names (branding) in marketing and sales.

CHAPTER 6 RISK MANAGEMENT

WHAT IS RISK?

Risk is anything that threatens the success of your business or limits its capacity to produce income.

Risk can be unpredictable and unexpected – the impact of risk may be manageable, or it may end up closing your business. A flood, for example, might be able to be mopped up and the consequences may not be too disastrous. A fire may wipe out your building, the building may be insured, but if you have not backed up your computer system (off-site), you lose your customer base, intellectual property and perhaps production systems. This could spell disaster for your business. An employee may injure themselves at work – you did not have correct OH&S procedures in place. The courts find you negligent and you are confronted with a huge payout that your insurance company will not pay (due to a clause in your policy that finds you responsible for negligence not them). Or you were uninsured. You could lose your business.

Risk is not just associated with the floods, fires and litigation though – there are many types of risk that you will face in a business. All business has risks and all business operators need to identify and minimize risk.

Impacts of Risk

Risk is the possibility of loss, in a business sense this usually means a loss of profit. To ensure reasonable profits most businesses desire low risk.

The types of risk you may face include:

- Production Risks
- Financial Risks
- Marketing Risks
- Management Risks
- Personal Risks
- Political Risk
- Other Risks

These are discussed in more detail later this chapter.

FORESEEING AND MANAGING RISK

A major part of successful business management is to:

- Forsee potential risks (know where risk may occur and how significant it is)
- Analyse the potential risk
- Determine the size of potential risk
- Determine which risk is acceptable and which should be resolved
- Develop contingency plans to deal with the potential risk