

1.3: Operations Management

What is Operations Management?

Operations management is the management of the processes that transform inputs into the goods and services that add value for the customer. Consider the ingredients of your breakfast this morning. Unless you live on a farm and produced them yourself, they passed through a number of different processing steps between the farmer and your table and were handled by several different organizations.

Every day, you use a multitude of physical objects and a variety of services. Most of the physical objects have been manufactured and most of the services have been provided by people in organizations. Just as fish are said to be unaware of the water that surrounds them, most of us give little thought to the organizational processes that produce these goods and services for our use. The study of operations deals with how the goods and services that you buy and consume every day are produced.

Why should I study Operations Management?

In most organizations, operations tends to be the largest department in terms of the number of employees. For a new graduate, you may be smart to look for a position within the operations of a business. In a larger company these jobs are far more plentiful than those in smaller departments. If you have a passion for working for a large organization, you might want to focus more on which organization you go to work for, and less focus on the actual job title. Soon enough, if you're punctual, energetic and proactive, you will likely apply or get promoted into the job you desire.

Operations is where the largest share of the firm's dollars are spent. It is a huge focus of top management.

All other departments in the organization are interrelated with operations. In finance, marketing and human resources, you will be interacting with operations on a regular basis. You should understand the businesses' core transformation process regardless of the department in which you work.

Major innovations are made through operations. If you look at successful companies such as Toyota, Amazon, or Dell, you will find that the keys to their success came from innovations to the operations processes of their businesses.

Operational innovation means coming up with entirely new ways of filling orders, developing products, providing customer service, or doing any other activity that an enterprise performs.

As a new grad in an organization, you will find that every business is looking for new ideas, tools, and improvement suggestions in order to improve on the effectiveness and the efficiency of the business.

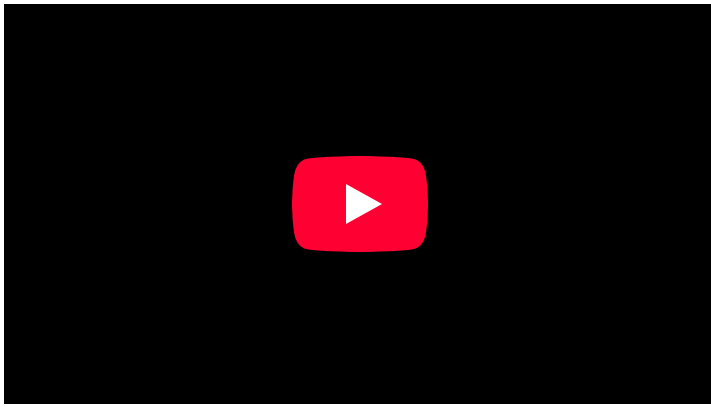
- **Effectiveness** refers to making the right actions and plans in order to improve the business and add value for the customer. It is helping to get the business doing the right things for the customer.
- **Efficiency** is different. To be efficient means doing things well at the lowest cost possible. To be efficient, we look for ways to reduce unnecessary or redundant activities that add unnecessary cost and could be avoided.

Often, decisions that must be made will involve a trade-off between effectiveness and efficiency. Consider the decision to hire an extra full time server in a restaurant. The service may be faster and customers will feel as though their server was more attentive to their table. However, this comes at a higher cost, which is a reduction in efficiency.

We think of value as the relationship between quality and price. If we can provide the customer with a better quality product at the same price point, then that is adding value. If we are able to provide the same product but at a lower price, then the customer wins again.

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Now, watch this 4:13 video that provides further insight:



While watching the video, were you able to identify any opportunities for operational efficiencies where you work or have worked in the past?

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