

An Overview: Integrating OM Decisions to Support Core Competencies

Jennifer Marie Thomas

North Georgia College & State University

Introduction: Company Overview

Avon Products specializes in the beauty industry providing women in more than 100 countries with products that promote self confidence. Avon is a major global cosmetic company generating over \$10 billion in annual revenue, and delivering robust merchandise through its core competency: distribution. Avon Products remains a mainstay in the industry because its operation focuses on best practices to protect its distribution. The product offering includes beauty, fashion, and home products. Major beauty products come from such well-recognized brand names as Avon Color, Anew, Skin-So-Soft, Advance Techniques, Avon Naturals, and Mark. The quality of products sold represents the hard work and tenacity of Avon representatives, quality team members, managers, and distribution line employees. These ladies and gentlemen are provided with the tools and performance standards to maintain and promote practices that support the organization's main dexterity.

Quality Management: Cutting the Errors without Cutting Corners

Because quality influences every critical decision area, it must be defined and measurable by each company. Firms can maintain and improve quality through Key Performance Metrics (KPMs). "KPMs play a vital role in helping organizations maintain a competitive advantage. KPMs enable an organization to purchase the best-in-class assets and utilize the highest quality service providers, as well as lower the total cost of ownership" (MacNeil, 2008). According to MacNeil, to ensure that KPMs work to their advantage, companies should consider obtaining an accurate inventory count, deciding what other data is required, and establishing five or six metrics to be measured. The most popular key performance metrics include response time, mean time to repair, uptime, mean time between failure, and first time fix rate.

An Overview: Integrating OM Decisions to Support Core Competencies

Avon uses five KPMs to measure distribution quality: inventory accuracy, order fill rate, warehouse utilization, manual utilization, quality, and safety. Because Avon's core proficiency relies so heavily on the orders from customers, the distribution center's most important metric is order fill rate, demonstrating how well the company is serving its customers. Avon also tracks its progress through DPMO, or defects per million opportunity. A team of quality technicians is used to randomly check the distribution line for errors. Errors are recorded by DPMO, or defects per million opportunity. In 2009, Avon's Atlanta branch recorded a DPMO of 1,253 with the goal set at 1,615. This result was considered a satisfactory end to the year.

The introduction of effective tools, processes, and even people can substantially improve performance. A new quality manager overseeing Avon's processes took a closer look into the strategies behind the company's supply chain management and found raw materials closer and cheaper reducing lead time to improve order fill rate. Within five years, the manager helped the Atlanta Avon branch raise its order fill rate from 33% to 67%. The 2010 goal is to reach a 70% order fill rate. The tools and information available to organizations may leverage the volume of the company's purchasing power and negotiate better deals to bring more efficient finished goods into the distribution center. Before deciding on which tools and people are needed, a company must consider its own capacity, externally and internally, to bring in those key performers into its operations.

The quality standards of organizations can only support a company's core competency if benchmarks are understood and acted upon. Clearly, metrics used to identify opportunities for improvements in a company's product reliability, an organization "can determine how well their

An Overview: Integrating OM Decisions to Support Core Competencies

benchmark field service engineer performance to identify best practices and training opportunities” (MacNeil, 2008).

Human Resources and Job Design: Ergonomics Effects on Productivity

The primary objective of a human resource strategy is to design jobs and manage people so they are effectively and efficiently utilized. Therefore, it is essential to ensure that workers are properly trained and used within the limits of other criteria decisions, and that people have a safe work environment that promotes mutual commitment and trust. The design of the labor model should be determined by the decision based on whether to follow the demand schedule exactly or to hold employment constant through its employment-stability policies. Distribution centers such as the Atlanta Avon branch adopted a labor model that holds its employment constant; the company maintains trained individuals and keeps hiring, termination, and unemployment costs low. Even when demand is low and the quantity of employees is constant, Avon’s use of temporary agency-contracted employees helps lower labor costs. Labor is one of the most cost-consuming entities for a company’s operations, especially through the current economic state; so a stable employment practice with the mixture of a company’s own employees and temporary agency-contracted employees is the most logical decision for a company’s labor model.

Ergonomic factors facilitate the productivity, improvement, and protection of human performance. When operating in a considerably dangerous environment comprised of machines and conveyor belts, safety procedures and health-promoting elements must exist. “Illumination, noise, vibration, temperature, humidity, and air quality are work-environment factors under the control of the organization and operations manager;” therefore, operations, like that of Avon’s, provides workers with the most work-friendly environment possible to endorse efficiency

An Overview: Integrating OM Decisions to Support Core Competencies

(Heizer, & Render, 2008). Even the Hawthorne Studies of Management study showed that increased productivity was due to workers receiving proper attention.

The *Light Station* is part of distribution operations at Avon that requires workers to walk briskly between two product carts. Because the warehouse's floor is concrete and not suitable for walking on eight hours at a time, walking mats are placed between the product carts for a more comfortable working environment. The importance of maintaining a harmonized workforce could mean savings for the company; when employees are happy physically and psychologically then effective workers come through. These are just three examples of how a company's operations can utilize ergonomics to maintain the consistency needed to protect its core competency.

Inventory Planning: Encouraging Inventory Precision

For nearly every company, labor is one of the most cost-consuming assets, but inventory is a close second, representing up to 50% of total invested capital. It may be safe to say that a company can never achieve a low-cost strategy if inventory management is below par, and that inventory policies are pointless if management does not know what inventory is on hand; accuracy of records is a critical ingredient in inventory systems. Record accuracy allows organizations to focus on those items that are needed, rather than settling for being sure that some of everything is in inventory. Only when an organization can determine accurately what it has on hand can it make precise decisions about ordering, scheduling, and shipping (Heizer, & Render, 2008, p. 468).

Each year, Avon has three full verifications, or physical cycle counts, to determine inventory accuracy. In 2009, the company calculated inventory accuracy at 97.7%. Avon's

An Overview: Integrating OM Decisions to Support Core Competencies

inventory goals in 2010 are to include an extra count and to reach 98% inventory accuracy. Reaching this goal requires a stockroom to be well-organized. Before Avon's *Light Station*, refilling products by hand was complicated and one of the main causes of order errors. A digital screen now shows which product carts need to be restocked in Avon's *Light Station*, which bring electronic orders onto a screen and simultaneously set off lights under each product to signify which product is needed for an order. The digital replenishing recorder replaced a manual one in which each product cart positioned in each station had to be checked individually. Since there are many product carts, individually assessing which products needed to be replenished was a waste of time, and clearly unorganized. The structure of the digital system allows the stock replenishment team to react faster to the demands of restocking, reducing order errors, which improves the rate at which the distribution center serves its customer.

The never-ending demands of maintaining inventory call for machinery that is reliable. Engineers and maintenance crews may be recognized as critical factors regarding managing inventory because they keep the fundamental functions working. Engineers use MROs to keep machinery and processes productive. Avon Products uses advanced technology and machines to keep its core competency, distribution, in line. Downtimes do occur in Avon's distribution center due to random discrepancies within the system's machinery, and can sometimes take up to twenty minutes for repairs. Mechanics and engineers must be present at all times in the event an issue arises, otherwise the processes in which inventory is managed can interrupt the entire system. If a line of conveyor belts in Avon's warehouse suddenly halts, the company's trucks will be handling a considerably less amount of SKUs than the normal count of 6,900 to 7,200 SKUs per truck. Operations' production decreases when a process is interrupted; therefore

An Overview: Integrating OM Decisions to Support Core Competencies

putting knowledgeable engineers on every shift, and providing them with MROs, can decrease the chances of diminishing productivity and maintain inventory management just by keeping the day to day operations running.

Process and Capacity Design: Minding External and Internal Factors

The current economic recession has hurt companies and forced organizations to reformat their processes and capacity design to shield their core competencies. To many, smaller forms of sustainability seemed to be the most logical first choice. Avon took advantage of this movement through the reuse of their own trays and lids (shipping boxes), and through labor agencies. The operation at Avon Products makes its own shipping boxes, known to Avon as trays and lids. The costs are fairly stable in this arena, but the recession demanded cost reduction for the company so Avon decided to reuse its boxes, and to place considerably smaller orders into recyclable envelopes to contribute to the environment and reserve the trays for larger orders. The trays are seen stacked almost to the ceiling on the distribution line at the Atlanta branch and serve as a tall reminder that the economy is an outside requirement that Avon must mind.

Another action Avon decided to take to lessen the company's costs during the current recession was to employ temporary agency-contracted employees. Even though Avon employees still remain, a large portion of temporary agency-contracted employees are present. These types of employees provide a simpler way for companies to save money because the firm is not held liable for providing benefits and other fixed costs to temporary agency-contracted employees, so businesses enjoy watching their costs subside since more employees are available at lower cost rates through agencies. Because the purchasing power of the dollar and the economy determine operations, organizations must keep a close eye on external factors so the company can make

An Overview: Integrating OM Decisions to Support Core Competencies

appropriate adjustments to maintain its commerce. Internal processes prove to be just as important to a company's main competency as its external influences are.

Internally, certain steps in a company's processes can and need to be eliminated if those steps are not adding value or protecting an organization's main aptitude. Companies eliminate wasteful processes by replacing methods with more efficient means of production. Because Avon's core competency is distribution, and distribution relies on certain technology, the company requires the assistance of systems such as FKI Logistex® and Little David®. These computerized systems continue promoting the company's core competency. Avon uses FKI Logistex software as an order control system. The manufacturing company that made this software, Integrated®, released that FKI Logistex is “a leading provider of automated material handling solutions, supplying its customers with an integrated set of leading-edge technologies in high-speed sortation, conveyor systems, palletizing, paperless pick products, AS/RS, controls, order fulfillment systems, RFID implementation, EDS integration, baggage handling systems, warehouse control systems, and total material handling automation” (Manning, 2008).

A second technology, used to ensure continuity of Avon's operations is called the Little David. The Little David Case Sealer is provided by a company named Loveshaw “the first company in North America to develop a low-cost line of case sealers capable of applying pressure-sensitive tape to boxes” (About Loveshaw, 2008). This type of modern technology also permits companies to enlarge the range of their processes. This is why choosing flexible equipment is such an important part of process design. The chosen equipment must have the ability to respond with minimal penalty in time, cost, or customer value to protect and support core competencies.

Supply Chain Management: Risky Business

The technology needed to maintain operations is just part of a more complicated, and often times confusing, system like a supply chain. A magazine article titled “Risk Management in Supply Chains” in the January/February 2010 APICS magazine states that “as supply chains increase in length and complexity, ‘smoothly and quickly’ often do not describe the process as fittingly” (Crandall, 2010). Variables present uncertainty, risk, and, when unplanned for, crises. As the APICS article suggests the major causes of potentially destructive variables derive from competition, extensive supply chains, external influences, and internal applications.

Corporations may plan early to alleviate negative effects through setting supply chain standards on social responsibilities. Avon Products seeks to hold suppliers accountable for conformity with “all local and national laws and regulations concerning product safety and quality, environmental performance and human rights” (Supplier Code, 2009). Supplier codes of conduct must be implemented and followed to uphold core values of companies.

In ten years, Avon might be faced with a decision to terminate its relationship with a supplier. To avoid this, the company can minimize bad conduct through supplier contracts which specifically states certain social responsibilities concerning health, safety, and the environment. Currently, Avon’s suppliers are to provide their workers with a clean, safe, and healthy work environment in compliance with all applicable, legally mandated standards for workplace health and safety in the countries where they do business, and comply with all local environmental laws applicable to their operations. In addition, Avon encourages suppliers to have environmental policies, and environmental management systems, containing goals with targets that are focused on the continuous improvement of overall environmental performance (Supplier Code, 2005).

An Overview: Integrating OM Decisions to Support Core Competencies

Avon sets these standards and regulations in the event of a potential risk that could become a catastrophe. Supplier codes of conduct have become important communication tools among supply chains that convey expectations. Once signed and understood, believing each player in the supply chain will keep their end of the bargain is still a large risk. If a supplier is violating their responsibilities to the company, a backup plan may be required to continue the company's business. Avon's distribution center relies heavily on transportation trucks, and holds contracts with many transport trucking companies. If one company providing fifteen trucks-the number of trucks needed for one day of Avon's ten-day shipping cycle- does not show for loading, Avon can call upon a different contracted trucking company that can transport the merchandise. This is only one way Avon continues operating if an uncertainty arises. Avon can also avoid having to depend on a backup plan by ensuring consistent oversight of their entire global supply chain, including monitoring of suppliers' compliance with Avon's Supplier Code of Conduct.

Location: Making it a Competitive Advantage

One of the most important strategic decisions for distribution-based companies like Avon is where to locate operations. The location of a logistics storage and distribution centre of any size has a huge impact on cost, time, fuel consumption, scheduling, and routing and staff allocation for both the logistics provider and the customer (Dawson, 2005, p. 1). For Avon, the location decision was an easy one. The Atlanta Avon Distribution Branch is located in Suwanee, Georgia 33 miles from Atlanta, Georgia. The city of Atlanta plays permanent host to the busiest airport in the United States. Locating its distribution center close to Atlanta was a wise choice because Atlanta Hartsfield-Jackson Airport alone transports 90,039,280 passengers per year, and because Atlanta is the center of Avon's southeast regional cities in which the company ships to.

An Overview: Integrating OM Decisions to Support Core Competencies

The major implication here concludes a logistical advantage for the Atlanta Avon Branch. Placing its operations near one of the busiest airport hubs in the nation, and in the center of Avon's southeast region, creates a major competitive advantage, regarding logistics, over competitors who do not because the opportunity to transport merchandise faster and cheaper is present.

Conclusion: Support through Best Practices

A company's core competency is only as good as the OM decisions that support it. Operations must continually promote and protect main competencies of companies to secure their place in their perspective marketplace. Therefore it is crucial to encompass decisions that consider internal and external factors regarding overall quality improvement through process and capacity design, human resources and job design, supply chain management, inventory management, and location strategies. Companies who coordinate best practices to reach optimal productivity through OM decision areas may be subject to daily, weekly, and yearly juggling acts, but once these practices are understood and implemented organizations will reap the benefits of their innovative processes that continually support their core competency.

References

About Loveshaw. (2008). Retrieved from <http://www.loveshaw.com/content.cfm?id=20001>.

Crandall, R E. (2010, January/February). Risk management in supply chains: minimizing disruptions to streamline flow regardless of complexity. *APICS*, 20(1), 30-33.

Dawson, A. (2005). Location, location, location. *Logistics & Transport Focus*, 7(10), 32-34.

Retrieved from Business Source Complete database.

Heizer, J, & Render, B. (2008). *Operations management: ninth edition*. Upper Saddle River, New Jersey: Pearson Education, Inc., 468.

MacNeil, D. (2008). Using Service metrics to make intelligent business decisions. *Thermo Fisher Scientific*, Retrieved from

http://www.electrothermal.com/eThermo/CMA/PDFs/Various/File_8412.pdf.

Manning , B. (2008). *Intelligrated Completes Acquisition of FKI Logistex*. Retrieved from <http://www.intelligrated.com/node/187>.

Supplier Code of Conduct. (2009). Retrieved from <http://responsibility.avoncompany.com/page-67-Supplier-Code-of-Conduct>.

Supplier Code of Conduct “[PDF file]”. (2005). Retrieved from

http://responsibility.avoncompany.com/PDF/Supplier_Code_of_Conduct.pdf.