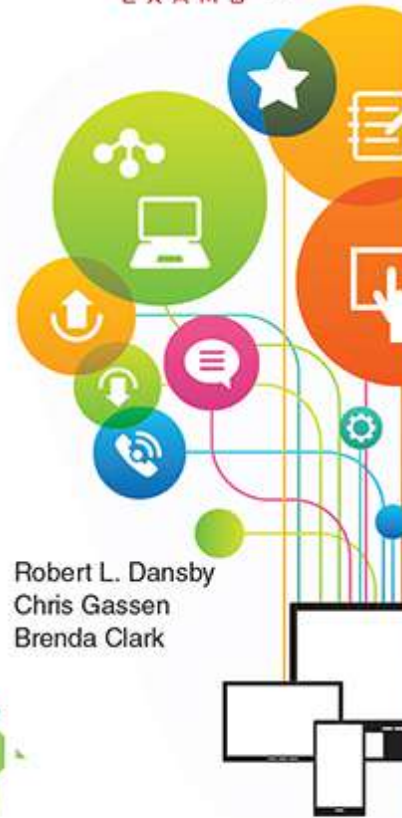


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# Principles of Business, Marketing, and Finance

PRECISION  
EXAMS



Robert L. Dansby  
Chris Gassen  
Brenda Clark

*Presentations for PowerPoint*

# Principles of Business, Marketing, and Finance

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8

# Production of Goods

# Section 8.1

## Producing Product

# Objectives

- **Explain** production as a function of business.
- **Identify** the steps in the production process.
- **Discuss** ways a business can improve productivity.

# Key Terms

- operations management
- conversion
- materials processing
- division of labor
- mass production
- custom manufacturing
- production process
- sourcing
- supplier
- inventory
- inventory management
- direct materials inventory
- work in process inventory
- finished goods inventory
- perpetual inventory control system
- electronic data interchange (EDI)
- periodic inventory control system
- inventory shrinkage
- just-in-time (JIT) inventory-control system
- quality control



# Essential Question

How does managing the production process impact business operations?

# Producing Goods

- **Operations management** is the area of management responsible for the activities necessary to produce goods and services
- Production is a function of business



# Producing Goods

- **Conversion** is the process of changing and improving resources to create goods or services
- Manufacturing creates form utility
  - **Materials processing** is changing the form of raw materials for another use
- Increase worker productivity
  - **Division of labor** is the specialization of individuals who perform specific tasks



# Producing Goods

- **Mass production** is the manufacturing of goods in large quantities using standard techniques
- **Custom manufacturing** is converting resources to a product that fits the specifications of a particular customer

# Production Process

- **Production process** is all the activities required to create a product
  - Planning
  - Purchasing
  - Scheduling
  - Inventory control
  - Quality control

# Production Process

- Planning determines resources needed for production
  - **Sourcing** is finding suppliers of materials needed for the production of a product
  - **Supplier** is a business that sells materials, supplies, or services to an organization; *vendor*
- Purchasing is acquiring resources for production
  - *Purchasing agents* are individuals responsible for sourcing and buying materials needed for producing goods and services
- Scheduling includes labor, materials, services, and other items needed for business operation

# Production Process

- **Inventory management** is the area of management involved in ordering goods, receiving them into stock on arrival, and paying vendors
- **Inventory** is the assortment or selection of items that a business has on hand at a particular point in time
  - **Direct materials inventory** is raw materials needed to produce a finished product
  - **Work in process inventory** consists of products that are partially completed; *unfinished product*
  - **Finished goods inventory** is assortment or selection of finished items for sale that a business has in stock

# Production Process

- **Perpetual inventory-control system** is a method of counting inventory that shows the quantity on hand at all times
- *Manual perpetual inventory-control system* involves physically counting and recording items
- *Computerized inventory-control system* uses software programs to track inventory
  - **Electronic data interchange (EDI)** is the standard transfer of electronic data for business transactions between organizations

# Production Process

- **Periodic inventory-control system** is a method of measuring inventory that involves taking a physical count of merchandise at regular periods
- Physical inventory should be completed annually
- **Inventory shrinkage** is the difference between the perpetual inventory and the physical inventory

# Production Process

- **Just-in-time (JIT) inventory-control system** is a method of managing inventory that keeps a minimal amount of raw materials on hand to meet production needs
- **Quality control** is the activity of checking products as they are produced or received to ensure the quality meets expectations

# Improving Productivity

- *Continuous process improvement (CPI)* is an ongoing effort to improve production processes to meet goals and increase profit
  - Technology makes manufacturing more efficient
  - Formal training to improve business processes



# Section 8.1 Review

1. What is the difference between producers and manufacturers?

*Producers* are businesses that create goods and services. *Manufacturers* are producers that use raw materials from other producers and convert them into finished goods.

# Section 8.1 Review

2. Explain the meaning of scheduling in the production process.

Scheduling personnel, material deliveries, shipments, and many other items are crucial to business operation. It ensures that businesses have enough raw materials and labor on hand to meet the product demand of customers. Careful scheduling is necessary for a business to operate efficiently and prevent material shortages or production problems. Purchasing too much material or scheduling too many labor hours can unnecessarily increase costs.

# Section 8.1 Review

3. List three types of inventory usually used by manufacturers.

Manufacturers usually have three types of inventory: direct materials, work in process, and finished goods inventory.

4. List three primary types of inventory-control systems.

There are three primary types of inventory-control systems: perpetual, periodic, and just-in-time.

5. Explain *continuous process improvement (CPI)*.

Continuous process improvement (CPI) is an ongoing effort to improve production processes to meet goals and increase profit.

## **Section 8.2**

# **Producing Development**

# Objectives

- **Explain** the product planning process.
- **Identify** the steps in new product development.

# Key Terms

- product planning
- new product
- product life cycle
- repositioning
- repackaging
- image
- brand
- prototype
- trial run
- test marketing
- commercialization
- trade show



# Essential Question

How is a new product idea developed?

# Product Planning

- **Product planning** is the process of deciding which products will be most strategic for the organization to produce
  - Three strategies: new product, reposition, repackage
- **New product** is a product that is different in some way from existing products
- **Product life cycle** is the series of stages a product goes through from its beginning to the end



# Product Planning

- **Repositioning** is marketing an existing product in a new way to create a new opinion or view of the product in the minds of customers to increase sales
- **Repackaging** is using new packaging for an existing product

# Developing New Product

## New Product Development



# Developing New Product

- Idea generation: Product ideas come from research, observation, feedback, and brainstorming
- Idea screening: Choose the best and most profitable ideas
- Business analysis: Determine if the company has necessary resources to develop and promote the new product
  - **Image** is the idea that people have about someone or something
  - **Brand** is a name, term, or design that sets a product or business apart from its competition

# Developing New Product

- Product design: Plan details of producing product and determine product brand
  - **Prototype** is a working model of a new product for testing purposes
  - **Trial run** is testing a service on select customers to ensure everything runs smoothly
- **Test marketing:** Introduce a new product to a small portion of the target market to learn how it will sell

# Developing New Product

- **Commercialization:** Introduction stage of a new product
  - **Trade show** is a large gathering of businesses for the purpose of displaying goods and services for sale
- **Evaluation:** Success of new and existing products based on financial records and marketing data

# Section 8.2 Review

1. What three options does a business have when choosing a product planning strategy?

As part of product strategy, a business can create new product, reposition current product, or repackage current product to appeal to consumers.

2. When developing new products, what four activities usually result in product ideas?

Product ideas are usually the result of observation, trend research, customer feedback, and brainstorming.

# Section 8.2 Review

## 3. What activities are part of the product design process?

During the design phase, the details of producing the product are planned. Determining the product brand is also part of the design phase. The name, image, logo, slogan, and packaging of the good or service are usually created at this stage.

## 4. How does a company use feedback from test marketing?

Customer feedback within the test market helps a business solve unexpected problems. Test marketing may also help a company determine whether or not to mass produce the product.

# Section 8.2 Review

## 5. How is the success of a product evaluated?

The success of a product is based how well it meets the sales and other goals set for the product during the business analysis. The evaluation process typically involves reviewing financial records and marketing data.