

BUSI 1301 – **Business Principles in a Global Economy**

Professor: Dr. Joseph L Thompson



Semester Contact Information for Professor Thompson and TA

- **Professor:** *Dr. Joseph L Thompson*
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- **Office Location:** 325P MH
(Melcher Hall)
- **Office Hours:** Mon: 1130-1230
pm, Tue 12-1 pm



Class TA

- The Teaching Assistants for this section are your point of contact for everything course-related
- Check the syllabus for the TA contact information.
- Students must email the TA first
- Check the Syllabus Course Calendar and Other Information Before Contacting the TA.

Required Texts

1. The Syllabus (This is the most important document in the course. Students must keep up to date with the syllabus. If changes need to be made, the professor or your TA will inform students.)
2. Geringer - International Business (3rd edition) with Connect Plus.
3. Some topics require additional readings and videos. Those readings and videos will be located in the appropriate topic folder

Recommended Readings

- Each student should acquire a copy of the classic book on writing style, *The Elements of Style* by William Strunk and E.B. White. This book will help all students learn how to write effectively for all writing inside and outside of college.
- Anyone involved in global business should be aware of international events, especially given today's volatile world. The following are a few recommended (but not required) readings for students interested in staying current on international affairs. Many of these sources can be accessed via the UH library. Go to <http://guides.lib.uh.edu/economics> and use your CougarNet ID to log in.
- *The Wall Street Journal* www.wsj.com
- *Financial Times* www.ft.com
- *The New York Times* www.nytimes.com
- *The Washington Post* www.washingtonpost.com
- *BBC News* www.bbcnews.com
- *The Economist* www.economist.com



Mental Health

Counseling and Psychological
Services

<http://www.uh.edu/caps>

(713) 743-5454

Let's Talk Program

(no appointment necessary):

http://www.uh.edu/caps/outreach/lets_talk.html



Video Recording Link

Students should refer to the syllabus to see all lecture notes, readings, and assignments (required and recommended) associated with this lecture. This video lecture serves as a supplement to this lecture. Please go through the lecture video, the PowerPoint here, and the Lecture Notes in order to get the full lecture for this topic.

Part 1

The following is a recording of the Global Operations and Supply Chain Part 1 Lecture from October 31, 2022.

https://uh-edu-cougarnet.zoom.us/rec/share/99Tf2asPlybwmHywSuex2P_NmD11dqVN-hSg0OiNtZwVnSz9XzSbO2nzW9zF3QGU.hY_7Ep0K1FFhEuEC

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Part II

The following is a recording of the Global Operations and Supply Chain Part II Lecture from November 2, 2022.

<https://uh-edu-cougarnet.zoom.us/rec/share/bwyvjA5AfXzUUWU4-c2rzU2KPDd40z5YvJX55X4DkeDelgBxXYNoanql96DiSKwa.oF5vj0sOcAjTfGbD>

(Passcode: C@x1i1+?)

Global Operations and Supply Chain Management

Key Terms:

- Supply Chain
- Lean Production
- Toyota Production System (TPS)
- Vertical Integration
- Outsourcing
- Supply Chain Resiliency
- “Just in Case”

Lecture Outline:

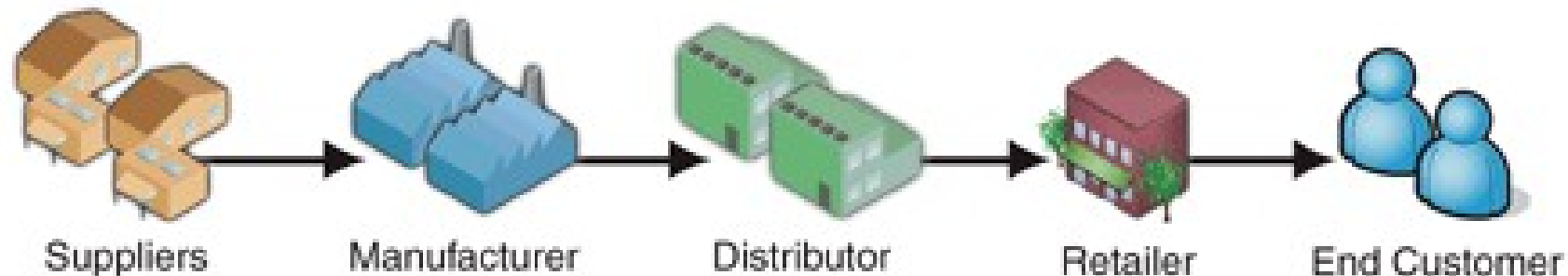
- I. Defining Supply Chain Management
- II. Location of Production
 - Country-Specific Factors
 - Technological Factors
 - Product Factors
- III. “Make-or-Buy” Decisions
 - Vertical Integration
 - Outsourcing
- IV. Starbucks
- V. COVID

Supply Chain Management

- What is a supply chain?

Activities involved in making a product and getting it to the customer

Includes purchasing, manufacturing, transporting, and customer service
- Managing supply chain includes managing people, resources, information, and activities in the most efficient way possible
- Can help a company gain a competitive edge

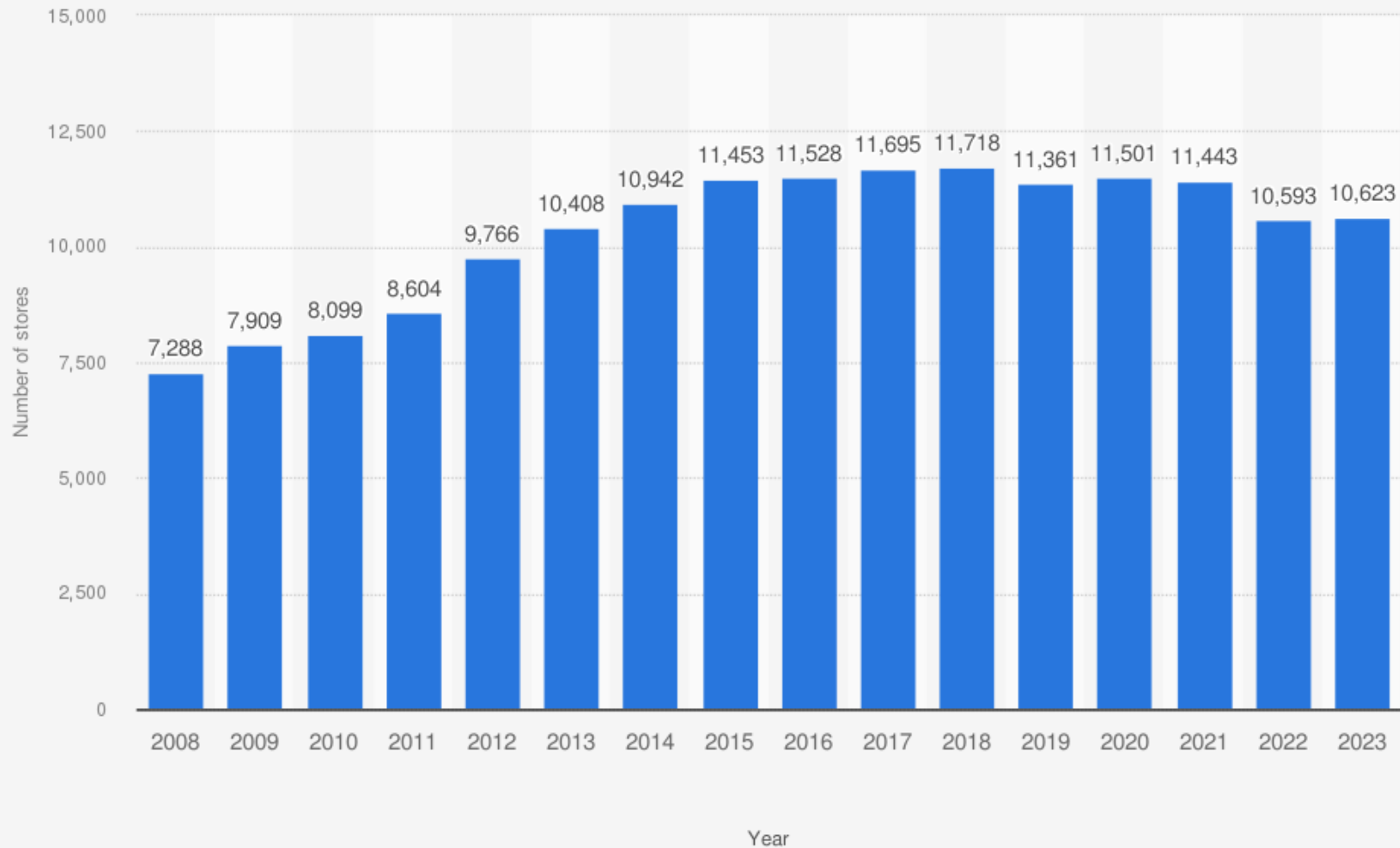


Location of Production

- Primary goal is to minimize costs and maximize value
- Country-specific factors play major role:
 - Resources
 - Can give a country a comparative advantage
 - Economic and political conditions
 - High formal and informal trade barriers
 - Regulations regarding FDI
 - Expected future movements of an exchange rate
- Location externalities
 - Large pool of skilled labor
 - Supporting industries in place



Number of Walmart stores worldwide from fiscal year 2008 to 2023



Source
Walmart
© Statista 2023

Additional Information:
Worldwide; Fiscal year 2008 to 2023; include retail units only





Philips

- Operating factories in China since 1985
- Low wages meant the Chinese couldn't afford to buy the products Philips made
- Philips focused on exporting goods made in China to developed nations
- Eventually moved much of its production to China

Low wages, educated workforce, relatively strong economy, and expanding industrial sector

Global Production



- Aim to make China their global supply base
- What is the problem with this?
Political, economic, or other problems could disrupt production
- Should Philips aim for a more decentralized approach?
Factories scattered around the globe to serve regional markets

Technology Factors

- Level of fixed costs in manufacturing
Amount of money required to set up a production plant
- High fixed costs
Set up one or two production locations and serve the world market
- Low fixed costs
Multiple locations all over the world
Reduced dependence on a single location
Avoid risks



Flexibility of Manufacturing

- Old view emphasized mass production over customization
 - Wide variety of products was seen as expensive and less efficient
 - Produce standardized products in large volumes to drive down costs
 - Discourages product innovation
- Lean Production
 - Manufacturing technologies intended to eliminate waste
 - Improved job scheduling, reduced set up time, and improved quality controls





Toyota Production System (TPS)

- “Just-In-Time” production made the company one of the most efficient in the world
- Taiichi Ohno visited Ford production plants
- Saw long production runs and massive inventories that had to sit in warehouses, where they added no value
- Mass production also meant mass defects
- Mass production unable to accommodate consumer preferences
- How can Toyota make shorter production runs more economical?

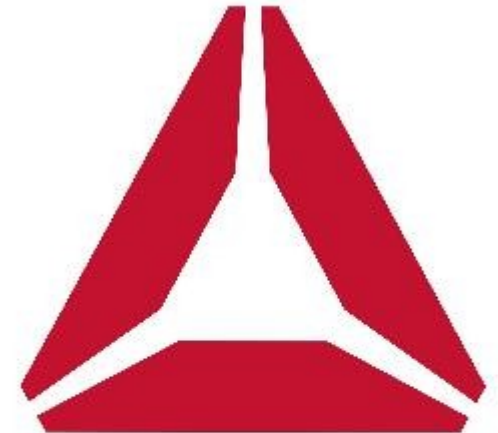


Product Factors

- Value-to-weight ratio
- High value-to-weight ratio: product is expensive but doesn't weigh a lot
 - Cheap to ship; produce from one location
- Low value-to-weight ratio: cheap and heavy
 - Expensive to ship; multiple locations of production to reduce transportation costs
- Universal or specific need
 - Some products don't need to be responsive to local needs

Make-or-Buy Decisions

- Decision to carry out an activity or outsource it
- Outsourcing used to be about manufacturing
 - Especially products with many components
 - Ex: cars (Toyota), apparel (Nike, Reebok)
- Today it can include service activities too





Advantages of Making a Product (Vertical Integration)

- Save money if you can be more efficient than anyone else
- Avoid dependency on another party
 - no investment in a specialized asset
- Protect proprietary product technology
- Develop dynamic capabilities
 - becoming better at what you do in the long run
- Results in product cost savings
 - makes planning easier

Advantages of Buying

- Greater strategic flexibility
 - Protect against risks
- Could lower your firm's cost structure
 - Avoid the bureaucratic inefficiencies of vertical integration
- May provide offsets for unfavorable conditions
 - Help gain access to a country's market
- Information systems and technology have driven more firms toward a “buy” approach



Starbucks Supply Chain

- In 2008, operational costs were going up, from \$750 million to \$825 million in one year
- Sales in U.S. stores had dropped 10%
- Starbucks supply chain could not keep up with the company's rapid worldwide expansion
- Needed to find a balance between cost and performance
- **3 goals:** reorganize its supply chain, reduce costs, and plan for the future

What Went Wrong?

- Less than half of store deliveries arrived on time
- Spending too much on outsourcing, which accounted for 65-70% of Starbucks supply chain expenses
 - Includes agreements for transportation, logistics, and manufacturing



The Starbucks Solution

- Reorganize and simplify the supply chain
 - Divided into 4 basic functions: plan, source, make, and deliver
 - Each department tasked with figuring out how to reduce costs
 - Sourcing group developed a way to negotiate better prices
 - Manufacturing developed better model for getting coffee beans to processing plants
 - Regionalizing coffee production reduced transportation costs
- Created one logistics system
 - Share data better between company and suppliers
 - Show everyone involved just how the supply chain was performing
- Saved Starbucks over \$500 million

“Supply chain challenges will be with us for the foreseeable future. In light of that outlook, we can confidently assert that agility, resilience, and the mobilization of sourcing options are, metaphorically, the personal protective equipment for supply chains in the Age of Covid.” – Jerry Haar



The Secret to Managing the Walmart Supply Chain, One of the Most Effective Supply Chains in the World



Supply Chain Issues Today

- From the White House Website, June 17, 2021:
<https://www.whitehouse.gov/cea/blog/2021/06/17/why-the-pandemic-has-disrupted-supply-chains/> “Entire industries that shrank dramatically during the pandemic, such as the hotel and restaurant sectors, are now trying to reopen. Some businesses report that they have been unable to hire quickly enough to keep pace with their rising need for workers, leading to an all-time record 8.3 million job openings in April. Others do not have enough of their products in inventory to avoid running out of stock. The situation has been especially difficult for businesses with complex supply chains, as their production is vulnerable to disruption due to shortages of inputs from other businesses.”
- October 7, 2021: Independent retailers are getting squeezed out as suppliers, factories and freight companies prioritize national brands: ‘We’re at the whim of a broken supply chain.’
<https://www.washingtonpost.com/business/2021/11/07/small-business-supply-chain-pandemic/>



The future: Supply Chain Resiliency

Supply chain pundits from industry and academia point out that it is possible for businesses to strike a balance between just in time and just in case



Batman: "Why, Eckhardt, you ought to think about the future."