

Chapter 7

Case on Importance of Strategic Location

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1. Introduction

Location has the key effect on the overall risk and income for every industry. Location decision effects on costs, both fixed and variable. The location decision often is contingent on the type of company. For industrial location decisions, the strategy is typically reducing costs, although creativity and innovation should also be serious. For retail and technical service organizations, the approach focuses on exploiting revenue. Warehouse location strategy, however, may be driven by a combination of speed of delivery and costs.

The aim of location strategy is to maximize the benefit of location to every industry or company. A strategic location is important; business's location is a step to successful operations and the company overall growth. When picking location, consider company needs, employees and equipment needed to complete the services and the potential customers. Lots of start-up mistakes can be corrected later on, but not a wrong choice of location. Because location is such a important cost and revenue driver, location often has the power to make or break the company business policy. Location decisions to support a low-cost strategy require particularly cautious thought. It is a long term impact and decisions are difficult to change.

After management is devoted to a specific location, several costs are firmly in place and that is why it is difficult to change. However, hard work to determine an optimum facility location is a worthy investment. The aim for this case is to understand the importance of strategic location of the A.Y coffee shop, which the owners need to consider factors that affect location decisions as their coffee shop management should reduce the resistance to change if they still want their business to sustain. A.Y coffee shop is a SME business.

Most of SME business are having the same situation and difficulties to sustain and as well as to expand their business and facing the challenges to compete with the well-established business within the same industry. These will create the huge gap between the 'newbies' and the existence business.

Among the problems faced by the new SME, the biggest issue might come from the intense competition, financial and workforce resources. This is the critical part that all the new SMEs should bargain for. Others came from lack of information, risk (and the lack of

instruments to manage the risk), lack of access to markets, and low labour and management skills.

2. Case Study

A.Y Coffee shop is a Mourich Coffee which located at Kuantan area near Megamall. Mourich Coffee is a small medium enterprise (SME) business and had operated from 24th September 2014. Since that, their business was going quite good but couldn't catch up with the current economic crisis due to lack of experience, knowledge and expertise. On top of that, they are operating the business without any proper documentation system.

MOURICH is an abbreviation of Money, Famous, and Rich. The coffee house was established on 24th September 2014. Both of the founders were inspired to run this business by their travel experiences around Italy and Australia.

Mourich started based on a partnership agreement between NajlaFathi (Mimi) and Esaliyawati (Abby). Mimi was graduated with a Diploma in Office Management from Shahputra College and has previously worked with Starbucks Coffee for 5 years as a full-time barista. Whereas Abby has a Bachelor Degree in Hotel Management from UITM, Shah Alam with 18 years of work experiences both in banking and hospitality industry.

Their competitors are basically Panaderia Dessert House, Coffee Gallery, 90 degrees, The Library Coffee, Old School (the nearest) and other hipster coffee houses around Kuantan area. There are two feasibility studies conducted for this business plan and both were conducted online. The first feasibility study was distributed to 15 existing customers who had visited A.Y Coffee before whereas; the second survey was conducted to 15 potential customers that live in Kuantan.

Most of the customer that came was students, so this is show that the hipster shops are attraction for modern generation. Respondents' demographic background shows that 5 of the respondents are males and 10 of them are females. The age ranges from 19 to 55 years old, where most respondents are in their 20's. The customers are mainly students from universities or colleges, those who works in private sector, government servants and self-employed.

A.Y coffee have a lot of weakness especially location. They lack of employee and have high turnover because A.Y coffee does not prepare hostel for them and transportation for them to come to work. Their location is not strategic which made people does not know they are hiring new employees. Although they have been post in social media but people still do not recognized A.Y coffee since it is located behind many buildings, that is why it is hard to see.

Near this coffee shop have a lot of office so it is mean that it is lack of parking space. Customer that want to come need to park far away from the shop. It is really not convenient to the customer. Supposedly they should look at that factor before start their business.

A.Y coffee also provides delivery but because lack of staff, the delivery sometimes need to be postponed. This is surely will make people mad and because the housing area is far from their shop, there is an incident where their service of delivery is late because of traffic jam and etc. Customer will start to not order for them and their loyalty will reduce.

Since they are open at Kuantan and their suppliers of coffee mostly from Kuala Lumpur, they tend to get their supplies late from the agreement. They also temporary close the shop because there have not enough coffee. Back to their first problem where lack of staff, this have affect their service where many customer complaint that service is late. The owners of A.Y coffee are the one did all the job which are bartender, cashier, cook and many more. That is why they serve food and beverage quiet slow.

Even though, the owners have a lot of experience in food and beverage industry but still they need to know and clearly understand the important of location that might affect their business performance.

Teaching Note
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This case study is suitable for Operation Management subject for degree and diploma students. This case study designed for level 2 and/or 3 (Comprehension and/or application) of Human Resource Management.

Lecturer can did a lot of exercise to teach and make students understand which are:

- a) Lecturer asks students to be in a small group to read and discuss the case for about 30 minutes. Then lecturer may ask each group to share their findings with the class. Ask their opinion, the main problem of this case and how to solve it.
- b) Lecturer asks to have two people in a group. One person find the critical success factor from this case and another person weight it and calculate. From that finding, explain the reason students change or stay in that location.
- c) Lecturer can enhance students' knowledge by asking students to suggest where the location should better for this case and give reasons according what they understand from all chapters they learn.
- d) Lecturer can make class more interesting by doing role play. In a group, ask students to act back from the case and from that acting ask them what should clearly be done to improve performance of this coffee shop.

At the end of lecture, lecturer may use a few minutes to conclude the answers. Lecturer need to mention below solutions.

Problem Solution

Operation management is an activity which refers to the creation of products (goods and/or services) through the transformation of inputs to outputs. Obviously strategic location can be defined in many ways, depending on who is defining it and what kind of business is related. It is also defined as great investment to the business and will help business to sustain much longer.

- a) **Training**

SME also should focus on training. If they want to stay on that location, they need to provide something to employee. The employees of A.Y coffee shop must be provide enough education or knowledge about the service that customer wants. Before hiring employee, the owners should look at their experience as a barista and for none experience, the owner should teach them before ask them to serve it for customer. The employees must capable to serve food as barista and at the same time can cook. It is a bonus if the employees have a strong background of management and marketing. As a consequence, the management can save on administrative cost. Since the owners have a lot of experience, they can do on job training so it can reduce cost from send to any class of barista.

Recruitment, selection, performance appraisal, and training are four of the major elements that A.Y Coffee need to consider regarding human resources if they want to success.

Although their location is not strategic but with the help of word of mouth from other customer that A.Y coffee has best barista, this will help them to sustain longer.

b) Blue Ocean Strategy

Steve Jobs once said, “People think focus means saying yes to the thing you have got to focus on. But that is not what it means at all. It means saying no to the hundred other good ideas that there are. You have to pick carefully. I’m actually as proud of the things we haven’t done as the things I have done. After all, innovation means saying “no” to 1,000 things.” In Malaysia, our Prime Minister had decided that as part of our transformation journey, we needed to boost innovation.

Generally, Blue Ocean Strategy is about reducing the costs, raising the value of innovation as well as unlocking non-customers chain. We suggest that A.Y Coffee apply this strategy to their business. This is because the management team needs to think on how to perform different activities from their competitors to achieve success regardless where is their location.

Nowadays, people prefer to eat fast food because of the food is convenient and can save time as they can just take away the food without going to eat at the restaurant. Based on the survey, the quickness of serving is an essential criterion to choose where to eat.

A study has found that youths in Malaysia are not giving much thought to what they are eating. Based on the Malaysian Youth Index 2015, “youths only scored 43.52 for eating habit indicator. It was reported that the Health Ministry’s latest National Health and Morbidity Survey (NHMS) 2015, had shown 17.7 per cent of Malaysian above 18 years were obese compared to only 15.4 per cent during 2011”.

So, A.Y Coffee can use this opportunity to innovate the menu by introduced selections of healthy menu sets like sandwiches together with coffee. The food should less fat, sugar and oil. So, they can introduce quick take away with selections of healthy menu. In order to

continue this gain, they must make the processes of cooking food simple for all their personnel. It must be easy to learn and easy to execute with a low failure rate to ensure the quick and efficient production and delivery of food and beverages.

Always to remember that a successful innovation always tries to win a leading position, otherwise A.Y coffee can create opportunities for their competitors.

C) Intellectual Property

Every company has their own intellectual property. A.Y Coffee also had registered their owned intellectual property. Intellectual property can be define as a right that is had by a individual or by a corporation to have exclusive rights to use its own ideas ,strategies, or other intangible assets without the worry of competition, at least for a particular period of time. These rights can include, patents, trade secrets, trademarks, and copyrights. These rights may be enforced by a court via a lawsuit. The reasoning for intellectual property is to encourage invention without the fear that a competitor will take the knowledge and claim the credit for it.

Trademark for A.Y coffee is based on the originality of their own coffee beans. The logos have been developed based on the owner's creativity and it shows the difference between A.Y coffee with the others coffee houses.

Trade secret, in legal terms can be described as the special ingredients that had been used to produce the products. The coffee bean is the special ingredients and it has its own aroma because the coffee beans had been added with value added which is only known by the owners. Other than that, their special foods also had their own secret because the menu had been created by the owners based on their creativity and had been refer by the other chefs.

By doing this intellectual property, they can increase their financial and also can be suppliers to other coffee shop. This will make customer acknowledge A.Y coffee shop and can be recognized as a close competitor to other coffee shop.

Case Practise

In a real practise, the owner of A.Y coffee agreed to improve their service if they want to stay at that location. They found that they need to hire someone to be their supplier near their shop; it is like an agreement with the supplier so that they can get supplies on time. They also agree to give on-going training to the employees as this can reduce cost to do promotion to hire another employees and customer tend to look more on taste and they need to have a very skilled and knowledgeable employees. This is because they love with what they did and they want to sustain longer. Refer to my interview with the owners of A.Y coffee; this case study can improve the business performance.