CHAPTER 1

INTRODUCTION TO PERFORMANCE MANAGEMENT

Concept 01: Performance Management

Performance management:

i. **Meaning**: It is a continuous process of
   a. Identifying,
   b. Measuring, and
   c. Developing the performance of the human resources in organization's by
   d. Linking everyone's performance and objectives to the organization's overall mission and goals.

ii. **Elements**: The definition of performance management has two key elements namely:
   a. **Continuous process**:
      i. Performance management is ongoing.
      ii. It involves a never-ending process of setting goals and objectives, observing performance, and
      iii. Giving and receiving ongoing coaching and feedback.
   b. **Link to mission and goals**: Performance management requires
      i. Managers to ensure that employee's activities and outputs are congruent with the organization's goals and
      ii. Consequently, help the organization gain a competitive business advantage.

iii. **Objective**:
   a. Performance management focuses mainly on the achievement of results.
   b. It differentiates the aspects such as being engaged and producing results. Being busy should not necessarily be indicating that the results are being produced.

Performance Management Vs Performance Appraisal. **J 19**

i. **Performance management**: It is the process of identifying, measuring, managing, and developing the performance of the human resources in an organization.

ii. **Performance appraisal:** It is the ongoing **process of evaluating** or review of employee performance over time. So, it is just one piece of performance management.

iii. **Differences**: The following are the major differences between these two:

Performance Management	Performance Appraisal
It is a comprehensive approach	It is a narrow and limited approach.
It is a flexible process	It is a monolithic system.
It is usually not directly linked to pay.	It is often linked to pay.
Here, documentation is kept to a minimum	It involves complex paperwork.
It is owned by line managers.	It is owned by the HR department.
It focuses on values, behaviors and objectives.	It focuses on quantified objectives
Here, the use of rating is less common.	Here, rating is frequently used.
It focuses on the present and on the future.	Its focus is on the past.
It is a strategic tool.	It is an operational tool.
The approach is holistic.	The approach is individualistic.
It is a process.	It is a system.

Components of Performance Management: **J 19**

i. **Performance Planning:**

   a. **Base for appraisal**: Performance planning is the first crucial component of any performance management process which forms the basis of performance appraisals.

   b. **Appraiser and Reviewer**: Performance planning is jointly done by the appraiser and the reviewer in the beginning of a performance session.

   c. **Finalization of KPI**: The employees decide upon the targets and the key performance areas which can be performed over a year within the performance budget, which is finalized after a mutual agreement between the reporting officer and the employee.

ii. **Performance Appraisal and Reviewing:**

   a. **Reviews**: The appraisals are normally performed twice in a year in an organization in the form of mid reviews and annual reviews which is held at the end of the financial year.

   b. **Self-Appraisal**: In this process, the appraisee first offers the self-filled up ratings in the self-appraisal form and describes his/her achievements over a period of time in quantifiable terms.

   c. **Final Appraisal and Ratings**: After the self-appraisal, the final ratings are provided by the appraiser for the quantifiable and measurable achievements of the employee being appraised.

   d. **Active Participation by Employer and Employees**: The entire process of review seeks an active participation of both the employee and the appraiser for analyzing the causes of loopholes in the performance and how it can be overcome.

iii. **Feedback on the Performance followed by personal counseling and performance facilitation:**

   a. **Feedback and counseling:**

      i. It is an important phase in performance appraisal process.

ii. The employee comes to know his areas of improvements and whether he is able to meet expectations of employer.
iii. The employee receives an open and very transparent feedback and the training and development needs of the employee is also identified.
iv. The appraiser adopts all the possible steps to ensure that the employee meets the expected outcomes for an organization through effective personal counseling and guidance.

iv. **Rewarding good performance:**
   a. Rewards for good work act as a **motivation** for employees.
   b. An employee is **publicly** recognized for good performance and is rewarded.
   c. Rewards will have direct influence on the self-esteem and achievement orientation of employee.
   d. It helps an employee in coping up with the failures successfully and satisfies the need for affection.

v. **Performance Improvement Plans:**
   a. A fresh set of goals are established for an employee and new deadline is provided for accomplishment.
   b. The employee is clearly communicated about the areas in which the employee is expected to improve, and a stipulated deadline is also assigned within which the employee must show this improvement.
   c. improvement plan is jointly developed by the appraisee and the appraiser and is mutually approved.

vi. **Potential Appraisal:**
   a. Potential appraisal forms a basis for both **lateral and vertical movement** of employees.
   b. By implementing competency mapping and various assessment techniques, potential appraisal is performed.
   c. Potential appraisal provides crucial inputs for **succession planning** and **job rotation**.

Productivity:

i. **Meaning**: Productivity examines the relationship between input and output in each production process.

ii. **Computation**: Productivity % = $\frac{\text{Output}}{\text{Input}}$ x 100

iii. **Ways to Improve Productivity**: Productivity can be increased/improved in the following ways:
   a. By producing more outputs with the same amount of inputs
   b. By using fewer inputs for the same amount of outputs

iv. **Productivity and Efficiency**:
   a. The highest productivity is achieved when maximum output is obtained for a particular input level.
   b. Increasing efficiency raises productivity.
   c. If the productivity growth of an organization is higher than that of its

competitors or other firms that firm performs better and is more efficient.

d. Productivity and efficiency is used interchangeably.

<u>Efficiency:</u>

i. **Meaning**:
   a. Efficiency reflects the ability of a firm to obtain maximum output from a given set of inputs.
   b. If a firm is obtaining maximum output from a set of inputs, it is said to be an efficient firm.

ii. **Minimizing Resource wastage**: It minimizes the waste of resources like physical materials, energy and time while accomplishing the required output.

iii. **<u>Components</u>**: Efficiency consists of two main components:
   a. **Technical efficiency** occurs if a firm obtains maximum output from a set of inputs.
   b. **Allocative efficiency** occurs when a firm chooses the optimal combination of inputs, given the level of prices and the production technology.
   c. Technical efficiency and allocative efficiency combine to provide overall efficiency.
   d. When a firm achieves maximum output from a particular input level, with utilization of inputs at least cost, it is an overall efficient firm.

<u>Methods of Measuring Productivity and efficiency:</u>

i. **Produces one output using a single input**:
   a. Productivity ratio of output to input
   b. Efficiency ratio actual output to the standard output
   c. are relatively easy to measure.

ii. **Many outputs and many inputs**:
   a. The measurement of an output- input ratio is difficult.
   b. Many different approaches have been applied by many researchers and it is essential to select appropriate measurements for productivity and efficiency to avoid measurement bias in the results.

iii. **<u>Methods of Measurement</u>**: Productivity and efficiency can be measured on by using any one of the following two methods:
   a. **Partial Factor Productivity (PFP)**:
      i. It refers to the change in output owing to the change in the quantity of one input.
      ii. For Examples material yield ratio, output per man-hours etc.
      iii. The output is only a measure of the **joint power** of inputs to achieve results. This is the main disadvantage of measuring productivity and efficiency using the PFP approach
   b. **Total Factor Productivity (TFP)**:
      i. It refers to the change in output owing to changes in the quantity of more than one input.

ii. Examples are Return on Investment (ROI) or overall profitability ratio etc.
iii. TFP measures overall productivity and efficiency by considering all inputs and all outputs in the production process. With full technical efficiency, producing maximum potential output from the allocated inputs.

Concept of Performance:

i. **Meaning**:
   a. The word 'Performance' is derived from the word 'performed', which means 'to do ', 'to carry out 'or 'to render '.
   b. Performance refers to the degree to which an achievement is being accomplished.

ii. **Increase in Profit**: In the business performance refers to improving all the factors that increase the profit and reduce expenditure which results in increase in profit. more output per unit input.

iii. **Factors influence performance**:
   a. Performance is about maximizing the amount of output energy from a system.
   b. Performance will be the end product of
      i. Efficiency,
      ii. Utilization, and
      iii. Productivity.

Concept 02: Financial Performance Analysis

Financial Performance Analysis: **D 19**

i. **Meaning**: Financial performance analysis is the process of
   a. Identifying the financial strengths and weaknesses of the firm
   b. by properly establishing the relationship
   c. between the items of balance sheet and profit and loss account.

ii. **Analysis of FS**:
   a. The analysis of financial statement is a process of evaluating the relationship between the component parts of the financial statement
   b. to obtain a better understanding of the firm's position and performance.

iii. **Who can do**:
   a. Financial analysis can be undertaken by the management of the firm or by parties outside the firm namely, owners, creditors, investors.
   b. Financial Analysis is carried out to know the following two
      a. What is the financial position of the firm at a given point of time?
      b. How is the Financial Performance of the firm over a given period?

iv. **Basis for Analysis**: Financial statements which are base for carrying out financial analysis:
   a. Balance Sheet shows the financial position of the firm at a given point of time.
   b. Income Statement explains the performance of the firm over a period.

c. **Cash-Flow Statement** explains flow of cash to an entity for the period under consideration.

Perspectives of Financial Performance Analysis:

i. **Data to be considered**: Financial analysts often assess
   a. Firm's production and productivity performance,
   b. Profitability performance,
   c. liquidity performance,
   d. Working capital performance,
   e. Fixed assets performance,
   f. Fund flow performance and
   g. Social performance.
ii. **Prospective of Analysis**: Financial health of an organisation is measured from the following perspectives:
   a. Working capital Analysis.
   b. Financial structure Analysis.
   c. Activity Analysis.
   d. Profitability Analysis.

Significance of Financial Performance Analysis:

i. Stakeholders interest:
   a. In entity's financial performance stakeholders will have interest.
   b. Various stakeholders of an entity carryout financial performance analysis with a specific purpose or view.
   c. Therefore, analysis varies from party to party.

ii. Analysis by various parties and objective:
   a. **Trade creditors:** Creditors are interested to know the liquidity position of the entity.
   b. **Bond holders:** These are interested to know the cash-flow ability of the firm.
   c. **Investors:** These are interested in present and expected future earnings as well as stability of these earnings.
   d. **Management:** these are Interested to know
      i. Efficiency and effectiveness of internal control system,
      ii. Financial condition,
      iii. Financial performance.

Types of Financial Performance Analysis:

Financial Analysis can be classified into two types based on Material used and Modus operandi.

i. **Material used:** Based on material used financial performance can be analyzed in following two ways:
   a. **External analysis:**
      i. This analysis is undertaken by the **outsiders** of the business namely

investors, credit agencies, government agencies, and other creditors who have no access to the internal records of the company.

ii. They mainly use published financial statements for the analysis and as it serves limited purposes**.**

b. **Internal analysis:**

i. This analysis is undertaken by the **persons namely executives and employees of the organization** or by the officers appointed by government or court

ii. Who have access to the books of account and other information related to the business**.**

ii. **Modus operandi:** In the basis of modus operandi financial performance can be analyze in the following two ways:

a. **Horizontal Analysis:**

i. Analysis financial statements for several years are reviewed and analyzed.

ii. The current year's figures are compared with the standard or base year and changes are shown usually in the form of percentage.

iii. This analysis helps the management to have an insight into levels and areas of strength and weaknesses.

iv. This analysis is also called Dynamic Analysis as it based on data from various years.

b. **Vertical Analysis:**

i. Under this analysis, Study is made of quantitative relationship of the various items of financial statements a particular date.

ii. It is useful in comparing the performance of several companies in the same group or divisions or departments in the same company.

iii. It is not much helpful in proper analysis of firm's financial position because it depends on the data for one period.

iv. It is also called Static Analysis as it based on data from one date or for one accounting period.

Accounting techniques of Financial Performance Analysis:

i. **List of Techniques**: The following are the various accounting techniques used to carry out financial performance analysis.

a. Comparative Financial Analysis,
b. Common-size Financial Analysis,
c. Trend Analysis,
d. Fund Flow Analysis,
e. Cash Flow Analysis,
f. CVP Analysis,
g. Ratio Analysis,
h. Value Added Analysis etc.

ii. **Ratio Analysis**:

a. **Widely Accepted**: Ratio is one of the widely used and powerful tools in financial performance evaluation of an entity.
b. **Variables with cause and effect relationship**: Ratio explains the logical relationship existing between two or more variables in financial statements.
c. **Meaning**: If one finance variable is expressed in terms of another finance variable, such logical expression is known as ratio.
d. **Objectives**:
    i. To Know financial strengths and weaknesses of an entity.
    ii. To know whether the company's financial position has been improving or deteriorating over time.
e. **Types**: Ratios can be classified into four broad groups based on items used:
    i. Liquidity Ratios
    ii. Capital Structure or Leverage Ratios
    iii. Profitability Ratios
    iv. Activity Ratios.

iii. Common-Size Financial Analysis:

a. Common-size statement is also known as component percentage statement or vertical statement.
b. In this technique net revenue, total assets or total liabilities is taken as 100 per cent and the percentage of individual items are calculated likewise.
c. It highlights the relative change in each group of expenses, assets and liabilities.
d. The ratios in common size statements tend to have less variation than the absolute values themselves, and trends in the ratios can reveal important changes in the business.
e. Historical comparisons can be made in a time-series analysis to identify such trends. Common size statements also can be used to compare the firm to other firms.

iv. **Trend Analysis**:

a. Trend analysis indicates changes in an item or a group of items over a period and helps to draw the conclusion regarding the changes in data.
b. In this technique, a base year is chosen and the amount of item for that year is taken as one hundred for that year. Based on that, the index numbers for other years are calculated.
c. It shows the direction in which concern is going. It is an important tool of horizontal analysis

Analysis of Financial Statements:

Analysis of financial statements can be carried out by using any one of the following three methods:

A. Trend Analysis
B. Common Size Analysis
C. Comparative Analysis

Trend Analysis:

i. Trend Ratio is the Index no of each financial item in financial statement of different period.
ii. Trend percentages are not calculated for all items of financial statements which means trend ratios are calculated for significant items having logical relationship with one to another.
iii. The basic purpose of trend ratio is to highlight important changes over a period of time in the selected parameters.
iv. For calculation of trend ratio any year may be taken as base year, however in general the earliest year is taken as base.
v. Trend Ratio = $\frac{\textbf{Value of Each item of any Period}}{\textbf{Value of same item of base period}}$
vi. While calculating trend ratios, the following should exist:
   a. Uniform costing system should be followed from year to year.
   b. Consistency should be maintained with respect to accounting policies and practices.
   c. The base year should be normal year.
   d. The figures of current year should be adjusted for price level changes before calculating trend %

Common Size Financial Statements:

i. Common Size Financial Statements is restatement of Financial Statements showing % of each item with a common base for comparison.
ii. Each item in the income statement is expressed as a % on Sales and each asset in the Balance sheet will be expressed as a % on total Assets and each individual liability will be expressed as a % on total liabilities.
iii. Total Sales or Total Liabilities or Total Assets will be considered as base for calculation of Said %.

Comparative Analysis:

i. If a Financial Statement is recanted for comparing all the elements of financial condition from year to year in absolute terms as well as in %, then the recanted financial statements is called comparative financial Statements.
ii. It explains:
   a. Increase / Decrease in absolute money value of each element by deducting current period element from previous period element.
   b. Increase / Decrease % = $\frac{\textbf{Increase/Decrease}}{\textbf{Past Period item}}$ x 100

Concept 03: Supply Chain Management (SCM)

Supply Chain Management: **D 15**

i. **Meaning**:
   a. It encompasses the planning and management of all activities involved in
      i. Sourcing
      ii. Procurement
      iii. Conversion, and
      iv. logistics management activities.

b. SCM also includes coordination and collaboration with channel partners like suppliers, intermediaries, third party service providers, and customers.
c. SCM integrates **supply and demand management** within and across companies.

ii. **Set of Approaches**:
   a. Supply chain management is a set of approaches utilized
   b. To efficiently integrate
      i. Suppliers,
      ii. Manufacturers,
      iii. Warehouses, and Stores
   c. For facilitating the entity to **produce and distribute** various products
      i. At the right **quantities**
      ii. To the right **locations** and
      iii. At the right **time**
      iv. In order to **minimize system-wide costs** while satisfying service level requirements.

<u>Objectives of SCM</u>: **D 15**

i. **<u>Main Objectives</u>**: The following are the main objective(s) of SCM.
   a. To improve **overall organization performance** and **customer satisfaction** by improving product or service delivery to customer.
   b. Efficient integration of suppliers, manufacturers, warehouses, and stores so that cost can be minimized.

ii. **<u>Other Objectives</u>**: The following are the various incidental objectives of Supply Chain Management.
   a. Shortening time to order.
   b. Faster speed to market.
   c. To meet customer demand for guaranteed delivery of high quality and low cost with minimal lead time.
   d. To optimize pre-and post-production inventory levels.
   e. Reduce transportation cost
   f. To maximize efficiency of distribution side.

<u>Components of Supply chain Management</u>: **D 18**

Supply Chain Management consists the following five basic components.

i. **Plan:** Develop a strategy for managing all resources that go towards meeting customer demand.
ii. **Source:** Choose the suppliers that will deliver the goods and services
iii. **Make:** Schedule the activities required for production of final product.
iv. **Deliver:** Coordinate the receipt of orders from customers, develop a network of warehouses, pick carriers to get products to customers
v. **Return:** Receive defectives and excess product back from customers and providing support services to the customers facing any issues with the products supplied.

Main functions of SCM:

- ⇨ Inventory Management
- ⇨ Distribution Management
- ⇨ Channel Management
- ⇨ Payment Management
- ⇨ Financial Management
- ⇨ Supplier Management
- ⇨ Transportation Management
- ⇨ Customer Service Management

The benefits of SCM:

Supply Chain Management offers the following benefits to the business entities.

i. It facilitates **inventory reduction**.
ii. It helps in **improving productivity**.
iii. It ensures **high customer satisfaction**.
iv. It leads to revenue and **profit enhancement**.
v. It ensures **on-time delivery**.
vi. It helps in **logistic cost reduction**.
vii. It facilitates **better order management**.
viii. It ensures **better cash management**.
ix. It leads to **personnel reduction**.
x. It aids in **reducing procurement cost**.

Problems that are to be addressed by Supply Chain Management: **J 15**

Supply Chain Management must address the following problems.

i. **Distribution Network Configuration**: SCM should configure among all the below given items.
   a. Number,
   b. location and
   c. network missions of suppliers,
   d. production facilities,
   e. distribution centres,
   f. warehouses, cross-docks, and
   g. customers.
ii. **Distribution Strategy**: SCM should address the following factors with respect to distribution strategy:
   a. Questions of operating control - Like centralized, decentralized or shared
   b. Delivery scheme - Like direct shipment, pool point shipping, cross docking, direct store delivery (DSD), closed loop shipping;
   c. Mode of transportation - like motor carrier, including truckload, Less than truckload (LTL), parcel; railroad; inter-modal transport, including trailer on flatcar (TOFC) and container on flatcar (COFC); ocean freight; airfreight; replenishment strategy (e.g., pull, push or hybrid); and
   d. Transportation control - Like owner-operated, private carrier, common carrier, contract carrier, or third-party logistics.

iii. **Trade-Offs in Logistical Activities:** The above activities must be well coordinated to achieve the lowest total logistics cost Trade-offs may increase the total cost if only one of the activities is optimized.

iv. **Information**: Integration of processes through the supply chain to share valuable information, including demand signals, forecasts, inventory, transportation, potential collaboration, etc.

v. **Inventory Management**: Quantity and location of inventory, including raw materials, work-in-process and finished goods.

vi. **Cash-Flow**:
   a. Arranging the payment terms and methodologies for exchanging funds across entities within the supply chain,
   b. is fully recurrent artificial network where every basic building block is directly connected to every other basic building block in all direction.

Criteria's for measuring successful implementation of SCM: **J 14**

The following are the different criterias for measuring the successful implementation of Supply Chain Management:

a. Perfect Order Fulfillment
b. Order Fulfillment Cycle time
c. Upside Supply Chain Flexibility
d. Upside Supply Chain Adaptability
e. Downside Supply Chain Adaptability
f. Supply Chain Management Cost
g. Cost of Goods Sold
h. Cash-to-Cash Cycle Time
i. Return on Supply Chain Fixed Assets
j. Return on Working Capital

Concept 04: Customer Relationship Management (CRM)

Customer Relationship Management (CRM): **J 18 / J 17/ D 19**

i. **Meaning**: CRM is a business strategy comprised of process, organizational and technical change whereby a company seeks to **better manages its enterprise** around its **customer behaviors.**

ii. **CRM offers**: CRM is often thought of as a business strategy that enables businesses to
   a. Understand the customer.
   b. Retain customers through better customer experience.
   c. Attract new customer.
   d. Win new clients and contracts.
   e. Increase profitably.
   f. Decrease customer management costs.

iii. **Superior Corporate Performance**: CRM helps organizations maximize the value of every customer interaction and drive superior corporate performance.

Advantages and benefits of Customer Relationship Management application:

J 17

i. Competition is very sharp in current market. Companies must take care of a customer in every area of their specialization by using various communication channels.
ii. Customer expects perfect services whether he calls a help line, asks a dealer, browses a web site, or personally visits a store.
iii. It is necessary to assure him in a feeling that he communicates with the same company whatever form of communication, time or place he chooses.
iv. Advantages and benefits of CRM:
   a. Satisfied customer does not consider leaving
   b. Product development can be defined according to current customer needs
   c. A rapid increase in quality of products and services
   d. The ability to sell more products
   e. Optimization of communication costs
   f. Proper selection of marketing tools (communication)
   g. Trouble-free run of business processes
   h. Greater number of individual contacts with customers
   i. More time for customer
   j. Differentiation from competition
   k. Real time access to information
      i. Underestimated levels of change management
      ii. Improper communication
      iii. Insufficient end user training
      iv. Failure in gap analysis
      v. Failure to identify future business needs
      vi. Technological obsolescence
      vii. Failure to make available user-friendly checklist/guidelines.
   l. Fast and reliable predictions
   m. Communication between marketing, sales, and services
   n. Increase in effectiveness of teamwork
   o. Increase in staff motivation

The parts of CRM: **D 18**

CRM basically divided into the following three parts.

i. **Analytical CRM:**
   a. The purpose of analytical CRM is customer data analysis, its evaluation, modeling, and prediction of customer behavior.
   b. This way analytical CRM serves as some sort of help during decision-making, e.g., manuals for employees working in services concerned with how to react to certain customer's behavior.

ii. **Operative CRM:**
   a. Operative CRM mainly supports the actual contact with customers conducted by front office workers and general automation of business processes including sales of products, services, and marketing.
   b. All communication with the customer is tracked and stored in the database and if necessary, it is effectively provided to users.
   c. This allows the company to increase the efficiency of their employees work and they are then able to serve more customers.

iii. **Collaborative CRM:**
   a. Collaborative CRM enables all companies along the distribution channel, as well as all departments in a company, to work together and share information about customers, even speaks about partner relationship management (PRM).
   b. The goal of collaborative CRM then is maximum sharing of relevant information acquired by all departments with the focus on increasing the quality of services provided to customers.
   c. The ultimate outcome of this process should be an increase in customer's utility and his loyalty.

Concept 05: Customer Profitability Analysis (CPA)

i. Customer Profitability analysis attempts to bring together marketing and accounting professionals to analyse, manage and improve customer profitability.

ii. Customer profitability analysis refers to analysis of profit made from each customer. Customer profit = Revenue from Customer – Cost incurred for customer.

iii. Activity Based Costing system helps entities to identify customer activities and track those costs that are allocated to only specific customers.

iv. **Benefits of CPA**:
   a. To Identify highly profitable customers
   b. Reprising expensive services based on cost to serve
   c. Discounting to gain business with low cost to serve customers
   d. Negotiating win-win relationships that lower service costs to co-operative customers.
   e. Conceding permanent loss of customers to competitors and
   f. Attempting to capture high profit customers from competitors.

v. **issues in analyzing customer profitability**: **J 18**

The following issues should be considered when analyzing customer profitability:
   a. How to develop reliable customer revenue and customer cost information.
   b. How to recognize future downstream costs of customers.
   c. How to incorporate a multi-period horizon in the analysis; and
   d. How to recognize different drivers of customer costs.

CASE STUDIES

Case Study 01: J 16

Whirlpool Corporation is a leader of the $100 billion global home appliance industry. Infect, it is the World's leading manufacturer and marketer of major home appliances, with an annual sale of around $30 billion, with a man-power strength of about 80,000 and having 80 manufacturing and technology research centres around the world. Its main products are Washing Machines, Refrigerators, Dishwashers, Water-filters etc., Whirlpool is committed to a brand value creation strategy focusing on Innovation, Cost Productivity, Product Quality and Consumer Value. The company continues to improve its global operating platform to ensure that it is the best-cost and best-quality appliance manufacturer worldwide.

Whirlpool's supply chain has been transformed to better deliver products to its trade customers and consumers. The benefits of action are evident through a stronger network, increased efficiencies, and timely deliveries.

Until recently, the company's strategic focus was on its products and brands. In recognition of environmental changes, attention was shifted to their supply chain and how best to manage it. The need to focus on the supply chain was also instigated by major internal and organizational changes. Furthermore, it was recognized that two issues required attention:

i. The desire for trade partners to hold lots of inventory (which impacted cash flows)

ii. Customers needing their products quickly.

One of the goals constraining the redesign of their Supply Chain was to ensure that a customer's order could be fulfilled and delivered to the customer at the earliest.

The company set about its operations/supply chain strategy with the aim of improving cash flow, reducing costs, improved inventory management, improved customer satisfaction, improved cash flow and providing the right service to customers. The first aspect of Whirlpool's strategy was the order process. Process, technology, and inventory changes were made. Systems required replacement and integration with its system. Overall, there was a need to improve visibility within the supply chain. Secondly, the company rationalized facilities, reducing the no. of buildings from 184 to 84. The company consolidated major warehouses into 10 regional distribution centres, resulting in cost savings of over $60 Million. Thirdly, they optimized supply and demand with changes to demand planning models and Software and integration with upstream suppliers.

Required:

i. Briefly state the importance of Supply Chain Management.

ii. Describe the objectives of Supply Chain Management.

iii. Describe the challenges that are faced by Whirlpool. What were the drivers for change to the Supply Chain?

iv. What are the benefits of change to the Supply Chain?

v. Describe the Whirlpool's Strategy?

Solution:

i. <u>Importance of Supply Chain management (SCM):</u>

- ⇨ Supply Chain Management has an important role to play in moving goods more quickly to their destination.
- ⇨ Many companies are discovering that effective SCM is the best step now that must be taken to increase Profit and market share.
- ⇨ Customer order could be fulfilled and delivered to customer at the earliest. Importance of SCM is as explained below:

- To reduce lead time for deliver
- For improved planning and forecasting capabilities for all partners of the supply chain.

ii. **Objectives of Supply Chain Management:**

a. Optimize the overall value created.
b. Increase the Supply Chain Profitability
c. Balancing the Demand and Supply.
d. SCM is to be efficient and cost effective across the entire system
e. SCM revolves around efficient integration of suppliers, manufacturers, warehouses, and stores. It encompasses the firm's activities at many levels, from the strategic level through the tactical to the operational level.

iii. **Challenges Faced**:

a. Until recently the company's strategic focus was on its products and brands. In recognition of environmental Changes, attention was shifted to their supply chain and how best to manage it.
b. The need to focus on the supply chain was also instigated by major internal and organizational changes.
c. The following are the two issues recognized that required attention:
   i. The desire for trade partners to hold lots of inventory
   ii. Customers needing their products quickly.
d. One of the goals constraining the redesign of their Supply Chain was to ensure that a customer's order could be fulfilled and delivered to the customer at the earliest.
e. The company set about its operations/supply chain strategy with the aim of improving cash flow, reducing costs, improved Inventory-management, improved customer satisfaction, improved cash flow and providing the right service to customers

iv. **Benefits**: The following are the benefits of change to the Supply Chain:

a. To gain competitive advantage
b. Reduced Costs
c. Improved Inventory Management
d. Improved Customer Satisfaction and
e. Improved Cash Flow.

v. **Whirlpool's Strategy**: The following were the different strategies adopted by Whirlpool:

a. Changes in the Order process, Changes in the Process, Change of Technology, and changes in the Inventory Systems were made. This was the first strategic impact.
b. Changes in Supply chain to improve visibility.
c. Whirlpool rationalized facilities. The no. of buildings was reduced from 184 to just 84.
d. Consolidation of major warehouses to 10 Regional Distribution Centres. This resulted in huge cost savings.

e. The Company optimized supply and demand with changes in demand planning models, Software changes and integration with upstream suppliers.

Case Study 02: D 13

M/s. Kraft Foods Ltd., is the world's second largest food company, with an average annual turnover of over ₹ 200 Billion. The company provides the best brands of Coffee, Chocolate, Cheese and many savory food items. To help in consistently delivering against its objectives, M/s. Kraft Foods Ltd. has created a very strong Supply Chain Relationship between the company and its Suppliers/Customers. M/s. Kraft Foods Ltd., believes that a truly excellent Supply Chain Relationship with its customers cannot be achieved without the support and cooperation from its employees. Further the company believes that Customer Satisfaction is the key for its success.

M/s. Kraft Foods Ltd., is committed to ensure that right products are made available to its customers at right time and in right quantity and price. Its brand image is quite strong, based on 3 key areas, viz., quality, value and trust.

M/s. Kraft Foods Ltd.'s supply chain functions are provided with excellent operational support, which helps to deliver, as per its objectives.

M/s. Kraft Foods Ltd., focused on the successful management of a customer order from the moment it is compiled at the customer, its processing through M/s. Kraft Foods Ltd.'s order systems to the point of delivery at the customer warehouse. The company's policy is to ensure that any 'waste' that could cause delay or disruption should be eliminated. The customer order is compiled correctly, using accurate data, sent at agreed timings with jointly agreed delivery windows. Ideally the order is electronically communicated using EDI or the Internet. Further the company believes that e-commerce is improving communication with the use of e-mail, and the extranets making contract and the sharing of knowledge and information faster and easier.

You are required to:

i. Describe the objectives of Supply Chain Management, with regard to M/s. Kraft Foods Ltd.,

ii. Describe the importance of Supply Chain Management to the company under reference viz., M/s. Kraft Foods Ltd.,

iii. Describe the measures taken by M/s. Kraft Foods Ltd., to change to Supply Chain Management. What are the benefits the company has been able to derive due to its sound Supply Chain Management?

Solution:

i. **Objectives of SCM for M/s Kraft Foods Ltd**:

The following are the objectives behind adopting SCM by M/s Kraft Foods Ltd.

a. **As per Customer Requirements**: Every facility available at M/s Kraft Foods Ltd., has an impact on cost. Supply Chain Management must play a role to ensure that the food items made strictly conform to customer's requirements.

b. **Cost Reduction**: SCM should be efficient and cost effective across the entire system.

c. **Efficient Integration**: SCM should revolve around efficient integration of Suppliers, warehouses, stores and production units.

d. **Right Product at Right Time**: To ensure that right products are made available to its customers at right time and in right quantity and price.
e. **Operational Support**: To ensure that supply chain functions are provided with excellent operational support, which should help the company to deliver to the customers, as per its objectives.

ii. **Importance of Supply Chain Management for M/s Kraft Foods Ltd**:

a. **To Gain Competitive Advantage**:
   i. Managers these days recognize that getting products to customers faster than the competitors will improve a company's competitive position.
   ii. To remain competitive the company must seek new solutions to important Chain Management issues like-supply chain management, modal analysis, load planning, route planning and distribution network design.

b. **Challenges to be faced**: M/s Kraft Foods Ltd., must face corporate challenges that impact Supply Chain Management such as Re-engineering, Globalization, Outsourcing, etc.,

c. **Faster Execution**:
   i. Faster execution of customers orders is the key to increasing sales.
   ii. The company stands with a chance of procuring more orders and more market share.
   iii. SCM has an important role to play in moving goods more quickly to their destination.

d. There is a substantial profit advantage for the extra time that M/s Kraft foods are getting from the market for faster delivery.

iii. **Measures taken by M/s Kraft Foods Ltd.** in introducing Supply Chain Management and the **benefits derived from the SCM**:

a. The following are the measures taken by **M/s Kraft Foods Ltd**.
   i. Planning
   ii. Selection of right suppliers
   iii. Manufacturing /Production step
   iv. Logistics
   v. creating a network for receiving defectives

b. The following are the benefits the company derived on application of SCM:
   i. Building up a Customer Service Excellence Programmed,
   ii. Earning a good brand image delivered a competitive advantage. This was possible only because of the company's thrust in the areas of quality, value and trust.
   iii. Service Excellence Program: which enabled the company to create a strong supply chain relationship between the company, suppliers and customers and deliver service excellence to its customers.
   iv. Perfect Ordering
   v. Knowledge exchange'

vi. Excellent Supply Chain relationship with its customers.
vii. Consumer satisfaction

Conclusion:
- ✓ For a company like M/s Kraft Foods, to provide the best brands of Coffee, Chocolate, cheese, and several other delicacies, it needs to make sure-that every part of its Supply Chain is working at its best.
- ✓ This case study provides an excellent example of what businesses need to do in today's market place to ensure that the consumers receive the products they desire in the right place, at the right time and in right condition, every time.

Case Study 03: **D 13**

M/s. Royal & Sun Alliance is one of the world's major insurance companies, with operations in 50 countries around the world. Like other service industries, Insurance companies are faced by consumers, whose requirements are becoming increasingly sophisticated and whose willingness to switch to another supplier is on the increase. To compete successfully and thrive in its environment, M/s Royal & Sun Alliance must be forward-thinking in their approach to its customers and in applying new techniques. M/s. Royal & Sun Alliance has applied successfully the concept of customer segmentation and relationship management to achieve successful relationships with its key customers. M/s. Royal & Sun Alliance sells most of its commercial business thru' Insurance brokers, who place the business with the company, on behalf of their industrial and commercial customers. Because selling insurance is so competitive, it was essential that the company focused on working with high quality brokers, who had a positive attitude to business.

M/s. Royal & Sun Alliance believed in
- ⇨ Understanding each customer's unique needs.
- ⇨ Developing strategic plans and achieve mutual goals.
- ⇨ Provide the tools, resources and service to achieve goals.

A Relationship Manager controls the overall business strategy and acts as a co-ordinator between different business divisions and customers. M/s. Royal & Sun Alliance has created a website dedicated to its customers.
You are required:
i. To define Customer Relationship Management.
ii. What are the problems faced by the company before implementing Customer Relationship Management?
iii. What are the steps taken by the company to solve the problem?

Solution:
i. **Definition of CRM –** Please refer Concept No 04
ii. Problems Faced by Company before Implementing CRM:
- ⇨ The company was not able to understand its customers and was not able to retain them.
- ⇨ Company's Insurance brokers were not able to reach their strategic targets.
- ⇨ The company was not able to attract new customers.
- ⇨ The Direct Sales forces were not effective.
- ⇨ The call centres were not properly managed
- ⇨ Customer Relationship management was not satisfactory.
- ⇨ Customer requirements were becoming increasingly sophisticated.

- ⇨ The company was finding it difficult to thrive in such competitive environment

iii. Steps Taken by Company to Solve Problem:

a. As a major initiative, the company introduced Customer Relationship Management (CRM). CRM enabled the company to forward thinking in their approach to its customers.
b. M/s. Royal & Sun Alliance applied successfully the concept of customer segmentation and Relationship Management to achieve successful relationships with its key customers.
c. M/s. Royal & Sun Alliance believed in
d. Understanding each customer's unique needs
e. Developing strategic plans and achieve mutual goals.
f. Provide the tools, resources and service to achieve goals.
g. Joint Planning with key customers,
h. Retain customers through better customer experience. The company also initiated steps to attract new customers.
i. Thru' introduction of CRM, the company was able to improve its profitability.
j. The company was able to reduce its customer management costs
k. CRM enabled the company to support its customer services'.'
l. M/s. Royal & Sun Alliance created a web-site for its clients.