

Paper 17 - Strategic Performance Management (SPM)

Section – A

[Question No. 1 and 2 are compulsory and any 2 from the rest]

1 Read the following caselet and answer the following questions:

Atlas Industries produces tool and die machinery for manufacturers. The company expanded vertically in 2004 by acquiring one of its suppliers of alloy steel plates, Jindal Steel Company. To manage the two separate businesses, the operations of Jindal are reported separately as an investment center.

Atlas monitors its divisions on the basis of both unit contribution and return on average investment (ROI), with investment defined as average operating assets employed. Management bonuses are determined on ROI. The average cost of capital is 11 percent of operating investment.

Jindal's cost of goods sold is considered to be entirely variable, while the division's administrative expenses are not dependent on volume. Selling expenses are a mixed cost with 40 percent attributed to sales volume. Jindal contemplated a capital acquisition with an estimated ROI of 11.5 percent; however, divisional management decided against the investment because it believed that the investment would decrease Jindal's overall ROI. The 2012 operating statement for Jindal follows. The division's operating assets employed were ₹ 1,57,50,000 at November 30,2012, a 5 percent increase over the 2011 year-end balance.

Jindal Steel Division
Operating Statement
For the Year Ended November 30,2012 (₹ 000 omitted)

Particulars	₹	₹
Sales revenue		25,000
Less expenses;		
Cost of goods sold	16,500	
Administrative expenses	3,955	
Selling expenses	2,700	23,155
Income from operations before income taxes		₹1,845

Required:

- (a) Calculate the unit contribution margin for Jindal Steel Division if 14,84,000 units were produced and sold during the year ended November 30,2012.
- (b) Calculate the following performance measures for 2012 for the Jindal Steel Division:
 - (i) Pretax return on average investment in operating assets employed (ROI).
 - (ii) EVA calculated on the basis of average operating assets employed.
- (c) Explain why the management of the Jindal Steel Division would have been more likely to accept the contemplated capital acquisition if EVA rather than ROI had been used as a performance measure.
- (d) The Jindal Steel Division is a separate investment center within Atlas Industries. Identify several items that Jindal should control if it is to be evaluated fairly by either the ROI or EVA performance measures. **[3+(3+3)+3+3]**

2 Read the caselet and answer properly:

Case Study: ESPN Drives Fan Value through Customer Intelligence

Situation: ESPN suffered from an absence of Customer Knowledge

Several years ago, ESPN recognized that it lacked a consistent view of its customers. For example, it housed registration, product purchase, and online behavioral data in separate data repositories. Meanwhile, many business units were running their own data warehouse and decision engines to power their marketing communications. As a result, ESPN didn't just lack a consistent view of its customer; it also lacked a cohesive view of how fans were interacting with the overall business. Because it lacked a consistent view of customers, it didn't know which customers were more valuable, how the more valuable customers interacted with the company, and which customers were most likely to engage with the company in specific ways.

Best Practice: ESPN turns customer data into intelligence

Under the tutelage of Scott Keating, senior director of fan relationship marketing (FRM), ESPN established a simple yet powerful mission to "know our fans well enough at any point in time or place to serve them better." To deliver on this mission, Keating and his team, working with Quaro, a CSG solution, set out to:

- **Create a holistic view of fans:** During the past three years, ESPN has invested significantly in how it captures and manages customer data. The company integrates fan data from product purchases and enrollments, registration, online behavior observed through Omniture, and third-party data including census and retail co-op data and Mosaic clusters. However, as Keating highlights, "It's not just about cramming the data together in a single repository. We want to understand the correlation between the different data sets to draw insights from each that we couldn't get by looking at them in isolation."
- **Understand how fans interact with the company:** ESPN quickly moved beyond looking at the demographic profile of customers within specific products and dove into differences in site navigation and digital platform usage to see if it could determine interests by observing behavior. This not only allowed ESPN to promote offers based on behavior and affinities but also to understand cross-channel behavior—an increasingly important need in light of mobile visitors and new initiatives such as ESPN Networks.
- **Understand the relative value of fans:** Once ESPN successfully integrated its various data sources, it began to evaluate the relative value of fans, considering both indirect revenue from online advertising and direct revenue from premium products such as ESPN Insider, ESPN Shop, and prize-eligible fantasy games. Today, fan value drives a wide range of activity including content strategies, channel strategies, network cross promotions, and even the prioritization of house ads.

Best practice: ESPN Uses customer intelligence to Drive business value

By continuing to evolve its data capture and analysis initiatives, ESPN leverages fan intelligence and its understanding of fan value to improve its marketing and business performance. Specifically, ESPN uses fan knowledge to:

- **Enhance the customer experience:** ESPN focuses on the fan experience in several ways – it leverages customer knowledge to improve the relevance of its messaging; it uses behavioral and product usage insight to tailor any cross-sell and up-sell efforts; and it uses deep customer knowledge to segment and target fans at a micro level. The company can also test product development and personalization

with high value fans to ensure new initiatives has the most relevance for ESPN's primary digital audience. As a result, it ensures that new initiatives, and as many of its contact touches as possible, enhance the fan's experience with the company.

- **Develop marketing into a profit generator:** Leveraging the knowledge developed by Keating and his team, ESPN introduced ESPN Select, a premium advertising product that allows advertisers to target ESPN.com visitors based on attributes such as affluence, age ranges, and sport interests. The team can also provide advertisers with mid-campaign reports that allow the advertiser to adjust a campaign or to increase the exposure to certain segments or creative based on performance to date. As such, Keating's FRM team evolved from a cost center to a revenue driver by offering targeted inventory at premium CPM. In some cases where ads were targeted against multiple attributes, inventory commanded a significant premium.

- (a) What is Customer Intelligence?
- (b) State the benefits of Customer Intelligence.
- (c) Discuss the challenge face by the ESPN for non- availability of Customer Intelligence data.
- (d) How does ESPN turn Customer Intelligence to drive Business Value?
- (e) How does ESPN turn Customer data to Customer intelligence?

[3x5=15]

- 3 (a) "Competitive intelligence is a process of gathering data, creating information and making decisions. Management accountants are trained to gather data, assimilate data into information and make decisions based upon information, frequently with their management counterparts." – Justify the statements.

(b) What is Process Analysis? Describe the objectives of Process Analysis.

(c) Describe the limitations of Value Chain Analysis. **[5+5+5]**

- 4 (a) State the components of performance Management

(b) Explain the role of the Management Accountant in Value Chain Analysis.

(c) State the objectives of Supply Chain Management. **[6+5+4]**

5. (a) A Finance Manager is considering drilling a well. In the past, only 70% of wells drilled were successful at 20 meters depth in that area. Moreover, on finding on water at 20 meters, some persons in that area drilled it further up to 25 meters but only 20% struck water at that level. The prevailing cost of drilling is Rs. 500 per meter. The Finance Manager estimated that in case he does not get water in his own well, he will have to pay Rs. 15,000 to buy water from outside for the same period of getting water from the well. The following decisions are

Considered:

- (i) Do not drill any well;
- (ii) Drill up to 20 meters, and
- (iii) If no water is found at 20 meters, drill further upto 25 meters.

Draw an appropriate decision tree and determine the Finance Manager's optimal strategy.

- (b) You are the manager of Raj paper Mills and have recently come across a particular type of paper, which is being sold at a substantially lower rate (by another company Raju Ltd) than the price charged by your own mill. The Value Chain for one use of tone of such paper for Raju Ltd is: Raju Ltd. → Merchant → Printer → Customer.

Raju Value sells this particular paper to Merchant at the rate of ₹ 2,466 per Tonne. Raju Ltd pays for the Freight which amounts to ₹130 per Tonne. Average returns and Allowances amount to 4% of sales and approximately equals ₹160 Tonne.

The value chain of your Company, through which the paper reaches the ultimate customer is similar is to that of Raju Ltd. However, your Mill does sell directly to the Merchant, the latter receiving the paper from huge Distribution centre maintained by your Company at Haryana. Shipment Costs from the Mill to the Distribution centre is ₹ 111 per Tonne while the operating Costs in the distribution center are estimated at ₹ 125 per Tonne. The return on Investment required by the Distribution centre for the investments made, amount to an estimate ₹158 per Tonne.

Calculate the "Mill Manufacturing Target Cost" for this particular paper for RAJ Ltd. Assume that the return on the investment expected by Raj Ltd is ₹220 per tonne of paper. **[10+5]**

- 6 (a) Describe the advantages and disadvantages of Return on investment.

- (b) A market is characterized by two sellers and many buyers (duopoly) and demand curve is $p = a - bq$, $q = q_1 + q_2$ where the cost of production is zero.

(i) Generate the market output and show that it is two thirds of competitive output and monopoly output is three fourth of duopoly output if $a, b > 0$

(ii) If 3 more sellers enter the market what would be the market output?

(iii) Show that if several sellers are now in the market i.e. a situation of competitive market, we will get competitive output. **[7+8]**

Section – B

[Answer any One]

- 7 (a) Explain Technical and operational factors of E-commerce.

- (b) Explain the following terms:-

(i) Business 2 Business, (ii) Business 2 Customer, (iii) Customer to Business, (iv) Customer to Customer.

- (c) Discuss the importance of Decision Support Systems for gaining the Competitive Advantage. **[6+(4x2)+6]**

- 8 (a) "It may be useful for development organizations to consider the many issues involved before embarking on an e-commerce initiative, in relation to the organization's mandate, development goals, and organizational structure. The primary issues involved would include: (i) Resource Expansion, (ii) Capital Costs, (iii) Marketing etc" – Discuss the three points.

- (b) Describe the objectives of Management Information Systems.

- (c) List the steps to start of Total Productivity Management. **[(3x4)+5+3]**

Section – C
[Answer any One]

9. (a) "Risk management process refers to the process of measuring or assessing risk and then developing Strategies to manage risk. In the risk management, the following steps are taken up to minimize the risk"- Discuss the steps which are taken to minimize the risk.
- (b) Explain about the Total Loss Distribution and Probability of Ruin.
- (c) Describe the Transition Risk in the context of Corporate Risk. **[6+(4+5)+5]**
- 10 (a) "Several techniques have been developed to help in prediction why companies fail." – Describe the Altman: Z Score Model in this regard.
- (b) Describe the causes of corporate failure and their examples.
- (c) "Just as diseases are identified by certain symptoms; industrial sickness can be identified by the following symptoms. These symptoms act as leading indicators of sickness, and if immediate remedial actions are not taken, the sickness will grow to the extent that the organization will find its natural death." – Justify the statements. **[6+10+4]**