

PAPER – 17 - Strategic Performance Management

Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates.

Working Notes should form part of the answer.

Section –A

[Question 1 and 2 are compulsory and answer any 3 from the rest]

1. Read the following case study and answer the following questions:

The Royal Bank of Canada (RBC) is one of Canada's largest banks as measured by assets and market capitalization, and is among the largest 20 banks globally by market capitalization. RBC provides personal and commercial banking, wealth management services, insurance, corporate, investment banking and transaction processing services on a global basis. The bank currently employs some 74,000 full- and part-time employees who serve more than 15 million personal, businesses, public sector and institutional clients through offices in Canada, the US and 56 other countries. RBC holds strong market positions in the following business segments: Canadian Banking, Wealth Management, International Banking, Capital Markets and Insurance. RBC has long been regarded as a leading pioneer and best-practice exemplar in CRM.

RBC's business philosophy focuses on always earning the right to be its clients' first choice. In the competitive world of financial services, RBC knew that it needed to have a vision and methodology to drive its customer first mission and meet the ever-changing business needs of its customers. When it was looking at methods for improving customer experience, RBC focused on making it easier for clients to get rapid and predictable responses to their inquiries and requests.

This initiative focused on increasing the productivity and improving the efficiency of RBC's inquiry management processes. Client requests arrive in RBC's service centers through multiple channels, including phone, branch, fax, e-mail and mail. Within RBC's Canadian Operations, requests are sent in from staff in eight different geographic regions to 14 different service fulfillment groups. Each group uses different systems and processes to manage its work, which raises the question of 'which operations team do I need to contact to help resolve this issue and how do I best engage them for a quick turnaround?' With such a complex web of fulfillment options, customer service representatives were challenged to find the right path for specific client inquiries, how to accurately set client expectations on response times, and provide updates on existing requests.

A key business issue for RBC was that its large, diverse customer support staff, distributed over diverse geographies, had to address the high service experience demands of its customers. This needed to be achieved while reducing operational costs, increasing organizational transparency and complying with regulatory mandates

Management is using the CRM system tools. RBC identified Smart BPM as the key technology to deliver an end-to-end rebuild of their client inquiry and problem resolution process, creating a single system across channels and lines of business. Smart BPM would serve as the backbone for their 'new client action and request tool' (CART).

This was delivered so successfully that when the system was first rolled out there was no need for any formalized end-user training. The field service staffs were able to click on the 'create a new client request' button and successfully drive the process through to resolution. Additionally, it helped to determine that many cases were requests that could

be resolved right at the point of contact and also avoided doubling effort. Once requests were captured into, the system, the process automation capabilities of the Smart BPM start it's servicing. This involved:

- automatically looking up supporting customer information to enrich the request with required data to help resolve it;
- automatically determining the correct support group, location and even individual for routing and presentation;
- automatically generating supporting forms and correspondence as well as receiving inbound materials supplied by the customer or other support groups.

Required:

- (a) Define the Customer Relationship Management.
(b) What are the steps taken by the Bank to face the challenge?
(c) If you are appointed as a CEO of this Bank, would you agree to the implementation of the systems?
(d) Mention the objectives of using the CRM applications. **[5+5+3+2]**

2. Read the following case study and answer the following questions:

Doordarshan was launched in 1959 and was controlled by the Information and Broadcasting ministry of the Central government. It was a monopoly and had a captive audience with 90% reach, and an audience of about 480 million people by the early 1990s. However, as part of the government's liberalization program, private channels were allowed to operate. In 1984, cable TV entered India. By the early 1990s, there were numerous private TV stations in India competing with Doordarshan. Despite its advantage in reach (Doordarshan could reach more than double the number of homes in comparison to cable TV) and its number 1 position in overall audience, Doordarshan started to lose viewers. Especially significant were the large losses among viewers with the highest purchasing power.

Star News – the first private independent channel – was launched in 1998. It provided in-depth analysis of the government. As a result, many sophisticated viewers switched to the body to oversee commissioning of viewers. The audience that was left to Doordarshan was mainly people in rural areas with much lower purchasing power. Consequently, advertisers started to prefer private channels over Doordarshan, and advertising revenue started to drop. (Subhadra and Dutta, 2002).

In addition to having more capable competitors, Doordarshan was also plagued by internal problems. Policies of Doordarshan did not change to reflect the reality of its environment. The advertising rates it charged were almost twice as high as those of the highest rated private channels, despite falling advertisement revenues and the loss of most of its affluent audience. Further, Doordarshan, which had operated in a seller's market, did not even have a marketing department that could market its advertising slots. Instead, Doordarshan's 56 different producers sold commercial time separately to advertisers for different half-hour slots. Most advertisers preferred a coordinated package deal that covered slots the entire week. With increased competition and poor policies, advertisement revenue dropped.

There were other internal problems ranging from allegations of bribery and corruption to inefficiency. There were allegations that the members of the Central Commissioning unit (the body that oversaw the commissioning of programs) took bribes from producers to air their programs. In 1998, two Doordarshan officials were arrested for taking bribes from a producer. Internal mismanagement resulted in delays and an inability to pay and collect from private parties. Over 50 companies owed ₹ 18.2 million (\$ 381,871.00) to Doordarshan in 2001. Although there were 20,000 employees, over 50% of Doordarshan's programs were outsourced to private parties (Subhadra and Dutta, 2002).

In November, 1997, Prasar Bharati was created as a statutory autonomous body, and was envisaged to be the public service broadcaster of the country. The objectives for this organization include: the promotion of unity and integrity of the country; the fostering of communal harmony; the safeguarding of the citizens' right to be informed freely; the payment of special attention to the fields of education, agriculture, rural development, and public health; the production of appropriate programmes to meet the special needs of youth and women; the propagation of goals of social justice, and of issues concerning the rights of the working classes; and the protection of the interests of children, the aged, and the handicapped. The corporation has not been asked to raise funds to become a self-financing organization (Gill, 2001).

In 2002, K.S. Sharma, a 1968 batch Indian Administrative Services officer, was appointed as the CEO of Prasar Bharti. On December 28, 2002, Sharma declared, "Today, revenue generation is our top priority." Sharma had been the Director General of Doordarshan from 1996 to 1998, at a time when Doordarshan was suffering rapid erosion in its market to the private channels. In his new role, he rejected the notion that Doordarshan is losing prime audience that is of interest to the marketers. He stated, "First of all, 50% of the households do not have cable. And these are by and large the people, FMCG (Fast moving consumer goods) manufacturers will look at." He continued, "I have had a lot of exposure in rural areas, and we keep in touch with them on a regular basis. Purchasing power that exists in rural areas needs to be seen to be believed. People have their own personal dish antennas, vehicles and what not. Rural life has transformed."

The effects of new resolve soon became evident in the negotiations for television rights for broadcasting cricket matches. In the late 1990s, Doordarshan used to pay rights fee of ₹ 30 million per one-day match, and spent another ₹ 20 million per match as the production cost. It thereafter sought advertising bids from the market, and often secured just ₹ 40 million in revenues. As a result, Doordarshan had to simply absorb this loss as a public broadcaster. Overall, Doordarshan averaged only ₹ 0.57 million in profits per match, and had never earned more than ₹ 6 million in any match. In 2002 International Cricket Committee (ICC) Championship, Doordarshan sought a profit-sharing agreement from the ICC marketing company. While its previous attempts to seek profit-sharing had been turned down, Doordarshan contended that its advertising revenues were accelerating, and given its extensive territorial reach, it needed a 30% profit share. Eventually, it struck a 20% profit-sharing deal, with a guaranteed minimum profitability of ₹ 10 million per match. The guaranteed minimum profitability increased to ₹ 20 million if the final match involved India, as actually happened.

Sharma also sought to leverage the synergies between public radio and public television. In a major deal signed in 2002, Reliance Infocomm—the major telecom operator in India—was offered a cross-bonus option, with 10% of their ad budget on Doordarshan as bonus on radio, and 10% of their ad budget on radio as bonus on Doordarshan. Reliance Infocomm agreed to spend ₹ 15 million on Doordarshan and ₹ 5 million on Radio ads in the first year.

Sharma believes that Doordarshan's programming is par excellence. He observed, "As far as our programmes are concerned, we are no less than anybody else. Our programmes can be watched by families sitting together." He continued, "Our weakest point is that people are not aware of our programming. But we are working on it now. We have already made barter deals with newspapers—for instance, Indian Express. We would get ₹ 50 million worth print space in Express, while they would be given air time worth that much money. We have also tied up with Outlook. Soon we would be seen on hoardings as well—in Mumbai to begin with. We are in talks with Mumbai Municipal Corporation for another barter deal. So gradually, it is happening."

Sharma recognized that most people don't watch Doordarshan. He noted, "people have this impression of DD being a fuddy duddy channel because pictures on the screen look very hazy. Most customers do not like to put an antenna, and prefer to watch Doordarshan through their cable operator. Though the law says that the cable operators

must transmit our channels without interruption, cable operators are not showing our signals properly. Moreover, even if a customer has an antenna in their house, they still sometimes do not get the picture clearly because their neighbour has cable and a cut or a nip in it impacts the terrestrial transmission." Sharma lobbied with the government for introducing Conditional Access System (CAS) that would allow Doordarshan to directly transmit the programming to the homes through set-top boxes.

In 2004, after CAS was approved by the Parliament, Doordarshan launched its ₹ 5 billion Direct To Home (DTH) venture. Originally, Prasar Bharti had envisaged DTH service for inaccessible areas, with a basic bouquet of 30 TV channels, including 17 Doordarshan channels, besides 10 radio channels. However, the reduced costs allowed Prasar Bharti to carry 50 instead of 30 TV channels with the money given to it. It received requests from more than 40 free-to-air private television channels to come on its DTH platform, including channels like Zee News, Star News, BBC, and CNN, on its DTH network. Sharma noted that, "In the first phase, we'll have only free-to-air DTH service. But we are open to the idea of a separate DTH bouquet of paid channels. The current decision of the Union Cabinet is not in favour of a paid DTH platform. However, later in the second phase, we may, with government approval, go in for a separate paid DTH platform."

While several private firms were also introducing DTH services, the prospects for Prasar Bharti seemed bright, because it was the only free-to-air DTH service available in the country. Sharma observed, "There are no monthly charges for our service. The subscriber has to invest only about ₹ 2500-₹ 3500 for the dish and the set-top box. That is why we are getting such a good response from the viewers. And, the free-to-air private channels are very keen to join our platform."

Nevertheless, the financial position of Prasar Bharti remains precarious. Sharma clarified that "The financial crisis is acute to the extent we are unable to take the benefit beyond what is happening today." He elaborated, "If you wish Prasar Bharti to expand and to venture into new areas, then the crisis is very large. If it is just housekeeping at the current level, then the crisis is of a medium range. So, it is a question of how much more new activity we want for Prasar Bharti. In each case, we'll need more funds. How will the funds come? We can raise some resources ourselves. For the last few years, we have been doing so. But the government has many other constraints. Hence, they are not giving as much as they would perhaps like to. At least they are not giving as much as we would want them to. The best thing is to tighten your belts— improve efficiency and cut costs. We are doing that also."

Sharma noted that it has not been possible to implement many of Doordarshan's new initiatives due to inadequacy of funds. "Take the case of our initiative to take Doordarshan to the UK and the USA that has received a setback. Then, despite the fact that DD News has taken off well, regional Doordarshan news units are crying for funds to improve their working. We need resources to get news quickly.... Of course, we cannot compare ourselves" with NHK, whose news team has got five exclusive helicopters. This makes a qualitative difference in what you can do.... We need funds for digitizing our entire chain of operations. Also, each state, each language group deserves a satellite channel. We want to launch the channels in the North-east but we do not have funds. And the other thing is that in the past, most of these channels had started without any funds. How long will they survive? Except for the DD News channel, which got Cabinet approval for ₹ 1270 million, all other regional channels, and niche channels like DD Sports and DD Bharti, began without funds. We need funds to strengthen them."

Given this, Sharma wondered if there is anything else he could do to improve revenue generation, besides having a road map that stated, "Improve the content, improve the content and improve the content."

Required:

(a) List out the problems faced by Doordarshan.

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- (b) What is the best option, in your view, for Doordarshan?
 (c) Why do you think that the proposed alternative is the best?
 (d) What is your view about the formation of Prasar Bharati?

[2+5+4+4]

3. Reduce the following two-person zero-sum game to 2 x 2 order, and obtain the optimal strategies for each player and the value of the game

| | | Player B | | | |
|----------|----------------|----------------|----------------|----------------|----------------|
| | | B ₁ | B ₂ | B ₃ | B ₄ |
| Player A | A ₁ | 3 | 2 | 4 | 0 |
| | A ₂ | 3 | 4 | 2 | 4 |
| | A ₃ | 4 | 2 | 4 | 0 |
| | A ₄ | 0 | 4 | 0 | 8 |

[7+3]

4. HP Ltd manufactures two parts 'A' and 'B' for Computer Industry.
- A: Annual Production and Sales of 1,00,000 units at a Selling Price of ₹100.05 per unit.
 - B: Annual Production and Sales of 50,000 units at a Selling Price of ₹150 per unit.

Direct and Indirect Costs incurred on these two parts are as follows - (₹ in thousands)

| Particulars | A | B | Total |
|-----------------------------------|-------|-------|---------------|
| Direct Material Cost (Variable) | 4,200 | 3,000 | 7,200 |
| Labour Cost (Variable) | 1,500 | 1,000 | 2,500 |
| Direct Machining Costs (See Note) | 700 | 550 | 1,250 |
| Indirect Costs: | | | |
| Machine Set Up Cost | | | 462 |
| Testing Cost | | | 2,375 |
| Engineering Cost | | | 2,250 |
| Total | | | 16,037 |

Note: Direct Machining Costs represent the cost of machine capacity dedicated to the production of each product. These costs are fixed and are not expected to vary over the long-run horizon.

Additional information is as follows -

| Particulars | A | B |
|-----------------------|-------------|-----------|
| Production Batch Size | 1,000 units | 500 units |

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| | | |
|---|-----------|------------|
| Set up time per batch | 30 hours | 36 hours |
| Testing time per unit | 5 hours | 9 hours |
| Engineering Cost incurred on each product | ₹8,40,000 | ₹14,10,000 |

A foreign competitor has introduced product very similar to 'A'. To maintain the Company's share and profit, HP Ltd. has to reduce the price to ₹86.25. The Company calls for a meeting and comes up with a proposal to change design of product 'A'. The expected effect of new design is as follows:

- Direct Material Cost is expected to decrease by ₹5 per unit.
- Labour Cost is expected to decrease by ₹2 per unit.
- Machine time is expected to decrease by 15 minutes, previously it took 3 hours to produce 1 unit of 'A'. The machine will be dedicated to the production of new design.
- Set up time will be 28 hours for each set up.
- Time required for testing each unit will be reduced by 1 hour.
- Engineering Cost and Batch Size will be unchanged.

Required:

(a) Company management identifies that cost driver for Machine Set-Up Costs is 'set up hours used in batch setting' and for Testing Costs is 'testing time'. Engineering Costs are assigned to products by special study. Calculate the full cost per unit for 'A' and 'B' using Activity-Based Costing.

(b) What is the Mark-up on full cost per unit of A?

(c) What is the Target cost per unit for new design to maintain the same mark up percentage on full cost per unit as it had earlier? Assume cost per unit of cost drivers for the new design remains unchanged.

(d) Will the new design achieve the cost reduction target?

(e) List four possible management actions that the HP Ltd. should take regarding new design.

[3+1+1+3+2]

5. (a) List the Objectives of pricing Policy.

(b) The cost function is $C = 100 + q$, where the product is sold at ₹ 5 per unit. Determine break even sales and profit when 125 units are sold.

(c) The total cost function of a firm $C = \frac{x^3}{3} - 5x^2 + 28x + 10$, where C is total cost and 'x' is

the output. A tax @ ₹2 per unit of output is imposed and the producer adds it to his cost. If the demand function is given by $P = 2530 - 5x$, where 'P' is the price per unit of output, Find the profit maximizing output and the price at the level.

(d) The price (P) per unit at which company can sell all that it produces is given by the function $P(x) = 300 - 4x$. The cost function is $500 + 28x$, where 'x' is the number of units, find x, so that profit is maximum.

[2+2+3+3]

6. (a) State the steps to be considered in strategies Bench Trending.

(b) "EVA is period-to-period computation, which can be used to monitor the process of value creation and record historically the growth of the enterprise. The MVA can be expressed as the present value of all EVAs." - Discuss the statements

(c) Describe the different perspectives of Balanced Scorecard.

[3 + 3+ 4]

Section – B

[Answer any one]

7. (a) "Data mining is a process of discovering various models, summaries, and derived values from a given collection of data." – Discuss it and state the problem of adoption of Data Mining Process.
(b) Describe about the Fuzzy Sets and discuss the role of Fuzzy sets in HR Management.
(c) Define the following terms in the context of Supply Chain Management:
(i) Quality, (ii) Promotions, (iii) Strategic Alliance **[8+6+(2x3)]**
- 8.(a) Describe the problems which supply chain management should address.
(b) "Business Intelligence (BI) is the ways in which we store and use business information. It encompasses the technologies, applications, and means for collecting, integrating, analyzing, and presenting business data."- Discuss the above statement and how would choose the right business solution. Discuss the 7 layer Business Intelligence Stack.
(c) Discuss the different types of On – line Analytical Processing [OLAP] **[4+ (2+2+7)+ 5]**

Section C

[Answer any one]

- 9.(a) "The important principle to consider that in an efficient capital market, investors should not hold all their eggs in one basket; they should hold a well-diversified portfolio. In order to diversify risk for the creation of an efficient portfolio" – Do you agree this statement. Justify your answer.
(b) Discuss about the Risk Retention. Describe the guidelines to be followed for Risk Retention.
(c) Briefly describe about the Value at Risk. **[8+4+8]**
10. (a) There are different recommendations to reduce the Risk of the corporate failures. Mention the recommendations.
(b) Explain the Genetic Algorithm under the Corporate Bankruptcy Prediction Models.
(c) Describe the Business Process Improvement. **[5+5+10]**