

Paper 17 - Strategic Performance Management

1. Case Study

Taxmann Allied Services is a leading publisher specializing in books on Indian taxation and corporate laws, accounting and auditing, banking, finance and management. It also prints a vast array of journals, web-based products and legal databases on DVDs.

Until 2012, Taxmann did not have any solution to automate and manage sales or service processes. "Our sales, service and marketing teams managed customer information such as call and comments in a diary or at times in Excel worksheets, based on personal preferences," recalls Sumita Sharma, Head – Customer Care, Taxmann. The result was either duplication or data loss. Disorganized tracking and monitoring made the sales cycle longer than anticipated, thus resulting in a higher cost of sales and poor closure rate.

Taxmann also offers online subscription to journals and books and other content. Previously, if a customer contacted its call center, the representative did not have sufficient information to handle the calls effectively. Even simple issues such as activation, renewal and access, took time to resolve. In addition, there was no provision to log the customer and call details, or record the interaction. "Manual routing of calls, high wait time, and finding the right resources to resolve issues was a challenge. Resolution took 3-7 days, resulting in customer dissatisfaction," says Vishal Gambhir, Team Lead – Customer Care, Taxmann. Sometimes customers would abandon the call due to the long wait time and there was no way to identify repeat callers.

The company wanted a robust and centralized Customer Relationship Management (CRM) solution that would help optimize business processes, effectively plan and track sales activities to shorten the sales cycles, increase closure rates and provide quality services to its customers, thus leading to customer satisfaction.

Taxmann evaluated several CRM solutions available in the market, including Sage, Zoho, Salesforce.Com, Microsoft Dynamics CRM and Sugar CRM.

Taxmann approached Godrej Infotech, a Microsoft Gold Certified Partner to implement the solution because of its experience, expertise and on-time delivery record.

After much analysis, the team opted for the Microsoft Dynamics CRM 2011 solution. "It was imperative that the solution proposed consolidate all of the customer data into a single system and reduces overheads, duplication and rework," says Hemant Savla, Delivery Manager, Godrej Infotech. "At the same time, integration with other existing applications was a must." Out-of-the-box features of Microsoft Dynamics CRM and integration abilities met all Taxman's requirements.

The deployment started in October 2012 and the solution went live in less than five months with all the three modules, Sales, Service and Marketing for 50 concurrent users. In March 2013, Taxmann started using its CRM solution at the head office and its two customer call centers in Delhi. It purchased 50 concurrent user licenses.

Taxmann now defines marketing campaigns, and assigns employees to specific customers. All employees add updates to the CRM solution, for example, sales persons will update leads and opportunities in Dynamics CRM. This generates a 360-degree view of the customers. A salesperson can also track a customer's preferences, such as the preferred mode of communication, and the type of information and offers he/she would like to receive. This information helps the marketing team to deliver the right information via the right touch point to

the customer. Taxmann develops new strategies based on the information available in Dynamics CRM to cross-sell and up-sell its products and services, thus increasing revenue.

Godrej Infotech also customized and integrated Dynamics CRM with third-party applications to fulfill unique business requirements. "Integration with SMS and email helps us to stay connected with our customers on their mobile phones," says Vishal. Computer Telephony Integration (CTI) routes calls immediately to the technical team to resolve queries. If required, agents escalate the queries from one office to another, thus giving immediate response to customers and ensuring satisfaction. Call wrap-up capability for managing post-call operations in Dynamics CRM, such as adding notes, activity and case management helps the Taxmann management to understand its customers better.

Godrej Infotech configured the master data management, that set the policies, governance and management of the master data. In addition, it integrated Microsoft Dynamics NAV, the ERP solution at Taxmann with Dynamics CRM.

"All the requisition orders and sales orders from Dynamics CRM automatically flow into Dynamics NAV and are added to the master data," states Sunita Singh, ERP Head, Taxmann. For example, an employee can use the customer information that is in Microsoft Dynamics NAV, which is synchronized with Dynamics CRM, to fill in an order form that a salesperson creates in Microsoft Dynamics CRM. "It automatically synchronizes a customer's account, contact, product, sales order and invoice information in both the applications, thus eliminating duplication of data."

The solution also provides meaningful charts and dashboards, culling out useful reports using tools such as SQL Server Reporting Services (SSRS) and SQL Server Integration Services (SSIS – for CTI reports) and creating customized forms for individual customers. Additionally, it offers tools to improve its ability to predict market trends and requirements.

Taxmann plans to integrate its website with the solution in the near future. This will assist in capturing leads and opportunities from the website as well as service requests.

Benefits

Microsoft Dynamics CRM consolidated information in a centralized system giving a precise 360-degree view of every customer. It has effectively mitigated business challenges faced earlier. "We have improved the visibility of information and processes for more predictable and manageable business operations," says Sumita.

- (i) Improves Collaboration
- (ii) Enhances Customer Service
- (iii) Increase in Revenue
- (iv) Increases Efficiency

Required:

- (i) Define the Customer Relationship Management.
- (ii) Describe the objectives of the using of CRM applications.
- (iii) What are problem faces by the Taxmann before implementing the Customer Relationship?
- (iv) What are the steps are taken by the Taxmann to solve the problem?

How Customer Relationship Management can facilitate the customers?

2. Caselet

The Royal Botanical Gardens has been established for more than 120 years and has the following mission statement: "The Royal Botanical Gardens belongs to the nation. Our mission is to

increase knowledge and appreciation of plants, their importance and their conservation, by managing and displaying living and preserved collections and through botanical and horticultural research.”

Located towards the edge of the city, the gardens are visited regularly throughout the year by many local families and are an internationally well known tourist attraction. Despite charging admission, it is one the top five visitor attractions in the country. Every year it answers many thousands of inquiries from universities and research establishments, including pharmaceutical companies from all over the world, and charges for advice and access to its collection. Inquiries include requests for access to the plant collection for horticultural work, seeds for propagation or samples for chemical analysis to seek novel pharmaceutical compounds for commercial exploitation. It receives an annual grant in aid from central government, which is fixed once every five years. The grant is due for review in three years’ time.

The finance director has decided that, in order to strengthen its case when meeting the government representatives to negotiate the grant, the management board should be able to present a balanced scorecard demonstrating the performance of the gardens. He has asked you, the senior management accountant, to help him. Many members of the board, which consists of eminent scientists, are unfamiliar with the concept of a balanced scorecard.

Required:

- (i) Describe the advantages of adopting Balanced Scorecards.

Discuss the process you would employ to develop a suitable balanced scorecard for the Royal Botanical Gardens and give examples of measures that would be incorporated within it.

3. Caselet

There were a large number of computer-education companies in South Africa in 1970s. These were concentrated in big cities, having population of 1,00,000 or more, as there was a prevalent belief that a computer-education company can succeed only in big cities.

Future Information (FI), a firm in computer-education business, was started by Peter Rice in Johannesburg in 1978. Peter Rice did not agree with the rest of the entrepreneurs in the industry about the location of the service centers. He decided to go to the smaller towns. According to Rice any town having at least one high school could house a successful computer-education centre. In 1983, 20 centers of FI were opened in small towns. These were like ‘local’ monopolies because the towns were not big enough to accommodate another centre.

In 1970s and early 1980s, there was a boom in computer-education business, but by the late 1980s, a downturn started in this business and many big firms went bankrupt. On the other hand, FI kept on going from strength to strength all this while – by 1990 its centers went up from 20 to 60. Now, it dawned on other firms that FI was following a pragmatic (through unconventional) approach. Rivals, therefore also to contemplate about following FI expansion strategy, as there was still a largely number of small towns left uncovered by any computer-education centre. FI realized that if this happens, they would be left behind. So the situation was like a pre-emptive game. Where every firm would like to enter each town first. FI calculated the payoff such game as follows:

Particulars	Enters	Does not enter
F ₁ Enters	-50, -50	100, 0
Does not enter	0, 100	0, 0

Required:

- (a) Discuss the limitations of Game Theory?
- (b) Describe - Mixed Strategy, optimal Strategy, Two person zero – sum Game.
- (c) Write down the impact, if other companies enter into the business.

4. Case Study

The *Dabbawalas*- Feeding Mumbai*

Hungry kya? What would you like: pizza from the local Domino's (30 minute delivery) or a fresh, hot meal from home? Most managers don't have a choice. It's either a packed lunch or junk food from a fast food outlet.

Unless you live in Mumbai, that is, where a small army of 'Dabbawalas' picks up 1,75,000 lunches from homes and delivers them to harried students, managers and workers on every working day. At your desk, 12.30 p.m. on the dot. Served hot, of course. And now you can order even through the Internet.

The Mumbai Tiffin Box Suppliers Association (MTBSA) is a streamlined 120 year old organization with 4,500 semi literate members providing a quality door-to-door service to a large and loyal customer base.

How has MTBSA managed to survive through these tumultuous years? The answer lies in twin process that combines competitive collaboration between team members with a high level of technical efficiency in logistics management. It works like this.

After the customer leaves for work, her lunch is packed into Tiffin provided by the *Dabbawala*. A color-coded notation on the handle identifies its owner and destination. Once the *Dabbawala* has picked up the Tiffin, he moves fast using a combination of bicycles, trains and his two feet.

A BBC crew filming *dabbawalas* in action was amazed at their speed. "Following our *Dabbawala* wasn't easy; our film crew quickly lost him in the congestion of the train station. At Victoria Terminus we found other fast moving *dabbawalas*, but not our subject. and at Mr Bhapat's Ayurvedic Pharmacy, the lunch had arrived long before the film crew," the documentary noted wryly. So, how do they work so efficiently?

TEAM WORK AND TIMING

The entire system depends on team work and meticulous timing. Tiffins are collected from homes between 7.00 am and 9.00 am, and taken to the nearest railway station. At various intermediary stations, they are hauled onto platforms and sorted out for area wise distribution, so that a single Tiffin could change hands three to four times in the course of its daily journey.

At Mumbai's downtown stations, the last link in the chain, a final relay of *Dabbawalas* fan out to the Tiffin's destined bellies. Lunch hour over, the whole process moves into reverse and the Tiffins return to suburban homes by 6.00 p.m.

To better understand the complex sorting process let's take an example. At Vile Parle Station, there are four groups of *Dabbawalas*, each has 20 members and each member services 40 customers. That makes 3,200 Tiffins in all. These 3,200 Tiffins have to be collected by 9.00 am, reached the station and sorted according to their destinations by 10.00 am when the '*Dabbawala Special*' train arrives.

The railway provides sorting areas on platforms as well as special compartments on trains travelling south between 10.00 a.m. and 11.30 a.m.

During the journey, these 80 *dabbawalas* regroup according to the number of Tiffins to be delivered in a particular area, and not according to the groups they actually belong to. If 150 Tiffins are to be delivered in the Grant Road Station area, then four people are assigned to that station, keeping in mind one person can carry no more than 35-40 Tiffins.

During the earlier sorting process, each *Dabbawala* would have concentrated on locating only those 40 Tiffins under his charge, wherever they come from, and this specialization makes the entire system efficient and error-free.

Typically it takes about ten to fifteen minutes to search, assemble and arrange 40 Tiffins onto a crate, and by 12.30 p.m. they are delivered to offices.

In a way, MTBSA's system is like the Internet. The Internet relies on a concept called packet switching. In packet switched networks, voice or data files are sliced into tiny sachets, each with its own coded address which directs its routing.

These packets are then ferried in bursts, independent of other packets and possibly taking different routes, across the country or the world, and re-assembled at their destination.

Packet switching maximizes network density, but there is a downside: your packets intermingle with other packets and if the network is overburdened, packets can collide with others, even get misdirected or lost in cyberspace, and almost certainly not arrive on time.

ELEGANT LOGISTICS

In the *dabbawalas'* elegant logistics system, using 25 kms of public transport, 10 km of footwork and involving multiple transfer points, mistakes rarely happen. According to a Forbes 1998 article, one mistake for every eight million deliveries is the norm. How do they achieve at virtual six sigma quality with zero documentation? For one, the system limits the routing and sorting to a few central points. Secondly, a simple color code determines not only packet routing but packet prioritizing as lunches transfer from train to bicycle to foot.

COMPETITIVE COLLABORATION

MTBSA is a remarkably flat organization with just three tiers: the governing council (president, vice president, general secretary, treasurer and nine directors), the Mukadams and the Dabbawalas. Its first office was at Grant Road. Today it has offices near most railway stations. Nobody is an employer and none are employees. Each *Dabbawala* considers himself a shareholder and entrepreneur.

Surprisingly, MTBSA is a fairly recent entity: the service is believed to have started in the 1880s but officially registered itself only in 1968. Growth in membership is organic and dependent on market conditions. This decentralized organization assumed its current form in 1970, the most recent date of restructuring. *Dabbawalas* are divided into sub-groups of 15 to 25, each supervised by four Mukadams. Experienced old timers, the Mukadams, are familiar with the colors and codings used in the complex logistics process. Their key responsibility is sorting Tiffins but they play a critical role in resolving disputes; maintaining records of receipts and payments; acquiring new customers; and training junior *dabbawalas* on handling new Customers on their first day.

Each group is financially independent but coordinates with others for deliveries: the service could not exist otherwise. The process is competitive at the customers' end and united at the

delivery end. The Mukadams are also responsible for day-to-day functioning. And, more important, there is no organizational structure, managerial layers or explicit control mechanisms. The rationale behind the business model is to push internal competitiveness, which means that the four Vile Parle groups vie with each other to acquire new customers?

EARNINGS

Logistics is the new mantra for building competitive advantage, the world over. Mumbai's *dabbawalas* developed their home grown version long before the term was coined.

Their attitude of competitive collaboration is equally unusual, particularly in India. The operation process is competitive at the customers' end but united at the delivery end, ensuring their survival since a century and more. Is their business model worth replicating in the digital age is the big question.

Required:

(a) Explain the objectives of the Six Sigma.

(b) Discuss the strategies used by the organization to achieve the goals of the organization.

What is Competitive Collaboration?

5. Caselet

Hamlin Industries

The operating divisions of Hamlin Industries are evaluated on several performance measures, one of which is operating income. Hamlin's corporate overhead is allocated to the divisions on the basis of each division's revenue, and this allocation is included in the calculation of operating income. The information given in the chart below is available for the first quarter of 2013.

Hamlin Industries
First Quarter 2013

Particulars	Bicknell Division (₹)	Norton Division (₹)	Driscoll Division (₹)	Total (₹)
Revenues	23,04,000	32,40,000	16,56,000	72,00,000
Cost of goods sold	8,60,000	16,84,800	8,10,000	33,58,800
Gross margin	14,40,000	15,55,200	8,46,000	38,41,200
Division overhead	2,20,000	4,30,000	1,90,000	8,40,000
Corporate overhead	5,12,000	7,20,000	3,68,000	16,00,000
Division operating income	7,08,000	4,05,200	2,88,000	14,01,200

The manager of the Norton Division has been carrying a line of products that are marginally profitable but use facilities that would otherwise be idle. This product line is scheduled to be replaced over the next two years but, in view of the first quarter's results, the manager is considering dropping the line immediately. The first quarter accounting data for this product line are as follows:

Particulars	Amount (₹)
Revenues	6,00,000
Cost of goods sold	5,00,000
Avoidable division overhead	1,00,000

Required:

- (a) Prepare a revised operating income statement for Hamlin Industries assuming that the manager of the Norton Division had stopped the sale and production of the marginally profitable product line at the beginning of the quarter, and
- (b) Discuss whether or not Hamlin Industries' measure of division profitability is encouraging behavior that is beneficial to all parties.

6. Caselet

Modern Auto Shops

The owners of Modern Auto Shops stress customer satisfaction and speedy repairs. The mechanics are paid a base hourly wage of ` 35 plus piece-work incentives based on standard times and the type of job. For example a brake adjustment is estimated to take 90 minutes and has a work incentive of ` 10 if the adjustment is completed within 90 minutes. The company has recently started measuring customer satisfaction through the use of surveys and the monitoring of customer complaints.

Required:

- Evaluate the mechanics compensation plan at Modern Auto Shops by
- (a) Describing the likely behaviour of the mechanics.
 - (b) Recommending improvements to the plan.

7. Caselet

Biston Corporation

Biston Corporation recently announced a bonus plan to award the manager of the most profitable division. The three division managers are to choose whether return on investment (ROI) or residual income (RI) will be used to measure profitability. In addition, they must decide whether investment will be measured using gross book value or net book value. The following information is available for the year just ended.

Division	Gross Book Value of Assets (`)	Division Operating Income (`)
Bristol	8,00,000	90,000
Darden	7,60,000	92,000
Gregory	5,00,000	61,600

All assets were purchased four years ago and have four years of useful life remaining. Biston uses straight-line depreciation with no salvage value and an imputed interest charge for calculating residual income of 10 percent of investment.

Required:

- (a) Each division manager of Biston Corporation has selected a method of bonus calculation that places his or her division in first place. Identify the method for calculating profitability that each manager selected, supporting your answer with appropriate calculations.

8. Caselet

From the time that Microsoft announced plans to acquire Yahoo, industry insiders marveled at the deftness displayed by the software giant in countering every move by Yahoo executives to prevent the takeover.

1. When Yahoo turned to competitor Google for help, Microsoft had the government's anti-trust watchdogs on the case.
2. When Yahoo put out feeler to News Corp (My Space) as an alternate buyer, Microsoft announced that it was already in discussions with News Corp about a joint takeover of Yahoo.
3. When Yahoo executives decided to dig in their heels and ride it out, Microsoft sweetened the deal for Yahoo investors, raising the threat of a stockholder revolt.

From the outset, Microsoft's acquisition team was two steps ahead in the game — not merely reacting to, but anticipating Yahoo's every move.

Yahoo executives may have thought this was exceptional foresight on the part of Microsoft. Instead, it was the practical application of game theory, a method of more accurately predicting the probable outcomes of strategic decisions. Using game theory, Microsoft was able to map and prepare for every possible twist and turn in the process months before it announced its intention to acquire Yahoo.

9. Caselet

Shrimati Pharmaceutical Company located in Hyderabad is a distribution centre having a big base of 100 and plus companies which are supplying the medicines and other medical aids for distribution. Shrimati has employed 272 employees as distributors across the state and it has an attrition of 12% of the employed workforce because of its stringent appraisal methods. It follows mostly critical incident method and behavioral feedback from the retailers. This was supposed to be agonizing factor for the distributors as the feedbacks given by retailers were all error prone. Also whenever there is a cut in the commissions given to the retailers, they used to give a negative feedback to the company. Distributors were also worried but because of the good packaging and excellent networking and transportation provided by the company, employees used to continue to work. Now that the company has decided to go for expansion, it is interested in recruiting another 100 distributors by giving focus to performance.

Questions:

- (a) What are the pitfalls of performance management in the case?
- (b) How will you design the new appraisal system for the company to avoid attrition?

10. Caselet

Be Healthy Ltd, a pharmaceutical company, developed a new drug called 'Prilosec', in 2008. The drug was approved for Ulcer cure. Prilosec was priced at ₹ 3.75 per daily dose. In the market, other competitors' drugs were Ranitidine and Zantac available for similar treatment. Ranitidine was priced at ₹ 1.80 and Zantac at ₹ 2.35 per daily dose. Prilosec, however, proved to be much more effective due to its chemical composition. Be Healthy Ltd. realizing its monopoly in composition of the drug due to copyright and trade mark as well as brand value charged a much higher price considering its degree of monopoly power. Compared to its marginal cost at around 35 paise per daily dose, it was set at a mark – up with over 400 per cent. The price elasticity of demand estimated (e) to be around -0.9. Thus, the monopoly mark – up formula used here may be stated as under:

$$P = \frac{Mc}{1 + (1/e)}$$

The company's mark – up price policy is, thus, consistent with the monopoly rule of thumb for pricing.

By 2009, Prilosec was regarded as the best selling drug. Incidentally, the rival drug producer Zantac was acquired by Be Healthy Ltd. in 2012 and the firm was renamed as Healthy Zantac. That means, Be Healthy Ltd could retain or even enhance its monopoly power in ulcer drug market through merger and acquisition (M&A) strategy of increasing its size and eliminating competition.

Question:

- (a) Discuss the monopoly pricing strategy of Be Healthy Ltd for its ulcer drug Prilosec.
- (b) Calculate the pricing of the Prilosec drug.