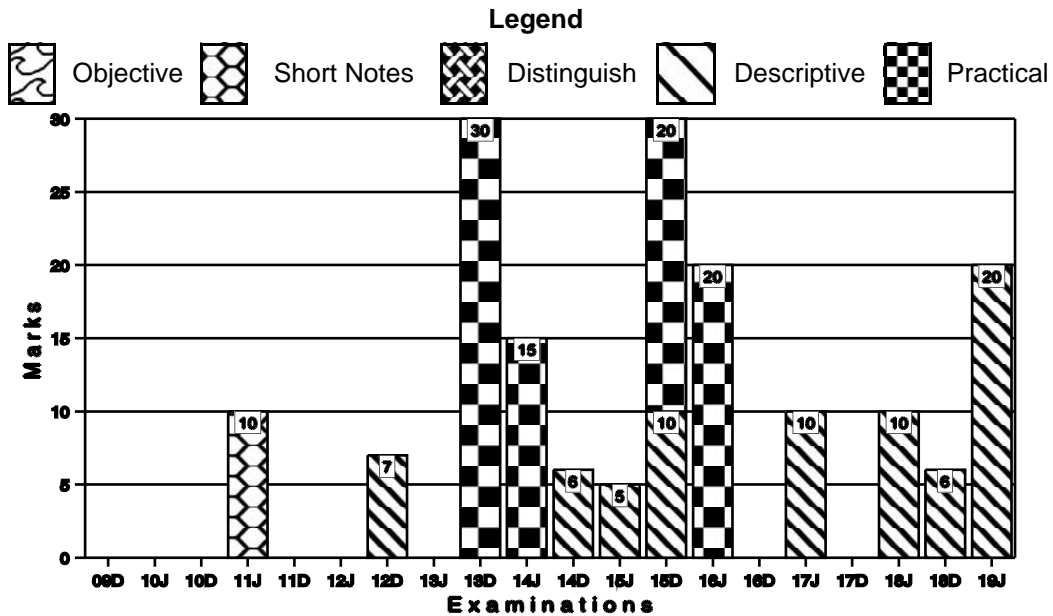


# 1 CONCEPTUAL FRAMEWORK OF PERFORMANCE MANAGEMENT

## THIS CHAPTER INCLUDES

- Performance Management - Concepts, Components
- Performance, Productivity and Efficiency
- Financial Performance Analysis
- Supply Chain Management
- Customer Relationship Management
- Customer Profitability Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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**SHORT NOTES**

**2009 - June [8]** Write short note on:

(b) Supply Chain Management;

**(5 marks)**

**Answer:**

**Supply Chain Management:** Supply Chain Management encompasses the planning and management of all activities involved in sourcing, procurement, conversion and logistics management. Supply Chain Management integrates supply and demand management within and across companies.

**Five basic components of supply Chain Management are:**

- Plan-Develop a strategy for managing all resources that go towards meeting customer demand.
- Source-Choose the supplier.
- Make-Schedule activities for Production.
- Deliver- Coordinate receipt of order to delivery.
- Return-Receive defectives and excess product back from customers.

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**2011 - June [4]** Write short notes on the following :

(d) Strategic role of logistics

**(5 marks)**

**Answer :**

**Strategic Role of Logistics:** In value chain, logistics have two parts.

Inbound logistics arises through raw materials procurement from vendors to the factory for conversion/assembly.

Outbound logistics take place when the finished products or services have to reach the customer from production point. And so operational flexibility is needed for basic customer service. Thus logistics strategy requires integration of:-

1. Locations, structure,
2. Warehouse location structure and facilities,
3. Transportation economies,
4. Inventory economies, and
5. Total cost optimization.

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**2011 - June [8]** Write Short Note on the following:

(iv) Supply Chain Management.

**(5 marks)**

**Answer:**

***Please refer 2009 - June [8] (b) on page no. 14***

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### DESCRIPTIVE QUESTIONS

**2012 - Dec [2]** (b) Explain why it is important for organisations to analyze and understand the external environment.

**(4 marks)**

**Answer:**

- Organizations do not exist in isolation.
- The external environment of the organization presents threats and opportunities which the organization must address in its strategic actions.
- Parts of the organization's external environment are changing rapidly, such as technology changes, and the organization must constantly adjust to these changes.
- The information that the organization gathers about competitors, customers and stakeholders is used to build the organization's capabilities or to build relationships with stakeholders in the external environment.
- The information that the organization gathers about the external environment must be matched with knowledge of its internal environment to form its vision, to develop its mission, and to take actions that result in strategic competitiveness and above-average returns.

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**2012 - Dec [7]** (a) What is 'Supply Chain Management'?

**(3 marks)**

**Answer:**

***Please refer 2009 - June [8] (b) on page no. 14***

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**2014 - Dec [5]** (b) Define the following terms in the context of Supply Chain Management:

- (i) Quality
- (ii) Promotions
- (iii) Strategic Alliance

**(2 × 3 = 6 marks)**

**Answer:**

- (i) Quality:** Quality can be defined through five principal approaches:
- (1) Transcendent quality is an ideal, a condition of excellence.
  - (2) Product-based quality is based on a product attribute.
  - (3) User-based quality is fitness for use.
  - (4) Manufacturing-based quality is conformance to requirements.
  - (5) Value-based quality is the degree of excellence at an acceptable price. Also, quality has two major components:
    - (i) **quality of conformance:** quality is defined by the absence of defects and
    - (ii) **quality of design:** quality is measured by the degree of customer satisfaction with a product's characteristics and features.
- (ii) Promotions:** One of the four P's (product, price, place and promotion) that constitute the set of tools used to direct the business offering to the customer. Promotion is the mechanism whereby information about the product offering is communicated to the customer and includes public relations, advertising, sales promotions and other tools to persuade customers to purchase the product offering.
- (iii) Strategic Alliance:** A relationship formed by two or more organizations that share (proprietary), participate in joint investments, and develop linked and common processes to increase the performance of both companies. Many organizations form strategic alliances to increase the performance of their common supply chain.

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**2015 - June [5]** (a) State the problems that are to be addressed by Supply Chain Management. **(5 marks)**

**Answer:**

**Supply Chain Management must address the following problems:**

<b>Distribution Network Configuration</b>	Number, location and network missions of suppliers, production facilities, distribution centres, warehouses, cross-docks and customers.
<b>Distribution Strategy</b>	Questions of operating control (centralized, decentralized or shared); delivery scheme, e.g., direct shipment, pool point shipping, cross docking, direct store delivery (DSD), closed loop shipping; mode of transportation, e.g., 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 transportation control (e.g., owner-operated, private carrier, common carrier, contract carrier, or third-party logistics (3PL).
<b>Trade-Offs in Logistical Activities</b>	The above activities must be well coordinated in order to achieve the lowest total logistics cost. Trade-offs may increase the total cost if only one of the activities is optimized. For example, full truckload (FTL) rates are more economical on a cost per pallet basis than LTL shipments. If, however, a full truckload of a product is ordered to reduce transportation costs, there will be an increase in inventory holding costs which may increase total logistics costs. It is therefore imperative to take a systems approach when planning logistical activities. These trades-offs are key to developing the most efficient and effective Logistics and SCM strategy.

**20.6****Scanner CMA Final Gr. IV Paper 20A (2016 Syllabus)**

<b>Information</b>	Integration of processes through the supply chain to share valuable information, including demand signals, forecasts, inventory, transportation, potential collaboration, etc.
<b>Inventory Management</b>	Quantity and location of inventory, including raw materials, work-in-process (WIP) and finished goods.
<b>Cash-Flow</b>	Arranging the payment terms and methodologies for exchanging funds across entities within the supply chain, is fully recurrent artificial network where every basic building block (artificial neuron) is directly connected to every other basic building block in all direction.

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**2015 - Dec [7]** Define the following terms in the context of Supply Chain Management:

- (a) Activity Based Management
- (b) Capacity Management
- (c) Customer Relationship Management
- (d) Customer Value
- (e) Information Sharing

**(2 x 5 = 10 marks)**

**Answer:**

<b>(a)</b>	<b>Activity-Based Management (ABM)</b>	The use of activity-based costing information about the cost pools and drivers, activity analysis, and business processes to identify business strategies; improve product design, manufacturing, and distribution; and removal of waste from operations.
<b>(b)</b>	<b>Capacity Management</b>	The function of establishing, measuring, monitoring, and adjusting limits or levels of capacity in order to execute all

		manufacturing schedules; i.e., the production plan, master production schedule, material requirements plan, and dispatch list. Capacity management is executed at four levels: resource requirements planning, rough-cut capacity planning, capacity requirements planning, and input/output control.
(c)	<b>Customer Relationship Management (CRM)</b>	A marketing philosophy based on putting the customer first. It involves the collection and analysis of information designed for sales and marketing decision support to understand and support existing and potential customer needs. It includes account management, catalog and order entry, payment processing, credits and adjustments, and other functions.
(d)	<b>Customer Value</b>	The customer value approach focuses on how people choose among competing suppliers, customer attraction and retention, and market-share gains. By highlighting the best performer on each key buying factor, marketers obtain a market derived, empirical aggregate of each supplier's customer value proposition. Often the view from the marketplace differs from the organization's internally developed customer value proposition.
(e)	<b>Information Sharing</b>	A strategic partnering relationship between suppliers and buyers is characterized by a willingness to be open, and to share forecasted demand and cost data as well as the benefits resulting from the

20.8

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		information sharing. Both parties in the relationship generally follow a continuous improvement philosophy towards total cost of material acquisition and ownership along with quality and service. Cost, quality and schedule information that is confidential is shared both ways between firms during the early and ongoing stages of design and during the production life-cycle of the supplying relationship. This openness exists because of the high degree of trust earned through multiple successful interactions between the two organizations.
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**2017 - June [2]** (a) What do you mean by 'Customer Relationship Management' (CRM)? List the advantages and benefits of 'Customer Relationship Management'. **(4 + 6 = 10 marks)**

**Answer:**

**Customer Relationship Management (CRM):** It is a business strategy comprised of process, organizational and technical change whereby a company seeks to better manage its enterprise around its customer behaviours. It entails acquiring and deploying knowledge about customers and using this information across the various customers touch points to increase revenue and achieve cost reduction through operational efficiencies.

The adoption of CRM is being fuelled by recognition that long-term relationships with customers are one of the most important assets of an organization. CRM entails all aspects of interaction that a company has with its customer, whether it is sales or service related.

CRM is often thought of as business strategy that enables businesses to:

- Understand the customer
- Retain customers through better customer experience
- Attract new customer



- Win new clients and contracts
- Increase profitability
- Decrease customer management costs.

CRM is an integrated approach to identifying, acquiring and retaining customers. By enabling organizations to manage and coordinate customer interactions across multiple channels, departments, lines of business and geographies, CRM helps organizations maximize the value of every customer interaction and drive superior corporate performance.

**Advantages and benefits of CRM:** The following are some of the advantages and benefits of CRM:

- satisfied customer does not consider leaving;
- Product Development can be defined according to current customer needs;
- a rapid increase in quality of products and services;
- the ability to sell more products;
- optimization of communication costs;
- trouble-free run of business processes;
- fast and reliable predictions;
- increase effectiveness of team work;
- increase in staff motivation;
- real time access to information;
- more time for customers;
- better communication between Marketing, Sales and Services.

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- 2018 - June [2]** (a) (i) What is Operative Customer Relationship Management? **(3 marks)**
- (ii) Discuss the impact of CRM initiative on an organization, in terms of enhanced risk that it may face. **(3 marks)**
- (iii) Describe the issues to be considered for analysing customer profitability. **(4 marks)**

**Answer:**

(i) 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. All communication with the customer is tracked and stored in the database and if necessary it is effectively provided to users (workers). The advantage of this approach being the possibility to communicate with various employees using various channels but creating the feeling that customer is being taken care of by just one person. It can also minimize the time that the worker has to spend typing the information and administrating (the data is shared). This allows the company to increase the efficiency of their employees work and they are then able to serve more customers.

(ii) **A CRM initiative generally has some of the following impacts on an organization:**

1. Increased expectations from senior management to increase revenues reduce costs, increase market share and increase business flexibility may put tremendous pressure on the organization and may potentially compromise the internal control structure.
2. Increased complexity of managing multiple channels, technologies, customer relationships and customer definitions.
3. Vital and confidential customer information may be transmitted and shared across new networks, systems and platforms
4. Significant changes to the organization, attitudes and beliefs, placing heavy reliance on the organization's employees for the successful adoption of the solution.

These factors introduce many risks to the organization, for instance, the potential disruption of vital operations, violations to customer privacy and confidentiality, ineffective, inconsistent or inefficient processes, lack of internal business controls, poor customer service, incorrectly targeted sales and marketing efforts, non acceptance of new systems and processes and security breaches. Effective risk management helps in minimizing CRM risks and softens the impact.

(iii) The following issues should be considered when analyzing customer profitability:

- ▶ How to develop reliable customer revenue and customer cost information.
- ▶ How to recognize future downstream costs of customers.
- ▶ How to incorporate a multi-period horizon in the analysis; and
- ▶ How to recognize different drivers of customer costs.

This requires a broader examination of the costs associated with customer service. For example, post-sale customer service costs must be included in any analysis of customer costs. Some customers require substantially more post sale service than others. Revenues can vary among customers due to variations in volume levels and differences in price structures, products and services.

This analysis helps in examining both the revenues and costs related to customer transactions enabling analysis of customer profitability.

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**2018 - Dec [2]** (a) (i) What are the components of supply chain management? **(3 marks)**

(ii) What is operative and collaborative customer relationship management? **(3 marks)**

**Answer:**

- (i) There are five basis components of supply chain management.
1. **Plan** : This is the strategic portion of supply chain management (SCM). You need a strategy for managing all the resources that go toward meeting the customer demand for your product and services.
  2. **Source** : Choose the suppliers that will deliver the goods and services you need to create your product. Develop a set of pricing, delivery and payment processes with suppliers and create metrics for monitoring and improving the relationships.
  3. **Make** : This is the manufacturing step. Schedule the activities necessary for production, testing, packaging the preparation for delivery.

4. **Deliver** : This is the part that many insiders refer to as logistics. Coordinate the receipt of orders from customers, develop a network of warehouses, pick carriers to get products to customers and set up an invoicing system to receive payments.
5. **Return** : The problem part of the supply chain. Create a network for receiving defective and excess products back from customers and supporting customers who have problems with delivered products.

(ii) **Operative CRM** : 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.

All communication with the customer is tracked and stored in the database and if necessary it is effectively provided to users (workers), It can also minimize the time that the worker has to spend typing the information and administrating (the data is shared).

This allows the company to increase the efficiency of their employees work and they are then able to serve more customers.

**Collaborative CRM** : 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.

But sometimes we might see a rivalry between departments that undermines efforts of CRM to share relevant data throughout the whole company.

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.

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**2019 - June [2]** (a) 'Performance management and performance appraisal are sometimes used synonymously but they are different'. Do you agree this statement? Support your answer by highlighting bases of difference, if any, between them. **(10 marks)**

**(b)** Write down and elaborate the components of Performance Management.  
**(10 marks)**

**PRACTICAL QUESTIONS**

**2013 - Dec [1] {C}** 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 co-operation 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 date, 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?

**(5 × 3 = 15 marks)**

**Answer :**

- (i) The main objectives of Supply chain management with regards to M/s Kraft Foods Ltd. are to improve the overall organization performance and customer satisfaction by improving product or service delivery to consumer.

**The other objectives are:**

1. To maximize overall value generated.
2. To look for Sources of Revenue and Cost:-There is only one source of Revenue i.e. customer.
3. Replenishment of the Material or Product whenever required.
4. Cost Quality Improvement.
5. Shortening time to Order.
6. Faster speed to market.
7. To meet consumer demand for guaranteed delivery of high quality and low cost with minimal lead time.
8. Efficient supply chain.
9. To achieve world class performance.
10. More awareness of supply chain dynamics and efficiency.
11. To fulfill customer demand through efficient resources.
12. To optimize pre and post production inventory levels.
13. Good understanding of business characteristics.
14. Provide flexible planning and control mechanism.
15. Reduce transportation cost.
16. Greater labour efficiency, equipment and space efficiency.
17. To maximize efficiency of distribution side.
18. Helps in better decision making.

**(ii) “Supply Chain Management has an important role to play in moving goods more quickly to their destination”.**

It is so important for M/s Kraft foods Ltd. to get products to their customers quickly. Faster product availability is key to increasing sales. Appropriate management of the flow of information, product or funds is a key to supply chain success.

1. It makes for shorter lead-times to a customer.
2. It improved planning and forecasting capabilities for all partners of the supply chain.
3. It leads to cost saving and efficiency optimization.
4. It reduces dead or slow moving stock and eventually removes it from a system with careful planning.
5. Faster execution of customers’ orders is the key to increasing sales. The company stands with a chance of procuring more orders and more market share.

**(iii) The measure taken by the M/s Kraft Foods Ltd. to change to Supply Chain Management that the policies made by management should be transparent because it requires co-operation of all employees of organization at all levels.**

- Policies should be designed in such a way that it should be acceptable at all levels of organization.
- There should be proper planning and proper communication.
- Selection of right suppliers.
- Creating a network for receiving defectives.

There are countless benefits of sound supply chain management.

- It maximizes overall value generated.
- It makes far shorter lead-times to a customer.
- It improves planning and forecasting capabilities for all partners of the supply chain.
- It leads to cost saving and efficiency optimization.
- It reduces dead or slow moving stock and eventually removes it from a system with careful planning.
- Supply Chains have bargaining power.

**20.16**

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- Earning a good brand image delivers a competitive advantage.
- Excellent supply chain relationship with its customers.
- Customer's satisfaction.

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**2013 - Dec [2] {C}** 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 through 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.
- Providing 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?

**(5 + 5 + 5 = 15 marks)**



**Answer :**

- (i) Customer relationship management helps in profiling prospects, understanding their needs, and in building relationships with them by providing the most suitable products and enhanced customer service. It integrates back and front office systems to create a database of customer contacts, purchases and technical support, among other things. This database helps the company in presenting a unified face to its customers, and improves the quality of the relationship, while enabling customers to manage some information on their own.
- (ii) The problems faced by M/s Royal & Sun Alliance before implementing CRM:
1. The company was not able to reach its strategic targets.
  2. Company's insurance brokers were too not able to reach their strategic targets.
  3. The company was not able to attract new customers.
  4. Direct sales forces were not effective.
  5. The call centres were not properly managed.
  6. Customer requirements were becoming increasingly sophisticated.
  7. The company finds it difficult to thrive in such competitive environment.
- (iii) A Customer relationship management system can manage day-to-day administrative task for the organization so implementation of CRM in the organization can solve the above mentioned problems. CRM enables the Company to forward thinking in its approach to its customers.
- Key steps in the CRM implementation process are:
- Identify all areas of your business that touch the Customer or the Prospect.
  - Identify all of the Business processes that manage the touch points with the Customer or prospect.
  - Select the appropriate CRM and Sales Force Automation (SFA) system that will allow the business processes impacting the Customer or Prospect to be managed in the most efficient and effective manner.

- Document those business processes and train the users on the utilization of the CRM system with a focus on how that system will deliver value to their daily work lives and how it will maximize their efficiency and effectiveness in managing their relationships with their Customers and Prospects.

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**2014 - June [2] {C}** Tesco & Co. is the world's largest grocery company, dealing in different fast moving consumer goods (FMCG). Tesco's efforts towards offering better services to its customers and meeting their needs can be traced back to the days when it positioned itself as a company that offered good quality products at extremely competitive prices. Since the customer received the best services, the number of loyal customers increased manifold since the company loyalty card scheme was launched successfully.

To sustain the growth achieved through the launch of loyalty club cards, Tesco decided to adopt a four step approach:

- Launch better;
- Bigger stores on a frequent basis;
- Offer competitive prices; and
- Focus on remote shopping services.

To make sure that its prices were the lowest among all retailers, a dedicated team of employees called 'price checkers' was employed for the task. Tesco's customer base and the frequency with which each customer visited its stores had increased significantly over the years. However, according to reports, the average purchase per visit had not gone up as much as it would have liked to see. For the last ten years, Strategic cost management and Activity based costing have created a framework for company to examine more closely the causes of their cost in order to improve management decisions and corporate profitability. Analyst believe that this was not a very positive situation, they also said that while it was true that Tesco was the market leader by a wide margin, it was also true that other companies were growing rapidly. Given the fact that the company was moving away from its core business by giving thrust on non-food and utility services items and was globalizing rapidly, observers were doubtful of its ability to maintain the growth it had been posting since its inception.

After the globalization, many companies are convinced that improving corporate profitability requires synergetic effect between all the units and division within the company. Tesco has to take steps like appointing marketing professionals for increased customer satisfaction and primarily examining the links between overall satisfaction and revenue. Meanwhile, the Management Accountants have traditionally focused on cost reduction. Customer profitability analysis attempts to bring together marketing & accounting professional to analyse, manage and improve customer profitability.

Tesco must understand the present and future customer demands and try to improve its information technology and large database to help refine marketing efforts. Marketing tools and IT Systems now permit companies to get individual customer and customer groups with pin-point accuracy.

You are required:

- (i) State briefly the concept of Analytical Customer Relationship Management, Operating Customer Relationship Management & Collaborative Customer Relationship Management.
- (ii) What strategy is followed by Tesco to sustain the growth achieved?
- (iii) What steps it should follow to beat saturation?

(3 + 6 + 6 =15 marks)

**Answer :**

**(i) Analytical CRM:**

The purpose of analytical CRM is customer data analysis, its evaluation, modeling and prediction of customer's behaviour. In real life situation the analytical CRM can, for example gather all the data about customers inquiring a specific product by using data mining (tool for data gathering), what services they purchased right away and what services they purchased eventually.

**Operative CRM:**

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.

**Collaborative CRM:**

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).

- (ii) To sustain the growth achieved Tesco decided to adopt a four steps approach:
- Launch better;
  - Bigger stores on frequent basis;
  - Offer competitive price; and
  - Focus on remote shopping service.
- (iii) After Globalization, many companies are convinced that improving corporate profitability requires synergetic effect among all the units and division within the company.
- Tesco has to take following steps to beat saturation:
- Appointing marketing professionals;
  - Cost reduction measures;
  - Understand present & future customers demand;
  - Use of IT systems & marketing tools.

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**2015 - Dec [1] {C}** This Case Study explains why Nestle Inc. needs a first class Supply Chain, with high quality linkages from where the coffee is grown in the field, to the way in which it reaches the consumer. For Nestle's, the Supply Chain is a bit complex and includes:

- Growers of Coffee
- Intermediaries like dealers/brokers/roasters/retailers, etc., Some Intermediaries may buy Coffee and doing some of the primary processing.
- Growing and processing of Coffee. This includes activities like coffee picking, drying and hulling, sorting, grading & picking.
- Price-Balancing Supply and Demand: Coffee prices are determined on day-to-day basis on the world commodity markets in London and New York. The price of Coffee is determined by the relationship between the

amount of Coffee available to be sold (Supply) and the amount which the company would like to buy (demand). If there is more Coffee available than what the company would desire to buy at current prices, the prices will fall. The market, thus, ultimately determines the price that the farmer receives.

- Nestle's Trading Methods: Nestle is a pioneer in purchasing Coffee direct from growers. A growing % of the company's Coffee is bought direct from the producer and it is now one of the world's largest direct purchasers. In Countries, where this is not possible, Nestle operates in a way that takes it as close to the growers as possible.
- Buying from dealers: In countries like UK, it is impossible for Nestle to buy from the hundreds of thousands of farmers, who ultimately supply the Company and so the coffee is bought from dealers, using the international market.

**Conclusion:** Creating wonderful cups of Coffee is not only Nestle's business, it is the business of everyone involved in the Supply Chain. It is in everyone's interest-the farmers' and Nestle's - that farmers receive a fair income from their Coffee. This ensures that they will continue to grow Coffee and to invest in increasing their yield and quality and this in turn, guarantees the supply of quality Coffee, which companies like Nestle require.

In the context of the above case study, answer the following questions:

- (i) What is Supply Chain Management? Explain clearly its basic concept?
- (ii) What are the basic objectives of a Supply Chain?
- (iii) State the way Nestle Inc., manages its Supply Chain?

**(8+5+7 = 20 marks)**

**Answer:**

- (i) Supply Chain Management encompasses the planning and management of all activities involved in sourcing, procurement, conversion and logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, and customers. In essence, Supply Chain Management integrates supply and demand management within and across companies.
- (ii) ***Please refer 2013 - Dec [1] {C} (i) on page no. 25***

**(iii) Nestle's Supply Chain is a bit complex and includes:**

- Growers of Coffee.
- Intermediaries like dealers/brokers/roasters/retailers, etc., Some Intermediaries may buy coffee and doing some of the primary processing.
- Growing and processing of coffee. This includes activities like coffee picking, drying and hulling, sorting, grading & picking.
- **Price-Balancing Supply and Demand:** Coffee prices are determined on day-to-day basis on the world commodity markets in London and New York. The price of coffee is determined by the relationship between the amount of coffee available to be sold (supply) and the amount which the company would like to buy (demand). If there is more coffee available than what the company would desire to buy at current prices, the prices will fall. The market, thus, ultimately, determines the price that the farmer receives.
- **Nestle's Trading Methods:** Nestle is a pioneer in purchasing coffee direct from growers. A growing % of the company's coffee is bought direct from the producer and it is now one of the world's largest direct purchasers. In Countries, where this is not possible, Nestle operates in a way that takes it as close to the growers as possible.
- **Buying from dealers:** In countries like UK, it is impossible for Nestle to buy from the hundreds of thousands of farmers, who ultimately supply the company and so the coffee is bought from dealers, using the international market.

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**2016 - June [1] {C}** Whirlpool Corporation is a leader of the \$100 billion global home appliance industry. Infact, it is the World's leading manufacturer and marketer of major home appliances, with an annual sales 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, Waterfilters 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 to 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? **(4+4+4+4+4 = 20 marks)**

**Answer:**

- (i) "Supply Chain Management has an important role to play in moving goods more quickly to their destination".

It was important for Whirlpool Corporation so that customer's order could be fulfilled and delivered to the customer at the earliest.

1. It makes for shorter lead-times to a customer.
2. It improved planning and forecasting capabilities for all partners of the supply chain.
3. It leads to cost saving and efficiency optimization.
4. It reduces dead or slow moving stock and eventually removes it from a system with careful planning.
5. Faster execution of customers' orders is the key to increasing sales. The company stands with a chance of procuring more orders and more market share.

- (ii) **Please refer 2013 - Dec [1] {C} (i) on page no. 25**

- (iii) Until recently, Whirlpool's strategic focus was on its products and brands. In recognition of environmental changes (customer needs in particular) 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:

- (1) The desire for trade partners to hold lots of inventory (which impacted upon cash flows)
- (2) Balancing number one with customers needing their products quickly.

One of the goals constraining the redesign of their supply chain was to ensure a customer order could be fulfilled and delivered to the customer within 48 hrs. The company set about its operations/ supply chain strategy with the aim of improving cash flow, reducing costs and providing the right service to customers.



**(iv) Benefits of change to the supply chain:**

1. Reduced costs (buildings rationalization, improved inventory management).
2. Improved customer satisfaction.

**(v)** The first aspect of Whirlpool's strategy was the order process. Process, technology and inventory changes were made. Overall, there was a need to improve visibility within the supply chain.

Secondly, the company rationalized facilities, reducing the number of buildings from 184 to 84; they eliminated 100 buildings and consolidated major warehouses into 10 regional distribution centers. This resulted 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.

\_\_\_\_\_ Space to write important points for revision \_\_\_\_\_

Table Showing Marks of Compulsory Questions										
Year	14 D	15 J	15 D	16 J	16 D	17 J	17 D	18 J	18 D	19 J
<b>Practical</b>			20	20						
<b>Total</b>			20	20						