

FINAL EXAMINATION

December 2013

P-17(SPM)

Syllabus 2012

Strategic Performance Management

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

This Question paper has been divided into 3 parts viz., Section-A, Section-B and Section-C. Section-A carries 60 marks, while Section-B & C carry 20 marks each.

Please note:

- From Section-A: Performance Management, you are to answer Question No. 1&2, which are *compulsory Questions*, each carrying 15 marks. Further answer any *three Questions* from the rest of the Questions in this section, each carrying 10 marks.
- From Section-B: IT & Econometric tool in Performance Management, you are to answer any *one Question*, carrying 20 marks.
- From Section-C: Enterprise Risk Management, you are to answer any *one Question*, carrying 20 marks.

SECTION A (60 Marks)

Performance Management

You are to answer Question No. 1&2, which are compulsory Questions, each carrying 15 marks. Further answer any three Questions from the rest of the Questions in this section, each carrying 10 marks.

1. 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 data, sent at agreed timings with jointly agreed delivery windows. Ideally the order is electronically communicated using EDI or

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

M/s. Royal & Sun Alliance believed in

- Understanding each customer's unique needs.
- Developing strategic plans and achieve mutual goals.
- Provide the tools, resources and service to achieve goals.

A Relationship Manager controls the overall business strategy and acts as a co-ordinator between different business divisions and customers.

M/s. Royal & Sun Alliance has created a website dedicated to its customers.

You are required:

- (i) to define Customer Relationship Management.
 - (ii) what are the problems faced by the company before implementing Customer Relationship Management?
 - (iii) what are the steps taken by the company to solve the problem? 5+5+5
3. The following is the pay-off matrix of a game, being played by A and B. Determine the optimal strategies for the players and the value of the game:

		B's Strategy	
		b_1	b_2
A's Strategy	a_1	8	-7
	a_2	-6	4

4. The Budgeted overheads and Cost driver volumes of XYZ are as follows:

Cost pool	Budgeted Overheads (₹)	Cost Driver	Budgeted Volume
Material Procurement	5,80,000	No. of orders	1,100
Material Handling	2,50,000	No. of movements	680
Set-up	4,15,000	No. of set-ups	520
Maintenance	9,70,000	Maintenance hours	8,400
Quality Control	1,76,000	No. of inspection	900
Machinery	7,20,000	No. of M/c hours	24,000

The company has produced a batch of 2,600 components of AX-15, its material cost was ₹ 1,30,000 and labor cost ₹ 2,45,000.

The usage activities of the said batch are as follows:

Material order-26,

Maintenance hours-690,

Material movements-18,

Inspection-28,

Set ups-25 and

M/c hours-1,800.

Calculate Cost Driver Rates that are used for tracing appropriate amount of overheads to the said batch and ascertain the cost of batch of components, using *Activity Based Costing*. 10

5. Batron Co. Ltd., is considering a cost saving project. This involves purchasing a machine costing ₹ 7000, which will result in annual savings on wages cost of ₹ 1000 and on material costs of ₹ 400. The cost of capital of the company is 15%. The following forecasts are made of the rates of inflation each year for the next 5 years:

Wages costs 10%

Material costs 5%

General prices 6%

Evaluate the project, assuming that the machine has a life of 5 years and no scrap value. 10

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6. Bee manufacturing company sells its product at ₹ 1,000 per unit. Due to competition, its competitors are likely to reduce price by 15%. Bee wants to respond aggressively by cutting price by 20% and expects that the present volume of 1,50,000 units per annum will increase to 2,00,000. Bee wants to earn a 10% target profit on sales. Based on detailed value engineering, the comparative position is as given below:

Particulars	Existing (₹)	Target (₹)
Direct material cost/unit	400	385
Direct manufacturing labour/unit	55	50
Direct machinery costs/unit	70	60
Direct manufacturing costs/unit	525	495
Manufacturing overheads:		
No. of orders (₹ 80 per order)	22,500	21,250
Testing hours (₹ 2 per hour)	45,00,000	30,00,000
Units reworked (₹ 100 per unit)	12,000	13,000

Manufacturing overheads are allocated using relevant cost drivers. Other operating costs per unit for the expected volume are estimated as per below:

Research and design	₹ 50
Marketing and customer service	₹ 130
Total	₹ 180

Required:

- Calculate target costs per unit and target costs for the proposed volume showing break-up of different elements.
- Prepare target product profitability statement.

5+5

SECTION B (20 Marks)

IT & Econometric tool in Performance Management

You are to answer any one Question, carrying 20 marks.

- What do you think, would be the impact on the different levels of management due to computers and MIS?
 - What are the benefits that would accrue to a company practicing Total Productivity Management? 10+10
- What is "Six Sigma"? What are the different key roles that have been identified by Six Sigma for its successful implementation?
 - What are "Decisions Support Systems"? What are the different benefits that Decision Support System can provide to a company? 10+10

SECTION C (20 Marks)

Enterprise Risk Management

You are to answer any one Question, carrying 20 marks.

9. (a) Describe Corporate Risk Management & Explain relationship between Risk & Strategy.
(b) Do successful growth strategies automatically lead to a boost in profits?
(c) What is Risk Pooling? 8+6+6
10. (a) RBI has developed certain guidelines with respect to operational risk in financial institutions. Discuss.
(b) Discuss the concept of "Generally Accepted Cost Accounting Principles".
(c) What is Gambler's Ruin Theory?
(d) Discuss the concept of Risk Mapping. 8+4+3+5
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