

Managing the Multi-Business Firm and Analyzing Strategic Edge

Lesson 6

KEY CONCEPTS

■ Business Process Reengineering ■ Benchmarking ■ Total Quality Management ■ Six Sigma ■ Benchmarking Wheel

Learning Objectives

To understand:

- Meaning and crucial facets of Business Process Reengineering
- Concept of Benchmarking
- Total Quality Management
- Critical facets of Six Sigma and how six sigma works
- Various Case studies from the Indian Context to establish a Strategic Mindset

Lesson Outline

- Business Process Re-Engineering (BPR)
- Objectives of Business Process Reengineering
- Factors for Successful Implementation of BPR
- Steps for Business Process Reengineering
- Benchmarking
- Types of Benchmarking
- Approaches
- Benchmarking Wheel
- Total Quality Management
- Implementation Principles and Processes
- Six Sigma
- How does 6 sigma work?
- Six Sigma Training and Certification Level
- A Comparison of Business Process Reengineering vs. Six Sigma
- Case studies from the Indian Context to Establish a Strategic Mindset
- Case Study-1: A Better Business Model for Fashion from Zara
- Case Study-2: McDonald's Marketing Tactics
- Case Study-3: SWOT Analysis : The Fulcrum of Strategic Decision Making
- Case Study-4: Functional Level Strategies – An Effective Tool to Achieve Organizational Goals
- Case Study-5: Using Aims and Objectives to Create a Business Strategy
- Case Study-6: McDonald's Corporation Michael Porter Five Forces Model
- Case Study-7: Ashwamedha Rudrapeeth Limited
- Lesson Round-Up
- Glossary
- Test Yourself
- List of Further Readings
- Other References

BUSINESS PROCESS RE-ENGINEERING (BPR)

Also known as Business Process Redesign, Business Transformation, or Business Process Change Management, Business Process Reengineering (BPR) is an endeavour to fabricate the operations of the business on an extensive scale and the act of recreating a core business process with the goal of improving product output, quality, or reducing costs.

Adopting BPR as a change management tool requires the organizations to make an introspection about the fundamentals of the company itself i.e. 'What they do?', 'Why they do things?' and 'Why do we do things the way we do it?'

The primary objective of BPR is to:

- Eliminate redundancies or futile layers in the whole process.
- Eliminate enterprise costs.

Business Process Reengineering- Definition

As per **Hammer and Champy (1993)**: "Business Process Re-Engineering (BPR) is the fundamental rethinking and radical redesign of business processes aimed at achieving radical improvements in essential contemporary measures of performance, such as cost, quality, service and speed."

Hammer and Champy (1993) further stress "Reengineering is about business reinvention- not business improvement, business enhancement, or business modification. "Business process is another core concept in BPR which discards Adam Smith's notion of division of labour and specialization as applied in the form of breaking work into its simplest tasks and assigning each task to a specialist. Instead Hammer and Champy (1993) define business process as "a collection of activities that takes one or more kinds of input and creates an output that is of value to the customer".

Thus, reengineering should not be about making marginal changes but ensuring quantum leaps in performance. In other words, BPR is another form of process innovation because it attempts to re-create processes.

Origin

Business process reengineering became popular in the business world in the 1990s, inspired by an article called Reengineering Work: Don't Automate, Obliterate, an article in Harvard Business Review (in July–August 1990) which was published in the Harvard Business review by Michael Hammer, the then professor of Computer Science at MIT. Hammer tested BPR as an examination of the manner Information Technology was having an impact on business processes (the Economist, 2009).

The underlying principle of BPR is that the managers must demolish such components of work that do not make any value addition and further automating it if possible. At the core of BPR was viewed as a revolutionary, fast-track and drastic change process (rather than incremental one) that could trigger fundamental changes in the business process itself such as job design, organizational structures, or management systems (Hammer and Champy, 1993).

After evolution of the concept, BPR was successfully implemented by a few high-profile organisations such as Hallmark, a famous greeting card company. Hallmark completely re-engineered its new product process. Similarly, the popular company Kodak also re-engineered its black-and-white film manufacturing process and cut the firm's response time of new orders to the tune of fifty per cent. Furthermore, with the advent of enterprise resource planning (ERP) which enabled electronic communications across company business processes, BPR got more popularity (The Economist, 2009).

Objectives of Business Process Reengineering

The following are the objectives for entities to opt for BPR:

- Boost effectiveness and produce higher quality products for end customer.
- Improve efficiency in the production processes.
- Cost saving in the long run.
- Providing more meaningful work to employees.
- To be more adaptable and flexible towards future changes.
- Enable new business growth and expansion.

Typology of BPR Projects

Earl (1994) provides a four-strand typology of BPR projects which can be applied across any organization irrespective of what business it is involved in. These are:

- **Core Processes:** Core processes are central to business functioning and represent the primary value-chain activities which relate directly to external customers. Examples being order fulfillment processes.
- **Support Processes:** Support processes are back office processes which reinforce the core processes. These are typically secondary value-chain activities and relate more to internal customers. Typical examples being information technology, financial systems, and human resources systems.
- **Business Network Processes:** Business network processes are the processes which extend beyond the boundaries of the organization into other organizations such as suppliers and customers.
- **Management Processes:** Those processes through which firms plan, organize and control resources. Examples include strategy development, direction setting, and managing the organization.

Factors for Successful Implementation of BPR

As per Hammer and Champy (1993), “BPR is certainly a ‘Change Management’ approach that aims at bringing in fundamental improvements in the business performance of any organisation. It is a detailed blueprint of how the new processes are tested, the plan of redeployment of employees, the re-arrangement of resources and controlling and monitoring of its implementation plan.” Al-Mashari and Zairi (1999) have identified five factors for a successful implementation of BPR i.e.

- Change in management
- Management competencies
- Organizational structure
- BPR project management
- IT sub-structures.

BPR is commonly termed as a bi-fold challenge viz. technical and socio-cultural (Reijersa and Mansarb, 2005). The technical challenge consists of creating radical process design to improve existing systems. The socio-cultural challenge stems from reaction against change from organisational employees. (CIPS: Achieving results through BPR and BPO). Therefore, the reasons for failure of BPR (Crowe et al., 2002 and Kotter, 1996) may be:

- Employees’ resistance against change
- Communication breakdown
- Personnel turnover during transition.

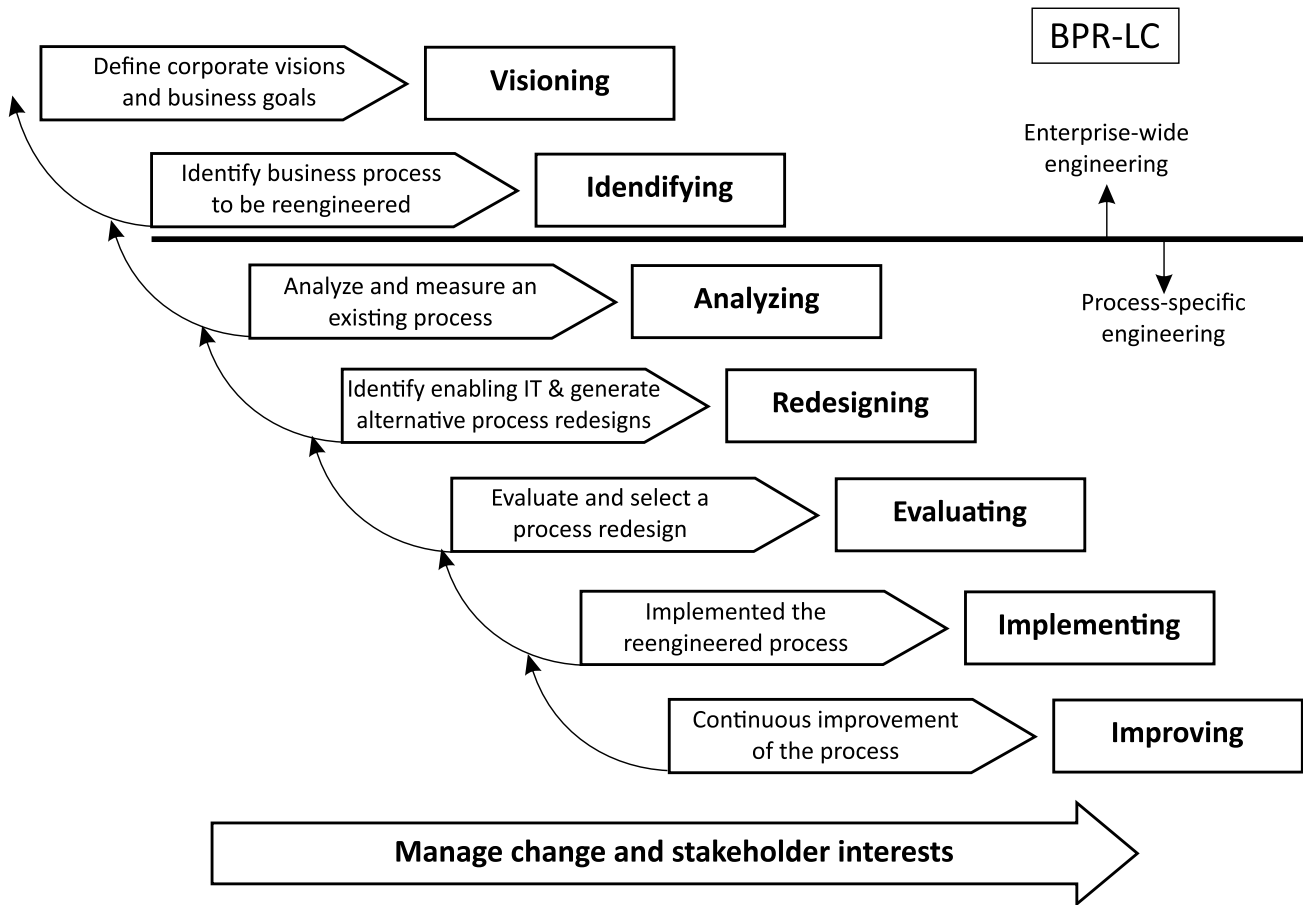
BUSINESS PROCESS REENGINEERING

Business Process Reengineering (BPR) refers to an attempt to improve the operation of the business on a broad scale. The primary aim of BPR is to cut down process redundancies and enterprise costs.

Tools	Steps
<ul style="list-style-type: none"> ● Customer and Process Focus ● Visualization for End Process and Benchmarking ● Change Management ● Business Process Mapping 	<ol style="list-style-type: none"> 1. Define Objectives and Framework 2. Identify Customer Needs 3. Study the Existing Process 4. Formulate a Redesign Business Plan 5. Implement the Redsign

Steps involved in Business Process Reengineering

BUSINESS PROCESS REENGINEERING LIFE CYCLE



A well-conducted execution of Business Process Reengineering can prove to be a game-changer for an organization. BPR can revive a failing entity and lead it to the path of profit maximization. However, executing BPR may not be easy as it involves enforcing a change in the entire organization. BPR comprises the following steps:

- **Define : Objectives and Framework**

There must be a clear definition of the objectives of choosing BPR. Such objectives must be clearly laid out in qualitative and quantitative terms. After defining such objectives, the requirement for change must be communicated to the employees to apprise them about the upcoming processes. This becomes important as the willingness of the employees to adopt the change is a key for the success of BPR.

- **Identify : Customer Needs**

The requirements and feedback of the customers must be given due importance while designing the BPR. It must be ensured that the new processes are able to deliver the added value to the customer.

- **Study: The Existing Process**

In order to re-engineer, the company must have to analyze its existing business process. A SWOT should be carried out to have a clear view of the strengths and weaknesses of the existing processes.

- **Formulate: A Redesigned Business Plan**

After an analysis of the prevailing business process, the modifications to be made are chalked down. These modifications form a base for the re-designing of process. Then, a plan is laid down by selecting the best alternative.

- **Implement: The Redesign**

The last step is to implement the redesigned plan. Management should make sure that the new process is operational and adopted by the team. Such a support from the team is indeed critical to the success of BPR.

CASE STUDY

Infosys :Business process re-engineering for the commissions process

The client

An Australian corporation, which is among the top ten banking institutions and top five general insurers, has one of the highest cross-sell rates in the financial sector. The insurance activities of the company cover personal insurance, corporate coverage, and workers' compensation.

Business need

Alliances and intermediaries were key growth drivers in the long-term strategy of the client. In order to better manage the channel behavior and meet the organization's objectives, the ability to pay accurate and timely commissions was an important element. This was considered a critical competitive edge and a weak link in the client's back office capabilities.

Challenges and requirements

The following challenges were faced during implementation:

- The existing operations comprised of manual processes using band aid systems which were high-cost and presented serious risks.

- This organization paid about AUS\$90 million per year in commissions, which was approximately 20 percent of its profits before goodwill and taxes. At the same time, it lost significant amount on overpayments and commission leakage.

Infosys role

Infosys studied the processes and identified improvement initiatives that would benefit the client. Infosys recommended a centralized commission management organization and articulated the desired business capabilities for a group commissions solution with the following objectives:

- Coverage of
 - Multiple businesses – insurance, wealth management, banking
 - Multiple brands
 - Different distribution models – multiple intermediary types
 - Consolidation of several existing legacy systems
 - Integration with product (Hogan, Cogen), payment (PeopleSoft), and CRM (Enterprise) systems
 - Scalability – large number of intermediaries (>5000) across BUs and 400,000 transactions per month.

Infosys assessed vendors in the enterprise incentive management space based on multiple criteria. The vendors included Callidus, Synogy, Centive, Trilogy, and Siebel. Infosys evaluated and selected a vendor as a recommended integrated commissions platform. At the same time, Infosys also built the business case for the investment as well the implementation plan for all initiatives.

Benefits

The benefits of the solution include:

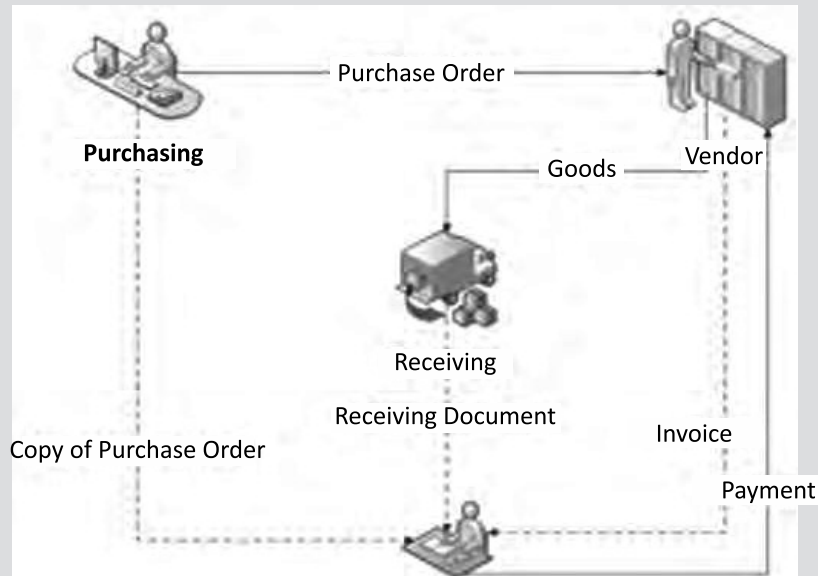
- Identification of the most suitable solution based on a list of quantifiable criteria (cost, project risk / ease of implementation timelines, functionality fit), and a complex evaluation process.
- Creation and articulation to the executive team of the business benefits arising from various initiatives including implementation of an integrated commissions platform.

Source: <https://www.infosys.com/industries/insurance/case-studies/Pages/business-process-reengineering.aspx>

Business Process Reengineering – The case of Ford's Accounts Payable

One of the companies that successfully utilised BPR in the initial years is Ford, for its accounts payables system. Before implementation, Ford used the accounts payable as shown in the figure below. Ford's purchasing department initially sends a purchase order for raw materials. It also sends a copy of the purchase order to the accounts payable department. After sending the raw materials, the vendor raises an invoice to the accounts payable department. The accounts payable department tallies the purchase order, received materials and invoices and makes payments to the supplier. Ford employed about 500 people to handle the entire process, whereas its competitor, Mazda, a Japanese car manufacturer has managed the same process with 100 people, a remarkably low number of employees even if the size is taken into consideration.

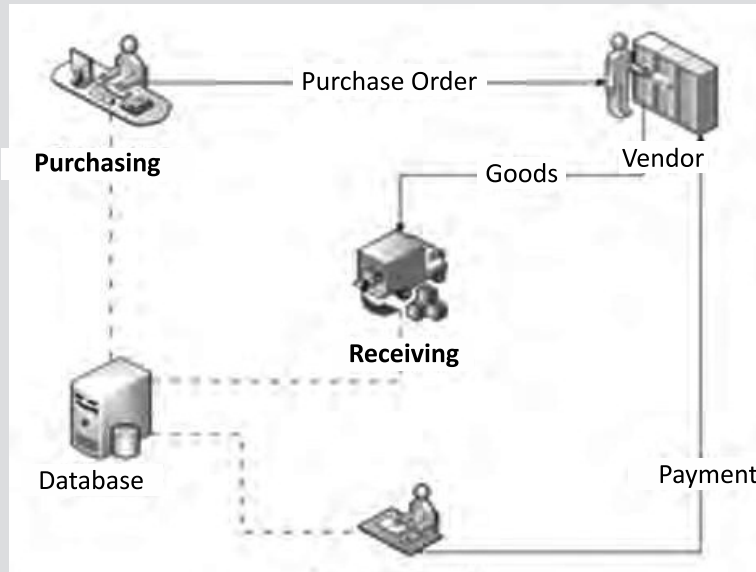
Ford Accounts Payable Process – Before Business Process Reengineering



Account payable before BRR

Instead of making minor changes to the business processes, Ford has decided to use BPR and information technology to radically change its accounts payable process. It has implemented an invoice-less process. The purchasing order will be raised by the purchasing departments and updated in the database. As soon the materials have been received a warehouse man would update the materials received and the payment will be automatically be made without waiting for the invoice to be received from the vendor.

Ford Accounts Payable Process – After Business Process Reengineering



Account payable after BRR

Through these changes in the business process, Ford had achieved a 75% reduction in employees in the administration department.

Reengineering of the Product Development Process of Airbnb

Airbnb is known for their coolness. Want to sleep in a treehouse in the Balinese jungle? It's just a few clicks away. Looking to make some secondary income on your vacation home? List it on Airbnb.

Behind the scenes, the company was struggling to find their internal identity in a design-centric Silicon Valley, and to create a sustainable, quick to deliver, product development process.

Problem Definition

The three main functions which contributed to the Airbnb product development process — designers, engineers, and researchers — worked in silos, only jumping into the process at defined times.

Those defined times weren't serving the end goal of delivering a great product on time. Designers had to wait on engineers to write code before a mock-up could be visualized on screen. In turn, engineers had to wait on researchers to validate product ideas, only to find at the very end that project assumptions were off-base.

This was less so a failure of bulldozing researchers, needy designers or overly-coveted engineers. It was a process failure. This triggered the need for more deep and consistent engagement between teams. In this regard, the company devised three solutions which are as under:

1. Treat Geographically Dispersed Resources as they were Centralized-

The product development process needed to be reengineered. Not optimized or automated, but fundamentally redesigned. According to Alex Schleifer, Head of Design at Airbnb, he and about 300 other people on Airbnb's product team spent nine months doing just that.

The solution was to create one digital environment where designers and engineers would work seamlessly together. Rather than each team working on separate systems, which meant rounds and rounds of "quasi- prototypes" and "layers of abstraction", this single digital environment enables files to show updates in real time and reflect real data.

BPR Learning

Treat geographically dispersed resources as though they were centralized. In Airbnb's case, the way to centralize the product development process was to centralize the internal development tool. Even if coworkers weren't able to sit in the same room, they were looking at the same product in real time. This virtual centralization supports the team in quick back and forth product development.

2. Organize Around Outcomes, Not Tasks

Another part of the reengineering solution of Airbnb's product development process was to design product teams around outcomes, not features. This approach baked in an unfamiliar step into the product development process — emotions. Teams were now pushed to talk about outcomes from both a lofty, aspirational perspective, as well as a knitty gritty code perspective.

BPR Learning

Organize around outcomes, not tasks. This principle holds true when applied to common business processes such as Procure-to-Pay and Order-to-Cash, but also to Product Development. When individual tasks (or in Airbnb's case, features) become the organizational priority, the larger outcome is mistakenly shelved for the immediate need of the task.

3. Link Parallel Activities instead of Integrating their Results

A thought emerged that what about the researchers who would come in at the end of a project and bulldoze everything designers and developers had built. Researchers became deeply embedded into teams, as equal partners of on the product team, forming strong and enduring relationships.

BPR Learning

Link parallel activities instead of integrating their results. By embedding researchers into the process, they were able to validate development stages along the way. Rather than trying to massage in research outcomes to an already existing product, Airbnb links research activities along with designer and engineering activities. (This case study was sourced from the following articles: Wired, Wired, Airbnb, Firstround.)

BENCHMARKING**Benchmarking : Definition**

According to Camp, benchmarking is simply “Finding and implementing the best business practices”.

Benchmarking is a strategy tool of comparison. It is used to compare the performance of the business processes and products of a company with that of the best performances of other companies inside and outside the industry which the company is a part of. Managers use the tool to identify the best practices in other companies and apply those practices to their own processes in order to improve the company’s performance. Improving company’s performance is, without a doubt, the most important goal of benchmarking.

Understanding the tool

In order to know the standing of one’s business, it needs to be compared with the competitors. For example, your top management may be pleased with the fact that the rate of customer satisfaction for your company till they come to know that industry average for this variable is 95 per cent. In this situation, though the rate of 85 per cent seemed too brilliant initially, yet, they will look dull when compared to industry. Therefore, use of ‘benchmarking’ becomes obvious.

Such a type of comparison as mentioned above was not considered important management tool until late 1980s and 1990s. Then, Xerox introduced the process benchmarking technique. Such a comparison proved very valuable and Xerox, AT&T and other companies started to compare the performance of their processes with that of the best standards in the industry. The following table shows how benchmarking evolved into a modern strategy tool:

Benchmarking history	
1950-1975	Reverse engineering
1976-1986	Competitive benchmarking
1982-1986	Process benchmarking
1988+	Strategic benchmarking
1993+	Global benchmarking

Source: J. Blakeman, University of Wisconsin-Milwaukee

Types of Benchmarking

Three major types of benchmarking were identified by Tuominen and Bogan and English:

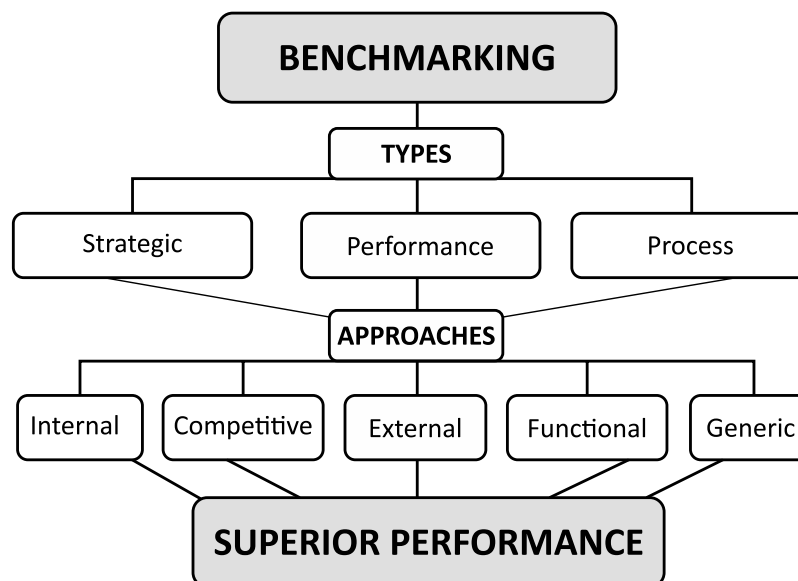
- **Strategic benchmarking:** This type of benchmarking is used to identify the best way to compete in the market. In this type of benchmarking, the companies identify the winning strategies (typically outside the boundaries of their own industry) used by successful companies and thereafter adopt them in their own strategic processes.

- Performance benchmarking: Performance benchmarking determines how strong a company's products and services are when compared to competition. According to Bogan and English, the tool mainly focuses on product and service quality, features, price, speed, reliability, design and customer satisfaction, but it can measure anything that has the measurable metrics, including processes.
- Process benchmarking: It requires to look at other companies that engage in similar activities and to identify the best practices that can be applied to your own processes in order to improve them. It usually derives from performance benchmarking. This is because companies first identify the weak competing points of their products or services and then focus on the key processes to eliminate those weaknesses.

Approaches

- Internal benchmarking: In large organizations that have operations in multiple geographic locations within or outside national and regional boundaries, or organisations managing plentiful products and services, duplicating functions and processes are usually performed among different teams, business units or divisions of the same organisation. Internal benchmarking is used to compare the work of such teams, units or divisions to identify the ones that are best performing and share the knowledge throughout the company to other teams to achieve higher performance.
- External or competitive benchmarking: Competitive benchmarking refers to a process when a company compares itself with the competitors inside its industry itself. External benchmarking looks both inside and outside the industry to find the best practices, thus, including competitive benchmarking.
- Functional benchmarking: Managers of functional departments find it useful to analyze how well their functional area performs compared to functional areas of other companies. It is quite easy to identify the best marketing, finance, human resources or operations departments, in other companies, that excel in what they do and to apply their practices to one's own functional area.
- Generic benchmarking: General benchmarking refers to comparisons which "focus on excellent work processes rather than on the business practices of a particular organization". For example, a company tries to improve its marketing capabilities and benchmarks itself against company 'X'. While observing company's 'X's' marketing processes, it also notices the efficiency in management of its human resources by using 'big data' analytics. This gives it an idea to implement such analytics in its own HR department to significantly improve its overall performance.

The following diagram summarizes the types and approaches to benchmarking:



Advantages

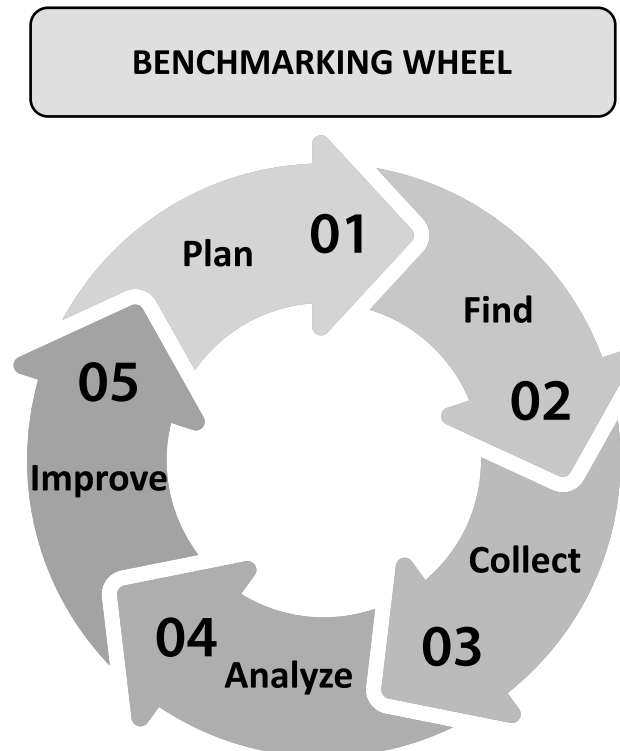
- Easy to understand and use.
- If done properly, it's a low cost activity that offers huge gains.
- Brings innovative ideas to the company.
- Provides with insight of how other companies organize their operations and processes.
- Increases the awareness of costs and level of performance compared to rivals.
- Facilitates cooperation between teams, units and divisions.

Disadvantages

- Requires identification of a benchmarking partner.
- Sometimes impossible to assign a metric to measure a process.
- Might need to hire a consultant.
- The initial costs could be huge.
- Managers often resist the changes.

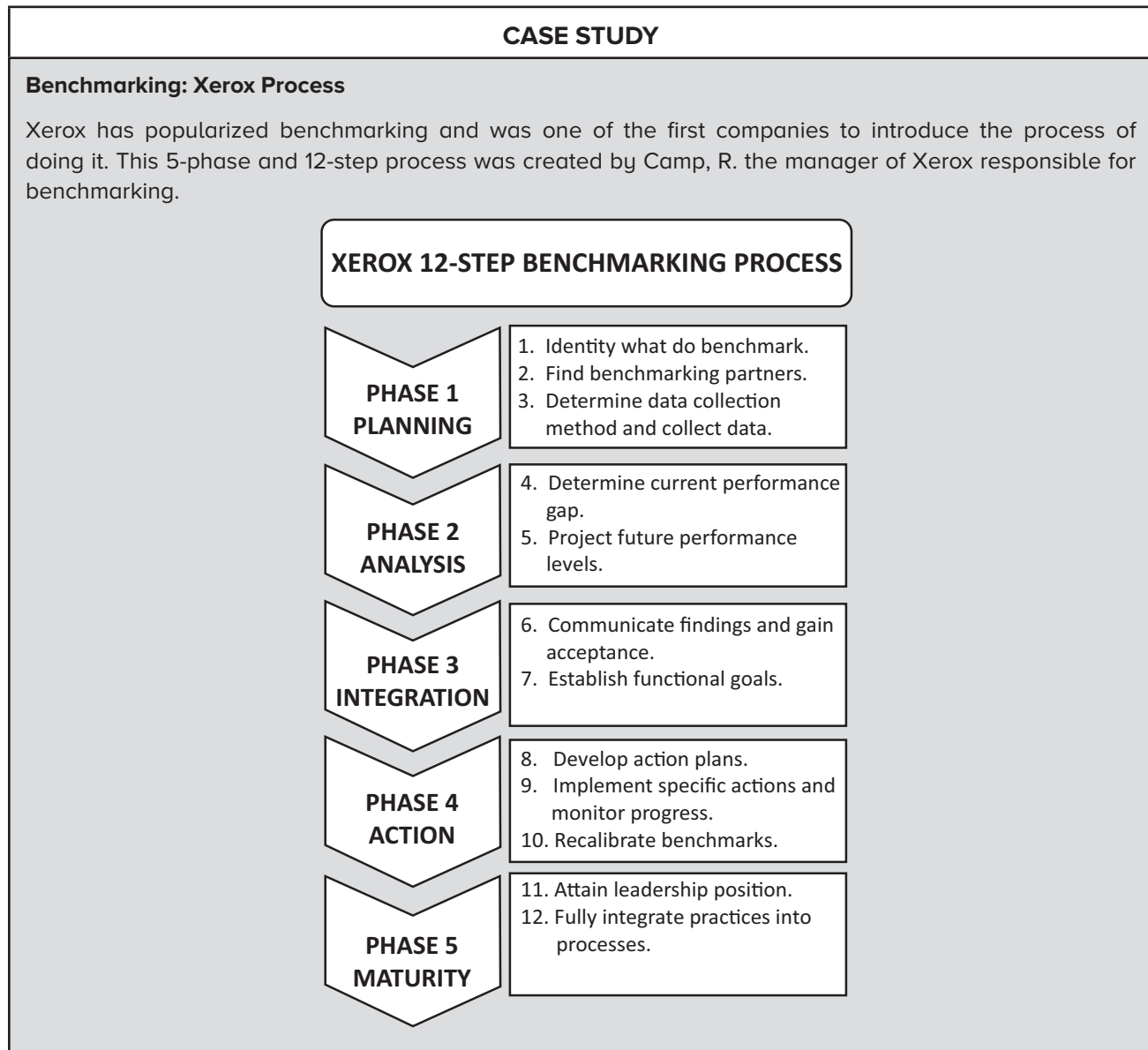
Benchmarking Wheel

The benchmarking wheel model was first brought out in an article “Benchmarking for Quality”. This is a five stage process that was created by analyzing more than 20 other models.



1. **Plan:** Clearly define what you want to compare and assign metrics to it.
2. **Find:** Identify benchmarking partners or sources of information.
3. **Collect:** Choose the methods and gather the data for the metrics defined.

4. **Analyze:** Compare the metrics to identify the gap in performance between your company and the benchmarking partner. Provide the results and recommendations.
5. **Improve:** Implement the changes to your own products, services, processes or strategy.



TOTAL QUALITY MANAGEMENT

Total Quality Management (TQM) is a concept given by W. Edwards Deming. Total Quality Management is a management approach that originated in the 1950s and has steadily become more popular since the early 1980s. It was originally introduced in Japan after World War II to assist the Japanese companies to re-build their economy. The main focus of TQM was and is continuous quality improvement in the areas of product or service, employer-employee relations and consumer-business relations. Total Quality is a description of the culture, attitude and organization of a company that strives to provide customers with products and services that satisfy their needs. The culture requires quality in all aspects of the company's operations, with processes being done right for the first time to eradicate defects waste from operations.

TQM Defined

“Quality” is “a degree of excellence”, it is a degree to which a product lives up to its performance, endurance, maintainability, and other attributes expected by a customer while buying that specific product. For meeting such expectations of the customer, one must instill the concept of TQM in product development process. The word “total” means the sum total of every process, every job, every resource, every output, every person, every time and every place.

Definitions

American Society for Quality Control (ASQC) defines Total Quality Management (TQM) as “a management approach to long-term success through customer satisfaction. TQM is based on the participation of all members of an organization to improving processes, products, services, and the culture they work in. TQM benefits all organization members and society. The methods for implementing this approach are found in the teachings of such quality leaders as Philip B. Crosby, W. Edwards Deming, Armand V. Feigenbaum, Kaoru Ishikawa, and J.M. Juran.”

ISO defined TQM as “A management approach of an organization centered on quality, based on participation of all its members and aiming at long term benefits to all members of the organization and society.”

Brockman, J. R. (1992) has defined that “TQM is a management philosophy, embracing all activities through which the need of customer, the community and the objectives of the organization are satisfied in the most effective and potential of all employees in continuing drive for improvement.”

TQM is a management philosophy that views an organization as a collection of processes such as marketing, finance, design, engineering, and production, customer service, etc. thereby, focussing on meeting customer needs and organizational objectives.

The simple objective of TQM is “Do the right things, right the first time, every time.” Although originally applied to manufacturing operations, TQM is now becoming recognized as a Generic Management tool and is being widely applied in a number of service and public sector organizations all over the world.

Some examples of the companies who have implemented TQM include Ford Motor Company, Phillips Semiconductor, SGL Carbon, Motorola and Toyota Motor Company.

There are a number of evolutionary strands, with different sectors creating their own versions from the common ancestor. TQM is the foundation for activities, which include:

- Commitment by senior management and all employees.
- Meeting customer requirements.
- Reducing development cycle times.
- Just in time/demand flow manufacturing.
- Improvement teams.
- Reducing product and service costs.
- Systems to facilitate improvement.
- Line management ownership.
- Employee involvement and empowerment.
- Recognition and celebration.

- Challenging quantified goals and benchmarking.
- Focus on processes / improvement plans.
- Specific incorporation in strategic planning.

This shows that TQM must be practiced in all activities, by all personnel, in manufacturing, marketing, engineering, R&D, sales, purchasing, HR, etc.

Principles of TQM

The key principles of TQM are as following:

<p>Management Commitment</p> <ul style="list-style-type: none"> ● Plan (drive, direct) ● Do (deploy, support, participate) ● Check (review) ● Act (recognize, communicate, revise) 	<p>Employee Empowerment</p> <ul style="list-style-type: none"> ● Training ● Suggestion scheme ● Measurement and recognition ● Excellence teams 	<p>Fact Based Decision Making</p> <ul style="list-style-type: none"> ● SPC (statistical process control) ● DOE, FMEA ● The 7 statistical tools ● TOPS (Ford 8D – team-oriented problem solving)
<p>Continuous Improvement</p> <ul style="list-style-type: none"> ● Systematic measurement and focus on CONQ ● Excellence teams ● Cross-functional process management ● Attain, maintain, improve standards 		<p>Customer Focus</p> <ul style="list-style-type: none"> ● Supplier partnership ● Service relationship with internal customers ● Never compromise quality ● Customer driven standards

Characteristics of Total Quality Management

The most practical implementations of Total Quality Management involve the following most widely principles:

- *Total involvement of employees:* The most fundamental characteristic of TQM is total employee involvement. Only empowered and valiant employees who can take a stand for their work and understand the mechanism of operations of their organization operates as a whole can achieve desired level of performance by improving their efficiency. Further, employee involvement can also be attained by adopting a culture of continuous improvement and team empowerment.
- *Customer focus:* TQM views end customers as the sole measure of quality and success. Any effort, including employee training, infrastructure upgrades, software investments, or product releases, is worthwhile only if it aims at benefitting customers.
- *Continual improvement:* Organizations who practice TQM believe that merely maintaining the same level of quality and customer satisfaction is not enough to outperform competition. Rather, top management has the responsibility for promotion of culture of innovation and creativity to customers' expectations and maintain competitiveness.
- *Process approach:* It calls for breaking all processes into a series of steps, be it internal or external. The

rationale of this is that each such step can be analyzed, measured and improved upon to attain desired results.

- *System Approach to Management:* All inter-related processes should be managed as a system to ensure that improvement efforts are focused on 'key' processes and integrated to achieve the desired results.
- *Fact-based decisions:* TQM requires organizations to collect data to improve decision-making, reach agreements on key business directions and make predictions based on historical data.
- *Leadership/strategy definition:* A strategic plan should be developed to achieve organization's vision, objectives and goals with 'quality' as a key component. Leadership is a key attribute as it establishes the direction of the organization. TQM advocates that leaders create an enabling environment for achieving business objectives.
- *Mutually beneficial relationship with suppliers:* An organization depends on its suppliers and this relationship should be strengthened to ensure that a mutually beneficial relationship is sustained.

Principles of Total Quality Management

There are eight principles of Total Quality Management which are discussed below:

- **Customer-focused**

The customer ultimately determines the level of quality. No matter what an organization does to foster quality improvement – training employees, integrating quality into the design process, upgrading computers or software, or buying new measuring tools – the customer determines whether the efforts were worthwhile.

- **Total Employee Involvement**

All employees participate in working toward common goals. Total employee commitment can only be obtained after fear has been driven from the workplace, when empowerment has occurred, and management has provided the proper environment. High-performance work systems integrate continuous improvement efforts with normal business operations. Self-managed work teams are one form of empowerment.

- **Process-centered**

A fundamental part of TQM is a focus on process thinking. A process is a series of steps that take inputs from suppliers (internal or external) and transforms them into outputs that are delivered to customers (again, either internal or external). The steps required to carry out the process are defined, and performance measures are continuously monitored in order to detect unexpected variation.

- **Integrated System**

Although an organization may consist of many different functional specialties often organized into vertically structured departments, it is the horizontal processes interconnecting these functions that are the focus of TQM.

- **Strategic and Systematic Approach**

A critical part of the management of quality is the strategic and systematic approach to achieving an organization's vision, mission, and goals. This process, called strategic planning or strategic management, includes the formulation of a strategic plan that integrates quality as a core component.

- **Continual Improvement**

A major thrust of TQM is continual process improvement. Continual improvement drives an organization to be both analytical and creative in finding ways to become more competitive and more effective at meeting stakeholder expectations.

- **Fact-based Decision Making**

In order to know how well an organization is performing, data on performance measures are necessary. TQM requires that an organization continually collect and analyze data in order to improve decision making accuracy, achieve consensus, and allow prediction based on past history.

- **Communications**

During times of organizational change, as well as part of day-to-day operation, effective communications play a large part in maintaining morale and in motivating employees at all levels. Communications involve strategies, method, and timeliness.

Continuous Improvement by TQM

TQM is mainly concerned with continuous improvement in all work, from high level strategic planning and decision-making, to detailed execution of work elements on the shop floor. It stems from the belief that mistakes can be avoided and defects can be prevented. It leads to continuously improving results, in all aspects of work, as a result of continuously improving capabilities, people, processes, technology and machine capabilities.

Continuous improvement must deal not only with improving results, but more importantly with improving capabilities to produce better results in the future. The five major areas of focus for capability improvement are:

- Demand generation,
- Supply generation,
- Technology,
- operations, and
- People capability.

Implementation Principles and Processes

Assess the organization's current reality: A preliminary step in TQM implementation is to assess an organization's current reality. Relevant preconditions have to do with the organization's history, its current needs, precipitating events leading to TQM, and the existing employee quality of working life. If an organization has a track record of effective responsiveness to the environment, TQM will be easier to implement.

However, if there is no track-record of responsiveness, there will be both employee skepticism and a lack of skilled change agents. If this condition prevails, a comprehensive program of management and leadership development may be instituted. A management audit is a good assessment tool to identify current levels of organizational functioning and areas in need of change.

An organization should be basically healthy before beginning TQM. If it has significant problems such as a very unstable funding base, weak administrative systems, lack of managerial skill, or poor employee morale, TQM would not be appropriate. However, a certain level of stress is probably desirable to initiate TQM.

A crisis, if it is not too disabling, can also help create a sense of urgency which can mobilize people to act. In the case of TQM, this may be a funding cut or threat, or demands from consumers or other stakeholders for improved quality of service. After a crisis, a leader may intervene strategically by articulating a new vision of

the future to help the organization deal with it. A plan to implement TQM may be such a strategic decision. Such a leader may then become a prime mover, who takes charge in championing the new idea and showing others how it will help them get where they want to go. Finally, action vehicles are needed and mechanisms or structures to enable the change to occur and become institutionalized.

Conclusion

TQM encourages participation amongst shop floor workers and managers. There is no single theoretical formalization of total quality, but Deming, Juran and Ishikawa provide the core assumptions, as a “discipline and philosophy of management which institutionalizes planned and continuous improvement and assumes that quality is the outcome of all activities that take place within an organization; that all functions and all employees have to participate in the improvement process; that organizations need both quality systems and a quality culture.”

CASE STUDY

FORD MOTOR COMPANY – TOTAL QUALITY MANAGEMENT

Ford Motor Company total quality management or TQM practices started in the 1980s when “Quality Is Job 1” was their slogan. How did TQM work at Ford and are they still standing behind this process? Jean Scheid, a Ford Dealer talks with Ford management along with some insights of her own.

When an invasion of Japanese imports threatened the American automobile industry, the Ford Motor Company led a quality revival based on the management philosophy of W. Edwards Deming, who was controversial then and is out of fashion now.

The results of the movement, known as Total Quality Management, were stunning at Ford. After racking up \$3 billion in losses between 1979 and 1982, Ford hit a series of home runs, including the aerodynamic Taurus- Sable cars, and by 1986 had become the most profitable American auto company.

Now, though, Ford’s hard-won reputation for quality is being tarnished by a series of setbacks, from the controversy over deadly rollovers of Ford Explorers equipped with Firestone tires to costly recalls of several models and delays on the introductions of others. Indeed, according to recent surveys by Consumer Reports and J. D. Power & Associates, overall quality and customer satisfaction for Ford cars now lag the competition.

And so, once again, the company is embracing quality as the answer to its problems. This time, it has seized on Six Sigma, a management tool that is sweeping corporate America. “It was a good way to get a common language around innovation and marketing,” said Jacques Nasser, Ford’s chief executive, who started the Six Sigma program in 1999.

Six Sigma was popularized by John F. Welch Jr. of General Electric in the 1990’s. Adopting it does, however, point to a management problem. Too often, when it comes to management tools for improving efficiency and worker productivity, companies have to reinvent the wheel.

The customer knows best: AtlantiCare

TQM isn’t an easy management strategy to introduce into a business; in fact, many attempts tend to fall flat. More often than not, it’s because firms maintain natural barriers to full involvement. Middle managers, for example, tend to complain their authority is being challenged when boots on the ground are encouraged to speak up in the early stages of TQM. Yet in a culture of constant quality enhancement, the views of any given workforce are invaluable.

Profits after quality improvement strategy

One firm that's proven the merit of TQM is New Jersey-based healthcare provider AtlantiCare. Managing 5,000 employees at 25 locations, AtlantiCare is a serious business that's boasted a respectable turnaround for nearly two decades. Yet in order to increase that margin further still, managers wanted to implement improvements across the board. Because patient satisfaction is the single-most important aspect of the healthcare industry, engaging in a renewed campaign of TQM proved a natural fit. The firm chose to adopt a 'plan-do-check-act' cycle, revealing gaps in staff communication – which subsequently meant longer patient waiting times and more complaints. To tackle this, managers explored a sideways method of internal communications. Instead of information trickling down from top-to-bottom, all of the company's employees were given freedom to provide vital feedback at each and every level.

AtlantiCare decided to ensure all new employees understood this quality culture from the onset. At orientation, staff now receive a crash course in the company's performance excellence framework – a management system that organises the firm's processes into five key areas: quality, customer service, people and workplace, growth and financial performance. As employees rise through the ranks, this emphasis on improvement follows, so managers can operate within the company's tight-loose-tight process management style.

After creating benchmark goals for employees to achieve at all levels – including better engagement at the point of delivery, increasing clinical communication and identifying and prioritising service opportunities – AtlantiCare was able to thrive. The number of repeat customers at the firm tripled, and its market share hit a six-year high. Profits unsurprisingly followed. The firm's revenues shot up from \$280m to \$650m after implementing the quality improvement strategies, and the number of patients being serviced dwarfed state numbers.

SIX SIGMA

Six Sigma is a disciplined, statistical-based, data-driven quality control program. It is a methodology for continuous cycle time improvement (the reduction of manufacturing defects to a level of no more than 3.4 per million) by eliminating defects in any product, process or service. Developed by Motorola in middle 1980's, Six Sigma is based on quality management fundamentals. Due to its accuracy and merits, the approach became popular at General Electric (GE) in the early 1990's. Today, thousands of organisations across the globe have adopted Six Sigma. Six Sigma is:

- *A Business Strategy:* Using Six Sigma Methodology, a business can strategize its plan of action and drive revenue increase, cost reduction and process improvements in all parts of the organization.
- *A Vision:* Six Sigma Methodology helps the Senior Management create a vision to provide defect free, positive environment to the organization.
- *A Benchmark:* Six Sigma Methodology helps in improving process metrics. Once the improved process metrics achieve stability; we can use Six Sigma methodology again to improve the newly stabilized process metrics. For example: The Cycle Time of Pizza Delivery is improved from 60 minutes to 45 minutes in a Pizza Delivery process by using Six Sigma methodology. Once the Pizza Delivery process stabilizes at 45 minutes, we could carry out another Six Sigma project to improve its cycle time from 45 minutes to 30 minutes. Thus, it is a benchmark.
- *A Goal:* Using Six Sigma methodology, organizations can keep a stringent goal for themselves and work towards achieving them during the course of the year. Right use of the methodology often leads these organizations to achieve these goals.
- *A Statistical Measure:* Six Sigma is a data driven methodology. Statistical Analysis is used to identify root- causes of the problem. Additionally, Six Sigma methodology calculates the process performance using its own unit known as Sigma unit.

- *A Robust Methodology:* Six Sigma is the only methodology available in the market today which is a documented methodology for problem solving. If used in the right manner, Six Sigma improvements are bullet-proof and they give high yielding returns.

Six Sigma can also be thought of as a measure of process performance. once the current performance of the process is measured, the goal is to continually improve the sigma level striving towards 6 sigma. Even if the improvements do not reach 6 sigma, the improvements made from one sigma level to other will still diminish costs and augment customer satisfaction.



Why Six Sigma

With the budding costs cost of resources and rise in other factors such as competition, the organizations are forced to look around for alternative methods which add to efficiency. Adoption of Six Sigma methodology helps in improving efficiency in any organization as it meticulously identifies defects and minimizes the variations within a process. This is because, each Six Sigma project is supposed to follow a defined sequence of steps and includes specific improvement targets. Some examples could include:

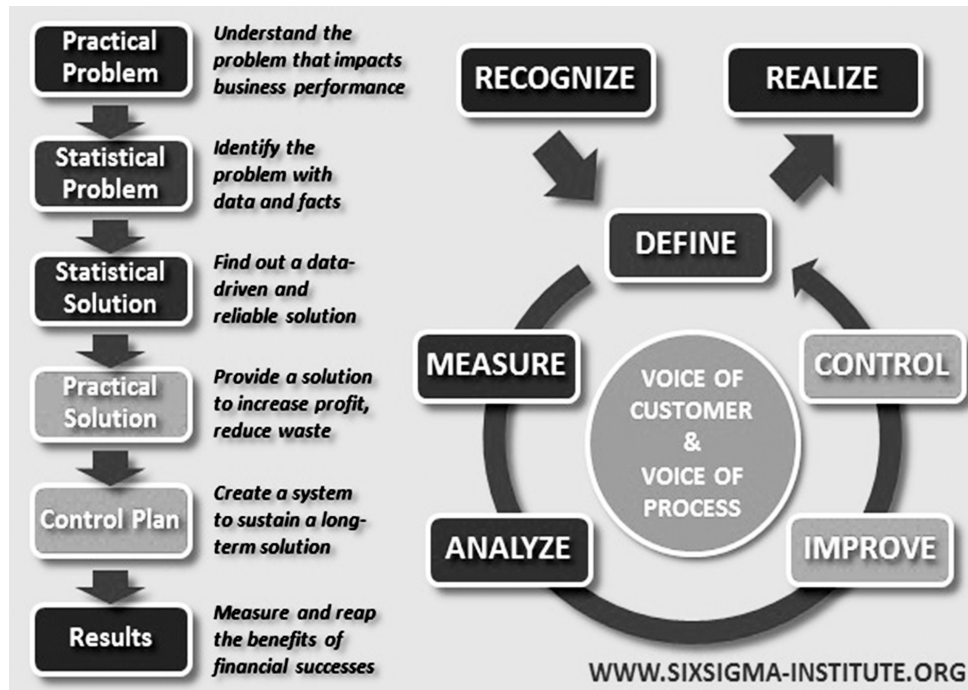
- Decrease in process cycle time.
- Decrease of scrap generated by a process.
- Growing customer satisfaction.
- Decline in the number of factory defects.
- Decrease or elimination of costly reworks.
- Cost Reduction
- Quality Improvement
- Improved Customer Satisfaction
- Take steps to lower the environmental impact due to in-house production

The scope of Six Sigma is not curtailed to the manufacturing industry rather the tools and techniques of Six Sigma are presently being used to improve processes in all type of business organizations, routine office operations, business processes and customer service processes.

How does 6 Sigma work?

A typical Six Sigma project determines the existing state and enhances the performance of the business process to a new and statistically significant improved state with the use of statistical tools. There can be two situations: First, the process already existing but it is not working “reasonably” well; second, there is no process in existence at all.

Situation 1: The process already existing but it is not working “reasonably” well. This scenario focuses on use of DMAIC (which stands for Define, Measure, Analyze, Improve and Control):



1. Define problem statement process goals in terms of key critical parameters on the basis of customer requirements or Voice Of Customer (VOC) and setting project boundaries.
2. Measure a complete picture of the current state of the process and establishes a baseline through measurement of the existing system in context of goals and collecting the data regarding possible causal factors.
3. Analyze the current scenario in terms of causes of variations and defects and determining the root cause.
4. Improve the process by systematically reducing variation and eliminating defects and root causes.
5. Control future performance of the process and support and maintain the gains realized.

Situation 2: This is the situation when there is no process in existence at all and it has to be designed using Design For Six Sigma (DFSS) approach. DFSS approach typically requires IDOV:

1. Identify process goals in terms of critical parameters, industry & competitor benchmarks, Voice Of Customer (VOC).
2. Design involves enumeration of potential solutions and selection of the best.
3. Optimize performance by using advanced statistical modeling and simulation techniques and design refinements.
4. Validate that design works in accordance to the process goals.

Note, sometimes a DMAIC project may turn into a DFSS project because the existing process may require complete re-design making room for a new process due to lack of effectiveness of existing system. Such a development may be discovered during 'improvement phase' of DMAIC.

It is extremely important to remember that Six Sigma is not just about quality of the product but has also to take in account the customers and the market. For instance, in the year 1988, Polaroid had a sale of over US\$ 2 billion, and was an excellent player in stock exchange. In the year 1997, it became a Six Sigma company. However, in late 2001, it had to file bankruptcy because it just kept on focussing on improvement of quality of their products and completely failed to assess the customer needs.

Illustration

Consider a pizza delivery shop that guarantees the order delivery within 30 minutes from the time of accepting an order. In the event of a delivery time miss, the customer is refunded 100% money. It implies that such pizza shop will have to make 99.9997% deliveries within 30 minutes to be called a six sigma shop. There are certain parameters called a Critical To Quality (CTQ) and its example with reference to pizza shop will be:

- CTQ Name: Timely Pizza delivery.
- CTQ Measure: Time in Minutes.
- CTQ Specification: Delivery within 30 minutes from the order acceptance time.

Defect: Delivery that takes longer than 30 minutes.

The Six Sigma Training and Certification Levels

The Six Sigma training and certification levels are emulated from the martial arts. "Six Sigma" management has several levels of certification i.e. Champion, Yellow Belt, Green Belt, Black Belt, and Master Black Belt. Each level of certification is described below.

Champion

A Six Sigma Champion is the most basic form of Six Sigma certification. A Champion understands the theory of Six Sigma management, but does not yet have the quantitative skills to function as an active Six Sigma project team member.

A Yellow Belt

A Six Sigma Yellow Belt is an individual who has passed the Green Belt certification examination but has not yet completed a Six Sigma project. A Yellow Belt should have a basic understanding of Six Sigma, statistical tools and DMAIC methodology. However, executives in Six Sigma organizations function as champions of Six Sigma projects.

Green Belt

A Six Sigma Green Belt is an individual who works on projects part-time either as a team member for complex projects, or as a project leader for simpler projects. Green belts are the "work horses" of Six Sigma projects. Green Belts receive training on DMAIC methodology, statistical tools, proper data collection and analysis of the data collected. Most managers in a mature Six Sigma organization are green belts.

Black Belt

A Black Belt receives the highest level of training in the statistical tools of Six Sigma. Black Belts, as a rule, develop the plans for Six Sigma project implementation. Their responsibilities include creating project plans; leading cross-functional projects and directing team members, including Green and Yellow Belts. Black Belts usually train other team members on the proper use of Six Sigma tools and techniques, such as control charts, histograms and Root Cause Analysis (RCA).

Master Black Belt

A Master Black Belt is classically trained in statistical tools, Six Sigma methodology and management processes. Master Black Belts mentor and direct groups of Black Belts and Six Sigma teams through various problems that need to be reviewed.

CASE STUDY

Six Sigma Implementation in Ford Motor Company

Ford Motor Company, an American Multinational automaker considered as the world's, largest and most successful automakers is famous for introducing revolutionary products. The company is known for its innovative and dynamic approach to manufacturing by using Total Quality Management approach to achieve its vision "Quality Is Job 1". It has employed such manufacturing concepts as standardization, assembly lines, which came to be known as Fordism. Ford was ranked 'seventh' in terms of quality in automobile world in 2001, the position which was soon elevated to third in the year 2003, which was viewed as a remarkable improvement over this two-year period. The credit of such improvement was awarded to quality initiatives taken by Ford in 1999, significant among which was the Six Sigma techniques such as a data-driven problem-solving process, to devise solutions to waste issues. Six Sigma saved Ford from its deep-rooted problems. These issues include inadequate productivity, poor use of resources, low customer satisfaction, and environmental unfriendliness.

Carrying Out the Six Sigma Approach

To actualize the vision of becoming a consumer products company, Ford Motor Company implemented Six Sigma in late 1990s with the twin goals of enhancing vehicle quality and improving the level of customer satisfaction. The initiative was called 'Consumer-driven Six Sigma'. Ford was the first major automobile company in the world to go for Six Sigma initiative in a big way. In Ford's view, there existed about 20,000 opportunities for defects in manufacturing a car. Through Six Sigma, Ford aimed at attaining its defect rate to just one for every 14.8 vehicles.

Reasons to adopt Six Sigma in Ford Motor Company

- Cost Reduction
- Quality Improvement
- Improve Customer Satisfaction
- Reduce solvent consumption to lower the environment impact

Roadblocks in Implementing Six Sigma

- Employee Commitment
- Resource challenge (time, money and productivity)
- Infrastructure to fully run the Six Sigma Initiative as it required enormous data and internal measures.

FORD's improvement after implementation of Six Sigma

- Elimination of more than \$2.19 billion of wastage of resources since 2001.
- An increasingly dramatic impact on operations of the enterprise. After adopting six sigma, Ford has completed more than 9,500 projects savings \$1.7 billion worldwide, including \$731 million in 2003.
- Increase in customer satisfaction to five percentage points as disclosed by company's internal customer satisfaction survey.

A Comparison of Business Process Reengineering vs. Six Sigma

<i>Features</i>	<i>BPR</i>	<i>Six Sigma</i>
General Tendency	Radical redesign	Align and maintain
Business drivers	Recession and changing market needs	Service bundling and internet
Goals	Streamlining	Process alignment
Tools	Process maps	Statistical analysis
Method	Challenge process fundamentals	Prioritize by COPQ (Cost of Poor Quality) and Capability
Deployment	Top-down	Top-Bottom-middle
Key feature	Outside consultants	Internal experts
Impact	Short and medium term	Short, medium and long-term
Role of technology	Enabler	Enabler
Risk/return	High-low	Medium-high

Source: www.sixsigma-institute.org

CASE STUDIES FROM THE INDIAN CONTEXT TO ESTABLISH A STRATEGIC MINDSET**CASE STUDY-1****A BETTER BUSINESS MODEL FOR FASHION FROM ZARA**

One of the most well-known brands in the world and a major player in the global fashion industry is Zara. They are a division of Inditex and the third-largest brand in the clothing sector. Its headquarters are in Spain, and their flagship line of chain stores. In 1975, the first Zara store was established in Spain. Galicia is where the company is headquartered. In the world, there are more than 2600 stores spread across 73 nations. The majority of the parent company's revenues come from the Zara apparel line.

Zara is recognised for developing items quickly rather than taking an eternity. They have a reputation for developing items in about two weeks and producing 10,000 new designs annually (which is an industry record). Instead of moving their whole manufacturing to Third World or Developing countries, they have defied the trend by producing in Europe. Yet, because some of their clothing has a longer shelf life, some of it is produced in Asia. Since they operate numerous facilities in both Spain and Portugal, they produce the majority of their goods domestically or in other European nations. They also don't have to depend on anyone else as they can get everything done by themselves.

Zara is distinctive in that it focuses on opening new stores rather than spending money on marketing. They have earned a reputation as one of the most creative shops in the world because to their daring efforts. When Zara first started off, its products were cheap knockoffs of expensive apparel. Due to the success of this decision, Zara was able to grow by adding more stores in Spain. The corporate management also managed to shorten the time it required to generate new designs and came up with the term "instant fashions" which allowed them to capitalise on new trends fairly rapidly. Instead than employing lone designers, Zara is renowned for using design teams.

H&M, Gap, and Benetton are fierce competitors for Zara on the global market. Luckily Zara is believed to be more fashionable than the rest of the brands despite the fact that its pricing is cheaper than Benetton and Gap. Although being similarly stylish as Zara, H&M is nonetheless more affordable. Less stylish and more expensive brands include Gap and Benetton.

The fundamental tenet of Zara's business strategy is that it can offer "moderately priced, fashionable goods." Fundamentally, Zara's successful business strategy relies heavily on vertical integration and the capacity to respond quickly; otherwise, they would not be where they are now. The Zara process has been created in a way that includes all of the different business system tasks, including designing, sourcing, production, distribution, and retailing. They do all of things themselves and that is one reason why their growth is at a good rate. Yet, everything that goes up must eventually fall down, and Zara is not immune to the world's issues. Due to the model they are now using, their methods of operation may potentially prove to be their downfall. They have their own manufacturing facility and distribution centre, which is a major weakness.

The management at Zara has identified four key success factors: a quick turnaround time for product development, a small quantity per product (and not too much of the same stock), a wide variety of products every season (so that customers can choose easily), and a significant investment in ICT to help them stay on track.

Zara doesn't lose money since they only order a small number of each item they think is fashionable and will be harder to find seasonally. For instance, due of Europe's brief summer season, miniskirts in this design will only be available for a limited time. Other clothing that can be worn all year long and whose trends don't fluctuate is outsourced to Asia because the price isn't as high. The fact that these clothing have a longer shelf life makes the outsourcing process more practical. The preparation of the clothing does not require much time; the entire procedure, from design to finished product in the stores, only takes around 4 weeks.

Zara has a significant advantage over their competitors since they are aware of the market trends and are quick to adapt their business plan to keep up with changes in the fashion sector. They can quickly alter their schedule to take into account changes in market patterns. For any typical retailer, it typically takes 8 to 12 months to predict trends, develop a style, and send it for production. They lose badly because they are unable to compete with Zara's abilities. Even if a certain style doesn't do well, Zara can still offer the items at a discount. The fact that they lost a lot since there were so few clothing produced. They have a very small number of discount sales each year, compared to a high rate for the rest of the market, because to their low volume approach.

They do not have to worry about having greater stockpiles, but this results in higher expenses, which is a drawback. With this approach, low inventories and large profit margins are possible. They incur no cost savings here, yet they nevertheless make the most of their clothes line. As Zara controls everything, it is difficult for them to expand or migrate because they must remain in one spot or the entire operation will suffer, increasing the cost of distributing the items.

A great aspect of Zara's business strategy is that they have a very fashion-forward range since they know which trends to capitalise on. They appear to possess the Midas touch, turning anything they touch into gold. It is their policy to hire a crew that is primarily youthful and stylish so that they can serve as trend setters. For instance, if a certain item at a store does well, the management may decide to sell it in additional stores. The key is that people believe there is a shortage of most products because they are in short supply, which leads them to want to buy more.

The fact that Zara has acquired its goods from the correct regions is a major contributor to its success. They have established offices for procurement in a few chic global locations. As a result, they may see the trends for themselves and swiftly devise a remedy of their own. They hire one of the procurement departments of their parent group to handle all of their purchasing instead of buying all the raw materials themselves. One wise decision made by them is that they purchase the majority of their cloth in grey to allow for more flexibility. The process of preparing the fabric is quick.

The fact that they have vertical integration, however, gives them the greatest advantage because it enables them to make and market their own products independently of suppliers. It is not challenging to move any of their items as they have their own railway network which allows them to move goods quickly to its distribution hub. Even though shipment only happens twice a week, the goods are sent out right away once they are ready. While other locations receive the goods in two days, European stores receive them sooner (between 24 and 36 hours). They have been able to reach a very high level of accuracy in their shipments because to this technique. Another plus is that once the new clothing arrives at the stores, it doesn't take them long to display it, allowing them to exhibit new merchandise to their patrons. In order for the employees to know where to put the clothing, they are also color-coded. Customers now find it simpler to browse for things that match the colours they want to purchase.

CASE STUDY-2

MCDONALD'S MARKETING TACTICS

The largest chain of fast-food restaurants in the world is McDonald's. There are more than 30,000 of them spread throughout more than 100 nations. In comparison to 2006, more than one billion additional clients were serviced in 2007. Although McDonald's sales increased 6.8% and revenue reached a record high of \$23 billion in 2007, net profitability fell by \$1.1 billion. The System, which refers to the firm, its franchisees, and suppliers collectively, is what has made McDonald's successful over the years. The company's business approach enables it to continually provide consumers with relevant dining experiences and to play a significant role in the communities it serves.

Plan to Win refers to McDonald's entire strategic framework. Becoming the biggest fast-food restaurant business is not their primary goal; instead, they are more concerned with being the greatest. By the implementation of numerous initiatives centered around the five factors of great customer experiences — people, products, place, price, and promotion — McDonald's "strategic alignment behind this approach has delivered superior McDonald's experiences." Also, McDonald's uses geographically-based strategy planning. The strategic priorities of McDonald's in the United States are still breakfast, chicken, beverages, and convenience. These are the main metropolitan regions in the US. McDonald's has introduced the Southern Style Chicken Sandwich for lunch and dinner as well as the Southern Style Chicken Biscuit for breakfast. McDonald's began rolling out fresh hot specialty coffee options market by market in the beverage industry. McDonald's employs a tiered menu strategy in Europe. This menu offers upscale options, classic dishes, and regularly priced items. Also, they "supplement these with fresh merchandise and transient food specials." McDonald's strategy plan is centered on value, convenience, breakfast, core menu additions, and the Middle East, Asia, and Africa. McDonald's should start to experience better financial results thanks to its overall strategy plan and its geographic strategic plan.

McDonald's uses a variety of organisational techniques. Better restaurant operations, putting the client first, offering a variety of food and drinks, convenience and daypart development, and continual restaurant reinvestment are a few organisational initiatives. In 2008 and beyond, McDonald's plans to "continue to drive success by leveraging key consumer insights and our global experience, while relying on our strengths in developing, testing and implementing initiatives surrounding our global business drivers of convenience, branded affordability, daypart expansion and menu variety." McDonald's must increase restaurant operations' efficiency while prioritising the needs of the customer as one strategy to achieve a positive net income. McDonald's is aiming for higher revenue and visitor counts by strategically focusing on beverage options and menu variety. McDonald's hopes to boost productivity at its drive-thru pick-up window with their convenience and daypart expansion plan. The corporation is also remaining open later to accommodate individuals who need a quick meal after midnight. Also, McDonald's has outlets that are locally owned and run, which "are at

the heart of their competitive edge and makes them not just a worldwide brand but a locally relevant one,” according to the company. They are currently updating and modernising their franchises. Also, the business is opening a McCafe’s in hopes that it will help it get closer to its long-term objective of tripling sales at its current U.S. restaurants. Affordability and staff development, which begins with hiring and training and progresses all the way up to leadership and management, are two other organisational concepts.

McDonald’s marketing initiatives are being influenced by their strategic plan through enhancing brand transparency. They aim for worldwide recognition of their brand. They are improving the clientele’s encounter. “They are making it simpler for customers to have a wonderful McDonald’s experience in all of their markets. In China and Russia, they are bringing drive-thrus to the more mobile people, while in the United States and Canada, more efficient drive-thrus and double drive-thru lanes allow them to quickly serve even more customers. McDonald’s has a rebranding campaign in Germany that includes expanding by roughly 100 McCafes. Also, they are setting up new kitchen operational systems to maintain their ability to produce high-quality meals. Almost 10,000 McDonald’s locations have already undergone renovations worldwide. They desire for their eateries to represent their brand. With new menu options, the business is also giving the customer more value. “They generate value for customers and satisfy their demand for choice and diversity by presenting a locally relevant balance of innovative goods, premium salads and sandwiches, traditional menu favourites, and everyday cheap choices around the world.”

Longer operation hours, everyday value meals, and drive-thru efficiency optimization are all examples of the marketing mix types used by McDonald’s to fulfil their marketing objectives. McDonald’s employs marketing initiatives as well. In 2007, McDonald’s offered kids the option of milk, fruit, or veggies as part of their Happy Meal by referencing the Shrek movie. In addition to their dedication to working with kids, McDonald’s is enhancing the perception of their brand “through innovative marketing that transports ideas across borders and uses i’m lovin’ it to strengthen their connection with customers who love their cuisine and the distinctive McDonald’s experience.” McDonald’s served the Beijing Burger, Carmel and Banana Sundae, and Rice Sticks at the Beijing Olympics in 2008. On their package, they have nine Olympians and Paralympians. The name of McDonald’s new hamburger was up for public vote as part of a marketing drive in Australia. Backyard Burger was selected as the winner. McDonald’s is attempting to improve the perception of its brand with marketing initiatives like these.

Creating stronger relationships of trust by being approachable and keeping an open communication with customers and important stakeholders is another organisational and marketing strategy. The corporation is investing about \$1.9 billion in its restaurants, mainly to remodel current locations and construct new ones. McDonald’s is also transitioning to a less capital-intensive, heavily franchised business model. However, this is not permitted in some nations, including China, due to official regulations.

Due to McDonald’s emphasis on the five components of excellent customer service and expanding global brand recognition, their revenues and net income should rise. The consumer will have a more welcoming and pleasant dining experience thanks to the initiative to renovate and upgrade current franchisees. McDonald’s marketing strategy for the 2008 Olympics made them feel like a vital part of the event, which only improved the company’s reputation. This will enable McDonald’s to reduce its already high turnover percentage through recruitment and training activities for current workers or potential future hires.

CASE STUDY-3

SWOT ANALYSIS : THE FULCRUM OF STRATEGIC DECISION MAKING

Gujarat Cooperative Milk Marketing Federation Ltd. (GCMMF) is India’s largest food product marketing organisation. It is the apex organisation of the Dairy Cooperatives of Gujarat popularly known as AMUL which aims to provide remunerative returns to the farmers and also serve the interest of consumers by providing quality products. AMUL is considered as one of the most well recognized and iconic brands in the country. It operates through 61 sales offices and has a network of 10000 dealers and 10 lakh retailers. Its product range comprises milk, milk powder, health beverages, ghee, butter, cheese, Pizza Cheese, Ice cream, Paneer, chocolates and traditional Indian sweets etc.

Based on the above information, do the SWOT analysis of AMUL is placed below:

SWOT Analysis of a Renowned Dairy Business - AMUL

Following is the SWOT analysis of AMUL, a strong and dominant brand in the dairy business.

Investment in Technology; Market Share, Production Capacity, Quality, Brand value, Large Consumer Base Strength	High Operational Costs, Lack of success in portfolio expansion, legal issues Weakness
High Milk Consumption, Global Expansion, Product Portfolio Expansion Opportunities	Increasing Competition, growing trends of veganism Threats

Strengths of AMUL

Investment in Technology

Amul has experienced exponential growth in the last few decades. The company is continually investing in adaptive and revolutionary technologies within the dairy industry.

Market Share

Amul has transformed itself into the market leader of milk and dairy products in the country. Amul has expanded its ice cream product and business portfolio by opening standalone Amul ice cream stores all over the country.

Production Capacity

Amul is one of the largest manufacturers of milk and dairy products in the world. The company is managed by the Gujarat Co-operative Milk Marketing Federation Limited, which is a dairy producers cooperative which supplies the company with almost 18 million liters of milk daily.

Quality

One of the primary reasons for Amul being one of the most trusted brands in Indian and having a strong and loyal consumer base is its quality. Amul has never faced any significant issues pertaining to its quality within the Indian market. The company has also maintained transparency concerning its quality control practices.

Strong Brand Value

Amul is one of the most recognizable and valuable brands in India. The Amul girl, the company’s mascot which features on its advertisements is one of the oldest and most iconic brand mascots which Amul uses even today.

Large Consumer Base

The company has a large consumer base which spreads across the urban and rural regions of the country. This wide-reaching consumer base has allowed the company to maintain distinct leverage over its competitors.

Weaknesses of AMUL**High Operational Cost**

Amul has a high operational cost due to its massive size and complex structure. This can become problematic for the company if the company experiences fall in demand.

The company also heavily depends on the dairy unions and communities for its supply of milk. As the needs of the dairy community are changing with them demanding higher prices for their produce. These issues can add up to the operational cost of the company and lower its profit margins.

Lack of Success in Certain Areas of Portfolio Expansion

Amul has expanded its product portfolio to add products such as butter, ghee, buttermilk, flavored milk, ice cream, chocolates, cheese, creams, sweets and more.

However, not every product of Amul within its portfolio has same amount of success.

Frequent Legal Issues

The company has faced legal issues in the recent past wherein Amul chose to advertise its products while disparaging the brand and products of its rivals. This caused the company a lot of embarrassment and has also contributed to tarnishing the public image of the company.

Opportunities for AMUL**High per capita Milk consumption**

India is a high milk consuming nation with milk and dairy products being an essential component of the Indian diet. India has 130 crore population which is only increasing. This growth in population and high milk consumption opens up opportunities for AMUL to expand its production capacities and acquire new consumers.

International Expansion

AMUL can serve global markets. The brand can expand into overseas markets such as the Middle-East and the Asian markets by aggressively targeting Indian expats living in these countries.

Expansion of Product Portfolio

AMUL can invest in research and development or adopt a mergers and acquisition strategy to expand its product line. AMUL has an extensive distribution network which can be used to sell its new products into the market, and the substantial brand value and trust of the consumers will also enable easier acceptance from the consumers.

Threats for AMUL**Increasing Competition**

AMUL is facing increasing competition in milk and dairy products sector from brands such as Mother Dairy, Kwality Ltd, HUL and other local players. AMUL is also facing increasing competition within the ice cream market from Kwality Walls, Baskin Robins, Havmor, London Dairy and other domestic brands.

Growing trend of Veganism in India

Many people in India are turning towards veganism, which implies that these people do not consume dairy or dairy products. This can impact the demand for Amul's milk and dairy products if the popularity of veganism increases and spreads across different parts of the country.

Findings of SWOT Analysis of AMUL

As per the SWOT analysis of AMUL, the company can easily identify and analyse the internal and external factor which help it to take the strategic decisions. The company can achieve a dominant global position by maintaining its quality standards, investing in advertising and promotions and localizing products as per the taste of the international markets. Thus, it has the opportunity to go 'Glocal', i.e. *think globally but act locally*.

What are the quick tips, you will suggest for a successful SWOT analysis?

Following are the tips for a successful SWOT analysis

- Keep SWOT short and simple, but remember to include important details. For example, if the staff in an organisation is a strength, include specific details, such as specific skills and experience possessed by the concerned staff members, as well as why they are strengths and how they can help to meet the goals of the organisation.
- When SWOT analysis is completed, prioritise the results by listing them in order of the most significant factors that affect the business to the least.
- Obtain multiple perspectives for those SWOT analysis that have been given a final shape and implemented; Ask for input from various stakeholders like employees, suppliers, customers and partners.
- Apply SWOT analysis to a specific issue, rather than to the entire business. Then after conduct separate SWOT analysis on individual issues and combine them.
- Look at where business is now and think about where it might be in the future.
- Consider the competitors and have a realistic assessment of the organisation's competitive strength in the industry.
- Think about the factors that are essential to the success of an organisation and the products or any other services, like superior after sale services, free delivery, warranty / guarantee etc. an organisation can offer customers that may exert an impact on the competitors, in order to have a competitive advantage. It is essential to take into consideration the factors relating to competitive advantage while conducting the SWOT analysis.
- Use goals and objectives from overall business plan in SWOT analysis.

Conclusion

The business world is highly competitive, traditional industries are getting shocked by the rise of the technology businesses, thousands of start-ups blooming every day while thousands of businesses withering every day. The key to the survival of the business is the strategy an organisation adopts and implements.

SWOT analysis helps the organisation to specify the objectives of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objectives. Identification of **SWOT** is important because they may be of immense assistance in chalking out the business plan to meet the objectives of the business.

The significance of SWOT analysis is that it provides a good way for companies to examine both positive and negative attributes within a single analysis, determining how best to compete in the market at large. SWOT assists the management to map out the best possible opportunity well in advance which helps business to begin planning to deliver a quality solution and to make a marketing plan.

CASE STUDY-4

FUNCTIONAL LEVEL STRATEGIES – AN EFFECTIVE TOOL TO ACHIEVE ORGANIZATIONAL GOALS

In 2017, a chain of coffee retailer, closed a decade of astounding financial performance. Sales had increased from \$700 million to \$8 billion and net profits from \$40 million to \$600 million. In 2017, The Company' was earning a return on invested capital of 25 %, which was impressive by any measure, and the company was forecasted to continue growing earnings and maintain high profits through to the end of the decade. How did this come about?

Thirty years ago Company was a single store in its local Market selling premium roasted coffee. Today it is a global roaster and retailer of coffee with more than 12,000 retail stores, some 3,000 of which are to be found in 40 countries outside its Home Country. The Company set out on its current course in the 1980s when the company's director of marketing, Srinivas Santharaman, came back from a trip to Italy enchanted with the Italian coffeehouse experience. Srinivas Santharaman, who later became CEO, persuaded the company's owners to experiment with the coffeehouse format – and the Coffee House experience was born.

Santharaman basic insight was that people lacked a “third place” between home and work where they could have their own personal time out, meet with friends, relax, and have a sense of gathering. The business model that evolved out of this was to sell the company's own premium roasted coffee, along with freshly brewed espresso- style coffee beverages, a variety of pastries, coffee accessories, teas, and other products, in a coffeehouse setting. The company devoted, and continues to devote, considerable attention to the design of its stores, so as to create a relaxed, informal and comfortable atmosphere.

Underlying this approach was a belief that Santharaman was selling far more than coffee— it was selling an experience. The premium price that the Company charged for its coffee reflected this fact.

From the outset, Santharaman also focused on providing superior customer service in stores. Reasoning that motivated employees provide the best customer service, Company executives developed employee hiring and training programs that were the best in the restaurant industry. Today, all Company's employees are required to attend training classes that teach them not only how to make a good cup of coffee, but also the service oriented values of the company. Beyond this, Company provided progressive compensation policies that gave even part- time employees stock option grants and medical benefits – a very innovative approach in an industry where most employees are part time, earn minimum wage, and have no benefits.

Unlike many restaurant chains, which expanded very rapidly through franchising arrangement once they have established a basic formula that appears to work, Santharaman believed that Company needed to own its stores. Although, it has experimented with franchising arrangements in some countries, and some situations its home country such as at airports, the company still prefers to own its own stores wherever possible.

This formula met with spectacular success in the Country, where Company went from obscurity to one of the best known brands in the country in a decade. As it grew, Company found that it was generating an enormous volume of repeat business.

Today the average customer comes into a Company' store around 20 times a month. The customers themselves are a fairly well- healed group – their average income is about \$85,000.

As the company grew, it started to develop a very sophisticated location strategy. Detailed demographic analysis was used to identify the best locations for Company's stores. The company expanded rapidly to capture as many premium locations as possible before imitators. Astounding many observers, Company would even sometimes locate stores on opposite corners of the same busy street— so that it could capture traffic going different directions down the street.

By 2005 with almost 700 stores across the Country, Starbucks began exploring foreign opportunities. First stop was Japan, where Starbucks proved that the basic value proposition could be applied to a different cultural setting (there are now 600 stores in Japan). Next, Company has embarked upon a rapid development strategy in Asia and Europe. By 2011, the magazine *Bigdemandchannel* named Company one of the ten most impactful global brands, a position it has held ever since. But this is only the beginning. In late 2016, with 12,000 stores in operation, the company announced that its long term goal was to have 40,000 stores worldwide. Looking forward, it expects 50% of all new store openings to be outside of its Home Country.

Case Discussion Questions

1. What functional strategies help the company to achieve superior financial performance?
2. Identify the resources, capabilities, and distinctive competencies of Company?
4. Why do you think Company prefers to own its own stores wherever possible?
5. How secure is Company competitive advantage?

CASE STUDY-5

USING AIMS AND OBJECTIVES TO CREATE A BUSINESS STRATEGY

Introduction

When preparing a strategy for success, a business needs to be clear about what it wants to achieve. It needs to know how it is going to turn its desires into reality in the face of intense competition. Setting clear and specific aims and objectives is vital for a business to compete. However, a business must also be aware of why it is different to others in the same market. This case study looks at the combination of these elements and shows how Kellogg's prepared a successful strategy by setting aims and objectives linked to its unique brand.

Branding

One of the most powerful tools that organisations use is branding. A brand is a name, design, symbol or major feature that helps to identify one or more products from a business or organisation. The reason that branding is powerful is that the moment a consumer recognises a brand, the brand itself instantly provides a lot of information to that consumer. This helps them to make quicker and better decisions about what products or services to buy.

Product positioning

Managing a brand is part of a process called product positioning. The positioning of a product is a process where the various attributes and qualities of a brand are emphasised to consumers. When consumers see the brand, they distinguish the brand from other products and brands because of these attributes and qualities.

Focused on Kellogg's, this case study looks at how aims and objectives have been used to create a strategy which gives Kellogg's a unique position in the minds of its consumers.

The Market

The value of the UK cereals market is around £1.1 billion per year. Kellogg's has a 42% market share of the value of the UK's breakfast cereal market. The company has developed a range of products for the segments within this market, targeted at all age groups over three years old. This includes 39 brands of cereals as well as different types of cereal bars. Consumers of cereal products perceive Kellogg's to be a high quality manufacturer.

As the market leader, Kellogg's has a distinct premium position within the market. This means that it has the confidence of its consumers.

Developing an aim for a business

Today, making the decision to eat a healthy balanced diet is very important for many consumers. More than ever before people want a lifestyle in which the food they eat and the activities they take part in contribute equally to keeping them healthy.

Research undertaken for Kellogg's, as well as comprehensive news coverage and growing public awareness, helped its decision-takers to understand the concerns of its consumers. In order to meet these concerns, managers realised it was essential that Kellogg's was part of the debate about health and lifestyle. It needed to promote the message 'Get the Balance Right'.

Decision-takers also wanted to demonstrate Corporate Responsibility (CR). This means that they wanted to develop the business responsibly and in a way that was sensitive to all of Kellogg's consumers' needs, particularly with regard to health issues. This is more than the law relating to food issues requires. It shows how Kellogg's informs and supports its consumers fully about lifestyle issues.

Any action within a large organisation needs to support a business direction. This direction is shown in the form of a broad statement of intent or aim, which everybody in the organisation can follow. An aim also helps those outside the organisation to understand the beliefs and principles of that business. Kellogg's aim was to reinforce the importance of a balanced lifestyle so its consumers understand how a balanced diet and exercise can improve their lives.

Creating Business Objectives

Having set an aim, managers make plans which include the right actions. These ensure that the aim is met. For an aim to be successful, it must be supported by specific business objectives that can be measured.

Each of the objectives set for Kellogg's was designed to contribute to a specified aim. Kellogg's objectives were to:

- encourage and support physical activity among all sectors of the population.
- use resources to sponsor activities and run physical activity focused community programmes for its consumers and the public in general.
- increase the association between Kellogg's and physical activity.
- use the cereal packs to communicate the 'balance' message to consumers.
- introduce food labelling that would enable consumers to make decisions about the right balance of food.

SMART objectives

Well-constructed objectives are SMART objectives. They must be:

- Specific
- Measurable
- Achievable or Agreed
- Realistic
- Time-related.

Each of the objectives set by Kellogg's was clear, specific and measurable. This meant Kellogg's would know whether each objective had been achieved. The objectives were considered to be achievable and were communicated to all staff. This made sure that all staff agreed to follow certain actions to achieve the stated aims. The objectives were set over a realistic time-period of three years. By setting these objectives Kellogg's set a direction that would take the business to where it wanted to be three years into the future.

Strategy

Having created an aim and set objectives, Kellogg's put in place a process of planning to develop a strategy and a series of actions. These activities were designed to meet the stated aim and range of business objectives.

Supporting improved food labelling

In the area of food labelling, Kellogg's introduced the Kellogg's GDAs to its packaging, showing the recommended Guideline Daily Amounts. These GDAs allow consumers to understand what amount of the recommended daily levels of nutrients is in a serving of Kellogg's food.

Working with a group of other major manufacturers, Kellogg's introduced a new format in May 2006, with GDAs clearly identified on brand products and packages. These GDAs have been adopted by other manufacturers and retailers such as Tesco.

Sponsoring swimming programmes

For many years Kellogg's has been working to encourage people to take part in more physical activity. The company started working with the Amateur Swimming Association (ASA) as far back as 1997, with whom it set some longer term objectives. More than twelve million people in the UK swim regularly.

Swimming is inclusive as it is something that whole families can do together and it is also a life-long skill. The ASA tries to ensure that 'everyone has the opportunity to enjoy swimming as part of a healthy lifestyle'. As a lead body for swimming, the ASA has been a good organisation for Kellogg's to work with, as its objectives match closely those of the company.

Kellogg's became the main sponsor of swimming in Britain. This ensured that Kellogg's sponsorship reached all swimming associations so that swimmers receive the best possible support. Kellogg's sponsors the ASA Awards Scheme with more than 1.8 million awards presented to swimmers each year. This relationship with the ASA has helped Kellogg's contribute in a recognisable way to how individuals achieve an active healthy balanced lifestyle. This reinforces its brand position.

Promoting exercise

Working with the ASA helped Kellogg's set up links with a number of other bodies and partners. For example, Sustrans is the UK's leading sustainable transport organisation. Sustrans looks at the different ways that individuals can meet their transport needs in a way that reduces environmental impact. It is the co-ordinator of the National Cycle Network.

This provides more than 10,000 miles of walking and cycle routes on traffic-free paths throughout the UK. To meet its business objective of encouraging and supporting physical activity Kellogg's is developing a promotion for a free cyclometer which will be advertised on television in 2007.

Walking is one of the easiest ways for people to look after themselves and improve their health. To encourage people to walk more often, Kellogg's has supplied a free pedometer through an offer on All-Bran so that individuals can measure their daily steps.

During 2006 more than 675,000 pedometers were claimed by consumers. From a research sample of 970 consumers, around 70% said they used the pedometer to help them walk further. Kellogg's Corn Flakes Great Walk 2005 raised more than £1 million pounds for charity on its way from John O'Groats, through Ireland and on to Land's End. In 2004, 630,000 people took part in the Special K 10,000 Step Challenge.

Kellogg's in the community

Kellogg's has also delivered a wide range of community programmes over the last 20 years. For example, the Kellogg's Active Living Fund encourages voluntary groups to run physical activity projects for their members. The fund helps organisations like the St John's Centre in Old Trafford which runs keep-fit classes, badminton and table tennis.

Since 1998 Kellogg's has invested more than £500,000 to help national learning charity ContinYou to develop nationwide breakfast club initiatives. These include start-up grants for new clubs, the Breakfast Club Plus website, the Kellogg's National Breakfast Club Awards and the Breakfast Movers essential guide.

Breakfast clubs are important in schools because they improve attendance and punctuality. They help to ensure that children are fed and ready to learn when the bell goes. Kellogg's promotes breakfast via these clubs, not Kellogg's breakfast cereals. Together Kellogg's and ContinYou have set up hundreds of breakfast clubs across the UK, serving well over 500,000 breakfasts each year.

Communicating the Strategy

Effective communication is vital for any strategy to be successful. Kellogg's success is due to how well it communicated its objectives to consumers to help them consider how to 'Get the Balance Right'. It developed different forms of communication to convey the message 'eat to be fit' to all its customers.

External communication

External communication takes place between an organisation and the outside world. As a large organisation, Kellogg's uses many different forms of communication with its customers.

For example, it uses the cartoon characters of Jack & Aimee to communicate a message that emphasises the need to 'Get the Balance Right'. By using Jack & Aimee, Kellogg's is able to advise parents and children about the importance of exercise. These characters can be found on the back of cereal packets. The company has also produced a series of leaflets for its customers on topics such as eating for health and calcium for strong bones. These are available on its website.

Internal communication

Internal communication takes place within an organisation. Kellogg's uses many different ways to communicate with its employees. For example, Kellogg's produces a house magazine which is distributed to everybody working for Kellogg. The magazine includes articles on issues such as getting the balance of food and exercise right. It also highlights the work that Kellogg's has undertaken within sport and the community. To encourage its employees to do more walking, Kellogg's supplied each of its staff with a pedometer. Such activities have helped Kellogg's employees to understand the business objectives and why the business has created them. It also shows clearly what it has done to achieve them.

Conclusion

Research undertaken by Kellogg's as part of the 2005 Family Health Study emphasised that a balanced diet as well as regular exercise were essential for good all round health and wellbeing. Kellogg's is demonstrating good corporate responsibility by promoting and communicating this message whenever it can and by investing money in the appropriate activities. This was the broad aim. To achieve this aim, Kellogg's set out measurable objectives. It developed a business strategy that engaged Kellogg's in a series of activities and relationships with other organisations. The key was not just to create a message about a balanced lifestyle for its consumers. It was also to set up activities that helped them achieve this lifestyle.

This case study illustrates how consumers, given the right information, have made informed choices about food and living healthily.

CASE STUDY-6**MCDONALD'S CORPORATION MICHAEL PORTER FIVE FORCES MODEL****Objective:**

The objective of this case is to understand the application of competitive forces prevailing in the burger market.

Introduction:

McDonald's Corporation expands internationally through strategies that account for the external factors in the industry environment, as identifiable through a Five Forces analysis of the business. Michael E. Porter's Five Forces Analysis model provides valuable information to support strategic management, especially in addressing relevant issues in the external environment of the business. These issues are based on external factors that represent the degree of competitive rivalry in the industry, the bargaining power of customers or buyers, the bargaining power of suppliers, the threat of substitution, and the threat of new entrants.

Application of Porter's Five Forces Model

In this Five Forces analysis of McDonald's, the forces are mainly within the fast food restaurant industry. As the leading restaurant chain business in the world, the company is an example of effective strategic management, especially in dealing with competition in different markets worldwide. This status shows that McDonald's strategic direction is appropriate to the external factors, such as the ones identified in this Five Forces analysis.

In addressing the external factors determined in this Five Forces analysis, McDonald's Corporation ensures that its strategies are appropriate to combat external forces. The company faces pressure from various competitors, including large multinational firms and small local businesses. McDonald's Corporation's generic strategy and intensive growth strategies satisfy business needs in competing against such firms as Burger King, Wendy's, Subway, and Dunkin' Donuts, as well as food and beverage businesses like Starbucks Coffee Company.

In this Five Forces analysis, McDonald's experiences the effects of external factors at varying intensities, based on the variations among markets around the world. For example, the U.S. market presents a competitive landscape different from that of the European market. The company must implement strategies to meet these external factors and minimize their negative impacts. Considering the combination of market conditions, this Porter's Five Forces analysis of McDonald's establishes the following intensities of the five forces:

1. Competitive rivalry or competition – High

2. Bargaining power of buyers or customers – High
3. Bargaining power of suppliers – Low
4. Threat of substitutes or substitution – High
5. Threat of new entrants or new entry – Moderate.

Competitive Rivalry or Competition with McDonald's (High)

McDonald's faces tough competition because the fast food restaurant market is saturated. This element of the Porter's Five Forces analysis model tackles the effects of competing firms in the industry environment. In McDonald's case, the strong force of competitive rivalry is based on the following external factors:

- High number of firms – Strong Force
- High aggressiveness of firms – Strong Force
- Low switching costs – Strong Force

The fast food restaurant industry has many firms of various sizes, such as global chains like McDonald's and local mom-and-pop fast food restaurants. This external factor strengthens the force of rivalry in the industry. Also, the Five Forces analysis model considers firm aggressiveness a factor that influences competition. In this business case, most medium and large firms aggressively market their products. This factor increases the intensity of competitive rivalry that McDonald's Corporation experiences. In addition, low switching costs make it easy for consumers to transfer to other restaurants, such as Wendy's and Burger King. This external factor adds to the force of competition. Thus, this element of the Five Forces analysis of McDonald's shows that competition is among the most significant external forces for consideration in the strategic management of the business.

Bargaining Power of McDonald's Customers/Buyers (High)

McDonald's must address the power of customers on business performance. This element of the Five Forces analysis deals with the influence and demands of consumers, and how their decisions impact businesses. In McDonald's case, the following are the external factors that contribute to the strong bargaining power of buyers:

- Low switching costs – Strong Force
- Large number of providers – Strong Force
- High availability of substitutes – Strong Force

The ease of changing from one restaurant to another (low switching costs) enables consumers to easily impose their demands on McDonald's. In the Five Forces analysis model, this external factor strengthens the bargaining power of customers. In relation, because of market saturation, consumers can choose from many fast food restaurants other than McDonald's. This condition makes the bargaining power of buyers a strong force in affecting the company's external environment. Moreover, the availability of substitutes is relevant in this external analysis. In this case, the availability of many substitutes adds to the bargaining power of customers. For example, substitutes include food kiosks and outlets, and artisanal bakeries, as well as microwave meals and foods that one could cook at home. Based on this element of Porter's Five Forces analysis, it is crucial to develop strategies to increase customer loyalty, especially in the face of the sociocultural trends outlined in the PESTEL/PESTLE analysis of McDonald's Corporation.

Bargaining Power of McDonald's Suppliers (Low)

Suppliers influence McDonald's in terms of the company's production capacity based on the availability of raw materials. This element of the Five Forces analysis model shows the impact of suppliers on firms and the fast food restaurant industry environment. In McDonald's case, the weak bargaining power of suppliers is based on the following external factors:

- Large number of suppliers – Weak Force
- Low forward vertical integration of suppliers – Weak Force
- High overall supply – Weak Force.

The large population of suppliers weakens the effect of individual suppliers on McDonald's Corporation. This weakness is partly based on the lack of strong regional and global alliances among suppliers. In relation, most of McDonald's suppliers are not vertically integrated. This means that they do not control the distribution network that transports their products to firms like McDonald's. In Porter's Five Forces analysis model, such low vertical integration weakens the bargaining power of suppliers. Also, the relative abundance of materials like flour and meat reduces individual suppliers' influence on the company. Thus, this element of the Five Forces analysis shows that external factors combine to create the weak supplier power, which is a minimal issue in strategic management. McDonald's corporate social responsibility strategy and stakeholder management approaches help in addressing this force from suppliers.

Threat of Substitutes or Substitution (High)

Substitutes are a significant concern for McDonald's Corporation. This element of Porter's Five Forces analysis model deals with the potential effects of substitutes on firm growth. In McDonald's case, the following external factors make the threat of substitution a strong force:

- High substitute availability – Strong Force
- Low switching costs – Strong Force
- High performance-to-cost ratio of substitutes – Strong Force.

There are many substitutes to McDonald's products, such as products from artisanal food producers and local bakeries. Also, consumers can cook their food at home. In the Five Forces analysis model, this external factor contributes to the strength of the threat of substitution in the fast food service industry. In addition, it is easy to shift from McDonald's to substitutes because of the low switching costs. For example, shifting from the company to substitutes typically involves insignificant or minimal disadvantages, such as slightly higher costs per meal in some cases, or additional time consumption for food preparation. Moreover, substitutes are competitive in terms of quality and customer satisfaction (high performance-to-cost ratio). In this element of the Five Forces analysis of McDonald's Corporation, external factors make substitutes a major strategic issue that requires approaches like product quality improvement. In relation, the company's efforts include encouraging people to eat in fast food restaurants instead of resorting to substitutes. Such efforts are evident in McDonald's corporate mission and vision statements.

Threat of New Entrants or New Entry (Moderate)

New entrants can impact McDonald's market share and financial performance. This element of the Five Forces analysis refers to the effects of new players on existing firms. In McDonald's case, the moderate threat of new entry is based on the following external factors:

- Low switching costs – Strong Force

- Highly variable capital cost – Moderate Force
- High cost of brand development – Weak Force.

The low switching costs allow consumers to easily move from McDonald's toward new fast food restaurant companies. In Porter's Five Forces analysis model, this external factor strengthens the threat of new entrants. Also, variable capital costs of establishing a new restaurant empowers new businesses to enter the global fast food restaurant industry. For example, small restaurant businesses involve low capital costs compared to major corporations in the market. This external factor leads to the moderate threat of new entry against McDonald's. On the other hand, it is expensive to build a strong brand in the industry. Many small and medium businesses lack the resources to create a strong brand to match the McDonald's brand. Thus, the external factors in this element of the Five Forces analysis shows that the threat of new entrants is a considerable but not the most important strategic issue.

Recommendations:

The results of this Five Forces analysis show that McDonald's Corporation needs to prioritize the strategic issues related to competition, consumers, and substitutes, all of which exert a strong force on the company and its external environment. The other forces (the bargaining power of suppliers and the threat of new entrants) are also significant to the business, although to a lower extent. In this regard, a recommendation is to strengthen the business by building on the strengths of the business. The company's managers must focus on reducing the effects of competitors and substitutes on revenues and market share. Studying the McDonald's marketing mix or 4Ps partly supports such effort. Also, it is recommended that McDonald's make its product innovation process more aggressive. While the food service industry is saturated with aggressive firms, new products can attract new customers and retain more customers. In relation, based on this Porter's Five Forces analysis, McDonald's can implement higher quality standards to address the forces of competition and substitution.

CASE STUDY-7

ASHWAMEDHA RUDRAPEETH LIMITED

As the world is speedily inclining towards pure and organic products, the most ancient science of medicine, healthcare, personal care, food and beverages, Ayurveda is reliving its glory. Many recent studies and report clearly explain that the revival of Ayurveda is not restricted to India and China but spreading across all continents, Ayurveda is successful in creating domino impact all across the globe.

As per a market research, the Indian Ayurveda market is all set to register 16% growth (CAGR) till 2025. At present, the size of the domestic market is Rs. 30,000 Crores, and Ayurveda's market penetration is increasing in both rural and urban areas. A 2019 report also conveys that 77% of Indian households are using Ayurvedic products as against 69% in 2015. The major chunk of the domestic revenue (75%) comes from the sale of Ayurveda products whereas services/consulting contribute only 25% to the total business. The industry whose market size was USD 3.4 billion in 2015 is expected to reach USD 9.7 billion by 2024. Growing awareness among masses about potential side effects of present day modern medicine, healthcare, personal care, food and beverages on various media platforms has compelled them to switch to natural safer, and holistic alternative, Ayurveda. The future of Ayurveda is looking fabulous as more and more players are entering the market with innovative products, quality packaging, and strategic marketing activities. Earlier, Ayurvedic companies failed to impress customers with presentation and promotional activities, but the new generation of entrepreneurs is smartly working on these aspects to partake in growing market competition.

One of the major companies in Indian Ayurvedic Industry, Ashwamedha Rudrapeeth Limited (ARL) was founded by Rudra and his friend. ARL is consumer product giant that is beating the world's most recognised FMCG companies in India. ARL has managed to expand an empire so big that it is shaking the fast-moving consumer goods industry in India to its core. It is no mean achievement for someone like Rudra, who does not have any formal education on brand and marketing could beat world class brand in a very short span of 10 years. The answer lies at the core of building a brand – being “Purpose” driven. The objective of ARL was to develop a holistic approach to improve the quality of life of all beings, world over. It was conceived with the objective of amalgamating the ancient wisdom of the Science of Ayurveda with the modern scientific techniques of industrial management. Its intention was to distribute quality, tested and hygienic products with wide ranging effects to the largest section of populace at reasonable prices enabling the common citizen to avail their benefits. It also aimed to establish Ashwamedha Ayurveda as a science based, inventional, problem-solving, natural and trusted for healthy lives.

Rudra and his friend knew that they have created a captive market with their efforts since last one and a half decade, which values health, yoga, pranayama and above all, Rudra has become brand ambassador for ARL. This captive market is health conscious, looks out for affordable products, believes in the philosophy of swadeshi (home grown) and above all considers Rudra as their idol. When Ashwamedha Ayurveda launched its products in the Indian retail sector, this captive market was among the first to buy and use its products. This captive market developed instant loyalty to Brand Ashwamedha. The role of this captive market was not only limited to buying, using and spreading good word of mouth about ARL products but they also became partners with ARL by becoming their franchisees. In the initial days' majority of the franchisees established by ARL came from this captive market. These franchisees along with the distribution of products also advertised and promoted ARL products in their respective regions, hence establishing brand Ashwamedha firmly into the mind of local populace. When compared to an FMCG multinational which uses a traditional distribution channel, ARL followed a different distribution strategy, effective in catapulting it to its present position. Presently, Ashwamedha's turnover stands close to Rs.7000 Crore with a mammoth goal of reaching close to Rs.10,500 Crore in Financial Year ending 2024 and close to Rs. 21,000 Crore by Financial Year ending 2025. Ashwamedha Ayurveda's value creation and delivery strategy encompassing both the Strategic and Tactical Marketing is instrumental in making it a force to reckon with in the Indian FMCG industry.

ARL's target segment comprise of health-conscious people who prefer “value for money” natural products. ARL has products targeted at children (health drinks) and elderly people (some ayurvedic preparations). Almost all products of ARL are affordable (at a price 15%-30% lower than the competition), hence the income segmentation strategy has worked.

Initially, the products were targeted at lower and middle-income groups but with the present turnover of close to a billion dollars this fiscal, it is evident that ARL's products have buyers not only from the lower income and middle-income segments but also from health conscious upper-middle and upper-income segments. These two segments have found value in ARL's natural and ayurvedic products. ARL's market targeting strategy is that of “Selective Specialization” as they cater to a large segment in their market but not the entire market. The company is planning to venture into packaged cow milk, ‘Khadi’ and animal feed this year. Ashwamedha uses natural ingredients and herbs to manufacture its products. They have state of the art Research and Development (R&D) facility, involved in the latest research on products which can benefit their target market. It has few star products in its product portfolio. Ashwamedha's cow ghee, Shampoo, Hair care and oral care products have a combined turnover more than Rs.1500 Crore. One of the reasons Ashwamedha Ayurveda has been able to garner market share so rapidly is because of low lead times between the product concept and product launch. Ashwamedha Ayurveda's R & D team has been able to produce high quality products at low price in short duration. Ashwamedha Ayurveda's products are

generally economically priced except for Ashwamedha Cow Ghee. This is sold at a premium in the market, every other product has a market penetration pricing strategy. The pricing strategy has helped Ashwamedha establish itself in the marketplace. Established brands which did not consider it as a competition initially, are now forced to sit and take note of it. Its core values are driven by Rudra's beliefs and hence there is no difference between the two. What drives Rudra, drives brand Ashwamedha Ayurveda.

Ashwamedha uses multiple distribution channels to cater to the market. Company has 2 Lakh outlets in India. ARL has a strong presence in the market through its 1200 Chikitsalayas, 2500 Arogya Kendras. For Rural market they have got 7000 stores in villages and 5600 marketing vehicles which roams across all villages. ARL also plans to establish 250 mega stores in tier 1 and tier 2 cities in next 3 years. ARL also has a tie-up with behemoths of modern retail Groups, which carry its entire product range in their exclusive retail chain across all stores in the country. ARL has embraced the e-commerce mode of retailing products through Ashwamedhaayurved.net and has a strong presence in the modern retail format. Rudra through his Yoga Camps not only talks about the different Yoga postures and their benefits in curing the diseases but also about the Ashwamedha Ayurved products aiding in a healthy lifestyle and a disease-free life. This is one of the most potent promotion tools used by ARL. Word of mouth communication certainly has a higher believability factor compared to other mediums of advertising. Rudra has created a strong community of loyalists through the efforts of Ashwamedha Yogapeeth Trust and Yoga Camps, which speak very high of Rudra and Ashwamedha products. Recently, Ashwamedha Ayurveda has seen a spurt in its promotional outlay. Ashwamedha Ayurveda has its channel on YouTube which features more than 1000 videos on Yoga and on product information.

Ashwamedha has made disruptive progress in the FMCG sector. Within a span of less than 10 years, it has displaced ayurvedic market leaders and has become synonymous with ayurvedic products. Rudra's charisma has pushed Ashwamedha to grow over 10 times in a span of less than 10 years. The FMCG giants are also taking steps to check its advancements. However, now it has gained public attention in the market and there is overwhelming demand for its products, it will be difficult for them to win back their lost market shares.

Case Questions for discussion:

- (a) A successful business strategy is a combination of multiple elements. Explain.
- (b) What do you understand by SMART objectives? Elucidate in background of ARL's objectives.
- (c) 'Focus on quality and quantity of offerings while assuming that customers will seek out and buy reasonably priced, well-made products'. Comment.
- (d) "A communication strategy is designed to help you and your organization communicate effectively and meet core organizational objectives". Is the communication strategy of Ashwamedha Ayurveda effective?

LESSON ROUND-UP

- BPR is another form of process innovation because it attempts to re-create processes.
- The underlying principle of BPR is that the managers must demolish such components of work that do not make any value addition and further automating it if possible.

- Benchmarking is used to compare the performance of the business processes and products of a company with that of the best performances of other companies inside and outside the industry which the company is a part of.
- TQM is a management philosophy that views an organization as a collection of processes such as marketing, finance, design, engineering, and production, customer service, etc. thereby, focussing on meeting customer needs and organizational objectives.
- TQM is mainly concerned with continuous improvement in all work, from high level strategic planning and decision-making, to detailed execution of work elements on the shop floor.

GLOSSARY

Business Process Reengineering: Business process re-engineering is the radical redesign of business processes to achieve dramatic improvements in critical aspects like quality, output, cost, service, and speed. Business process reengineering (BPR) aims at cutting down enterprise costs and process redundancies on a very huge scale.

Strategic Benchmarking: Strategic benchmarking takes a long-term view of company direction relative to the future strategies of competing companies.

Internal Benchmarking: Internal benchmarking is pretty straightforward. You compare a process or task to a similar process or task within the company. This requires the ability to track metrics for these two comparable systems or departments so the KPIs can be assessed and compared. This type of benchmarking is effective because it helps set and meet standards across the board, establishing consistency and ensuring that each department is as efficient as possible.

External Benchmarking: External benchmarking is comparing an internal process to that of a competitor or even several other organizations. This approach can be a little trickier because it requires access to industry data or specific company data, which may not be available unless the other organization has agreed to share it with you. External benchmarking is extremely valuable. You can better understand where your business fits into the wider market and identify areas of weakness that you should be focusing on.

Competitive Benchmarking: Competitive benchmarking is a type of external benchmarking that solely focuses on comparing your own processes and metrics to those of direct competitors. This form of benchmarking is significant because you can identify exactly why a competitor is succeeding or what drives customer satisfaction in your industry.

Performance Benchmarking: Another important form of benchmarking is related to business performance. By tracking metrics and KPIs within the business, teams can continue to compare past outcomes to current standards, continuously updating the standard for improved performance. This type of benchmarking is focused on improving key business functions over time, since the idea is that benchmarks will continue to be raised and strengthened.

Strategic Benchmarking: Strategic benchmarking is typically external and specifically analyzes how other companies got to be successful. What kind of business strategies do they employ? For example, what is successful about their marketing campaigns?

Benchmarking the way you strategize can help you learn from what has worked for winning businesses in and out of your industry. This is especially helpful for new businesses or startups.

Practice Benchmarking: This form of internal benchmarking relates to the practices and processes of your business. This requires you to have procedures in place to gather and analyze business data, like how employees and teams are completing their tasks or using certain technologies. Process mapping is one way to start practice benchmarking, and you can quickly identify and address any performance gaps in the company.

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)

1. Define Business Process Re-engineering (BPR). What are its objectives?
2. Discuss typology of BPR.
3. What factors are responsible for Successful Implementation of BPR?
4. What is benchmarking? Discuss its types.
5. Discuss TQM in detail.
6. What are the principles of TQM?
7. What is Six Sigma? How does it work?
8. Why a company should adopt Six Sigma?
9. Discuss certification levels in Six Sigma.
10. Differentiate between Business Process Engineering and Six Sigma.

LIST OF FURTHER READINGS

- Business Process Re-engineering: Myth & Reality by Colin Coulson-Thomas
- Business Process Reengineering: Text and Cases
- Business Process Change by Paul Harmon
- Value-Driven Business Process Management: The Value-Switch for Lasting Competitive Advantage by Mathias Kirchmer and Peter Franz
- Process Innovation: Reengineering Work Through Information by Thomas H. Davenport
- Improving Performance: How to Manage the White Space on the Organization Chart by Alan P. Brache and Geary A. Rummler

OTHER REFERENCES

- https://www.researchgate.net/publication/222501108_Business_Process_Reengineering_A_review_of_recent_literature
- https://www.researchgate.net/publication/337439323_Business_Process_Reengineering_as_the_Current_Best_Methodology_for_Improving_the_Business_Process
- <https://iopscience.iop.org/article/10.1088/1757-899X/180/1/012116/pdf>
- <https://www.abacademies.org/articles/The-impact-of-total-quality-management-1939-6104-17-2-192.pdf>
- Bain & Company (2013). Benchmarking. Available at: <http://www.bain.com/publications/articles/management-tools-benchmarking.aspx>
- Blakeman, J. (2002). Benchmarking: Definitions and Overview. University of Wisconsin - Milwaukee . Available at: <https://www4.uwm.edu/cuts/bench/bm-desc.htm>
- Bogan, C. E., & English, M. J. (1994). Benchmarking for best practices: Winning through innovative adaptation. McGraw-Hill

- Camp, R.C. (1989). Benchmarking. The Search for Industry Best Practices That Lead to Superior Performance. ASQC Quality Press.
- Gilbert, G. (1992). "Quality Improvement in a Defense Organization." Public Productivity and Management Review, 16(1), 65-75.
- Hyde, A. (1992). "The Proverbs of Total Quality Management: Recharting the Path to Quality Improvement in the Public Sector." Public Productivity and Management Review, 16(1), 25-37.
- Global Benchmarking Network (2010). Global Survey on Business Improvement and Benchmarking.
- Available at : http://www.globalbenchmarking.ipk.fraunhofer.de/fileadmin/user_upload/GBN/PDF/2010_gbn_survey_business_improvement_and_benchmarking_web.pdf
- Hill Stephen, 1991. "Why Quality Circles Failed but Total Quality Management Might Succeed." British Journal of Industrial Relations, 29(4), 541-568.
- Hyde, A. (1992). "The Proverbs of Total Quality Management: Recharting the Path to Quality Improvement in the Public Sector." Public Productivity and Management Review, 16(1), 25-37.
- Ishikawa, K, 1985. What Is Total Quality Control? The Japanese Way. Englewood Cliffs, New Jersey, Prentice-Hall.
- Kulmala, J. (ND). Approaches to Benchmarking.
- Martin, L. (1993). "Total Quality Management in the Public Sector," National Productivity Review, 10, 195-213.
- Rigby, D. & Bilodeau, B. (2013). Management Tools & Trends 2013. Available at: <http://www.bain.com/publications/articles/management-tools-and-trends-2013.aspx>
- Shah, D. and Kleiner, B. H. (2011). Benchmarking for Quality. Industrial Management, pp. 22-25.
- Smith, AK, 1993. "Total Quality Management in the Public Sector." Quality Progress, June 1993, 45-48.
- Spendolini, M. (1992). The Benchmarking Book. American Management Association.
- Swiss, J. (1992). "Adapting TQM to Government." Public Administration Review, 52, 356-362.
- Tichey, N. (1983). Managing Strategic Change. New York: John Wiley & Sons.
- <https://www.mbaknol.com/management-case-studies/case-study-of-zara-a-better-fashion-business-model/>
- <https://www.tatasteel.com/investors/integrated-report-2017-18/pdf/RiskGovernanceandmgmt.pdf>
- <https://www.mbaknol.com/management-case-studies/case-study-of-kishore-biyani-indias-retail-king/>
- <https://www.mbaknol.com/management-case-studies/case-study-mcdonalds-marketing-strategies/>

PART II

**CORPORATE
FINANCE**



