

### (i) The Various Primary Activities of Audio Tech in its Value Chain Analysis

Michael Porter describes the value chain as “internal processes or activities a company performs to design, produce, market, deliver and support its product.” Rather than looking at costs as per accounting cost pools, the value chain model focuses on the work flow of an organization in the form of discrete set of activities that are linked to each other. The value chain model is a generic model that examines activities as Primary Activities and Secondary Activities. Passing through each activity, the product or service gains some value. The idea is to

(a) eliminate non-value adding activities and

(b) identify product differentiating or cost leadership opportunities among the value adding activities.

Individual activities reflect the company’s strategy, implementation of its strategy and underlying economics of the activities themselves.

Profit margin for the company = Value created less the cost of creating that value

Primary activities are those activities that enable inputs (raw material) to be transformed into output (finished goods) or in the provision of service. Primary activities as per Porter’s model are:

**1. Inbound Logistics:** Activities related to receiving, storing and distributing the inputs (raw materials) to the production process. Audio Tech has its materials and components needed to manufacture audio equipment delivered to its godown at the factory premises. These materials are stored until needed for production and assembling at the factory. These are the inbound logistics related activities.

**2. Operations:** Activities involved in transforming raw materials into final products. These would include machining, packaging, testing and equipment maintenance.

Audio Tech’s work flow activities related to manufacturing of the audio equipment and components need to be considered here. In addition, the testing of equipment using ipad application, bass sweep test as also sound quality check after assembly into the car, are operations related activities.

**3. Outbound Logistics:** Activities involved in collecting, storing and distributing the products from the assembly line to the end user customers. This includes finished goods warehousing, delivery vehicle operation, order processing and scheduling.

Some of the activities that would be classified here are:

(a) Storage of Audio Tech’s finished goods within factory premises and at its distribution centre.

(b) Scheduling and dispatch of goods using trucks to retail outlets and distribution centres.

(c) Activities related to order taking from retail outlets as well as direct orders on the company’s website.

**4. Marketing and Sales:** Activities such as advertising, promotion, distribution channel selection, sales force management, pricing policy and such other activities that make the customer aware of the product would be listed here.

All of Audio Tech’s activities that relate to the above list of activities whereby it aims to spread customer awareness would be classified here. It aims to build customer loyalty by offering quality products.

**5. Service:** Activities related to after sales service such as installation, repair and part replacement would be classified here.

Audio Tech has a separate department to handle customer complaints. Customers can return the product if quality specifications are not met. Also, any activity relating to after sale service would be classified here.

## **Below are certain measures that Audio Tech can implement to Reduce Costs**

**(a) Just in Time raw material procurement system:** Procure input materials and components only when needed for production and handling. This would reduce inventory holding costs. Less inventory on hand could also result in savings in storage and material insurance costs. Before implementation, the company needs to consider the risk of loss incurred on account of stock-outs. It needs to develop close relationships with its suppliers to ensure streamlined delivery of inputs. At the same time inputs should meet the required quality standards.

**(b) Company's trucks deliver the finished goods to retail outlets as per a fixed schedule each week, irrespective of the load they carry.** This indicates that there may be possibilities of dis-economies of cost. If there is a pile up of inventory due to lesser number of truck delivery runs, it could lead to high inventory holding cost. Conversely, if delivery runs are scheduled even if the trucks are not loaded to full capacity, dis-economies of delivery cost would creep in. Therefore, the production and truck delivery schedule should be streamlined efficiently and economically.

**(c) Audio Tech lays importance in the quality of the product to ensure customer satisfaction. Lower the defects higher the customer satisfaction.** It has extensive testing and inspection processes in place. This preventive step should be assessed to find out if it is effective in reducing the cost of poor quality – internal failure cost as well as external failure costs. Internal failure costs (repair, scrap, rework) are associated with defects found after the production but before delivery to the customer. This can be avoided, if quality inspection is done throughout the production work-flow rather than just at the end of production. External failure costs (repairs and servicing, sale returns, warranty claims, complaints) are incurred when the customer finds the product defective and returns it. External failure costs can severely impact customer loyalty and should be minimized.

Therefore, Audio Tech should invest in preventive and appraisal costs to ensure good quality in order to balance out the cost of poor quality. Preventive costs would include quality planning and assurance, error proofing quality improvements, education and training. Appraisal costs could be inspection, quality audits, supplier rating etc. Total Quality Management (TQM) and Six Sigma could be effective tools to ensure efficient good quality production that would minimize cost of poor quality.

## **(ii) Alternate Performance Measurement Mechanism considering all Stakeholders**

Audio Tech uses Balanced Scorecard to measure performance. Balanced Scorecard focuses on the financial, customer, business, and innovation perspectives. It is given that the company is doing well on financial and customer satisfaction parameters. Market capitalization has also increased over the years, the company is on a growth trajectory. However, the company is facing issues in the form of high employee turnover and dissatisfaction among truck drivers who deliver the goods. An alternate performance measurement mechanism can be Performance Prism. This is a second-generation performance management framework conceptualized by Andy Neely and Chris Adams.

The reasons why it would be an effective replacement for models like Balanced Scorecard are:

**(a) Balanced scorecard focuses on just two of the stakeholders** – Investors and Customers. Performance measurement of other stakeholders like employees, suppliers, government etc. have not been considered. The other stakeholders play an important role in the growth of the company's business. Hence, performance measures are needed to monitor both their contribution to the company as well as their overall satisfaction with the company.

**(b) Most of the performance measurement models do not focus on the changes that need to be made to strategies and processes.** Balanced Scorecard assumes that once the strategies are implemented, measuring a relevant set of metrics of performance will ensure that the rest of the

business also functions properly. However, this is not true. In the case of Audio Tech, both customers and shareholders are happy with the company's performance. Yet even in a growing business, the drivers of growth, namely other stakeholders like employees and suppliers are not satisfied. Neither is their contribution nor their satisfaction is captured under the Balanced Scorecard performance measurement.

**(c) A company has a “Quid Pro Quo” relationship with all its stakeholders. Stakeholders** contribute to the company's business while they also derive benefits from it. For example, employees perform their functions well, this is their contribution to Audio Tech's growth. In return, employees would want good working condition and pay to remain motivated and loyal to the company.

Therefore, Performance Prism can be an alternate performance measurement mechanism that considers metrics related to a broader set of stakeholders of an organization, not limited to just customers and shareholders alone.

### **Five Interrelated Facets of the Performance Prism**

**1. Stakeholder Satisfaction:** “Identify the organizations set of stakeholders and their needs”

Unlike a balanced scorecard, the performance prism focuses on all the stakeholders of a company. Audio Tech has satisfied investors and customers, but dissatisfied employees and truck operators. The company must likewise identify all its stakeholders and determine the relative importance of each of the stakeholders. It can use Mendelow's Matrix to identify key shareholders in terms of power and interest of stakeholders. A stakeholder group with higher power and high interest (say a trade union) must be kept satisfied.

#### **The main stakeholders of a company are:**

- a. **Investors** - They want return on investment.
- b. **Customers** - They want good quality products at reasonable prices.
- c. **Suppliers** - They want better price for procurements or service.
- d. **Government** - They want revenues and development.
- e. **Society at large** - They want employment opportunities.

After identification of the stakeholders, the company must identify the requirement of each of the stakeholder group. What must the company do to ensure stakeholder satisfaction?

Audio Tech has to ensure that it improves employee satisfaction in order to reduce its employee turnover. It should also address the issues faced by truck drivers and involve them in a dialogue. If they are not satisfied, the company might suffer financially in the longer run.

Performance Measure: Employee turnover ratio, average employment duration of employees, number of strikes by truck drivers etc.

**2. Stakeholder Contribution:** “What the organization expect the stakeholders to contribute and deliver?” In the second facet, the company has to identify the contribution required from each stakeholder group and must define ways to measure contribution of stakeholders. In turn the company will have something to offer the stakeholders. This is the “Quid Pro Quo” relationship. For example, Audio Tech provides quality products to its customers. The customers in turn contribute towards the profits of the company, they pay a price for the value Audio Tech offers. Audio Tech should provide for better working conditions to its employees. Motivated employees will perform better and remain loyal to the company. They would drive the growth of the company. Similarly, dialogue with truck drivers would be needed to provide better pay, retirement benefits and good working conditions. Truck drivers in turn need to ensure timely and safe delivery of goods to retail outlets.

**Performance Measure: Efficiency of employees, productivity, on time delivery by truck drivers.**

**3. Strategies:** “What strategies should an organization adopt that derives stakeholder contribution while reciprocating by ensuring their satisfaction?”

The organization should identify strategies that ensure that:

- The wants and needs of the stakeholders are satisfied.
- Stakeholders contribute to the organizations objectives.

Performance measures must be put in place to confirm that the strategies are working. Effective implementation depends on appropriate communication of strategies, implementation by managers and continuous evaluation of appropriateness of strategies.

Audio Tech has to roll out strategies to retain employees by means of better pay, working conditions and growth opportunities within the company. The strategy will be effective when the employee turnover is reduced following these initiatives. Similarly, the issues faced by truck drivers need to be addressed by taking appropriate strategic decisions. The absence of strikes will indicate that these decisions have been effective.

**Performance Measures: Employee turnover after implementation of new strategy, efficiency of deliveries after issues with truck drivers have been resolved.**

**4. Processes:** “What are the necessary processes to satisfy the above strategies?”

Processes ensure successful implementation of strategies. Each process could have sub- process. Process owners have to be identified to assign responsibility of functioning of the process.

Processes require continuous evaluation. Instead of evaluating all at once, the company has to identify important processes that are critical to the business. Porter’s Value Chain Analysis can be used to identify and evaluate various processes in the organization.

Audio Tech should have well defined processes to hire appropriately skilled personnel for the job, transparent pay structure etc. This process may be owned by the Human Resource Manager. The working condition of truck drivers can be improved by providing sufficient training and better working conditions.

**Performance Measures: Number of personnel hired at various skill levels, average payout for each of these skilled groups, hours of employee training, maintenance log of trucks etc.**

**5. Capabilities:** “What resources should an organization need to effectively operate these processes?” The company must have the right capabilities in order to support the process. Capabilities could include resources, technology, and infrastructure for a particular process to work. Audio Tech may decide to increase pay/salaries, however it should have sufficient financial resources to make these payments.

**Performance Measures: Amount spent of new recruitments and training etc.**

**Conclusion:** “Manage these interlinked facets to cater to all stakeholders”

While meeting targets as defined by performance measures should be emphasized, the performance measurement system should be dynamic and flexible to allow the stakeholders to voice their opinions and expectations as well. Taking their requirements into consideration, along with managing capabilities and processes, Audio Tech can implement effective strategies that will cater to the needs of all stakeholders.