Service Science
UniMiB
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Strategies and Management in Mature Scenarios

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Business Concepts Overview

- We will quickly introduce some general business terms and concepts
- They are taught in management/economic programs
- @anyone-of-you-who-is-already-familiar-with-these-concepts: please, be patient

Which Company was more Successful?

	Company A	Company B
Sales Growth	8%	0%
Gross Margin %	55%	35%
SG&A as % of Sales	5%	15%
EBITDA as a % of Revenue	15%	3%
…	…	…

- **Gross Margin =** $\frac{\boldsymbol{Revenue - Cost\ of\ Goods\ Sold}}{\boldsymbol{Revenue}}$

i.e., the percent of total sales revenue that the company retains after deducting the direct costs associated with production

- **SG&A**: Selling, General & Administrative Expenses.
  - It includes all the costs not directly related to produce a product or a service.
  - E.g., SG&A includes the costs to sell and deliver products and services and the costs to manage the company
- **EBITDA**: earnings before interest, taxes, depreciation, and amortization

Why Company A has been more successful?

	Company A	Company B
Customer Satisfaction Index	90	75
# Defects per Thousand	5	20
% On Time Delivery	95%	70%
New Product Dev. Cycle Time	6 Months	18 Months
Employee Satisfaction Index	90%	70%
% of Sales Coming From Products Introduced in the Last 2 Years	20%	1%
% Product Returns	1%	8%

- What's your opinion (according to these numbers)?

Which set of measures drives the other?

Customer Satisfaction Index
Defects per Thousand
% On Time Delivery
New Product Dev. Cycle Time
Employee Satisfaction Index
% of Sales Coming From Products Introduced in the Last 2 Years
% Product Returns

→

Sales Growth
Gross Margin %
SG&A as % of Sales
EBITDA as a % of Revenue

- **Gross Margin** = (Revenue – Cost of Goods sold) / Revenue
- **SG&A**: Selling, General & Administrative Expenses
- **EBITDA**: earnings before interest, taxes, depreciation, and amortization

- How these measures are related to success?

Business Case

- You are the owner of a fast-food restaurant chain
- You want to improve profits by introducing the sit-down service (i.e., people are served by waiters) in some restaurants (not all)
  - What is the rationale of this initiative (in you opinion)?
- Some data
  - 10’000’000 euro to invest on the project
  - 100 Restaurants (different sizes, customer types, …)
- Some questions
  - How to allocate the money to the restaurants?
  - In each restaurant
    - Add more tables? Rent more space?
    - More Waiters?
    - …
- What will you do?
  - 10 minutes work

Strategy

- Strategy — a comprehensive **action plan** that identifies **long-term direction** for an organization and **guides resource utilization** to accomplish organizational goals with **sustainable competitive advantage**
  - Competitive advantage — operating with an attribute or set of **attributes** that allows an **organization to outperform** its **rivals**.
  - Sustainable competitive advantage — a competitive advantage that is difficult for competitors to imitate
- Strategy additional Examples
  - Chrysler© is sold to Fiat© and leaving bankruptcy
  - Spontini© added sit-down service (i.e., table service, rather than a fast food like service)
- Suggested reading:
  Porter, M. E. The Competitive Advantage: Creating and Sustaining Superior Performance. NY: Free Press, 1985. Sample.

Some Management Laws

- Law #1: **Strategy** has no value on it's own other than to **achieve specific goals**
  - Set corporate targets first,
  - then build a strategy to meet them.
- Law #2: It's all about execution.
  - A plan exists only in PowerPoint until it's executed.
  - Build the ongoing **monitoring** and reporting mechanisms to ensure plans are being followed

Introducing the KPI

- A Key Performance Indicator (KPI) is a **measurable value** that demonstrates how effectively a company is **achieving** key **business objectives**
- **SMART** criteria. A KPI has to be
  - **Specific** for the business purpose
  - **Measurable** to really get a value of the KPI,
  - The related goals have to be **Achievable**,
  - KPI improvements are **Relevant** to the **success** of the organization,
  - **Time phased**, which are related to a predefined and relevant period.

Customer Satisfaction Index
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Another Management Law

- Law #3: Any project, strategic or operational, will die unless **resources** are allocated to it

From Strategy to Budgets

- Strategies are declined in terms of
  - **Activities / tasks / processes**
    - Define what will be performed (Statement of Work)
    - Determine **how the work will be** structured, **split into tasks**, and tracked (also known as ***Work Breakdown Structure***)
  - Set **budgets**, for each task
    - Identify **resources** and **targets** (of-course, also evaluation metrics)
    - E.g., Increase Revenue of 10% with no more than 2% of increase Costs, available resources: 50K(euro) and a 3-people team
    - Allocate **budgets for people and funds**
  - Identify Responsibilities (for each task)
    - to **monitor**, analyze, and report actual vs budget values
    - to plan **Corrective Actions**, if required
- Budget: a representation of the **future revenues**, or **expenses**, or cash flow, or production output, or …
  that management **expects** to achieve for a certain **time period**

Purpose of Budgeting Systems

- Budget goals:
  - Planning
  - Allocating Resources
  - Facilitating **Communication** and **Coordination**
  - **Controlling** Profit and Operations
  - Evaluating Performance and Providing Incentives

- Italian translation warning
  - Budget costs(EN) → Budget preventivo (IT)
  - Actual costs (EN) → Budget consuntivo (IT)

- Budget vs Actual
  - Budgets are estimated in advance at the beginning of each period (e.g., quarter, semester, year, …)
  - Budgets are compared with Actual Values at the end of the reference period
- Budget content examples:
  - Planned sales volumes and revenues,
  - Resource quantities,
  - Costs and expenses, assets,
  - Liabilities and cash flows
  - …

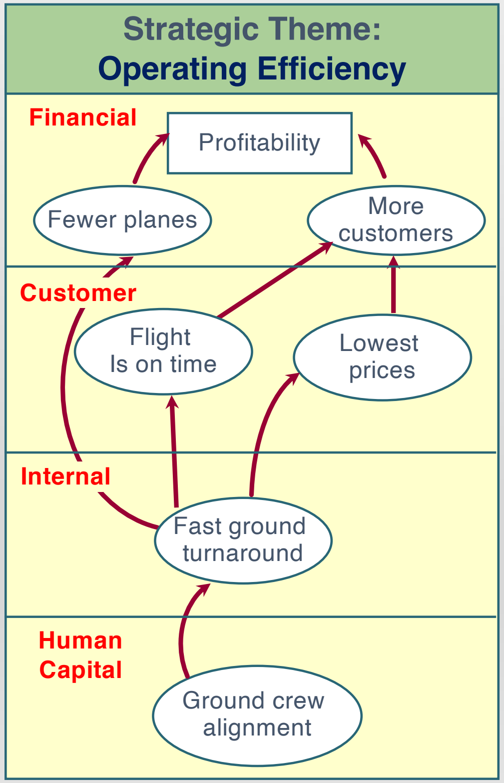
How …

- To develop the perfect strategy?
  - The subject is being actively researched and studied
  - The silver bullet is still to be found ☺
- How to **align** large organization toward the same strategy?
- How to **monitor** the implementation?
- We will have an overview over the BSC method
  - A methodology among several others …
  - … guiding strategy development and implementations

Introducing the Balanced Score Card

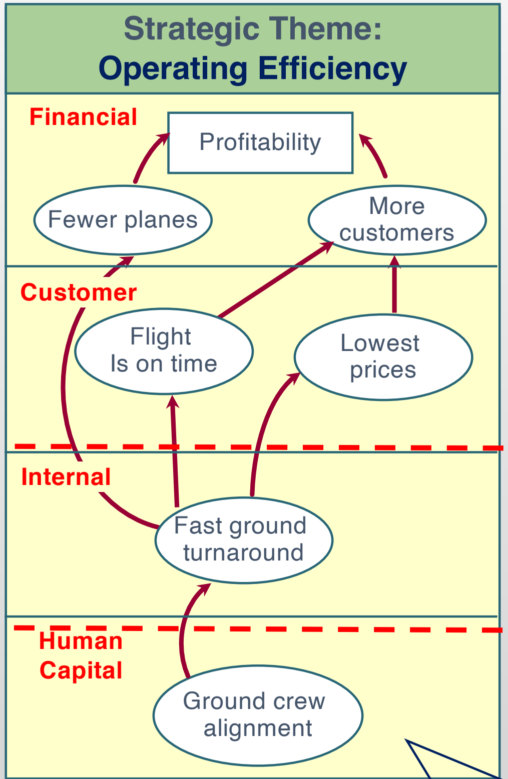
- Low Cost Airlines Example

- A strategy is analyzed according to **4 different perspectives** (more later)
  - Financial perspective
  - Customer perspective
  - Internal perspective
  - Human Capital perspective
- **Strategy Map**: a cause-and-effect relationship between …
  - … a strategic objective …
  - … and the 4 dimensions



Low Cost Airlines BSC (Continued)

- For each perspective identify:
  - Goals
  - Measures (aka as scores)
  - Target
  - Initiative
- Human Capital deserves special attention



Goals	Measurement	Target	Initiative
Statement of what strategy must achieve and what's critical to its success	How success in achieving the strategy will be measured and tracked	The level of performance or rate of improvement needed	Key action programs required to achieve objectives
• Fast ground turnaround	• On Ground Time • On-Time Depart.	• 30 Minutes • 90%	• Cycle time optimization

- Provides objective and feedback to each employee

- Defines what to measure
- Identifies lag and lead indicators metrics
- Operationalise the measures