

HOW TO ORGANIZE BUSINESS UNITS.

Measuring Divisional Performance

- EXPENSE CENTER
 - lever to produce decision on how much to produce.
 - BUDGET. cost min output max
 - over produce
 - empire building
 - threaten to withhold
 - benchmark
 - place center under largest user/client
- overhead service operations
- supportive overheads.
- issues.
- remedy.

* remedy to all problems is strong and effective management.

eg. LEGAL, P.R, R&D?

should you have a R&D dept or connect it to product development.

COST CENTER

- level to produce.
- cost compared to market regulates user.
- efficiency cost min output max
- HR, FOOD SERVICES, CHECK PROCESSING

costs changes uses for services in the company.

every participants need to contribute and so needs to understand their value.

REVENUE CENTER

- to maximize revenue intake
- 'bring in the money'

FOCUS ONLY ON REVENUE.

COSTS ARE NOT CLEAR can be raised unseen.

SR. MANAGEMENT ENSURE PRICE OR BUDGET

• POLICIES & CONTROL

eg. marketing, sales, distribution

values in economic framework vs. accounting framework.

should cost -> Cost vs value = value
outsourcing -> benefits.
Look for value added

INVESTMENT CENTER

- ability to make capital expenditure

issues.

DASHBOARD
bench marking people productivity
deep analysis
- biggest criteria for success.
- biggest costs.
- more automated the less you have to do.

REMEDY.

PROFIT CENTER

- WITH CAPITAL BUDGET
- RIGHT TO PRODUCE, BUY etc...

both cost and revenue
 constantly negotiated profit between units.

- PROFITABILITY WITHIN CAP BUDGET
- UNITS competing too much

good measures...
 measures

- TRANSFER PRICING
- ALLOCATION OF OVERHEAD

possible internal economies.
 issues
 not profitable bits

- MANAGE TRANSFER PRICING PROCESS

- COMBINE PROFIT CENTER MEASURE WITH MEASURE OF OTHER TYPE OF CENTERS

Remedy

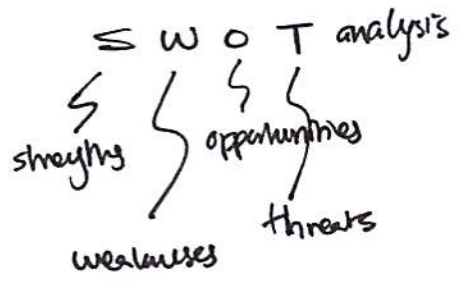
eg. GE, separate business units

how do you deal with sunk cost anchor.

Future is a bet how to hedge your bet.

Economics vision for future ~~is~~ most reasonable, likely, vision of future based on grounded assumption.

Design visions less grounded & differently grounded vision of a hopeful future.



ROA

$$\text{Accounting net income} \div \text{total assets invested in investment center}$$

ACCOUNTING INCOME \Rightarrow NOT MEASURE OF ECONOMIC PROFIT.

ASSETS INVESTED \Rightarrow NOT MARKET VALUE OF INVESTMENT CENTER ASSETS.

value added to stockholders

Economic Value Added

- SUBTRACT THE OPPORTUNITY COST OR CAPITAL FROM PROFITS OF BUSINESS UNITS

where value compared to market.

* Market market

PROFITS = AFTER-TAX, PRE INTEREST EXPENSE.

COST OF CAPITAL : CURRENT MARKET \div DOLLARS.

* futurism class.

WEIGHTED AVERAGE : EQUITY X % OF CAP. DEBT X % OF CAP.

COST OF CAPITAL

Accounting profits	\$20 million
total Assets	\$100 million
Cost of capital	15%
return on assets	20%

EVA = \$20 million 15% cost of cap x \$100m total assets
 = \$20mil - 15mil
 = \$5mil

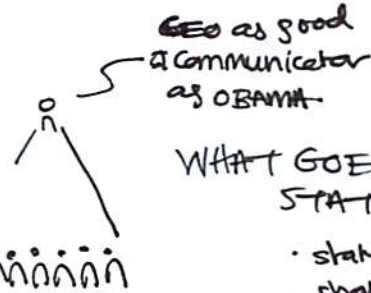
RIAZ

Economics

STRATEGY: POLICIES & PROGRAMS TO CREATE, CAPTURE & REMAIN VALUE.

Strategy is long term. tactics are short term.

- INDIVIDUAL CONTRIBUTORS — individuals should understand vision/strategy as much as CEO.
- NEED TO VALUE & UNDERSTAND THEIR WORK/TJOB.



CEO as good a communicator as OBAMA.

Look at mission statements of companies. FLEXIBLE. you respect.

WHAT GOES INTO MISSION STATEMENT.

- statement.
 - strategy under statement.
- DON'T CHANGE OFTEN.

BASIC STRATEGIC PLANNING MODEL: - ESTABLISH CORPORATE MISSION - SWOT analysis - CREATE STRATEGIES TO REFLECT SWOT - IMPLEMENTATION & FEEDBACK.



move from a mission to a theory of change.

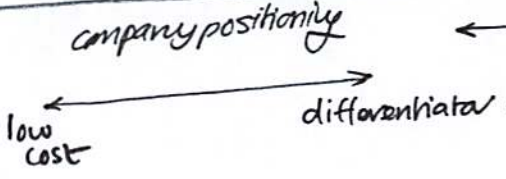
- VALUE FOR PROFIT ≥ value that owner can create on his/har own
- value for sustainable & social ≥ value "each stakeholder"
- value for non-profit ≥ value that donors "

economics wants to know about results. through result you can do a cost/benefit strategy.

how do you measure outcomes of what are you doing.

FACTORS FOR COMPETITIVE ADVANTAGE

- EFFICIENCY
- QUALITY
- INNOVATION
- RESPONSIVENESS TO CUSTOMERS.



GENERAL BUSINESS STRATEGIES.

- COST LEADERSHIP.
- FOCUS COST LEADERSHIP.
- DIFFERENTIATION.
- FOCUS DIFFERENTIATION.
- COST LEADERSHIP & DIFFERENTIATION.
- FOCUSED COST DIFFERENTIATION. very specific/craftsmen.



ECONOMICS

TRANSACTION COST

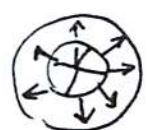
- searchy
- policy

WAYS TO IMPROVE PRODUCT DEMAND

CREATE VALUE

- Reduce transaction costs.
- reduce producers transaction cost
- reduce consumers transaction cost

→ reduce personal cost



- increase demand overall.

- for your product and for competitive products

create entirely new products and services.



~~increase product demand~~

- decrease price with complimentsaries
- raise price of substitutes.
- Cooperate with other products and firms to make customer happy.

HOW DO YOU CAPTURE VALUE CREATED?

- BARRIERS TO ENTRY
- BLOCK UP SUPPLIER
- GREATER / SUPERIOR PRODUCTION PROCESS

motivating people
job structuring

- horizontal integration
eg. flowers shop.

- vertical integration.
internalizing costs.
produce in house vs. outside.

- technology
- coordination.

- Medigate externalities.

= small firm *

different model

huge margin

problems to scale

RIGHT NUMBER OF PEOPLE.

stay small.

small no of employees
big impact

Form follows FUNCTION EVEN IN COMPANIES

↳ Moral hazard.

don't focus too much on quarterly results.

