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Quality Management



What Is Quality?
The Creation of Value
The Balanced Scorecard
The Value Chain
Why It Pays

“Operations” is based on the processes the firm uses to provide value for the customer. The business’ continuing growth and adaptation are based on its capabilities: those services and processes that are superior to those of its competitors.

Effective operations management, then, focuses not only on satisfying current customers, but also on how to adapt its services to attract future customers and meet their requirements.

NOTES:

Creation of Shareholder Value



Providing value to the customer can lead to three possibilities:

- Increasing shareholder value, since there will be none without customer value
- Providing no shareholder value, if the firm just meets operating costs associated with providing customer value
- Decreasing shareholder value if the firm does not meet all costs *including* the loss of capital


Effective operation management therefore addresses customer value AND shareholder value—we cannot assume that providing the former automatically leads to the latter.

While “growth” usually has positive connotations, it can actually be any of three types:

- **Value creating:** Developing the procedures, capabilities, and product/services to serve future customers and expand the firm’s markets.
- **Value destroying:** Making investments for growth that do not translate into future business or do not cover increased costs.
- **Neutral:** Maintaining the necessary growth to maintain the company’s place in the market.

NOTES:

Competitive Advantage:



- Customer Value Creation +
- Stockholder Value Creation

Achieving competitive advantage is based on *productivity*:

- Long-term value exceeds total costs, either through superior value or lower costs.
- Stock market’s perception of the company’s productivity increases the price-per-share.

On the latter point, investors in a company whose competitive advantage is already reflected in the share price will only receive the normal, market-required rate of return. Only investors who accurately anticipate changes in the company’s competitive advantage can expect a higher return.

Managers may come to believe that short-term earnings affect shareholder value more than anticipated long-term cash flows. The resulting tendency to reduce long-term investment can significantly affect future productivity and share prices.

The critical task is to translate strategies into expected shareholder value results. These in turn mold strategies, creating an ongoing interaction between current productivity and long-term shareholder value.

For these reasons, managers can best enhance competitive advantage by increasing long-term shareholder value while providing immediate results.

NOTES:

The Johns Hopkins Bloomberg School of Public Health
“Managing Long-Term Care Services for Aging Populations”

*Components of Customer Value
Creation*



The importance of customer value is obvious: If the firm is to survive, its buyers must be willing to obtain the service at a price that exceeds the firm’s cost of providing the service. However, the firm must also capture this value—maintain its place in the market—rather than lose it to newcomers into the industry or existing competitors. The buyers decide for themselves what they want and how much they are willing to pay for it, thus determining what “value” entails—and which

firm(s) will succeed because they meet the buyers’ expectation of value.

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The Value Chain



The *value chain* represents the activities that design, produce, market, deliver, and support a firm’s product. The value chain represents its history, strategy, approach to implementing strategy, and overall economics. The value chain provides an effective analysis of the firm’s competitive approach.

The value chain identifies five *primary activities*:

Inbound Logistics: Receiving and handling incoming materials.

Operations: Transforming inputs into the final product or service.

Outbound Logistics: Storing, collecting, and distributing final products to buyers

Marketing and Sales: Using advertising and other means to attract buyers

Service: Taking the necessary after-sales steps to maintain buyer satisfaction

The primary activities are complemented by four *support activities*:

Firm Infrastructure: How the firm is organized to provide its products or services

Human Resource Management: Personnel policies; particularly important in the labor-intensive long-term care industry

Technology Development: R&D and related activities to prepare the firm to compete in future markets

Procurement: The process of obtaining needed goods and services to support the business

The nature of the firm’s business will determine the relative importance of these activities.

*Business Functions that
Create Customer Value:*



Implementation

Using the approaches discussed earlier, coming up with the right strategy can be easy. The hard part (bearing in mind the “1% inspiration...” line) is implementing the idea or approach. For this reason, many firms seek to make themselves more competitive by changing their strategy when what they really need to do is change their *approach* to implementing their current strategy.

As Peters and Waterman stated in “In Search of Excellence,”

Our findings (from a survey of 75 companies) showed, more clearly than could have been hoped for, that the excellent companies were, above all, brilliant on the basics. Tools didn’t substitute for thinking. Intellect didn’t overpower wisdom. Analysis didn’t impede action. Rather, these companies worked hard to keep things simple in a complex world. They persisted.

NOTES:

Business Functions that Create Customer Value:



Cause/Effect and Performance
Drivers

For several years, business has tracked and measured customer satisfaction to evaluate success. A broader, more effective approach incorporates cause/effect relationships and outcome measures/performance drivers.

Cause/effect Relationships: The strategy and every other aspect of a business are based on assumptions of cause and effect. Such relationships can be complex:

1. Investors seek above-average return on investment
2. The firm’s financial success derives from repeat and expanded sales to existing customers.

3. Repeat sales result from customer loyalty
4. Customer loyalty is based on reliable service.

Therefore, timely delivery of service improves the investors’ return. In service industries, researches have found causal relationships among employee satisfaction, customer satisfaction and loyalty, market share, and financial performance.

All company strategy and implementation activities must take into account the cause/effect relationships among all aspects of its business.

Outcome measures provide important data but do not indicate if the overall strategy is being successfully implemented. They provide information managers can use to assess performance drivers, the long-term measures that determine whether operational improvements have resulted in expanded business.

An effective assessment therefore involves both specific data (outcome measures) and a view of the company’s success in its long-term plan (performance drivers).

Understanding the Customer...



Several tasks are required for a firm to truly understand customers, current and potential. These tasks fall into five areas:

- **Market research and segmentation:** Obtaining available data regarding the market and those segments of the market that are most likely to be profitable.
- **Customer motivations:** Determining what is important to customers and why.

- **Qualitative research:** Obtaining subjective information from customers to balance the formal, qualitative nature of the market research
- **Changing customer priorities:** Recognizing and responding to the market’s ongoing evolution.
- **Unmet needs:** Determining what unavailable products or services the customers would be likely to obtain.

NOTES:

Understanding the Customer...



Market Research and Segmentation

Segmentation supports strategy by identifying customer groups that have special needs or preferences then providing a specialized product or service in response.

The process of segmentation typically addresses such areas as the following:

- The biggest customers; the most profitable; most attractive potential customers; and any groups of customers with common characteristics

- Areas of segmentation for that market, which might include benefits sought, geographic location, customer loyalty, and price sensitivity

The second step is particularly difficult, because each market has so many variables that must be considered. A wider range of variables tends to give more meaningful information about the segment.

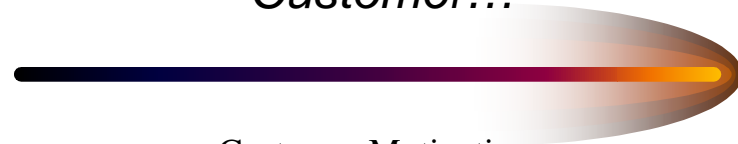
There are three approaches to defining segments, although they are by no means exclusive:

Customer characteristics, such as age, sex, lifestyle, geographic location, and (in the long-term care industry) physical condition.

Product-related approaches, such characteristics as usage, benefits sought, price sensitivity, and brand loyalty.

Competition, the products or services that are available and how they meet (or do not meet) market requirements.

Understanding the Customer...



Customer Motivations

After identifying the market segment, the firm must then determine what customers want, what and why they buy, and how that distinguishes them from other segments.

This process consists of four steps:

1. **Identify motivations:** This task is best performed by obtaining input directly from users of the product or service.
2. **Organize and structure motivations:** Customers can identify a huge range of motivations, so the next task is to place the motivations into more manageable groups

and subgroups. At times, asking customers to do this can be a meaningful way to categorize motivations.

3. **Assign motivation importance:** Asking customers to prioritize their responses can give a clearer picture of what ultimately guides their buying behavior.
4. **Assign strategic roles to motivations:** The firm can develop a company strategy by using this information in combination with other factors, such as competition and the strategy’s financial feasibility.

These approaches involve *qualitative research*, which obtains subjective information directly from current, new, or past customers. The responses can provide significant information on why they *really* buy—for example, they say they want the best assisted living facility available, but are actually at least as motivated by location. Such data can provide valuable input into the strategic plan.

*Understanding the
Customer...*



Changing Customer Priorities

Customer priorities change rapidly, whether as a result of advancing technology or, perhaps, simply a related expectation that all products and services should improve over time. Firms take a big chance, therefore, if they assume that what satisfied customers today will satisfy them tomorrow.

Market segmentation, therefore, is an ongoing process that identifies and assesses these changes in priorities. Responding to the changes can protect the firm's financial standing in the future, perhaps providing new or expanded opportunities in the process.

NOTES:

Understanding the Customer...



Unmet Needs

Unmet needs are significant to two types of firms:

- The organization seeking to find a market segment it can readily enter
- An established firm that is at risk because a competitor filling that unmet need could obtain some of its market share

Ironically, customers aren't always aware of their unmet needs. They may once have concluded, for example, that the only option was a nursing home; it is unlikely that many people

considered how nice it would be to have the option of assisted living.

A firm can identify and respond to such needs by conducting market research and interviewing customers. By finding out what the customers don't like about currently available products or services, the innovative company can identify ways to solve this dissatisfaction.

Firms that can address such needs will experience little competition while establishing themselves in what may be a sizable market.

NOTES:

*Measuring Customer Outcomes
and Value Propositions*



After establishing its target segments, the business must develop two sets of measures: the **core measurement** group and **performance drivers**.

Regardless of the line of business, all organizations are affected by and must keep track of the measures that comprise the core measurement group. Because the measures are basic and generic to virtually any type of business, they comprise the most commonly used indicators of business success.

Performance drivers exist at a deeper level, identifying and assessing the company’s approach to achieving the objectives embodied in the core measurement group. Performance drivers determine how customers’ view the value of the products and services they receive from the company.

NOTES:

The Johns Hopkins Bloomberg School of Public Health
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Core Measures



- Market Share
- Customer Retention
- Customer Acquisition
- Customer Satisfaction
- Customer Profitability

Market share is relatively easy to determine once the target segment has been established (e.g., 1000 candidates living in CCRCs in our local market area and our population is 150 = 15%).

Customer retention information can provide important feedback regarding the quality of service and market changes.

Customer acquisition involves obtaining a greater proportion of the target segment or the same proportion at a reduced cost. The marketing activities that relate to this measure can also

support the development of waiting lists and other means of enhancing growth.

Customer satisfaction uses the company’s performance measures to determine whether customers are fully satisfied or delighted with their services and will continue to be customers—and recommend the company to others.

Customer profitability recognizes that obtaining customers can be counter-productive if they do not contribute to profit. The focus on the customer must not reach the point that the company loses sight of its financial objectives. The company may choose to serve unprofitable customers to meet such objectives as strengthening position within the segment or developing new products or services that will eventually be profitable. However, it must make this decision with a clear vision of what it hopes accomplish by serving this customer.

Value Propositions



- Product/Service Attributes
- Customer Relationships
- Image and Reputation

Customer value propositions are the company’s attributes that create loyalty and satisfaction in their targeted segments. These propositions are at the root of a company’s ability to meet the five core measures just described.

Product/service attributes include the product/services functionality, price, and quality. These attributes help determine how effectively the company’s performance adheres to its vision.

Customer relationship is the customer’s somewhat subjective view of the company. For one segment, the desired perception might be “acceptable quality at an inexpensive price,” while another might emphasize high quality over cost.

Image and reputation are the intangible factors that may attract a customer to a specific company. A customer may only want to buy from the perceived industry leader. A company can use such approaches to proactively define or “position” itself in customers’ minds.

NOTES:

*Internal Business Process
Perspective*



To develop this perspective, managers identify the most critical processes for achieving customer and stockholder objectives—and outperforming competitors. Based on formulated measures that assess how effectively the company is meeting financial and market objectives, the perspective focuses on the business processes designed to meet these objectives.

There are five steps in the process:

1. Defining a complete internal-process value chain that starts with the innovation process

2. Identifying current and future customer needs and developing new solutions to meet them
3. Maintaining operations processes
4. Delivering existing products and services to existing customers
5. Providing post-sale services

Such an approach extends beyond typical performance measurements (such as variance cost reports). It also assesses the company’s performance as measured by its overall success in meeting its highest-level objectives.

NOTES:

*Internal Business Process Value
Chain*



The internal business process value chain enables companies to customize their perspective by applying three principal business processes:

Innovation, in which the company researches emerging markets or customer needs then creates new products or services accordingly.

Operations, the production and delivery of existing services (typically the focus of past performance measurement systems). While assessment of operations is still important, it is now seen as only one of several areas to be addressed.

Post-sale service, those activities that confirm or obtain customer service while also providing feedback on customer satisfaction and changing needs.

The application of these and other internal business processes will provide a comprehensive assessment of how effectively the company is meeting customer and shareholder objectives.

NOTES:

*Excellence and Improvement in
Process and Functions*



Businesses have increasingly shifted their focus to process improvement since the 1980s. This emphasis has led to such initiatives as total quality management, continuous process improvement, change management, reengineering, and outsourcing. All such endeavors are part of the ongoing measurement of and response to the internal business process perspective.

The goal of all these processes is to increase and sustain profits. Traditionally, managers have assessed efficiency,

quality, capacity, and other objective measures to monitor profitability. As important as they are, these measures are secondary. The primary question must always be whether the business is taking the actions now that will enable it to be profitable in the long term.

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*Quality/Total Quality
Management*



A complete, comprehensive definition of quality: meeting the customer’s requirements. Because failure to do so will reduce the firm’s profits, prevention of quality problems is more effective than inspecting and correcting them.

Total quality management (TQM) is a comprehensive and integrative system that is supported throughout the organization. TQM is based on the following factors:

- Commitment of senior management

- Cross-functional teams that focus on quality improvement
- Process- rather than results-orientation
- Systems to obtain and respond to employee feedback
- Focus on underlying causes of customer complaints
- Tracking of key quality measures
- Involvement of suppliers in the system
- Definition of quality in terms of customer satisfaction

The purpose of this effort is to provide a sustainable competitive advantage through a consistent focus on the customer. The exact process will differ by industry, targeted segment, competition, and other factors, but the service industry (such as seniors’ housing) must address five factors:

1. Tangibles
2. Reliability
3. Responsiveness
4. Competence
5. Empathy

Clearly, an organization must devote considerable thought and effort to developing a TQM program, but doing so is the only way to survive in today’s competitive environment.

Perceived Quality and Financial Performance



An extensive study evaluated more 3000 firms, collecting data on numerous factors that can lead to strategic success. The most important factor: the perceived quality of its products or services. The perception was a major predictor of the company’s return on investment.

This finding was replicated by another study, which concluded that perceived quality directly affects return on investment for two reasons:

- The firm can charge a higher price while increasing its market share.
- Positive perceptions reduce the cost of retaining customers

Further, the studies determined that perceived quality need not increase cost. The conclusion: quality is free and, in fact, may result in lower costs for the company.

NOTES: