

**Silke Frödtert**

**Performance Improvement - How to beat  
the competition and become the market  
leader**

**Diploma Thesis**

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## **Performance Improvement**

# **How to beat the competition and become the market leader**

**Diploma Thesis**

**to obtain the degree**

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**at the**

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**Submitted to the Faculty: International Business and Economics**

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From: Silke Frödtert

## **Declaration**

The work included within this thesis has not been previously submitted, either in whole or in part, for the award of any other academic qualification. The work is the original work of the author; assistance from others has been acknowledged where appropriate, and quotation from other sources is cited in the text.

Silke Frödtert

Date

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## Index of abbreviations

Approx.	Approximately
e.g.	For example
i.e.	That is
p.	Page
Ref.	Refer to
JV	Joint Venture
BU-M	Business Unit Monitoring

## IV

### **Index of figures and tables**

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## 1. Introduction

“When conditions change, strategies and tactics must also change”.<sup>1</sup> This could be the motto for the - [Dräger Medical Inc. - A Dräger and Siemens Company](#). After Siemens Medical Solutions Patient Monitoring Division and Dräger Medical Systems joined forces in July 2003, the conditions under which the new company had to operate changed drastically.

Overlaps in management, new processes, new procedures and new opportunities. The former PCS – Patient Care Systems – Group became the new Business Unit Monitoring (BU-M) within the Dräger Medical family, completing Dräger Medicals product portfolio of Anesthesia, Emergency, Perinatal, Critical and Home Care. This complete portfolio enabled Dräger Medical to offer complete, hospital-wide, integrated solutions worldwide. The concept of a “Total System Solution” refers to the ability for one company to provide all of the capital equipment that a hospital needs, with all equipment communicating with one another through network connections.

Dräger Medicals’ product portfolio previously didn’t include an own monitoring line. A prior strategic alliance with GE’s Monitoring Group did not work out for several reasons. Mainly, because the strategic alliance didn’t give Dräger the control and brand recognition they needed. Therefore, the primary objective for Dräger to form the Joint Venture with Siemens Medicals’ Business Unit Monitoring was to offer their own monitoring solutions and integrate them with their well known Anesthesia systems and patient record databases and provide an expanded product portfolio for the Emergency Department and the critical care environment.

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<sup>1</sup> Art Collin speech “Finding the will to grow”, Chief Executive Magazine, Oct., 2003

Dräger Medical needed Siemens' Monitoring line as a key add-on to fill their void in their product portfolio. The patient monitor is where all the patient information is collected and displayed. The successful integration of the patient monitors with Dräger Medicals' anesthesia products and IT solutions was the major aspect of the Joint Venture.

Siemens Medicals' own Anesthesia and Ventilation business, headquartered in Solna, Sweden, tied up a lot of Siemens' resources and required a heavy investment without gaining in market share. All communication and order management services were performed in Solna, which meant a great deal of overhead. The costs for those services were added to the cost of the product which increased by almost 16%. An important element for Siemens to form the Joint Venture with Dräger was to clear those overheads the operations in Solna created and at the same time picking up a proven leader in Anesthesia fundamentals.

The joint venture allowed for combined competencies of Dräger's anesthesia market dominance (40% market share), anesthesia IT competency (effective electronic record keeper database), and ventilation (equal 30% market share to Siemens) with Siemens' product portfolio of patient monitors and critical care electronic flow sheets

While still working relatively independent as an own Business Unit, the monitoring division had access to a lot more resources – human and financial - than before the Joint Venture. This enabled them to invest heavily in expanding the sales force, develop new products and archive excellence in quality and customer service and satisfaction.

The Joint Venture moved Dräger Medical Inc. (Anesthesia, Critical and Emergency Care) to a new position among competitors. The opportunity to

become the market leader in their market segments determined to be a greater potential for success after forming the joint venture.

To reach that goal to become the market leader, the organization had to rethink its strategies, reinvent their tactics and reorganize the whole subgroup. That process was led and driven by determined executives, who knew that [Dräger Medical – A Dräger and Siemens Company](#), had what it takes to beat the competition - provided they play their cards right.

In their book “The Discipline of Market Leaders”, Treacy & Wiersema describe the three value disciplines of market leaders as such:

1. Operational Excellence
2. Product Leadership
3. Customer Intimacy

They argue, that no one company can expect to excel in all three areas, and that the better part of competitive strategy is to determine in which of these three lies your company’s core competency and develop a strategy focused on excelling in the single dimension that plays most to your strength.<sup>2</sup>

### **1.1 Problem formulation**

Companies have to focus on a single discipline to create a foundation for excellence.<sup>3</sup> The problem is to identify that single discipline. In a medical device company like Dräger Medical, this is a hard thing to do. All of the disciplines seem to be equally valuable.

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<sup>2</sup> Ref. Michael Treacy & Fred Wiersema, The Discipline of Market Leaders, 1995

<sup>3</sup> Ref. Geoffrey A. Moore, Inside the Tornado, 1995, p. 233

The first value discipline is **operational excellence**, which means providing the market with low priced and highly qualitative goods and services, while at the same time minimizing problems for the customer. To excel in that discipline, companies have to focus primarily on the efficient management of people, the management of efficient transactions, dedication on measurement systems, management of customer expectations and customer service, implementation of effective processes, training and education, effective Human Resources management and Research and Development processes.

The second value discipline is **product leadership**, which is dedicated to providing the best possible products that push performance boundaries from the perspective of the features and benefits offered to the customer. Here companies should focus on the encouragement of innovation, a risk-oriented management style, a recognition that the company's current success and future prospects lie in its talented product design people and those who support them and a recognition of the need to educate and lead the market regarding the use and benefits of new products.

The third value discipline is **customer intimacy**, which involves the selection of one or a few high-value customer niches, followed by an obsessive effort at getting to know these customers in detail. This requires anticipating the target customers' needs as well as (if not better than) they themselves do, and sometimes sharing risks with them when the development of new products or services is required.<sup>4</sup>

In the case of Dräger Medical, that translates into: We have the best and most innovative products, for less cost than the competitors', which will address all your current and future needs. We provide the best service and value every customer.

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<sup>4</sup> Ref. <http://www.assetnow.com/index.cfm/13,230,html> (June 26<sup>th</sup> 2004) see Appendix

So where does a company start striving for excellence? Which one of these disciplines values most to the company? Where is the most room for improvement? And do you have to neglect the other disciplines in order to excel in the discipline you selected as closest to your companies' core competencies?

## **1.2 Thesis Objectives**

The objective of this thesis is to describe the process of performance improvement at Dräger Medical and the changes the joint venture brought about. Some of the content is particularly targeted at Dräger Medical and can therefore not be generalized or implemented at other companies without modifications.

This thesis tries to provide a conceptual framework for the management of change, improvement efforts and the actions Dräger Medical had taken or will take to reach its goal to become the market leader. The objective of this thesis cannot be an exhaustive treatment of every area of the company, where performance improvement can be achieved. Therefore I limit my approach to certain business related key areas, where I believe improvement is absolutely necessary in order to increase and improve the overall business performance.

Note, that the implementations of many new strategies, which will be discussed in this thesis, are not yet implemented or are still in the process of being implemented. Therefore only the desired outcome can be presented and not the actual outcome supported by empirical observations.

## **1.3 Thesis Methodology**

First, an overview of Dräger Medical and the identified changes and resulting new opportunities will be given in order to establish key areas, where

performance improvement is necessary. Those key areas will be picked up later in the thesis, to describe possible methods and strategies to improve performance in those key areas.

Secondly, an overview of the medical device industry and of selected competitors will be given, to position Dräger Medical and show the giants Dräger wants to beat. This also serves as an explanation for choosing the identified key areas of performance improvement.

Finally, some basics on how the improvement can be measured followed by the first results the company has achieved.

## **2. Important Definitions**

Referring to the title of this Thesis, I will define the terms 'performance', 'improvement', 'market leader' and 'measures'. Other definitions will follow throughout the text wherever the need arises.

### *2.1 Performance*

When we talk about performance: What kind of performance do we mean? How accurate can we measure performance and how do we interpret these results?

First, let's start off with some basic definitions of the term performance as it is used commonly and as I will use it throughout this thesis:

The performance of an organization at any one time is the consequence of its posture and the position it occupies in its environment at that time.<sup>5</sup> The posture of an organization is a picture of what the company looks like, its shape and its

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<sup>5</sup> Ralph D. Stacey, *Strategic Management & Organizational Dynamics*, p. 140

capabilities. The posture of an organization is what you see when you stand at the organizational boundary and look inwards.

The position of an organization, then, is a picture of how an organization relates to the people that are its environment. The position is what you see when you stand at the organizational boundary and look outwards.

The posture and position of the organization are the result of the strategy it has pursued. That posture and position determine its performance at the time and performance refers to:

- financial dimensions such as cost levels, return on capital, profit growth
- operational dimensions such as quality and service levels<sup>6</sup>
- proper identification of product requirements

Acceptable financial performance is defined in terms of the next best opportunity open to the owner of an organization for using or investing their funds.<sup>7</sup>

## *2.2 Improvement*

Here the questions to ask would be: What kind of improvement? Do we want to improve sales? Revenues? EBIT? Processes? Workflow? Cash flow? Not every improvement increases the financial standing of a company. Many successful improvements cannot be detected on the companies' balance sheet or other financial statements. But they can lead to substantial financial improvements in the long run, if practiced continuously.

The stimulus for an (improvement) decision may be the voluntary recognition of a problem or an opportunity, or the result of some pressure or mild crisis, or the

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<sup>6</sup> Ralph D. Stacey, *Strategic Management & Organizational Dynamics*, p. 5 ff.

<sup>7</sup> Ralph D. Stacey, *Strategic Management & Organizational Dynamics*, p. 147