

MEMORANDUM

Date: 1 November 2001

To: Ryan Johnson
Store Owner

From: Brandon Miller
Management Consultant

RE: The BEST Structure for Johnson's Appliances

I am pleased to have this opportunity to present my recommendations about a new organizational structure for Johnson's Appliances. An organization's structure, the vertical and horizontal configuration of departments, authority, and jobs in a company, is critical to the success of the organization. By implementing my recommended structure, I believe that Johnson's Hardware will be able to become a stronger competitor and better functioning company.

It is essential for a company to have a clearly defined structure. Structures must be aligned with the environmental conditions that the company operates in and must be connected to the overall strategy of the business. Companies operating in highly volatile environments will have different structures than the companies operating in more stable environments. Likewise, the strategy of a firm dictates the type of organizational structure that will work the best. A local company like Johnson's Appliances that is focused on differentiating itself through premier service should have a structure focused around the products and services that it provides. In contrast, a global company that has a cost leadership strategy may want the design of their company based on the geographic areas and producing economical, unique products for different cultures. Structures also help produce better more productive employees. They assist in connecting employees to the end results of a business because they establish responsibility for certain duties that directly relate to the end product. Structures allow for employees to see their potential career paths as well, which will increase productivity in many employees since they know that there is the potential for advancement.

Under Johnson's Appliance's current functional structure, in which employees are divided by tasks into sales, purchasing and accounting, and repair, jobs with common functions are being clustered in departments. Each department has authority, the right to make decisions and allocate resources, and responsibility, the

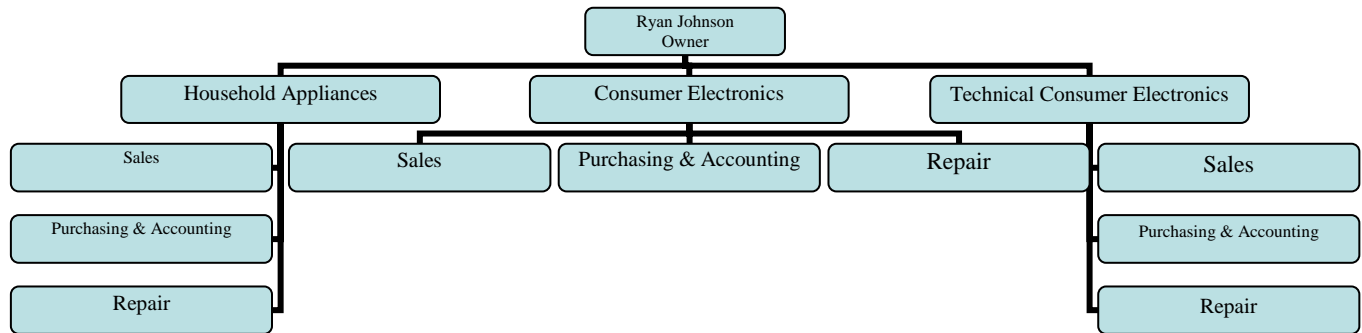
duty to accomplish set goals, over its department's functions. There are three main disadvantages for Johnson's Appliances under this structure. First, now that the business is expanding, decision making may be too heavy at the top. Departments are responsible for set goals that they probably may not have had a part in the decision making process of setting. Departments also most likely do not usually have the flexibility to make critical decisions. Second, there is little opportunity for product and service customization and specialization since departments are not centered around the products and services they create and provide. Instead, departments are centered around the functions that they serve. For example, at Johnson's Appliances, the repair department under its functional structure has probably become well-rounded in general repairs for all appliances and some electronics. However, they almost certainly would not have specialized repair knowledge in technical consumer electronics, such as digital cameras, since they do not have a department dedicated to just repairing consumer electronics. Third, the organization's management and employees under its functional structure is limited to only functional department proficiency. Managers and employees are too specialized, and thus are often more interested in doing what is correct for their functional department than what may be correct for Johnson's Appliances as a whole.

I believe that the best structure for Johnson's Appliances to implement is the product departmentalization structure. Since Johnson's Appliances is still a relatively small business with few employees, it is not necessary to move to an overly complex structure. In fact, the company will continue to have its functional groups divided into sales, repairs, and accounting and purchasing. These functions will now just be included under a specialized product division to further the managers' and employees' expertise. This will lead to customized service. Product departmentalization organizes work and workers into separate units responsible for producing particular products and services. Under this new structure, which is illustrated on the following page, Johnson's Appliances will be initially divided into the products that the company sells and services. The main advantages to the product departmentalization structure for Johnson's Appliances is that it will focus the company around the products that it sells and services, create flexibility by making the decision making power closer to the customer, and produce more knowledgeable managers and employees.

The product divisions will include household appliances, consumer electronics, and technical consumer electronics. I believe that it is crucial to separate the new electronics division at the top level into consumer electronics (stereos, telephones, cameras, televisions, etc.) and technical consumer electronics (computers, computer equipment, PDA's, etc.) due to the complexity and dynamism of mainly the technical consumer

electronics environment. Since, Johnson’s Appliances intends to compete with exceptional service, its sales and repairs departments will need to have more specialized knowledge of their product lines than his competitors. I would expect that this structure will allow for the managers and employees in each department to become experts and focus on one product line. Thus, better service should follow.

Suggested Johnson’s Appliances Organizational Chart



It is important to note three primary weaknesses of product departmentalization. First and foremost, this structure is relatively inefficient because duplication is very high. Each product division for the store would have its own sales staff, repair team, and purchasing and accounting employees. I believe, however, that the focused knowledge that will be gained from product departmentalization will yield much better service, and hence outweigh the efficiency disadvantage. Also, in comparison to other companies that have used this structure, like GE, Johnson’s Appliances has only three product divisions so its duplication is minimal. A second disadvantage is that it may be difficult to achieve coordination among the departments. For Johnson’s Appliances, it might be hard to standardize the purchasing procedures because each department has its own functional purchasing and accounting employees. Finally, departments might become too independent and stop sharing information. The appliance sales staff could potentially implement a new and highly successful sales culture that they would not share with the other divisions due to the departmental separation. However, I would not anticipate this happening at Johnson’s Appliances until the company grows even larger. On the whole, I am confident that the advantages of the product departmentalization structure will outweigh the disadvantages for Johnson’s Appliances.

Overall, I believe that the implementation of a new organizational structure for Johnson’s Appliances is essential to the growth and success of the company. Implementing the new product departmentalization structure will focus the product divisions, which will directly relate to the company’s strategy of

differentiating itself through premier service. If you have any questions concerning the recommendation, please contact me at 353-5148. Thank you.