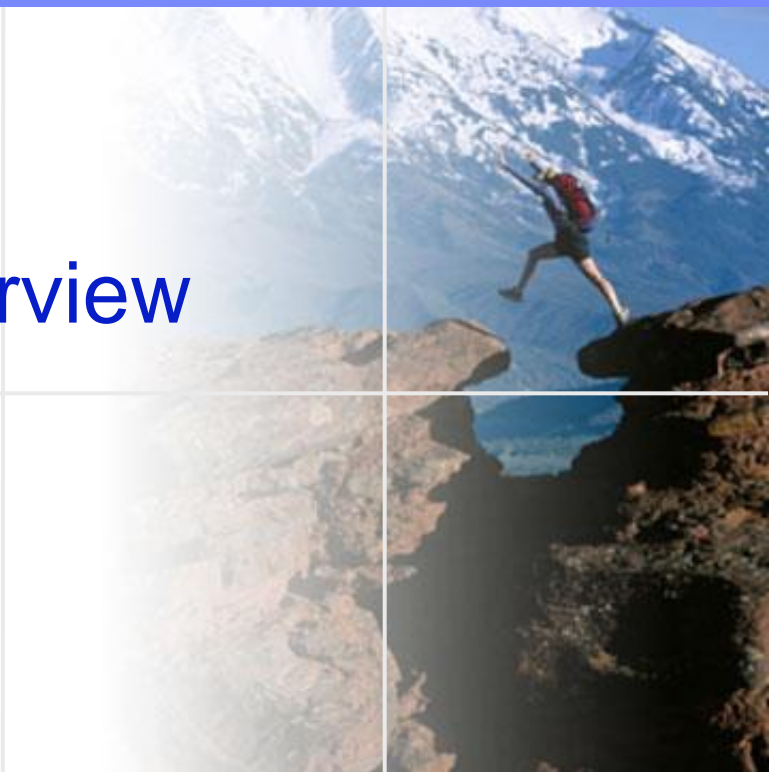




IBM Business Consulting Services

# Balanced Scorecard Overview

**Anna Tai and Irene Krasnoff**  
**Sales Effectiveness Practice**  
**March 20, 2006**



## Topics For Today's Discussion

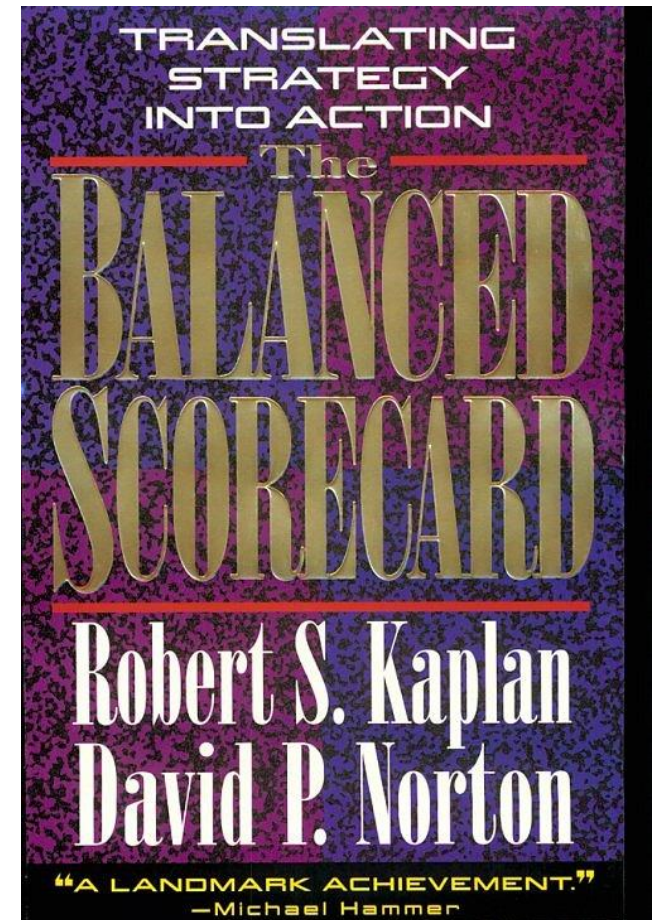
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- **Introduction**
- **Balanced Scorecard Definition**
- **The Four Perspectives of Balanced Scorecard**
- **Best Practices in Creating a Balanced Scorecard**
- **EchoStar Sales Balanced Scorecard Example**
- **Summary**

## Introduction

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- Provide an overview of Kaplan and Norton's The Balanced Scorecard
- Demonstrate the value of utilizing the Balanced Scorecard as a tool
- Provide an overview of a Balanced Scorecard recently built at a client engagement



## Kaplan and Norton: The “Godfathers” of Strategic Thinking

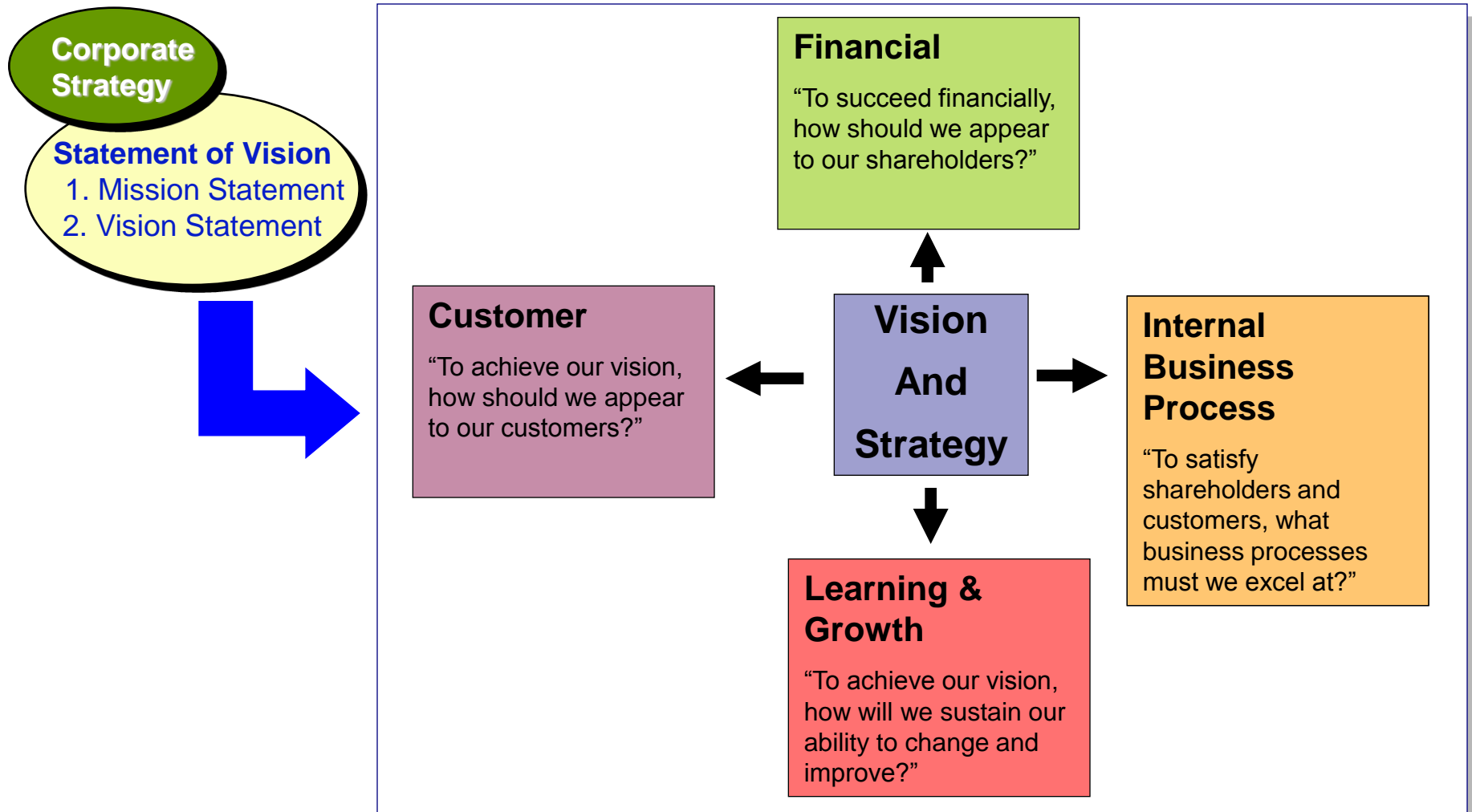
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- The concept of the “balanced scorecard” came about in 1990 from a one year study, “Measuring Performance in the Organization of the Future”, led by Norton and Kaplan.
  - Motivated by belief that existing financial performance measure approaches were becoming obsolete
  - Financial performance measures were hindering organizations’ abilities to create future economic value
- Robert S. Kaplan and David Norton published The Balanced Scorecard in 1996.



KAPLAN AND NORTON

## Balanced Scorecard: Four Perspectives



# The Five Components of a Balanced Scorecard

Vision/Strategic  
Intent:

**Premier in the World by 2000 and Beyond**

*Actual Client  
Example*

Mission:

**To Produce Cars and Trucks that People Want to Buy,  
Enjoy Driving and Want to Buy Again**

Key  
Performance  
Indicators:

**Product  
Distinctness**

**Customer  
Satisfaction**

**Best in Class  
Quality**

**Cost  
Leadership**

**Financial  
Strength**

Key  
Performance  
Measures:

- % gain in market share
- % vehicles in top 2 or 3 spots by segment
- % who rate new vehicle styling as excellent or very good

- % customers re-purchasing from Client X
- CSI among top 6 manufacturers in US (car, truck, overall)

- % customers recommending Client X products
- IQS among top six manufacturers in US (car, truck, overall)

- ER&D expense as % net revenue
- Units produced per employee (hrly & salary)
- Marketing expense as % gross revenue
- Harbour Report cost ranking

- Return on sales
- Automotive earnings per unit
- Credit Rating
- Debt to Capitalization
- Return on Net Assets

Key  
Initiatives

- 3.8 MS points
- 50% top spot vehicles
- > 92% rating excellent or very good

- > 87% repurchase rate
- JD Power CSI rating (Car=155, Truck=166)
- JD Power SSI rating = 136 (Car & Truck)

- > 86% recommended products
- IQS rating (Car=60, Truck=71)

- ER&D ratio < 2.6%
- Vehicles/emp > 50.4
- Marketing expense ratio < 6.0%
- Harbour rating #1

- Return on sales > 7.2%
- Auto earnings/unit > \$2,000
- Credit rating > A+
- Debt to capital = 15%
- RONA > 23%

## Good Rules of Thumb

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1. Tells the story of the business unit's strategy, linking outcome and performance driver measures together through cause and effect relationships.
2. Continually updated to reflect new competitive, market and technological conditions.
3. Needs to be communicated to organizational constituents: employees, corporate level managers, and board or directors.
4. Senior Executive Involvement is key to the success of a balanced scorecard.
5. Contain 15-25 financial and non financial measures, grouped in four perspectives.
6. Do not "borrow" Key Performance Indicators from similar industries.
7. Implemented within 60 days of creation.
8. Takes an average of 16 weeks to complete.



## Balanced Scorecard Rationale

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- **The Balanced Scorecard provides a “roadmap” for an organization to realize strategy**
- **The Balanced Scorecard enables an organization to implement strategies by developing key initiatives and performance measures, which stem from the corporate mission/vision**
- **The Balanced Scorecard enables an organization to monitor key performance measures, and ultimately assess success**
- **The Balanced Scorecard serves as a communication tool to employees to implement these strategies**



# EchoStar Sales Balanced Scorecard

**Vision:** #1 in Direct Broadcast Satellite

**Mission:** Acquire and retain the most profitable customers

	Revenue	Performance	Effectiveness	Technology	Costs
Critical Success Factors:	Increase Revenue and Profits	Improve Retailer Performance, Quality and Satisfaction	Improve Sales Operations Effectiveness	Build Effective Technology Support Infrastructure	Reduce/Control Associated Sales Costs
	Internal / External	External	Internal	Internal / External	Internal / External
Key Performance Indicators:	<ul style="list-style-type: none"> <li>Net Subscribers</li> <li>Churn</li> <li>ARPU</li> <li>Take Rates (Prog. STB, HD, DVR)</li> <li>MDU/SFU</li> <li>Premium Customer (Credit Score)</li> </ul>	<ul style="list-style-type: none"> <li>Trouble Calls</li> <li>Revenue per Account (MoM)</li> <li>Revenue Growth Per Account</li> <li>Customer Satisfaction Scoring</li> <li>Certification Scores</li> <li>NPF</li> <li>Associated Retailer Metrics (Sales Performance Management-Retailer)</li> </ul>	<ul style="list-style-type: none"> <li>Retailer Satisfaction Index</li> <li>New Business Growth</li> <li>Revenue Growth in Existing Accounts</li> <li>Retailer Attrition Index</li> <li>Share of Wallet / Mindshare</li> </ul>	<ul style="list-style-type: none"> <li>Systems Delivery Index (Delivery Success, by System)</li> <li>Systems Uptime / Downtime (by System)</li> <li>Self Service Index</li> </ul>	<ul style="list-style-type: none"> <li>SG&amp;A</li> <li>Customer Care Expense</li> <li>Tuner / Receiver Count per Subscriber</li> <li>Incentive Compensation</li> <li>Sales Operations Expense</li> <li>Marketing Costs</li> </ul>
Key Performance Measures:	<ul style="list-style-type: none"> <li>Achieve 3,500,000/1,000,000 Gross/Net</li> <li>350,000 Pre-Paid</li> <li>Churn ≤ 1.63%</li> <li>ARPU from 58.XX to 60.XX</li> <li>DishFamily @ XX%</li> <li>HD @ ~1,000,000 EOP (9.9%); STB Mix = XX.XX; DVR = XX% New / XX% EOP</li> <li>Improve programming mix: AT60 x% to y%, Premium x% to y%</li> <li>Increase Premium customers from x% to y%</li> </ul>	<ul style="list-style-type: none"> <li>Churn &lt; 1.5% on average for Retailer Channel</li> <li>Trouble Calls &lt; x% on average per Month</li> <li>Increase Gross Activations Per Account by x% Qtr over Qtr</li> <li>Score 4 or better on total average CSS for each individual 'net new' activation</li> <li>Certify 100% of Installation Resources</li> <li>Reduce NPF to an average of x% of returns.</li> <li>Improve Metrics defined in SPM-R</li> </ul>	<ul style="list-style-type: none"> <li>% of Quota Achieved by x% per Month</li> <li>% of Quota Achieved by x% per Month</li> <li>Increase total/existing/net new revenue contribution by x% per month</li> <li>Score 4 or better on average for each Retailer Account</li> <li>Improve Sales Time vs. Non Selling Time by 25% (See Employee Survey)</li> </ul>	<ul style="list-style-type: none"> <li>Successful delivery of ICM</li> <li>Successful delivery of SPM (Retailers)</li> <li>Successful delivery of RCS Enhancements</li> <li>X Ranking on IT Satisfaction Index</li> <li>Move SSI from x% to y%</li> </ul>	<ul style="list-style-type: none"> <li>Reduce Incentive SAC by XX qtr over qtr</li> <li>Reduce Hardware SAC by XX qtr over qtr</li> <li>Lower SG&amp;A costs by 10% annual</li> <li>Reduce CIR by 15% annual</li> <li>Increase Gross activations per Sales FTE by XX%</li> <li>Improve Co-Op Spend by XX%</li> </ul>
Key Initiatives:	<ul style="list-style-type: none"> <li>Modify incentive and compensation plans to Align with EchoStar objectives (March 2006 and August 2006)</li> <li>Enhance commercial business capabilities and overall business mix</li> <li>Execute on Pre-Paid Program</li> </ul>	<ul style="list-style-type: none"> <li>Rank Retailers based on enhanced metrics schema- EchoStar Summit Program</li> <li>Provide "Retailer Diagnostic/Dashboard" to all Retailers to monitor performance (SPM)</li> <li>Design/Implement Retailer Training Curriculum and Certification Process</li> <li>Improve DHPP Program and monitor compliance</li> <li>Implement a Customer Satisfaction Scoring System</li> </ul>	<ul style="list-style-type: none"> <li>Realign the Sales Organization</li> <li>Develop Sales Strategy and Operations Organization (SS&amp;O)</li> <li>Design/Implement Sales Training Curriculum and Certification Process</li> <li>Implement Sales Performance Management Strategy (Internal/External)</li> <li>Conduct 4 Sales Surveys to Sales Team</li> <li>Implement Sales Process (Indirect and Direct Channels)</li> <li>Implement a Retailer Satisfaction Scoring System</li> </ul>	<ul style="list-style-type: none"> <li>Develop IT/Retail dedicated Matrix Team to focus on Tech Enablement for Sales (Sales Technology Operations)</li> <li>Implement Siebel ICM</li> <li>Implement SPM (Retailers)</li> <li>Improve Usability and Functionality of Retailer Care Site</li> <li>Enhance Retailer Self-Care Capabilities</li> <li>Strategize simplification of the Order Management/Provisioning Capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Marketing Cost Reduction Initiative: Improve marketing costs associated with Retail Sales. Ex. List Café Initiative.</li> <li>Sales Cost Reduction Initiative (Define)</li> <li>Reduce service/support activity in the Indirect channel markets and re-align under Retail Operations.</li> <li>Align Retailer Compliance to meet customer needs (STB/HW Alignment)</li> </ul>
	Strategy	People	Process	Technology	Governance

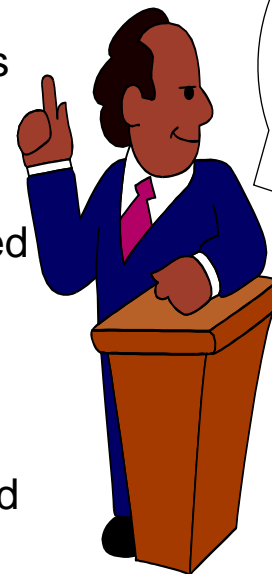
## Summary: Key Takeaways

- **A Balanced Scorecard is a tool that allows for**

- ❑ Entire organization to be aligned to corporate vision and strategy
- ❑ Continuous improvements in business processes and performance
- ❑ Development of high value client relationships
- ❑ Provision of client value through strategic-oriented solutions development

- **Kaplan's and Norton's book is**

- ❑ An excellent resource for any balanced scorecard related client engagement
- ❑ Great supplement to Knowledge View materials



## Questions

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## Anna & Irene's Book Review "Two Thumbs Up"

- **Anna: Overall Rating: Two Thumbs Up!**
  - ❑ Did a great job of illustrating the 4 perspectives through case studies
  - ❑ Enjoyed the flexibility of showing different approaches to creating a balanced scorecard (top down, bottom up, etc.)
  - ❑ The process of creating a Balanced Scorecard was located in the Appendix- this section could have been integrated and referenced more to the rest of the book
- **Irene: Overall Rating A MUST READ!!**
  - ❑ Great job demonstrating how a Balanced Scorecard plays a dual role in measuring and managing business strategy
  - ❑ The book is a great resource for a balanced scorecard related client engagement
  - ❑ While reading the book, I was frustrated that the authors did not present a full picture of what a balanced scorecard actually looks like

**Final Score:**



## Contact Information

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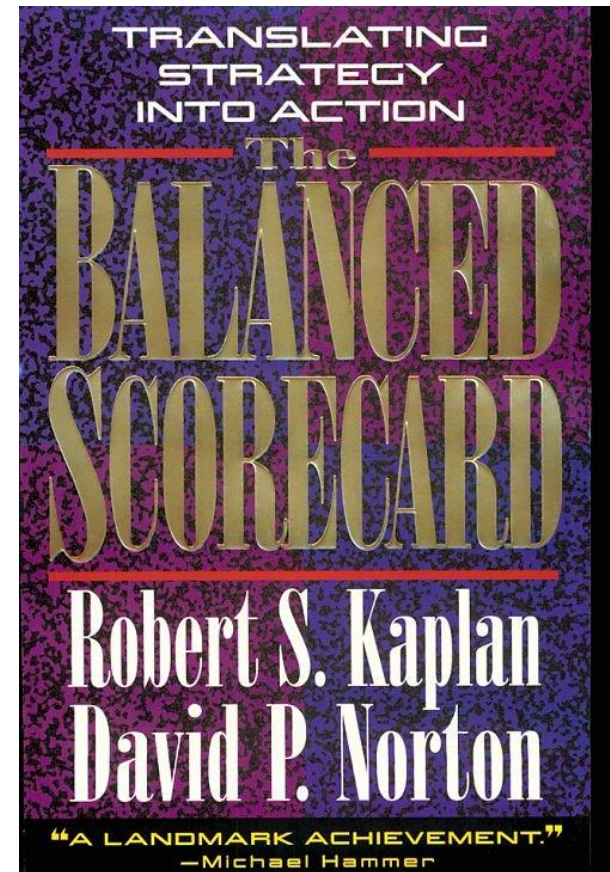
# APPENDIX

## About the Book

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The Balanced Scorecard book can be found on Books24x7 (contains a database of free books).

- 1) Visit this website: [http://w3-3.ibm.com/education/lang\\_en\\_US/index.jsp](http://w3-3.ibm.com/education/lang_en_US/index.jsp)
- 2) Click on the Books 24x7 Link.
- 3) It should log you in using your IBM Intranet password
- 4) Do a search for the Balanced Scorecard.  
(or you could use:  
[http://www.books24x7.com/book/id\\_2415/to.c.asp](http://www.books24x7.com/book/id_2415/to.c.asp)) as the direct link.



## Comparison of Balanced Scorecard to Other Management Styles

	<b>Project Management</b>	<b>Business Process Improvement</b>	<b>Balanced Scorecard</b>
<b>Age of Approach</b>	Decades	Began in DoD 1992	Began in 1990
<b>Prime Customer</b>	External Sponsor	Internal Director	External IG, Internal Director
<b>Goal Definition</b>	Project Requirements, Mission Needs Statement	Cost, cycle time reductions	Strategic management system
<b>Focus</b>	Technical Mission	Business Processes	Multiple perspectives
<b>Scope</b>	Specialized unit	unit to enterprise	dept. to enterprise
<b>Plans</b>	Plan of Action & Milestones	Process Improvement Plan	Strategic Plan, Performance Plan
<b>Schedule &amp; teaming</b>	Work Breakdown Schedule, Action Items	Team directed, focus groups	Cross-functional teams, 1-2 yr. implementation
<b>Mgmt Activities</b>	Team building, Budgeting, Task Tracking, Reviews	Baseline process analysis, to-be process design, automation	Define metrics, collect data, analyze data, decide on changes
<b>Tools</b>	Microsoft Project, Primavera	TurboBPR, IDEF0	Data collection system, scorecards
<b>Measures of success</b>	Deliverables on time, on budget	Cost reductions minus cost of BPI effort	Learning what strategies work; improved results on many metrics



## To Learn More:

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- <http://www.balancedscorecard.org/>
- <http://www.cio.com/archive/051502/scorecard.html>

### On Knowledge View:

- <http://w3-3.ibm.com/services/bcs/km/knowledgeviewportal/kvfeServlets/displayDocument.wss?syntheticKey=X006691L02153E54>



## When to use a Balanced Scorecard: Establish Objectives (Four Scenarios)

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- **Obtain Clarity and Consensus About Strategy**

- ☐ Define objectives and measures at the corporate level
- ☐ Link corporate objectives to individual LOB objectives and measures
- ☐ Link LOB objectives and measures to critical business processes

- **Achieve Focus**

- ☐ Clarify strategic objectives and ID only the critical drivers
- ☐ Set priorities, consolidate and integrate change programs

- **Decentralization and Leadership Development**

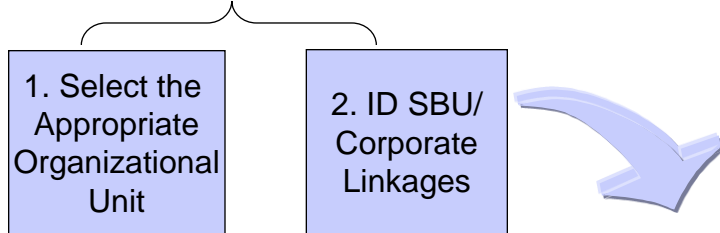
- ☐ Create shared vision for the SBU
- ☐ Guide thinking, reduce risk involved with independently developing SBU strategy
- ☐ Formulate and manage business strategic unit strategies

- **Strategic Intervention**

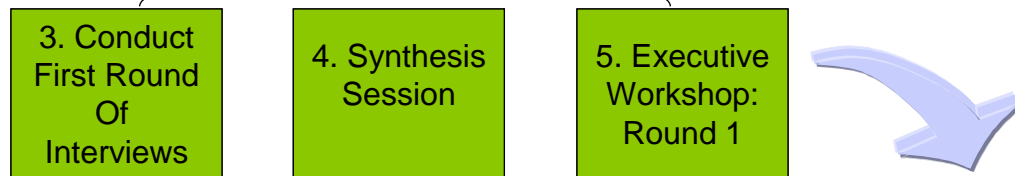
- ☐ Provide foundation for strategic learning
- ☐ Align resources and strategic initiatives

# How to Develop a Balanced Scorecard: The BIG Picture

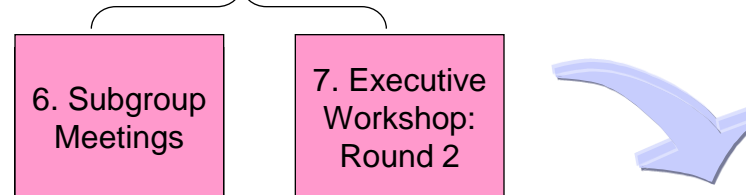
## Define the Measurement Architecture



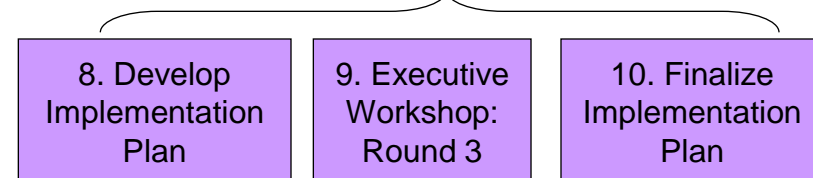
## Build Consensus Around Strategic Objectives



## Select and Design Measures



## Build the Implementation Plan



## Challenges in Developing an Effective Balanced Scorecard

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- ☐ Lack of senior executive involvement in the process of creating a balanced scorecard
- ☐ Critical Success Factors and Key Performance Indicator measures are modeled from similar industries
- ☐ Scorecards are not continuously updated



## How to Overcome Management Defects with the Balanced Scorecard

