

# Mind Your Own Business News Letter

Volume 9, Issue 2

Summer 2009

## Special points of interest:

- Investing in an economic downturn
- Balanced scorecard fundamentals
- Roadmap

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## Investing in an economic downturn

Many organizations are tempted to engage major cost containment activities to weather the economic downturn. While short-term P&L is often considered a health indicator, organizations should wonder how drastic decisions will jeopardize long-term performance. By using appropriate management tools, organizations should be able to value their assets and run through a cause and effect analysis before taking any decisions. Those who are very familiar with their value chain and run a performance framework can predict more accurately how short-term decisions will impact their future business. Anticipating the impact on future KPI is a management best practice, regardless of the size of the organization.

The more aggressive organizations may actually take advantage of market timidity and invest more during the economic

downturn. While this strategy comes with risks, the return maybe such that those audacious organizations may come up on top once the recession is over. What better times to increase market shares, improve one's image or raise barrier to entry than when competitors are weaker? What better times to acquire client or customer loyalty than when others are tempted to under-deliver? What better times to improve internal business processes and employee satisfaction than when operational efficiency is vital?

While it is crucial for organizations not to panic and stick to the true nature of their value proposition, it is time to revisit their strategic foundation, refresh their competitive analysis and reset their objectives. It maybe that a slight reduction in short-term profit will deliver a much stronger market position in the coming months.



**Strategic thinking under pressure.**

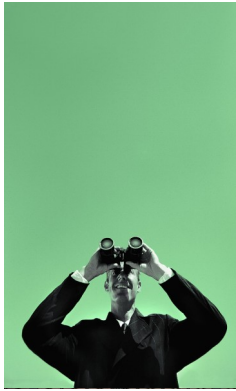
Is offense the best defense ?

## IT Scorecards

With the increasing importance of IT in building competitive advantage, it is natural the most organizations are investing in the creation of special IT Scorecards. IT is often a business within the business with its own mission, strategy and operational plan. IT therefore deserves a specific and dedicated scorecard that demonstrates

how IT intends to balance the various elements of its operation. The IT Balanced Scorecard should have generic KPIs that demonstrate how IT is in-line with the business strategy and how IT delivers and manage IT. Also the IT scorecard is as essential tool to demonstrate the IT governance requirements are satisfied. Maximizing the IT in-

vestment is not a simple task, it takes leadership, IT Strategic planning, maturity and technological awareness. Small, medium and large businesses must assess their use of IT at regular intervals so that they do not miss on opportunities to simplify automate, improve their internal processes and achieve their business goals.



**Managing under pressure.**

**“Metrics do not only deliver true status, they also remove any emotional decisions”**



**SWOT as a diagnostic tool.**

## Is it the right time to kick-off a scorecard project?

The current market conditions are obviously demanding. Managers are busy wondering what surprises will come next and if their forecasts and plans are truly accurate and realistic. Would it be the right time to add the deployment of a scorecard system to the mix?

The answer is fully yes.

Firstly the implementation of a scorecard system forces management teams to come together and assess and understand how each other objectives are interlaced. Also it is

now more than ever than managers must show team spirit and communicate to the most of their ability. Working off the same strategic platform fosters team communication.

Secondly, scorecards system forces strategic reviews. As the market is changing, at fast pace, management teams must be responsive and agile, adapting the strategy as needed.

Lastly, scorecard systems implement metrics and promote an active and disciplined approach to measures and con-

trols of the performance. Performance can be measured at the tactical, operational and strategic level. Metrics and quantification, not only deliver true status but they also remove any emotional decisions from the picture. Rationalization is needed in times where one's judgment can easily be hindered by the overwhelming complexity of the situation.

## Customer perspective of the Balanced Scorecard.

The 4-perspective balanced scorecard (BSC) is a management tool that allows an organization to set, track and eventually achieve its key business objectives. One of the perspective is known as the “customer perspective”. It is focused on measuring if the organization meets customer expectations. The key measures associated to this perspective circle around the customer (or clients in the case of B2B

organizations) interactions with the organization.

This perspective is obviously of major importance. The performance achieved in the customer perspective drives directly the medium and long term performance of the financial results of the business. The customer represents the revenue and in essence is the only reason why businesses (for-profit organizations at least) can exist in the first place. Tak-

ing customer measurement can be achieved using generic KPIs such as customer acquisition and retention, revenue per customers and many other classic measures. However, the finest organizations know well how to define specific measure that reflect well their value proposition. Most advanced organizations will also measure indicators of future performance, to stay ahead of customer expectations.

## SWOT Analysis

SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis is one of the basic tool or method available to strategists to let them assess their organizations, products or processes. The method, while simple, forces the analysis of internal elements (Strengths and Weaknesses) and external influences (Opportunities and Threats). The method can be applied to assess the full organization or some departments as well as at the project or prod-

uct level. The simplicity of the tool makes it very successful at is provides a systematic approach to analyzing certain aspects of a situation while creating a good separation of concerns between the findings. Once completed, the SWOT analysis should result in the organization's ability to answer 4 basic questions:

- How are we confronting our weaknesses and minimizing their effects?
- What is the finite list of opportunities will we be chasing?
- How are we protecting ourselves from the possible risks caused by the discovered threats ?
- What are we doing to capitalize on our strengths ?

## KPIs for inventory management

Operations and the specific discipline of inventory management uses Key Performance Indicators to assess the efficiency of their inventory management (that is considered part of the supply chain management discipline). For some businesses, optimization of the supply chain is paramount in driving profit and customer satisfaction. While the industry has defined over 20 indicators to measure inventory management excellence, small and medium size businesses should be able to get a good read on

their performance by measuring 5 elements.

1. **Inventory turnover:** Indicating the number of time an organization cycles through its inventory for a given period of time.
2. **Stockouts in period:** Indicating how often an organization cannot serve its clients by lack of inventory.
3. **Lead time:** Indicating the performance of suppliers in delivering to your organization
4. **Inventory accuracy:** Measuring the differences between the inventory in the accounting system and the physical count of inventory.
5. **Stock Cover:** The length of time the inventory will last if current consumption continues.



Using the right KPI in the right dashboard.

## KPI: Financial reporting series, what is ROCE ?

Financial reports and indicators are often used as generic indicators of the state-of-health of an organization.

ROCE (Return On Capital Employed) is a ratio that indicates if an organization is efficient in returning profit compared to the capital employed to generate such profit. The ratio can be used to compare organizations year after year or with other organizations in the same business line. ROCE

demonstrate the profitability of an organization based on its capital. Therefore ROCE is a good indicator of an organization's ability to grow. Unlike a simple profit margin calculation where capital is not considered, ROCE can tell you if your organization make good use of its capital which is a very important Key Performance Indicator. To calculate ROCE accurately, one must divide the profit before interest and taxation by the total capital em-

ployed. Therefore the equation for calculating ROCE would be:

$$\frac{\text{EBIT}}{(\text{Total Assets} - \text{Current Liabilities})}$$

**“ROCE is a good indicator of an organization’s ability to grow”**

## Coming soon

MS2C will soon be releasing a new set of features to help organizations perfect their management practices.

The next set of features will enable the creation of a knowledge base through various social networking and access to business partners.

First we will create a blog where users and thought leaders can exchange ideas and each other experience on the

subject of strategic planning, balanced scorecards and portfolio management.

Also we will call for partners to help populate a database of most frequently used KPIs so that users of MS2C can leverage the experience of industry experts to quickstart their scorecard implementation. Partners will also contribute to a knowledge base that can will help our users drive their performance by reusing best prac-

tices from expert consultants.

Last we will enable an idea-box where all our users can submit and vote for the next features that MS2C should integrate.

We will pick the features with the most votes, implement them and deliver them as one of the coming releases.



New activities at MS2C.

## MANAGEMENT SCORECARDS

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*If you are not keeping score, you're just practicing.*

**MS2C** is a product of **GEM-UP CONSULTING**. The product is dedicated to helping organizations with their strategic planning and execution. By combining the strengths of strategic planning tools, balanced scorecard and portfolio management, we strive to accommodate the needs of the agile and modern organizations and enable them to perform to their best of their capability. More information on the product can be accessed at [www.managementcorecards.com](http://www.managementcorecards.com)



### Call for partners

In the coming weeks Managementcorecards.com will start accepting applications to our new partner program. The partner program is of great value to organizations that are in the business of management consulting. The program will allow partners to contribute to our knowledge base as well as deliver new services related to business planning and balanced scorecard implementation.

In order to participate, you can request a partner information kit at [partners@gem-up.com](mailto:partners@gem-up.com) where you will find a full list of benefits and application form.

Eligible partners are organiza-

tions that can demonstrate expertise in certain business discipline (e.g. human resource, manufacturing, marketing etc) or in certain verticals (e.g. e-

scorecards for integration within the MS2C product suite. Program will start in Q4 2009, registration starts July 2009.



business, brokerage). Among other things, partners will be able to release articles, develop and elaborate on the specific KPIs associated to their business line and manage sample