Chief Balancing Officers

"Checking the results of a decision against expectations shows executives what their strengths are, where they need to improve, and where they lack knowledge or information."
Peter Drucker

Executive Management bears the ultimate responsibility for the success or failure of the business. Yet this senior team must work largely by indirect means: setting goals and communicating strategy, strengthening the organizational culture, recruiting senior talent and building teams, and determining how to allocate capital, especially for long-term priorities.

The team faces complexity, uncertainty, time pressures and constraints in its efforts to lead the organization, and set and deliver on performance expectations. Today, these traditional challenges occur in the context of unprecedented levels of investor and regulatory scrutiny. Executive Management must find the proper equilibrium among these pressures, striking the right balance at the top and causing this influence to pervade the organization.

In the wake of the Sarbanes-Oxley Act (SOX) and other regulatory initiatives worldwide, corporate governance, risk and compliance are major focal points for Executive Management. Governance starts with performance. It reflects the highest level balancing act for management: *Are we performing to shareholder expectations?* Risk starts with the flip side of performance: *Are we successfully taking and managing the right risks to sustain this performance?* Compliance sets the rules by which we must play: *Are we complying with regulatory requirements?* Executive Management must understand and balance these business forces to ensure long-term success with customers, investors, employees and the law.

Driving your organization's performance is an exercise in balancing:

- Strategic goals and operational objectives
- Financial performance and operational drivers
- Short-term and long-term pressures
- Top-down and bottom-up perspectives

There are many business approaches that help unlock the right formula: Total Quality Management, Balanced Scorecard, Six Sigma, homegrown variations of these and more. Such business approaches provide focus, context and alignment for decisions. They all require the development of a performance management system. This system turns your organizations philosophy into executable actions for decision-makers at the top and throughout the business. Among the many methodologies and frameworks for defining a performance management system, three basic concepts are universal:

1. How does this action tie back to the financials? (the *so what?* question)
2. How does this action tie back to organizational functions and roles? (the *who is accountable?* question)
3. How does this fit with the business process? (the *where?*, *when?* and *how?* questions)

While many companies embrace a business philosophy, most lack the performance management system necessary to make it truly successful. Four common barriers prevent Executive Management from striking the right balance in achieving performance, managing risk and ensuring compliance.

Barrier 1: ***Poor vertical visibility of performance drivers***

Executive Management requires a simple vertical hierarchy to connect goals and objectives to underlying functions, processes and decision areas—including a clear tie back to the financials. This hierarchy is central to a performance management system. With it, Executive Management can understand what has happened, guide today's actions and plan future performance.

However, despite extensive help in this area (Six Sigma, Balanced Scorecard, Total Quality Management, etc.), companies still struggle with successfully implementing a performance management system. Why? It is difficult to translate the top-to-bottom conceptual logic—goals and objectives, leading and lagging indicators, financial and operational considerations, cause and effect—into practical, measurable areas for which people can feel accountable. The many interrelated factors become too complex to implement or manage.

As this illustration shows, a pyramidal hierarchy ensures a clear, logical path to follow from strategic goals at the enterprise level to operational objectives at the functional level, and then down to specific decision areas within those functions. This reduces the number of goals at the top while building detail at appropriate levels of the organization. This also creates a basis for delegating accountability.

The pyramid structure requires a consistency and logic that governs cause-and-effect assumptions. Metadata underpin this consistency, which requires defining appropriate business rules and controlling changes through them.

Barrier 2: ***Unclear ownership of performance goals and accountability for them at the frontline***

Executive Management is accountable for everything, but directly controls nothing. Executives rely on many individuals to strike the right balance and make the right decisions. Micromanaging is maligned for good reason: it is not feasible for an executive to be everywhere, doing everything. It weakens everyone under the executive, and it distracts the executive from strategy into tactical execution.

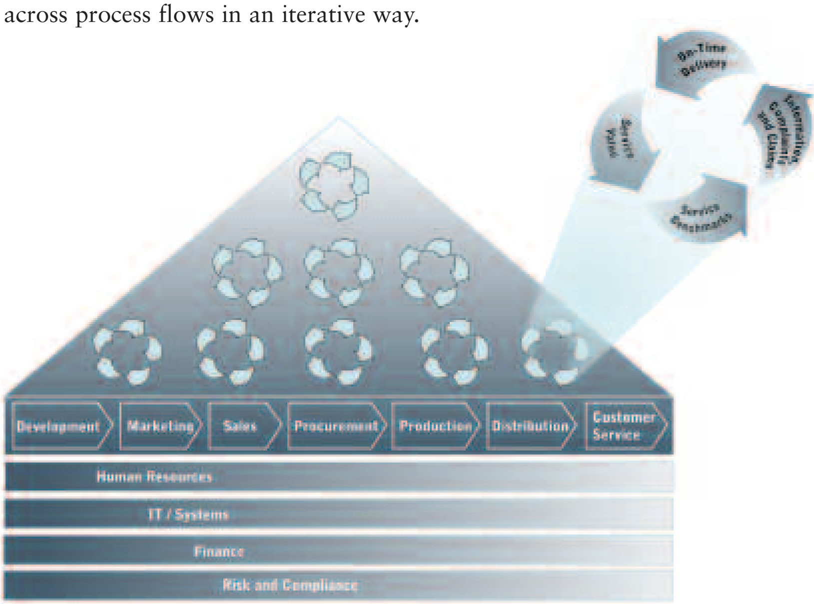
Successful leadership thrives in an environment where there is clear ownership of and accountability for results up and down the organization, rather than merely expected tasks and duties. Ownership requires clearly assigned roles in making decisions that drive performance goals and objectives. Accountability requires measuring the value of actions and outcomes. Using the pyramid structure, you can overlay the goal hierarchy with primary and contributory roles in decision-making according to function and decision area.

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Audit				
	Executives	*		
	Professionals	*		
Finance				
	Professionals		*	
Store/Channel				
	Executives			*
	Professionals		*	
Supply Chain				
	Executives			*
	Professionals		*	
IT/Systems				
	Executives			*
Human Resources				
	Executives			*

You can assign accountability for these decision areas through the planning process. When you ask people to contribute a target number or set an acceptable threshold for a goal or measure, you have shared ownership of the outcome and helped link the person back to the financial results.

Barrier 3: ***Poor horizontal visibility of cross-functional alignment and coordination***

A true performance management system spans more than one function or department. It sits above the business process flow in a related but nonlinear fashion. Many performance decisions draw upon different elements across process flows in an iterative way.

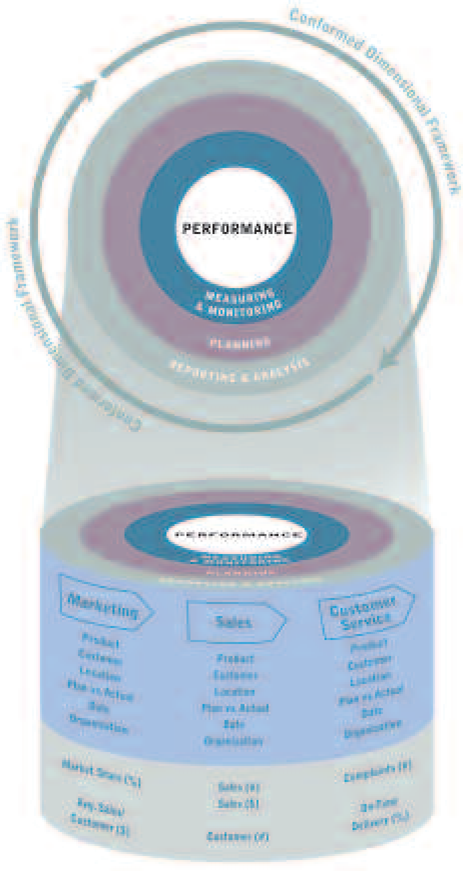


Decision areas overlay the familiar view of core processes and underlying support processes. Each functional set of decision areas provides an iterative feedback loop. Cross-functional sets combine to address additional performance goals and objectives.

If your performance management system adequately captures vertical cause-and-effect relationships, it may still lack visibility across different functions that share common goals or objectives. This visibility is necessary for striking the right balance throughout the organization. Cross-functional or "horizontal" visibility lets decision-makers across business processes collaborate and execute strategy. It also lets Executive Management weigh in on the difficult choices that cannot be resolved at lower functional levels. Delays in cross-functional handoffs and misalignments among departments negatively affect your overall performance.

The performance management system must include two capabilities. First, it must show how everything fits together in terms of business process. Second, it must include a consistent definition of and context for performance drivers across functions that share common goals or objectives. In metadata terms, horizontal consistency means defining common dimensions shared across functional decision-making processes. For example, it is critical to define and track products, stores and channels and customers—the anchors of the business—consistently across processes.

Horizontal Coordination: Conformed Dimensionality Across the Value Chain

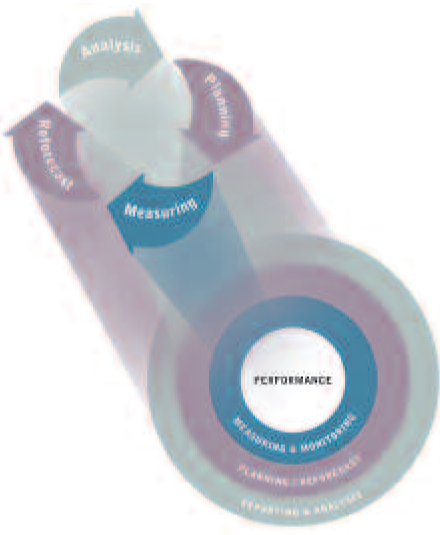


Barrier 4: ***Current executive information capabilities do not support the nonlinear and iterative nature of decision-making and management processes***

For most employees, decision-making work has increased relative to transaction work, but this situation is not reflected in the information we receive to do our jobs. This problem is most acute in the management process itself. Decision-making should flow top-down and bottom-up in an iterative closed loop. Various decisions in different functions need to be grouped and understood together when they affect the same goals. There are also different decision-making cycles and requirements for long-term strategic goals than for short-term monthly and quarterly operations.

These metrics constantly evolve because (1) they often need tweaking (typically realized by using them), and (2) people's behavior eventually adapts to what is being measured. There is a natural tendency for people to learn over time how to "work the system," which obscures its original intent. This requires agile, adaptive and controlled metadata functionality of business rules, definitions and audit trails.

A multiyear strategic management planning process starts by reassessing assumptions and conventional wisdom based on rigorous analysis. You must validate or readjust what is important, and it should therefore be measured and translated into operational plans that can be delegated down through the organization. Decision flow then switches to monthly or quarterly monitoring of performance with fast, drill-down analysis and reporting on the underlying causes of results. When these causes have been understood by each of the contributing decision-makers, you can reforecast adjustments to operational and financial plans. The bottom line: *You need performance management information at each of these steps to support your decision-makers effectively.*



Strategic management cycle:

- **Analysis ➔** Where do we want to be? (vision and goals)
- **Measures ➔** What's important? (priorities)
- **Planning ➔** How do we get there? (objectives and targets)

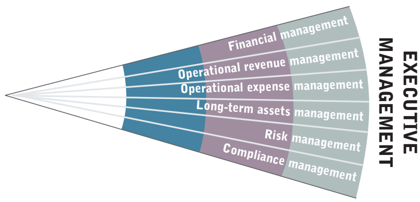
Operational management cycle:

- **Monitoring ➔** How are we doing?
- **Analysis and reporting ➔** Why?
- **Planning ➔** What should we be doing?

Decision Areas

The six decision areas listed below support the core governance, risk and compliance balancing act of Executive Management. They include four performance management decision areas and one decision area each for risk management and compliance management.

- **Performance ➔**
  - **Financial management ➔** Are we performing to shareholder expectations?
  - **Operational revenue management ➔** Are we driving revenue growth effectively?
  - **Operational expense management ➔** Are we managing operational expenses effectively?
  - **Long-term assets management ➔** Are we managing long-term assets effectively to increase future revenue and expense management capabilities?
- **Risk management ➔** Are we managing the risks of sustaining this performance?
- **Compliance management ➔** Are we complying with regulatory requirements?

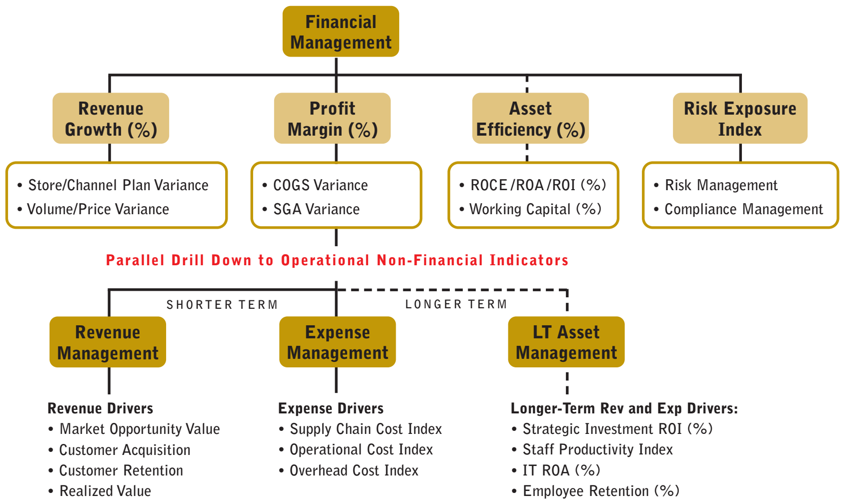


The four decision areas for performance management are further designed to support several interrelated balancing acts: between leading and lagging indicators; between revenue and expense trade-offs, between short-term and long-term resource allocations, and between top-down and bottom-up management processes. Specifically, each of these decision areas has two integrated levels: an overview "dashboard" level and a more detailed operational level.

The latter is an intermediate level that points to other underlying decision areas that contain even more detail, as in the pyramid structure outlined on page 112. It allows Executive Management to gain a comprehensive view of business performance and to zero in on additional detail for greater insight when necessary, then reset targets and plans accordingly. In each case, the set of goals in the overview level dashboard is purposely limited to one illustrative goal per theme, with additional goals and metrics made available at the next drill-down level. Each company will have its own variations on these goals and may determine that more than one indicator should be added at the dashboard level.

Inspired by the Balanced Scorecard framework, the four performance management decision areas provide clear, parallel paths to drill down from goals into their underlying operational drivers. The customer-focused perspective is adapted to include information and metrics from decision areas that drive revenue. The internal process perspective is adapted to focus on operational expense drivers.

The learning and growth perspective also reflects investment and leverage from long-term assets such as stores, facilities and fixtures as well as IT assets. The financial management perspective is where we analyze and monitor directly quantifiable financial indicators, but the three other performance management decision areas provide parallel nonfinancial paths to drill down to operational drivers.



The functions and decision areas described in the rest of this book form a bottom-up framework for designing effective and interconnected information sweet spots of scorecards and dashboards, analytical and business reports, and budgets and plans. Each decision area in this chapter shows a path or starting point for linking the other decision areas together in a top-down and bottom-up logic and, by doing so, establishing cross-functional teams to drive shared goals and objectives. This chapter also highlights the balancing act and trade-offs that Executive Management must make.

Financial Management

The financial scorecard is a well developed information sweet spot for most companies. Its bottom-line results are tied to executive financial rewards and additional incentives such as share options, as well as overall risk factors, to align shareholder expectations with executive team motivation.

The three basic performance measures illustrated here are critical to any business. Revenue growth and operating margin are linked to the statement of income, and asset efficiency is linked to the balance sheet. The fourth is a high-level risk measure. Revenue growth is a key component of shareholder value creation. If costs stay flat, revenue increases will directly affect earnings growth, leading to a positive change in the price to earnings ratio (P/E). Executives and investors watch the operating margin and the associated percentage of operating margin to sales ratio. More sophisticated performance measures include return on capital employed (ROCE), return on assets (ROA) and economic profit. Risk exposure is the flip side of this coin, tracking various categories of risks and mitigating factors that could affect the business's ability to meet its performance goals. These measures more closely align with the investor's perspective, since they give an indication of the risks/rewards generated by a given capital or asset base. Since the capital tied up in the business has a certain opportunity cost for investors, unless these rewards are sufficiently high shareholders will take their cash elsewhere.

Revenue Growth (%)
Is revenue growing? How fast? How does this compare with projections? Executive Management reviews the income statement and the Stores and Channels plan variance to find out how the business performs against plan and drills down to find the drivers of any revenue variances. Volume, price or product mix reasons for sales variances tell Executive Management what other decision areas should be examined. For example, if sales are declining in a particular region or channel, then Executive Management should review and understand why. Are these declines associated with weather, demographic changes or stock outages? Does this require a reassessment of the assortment in these stores?.

Operating Margin (%)
Operating margin is a vital internal performance benchmark. When compared to that of a competitor, it provides a performance comparison for investors. If operating margins are weakening, Executive Management will examine the income statement to determine why. Other margin indicators such as gross margin help identify which costs are increasing. Operational plan variance may suggest that controllable expenses costs are significantly higher than plan and the drill-down variance can help determine the cause.

Asset Efficiency (%)—ROCE, ROA, ROI, Economic Profit

Assessing the company's performance through ROCE or similar measures gives Executive Management the same benchmarks that shareholders use to evaluate the business. If the asset efficiency index is not aligned with market expectations, Executive Management can look at causes in the balance sheet or income statement. The capital expenditure (CapEx) and strategic investments decision areas may highlight when a location or warehouse investment program has increased the fixed asset base.

Alternatively, by looking more closely at cash flow and working capital, Executive Management may find that accounts receivable delays are negatively affecting working capital. The treasury decision area can give Executive Management confidence that interest on liquid assets such as cash is contributing to asset efficiency performance.

Risk Exposure Index

Executive Management needs a clear understanding of what the company's major categories of risk are and, most importantly, what level of exposure to these risks it faces. Its ability to communicate these risks while instilling confidence in investors and regulators that it is managing them appropriately is critical. In extreme cases, inadequate risk management can cause a company to fail, but risk appetite is what generates returns. Investors expect solid management of it. Risk exposure is a derived metric that shows residual risk after inherent risk has been mitigated.

Executive Management can review changes in exposure and evaluate the potential impact on capital allocation across the business. Drilling down into the risk management decision area gives Executive Management additional insight into inherent risk (such as loss events, loss amounts or risk assessments), and into the methods of responding to risk (such as avoidance, reduction, sharing and acceptance).

Likewise, review of compliance management shows the effectiveness of internal controls and the status of current compliance programs and audit activity. Managing compliance is clearly driven by the company's reputation and litigation risks, hence the need for Executive Management to be informed and involved. SOX management is first reported to the Board's audit committee, whose directors, together with company officers, are now more personally liable for financial misstatements and inaccuracies. Directors' and officers' liability insurance rose tremendously after SOX was enacted, precisely for this reason.

Financial Management

Revenue Growth (%)

Income Statement
Goals
- Actual vs. Plan Variance ($/%)
- Net Trade Sales ($)
- Operating Profit/EBIT ($/%)

Drill-Down Variance
Goals
- Profit Change ($/%)
- Sales Change ($/%)
- Volume/Price/Mix Variance ($/%)

Store/Channel Plan Variance
Goals
- Store/Channel Order ($)
- Store/Channel Plan ($/%)
- Operating Costs Plan ($/%)

Operating Margin (%)

Income Statement
Goals
- Actual vs. Plan Variance ($/%)
- Net Trade Sales ($)
- Operating Profit/EBIT ($/%)

Drill-Down Variance
Goals
- Profit Change ($/%)
- Sales Change ($/%)
- Volume/Price/Mix Variance ($/%)

Operational Plan Variance
Goals
- Operating Cost Variance ($/%)
- Overhead Cost Variance ($/%)
- COGS/Sales Ratio (%)

Asset Efficiency (%) ROCE / ROA

Income Statement
Goals
- Actual vs. Plan Variance ($/%)
- Net Trade Sales ($)
- Operating Profit/EBIT ($/%)

Balance Sheet
Goals
- Capital Employed ($)
- Debt to Equity Ratio (%)
- ROCE (%)

CapEx and Strategic Investments
Goals
- Investment ($)
- NPV ($)
- ROI (%)

Cash Flow and Working Capital
Goals
- A/R Days (#)
- Net Cash Flow ($/%)
- Working Capital Ratio (%)

Treasury
Goals
- Borrowing Cost (%)
- Investment Yield (%)
- Net Liquidity ($)

Risk Exposure Index

Risk Management
Goals
- Loss Incidents (#)
- Loss Value ($)
- Risk Level Index
- Risk Mgt. Audit Score

Compliance Management
Goals
- Compliance Completion (%)
- Compliance Costs ($)
- Material Deficiencies (#)
- Materiality Rating
- Regulatory Compliance (%)
- Risk Level Index

IT Compliance Management
Goals
- Compliance Completion (%)
- Compliance Costs ($)
- Material Deficiencies (#)
- Regulatory Compliance (%)
- Risk Level Index

STORES/CHANNELS | FINANCE | EXEC. MANAGEMENT

Operational Revenue Management

Revenue performance is a key driver of shareholder value. Executive Management must focus on managing revenue goals and directing the business and its resources to the most profitable revenue opportunities. This requires cross-functional cooperation. Growth requires looking beyond current revenue performance to new opportunities. The strategic plan for growth involves Marketing, Customer Service, Stores and Channels, and Merchandising. Executive Management looks at the business's ability to acquire new customers in order to generate new sales, and compares this to existing customer retention performance.

Market Opportunity Value ($)

While you may structure your business along functional lines, revenue opportunities cut across Marketing, Customer Service, and Stores and Channels. By clustering the decision areas associated with market opportunities, you allow more complete and aligned decision-making. This important business driver allows you to develop an overarching index or series of indicators to describe performance. If needed, Executive Management can drill down further into specific decision areas and the related goals and metrics.

If market opportunity value tracks below an acceptable level, this may suggest to Executive Management it needs review overall retail strategy. Is the current proposition underperforming the competition? If so, does this put in question the current assortment offering? If not, does this lead to other considerations such as remodeling or refit strategy? Is there a need to improve regional store presence, requiring further property investments? Available local market intelligence and customer feedback may give some confidence that such store investments are justified. Executive Management can now assimilate the various information indicators and decide the best way forward.

Customer Acquisition (%)

Revenue management is also concerned with the effectiveness of customer acquisition strategies. This means understanding the effectiveness of various customer traffic, conversions and targeting strategies. Tracking the performance of these strategies and scrutinizing the why and where of any gaps are part of Executive Management responsibility. Are marketing budgets below competitors' budgets? Are customer communications effective? Is there a need to increase promotions? The customer acquisition score lets Executive Management monitor this key performance area.

Executive Management must be particularly attentive to early performance indicators. If projected sales are not delivered, you must find out why and communicate this to all levels of the organization. Stores and Channels plan variances become an essential information sweet spot for determining the *why* and *where* of problems, allowing for a decision regarding the *what*. You must explain these findings well enough that the Board has confidence in the proposed measures and also be detailed enough to allow lower levels of the organization to execute effectively.

Customer Retention (%)

Growing store revenue is not enough if high-profit shoppers leak away due to poor customer retention. If the customer retention index is low, Executive Management must focus on the assortment and service performance issues that directly affect customers. Early indicators of potential problems are likely to come from lower conversion rates, complaints and returned merchandise. Monitoring these early indicators informs the team and helps ensure accountability from those responsible. Service benchmarks also offer insights into customer service problems that need to be managed.

These benchmarks may also indicate the relative service performance differences between the stores. Customer satisfaction surveys contrasting competitors may highlight disadvantages that could lead to customers switching despite consistently good service performance.

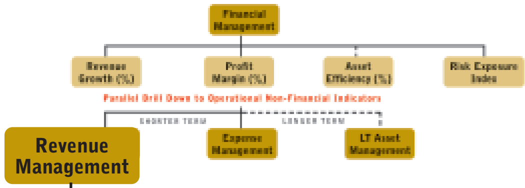
Despite positive numbers in these early-warning measures, the Stores and Channels decision area may indicate poor results with decreasing average transaction value sales to existing customers. The solution may be rebalancing merchandising tactics. Perhaps you need a greater emphasis on displays or space allocation for key items to improve customer retention, basket size and visit frequency.

Realized Value ($)

Realized value provides an overview of the effect on profit of the effort going into driving sales growth. The Stores and Channels performance decision area is an important sweet spot for Executive Management. You must review weak store or channel profit performance and determine an appropriate correction strategy. A pricing review may be necessary to determine if current pricing is effective and competitive in the market. Perhaps certain categories and related merchandise price points need to be reconsidered in light of weak profits.

The resource management decision area may indicate that operating costs and related staffing issues are part of the problem leading to weak profit performance. Labor as a percentage of sales may be too high in certain stores to support the optimal profit model. Reviewing labor costs, conversions and sales patterns could highlight inefficient staffing. In that case, you might revisit staffing profiles to maintain a balance between cost control and acceptable service levels, or simply identify how and whether position-level staffing can be made more efficient.

Executive Management may also examine category and merchandise profitability to determine realized value performance. You may look at options to correct the underperformance of loss leaders. These could include discussions around discontinuing product lines, margin improvements via a cost reduction or price increase, or changes in assortment strategy. Increasing prices for certain niche products may offer a “milking” option in the short term to counteract losses somewhere else. Compensating for losses by increasing profits elsewhere is a common decision area in the Executive Management balancing act.



Market Opportunity Value ($)

Market Opportunities
Goals
- Retailer Share (%)
- Market Growth (%)
- Market Revenue ($)

Competitive Positioning
Goals
- Competitor Growth (%)
- Competitor Price Change (%)
- Competitor Share (%)

Customer Segmentation
Goals
- Sales ($/%)
- Transaction Value ($)
- Margin ($/%)

Market and Customer Feedback
Goals
- Customer Satisfaction Score (#)
- Improvement Suggestion Cost ($)
- Improvement Value-Added Score (#)

Chain Strategy
Goals
- Target Category Growth (%)
- Visit Frequency (#)
- Transaction Value ($)

Customer Acquisition (%)

Media and Promotions
Goals
- Promoted Sales ($/%)
- Promotions ROI (%)
- Marketing Spend ($)

Chain Strategy
Goals
- Target Category Growth (%)
- Visit Frequency (#)
- Transaction Value ($)

Basket Analysis
Goals
- Sales ($/%)
- Transaction Value ($)
- Margin ($/%)

Targeted Marketing
Goals
- Campaign cost ($)
- Campaign ROI ($/$)
- Sales Uplift ($/%)

Store / Channel Plan Variance
Goals
- Store/Channel Sales Plan ($/%)
- Store/Channel Profit Plan ($/%)
- Operating Costs Plan ($/%)

Customer Retention (%)

Merchandising
Goals
- Merchandising Cost ($)
- Merchandising Effectiveness Score (#)
- Transaction Value ($)

Information, Complaints and Claims
Goals
- Complaint Count (#)
- Customer Satisfaction Score (#)
- Returned Sales/Units ($/#)

Store/Channel Sales
Goals
- Sales ($/%)
- Transaction Value ($)
- Sales per Outlet ($/%)

Service Benchmarks
Goals
- Average Resolution Response Time (#)
- Customer Satisfaction Scorecard (#)
- Service Effectiveness Index (#)

Chain Strategy
Goals
- Target Category Growth (%)
- Visit Frequency (#)
- Transaction Value ($)

Realized Value ($)

Pricing Strategy
Goals
- Price Change (%)
- Price Segment Growth (%)
- Price Segment Share (%)

Chain Strategy
Goals
- Target Category Growth (%)
- Visit Frequency (#)
- Transaction Value ($)

Store/Channel Performance (P&L)
Goals
- Profit ($/%)
- Profit per Transaction ($)
- CMROI

Service Value
Goals
- Service Cost (%)
- Service Effectiveness Index (#)
- Customer Lifetime Value ($)

Resource Management
Goals
- Sales per Employee
- Profit per Employee
- Labor Costs ($/%)

MARKETING | STORES/CHANNELS | MERCHANDISING | CUSTOMER SERVICE | SUPPLY CHAIN

Operational Expense Management

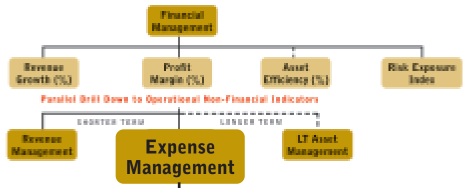
Once customers have made buying decisions, there is little scope for operating errors without affecting profit margins. With approximately 90 percent of revenue going into various costs including labor, cost of goods, and supply and delivery logistics, information that helps Executive Management identify operating anomalies and act quickly can make the difference between success and failure. By grouping relevant functional decision areas together, the information sweet spots can be aligned with typical business concerns.

These business challenges need to be approached cross-functionally and cannot be solved in isolated silos. Business is a process that starts with inputs and ends with outputs. In between, you must manage value-added activities for efficiencies and costs. On the input side, this starts with supply chain efficiency, followed by the internal operating processes needed to deliver the appropriate products and services to customers You manage these internal operating processes by monitoring operating costs, reflecting the key driver in achieving sustainable profits. Any retailer will have a number of support functions broadly classified as overhead. You must manage these overhead costs to ensure that, for example, departmental headcounts do not grow out of control, and that your various support activities deliver real value.

Supply Chain Performance Index

This index highlights the balancing act between sourcing (input) and store and customer delivery (output). The unpredictable is the norm. No sooner have store orders gone out for the next period's stock requirements than you see changes in expectations. The Stores and Channels plan variance metric reflects future sales expectations; if it indicates an unexpected increase in customer purchases, buyers must respond. If suppliers are not sufficiently responsive to the unexpected increase in sales, meeting the demand may become a problem that Executive Management must address, possibly by looking at ways to work with new suppliers or by announcing delivery delays, which will require a communication strategy for handling the impact of these delays on stores and their customers.

The ability to see across the supply chain indicators helps Executive Management understand the overall situation. Poor store delivery performance can highlight a problem that may also be reflected in inventory management. A surge in store orders may create an inventory problem that Executive Management must decide either is temporary or requires an increase in warehousing capacity. Information, complaints and claims may indicate risk and exposure with certain customers, merchandise categories or suppliers.



Supply Chain Cost Index

Sourcing
Goals
- Supplier Performance Rating (#)
- Shipping Performance Score (#)
- Lead Time (#)

Distribution and Logistics
Goals
- Store Deliveries on Time (%)
- Distribution Cost ($)
- Cost per Mile ($)

Inventory Management
Goals
- Inventory ($)
- Inventory/Days (%)
- Inventory Costs ($)

Supply Chain Efficiency
Goals
- Supply Chain Failures (#)
- Supply Chain Cost ($/%)
- Costs per shipment ($)

Information, Complaints and Claims
Goals
- Complaint Count (#)
- Customer Satisfaction Score (#)
- Returned Sales/Units ($/#)

Store/Channel Plan Variance
Goals
- Store/Channel Sales Plan ($/%)
- Store/Channel Profit Plan ($/%)
- Operating Costs Plan ($/%)

Operations Cost Index

Resource Management
Goals
- Sales per Employee
- Profit per Employee
- Operating Costs ($/%)

Quality Management
Goals
- Spoilage ($/%)
- Returns ($/#)
- Quality Score (#)

Assortment Strategy
Goals
- Cost of Goods ($/%)
- GMROI ($/%)
- GMROI ($/%)

Operational Plan Variance
Goals
- Operating Cost Variance ($/%)
- Overhead Cost Variance ($/%)
- COGS/Sales Ratio (%)

Supplier Strategies and Management
Goals
- Unit Costs ($)
- Change in Unit Costs (%)
- Supplier Performance Rating (#)

Information, Complaints and Claims
Goals
- Complaint Count (#)
- Customer Satisfaction Score (#)
- Returned Sales/Units (#)

Project / SDLC Management
Goals
- IT Project Completion (%)
- IT Project Lead Time (#)
- IT Project ROI (%)

IT Vendor Management
Goals
- IT Contract Cost ($)
- IT Project Completion (%)
- IT Project Lead Time (#)
- IT Vendor On-Time (%)
- SLA Performance (%)

Overhead Cost Index

Income Statement
Goals
- Actual vs. Plan Variance ($/%)
- Net Trade Sales ($)
- Operating Profit/EBIT ($/%)

Organization and Staffing
Goals
- Avg. Tenure (#)
- Employee Turnover (%)
- Headcount (#)

Quality Management
Goals
- Spoilage ($/%)
- Returns ($/#)
- Quality Score (#)

Operational Plan Variance
Goals
- Operating Cost Variance ($/%)
- Overhead Cost Variance ($/%)
- COGS/Sales Ratio (%)

Benefits
Goals
- Benefit Cost Increase (%)
- Benefit Costs ($)
- Benefit Costs/Payroll (%)

Store/Channel Plan Variance
Goals
- Store/Channel Sales Plan ($/%)
- Store/Channel Profit Plan ($/%)
- Operating Costs Plan ($/%)

SUPPLY CHAIN	CUSTOMER SERVICE	IT	MERCHANDISING
HUMAN RESOURCES	STORES/CHANNELS	FINANCE	

Temporary problems in warehousing can be solved by looking at distribution and logistics management. Increasing the carrier capacity and using the supplier network to offset the lack of internal warehousing capacity may be a solution that avoids extra warehouse costs. This ability to see the whole supply chain and derive information from different decision areas is essential to good leadership. When Executive Management understands the various tolerances and risks, it can confidently make an informed decision. Information gaps are not acceptable reasons for failure.

Operational Cost Index

Executive Management uses operational cost to monitor the operation's backbone and the related cost implications of inefficiencies and bottlenecks. For example, if you approve a new transaction system, how can you manage and monitor its implementation effectively? In the project management software development life cycle (SDLC) decision area, a clear plan will outline the scope of work and time needed to implement the new system. Executive Management must watch cost and time overruns, and perceived risks. You can use the service vendor management decision area and its indicators of past vendor performance to mitigate risks and make better forecasts.

Executive Management can look at the assortment strategy and supplier strategies and management to determine performance and potential dependency. Should new suppliers be considered because cost decreases have not been forthcoming? Is this expected to impact customers' perception of value negatively? What kind of pressures can be placed on suppliers where quality concerns are unacceptably high? Are certain cost and staff-level benchmarks misaligned across stores and channels? Why and how does this impact the operational plan performance variance? Executive Management will use this information to discuss the discrepancy from plan and relative priorities for solving the problem.

Every business has to be ready for the unexpected. Retailers that proactively solve these situations as they occur gain a significant advantage

Overhead Cost Index

Monitoring support functions with the overhead cost index ensures the balance between cost and value makes sense. If this area underperforms, you can analyze the organization and staffing decision areas to look at headcounts, or the income statement to review more detailed functional costs. Management analyzes ratios to understand the cost changes and the relative importance of various support functions or departments. For example, percentage of marketing costs to sales and percentage of corporate headcount to total sales will tell you whether marketing or staff resources are changing in proportion to the business. The Stores and Channels plan variance gives Executive Management a key indicator to determine future resource requirements and support costs. If you expect strong sales growth, then this insight can be used to look at the operational plan variance. Senior management can take a more active role in deciding if future sales growth requires broad resource upgrades in the support functions. You can integrate the associated increase or decrease in costs into the planning process. Fast, proactive decision-making increases competitive capabilities across the organization.

LT Asset Management

Strategic Investment ROI (%)

CapEx and Strategic Investments
Goals
- Investment ($)
- NPV ($)
- ROI (%)

Balance Sheet
Goals
- Capital Employed ($)
- Debt-to-Equity Ratio (%)
- ROCE (%)

Market Opportunities
Goals
- Retailer Share (%)
- Market Growth Rate (%)
- Market Revenue ($)

Competitive Positioning
Goals
- Competitor Growth (%)
- Competitor Price Change (%)
- Competitor Share (%)

Customer Segmentation
Goals
- Sales ($/%)
- Transaction Value ($)
- Margin ($/%)

Staff Productivity Index

Organization and Staffing
Goals
- Avg. Tenure Years (#)
- Employee Turnover (%)
- Headcount (#)

Resource Management
Goals
- Sales per Employee
- Profit per Employee
- Operating Costs ($/%)

Business Value Map
Goals
- Business Priority Score
- Business Value ($)
- Information Quality Index
- IT Capability Index
- IT Costs ($)

Compensation
Goals
- Avg. Compensation Increase ($)
- Avg. Compensation Increase (%)
- Compensation Cost ($)

Operational Plan Variance
Goals
- Operating Cost Variance ($/%)
- Overhead Cost Variance ($/%)
- COGS/Sales Ratio (%)

Training and Development
Goals
- Skills Rating Gap (%)
- Training and Development Cost ($)
- Training and Development Activity (#)

IT ROA (%)

Business Value Map
Goals
- Business Priority Score
- Business Value ($)
- Information Quality Index
- IT Capability Index
- IT Costs ($)

IT Portfolio Management
Goals
- IT Capability Index
- IT Costs ($)
- IT Efficiency Index

Project / SDLC Management
Goals
- IT Project Completion (%)
- IT Project Lead Time (#)
- IT Project ROI (%)

IT Vendor Management
Goals
- IT Contract Cost ($)
- IT Project Completion (%)
- IT Project Lead Time (#)
- IT Vendor On-Time (%)
- SLA Performance (%)

Store/Channel Plan Variance
Goals
- Store/Channel Sales Plan ($/%)
- Store/Channel Profit Plan ($/%)
- Operating Costs Plan ($/%)

Employee Retention (%)

Talent and Succession
Goals
- Employee Satisfaction Index (#)
- Succession Gaps (#)
- Talent Gaps (#)

Organization and Staffing
Goals
- Avg. Tenure Years (#)
- Employee Turnover (%)
- Headcount (#)

Benefits
Goals
- Benefit Cost Increase (%)
- Benefit Costs ($)
- Benefit Costs/Payroll (%)

Compensation
Goals
- Avg. Compensation Increase ($)
- Avg. Compensation Increase (%)
- Compensation Cost ($)

Training and Development
Goals
- Skills Rating Gap (%)
- Training and Development Cost ($)
- Training and Development Activity (#)

Income Statement
Goals
- Actual vs. Plan Variance ($/%)
- Net Sales ($)
- Operating Profit/EBIT ($/%)

MARKETING	IT	HUMAN RESOURCES
STORES/CHANNELS	FINANCE	MERCHANDISING

Long-Term Asset Management

Long-term investment and asset decisions represent Executive Management's opportunity to influence the future direction and success of the business. This is where the right investment choice can fundamentally redefine both the revenue opportunities and cost efficiencies of an organization. Unfortunately, these important decisions are both costly and risky. Senior management has to decide carefully which investment options have priority. The uncertainties involved in these long-term investment decisions are difficult to balance against a backdrop of short-term performance pressures. Failure is not a palatable option, resulting in a lower share price, restructuring and, at the extreme, corporate failure.

What are long-term assets? From a balance sheet perspective, they are defined in terms of property, stores, facilities, plant and equipment, investments, etc.—but from an executive perspective, they also must include intangible assets such as human capital and IT capability and infrastructure. Designing key measures that offer a holistic perspective on these investments (tangible and intangible) allows Executive Management to monitor the long-term health of the corporation.

Strategic Investment ROI (%)

The strategic investment ROI percentage tracks strategic projects. This sweet spot lets Executive Management learn from the past and adapt those experiences to future decision-making. Strategic investment decisions, such as an acquisition, require input from a number of decision areas. The market opportunity decision area may have identified an attractive adjacent market segment or territory. You may build a case for the acquisition if existing options for expansion are limited for the targeted territory profile. If the competitor assessment decision area has identified a potential acquisition target that satisfies corporate due diligence, you then require financial evaluations. Through the CapEx and strategic investments decision areas, Executive Management can review scenarios with associated ROI assumptions. If these conform to the corporate investment structures, then Executive Management must consider whether the balance sheet is strong enough to finance the acquisition. Should you increase debt, or is it necessary to raise additional capital from new shares?

The above example reflects the type of information sweet spots that Executive Management requires in order to make strategic investment decisions. By making strategic investments a dedicated sweet spot, it can monitor investment performance and rationale for a decision. Acquisitions fail in financial terms due to overpaying for the target or poor execution when consolidating the business. With Executive Management well informed by past acquisitions of the key factors that influence success or failure, you reduce the risks for the future.

Staff Productivity Index

Human capital is a key asset and the largest controllable cost, and Executive Management must track productivity. A basic assessment reveals headcount and sales per employee by store, channel and department, but there can be many added levels of sophistication in this tracking. Understanding the context for changes in staff productivity requires Executive Management to seek information from a number of decision areas.

If this indicator increases, implying improved staff productivity, Executive Management should look at how to sustain it. The sales plan variance decision area may show an increase in sales versus expectations, and organization and staffing information will help Executive Management see if and where additional staff were employed. If overall headcount has not increased and an assessment of the compensation decision area indicates stable staff expenses, you know your staff is more productive. The business value road map may confirm that a recent project implementation has had a direct and positive impact on staff productivity. You may have seen an associated increase in training and development expenditures due to the new project, but the result directly improves the staff productivity index. With these figures, Executive Management can push for a review of plans and have other functions record the impact in operational plan variance.

IT ROA (%)

Sudden technology shifts can upend the business model, so Executive Management must know where and how IT assets are driving value across different business units, lines of business and functions. Comparing the upward or downward trend in IT ROA with current financial and operational results lets you see potential weaknesses in IT strategy. Likewise, comparisons with staff productivity and strategic investment percentages highlight the level of alignment with long-term business goals. If IT ROA is declining in a high-performing area of the business, a drill-down on the business value road map may indicate what specific drivers of performance are at risk, such as revenue growth or operating margins. Understanding who is affected leads to a more productive and proactive approach.

Employee Retention (%)

Retaining employees saves money on recruitment and start-up costs; keeping the right employees builds one of your most important assets. The talent and succession review decision area provides additional information for Executive Management, making it aware that new people and talent are necessary to improve the capability of the business. Designing a blend of internal career advancement and strategic recruiting of new talent is an Executive Management priority.

If the employee turnover is a concern, you may examine compensation and benefits information, looking at market comparisons. Overall staff cost-to-income ratios provide high-level benchmarks for senior management to compare against competitors. Do you increase staff costs, with the associated effect on the income statement, to reverse a weak employee retention index? Perhaps low employee morale is the cause. If so, improving compensation may not actually change employee retention. In this case, it may be more productive to invest in employee training, team-building or other employee development programs. Training and development information may help to set an appropriate strategy.

Risk Management[1]

Recent regulatory trends such as Basel II for financial services and SOX for publicly traded organizations have heightened the importance of better risk management across all industries. So have trends like globalization, integrated financial markets, the knowledge economy and political uncertainty. The resulting competitive environment and constant rapid change have created countless potential threats to business performance. Today, more than ever, how well you take and manage risks affects your cost of capital through:

- Investors and major exchanges such as NYSE and NASDAQ
- Lenders and related rating agencies such as Moody's and S&P
- Insurers and related loss control programs and coverage discounts

This decision area provides a consolidated view of several categories and hierarchies of risk, such as operational, credit and market risk. In addition to these, organizations must monitor environmental and natural risks that impact disaster recovery and business continuity. Having a single integrated universe of identified risks that cuts across common organizational units, functions and business processes enables more coordinated and cost-effective risk responses.

The trend toward an integrated view of risk has gained ground as the costs of compliance have increased, in particular due to SOX. Many enterprise and operational risk frameworks are available, including the COSO II, the Enterprise Risk Management—Integrated Framework published in 2004 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The cube visual reinforces the multidimensional nature of risk management and compliance.

Ideally, this decision area combines both qualitative and quantitative information. Qualitative risk ratings and assessments are more reliable and verifiable when they are underpinned by numbers that measure risk incidents, events and loss amounts. Setting accepted risk thresholds, modeling expected outcomes and monitoring actual results ensures finer insights and tweaking for managing risk.

- The four objectives—strategic, operations, reporting and compliance—are represented by the vertical columns.
- The eight components are represented by horizontal rows.
- The entity and its organizational units are depicted by the third dimension of the matrix.

[1] As a subject, risk management warrants a book of its own. Accordingly, this decision area is only meant to provide an overview of what could easily be several more detailed information sweet spots. Also, although it is represented here as a drill down within Executive Management, many companies have a separate risk management function.

For many risks, such as those related to SOX, specific internal controls are in place to mitigate risks. This decision area helps to flag the controls that are most effective and reduce inherent risk to a more acceptable exposure of residual risk.

Risk management is more than tracking obscure or unlikely threats. When risks are tracked against a common map of the business, it is easier to establish the relationship between business performance and risk, like flip sides of the same coin. Insuring common operational risks, notably in Human Resources and Finance, is another area of overlap. For example, the escalating costs of employee benefits and uncertainty in workers' compensation claims are forcing companies to negotiate more self-insurance offerings from their insurance carriers, requiring close analysis and monitoring of reserves-to-losses trends. Likewise, determining the right price for insured cash flow programs requires similar analysis of bad debt reserves.

GOALS	METRICS	DIMENSIONS
Loss Incidents (#)	Claim Payments ($)	Control Objective: Control Objective
Loss Value ($)	Claim Payments (#)	Credit Limit Range: Range
Risk Level Index	Claims Aging (#)	End Customer Location: Region, State/Province, County, Postal Code/Zip Code
Risk Mgt. Audit Score	Control Effectiveness Rating	Fiscal Month: Year, Quarter, Month
	Country Risk Rating	Information Supply Chain: Information Stage
	Credit Balance ($)	Product Line: Product Line
	Default Rate (%)	Risk Response: Response Type, Response
	Environmental Risk Rating	Risk: Risk Category, Risk Type, Risk
	Est. Loss Incidents (#)	Strategy Focus: Strategic Area, Strategy
	Est. Loss Value ($)	Transaction Processes: Process, Sub-Process, Activity
	Intrinsic Risk Rating	Organization: Division, Channel, Store, Department, Org. Code
	Occupational Risk Rating	
	Operational Risk Rating	
	Residual Risk Rating	
	Risk Impact Rating	
	Risk Likelihood Rating	
	Write-off Amount ($)	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives			•
	Professionals		•	
Store/Channel	Executives			•
	Professionals		•	
Supply Chain	Executives			•
	Professionals		•	
IT/Systems	Executives			•
	Professionals		•	
Human Resources	Executives			•
	Professionals		•	

Compliance Management[2]

Managing compliance is the key operational execution area of risk management. Even when addressing purely regulatory requirements, the frameworks that guide compliance are often based on a risk perspective. For example, SOX program management uses the COSO framework for defining internal controls requirements based on identifying risks of financial misstatement. Likewise, non-SOX internal audit programs are also anchored in initial risk assessments that suggest which areas of the business require audits.

Ideally, compliance management provides an integrated view of the entire regulatory universe. Most companies face numerous overlapping regulatory requirements. Certain business processes are scrutinized by the Office of the Controller, the Patriot Act and SOX alike. Knowing where and how to leverage the same controls for multiple regulatory reporting can save you considerable effort in compliance.

As in IT compliance management, this decision area can draw on more than one data source. The first is compliance program management solutions, such as for SOX, that manage a company's projects and programs to ensure compliance. The second source is a new category of tools, often referred to as continuous controls monitoring software, that generate real-time or near real-time information about transactions and flag any exceptions to expected outcomes, as defined by internal controls. For example, inconsistent accounts payable patterns in terms of purchase order numbers or amounts that are just below authorized levels might indicate fraud.

What can happen to your organization, if you fail to implement or adhere to the Payment Card Industry Data Security (PCI DSS) compliance rules? A company processing, storing or transmitting payment card data must be PCI DSS-compliant or risk losing its ability to process credit card payments and being audited and/or fined.

Finally, compliance management can also draw information from solutions that automate manual spreadsheet-based processes, including reports that are used to perform detective or monitoring control activity. The most common and costly, from a compliance perspective, are manual financial reporting and close processes, in particular for consolidation and adjustments.

[2] As compliance can span several regulatory areas, this decision area is only meant to provide an overview of what could easily be several more detailed information sweet spots. Also, although it is represented here as a drill down within Executive Management, many companies have a separate internal audit function reporting directly to the Board's audit committee.

COMPLIANCE MANAGEMENT

GOALS

- Compliance Completion (%)
- Compliance Costs ($)
- Material Deficiencies (#)
- Materiality Rating
- Regulatory Compliance (%)
- Risk Level Index

METRICS

- Controls (#)
- Exceptions (#)
- External Audit Fees ($)
- Internal Audit Costs ($)
- Issues (#)
- Items Overdue (#)
- Outsourced Internal Audit Costs ($)
- Qualitative Materiality Rating (#)
- Quantitative Materiality (%)
- Reg. Audits
- Risk Impact Rating
- Risk Likelihood Rating
- Sample Size (#)
- Significant Deficiencies (#)
- Tests (#)

DIMENSIONS

- Application Software
  - Application Type
  - Software
- Assertions
- Control Frequency
- Control Method
- Control Objective
  - Control Objective
- Control Owners
  - Function
  - Position
  - Control Owner
- Control Type
- Documentation Status
- Entity
- Financial Account
  - Financial Statement Type
  - Financial Statement Line
  - Financial Account
- Fiscal Month
  - Year
  - Quarter
  - Month
- In Scope
- Key Control
- Regulators
  - Regulator Type
  - Regulator
- Remediation Status
- Risks
  - Risk Category
  - Risk Type
  - Risk
- Test Status
- Transaction Processes
  - Process
  - Sub-Process
  - Activity

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Audit	Executives	•		
	Professionals	•		
Finance	Professionals		•	
Store/Channel	Executives			•
	Professionals		•	
Supply Chain	Executives			•
	Professionals		•	
IT/Systems	Executives			•
Human Resources	Executives			•
Marketing	Executives			•