White Paper
January 2009

Rapid Scorecarding for Retail:
Five Simple Steps to Building an Effective Scorecard

Information Management

Cognos® software

Contents

4 **Business problems**
Tie leading metrics to value drivers

5 **Business drivers**
Scorecarding 101

6 **The solution**
Five simple steps to fast, effective scorecards

Step 1: Build the strategic linkages
Advanced report authoring

Step 2: Determine indicators of success

Step 3: Identify processes, projects and measures

Step 4: Build scorecard processes

Step 5: Launch

12 **Conclusion**
The right technology and solutions

The fastest methods

Performance management experts

Abstract

With multiple delivery channels and market specialization, as well as the need to manage operational costs, improve store performance and drive profitable growth, retail organizations are increasingly turning to IBM Cognos 8 BI software to help make sense of their high-stakes business landscape.

We've successfully deployed IBM Cognos 8 BI scorecarding around the world, involving hundreds, even thousands of users.

Overview

The basic idea of retail hasn't changed fundamentally in many years – provide merchandise and services to consumers at a desired price. What has changed is the scale and complexity of the modern retail business.

Major supermarket and retail chains may conduct millions of transactions each year, and manage thousands of products and suppliers. Customer demand, greater competition, more channels, the challenges of time and scale, and a looming recession are also driving the need for agility and better performance.

From the executive suite to the storefront, management juggles a variety of priorities, and must assign a value to each one based on their relative importance and the interaction among the processes that drive them. Then they can integrate these elements into a strategic plan and communicate the plan throughout the rest of the organization.

This is the core value of scorecards.

Scorecarding with IBM Cognos 8 BI enables organizations to manage the business through a network of metrics, thresholds, histories and accountabilities. Management is able to identify problem areas in the organization, ensure alignment of key stakeholders and communicate strategy across the organization through enterprise scorecards. The end result is the ability to:

- **Align managers and employees around organizational strategy and execution:** Managers and employees understand what they are responsible for and how their performance contributes to the overall performance of the organization.

- **Make targeted, prioritized information easily accessible:** Scorecards allow people at all levels of the organization to manage their performance. As the chain gains a better understanding of the scorecard, and what individual impact has on organizational performance, confidence increases in the ability to track and manage performance. A scorecard is a way for them to identify issues and validate them with senior management, so they are able to justify changes in budgets, headcounts and so on.

- **Bring clarity and transparency:** Organizations have visibility into the business processes and activities that are important to their mission and program goals. They are able to exploit information to monitor issues, get early warnings when things are not tracking to plan and manage performance against expected outcomes.

- **Communicate critical success factors:** Everyone has access to relevant information. This ensures people understand critical success factors and their role in organizational success. This is communicated throughout the organization at the same time from the same system.

- **Enable rapid response to shifts in strategy:** Strategies continually shift. Management tools need to accommodate change. A scorecard is not static. With greater insights into the drivers of organizational success, you can adapt the scorecard to reflect this and changing priorities.

IBM Cognos software has helped thousands of global retail enterprises make these goals a reality. Our customers trust IBM Cognos solutions to increase customer, product and channel profitability, manage and reduce risk, and improve the predictability of financial performance.

Business problems

Tie leading metrics to value drivers

Retailers need forward-looking or "leading" metrics that are tied to their value drivers. Metrics in key areas such as finance, customer service, supply chain and inventory – including sales flashes, top- and bottom-selling merchandise, channel profitability and supplier performance – can alert companies to problems before they adversely affect the bottom line.

While defining these metrics is one thing, bringing the data together to support them can pose an even bigger challenge. Companies usually rely on a raft of performance data drawn from many different systems: ERP, POS, CRM, legacy data and other sources. Each system provides important information about a particular aspect of the company's performance, but each collects, defines and displays the information in a different way.

Scorecarding with IBM Cognos 8 BI can help organizations consolidate performance data from disparate sources into a coherent system that people trust. They can create their own scorecards that help them firmly pinpoint opportunities and roadblocks in key functional areas.

Scorecarding helps business users, from the store to the corporate floor, quickly find answers to common questions, regardless of the data source, such as:

- How has this metric performed in the past?
- Who is involved in solving this problem? Have corrective actions been put in place?
- What are the factors driving the performance?
- What other processes or metrics are affected?
- What are the details behind this metric? How is it calculated?

Scorecarding with IBM Cognos 8 BI allows you to link decisions made by individual managers to corporate strategies and goals. It provides users at every level of the business with access to reports, analysis and alerts, helping them understand their metrics and the factors that drive their performance.

It can scale easily from tracking a few individuals to discrete geographic regions to the entire enterprise. It can also manage performance using methodologies like the Balanced Scorecard.

Business drivers

Scorecarding 101

Scorecarding is a proven approach for monitoring, measuring and managing performance at a tactical or strategic level for an organization, a team or individuals. At the tactical level, managers use scorecards to monitor performance against targets for discrete, specific projects. At the strategic level, scorecards can be part of a corporate-wide performance management system that executives use to map the overall corporate strategy and communicate it throughout the organization.

A scorecard is a list of key performance indicators (KPIs), or metrics, that present current performance data for a business process or strategic goal against target values. Most metrics feature a corresponding color scheme and trend arrow that indicates whether that performance is on, above or below target and whether performance is trending up or down.

Most scorecards, such as those used in Balanced Scorecard implementations, use a mix of financial and non-financial information, leading and lagging (financial) indicators and corresponding strategy maps. Other may be industry-specific, such as retail performance management.

The ultimate goal of scorecarding is to focus everyone in the organization on the same metrics. Corporate performance targets can be aligned with store activities, with measured results and drill-down analysis; and the entire organization can be structured to promote process ownership.

The solution

Five simple steps to fast, effective scorecards

Performance Management & Measurement (pm^2) is an independent performance-measurement consulting firm founded by Brett Knowles. Brett has been working in this area for over 15 years and is a former vice president of The Balanced Scorecard Collaborative.

Brett's experience includes the initial research work on the Balanced Scorecard, and his team has built over 2,000 scorecards for private and public sector organizations from around the world (**www.pm2.ca**). The following pages present pm^2's five simple steps to a fast, effective scorecard.

Setting up a Balanced Scorecard appears to be a great intellectual quest. What a wonderful challenge for a team – to figure out the critical aspects of your organization and how to measure them. The problem is this: no matter how many people you put on that team, you will have access to only a tiny portion of your organization's wisdom; therefore, more often than not, you will miss the critical aspects of your organization's success.

The trick to creating a great scorecard is to "rough it in" first, just like building a house. Use the team to create the framework for a great scorecard, like the framing of a house, and then quickly release it to the organization with the request for them to provide the details around the roughed-in scorecard.

In the house metaphor, the scorecard team members are just the framers – putting up the wood frame of the structure. The organization's job is to put in the plumbing, electricity, walls, paint, wallpaper and so on.

How do you do this "scorecard-framing" work? There are five distinct tasks that provide the breadth of understanding required for a scorecard and performance measurement process. The idea, like framing a house, is to build the whole structure's framework quickly in order to make it self-supporting. If you pause too long between any of the steps, the entire program fails, as the organization begins to "tweak" elements of the scorecard before the overall structure is built and understood.

Step 1: Build the strategic linkages

Step 1 calls for capturing the existing strategy and documenting it in a new way, called a strategy map. The strategy map is a requirement for all great scorecards. Drs. Kaplan and Norton, authors of *The Balanced Scorecard and The Strategy-Focused Organization* and other bestsellers, frequently quote a *Fortune* magazine article revealing that 90 percent of strategies fail—not because they are weak, but merely because they are not executed! Given such a high failure rate, the most important gain for your organization will come through the execution of your existing strategy—not through devising a better strategy.

Do not allow your scorecard project to get sidetracked into another "strategic planning" activity. Take whatever strategy your organization is actually using and capture that. (After using the scorecard for six months, you will have enough information to have an informed strategic planning discussion.)

A strategy map describes what the chain needs to do to be successful. In building a simple map showing the relative importance of strategic objectives, the senior team is able to create alignment across their areas and an overall game plan, without committing to specific actions, performance levels or ownership. The strategy map becomes a risk-free tool to engage the leadership team in agreements about the way forward.

As the organization learns and needs to refine its strategy or direction, the strategy map becomes the tool to capture and communicate those changes. Building the strategy map is work for the senior team within the area being scorecarded. The measurement team may or may not be invited to sit through the session.

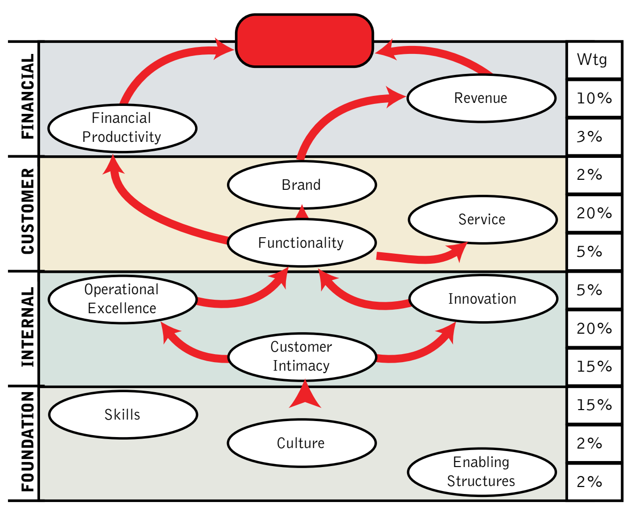
Step 2: Determine indicators of success

Good scorecards start off with indicators – not measures. What is an indicator? Think of "miles per gallon." It is an indicator of the car's performance, but does not try to diagnose specifically what might be wrong. Low mileage might be caused by poor engine performance, soft tires, or bad driving technique.
Many companies use employee absenteeism as an indicator of employee satisfaction. It is not precisely accurate, but organizations have discovered that unhappy employees tend to take more sick days.

Periodically they will check the indicator with a more rigorous analysis – say an employee survey – to ensure it is still a good proxy. By using indicators, not measures, a number of benefits can be realized:

- **Better breadth of scorecard coverage with fewer indicators:** Because the indicator covers a wide range of possible causes, a single indicator provides wide coverage (for example, absenteeism might be caused by poor management, organization changes or reduced rewards).

- **Ability to start using the scorecard right away:** There are always indicators available in the organization that can be immediately used in the scorecard. It is important to select indicators after you have built the strategy map. An organization would not adjust its strategy just because there were no obvious measures. Make sure that you do not confuse the two concepts.



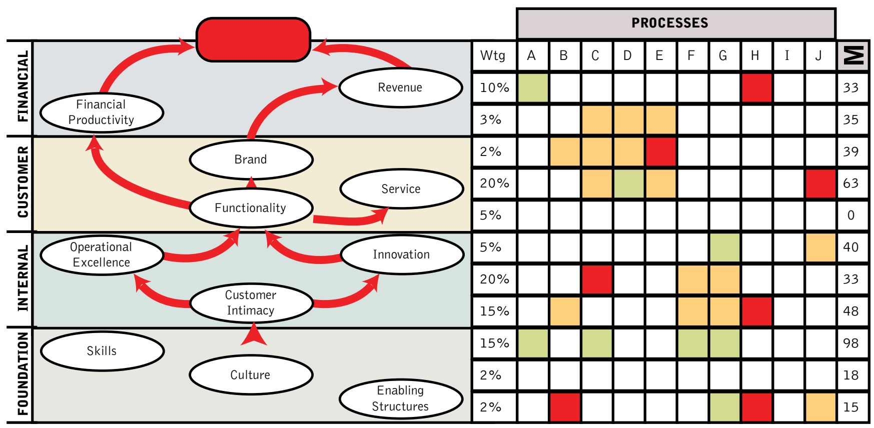
Step 3: Identify processes, projects and measures

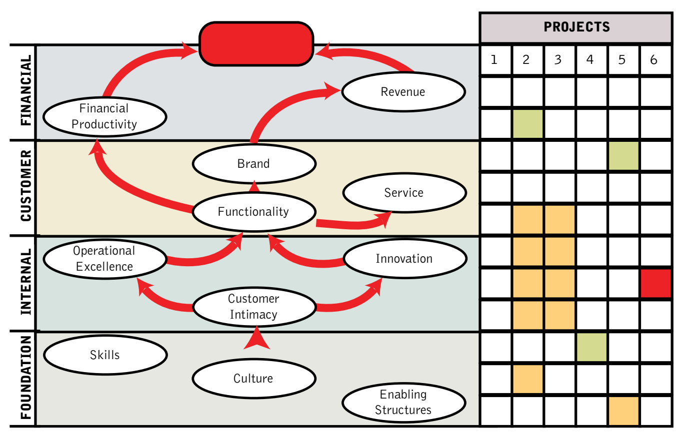
The promise of the scorecard is the translation of strategy into action. An important deliverable from any scorecard process must be the linkage between strategy and what we do – the processes and projects we work on from day to day. During the third step, the scorecard team should produce a short list of core processes, identify which ones are critical to each Strategic Objective on the strategy map and then rank the processes' ability to support that objective. This will allow the organization to identify the strategic impact of each process. Processes that have a high weighting but provide poor support are performance risks for the organization.

Likewise, all significant projects should also be ranked based on their impact in improving the performance around each Strategic Objective. Ideally, projects will provide support around the identified weak processes; if not, the organization has a misalignment between the projects and strategic need.

It is not unusual to find that 40 to 60 percent of existing projects do not link to any Strategic Objectives. These projects should be stopped right away, so as not to divert resources from the things that will help execute the strategy.

By the end of Step 3 the team will have a rough-cut risk analysis illustrating the "execution gap"—the gap between what the strategy calls for and the capabilities of existing processes and projects. In this illustrative chart, the team can clearly show the risk profile by Strategic Objective. Typically, we invite the senior team in to review the findings from Steps 2 and 3 (indicators, Strategic Objective risk profile, projects recommended for suspension).





Step 4: Build scorecard processes

To receive all the benefits that scorecarding offers, management needs to learn some new techniques. The scorecard should (slowly) become integrated with other existing processes, such as accountabilities and financial planning, and some efforts need to be made in shifting the organization's mindset to a performance-based culture.

Processes need to be designed for the monthly gathering of data and objective owner commentaries. Step 4 calls for designing where the data is to come from, who writes the commentary, when it is due and how it is published.

On the management process side, as Drs. Kaplan and Norton describe in *The Strategy-Focused Organization*, you will need to begin making "strategy a continuous process" and making "strategy everyone's job."

Central to this is the addition of a new type of quarterly management meeting – a Strategic Management Process – in which the strategy map and weighting are reviewed to ensure that they are constantly tracking the best way forward for the organization.

Based on the work done in Step 3, the chain can begin linking the strategy down to the team or individual level by assigning accountability for each supporting process and project, which in turn is linked to each Strategic Objective.

Step 5: Launch

It is important to get the scorecard into the hands of the organization as soon as possible. Launching the scorecard has three components: developing a presentation to be given to the entire organization (repeatedly), getting management to openly support the scorecard and getting agreement on the next steps.

Conclusion

The right technology and solutions

With multiple delivery channels and market specialization, as well as the need to manage operational costs, improve store performance and drive profitable growth, retail organizations are increasingly turning to IBM Cognos software to help make sense of their high-stakes and competitive business landscape.

Many of the world's leading retailers already choose IBM Cognos solutions, including over 500 retail chains globally, 30 percent of the world's top 250 retailers and 36 percent of the top 100 retailers in North America. For retail organizations, both large and small, we offer:

IBM Cognos performance management software and services let retailers:

- Align their corporate and store operations around critical revenue and profitability targets; and quickly adjust plans and resource allocations to achieve profitable growth.
- Identify, report on and analyze trends to respond to consumer buying needs and behavior.
- Gain visibility into key metrics across the chain: sales, labor, inventory and promotions.
- Monitor turnover and employee productivity.
- Increase cost savings by comparing and benchmarking performance across stores, channels, regions and divisions.
- Optimize merchandise levels, minimize out-of-stocks and manage inventory costs.

The fastest methods

The IBM Cognos suite of Performance Blueprints helps retailers quickly address planning and performance management process areas that need attention. IBM Cognos Performance Blueprints consist of targeted, pre-built data, process and policy models based on proven best practices in operations, sales, merchandising and finance. They include:

- Store Operations (P&L) Performance Blueprint
- Store Development Blueprint
- Strategic Promotions Planning Blueprint
- Financial Workbench Planning Blueprint

Performance management experts

When you make an investment in IBM Cognos software, our Global Customer Services makes a commitment to you: to bring the full range of our personnel, resources and expertise to your deployment to help you achieve the next level of performance. Our Professional Services, Education and Support services help you accelerate deployment, promote strong user adoption and increase your competitive advantage.

For more information on our solutions for retail, please visit our Web sites at **www.cognos.com/retail**. For more details on our solutions or to schedule a one-on-one demo, please call **1-800-426-4667**.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

For further information or to reach a representative: **www.ibm.com/cognos**

Request a call

To request a call or to ask a question, go to **www.ibm.com/cognos/contactus**. An IBM Cognos representative will respond to your enquiry within two business days.

IBM Canada
3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

Produced in Canada
January 2009

IMW14134CAEN