The PERFORMANCE Manager

Proven Strategies for Turning Information into Higher Business Performance

FOR RETAIL

by Roland Mosimann, Patrick Mosimann, Meg Dussault
and Patricia Vekich Waldron

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Edited by
John Blackmore and Catherine Marenghi

Production and Launch Team:
Steve Hebbs
Kathryn Hughes
Randi Stocker

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IBM Canada3755 Riverside DriveOttawa, ON, Canada K1G 4K9

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FOREWORD

When I was asked to contribute to this book on performance management for the retail industry, I was struck by the enormity of the task. After all, retail is not a single model, but a wide variety of businesses encompassing diverse lines of trade, formats, channels, value propositions, assortment strategies and service offerings. How could anyone chart a single course for this spectrum of industries?

What I discovered, reflecting on my 20 years' of retail experience working in store operations, IT and finance, is the common ground shared by all these enterprises. All are bound by three core imperatives:

- **To deliver a superior customer experience.** Whether it's shopping via the Web, catalog or store, the customer needs to be happy with the assortment, price and quality of goods and services delivered.
- **To create a demand-driven merchandising and supply chain.** Retailers must ensure that's what on the shelves is what the customer wants—highly differentiated, frequently refreshed products that consumers want to buy (at full price). The supply chain needs to deliver the right products at the right price at the right time.
- **To drive operational excellence.** Managers throughout the retail organization need access to the right information to make good business decisions, to develop plans and to measure the results of those plans.

Simply put, retailers need to satisfy increasingly fickle customers by giving them what they want, and not waste time on anything that is not core to the business. No small feat. Meanwhile, retailers are buffeted by four major external pressures that are beyond their control:

- Competitive threats arising from mergers and acquisitions, emerging markets, commoditization and new business models
- Macroeconomic trends, including volatile capital markets and regulatory, social and compliance requirements
- Emerging technology, including pervasive connectivity and disruptive innovations
- The changing consumer—more diverse, knowledgeable and powerful than ever, with access to vast amounts of information via the Web

Consumers are increasingly polarized and specialized, and have high expectations. They demand security and privacy for their personal data. Many will scrutinize your sensitivity to social issues such as child labor laws, fair trade and "green" business practices. Higher fuel prices, the meltdown in lending markets, housing costs and stock market performance all influence how, and how much, consumers buy. These are all facts of which retailers are acutely aware.

That's why, in today's marketplace, retail executives have to move fast, to get a handle on the issues and trends that affect business performance and secure the resources to deal with them effectively. It's the only way to rise above the competition and drive profits.

Staying ahead isn't easy. Data pours in from multiple systems, divisions and regions. Manual processes, integration and inefficiencies add to the mix. Business managers and IT departments are challenged to find solutions that enable productivity and business agility in the face of these market and consumer demands.

Performance management is a discipline that helps your organization rise to these challenges with better business insight, planning and performance. By unlocking data in operational and financial systems and transforming it into useful, relevant information, managers are transformed into performance managers.

Here are just a few of the ways that performance management strategies and solutions can help chains answer three key questions—How are we doing? Why? What should we be doing?—and coordinate planning and measurement across the enterprise:

- *How are we doing?* Scorecards and dashboards that give a snapshot of performance to managers, such as sales flashes, top- and bottom-selling merchandise, channel profitability and supplier performance, delivered to your desktop or to your PDA
- *Why?* Reporting and analysis to understand variances vs. plans; sales and margins by product, location and channel; product affinity and basket analysis; universal inventory position and stock levels; marketing effectiveness; and customer behavior trends
- *What should we be doing?* Planning, budgeting and forecasting—managing store-level revenue and expenses, aligning merchandise supply with demand, evaluating capital expenditures and risk modeling for the financial impact of changes like fuel costs, benefits and more

This book provides a practical guide to strategies like these that have been put to the test by top retailers worldwide. On behalf of my co-authors and everyone at IBM, I gratefully acknowledge the insights of Cognos Software customers, which include 500 chains and many of the most recognized brands in the world. This book captures what we have learned from our customers about best practices in performance management. These are the true performance management experts.

Patricia Vekich Waldron, Associate Vice President,
Global Retail, IBM

"With integrated performance management solutions from Cognos, we have standardized, simplified and automated our financial and operational planning, consolidation, reporting and analysis process. We have reduced our monthly closing cycle by two days, our annual planning process by 5 weeks and deliver faster access to key performance metrics, which benefits our entire company."

Davis Shepherd, Director of Financial Systems, Quiznos

INTRODUCTION

The Performance Manager continues an exploration that began more than ten years ago with the publication of *The Multidimensional Manager*. Both books examine the partnership between decision-makers in companies worldwide and the people who provide them with better information to drive better decisions.

More than a decade ago, the focus was on understanding an exciting new transformational trend—companies were becoming more *customer*- and *profit-centric*. What drove that trend? Companies were relying more and more on information assets such as business intelligence.

Today, that focus has become even sharper and more important. Global competition and interconnected global supply chains have further intensified downward pressures on cost. Technology and the Internet have transformed the knowledge economy from the equivalent of a specialty store into a 24/7/365 big-box retailer. Vast amounts of content are accessible any time, anywhere.

Today, companies are expected to have a depth of insight into their customers' needs unheard of ten years ago. And yet market uncertainty is greater than ever. The pace of rapid change does not allow for many second chances. In other words, if being customer- and profit-centric was important then, it is critical now.

To better support the decision-maker/technology professional partnership, *The Multidimensional Manager* introduced *24 Ways*, a set of business intelligence solutions used by innovative companies to drive greater profitability. These solutions were organized by business function and reflected the insight that the most valuable information in corporate decision-making is concentrated in a relatively small number of information "sweet spots," nodes in a corporation's information flow.

The book also introduced two further insights. First, the emergence of a new breed of manager—*the multidimensional manager*—who could effectively navigate and process these information sweet spots and thus make better, faster decisions. Second, the maturity of the enabling technology—business intelligence.

The book launched a fascinating dialogue. Demand led to the printing of more than 400,000 copies. People used it to help understand and communicate the promise of business intelligence. The pages often dog-eared and annotated, it became a field manual for business and IT teams tasked with developing solutions for their companies. Cognos® (which commissioned the book and is now part

of IBM), BI International (which co-authored it and developed the *24 Ways*) and the company PMSI (which partnered closely with both) maintained a dialogue with hundreds of companies over the years, collecting and synthesizing the many common experiences and refining them into a body of best practices and solution maps.

Ten years on, *The Performance Manager* revisits this dialogue and the underlying assumptions and observations made in the first book. We share our conclusions about what has changed and what has been learned by successful companies and managers in their attempts to drive profitability with better information. While the core principles originally presented have evolved, they are still largely true. After all, businesses exist to serve *customers* and, notwithstanding the tech boom's focus on market share, *profit* is the ultimate measure of success. *The Performance Manager* is not a sequel; though related, it stands on its own. We hope it will launch a new dialogue among those ambitious and forward-looking managers who view information not as a crutch but as a way to both drill down into detail and search outward into opportunity.

The Changing Value of Information

McKinsey Quarterly research since 1997[1] has followed an interesting trend that relates directly to the dialogue we started a decade ago. Based on this research, McKinsey distinguishes between three primary forms of work and business activity:

1. **Transformational work –** Extracting raw materials and/or converting them into finished goods
2. **Transactional work –** Interactions that unfold in a rule-based manner and can be scripted or automated
3. **Tacit work –** More complex interactions requiring a higher level of judgment involving ambiguity and drawing on tacit or experiential knowledge

In relation to the U.S. labor market, McKinsey drew several conclusions. First, tacit work has increased the most since 1998. It now accounts for 70 percent of all new jobs, and represents more than 40 percent of total employment. The percentage in service industries is even higher—for example, it's nearly 60 percent in the securities industry.

Second, over the same period investment in technology has not kept pace with this shift in work. Technology spending on transactional work was more than six times greater than spending on tacit work. This reflects the past decade's efforts in re-engineering, process automation and outsourcing. It makes sense: linear, rule-based transactional processing is the easiest to improve.

[1] Bradford C. Johnson, James M. Manyika and Lareina A. Yee: "The next revolution in interactions," *McKinsey Quarterly* (2005, Number 4), and "Competitive advantage from better interactions," *McKinsey Quarterly* (2006, Number 2).

But McKinsey's third finding is the most important: competitive advantage is harder to sustain when it is based on gains in productivity and cost efficiency in transaction work. McKinsey's research found that industries with high proportions of tacit work also have 50 percent greater variability in company performance than those industries in which work is more transaction-based. In other words, the gap between the leaders and laggards was greatest in industries where tacit work was a larger proportion of total work.

This fascinating research confirms what most of us have known intuitively for some time. Our jobs have become more and more information-intensive—less linear and more interactive, less rules-based and more collaborative—and at the same time we are expected to do more in less time. While technology has helped in part, it hasn't achieved its full potential.

The Performance Manager can help this happen. It offers insights and lessons learned on leveraging your information assets better in support of your most valuable human capital assets: the growing number of high-value decision-makers. Given the right information-enabling technology and leadership, these decision-makers can become performance managers. Such managers deliver sustainable competitive advantage by growing revenue faster, reducing operational expenses further, and leveraging long-term assets better. The companies whose experiences we share in this book have validated this promise with hard-earned victories in the trenches.

Enabling Decision Areas that Drive Performance

This book synthesizes countless, varied company experiences to construct a framework and approach that others can use. The information sweet spot was the cornerstone concept of *The Multidimensional Manager*. Sweet spots, business intelligence and multidimensional managers were the keys to the book's profitability promise.

These three insights are still fundamental to the promise of *The Performance Manager* and the need to leverage information assets to make high-value decisions that:

- Enable faster revenue growth
- Further reduce operational expenses
- Maximize long-term asset returns

➔ and therefore deliver sustainable competitive advantage.

If anything, these three insights are even more critical to success today.

Insight 1 revisited: *The information sweet spot ➔ More "sweet" required today*

In 1996, we wrote that "the most valuable information for corporate decision-making is concentrated in a relatively small number of sweet spots of information that flow through a corporation." The driving logic was the relative cost of acquisition and delivery of information versus the value and importance of that information. While this cost/benefit consideration is still valid, four factors require today's decision-making information to be defined, refined and repackaged in even more detail than ten years ago:

1. ***More:*** There is simply much more information available today. The term "data warehouse" is no accident. Companies collect massive amounts of transaction data from their financial, supply chain management, human resources and customer relationship management systems. Early on, often the problem was finding the data to feed business intelligence reports and analytics. Today, data overload is the greater challenge.

2. ***Faster:*** Information flow has become faster and more pervasive. The Internet, wireless voice and data, global markets and regulatory reporting requirements have all contributed to a 24/7/365 working environment. Today's company is always open for business. Managers are always connected. Time for analysis, action and reaction is short, especially in the face of customer demands and competitive pressures.

3. ***Integrated:*** Work has become more interactive and collaborative, requiring more sharing of information. This means integrating information across both strategic and operational perspectives as well as across different functional and even external sources.

4. ***Enrichment:*** Effective decision-making information requires more business context, rules and judgments to enrich and refine the raw transaction data. Categorizations and associations of this data create valuable insights for decision-makers.

Insight 2 revisited: *Managers think multidimensionally ➔ Managers perform within iterative and collaborative decision-making cycles*

Ten years ago, many multidimensional managers tended to be "power users" who were both willing and able to navigate through a variety of information to find the answers they needed. These users were adept at slicing and dicing *when*, *who*, *what* and *where* to better understand results.

The ease of ad hoc discovery was incredibly powerful to managers previously starved for information and, more important, answers. This power of discovery is still highly relevant today, but the need for decision-making information has evolved: analysis by *some* isn't enough—what is required is interaction and collaboration by *all*. As the research by McKinsey shows, more and more tacit work is required to drive innovation and competitiveness. Today's performance managers include more executives, professionals, administrators and external users, and are no longer mainly analysts.

Iterative and collaborative decision-making cycles result from more two-way interaction in common decision steps: setting goals and targets; measuring results and monitoring outcomes; analyzing reasons and causes; and re-adjusting future goals and targets. These two-way interactions can be framed in terms of different *decision roles* with different *work responsibilities* and *accountabilities* for a given set of decisions. These job attributes situate performance managers in a decision-making cycle that cuts across departmental silos and processes. This cycle clarifies their involvement in the information workflow, helping define the information they exchange with others in driving common performance goals. A decision role can be derived from a person's work function (such as Marketing, Sales, Purchasing, etc.) and/or their job type (such as executive, manager, professional, analyst, etc.).

Work responsibilities can be divided into three basic levels of involvement:

1. ***Primary:*** Decisions at this level are required to perform particular transactions or activities and are made often. Typically, this employee is directly involved, often in the transaction itself, and his/her activity directly affects output and/or cost, including for planning and control purposes. He/she has access to information because it is part of the job requirement.
2. ***Contributory:*** Information supports decisions made with indirect responsibility. Decisions are more ad hoc and may add value to a transaction or activity. The employee at this level may have to resolve a problem or, for example, adjust a production schedule based on sales forecasts.
3. ***Status:*** Information supports executive or advisory decisions. These people receive status updates on what is going on. Sometimes they manage by exception and get updates only when events fall outside acceptable ranges.

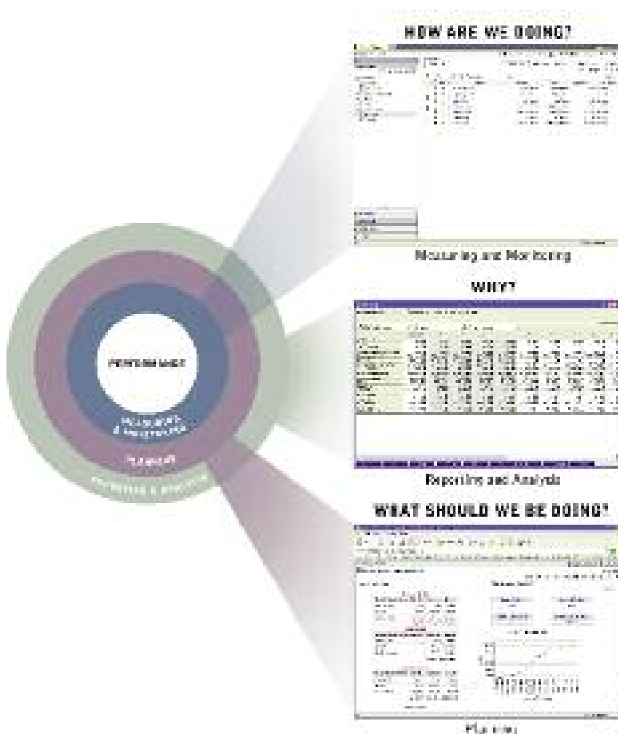
These different levels mean that securing sweeter information sweet spots is not enough. Information must be tailored to a person's decision role, work responsibility and accountability for a given set of decisions. In the past, many business intelligence efforts stumbled precisely because of a one-size-fits-all approach to user adoption. Information must be packaged according to use and user role.

Insight 3 revisited: ***The reporting paradigm for managers has changed ➔ Performance managers need integrated decision-making functionality in varied user modes***

Business intelligence was an emerging technology in the mid 1990s. Today's business intelligence has matured to fit the notion of performance management. To fully support sweeter information sweet spots and collaboration within decision-making cycles, you need a range of integrated functionality.

For performance managers with varied roles and responsibilities and those making decisions based on back-and-forth collaboration, functionality can't be narrowed to just one kind, such as scorecards for executives, business intelligence for business analysts or forecasting for financial analysts. In practice, performance managers need a range of functionality to match the range of collaboration and interaction their job requires.

Every decision-making cycle depends on finding the answers to three core questions: *How are we doing? Why? What should we be doing?* Scorecards and dashboards monitor the business with metrics to find answers to *How are we doing?* Reporting and analysis provides the ability to look at historic data and understand trends, to look at anomalies and understand *Why?* Planning and forecasting help you establish a reliable view of the future and answer *What should we be doing?* Integrating these capabilities allows you to respond to changes happening in your business.



To ensure consistency in answering these fundamental performance questions, you must integrate functionality not just within each one, but across them all. Knowing what happened without finding out why is of little use. Knowing why something happened but being unable to plan and make the necessary changes is also of limited value. Furthermore, this integrated

functionality must be seamless across the full network of performance managers, whether within a department or across several. In this sense, the new paradigm today is the platform. Just as the questions are connected, the answers must be based on a common understanding of metrics, data dimensions and data definitions, as well as a shared view of the organization. Drawing answers from disconnected sources obscures the organization's performance and hampers decision-making. Real value means providing a seamless way for decision-makers to move among these fundamental questions. The integrated technology platform is vital to connect people throughout the system to shared information. Its core attributes include the ability to:

- Integrate data from a variety of data sources
- Supply consistent information across the enterprise by deploying a single query engine
- Restrict information to the right people
- Package and define the information in business terms

You must also be able to present the information in a variety of user modes. Today many decisions are made outside the traditional office environment. The system must support the shifting behaviors of the business consumer. Decision-makers must be able to:

- Use the Internet to access information
- Use text searches to find key information sweet spots
- Create the information they need by using self-service options
- Set up automatic delivery of previously defined snippets of information
- Have guided access to the information they need so they can manage by exception

The *24 Ways* Revisited: *Decision Areas that Drive Performance*

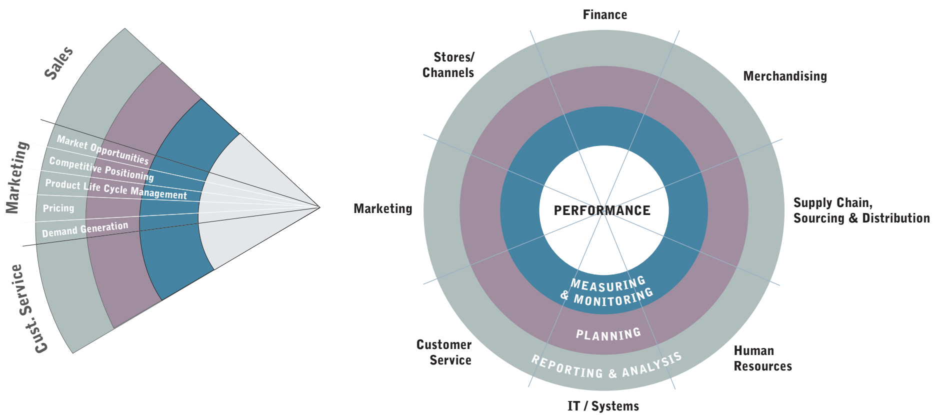
Perhaps the single most powerful idea in *The Multidimensional Manager* was the *24 Ways*. Organized by functional department, these proven information sweet spots became a simple road map for countless companies to deploy business intelligence. This system was easy to communicate, notably to a business audience, and showed how operational results ultimately flowed back to the financial statements. Through hundreds of workshops and projects that followed the release of *The Multidimensional Manager*, BI International and PMSI became informal clearinghouses for ideas and feedback on the *24 Ways*. This was most notable in the BI University program, developed and launched by BI International and then acquired and operated by Cognos (which has subsequently been acquired by IBM.

Starting in 2000, BI International and PMSI synthesized these experiences into a new, more refined and flexible framework to address the revisions to each of the insights noted above. Known as the DecisionSpeed® framework, it enables faster business intelligence *designs*, *deployments* and ultimately *decisions*.

Expanded to include roughly twice as many sweeter information sweet spots as the *24 Ways*, these decision areas are common to most companies. The framework is highly flexible, and circumstances will dictate how to best design and develop specific information sweet spots. You may require more detailed variations, in particular, other decision areas to meet specific needs. But the logic of each decision area is the same: to provide a simple, easy-to-understand way to drive performance—and also to measure, monitor and analyze it, report on it and plan for it.

The specific industry is also a key factor in the number and definition of decision areas. For this book, we focused on the retail industry.[1] While other industries may present a different set of specific decision areas, the business fundamentals in this book apply across most companies. Decision areas are organized by the nine major functions of a company that drive different slices of performance. Though this is similar to the *24 Ways* functional map, there are some significant differences. Human Resources and IT now each has its own focus, for example.

These nine functions provide the core structure of the book. Starting with Finance, each chapter introduces some key challenges and opportunities that most companies face today. A recurring theme is that of striking the right balance among competing priorities. How to weigh different options, how to rapidly make adjustments—these are often more difficult decisions than coming up with the options in the first place. The decision areas for a particular function represent the information sweet spots best suited to it, for the balancing act required to meet challenges and exploit opportunities. In this book we have focused on some 46 decision areas, ranging from three to seven per function.



[2] Other industry models of the framework are available in separate publications.

We introduce each decision area briefly, giving an illustration of the core content of the corresponding information sweet spot. These are organized into two types of measures: goals and metrics, and a hierarchical set of dimensions. While performance can be measured both ways, metrics typically offer additional detail for understanding *what* drives goal performance, especially when further described by dimensional context. A map of *which* performance managers are likely to use this decision area is included, showing relevant *decision roles* and *work responsibilities*.

The DecisionSpeed® framework is more than a list of sweeter information sweet spots. As the bull's eye graphic implies, decision areas and functions are slices of a broader, integrated framework for performance management across the company. You can build the framework from the bottom up, with each decision area and function standing on its own.

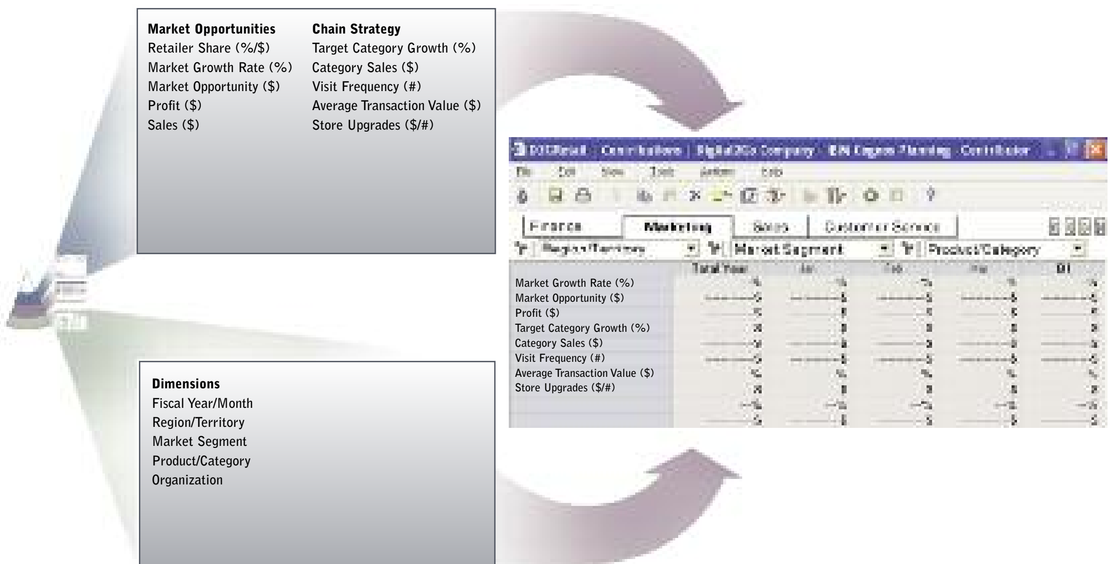
GOALS	METRICS	DIMENSIONS	
[illegible] ($/%)	Net Profit ($/%)	Fiscal [illegible]	Region
Net Trade Sales ($)	Gross Profit ($/%)	Year	Market
Operating Profit/EBIT ($/%)	COGS $/%	Quarter	Territory
	Operating Costs $/%	Month	Locality
	Labor Costs $/%	Week	Product Hierarchy
	SG&A ($/%)	Organization	Product Category
	Fixed Costs ($/%)	Division	Product Group
	Interest ($/%)	Channel	Product Line
	Tax ($/%)	Store	[illegible]
	Overhead Costs $/%	Department	Scenario
	Marketing Costs ($/%)	[illegible]	

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

Over the past ten years, we have learned that you need a practical, step-by-step approach to performance management. Overly grand, top-down enterprise designs tend to fail, or don't live up to their full promise, due to the major technical and cultural challenges involved. This framework is designed for just such an incremental approach. You can select the one or two functional chapters that apply, much like a reference guide. Decision areas empower individual performance managers to

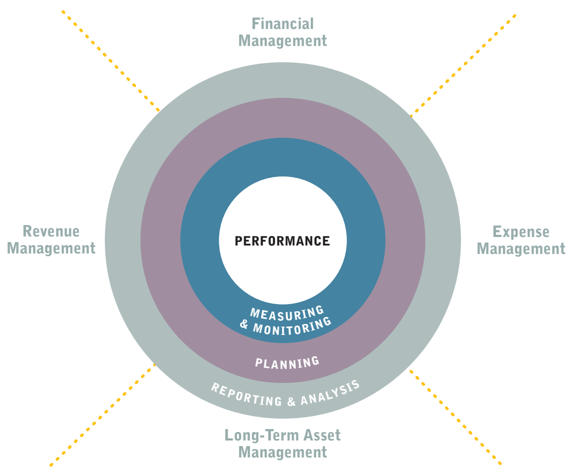
achieve immediate goals in their areas of responsibility. As you combine these goals across decision areas, you create a scorecard for that function. Then, as you realize performance success, you can build upon it to solve the greater challenge posed by cross-functional collaboration around shared strategies and goals. A key factor that makes this step-by-step approach work within a broader company perspective is the direct tieback to the financials included in the design. While each decision area can provide integrated decision-making functionality around its own set of issues, it also provides answers that impact financial results. Goals and metrics in non-financial decision areas, such as Sales, Marketing or Operations, provide answers to financial statement numbers in the income statement, balance sheet and cash flow, and help set future plans for growing revenue faster, reducing operational expenses further, and leveraging long-term assets better.

At the end of each chapter, we illustrate how each function can monitor its performance and contribute plans for future financial targets. Key goals and metrics for the function are shown for two decision areas outlined in the chapter. The planning process links them with the relevant dimensions, ensuring that resources are allocated and expectations set against financial and operational goals. For instance, "Company Share (%)" is planned out using the dimensions of time, region, market segment and brand. This process changes the objective from an aggregate percentage share increase to a specific percentage share increase for a particular quarter, region, market segment and brand. In this way, the planning process ties back from decision-making processes through the organization to the financials.



The Executive Management chapter outlines how different decision areas across multiple functions combine to drive shared strategic goals in the areas of financial management, revenue management, expense management and long-term asset management. It also provides the top-down narrative for the overall framework.

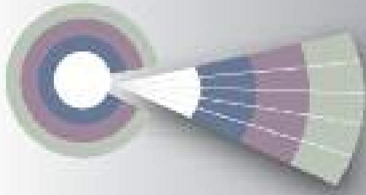
A further objective of the DecisionSpeed® framework is to help define the decision-making process, or tacit work, described in the introduction. You can think of decision areas as a layer of information sweet spots that sit above the transaction flow in a related but non-linear fashion. As described in the Executive Management chapter, performance decisions often must combine input from across multiple processes, and do so in an iterative and non-linear fashion, in contrast to core transaction processes.



Here the framework is anchored in three back-to-basics concepts:

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

Our jobs have become less linear and more interactive, requiring iteration and collaborative decision making. This requires the kind of information that drives high-performance decisions. This information is aggregated, integrated and enriched across processes in a consistent way. It is grouped and categorized into information sweet spots designed to drive performance decisions. This is the information framework outlined in this book.



Trusted Advisor or Compliance Enforcer?

> *"Can anybody remember when the times were not hard and money not scarce?"*
> Ralph Waldo Emerson

Of all the various roles Finance can play in a retail operation, the two most necessary to balance are complying with legal, tax and accounting regulatory requirements and dispensing sound advice on the efficient allocation of resources. In the first, Finance must focus on checks and controls. In the second, it leverages its extensive expertise in understanding what resources are required to generate which revenues. It is uniquely positioned to play this second role because, while most business departments push as far as they can in a single direction, Finance must evaluate the entire business's contrasting realities.

How Finance strikes this balance (and many others) to a large measure determines the success or failure of the business. *Is your budget a tool to control costs, or to sponsor investment?* Depending on targeted customers, channels, unique value proposition and economic circumstances, one choice is better than the other.

Finance is the mind of the business, using a structured approach to evaluate the soundness of the many commercial propositions and opportunities you face every day. Information feeds this process, and Finance has more information than most departments. As it fills its role of balancing—aligning processes and controls while advising the business on future directions—Finance faces a number of barriers when it comes to information and how to use it.

Barrier 1: ***Lack of information needed to regulate what has happened and shape what will happen***

Finance requires new levels of information about past and present processes and events to meet its regulatory compliance responsibilities. *Did the right employee or department sign off a particular expense item? Are the right approval processes in place?* For some retailers, the information demands of compliance and control have forged better relationships between Finance and IT. They have led to improving data integrity, information gathering and collaboration methods, raising the accuracy of information for business use.

But while Finance works to manage these issues, it must also ensure the information investment helps drive its other key responsibility: helping guide decisions that make a difference to the future bottom line.

The executive team and commercial functions both look to Finance to help the business assess risk and plan its future with confidence, not simply manage compliance and controls. Finance must pay attention to the drivers that make profit, using value-added analysis to extrapolate the financial impact of decisions—and anticipate them when necessary.

Valuing, monitoring and making decisions about intangible assets exemplifies the interconnection and sophistication of the information Finance requires. Regarding human capital, for example, Human Resources and Finance must work together to identify the value-creating roles of individuals, reflect their worth and manage their growth, rewards and expenses.

Without information sweet spots that show both the status of control and compliance and the impact of drivers on future business opportunities, Finance can't strike the necessary balance.

Barrier 2: ***The relevance, visibility and credibility of what you measure and analyze is designed for accounting rather than business management***

Finance collects, monitors and reports information with distinct legal, tax and organizational requirements to fulfill its fiduciary role. But Finance also needs an integrated view of these and other information silos to fill its role of advisor. This role requires not simply reporting the numbers, but adding value to those numbers.

For example, in times of economic uncertainty or downturns, understanding the impact of changes in customer buying patterns on sales and margins is critical. Understanding basket trends will indicate if customers are making fewer trips, reducing purchases or "trading-down" to less expensive goods, which will allow managers to revaluate assortment, pricing and promotional strategies. Another related example: Marketing must understand spending and return on advertising and promotional programs. And Finance must allocate these marketing expenses across a wide range of detailed and hierarchically complex general ledger accounts. Without this comprehensive view, the same expense may be classified in different accounts by different individuals, and the return on promotional programs will not be visible to management.

Barrier 3: ***Finance must balance short term and long term, detailed focus and the big picture***

Finance balances different and contradictory requirements. It must deliver on shareholder expectations every 90 days; it must also determine a winning vision and a strategy to achieve that vision over quarters and years. Companies can cut costs and investments to meet short-term profit objectives, but at what point does this affect long-term financial health? A well informed executive team is able to understand the drivers, opportunities and threats when balancing short- and long-term financial performance.

Executives and financial analysts define performance in terms of shareholder value creation. This makes metrics such as earnings per share (EPS) growth or economic value added (EVA) important. However, these distilled financial measures tell only one piece of the story. You need to augment them with more detailed measures that capture sales, market share gains and revenue growth targets to understand the real health of the multi-channel operations and strike a good balance between long- and short-term growth.

Barrier 4: ***Finance must find the path between top-down vision and bottom-up circumstances***

To what extent should goals be set top-down versus bottom-up? *If the executive team mandates double-digit profit growth, does this translate into sensible targets at the lower levels of the organization? Does it require a double-digit target at the lowest profit center?* Top-down financial goals must be adjusted to bottom-up realities. Finance must accommodate top-management vision while crafting targets that specific division, store, channel and product categories can achieve. And the importance of reconciling the top-down and bottom-up plans across the organization ensure everyone is managing to a single set of financial goals and business objectives.

This barrier in particular illustrates the importance of engaging frontline managers in financial reporting, planning and budgeting. The need for fast and relevant information requires an interactive model. Frontline managers must assume some budgetary responsibility and feed back changes from various profit or cost centers as market conditions change. This decentralized model engages the business as a whole rather than relying on a centralized function to generate information, especially important in retail where hundreds or thousands of stores are the frontline operations.

Besides freeing up Finance for value-added decision support, bottom-up participation generates an expense and revenue plan that overcomes hurdles of accountability, relevance, visibility and credibility. Individuals who engage in the process take responsibility for delivering on expectations. This helps expose drivers of success and failure that are otherwise lost in a larger cost calculation or financial “bucket”—for both the frontline manager and Finance.

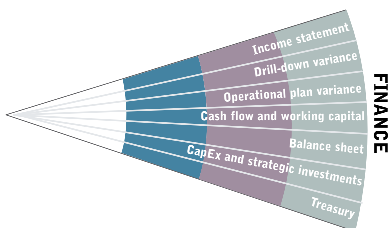
Balancing Short Term and Long Term, Past and Future, Compliance and Advisor

The information Finance uses to report what has happened and shape what will happen is critical to the rest of the organization. Dynamic tools that allow Finance to balance compliance and performance, accounting and business structures, short term and long term, top-down vision and bottom-up reality, are more important than ever. Information sweet spots can support Finance's responsibilities and decision areas.

A Balanced Financial Experience

Finance decision areas:

- **Income statement ➔** How did the business team score; where was performance strong or weak?
- **Drill-down variance ➔** What causes changes in financial performance?
- **Operational plan variance ➔** How do we best support, coordinate, and manage the delivery of meaningful plans?
- **Cash flow and working capital ➔** How do we manage working capital, collect accounts receivables and monitor cash use effectively?
- **Balance sheet ➔** How do we balance and structure the financial funding options, resources and risks of the business?
- **Capital Expenditure (CapEx) and strategic investments ➔** What are the investment priorities and why?
- **Treasury ➔** How can we efficiently manage cash and liquidity requirements?



Income Statement

This decision area represents the bottom line. It is the cumulative score achieved by everyone in the enterprise for a set period. Everyone needs to understand his or her individual contribution and performance measured against expectations. You must understand where variances against budget occur so you can correct the course. If costs are increasing too quickly, you risk damaging future profits unless you control them, adjust selling prices or develop new markets. Unexpected revenue spikes can mean additional resources are required to continue future growth. Adjustments such as these take time: the sooner you take action, the sooner you improve margins and realize the full potential of a growth opportunity. The ability of Finance to quickly identify, analyze and communicate important variances has competitive implications for your operation. How quickly the retail business recognizes a new trend and capitalizes on it is determined by how quickly it discovers budget variances.

GOALS	METRICS	DIMENSIONS	
Actual vs. Plan variance ($%)	Net Profit ($%)	Fiscal Month	Region
Net Trade Sales ($)	Gross Profit ($%)	Year	Nation
Operating Profit/EBIT ($%)	COGS $%	Quarter	Territory
	Operating Costs $%	Month	Locality
	Labor Costs $%	Week	Product Hierarchy
	SG&A ($%)	Organization	Product Category
	Fixed Costs ($%)	Division	Product Group
	Interest ($%)	Channel	Product Line
	Tax ($%)	Store	Plan/Actual Scenario
	Overhead Costs $%	Department	Scenario
	Marketing Costs ($%)	Org. Code	

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

Drill-Down Variance

Once you identify a difference between actual and plan, you need to drill down into the details to understand what caused it. *If sales increase by five percent between two time periods, was the cause greater volume, higher price or a change in the product mix? Did your competitors have the same increase in sales? If profits increased, was it due to decreases in the cost of goods, a change in product mix to lower margin products or a reduction in discretionary spending? Did your competitors experience the same increase?*

Finance needs to understand the *why* behind changes. Knowing what drove changes in revenue and profit provides a more complete picture to help guide the company.

GOALS	METRICS	DIMENSIONS	
Profit Change ($/%)	Net Sales ($)	Fiscal Month	Region
Sales Change ($/%)	Net Price ($)	Year	Region
Volume/Price/Mix Variance ($/%)	Markdown (%)	Quarter	Territory
	Shrinkage ($)	Month	Location
	Rebates ($)	Week	Product Hierarchy
	Units Sold (#)	GL Lines	Product
	Unit Cost ($)	Organization	Category
	Net Change ($/%)	Division	Product Group
	GL Expense Detail ($/%)	Channel	Product Line
		Store	
		Department	
		Org Code	

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

Operational Plan Variance

Once Finance understands what caused performance variances, it can lead discussions about future operating plans. The ability to advise and push back on management plans is important. Knowing the *why* behind variances from plan helps managers reevaluate and improve the next plan. Without this information, plans lose their purpose and become academic exercises to please senior management. Ideally, Finance offers input and feedback that other business areas can use for guidance. At the same time, these other areas provide frontline information to Finance that helps improve the plan. Such cross-functional and coordinated effort lets you test the roadworthiness of existing business plans.

Operating Cost Variance ($/%) Overhead Cost Variance ($/%) COGS/Sales Ratio (%)	Actual vs. Plan (%) Net Sales ($) Unit cost ($/%) Labor Costs ($/%) Distribution Costs ($/%) Overhead Costs ($) Operating Profit ($/%) Employees (#) Sales per Employee ($) Sales per Store ($) Operating profit per Employee ($) Operating profit per Store ($) Marketing Costs ($/%) Net Sales	Fiscal Month Year Quarter Month GL Lines Organization Division Channel Store Department Emp. Code	Region Nation Territory Locality Product Hierarchy Product Category Product Group Product Line

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

Cash Flow and Working Capital

Effective collection of accounts receivable fuels better performance. The cost of delay is high; managing the profiles of aging accounts receivable or the days of sales outstanding (DSO) is a key priority for any operation. The flip side of the coin is that delaying your own accounts payable is good for cash flow. In both cases, Finance must have insight into customer and supplier preferences to ensure the bottom line does not damage valuable relationships.

Investment analysts scrutinize working capital requirements as one factor in determining financial performance. *Is the business managing its valuable cash resources? How does the ratio of debtors (accounts receivable) to sales or the DSO compare to the industry average? Are stock days increasing, meaning more cash is being diverted to holding stock? Are the accounts payable days increasing?*

Working capital requirements have a direct impact on the market valuation of a business. They are a critical area for Finance to monitor.

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

A/P ($)
A/P to Sales (%)
A/R ($)
A/R to Sales (%)
Current Assets ($)
Current Liabilities ($)
Inventory ($)
Inventory Days (#)
Inventory to COGS (%)
Net Change ($/%)
Quick Ratio (%)
Sales / working capital (#)
Supplier credit ($/days)
Customer credit ($/days)
GMROI % (gross margin return on inventory investment)

GL Lines
Class
Sub-class
Account
Fiscal Month
Year
Quarter
Month
Organization
Division
Channel
Store

Department
Org. Code
Supplier/Vendor
Vendor/Merchant
Supplier/Manufacturer

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance				
	Executives	•		
	Professionals	•		
Audit				
	Executives			•
	Professionals	•		
Store/Channel				
	Executives		•	

Balance Sheet

This decision area balances the financial structure and resources of the business. How much debt, long- and short-term, can the business safely take on? For shareholders, a higher debt-to-equity ratio means higher rewards and greater risk. A highly leveraged business will generate attractive financial rewards, but if operating profits fall, this may jeopardize the company's ability to deliver on interest and debt repayments. The operation's financial structure is a balancing act that must be based on business fundamentals. *Are future market conditions likely to be favorable? Are sales increasing or decreasing? Is more cash investment needed to expand or upgrade the chains locations and other assets?* Depending on the strategy and future direction, Finance has to accommodate such demands while maximizing returns.

GOALS	METRICS	DIMENSIONS
Capital Employed ($)	Assets ($)	Bal. Sheet Lines
Debt-to-Equity Ratio (%)	Debt ($)	Class
ROCE (%)	Equity ($)	Sub-class
	Fixed Assets ($)	Fiscal Month
	Fixed Assets/Assets (%)	Year
	Liabilities ($)	Quarter
	Liabilities to Equity (%)	Month
	Market Value ($)	Organization
	Sales/Capital Employed (%)	Division
	Sales/Operating Assets (%)	Channel
	Sales / Fixed Assets (%)	Store
		Department

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance				
	Executives	•		
	Professionals	•		
Audit				
	Executives			–
	Professionals	•		
Store/Channel				
	Executives		•	

Capital employed—working capital plus fixed assets—and return on capital employed (ROCE) are critical factors that influence how lenders and shareholders value a business. Investors perceive a high-capital-employed operation as more risky. If such capital employed is largely financed through debt, the business will be more difficult to manage in an economic downturn. ROCE reflects how well the company can convert investment into profit. Selling the financial attractiveness of the business to new investors is an important Finance function. ROCE is a benchmark that reflects positively or negatively on senior management and Finance. It highlights the importance of managing future investments and having a clear understanding and sense of priority about which investment projects generate better returns. This understanding leads to the next decision area.

CapEx and Strategic Investments

Since capital expenditure (CapEx) has an impact on ROCE performance, businesses must evaluate and monitor investment decisions carefully. Asset investments can range from minor to strategically significant: from new point-of-sale or merchandising systems to additional distribution centers or store upgrade programs. Finance must ensure that CapEx and investment requests don't simply become wish lists. Finance must establish the basis for prioritizing and justifying capital expenditure. This means coordinating with different function areas. For example, Finance must understand the impact of both "yes" and "no" before agreeing to new property investments. *Will the location lose sales and market share if you don't refurbish your stores? Will this action improve traffic and conversions, and increase average basket size? Will labor, overhead or other costs increase or decrease?*

GOALS	METRICS	DIMENSIONS
Investment ($) NPV ($) ROI (%)	Market Value ($) Assets ($) Capital Employed Change ($/%) Fixed Assets ($) Breakeven Months (#) Payback Months (#) IRR (%) Incremental Profit Growth (%) Incremental Sales Growth (%)	Bal. Sheet Lines Class Sub-class Fiscal Month Year Quarter Month Organization Division Channel Store Department Project Project/Program Type Project Plan/Actual Scenario Scenario

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

The real estate portfolio and its management is a major area for any retailer. It represents a strategic investment decision and a long-term development concern for Executive Management and Finance. *Can the management team pursue an aggressive growth strategy and build its property portfolio bank? Or should a more cautious strategy prevail, perhaps even leading to property and store divestments?* These are all Finance concerns, although the specialist capabilities of real estate management often lead to a separate function within the retail operation.

Mergers and acquisitions represent another strategic dimension of investments. *What are the potential cost savings from combining two chains or divisions? If the operations merge and lose their particular brand identity and differentiation, will there be significant customer attrition?*

Understanding upside and downside impacts from potential investments is part of the evaluation process. Finance arbitrates such decisions, and requires detailed financial scenarios that forecast investment ROI and payback.

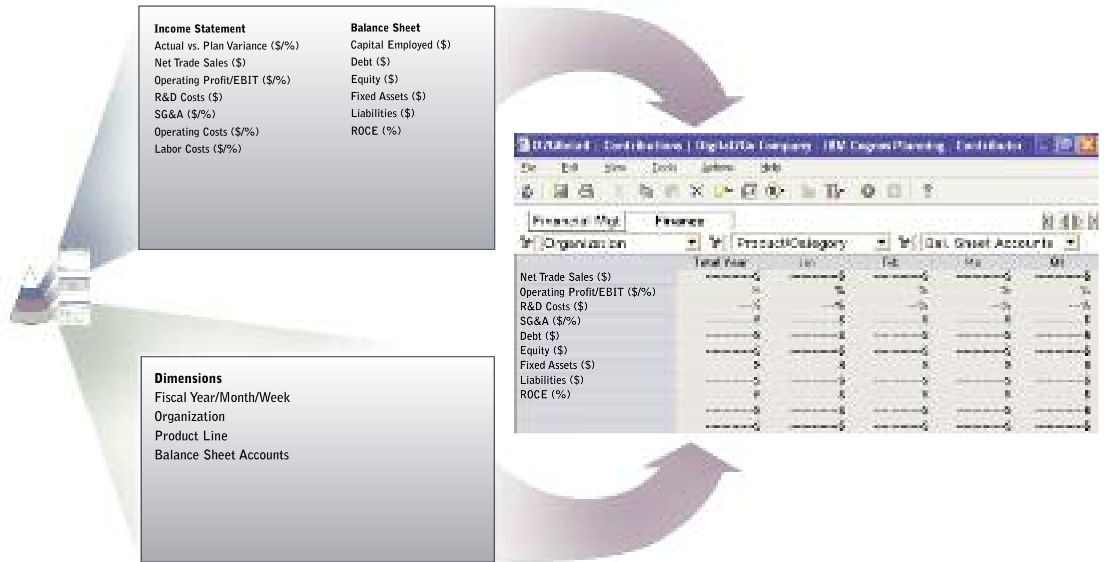
Treasury

Moving beyond the strategic finance structure of the balance sheet, there are regular day-to-day liquidity management concerns that require constant attention. Treasury is concerned with the effective management of cash and liquidity, financing, bank relationships and financial risks. *What are the options for short-term borrowing and cash requirements? Should any surplus cash be placed in the money markets or into a bank account—and, if so, at what rate of return and for how long?*

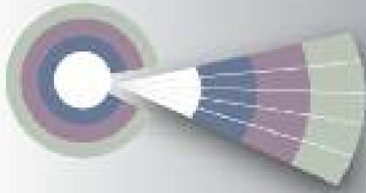
Effectively managing these liquidity options and dealing with bank relationships requires constantly updated information. Having access to current market information and aligning it with future business requirements are the key to effectiveness.

GOALS	METRICS	DIMENSIONS
Borrowing Cost (%)	Shares Issued (#)	Bal. Sheet Lines
Investment Yield (%)	Shares Outstanding (#)	Class
Net Liquidity ($)	Accrued Interest ($)	Sub-class
	Dividend Payments ($/%)	Fiscal Month
	Interest ($/%)	Year
	Investment Risk (#)	Quarter
	Investments ($)	Month
	Loan Balance ($)	Organization
	Net Cash Flow ($)	Division
	Options Outstanding (#)	Group
	Options Paid-Up ($)	Store
	Price Earnings Ratio (#)	Department
	Repaid ($) – Interest	
	Repaid ($) – Principal	
	U/W Loan Amount ($)	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance				
	Executives	•		
	Professionals	•		
Audit				
	Executives			•
	Professionals	•		



The Income Statement and Balance Sheet decision areas illustrate how the Finance function can monitor its performance, allocate resources and set plans for future financial and operational targets.



Investment Advisor to the Business

> ***"Successful investing is anticipating the anticipations of others."***
> John Maynard Keynes

For retailers, the role of marketing has been gaining in importance, moving beyond the traditional mass-marketing approach to becoming a crucial tool for developing a successful retail value proposition. Marketing strategies have changed in several ways since the 1990s: soft and hard good chains are shifting to targeted programs; food retailers are focusing on category management as a way of looking at customer groups and their buying needs; and apparel, footwear and accessory brands are building their own retail channels. The importance of monitoring these changing needs led marketing to look into a wider, customer-led business proposition. In essence, the retail marketer today is responsible both for communicating the value proposition to customers and advising the business on value enhancements that are tactically valid and strategically relevant.

These are the facts every Marketing professional understands:

- There are more and more global competitors in your market.
- Your competitors are constantly changing their business models and value propositions.
- Your customers can access massive amounts of information, making them aware of their options, tough bargainers and fickle.
- At the same time, customers' appetite for products and services continues to change and grow.

Your competition and customers will continue to increase in sophistication. Marketing must do so, too, if it is to serve the business and help it compete and win. This means its role must evolve. Marketing must become an *investment advisor* to the business. As that investment advisor, Marketing must define:

- The overall investment strategy—what is sold, where, how and to whom
- The strategic path for maximizing return on the company's assets (ROA)
- The cost justification for the operational path required to get there, i.e., support of return on investment (ROI) numbers for scarce marketing dollars.

Marketing must be present in the boardroom, offering business advice and market research coupled with financial analysis. It must connect the dots among strategic objectives, operational execution and financial criteria. It can provide the necessary alignment among strategy, operations and finance.

Marketing must overcome three important barriers to provide this alignment and become an investment advisor. Each barrier underscores the need for information sweet spots, greater accountability and more integrated decision-making.

Barrier 1: ***Defining the "size of prize" has become more complex***

In the days of simpler customer needs and homogeneous mass markets, retailers assessed value based on incremental sales, using certain products and promotions to pull customers into the store. The challenge has evolved to include targeting a range of different customer groups or "profiles," defined by their shopping behavior and profitability profile. Retailers began to include customer information in their data, for example, via loyalty cards, with the objective of mining these behavioral insights and becoming customer-centric.

Today a number of retailers have successfully developed this information sweet spot and now can group customers into meaningful segments. This trend is evolving as customer requirements and characteristics are divided into smaller and smaller micro-segments, which require organizations to become responsive to the needs of more and more customer categories.

Size-of-prize marketing requires the retailer to do two things well. First, it must pool customers into meaningful micro-segments that are cost-effective to target, acquire and retain. Second, it must determine the profitability potential of these micro-segments in order to set priorities. These profit pools allow Marketing to recommend the best investment in type of marketing campaign as well as at category, product, brand or segment levels. This is of particular relevance when considering different customer strategies: the more detailed the understanding and mapping of micro-segment profits, the more the marketing and sales propositions can be refined.

Barrier 2: ***Lack of integrated and enhanced information***

Without appropriate context (*where*, *what*, *who*, *when*), Marketing can't define or analyze a micro-segment. Without perspective (comparisons), Marketing can't define market share or track trends across channels over time at a more detailed level.

As an investment advisor, Marketing must merge three core information sources: customer (operational), market (external) and financial. To gain the full value of large volumes of customer data—point-of-sale (POS), e-commerce, catalog, loyalty card, click-stream data and feeds from ERP sources—the information must be structured thoughtfully and integrated cleanly. Marketing's judgments and assessments must be supported by the capability to categorize, group, describe, associate and otherwise enrich the raw data.

Companies need easy, fast and seamless access to typical market information such as product category trends, product share, customer segments, channels and store performance. They also need financial information from the general ledger and planning sources to allocate cost and revenue potential in order to place a value on each profit pool.

Barrier 3: ***Number-crunching versus creativity***

Retail marketers create strategies to win customer segments and the associated "prize"—loyalty, larger share of wallet, life-time value, etc. Marketing's work now really begins, and it must justify the marketing tactics it proposes, set proper budgets and demonstrate the strengths and limits of those tactics. Drilling down into greater detail and designing tactics around this information will help satisfy Finance's requirements. In the past, such detailed design has not been the marketing norm, but it is required to generate the ROI that Finance wants to see.

However, the right information is not always easy to get. And some departments contend that good ideas are constrained by such financial metrics, stifling the creativity that is the best side of Marketing.

Marketing's traditional creativity should not abandon finding the "big idea," but must expand to include formulating specific actions with a much clearer understanding of *who*, *why*, *what* and *size of prize*. This is not a loss of creativity, but simply a means to structure it within a more functional framework.

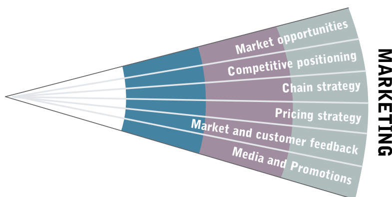
A Guidance and Early Detection System

As investment advisor, Marketing guides strategic and operational activity, which focuses on the potential of specific segments or initiatives and how the organization can meet these needs. In this role, Marketing can also be an early detection system for how changes in the market lead to changes in products and services, selling strategies, or even more far-ranging operational elements of the business.

Many marketing metrics are important indicators for an organization scorecard. Sudden drops in customer conversion or basket size for traditionally successful marketing efforts could mean competitive pressure, market shifts and/or execution issues. Good marketing departments see the big picture. They notice and interpret trends that are not readily apparent on the front line and provide the business context for what is being sold, or not, and the associated value proposition.

Marketing has the responsibility for defining, understanding and leading five core areas of the company's decision-making:

- **Market opportunities** ➔ What is the profit opportunity?
- **Competitive positioning** ➔ What are the competitive risks to achieving it?
- **Chain strategy** ➔ What is our value proposition?
- **Pricing strategy** ➔ What is it worth?
- **Market and customer feedback** ➔ What external verification process will enhance and confirm performance expectations?
- **Media and Promotions** ➔ How do we reach and communicate value to customers?



Marketing Opportunities

Making decisions about marketing opportunities is a balancing act between targeting the possibility and managing the probability, while recognizing the absence of certainty. This decision area is fundamentally strategic and concerned with the longer term. It manages the upfront investment and prioritizes the most promising profit pools while dealing with a time lag in results.

Understanding the profit potential in opportunities requires a detailed assessment of pricing, cost to serve, distribution and logistics requirements, merchandise range and quality, point-of-purchase execution and more. The most obvious market opportunities have already been identified, whether by you or the competition. You are looking for the hidden gems buried in the data missed by others. These are the strategic initiatives that make you unique and need to be identified, analyzed and understood.

GOALS	METRICS	DIMENSIONS
Retailer Share (%)	Market Growth ($)	Fiscal Month
Market Growth Rate (%)	Market Profit ($)	Year
Market Revenue ($)	Market Unit Volume (#)	Quarter
	Profit ($)	Month
	Sales ($)	Marketing Areas
	Unit Volume Sales (#)	Region
	Consumers (#)	Area
	Marketing Potential Score (#)	Marketing Segment
	Population (#)	Market Segment
	Qualified Consumers (#)	Micro-Segment
	Penetration (#%)	Product Hierarchy
		Product Category

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing				
	Executives	•		
	Professionals	•		
Store/Channel				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•
	Professionals		•	
Customer Service				
	Executives			•
	Professionals		•	
Finance				
	Executives			•

Competitive Positioning

Effective competitive positioning means truly understanding what you offer as merchandise, services and convenience to the customer segments you target, and how they compare with those of other organizations. As an investment advisor, Marketing must clearly define the business and competitive proposition: *In which channels are you competing, with what value proposition, and how is this differentiated versus competitors?*

Marketing must define and invest in specific information sweet spots that give it insight into how its customer targeting criteria compare with those of its competitors. Marketing must understand the customer-relevant differentiators in its offerings and the life span of those differentiators based on, for example, how difficult they are to copy. It also needs to understand the pricing and communication implications of this information.

- Are our price points below or above those of key competitors, and by how much?
- If below, is this sustainable given our cost profile, or is cost a future threat?
- What premium will customers pay for value-added propositions?
- How effective is the communication strategy compared to the competition?

GOALS	METRICS	DIMENSIONS
Competitor Growth (%) Competitor Price Change (%) Competitor Share (%)	Competitors (#) Competitor Price Change ($) Competitor Sales ($) Competitor Penetration (%) Market Growth ($) Market Profit ($) Market Revenue ($) Sales ($) Time to market/competitor (#)	Competitor Competitor Type Competitor Company Fiscal Month Year Quarter Month Marketing Area Region Area Marketing Segment Market Segment Micro-Segment Product Hierarchy Product Category

FUNCTION	DECISION ROLES	PRIMARY ROLE	CONTRIBUTORY	STATUS
Marketing				
	Executives	•		
	Professionals	•		
Store/Channel				
	Executives			–
	Professionals		•	
Merchandising				
	Executives			–
	Professionals		•	
Customer Service				
	Executives			–
	Professionals		•	
Finance				
	Executives			–

Chain Strategy

The go-to-market positioning of the business needs not only to be clear, but also to evolve with the ebb and flow of customer life styles and needs. The Marketing function must manage this positioning along a number of dimensions which, in essence, also defines the retail brand. *What is the value proposition in terms of quality, reputation, value for money, product range, convenience, level of service and location options?*

For example, the chain strategy may be based on being a low-price leader focused on a certain socio-demographic customer segment, with clear implications regarding the types of merchandise and channels that will be offered. Targeting a lower disposable income group will impact the average transaction or basket purchase available and, therefore, also influence the product range and level of service offered. *How is this customer segment ideally served in terms of store size, location and assortment? Is the positioning sufficiently differentiated versus the competition's?*

Chain strategy builds on the process of competitive positioning and market opportunity definition. Marketing should understand how to build a differentiated value proposition that is sustainable. As an investment advisor, Marketing is in a position to counsel the retail operation regarding the what, how and why of this uniqueness. As demographics, shopping behavior and competitors change, Marketing must interpret and communicate the impacts. In-depth analysis helps Marketing better understand how quickly these changes are occurring and whether the chain business model needs to re-evaluated.

GOALS	METRICS	DIMENSIONS	
Target Category Growth (%)	Category sales ($)	Fiscal Month	Marketing Segment
Visit Frequency (#)	Transactions per visit	Year	Market Segment
Transaction Value ($)	Market Growth (%)	Quarter	Micro-Segment
	Customer Score (#)	Month	Product Hierarchy
	Relative Price Gap	Organization	Product Category
	Target Product Growth (%)	Division	Product Group
	Target Product Margin (%)	Channel	Product Line
	New Product Sales ($)	Store	Customer Segment
	New Product Profit ($)	Department	socio demographic segment
	Net Price ($)	Org. Unit	loyalty & spend segment
	Service Cost ($)	Marketing Areas	Project
	Store development initiatives (#)	Region	Project/Program Type
	Store Upgrades ($/%)	Area	Project
	Number of product lines (#/$)		

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing				
	Executives	•		
	Professionals	•		
Store/Channel				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•
	Professionals		•	
Customer Service				
	Executives			•
	Professionals		•	
Finance				
	Executives			•

Pricing Strategy

Pricing is a complex tool, with a maze of interconnected customer behavioral implications. Today "good value" does not necessarily imply low price, but is defined by the customer's perception of "good value." This will include intangibles such as convenience, atmosphere, selection and service. Pricing policy is therefore also a strategic concern. *How is the retail brand aligned with customer pricing perceptions? Do the product category price points reflect the targeted shopper segments and expected shopping behaviors? Is pricing policy centralized or adapted to local conditions and costs?*

The marketer needs to evaluate and define a rationale for a detailed pricing approach that is aligned with these strategic considerations. Specific price point breaks are used to differentiate the value offering of the various assortments. By analyzing customer shopping and basket purchase patterns, pricing opportunities can be identified, both increases and decreases. During intense price competition, such analysis becomes vitally important as an excessive counter response may permanently impact range differentiation, brand image and, therefore, operating margins negatively.

Smart marketers today see micro-segment markets not as a challenge, but as an opportunity to define smaller, more customized offerings that are less price-sensitive. Targeting micro-segments means modeling price implications and tracking results at many levels.

- How does price sensitivity (elasticity) vary by different customer segment, e.g., different socio-demographic profiles?
- Given inventory holding costs, how complete should the assortment range and representative price points be by channel?
- To what extent should pricing be used as a defensive versus offensive tool, and what are the relative cost benefits? For example, does it pay to be aggressive and launch a price war to keep customers when new competitors enter the market?

GOALS	METRICS	DIMENSIONS
Price Change (%)	Markdown (%)	Fiscal Month
Price Segment Growth (%)	Promotion ($/%)	Year
Price Segment Share (%)	Net Price ($)	Quarter
	Average Price ($)	Month
	Average Market Price ($)	Organization
	Price Change ($)	Division
	Price Elasticity Factor	Channel
	Price Segment Sales ($)	Store
	Price Segment Value ($)	Marketing Areas
	Sales ($)	Region
	Unit/Volume Sales (#)	Area
	Price point Breaks ($)	Product Hierarchy
		Product Category
		Product Group
		Product Line
		Marketing Segments
		Market Segment
		Micro-Segment
		Competitor
		Competitor Type
		Competitor Company

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing				
	Executives	•		
	Professionals	•		
Store/Channel				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•
	Professionals		•	
Customer Service				
	Executives			•
	Professionals		•	
Purchasing				
	Executives			•
	Professionals		•	
Finance				
	Executives			•

Market and Customer Feedback

The market and customer feedback decision area combines an external reality check with internal understanding of improvements in the service and merchandise offering. It offers a gap assessment between customer expectations and the current retail proposition. *Are customer service expectations significantly higher than the in-store reality, leading to a steady attrition of customers and lower performance? If so, what needs to be improved, how, and what are the financial implications?*

Customer help desks, complaints, staff input, customer surveys and other tools offer crucial information to monitor customer views. They provide a verification mechanism that ensures the retail proposition is aligned with customer needs and expectations. The insights these feedback activities produce help the organization understand what investments are necessary. The implications may include changes in channel strategy, merchandise, store layout, staffing, store upgrades or other improvements. An information framework that uses this data effectively can support and confirm changing market opportunities and risks. Market intelligence and customer feedback, therefore, is critical in corroborating whether the retail strategy and performance are on track.

GOALS	METRICS	DIMENSIONS
Customer Satisfaction Score (#)	[illegible]	Fiscal Month
[illegible]	[illegible]	Year
[illegible]	Service Cost ($)	Quarter
	Store development initiatives ($)	Month
	Store Upgrades ($/#)	Organization
	Competitor Satisfaction Score (#)	Division
		Channel
		Store
		Marketing Area
		Region
		Area
		Competitor
		Competitor Type
		Competitor Company
		Customer Segment
		Market Segment
		Socio-demographic segment
		Loyalty & spend segment

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives		•	
	Professionals	•		
Store/Channel	Executives		•	
	Professionals	•		
Customer Service	Executives		•	
	Professionals	•		
Merchandising	Executives			•
	Professionals		•	
Finance	Executives			•
Supply Chain	Executives			•

Media and Promotions

Driving demand is where Marketing rubber hits the road. All of Marketing's strategic thinking about micro-segments, profit potential, the offer and competitive pressures comes to life in advertising, promotions, online marketing, public relations and events.

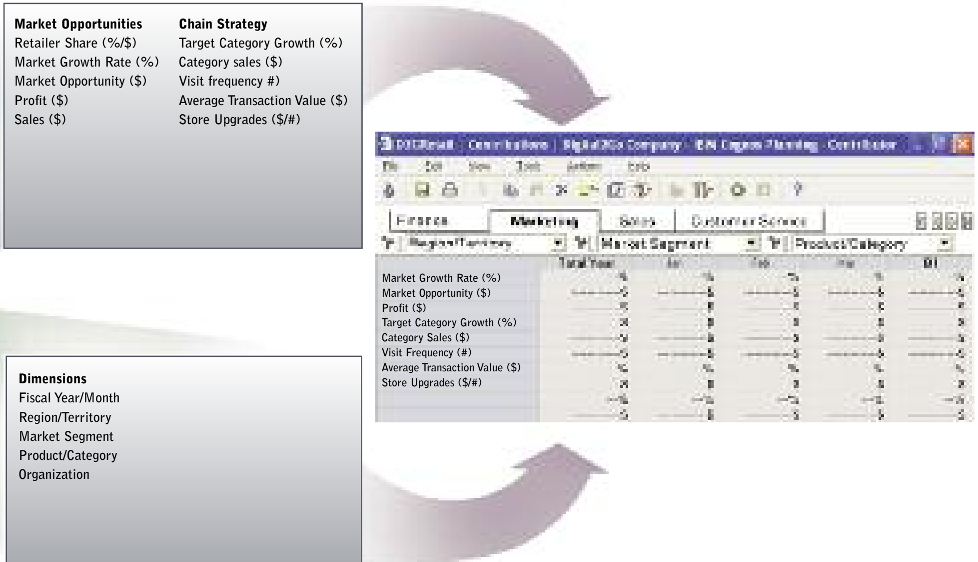
Marketing understands effectiveness by analyzing costs, sales lift and response rates for programs, direct marketing campaigns, and benefits from advertising. At the same time, Marketing must understand whether or not the multiple channels are acquiring the optimal shoppers and customer profiles. This is key to understanding the results of a micro-segment marketing effort.

Improving Marketing tactics is not simply about designing more detailed and specific activities; it also means understanding what elements work better than others. Marketing must understand the health and vitality of its various decision areas, including pricing, promotions, shopping experience and customer communications. *What provokes a greater, more profitable response? At what cost?* With a wide variety of options for online, direct response and traditional advertising, Marketing needs to know which tools work best for which groups.

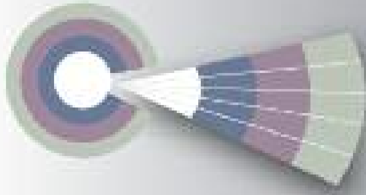
GOALS	METRICS	DIMENSIONS	
Promoted Sales ($/%)	Non-Promoted Sales ($)	Fiscal Month	Marketing Campaign Products
Promotions ROI (%)	Sales Lift ($)	Year	Marketing Campaign Type
Marketing Spend ($)	Campaign Audience (#)	Quarter	Marketing Campaign
	Promotional Campaigns (#)	Month	Market by Segment
	Responses (#)	Week	Market Segment
	Non-Promoted Margin (%)	Organization	Micro-Segment
	Promoted Margin (%)	[illegible]	Marketing Area
	Promoted Profit ($)	Channel	Region
	Brand Equity Score (#)	Store	Area
	Marketing Spend/Sales (%)	Marketing Vehicle	Customer Segment
		Marketing Method	socio-demographic segment
			[illegible]
			Product Hierarchy
			Product Category
			Product Group
			Product Line
			Media or Promotion

FUNCTION	DECISION ROLES	PRIMARY [illegible]	CONTRIBUTORY	STATUS
Marketing				
	Executives	•		
	Professionals	•		
Store/Channel				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•
	Professionals		•	
Customer Service				
	Executives			•
	Professionals		•	
Finance				
	Executives			•

Understanding and analyzing this information is key to alignment and accountability. Driving demand requires close alignment with in-store execution, merchandising and customer profiling such that Marketing can continually fine-tune its aim and selection of tactical "arrows" until they hit the bull's-eye.



The Marketing Opportunities and Chain Strategy decision areas illustrate how the Marketing function can monitor its performance, allocate resources and set plans for future financial and operational targets.



Your Business Accelerator

> *"Things may come to those who wait, but only things left by those who hustle."*
> Abraham Lincoln

Not Enough Time, Not Fast Enough

Customers are increasingly educated, diverse and demanding. Today's time-starved consumers have many choices for buying goods, so retailers need to provide a differentiated shopping experience to maximize their share of the wallet. Stores, call centers, on-line, wholesale and catalogue operations offer a unique assortment, excellent service and convenience to customers. Point of sale and service staff must understand customer needs and be able to react, adjust and satisfy customer demands on the spot.

New customer demands mean retailers are faced with a far more complex selling process, demanding that associates have a wider range of product knowledge, assortments are localized and updated more frequently, and cross-channel integration offers an outstanding shopping experience.

Even at higher levels of the organization, the ability to quickly identify trends and modify store and channel operations is key to maintaining satisfactory sales and profit performance. *If certain stores are showing signs of weak sales in certain product categories, what does this mean? Are these early signs of a market trend change, wrongly positioned merchandise, competitor activity or staffing issues at these stores?* Accurate and speedy information is critical in quickly identifying what does or does not work on the customer-facing retail store operation.

Information flowing from stores and channels affects every other department in the retail operation: from inventory and supply chain logistics to supplier management and merchandising. The slower the two-way flow of information, the less responsive the retail business model. This viewpoint brings together the three core insights in this book (see Introduction). Various job roles up and down the organization are accountable for operations, requiring information sweet spots to support their specific decision-making capabilities responsibilities. Stores and channels teams armed with the right information, at the right time, driven by the right incentives, are formidable. Unfortunately, many retail businesses do not optimize time and speed of execution due to three barriers.

Barrier 1: ***You don't set store and channel targets and allocate effort based on maximizing overall contribution***

How you measure performance and set incentives drives how operational managers allocate their time and company resources. If you set targets that are more than sales-related, but also include controllable costs and customer satisfaction standards, store-level execution will be more aligned with strategic corporate goals.

Frequently, operations focus on short-term revenue means less attention to managing costs and ensuring customer satisfaction, which have less immediate visibility but a long-term impact. As a result, managers can neglect to focus on the long-term implications of store upkeep and lifetime value of a customer or segment. Systematically analyzing, identifying and communicating store-level performance and linking it to long-term contribution helps chains maximize future value opportunities. A good retail professional can positively affect the change by understanding:

- The relative value of different customer types
- The arguments that will influence buying behavior
- The cross-sell and up-sell opportunities
- The service level needed to generate loyalty

Without these sweet spots, your time may be poorly invested. Or worse, you won't know if it is or isn't.

Barrier 2: ***There is no two-way clearinghouse for the right information at the right time***

Field-level execution is becoming more and more about information and how to execute on new ideas and refine the existing customer proposition. Operational excellence requires an efficient clearinghouse of the right information at the right time, up and down the organization—corporate, stores, channels, merchandise, supply chain and marketing. What's missing in many retail operations is such a fast and effective two-way flow of "smart facts" between the stores, channel operations, central office, distribution centers and suppliers. Smart facts are focused information packages that help optimize the value proposition for all stakeholders and therefore ensure the right solution focus is maintained.

The two-way nature of this information is critical. The entire organization (Marketing, Finance, Merchandising, Supply Chain and so on) needs insights into what works, what doesn't, and what is of greatest importance. Without this, your response to important concerns is impeded, and you won't understand the drivers of change, which is necessary for sustainable store performance. Smart facts let the business:

- Build on store success stories and share best practices
- Link the retail value proposition with what the customer requires across channels
- Proactively deal with issues between the customer and operations (such as out of stock, payment terms, late deliveries, etc.) and stay on top of store performance measures

Organizational execution suffers unless changes at the point of execution are quickly identified and such smart facts are acted upon in a timely fashion.

Barrier 3: ***You don't measure the underlying drivers of store and channel effectiveness***

What type of input drives directly on store and channel performance success? To what extent do various drivers such as geography, store size, store format, advertising and promotions, demographic area, staff quality, training, incentives and management impact results? For example, assuming a shortage of qualified staff, how quickly and by how much will store performance and customer satisfaction suffer? Understanding the magnitude and timing of these drivers will determine the financial consequences and urgency needed in rectifying the problem.

Stores and Channels: two-way clearinghouse of smart, fast facts

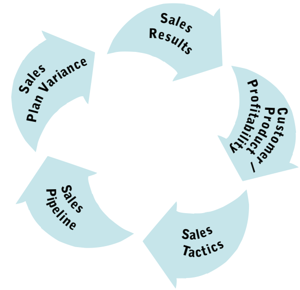
Similarly, what drives a missed sales opportunity, and are lessons being learned? Store feedback on merchandising, promotions, store layout, service and other issues helps the centralized functions to better link key drivers with sales effectiveness. The missed opportunity comes from not tracking what expectations were set around these tactics and not monitoring what actually happens. Retail operations miss this opportunity when they see setting and monitoring targets as a complicated planning exercise or when it conflicts with an internal bias to rely more on intuition.

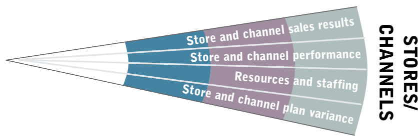
The choice doesn't have to be either/or. Experience and intuition can guide the initial tactical choices and outcome expectations—but monitoring these outcomes lets you make informed decisions to improve your results. Your goal is to improve store effectiveness and adjust tactics when something doesn't work. Without set expectations and a means to monitor the underlying store performance drivers, you will likely suffer both higher operating costs and missed sales opportunities.

Continuous Accelerated Realignment

The five decision areas described below can improve the speed of sales execution and enable a more effective use of time. They rely on the two-way flow of vital information between customers and company. This sharing of information can accelerate the speed of adjustments and realignments of product, market, message, service and other elements of the business. Decision areas in stores and channels:

- **Store and channel sales results** ➔ What is driving sales?
- **Store and channel performance** ➔ What is driving store performance and profitability?
- **Resources and staffing** ➔ How to manage store staff and resources effectively?
- **Store and channel plan variance** ➔ Where and why does performance differ from plan





The order of these decision areas reflects a logical flow of analysis and action. They start with understanding of where store and channel sales results are achieved, first in terms of overall sales performance and then in terms of P&L performance. This is followed by drilling deeper into how staff and store resources are managed. Finally, the insights gained are applied to revising the planning and forecasting process. In this way, a continuous and accelerated re-examination and realignment of store initiatives is possible. This cycle is anchored by the organization's strategic objectives (profitability and controllable expense management) and incorporates fast access to store realities for an accurate view of multi-channel performance.

Store and Channel Sales Results

Store and channel sales results are one of the most basic and important information sweet spots. They represent the foundation from which the retail organization can evaluate and plan for the future. They provide a consistent overview of actual revenue across the five basic components of the business—product, store, channel, territory and time. Accurate understanding of these components suggests where and why results diverge from expectations. Are store sales trending down in certain regions? Is this consistent across all products and channels?

GOALS	METRICS	DIMENSIONS	
Sales ($/%) Transaction Value ($) Sales per Outlet ($/%)	Visit (#) / Frequency Transactions per Visit Sales ($) / (#) of Personnel Volume/Price/Mix Variance ($/%) POS Locations (#) POS Store Closings (#) POS Store Openings (#) Sales per sq feet/meter ($) Selling Space (sq. feet/meter) Shrinkage ($/%) Sales from New Products/Services ($/%)	Fiscal Month Year Quarter Month Week Day Organization Division Channel Store Department Org. Code Region Region Territory Locality	Product Hierarchy Product Category Product Group Product Line Shopping/Delivery Region State/Province County City Postal Code/Zip Code

FUNCTION	DECISION ROLES	PRIMARY USERS	CONTRIBUTORY	STATUS
Store/Channel				
	Executives	•		
	Professionals	•		
Audit				
	Executives			•
	Professionals	•		
Marketing				
	Executives			•
	Analysts		•	
	Professionals		•	
Customer Service				
	Executives			•
	Professionals		•	
Finance				
	Executives			•
	Analysts		•	
Merchandising				
	Executives			•
	Professionals	•		
Supply Chain				
	Executives			•
	Professionals	•		

Communicating sales results should not be confined to managerial levels, but should be shared throughout the organization. You can empower staff with appropriately packaged analytic information and communications, adapted to various levels of responsibility. Feedback on why certain stores have done well and what can be learned can, to some degree, be shared with staff. Company-wide ranking reports are especially popular among retailers, e.g., highest sales, best labor costs and so on.

Beyond immediate operational store analysis, sales results let you recognize broader performance patterns to see if strategies and management objectives are on track and still making sense. With a consistent flow of information over time, you can make more strategic comparisons, interpretations and adjustments. For example, if sales are flat in a given store, region or channel, you need to know: *Is this a tactical problem or a strategic one—i.e., should this lead to a full re-evaluation of the company's strategies, or is it a localized execution problem? Are significant resource investments or training necessary? Has the shopping experience, assortment or service levels been outflanked by the competition?* These questions are part of an accurate assessment of sales results.

Sales results also connect time spent, level of responsibility, strategic decision-making and operational activities. If you identify a weakness in sales of a particular product line within a region, the business has a number of time-related options to deal with it. The short-term solution might be a series of sales incentives, such as more promotions and discounts. Given the impact of this on margin, however, management may choose to look at overall sales performance to determine if a store profiling exercise should be undertaken to localize assortments. This may require long-term strategic decisions at the highest level of the organization involving Marketing, Merchandising, Customer Analysis, Purchasing and Finance. Sales results are one of the main contributors of information for this decision. The speed and accuracy with which this information is available to the business is critical. More of this dynamic will be covered in the Executive Management chapter.

Store and Channel Performance

The key to this decision area is recognizing the what, where and why of store and channel P&L performance. By benchmarking the various controllable costs across stores, divisions, regions and/or store types, you can identify and question performance patterns. Perhaps staffing costs are disproportionately high in a number of stores, leading to concerns regarding overtime or staff scheduling. Alternatively, understanding the impact from a store refurbishment program, not only on sales but, more importantly, on operating profits, helps assess the ROI opportunity. *Are certain store formats more profitable for certain geographies and demographics? How long does it take for a new store to become profitable?*

Senior management must set cost targets and profit expectations that are meaningful as goals across the various store types and channels. Without understanding the detailed performance, these targets and goals will become largely a top-down academic exercise with little chance of being executed at the store level. Store management is motivated by appropriate goals that are designed as "stretch" goals for its particular store.

GOALS	METRICS	DIMENSIONS	
Profit ($/%) Profit per Transaction ($) [illegible]	Gross Profit ($/%) GMROI Returns ($/%) Markdown ($/%) Profit from New Products/Services ($/%) Operating Costs ($/%) Employee Costs ($/%) Shrinkage ($/%) Profit per Customer ($) Selling Space [illegible]	Fiscal Month Year Quarter Month Week Day Organization Division Channel Store Department Buy. Class	Region Region Territory Locality Product Hierarchy Product Category Product Group Product Line Ship-To Location Region State/Province County City Postal Code/Zip Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Store/Channel				
	Executives	•		
	Professionals	•		
Audit				
	Executives			•
	Professionals	•		
Marketing				
	Executives			•
	Analysts		•	
	Professionals		•	
Customer Service				
	Executives			•
	Professionals		•	
Finance				
	Executives			•
	Analysts		•	
Merchandising				
	Executives			•
	Professionals	•		
Supply Chain				
	Executives			•
	Professionals	•		

Resources and Staffing

The resources and staffing decision area deals primarily with striking the right balance between serving customers and keeping costs in line. *What is the ideal staffing mix, ranging from check-out, customer service, stocking and so on? How does this relate to customer service performance? Are customers satisfied, or are there areas for improvement? What are the cost implications of such improvements, and how do these compare with other stores?*

Practical realities also need to be considered. *What is the available recruitment pool? What are the competitive employment opportunities, and how do wages and benefits compare? Is there a great need for training? If staff turnover is high, what incentives beyond simply compensation can be offered to reduce this trend and cost to the operation?*

Resource and staffing is also concerned with the management of controllable costs, including those from local suppliers, repairs, utilities and projects such as upgrade and remodeling initiatives. All of these costs need to be identified, assessed and monitored to ensure the right balance is maintained.

GOALS	METRICS	DIMENSIONS	
Sales per Employee	Operating Costs $/%	Fiscal Month	Region
Profit per Employee	Headcount (#)	Year	Region
Labor Costs ($/%)	Part-time Staff (%)	Quarter	Territory
	Staff Turnover per Annum (%)	Month	Location
	New Hires (#)	Week	Product Hierarchy
	Sick Leave Days (#)	Organization	Product Category
	Terminations (#)	[illegible]	Product Group
	Work Time Actual Hrs. (#)	Channel	Product Line
	Avg. Compensation Increase ($)	Store	Ship-To Location
		[illegible]	Region
		Org. Code	State/Province
			County
			City
			[illegible]

FUNCTION	DECISION ROLES	PRIMARY VOTE	CONTRIBUTORY	[illegible]
Store/Channel	Executives	•		
	Professionals	•		
Audit	Executives			•
	Professionals	•		
Marketing	Executives			•
	Professionals		•	
Human Resources	Executives			•
	Professionals		•	
Finance	Executives			•
	Analysts		•	
Merchandising	Executives			•
	Professionals		•	
Customer Service	Executives			•
	Professionals		•	
Supply Chain	Executives			•
	Professionals		•	

Benchmarking different stores' resource and staffing performance can greatly assist in identifying problems before they impact store results. A proactive approach to elevate the standards of such weaker stores will prevent these situations from getting worse. High-performing stores can also be evaluated to determine what lessons can be learned and shared across the retail business, including promoting staff and managers that demonstrate leadership qualities.

Store and Channel Plan Variance

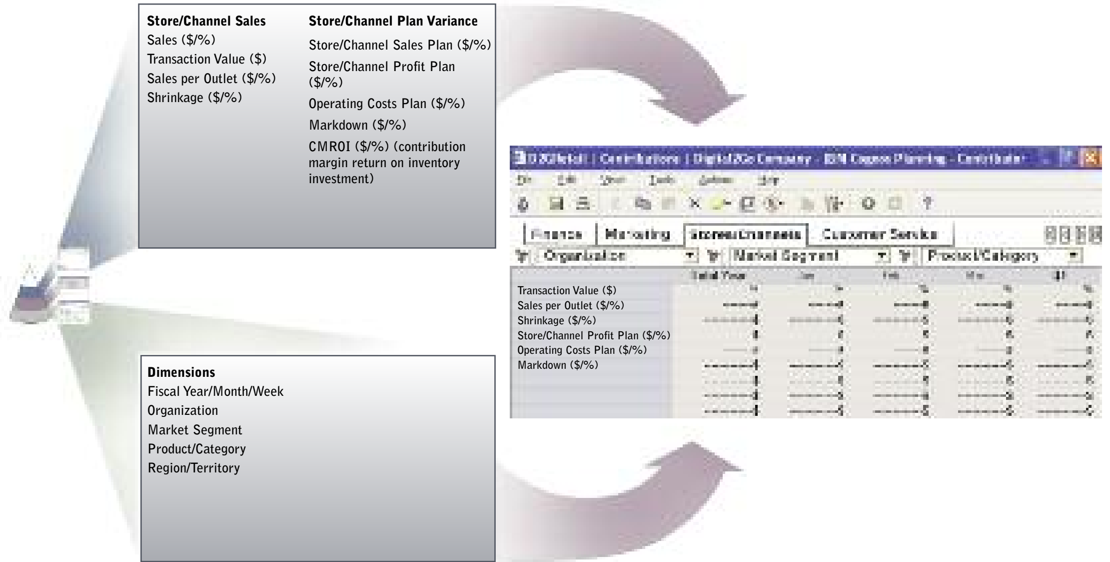
Store-level planning is a control mechanism, tightly linked to the budgeting and the overall retail planning process. But it is also a way to manage change and understand the ebb and flow of your business. Unfortunately, the control side tends to dominate.

A top-down budgeting process, where corporate objectives must be achieved, emphasizes planning over the actual situation. This leads the business to identify and plug revenue gaps with short-term revenue solutions, such as heavy discounting, usually at the expense of long-term strategy—milking the future to get results today.

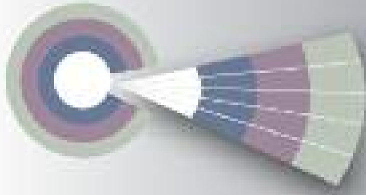
More useful planning processes integrate top-down plans with bottom-up plans. Every function provides useful feedback on store-level performance objectives, but the store operations management team must be an integral part of this objective setting. Iterations of this process may be needed to fit with top-down corporate objectives, but it allows individuals across the organization to own their numbers and be fully accountable. Alignment and accountability must be organizational values. When the entire business is engaged in monitoring under- or overperformance, the store managers can answer questions regarding the *where* and *why* of existing targets. Store management responsible for a missed sales and profit target can explain the *why* and suggest ways to correct the gap.

GOALS	METRICS	DIMENSIONS	
Store/Channel Sales Plan $/% Store/Channel Profit Plan $/% Operating Costs Plan $/%	Sales Growth Rate (%) Profit Margin $/% Gross Profit ($/%) GMROI Rebates $/% Markdown $/% Overhead Costs $/% GMROL	Fiscal Month Year Quarter Month Week Organization Company Channel Store Department Org. Code	Region Region Territory Locality Product Hierarchy Product Category Product Group Product Line Forecast Scenario (Plan/Actual/Forecast) Scenario Market Segment Market Segment Micro-Segment

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Store/Channel				
	Executives	•		
	Professionals	•		
Finance				
	Executives	•		
	Professionals	•		
	Analysts		•	
Audit				
	Executives			–
	Professionals	•		
Marketing				
	Executives			–
	Professionals		•	
	Analysts		•	
Customer Service				
	Executives			–
	Professionals		•	
Merchandising				
	Executives			–
	Professionals		•	
Supply Chain				
	Executives			–
	Professionals		•	



The Store/Channel Sales and Store/Channel Plan Variance decision areas illustrate how Stores and Channels can monitor performance, allocate resources and set plans for future financial and operational targets.



The Risk/Reward Barometer of the Retail Value Proposition

"There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."
Sam Walton

The rewards of a good shopping experience are straightforward: a satisfied customer is more likely to be loyal, buy more and generate more repeat business. There are related benefits:

- Customer retention is far cheaper than customer acquisition.
- A loyal customer is a strong competitive advantage and generates higher sales and margins.
- A satisfied customer can become "part of the team," helping you recruit other customers via word-of-mouth suggestions.
- Customers participating in loyalty programs provide a great source of market intelligence for new product ideas and retail strategies.

Taken as a whole, the benefits of achieving great customer satisfaction are like a multi-tiered annuity stream. Wall Street rewards annuities because they reduce uncertainty and volatility.

The risks of poor customer service and retention are greater and more insidious because they are less visible. For every unhappy customer you hear from, there are countless more. Negative word of mouth can damage years of good reputation and ripple through countless shoppers who never become customers. Ultimately, unhappy customers become lower sales for you and higher market share for your competitor.

An up-to-date yet deep understanding of customer service performance, consumer behavior and shopping motivations is increasingly critical for any retail business. Customer Service generates unique insight into the customer experience, providing an outside corroboration of the retail value proposition. If service or behavior changes, the faster these insights are proactively converted into strategic and tactical adjustments, the lower the risk and the higher the reward.

However, many retailers place insufficient effort on customer insight and the customer relationship. While they view Customer Service performance as an important and a necessary metric, evaluating customer behavior as a critical barometer of a sustainable value proposition is less obvious. Three significant barriers must be overcome to change this view.

Barrier 1: ***Insufficient insight into the detail of customer shopping perceptions, needs and expectations***

Is the retail value proposition truly aligned with customers, or are there inconsistencies between management's perceptions and the actual customer experience? The question is largely strategic and is broader than looking at service delivery requirements or performance. The required understanding includes segmenting customer groups to identify underlying motivations and shopping patterns. To maximize value, the retailer must understand these patterns and proactively define a range of value packages that target various customer expectation profiles. With the increase of customer shopping data from external data providers or internal programs such as loyalty cards, the ability to mine data and look deeper into the detail is now a competitive necessity. But while the benefits may be recognized, the capability is often insufficient.

Generating detailed customer insights often comes at a significant cost, either in terms of IT investment, staff resources needed to analyze these insights or executive support for a customer-centric point of view. However, in mature markets where competition is intense, the need to target more profitable customer segments is today a critical success requirement. A systematic approach to defining the risks and rewards in servicing different customer needs ensures that an optimal retail strategy is developed. Monitoring the financial success from targeting specific customer types offers the opportunity for further fine-tuning, but also a deeper understanding of the risks and costs to the business if the value proposition is not successful.

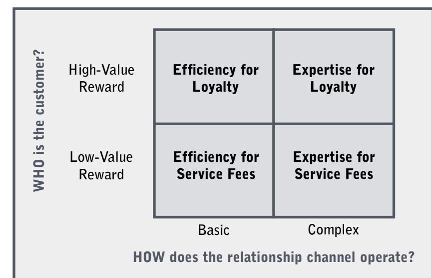
Once a retail operation understands which customer segments are most important, it must gain insight into how the relationship works. In complex customer-retailer interactions, such as advising on high-end or complex products or service-intensive interactions, the relationship depends on expertise. This is a clear market differentiator. If the customer-retailer interaction is more basic, such as fast-moving consumer goods, then the day-to-day efficiency of the relationship becomes more important for both parties. But what are the risks or value-add benefits from good customer service? This brings us to the next barrier.

Barrier 2: ***Insufficient visibility of the risks and benefits of a poor/good customer experience***

Customer service can be thankless and hectic. Picture a room full of service representatives juggling calls from frustrated customers, often in outsourced and offshore call centers. In such a volume-driven environment, it is difficult to determine the context and pattern of the calls received. Equally, in-store check-outs, service desks and customer support teams are constantly dealing with the same customer frustrations, demanding quick service and prompt resolution to problems ranging from returns to quality complaints.

From a service risk perspective, the ability to quickly identify when, where and why the shopping experience is not optimal is key to managing and resolving them. By implication, for service issues to be identified, they must also be logged and captured in a systematic and structured manner. Fortunately, today's technology makes it possible to implement such a systematic approach across the various service functions. From this information, patterns in poor execution such as delivery delays, information requests and complaints can be identified and rectified.

Categorizing the types of issues across channels by complaint type, order error, response time and resolution time can reduce service-related risks and long-term costs to the business. An informed retailer that acts quickly on resolving the causes of dissatisfaction will have a more profitable business. Even when you can't eliminate the root cause, better identification and categorization of issues can speed the time required to resolve problems. Timely responsiveness can salvage many frustrated customer relationships. As one executive of a major airline said, "Customers don't expect you to be perfect. They do expect you to fix things when they go wrong." Achieving this requires that problems and their causes be grouped and studied so that effective action can be taken.



Similarly, what are the benefits of good customer experience, i.e., what is the ROI from such investment? While it may be tempting to focus on hard costs, what does this add to the overall value proposition? Is it possible that an increase in service investment—additional check-outs, better Web site navigation, more training for associates—will actually deliver improved profits, and by how much? Without improved understanding and visibility into service, these types of issues can rarely be evaluated to the degree they require.

A successful retailer needs to understand how customer service levels affect your key and most profitable customer segments. If you don't, you may understate—or overstate—the benefit or risk. Overstating the risk leads to an inefficient allocation of resources, which reinforces the view that Customer Service is an expense. Understating the risk can be even worse, leading to the loss of your most valuable customers—the ones your strategy counts on—and the marketing impact of negative word of mouth on other customers.

When you include the relative value perception of the entire shopping experience, including service, to the customer, you have a useful framework to maximize the rewards for you and the customer. For example, if your expertise in multichannel operations is a differentiator, you may want to extend special offers to high-value customers in return for greater loyalty. At the same time, you may want to have a different pricing scheme for low-value customers for certain services, like delivery. Whatever metrics you choose, you must align them with what the customer perceives as important. *Does the customer value quality or convenience above price? What are acceptable lead or delivery*

times? What customers are willing to pay extra for shorter delivery times? Understanding the relative importance of such elements will make customer service monitoring more relevant.

Barrier 3: *The absence of a customer advocate and direct accountability*

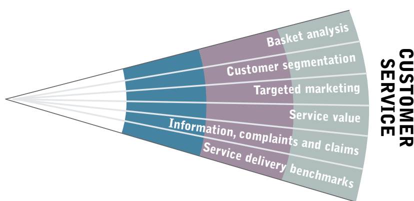
Ideally, your entire organization has common customer service and experience performance goals. You should back up this alignment with accountability and incentives, especially when the drivers of those goals span different functions. Without these incentives, the retailer creates a barrier to achieving a better customer experience. Overcoming this barrier requires clear, credible and aligned customer performance metrics—and the political will and organizational culture to rely on them for tough decisions.

Do you incur higher costs in the short term to secure long-term customer loyalty? Only retailers that understand the risks and rewards of good customer performance and service can make informed decisions on such questions. Customer Service has a key role in generating and sharing this information. Beyond being an insights and service-handling agent, it can become an effective customer advocate to other departments, and an expert on customer performance metrics and their drivers. It has to understand the problems and the operational solutions. Most important, Customer Service must effectively communicate these metrics to the rest of the organization so that other departments can resolve the root causes of customer experience issues.

Excellence in Customer Experience

The decision areas described below equip associates with the critical risk and reward information they need to be more effective customer advocates, bringing excellence to the customer experience. Decision areas in Customer Service include:

- **Basket analysis** ➔ What is driving the typical shopping trip, buying decisions and product affinity?
- **Customer segmentation** ➔ How do different customer segments vary in shopping motivations?
- **Targeted marketing** ➔ What is the best way of reaching and communicating with targeted customer groups?
- **Service value** ➔ What is driving the service cost and benefit?
- **Information, complaints and claims** ➔ What is driving customer concerns and service responsiveness?
- **Service delivery benchmarks** ➔ What is driving service levels



The sequence of these decision areas provides a logical flow of analysis and action, starting with understanding the needs of the customer and the range of value options. What does a customer buy by channel, and how does this vary by different customer types, e.g., geography, age groups or income levels? From this understanding, the question that follows is how to communicate and reach these customers with a relevant value proposition.

Now our focus shifts to the benefits of retaining key customers. *Is the overall value proposition appropriate? Are you reaping the rewards from your operations, what are they, and how much has it cost?* Customers are impatient and expect excellent service, and rapid resolution of issues when they occur. These include simple requests for information, complaints, claims and returns. *Over time, do service levels change, and what is driving these changes? How do your service benchmarks and shopping experience across channels compare against the competition's?*

Basket Analysis

At different times of the day, what constitutes a typical customer shopping visit, and what merchandise is being purchased? What is average transaction spend, and to what extent does this vary? Do customers frequently purchase a combination of items, and can product bundling or promotions be encouraged? If certain merchandise is unavailable, does this impact customer satisfaction, sales or substitutions? To what extent do impulse purchases occur, or are most transaction done by "destination" customers who have planned their shopping journeys?

GOALS	METRICS	DIMENSIONS
Sales ($%)	Category Coverage ($/#)	Fiscal Month
Transaction Value ($)	Category Share (%)	Year
Margin ($%)	New Product Sales ($%)	Quarter
	Customer Acquisition & Retention (#)	Month
	Range Changes (#)	Week
	Delistings ($#)	Day
	New Listings ($#)	Day Category
	Promotions ($/#)	Organization
	Promotion ROI ($%)	Division
	Unit Sales (#)	Channel
	Traffic (#)	Store
	Sales/Traffic (%)	Region
	Transactions (#)	Region
	Transaction Time (#)	Territory
	Customer Loyalty Index (#)	Location
	Own Label Sales ($%)	Product Hierarchy
	Premium Sales ($%)	Product Category
	Rebates ($%)	Product Group
	Shrinkage ($%)	Product Line
		Customer Segment
		Market Segment
		Media on Promotion
		Price Tier

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Analysts	•		
	Professionals	•		
Marketing				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•
	Professionals		•	
Store/Channel				
	Executives		•	
	Professionals		•	
Supply Chain				
	Executives			•
	Professionals			•

All these insights and more are essential to understand what an appropriate retail offering should include. A multitude of alternatives needs to be examined and evaluated to decide the optimal strategy. By data mining your customer transactions, various buying patterns will be identified. Combining such factual information with strong merchandising strategies is a formidable combination that successful retailers will capitalize on. Certain carefully considered promotions or well positioned merchandise will increase average basket spend, frequency of store visits and multichannel shopping. This will directly impact sales and profits, using the basic retail equation of average basket spend times number of visits!

As new customer buying patterns emerge, the retail operation will need to adjust and plan new offerings that reflect these changes. The faster these insights are generated and acted upon, the better the retail performance and the financial reward.

Customer Segmentation

This decision area builds upon the previous one by recognizing that a typical and homogeneous customer does not exist. At the finest level of detail, we are all unique in our buying behavior. In practical terms, too much detail is neither useful nor practical. A key skill is to determine a customer grouping or segmentation that is useful for defining retail strategy. This is a balancing act between using finer and more targeted segmentation versus a practical segmentation that can be executed on across channels.

The potential dimensions to customer segmentation are vast. One perspective may reflect socio-demographic differences and examining how buying behavior changes. Another dimension may include motivational “need states” to better understand the “frame of mind” behind customer purchases on different occasions. This approach may identify cross-sell and up-sell opportunities that link certain product requirements with given events, such as buying party food and drink for a barbeque. Also, how does customer buying behavior vary across channels? How can you gain a single view of the customer across channels to determine the best way to reach consumers?

GOALS	METRICS	DIMENSIONS	
Sales ($/%)	Category Coverage ($/#)	Fiscal Month	Product Hierarchy
Transaction Value ($)	Category Share (%)	Year	Product Category
Margin ($/%)	Cross Category Shopping Score (#)	Quarter	Product Group
	Customer Loyalty Index (#)	Month	Product Line
	New Product Sales ($/%)	Week	Customer Segment
	Customer Frequency & Recency (#)	Day	Market Segment
	Delistings ($/#)	Day Category	Socio-demographic Segment
	New Listings ($/#)	Organization	Loyalty & Spend Segment
	Promotions ($/#)	Division	Weeks on Promotion
	Promotion ROI ($/%)	Channel	Price Tier
	Unit Sales (#)	Store	
	Traffic (#)	Region	
	Sales/Traffic (%)	Region	
	Transactions (#)	Territory	
	Transaction Time (#)	Locality	
	Own Label Sales ($/%)		
	Premium Sales ($/%)		
	[illegible] ($/%)		
	Shrinkage ($/%)		

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Analysts	•		
	Professionals	•		
Marketing				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•
	Professionals		•	
Store/Channel				
	Executives		•	
	Professionals		•	
Supply Chain				
	Executives			•
	Professionals			•

The greater the segmentation sophistication, the greater the potential to target customers and their particular needs accurately. Such segmentation helps build a customer relationship that secures long-term loyalty and sustainable performance. As buying trends change within these customer segments, they are observed and catered to, not lost in the statistical “average.”

Targeted Marketing

Once customer buying behavior is appropriately segmented, targeted marketing and communication is possible. Historically, direct marketing was a "blunt" tool to communicate with all customers in the same way, but today mailings or email campaigns can be tailored to these specific customer segments. For example, high-income customers with a pattern of buying fine wines can be targeted with a specific premium wine promotion. To the large household shopper concerned with "bargains," a mailing of discount coupons on large packaged products could be appropriate.

GOALS	METRICS	DIMENSIONS	
Campaign Cost ($)	Change in Customer Loyalty Score (#)	Fiscal Month	Product Hierarchy
Campaign ROI ($/%)	Change in Traffic/Visits (#)	Year	Product Category
Sales Uplift ($/%)	Change in Transaction Value ($)	Quarter	Product Group
	Change in Sales/Traffic (%)	Month	Product Line
	Change in Frequency & Recency (#)	Week	Customer Segment
	Change in Destination Shoppers (#)	Day	Market Segment
	Campaign Sell Score (#)	Day Category	Socio-demographic Segment
	Campaign Frequency (#)	Organization	Loyalty & Spend Segment
		Division	Customers
		Channel	Campaign Type
		Store	
		Region	
		Region	
		Territory	
		Locality	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Analysts	•		
	Professionals	•		
Marketing				
	Executives	•		
	Professionals	•		
Merchandising				
	Executives			–
	Professionals		•	
Store/Channel				
	Executives		•	
	Professionals		•	
Finance				
	Executives			•
	Professionals		•	
Supply Chain				
	Executives			•

The opportunity for one-to-one communication between customer and retailer has become even more powerful in situations where loyalty cards are used. The itemized transaction history of customer shopping records linked to loyalty programs offers retailers a very sophisticated marketing and promotions tool. Increasing conversions and transaction size can be encouraged and visit frequency increased via customized news and promotions. Suppliers also benefit, for example, when new product introductions can be communicated to those customers most likely to consider such a purchase. The ROI on targeted marketing can be very high, and today is a very effective tool to attract and communicate value to the customer.

Service Value

This decision area combines costs and benefits to evaluate the value of the customer service relationship. It segments customers by who they are and how the retailer provides the service. Quantifying customer risk issues and the efforts required to resolve them provides the cost overview. Some issues can be financially quantified, such as the number of calls received, cost per call and dollar value of product claims processed. Others, such as late deliveries or complaints, can be categorized through a service level index. When determining cost, it is also important to understand how the relationship operates. Customer conversations that can be captured as data, i.e., by electronic means, tend to indicate more efficient relationships. You can define sub-categories of complexity based on customer and transaction knowledge, for instance, by tagging relationships based on how many separate steps and hand-offs are required to complete the transaction, solve a complaint, or fulfill a service need.

GOALS	METRICS	DIMENSIONS	
Service Cost ($/%) Service Effectiveness Index (#) Customer Lifetime Value ($)	Claims (#) Claims ($) Complaint Count (#) Customer Satisfaction Score (#) Customer Service Cost ($) Customer Loyalty Index # Customer Frequency & Recency (#) Customers (#) Lost Customer Count (#) Outstanding Service Issues (#)	Fiscal Month Year Quarter Month Organization Division Channel Store Department Region Region Territory Locality	Product Hierarchy Product Category Product Group Product Line Customer Segment Value Segment Socio-demographic Segment Loyalty & Spend Segment Customers Complaint Type

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Analysts	•		
	Professionals	•		
Store/Channel				
	Executives		•	
	Professionals	•		
Finance				
	Executives			•
	Professionals		•	
Marketing				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•
Supply Chain				
	Executives			•

At the same time, you can categorize the benefits, such as a life-time revenue metric or strategic value index based on expected revenue. When you can analyze value and cost, there is no need to trade one for the other by setting more accurate priorities for use of resources. Poor service performance for routine issues could imply investing more in process automation and improved efficiency. Performance issues around more complex products and services point to increasing investment in skills, expertise and decision-making support when analysis shows that the investment is worth it.

Information, Complaints and Claims

Every complaint is also a proactive customer statement that you are not meeting expectations. It is an opportunity to listen to your customer, whether to a simple request for information, a complaint about product quality or a financial claim on returned goods. Experience shows that each complaint can be the tip of an iceberg—the one frustrated customer who calls may represent many more who don't bother. By tracking and categorizing these complaints, you can gauge the severity of various risks and prevent them in the future.

GOALS	METRICS	DIMENSIONS	
Complaint Count (#)	Claim Payments ($)	Fiscal Month	Product Hierarchy
Customer Satisfaction Score (#)	Claim Payments (#)	Year	Product Category
Returned Sales/Units ($/#)	Claim Settlement ($)	Quarter	Product Group
	Claims (#)	Month	Product Line
	Claims ($)	Organization	Customer Segment
	Customer Recommendations (#)	Division	Market Segment
	Damaged Units (#)	Channel	Socio-demographic Segment
	Failed Deliveries (#)	Store	Loyalty & Social Segment
	Returned Product ($/%)	Department	Customers
	Service Count (#)	Region	Complaint Type
	Substitution Count (#)	Region	Substitution Type
		Territory	Service Type
		Locality	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Analysts	•		
	Professionals	•		
Store/Channel				
	Executives		•	
	Professionals	•		
Finance				
	Executives			•
	Professionals		•	
Marketing				
	Executives			•
	Professionals		•	
Supply Chain				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•

There are three dimensions to monitoring the customer voice: frequency, coverage across customer segments and type of issue. Simply counting complaints will not adequately reflect the nature or risk of a problem. For example, you may receive many complaints about merchandise being out-of-stock, but these may represent a lower risk than complaints about service and poor quality product. In this example, a count of complaint frequency will not adequately reflect the risk of losing critical customers.

Claims are complaints that have been monetized. Perhaps goods have been damaged and the customer now needs compensation or replacement. Claims are a direct cost to the business, have a direct impact on customer profitability and, if poorly handled, lessen customer loyalty.

Service Delivery Benchmarks

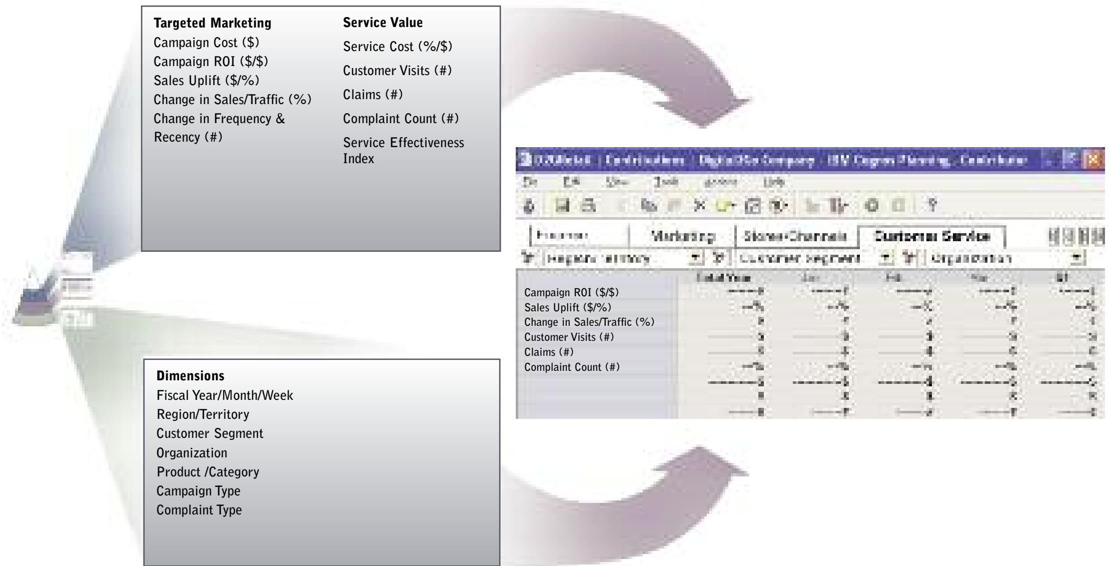
Service benchmarks help evaluate how your service delivery stacks up against internal and external standards. They measure response times and gaps affecting customer satisfaction. Understanding the link between service benchmarks and customer retention, sales and profitability is a key goal. For example, you may find that smaller stores have more complaints about handling product returns. With fewer staff and less space, smaller stores cannot deliver the same service proposition, but any service investment increase may not be attractive from a profit perspective.

GOALS	METRICS	DIMENSIONS	
Average Resolution Response Time (#)	Delivery Performance Score (#)	Fiscal Month	Product Hierarchy
Customer Service Scorecard (#)	Service Performance Score (#)	Year	Product Category
Service Effectiveness Index (#)	Outstanding Service Issues (#)	Quarter	Product Group
	Returned Product ($/%)	Month	Product Line
	Service Count (#)	Organization	Customer Segment
	Damaged Products (#)	Division	Customers
	Complaint Count (#)	Channel	Complaint Type
	Supplier Performance Score (#)	Store	Service Type
		Department	
		Region	
		Region	
		Territory	
		Locality	

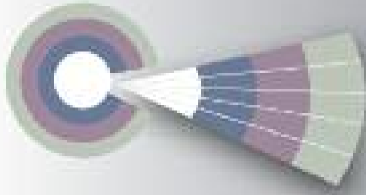
FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Analysts	•		
	Professionals	•		
Supply Chain				
	Executives			•
	Professionals	•		
Store/Channel				
	Executives			•
	Professionals		•	
Finance				
	Executives			•
	Professionals		•	
Marketing				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•

Various service metrics may be relevant to monitor delivery performance, customer help requests, out-of-stock events, staff availability, problem resolution, customer satisfaction, response time, claims and returns. In addition, if some of these metrics are standard industry criteria, managers can compare external information from third-party assessments with internally driven customer surveys. Gaps in external information can uncover risks not picked up by internal monitoring. Such information can also identify the need for better customer communications about the retailer's delivery of good service performance.

Combined with skilled analysis, service benchmarks can be used to adjust the business and service proposition. You can summarize service benchmarks by region, channel, store and customer segment, and thereby offer a high-level overview or drill down into service performance standards.



The Targeted Marketing and Service Value decision areas illustrate how the Customer Service function can monitor its performance, allocate resources and set plans for future financial and operational targets.



Merchandising the Right Product, the Right Place, at the Right Time

> *"Innovation is not the product of logical thought, although the result is tied to logical structure."*
> Albert Einstein

Merchandising brings together the understanding of customer behavior with product strategy and operational implementation. With so many channels and choices for consumers Merchandising is the critical focal point where your retail business and competitive ability are differentiated. This focal point brings together both internal considerations such as supplier relationships with external ones such as matching assortment profiles to various customer segments and locations. As a result, various inputs from Marketing, Finance, Customer Service and Stores and Channels come together and both influence and support the Merchandising function.

The precise definition of Merchandising will depend upon the specific context and may include working with channel strategy, assortment approach, selling and buying, promotions, stock management, and space management, but it will certainly involve how to sustain and amplify customer activity within the retail environment. The types of objectives are likely to include defining the assortment that meets customer expectations, adding value through merchandise augmentation and achieving product financial objectives. Merchandising will determine the depth, breadth and availability of the merchandise offer that aligns with overall retail strategy. Category management strategies will be supported with assortment suggestions that customers can identify with and respond to favorably.

At a marketing level, Merchandising also recognizes and manages product life cycles, ensuring that products or brands are allocated the right space, display and resources at different life cycle stages. New product innovations traditionally enter the business as "introductions" which, if successful, experience a "growth" phase and then move toward a more stable "mature" phase and then gradually into a "decline" phase. Product and market changes of a shorter time frame also require management, as in seasonal and fashion-related situations. Today's faster product-to-market cycles are giving retailers greater opportunity to implement more frequent and shorter seasons, offering

customers fresher merchandise more frequently. There is more flexibility to add new product lines, bring in private labels and adjust the retail proposition to customers' evolving needs.

At a financial level, Merchandising will look at managing the buying budget and how product margin expectation contrasts against actual performance. These buying budgets will need to be aligned with sales targets such that appropriate buying commitments can be determined accurately. Without the understanding of future sales expectations, it would be difficult not only to manage stock, but also to offer the "open to buy" flexibility required in dealing with suppliers and product availability. Dealing with suppliers is not limited to supply commitments, but broader sourcing considerations such as supplier service, capability, innovation, product quality and increasingly social or "green" responsibility.

Merchandising represents the implementation focal point of the retail business, an interaction overlap between Marketing, Finance, Procurement, and Stores and Channels. The ability to execute on these various functional objectives is a difficult balancing act that determines retail success. Three significant barriers can prevent Merchandising from delivering the right product, the right way at the right time:

Barrier 1: ***Insufficient information to develop and execute a customer-centric merchandising approach***

Merchandising is looking to translate various inputs of retail strategy into a meaningful implementation framework. But to do so requires access to the finer detail of these inputs. At the most crucial level, customer shopping behavior and expectations must be distilled into identifiable and differentiated customer targets. Ways of reaching these customers through visual themes and effective messaging must be understood. Delivering on various product gross margin targets requires constant monitoring. If there are serious concerns around protecting profitability, these margin targets may be fixed, although it is more likely that higher margins will be achieved through a flexible margin policy that is well executed. This still requires working within defined pricing strategies and product characteristics that align with overall brand and/or channel strategy. All these inputs will support sourcing choices as well as considerations such as space management for stores and inventory allocations for channels.

Consistently balancing these multiple inputs around the appropriate merchandising offer is complex. Without the right information support, the approach relies more on human intuition. While this may be successful, it misses the opportunity to optimize the offer. Ever since the efficient consumer response (ECR) and customer-centricity initiatives came into being, managing the supply chain efficiently against the various consumer demand drivers has become a key concern of Merchandising. The science to support business optimization relies on information sweet spots to target the consumer in the most profitable manner using the various tools available to Merchandising. Today, success is increasingly decided in the detail, with Merchandising relying on these inputs to generate higher value to the business.

Barrier 2: ***Merchandising lacks the integrated business process information needed to develop a comprehensive and targeted approach***

Merchandising decisions affect and rely on Marketing, Finance, Customer, Stores and Channels, and other functional departments. Without appropriate visibility, departmental barriers may get in the way and stymie the merchandising process. By adhering to a single set of business goals and financial drivers and monitoring performance, combined with appropriate accountability, you can improve the process from strategy definition to alignment on priorities to engaging Finance, so the value drivers are understood and considered in any forecast.

Barrier 3: ***Inability to identify, measure and analyze the drivers of Merchandising success***

Retailers typically define success by sales or profit growth within a given time period. Measuring financial performance—sales, markdowns, costs, margins and turns—is vital, but interpreting only these metrics may lead to missed opportunities. It is important to measure the drivers that impact *these same sales and profits. From a Merchandising perspective, does allocating more shelf space or improving displays lead to higher sales, margins or cross-selling? How do color and size profiles vary across channels and regions, and what is the impact on lost sales?*

Merchandising depends on timely action. The sooner you know, the better. These metrics should let you know when to take action to protect profits. For example, quickly identifying slower moving goods enables merchants to implement a smaller early markdown or cancel merchandise on order. Accurate and insightful information on trends and performance are more important than perfection and indecision. Managing risk is part of the merchandising process, and may actually assist in understanding trends, drivers and their impact on the top and bottom line. Failures, when quickly discovered and corrective action is taken, can generate learnings and become stepping stones to success. Merchandising should look to understand what drives success and failure.

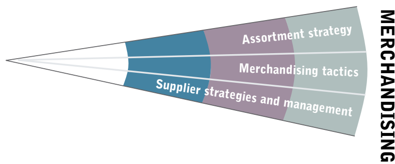
No amount of planning guarantees success. Making the "go or no go" decision requires information sweet spots to allow the business to decide how to resolve the issue through more resources, new offerings or pricing—while minimizing lost revenue, profit erosion or lost competitive advantage.

From a "Black Art" to a Consistent and Targeted Process

Merchandising combines many cross-functional requirements, distils various inputs, identifies trends, balances risk and learns from failures, such that it can define and implement a Merchandising proposition that customers respond to. Accurate information is a key enabler of this process.

Merchandising combines three key decision areas with associated information sweet spots:

- **Assortment strategy** ➔ What are the right products, presented in the right way, that meet customer demand?
- **Merchandising tactics** ➔ What is the right way to position, present and adjust your merchandise offering, and what is the impact of these tactics?
- **Supplier strategies and management** ➔ How do you align your retail strategy with suppliers, and how are expectations managed



Assortment Strategy

Assortment strategy is a critical decision area that correctly interprets the retail strategy and translates this into a proposition that meets customer demand. The right products are given the right profile in terms of a broad or deep assortment and are customized or localized for channels and store profiles, clusters or regions to entice the right customer in the right way. Traditionally specialty stores or category killers offer depth, while discounters, superstores and club stores offer breadth. *What is the ideal product range and selection choice for targeted customers? How does this approach impact your stock requirements?*

GOALS	METRICS	DIMENSIONS
Cost of Goods ($/%)	Sales ($/%)	Fiscal Period
GMROI ($/%) (Gross Margin Return On Inventory Investment)	Product Cost Increase ($/%)	Year
CMROI ($/%) (Contribution Margin Return On Inventory Investment)	Gross Profit ($/%)	Quarter
	Contribution Margin ($/%)	Month
	Inventory ($)	Week
	Inventory Days (#)	Organization
	Inventory Days Cover (#)	Division
	Aging Inventory Days (#)	Channel
	In-stock Positions (#)	Store
	Out-of-stock Positions (#)	Department
	Sales by Price Point ($/%)	Organization Code
	Price Adjustments ($/#)	Region
	New Product Sales ($/%)	Region
	Category Sales ($/%)	Territory
	Assortment Size (#)	Locality
	Own Brand SKUs (#)	Product Hierarchy
	Shrinkage ($/%)	Product Category
	Rebates ($/%)	Product Group
	Products on Promotion ($/#)	Product Line
	Supplier Performance Score (#)	Supplier/Vendor
	Supplier Delivery Lead Days (#)	Vendor/Merchant
		Supplier/Manufacturer
		Price Tier

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Merchandising				
	Executives	•		
	Professionals	•		
Store/Channel				
	Executives			•
	Professionals		•	
Marketing				
	Executives			•
	Professionals		•	
Customer Service				
	Executives			•
	Professionals		•	
Supply Chain				
	Executives			•
	Professionals		•	
Finance				
	Executives			•
	Professionals		•	

Decisions regarding the merchandise quantities and types of inventory needed across these same assortment profiles will also be evaluated. A well executed assortment strategy will increase sales, stock turn and profits. You should be able to quantify how the various buy units impact financial performance and ensure that these same units easily move along the supply chain. This is a just-in-time process where the stock-keeping unit (SKU) arrives at the right time at the various supply stages and with a timely shipment to the store. The balance between meeting the customer demand in a timely manner without over-stocking or out-of-stock situations is finely tuned. Seasonality will be considered, along with how quickly the suppliers can respond to new trends. The faster a retailer can identify and adjust to changing customer demand with a "new" and "right" proposition, the higher the financial reward.

Merchandising Tactics

This decision area is concerned with the tactical implementation of any assortment strategy. *What are the channel, space and presentation implications for a given product range or category? How do these align with the pricing and promotional strategies? Are the on-line and in-store displays communicating effectively the customer proposition? Is a store remodel, re-prioritizing the environment or visual cues of certain assortments needed—where, how, why? How are various price points managed and displayed in practice?*

GOALS	METRICS		DIMENSIONS
Merchandising Cost ($)	Sales ($)	Outlets (#)	Fiscal Month
Merchandising Effectiveness Score (#)	Unit Sales (#)	Number of Product Price (#/$)	Year
Transaction Value ($)	Traffic (#)	Average Price ($)	Quarter
	Transactions (#)	Average Market Price ($)	Month
	Markdowns ($/%)	Price Change ($)	Week
	Visual Displays (#)	Price Point Erosion ($)	Organization
	Space Allocations (#)	Promotions (#)	Division
	Placements (#)	Promotions ROI ($/%)	Channel
	Sales per sq. foot/meter ($)	Store Development Initiatives (#)	Store
	Selling Space (sq. feet/meter)	Store Upgrades ($/#)	Department
	Profit per sq. foot/meter ($)	Square feet/meter per Outlet (#)	Org. Code
	Changes in Visual Merchandising (#)		Region
	Changes in Space Allocation		Region
	Merchandising Activities (#)		Territory
	Merchandising Activities per Outlet (#)		Locality
			Product Hierarchy
			Product Category
			Product Group
			Product Line
			Price Tier
			Placement Type
			Merchandising Type

FUNCTION	DECISION ROLES	PRIMARY ROLE	CONTRIBUTORY	STATUS
Merchandising	Executives	•		
	Professionals	•		
Store/Channel	Executives			•
	Professionals		•	
Marketing	Executives			•
	Professionals		•	
Customer Service	Executives			•
	Professionals		•	
Supply Chain	Executives			•
	Professionals		•	
Finance	Executives			•
	Professionals		•	

The practical execution of what needs to occur in-store is directly linked to the goal of generating increases in average transaction values and visit frequency. Augmentation opportunities to increase the customer spending within a category or potentially cross-category will be considered. By placing appropriate merchandise at the appropriate location with the right visual information, retailers will look to maximize customer spend profiles. Service requirements and space options will also be assessed to support these goals.

Understanding the impact of various merchandising activities is an important success factor. Successful retailers measure and monitor what works and use these insights to re-assess future merchandising tactics—ending the disconnect between corporate strategy and field execution.

Supplier Strategies and Management

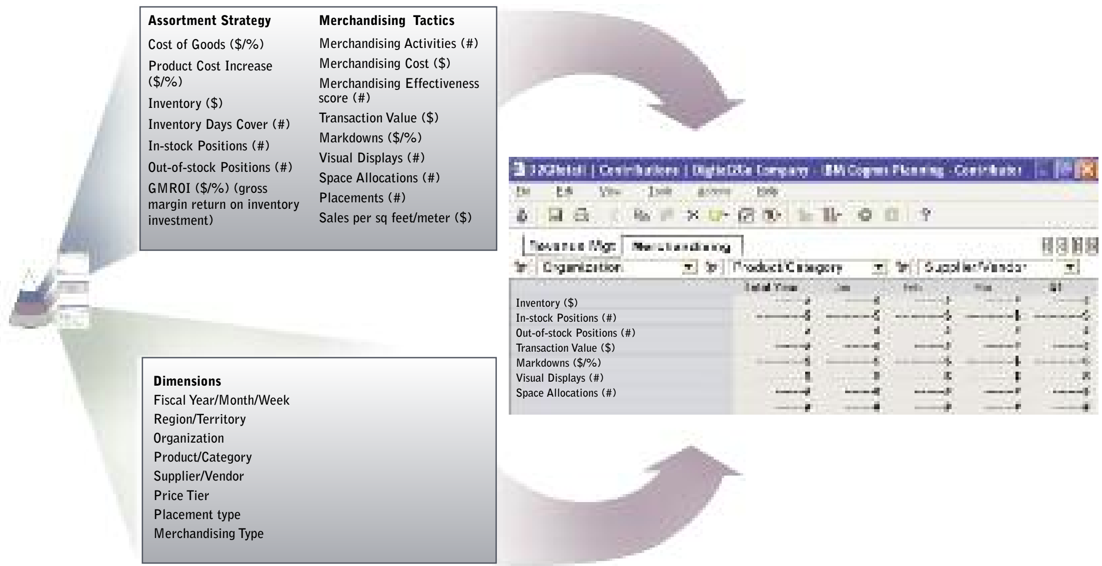
Channel, store profile and assortment strategy will influence the approach and balance of this decision area, and the types of suppliers selected—local, national or international. Off-shore sourced merchandise will carry certain increased risks, such as political risks, and the continuity and consistency of supply will need to be managed closely. *What is the nature of your supplier relationships? How do these suppliers meet or satisfy your customer needs? Is the focus on centralized control or a more partner-based strategy to encourage creative supplier input and innovation?*

GOALS	METRICS	DIMENSIONS
Unit Cost ($)	Sales Growth ($/%)	Fiscal Month
Change in Unit Costs (%)	GMROI ($/%) (Gross Margin Return On Inventory Investment)	Year
Supplier Performance Rating (#)	CMROI ($/%) (Contribution Margin Return On Inventory Investment)	Quarter
	Quality Performance Score (#)	Month
	Supplier Initiative Score (#)	Week
	New Product Initiatives ($/#)	Organization
	Supplier Preference Score (#)	Division
	Claims ($/#)	Channel
	Inventory ($)	Store
	Inventory Turns (#)	Region
	Aged Inventory Days (#)	Region
	Local Supply ($/%)	Territory
	National Supply ($/%)	Locality
	International Supply ($/%)	Product Hierarchy
	Supplier Discount ($)	Product Category
	Supplier Discount (%)	Product Group
		Product Line
		Supplier/Vendor
		Vendor/Merchant
		Supplier/Manufacturer
		Price Tier

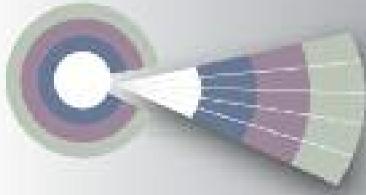
FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Merchandising	Executives	•		
	Professionals	•		
Supply Chain	Executives		•	
	Professionals	•		
Store/Channel	Executives			•
	Professionals		•	
Marketing	Executives			•
	Professionals		•	
Customer Service	Executives			•
	Professionals		•	
Finance	Executives			•
	Professionals		•	

A critical requirement is to manage costs (price/margins), stock and lead time, or delivery expectations, but other considerations such as quality performance, product exclusivity, innovation and customization, and availability may also be defined in your supplier strategy. Supplier performance across the whole supply chain will be part of the scoring that will benchmark and influence the negotiation of future relationship expectations. Other issues include overall reputation, competency and ability to deliver on specific requirements, such as private label.

Beyond the "control" side of the relationship, the retailer will be looking for expert advice and creative suggestion of how to differentiate the value proposition. Suppliers bring another dimension or market knowledge and competitive comparisons to merchandise managers, providing market trends or related feedback from a different perspective, which can help in positioning or repositioning the retail strategy.



The Assortment Strategy and Merchandising Tactics decision areas illustrate how the Merchandising function can monitor its performance, allocate resources and set plans for future financial and operational targets.



Winning at the Margins

"A man who does not think and plan long ahead will find trouble right at his door."
Confucius

Supply Chain, Sourcing and Distribution is the delivery mechanism of the retail business: providing both what the business sources and how that product gets to market. It is a supply engine driving the work in buying, distribution, logistics and inventory management. That engine depends on input from the other functions of the business—Stores and Channels, Marketing, Customer Service, Merchandising and Finance.

Of all departments, Supply Chain, Sourcing and Distribution has dealt the longest with the competitive situation described in Tom Friedman's book *The World Is Flat*. Offshore and outsourced production, technology-enabled process excellence and supply chain integration are part of the relentless drive for lower costs. After more than a decade of investment and continuous improvement initiatives, many retailers and brands have achieved what major cost savings are possible. Managing and winning at the margins is the new competitive arena.

Winning at the margins has led most retailers to take performance monitoring seriously. Dashboards, scorecards and key performance indicators (KPIs) are increasingly being used to quickly identify problems and profit gaps, although the practical implementation is often more difficult than the theory. Three critical barriers prevent Supply Chain, Sourcing and Distribution from working these margins to deliver the best possible performance.

Barrier 1: ***The supply chain is not "in-time" nor flexible without a synchronized link to customer demand***

Supply Chain, Sourcing and Distribution depends on accurate and constantly updated information on what is required by channels and customers. If you don't have accurate information matching demand and supply requirements for given product stock-keeping units (SKUs), you stand to lose sales and profit opportunities as well as risk disappointing shoppers. With better information, flexibility and plans, you avoid or minimize bottlenecks, over-stocks and stock-outs due to

unforeseen changes in customer demand. This just-in-time response relies on fast information feedback along the supply chain, where every supply step is finely balanced to avoid unnecessary wait times. Higher wait times increase inventory needs and therefore working capital requirements. By synchronizing the flow within the chain of events from sourcing, logistics, warehousing and storage, distribution and so on, cycle times are reduced.

Reduced cycle times translate into profit efficiency gains from incremental sales, cost savings, cash flow and working capital efficiencies due to reduced inventory requirements and carrying costs.

Barrier 2: ***Supply process bottlenecks and downtime***

The supply chain continuously competes against time. Can this process be faster? Can supply steps and processes be re-engineered and simplified to gain time? The more steps between start and finish, the more bottlenecks and downtime risk may be hidden in them. The time to complete a series of process tasks is inflated by waiting periods. For a given product, how long does it take between sourcing and actual delivery and on-shelf availability? How does this compare to the competition? Where and what types of improvements are possible to reduce this time related process?

You must identify and eliminate predictable process time-wasters. While many solutions may be internal—such as work flow innovation, changes in equipment or upgrades to IT infrastructure—you may decide your business is better served by outsourcing to a specialist with technical and scale advantages.

Information sweet spots help generate continuous intelligence loops on the real cost of bottlenecks and downtime, showing you the benefits of increased automation or specialization.

Barrier 3: ***Across the organization, cost averages disguise cost reality***

Across the supply chain, within channels and throughout in-store and related overheads, what is the true margin and profit relationship of your suppliers? While buying or gross margins may be well understood and monitored, how do unallocated costs impact profitability? Fully allocated costs may impact the true margin picture and therefore also the priorities of the business.

By breaking down processes into discrete activities and measuring them with accurate activity indicators, you can achieve real-time costing. The best indicators will vary with the situation. Some will be based on labor time used in an activity. Others may directly measure costs such as mileage and transportation costs, or measure activity drivers such as the number of imperfect orders. The more detailed this activity breakdown, the more accurate your understanding of actual costs. Relating these direct costs to allocatable overheads brings in further insight. For example, in-store shelf space carries a certain cost that can be added, generating a product margin per square foot (or square meter) perspective. These direct product profitability (DPP) insights offer genuine transparency for a more accurate fine-tuning of operations. Understanding and analyzing the

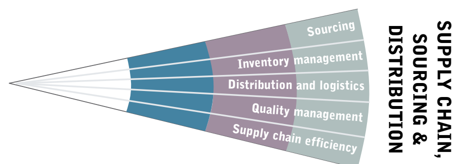
information sweet spots lets the retailer identify process patterns and suggest cost savings. Suppliers also can be encouraged to make certain performance improvements that improve process efficiency and reduce cost, in areas such as electronic Advance Shipping Notices (ASN) timeliness, fill rates, perfect orders and so on.

Understanding the value of the potential cost saving helps focus the effort and ROI priorities. The business can now evaluate product and supplier priorities from a true profitability perspective. Information sweet spots that let you understand what drives the larger cost categories will have an immediate and sizeable impact on managing actual costs.

Delivering on the Promise Made to the Customer

For Supply Chain, Sourcing and Distribution to win at the margins, every day and every shift must balance the need to reduce costs while staying agile enough to respond to new customer demands. Retail operations have the responsibility to lead six core areas of the company's decision-making:

- **Sourcing ➔** Ensuring timely and cost-effective development of needed merchandise
- **Inventory management ➔** Understanding the balance between inventory on-hand and delivering on customer service requirements
- **Distribution and logistics ➔** Achieving efficient distribution and delivery
- **Quality management ➔** Balancing the need to manage costs with the equal requirement to deliver quality
- **Supply chain efficiency ➔** Designing a process to monitor and analyze performance benchmarks to find opportunities for greater efficiency



Sourcing

The sourcing decision area monitors supplier performance benchmarks and manages supply requirements. Supplier compliance along given performance expectations are often scored for use in ongoing supplier evaluations. Perfect orders scores, delivery consistency, responsiveness and quality ratings are compared across the supplier base. These are not only cost and efficiency issues, but increasingly community and compliance concerns. Today retailers are concerned with being seen as "green" and "earth-friendly." Setting a compliance expectation around recycling, carbon "footprint," organic materials or sweatshop sourcing standards is seen as an integral part of creating the right image and retail brand equity.

GOALS	METRICS	DIMENSIONS
Supplier Performance Rating (#) Shipping Performance Score (#) Lead Time (#)	Quality Performance Score (#) Responsiveness Rating (#) Supplier Claims ($/%) Unit Costs ($) Contract Quantity (#) Contract Remaining (#) Credit Rating (#) Average Order Size ($) Min Order Size ($) Perfect Orders (#) Late Deliveries (#)	Fiscal Month Year Quarter Month Week Organization Division Channel Store Product Hierarchy Product Category Product Group Product Line Supplier/Vendor Vendor/Merchant Supplier/Manufacturer

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Sourcing				
	Executives	•		
	Professionals	•		
Supply Chain				
	Executives	•		
	Professionals	•		
Store/Channel				
	Professionals		•	
Marketing				
	Professionals		•	
Finance				
	Executives			•
	Professionals		•	
Distribution				
	Executives			•
	Professionals		•	
Audit				
	Executives			•

Merchandise that arrives late can lead to stock-outs, and merchandise arriving too early causes unnecessary inventory build-up. Managers must be able to plan flexibly the sourcing of products with an open order book to align with customer demand. Your decisions must include how to respond to shortage problems, price increases and delivery delays. For example, you must decide whether to tie up cash in inventory to buffer against problems in delivery. Longer term decisions include determining how to balance the savings and/or better quality from exclusive supplier agreements against the risk of creating unacceptable dependencies. These decisions require information on specifications, procurement tenders, price quotations and vendor performance assessments. You cannot make the necessary sourcing trade-offs without access to information sweet spots and collaboration with suppliers. The better you understand the trade-offs, the more finely tuned your ability to win at the margins.

Inventory Management

Shipping and shifting products to meet customer demand and fill channel or store orders is the concern of the inventory management decision area. Balancing store and channel requirements, speed of order fulfillment and the volume of buffer stock you need to hold is key. The principle of holding buffer inventory is simple—but the larger your product range, the greater the complications. If a retail business has 100 stores and 10,000 items or SKUs, there are 1 million possible store and product combinations to monitor and serve effectively. The fact that buffer stock ties up cash compounds the urgency of decisions. For every week of buffer inventory, 2 percent of annual buying cost is being financed with working capital. But inventory management must also determine the financial and customer consequences of removing buffer stock from inventory. Tying up 40 percent of your inventory with slow-moving or rarely ordered products makes no sense.

Understanding the full implications of these decisions requires access to information sweet spots. In the example above, it means knowing the total annual sales and profit contribution of each of the 10,000 SKUs. Most will earn less than one percent of total margin. *Which ones? Of these, how many go to your target customer segments, and are they seen as critical for the assortment strategy? What is the financial impact of reducing the number of SKUs or limiting them to specific channels?* Even if significant savings will result from a SKU rationalization process, you must align the decision with input from other functions such as Marketing, Customer Service, Merchandising and Finance. *How should you handle the communication of discontinued products, and what measures are taken if key customers complain?*

GOALS	METRICS	DIMENSIONS
Inventory ($)	Inventory Turns (#)	Fiscal Month
Inventory/Days (%)	Product SKUs (#)	Year
Inventory Costs ($)	Warehouse Capacity (%)	Quarter
	Warehouses (#)	Month
	Time Since Last Order (#)	Week
	Store Deliveries On Time (%)	Organization
	Change in Inventory Costs ($/%)	Division
	Late Deliveries (#/%)	Channel
	Delivery Time (#)	Store
	Product SKU Order Frequency (#)	Product Hierarchy
	Aging Inventory Days (#)	Product Category
	Stock-outs (#)	Product Group
		Product Line
		Supplier/Vendor
		Vendor/Merchant
		Supplier/Manufacturer
		Shipment Type/Bill of Lading (#)
		Shipment Type
		Shipment Bill of Lading (#)
		Warehouse
		Region
		District
		Warehouse

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Inventory				
	Executives	•		
	Professionals	•		
Supply Chain				
	Executives	•		
	Professionals	•		
Audit				
	Executives			•
	Professionals	•		
Distribution				
	Executives			•
	Professionals		•	
Finance				
	Executives			•
	Professionals		•	
Purchasing				
	Executives			•
	Professionals		•	
Store/Channel				
	Professionals		•	

Distribution and Logistics

This decision area includes managing quality, cost and timeliness of distribution and delivery. Short-term issues require the handling of store orders and shipping using the most efficient routing, scheduling and equipment. Long-term issues require determining whether you can reduce mileage costs, improve delivery execution and ideally exceed service needs for all channels. The operational infrastructure to distribute and deliver is intricate and costly. Many retailers work with third-party carriers, distributors, or wholesalers for their expertise or relationship with suppliers. Distributors specialize in particular channels, routes and/or territories, and can distribute more quickly and efficiently than most suppliers. Strategically placed supplier and distributor warehouses can be an advantage to, and extension of, your own warehouses.

GOALS	METRICS	DIMENSIONS	
Store deliveries on time (%)	Damaged Units (%)	Fiscal Month	Supplier/Vendor
[illegible] Cost ($)	Damaged Units ($)	Year	Vendor/Merchant
Cost per mile ($)	Deliveries (#)	Quarter	Supplier/Manufacturer
	Units Delivered On Time (#)	Month	Carrier/Distributor
	Insurance Cost ($)	Week	Distributor/Carrier
	Late Days (#)	Organization	Type
	Order Size ($/#)	Division	Carrier
	Shipments On Time (#)	Channel	Carrier Region
	Total Shipments (#)	Store	Region
	Units Shipped (#)	Product Hierarchy	State/Province
	Failed Orders (#)	Product Category	County
	Late Deliveries (#)	Product Group	Zip Code/Postal Code
	Carrier Performance Scoring (#)	Product Line	Shipment Type/BOL (#)
			Shipment Type
			Shipment BOL (#)

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Distribution				
	Executives	•		
	Professionals	•		
Logistics				
	Executives	•		
	Professionals	•		
Supply Chain				
	Executives		•	
	Professionals	•		
Purchasing				
	Professionals		•	
Store/Channel				
	Professionals		•	
Inventory				
	Professionals		•	
Finance				
	Executives			•
Audit				
	Executives			•

While outsourcing makes sense on many levels, it does mean you lose direct control and have to accept the risks that come with loss of control. Managing such risks requires negotiating and monitoring distributor agreements with clear terms and commercial guidelines. Identifying, managing and evaluating the most effective distribution and logistics routes for your stores draws on the following information sweet spots:

- **Order processing ➔** Editing, recording, stock allocation, vehicle route, delivery sequence, store and direct-to-customer delivery requests
- **Handling characteristics ➔** Ease of handling and stacking, susceptibility to damage, special requirements (e.g., temperature)
- **Packaging ➔** Duration and type of journey, security, insurance
- **Routing and scheduling ➔** Order size, transport capacity, destination network, delivery frequency

Quality Management

In quality management, you balance costs against quality standards. What type of storage or warehousing infrastructure is needed to deliver the type of quality that customers expect? With fresh food or other perishables, the science of storage quality and storage life needs to be finely tuned and monitored. Environmental, security and access concerns are all part of the quality management process. What is the optimum specification that balances all the various requirements? How about the economics? Having too many warehouses and delivery depots is uneconomical, while too few may lead to underperformance in store delivery. In another example, the buying function may find a new, lower cost supplier, but quality management must evaluate the quality risks associated with such a potential switch.

GOALS	METRICS	DIMENSIONS	
[illegible]	[illegible]	Time: [illegible]	[illegible]
Returns [illegible]	Quality Issues [illegible]	Year	[illegible]
Quality Score (#)	Quality Test Costs [illegible]	Quarter	[illegible]
	[illegible]	[illegible]	QC [illegible]
	[illegible]	Week	QC Defect Issues
	Shrinkage [illegible]	Organization	QC Tolerance Standards
	Performance Scores [illegible]	[illegible]	QC [illegible]
	Issues Count [illegible]	Channel	Performance Issue Type
		Store	
		Product Hierarchy	
		Product Category	
		Product Group	
		Product Line	
		[illegible]	
		[illegible]	
		[illegible]	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Quality Management	Executives	•		
	Professionals	•		
Supply Chain	Executives	•		
	Professionals	•		
Audit	Executives			•
	Professionals	•		
Purchasing	Executives			•
	Professionals		•	
Inventory	Professionals		•	
Distribution	Professionals		•	
Logistics	Professionals		•	
Store/Channel	Executives			•
	Professionals		•	
Finance	Executives			•
Merchandising	Executives			•

You also need to understand and analyze the value and cost of preventative measures that ensure quality such as training, appraising incoming merchandise, supply chain processes and inspections. *How much of this responsibility can be placed on suppliers versus internal quality assurance procedures? How do you measure product quality under- or overperformance?* Measuring and monitoring must also be integrated with quality expectations to understand the effect of changes.

Supply Chain Efficiency

Supply chain efficiency management looks at ways to improve operations and supply chain. This means looking for performance outliers and understanding why they occur. There are three areas where well designed, comparative performance metrics can make the difference between a follower and a leader:

- Internal operational processes
- External developments and trends
- Competitive benchmarking

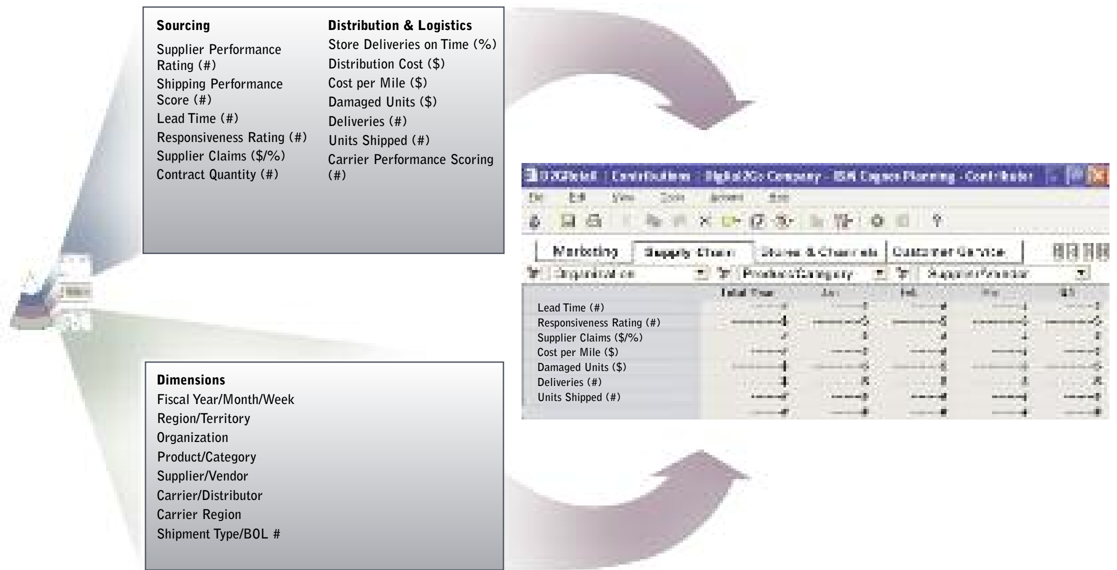
GOALS	METRICS	DIMENSIONS	
Supply Chain Failures (#)	Avg Cost per Mile ($)	Fiscal Period	Product Hierarchy
Supply Chain Cost ($/%)	Min Cost per Mile ($)	Year	Product Category
Costs per Shipment ($)	Max Cost per Mile ($)	Quarter	Product Group
	Failed Shipments (#)	Month	Product Line
	Stock-outs (#)	Week	Production Process
	Late Deliveries (#)	Organization	Work Function
	Supply Chain Savings ($)	Division	Supply Chain Step
	Supply Chain Initiatives (#)	Channel	Initiative Type
	Time to Market (#)	Store	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Supply Chain				
	Executives	•		
	Professionals	•		
Distribution				
	Executives		•	
	Professionals	•		
Logistics				
	Executives		•	
	Professionals	•		
Purchasing				
	Executives			•
	Professionals		•	
Inventory				
	Professionals		•	
Store/Channel				
	Executives			•
	Professionals		•	
IT/Systems				
	Executives			•
	Professionals		•	
Finance				
	Executives			•
Merchandising				
	Executives			•

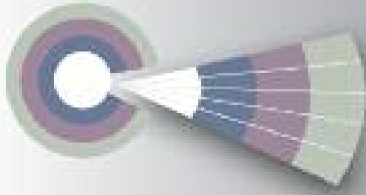
Your internal operational processes are most familiar to you, and the easiest to analyze. For example, by looking at supply chain cost per order value as a benchmark, an unusual increase in this index may indicate two things: Either these costs have increased, or order values have decreased. You must determine whether supply chain efficiency has gone down, or if sales have slumped. Alternatively, from a home delivery and last-mile perspective, costs per order may be too high, yet a necessity from a competitive customer service perspective. In effect, the service strategy requires that this cost be subsidized by the retailer.

Taking advantage of external developments and trends requires re-assessing suppliers, not only from a buying cost perspective, but also in terms of how this impacts the supply chain. *By shifting to a low-labor-cost supplier for cheaper merchandise, what does this do to shipping costs, supply chain efficiency and customer satisfaction? In general, how do cost savings affect the supply chain? For example, do third-party cost savings come at the expense of supply chain efficiencies?*

Failing to follow up on these external efficiency developments may jeopardize your competitive position. Beyond this focus, many leading businesses extend their monitoring activities to their competitors. Simple comparative benchmarks such as sales per employee, sales per store, sales per square foot, average transaction size by channel, inventory levels, number of warehouses and others will help identify performance differences. With these identified, you can determine the actions you need to take.



The Sourcing and Distribution and Logistics decision areas illustrate how the Supply Chain function can monitor its performance, allocate resources and set plans for future financial and operational targets.



Management or Administration of Human Capital?

> *"Did you realize that approximately 42% of the average company's intellectual capital exists only within its employees' heads?"*
> Thomas Brailsford

Your people interact with your customers to generate revenue. They introduce the small and significant innovations that move your business forward. They set the strategic direction for your organization and then put those strategies into operation. Human capital is your most valuable asset.

It is also typically *undervalued*.

Helping the organization recognize human capital as a valuable asset and competitive differentiator—not just a large controllable cost to operations—is the strategic role of Human Resources.

Human Resources, as well as all managers across the enterprise, must demonstrate positive ROI from human capital investments. Human Resources guides the alignment of employee roles, job functions, talent and individual performance with business results and goals. It finds, engages, assesses, develops and retains the talent that drives the business. It manages administrative requirements such as payroll, benefits, the recruitment process, policy standards and holiday and sick leave tracking. Human Resources also acts on behalf of employees, and in this respect is the conscience of the organization.

Three critical barriers prevent Human Resources from fulfilling its strategic role and hamper it tactically.

Barrier 1: ***Lack of information in defining and selling the role and business value of Human Resources***

Senior management expects every business unit to generate reports and analyses that measure performance against plan. Human Resources is no different. Research suggests that better human capital practices lead to higher financial returns and have a direct impact on share price. Investors, for example, scrutinize headcount and salary or wage ratios such as labor as a percentage of sales. Historically, however, Human Resources has focused more on managing administrative requirements than on communicating—and selling—the business value of human capital management.

While managing administrative requirements is essential, there are other critical strategic aspects of managing human capital. Fulfilling them requires that Human Resources understands the strategic objectives of the business, translates these into job skill requirements and individual capabilities, and designs an appropriate performance tracking process. Human Resources should first assign a value to each human capital asset and, by communicating this value, underline the importance of managing its performance.

Base salary expenses +
Recruiting expenses +
Transfer expenses +
Training expenses +
Bonus and/or incentive expenses +
Stock option grant value (estimate) =

Human capital asset investment

Tracking these factors allows Human Resources to better manage human capital assets by asking the following questions. *What is the quality and value of the employee/employer relationship? What are the training and development needs? How should we provide incentives and motivation for employees?* Answers may come from reports on staff turnover, high-performer retention rates, headcount growth, role definitions, position-level profiles, job productivity and individual performance monitoring.

Assessing comparative productivity ratios such as revenue to headcount also helps manage resource requirements, both short term and long term. These information sweet spots demonstrate the asset's strategic business value to the organization. Lack of such information impairs Human Resources' ability to fulfill its strategic role.

Barrier 2: ***Lack of visible and consistent Human Resources practices***

The credibility and business value of Human Resources is often compromised by a lack of consistency in decisions and by insufficient information. This allows an "informal network" to bias the selection and promotion of employees. As a strategic partner in the business, Human Resources should understand and define the factors defining success for employees. In retail especially, the business depends on thousands of store-level and distribution associates in distributed locations serving customers and colleagues. *What constitutes good performance by employees? How are employee initiatives considered and encouraged?* Human Resources can institute practices that guide employees toward consistent and measurable performance milestones, creating a structured process.

Implementing visible and consistent practices requires quality information. You will not achieve the consistency you need if policy documents, performance reviews, career objectives and compensation assessments are not combined and positioned within a larger structure. Consistency requires a well defined and structured process shared across the organization.

You also need a clearly defined process for collecting Human Resources information. *How should this data be stored and retrieved? Can this mostly qualitative information be analyzed usefully, and synthesized into a metric framework?* With such a synthesis, Human Resources gains the ability to compare and contrast different performance drivers.

Identifying, managing and retaining talented individuals is a key competitive requirement, and consistent information and management practices allow you to achieve this.

Barrier 3: ***Human Resources has a natural ally in IT but is not fully leveraging this asset***

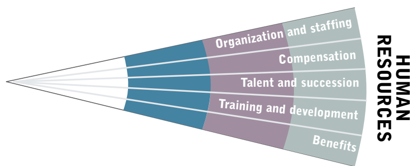
Both Human Resources and IT strive to position themselves within an organization as driving business value instead of expense. They can be seen as two sides of the same coin.

Human Resources is responsible for job design and ensuring that the right skills and competencies are developed or acquired to fill these jobs. In turn, performance in these jobs is defined and measured against goals and objectives. In this sense, Human Resources' information needs to mirror the performance to be monitored, analyzed and planned for in a given job. IT must understand a user's responsibilities in order to include that user in planning where functionality is deployed. Both Human Resources and IT must understand how software tools and skills drive greater productivity. As performance management information becomes more consistent and reliable, it will also enhance the performance and compensation process for which Human Resources is responsible.

Earning a Place at the Executive Table

Human Resources decision areas:

- **Organization and staffing** ➔ What job functions, positions, roles and capabilities are required to drive the business forward?
- **Compensation** ➔ How should we reward our employees to retain and motivate them for full performance?
- **Talent and succession** ➔ What are the talent and succession gaps we must address to ensure sustained high performance?
- **Training and development** ➔ What training and development do we need to maximize employee performance, how do we execute this across the chain, and how do we measure payback?
- **Benefits** ➔ How do we manage costs and incentives?



Organization and Staffing

In a human capital discussion, first define the organization's requirements. What are the job functions, positions, roles and capabilities required to drive the business forward? The organization chart becomes a road map highlighting staffing needs and the necessary hierarchy. From this road map, Human Resources further refines the role, position and skill requirements needed to accurately evaluate candidates and current employees.

Organization and staffing analysis is a core Human Resources role. Typically, companies align staffing reports with information about position planning, staffing mix and staffing transaction activities (new hires, transfers, retirements, terminations, etc.). Analyzing this data helps the company monitor policy standards and legal requirements. Human Resources must track issues such as employee turnover, overtime, absenteeism, payroll, taxes, termination and retirement to ensure they are managed correctly.

In addition, when senior management discusses strategy and corporate goals, there are typically accompanying reports that show headcount by division/department/store, turnover rates, loss trends and high-level project status. These reports help ensure resources are aligned with the global priorities of the retail business.

GOALS	METRICS	DIMENSIONS	
Avg. Tenure (#)	[illegible] Days (#)	Employee Decision Role	Job Types
Employee Turnover (%)	Applications per Vacancy (#)	Work Function	Job Type
Headcount (#)	Avg. Age (#)	Decision Role	Job
	New Hires (#)	Employee	Organization
	Open Position Count (#)	Full-Time/Part-Time	Division
	Rejected Job Offers (#)	Employee Name	Channel
	Retirements (#)	Fiscal Month	Store
	Sick Leave Days (#)	Year	Department
	Terminations (#)	Quarter	Org. Code
	Transfers (#)	Month	Plan/Actual Scenario
	Work Function Count (#)	Week	Scenario
	Work Time Actual Hrs. (#)	Job Grade Level	
		Job Level	
		Job Name	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTING?	STATUS
Human Resources				
	Executives	•		
	Professionals	•		
Store/Channel				
	Executives	•		
	Professionals	•		
Marketing				
	Executives		•	
Finance				
	Executives		•	
	Professionals			•
IT/Systems				
	Executives		•	
Supply Chain				
	Executives		•	
Customer Service				
	Executives		•	
Merchandising				
	Executives		•	
Audit				
	Professionals			•

Compensation

Compensation review examines salary costs—existing and planned—across the workforce, as well as how these costs are reflected at the departmental, regional and location level. This decision area defines how you need to reward your employees to retain them and motivate them for the best possible performance. Functional profiles on base pay, merit increases, commissions, promotions and incentives help you decide the total compensation strategy and individual employee compensation. With this complexity comes the need for systematic methods for identifying and analyzing pay increases, bonuses and incentive awards. Many organizations now require that performance reviews are ongoing; tracking the review process is therefore a requirement. Plans and reports on the coverage, completeness and timeliness of the review process confirm your progress against rewards management, career planning and development targets.

GOALS	METRICS	DIMENSIONS	
Avg. Compensation Increase ($) Avg. Compensation Increase (%) Compensation Cost ($)	Actual Salary/Salary Range Mid-Point Avg. Base Compensation Increase ($) Bonus/Incentive Costs ($) Compensation Increases (#) Compensation Reviews (#) Employee Promotions (#) Employees (#) Base Salary ($) Performance Rating (#) Skills Rating Gap (%) Skills Rating Index (#)	Compensation Program Program Type Program Diversity Diversity Class Employee Employees Full-Time/Part-Time Employee Name Fiscal Month Year Quarter Month	Job Grade Level Job Level Job Name Job Types Job Type Job OT Eligibility Status Exempt/Non-Exempt Organization Division Channel Store Department Org. Code Work Function Work Function

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

Talent and Succession

An organization's talent and succession review lets management see how current and planned retail management skills and technical qualifications meet today's and tomorrow's requirements. Human Resources must understand both the skill gaps and talent risks within the organization and plan accordingly. Talent reviews let Human Resources assess recruiting, staff transfer and succession planning needs. Other data such as turnover analysis, average tenure, cross-training and time in position also help define development and succession plans.

GOALS	METRICS	DIMENSIONS	
Employee Satisfaction Index (#)	Avg. Tenure (years)	Core Competency	Job Types
Succession Gaps (#)	Retirements (#)	Skill Type	Job Type
Talent Gaps (#)	Terminations (#)	Skill	Job
	Avg. Performance Rating	Employees	Organization
	Avg. Skill/Experience Rating (Current)	Full-Time/Part-Time	Division
	Avg. Skill/Experience Rating (Target)	Employee Name	Channel
	Skills Rating Gap (%)	Fiscal Month	Store
	Skills Rating Index (#)	Year	Department
	Succession Employees (#)	Quarter	Org. Code
		Month	Work Function
		Job Grade Level	Work Function
		Job Level	
		Job Name	

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

Training and Development

When you've defined the organization's required skill sets (to match employee abilities with position descriptions), the next logical decision area is determining the training and development needs of those employees. This decision area lets you review employee competencies and understand the value of improving them. *How much development time and training cost is being invested, and is there visible evidence of the benefit?* With training and development analysis, Human Resources gains a systematic picture of all training investment, including on-going updates to support new initiatives.

GOALS	METRICS	DIMENSIONS	
Skills Rating Gap (%) Training and Development Cost ($) Training & Development Activity (#)	Training Cost/Payroll (%) Employees (#) Skills Rating Index (#) Training and Development Cost Change (%) Training Days (#) Training Events Completed (#) Training Events Planned (#)	Employee Decision Role Work Function Decision Role Employee Full-Time/Part-Time Employee Name Fiscal Month Year Quarter Month Job Grade Level Job Level Job Name	Job Types Job Type Job Organization Division Channel Store Department Org. Code Plan/Actual Scenario Scenario Training Course Type Course Work Function Work Function

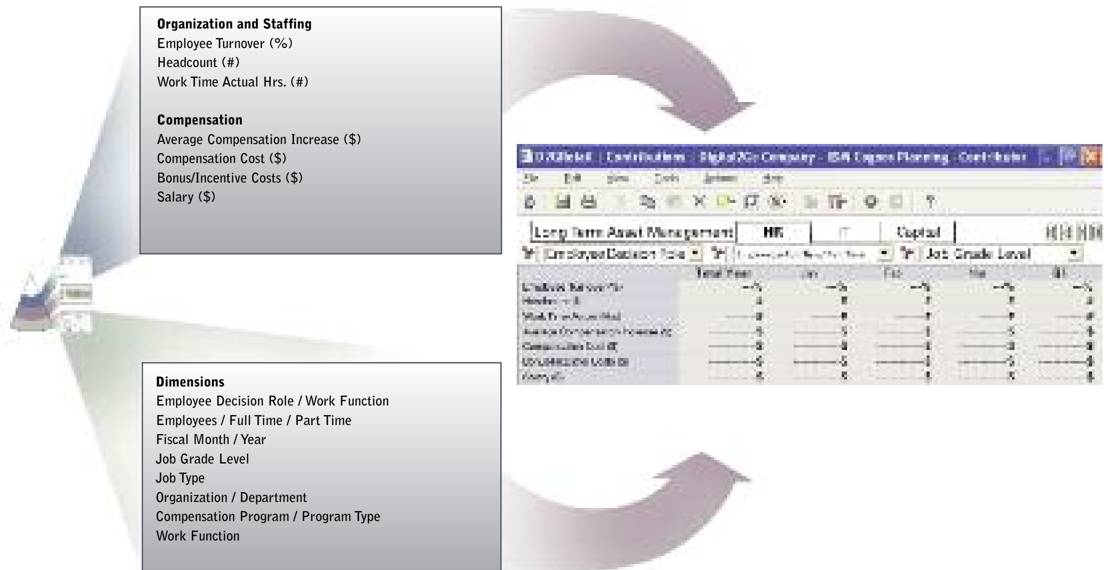
FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Human Resources				
	Executives	•		
	Professionals	•		
Store/Channel				
	Executives	•		
	Professionals	•		
Finance				
	Executives		•	
	Professionals			•
Marketing				
	Executives		•	
IT/Systems				
	Executives		•	
Supply Chain				
	Executives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

Benefits

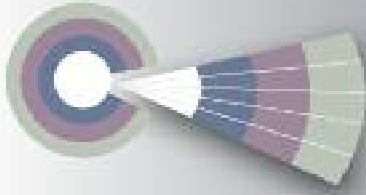
The benefits decision area lets you manage the costs of healthcare programs, savings and pension plans, stock purchase programs and other similar initiatives. It compares the business's benefits with those of the competition. Benchmarking benefits helps determine whether you are aligned with the marketplace. As well, because investors scrutinize benefits costs for risk and liability, understanding this area helps demonstrate your organization's management acumen.

GOALS	METRICS	DIMENSIONS
Benefit Cost Increase (%) Benefit Costs ($) Benefit Cost/Payroll (%)	Avg. Benefits per Employee ($) Benefit Market Comparison Index (#) Benefits Coverages Approved (#) Benefits Claimed (#) Benefits Claimed ($) Benefits Paid ($) Payroll ($) Qualified Benefits Cost ($) Employee enrollments (#)	Benefits Program - Program Type - Program Claim Type - Type - Identification # Employee - Full-Time/Part-Time - Employee Name Fiscal Month - Year - Quarter - Month Insurance Carrier - Distributor/Carrier Type - Carrier Insurance Coverage - Type - Coverage Job Grade Level - Job Level - Job Name Loss Control Program - Program Organization - Division - Channel - Store - Department - Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Human Resources				
	Executives	•		
	Professionals	•		
Audit				
	Executives			•
	Professionals	•		
Finance				
	Executives			•
	Professionals	•		
Store/Channel				
	Executives		•	
	Professionals		•	



The Organization and Staffing and Compensation decision areas illustrate how the Human Resources function can monitor its performance, allocate resources and set plans for future financial and operational targets.



A Pathfinder to Better Performance

> *"Our Age of Anxiety is, in great part, the result of trying to do today's jobs with yesterday's tools."*
> Marshall McLuhan

Information technology (IT) can be to the retail operation what high-tech firms have been to the economy—a catalyst for change and an engine driving rapid growth. Of course, the opposite is also true: IT failures can seriously harm the business.

Why? Technology and information have become so important to how companies operate that even small changes can dramatically affect many areas of the business. This reality is reflected in the amount of IT assets accumulated over years, to support key process areas of the business like merchandising and check-out. *How many of these assets are legacy or custom-designed systems that require costly support? What impact would the failure of key systems—POS, e-commerce, payment security—have on the business?*

Clearly, the stakes are high. And yet, IT is often seen as a simple support function or an expense ripe for outsourcing. It is rarely seen as an enabler or creative pathfinder for the business.

IT's daily pressures often derive from thankless, sometimes no-win tasks, such as ensuring core service levels of up-time, data quality, security and compliance. Beyond these basic operations—"keeping the lights on"—IT must also respond to the never-ending and always-changing needs of their business customers. The challenge of managing their expectations is intensified by the pressure to reduce costs, do more with less, deliver information quicker, reduce bottlenecks and even outsource major capabilities.

Companies often cite poor alignment of IT with other functions as the key challenge. IT, however, can be the pathfinder that helps the company discover a new way to drive value and maximize ROI and ROA. Unfortunately, the opportunity for IT to demonstrate this is often blocked by three common barriers.

Barrier 1: ***Effective alignment cannot succeed without a common language and unifying map***

IT must be well aligned with the business. Much has been written about processes for achieving greater alignment in IT decisions. These include:

- Securing senior executive sponsorship
- Implementing gating procedures and ROI justifications for project approvals
- Establishing steering committees and business partnering roles and responsibilities

However, for any of these processes to be successful, IT and the business users need to share a common language and unifying map and shared responsibility for implementations.

This is really about building a relevant business context for what IT can do. The language and map must reflect a fundamental understanding of what issues matter to the success of the chain. Then you can form a credible view on how IT capabilities can help. The map must show how IT capabilities fit among the business's other functions, processes, decisions and, most important, goals. It must show who benefits from these capabilities. And it must be able to communicate the strengths and weaknesses of these IT capabilities across a range of infrastructure, applications and information, as well as how to manage them. Think of it as a Google™ Earth tool for IT: Zoom in on business objectives and evaluate different technical options based on an understanding of detailed capabilities.

The common language and unifying map should include the fundamental anchors of metadata (such as store/channel, product, customer and time period) and standard business rules. Finally, it must also clarify and explain IT terminology. Nontechnical audiences should be able to understand the impact of IT in business terms and answer some fundamental questions, including:

- Where are we today, where do we want to be, and how can we get there?
- What business processes and strategic goals are being negatively affected?
- How could IT drive better business performance? Which users stand to benefit?
- How well do multiple, discrete IT assets combine to fulfill complex business performance requirements?
- What information do we need to drive better decision-making capabilities, in terms of content (measures and dimensions), business rules (metadata) and use (functionality)?
- What financial and human resources do we require to achieve goals?
- How should costs be aggregated and allocated to reflect actual use?
- What are the cost/benefit trade-offs between alternative technical options?

Barrier 2: ***The difficulty of developing more credible, closed-loop measurements of IT's value to the company***

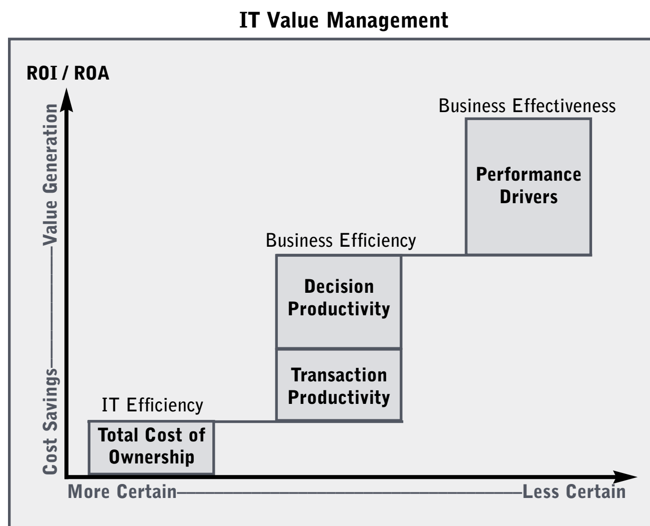
It is standard practice within most IT departments to evaluate the return on investment for projects and initiatives, and measure the cost/benefit of various IT capabilities. The challenge comes in developing a value measurement system that:

- Is credible with executives, Finance and users across the company
- Provides insight into cause-and-effect drivers
- Goes beyond point measurement to reflect the entire chain
- Is consistent across projects, departments, divisions and business units
- Provides a closed loop so that results can be compared to the plan and lessons learned

Fundamentally, IT creates value by improving operational efficiency and/or effectiveness, but defining what this actually means isn't straightforward. One approach is to use the simple notion of input/output changes. Greater efficiency means reducing input cost—the effort or time required to achieve a given level of output. Greater effectiveness means achieving better quality or higher value output for the same level of input. A further guideline for defining useful metrics is to divide them into three distinct categories:

- **IT efficiency** ➔ Direct total cost of ownership (TCO) savings in use of IT resources
- **Business efficiency** ➔ Productivity savings in terms of business users' time to perform both transaction and decision-making work
- **Business effectiveness** ➔ Improved business performance from faster and more informed decision-making

IT Value Management



These three categories include measures ranging from cost savings (efficiency) to value generation (effectiveness), as well as from more to less certainty in the numbers. This is the dilemma, and the challenge for IT is this: the greatest opportunity for ROI and ROA is also the least verifiable, and therefore the least credible.

Hard numbers around IT efficiency, such as cost savings and cost avoidance, are easier to measure and are often the only ones Finance sees as credible. Companies document such costs, or they occur upfront, and therefore involve fewer future projections. Pursuing TCO is a well established discipline. It captures hidden costs such as implementation, change orders, maintenance, training and user support. TCO also evaluates common drivers of IT inefficiency such as lack of standardization and consolidation.

Determining the value of business efficiency in user productivity improvements is somewhat harder. However, there are established processes. Historically, IT's primary focus has been on improving efficiency through automation. Cost savings in core transaction processes justified much of the countless dollars spent on technology over the last decade. The heavy investment required to implement enterprise resource planning systems, for example, was usually justified based on the ROI of process improvement that reduced cost per transaction.

However, measuring value merely in terms of IT efficiency from cost savings, or business efficiency from improved transaction productivity, understates the total value. Companies have already achieved most of the major cost savings available from consolidations, platform standardization and transaction process improvements. While you may still need incremental upgrades and integration initiatives, the bigger opportunity for value is in improving the efficiency and effectiveness of decision-making.

As noted in the introduction, analysis from McKinsey shows that the proportion of more complex decision-based (tacit) work has increased relative to transaction-based work. It now represents more than 50 percent of the workload in many industries.

Unfortunately, decision-based work is much harder to measure, and therefore harder to determine how to improve. It is information-intensive, interactive and often iterative. IT must evaluate the value of improving business efficiency and effectiveness around decision-making work. The critical asset—and therefore the element to measure—is information. IT delivers value through quality of information. You measure that quality in terms of relevance, accuracy, timeliness, usability and consistency. The higher the quality of information, measured across all of these factors, the better the decision-making. This leads to greater user productivity and the ability to drive performance goals.

Some metrics on decision productivity come from monitoring the use of a reporting, scorecard or overall performance management system. *How many people use it? How often do they use it? When do they use it? How often are reports used and information updated? How many new reports do users create? Who are these power users?* IT can also track user feedback about information quality through self assessments and qualitative ratings.

Metrics quantifying business effectiveness are in some ways more straightforward, although not necessarily as certain or verifiable. These are based on the performance metrics for the decision area you are improving. As demonstrated throughout this book, decision areas are defined by drivers and outcomes that reflect the cause-and-effect relationships among business issues. This metric hierarchy provides the logic for ROI and ROA calculations and for monitoring success over time.

Barrier 3: ***Lack of good decision-making information for managing IT***

IT often lacks its own decision-making information. Beyond the need for metrics noted above, IT needs a context for making a wide range of decisions, as well as for filtering the volume of data it generates. There are two types of IT information sources that are often not fully integrated or harnessed.

The first comes from applications that serve IT processes. Use of information from systems management tools has become quite common, notably to manage security and compliance issues. For example, compliance with Sarbanes-Oxley (SOX) Section 404 for General IT and Application Controls involves reviewing access rights, incident logs, change and release management data, and other information generated by IT applications. It is also critical to ensure compliance to industry-specific regulations, such as the Payment Card Industry Data Security Standard (PCI DSS). This information is useful for making decisions beyond compliance.

The second source comes from having more consistent information about the IT management process itself. The SOX legislation was a catalyst for making well established best practices in IT more widely adopted. These practices include:

- Frameworks such as Control Objectives for Information and related Technology (COBIT®) from the IT Governance Institute and the Information Technology Infrastructure Library (ITIL) framework
- Methodologies such as the software development life cycle (SDLC)
- Organizations such as the Project Management Institute (PMI)

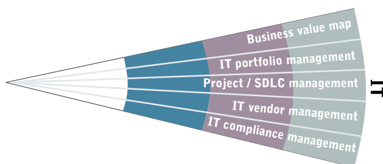
Greater acceptance and use of these best practices provides more information about IT and the business processes, organizations and users that IT supports.

The Business of IT

The five decision areas described in this chapter provide IT with insights and facts to help drive overall value for the company. The sequence of these decision areas provides a logical and iterative flow of analysis and action. The start and end point—IT with a clear view of where and how it is driving business value—sets the basis for priorities and plans to close gaps. You require a detailed understanding of the effectiveness of IT assets, both individually and combined, to see how to make them more effective. In order to optimize your current assets, or add new ones, you must monitor the projects closely and manage vendors. Finally, you need visibility over the many "moving parts" to ensure you comply with business and regulatory objectives to mitigate risks.

Decision areas in IT:

- **Business value map** ➔ Where and how does IT drive business value?
- **IT portfolio management** ➔ How are IT assets optimized for greatest ROA?
- **Project/SDLC management** ➔ Are projects on time, on budget, on target?
- **IT vendor management** ➔ Are vendor service levels and costs managed optimally?
- **IT compliance management** ➔ Are IT risks and controls managed appropriately?



Business Value Map

The business value map provides a high-level view of IT's effect on the business, both currently and potentially. This information sweet spot combines common language with value measurement in a single unifying map for use throughout the company. Of the five decision areas, this is the most important for driving better alignment between IT and the other functions. It helps define the demand for IT and the ways IT can assist. Companies use the business value map at different levels and stages of IT processes. These include defining IT strategy, setting priorities, approving projects and investments, defining requirements, monitoring user acceptance and validating success.

The business value map provides a consistent understanding of the business and an overall understanding of IT. One useful source of this information is the consistent view of the business required by SOX Section 404 legislation in terms of organizational entities, transaction processes, systems, people and their overall relationship to financial accounts. The business value map provides context and measures gaps in current or projected IT capabilities.

This helps clarify the where/who/how/what/when questions:

- *Where* are better IT capabilities needed in the operation in terms of organizational units, functions and processes?
- *Who* are the users and stakeholders of better IT capabilities?
- *How* will better IT capabilities drive value for the business (and did they last quarter)?
- *What* are the requirements for developing better IT capabilities?
- *When* must better IT capabilities be available?

This decision area lets you compare strengths and weaknesses in IT capabilities across different departments, locations, processes and functions. Then you can relate any gaps back to the drivers of performance. Information quality is a leading indicator of business value. Is IT delivering the right information at the right time to the right decision-makers to support the business? You can evaluate gaps in information quality using a number of qualitative factors. These include relevance, accuracy, timeliness, availability, reliability, breadth of functionality and consistency. These factors can be used to clarify cost/benefit options and let you prioritize potential improvements.

BUSINESS VALUE MAP

GOALS	METRICS	DIMENSIONS	
Business Priority Score	IT Users (#)	Current/Target Scenario Scenario	IT Projects IT Project Type IT Project
Business Value ($)	Business Effectiveness Index	Decision Processes Business Function Decision Area	Key Business Information Business Subject Area Metadata Model
Information Quality Index	Business Efficiency Index	Employee Decision Role Work Function Decision Role	Organization Division Channel Store Department Org. Code
IT Capability Index	Employees (#)	Fiscal Year Year Quarter Month	Transaction Processes Process Sub-Process Activity
IT Costs ($)	Information Accuracy Rating	Information Supply Chain Information Stage	
	Information Availability Rating	IT Improvement Priority IT Improvement Priority Rating	
	Information Consistency Rating	IT Project Status	
	Information Functionality Rating		
	Information Relevance Rating		
	Information Timeliness Rating		
	IT Project Costs ($)		
	IT Projects (#)		

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
IT / Systems				
	Executives	•		
	Professionals	•		
Finance				
	Executives	•		
	Professionals	•		
Store/Channel				
	Executives			•
	Professionals		•	
Marketing				
	Executives			•
	Professionals		•	
Sales				
	Analysts		•	
Supply Chain				
	Executives			•
	Professionals		•	
Customer Service				
	Executives			•
Purchasing				
	Executives			•
Human Resources				
	Executives			•

IT Portfolio Management

This is the supply side of the IT value equation, while the business value map decision area is the demand side. Portfolio management offers details of and insights into the operation's IT assets, how well these support the business and what opportunities exist to improve IT ROA spending by:

- Expanding the portfolio by acquiring new IT assets
- Investing more in existing IT assets to generate greater value from them
- Retiring obsolete or inefficient IT assets
- Implementing controls to mitigate risk related to IT assets

While there are many potential categories and attributes of IT assets, the three core ones are infrastructure, applications and information. Using this decision area, IT can analyze the inventory of physical IT assets (hardware, software, data sources and applications); their properties (such as vendor and direct cost); and their core capabilities (such as flexibility, scalability, reliability, compatibility and availability).

GOALS	METRICS	DIMENSIONS	
IT Capability Index	BI Users (#)	Application Software	IT Efficiency Opportunity
IT Costs ($)	Employees (#)	Application Type	IT Savings Magnitude
IT Efficiency Index	IT Asset Availability Rating	Software	IT Savings Type
	IT Asset Compatibility Rating	Data Sources	IT Improvement Priority
	IT Asset Flexibility Rating	Data Source Type	IT Improvement Priority Rating
	IT Asset Reliability Rating	Data Source	IT Project Status
	IT Asset Scalability Rating	Decision Processes	IT Projects
	IT Direct Costs ($)	Business Function	IT Project Type
	IT Indirect Costs ($)	Decision Area	IT Project
	IT Project Costs ($)	Discretionary Budget	Key Business Information
	IT Projects (#)	Fiscal Month	Business Subject Area
		Year	Metadata Model
		Quarter	Organization
		Month	Division
		Goals/Metrics Hierarchy	Channel
		Goal Type	Store
		Goals	Department
		Metrics	Org. Code
		Information Supply Chain	Transaction Processes
		Information Stage	Process
		Infrastructure Environment	Sub-Process
		IT Technical Layer	Activity
		IT Asset Type	
		IT Asset	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
IT / Systems	Executives	•		
	Professionals	•		
Finance	Executives	•		
	Professionals	•		
Store/Channel	Executives			•
	Professionals		•	
Marketing	Executives			•
	Professionals		•	
Sales	Analysts		•	
Supply Chain	Executives			•
	Professionals		•	
Customer Service	Executives			•
Purchasing	Executives			•
Human Resources	Executives			•

Improving IT efficiency, however, is not enough. Most companies have tied 70 percent of their IT budget to non-discretionary items. You can't cut these "keeping the lights on" costs easily. You can gain additional and invaluable insight in this decision area by comparing how diverse IT assets work together to support specific areas of the business. Think of these IT assets as belonging to an information supply chain that acquires, manages and delivers access to information for end users. Thinking in terms of shared and integrated supply chains delivering information and functionality makes it easier to explain how improvements to incomplete, complex, or obsolete IT assets represent greater effectiveness and value to the company. IT should set standards and document the core business metadata for the company. Consistent metadata and business rules are critical for information to become a trusted sweet spot in decision making processes.

Project/SDLC Management

This decision area is one of two that make up IT's operational bread and butter. Value is generated from IT assets by implementing new software and infrastructure or developing new applications. With IT's discretionary budget for new projects limited to about one-third or less of the total IT budget, resources are scarce and expectations high. This makes good information even more critical. Most IT departments have hundreds of separate projects that are interrelated, overlapping or at various stages of completion. This decision area tracks the status of major projects against common project management milestones such as scope, requirements analysis, design specifications, development, testing, implementation and production. Monitoring on-time, on-budget, on-quality project indicators is critical to managing scope, unplanned changes and necessary adjustments. This information, which may need to be aggregated from several sources, also improves alignment around project priorities and helps flag duplication in purpose or scope.

GOALS	METRICS	DIMENSIONS	
IT Project Completion (%) IT Project Lead Time (#) IT Project ROI (%)	External Resource Days (FTE) Internal Resource Days (FTE) Initiatives Rejected (#) IT Project Cost ($) IT Project Value ($) New Initiatives (#) Proj. Duration (#) – Business Days Proj. Duration (%) – Variance Rejection Causes (#) Total Resource Days (FTE)	Business Scope Fiscal Month Year Quarter Month Forecast Scenario (Plan/Actual/Forecast) Scenario Investment Range ($) IT Projects IT Project Type IT Project IT Project Status IT Project Constraints IT Project Milestones IT Project Risk Level	Project Start Date Year Quarter Month Contract End Date Project Management Project Team Project Sponsor Project Manager Project Member Project Completion Date Year Quarter Month Project Finish Date Related Projects Organization Division Channel Store Department Org. Code

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

Contextual dimensions provide greater comparability across different projects. This allows for learning and best-practice sharing between "apples and oranges" by pooling common information about different projects. These dimensions can include:

- Investment amount (< $50K, < $100K, < $500K, > $1M, etc.)
- Complexity (features, information, architecture)
- Dynamic versus static
- Business scope (point solution, channel, departmental, or enterprise)
- Critical skills required
- Risk level (likelihood and impact assessments)

A key benefit of this information is that you gain insights even from failed projects. By seeing what worked and what didn't across many different projects, and by ensuring a full life-cycle perspective on development projects, you can avoid future mistakes and resource misallocations. This information sweet spot helps manage expectations across the team, sponsors and stakeholders. With it, IT management can avoid project cost overruns, missed deadlines and sub-par quality deliverables. Beyond avoiding the adverse financial implications of failed projects, it also helps IT avoid the potentially serious impact on the company's reputation and credibility.

IT Vendor Management

This decision area represents the other operational information sweet spot for IT. In many companies, IT is second only to Purchasing in terms of dollars spent on external vendors. IT needs a consolidated view of how much it is spending on IT assets and with whom. It's a long list, from PCs and PDAs to routers and telecom services, from software licenses to system integrator services. Analyzing this information sweet spot helps identify what to consolidate and/or standardize to reduce costs and complexity. It also reveals where you can pool requirements to gain purchasing power or generate higher service levels. When this information is fragmented across the enterprise, it is difficult to spot duplication of contracts and agreements. Simple comparisons of vendor costs by function and user can help uncover potential excesses. Knowing that other vendors have provided similar products or services also helps IT foster healthy competition and price/quality comparisons.

GOALS	METRICS	DIMENSIONS	
IT Contract Cost ($)	Credit Rating (#)	Application Software	IT Contract Start Date
IT Project Completion (%)	Employees (#)	Application Type	Year
IT Project Lead Time (#)	IT Asset Availability Rating	Software	Quarter
IT Vendor On-Time (%)	IT Asset Compatibility Rating	Data Sources	Month
SLA Performance (%)	IT Asset Flexibility Rating	Data Source Type	Contract Start Date
	IT Asset Reliability Rating	Data Source	IT Vendor Status
	IT Asset Scalability Rating	Fiscal Month	IT Vendor
	IT Direct Costs ($)	Year	IT Vendor Type
	IT Indirect Costs ($)	Quarter	IT Vendor
	IT Project Costs ($)	Month	Organization
	IT Projects (#)	Infrastructure Environment	Division
	IT Vendor Hourly Rate ($)	IT Technical Layer	Channel
	Quality Rating (#)	IT Asset Type	Store
		IT Asset	Department
		IT Contract End Date	Org. Code
		Year	Transaction Processes
		Quarter	Process
		Month	Sub-Process
		Contract End Date	Activity

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

This decision area is also important in managing service levels tied to major outsourcing contracts, a fixture for many IT functions. All service level agreements have trade-offs between quality, time and cost. Measuring quality, especially in the more complex Tier 3 contracts that manage and enhance applications, can be a challenge. For example, where Tier 1 agreements may measure service availability, numbers of incidents and resolution response times, Tier 3 agreements need to address access to and use of information from applications, and how easy and quick it is to make changes. Even knowing when contracts are up for renewal, as well as when you are triggering penalty or incentive clauses, can lead to cost savings or improved service levels.

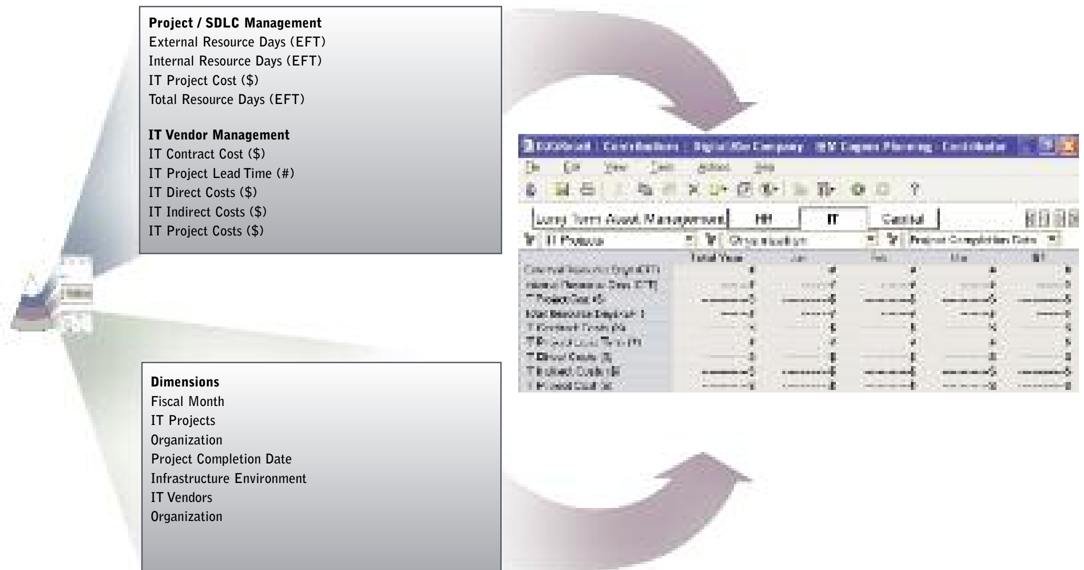
IT Compliance Management

IT compliance management is a key focus for U.S. public companies. This decision area consolidates information from different compliance initiatives. As noted in Barrier 3, various frameworks and IT best practices such as COBIT and ITIL require general and application-specific IT controls. This decision area requires three common sources of information. The first is from compliance program management software, such as that used for SOX. Similar to the project/SDLC management decision area, this allows IT to ensure that compliance tasks take place and are meeting program milestones. The second source of information comes from the controls themselves. Of the 34 IT processes across four domains used in COBIT, a subset is required for SOX, notably around security and access controls, change and release management, and incident and problem management. In most cases, these controls involve reviewing large volumes of data and flagging exceptions to established procedures.

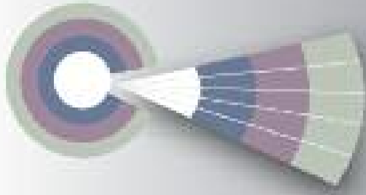
GOALS	METRICS	DIMENSIONS	
Compliance Completion (%) Compliance Costs ($) Material Deficiencies (#) Regulatory Compliance (%) Risk Level Index	Control Effectiveness Rating Controls (#) Exceptions (#) External Audit Fees ($) Internal Audit Costs ($) Issues (#) Items Overdue (#) Outsourced Internal Audit Costs ($) Reg. Audits Risk Impact Rating Risk Likelihood Rating Sample Size (#) Significant Deficiencies (#) Tests (#)	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 Infrastructure Environment IT Technical Layer IT Asset Type IT Asset IT Control Processes (COBIT) Control Type (App/Gen) IT Domain IT Process IT Control Key Control 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	•		
IT/Systems				
	Executives		•	
	Professionals	•		
Finance				
	Executives			•
	Professionals		•	
Supply Chain				
	Executives			•
Store/Channel				
	Executives			•
Purchasing				
	Executives			•
Human Resources				
	Executives			•

The third source is metadata itself. Today, many organizations still have mostly manual internal controls. Approximately two-thirds or more are "detective" controls, versus the more reliable "preventive" ones. Detective controls involve reviewing transaction records in both detailed and summary form. For example, reviewing an accounts receivable trial balance is a detective control. In order for greater reliance to be placed on these controls, there must be a clear audit trail linking the source of information with the definitions and business rules that apply. Being able to monitor and analyze which metadata governs which reports and who has access to it creates a more reliable control environment. It also supports the enforcement of existing data architecture standards.



The Project / SDLC Management and IT Vendor Management decision areas illustrate how the IT function can monitor its performance, allocate resources and set plans for future financial and operational targets.



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.

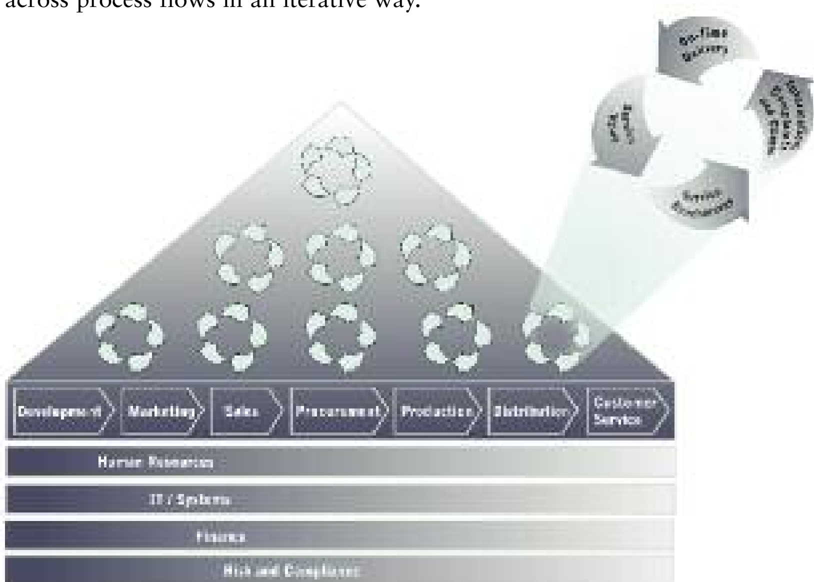
Successful leadership thrives in an environment where there is clear ownership of and accountability for results up and down the organization, rather than merely expected tasks and duties. Ownership requires clearly assigned roles in making decisions that drive performance goals and objectives. Accountability 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.

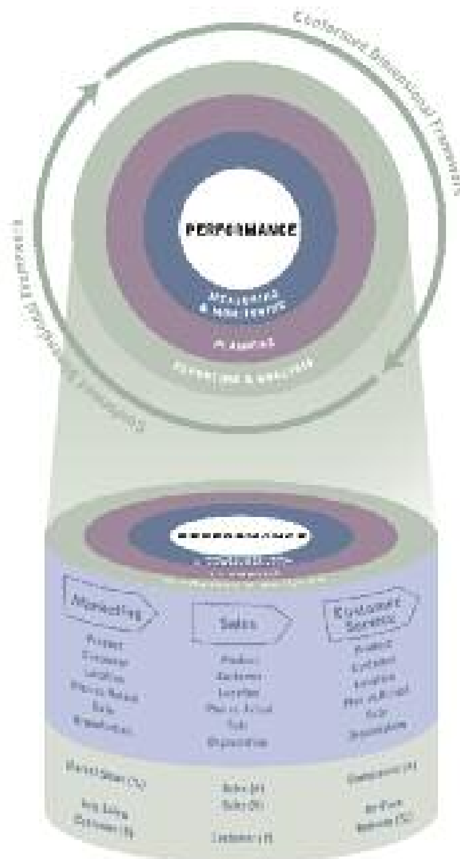


Decision areas overlay the familiar view of core processes and underlying support processes. Each functional set of decision areas provides an iterative feedback loop. Cross-functional sets combine to address additional performance goals and objectives.

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

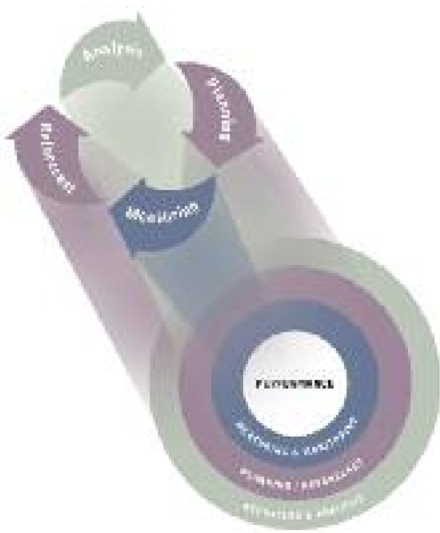


Barrier 4: ***Current executive information capabilities do not support the nonlinear and iterative nature of decision-making and management processes***

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)

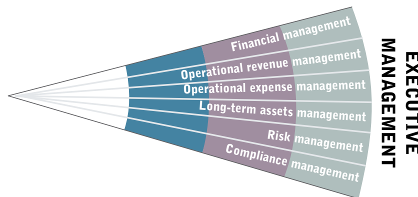
Operational management cycle:

- **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?

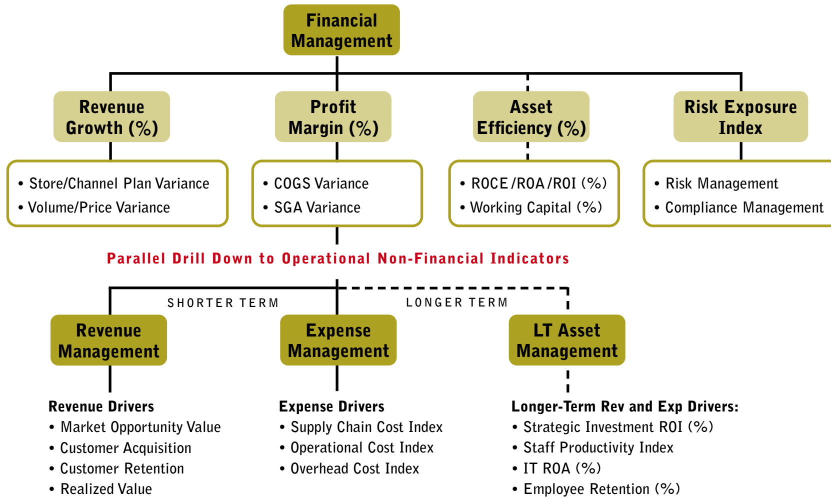


The four decision areas for performance management are further designed to support several interrelated balancing acts: between leading and lagging indicators; between revenue and expense trade-offs, between short-term and long-term resource allocations, and between top-down and bottom-up management 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.

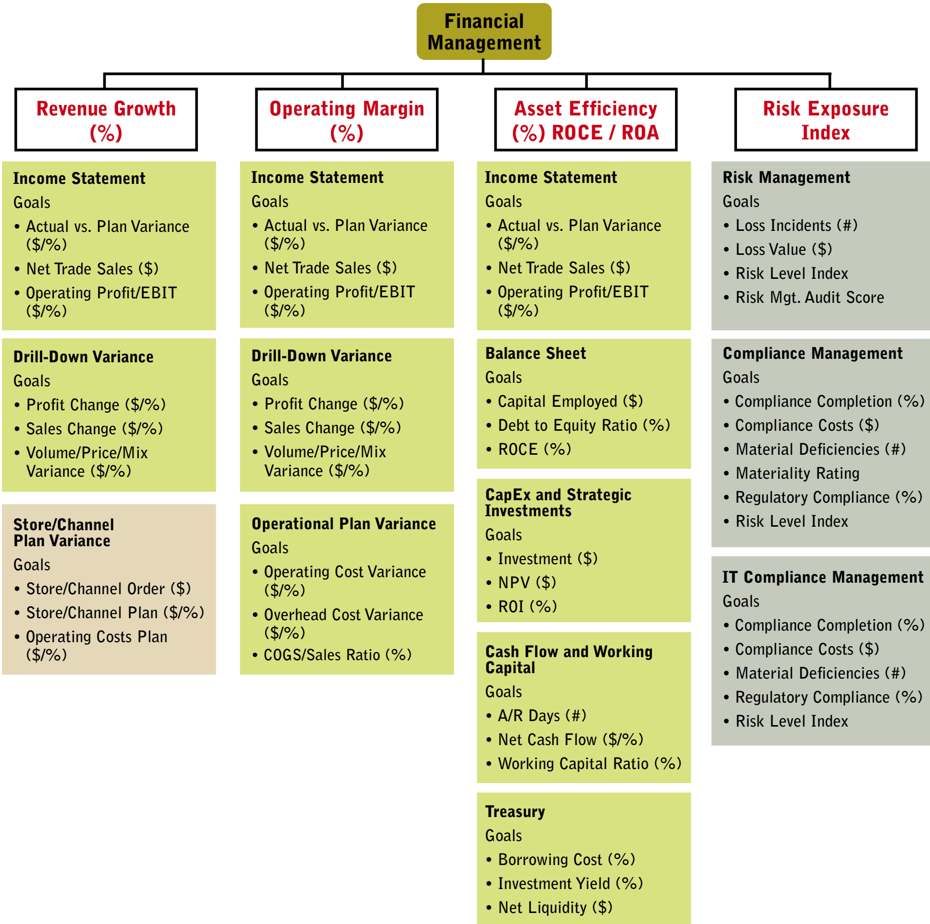
Asset Efficiency (%)—ROCE, ROA, ROI, Economic Profit
Assessing the company's performance through ROCE or similar measures gives Executive Management the same benchmarks that shareholders use to evaluate the business. If the asset efficiency index is not aligned with market expectations, Executive Management 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.



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.

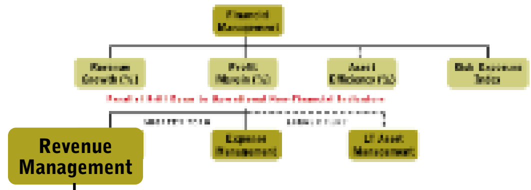
Despite positive numbers in these early-warning measures, the Stores and Channels decision area may indicate poor results with decreasing average transaction value sales to existing customers. The solution may be rebalancing merchandising tactics. Perhaps you need a greater emphasis on displays or space 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 | 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.

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

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	METRICS	DIMENSIONS	

Compliance Completion (%)
Compliance Costs ($)
Material Deficiencies (#)
Materiality Rating
Regulatory Compliance (%)
Risk Level Index
	Controls (#)
	Exceptions (#)
	External Audit Fees ($)
	Internal Audit Costs ($)
	Issues (#)
	Tests Overdue (#)
	Outsourced Internal Audit Costs ($)
	Qualitative Materiality Rating (#)
	Quantitative Materiality (%)
	Reg Audits
	Risk Impact Rating
	Risk Likelihood Rating
	Sample Size (#)
	Significant Deficiencies (#)
	Tests (#)
		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
			Regulations
			  Regulation Type
			  Regulation
			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			•

SUMMARY

We reviewed thousands of performance management initiatives in writing this book. Organizations successfully engaging with performance management were able to align resources, opportunities and execution to gain a sustainable competitive advantage.

Alignment requires a unifying map and a common language. That is what the framework in this book is about. This shared framework supports and strengthens the business/IT partnership, and the partnership between decision-makers in different decision areas across different business functions. It offers a single viewpoint on customers and suppliers, products and brands, and the business results. It ensures people in one division are looking at the same information as people in another.

Three fundamental requirements enable this alignment and successful performance management:

Information Sweet Spots
The issue is not getting more data—people are drowning in data. The issue is getting the right information. The key is to design, group and enrich data into information sweet spots. Information sweet spots help managers make the best revenue growth decisions, the best expense management decisions, the best financial management decisions and the best decisions for long-term asset management.

Managers Perform Within Collaborative Decision-Making Cycles
Decision-makers need to achieve their objectives in the context of the company's objectives. Information and strategy must be communicated in multiple directions, not just one way. Information sweet spots link executive management and line management. They connect decision-makers throughout the organization and let them understand, manage and improve the business.

Integrated Decision-Making Functionality in Different User Modes
Each decision is a process rather than an event. Once you see *what* has happened, you may need to analyze it to understand *why* it happened. You must put the occurrence in context to see trends common to other parts of the business, geographies, product lines and, most important, objectives. From there, you can see the way forward and plan the future of the business.

The Performance Manager

Decision-makers need integrated information at their fingertips to focus on winning, rather than the distraction of gathering information. This requires a system to deliver performance management information whenever and wherever they require it.

Knowing what's happened and why it happened, aligning this knowledge with objectives, and articulating a plan to establish a forward view of your business—these are the skills of a performance manager. This book provides a framework to design information sweet spots that will drive your business performance. We hope you will use these concepts to surpass the results achieved by performance management initiatives from around the world.

The right information at the right time can make all managers better; but more importantly, it can make good managers great. Letting people realize this untapped potential is why we wrote this book. We hope your personal and business successes drive our next edition.

ABOUT THE AUTHORS

Roland P. Mosimann
Chief Executive Officer, BI International

As CEO and co-founder of BI International, Roland has led major client relationships and thought leadership initiatives for the company. Most recently, he drove the launch of the Aline™ platform for on-demand Governance, Risk, and Compliance. Roland is also a co-author of *The Multidimensional Manager* and *The Multidimensional Organization*.

Prior to founding BI International, Roland was a member of the Executive Board of the World Economic Forum in Geneva. Responsible for leading the financial services and supply chain management sectors of the Forum's activities, he worked with Chief Executive Officers and cabinet-level government officials in North America, Europe, and Asia. He was a consultant with McKinsey & Company in Zurich, and he served in Singapore as Market Executive for Tetra Pak's Asian sales operations.

Roland holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc.(Econ) from the London School of Economics.

About Business Intelligence International

BI International is a global expert in providing the frameworks, structures, and analytics that allow businesses to properly manage risk and performance.

Since 1995, with *The Multidimensional Manager* and subsequent DecisionSpeed® framework, BI International has pioneered core principles for aligning information needs with roles, decision-making processes, and cascaded goals to drive performance. In 2004, BI International also launched its Aline™ Platform for on-demand governance, risk and compliance. These software as a service (SaaS) solutions seek to "right size" Fortune 1000 capabilities so they become affordable for small- and medium-sized companies.

For more than 10 years, BI International has led the development of key business intelligence solutions for companies both large and small across the financial services, manufacturing, pharmaceutical and other industries. Beyond its direct customers, BI International has influenced thousands of companies worldwide through its thought leadership, frameworks, workshops and design tools. For more information, visit the BI International Web site at **www.aline4value.com**.

Meg Dussault
IBM Software Group, Information Management Corporate Positioning

Meg started her marketing career in 1990, beginning with campaign management for the national telecommunications carrier of Canada as deregulation was changing the market. She then moved to market development for Internet retail and chip-embedded smart cards before moving to product marketing with Cognos (now part of IBM).

Since joining the company, Meg has worked extensively with executives and decision-makers in the Global 3500 to define and prioritize performance management solutions. This work was leveraged to help shape the vision of IBM Cognos performance management solutions and to communicate the message to key influencers.

Patricia Waldron
Associate Vice President, Global Retail Industry for IBM

Patricia Vekich Waldron, Global Retail Industry Director, joined Cognos (now part of IBM) in 2005. She is responsible for the Retail industry solution direction, strategic partnerships, marketing programs and developing a community of best practices with the 300 chains worldwide that use Cognos software.

With more than 20 years of industry experience, Patricia has held senior management positions covering a broad spectrum of marketing, product and business development roles for global corporations serving the retail industry including Fujitsu, Stores Automated Systems Inc. (SASI) and Lawson Software. She started her career at Gordon's Jewelers and S&A Restaurant Corp.—a Pillsbury Company—where she held positions in store operations, information technology and the office of finance.

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**.

Patrick Mosimann

Founding & Joint Managing Director, PMSI Consulting

As co-founder of PMSI (Practical Management Solutions & Insights), Patrick has led major client engagements and has significant experience across several industry sectors.

His prior experience includes consulting at Strategic Planning Associates (now Mercer Consulting), working on projects in Banking, Telecoms, and other industries. He also worked at the investment bank Morgan Grenfell (now Deutsche Bank) and with Arthur Andersen on audit assignments in Europe.

Patrick also holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics, University of London.

About PMSI

PMSI provides practical and commercial solutions to drive performance with data-driven decision-making using a combination of business consulting skills, data integration and analytical capability.

The design of a successful performance management solution requires the expert understanding of the business decisions and drivers across various responsibilities and functions. PMSI acts as a bridge between the insights needed within a business and the potential IT capability and delivery. The focus is to fully leverage the innovative use of technology and create highly repeatable, business-led solutions while reducing cost of delivery.

PMSI's experience ranges across industry sectors and markets; this cumulative business knowledge and flexibility of solution and approach is of particular value to its clients. For more information, visit the PMSI Web site at **www.pmsi-consulting.com**

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The PERFORMANCE Manager

Proven Strategies for Turning Information into Higher Business Performance for Retail

Roland P. Mosimann *Chief Executive Officer, BI International*

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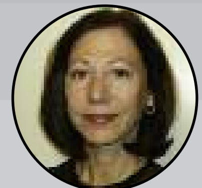
Meg Dussault *Director of Analyst Relations and Corporate Positioning, Cognos, before it was acquired by IBM*

Meg started her marketing career 15 years ago, beginning with campaign management for the national telecommunications carrier. She then moved to market development for Internet retail and chip-embedded smart cards before moving to product marketing with Cognos (now part of IBM).



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