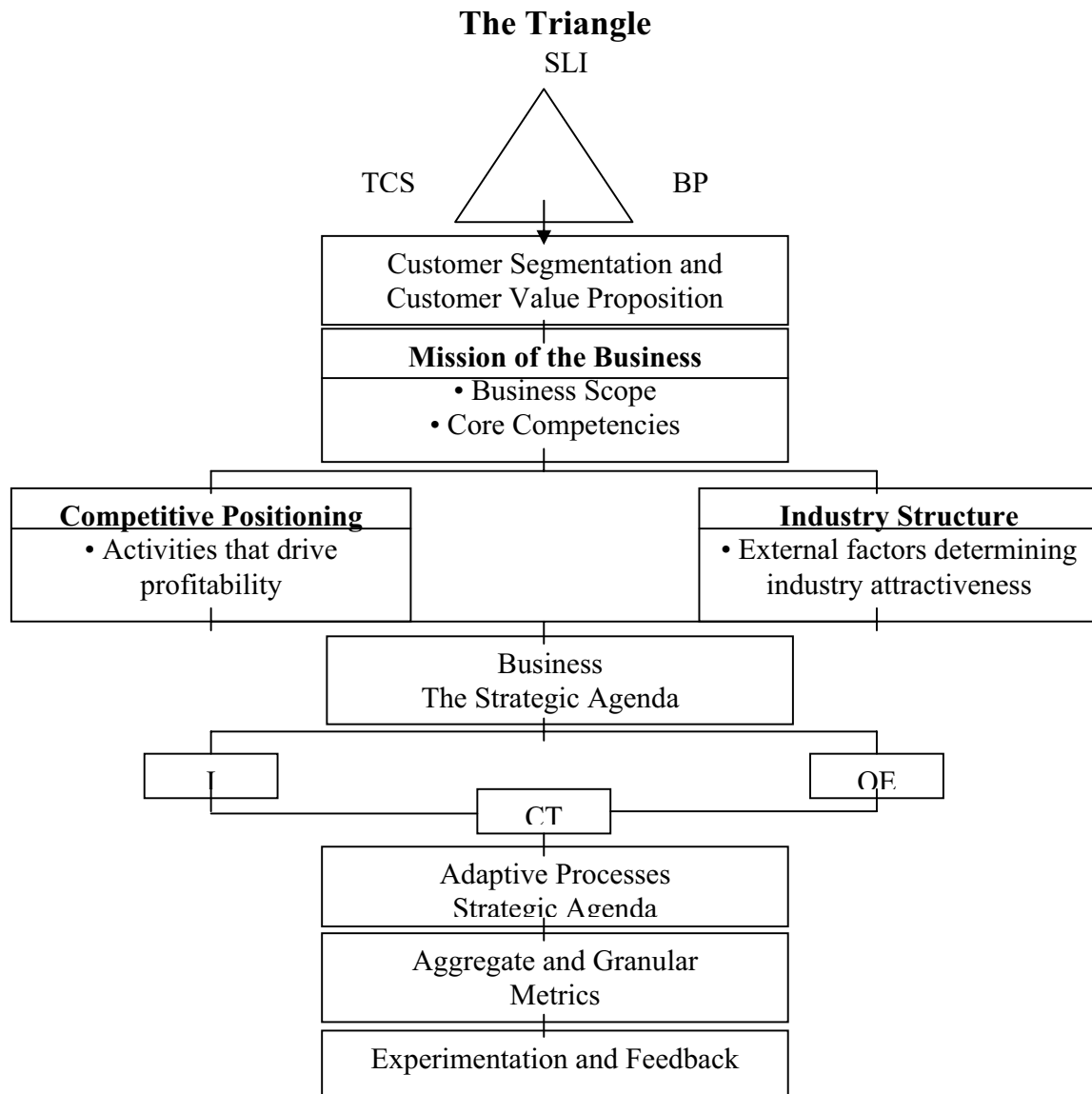


AGGREGATE METRICS AND THE BALANCED SCORECARD

THE DELTA MODEL – AN INTEGRATIVE STRATEGIC FRAMEWORK



The changes introduced by the Delta Model

- Add the Triangle to decide on the strategic positioning
- Add the Adaptive Processes to expand the implementation tasks

THE BUDGET

BUDGETING AND STRATEGIC FUNDS

Strategic funds are expense items required for the implementation of strategic action programs whose benefits are expected to be accrued in the long term, beyond the current budget period.

There are 3 major components of strategic funds:

- 1. Investment in tangible assets, such as new production capacity, new machinery and tools, new vehicles for distribution, new office space, new warehouse space, and new acquisitions.**
- 2. Increases (or decreases) in working capital generated from strategic commitments, such as the impact of increases in inventories and receivables resulting from an increase in sales; the need to accumulate larger inventories to provide better services; increasing receivables resulting from a change in the policy of loans to customers, and so on.**
- 3. Development expenses that are over and above the needs of existing business, such as advertising to introduce a new product or to reposition an existing one; R&D expenses of new products; major cost reduction programs for existing products; introductory discounts, sales promotions, and free samples to stimulate first purchases; development of management systems such as planning, control, and compensation; certain engineering studies, and so on.**

SPLITTING THE PROFIT AND LOSS STATEMENT OF A DIVISION IN TERMS OF OPERATIONAL AND STRATEGIC EXPENSES

	Conventional Statement	Operational Expenses	Strategic* Expenses
Net sales	100	100	-
Less:			
Variable mfg. costs	30	30	-
Depreciation	20	20	-
Other fixed mfg. costs	<u>10</u>	<u>5</u>	<u>5</u>
Gross margin	40	45	-
Less:			
Marketing expenses	15	5	10
Admin. expenses	10	5	5
Research expenses	<u>5</u>	<u>0</u>	<u>5</u>
Division margin	10		
Operating margin		35	
Total strategic expenses			25

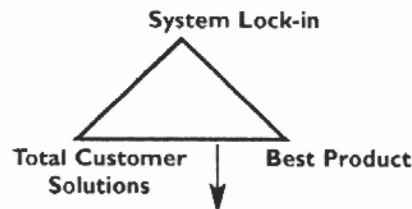
* Also called Development Expenses

STRATEGIC FUNDS PROGRAMMING AND OPERATIONAL BUDGETS – AN ILLUSTRATION

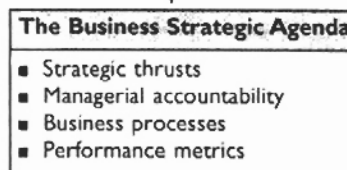
	History					Current Year		Projections			
	1988	1989	1990	1991	1992	Actual	Budget	1994	1995	1996	1997
Total Market	4032.0	4994.0	5822.0	6722.0	7820.0	0.0	9266.0	11120.0	13123.0	16012.0	19312.0
Market Share (%)	52.0	51.0	52.0	49.0	49.0	0.0	49.0	50.0	50.0	51.0	52.0
Company Sales	2083.0	2568.0	3002.0	3316.0	3799.0	0.0	4502.0	5522.0	6577.0	8123.0	9966.0
– Operating Cost of Goods Sold	1789.0	2138.0	2499.0	2771.0	3165.0	0.0	3760.0	4612.0	5492.0	6789.0	8336.0
Gross Operating Margin	294.0	430.0	503.0	545.0	634.0	0.0	742.0	910.0	1085.0	1334.0	1630.0
– Operating SG&A	62.0	103.0	110.0	121.0	138.0	0.0	162.0	199.0	241.0	295.0	366.0
Operating Margin	232.0	327.0	393.0	424.0	496.0	0.0	580.0	711.0	844.0	1039.0	1264.0
– Strategic Expenses	130.0	165.0	204.0	213.0	251.0	0.0	321.0	396.0	497.0	626.0	789.0
SBU Margin	102.0	162.0	189.0	211.0	245.0	0.0	259.0	315.0	347.0	413.0	475.0
– Taxes	5.0	18.0	23.0	27.0	32.0	0.0	35.0	43.0	56.0	70.0	93.0
SBU Net Income	97.0	144.0	166.0	184.0	213.0	0.0	224.0	272.0	291.0	343.0	382.0
+ Depreciation	18.0	21.0	26.0	32.0	38.0	0.0	46.0	56.0	67.0	82.0	100.0
– Capital Investments	32.0	57.0	87.0	128.0	115.0	0.0	150.0	195.0	169.0	202.0	183.0
– Increases in Working Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution/Request of Funds to the Corporation	83.0	108.0	105.0	88.0	136.0	0.0	120.0	133.0	189.0	223.0	299.0

Measuring Success: Aligning Strategy, Processes and Metrics

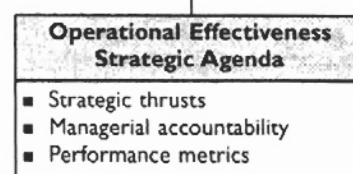
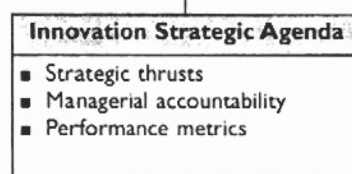
1. The Triangle – choosing the strategic position



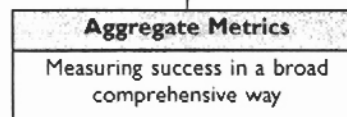
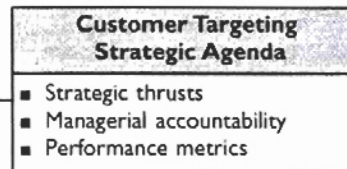
2. The business Strategic Agenda – translating strategic positioning into execution



3. The Adaptive Processes – translating execution into concrete tasks



4. Aggregate Metrics – the overall scorecard of business performance



5. Granular Metrics – de-averaging, explaining and exploiting variability

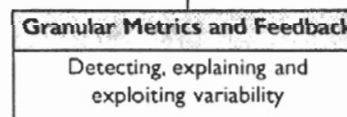


Figure 9.1 The Delta Model – the complete framework

Performance Metrics for the Business Drivers of the Delta Model

	Best Product	Total Customer Solutions	System Lock-In
Operational Effectiveness (Cost Drivers)	<ul style="list-style-type: none"> • Cost performance — Unit cost — Lifecycle cost — Variable and total cost • Cost drivers • Quality performance • Degree of differentiation 	<ul style="list-style-type: none"> • Customer value chain — Total cost — Total revenue and profit • Customer economic drivers • Impact on customer profit due to our service vs. competitors 	<ul style="list-style-type: none"> • Description of system infrastructure • Total system costs/revenues • Complementor's investments and profits • Complementor costs of adhering to your standard • System performance drivers
Customer Targeting (Profit Drivers)	<ul style="list-style-type: none"> • Product market share • Channel cost • Product profit — By product type — By offer — By channel • Profit drivers 	<ul style="list-style-type: none"> • Customer share • Customer retention • Our profitability by customer — Individual and by segment • Customer bonding — Switching costs 	<ul style="list-style-type: none"> • System market share • Our share of complementors — % of investments tied to our proprietary standard • Our profit by complementor
Innovation (Renewal Drivers)	<ul style="list-style-type: none"> • Rate of product introduction • Time to market • Percent of sales from new products • Cost of product development • R&D as % of sales 	<ul style="list-style-type: none"> • Relative involvement in customer value chain • Percentage of product development — From joint development — Customized • Degree of product scope — Current vs. potential bundling 	<ul style="list-style-type: none"> • Switching costs for complementors and for customers • Rate of product development • Cost of competitors to imitate standard