Balanced Scorecard

Micro PC Quarter 6

Industry Results for Quarter: 5

	Minimum	Maximum	Average	Micro PC
Total Performance	8.202	90.875	34.579	90.875
Financial Performance	22.412	46.366	33.841	46.366
Market Performance	0.175	0.515	0.316	0.515
Marketing Effectiveness	0.603	0.728	0.648	0.673
Investments in the Firm's Future	3.633	6.029	4.636	4.241
Creation of Wealth	0.673	1.335	0.934	1.335

Total Performance

indicator is a quantitative measure of the executive team's ability to effectively manage the resources of the firm. It considers both the historical performance of the firm as well as how well the firm is positioned to compete in the future. As such, it measures the action potential of the firm.

The index employs what is called a balanced scorecard to measure the executive team's performance. The most important measure is the team's financial performance, and thus its ability to create wealth for the investors. However, the focus on current profits has caused many executives to stress the present at the expense of the future.

The long-term viability of the firm requires that the executive team be good at managing not only the firm's profitability and marketing activities but also investments in the future. These expenses might depress the creation of wealth for the firm, but are vital to creating new products and markets.

In short, top managers must be good at managing all aspects of the firm. The balanced scorecard puts this perspective into practice. It focuses attention on multiple performance measures, and thus multiple decision areas. None can be ignored or downplayed. The best managers will be strong in all areas measured.

The Total Business Performance measure is computed by multiplying several indicators of business performance. This model underscores the importance of all measures. This is because any strength or weakness will have multiple effects on the final outcome, the Action Potential of the Firm.

The following is a summary of the measure of the firm's Total Business Performance and its key performance indicators. The computational details follow. Note that a negative score in any of these indicators will result in a Total Performance of "0".

Primary Segment: Traveler
Secondary Segment: Costcutter

Total Performance = Financial Performance * Market Performance * Marketing Effectiveness * Investments in the Firm's Future * Creation of Wealth

= 46.366 * 0.515 * 0.673 * 4.241 * 1.335
= 90.875

Financial Performance: 46.366
Market Performance: 0.515
Marketing Effectiveness: 0.673

Investments in the Firm's Future: 4.241
Creation of Wealth: 1.335

Financial Performance

measures how well the executive team has been able to create profits for its shareholders. A positive number is always desired and the larger the better. The operating profit for the division is used to compute the executive team's financial performance.

Financial Performance = (Operating Profit / Sales Revenue) * 100

= (6,560,511 / 14,149,298) * 100
= 46.37

Operating Profit
= Gross Profit - Operating Expenses = 8,126,748 - 1,566,237 = 6,560,511
Gross Profit: 8,126,748
Operating Expenses: 1,566,237
Sales Revenue: 14,149,298

Market Performance

is a measure of how well the managers are able to create demand in their primary and secondary segments. The firm's market share in two target segments is used to measure this demand-creation ability. The score ranges from 0 to 1.0 and will depend upon the number of competitors. If there are 3 firms, a good score would be greater than 0.5. If there are 8 teams, a good score would be greater than 0.35.

Market Performance = Average Market Share in Targeted Segments / 100

= 52 / 100
= 0.52

Average Market Share in Targeted Segments
= (Market Share in Primary Segment + Market Share in Secondary Segment) / 2 = (49 + 54) / 2 = 52
Market Share in Primary Segment: 49
Market Share in Secondary Segment: 54

Marketing Effectiveness

is a measure of how well the managers have been able to satisfy the needs of the customers as measured by the quality of their brands and ads. Customer perceptions of the firm's brands and ads in its primary and secondary segments are used to measure customer satisfaction. The two scores are then averaged to obtain the indicator for marketing effectiveness. The score ranges from 0 to 1.0. A good score would be greater than 0.8.

Marketing Effectiveness = (Average Brand Judgment / 100 + Average Ad Judgment / 100) / 2

= (75 / 100 + 60 / 100) / 2
= 0.67

Average Brand Judgment
= (Highest Brand Judgment in Primary Segment + Highest Brand Judgment in Secondary Segment) / 2 = (76 + 74) / 2 = 75
Highest Brand Judgment in Primary Segment: 76
Highest Brand Judgment in Secondary Segment: 74

Average Ad Judgment
= (Highest Ad Judgment in Primary Segment + Highest Ad Judgment in Secondary Segment) / 2 = (52 + 67) / 2 = 60
Highest Ad Judgment in Primary Segment: 52
Highest Ad Judgment in Secondary Segment: 67

Investments in the Firm's Future

reflects the willingness of the executive team to spend investment funds and current revenues on future business opportunities. They are necessary but risky. In the short-term, these expenditures may cause large negative contributions. In the long-term, these investments are absolutely necessary if the firm is to be competitive. Thus, there is a need to balance the loss of stockholders' equity against investments which could create even greater returns for the investors in the future. The score is always greater or equal to 1.0 and a good score would be greater than 3.0.

Investments in the Firm's Future = (Cumulative Expenses that Benefit Firm's Future / Cumulative Net Revenues) * 10 + 1

= (6,631,946 / 20,465,639) * 10 + 1
= 4.24

Cumulative Expenses that Benefit Firm's Future
= Cumulative Cost to Open New Sales Offices + Cumulative R&D Investment in New Brand Features and New brands
= 860,000 + 5,771,946 = 6,631,946
Cumulative Cost to Open New Sales Offices: 860,000
Cumulative R&D Investment in New Brand Features and New brands: 5,771,946
Cumulative Net Revenues
= Cumulative Sales Revenue - Cumulative Rebates = 20,882,069 - 416,430 = 20,465,639
Cumulative Sales Revenue: 20,882,069
Cumulative Rebates: 416,430

Creation of Wealth

To compute the creation of wealth measure, the division's net investment (cumulative profit + cumulative investment) is divided by the cumulative investment from Corporate Headquarters to obtain a measure of return on investment.

A value of less than or equal to zero indicates the executive team has bankrupt the division and is thus unable to finance its current operations from current revenues. The division is a financial drain on Corporate Headquarters. A value of greater than zero and less than one indicates that the division is a viable entity and should continue with its marketing plan. A value greater than two indicates the Marketing division has earned more profit than Corporate Headquarters has invested in it. The division is now in a position to contribute to the overhead and profits of the entire company and its stockholders.

Creation of Wealth = Net Investment / Cumulative Investment from Corporate Headquarters

= 9,341,560 / 7,000,000
= 1.33

Net Investment
= Cumulative Profit + Cumulative Investment from Corporate Headquarters = 2,341,560 + 7,000,000 = 9,341,560
Cumulative Profit: 2,341,560
Cumulative Investment from Corporate Headquarters: 7,000,000
Cumulative Investment from Corporate Headquarters: 7,000,000