

**1to1 Magazine**

Publish Date: 04/01/2002

Issue: April 2002

People: [Emma Warrillow](#)**Keeping the CRM Score***The balanced-scorecard approach to measuring the enterprise is keeping more and more customer-driven companies on track*

CRM has come under fire from numerous fronts over the past year and reports of failures are common. Yet the fundamental strategy of CRM is sound, and organizations continue to strive to achieve it. Obviously, however, something is wrong. What if the ability to execute strategy is more important than the strategy itself? This is the question raised by Drs. Robert Kaplan and David Norton. (The pair detail their theory in "The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment," published last year by Harvard Business School Press.)

No company with a successful implementation would tell you that CRM is anything less than revolutionary. Ask any change-management expert about implementing enterprise-wide change and you'll hear about the need for accountability, integration and the communication of a shared vision. Enterprise-performance management, or EPM, may provide the tools necessary to meet these needs and, thus, to make change happen.

EPM involves measuring and analyzing key performance indicators (KPIs) to plan and manage business processes and strategy. This category includes such tools as management by exception (MBE), total-quality management (TQM), activity-based management, economic value added (EVA), value-based management (VBM) and the balanced scorecard. It is this latter strategy that Kaplan and Norton espouse as a key to successful CRM.

Tracking the enterprise

The balanced scorecard is a set of regularly tracked measures directly linked to a company's overall goals. Its framework helps an organization focus on and communicate strategic objectives. Kaplan and Norton first introduced the concept in a 1992 Harvard Business Review article ("The Balanced Scorecard— Measures that Drive Performance"). The article reported on the results of a year-long research project aimed at changing the way companies manage performance.

"For decades, we built performance-management systems around a financial framework only," says Norton. "The problem with an exclusive reliance on financials is that financial performance is a lag indicator. For example, the advertising and R&D you did last year will impact this year's financial results."

The process gets its name from a new "balanced" view of measurement metrics. It formalizes the measurement process and gets managers across the organization focused on the same issues and processes by putting measures and targets from across the enterprise on a single page. In their book, the authors recommend 20 to 25 measures as the indicators of future performance, segmented into four categories:

- Five financial measures, such as asset utilization rates, revenue per employee and return on capital employed;
- Five customer measures, such as satisfaction, share of wallet and retention;
- Eight to 10 internal measures, such as percent of sales from new products; new product introduction vs. competition and time to market of next generation of products; and
- Five learning and growth measures, such as employee satisfaction, percent of key-staff turnover and percent of processes with real-time quality.

Each segment contains measures critical to effective management, and each are intricately linked to one another and to the overall strategy. The scorecarding process is top down; it starts with senior executives articulating specific strategic objectives. For each dimension, measures selected are used to track progress toward the stated goals. Long- and short-term targets set for each measure should link directly to overall company goals.

Financial goals are set first, to demonstrate whether the strategy is being implemented effectively. Customer measures reflect how customers in those segments view the company. The executive team must explicitly state which customer segments it will compete in.

Once financial and customer objectives have been set, management must define what internal processes it should excel at for the company to meet or exceed customer expectations. This perspective is unique to the scorecard, as it forces the company to look internally at all new and existing processes that impact the client experience.

The final dimension—learning and growth—will help guide the company through investment decisions. It also is the most forward looking, according to Norton and Kaplan. A company's long-term value can be tied directly to its ability to innovate and learn. Goals and measures should reflect this ability; for example, measuring time-to-market for new releases.

The scorecard also encourages organizational learning, because it provides a feedback mechanism. There is a clear cause-and-effect relationship between the measures and the overall strategy. No measure is included that does not have a direct relationship to the stated corporate goals. By understanding these relationships, managers can adjust their activities to improve the scores. It also provides a single view that aligns disparate divisions and activities. It looks at how all activities relate to one another and to the end goal. To be effective, the measures on the scorecard must be consistent and mutually reinforcing.

The relationship between CRM and the balanced scorecard is symbiotic. The scorecard keeps CRM goals at the forefront; and the software that enables CRM can facilitate the gathering of enterprise-wide data to support it.

Saatchi & Saatchi measures ideas

The advertising business may not seem like an obvious place for performance measurement, or even CRM, but advertising conglomerate Saatchi & Saatchi (S&S) didn't become one of the world's most respected agencies by doing what people expect. Paul Melter, director of Compass, (the name of the company's balanced-scorecard initiative), says his firm looked at global consultancy Stern Stewart's economic-value added (Stern Stewart & Co. pioneered EVA), TQM and activity-based costing models, before settling on the balanced scorecard. "When we looked at other management tools, many were still financial tools," notes Melter. "We needed to focus on what drives those financial results."

Its scorecard is designed to share the business vision across its 40 agencies around the globe. Before the scorecard, "everyone loved the company vision," notes Melter, "but each person also had a different twist on the interpretation." Now, the scorecard helps guide everyone's understanding, worldwide.

The measures on the scorecard often change over time, as companies learn how effective they are, or as strategies change. One measure S&S has changed is the number of ideas generated; it discovered that its agencies were saying they had generated thousands of ideas each quarter. Instead, now they look at those ideas with big business impact. For example, one such idea was the repositioning of Pepcid (an antacid medication) as a preventative medicine, as well as a treatment. The scorecard itself is so important to the firm's strategy, that one of the measures included for the individual agencies is whether they submit scorecard information on time.

S&S' most valuable global clients—which are dubbed "network" clients and include Procter & Gamble and Toyota—are so important that the agency has created individual client scorecards on a global level, with measures and targets that roll up to the corporate scorecard. These tools facilitate better internal communication, so that each country understands what it needs to do to fuel enterprise success.

And S&S' scorecards are used to motivate as well as guide client interactions. "The balanced scorecard is linked to individual-agency compensation," says Melter. "It allows us to be unbiased." The company is starting to cascade scorecard measures away from the individual agency level out to all employees.

Volvo tracks channel integration

When executives of Volvo Cars of North America talk about CRM, the focus is on the integration of offline and online campaigns to create customer relationships that drive dealer traffic and car sales.

Volvo had a number of different scorecard types before CRM. Now, "The technology and discipline of CRM has allowed a level of detail that we never had before," says Phil Bienert, manager, CRM and e-business. In fact, Bienert notes that "the beauty of metrics is that you can say, forget this thing called CRM, and let the measures themselves reflect the strategy, rather than the rhetoric. Some measures Volvo uses are number of leads sent to retailers, customer satisfaction and floor traffic in the store."

Another benefit of the scorecard to CRM, Bienert points out, is it "gives us consistent metrics for comparing one program to another." Rather than simply measuring response rates of a direct-mail campaign, or clickthroughs from an email campaign, companies can assess all these actions by their impact on the measures that matter. Comparisons are on a level playing field.

The scorecard, notes Bienert, is "one of the only ways to justify and prove the notion of CRM."

Mobilizing the workforce

The CRM movement has often been "driven by technology, divorced from strategy," says Norton, who serves as president of the Balanced Scorecard Collaborative (a professional-services firm dedicated to the promotion of the scorecard). He says that the scorecard helps the entire enterprise "mobilize around the strategy," rather than around the software.

Mobilizing an enterprise means a new way of working for all employees. Implementing significant changes in employee behavior requires the ability to measure performance and reward appropriate actions through incentives and compensation. Often, what has been measured in the past is at odds with the new corporate strategy.

Some companies build one scorecard for the organization; others, like Saatchi, cascade this process down, creating individual scorecards and setting goals and objectives for each employee. In either case, the scorecard is designed to provide a direct link between the company's mission statement and the actions employees take every day.

At Hilton Hotels, for example, a security director may find a measure such as "number of guest losses per 10,000 rooms" on his scorecard. Dennis Koci, senior VP of operations support says, "everyone has things [on their scorecard] that they can directly control—that have an impact on the hotel's overall scorecard."

The scorecard enables an enterprise to ensure that all employees share the vision and know their role in achieving it. Norton and Kaplan note in their original article, however, that the scorecard "establishes goals but assumes that people will adopt whatever behavior, and take whatever action, is necessary to arrive at those goals." In other words, the approach is not about controlling behavior, but about helping the employee to see which actions will positively impact the end goal.

Hilton combines its scorecard with its new customer-centric approach to business. The hotel chain's balanced scorecard allows each property that the chain manages to get an up-to-the-minute look at how they are performing. Hilton tracks five dimensions on its scorecard: operational effectiveness, revenue maximization, customer loyalty, brand standards and learning and growth.

The customer-loyalty component recognizes that the hotelier has three customers: both internal and external, as well as the owners and investors of the managed properties. The organization has established metrics to measure loyalty for each of these customer groups.

Prior to implementing its scorecard, the general thinking at Hilton was that any reporting that went beyond individual properties would be demoralizing to those at the bottom. The reality, he notes, is that ranking the properties is "very motivating. Those in the upper half [of the property rankings] want to stay there, those on the bottom want to move up." It was, however, a huge change in thinking for the general managers. When it was unveiled, they realized that they were being held accountable; "the scores were going to impact the things they value, like their bonus and stock options," recalls Koci. "If you looked at performance evaluations prior to this, everyone got '3' out of '5.' There simply wasn't enough information to differentiate the great from the poor performers."

While they have had the HHonours loyalty program for some time, Hilton is just embarking on its CRM initiative. The scorecard and this new strategy are closely linked. "CRM will be the missing piece to help us drive customer-loyalty numbers," says Koci. "It will be the mechanism to help us move these loyalty measures for all customers." The scorecard will also be critical in helping Hilton understand whether "all the activities are actually paying off." Koci believes that "CRM will not be the program of the hour, because it has a real connection to key-performance indicators, and hence to people's bonuses."

Tools of the trade

Today's data warehouses have revolutionized a company's ability to track metrics from disparate places. Now, scorecarding is more effective than ever due to developments in the ability to track, report on and allow managers to drill down into the causes of change. Web- and intranet-based tools support the scorecarding process. They are enabling up-to-the minute decision making through the calculation of metrics on a real-time—or near real-time basis—as well as drilling down behind the aggregate measures, to better understand the causes.

In an effort to provide some consistency to the terminology, the Balanced Scorecard Collaborative assesses scorecard software for its compliance with Balanced Scorecard Functional Standards. Those applications that are deemed consistent with the standards are given a "Balanced Scorecard Collaborative Certified" mark.

To date, 15 products have been certified; many of these come from traditional CRM- or ERP-solutions vendors, such as PeopleSoft, Oracle, SAP and SAS. Other providers, like CorVu and Hyperion, make enterprise-performance management their primary business. Many applications link directly into existing solutions, creating one unified platform, while some tools only operate on the vendor's proprietary databases.

It's difficult to estimate the cost of this software implementation. Most companies charge per seat, so it will vary widely, based on how deeply the organization intends to disseminate the information. Norton estimates that software from a major vendor starts in the \$100,000 range.

Humble beginnings

While a large number of applications do exist, many of the companies contacted for this article have not implemented any of them. In fact, the majority of balanced-scorecard users began with a simple desktop tool—Microsoft Excel. This can be a good starting point, and useful in assessing required functionality and establishing metrics.

Saatchi & Saatchi began developing its scorecard in 1997 in Excel, and still uses the platform augmented through Visual Basic. Since its scorecard is shared with its global agency offices, the universality of Excel has been a huge factor in its ability to disseminate information across the enterprise. However, Melter admits that it's time consuming and cumbersome to operate this way. In fact, the company has considered software from SAS, Hyperion and CorVu to replace its spreadsheet application.

After outgrowing Excel, Hilton implemented Web-based CorVu software to share information and performance measures with its hotels in real-time. Now, if a general manager notices that the guest-loyalty score has dropped, he can drill down and discover the cause—such as delays at check-in.

This ability didn't come cheap. Hilton spent about \$1 million over eight months to customize the software to support scorecarding. Hilton is now partnering with CorVu to market these modifications to others in the hotel industry.

"Software is ultimately critical, but to get started, companies should keep it simple," says Norton. "Huge databases are not needed initially; the real value is on focusing everyone on the same goals." However, as companies go further, information systems will need to catch up, he says.

Norton and Kaplan, in their earlier book, "The Balanced Scorecard: Translating Strategy into Action," say that, "The balanced scorecard has its greatest impact when it is deployed to drive organizational change." CRM is about change, long-term. Companies that establish measurement targets for their scorecards three to five years out, the authors say, will achieve the greatest success.

Copyright © 2006 Carlson Marketing, Inc. All rights reserved.
Peppers & Rogers Group, is a division of Carlson Marketing.