

Audio-Tech Business Book Summaries



In this issue:

- ***Understand...***
how you can use a revolutionary new tool — the strategy map — to reveal links between intangible assets and value creation.
- ***Learn...***
how to create value from your strategy by managing four key processes: operations; customer relationships; innovation; and regulatory and social processes.
- ***Generate...***
superior performance by aligning your company's strategy with the most important intangible assets: human capital, information capital, and organization capital.
- ***Customize...***
your strategy map to each value proposition you can use to generate profits: (1) low total cost; (2) product leadership; (3) customer solutions; or (4) product lock-in.
- ***Energize...***
everyone in your organization to achieve the performance targets of your strategy by taking advantage of a six-step process that is spelled out in this summary.



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Strategy Maps

Converting Intangible Assets into Tangible Outcomes

by Robert S. Kaplan and David P. Norton

A summary of the original text.

An effective business strategy is a complex series of interconnections — a set of cause-and-effect relationships. Employees must know exactly *what* they're supposed to accomplish. They also need to know how they're doing, and that means being able to measure *how well* they're achieving strategic objectives.

And yet, the traditional ways to measure strategy have not provided enough insight to help leaders decide what to do next. That's because the usual measurements of a company's success have been *retrospective*, looking backward to previous quarterly and annual results rather than forward to the future.

Thus, many companies have suffered from concentrating on what they *had done*. They paid much less attention to the intangibles that determined what they *have to do now* — *and in the future*.

That's why there's been little emphasis on managing intangible assets. However, they're the resources that make up the foundation for tomorrow's financial success.

Before we go further, let's understand what we mean by an intangible asset. It can be the *knowledge that exists in an organization to create differential advantage* — *and to satisfy customer needs*.

Intangible assets consist of things like employee capabilities, databases, information systems, customer relationships, quality, responsiveness, and products or services.

Generally, a company's intangible assets account for 75 percent or more of its market value. Conversely, its tangible assets represent less than 25 percent.

That reality has great implications for executives.

In order to create value for shareholders and customers, they must use strategy maps to identify their critical processes and to measure how well aligned their intangible assets are to these processes.

Why are strategy maps important for you and your organization?

The answer is that it's critical for you and your employees to understand *what* the strategy is — and *why* it makes business sense.

The maps provide visual clarity to help your people see, discuss, and understand the strategy. On one page, the map will highlight which processes and actions are critical, and which are secondary.

If your business strategy isn't working as well as it should, strategy maps can help you figure out what went wrong and make it right.



STRATEGIES AND STRATEGY MAPS

This summary introduces the following:

- First, strategy map *templates* describing the basic components of how value is created internally.
- Second, *themes* that articulate a strategy's dynamics.
- Third, a new *framework* for describing, measuring

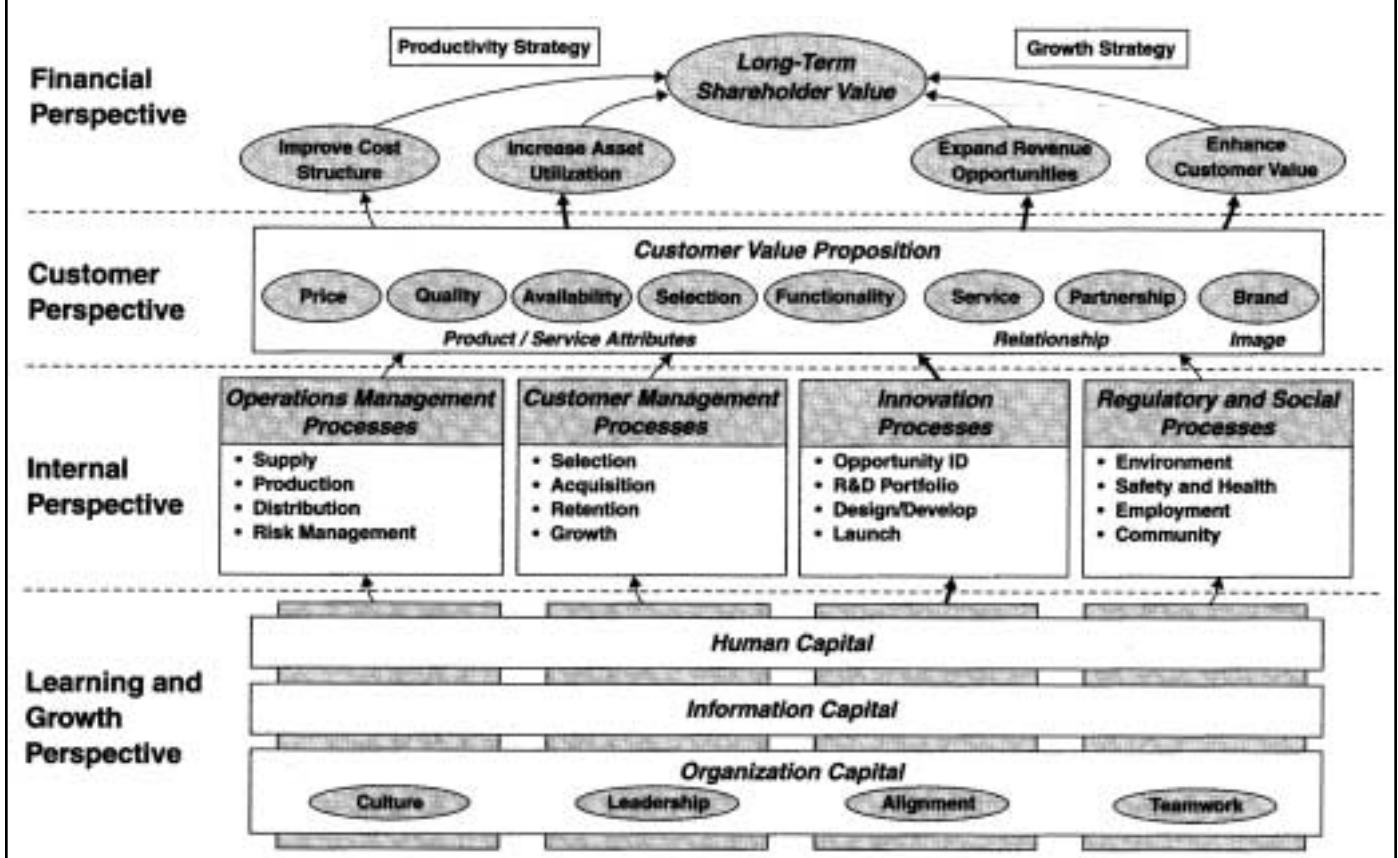
and aligning *human capital, information capital, and organization capital.*

A strategy map visualizes — from four perspectives — the cumulative process by which an organization creates value. The perspectives, from top to bottom on the map, are: *financial, customer, internal, and learning and growth.*

You can think of the perspectives as four building blocks, with each perspective providing leverage for the one above it:

- First, learning and growth is the foundation for *the internal perspective* by asking the question, "To achieve our vision, how must our company learn and improve?"

STRATEGY MAPS ILLUSTRATE HOW THE ORGANIZATION CREATES VALUE



- Second, *the internal perspective* provides the foundation for the customer perspective through the question, "To satisfy our customers, which processes must we excel at?"
- Third, *the customer perspective* supports the financial perspective by asking, "To achieve our vision, how must we look to our customers?"
- Fourth, *the financial perspective* supports the overall business strategy by asking, "If we succeed, how will we look to our shareholders?"

As the illustration on page 2 shows, the model can be broken down even further for more detailed insights. For example, the learning and growth perspective encompasses three forms of intangible capital: human, information, and organization.

- *Human capital* consists of employees' skills, talent, and knowledge.
- *Information capital* consists of databases, information systems, and networks.
- *Organization capital* consists of culture, leadership, employee alignment, teamwork, and knowledge management.

Learning and growth drive the internal perspective, consisting of the four key internal processes:

1. Operations
2. Customer management
3. Innovation
4. Regulatory and social

Each of these processes depends on several factors. For example, the customer management process rises or falls depending on these factors: selection, acquisition, retention, and growth.

In turn, the elements in the four processes — usually indicated on the strategy map by arrows — determine the customer value proposition. That includes product attributes, relationships with customers, and brand image.

Finally, the strategic success of an organization's customer value proposition determines how well it contributes to key objectives in its financial perspective, particularly growth in revenues and margins.

The template indicates — through the arrows — the relationships between various company elements and objectives.

For example, the arrows show that sustaining long-term shareholder value depends on the following factors: Improving the cost structure, strengthening asset utilization, expanding revenue opportunities, and enhancing customer value.

Thus, a strategy map outlines the cause-and-effect relationship among the factors critical to a company's financial

success. It's a roadmap to future financial success.

The map takes companies from strategy *formulation* to strategy *execution*. If your company is missing even one element, it may have a potentially crippling gap in its strategy.

For example, in the *customer perspective*, the strategy should address the following elements: price, quality, availability, selection, functionality, service, partnership, and brand image.

You probably won't lead your industry in every element, but you should pay attention to all of them.

A product without quality probably can't have a low enough price to make it attractive. Also, an otherwise outstanding product that's unavailable has no real value to a customer.

Beyond those considerations, the strategy map is based on four principles.

One is that *strategy must balance contradictory forces*. For example, companies must focus on creating sustained growth in shareholder value, which means they need to make a commitment to the long term. At the same time, however, they need to show improved results in the short term. The strategy has to balance both of these forces.

Secondly, *strategy is based on a differentiated customer value proposition*. You must

articulate clearly the distinctive customer segments you target and the specific value proposition that will please each of them. There are four major value propositions:

1. Low total cost
2. Product leadership
3. Complete customer solution
4. System lock-in

Each of these value propositions clearly defines the attributes that the strategy must deliver in order to satisfy the customer.

The third principle is that *value is created through internal business processes*. Companies must first identi-

fy and then focus on the critical few internal processes that deliver the differentiating value proposition.

Finally, the fourth principle states that *strategic alignment determines the value of intangible assets*. As we've already discussed, intangible assets consist of human capital, information capital, and organization capital. The point is that none of these assets is valuable by itself; the value comes from its ability to help the company implement its strategy. The authors' research, however, shows that two-thirds of companies do not create strong alignment between their strategies and their HR and IT programs. As a result, they are not getting a good return on

their investments.

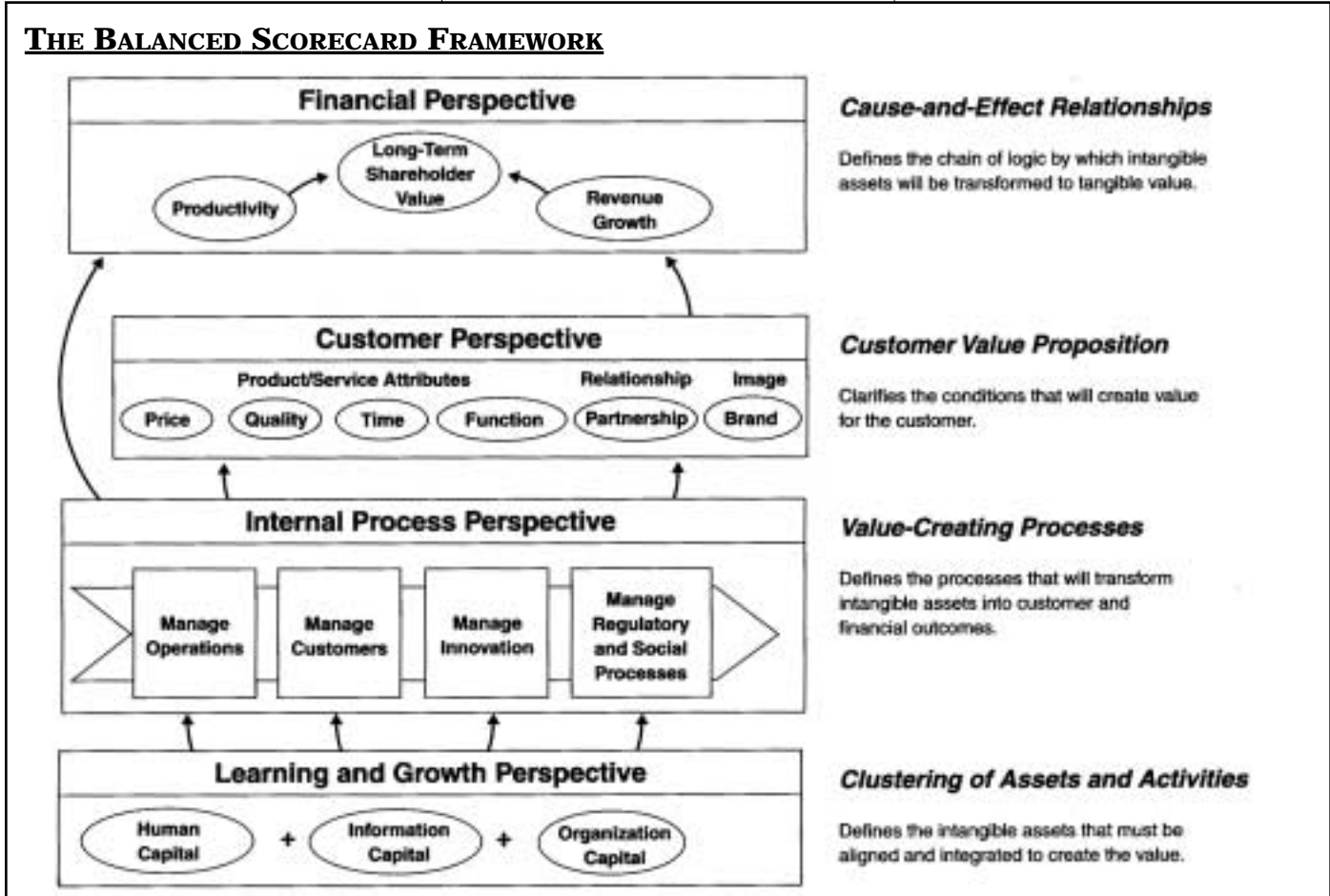


THE BALANCED SCORECARD: AN INDISPENSABLE COMPONENT OF STRATEGY MAPS

The strategy map translates the strategy and opens it up for discussion and fine-tuning. In combination with the Balanced Scorecard, it enables focusing and measuring the various components of the strategy.

The Balanced Scorecard is a step in a continuum that describes how a company defines value, how it creates it, and how it measures it.

The objectives in the learning and growth perspective are to



identify the jobs — or human capital — the systems — the information capital — and the work climate — the organization capital — needed to support the value-creating internal processes.

Here, the measurements will be difficult, but not unattainable. For example, retention rates, new products, and the number of new patents are highly measurable.

Of course, a major purpose of strategy maps is to facilitate discussions among managers. The maps enable them to see and connect relationships among the objectives. There may be disagreements, but they should be matters of degree.

Achieving objectives doesn't just happen by accident. They're the *effects* that derive from specific *causes*. Also, fulfilling one objective allows the fulfillment of others.

For example, improving employee capabilities in certain job positions — coupled with new technology — should enable improvement in a critical internal process.

Additionally, the stronger processes should lead to better products. That would enhance the value proposition for customers, increasing their satisfaction, loyalty, and willingness to buy more products.

These improved customer outcomes should result in increased revenues and enhanced shareholder value.

Building a good strategy map requires intense reflection on how a company really creates value. That's not always self-evident.

Consider the situation at Gray-Syracuse, a maker of precision casting parts. In developing its strategy map, the company learned something surprising. Its front-line production workers were best able to reduce expensive reworks, improve quality, and increase customer satisfaction.

Gray-Syracuse directed its limited training dollars to its entry-level people, the mold assemblers. In so doing, the company cut in half the time required to achieve its strategic objectives.

Strategy maps link desired outcomes in the customer and financial perspectives to outstanding performance in four critical internal processes — operations management, customer management, innovation, and regulatory and social processes.

The next section will look in depth at the first two of these value-creating processes: *operations management* and *customer management*.



VALUE-CREATING PROCESSES: OPERATIONS MANAGEMENT AND CUSTOMER MANAGEMENT

Operating processes produce and deliver goods and services to customers. By itself, operational excellence won't

sustain a strategy. However, *without* such excellence, companies will have trouble with strategic execution.

Operations management involves four important elements:

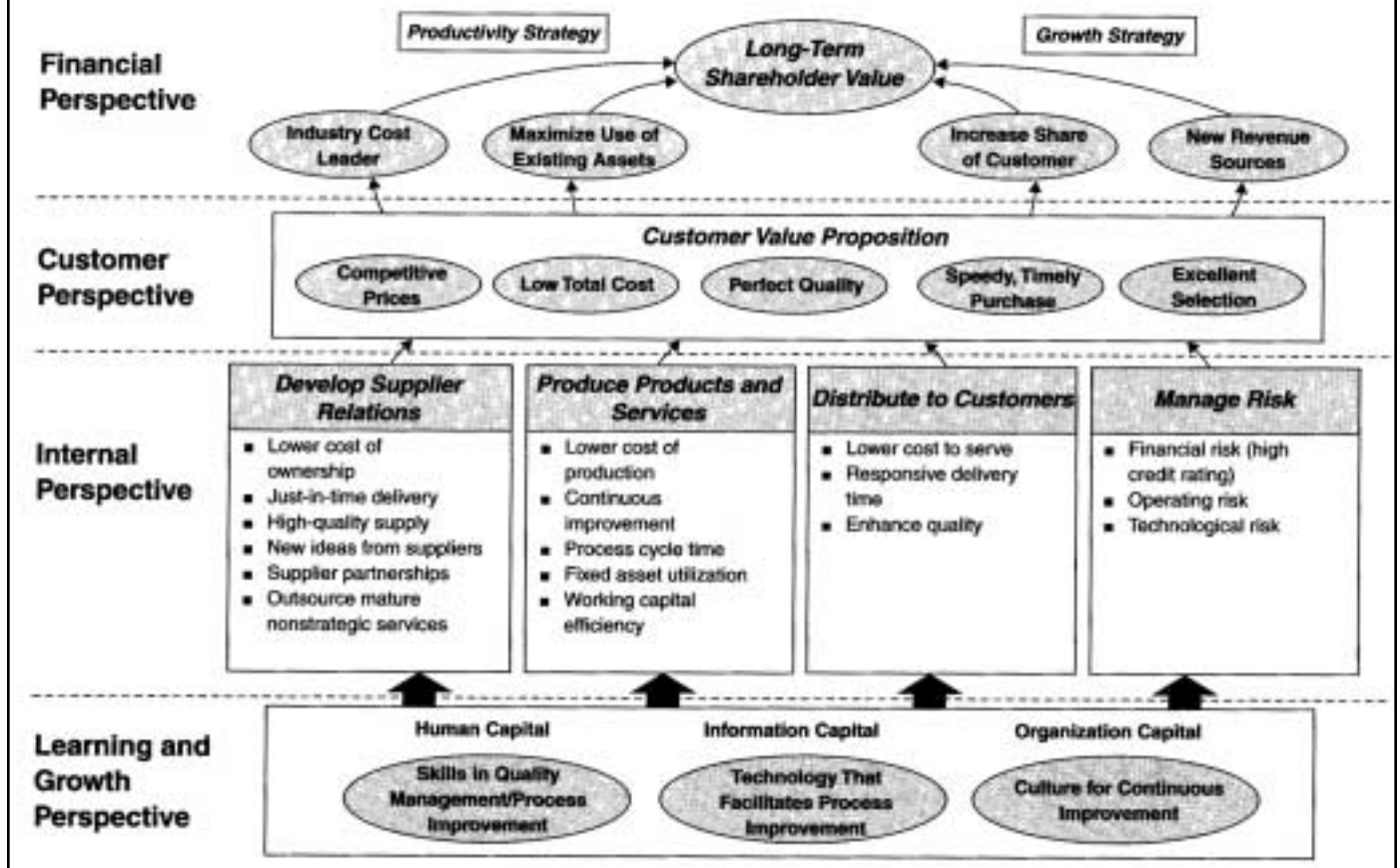
1. Develop financially strong supplier relationships
2. Produce good products
3. Distribute and deliver those products to customers
4. Manage risk

For many world-class companies, the ability to *develop and sustain supplier relationships* is essential to creating value. For example, Toyota and Wal-Mart require their suppliers to produce high-quality products on short notice and deliver them reliably.

Having effective supplier relationships means the company will have lower total cost to acquire the goods, materials, and services it needs. The total cost includes the purchase prices, as well as costs related to procurement, moving, inspection, payment, and storage costs.

Among the ways to lower such costs include finding suppliers that accept electronic orders and payments — and that deliver products just-in-time. At Wal-Mart, point-of-sale terminals trigger production runs at vendor locations.

OPERATIONS MANAGEMENT STRATEGY MAP TEMPLATE



The second important operational process is to *produce products*. The key objectives include: lowering production costs; continuously upgrading processes and responsiveness; strengthening fixed asset utilization; and improving working capital efficiency.

The third key operations process is to *distribute and deliver products and services to customers*. The objectives are to reduce cost and time, while minimizing product defects and customer complaints.

The fourth critical operations process is *managing risk*. That's particularly important for companies facing interest rate movements and foreign exchange fluctuations.

In each operations process, it's essential to have value-creating objectives and sound measurement tools. For example, with suppliers, you should measure the percentage of on-time deliveries.

There are two initiatives that can help companies make fundamental improvements in operating processes: *activity-based management*, or *ABM*, and *total quality management*, or *TQM*.

ABM enables managers to get good results from an activity-based costing system. As you learn each activity's cost, it will help you attack the costs of inefficiency and low-value activities. TQM is an effort to improve quality in every aspect of your

organization's activities.

There are various ways in which strategy maps can provide significant value — even to companies that are far along in their quality efforts.

- First, *providing clear causal linkages from quality improvements to measurable customer and financial outcomes*.
- Second, *establishing targets for breakthrough, industry-leading performance*.
- Third, *identifying entirely new processes to help achieve strategic objectives*.
- Fourth, *setting strategic priorities for process*

enhancements.

The second key operations management process is customer management. In the Industrial Era, products were *primary*, and customers were *secondary*.

Now, however, building customer relationships is increasingly important. At companies like Levi Strauss and Dell Computer, customers can design their own product configurations.

Increasingly, customer management processes are essential to help companies acquire, sustain, and grow long-term relationships with customers.

Customer management consists of four generic

internal processes, including:

1. *Selecting customers* by identifying important market segments and crafting an appealing value proposition for them.
2. *Acquiring customers* by communicating the brand message to the market, securing prospects, and converting them to your products.
3. *Retaining customers* by ensuring quality, correcting problems, and transforming casual buyers into rabid fans.
4. *Growing relationships* with targeted customers by gaining their trust and getting a bigger

share of their business.

It's true that some companies' internal processes concentrate only on quality, cost reduction, and efficiency. But they're neglecting customer-centered processes that can produce higher margins.

The figure shown below summarizes the elements involved in a strong customer management strategy.

The customer management template looks at customer management from the usual four perspectives: learning and growth, internal, customer, and financial.

The template goes far beyond general statements about building strong relationships. For example, it segments the

CUSTOMER MANAGEMENT SCORECARD TEMPLATE

Perspective		Objective	Measure
Financial		<ul style="list-style-type: none"> ■ Create new sources of revenue ■ Increase revenue per customer ■ Increase customer profitability ■ Improve sales productivity 	<ul style="list-style-type: none"> ■ Revenue from new customers ■ Share of wallet ■ Profits per customer (ABC) ■ Cost of sales (by channel)
Customer		<ul style="list-style-type: none"> ■ Increase customer satisfaction (with value proposition) ■ Increase customer loyalty ■ Create raving fans 	<ul style="list-style-type: none"> ■ % customers highly satisfied ■ Customer retention ■ Depth of relationship ■ % business from customer referrals
Internal Process	Selection	<ul style="list-style-type: none"> ■ Understand segments ■ Screen unprofitable customers ■ Target high-value customers ■ Manage the brand 	<ul style="list-style-type: none"> ■ Contribution by segment ■ % unprofitable customers ■ # strategic accounts ■ Brand awareness/preference
	Acquisition	<ul style="list-style-type: none"> ■ Communicate value proposition ■ Customize mass marketing ■ Acquire new customers ■ Develop dealer networks 	<ul style="list-style-type: none"> ■ Brand awareness ■ Campaign response rate ■ # leads/conversion rate ■ Dealer quality rating
	Retention	<ul style="list-style-type: none"> ■ Provide premium customer service ■ Create sole source partnerships ■ Provide service excellence ■ Create lifetime customers 	<ul style="list-style-type: none"> ■ # premium customers ■ % revenue from sole source ■ Service levels (by channel) ■ Customer lifetime value
	Growth	<ul style="list-style-type: none"> ■ Cross-selling ■ Solution selling ■ Partnering/integrated management ■ Customer education 	<ul style="list-style-type: none"> ■ # products per customer ■ # jointly developed service agreements ■ \$/S from gain-sharing agreements ■ Hours with customer
Learning and Growth	Human Capital	<ul style="list-style-type: none"> ■ Develop strategic competencies ■ Attract and retain top talent 	<ul style="list-style-type: none"> ■ Human capital readiness ■ Key employee turnover
	Information Capital	<ul style="list-style-type: none"> ■ Develop strategic CRM portfolio ■ Increase knowledge sharing 	<ul style="list-style-type: none"> ■ Application portfolio readiness ■ # customer KMS hits/employee
	Organization Capital	<ul style="list-style-type: none"> ■ Create customer-focused culture ■ Create personal goal alignment 	<ul style="list-style-type: none"> ■ Customer survey ■ Employee objectives linked to BSC

internal process into *selection, acquisition, retention, and growth*.

It then divides the processes into various objectives, including: understanding segments, screening out unprofitable customers, targeting high-value customers, and managing the brand.

Measurements are equally distinctive. They include: determining the profits from each customer segment; calculating the percentage of unprofitable customers; adding up the number of strategic accounts; and evaluating the customers' degree of brand preference.

In each perspective, the careful measurements will hold everyone's feet to the

fire. They will allow you to determine once and for all whether your strategy is really working.



INNOVATION PROCESSES AND SOCIAL AND REGULATORY PROCESSES

Now that we've explored the first two types of value-creating processes, let's discuss the other two types: *innovation* processes and *social and regulatory* processes.

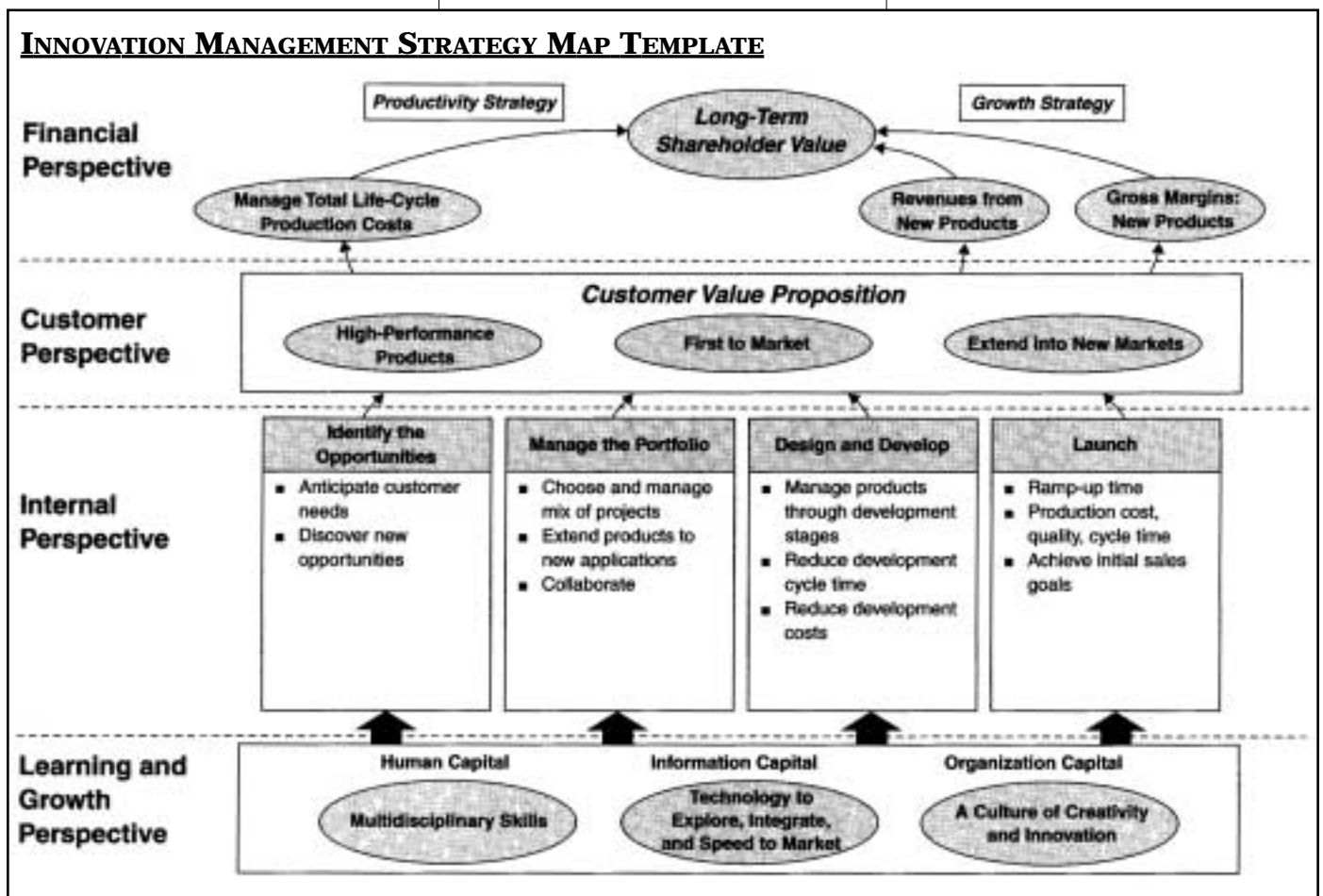
Innovation is particularly important in industries — such as semiconductors, software, and telecommunications — where customers constantly demand new products that are faster,

cheaper, smaller, and better than the products that were just introduced.

Managing innovation includes four important internal processes:

1. Identifying opportunities for new products.
2. Managing the R&D portfolio.
3. Designing and developing the new products.
4. Bringing new products to market.

In *identifying opportunities for new products*, the objectives for the idea and opportunity innovation process include: (1) anticipating future customer



needs; and (2) discovering and developing new products.

Measures for those objectives would include: time spent learning targeted customers' needs, the number of client-driven new projects launched, and the number of new projects presented for development.

The second innovation process — *managing the R&D portfolio* — should include a mix of different types of projects from the following categories: basic R&D, breakthrough projects, next-generation development projects, development projects, and alliance projects.

To illustrate these projects, consider the product portfolio of an automobile company:

- A *basic research* project might be a fuel cell to replace the gasoline-powered engine.
- A *breakthrough development project* would produce a hybrid auto capable of running either on a battery or gasoline.
- A *next-generation project* would be a new line of hybrid cars.
- *Development projects* would develop different models of the hybrid car, such as two-door, four-door, and convertible.
- An *alliance project* would occur when the company turns to another automaker for design

and development.

The third innovation process is to *design and develop truly new products*. That typically consists of a series of stages: concept development, product planning, and detailed product and process engineering.

This effort tests whether the new manufacturing processes can bring about the finished product at commercial volume levels, and meet functional and quality standards.

Of course, companies usually do not innovate simply for the sake of creating interesting new ideas. There must be a linkage between the innovations and the goals in the customer perspective, such as:

- Offering superior product performance compared to earlier versions.
- Getting to the market first with a new product or service.
- Expanding products into new market segments.

Naturally, these outcomes are also linked to financial objectives on the strategy map. Innovation should produce a solid return on R&D investments, as well as revenue growth from new and existing customers.

Innovation processes often receive less management attention than operations and customer management.

But all organizations need at least one innovation objective on their strategy maps.

And, for companies whose strategies require they be product leaders, innovation can be crucial to their success.

Of course, the benefits of innovation won't be fully achievable for companies operating in restrictive regulatory and social environments. To avoid shut-downs, community ill will, and expensive litigation, companies must comply with social and regulatory obligations.

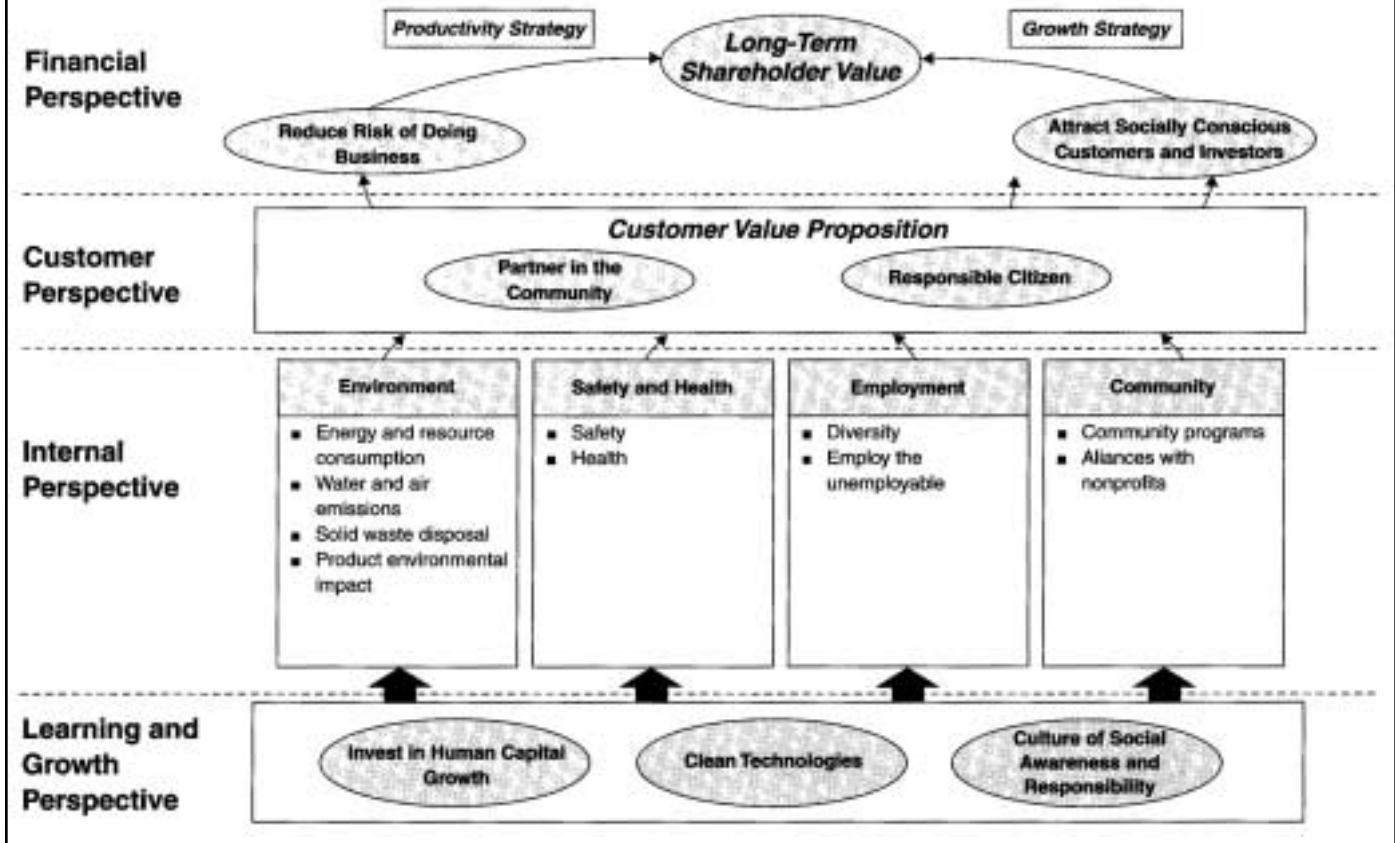
In fact, there can be benefits to leading in this area. Such companies tend to become employers-of-choice and beneficiaries of community goodwill.

Companies manage their regulatory and social performance along several dimensions, including: environment, health and safety, employment practices, and community investment.

In each area, creative companies generally can leverage their capabilities to create shareholder value. In other words, they can do *well* financially by *doing good* things, ethically and socially.

In the Regulatory and Social Strategy Map Template shown on page 10, these activities can be linked to financial objectives, such as reducing the risk of doing business and attracting

REGULATORY AND SOCIAL STRATEGY MAP TEMPLATE



socially conscious customers and investors, that build long-term shareholder value.

Consider environmental practices. Companies like Xerox have found that waste isn't only a nuisance, but also a cost — for example, in shipping materials to landfills.

Xerox reduced costs by paying more attention during the design stage to environmental impacts, and by operating effective programs in product take-backs.

Such efforts can lower the total cost of producing and recycling products. And they can improve the company's reputation as an environmentally friendly

business and a good place to work.



ALIGNMENT IN HUMAN CAPITAL, INFORMATION CAPITAL, AND ORGANIZATION CAPITAL

Good places to work embrace more than social responsibility. They also manifest a willingness to train their people in ways that allow them to execute the organization's strategy.

The learning and growth perspective highlights the need to align intangible assets with strategy. The assets central to implementing any strategy are: human capital, information capital, and organization capital.

All intangible assets succeed or fail based on their synergies. Their alignment with strategy is what creates value.

Remember: Intangible assets encompass such items as: patents, copyrights, workforce knowledge, leadership, information systems, and work processes.

In the learning and growth perspectives, six objectives consistently appear:

First, in human capital, the objective is to *create strategic competencies*.

Second, with information capital, the objective is *strategic information*. With organization capital, there are four parts, so the

third objective is *culture*, the awareness and internalization of the shared mission, vision, and values.

Fourth, *leadership*, the availability of leaders to mobilize the organization.

Fifth, *alignment*, the combining — company-wide — of goals and incentives with the strategy.

Sixth, *teamwork*, the sharing of strategically important knowledge and staff assets.

Alignment and integration aren't as easy as they might seem. One global bank attempted to differentiate itself by offering sophisticated financial products to customers.

The strategy failed because the complex information technology needed to implement it wasn't made available in a timely fashion. Yet the firm's CEO insisted the information services system was performing well.

In one sense, he was right. The unit had benchmarked itself against world-class information services operations. So, it must be world-class itself, right?

Not exactly. It had failed miserably to deliver the right services needed for the bank's strategy. It was a system designed not to support its own company's needs, but to match the performance of similar units in other companies it had benchmarked.

Strategy maps — and the discussion they encourage — could help save companies from such a fate.

That's because a firm's strategy map provides a common point of reference for employees and units to see how clearly their roles dovetail with the business strategy.

Companies need to develop, align, and integrate their human, information, and organization capital to the critical few strategic processes. That will allow them to create the greatest returns from their intangible assets.

Organizations need to identify human capital requirements for the strategy. Then, they must estimate the gap between the human capital requirements and current employee readiness. Finally, they must build requirements and improve readiness to execute the strategy.

The process of measuring human capital readiness starts by identifying key competencies — those required to perform each critical internal process in the map.

Strategic job families are the positions with employees who will have the greatest influence on enhancing these internal processes.

Competency profiles describe in detail their *job requirements* for employees in the strategic job families.

Assessment processes define the *current capabilities* —

in light of the competency profiles — in each job family.

The *competency gap* is the difference between the requirements and the current capabilities. That shows the organization's human capital readiness.

Organizations should build their human capital development programs using two highly useful tools: the *strategic job family* approach to develop specific competencies, and *strategic values* to make the strategy everyone's job.

The second essential intangible asset is *information capital readiness*.

Information capital is the raw material for creating value in a modern economy. It consists of systems, databases, libraries, and networks.

Of course, all intangibles in a strategy map are worthy of support. However, the *level* of support will depend on your strategy. For example:

- With a strategy based on *low costs*, the highest returns come from information systems that focus on the following: quality, process improvement, and workforce productivity.
- With a strategy based on *building strong relationships with customers*, the greatest benefits come from information systems that do two things: first, reveal

knowledge about customer preferences and behavior and, second, enhance customer contact, service, and retention.

- With a strategy based on *product superiority*, information capital will enhance the product design and development process. It will accomplish that through tools such as three-dimensional modeling, virtual prototyping, and CAD/CAM.

Information capital has value only in the context of the strategy. It must be managed to *align with the strategy*.

The old mind-set for managing

information capital was to evaluate performance by cost and reliability. The new mind-set emphasizes evaluation based on strategic alignment.

In other words, organizations must manage information capital not as a *cost*, but as an *asset* — one whose value depends on how it contributes to executing the institution's strategy.

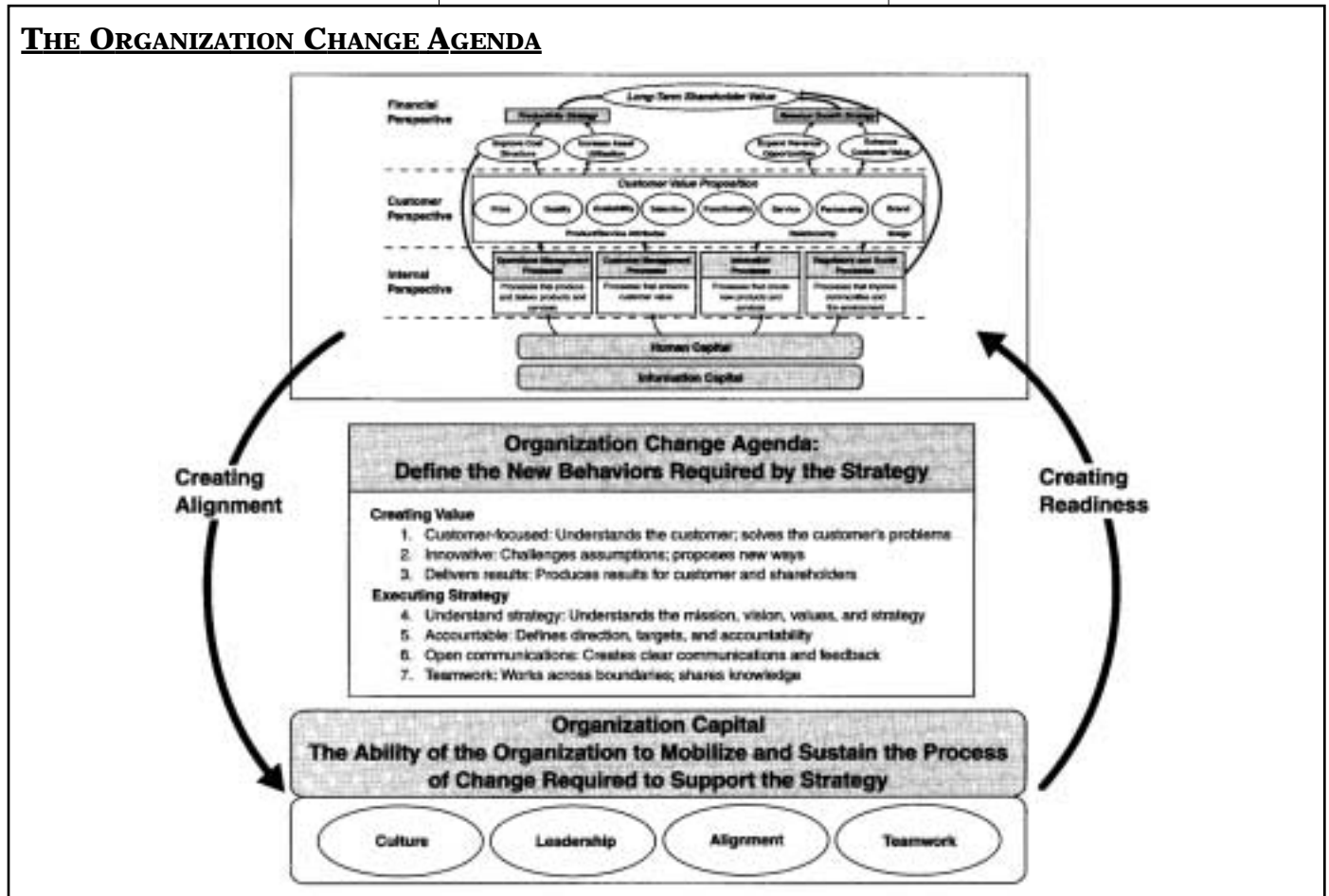
Companies must also develop *organization capital*. That refers to the company's ability to mobilize — and sustain — the process of change required to execute the strategy. Improvement generally means change, and good strategies include a change agenda.

There are four elements that enable organization capital to play a key role in executing the strategy. These are culture, leadership, alignment, and teamwork.

A strategy often requires changes that may include: new products, new processes, or new customers. In turn, these changes define new behaviors and values needed by the workforce.

The first step in developing an organization capital strategy is to define the change agenda. This is illustrated in the Organization Change Agenda figure that is shown below.

The objectives fall into two categories of behavioral change. One relates to



changes required to create customer and shareholder value. The second consists of changes needed to execute the strategy.

Generally, three kinds of behavior changes are especially important for value creation:

- Focusing on the customer
- Innovating
- Delivering results

Four additional behaviors are critical to executing strategy:

- Understanding the mission, strategy, and values
- Creating accountability
- Communicating openly
- Working as a team

Of course, some companies shy away from managing hard-to-measure factors like human capital, information capital, and organization capital. Granted, the measures will be softer than the financial variety.

But there are significant benefits just from the good faith effort to measure intangible assets. It communicates the importance of these drivers to value creation.

Learning and growth measures of the intangible assets stimulate the improvements in internal processes that are necessary to become a

successful strategy-focused organization.



CUSTOMIZING YOUR STRATEGY **MAP TO YOUR STRATEGY**

Your own specific strategy will determine your organization's strategic thrust. A company competing on product leadership will highlight innovation, while a company competing mainly on cost will emphasize operations management.

Regardless of its strategy, a successful company is one that creates value for its suppliers, employees, customers, and host communities. But the company absolutely must create value to reinvest in itself and to reward its shareholders.

Let's discuss each of the four types of value propositions that companies can use to generate attractive profits. They are:

1. Low total cost
2. Product leadership
3. Complete customer solutions
4. Product lock-in

A classic example of a company that uses a low total cost strategy successfully is Wal-Mart. It conducts tough negotiations with vendors, providing them with very high volume purchases in exchange for low costs.

Then, it transfers some of the value to customers through low prices. At the same time, it retains attractive margins for itself.

In addition to Wal-Mart, other strong companies pursuing a low total cost strategy include: Southwest Airlines, Toyota, Dell Computer, Vanguard Mutual Funds, and McDonald's.

These companies do more than provide very competitive pricing. In that regard, remember the Yugo — a low-priced car whose poor quality turned off potential buyers.

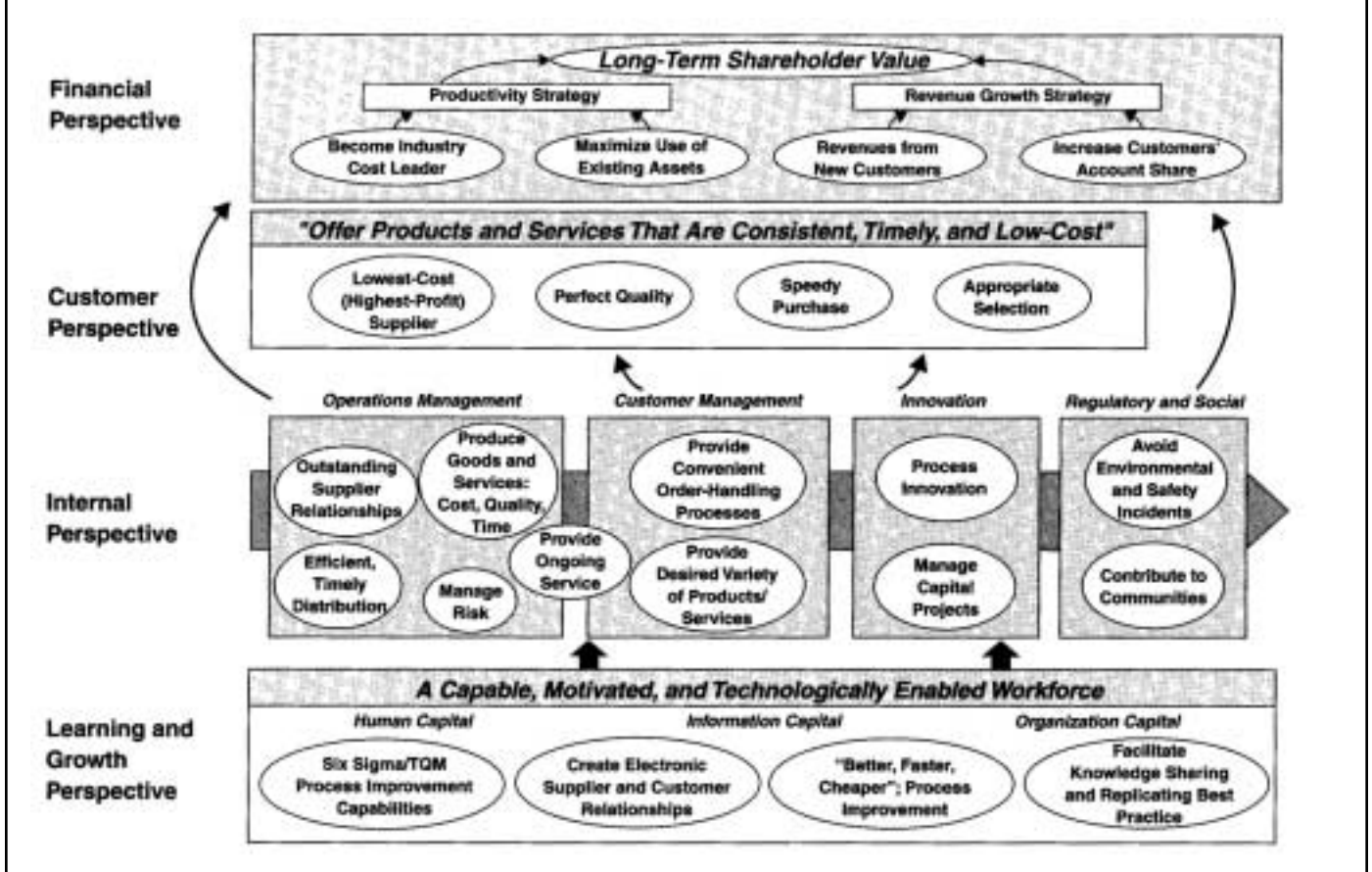
An effective low total cost strategy offers highly competitive prices, and combines them with consistent quality, ease and speed of purchase, and decent product selection.

Companies like Wal-Mart, McDonald's, and Dell keep customers' costs down by saving them time. They do that by reducing the time required to order and to receive the product.

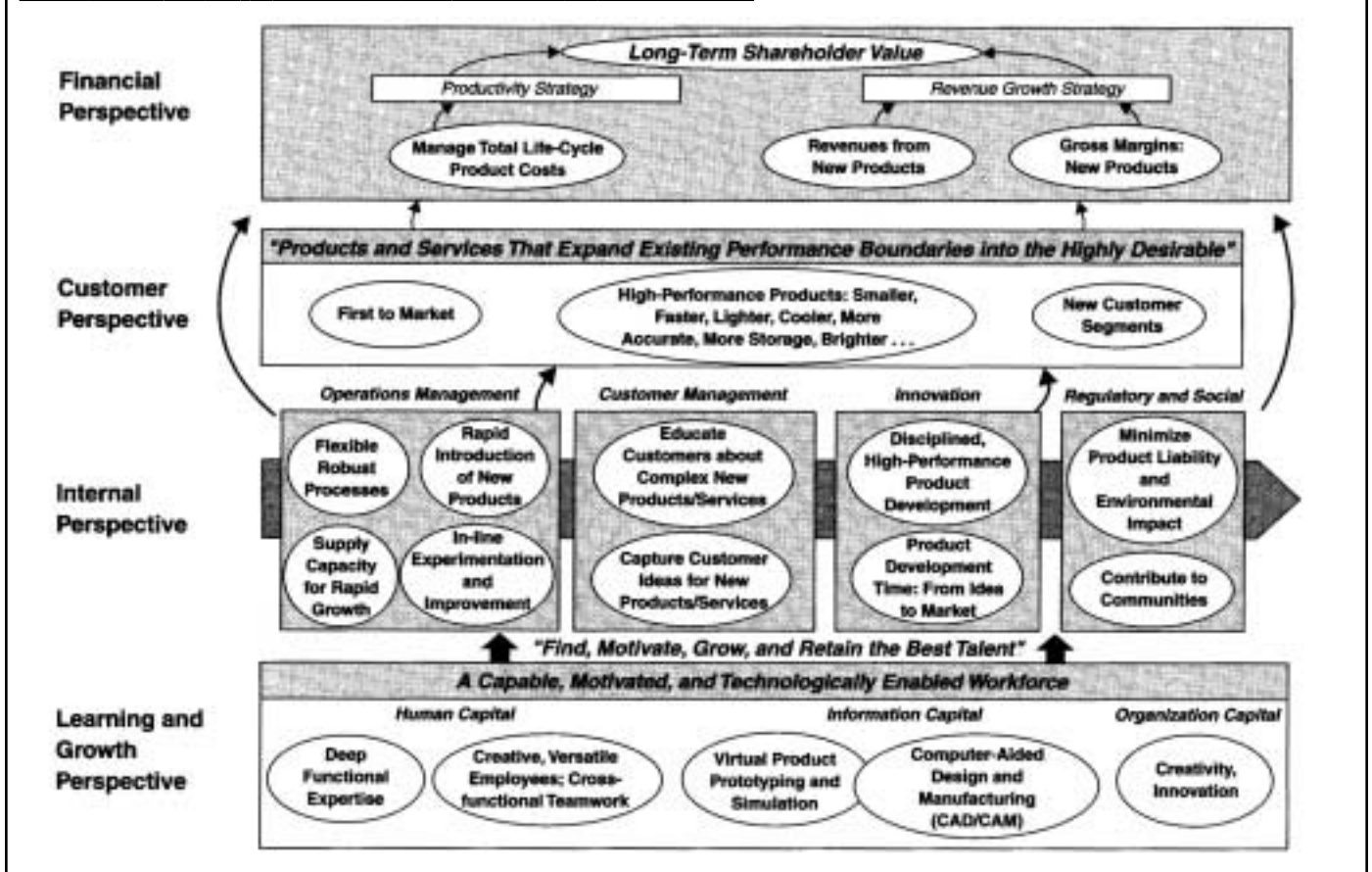
The best low total cost companies generally organize their strategy maps to support two general objectives:

1. Having a capable, motivated, and technologically enabled workforce.
2. Offering products and services that are consistent, timely, and low-cost.

STRATEGY MAP TEMPLATE: LOW TOTAL COST



STRATEGY MAP TEMPLATE: PRODUCT LEADERSHIP



A strategy map template for a low total cost strategy shows that key internal processes occur within the operations management area of the internal perspective. They include: good relationships with suppliers; highly efficient operating processes; and rapid inventory turnover.

Other factors include: simple, accessible ordering processes; a willingness to be product followers rather than leaders; a willingness to embrace continuous process improvement; and an emphasis on company-wide sharing of best practices.

The second type of value proposition, *product leadership*, is used by companies such as Sony, Mercedes, and Intel that emphasize product innovation and leadership.

Product leadership companies want to be first-to-market with their innovations or enhancements.

Why? Because that allows them to command high prices from early adopters. In many cases, being first-to-market can impose high switching costs that let companies defend their market positions without major cost cutting.

In the strategy map template for product leadership companies shown on page 14, the key internal processes are in the innovation area of the internal perspective. The companies must excel at:

1. Anticipating customers' needs.
2. Discovering new opportunities for superior products and services.

Other essential objectives include superb product development processes, and excellence in patenting, regulatory, and branding processes.

The third value proposition is *complete customer solutions* — basically, building long-lasting relationships with customers. That requires companies to develop customized solutions.

From about 1960 to 1980, this strategy characterized IBM. It didn't offer the lowest prices, or the most reliable delivery, or the most functional products.

But it did offer its customers complete solutions — hardware, software, installation, field service, training, education, and consulting. Moreover, it personalized the services to meet the customer's unique needs.

Companies in this category emphasize customer retention more than customer acquisition. They recognize that retention typically costs much less than acquisition.

A strategy map template for firms that follow this strategy is illustrated on page 16 and shows that the key internal processes are in the customer management area of the internal perspective.

Such companies' deep understanding of their customers leads to lasting relationships.

The final value proposition deals with *lock-in strategies*. Under that approach, companies generate long-term sustainable value by creating high switching costs for customers.

For example, people who consider switching from the widely used Microsoft Windows operating system to the user-friendly Apple system can't do so with impunity. That's because many application programs run only on Windows.

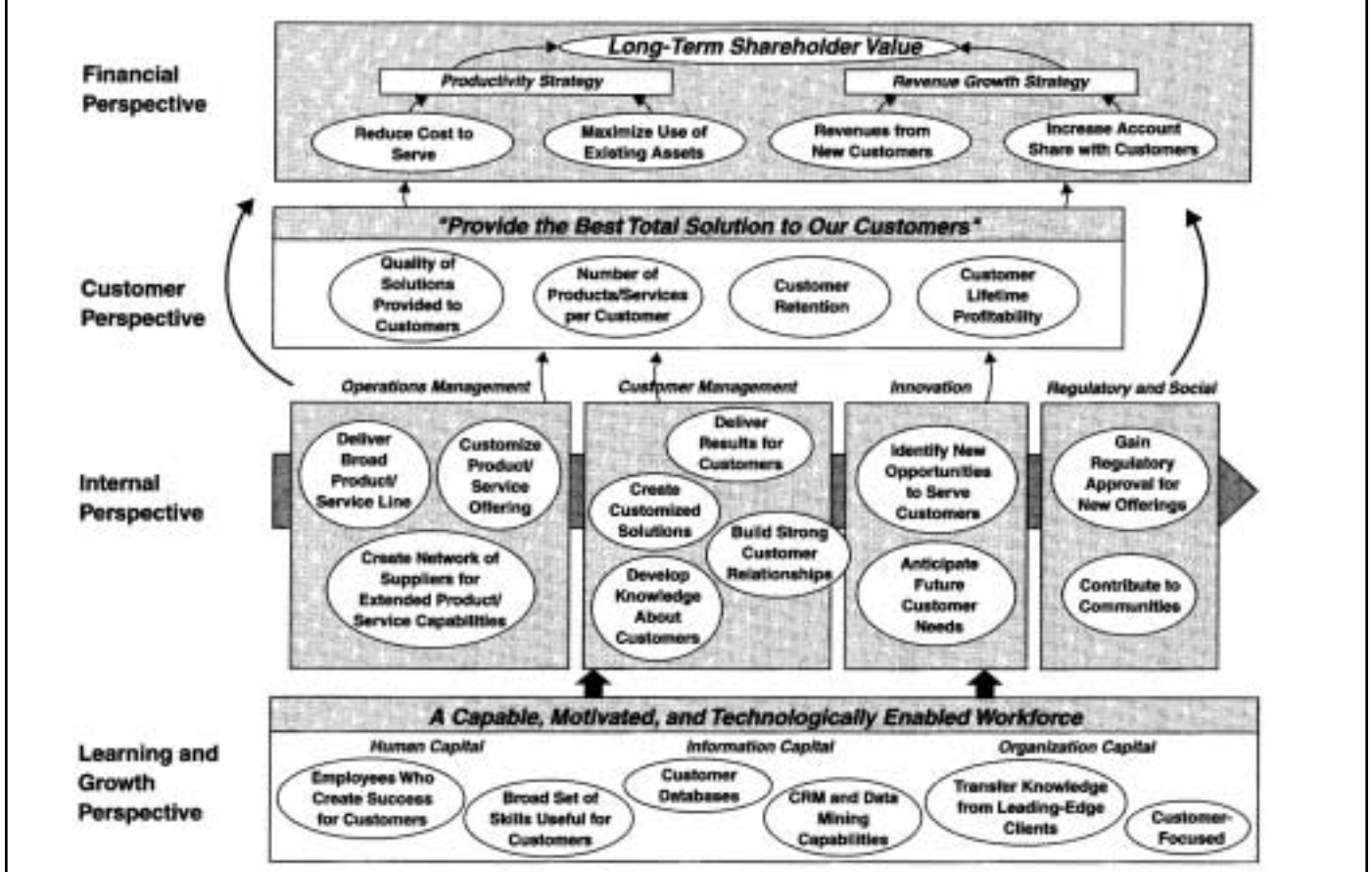
System lock-in occurs mainly when a company's core products become the industry standard. For that reason, companies that pursue a lock-in strategy focus on the innovation area of the internal perspective. They need to:

1. Develop and enhance proprietary standards.
2. Increase the breadth and application of those standards.
3. Lower potential customers' switching costs.

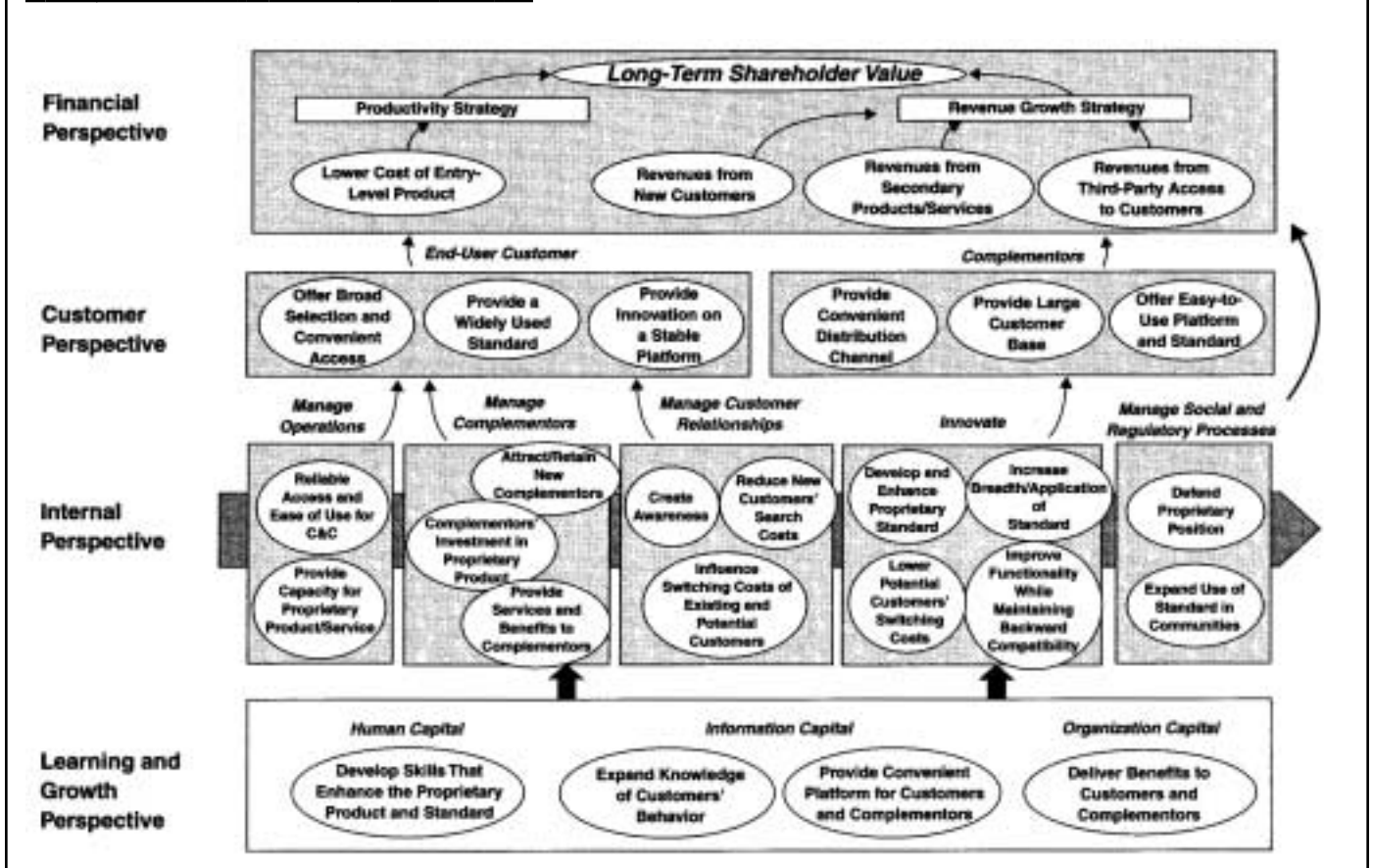
Overall, a company's strategy will contain many objectives. It will be most successful when integrated, aligned activities allow the company to offer a unique value proposition.

Your organization's strategy map should tell the unique

STRATEGY MAP TEMPLATE: COMPLETE CUSTOMER SOLUTIONS



STRATEGY MAP TEMPLATE: LOCK-IN



story of *your strategy* — one that differentiates you from the competition.



STRETCH TARGETS AND SUB-TARGETS FOR PERFORMANCE BREAKTHROUGHS

Clearly, developing your distinctive strategy requires a good deal of thought, discussion, and debate — exactly what strategy maps can encourage.

But remember that a strategy isn't merely an opportunity for *reflection* and *discussion*. It's a *call to action*.

Strategy maps must be dynamic, not static — viable in the workplace and workable in the marketplace.

Your strategy requires a continuing campaign designed to inform and energize everyone in an organization.

Planning the strategic campaign means taking a six-step process:

- First, *define the shareholder/stakeholder value gap*.
- Second, *reconcile the value proposition for targeted customers*.
- Third, *establish the timeline needed to close the value gap*.
- Fourth, *identify the value-creating themes*.
- Fifth, *create strategic*

asset readiness.

- Sixth, *identify and fund the strategic initiatives*.

Let's look at the process more closely.

The first step, *determining the shareholder value gap*, begins with defining the overall objectives and measures. In the case of Consumer Bank, it set a stretch target of increasing net income by a whopping \$100 million within five years.

Once you've established a stretch target, you can often discover a *planning gap*, which is the difference between future aspirations and current reality. Identifying the planning gap shows everyone involved that dramatic change is necessary. Next, you need to allocate the overall planning gap to different financial sub-objectives. That means breaking the high-level objective into manageable steps.

Consumer Bank set three sub-objectives:

- Improving productivity by reducing cost per customer from \$100 to \$75.
- Improving growth by increasing revenue per customer from about \$200 to \$300.
- Improving the customer base by tripling its number of high value customers.

Achieving the three sub-objectives was necessary for the bank to reach its overall goal of improving net income by \$100 million.

The second step, *reconcile the value proposition for targeted customer segments*, has four dimensions:

1. Identifying target customers.
2. Clarifying the customer value proposition.
3. Selecting the measures.
4. Balancing customer objectives with financial growth goals.

Opportunities for cost and productivity improvements generally are relatively clear. But that's often not the case with revenue growth.

That requires explicit attention to targeted customer groups. It usually includes selling more to existing customers, and *selling products to entirely new customers*.

With Consumer Bank, increasing sales to existing customers involved turning the bank's employees into trusted financial advisors. By building such relationships, employees would become comfortable introducing customers to a package of integrated services.

The bank directed its learning and growth objectives toward teaching and motivating employees to cross-sell its other offerings.

Step three, *establish the time-line for closing the value gap*, has two elements:

- First, setting deadlines for results.
- Second, allocating the planning gap to different strategic themes.

As we've seen, Consumer Bank established a time-line for its strategy of five years. It focused processes on achieving results within that time.

Instead of aiming for an immediate — and impossible — leap forward, the Consumer Bank team translated the vision into one consisting of manageable, time-phased steps. They established a realistic path to an ambitious goal.

Operations processes would reduce cost per customer. *Customer management processes* would increase the number of income-boosting relationship customers. And *innovation processes* would introduce new products and services to increase annual revenue per customer by 50 percent.

Step four, *identify the strategic themes*, consists of two elements:

1. Identifying the critical few processes, or themes, that have the greatest effect.
2. Establishing measures and targets.

This step involves aligning

the strategic drivers to achieve the financial and customer objectives.

Consumer Bank selected two operations management processes essential to making the strategy work.

One was to provide *rapid response* — measured by request fulfillment time. It did this by shifting more of its customer support to Web-based technology.

Another was to *minimize problems* for customers and employees by simplifying and clarifying processes. That would increase customer satisfaction and improve productivity.

The fifth step, *create strategic asset readiness*, involves three elements:

1. Identifying the human, information, and organization capital required to support the strategic process.
2. Assessing the readiness of these assets to support the strategy.
3. Establishing measures and targets.

Consumer Bank identified seven value-creating processes. For each one, the management team asked two questions: (1) "Which job families are critical to managing this process?" and (2) "Which information systems are critical for improving this process?"

Finally, step six, *identify and*

fund the strategic initiatives, consists of two elements:

1. Defining the specific initiatives required to support processes and develop intangible assets.
2. Determining and securing the funding.

Of course, the initiatives are where the rubber meets the road. Supporting processes and developing intangible assets are the result of those initiatives.



STRATEGY MAPS AS FRAMEWORKS FOR ACHIEVING CRITICAL OBJECTIVES

Your organization's strategy must be more than a set of initiatives — no matter how bold they might be. A strategy contains a multitude of related elements.

Strategy maps can literally put everyone in your organization on the same page. They give you a vehicle to discuss your strategy fully, and develop it systematically.

The strategy map can help you avoid the trap of creating a strategy that exists more in words than in execution. It can help make your strategy one that drives the entire organization.

It will help you and your people identify powerful assets — most of them intangible — that are vital sources of value creation.

NOTES

It will show you how to align those key intangible assets with critical processes, including: operations management, customer management, innovation, and regulatory and social processes.

Of course, it's up to you to take the steps necessary to make the strategy map truly a dynamic tool. Actions and solid management are the ultimate drivers of change.

The point is this: Your strategy is the essence of what your company is. It is the source of competitive advantage, financial success, and industry leadership. Your strategy map will show you the way to the destination. Now it is up to you to begin the journey.

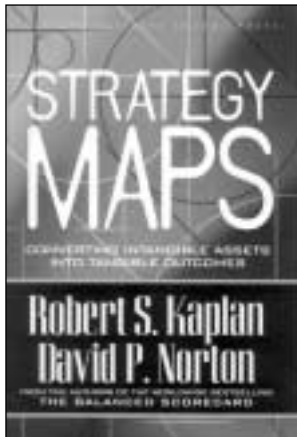


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