Keynote Address:
The Essentials in Assessing and Improving Performance

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Performance Dashboards and Analysis for Value Creation
Discussion Leader
Jack Alexander

Education and “Boot Camp”
- B.S. Indiana University of Pennsylvania
- MBA, Rider University
- CPA
- Coopers & Lybrand

Financial Executive
- 17 year career with EG&G, Inc. (renamed: PerkinElmer)
  - Including roles of CFO and Corporate Controller
  - Served as CFO of 2 other public companies

Consulting, Lecturer, Author
- Focus on Valuation, Valuation Drivers, Planning and Performance Management
- Consulting
- Workshops and On-Line Training
- Senior Lecturer at Babson College
- Performance Dashboards and Analysis for Value Creation, Wiley 2006

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Discussion Outline

• Business Visibility: Don’t fly the business without a “Dashboard”
• Best Practices in Building Dashboards for Value Creation
• Focus on Improving (Not just Measuring) Business Performance
• Performance Management meets Planning and Forecasting
• Perspective Shift: Measuring and Driving What’s Important
• 5 CSF’s and 5 Mistakes to avoid
• Summary
Cockpit Instrument Panel:
5 Concepts that apply to CPM

• Real Time and Predictive Insights
• High Visual Impact
• Focus on the Important Measures
• Provides Insight into External Factors and Environment
• Combine with Observation, Experience and Intuition

Managers also need an Instrument Panel or Performance Dashboard
Illustrative Dashboard
Level: Corporate
Frequency: Quarterly

Quarterly Corporate Dashboard

% Revenue Growth
- Acquired Rev. Growth %
- Organic Rev. Growth %

Order Backlog

Predictability of Performance
- Guidance Range
- actual

Operating Model
- Cost of Revenues
- R&D Expense
- SG&A Expense
- Operating Profit

Headcount

Operating Cash Cycle

OTD Performance

Quality

Revenue Linearity

R&D Effectiveness

Source: Performance Dashboards and Analysis for Value Creation
Focus on Improving (not just measuring) Performance: Revenue Process-Accounts Receivable Case Study Overview

**Action Plan-Summary:**
- Revenue Process Workshop
- Address Quality issue (10 days)
- Improve Revenue linearity (12 days)
- Improve Problem Resolution (3 days)

**Action Plan-Detail:**

**Link to Value:**
- DSO: 75 → 50 Days
- % of Sales: 21 → 14%
- "Value Increment": $28m

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Performance Management meets Planning and Forecasting
Identify and Evaluate Key Assumptions, Performance Drivers and Critical Actions embedded in plan.

**Key Assumptions:**
- Key assumptions should be explicit
- Estimate sensitivity
- Build capability to track and monitor

**Critical Actions:**
- Identify
- Resource
- Build capability to track and monitor

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**Top 10 CSF:**
1. Successful Introduction of Rev 2
2. Resolve Performance Issue M2000
3. Implement Human Capital Management Process

**Key Assumptions:**
General:
- Inflation
- Economy
- Housing Starts
- Price of Oil
- Weather
- Interest Rates

Cost:
- Staffing levels
- Employee Turnover
- Raw Material Cost

Revenue:
- Pricing
- Volume
- Customer retention

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Essential to assessing reasonableness of plan and monitoring progress throughout the year
Build a capability to track critical assumptions, leading indicators and progress on key initiatives? And react?

- Financial results are lagging/output measures
- Too late to react

Utilize Corporate Performance Management and Business Intelligence for early detection of events both inside and outside the organization that may effect the plan
### Improve Business Vision

Institute a Rolling/Continuous Business Outlook (CBO)

($ in millions)

<table>
<thead>
<tr>
<th>Rolling Business Outlook</th>
<th>FY 2008</th>
<th>FY 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1A</td>
<td>Q2A</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>20.0</td>
<td>18.0</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>10.0</td>
<td>9.0</td>
</tr>
<tr>
<td>%</td>
<td>50.0%</td>
<td>50.0%</td>
</tr>
<tr>
<td><strong>SG&amp;A</strong></td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>%</td>
<td>25.0%</td>
<td>27.8%</td>
</tr>
<tr>
<td><strong>R&amp;D</strong></td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>%</td>
<td>10.0%</td>
<td>11.1%</td>
</tr>
<tr>
<td><strong>Income from operations</strong></td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>%</td>
<td>15.0%</td>
<td>11.1%</td>
</tr>
<tr>
<td><strong>Profit before taxes</strong></td>
<td>2.6</td>
<td>1.6</td>
</tr>
<tr>
<td>%</td>
<td>13%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$1.6</td>
<td>$1.0</td>
</tr>
<tr>
<td>%</td>
<td>7.8%</td>
<td>5.3%</td>
</tr>
<tr>
<td><strong>EPS</strong></td>
<td>$0.15</td>
<td>$0.09</td>
</tr>
<tr>
<td><strong>Revenue Growth -Y/Y</strong></td>
<td>4.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td><strong>Balance Sheet and Returns:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Working Capital % Sales</strong></td>
<td>17.0%</td>
<td>19.0%</td>
</tr>
<tr>
<td><strong>Asset Turnover</strong></td>
<td>2.00</td>
<td>1.90</td>
</tr>
<tr>
<td><strong>Cash Flow</strong></td>
<td>1.25</td>
<td>0.77</td>
</tr>
<tr>
<td><strong>ROIC</strong></td>
<td>15%</td>
<td>17%</td>
</tr>
</tbody>
</table>

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**Key Revenue Assumptions**
- New Product Introduction 2/08
- New European Distributor 6/08

**Critical Cost Issues**
- Resolve Scrap Issue
- Reduce Warranty Expense 50% by 3/08

**Critical Success Factors**
- New Biz Outlook Process 4/07
- Integrate HCM into Operating Plan
Perspective Shift: Measuring and Driving What’s Important

From:
- Historical to leading
- Internal to external
- Financial to operational
- Easy to important

Measuring and Driving What’s Important:
Sources of Sustainable Performance and Value

Position the organization to address problems and capture opportunities in an ever changing market environment
Focus on Drivers of Long-term Value: Then Link Value & Value Drivers to Business Processes & Activities

Building long term shareholder value is accomplished by highly motivated & competent employees satisfying customers needs & expectations

Adapted from "Performance Dashboards and Analysis for Value Creation, Wiley, 2006"
Link Value & Value Drivers to Business Processes & Activities

Drill Down: Revenue Growth

Shareholder Value

Future Cash Flows

Revenue Growth

Organic Growth

Drivers

New Product Introduction
- % Revenue from New Products
- Revenue/ NPV in pipeline
- Project s: variance from schedule and cost

Retain and Grow Existing Customers
- Customer Attrition Rate
- Customer Aggravation Index
- Product returns
- Net promoter score
- On time delivery %
- Sales Productivity

New Customer Acquisition
- % of Revenue from New Customers
- New Customer Quotes
- New Customer Leads
- Sales Productivity

Market Growth and Competitors
- Relative Growth Index
- Competitor Growth
- Customer Growth

Selected Metrics

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Assess and Promote Innovation

Innovation Measures: Classics

- **Overall Effectiveness:**
  - Growth in Value (TRS)
  - Growth in Sales (CAGR)

- **Specific Measures:**
  - % of Revenue from New Products
  - Time to Market

More Insightful Measures of Innovation:

<table>
<thead>
<tr>
<th>Overall</th>
<th>New Product</th>
<th>Business Model</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Growth-Organic</td>
<td>Relative Growth Index</td>
<td>Value Added per Employee</td>
<td>Asset Turnover</td>
</tr>
<tr>
<td>Total Return to Shareholders</td>
<td>Annual Revenue in Development Pipeline</td>
<td>Operating Leverage %</td>
<td>Customer Satisfaction (Warranty, OTD)</td>
</tr>
<tr>
<td>Profitability</td>
<td>Project Completion vs. Plan (Milestones and Cost)</td>
<td>ROIC (Asset Turnover x Profitability)</td>
<td>Cycle Time</td>
</tr>
<tr>
<td>Return on Invested Capital</td>
<td>% Sales from New Products</td>
<td>Customer Life Cycle Cost</td>
<td>Production Yields</td>
</tr>
</tbody>
</table>
# Innovation Enablers and Killers

<table>
<thead>
<tr>
<th>Enablers</th>
<th>Enablers</th>
<th>Killers</th>
</tr>
</thead>
<tbody>
<tr>
<td>People &amp; Culture</td>
<td>- Diverse Workforce</td>
<td>- Mono</td>
</tr>
<tr>
<td></td>
<td>- Balanced Hiring Mix</td>
<td>- Internal emphasis</td>
</tr>
<tr>
<td></td>
<td>- External Focus</td>
<td>- Insular (NIH)</td>
</tr>
<tr>
<td>Process and discipline</td>
<td>- Effective Project Planning, Execution, Monitoring</td>
<td>- Wet blanket approval processes</td>
</tr>
<tr>
<td></td>
<td>- Termination of dubious projects</td>
<td>- Stay with dubious projects too long</td>
</tr>
<tr>
<td>Project Leadership</td>
<td>- Passionate Advocates</td>
<td>- Bureaucrats</td>
</tr>
<tr>
<td>Funding</td>
<td>- Funding and Allocation for Innovation</td>
<td>- Insufficient resource allocation</td>
</tr>
<tr>
<td>View of Failure</td>
<td>- Inevitable part of business and life</td>
<td>- “Failure”</td>
</tr>
<tr>
<td></td>
<td>- Learning opportunity</td>
<td></td>
</tr>
</tbody>
</table>

Do our culture, processes and focus inhibit or promote innovation?
Create a more Flexible and Agile Enterprise

**Business Agility:** The ability to anticipate, recognize and effectively respond to:
- Capitalize on Opportunities
- Mitigate Risks and Downside Events
Improving Agility

**Vision**
- Improve Vision
  - See the whole field
  - Review Polaroids
  - Account for impact opponents

**Recognition**
- Experience
  - Study Game films
  - Scenario Planning
  - Operate at Game Speed

**Response**
- Versatile athletes
  - Agility drills
  - Real time decisions
  - Audible
  - Half-time adjustments

**External Focus:**
- Customers and Competitors
- Business Intelligence
- Rolling Business Outlooks
- Robust operating plans

**Build experience team with diversified experience**
- Training
  - Radically change Planning activity
    - SWOT Analysis
    - Competitor Intelligence
    - Scenario Planning
  - CPM/BI-Dashboards

**Acquire and develop versatile, agile employees**
- Bench strength
- Keep some powder dry
- Anticipate and prepare for surprises
- Radically change planning and monitoring processes
- Scenario Planning
- Flex biz model

You **can** assess, measure and increase “Agility”
Agility Assessment and Selected Measures

Vision:
- Forecasting Accuracy
- Critical Assumptions
- Cost Drivers
- External View
- Rolling Biz Outlook

Preparation and Flexibility:
- Contingency Analysis
- Scenario Planning
- Readiness Review
- Uncommitted/Re-deployable Resources
- Break even Levels/Fixed Costs
- Variable Compensation Mix
- Robust Business Model

People
- Competency Analysis
- Development and Training
- Diversity
- High Potential Associates
- Agile Associates

Speed:
- Cycle Time
- Days Sales of Inventory (DSI)
- Time to Market-New Products
- Planning Cycle
- Outlook Cycle
People are typically an organization’s greatest asset (and cost) and execute the strategy and operating activities (or not)!

Human Capital and Value Creation
Connecting the dots

Strategic Assessment
Organization Development and Planning
Portfolio Management
Recruitment and Immersion
Development
Compensation
Engagement, Alignment, Accountability and Retention

Shareholder Value
Revenue Growth
Pricing Strength
Operating Effectiveness
Capital Effectiveness
Cost of Capital
“The Intangibles”
Human Capital Management

**Human Capital**

**Engagement and Satisfaction**
- % of Employees “Highly Engaged”
- Turnover
- High Potential Turnover
- Average Cost of Turnover

**Training and Development**
- Training Hours per Employee
- Training Effectiveness Score
- % Training Courses w/Drivers Focus

**Workforce Demographics**
- % HIPOTS associates
- % Agile associates
- % Highly Employable associates
- Median LOS
- Median Time in Position
- Hiring Mix: Internal/External
- Competency Analysis
- Demographic Matrix

**Key Drivers**

**Customer Satisfaction**

**Productivity**

**Quality**

**Innovation**

**Financial Results**

“...people execute the plays”

-Coach Mike K.
### Performance Planning and Measurement

**Innovation**
- Relative Growth Index
- % Revenue from New Products
- Revenue / NPV in Development Pipeline
- Project Effectiveness Score
- Mix of Internal Promotions and External Hires

**Agility**
- Break-even Sales level per month
- Manufacturing Life Cycle
- Outlook/Planning Cycle
- New Product-Time to Market
- Financial Flexibility

**Human Capital Management**
- % HIPOT Associates
- % Agile Associates
- Retention: Overall and HIPOT
- % Associates Highly Engaged
- Demographic Mix

### Value Drivers

- **Revenue Growth**
- **Relative Pricing Strength**
- **Operating Effectiveness**
- **Capital Effectiveness**
- **Cost of Capital**
- **The Intangibles**

### Value Creation

Add assessment and measures of innovation, agility and human capital to traditional efforts in performance management and planning.
Five CSF and Mistakes to Avoid

Do this:
1. Create Context: Value Creation and Long term Success
2. Solve problems and Improve Performance
3. Focus on What’s Important
4. Integrate into management processes
5. Secure management commitment and support

Don’t do this:
1. Measure everything
2. Measure what is easy
3. Rely on software as the “silver bullet”
4. Attempt to replace judgment or intuition
5. Make it a Finance or IT project

Don’t drive the car by staring at the dashboard!
Summary

• Develop a context for performance management
  ▫ Value Creation and Long-term Success
• Focus on Improving (not just measuring) Performance
• Integrate performance Measurement into Key Management Processes
• Perspective Shift: Focus on What’s important
• Don’t fly the business without a “Dashboard”

“The pessimist waits for better times, and expects to keep on waiting; the optimist goes to work with the best that is at hand now, and proceeds to create better times.”

—Christian D. Larson