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Balanced Score Card / Benchmarking

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Exercise 01

The following is Horn Ltd's statement of profit or loss for year ended 31st March 2019, together with additional analysis of revenue and costs. Horn Ltd Statement of profit or loss for the year ended 2019.

	Rs. Bn
Revenue	1.35
Cost of sales	0.83
Gross profit	0.52
Admin and distribution costs	0.15
Profit from operations	0.37
Taxation	0.04
Profit after taxation	0.33
Dividends	0.13
Profit for the period	0.20
Total assets less current liabilities	2.40

An analysis of revenue and costs show:

Revenue	Rs. Bn
Existing products	1.03
New products	0.32
Sales to existing customers	0.82
Sales to new customers	0.53

Included in the cost structure is:	Rs. Bn
Research and development	0.08
Training	0.14
Customer support costs	0.04
Quality assurance	0.03

Required:

Suggest and calculate 2 suitable indicators for each of the 4 balanced scorecard perspectives.

ANSWER

Balanced scorecard Potential Horn Ltd performance indicators

Financial perspective

Return on capital employed = 0.37/2.40 × 100 = 15.42%

Return on sales = 0.37/1.35 × 100 = 27.41%

Customer perspective

Customer support as % of revenue = 0.04/1.35 × 100 = 2.96%

% of business from existing customers = 0.82/1.35 × 100 = 60.74%

Learning and growth perspective

Training costs as % of total costs = 0.14/(0.15 + 0.83) × 100 = 14.29%

% of revenue from new products = 0.32/1.35 × 100 = 23.70%

Internal perspective

Quality assurance % of revenue = 0.03/1.35 × 100 = 2.22%

Admin and distribution costs % of revenue = 0.15/1.35 × 100 = 11.11%

This list is not exhaustive there will other indicators that Horn Ltd could calculate for each of the four perspectives.

To be useful these performance indicators would need to be compared with benchmarked or target levels for the current period and undergo analysis with previous years.

Exercise 02

Faster Pasta is an Italian fast food restaurant that specializes in high quality, moderately priced authentic Italian pasta dishes and pizzas. The restaurant has recently decided to implement a balanced scorecard approach and has established the following relevant goals for each perspective:

Perspective and Goal

Customer perspective

To increase the number of new and returning customers

To reduce the % of customer complaints

Internal process

To reduce the time taken between taking a customer's order and delivering the meal to the customer.

Innovation and learning

To reduce staff turnover

To increase the proportion of revenue from new dishes

To increase the % of staff time spent on training

Financial

To increase spend per customer

To increase gross profit margin

The following information is also available for the year just ended and for the previous year.

	2018	2019
Total customers	11,600	12,000
- Of which are new customers	4,400	4,750
- Of which are existing customers	7,200	7,250
Customer complaints	464	40
Time between taking order and customer receiving meal	4 mins	13 mins
% staff turnover	12%	40%
% time staff spend training	5%	2%
Revenue	Rs. 110,000	Rs. 132,000
- Revenue from new dishes	Rs. 22,000	Rs.39,600
- Revenue from existing dishes	Rs. 88,000	Rs. 92,400
Gross Profit	Rs. 22,000	Rs. 30,360

Required:

Using appropriate measures, calculate and comment on whether or not Faster Pasta has achieved its goals.

ANSWER

Customer perspective

Goal: To increase the number of new and returning customers

Measure: The number of new customers has increased year on year from 4,400 to 4,750. This is an 8.0% increase. The number of returning customers has also increased slightly from 7,200 to 7,250, i.e. a 1.0% increase.

Comment:

The Company has achieved its goal of increasing the number of new and existing customers. It is worth noting that the proportion of customers who are returning customers has fallen slightly from 62.1% to 60.4% of the total customers. This could indicate a small drop in the level of customer satisfaction.

Goal: To decrease the % customer complaints

Measure: The percentage of customer complaints has increased from 4% (464 ÷ 11,600) to 7% (840 ÷ 12,000).

Comment:

Faster Pasta should investigate the reasons for the increase in customer complaints and take the required action immediately in order to ensure that it can meet this goal in the future.

Internal perspective

Goal: To reduce the time taken between taking the customer's order and delivering the meal to the customer

Measure:

The time taken has more than tripled from an average of 4 minutes in 20X8 to an average of 13 minutes in 20X9.

Comment:

Customers may place a high value on the fast delivery of their food. The increase in time may be linked to the increased number of customer complaints. If this continues customer satisfaction, and therefore profitability, will suffer in the long-term. The restaurant should take steps now in order to ensure that this goal is achieved going forward.

Goal: To reduce staff turnover

Measure: This has risen significantly from 12% to 40% and hence the business has not achieved its goal.

Comment:

The reasons for the high staff turnover should be investigated immediately. This may be contributing to longer waiting times and the increase in customer complaints. This will impact long-term profitability.

Innovation and learning perspective

Goal: To increase the proportion of revenue from new dishes

Measure:

This has increased year on year from 20% ($22,000 ÷ $110,000) in 20X8 to 30% ($39,600 ÷ $132,000) in 20X9. Therefore, the restaurant has achieved its goal.

Comment:

This is a favorable increase and may have a positive impact on long-term profitability if the new products meet the needs of the customers.

Goal: To increase the % of staff time spent on training.

Measure:

This has fallen significantly from 5% to only 2% and hence the company is not achieving its goal.

Comment:

Staff may be unsatisfied if they feel that their training needs are not being met. This may contribute to a high staff turnover. In addition, staff may not have the skills to do the job well and this would impact the level of customer satisfaction.

Financial perspective

Goal: to increase spend per customer

Measure: Spend per customer has increased from $9.48 ($110,000 ÷ 11,600) to $11.00 ($132,000 ÷ 12,000), i.e. a 16.0% increase.

Comment: This is a favorable increase. However, the issues discussed above must be addressed in order to ensure that this trend continues.

Goal: To increase gross profit margin.

Measure: The gross profit margin has increased year on year from 20% ($22,000 ÷ $110,000) to 23% ($30,360 ÷ $132,000).

Comment:

This is a favorable increase. However, the issues discussed above must be addressed in order to ensure that this trend continues.