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Mike Higgins & Associates, Inc
30 West Pershing Street, Suite 360
Kansas City, MO 64108
816-753-4104

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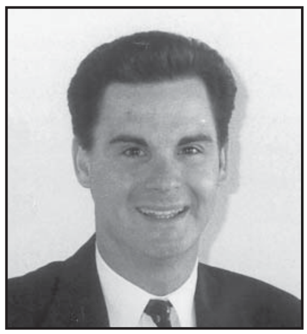
Scorecard Setup Tips

by Dennis Guida



It’s time again to kick-off the holiday season, which brings joy, laughter, and good times with family, friends, and co-workers. However, this magical time of year also signals the start of audit season, budget preparation, and 2006 “*STAKEHOLDER*” Scorecard setups. So I thought it would be a good time to provide you with a couple of Scorecard setup tips, which will save time that can be used for holiday fun, audits, or budget meetings (your choice).

Tip #1 – Setup your Scorecards after you have completed a good preliminary budget, but before the budget has received final approval. This will allow you the opportunity to make budget modifications if they’re needed. Also, budget modifications will be minimal if you follow a basic rule; budgets should communicate a consistent performance level…and preferably coincide with the definition of a “*STAKEHOLDER*” scorecard hurdle.

Nothing creates more confusion than having a budget that sends mixed messages. For example, a budget that sets aggressive performance levels for some departments or product lines, while other departments or product lines have “soft” budget targets, will lead to confusion. As a former outside Director, nothing was more aggravating than someone trying to justify why it was “OK” for one department to be operating below budget, while another department operating above budget wasn’t really “doing that great”.

It’s terribly difficult to make use of budget comparison reports if the definition of “budget” is different for each line item and/or department. In my opinion, conflicting definitions of “budget” will cause the term to be meaningless. Once the budget targets have a consistent definition, these numbers can easily be loaded into the appropriate “*STAKEHOLDER*” scorecard hurdle.

Tip #2 –Try our new “easy button” approach to setting up your Scorecards. Some clients have told us that they struggle with setting the hurdle stretches. In fact, we’ve heard stories of clients who run scenario after scenario in order to align hurdle stretches with reward pools and weighting percentages. Try the following:

1) Provide us with your budget and let us know which hurdle it should be loaded into (see Tip #1).
2) Let us know the required earnings at Baseline (typically expressed as a percentage of budget).
3) Choose weighting percentages according to your strategic priorities.
4) Provide the budgeted salaries of “*STAKEHOLDER*” participants and the desired reward pools (e.g. create the same opportunity as last year, share a specific percent of earnings improvement, et al).

With this information we can solve for the hurdle targets that will be required to achieve alignment. It’s much faster than playing the “scenario” game. And don’t worry, the math has not changed…it’s just a matter of solving for X or Y (set the hurdles and solve for the weightings, or set the weightings and solve for the hurdles). It’s important to note that this option is only available using “*STAKEHOLDER II*” systems.

That’s all there is to it, efficient and effective Scorecard setup in 2 simple steps. By the way, this approach works with sub-scorecards as well. So now you can sit back, throw another log on the fire, and sip some eggnog…setting up you’re 2006 Scorecards will be a breeze!

Scorecards for Support/Operations

by Mike Higgins, Jr.

As you all know, the "*STAKE-HOLDER*" methodology rewards for RESULTS. Since the reward pool is made up of real cash dollars, it needs to be funded with real cash dollars (e.g., you can't pay a reward if you don't create value; otherwise, you have just created more expense).

At the organization-wide level it is easy to measure results. We select KPIs from the income statement and balance sheet that drive earnings. The same process holds true for profit centers – those areas where we track income AND expense down to the department or individual level. However, what about true cost centers – those areas where we can only monitor expenses at best? How can we develop meaningful scorecards for those areas? How can we show these areas of our organization how they make a contribution?

I like to think about support/operational area scorecards having three types of KPIs:

KPIs for the income statement or balance sheet items they directly support.

This is the reason we have support areas to begin with. Their job, as part of the team, is to support the revenue producing areas that are bringing in the volumes. Support areas are part of the RELATIONSHIP PROCESS (e.g., get the business then support the business … make promises then keep promises).

KPIs that measure leverage or expense management.

Leverage is one of the most important ways a support area can make a contribution to the bottom line. Leverage is growing volume supported faster than adding expense. Leverage is managing your expenses within budget. As such, a leverage ratio (volume/expense or volume/full time equivalent) makes an excellent KPI as well as simply measuring performance against the departmental expense budget (a dollar saved is a dollar earned).

KPIs that measure key standards such as quality, accuracy and timeliness.

In this area, I am going to break a rule about measuring results. I am going to suggest measuring activity, but with a caveat, which I'll address later. Quality, accuracy and timeliness (e.g., service, without error and on time) is what we should expect out of support areas. It could be said this is part of their job description – why they get a paycheck in the first place. However, we expect revenue producing areas to produce revenue, and if they do, we reward them. Why can't we reward support areas for quality, accuracy and timeliness? You can. Here is how to do it.

a) Identify the quality, accuracy or timeliness standard (e.g., the goal or objective). Place this level of performance in your "budget" hurdle on the scorecard. In other words, we are rewarding a support area that meets budget on quality, accuracy and timeliness, the same as a profit center meeting its budget on sales or volumes.

b) Identify the minimum acceptable or baseline quality, accuracy or timeliness standard (e.g., minimum satisfactory performance, but not worthy of a reward). Place this level of performance at baseline. If performance is only at the minimum satisfactory level, then it should not be rewarded with compensation beyond base pay. It is already included in each paycheck.

c) Identify an outstanding level of performance (e.g., a perfect score or something that is not easily obtained). Place this level of performance two or three levels beyond the budget hurdle. Performance at this level would be the equivalent of a profit center exceeding budget.

Now for the caveat – Don't fill in any of the other hurdles on these "activity-based" quality, accuracy and timeliness KPIs. These KPIs (e.g., activities) should have only three outcomes: meet budget expectations and get budget reward, beat budget expectations and get slightly higher than budget reward, fall short of expectations and get no reward. Because there are only three outcomes for this type of KPI, you already know what it will cost you in terms of performance compensation (e.g., budget, a little more than budget or nothing). Using this approach allows you to create meaningful measures and at the same time ensure that rewards are commensurate with performance.

There are many ways to build scorecards for support areas, but we think this approach is a good way to start. Be sure to contact us if you have any questions about this approach or are interested in developing scorecards for support/operations.

Using Technology to Deliver Your Marketing Message

By Scott Frerichs, The Frerichs Group. sfrerichs@grfiltd.com, 312-856-1444

Frequently we hear marketing managers tell us that their job would be easier if the promotions they spent weeks creating were displayed in their facilities on a timely basis.

Traditional merchandising programs suffer from a myriad of problems, including:

- Production errors and delays
- Staff unable to fill poster holders / brochure holders
- Promotional material displayed is outdated.

With digital merchandising you are in control of your promotions and you have the power to:

- Schedule the exact start and end time of your promotions
- Provide a consistent message to your customers / members
- Introduce new products and services on a timely basis
- Change messages in real-time
- Update rate-boards on a system-wide basis from one centralized location.

Studies have shown that customers/members are up to ten times more likely to observe dynamic media than static. Also, customer/member memory of dynamic media increases up to five times, and product quality awareness increases up to 15%[1].

Digital merchandising allows you to control your promotional material and:

- Schedule and Display informational seminars to each of your locations
- Provide Stakeholder updates to all of your team members
- Implement a consistent training program to each of your team members.

One of the digital merchandising products available in the marketplace is AIDAVision, created by GRFI Ltd. in Chicago. Following is a brief overview of the AIDAVision products.

AIDAVision Digital Merchandising System:

This system displays your merchandising media along with AP news, weather and sports. Provides the ability to control when and where your merchandising media is displayed. This system may be connected to LCD and plasma displays or a standard television screen. An optional customized stock ticker is available, allowing selection of which stocks are displayed in the branch. With nine different content categories including sports, financial and strange news, this system has the capacity to engage customers/members with brief segments of entertainment in addition to marketing messages.

AIDAVision Electronic Posters:

This system is designed to replace traditional poster holders, using plasma or LCD displays mounted in a vertical orientation. There is no need to print, ship and install static paper posters for your latest advertising promotions. AIDAVision Vertical allows you to instantly update and schedule your display screens with the latest promotional messages and rates.

By integrating these tools by AIDAVision, organizations will increase the customers and members awareness of their products and services, improving their marketing ability as a result.

1 Data: IBM Digital Merchandising research, "Dynamic Digital Merchandising for Retail," 2005, website: http://www-03.ibm.com/industries/retail/doc/content/solution/1016933101.html

MIKE HIGGINS & ASSOCIATES, INC.

MHA Offices

Michael M. Higgins
Mike Higgins & Associates, Inc
30 West Pershing St., Suite 360
Kansas City, MO 64108
816-753-4104
mhigginsjr@mhastakeholders.com

Dennis Guida
Mike Higgins & Associates, Inc
26895 Aliso Creek Road, Suite B #650
Aliso Viejo, CA 92656-5301
949-283-4829
dguida@mhastakeholders.com

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Happy Thanksgiving