## Implementing Strategy: The Value Chain, the Balanced Scorecard, and the Strategy Map

**Teaching Notes for Cases**

**2-1. Atlantic City Casino: Value Chain Analysis; The Balanced Scorecard**

Most cases in value chain analysis are in the retailing or manufacturing industries.This case gives an opportunity to develop a value chain for a service firm and to see the differences in application in that context. The point is to show the students that the value chain concept has useful application in both contexts.

Some useful background information regarding the actual case situation is provided below.This information can be used to enhance the discussion when needed.A good starting point of the discussion is to have the students describe the competitive environment of Atlantic City gambling casinos, at which time, much of the following information may emerge.If not, the information can be supplied during the discussion, or if desired it can be added to the case material given to the students to prepare.

Background Information:

Customer surveys indicated that a vast majority of the visitors to Atlantic City gambling casinos are middle-age adults who live within 150 miles of Atlantic City.Further, there are 2 distinct groups of visitors.Approximately 17 percent of the visitors are frequent visitors, averaging 24 visits per year and accounting for 67 percent of all visits.The remaining 83 percent of the clientele are infrequent visitors averaging 2 to 3 visits per year and accounting for 33 percent of total visits.The firm found that approximately 11 percent of the people living within a 150 mile radius visit Atlantic City annually.This compares with 14 percent of the people living in Las Vegas' primary marketing area who visit Las Vegas annually.Thus it appears that future market expansion is possible.

The firm also noted that there has been a change in the mix of mode of transportation for visitors.Initially 92 percent of all visitors arrived by private car, now 44 percent arrive by bus.This change is significant as there is a difference in spending patterns.Auto travelers tend to spend a couple of days in the city.Hence they eat more meals and need lodging.Bus travelers are usually day trippers who come only to gamble.They do not need lodging and generally only eat lunch, some snacks and beverages.Casino winnings average $37 per visit for bus travelers and $120 per visit for auto travelers.

1.The value chain for the Atlantic City Casino (ACC) follows, both with and without the theme park.The class discussion of strategy will likely have a number of divergent views.Many will say ACC competes on differentiation, thinking that gambling is not a “cost-sensitive” business.However, I push the class to look carefully about what brings a customer into one casino rather than another.Some students will say that gamblers only want access to gambling, and that service and other enhancements (as in a differentiation strategy) will not be important.They will also point to the fact that the case says the ACC has “no distinguishing characteristics.”On balance, most students argue that what brings customers into a casino is the “pizzaz” and excitement generated by the casino, and they observe that most casinos have a theme, such as a tower or a circus, etc.It is important in this discussion to distinguish Las Vegas and Atlantic City, as the style of the casinos is quite different on the average.While theme-based casinos are the norm in Las Vegas, those in Atlantic City are more oriented to “just for gambling” types of customers.Most Atlantic City visitors come by bus in ones or twosand do not stay long, while in contrast, the Las Vegas visitor is likely to stay longer and to bring the family.Thus, the differentiation concept probably applies more clearly to Las Vegas and less so for Atlantic City.

Looking at the steps in the value chain, one can target possibilities for cost reduction and/or value enhancement. For example, a close look at steps two and three in the chain can help to study and identify the most effective forms of advertising and promotion⎯types of advertising for example which are more targeted to the types of customer and the mode of transportation they use to come to the casino.

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| **STEPS IN THE VALUE CHAIN** | **ACTIVITIES AT EACH STEP IN THE VALUE CHAIN: WITHOUT THEME PARK** | **ACTIVITIES AT EACH STEP IN THE VALUE CHAIN: WITH THEME PARK** | **DIFFERENCE ; STRATEGIC ISSUES** |
| Step 1: Obtain the right to compete: federal and local laws and ordinances | Licenses, fees, and other activities and reports to support compliance | Licenses, fees, and other activities and reports to support compliance | Little difference: potentially some additional compliance required for new services for children; baby-sitting, etc. |
| Step 2: Advertising and promotion | Advertising focused on traditional media locations; mostly local, and targeted to specific audiences – those living within 150 miles, and are middle aged or older | Advertising and promotion focused on a younger audience, those with kids, promotions for families (kids stay free etc...) | Probably little difference in the amount of advertising and promotion, though the nature of the advertising will differ. Will younger adults be attracted to the casino as older adults have been? |
| Step 3: Local and regional transportation | Most visitors now arrive by bus and stay one day (not overnight); the proportion of bus visitors is also increasing ⎯from less than 5% when the casino opened to more than 44% currently. There is a need to focus on travel agents and on providing affordable bus trips for this audience | New focus likely to be on car traffic (is there sufficient parking?) and some air travel for families, in addition to the bus traffic. Affordable air-fare packages for families might be a good idea. | The transportation patterns are likely to be quite different and the need for parking, taxi service, and the like will be different. What are current airport facilities like? How close is the casino to the airport? |
| Step 4: Casino operations | Traditional coverage and security | While the coverage of the casino operations is likely to be same as without the theme park, with more children around, security will need to be increased | Is the area around the casino safe for children? Will parents worry about safety? |
| Step 5: Hotel Operations | Traditional coverage and security | While the coverage of the hotel operations is likely to be same as without the theme park, with more children around, security will need to be increased. Also there will be a demand for new services: baby-sitting, activities for children, ... | New mix of services; increased need for security? |
| Step 6: Theme Park | NOT APPLICABLE | The theme park will attract additional visitors to the casino and to the hotel; also, the theme park is expected to be profitable as well. | Strategic issues:  Does management have the ability to manage a theme park; can it acquire this expertise?  Are there other theme parks in the area which would complete with this one? |

2. The value chain analysis above, and in particular the right-hand column comparing the options and indicating strategic issues can be used to help understand the strategic issues in the choice facing Atlantic City Casinos. Perhaps noting the increase in the number of visitors coming by bus (and not staying overnight), casino management is looking for ways to attract a different audience who will also use the hotel. If the theme park is successful, it will provide the needed new audience⎯parents with children who will use the hotel. Of course, there are a number of related questions. For example, will parents be willing to bring their children to a theme park which is on the grounds of a casino? What security issues will arise? And, will the casino’s current guests be put off by the presence of a theme park and more children around the area. It is likely that casino and hotel management can respond to these issues, but is there a specific and reasonable plan?

The benefit of the value chain for management analysis is that it helps to show how the theme park will affect current operations “upstream” of the casino, i.e., the effect on transportation patterns and the like.

In addition to the value chain analysis, an analysis can be done on the data in the tables in the case. Exhibit 1 illustrates an example of a type of data analysis. Note that Atlantic City Casino is currently near the median of the 10 casinos on all the reported descriptors (note also that the data for Casino #9 is only part year and should be either ignored are extrapolated). In contrast, Casino #6 is clearly the differentiator, with higher prices, less space, and higher operating costs. Also, least squares regressions on this data show no significant relationships except for a strong positive relationship between room revenue and casino revenue (which make sense; many casino visitors choose to stay at the hotel), and between casino revenue and beverage revenue (again, many of the casino visitors are also likely to order beverages). Also, note that ACC is among the highest hotel revenue per room and casino revenue per square foot. This suggests that it is more upscale than some of the other casinos. This is a plus for the environment of security desired for families, but then the price might be too high for families.



Exhibit 1

3. Four areas of the balanced scorecard, and potential critical success factors:

1. Financial Performance: hotel revenue per room, casino revenue per visitor, trend in earnings by month, trend in revenues (casino, hotel, food services) by month,
2. Customers: survey of customer satisfactions, number of visitors per month relative to other casinos, number and nature of customer compliments and complaints, changes in customer demand for different types of games,
3. Learning and innovation: training hours for employees, log of employee suggestions and how these are used, etc.
4. Operational Performance: employee complaints, injuries; security violations, etc

**2-2. Sovera Enterprises: Strategic Analysis**

1. At least four general characteristics that differentiate the three Sovera Enterprises subsidiaries include:

* Growth potential
* Profitability
* Discretionary cash flow
* Level of risk

These characteristics influenced the formulation of a different strategy for each subsidiary in the following manner:

* **LaBue Videodiscs** subsidiary has promise to be a leading player in the videodisc market if it can develop a moderately priced videodisc record/player before its competition. Because of LaBue's profit potential, the corporation has placed a high priority on the growth of this subsidiary by allocating discretionary resources to support its product development efforts and growth.
* **Ulysses Travel** has a high level of risk associated with both profit and growth potential. This is a mature company in a very competitive business. The plan to divest agencies with the biggest drain on resources will reduce the risk.
* **Reddy Self-Storage's** growth potential is limited as the self-storage market has slowed considerably. The subsidiary has predictable profits that will allow it to generate cash (cash cow). To maintain profitability, the subsidiary has been directed to maintain efficient operations and maximize cash flow to support the expansion and operating plans of the other subsidiaries.

2. The likely effects of these three strategies on the behavior of the top and middle management of each of the three businesses include the following:

**LaBue Videodiscs:**

* Top management will be challenged to develop a moderately priced unit and to capture market share before the competition enters the market.
* Top management and middle management will view the strategy of developing all future officers as a career opportunity. There will be high morale and loyalty to the group and the company.

**Ulysses Travel Agencies:**

* Top management will be challenged to efficiently dispose of the resource-draining agencies, to operate the remaining agencies on a profitable basis, and to grow in geographical areas where adequate profit potential exists.
* Middle managers, particularly those in the least productive agencies, will view their jobs as threatened because the method of their agencies' disposal is not yet defined (e.g., outright closure or sale to another party).
* Middle managers will view the strategy of developing all future officers in the videodisc subsidiary as limiting their careers. Morale and motivation are likely to be low.

**Reddy Self-Storage:**

* Top management will be challenged to operate this subsidiary in an efficient, cash generating manner, while taking any opportunity to grow as the market may grow. Their motivation will be limited as little market growth exists, and the excess cash generated will be diverted to other business units.
* Middle managers will view the strategy of developing the corporation's future officers in the videodisc subsidiary as limiting their careers.

**2-3. Recreational Products, Inc.: Strategy; International**

1. A class discussion of competitive strategy is likely to take many directions. The important thing is to develop a productive discussion, and to make sure that each idea is well supported, and not to insist on a specific conclusion. Some important points to raise, if they do not come up in the discussion are that RPI is known as a very high quality producer with features and prices higher than most in the industry (per the case) which suggest the differentiation strategy. The critical success factors are likely to follow the competitive strategy⎯focus on quality and innovative features. This means that the production costs will not be the first concern, but that the ability to install high quality manufacturing processes would be most important.

2. The Singapore plan will work as long as the differentiation strategy can be achieved⎯high quality production and innovative features. Would the Singapore location be an advantage in achieving quality and innovation, or would there be a potential negative effect? For example, it is possible that the availability of highly skilled labor in Singapore would be an advantage. Moreover, it is possible that the government of Singapore would partially or wholly subsidize research into new sailboat features if the research is conducted in Singapore, using at least in part Singapore facilities and personnel. The opportunity for an integration of the development of the innovations with the manufacturing operations would be a further advantage.

3. Some of the key international issues are noted in the case. There are differences in taxes, and Singapore offers the advantage of a tax holiday (how many years?) and a subsidized loan. Other issues to consider are the stability of the Singapore dollar relative to the United States dollar. In recent years the Singapore dollar has been appreciating relative to the US dollar, which has both advantages and disadvantages. As the Singapore currency appreciates, expenditures in local currency become more expensive from the standpoint of RPI. Similarly, the retail prices in US dollars in the United States for the completed sailboat will have to rise to offset these increased costs. RPI can manage the effects of the currency changes by appropriate financial policies, including long term purchase contracts.

# Teaching Strategies for Articles

**2-1: “How to Report A Company’s Sustainability Activities”**

This article explains the concept of sustainability and its role in the corporation. It describes how a firm can measure and report its outcomes and efforts regarding sustainability within a balances scorecard.

**Discussion Questions:**

1. What is meant by sustainability? What measures are included in a sustainability report?

The article states that “Sustainability reporting includes economic, environmental, and social indicators that help monitor progress toward sustainable practices.” Sustainability is the operating process for a company in which the company balances its responsibilities to shareholders, the local communities in which it operates, and the broad economic, social, and environmental effects of its operations.

2. How many companies issued sustainability reports in 2005? Cite your source for this information.

About 1,500 as reported by the Association of Chartered Certified Accountants, London, England.

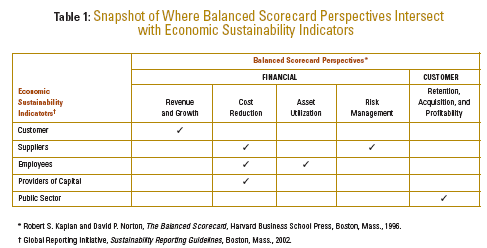
3. Are sustainability goals important to shareholders of public companies? Why or why not?

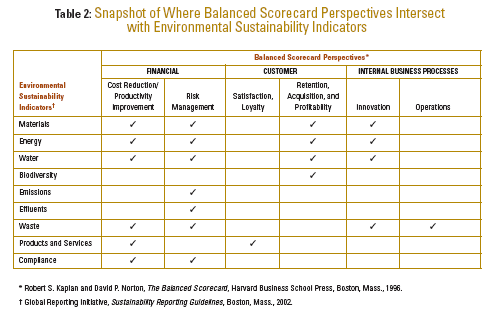
Sustainability goals are important to a firm’s shareholders as they can help improve a firm’s operating processes, its efficiency, competitiveness, and its image.

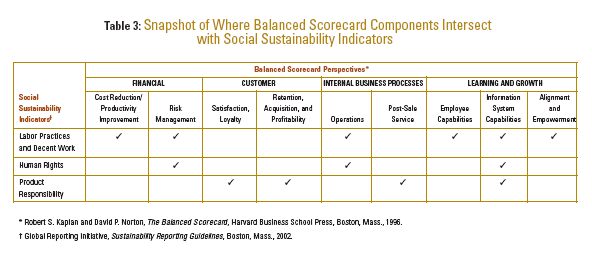
4. How can sustainability be included within the balances scorecard? Base your answer on the Global Reporting Initiative (GRI) reporting guidelines and its three categories of indicators:

* economic indicators
* environmental indicators
* social indicators

Sustainability can be included as a separate perspective in the balanced scorecard, as illustrated in the text chapter. Also, as the article shows in Tables 1, 2, and 3, sustainability measures also have a relationship with the four main perspectives of the BSC, financial, customer, internal business processes, and learning and growth.

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#### 2-2 “Applying the Balanced Scorecard to Small Companies”

(Note: This article is referred to in the text of chapter 2)

The use of the balanced scorecard for developing and evaluating progress for a strategy is illustrated in these examples of four different companies. Each firm was actively involved planning or implementing the balanced scorecard at the time of the study, and agreed to discuss its strategic goals, the relative importance of the goals (ranked by scorecard perspective), and the key performance measures for these goals. The results are shown in the Tables in the article. The firm’s perspectives are shown in order of importance from top to bottom in each table.

We can infer the firm’s strategy from studying each balanced scorecard. For example, consider the scorecard for the firm in the food ingredients industry. The firm puts the financial perspective first, and emphasizes market growth. This makes sense for a company in a commodity type industry (food ingredients) where profit margins are small and sales volume is important. Also, cost control is important for profitability, as noted in the strategic goals within both the customer and operations perspectives. In effect, the exhibit shows the outline from which a strategy map can be developed. Goals in the learning and growth perspective support goals in the internal perspective, which in turn support goals in the customer and financial perspective.

**2-3: Social and Environmental Impact**

We cannot ignore social and environmental responsibility, which in turn affects how companies handle their investment and operation strategies. However, often a win-win situation of making profits while meeting social goals presents quite a challenge. The author uses the Corporate Sustainability Model to address tackling this challenge. The model involves inputs, processes, outputs and outcomes.

**Discussion Questions**

1. Why do challenges exist when companies try to improve their performance while focusing on social and environmental factors as well?

These challenges exist because implementing sustainability is fundamentally different from implementing other strategies in an organization. For operating goals, the direct link to profit is usually clear. For innovation, though long term and also often difficult to predict and measure, the intermediate goal is new products, and the ultimate goal is increased profit. For sustainability, the goal is to achieve excellence in both social and financial performance simultaneously.

1. What are the inputs of the Corporate Sustainability Model and how do they fit into the corporate business world?

Inputsinclude the external context (regulatory and geographical), the internal context (mission, strategy, structure, and systems), the business context (industry sector, customers, and products), and the human and financial resources available to the corporation. These inputs guide the decisions of leaders and the processes that the organization undertakes to improve its sustainability. They provide a foundation for understanding the complex factors that leaders should consider and often take the form of constraints that must be addressed.

1. How did Canon attempt to improve costing of their environmental and social impacts?

At Canon, each department bears the financial burden of its own waste processing. With this new program, waste generated by each workplace is collected at a recycling center where the department, type of waste, and amount are recorded. Each department is then assessed a waste processing fee for the waste produced.

**2-4: “The Use and Usefulness of Nonfinancial Performance Measures”**

Firms often use financial, quantitative nonfinancial, and subjective performance measures to run the organization. The authors provide a discussion on these measures pertaining to specific companies and various case studies. One case study in particular revolves around the manufacturing industry in which the authors use data and a survey to support their argument.

**Discussion Questions**

1. Can every company apply the same methodology to use financial, quantitative nonfinancial, and subjective performance measures? Explain.

No. The results indicate that companies with different manufacturing strategies use different mixes of the three types of measures. This is consistent with each type of measure performing a different role in supporting operations. Further supporting this inference is that the three types of measures do have some different effects and properties which, interestingly, are not always in the directions suggested by prior literature.

1. Describe a quality initiative implementation and how its attributes support nonfinancial measures instead of financial measures.

In the specific case of quality-focused manufacturing, proponents of quality initiatives have argued that such initiatives tend to change the focus of work (e.g., prevention vs. inspection) within subunits of the firm and intensify the degree of interdependence among organizational subunits. Quality strategies also are seen as involving lead-lag relationships (e.g., prevention vs. warranty costs) and aspects of work that are difficult to quantify (e.g., cooperativeness). Because of these attributes, it has been argued that quality initiative implementation is better supported by nonfinancial than financial measures, as the former can more effectively secure commitment to quality initiatives, communicate their significance throughout the organization, and capture the multiple relevant aspects of complex, diverse, and team-based tasks.

1. In Table 3, what measure is seen as the least effective in all but one dimension? Why does this result occur?

Surprisingly, subjective measures are seen as being the least effective among the three measurement types along these dimensions (except for “strategic decisions”). A plausible explanation for this is that the strongest weight for performance evaluation is still being placed on financial measures.

**2-5 “Every Manager Can be an Innovator”**

The article provides a comprehensive discussion of how companies can use the value chain as a tool to help guide their efforts to provide on-going innovation in their companies.

Note: This article is also included as Problem 2-61 in the text.

**Discussion Questions**

1. Explain briefly the difference between disruptive and sustaining innovation.

Disruptive innovation changes completely the nature of the market or business. Examples include the iPhone or iPad. Sustaining innovation involves significant improvements in existing products and services. Sustaining innovation could involve added features, improved quality, lower cost, etc.

1. What are the five activities in the value chain depicted in the article?

The five value chain activities mentioned in the article are:

* 1. Market analysis
  2. Product development and design
  3. Sales and marketing
  4. Procurement, production and distribution
  5. After-sale customer service

The five activities are broadly representative of many organizations, especially manufacturers. It could be readily adapted to apply more specifically to a service organization, by for example replacing “Product Development and Design” with “Assess Current and Potential New Services,” and replace “Procurement, Production and Distribution,” with “Operations.”

1. What is the role of strategy in looking for innovation at each of the activities in the value chain?

While not mentioned in the article, strategy plays a key role in the review of the activities for opportunities for innovation. Depending on the firm’s strategy, cost leadership or differentiation, the management accountant will find that some of the activities will be more or less important in innovation. For example, a company that succeeds on differentiation will likely spend more effort on innovation in the market analysis and product development activities. In contrast, a firm that succeeds on cost leadership will likely spend more effort to innovate in the operations areas – procurement, production, and distribution.

1. Explain an example of an opportunity for innovation in market analysis.

Innovation in the market analysis activity can be attained by surveying customers to determine how they are using the product or service, what features or services they value or do not value, etc. A technique called Maximum Difference Scaling (MaxDiff) can be used to determine which product or service features are most important.

1. Explain an example of an opportunity for innovation in product development and design.

Innovation in the product development and design activity can be aided by encouraging everyone in the company to consider and provide their own ideas. Also, strategic alliances and joint ventures with other companies can help broaden the reach of the company’s own R&D efforts.

1. Explain an example of an opportunity for innovation in sales and marketing.

Innovation in sales and marketing might use for example, integrated marketing efforts in which the firm partners with media firms or the firm uses social media to help the company market its products and services. The key is to think “out of the box” about how to get the message out about the firm’s products and services. This might include such ideas as iPhone apps, web sites, and the use of predictive analytics and business intelligence (see chapter 8).

1. Explain an example of an opportunity for innovation in procurement, production, and distribution.

Innovation in procurement, production, and distribution is an area wherein many firms can benefit significantly from innovation, particularly for manufacturing and retail firms for which much of the value-added activities occur in the production-distribution activity. The opportunities here are potentially very large, with lean manufacturing, use of technology, sustainability, and product and business process improvement some of the techniques commonly used.

1. Explain an example of an opportunity for innovation in after-sale customer service.

Innovation in the after-sale customer service activity could also benefit from the application of web-based resources and business intelligence techniques. The idea is to extend the company’s ability to identify and react to customer needs quickly and cost effectively.

**2-6: “Sustainability and the Balanced Scorecard: Integrating Green Measures into Business Reporting”**

The article explains three ways that sustainability can be incorporated into the BSC. Also, the article explains key issues in developing and using sustainability metrics.

Note: This article is also included as Problem 2-72 in the text.

**Discussion Questions**

1. What are the three options for incorporating sustainability into the BSC? Explain briefly the advantages and disadvantages of each.

The three options are:

* 1. Adding a fifth perspective to the BSC
  2. Developing a separate sustainability balanced scorecard
  3. Integrating the measures throughout the four perspectives: financial, customer, internal business processes, and learning and growth.

As noted in the chapter, all of these are common. Nike and Ford Motor use a combination of (b) and (c), while Shell and Exxon-Mobil use (b), and many software vendors such as SAS and Oracle offer software that provides either (a), (b) or (c).

The article notes that approach (a) might not provide the amount of visibility for sustainability efforts that firms such as Ford, Shell and Nike are looking for. So for these firms, a separate scorecard is more desirable. For other firms, that wish to show a comprehensive single BSC, approach (a) works well since it puts all of the firms goals in a single, comprehensive system. Option (a) is the option we focus on in chapter 2.

1. Explain briefly each of the seven BSC measurement considerations identified by the authors.

The seven BSC measurement selection considerations for a sustainability scorecard are:

* 1. There is an underlying objective for the measurement. That is, the measure reflects an important goal for the company.
  2. Measurement terminology is defined and used consistently throughout the organization. This step provides the needed comparability, so that measures from different units within the firm can be compared usefully.
  3. Information needed for the measurement is obtainable. This consideration makes it clear that the BSC requires a quantitative metric, not a qualitative statement. Moreover, the measures should be reliable and produced from a system that can be audited to insure the accuracy of the information.
  4. The measurement will create behavior that is in agreement with the organizational goals and objectives. This means that the measures are chosen based upon the strategy, goals, and objectives of the firm. As for other elements of the BSC, all of the sustainability measures can be linked to strategy and goals.
  5. While there will likely be a combination of lagging and leading indicators, leading indicators are more appropriate to help predict how the organization will perform in the future.
  6. Likely a firm will choose to use a combination of both leading and lagging indicators.
  7. The measurements should be used to track performance trends. The comparisons can be both trends, and where appropriate, comparisons across units within the firm.
  8. Appropriate benchmarks and targets are set.

**2-7: “A New Day for Sustainability”** byMarc J. Epstein and Adrian Rejc Buhovac, *Strategic Finance*(July 2014), pp 25-33.

The article presents a framework for analyzing the interrelationships between an organization’s social, environmental, economic, and financial performance.

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**Discussion Questions:**

1. What is the financial professional’s responsibility regarding sustainability?

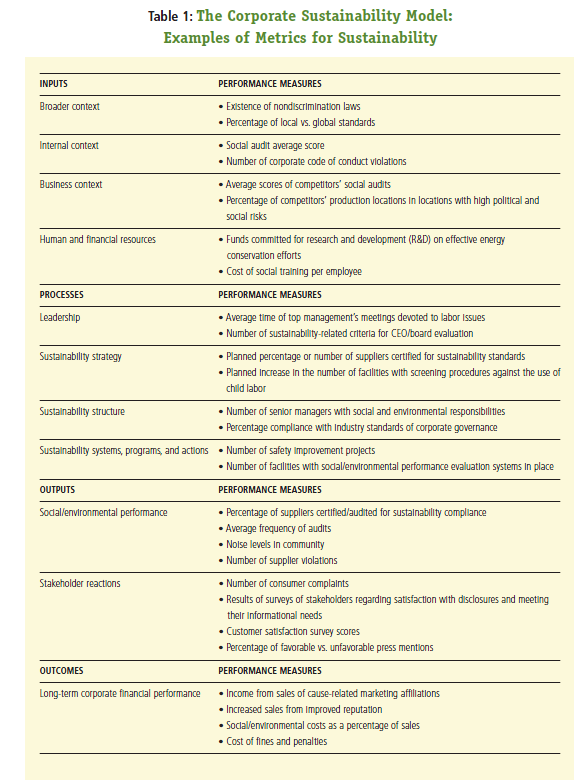
The finance professional provides assistance in developing and analyzing relevant information and in making decisions about sustainability that advance the organization’s strategic goals. See the second page of the article.

1. What is the difference between a sustainability performance driver and a sustainability metric?

The answer here is similar to that for a balanced scorecard. A driver is the term used to describe the sustainability outcome, input, output, or process. For example, “reduced customer complaints” would be an example of a desired stakeholder output. In contrast, a metric would be a quantitative measure of the driver, as for example, “number of consumer complaints.” Sustainability drivers are illustrated in Figure 2 in the article, while metrics are shown in Table 1.

1. Give an example of some sustainability metrics for (a) inputs, (b) outputs, (c) processes, and (d) outcomes.

Answers are available in Table 1 in the article, as reproduced below:



1. The article identifies several companies that have adopted sustainability measures and/or sustainability programs. List two of the companies cited in the article and explain briefly the nature of the sustainability measures or programs of these companies.

Below are some of the companies mentioned in the article:

Nike: uses an evaluation system called the Considered Index® that footwear designers can use in the development of a new product to assess the sustainability effects of different design choices

PUMA evaluates and reports its sustainability footprint via an Environmental Profit and Loss statement. The statement sets out the monetary impact of PUMA’s operations. For example, the impact PUMA is estimated to have on climate change is measured by what PUMA calls the Social Cost of Carbon (SCC)

L’Oreal assess the social and environmental performance of its many suppliers worldwide

Proctor & Gamble uses its Global Asset Recovery Purchases (GARP) program to assess its global creation of waste, as a means to promp0tly identify areas that need managers attention to reduce waste

Apple, in its North Carolina data center, has developed a new cooling system that has significantly reduce the use of water