

Measuring Organizational Performance

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Project-based MBA Program

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Doing business in the fiercely competitive world of toys and games is no place for kids. The industry as a whole generated \$21.47 billion in 2009 and \$21.65 billion in 2008 (Riley, Toy Industry Sales Generate 21.4 Billion in 2009 | Statistics, 2010). The low barriers to entry mean any new kid on the block can ride the wave of a fad to riches and fame. For example: The Zhu Zhu Pets were the hot toy of the 2009 Christmas season and filled toymaker Cepia llc.'s stocking with \$70 million in revenue (Kumar, 2010). Toys and games also compete with a very important commodity: attention span. Playthings need to fascinate children who have ever shrinking playtime. To say the least, there are many pressures on companies in the toy business, so how do the top dogs stay on top?

This document will attempt to provide a roadmap for Hasbro going forward by using a combination of considering their mission, vision, values, goals, a SLEPT analysis of the toy industry, creating SMART goals with specific performance measures presented in a Balanced Scorecard format. It will then explain how the performance measures create value for stakeholders and finally describe how those performance measures will be presented to the organization as to create “buy-in” from employees in order for the Balanced Scorecard to be successful.

### **Mission, Vision, Values and Goals**

#### **Mission Statement**

Hasbro's mission statement is short enough for all team members to remember and incorporate into their daily work:

“The heart of Hasbro's business is making great games, toys, lifestyle and entertainment products that are enjoyed by people of all ages worldwide. Hasbro intends to be the number-one company in the toy and game industry; the leading provider of play; and the

number-one marketer, pioneer and partner in all channels and all customers.” (Hasbro Inc.)

### **Vision**

“Our growth will come from the development and application of our content and technology library across all portals of play, and by continuing to develop and acquire outstanding innovative products that fulfill the play and entertainment needs of our customers. We intend to be the number 1 company in the toy making industry, leading provider of play, and the No. 1 marketer, pioneer and partner to all channels and all customers.” (Hunnicut, 2002)

### **Values**

“We are a diverse company that supports and encourages entrepreneurial spirit and the values of fun, innovation, integrity, community and competitiveness. We play to win!” (Hunnicut, 2002)

### **Goals**

“Great Gaming: To be the world’s leading game owner, developer and marketer, through unique and compelling game play for all ages, no matter where, when or how people play.

Great Toys: To be the world’s leading toy developer and marketer, by investing in new concepts and by continuing to unlock the value of our classic toy brands. Through new products, categories, channels and technologies and by constantly innovating and creating, we will re-invent our global ‘toy box.’

Global License Management: To proactively and profitably manage the greatest cast of new and exciting characters by working with our strategic partners to provide unequalled creativity and hands on play.

Lifestyle Products: To acquire, invent or invigorate proprietary content for exploitation in all forms of play and entertainment.” (Hunnicut, 2002)

So far Hasbro has done a good job of reaching these goals. They’ve been the undisputed market leader in board games for many years with 53% market share as of 2009 (Muller, 2009). Their action figures, infant/preschool, outdoor, plush and vehicles have also maintained good sales. They’ve even been making gains in the girl toy market, which has historically been dominated by Mattel and their juggernaut Barbie brand. This is a difficult market to make create opportunities and gain market share. For example: In 2010 Mattel saw “the biggest increase in Barbie sales in over 10 years.” (Andrejczak, 2010). Hasbro will need to look at the industry as a whole to move their business forward.

### **SLEPT Analysis**

To help identify the industry forces Hasbro needs to stay aware of in order to reach their goals, it is important to evaluate the external environment that they do business in. This will be done in the form of a SLEPT analysis. A SLEPT analysis is defined as “an investigation of the Social, Legal, Economic, Political, and Technological influences on a business.” (The Times 100). This analysis will inform the Balanced Scorecard as to which forces are in and out of Hasbro’s control.

#### **Social**

Children and “tweens” are spending more time on the internet and social media sites as high-speed internet and mobile devices enter more and more homes. A study released in January 2010 by the Henry J. Kaiser Family Foundation found that young people, aged 8-18, spent seven and a half hours seven days a week consuming media (Music, videos, blogs, social media, etc.) While consuming, they are also multitasking, so they can fit almost eleven hours of media into

that seven and a half hours (Rideout, Foehr, & Roberts, 2010). This leaves no time in the day for imagination play with traditional toys and games. The 8-12 consumers constitute approximately 31% of the market (Riley, Toy Industry Sales Generate 21.4 Billion in 2009 | Statistics, 2010). Children are also growing up faster, as high technology gadgets become commonplace.

### **Legal**

Loose safety standards in Chinese factories caused the massive toy recall of 2007 which involved over 10 million toys that contained unsafe levels of lead and small magnets which, if swallowed, could cause serious injury or even death. This recall not only cost millions of dollars but severely damaged consumer confidence. A problem like this looms over every toy company that uses manufacturing plants in China.

Toy companies fiercely protect their copyrights and patents. In 2008 Mattel, makers of Barbie dolls, sued a former employee for selling a doll design, known as Bratz, to rival company MGA. In a long and presumably expensive court case, Mattel was first awarded the rights to the Bratz dolls only to have them taken away in a recent 9<sup>th</sup> circuit court overturning of the previous judgment. MGA made an estimated \$1 Billion from the Bratz toys in 2005 but in 2009 the dolls only generated \$300 million. Legal fees for MGA are estimated to be around \$100 million dollars and the fight is far from over.

Hasbro recently filed suit against Buzz Bee Toys Inc. and Lanyard Toys Inc. to stop them infringing on Nerf and Super Soaker patents. "Hasbro aggressively protects its brands and products and the action we have taken today is part of Hasbro's plans to vigorously pursue companies who misappropriate our intellectual property for their own profit," said Wayne Charness, senior vice president of corporate communications (Chang, 2010).

Sometimes companies can be too aggressive about protecting their copyright. In an interesting and complicated example both Mattel and Hasbro have the rights to the board game Scrabble (Hasbro has rights in North America, Mattel has them everywhere else.) Two India-based brothers and programmers created a free-to-play version of Scrabble on Facebook called Scrabulous. At the height of its popularity, Scrabulous attracted a half-million players a day. Mattel and Hasbro both sued the Argawalla brothers and forced them to remove the game from Facebook. Hasbro then made a slow and clunky official version bemoaned by fans of Scrabulous. The official version now draws 90,000 players daily. Instead of working with the creators of the knock-off and bringing the game into the fold of officially licensed content, Mattel and Hasbro caused resentment and hard feelings in customers on the world's most popular social network.

### **Economic**

For many years, toy companies have used Chinese factories to manufacture their products. The combination of cheap labor and undervalued currency has been a very attractive recipe for keeping production costs as low as possible. Although as this arrangement as been profitable, it has also made toy companies very susceptible to problems within China itself.

China's up and coming working class is demanding more pay and benefits as China's economy grows. Sometimes these changes are explosive. In November, 2008 a worker riot broke out at a Hasbro factory in Dongguan, China (Foreman, 2008). 80 senior migrant workers, who felt they were being jilted by management on their severance pay, quickly organized a mob of 500 people that overturned a police car, stormed the factory offices, and damaged computers.

## **Political**

China's undervalued currency is a target of U.S. policymakers. Recently, then U.S. House of Representatives Speaker, Nancy Pelosi brought up the possibility of a new China currency bill that would give the "... the [Obama] administration leverage in its bilateral and multilateral negotiations with the Chinese government -- so that U.S. businesses and workers have a more level playing field in world trade." No one really knows how much this would affect export prices from China, but it is an issue that should remain on the radar.

## **Technical**

Fad toys come and go quickly in the market, digging into larger consistent toy line's annual sales. Toy fads like Pet Rocks, Tamagotchi, Furby, Tickle-Me-Elmo, and Zhu Zhu Pets can be all the rage one Christmas then disappear as quickly as they arrived. Toy companies need to continuously innovate hoping to find that next big breakthrough. At the same time, corporate espionage is widespread in the industry. Company secrets are even more important because you only get one chance to come out with the first "Pet Rock."

### **Balanced Scorecard and Measurement**

The Balanced Scorecard Institute defines balanced scorecard like this:

"The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals." (Balanced Scorecard Institute)

The following will detail the four areas of the balanced scorecard (financial, customer, internal business processes and learning & growth) and propose measures that Hasbro can use to

paint a broader picture of their business activities and how they align with their mission, vision, values and goals.

## **Financial**

### **Market share**

Hasbro's mission and vision both mention the desire to become the world's number one toy company. For that to happen, they would need to take over the top spot from the current leader Mattel. No small task, considering in April 2011 "Mattel's sales rose 8 percent to \$951.9 million, well ahead of the analysts' average estimate of \$903.7 million. Global sales for Barbie were up 14 percent." (Skariachan, 2011). In this case, Hasbro need to monitor their market share of girl's toys to ensure they're closing in on Mattel. Hasbro also need to watch its position as the number one board game manufacturer. For years nothing major happened in the board game market, but recently Lego and Mattel have introduced board games based on their properties. With enough consumer adoption, these products could eventually threaten Hasbro's position.

### **Revenue growth**

Along with strategically targeting markets held by other toy manufacturers, Hasbro also needs to boost overall revenue if they want to permanently dethrone Mattel as the king of toys. Even if Mattel held onto the girl's toy market, Hasbro could over take their position on overall revenue growth by focusing on boy's toys, infant toys and other entertainment products.

### **Economic value added**

Since growth is a key focus of Hasbro's global strategy, another component of their balanced scorecard should be measuring economic value added or EVA. EVA would approximate Hasbro's economic profit minus the cost of financing their capital. Because EVA is a metric based on combining several financial measures, it creates a handy snapshot of the value

Hasbro has created beyond all of their financial obligations generating a more accurate representation total value.

### **Cash Flow**

Hasbro should monitor its cash flow to find out if there are issues their liquidity. Even if they are being profitable, it's possible that the business isn't liquid. Profitable companies have failed because of a deficiency of liquid assets during a crisis.

### **Process cost savings**

The majority of Hasbro's products are manufactured in large factories in China. Board games, action figures and dolls all have raw materials costs that rise and fall with commodities prices. In order to continue providing play products at a low cost Hasbro needs to measure the how much each process costs and see if any savings can be generated by streamlining processes.

### **Customer Focus**

#### **Average time to process orders**

Hasbro's business relies on having product available when consumers are ready to buy. The lead time on processing orders directly impacts how much merchandise is ready and on the shelf for purchasing. When a large customer like Wal-Mart or Target run out of a particular product, the time from when that order is made until the product arrives should be as short as possible. Monitoring this measure will ensure stores have the products they need as soon as possible.

#### **On-time deliveries**

Going hand-in-hand with the average time to process orders metric, on-time deliveries specifically monitors whether Hasbro's products arrive on time to retailers and customers. Since the majority of Hasbro's products are manufactured in China, Hasbro needs to factor in the time

it takes them to cross the ocean and to distributors. Measuring the number of on time deliveries will educate management as to whether they are meeting customer expectations or not.

### **Number of complaints**

North American customers expect their toys and playthings to be fairly priced and moderately rugged. European customers expect toys to last for a long time under stressful play. Hasbro should monitor their number of complaints to identify materials that are weaker, QA processes that are breaking down and generally if customers are happy with their products.

### **Repeat customers**

Hasbro should measure how many customers purchase product regularly. How customers feel about the perceived value of Hasbro products will directly affect repeat business. If Hasbro cuts a lot of costs by using cheaper materials in their products, at some point those cheaper materials will begin to affect the quality of the product overall. Customers who don't feel they're getting their money's worth out of a product will eventually stop being repeat customers.

### **Shelf space (Market Share)**

As in all retail, shelf space is very important to Hasbro's business. The more shelf space Hasbro can occupy the more offerings they can make available to their customers. Shelf space is a difficult game. All of Hasbro's competitors are fighting for the same space. The retailers don't want to guess incorrectly about what is going to sell and get left holding the unsold merchandise. Taking up more shelf space indicates that the retailers think they are going to move more of that product and it's a vote of confidence on that toy maker.

### **How many customers are net promoters?**

Hasbro could run regular customer opinion polls asking if customers would recommend their products to others on a scale from 1-10 (10 being Very likely to recommend.) Hasbro could

then subtract the number of participants who answered 1-3 (Active detractors) from the number of participants who answered 7-10 (Active promoters.) This number would total the number of net promoters Hasbro has. Hasbro's goal would then be to move neutral and detractors into promoters.

### **Internal Business Process**

#### **Percentage of defects**

Every Monopoly board that comes off the assembly line in a factory with a defect is a waste of time and money. Machines need to be reset and workers wait around for the line to start working again. Percentage of defects would notify Hasbro leadership about which QA processes are working and ensure products get to the customer with all the parts intact.

#### **Reduced waste**

Hasbro could look at reduced waste measurements to make certain that all of the investments it makes into raw materials are incorporated into final products efficiently. Reducing waste reduces the need to throw away capital on processing, transporting and disposal of garbage when that money could be used in research or advertising.

#### **Employee sick leave**

Happy workers are more productive (Moore, 2010). Unhappy workers tend to take use more sick time (Braun, 2011). By improving employee morale, Hasbro sets the stage for productive worker to enjoy their jobs, create new ideas and concentrate on providing excellent customer service. As a consequence sick time use should go down.

#### **Efficiency improvements**

Hasbro's factories ship their products all over the world. Their supply chain is very long and complicated and needs to be monitored to ensure it is running as efficiently as possible.

### **Reduction in unit costs**

Hasbro, under the Parker Brothers brand, prints "...\$30 billion in Monopoly money every year. Last year, the U.S. Bureau of Engraving and Printing printed \$974 million in real money." (Perman, 2011). If Hasbro can save fractions of pennies on the Monopoly money alone, that will translate into significant savings over the long term.

### **Learning and Growth**

#### **Number of new products**

In the cutting edge industry of toys, you're only as good as your last big hit. In order to keep up with the market, Hasbro should track the number of new products it introduces. The more viable products Hasbro introduces the better chance they have of creating a hit toy. Although the sheer number of new products won't help Hasbro stay an innovative company. This metric should be combined with the next one.

#### **Percentage of sales from new products**

Hasbro can use this measure to figure out if new products are carrying their weight in the market or if it's their reliable legacy brands that are driving business. Cranking out new products that no one likes doesn't help Hasbro satisfy their customer's play needs.

#### **Number of employee suggestions**

All employees from sales people on the front lines with close customer connections to engineers with a new idea on how to leverage the latest innovation in animatronics technology should all have a chance to have new product ideas heard and taken seriously. It would be a shame if Hasbro passed up on the next Pokémon-like craze just because the idea wasn't given a fair chance.

#### **Number of strategic skills learned**

Hasbro employs many non-English speaking workers in their Chinese factories. This requires all orders, newsletters and instructions to be translated into Chinese from English. Factories could cut down on training time significantly if the people working the factory floor understood a bit of English. On the other end of the spectrum, Hasbro could benefit from having middle managers and lower-level executives attend college classes that augment their business skills. Imagine the possibilities if they signed up for a low-residency project-based program that allowed them to look at their own business practices through the lens of an executive with modules specifically tailored to their business.

### **Implementation**

Vital to its success is the correct introduction of the balanced scorecard program to all levels of Hasbro employees. The scorecard must always be perceived by staff as an attempt by management to improve business practices and benefit the company as a whole. Should the scorecard ever be seen as an effort to punish or penalize non-compliant employees, it would suffer a miserable failure.

In order to avoid workplace apathy towards the scorecard, management will need to spell out its goals, projected outcomes and the links to Hasbro's mission, vision, values and goals in very clear terms. Additionally, management will need to tailor the scorecards message to facilitate its effective communication in various departments. Once employees understand that the scorecard is valuable, they will need a way to monitor the metrics that are most relevant to their job. Quality assurance specialists may be particularly interested in the percent of defects metric and would like to keep an eye on it without the other metrics that they have no control over cluttering up the communication. On the other hand executives, upper management and

department heads would enjoy seeing all of the information together to identify trends that cut across several different business functions and sections.

### **Shareholder value**

To illustrate to the shareholders why the Balanced Scorecard is important and not just an academic exercise, Hasbro should explicitly tie the scorecard to shareholder value. Hasbro's Revenue growth, EVA and Process cost savings all affect shareholder value by measuring how much the company is worth as a whole adding to the value of their shares and how much cost savings can be turned into dividend payouts.

### **Value proposition for goods and services**

The value propositions of Hasbro's products are measured through the customer quadrant of the balanced scorecard. When a customer walks down their favorite toy store aisle they are met with many products from different brands. Hasbro would like that customer to have such a high opinion of Hasbro products that the choice is simple: "Hasbro equals high-quality, fun products so why would I buy anything else?" Repeat customers and Net Promoters metrics would speak to the "stickiness" of customers and to their perception of value towards Hasbro's products.

### **Conclusion**

The implementation of a balanced scorecard program at Hasbro would produce a broad range of positive effects on the company as a whole. It would get management to agree on which metrics and activities are essential to Hasbro's success. The entire company could then rally around the program focusing work on those essential activities. Awareness of the company-wide goals and metric targets would be raised significantly. Downward trends and movement that is opposed to Hasbro reaching its goals could be identified and course corrections could be made in

advance. Finally they would enjoy all of the benefits that come with creating a culture of setting and achieving goals.

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