BALANCED SCORECARD COLLABORATIVE

Hall of Fame

Wendy's International, Inc.

Executive Summary

Case Study Name: Wendy's International

Industry: Retail/Food

Key Company Stats (as of 12/31/02):

System-wide Sales:	$9.4 billion
Total Annual Revenue:	$2.7 billion
# of restaurants:	8,811 in 26 countries

Wendy's International, Inc. is one of the world's largest restaurant operating and franchising companies, with $9.3 billion in 2002 system-wide sales and three quality brands -- Wendy's, Tim Hortons, and Baja Fresh. Wendy's vision is to be the quality leader in everything it does.

Background/Business Problem: Wendy's did not have a burning platform for implementing the BSC – in fact the company was doing well. Then a new CEO came on board charged with developing a new strategy. As always, Wendy's was looking for ways to improve. Given the competitive environment of the quick service restaurant industry, and the high level of staff turnover endemic to the industry, Wendy's was looking to differentiate itself competitively. With a keen appreciation of the importance of human capital and customer focus in this competitive environment, Wendy's adopted the Balanced Scorecard in 2000 as a way to help it gather data, measure intangible assets, and better focus the business.

The Change Undertaken: Wendy's took steps to change the way it managed both staff turnover and customer retention through use of the Balanced Scorecard. Having measured various intangibles in the past, Wendy's had no consolidated process for gathering the data. With well- focused efforts and communications, it lowered staff turnover from 170% to 140% per year. (Average staff turnover in the fast food industry is around 250%.) By interviewing customers about how Wendy's compares with its competitors, Wendy's was able to improve customer retention.

Role of the Balanced Scorecard: Wendy's strategic plan takes a long-term view of 10 years. Their main objective is to maintain focus on the core businesses while making progress on evolving businesses and developing new opportunities or growth drivers.

Departmental scorecards are linked to the corporate strategy, and twice a year each department reviews its scorecard with Wendy's CEO and CFO. Wendy's accounting group rolls these up to corporate from the divisions.

Wendy's Strategic Planning Council discusses and reviews elements of its Balanced Scorecard each quarter. Elements of the scorecard are used in virtually every management meeting they conduct

Executive Summary (continued)

Financial Results: Wendy's market cap is now $3 billion, up from $2.5 billion before they implemented the BSC. Other increases from year-end 2001 to year-end 2002:

- System wide sales up 12.7%
- Revenues up 14.2% to an all-time high
- Net income up 13.0%
- EPS up 14.5%
- Market cap up 20%
- Stock price up 75%

Non-Financial Results:

- Enterprise-wide strategic plan, with business units aligned around that plan
- Improved service excellence measures for Wendy's
- Documented and improved speed of service for Tim Hortons
- Improved ratings on Wendy's and Tim Hortons attributes
- Staff turnover reduced from 170% per year to 140% per year against industry average of 250%

Testimonial:

"Wendy's Strategic Planning Council utilized the Balanced Scorecard to establish targets and measure our progress in key dimensions ranging from employee retention at the restaurant level, to restaurant evaluation scores, to business processes, to total revenue growth. They are all vitally important, not just the financial measures. What is really exciting is that we've implemented the Balanced Scorecard deep in our organization and we hold ourselves accountable for results. It's a simple process, and we fine-tune the scorecard for each division and department. From our leadership team to department heads, we know what our contribution means to the overall strategy for Wendy's International. We've always had the mind-set of continuous improvement in the areas of restaurant operations and support, and we are focused on achieving superior results with our strategic plan and Balanced Scorecard."

Kerrii B. Anderson

Executive Vice President and Chief Financial Officer

Wendy's International, Inc.

Background

Wendy's International, Inc. is one of the world's largest restaurant operating and franchising companies, with $9.4 billion in 2002 system wide sales, more than 8,800 total restaurants and quality brands—Wendy's Old Fashioned Hamburgers®, Tim Hortons®, and Baja Fresh®. Wendy's adopted the Balanced Scorecard in 2000 to help measure intangible assets like human capital and customer focus. The scorecard gave Wendy's a consolidated process for gathering the right data and has helped them significantly reduce staff turnover and increase customer satisfaction. With the necessary data on demand, Wendy's can now go beyond gauging its profitability per restaurant to measuring profitability per customer per hour for each of its 8,811 restaurants in 26 countries. Not only has Wendy's Balanced Scorecard helped align its various divisions with the strategy, it has enabled the company to bring that strategy down to its front lines. Wendy's employees understand absolutely that "Quality is our recipe." The rewards have been huge. Since adopting the Balanced Scorecard, Wendy's stock price has gone up 75%, its market share has risen from 11.45% to 13.2% and its market cap has increased from $2.5 billion in 1999 to $3 billion today. Named among *Business Ethics'* "100 Best Corporate Citizens" for 2001, Wendy's continues the legacy of its late founder, Dave Thomas through its many outreach initiatives. Wendy's commitment to a quality product, and community service give proof to its corporate slogan, "It's Better Here."

Although operational excellence is probably its most important strategic objective, Wendy's seeks to create value in all four strategic themes.

Operational Excellence: For Wendy's, operational excellence is maintaining the advantage over one's competitors in terms of restaurant operations. Through statistical analysis and talking to consumers, Wendy's has improved its operating scores relative to its competitors over the past several years. One of the things they have found is that more consumers are using the drive through window while fewer choose to sit down for their meal in the dining room. Realizing that improving service at the drive through window was a business opportunity, Wendy's set out to do just that. "Today, 65% of our sales go through the drive through. You can only get so many cars through at peak hours so we set out to solve that problem," says John D. Barker, Vice President, Investor Relations and Financial Communications. To that end, Wendy's created a program called "service excellence." After analyzing all of the steps to filling orders in the drive through and doing time motion studies, Wendy's found ways to motivate and measure performance in that area. One of Wendy's BSC measures looks at who has the fastest drive through times in the quick service industry. This measure is verified by third party analysis. *Quick Service Magazine* does an annual survey in their magazine. As a result of its diligence, Wendy's has owned this measure for four years in a row, boasting a more than 20-point lead over the second fastest chain.

Background (continued)

Customer intimacy: In the late 1990s, before adopting a corporate Balanced Scorecard, Wendy's did in-depth research in order to understand its customers. One finding was that consumers were starting to turn to quick service restaurants rather than their refrigerator for late night meals. In other words, people who worked the late shift, or even people who were already home for the evening, were leaving home to buy food from quick service restaurants that they would then take home. As a result, Wendy's created its late night program. They kept their stores open later, making sure they were staffed properly. They also made sure the restaurant parking lots were well lit. "And then we started to advertise it," says John Barker. "The results over the last 4-5 years have increased in that late-night day part. We've seen growth in that category of over 20% so its proven to be very fruitful for us in terms of driving sales and profits. While this program was put into place before the corporate BSC, Wendy's is now better able to measure the continuing effectiveness of staying open later hours.

Product Innovation: Again, by understanding consumers, Wendy's learned that they want more control and customization. One example of Wendy's innovation is that in addition to making its salads fresh daily, they are also customizable with separately wrapped components that consumers can choose to add on or not. "The strategy is to attract customers who are interested in freshly prepared salads, in addition to hamburgers and chicken sandwiches. We developed the new Garden Sensations and customers love them. Our salads drove very strong same-store sales growth in 2002 and raised the bar in our industry. The salads are the latest in a long line of successful new products at Wendy's. There's no question that our research and development is the gold standard in the quick service restaurant industry," notes Barker. "At the casual dining restaurants, you pay $6.99 for the type of salad that Wendy's offers for $3.99. So we created a way to offer a customizable salad that you can get in 130 seconds going through the drive through AND we also found a way to make money at it."

Community and Environmental Excellence: Both Wendy's and Tim Hortons strategic objectives under this theme are about supporting children. The Dave Thomas Foundation for Adoption is dedicated to helping children find permanent homes. "Dave Thomas [Wendy's founder] was an adopted child so this was more than just an interest for him and the entire company has rallied around this cause," says Barker. The Foundation is housed in Wendy's International headquarters and it supports a number of causes including relationships with national adoption councils. Furthermore, says Barker, Dave Thomas spent innumerable hours at the White House over the years working on adoption bills.

Tim Hortons has a children's foundation as well that raises money for six camps for underprivileged children.

Mobilize

Wendy's did not have a burning platform for implementing the Balanced Scorecard. According to John D. Barker Vice President, Investor Relations and Financial Communications, the company was in fine shape. What it did have was a commitment for continuous improvement and new CEO Jack Schussler who was charged by Wendy's Board of Directors to create a corporate strategic plan. "When we started to look at best in class strategic planning the Balanced Scorecard was just everywhere." remembers Barker. The Balanced Scorecard seemed an obvious fit for the motto of Wendy's late founder, Dave Thomas, "Get better every day." In addition, several individual departments within Wendy's were already using Balanced Scorecards.

When CFO Kerrii Anderson came on board in the fall of 2000, she worked with CEO Jack Schuessler to develop the new strategic plan. The Strategic Planning Council was led by Schuessler and Anderson, and included 16 of the company's most senior executives such as Wendy's North America President and COO Tom Mueller, Tim Hortons President and COO Paul House, as well as Executive Vice Presidents Kathie Chesnut, George Condos, Ron Musick, Don Calhoon, Bill Moir, Tom McNeely and Lee McCorkle. Also on the council were Senior V.P. of International Wendy's Brion Grube and V.P. of Investor Relations and Financial Communications John Barker. The council has since added additional members. Anderson began introducing the Balanced Scorecard approach during these sessions with the assistance of Deloitte & Touche. "We had them begin that process within their own sphere – be it marketing or operations," explains Barker. The executives would identify the major elements that their own areas would focus on and how those elements then tied to the overall strategic plan. "It didn't happen overnight. There was a lot of back and forth between the business leaders and Kerrii and Jack before they had scorecards that were appropriate for the businesses, divisions, and key departments that also tied up to the corporate level," notes Barker.

Balanced Scorecard measures are reviewed quarterly for each division. In addition, each division or department head has BSC measures that are tied to their annual performance review. In that way, unit heads are accountable for their area's results. For example, the person responsible for Wendy's North America business would have a number of scorecard measures such as operating income and number of stores opened. That executive's BSC would also measure across multiple dimensions like the effectiveness of advertising, consumer ratings and brands. All of that data would be pulled together for the executive's annual reviews with the CFO and CEO. "When you are pulling these BSCs together all the way from the top down to each department, it really rivets you and gets everyone moving in the same direction. You understand the strategy, you know how important particular measures are and how critical they are as they roll up through the organization. It's a process that has improved us tremendously," says Barker.

Translate

Strategy Map

Wendy's does not have a "traditional" strategy map. Instead, they took the core concept of the strategy map and shaped it to meet the needs of their organization. "We needed to put a strategic plan together and have some imagery that could be understandable at multiple levels," explains John Barker. "We have some unique constituents here including franchisees and employees who can be as young as 18 –years old working in our store who might see elements of this. So we had to be careful that it wasn't so sophisticated and over bearing to some key audiences that they wouldn't pay attention to it." Wendy's strategic plan is depicted in the graphic below.

Translate (continued)

Balanced Scorecard

Wendy's strategic plan takes a long-term view of 10 years. Their main objective is to maintain focus on the core businesses while making progress on evolving businesses and developing new opportunities or growth drivers. Wendy's Balanced Scorecard has five perspectives and 19 measures:

People – retention, diversity, bench strength, succession planning

Customers – restaurant attributes, market share

Financial – revenue growth, EBIT, earnings per share, market capitalization, and return on invested capital

Operations – capital reinvestment, sales growth, restaurant evaluations, restaurant attributes

Corporate – G&A percent of revenue, growth, process redesign benefits, percent revenue/income from M&A

Align

Each division, Wendy’s North America, Tim Hortons, and Baja Fresh, use the Balanced Scorecard. Wendy’s cascaded its BSC from the top down in an effort to teach the process and to communicate its importance.

Every department in Wendy’s International has a Balanced Scorecard. These departments include HR, administration, IT, investor relations, accounting, marketing, communications, treasury, and operations. While each of these departments has a unique Balanced Scorecard, all of them link back to the overall corporate strategy. Each department reviews its scorecard with Wendy’s CEO and CFO twice each year. Today the scorecards are developed and updated at the department level and rolled up through the company. The first units to do this were IT and Wendy’s North America.

Wendy’s North America operates 1,183 company restaurants and the rest of the system is franchised, with some of the franchisees running only one store. While the individual stores do not have Balanced Scorecards, Wendy’s has communicated the importance of the strategic plan and has also shared how the company measures itself as a corporation. Wendy’s keeps the franchise leadership group, elected by the franchisees, in the loop regarding the BSC approach using a number of communications vehicles. While franchisees may not use a Balanced Scorecard, they are all held to many of the same measures to insure consistency across the brand.

Motivate

Wendy's has built a communications program around its strategic plan and the BSC approach. Their presentation plan included:

- A full presentation of the BSC program by the CEO and CFO to the board, all officers and corporate employees.
- Presentations to leadership groups,
- Stories in employee magazine distributed to everyone in the system
- Signage in offices depicting logos and the vision
- Memos
- Web casts

"This year we took 3000 employees through phase two of our strategic plan at our Wendy's convention," notes John D. Barker, Vice President, Investor Relations and Financial Communications. "Our communications program around our strategy includes a number of things that communicate pieces of the strategy with emphasis on the most important parts. Its embedded in everything we do from memos to our logo to the seriousness around business planning. It's everywhere," he explains.

Furthermore, notes Barker, good communication requires repetition and a clear message. "The leaders have to live the strategy and the values," he says.

Finally, bonus compensation ties to the scorecard with specific goals for corporate EPS and ROA, and division income and other measures.

Manage

Wendy's Strategic Planning Council reviews elements of its BSC each quarter. Furthermore, scorecard components are discussed in virtually every management meeting including meetings of executive staff, officers, the Franchise Advisory Council, and Wendy's national advertising meetings. Balanced Scorecard measures are reported through an Excel program that is on some desktops – usually the financial person in a given group is the one with access. Leaders for each of Wendy's strategic themes update the reports quarterly, which are reviewed by executive management and the Strategic Planning Council.

Wendy's has tied its budgeting to the Balanced Scorecard. For example, the BSC helped executives understand the impact of G&A across the enterprise. "The BSC forces people to go back and forward and really understand that if they add 2 headcount in IT, for example, how that will affect not only their department but the entire organization. They can then think about justifying the need for that headcount in a different way or perhaps figure out another way to solve the problem without upping their headcount," says John D. Barker.

Year-end results in terms of the BSC are reviewed annually with Wendy's Board of Directors. "We'll go through our 2002 year end results in terms of the scorecard and then we'll look at our budgets. We show them the consolidated scorecards in detail. Everything from financials to process redesign benefits to market capitalization to transactions at the Wendy's level to new store growth at Tim Hortons. It gives the board a lot of comfort to have this information," explains Barker.

In addition, the board is updated quarterly or every six months on specific leading indicators. For example, they are particularly interested in seeing consumer attributes feedback for Wendy's and Tim Hortons as well as market share changes. They also like to see where Wendy's benchmarks in IT around technology issues. "They can no longer afford to be passive as a board," says Barker. "They need to see where the company is going."

Results

Financial Results: Wendy’s market cap is now $3 billion, up from $2.5 billion before they implemented the BSC. Other increases from year-end 2001 to year-end 2002:

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“The Balanced Scorecard has really changed our organization,” says John Barker, Vice President, Investor Relations and Financial Communications. “The best companies change and get better and their improvement is still occurring as opposed to waiting until they are under duress. That’s the approach we took by implementing the BSC. The BSC enables us to be more proactive and professional in our management approach – we can spot issues more earlier. It holds people accountable and changes the approach an organization has to important elements of its business.”

BSCol Hall of Fame

Balanced Scorecard Collaborative Hall of Fame winners have achieved breakthrough performance largely as a result of applying one or more of the five principles of a Strategy-Focused Organization: mobilize change through executive leadership; translate the strategy to operational terms; align the organization to the strategy; make strategy everyone’s job; and make strategy a continual process.

Other selection criteria are: implement the Balanced Scorecard as defined by the Kaplan/Norton methodology; present the case at a public conference; achieve media recognition for the scorecard implementation; produce significant financial or market share gains; and demonstrate measurable achievement of customer objectives. Hall of Fame honorees are nominated by the Collaborative’s in-house experts and are personally selected by Balanced Scorecard creators Dr. Robert Kaplan and Dr. David Norton.

About Balanced Scorecard Collaborative

Balanced Scorecard Collaborative, Inc. (BSCol) is a new kind of professional service firm dedicated to the worldwide awareness, use, enhancement, and integrity of the Balanced Scorecard (BSC) as a value-added management process. Led by Balanced Scorecard creators Drs. Robert Kaplan and David Norton, BSCol provides consulting, conferences, training, publications, action working groups, software certification, and online services. For more information, please call us at 781.259.3737, or visit us on the web where you can join Balanced Scorecard Online for the latest insight and resources at bscol.com