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CASE STUDY

KLÜBER: A Balanced Scorecard without attrition



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Fulvio Lamberti,
General Manager Finance,
Administration & Human
Resources (CFO) of Klüber
Lubrication Italia

Industry
Chemical

Application Area
Balanced Scorecard

Klüber: world leader in lubrication

A range of unparalleled lubricants along with over seventy five years of investment in research and development, work to make Klüber one of the world’s leading experts in the lubricant sector.

This leading role manifests itself not only in the ability to create ‘made-to-measure’ lubricants to deal with the most complex or extreme lubrication needs, but also in a retailing process involving over 2,000 special products for an astonishing variety of uses: from the greasing of giant open-air cogwheels, to lubricating wristwatches, and on to high technology inventions like self-lubricating plastics.

Employing over 1,500 people and generating an annual worldwide turnover of 330 million euros, Klüber is one of the three components – together with ChemTrend and OKS – of the **Freudenberg Chemical Specialities KG** business group, one of the 14 business divisions of the **Freudenberg Group**, a 5 billion euro colossus present in 55 countries and operating in various industrial sectors.

Klüber headquarters, located in Italy, takes care of both distributing the parent company’s products and manufacturing a **series of articles for the consociate company, ChemTrend.**

Initial Project: sales analysis

“To start with, our BOARD project was conceived to operate solely on the commercial side – comments **Fulvio Lamberti, General Manager Finance, Administration & Human Resources (CFO) of Klüber Lubrication Italia** – where we set up a sales analysis operation. Until then the data used to be downloaded from our management **program (ACG IBM)** and then converted into Pivot Excel tables to correlate clients and products. However, we have many clients and many products, and by April/May these tables would **already begin to perform badly and the problem would** then continue to get worse until the end of the year.

After installing BOARD we were finally able to produce a single overall



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picture **of the** sales pattern, **which is** easy to consult and always updated: all sales personnel could easily check data on clients, outlets, products and geography and cross-check them with previous years. Subsequently we implemented an in-depth analysis of trends in terms of price, mix and quantity, which we currently use to estimate the consequences of price rises on various client segments. It was a solution that was warmly welcomed by our sales personnel, who appreciated it as a moment of innovation and discontinuity with how things had been done previously, both in terms of the rapidity with which they could access data and of the possibility of easily obtaining analyses involving multiple dimensions.”

The Balance Scorecard: from Norton and Kaplan to a company context

“Once we had implemented the sales analysis, its outstanding results encouraged us to extend the BOARD project to identifying indicators that would be able to orientate the company’s performance in every possible respect” – explains **Fulvio Lamberti, General Manager Finance, Administration & Human Resources (CFO) of Klüber Lubrication Italia.**

The method selected as a reference point was the Balance Scorecard, as theorised by Norton & Kaplan.

“Obviously, the first problem was how to apply this theoretical approach to the concrete realities of our company – continues Lamberti. In the field of the two dimensions Asset Use and Customer Value we identified the two most important drivers in our case: the DSO and the Gross Profit, while in the meantime clearly monitoring the establishment of customer loyalty and the ability to combine high levels of service with economic and financial priorities relating to internal processes. Taking these strategic objectives as our starting point, we identified a series of measurement indexes for results which, gathered in a single Dashboard, constituted a real “index of balanced evaluation”.

“To tell the truth, many of the indicators employed were perhaps already being used by various area chiefs on their own personal initiative, but what was missing was a sense of strategic alignment and an ability to orientate decisions bearing in mind the company as a whole and not just one part of it. Let’s take an example: if the head of logistics decided to improve the working capital by drastically reducing the inventory, that index would improve dramatically, but we would find a lot of extremely unsatisfied clients on our hands. Thanks to BOARD we have created a **comprehensive** framework that lets us control the balance between various indexes, allowing us to optimise our decisions in accordance with an integrated vision of the whole company.”





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Translating economic-financial objectives into company strategy: DSO and Gross Profit

“For us, the DSO (Days Sales Outstanding) – says Lamberti – is a critical factor, because we have a Circulating Capital that is higher than our Fixed Capital. Given that the average number of days for encashment in Southern Europe is much higher than in Northern Europe, our ability to improve that statistic at a local level heavily influences the overall average for the Klüber Group.

To understand the importance of being able to speed up this process on our part, one only has to take into account the fact that we have to pay the associate companies who supply our stock within 30 days. In this area the results we have achieved through the Balance Scoreboard solution developed with BOARD have been quite extraordinary. For example, when we began the project our DSO index was around 130 days, and today we have reduced it to 85, an excellent figure for the field we operate in.

This has been made possible by the way we have involved the sales personnel through the measurement of their performance in this strategic aspect: special reports have made it possible to attribute precisely defined targets, creating **an encashment budget according to client categories**, and to keep the sales staff promptly updated on their results, immediately checking on outstanding payments in terms of amounts, numbers of cases, days outstanding and relative incidence.

Thanks to this mechanism we have been able to establish the concept that our sales personnel’s goals include not only making sales but also being paid for them. We have placed far greater attention on outstanding payments due, and even in the price negotiation phase the price itself is no longer the sole factor, thus helping us to begin the long process of gradually changing the conditions of payment for many of our clients.”

“To maintain an up-to-date picture of our potential for improvement, – continues Lamberti – the measurements are not simply confronted on a historical basis, they also take into account the clients’ importance. For example, if a major client with extremely favourable payment conditions increases its share of our overall sales, this will automatically provoke a negative effect on our DSO even if we have achieved marked improvements with all our other clients. This is a clear example of how a correct evaluation of certain performances cannot stop at a single indicator, but must be contextualised, broadening the focus so as to extrapolate the factors that have caused it. The same argument can be applied to the Gross Profit, a fundamental objective for a company that is already extremely careful about fixed costs and therefore has a limited range of action in terms of making further savings to improve its profitability.

In this case, from the revenue viewpoint, we have focussed on various highly significant cause-and effect relationships which we constantly monitor. Starting from the classic sales analysis in terms of price, mix and



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quantity, we evaluate the efficiency in the implementation of our pricing policies, measuring our ability to pass on price rises of raw materials/commercial products to different client segments.

We also evaluate a series of indicators that anticipate future trends: visits carried out by our salesmen, the number of new clients and the revenue they generate, the loyalty of existing clients, the frequency of repeat buying and the cross selling capacity. Widening our perspective to take in internal company processes, the focus definitely shifts to logistical efficiency. Here again the indicators to be checked are basically the classic ones regarding punctuality of deliveries, calculated on packing list indications of product and client dimensions, plus the incidence and recovery of transport costs, the quantity of goods returned and, obviously, the inventory turns and the stock reach."

Results: overall picture and continuous improvement

"The most important proof of the BOARD project's success is the fact that every year we have achieved improvements on all the indicators that we have focussed on: a truly outstanding result.

This is why, if I evaluate the project in terms of cost and benefit, it is absolutely clear to me that the investment has paid off spectacularly.

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