

Balanced Score Card approach to practice management – Customer Perspective

This is the second in a series of articles on the “balanced score card approach to practice management”. In this article, I will discuss the first non financial perspective – the “customer” perspective.

The concept of the “balanced score card” emerged in the late twentieth century as an alternative approach to measuring business performance. Until the introduction of the balanced score card, most businesses were primarily focused on measuring financial performance mainly driven by share holders’ expectations. The balanced score card approach took a different view. It suggested that in order to measure business performance, a more holistic approach should be taken in the form of measuring financial as well as non financial aspects. Also, that good non financial performance will invariably lead to better financial performance especially in the long run.

Hence, nowadays businesses pay more attention to improving both financial and non financial performance. The non financial perspectives include “customers”, “operations”, “people” and “innovation”.

What is the customer perspective?

Your patients are your customers.

The customer perspective is one of the most important aspects that will ensure both short term and long term financial success. Therefore, under the balanced score card approach, the customer perspective is considered an important aspect which requires regular monitoring.

This covers a wide range of aspects such as customer satisfaction levels, customer base, revenue per customer, repeat customers, market share and so on, which are undoubtedly the underlying factors of better financial performance.

How to identify critical success factors and key performance indicators?

In order to monitor how well you are performing in the customer perspective, first it is necessary to identify the relevant critical success factors.

For example, having a good customer base is critical for any dental practice. A loyal and satisfied customer base is important to ensure repeat purchases and new customers in the form of referrals from existing customers. All of these will lead to sustained growth in revenue which will have a direct impact on your financial performance.

Depending on the type of your practice, the critical success factors for the customer perspective will vary, but the above examples will hold true for any practice, even for a not for profit dental practice. It is important to identify the right critical success factors.

Once you have identified the critical success factors, it is then important to identify the key performance indicators for each critical success factor. This will enable you to measure the performance of the identified critical success factor on a regular basis and take timely corrective actions.

For example, if the expansion of the customer base is a critical success factor for your practice, then you have to monitor the new registrants on a regular basis. Therefore, “the number of new registrants per month” becomes a key performance indicator of the critical success factor “expansion of the customer base”.

Non financial key performance indicators and the annual budget

When measuring the key performance indicators, it is really important to have pre-determined targets against which the actual performance can be measured. This way, we not only monitor the key performance indicators but also assess the actual performance in comparison to predetermined targets, highlighting the required level of performance for success.

As you know your financial plan or the budget is greatly shaped by your vision and objectives that you have for your dental practice. Your practice vision and objectives should not only cover financial aspects but also non financial aspects such as building a good customer base, building good rapport with customers and so on.

Therefore, your annual budget should also address the above four non financial perspectives in terms of setting targets. For example, if one of your long term objectives is to have a customer base of 5,000 registrants in five years time, your annual budget should reflect this in terms of number of new registrants that you should have every month. Similarly, budgeted figures should be available for all other non financial key performance indicators.

Therefore, your budget shouldn't be purely financial; it should also incorporate key non financial aspects broadly classified under the four non financial perspectives mentioned before.

This will enable you to monitor the actual performance of key indicators of the non financial perspectives against preset targets. This will ensure that your long term objectives for each non financial perspective are met by taking appropriate timely action.

Measuring the performance of the customer perspective

Customer perspective is an important aspect of your business which determines financial performance. It is really important to identify what you want to achieve in terms of objectives for the customer perspective of your balanced score card.

Then identify the relevant critical success factors, and the key performance indicators. Once this process is over, you should set annual or monthly targets for each key performance indicator and measure the actual performance on a regular basis.

This will ensure that your long term objectives for the customer perspective is attained by monitoring short term performance over a long period of time and taking timely action.

In my next article, I will discuss the remaining non financial perspectives, which are equally important in determining your overall practice performance in the long run.

