

A Balanced Scorecard for Adobe Systems, Inc.

*An example for creating a corporate-level
balanced scorecard based on publicly available
information*

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Adobe Systems Inc.

The former Xerox colleagues Chuck Geschke and John Warnock founded Adobe Systems Inc., headquartered in San Jose, CA, in 1982. Today Adobe is one of the world's largest and most diversified software companies with revenues totaling \$2.6 billion in 2006. Adobe mainly competes in the segments *Creative Solutions*, *Knowledge Worker Solutions*, *Enterprise and Developer Solutions*, and *Mobile and Device Solutions* and is best known for its flagship products Acrobat and Photoshop. Adobe acquired competitor Macromedia in 2005, strengthening its position in the Creative Solutions segment.

Balanced Scorecard

This analysis employs the Balanced Scorecard as a framework for measuring Adobe's success in reaching strategic objectives at the corporate level.

The classic Balanced Scorecard examines the business from four perspectives – *Financial*, *Customer Experience*, *International Business*, and *Innovation and Learning*. Since international sales account for roughly half of total sales, the *International Perspective* was added to reflect the importance of international business to Adobe.¹ This analysis is solely based on the interpretation of publicly available information about Adobe, namely annual and quarterly reports as well as investor presentations.

¹ As suggested by Landry, et al in "Balanced Scorecard for Multinationals", The Journal of Corporate Accounting & Finance, 2002

Executive Summary

Adobe follows a clear differentiation and diversification strategy, continuously looking to improve current and develop new products. Consequently the balanced scorecard focuses on the *Customer Experience* and *innovation and Learning* perspectives in addition to the financial perspective.

The table below summarizes the objectives and measures developed. The reasoning behind each objective and measure is explained in the following chapters.

	Objectives	Measures	
Financial Perspective <i>(How do we look to shareholders?)</i>	Return on capital employed	ROCE (%)	
	Increase profitability	Net margin (US\$)	
	Increase shareholder value	Stock Price Growth (%)	
	Drive revenue growth throughout all business segments		Revenue Growth, Creative Solutions (US\$)
			Revenue Growth, Knowledge Worker Solutions (US\$)
			Revenue Growth, Enterprise and Developer Solutions (US\$)
			Revenue Growth, Mobile and Device Solutions (US\$)
Customer Experience <i>(How Do Customers See Us?)</i>	Strengthen position of Creative Solutions in non-professionals segment	Market share in creative non-professionals segment (%)	

	Retain customers in established segments	Ratio of CS2 units to CS3 upgrades sold
		Ratio of Studio 8 units to CS3 upgrades sold
	Increase market exposure for new developer products	Increase of web development projects using Adobe Integrated Runtime (volume, %)
		Increase of Adobe Flex SDK downloads (volume, %)
		Increase of web applications built on Adobe Flex (volume, %)
	Push Mobile and Device Solutions	Increase in carriers endorsing Adobe mobile services (volume)
Increase in flash enabled chip shipments (%)		
Internal Business Perspective <i>(Can We Continue To Improve And Create Value?)</i>	Increase operating efficiency	Decrease in operating costs (volume, % of revenues)
	Protect against domestic patents, trademarks infringement and software piracy	Gains in patent and trademark protection (US, Canada)
		Decrease in pirated software (%)
	Transition into new business models	Revenue from Software as a Service and other services (% of total revenues)
Innovation and Learning Perspective <i>(What Must We Excel At?)</i>	Continue to attract and retain the best talent	New hires from top high tech firms and graduate programs (% of total hires)
		Employees from key departments leaving (% of total notices)
	Continue to invest heavily in innovation	New products in the pipeline (volume)
		Research and Development expenses (% of revenues)

	Retain innovational spirit	Climate survey index
		New product ideas brought forward by non-product management employees (volume)
	Retain innovation lead vs. competition	Average rank in product benchmarks
		New markets entered as first mover (% of new market entries)
International Perspective <i>(Are we internalizing a global consciousness?)</i>	Reduce cost of goods sold internationally	Decrease in total cost of goods sold internationally (% of revenues)
		Decrease in localizations costs (% of international revenues)
	Continue to build brands worldwide	New international markets entered (volume)
		Products introduced in international market (% of total portfolio)
	Protect against international patents, trademarks infringement and software piracy	Gains in patent and trademark protection (international)
		Decrease in pirated software (%)

Table 1 - Balanced Scorecard for Adobe Systems, Inc.

Financial Perspective

In 2006 Adobe enacted a Performance Share Program², seeking to align leadership team and stockholder interest to drive company value. The balanced scorecard seeks to express this goal with the *Return on capital employed* and *Increase profitability* objectives. Additionally Adobe has set up two programs, using excess cash to repurchase company stock³ in order to *Increase shareholder value*.

The other central financial objective for Adobe is to drive revenue growth across all business units. This goal is stated in repeatedly in almost all investor publications: “[...] focus on driving revenue growth and increasing market share of our products⁴”.

Customer Perspective

As differentiator and innovator Adobe is very customer-focused. For the established Creative Solutions the focus is to find new growth opportunities. As one of the largest market segments, creative non-professionals offer the most growth potential for Adobe⁵, making *Strengthen position of Creative Solutions in non-professionals segment* a major objective in the *Customer Perspective*.

² Adobe Quarterly Report, Q3 2007, p. 9

³ Adobe Quarterly Report, Q3 2007, p. 12

⁴ Adobe Quarterly Report, Q3 2007, p. 18

⁵ Adobe Investor Presentation Q3 2007, p. 3

Besides attracting new customers it is crucial for Adobe to *retain customers in the established products*, getting them to upgrade to new versions instead of switching to competitors⁶.

The upgrade ratios from flagship products Creative Suite 2 and Studio 8 to Creative Suite 3 are taken as measurements to capture this objective.

In order to continue to successfully serve the demanding and dynamic developer market it is crucial for Adobe to *increase market exposure for new developer products*, currently especially Adobe AIR and Flex that compete against a whole host of other Rich Internet Application (RIA) frameworks.

Essential for sustained growth at Adobe are *Mobile and Device Solutions*, currently a high growth, low volume business. In addition to its market potential it is of high strategic importance, signifying an expansion into to new platforms. Therefore another central objective for Adobe is to *Push Mobile and Device Solutions*.

Internal Business Perspective

The foremost operational objective right now for Adobe is to *Increase operating efficiency* and complete the restructuring process, especially with respect to the integration of recent acquisition Macromedia.

Adobe also has to ensure that the organization can implement the *Transition into new business models*, signifying a difficult operational change⁷.

⁶ Adobe Quarterly Report, Q4 2007, p. 28

⁷ Adobe Quarterly Report, Q3 2007, p. 28

Like any proprietary software vendor, Adobe has to actively *Protect itself against domestic patents, trademarks infringement and software piracy*. Failing to do so may not just result in lost revenues but also of proprietary knowledge and therefore competitive advantage⁸.

Innovation and Learning Perspective

Innovation and Learning is perhaps the most significant yet the most intangible of all the perspectives for Adobe. First Adobe has to be able *Continue to attract and retain the best talent* and work carefully to *retain the company's innovational spirit*⁹.

Also Adobe has to *Continue to invest heavily in innovation* and strive to *Retain innovation lead vs. competition*. Adobe has to continuously seek new market opportunities and be among to the first to enter¹⁰.

International Business Perspective

With roughly 50% of total sales being from the international business, Adobe has to pay special attention to the international business perspective. Attention should be paid to

⁸ Adobe Quarterly Report, Q3 2007, p. 30

⁹ Adobe Quarterly Report, Q3 2007, p. 33

¹⁰ Adobe Quarterly Report, Q3 2007, p. 28

Reducing cost of goods sold internationally in order to reach profit margins comparable to domestic sales¹¹.

In order to reach the overall revenue growth targets, Adobe should seek to *Continue to build brands worldwide*.

Similar to what is stated in the internal business perspective, Adobe has to *Protect itself against worldwide patents, trademarks infringement and software piracy*. On an international level this task is even more important and complex, especially in markets like China where intellectual property enforcement is very difficult for foreign companies¹².

¹¹ Adobe Quarterly Report, Q3 2007, p. 21

¹² Adobe Quarterly Report, Q3 2007, p. 30