Selecting the Right KPIs for Better Business Performance and Profitability

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Dundas

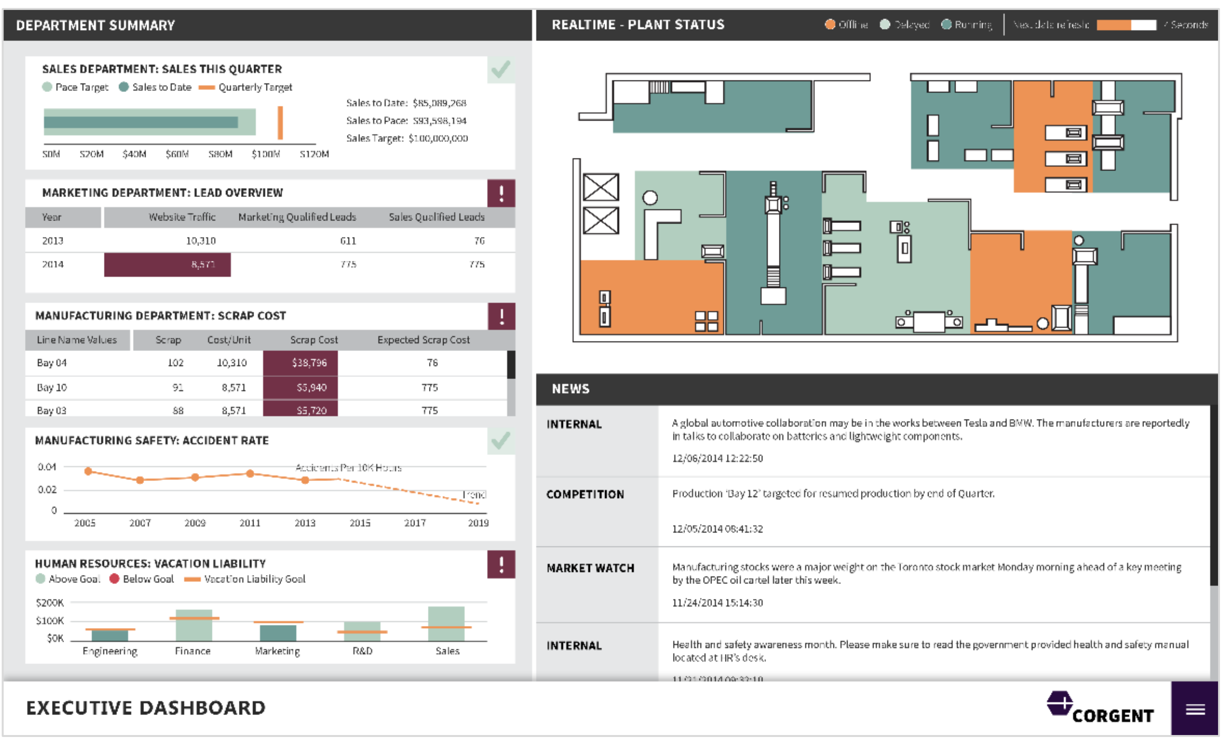
Executive Summary

Continuous measurement and analysis of the right Key Performance Indicators (KPIs) is critical to accurately measuring the performance of your business. However, selecting the right KPIs requires a solid understanding of what is important to your organization and your customers and what impacts it. This article provides an overview, definition, selection criteria, and tracking requirements for some of the important KPIs that corporations use for performance management.

What are KPIs?

A KPI is a metric that provides the measurement of the activities that go into achieving a specified business objective. For example the 'Number of meetings booked with potential clients' is a KPI if your business objective is to increase the 'Total number of sales orders' and you know that having more meetings will influence this number.

Note the 'Total number of sales orders' is not a KPI. Neither is 'Online revenue'. Instead, they are Key Result Indicators (KRIs). To generalize, a KRI provides the measurement of the outcomes for a given activity/task/objective. While it is important to track KRIs, these metrics will not provide the specific actions needed to address increases or declines in sales orders or online revenue. However, the right KPIs can help organizations to locate events such as a 20% decrease in potential clients meetings that caused the number of sales orders to change.



Executive dashboards will typically start with KRIs, allowing drill downs into the KPIs in a cause and effect analysis cycle

Why KPIs Fail

KPIs are useless if they do not identify the action necessary to improve corporate results and do not align with corporate goals. Many companies spend a great deal of time and energy creating what they think are great KPI's but end up with vague information vulnerable to misinterpretation and misuse or just the tendency to only track KRIs. While it is important to track KRIs, this will not provide the specific actions needed to address increases or declines in those KRIs.

Even if the organization finds the right performance metrics, there are still some points of concern that can lead to undesired behaviors and poor results if unhandled correctly:

- Performance metrics used for punishment – for example a manager that tracks the number of calls his employees does and "yells" at them if they are off target. This will create an environment where the employees will just do the minimum to avoid getting yelled at. Instead, reinforcing positive behavior will probably create a change in behaviour driving the rest of the employees to try and overachieve as well.
- Performance metrics created to define winners and losers – focusing on ranking as a result of a KPI scoring may create an environment of very few winners (#1-2 and all the rest) hence driving the rest of the team to feel like losers without hope and reason to change their position as they can't beat the top guys anyway… Ranking can work well if defined with a threshold that allows most of the team to win and then within it the opportunity to excel even further. That way everybody is a winner trying to do even better every month.
- Focusing on quantity only – as quantity is typically easier to measure or quantify in comparison to quality, it is often the first performance metric an organization will look at. However, focusing on quantity only without tracking quality as well, may decrease the quality and drive the wrong behaviour when looking at the overall outcome for the organization. For example, only tracking the number of meetings booked with potential clients (quantity) can drive the sales employee to just book more meetings, even if those are with unqualified leads. This results in a waste of time, resources and energy is focussed in the wrong place. A performance metric, such as potential clients meetings to booked order conversion rate (quality), can help balance the actions and have the sales employee focus on both booking as many possible meetings while doing so with the right potential customer.

Selecting KPIs

Strategic Objectives

The purpose of KPIs is to monitor progress towards the achievement of strategic business goals and to deliver organizational strategy. Identifying the most important Performance Indicators (PIs) is the first step towards realizing increased performance, efficiency, and profitability for your company. The second step is to ensure KPIs can be consistently measured. KPIs must be quantifiable. Finally, the data used to develop KPIs must be reliable, accessible, and timely. If properly selected, KPIs should provide relevant actionable information to improve revenue (increase), expenses (decrease) and risk (decrease).

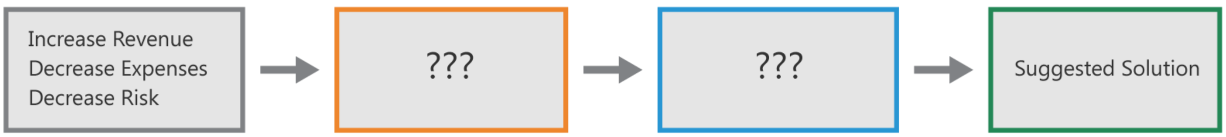
Key Performance Questions

Key Performance Indicators (KPIs) are designed to provide you with answers. Key Performance Questions (KPQs) are questions that specifically capture what you and your key stakeholders need to know about your strategic objectives. KPQs help put performance data into context that aids communication and improves the KPI selection process. KPQs should be open ended.

For example:

What do you want to achieve with your online presence? Is your goal to: Drive online sales / generate traffic / generate qualified sales leads for your services?

Suggested solutions often masquerade as a business need – so keep asking why until you get to the root business need. Ensure all of the underlying business needs are clearly communicated to everyone involved in the project.



The process of getting to the real business need - keep on asking why

These questions help capture more relevant information than can be obtained from using performance data. Overlooking the real underlying business needs is common and leads to the vast majority of BI and Dashboard project failure.

Attributes of an Effective Performance Metric

If selected correctly, most KPIs should hold certain attributes. Use the following list as a checklist for your KPIs and try to tune and optimize further as your tracking process progresses:

- Has a very strong influence on a desired outcome (the result)
- Is actionable
- Is a metric that can the target audience has control over
- Generally not a financial amount (these are generally result metrics)
- Generally occurs early in a process that leads to a desired outcome

Note that longer processes should be broken down into sub processes with their own performance and result metrics.

Target/Performance Goals

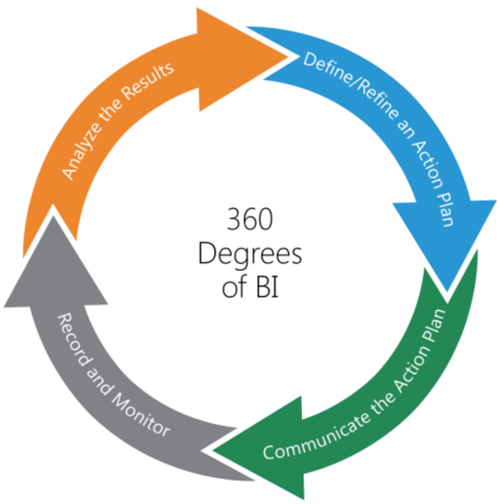
If a goal is set around a certain outcome, the chances of that outcome occurring are much higher because company leaders have committed to managing and measuring the results. When an employee's goal is defined in terms of an organizational KPI, it ensures that the employee is definitively aligned with the goals of the organization. This is the critical link between employee performance and organizational success and what helps organizations to be data driven. Taken to the next level, each employee goal should have at least one associated KPI.

Tracking KPIs

Tracking how KPIs perform against established business goals provides the needed information to determine the health and profitability of your company. It is essential that the KPIs used to track your business are granular enough to provide the right type of information. For example, it is useful to know if the number of website visits is declining. However, KPI metrics whose results can tell you why and what caused the decline is more important for improving your company's performance and profitability.

Tracking the KPIs should be effortless for the KPI owners. That is both in the way they can access the info, as well as in the way they can review and interpret it. Most organizations use reports in one way or another but automating the process via well designed web-based dashboards can help users focus on what matters (the actions) rather than trying to figure out what actions are needed.

Once your dashboard or reports are setup you will still need to refine and sometimes redefine your metrics and processes as business needs change over time, therefore so do performance metrics.
Sometimes multiple cycles are required in order to hone in on the performance metrics that work.



Use the 360° BI cycle to tune your metrics

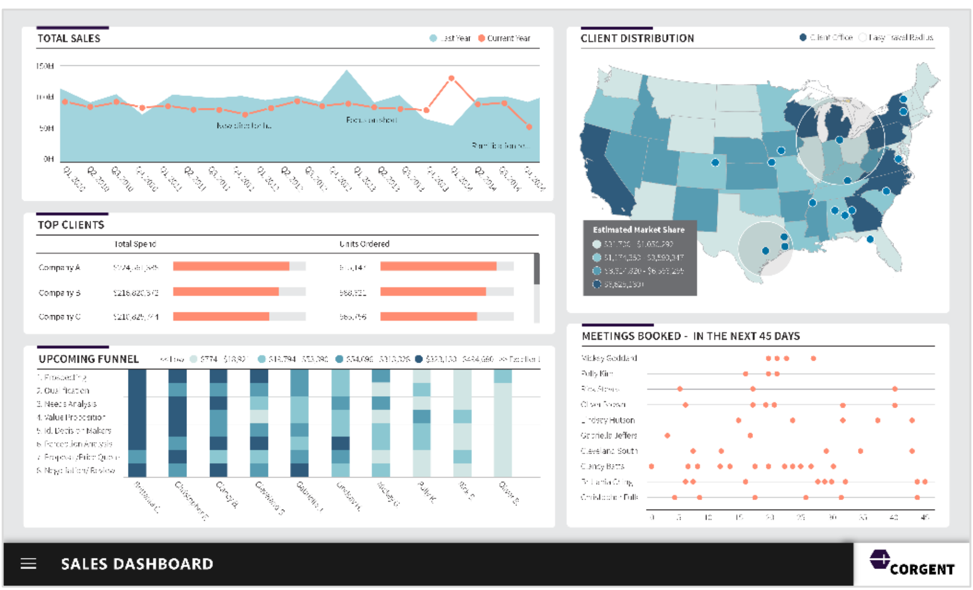
Measuring KPIs Effectiveness – Are Your Metrics Actionable?

While it is important to identify and use both quantitative and qualitative metrics, they are useless unless they are actionable. Actionable metrics tie specific and repeatable actions to observed results. Organizations must be able to use the identified metrics to launch activities that lead to strategic performance improvement. For example if the strategic objective is to increase web traffic (hence revenue from Ad impressions) and the web traffic has actually decreased, then the organization is failing to meet the strategic objective and must take action to correct it. We know that to drive traffic to our website we need to improve our listing ranking in the different search engines, hence our KPI is how many times we appeared within the top three spots on the search results per number of searches. Tracking this KPI will yield actions to improve our search engine optimization, ads, keyword campaigns etc.

Common Examples of KPIs

Sales Activity

Your company's profitability is based on a continuous flow of revenue based on new sales. Tracking sales activity, including the number of sales leads, meetings and deals closed on monthly, quarterly, and yearly basis, ensures that your business is on the right track for increasing sales. This KPI is also useful in determining which activities are working in your sales organization and can help to effect changes that can increase future productivity and profitability. For example, reports from your sales automation platform can track opportunity and closing rates of contracts. Tracking and reviewing sales activities continually can help your company identify and prevent trends that could lead to expense-to-revenue challenges, as well as identify new opportunities for increased revenues.



A sales dashboard example - combining both results and performance indicators to drive action

Customer Retention

A critical component of long term success for any company is its ability to retain customers. As a result customer renewal and retention are the best KPI ratios for tracking retention over time. This KPI is represented as the number of accounts whose contracts expire and the number of accounts lost during a specific time period. As with sales activity, tracking customer retention continually may help your company identify gaps and provide new opportunities that result in improved services and revenues.

Customer Satisfaction

Customer satisfaction is a crucial, yet subjective, KPI. Through periodic customer surveys, you can identify potential issues with a specific customer and resolve it to the customer's satisfaction. Tracking customer perception of your products or services is necessary to identify potential problems that could result in losing the customer completely. There are many approaches for measuring customer satisfaction. Do the research to determine the right methodology for your business, as frequently changing your approach for measuring customer satisfaction may distort how the KPI changes over time and result in difficulty to identify problems, as well as improve customer perception of your products, services, and company.

Conclusion

KPIs are a great way to drive business decisions and monitor performance. When set up correctly, they help identify the actions and activities needed to correct or improve corporate results. Taking the time to identify and consistently track important KPIs will put your company on the road to better performance and increased profitability.

About Dundas BI

Dundas BI is an innovative Business Intelligence (BI) and Data Visualization software with customizable dashboards, reporting and visual data analytics. Dundas BI is the most flexible BI platform, with seamless integration into your business applications, allowing you to deliver real-time visual access and analytics for all your data, for better decisions and faster insights. Dundas BI provides the best Business Intelligence platform to allow users to track and visualize KPIs with powerful dashboards and easy to read reports accessible on any device.

Dundas Data Visualization, Inc.
500 – 250 Ferrand Drive, Toronto, ON, Canada M3C 3G8
+1.800.463.1492 / +1.416.467.5100
www.dundas.com