Keeping on track with KPI's

Brought to you by ActionCOACH

#1 Business Coaching in the World
Entrepreneur Magazine, 2005-2008

What are KPIs?

KPIs are Key Performance Indicators. They are a way to monitor the success of your business in important areas.

Why would I use KPIs?

KPIs are designed to do the following things:

1. Help you gather rapid and objective feedback on the performance of your team. Instead of just spotchecking progress, they let you monitor performance on an ongoing basis. If they are positive, they can reassure you that your business is working without your personal intervention while you're away.

2. Help you identify weak points and spot shifts in productivity before too much time has passed. They help you to recognise challenges sooner and act quickly to correct them before they get out of hand.

3. Help you to monitor and review your team's performance and make clear to them what 'good performance' looks like. You can use positive indicators to motivate your team and let them know when their performance is ahead of your expectations.

How many KPIs should I monitor?

KPIs are there to measure key performance factors only. They quantify the results your business is achieving in the areas which will cause it to succeed or fail. Keep the KPI set to 5 or less for each sector of your business. This allows the team to focus properly on these. If you have 39 KPIs, it's hard to focus on which is the most important.

How often should I review the KPIs?

At least monthly, however depending on the implications of the KPI, some might require weekly review.

How should I decide what to measure?

To develop a relevant and meaningful set of KPIs, you will need to judge what is most important in your business, then choose KPIs which describe the performance of these things and determine a way of measuring them.

Make the measuring process part of your system, train your team in preparing and presenting the indicators and monitor them regularly.

What are some examples of KPIs?

These are some KPIs that could be applicable to your business:

Financial
- Profit
- Costs as a percentage of sales
- Percentage of debtors under 30 days; number of days accounts remain outstanding
- Percentage variance from budget figures for expenses and sales
- Margins – profit & gross
- Return on invested capital (sometimes called ROE or Return on Equity)
- Cash flow
- Revenue
- Variable vs non-variable expenses
- Return on investment (ROI)
- Inventory turnover per week, month or year
- Sales per square foot
- R&D expenditures
- Training expenditures
- Marketing expenditures

Customers
- Customer satisfaction
- Customer retention
- Market share

Marketing
- Current count of marketing strategies running
- Leads generated
- Cost per lead per strategy
- Number of customers
- Referrals
- Sales mix
- Customer profitability
- Number of orders
- Lifetime value of a customer

Innovation
- Revenue from new products
- Revenue from new market segments

ActionCOACH

Production/service

- Jobs in progress
- Average work hours per job
- Average turnaround time
- Number of products above quality standards
- Timeliness
- Costs
- Capacity utilisation
- Safety – no. of workers' comp claims, days lost
- Back orders
- Post-sale service – warranty claims (#,%), repairs, returns and defects
- Number and value of complaints
- Number of orders failed before delivery
- Number of orders not delivered on time
- Work in progress
- Labour hours
- Overtime
- Cycle time
- Downtime
- Maintenance costs
- Output per employee
- Sales per employee
- Productivity per employee
- Delivery on time rate

Sales

- Sales results
- Conversion rates
- $ in outstanding quotes
- Average $ per sale
- Profit per customer
- Sales by product line

Learning & growth

- Employee retention
- Employee satisfaction
- Employee knowledge
- Manager/employee ratio
- Absenteeism
- Hours or $ of training per employee
- Ratio direct to overhead employees
- Cost per new hire
- Percentage of employees fully trained
- Revenue from new geography
- Number of new customers
- Time to market for new products/service
- R&D expense

Satisfaction with suppliers

- Responsiveness
- Costs compared with competition
- On-time delivery
- Overall satisfaction/value
- Defects (#,%)
- Credit terms
- Number of suppliers

Supplier satisfaction

- Overall satisfaction: opportunity for profits while providing quality
- Responsiveness
- Payment

The Beachside Test

Imagine that your business is running passively. You are on holidays for six months but still want to keep an eye on the month-by-month progress of your business. You don't have time to waste and are only allowed to receive a one page fax. What are the key numbers you would expect to see on that page, to know that your business' finances, marketing, sales, production, service and delivery are running smoothly?

The Top Ten Drivers of Business Performance.

Source: Cranfield School of Management, UK

1. Low levels of late deliveries to customers
2. Higher employee training expenditure
3. Percentage of workforce trained
4. Low absenteeism rate
5. Higher marketing expenditures
6. Higher capital expenditures
7. Higher R&D expenditure
8. Higher stock turns
9. Higher cash balances
10. Lower debt levels (more short term than long term)

A Great Delivery KPI.

A great KPI to use to measure your manufacturing or distribution activities is represented by IFOTIS. This stands for:

In Full On Time In Spec

Where:

1. **In Full** is awarded 100% when a delivery is complete and 0% if only part of the order arrived, thus not meeting the customer's expectations. For example, if 125 chocolate éclairs were ordered and 120 were delivered, the score is 0%.

2. **On Time** is awarded 100% when a delivery is made as agreed with the customer, otherwise the score is 0%. For example, if the customer wanted the delivery to be made in the morning and the product or service is delivered at 1.00pm, the score is 0%.

3. **In Spec** is a quality measure. If the product or service meets the quality requirement of the customer, score 100%, otherwise 0%.

For a single order or delivery to score 100%, all 3 elements must score 100% each. IFOTIS should be measured over a period of time, such as a week or month. If, for example, there were 60 orders delivered in a week, of which only 40 met all three of the customer's expectations, then the weekly score is 67%. Best Practice companies achieve 97% or better.

Note it is the customer's expectations which are paramount. If the cause of non-performance for a delivery occurred further up the supply chain (not our fault!) this is still recorded as a 0% performance because it can be influenced by the producer or service provider.