KEY PERFORMANCE INDICATORS

WHY KEY PERFORMANCE INDICATORS MATTER

Successful businesses are those that:
- **have a clear purpose**
- **identify goals aimed at achieving that purpose**
- **establish procedures designed to reach those goals consistently**

A good way to ensure you meet your goals is to set Key Performance Indicators (KPIs). Your KPIs are the measures or metrics that indicate whether your performance is on track to achieve your goals. The aim of any KPI is to measure improvement.

Sounds simple enough, but anyone who has ever attempted to nail down their KPIs can tell you that determining what factors are really driving your business isn't always straightforward.
Some companies spend months tracking metrics that turn out to have little or no impact on actual results.

Knowing that it may take some work, why should you take the time to determine the KPIs for your business?

KPIs help to define what success looks like
It is likely, you have some key goals you'd like to achieve. The process of identifying and measuring KPIs forces you to look at what specific actions and behaviours will drive the company towards those goals.

Let's say your goal is to increase sales by 5%. Thinking about the factors that drive sales performance will lead to specific, actionable steps to achieve set goals. There are many ways to improve sales including; effective promotion, better enquiry conversions, customer retention, larger customer orders, more frequent customer orders, just to name a few. A KPI will define which one or combination of these things is going to lead to an increase in sales for your business.

## KPIs help to focus everyone on the goal
The old saying "what gets measured gets done" shows the power of a good KPI. It focuses attention on the most important things that will achieve results for your business. Determining key business drivers and tracking their progress will help ensure that nothing slips through the cracks.

KPIs encourage accountability
When you have specific KPIs, each team member is accountable for improving the KPIs under their control. This provides them (and their managers) with a greater ability to measure their performance. Not only does your team member have a way to quantify how they have contributed, but managers can see which people are contributing the most towards goals.

KPIs provide motivation
Your team's motivation and job satisfaction are extremely important if you want to improve your business performance. Sometimes it is tough to stay positive when goals are large and/or long-term in nature. The progress towards a goal that a KPI provides, can help to motive and encourage your team. The results are often instant and they create a sense of purpose, keeping your team focused on meeting their goals.
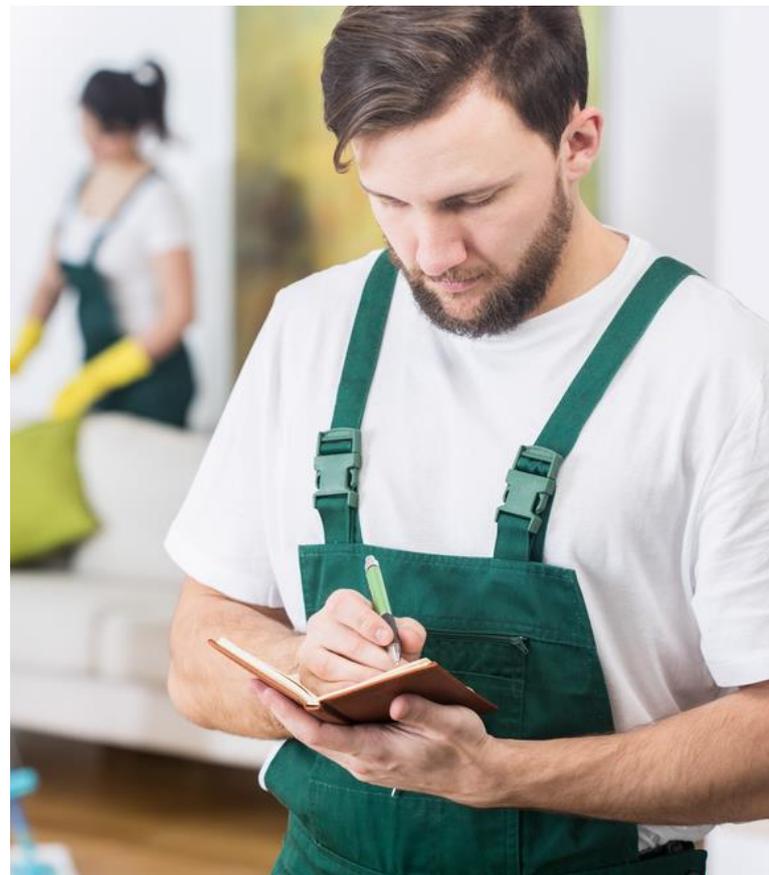
DEFINING AND MEASURING KPIS

For KPIs to be effective, they need to be measurable. If you have quantifiable and measurable goals, choosing and measuring your KPIs is much easier.

For example, let us look at the above-mentioned goal of a 5% increase in sales.

The goal is measurable through your sales data but you will need to determine which sales measurement you will be using, sales volume or sales amount. The same process applies to your KPIs. How will you quantify the driver and how will it be measured?

You might find that you have very good enquiries and customer retention but your conversion isn't great. In that instance, one of the key KPIs would be to increase your conversions. By speaking with your teams and looking at their roadblocks, you can work out what the key drivers are for your goals and which ones will be your KPIs.

It's important to use the same measures each time to determine your progress. In this example, you wouldn't swap from sales volume one month, to sales amount in the next, when reporting.

You would generally aim for no more than six organisational KPIs but you can also have more specific KPIs for functional areas. For example, you might find that to reach your increased sales target your production will need to increase. Therefore, you might have this as a KPI for your production team.

Who is accountable?
Similar to other deliverables, KPI roles need to be assigned to each team member. Apart from having a systemised method of recording KPI progress, it is vital to ensure each person knows and understands what they are accountable for.

Creating a dashboard
Once you have your KPIs mapped out, your next step is to develop a way of gathering the information needed to measure them. A dashboard is an excellent way to do this. Dashboards can be created in your accounting software or other information sources such as a Customer Relationship Management (CRM) or job progress software.
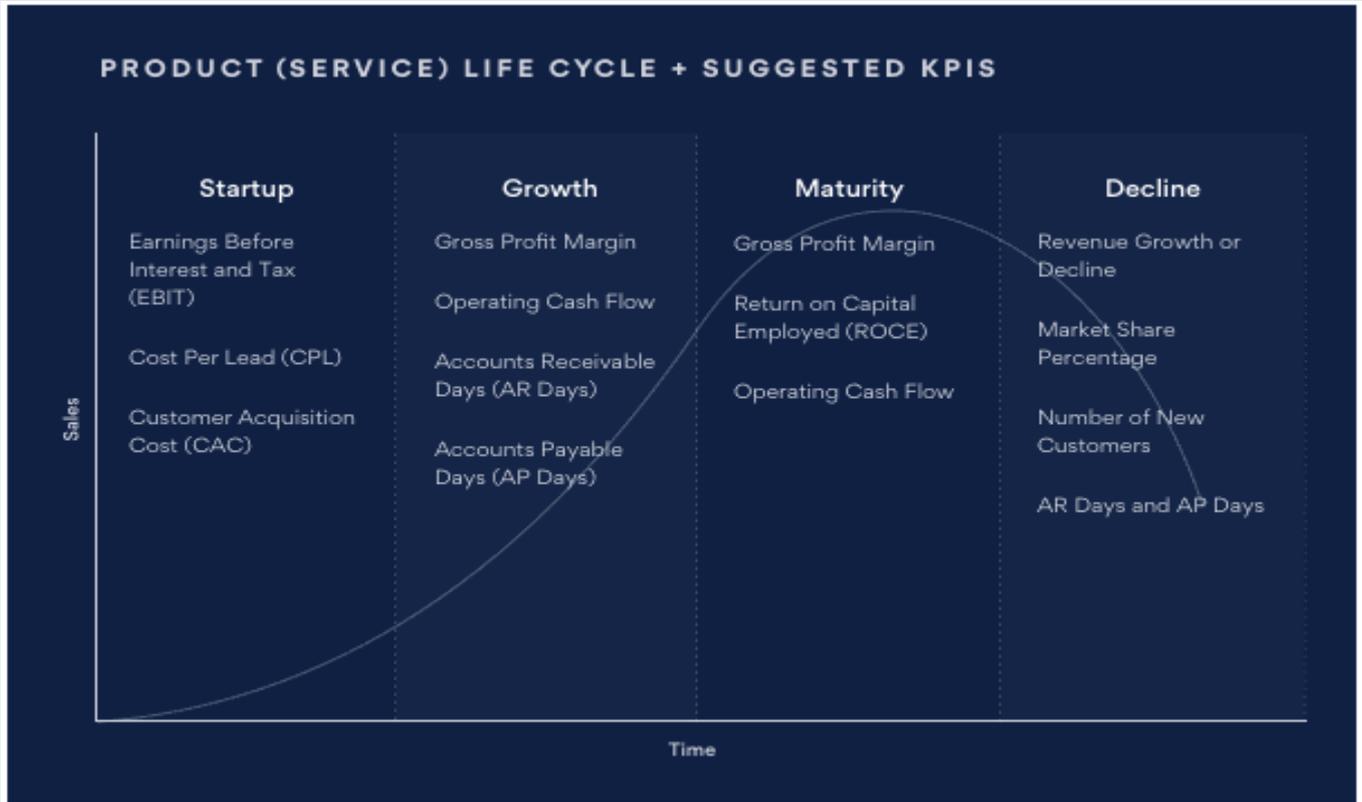
Regular review
It's important to organise a regular time to review your KPIs. The real-time data that KPI's provide allow you to make systematic adjustments so that you are not left making frantic changes at the end of each month to reach your goals.

If you are not checking on your chosen KPIs often, then it is possible that they may not be very important in the first place. They are not the right ones to be using in your business.
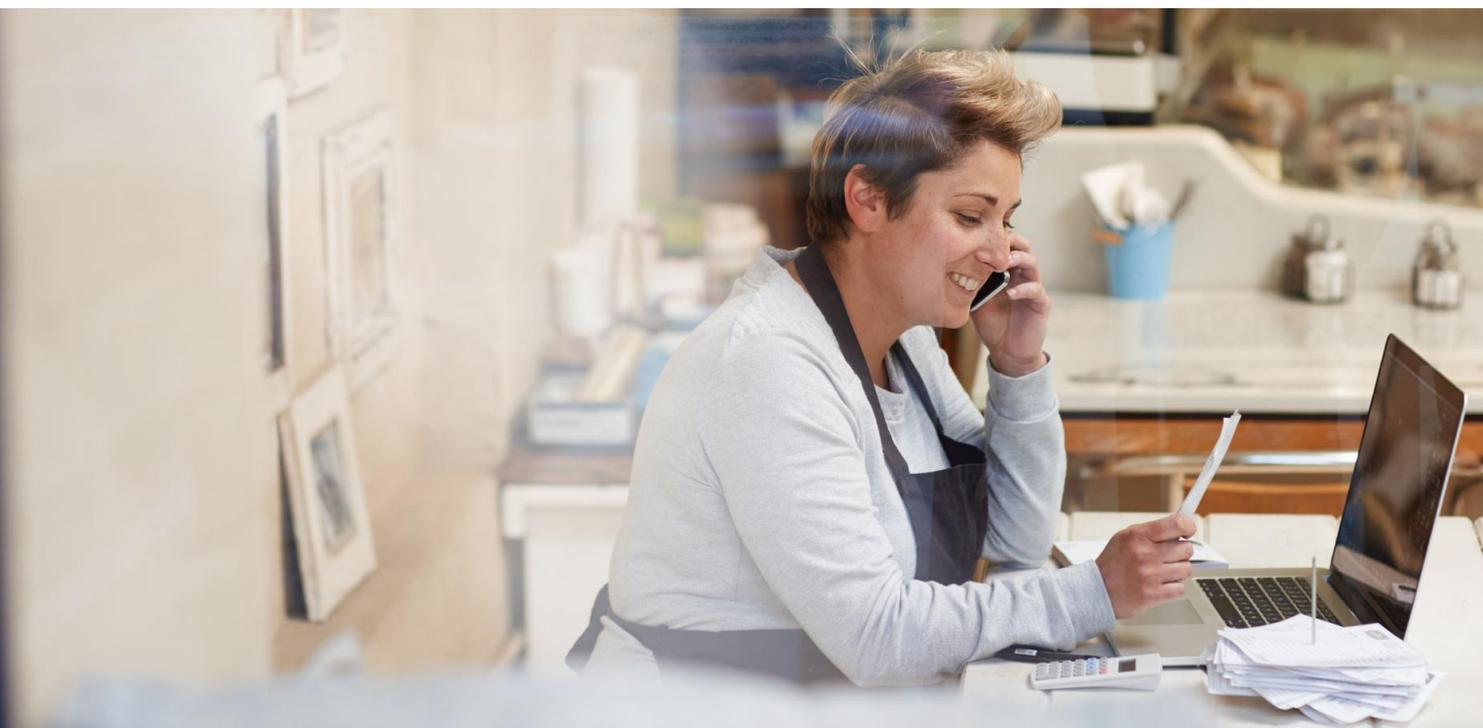
Following on from our increase in sales example, below are some KPIs you may want to monitor through the lifecycle stages of a sales oriented business.

PRODUCT (SERVICE) LIFE CYCLE + SUGGESTED KPIS

Startup	Growth	Maturity	Decline
Earnings Before Interest and Tax (EBIT)	Gross Profit Margin	Gross Profit Margin	Revenue Growth or Decline
Cost Per Lead (CPL)	Operating Cash Flow	Return on Capital Employed (ROCE)	Market Share Percentage
Customer Acquisition Cost (CAC)	Accounts Receivable Days (AR Days)	Operating Cash Flow	Number of New Customers
	Accounts Payable Days (AP Days)		AR Days and AP Days

Sales (vertical axis) / Time (horizontal axis)

KPI options for Increased Sales

Potential KPI	Quantifiable	Measurement
Effective promotion	10% increase in enquiries	Percentage increase in number of sales enquiries – from sales pipeline tracking report
Better enquiry conversion	5% increase in conversion	Percentage of leads turned into customers – from sales pipeline tracking report
Customer retention	5% increase in customer retention	Percentage of customer base retained – from sales per customer report
Larger customer orders	2% increase in order dollar value	Sales value per customer – from sales report
More frequent customer orders	5% increase in customer reorders	Number of sales per customer – from sales per customer report

COMMUNICATING YOUR KPIS

While it is generally easy for senior management to access information on KPI performance, finding a way to also communicate this information to your team is essential.

To do this, think about where your team members are likely to be regularly. If it's on the computer, providing information digitally as the home page is a great way to keep focused on the results. You can also use lunchrooms, whiteboards or other areas your team regularly visit or access to pin up your dashboard or write down your current results.

Have the conversation when things are not working
The information that is generated by measuring KPIs leads to important conversations within the workplace.

When you notice an unfavourable outcome on a KPI measurement, you have the chance to talk to the individual or team involved with that specific KPI. This is a great opportunity for you to discuss with the team how to do things differently and perform better in order to reach set targets.

Additionally, you can analyse whether the set KPIs are an effective measurement and make necessary modifications if the team feels that the targets are unrealistic to meet.

The most important aspect of KPIs is that they are 'owned' and useful. Otherwise, they will just be regarded, as reporting for reporting's sake. Used well, they help keep the agenda clear and simple, driving teams to focus on achieving their goals.

Understanding the potential negative impacts
Sometimes when you focus on one thing, other things can get missed. For example, if you had production output as a KPI, teams might prioritise this over maintenance. As a result, breakdowns could occur leading to negative consequences for your business. Thinking about the other areas a KPI might impact and speaking about these openly can reduce issues before they occur.

Don't forget to celebrate the wins
Finally, KPIs provide an opportunity to show your team the progress they have made toward achieving your goals. If you are aiming for a 10% increase in conversion and you have managed 5%, you can celebrate this step towards your goal, which motivates your team to keep focused on the end result.

YOUR KPI CHECKLIST

Step 1: Understanding the context for setting KPIs
- ☐ What are the key goals you would like to achieve?
- ☐ When would you like to achieve your goals?
- ☐ What are the drivers for these goals?
- ☐ What teams / people do you need to discuss these goals with?

**Step 2: Defining and measuring your KPIs**
- ☐ What should you use as a benchmark or target to setting your KPIs?
- ☐ Which driver/s is going to be most critical in achieving your individual goals?
- ☐ Do you have the necessary systems and processes in place to measure the KPI?
- ☐ How often should you measure your KPIs?
- ☐ Who is accountable for the measurement?

Step 3: Communicating your KPIs
- ☐ Who do these KPI results need to be communicated with?
- ☐ How will you communicate your KPIs to each group?
- ☐ What process will you use to address any issues with reaching KPI?
- ☐ How could the measures be cheated, and how will you guard against this?
- ☐ Are there any negative impacts that could occur if this measurement was used? How will you ensure these negative impacts are minimised?
- ☐ How can you celebrate the successes?

WANT TO KNOW MORE?

Get in touch with our team of specialists to find out how they can assist.
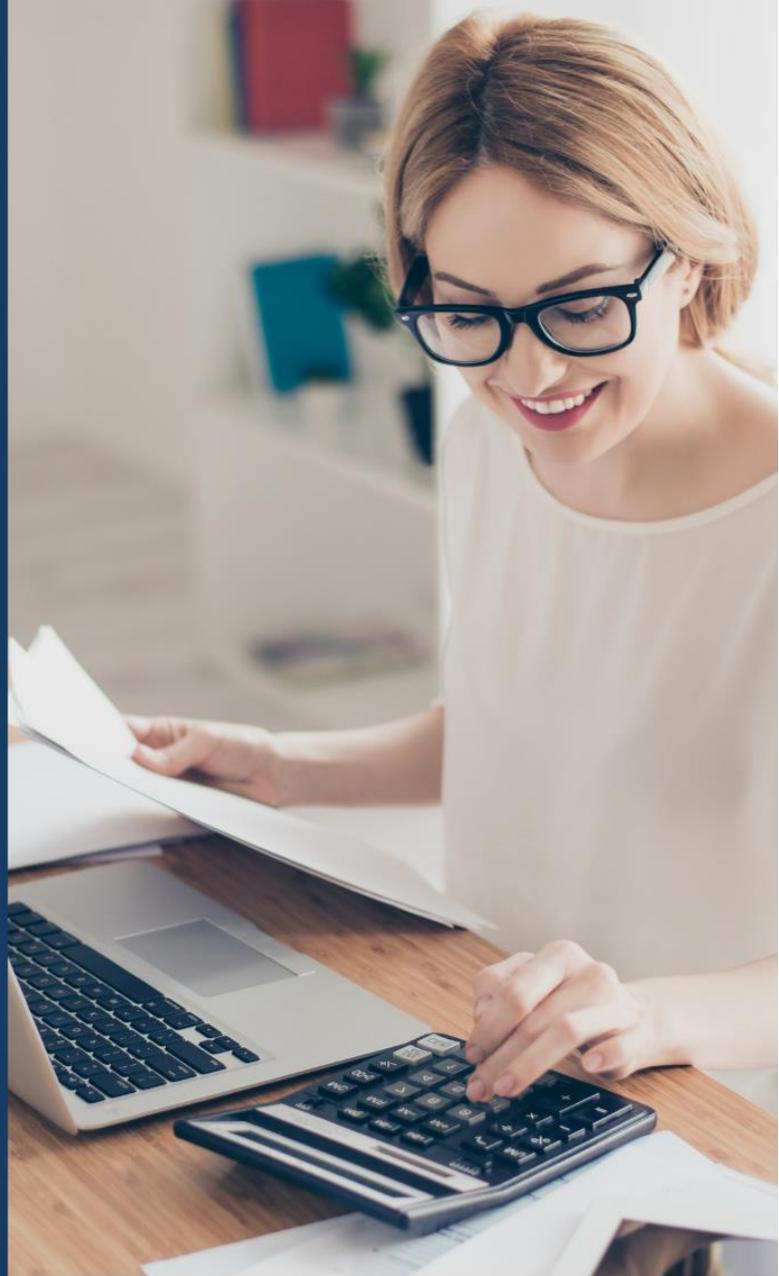
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